

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Defining Organizational Structure

- Discuss the traditional and contemporary views of work specialization, chain of command, and span of control.
- Describe each of the five forms of departmentalization.
- Explain cross-functional teams.
- Differentiate, authority, responsibility, and unity of command.
- Tell what factors influence the amount of centralization and decentralization.
- Explain how formalization is used in organizational design.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Organizational Design Decisions

- **Contrast mechanistic and organic organizations.**
- **Explain the relationship between strategy and structure.**
- **Tell how organizational size affects organizational design.**
- **Discuss Woodward's findings on the relationship of technology and structure.**
- **Explain how environmental uncertainty affects organizational design.**

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Common Organizational Designs

- **Contrast the three traditional organizational designs.**
- **Explain team, matrix, and project structures.**
- **Describe the design of virtual and network organizations.**
- **Discuss the organizational design challenges facing managers today.**

Defining Organizational Structure

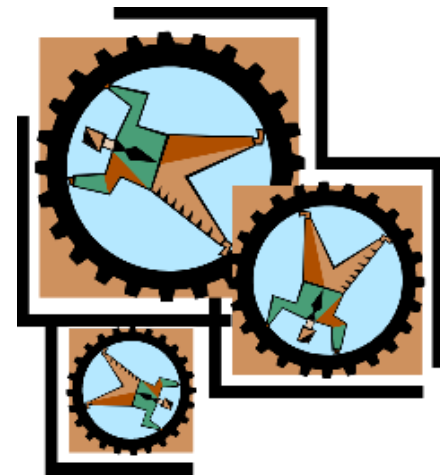
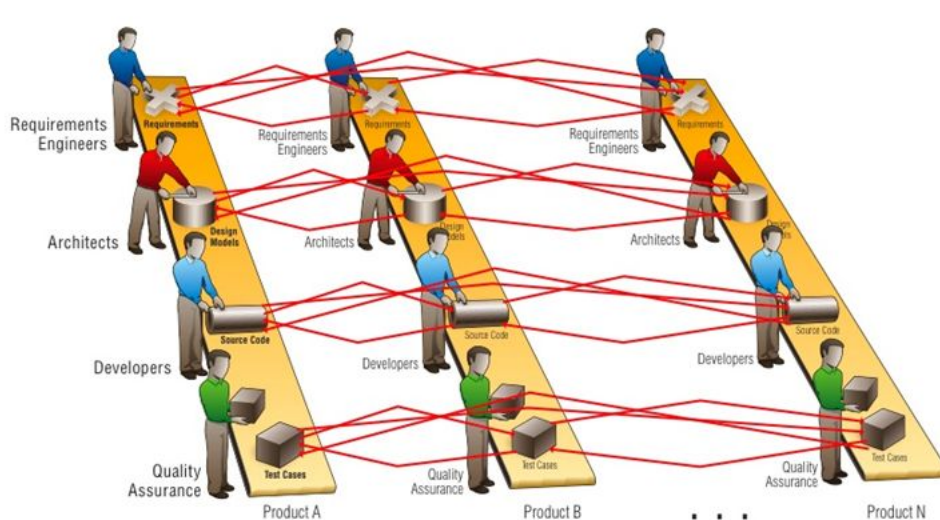
- Organizational Structure
 - The formal arrangement of jobs within an organization.
- Organizational Design
 - A process involving decisions about six key elements:
 - ❖ Work specialization
 - ❖ Departmentalization
 - ❖ Chain of command
 - ❖ Span of control
 - ❖ Centralization and decentralization
 - ❖ Formalization

Exhibit 10–1 Purposes of Organizing

- Divides work to be done into specific jobs and departments.
- Assigns tasks and responsibilities associated with individual jobs.
- Coordinates diverse organizational tasks.
- Clusters jobs into units.
- Establishes relationships among individuals, groups, and departments.
- Establishes formal lines of authority.
- Allocates and deploys organizational resources.

1. Work Specialization

- The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.
- Overspecialization can result in human diseconomies from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.



- Work specialization is particularly beneficial in manufacturing.
- Think of an assembly line where each individual employee completes one repetitive step in the product development process.
- For example, Mary assembles the frame, Bob adds the sides, Erin paints the product, Josh checks that the product is complete, and Jack prepares the product to be shipped.

