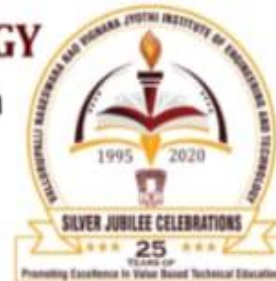




**VNR VIGNANA JYOTHI INSTITUTE OF ENGINEERING AND TECHNOLOGY**

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# FUNDAMENTALS OF MANAGEMENT

## ***UNIT-III: Organizational Design***

**By**

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# ***UNIT-III: Organizational Design***

- Classical, Neoclassical and Contingency approaches to organizational design, Organizational theory and design,
- Organizational structure (Simple Structure, Functional Structure, Divisional Structure, Matrix Structure)

# ORGANISATION

Yellow- topic, Green- alternate

- Definitions:

Louis Allen, “Organization is the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.” In the words of Allen, organization is an instrument for achieving organizational goals. The work of each and every person is defined and authority and responsibility is fixed for accomplishing the same.

Koontz and O'Donnell, ‘The establishment of authority relationships with provision for co-ordination between them, both vertically and horizontally in the enterprise structure.’”

- **CHARACTERISTICS OF ORGANISATION**

- 1. Division of Work
- 2. Co-Ordination
- 3. Common Objectives
- 4. Co-operative Relationship
- 5. Well-Defined Authority-Responsibility Relationships

- **PRINCIPLES OF ORGANISATION**

- 1. Principle of Objective
- 2. Principle of Specialisation
- 3. Principles of Co-ordination
- 5. Principle of Definition
- 6. Span of Control
- 7. Principle of Balance
- 8. Principle of Continuity
- 9. Principle of Uniformity
- 10. Principle of Unity of Command
- 11. Principle of Exception
- 12. Principle of Simplicity
- 13. Principle of Efficiency
- 14. Scalar Principle

# Basics concepts related to the Organization

- Organizational Hierarchy

- Authority and Responsibility

Authority is the power to give commands and to use discretion vested in that particular position or Job.

- Responsibility is the obligation on the part of the subordinate to complete the given job.

- **Delegation of Authority:**

The process of transferring authority from top to the lower levels in the organization is called delegation.

Two types of Delegation

1. Centralized

2. De-centralized

- **Span of Management:**

Number of all kinds of relationships  $(N) = n(2n-1+n-1)$

Where  $n$  = number of subordinates reporting to a manager

# Organizational Design

- Classical approach to organizational design
- Neoclassical approach to organizational design
- Contingency approach to organizational design



# Introduction

- Organizational Design is a sequential method of identifying the performing aspects and liabilities in a system, so that they can be re-aligned as per the needs of the company, such as current goals and implementing new business changes. It focusses on improving technical and interpersonal side of the workplace. Implementing an efficient organizational design leads to a more effective organization, a more focused workforce and a workplace of better productivity by improving internal operations, inter-departmental relationships, working efficiency, all of which leads to better productivity and customer satisfaction.



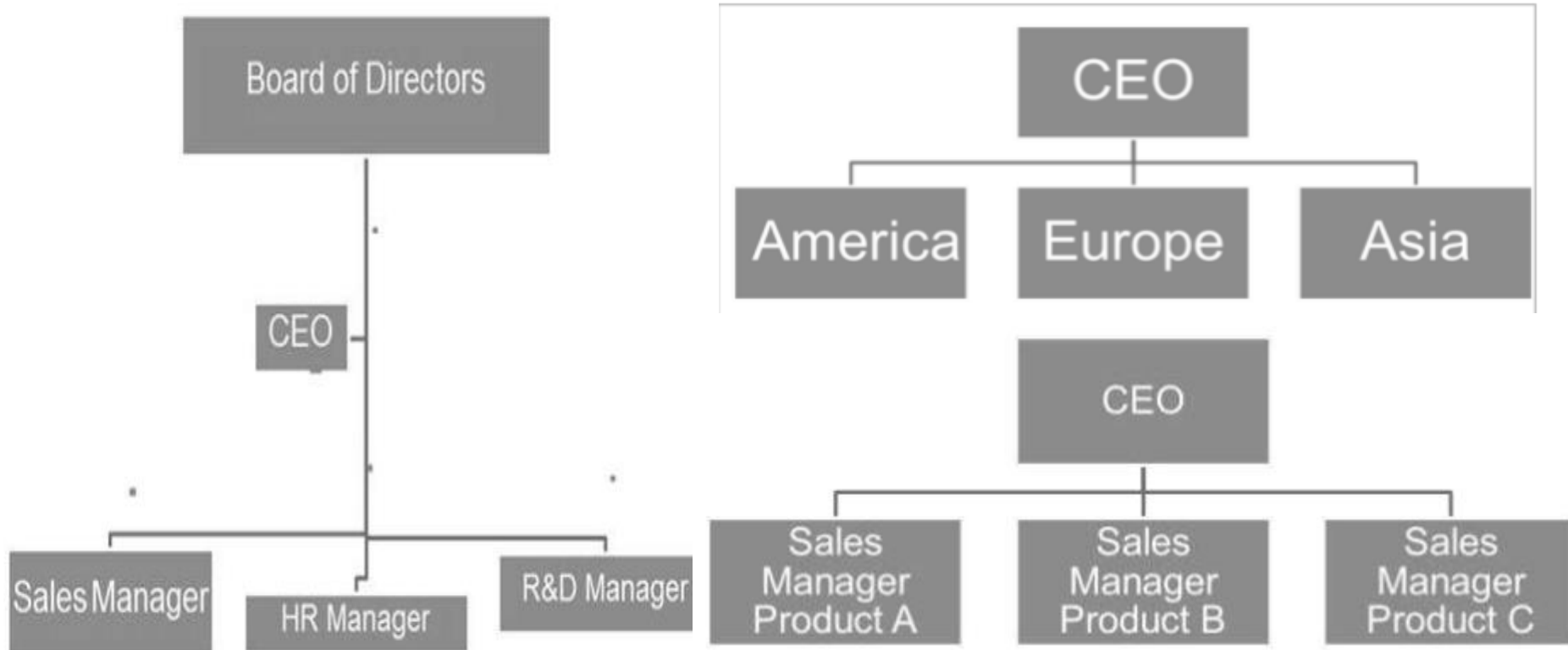
- During the implementation of Organization Design, a management may enforce numerous strategic changes as per their strategy to deliver the desired results. In this process, there are chances of clashes between work-processes and the occasional trade-offs. Sometimes, there will be situations where the management realizes that they have to sacrifice smaller benefits to ensure larger benefits in the future.
- Due to these reasons, changes in Organizational Design are always not as smooth as the management will like them to be. However, successful companies have managed to implement such changes with an eye on the big picture and have communicated their strategies with transparency to their employees, which has helped them to bring future-embracing changes in their structure without getting any negative press or reputation to their names.