Advantages of work specialization

- Each employee can be an expert to some degree.
- Task refinement by the specialist leads to higher levels of productivity.
- Work can be completed faster and more efficiently due to specialization.
- Quality control costs are lowered due to specialization.
- Gives employees a sense of pride and job security due to their specialized skills.

Disadvantages of work specialization

- Specialization **limits** the ability to multi-task.
- Employees are **isolated** and limited to performing small, repetitive, and, at times, boring tasks.
- Specialized workers have a **smaller skill** set than employees who are not specialized, making it harder to find work opportunities outside of that job.
- Employees are rarely **challenged** to do anything more than what they have always done, leading to burn out.
- When an employee **leaves** the organization, they take their specialized knowledge with them.
- Co-workers **cannot fill** in for employees when they are absent

2. Departmentalization

- *Departmentalization* means grouping activities and people into departments, making it possible to expand organizations, at least in theory, to an indefinite degree.
- Departmentalization refers to the formal structure of the organization, composed of various departments and managerial positions and their relationships with each other.
- As an organization grows, its departments grow and more sub-units are created, which in turn add more levels of management.

Departmentalization by Type

- **Functional**

- Grouping jobs by functions performed

- **Product**

- Grouping jobs by product line

- **Geographical**

- Grouping jobs on the basis of territory or geography

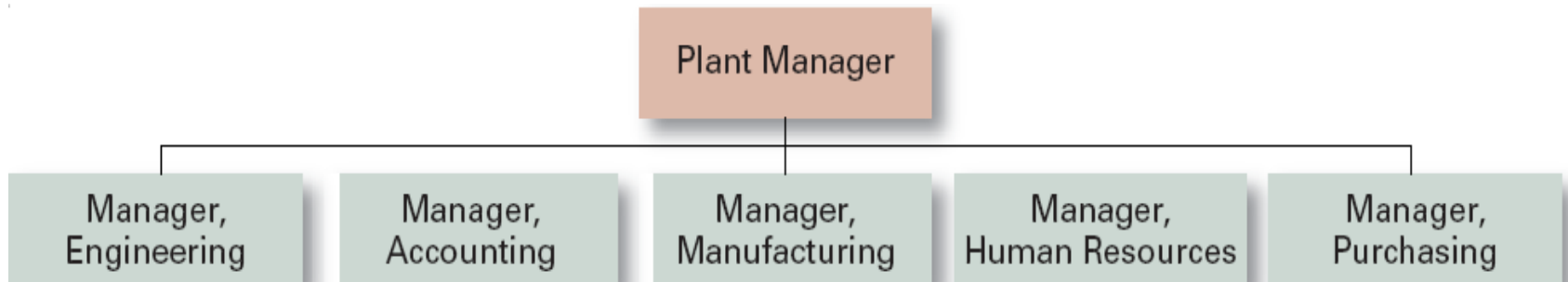
- **Process**

- Grouping jobs on the basis of product or customer flow

- **Customer**

- Grouping jobs by type of customer and needs

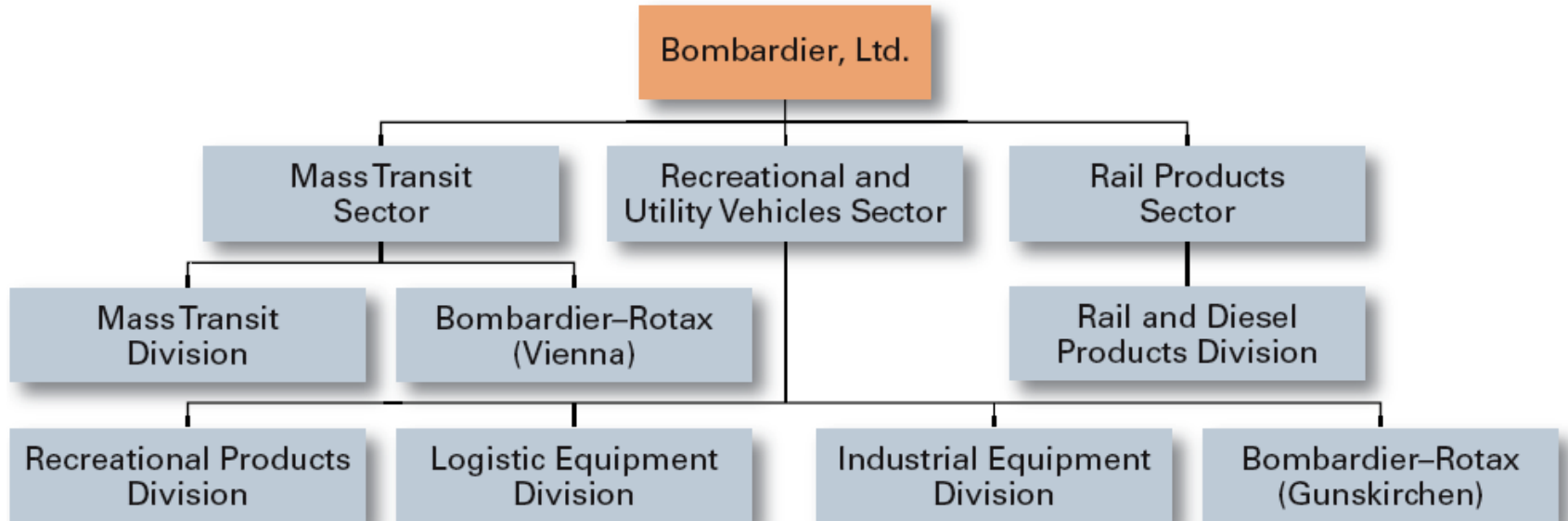
Exhibit 10–2 Functional Departmentalization



An example is the Production department, HR department, Accounts department, Marketing department and IT department

- **Advantages**
 - Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
 - Coordination within functional area
 - In-depth specialization
- **Disadvantages**
 - Poor communication across functional areas
 - Limited view of organizational goals

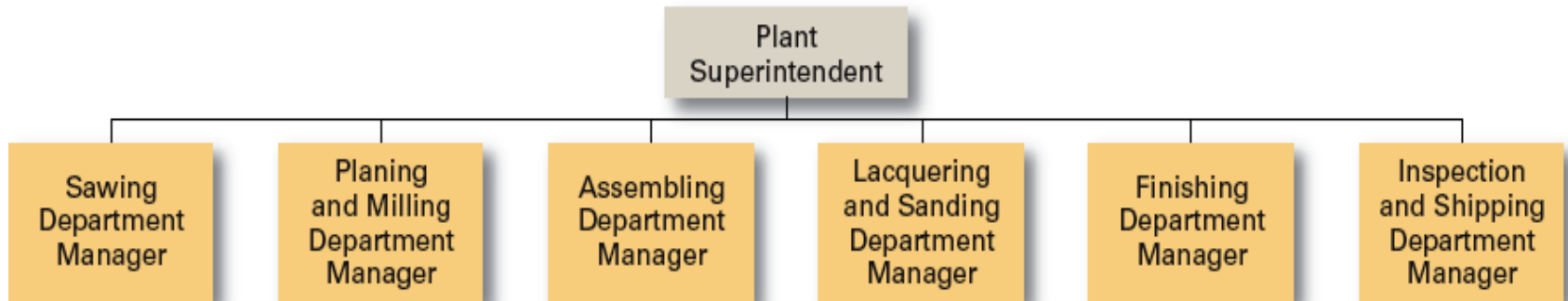
Exhibit 10–2 (cont'd) Product Departmentalization



Kimberly Clark manufactures children's products, toiletry and industrial hygiene products.

- + Allows specialization in particular products and services**
- + Managers can become experts in their industry**
- + Closer to customers**
- Duplication of functions**
- Limited view of organizational goals**