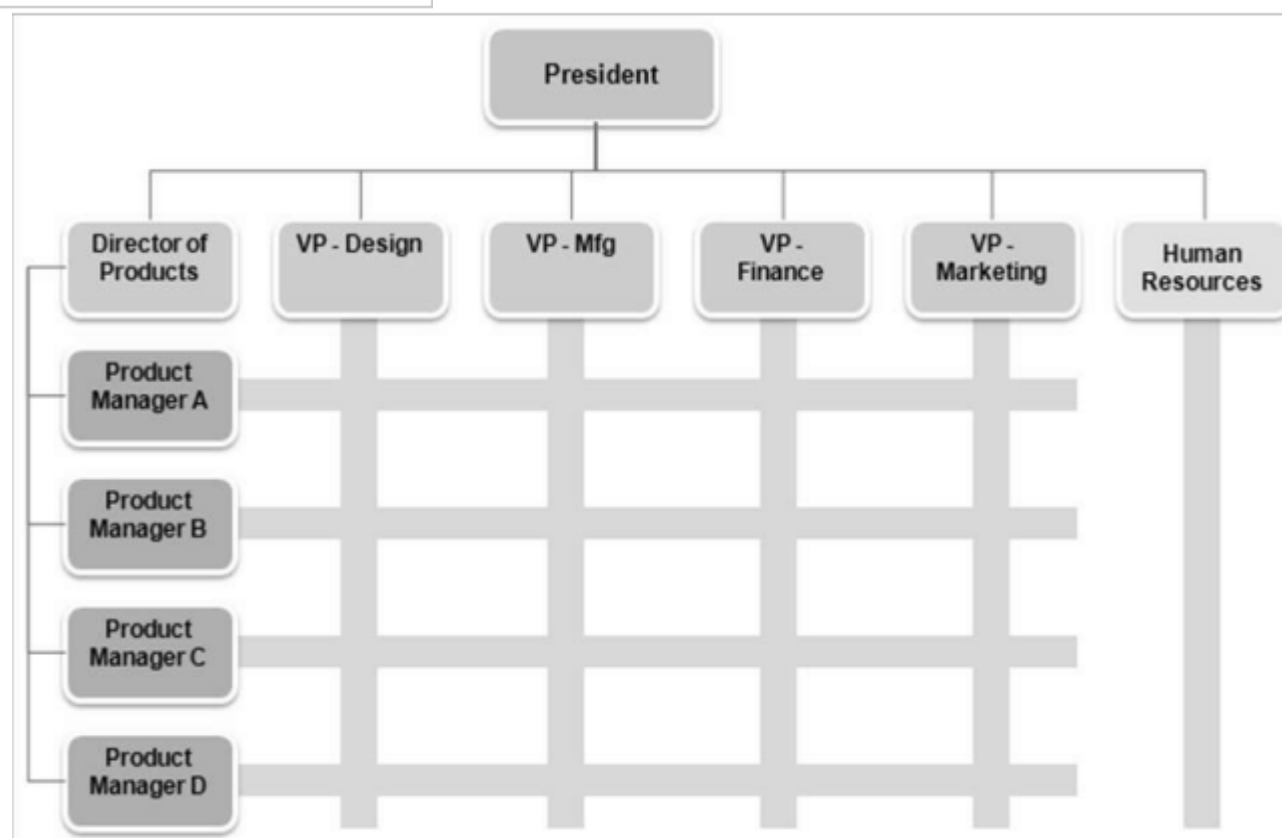
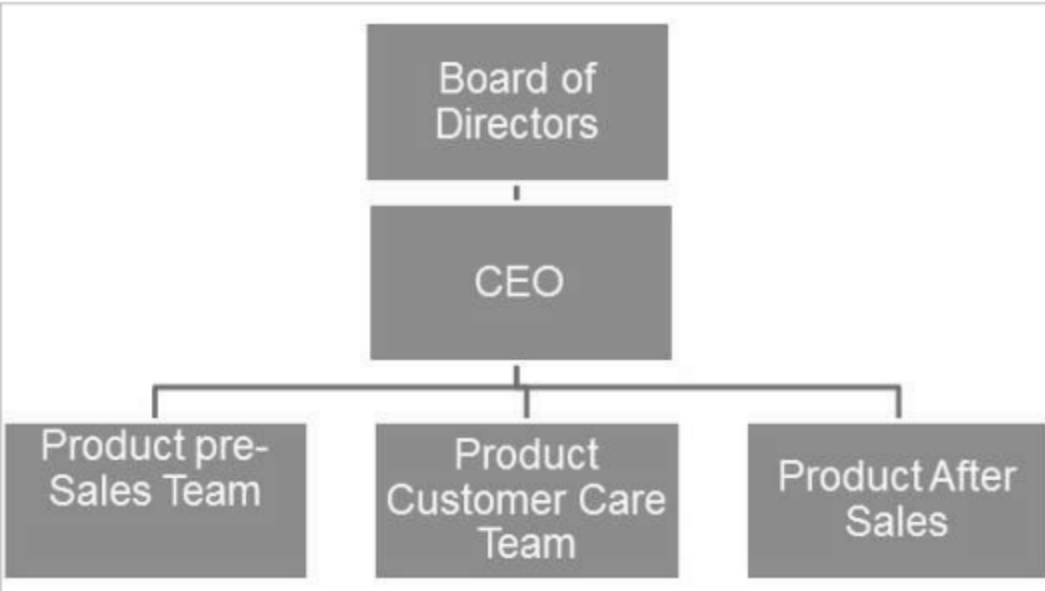
- Organization design is a framework architecture for an organization according to which an organization runs its business. It structures the workforce and the management in the most efficient working method through which they can realize their company's mission statement.
- A successful and comprehensive design process is defined by the holistic approach it envisions for the organizational improvement. To design such a framework that addresses all the vital areas of a company, the management will have to draw objectives that ensure the following: Business Growth Model, Improved Efficiency and Profits, Outstanding Customer Service, Improved Process Management, Improved Workforce Productivity, Decreasing Operational Expenses, Improved Employee Engagement
- Organizational Design is related to aligning functions, processes, strategies, responsibilities and roles to different members of team and departments within the context of the various processes and products that the company produces.

# Organizational Design — Common Forms

- Some of the most common strategies along which Organizational Grouping is done are behavior, function, product, customer, market and matrix. People are assigned teams based on these lines of functioning and are given instructions and their objectives and the managers are entrusted with the successful implementation.
- After delegating work to different departments, the management then decides the hierarchy of reporting of the departments and selects the ones whose managers will report to them directly regarding progresses and areas of concern. All these types of organization represent a structure for an organization's design, where there is a clear chain of hierarchy and flow of communication.