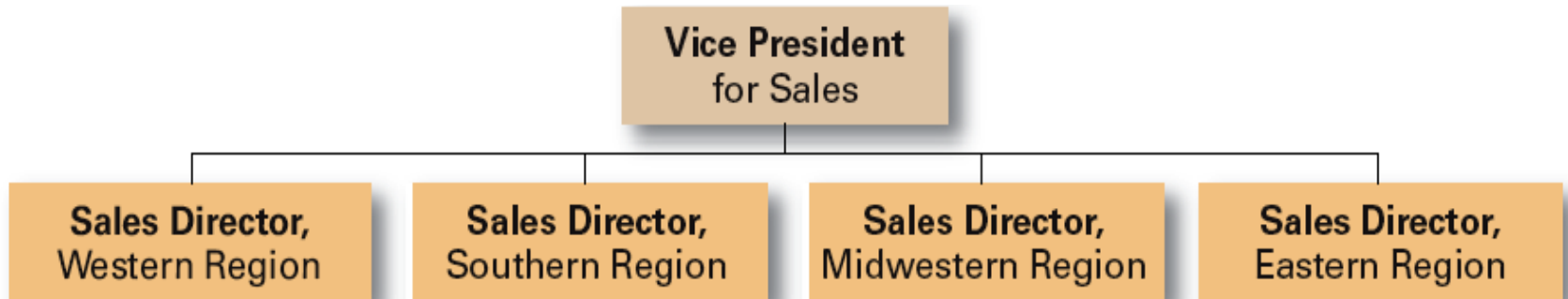
Exhibit 10–2 (cont'd) Process Departmentalization



When a company groups activities by the production processes, it is known as Process Departmentalization.

- + More efficient flow of work activities
- Can only be used with certain types of products

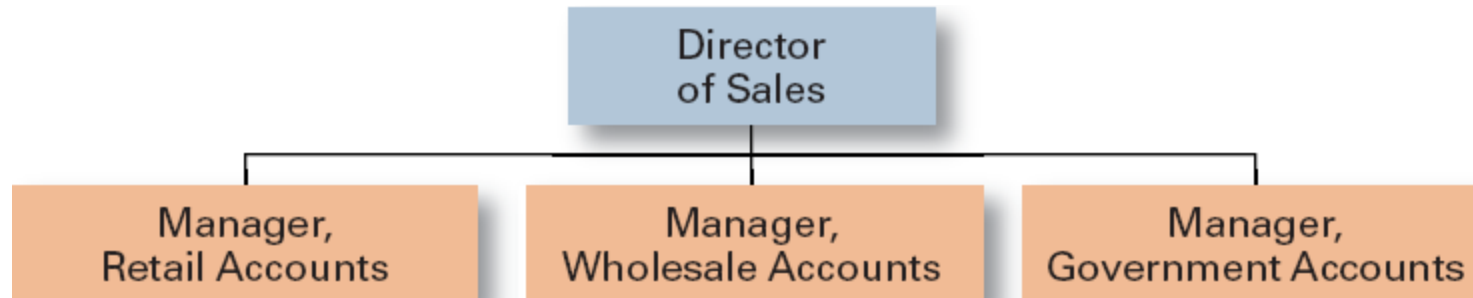
Exhibit 10–2 (cont'd) Geographical Departmentalization



When a company organizes departments along geographic lines, it is called geographic departmentalization. Multinational firms have their offices all around the world, and they have created departments based on the regions to handle company activities

- **Advantages**
 - More effective and efficient handling of specific regional issues that arise
 - Serve needs of unique geographic markets better
- **Disadvantages**
 - Duplication of functions
 - Can feel isolated from other organizational areas

Exhibit 10–2 (cont'd) Customer Departmentalization



When a company puts its focus on customer needs and wants, it creates departments in accordance with different class or type of clients and customers

- + Customers' needs and problems can be met by specialists
- Duplication of functions
- Limited view of organizational goals

3. Chain of Command

- The continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization and clarifies who reports to who.



- Authority

- The rights inherent in a managerial position to tell people what to do and to expect them to do it.

- Responsibility

- The obligation or expectation to perform.

- Unity of Command

- The concept that a person should have one boss and should report only to that person.

4. Span of Control

- The number of employees who can be effectively and efficiently supervised by a manager.
- Width of span is affected by:
 - ❖ Skills and abilities of the manager
 - ❖ Employee characteristics
 - ❖ Characteristics of the work being done
 - ❖ Similarity of tasks
 - ❖ Complexity of tasks
 - ❖ Physical proximity of subordinates
 - ❖ Standardization of tasks

Exhibit 10–3 Contrasting Spans of Control

		Members at Each Level	
		(Highest) Assuming Span of 4	Assuming Span of 8
Organizational Level		1	1
	2	4	8
		16	64
	4	64	512
		256	4,096
	6	1,024	
		4,096	
(Lowest)			
		Span of 4:	Span of 8:
		Employees: = 4,096	Employees: = 4,096
		Managers (level 1–6) = 1,365	Managers (level 1–4) = 585

5. Centralization & Decentralization

- Centralization

- The degree to which decision-making is concentrated at a single point in the organizations.
- ❖ Organizations in which top managers make all the decisions and lower-level employees simply carry out those orders.

- Decentralization

- Organizations in which decision-making is pushed down to the managers who are closest to the action.

- Employee Empowerment

- Increasing the decision-making authority (power) of employees.

Exhibit 10–4 Factors that Influence the Amount of Centralization

- **More Centralization**

- Environment is stable.
- Lower-level managers are not as capable or experienced at making decisions as upper-level managers.
- Lower-level managers do not want to have a say in decisions.
- Decisions are relatively minor.
- Organization is facing a crisis or the risk of company failure.
- Company is large.
- Effective implementation of company strategies depends on managers retaining say over what happens.

Exhibit 10–4 (cont'd) Factors that Influence the Amount of Centralization

- **More Decentralization**

- Environment is complex, uncertain.
- Lower-level managers are capable and experienced at making decisions.
- Lower-level managers want a voice in decisions.
- Decisions are significant.
- Corporate culture is open to allowing managers to have a say in what happens.
- Company is geographically dispersed.
- Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

6. Formalization

The degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures.

- ❖ Highly formalized jobs offer little discretion over what is to be done.
- ❖ Low formalization means fewer constraints on how employees do their work.

Organizational Design Decisions

- Mechanistic Organization

- A rigid and tightly controlled structure
 - ❖ High specialization
 - ❖ Rigid departmentalization
 - ❖ Narrow spans of control
 - ❖ High formalization
 - ❖ Limited information network (downward)
 - ❖ Low decision participation

- Organic Organization

- Highly flexible and adaptable structure
 - ❖ Non-standardized jobs
 - ❖ Fluid team-based structure
 - ❖ Little direct supervision
 - ❖ Minimal formal rules
 - ❖ Open communication network
 - ❖ Empowered employees

Exhibit 10–5 Mechanistic versus Organic Organization

Mechanistic

- **High specialization**
- **Rigid departmentalization**
- **Clear chain of command**
- **Narrow spans of control**
- **Centralization**
- **High formalization**

Organic

- **Cross-functional teams**
- **Cross-hierarchical teams**
- **Free flow of information**
- **Wide spans of control**
- **Decentralization**
- **Low formalization**

Contingency Factors

- Structural decisions are influenced by:
 - Overall *strategy of the organization*
 - ❖ Organizational structure follows strategy.
 - *Size* of the organization
 - ❖ Firms change from organic to mechanistic organizations as they grow in size.
 - *Technology* use by the organization
 - ❖ Firms adapt their structure to the technology they use.
 - *Degree of environmental uncertainty*
 - ❖ Dynamic environments require organic structures; mechanistic structures need stable environments.

Contingency Factors (cont'd)

- Strategy Frameworks:

- Innovation

- ❖ Pursuing competitive advantage through meaningful and unique innovations favors an **organic** structuring.

- Cost minimization

- ❖ Focusing on tightly controlling costs requires a **mechanistic** structure for the organization.

- Imitation

- ❖ Minimizing risks and maximizing profitability by copying market leaders requires **both** organic and mechanistic elements in the organization's structure.

Contingency Factors (cont'd)

- Strategy and Structure

- Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change.

- Size and Structure

- As an organization grows larger, its structure tends to change from organic to mechanistic with increased specialization, departmentalization, centralization, and rules and regulations.

Contingency Factors (cont'd)

- Technology and Structure

- Organizations adapt their structures to their technology.
- Woodward's classification of firms based on the complexity of the technology employed:
 - ❖ Unit production of single units or small batches – large turbines, mining equipment, Aircraft
 - ❖ Mass production of large batches of output - Automobiles
 - ❖ Process production in continuous process of outputs - Food and beverage, pharmaceuticals, personal care and cosmetics
- Routine technology = mechanistic organizations
- Non-routine technology = organic organizations

Exhibit 10–6 Woodward’s Findings on Technology, Structure, and Effectiveness

	Unit Production	Mass Production	Process Production
Structural characteristics	Low vertical differentiation Low horizontal differentiation Low formalization	Moderate vertical differentiation High horizontal differentiation High formalization	High vertical differentiation Low horizontal differentiation Low formalization
Most effective structure	Organic	Mechanistic	Organic

Contingency Factors (cont'd)

- Environmental Uncertainty and Structure
 - Mechanistic organizational structures tend to be most effective in stable and simple environments.
 - The flexibility of organic organizational structures is better suited for dynamic and complex environments.



Common Organizational Designs

- Traditional Designs

- Simple structure

- ❖ Low departmentalization, wide spans of control, centralized authority, little formalization – *Entrepreneurial Ventures*

- Functional structure

- ❖ Departmentalization by function
 - Operations, finance, human resources, and product research and development – *Occupational Specialties*

- Divisional structure

- ❖ Composed of *separate business units* or divisions with limited autonomy under the coordination and control the parent corporation.

Exhibit 10–7 Strengths and Weaknesses of Traditional Organizational Designs

Simple Structure

Strengths: Fast; flexible; inexpensive to maintain; clear accountability.

Weaknesses: Not appropriate as organization grows; reliance on one person is risky.

Functional Structure

Strengths: Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment) and employees are grouped with others who have similar tasks.

Weaknesses: Pursuit of functional goals can cause managers to lose sight of what's best for overall organization; functional specialists become insulated and have little understanding of what other units are doing.

Divisional Structure

Strengths: Focuses on results—division managers are responsible for what happens to their products and services.

Weaknesses: Duplication of activities and resources increases costs and reduces efficiency.

Organizational Designs (cont'd)

- Contemporary Organizational Designs

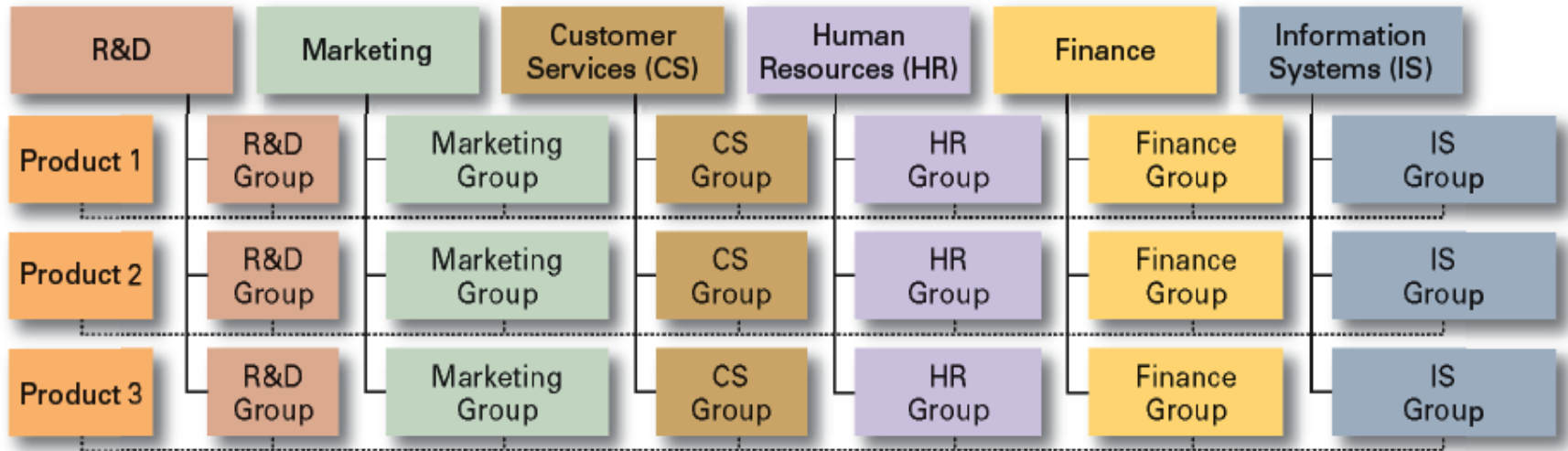
- Team structures

- ❖ The entire organization is made up of work groups or self-managed teams of empowered employees.

- Matrix and project structures

- ❖ Specialists from different functional departments are assigned to work on projects led by project managers.
 - ❖ Matrix and project participants have two managers.
 - ❖ In project structures, employees work continuously on projects; moving on to another project as each project is completed.

Exhibit 10–9 An Example of a Matrix Organization



Organizational Designs (cont'd)

- Contemporary Organizational Designs (cont'd)

- Boundaryless Organization

- ❖ An flexible and unstructured organizational design that is intended to break down external barriers between the organization and its customers and suppliers.
 - ❖ Removes internal (horizontal) boundaries:
 - Eliminates the chain of command
 - Has limitless spans of control
 - Uses empowered teams rather than departments
 - ❖ Eliminates external boundaries:
 - Uses virtual, network, and modular organizational structures to get closer to stakeholders.

Exhibit 10–8 Contemporary Organizational Designs

Team Structure

- What it is: A structure in which the entire organization is made up of work groups or teams.
- Advantages: Employees are more involved and empowered. Reduced barriers among functional areas.
- Disadvantages: No clear chain of command. Pressure on teams to perform.

Matrix-Project Structure

- What it is: A structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.
- Advantages: Fluid and flexible design that can respond to environmental changes. Faster decision making.
 - Disadvantages: Complexity of assigning people to projects. Task and personality conflicts.

Exhibit 10–8 (cont'd) Contemporary Organizational Designs

Boundaryless Structure

- | | |
|------------------|--|
| What it is: | A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes virtual and network types of organizations. |
| • Advantages: | Highly flexible and responsive. Draws on talent wherever it's found.. |
| • Disadvantages: | Lack of control. Communication difficulties.. |

Removing External Boundaries

- **Virtual Organization**

- An organization that consists of a small core of full-time employees and that temporarily hires specialists to work on opportunities that arise.

- **Network Organization**

- A small core organization that outsources its major business functions (e.g., manufacturing) in order to concentrate what it does best.

- **Modular Organization**

- A manufacturing organization that uses outside suppliers to provide product components for its final assembly operations.

Today's Organizational Design Challenges

- Keeping Employees Connected
 - Widely dispersed and mobile employees
- Building a Learning Organization
- Managing Global Structural Issues
 - Cultural implications of design elements

Organizational Designs (cont'd)

- The Learning Organization

- An organization that has developed the capacity to continuously learn, adapt, and change through the practice of knowledge management by employees.
- Characteristics of a learning organization:
 - ❖ An open team-based organization design that empowers employees
 - ❖ Extensive and open information sharing
 - ❖ Leadership that provides a shared vision of the organization's future, support and encouragement
 - ❖ A strong culture of shared values, trust, openness, and a sense of community.

Terms to Know

- organizing
- organizational structure
- organizational design
- work specialization
- departmentalization
- functional departmentalization
- product departmentalization
- geographical departmentalization
- process departmentalization
- customer departmentalization
- cross-functional teams
- chain of command
- authority
- responsibility
- unity of command
- span of control
- centralization
- decentralization
- employee empowerment
- formalization
- mechanistic organization
- organic organization
- unit production
- mass production
- process production
- simple structure
- functional structure

Terms to Know

- divisional structure
- team structure
- matrix structure
- project structure
- boundaryless organization
- virtual organization
- network organization
- learning organization
- organizational chart

Kabir opens a retail mart in a local market. As he knows it will be impossible for him to handle all work alone, he appoints Jasraj to perform tasks on his behalf thereby reducing his workload. This decision provided Kabir with more time to concentrate on important matters. Besides, he recruits eight other persons as support staff. Over the years his business earns a good name for itself. So he opens another outlet in the city. Considering Jasraj's competence, he gives the independent charge of running the new outlet to him, thereby empowering him by giving him autonomy in functioning of the outlet.

In the context of the above case:

- . Identify the two concepts which reflect the transition in the role of Jasraj in the above paragraph.
- . What are the factors that Karan must keep while giving the independent charge of the new outlet to Jasraj?

1. **Delegation of authority:** In the initial years of business, Jasraj's role is restricted. He is granted limited authority to perform tasks on behalf of Kabir to reduce his workload and provide him with more time to concentrate on important matters.

Decentralisation of authority: When Jasraj is given an independent charge of the new outlet, he is empowered to take decisions autonomously to ensure successful running of the outlet.

2. Karan needs to be careful while selecting those decisions related to the outlet which will be taken by Jasraj independently and those that will be retained with him. It is important to define the decision making powers as complete decentralisation would imply the delegation of all decision making functions to Jasraj and this would obviate Karan's role as the owner of the business.