- Some of the **most important design models** are given below:
  - **Functional Organizational Design Model**
  - **Geographical Organizational Design Model**
  - **Product-oriented Organizational Design Model**
  - **Market-oriented Organizational Design Model**
  - **Matrix Structure Organizational Design Model**





# The classical approach to organizational design

- In classical theory of organizational process, main emphasis is on structural factors and functions or activities to attain the objectives. Theorists stated that focus is given on specialisation and co-ordination, and chain of command facilitates co-ordination and communication. Classical theory to management is a set of consistent ideas on the management of organizations that developed in the late 19th century and early 20th century.
- This viewpoint appeared from the industrial rebellion and centres on theories of efficiency. As at the end of the 19th century, when factory production became persistent and there were large scale organizations, employers and other business groups explored ways to encourage employees and augment output. Main contributors who evolved classical approach to organizational processes are Frederick Taylor Henri Fayol. Most of them developed fundamental concepts for a comprehensive theory of management (Mullins, 2015). These theorists generated management theories such as Taylor's Scientific Management, Fayol's Administrative Management and Weber's

- Frederick Taylor (1917) developed scientific management theory that is known as **Taylorism** at the beginning of this century.
- Henri Fayol was also major contributor of Classical Theory. **Henri Fayol has dissimilar viewpoint than Taylor** and he focused on the manager rather than the worker and he emphasized in administrative features in the organization. **Fayol established five administrative functions: (1) Planning; (2) organizing; (3) commanding; (4) coordinating; (5) controlling.** These aspects indicate that **Fayol concerned in commanding and controlling the organization towards high performance.**
- Furthermore, another contributor for classical approach is **Max Webber**, a German sociologist, who evolved the thought of bureaucracy. **Max Weber (1947) developed on Taylor's theories, and emphasized the need to decrease diversity and vagueness in organizations.**

# The neoclassical approach to organizational design

- The dogmas of neoclassical theory developed with human-oriented approach and main focus was on time needs, drives, behaviours and attitudes of individuals (Singh, 1983). The neoclassical approaches recognize early classical frameworks but expand and made significant qualification of them. The neoclassical theory integrates the behavioural sciences into management thought in order to solve the problems caused by classical theory practices. The principle of this enclosure was based on the idea that the role of management is to use employees to perform business functions in organizations. Instead of concentrating on production, structures, or technology, the neoclassical theory was mainly associated with the employee. Neoclassical theorists focused on replying questions related to the best way to motivate, structure, and support employees within the organization.



- Neo classical approach emphasised the role of informal organisations as agencies of social change (Informal Leadership). Neo classical theory developed motivational theory and theory of co-ordination and leadership.
- The Neoclassical approach basically evolved with the Hawthorne studies in the 1920s.

Experiment	Major changes	Results
Stage I: Illumination study	Lighting conditions	Improved productivity at nearly all levels of illumination
Stage II: First relay-assembly test	Job simplification, shorter work hours, rest breaks, friendly supervision, incentive pay	30 percent productivity improvement
Second relay-assembly test		Incentive pay 12 percent productivity improvement
Mica-splitting test		15 percent productivity improvement
Stage III: Interview program		Discovery of presence of informal
Bank-wiring-room test	Incentive pay	Emergence of productivity norms

- Table: Distinction between classical neoclassical approaches

Points of distinction	Classical approach	Neo Classical approach
Focus	Functions and economic demand of worker	Emotion and human qualities of workers
Structure	Impersonal and mechanistic	Social system
Application	Autocratic management and strict rule	Democratic process
Emphasize	Discipline and rationality	Personal security and social demand
Work goal of worker	Maximum remuneration and reward	Attainment of organization goal
Concept about men	Economic being	Social being
Content	Scientific management, administrative management, Bureaucratic management	Hawthorne experiment, human relation movement and organizational behaviour
Relation	Formal	Informal
Nature	Mechanistic	Organistic

# Contingency approaches to organizational design

- Classical and neoclassical theorists analysed conflict as a factor that must be avoided because it hinders stability. According to contingency theorists, conflict is inescapable, but manageable. The contingency theory of organizational structure currently offers a major structure for the study of organizational design (Donaldson, 1995a, 2001). It states that the most effective organizational structural design is where the structure fits the contingencies. It has provided logical concepts for analysis of structure of organization. Main theoretical principles of contingency theory are that best practices depend on the contingencies of the situation. Theorists attempt to identify and measure the conditions under which things will likely occur.

- Since human service practice varies substantially, contingency theory provides a practical approach to model. The term contingency as used in contingency theory is alike to its use in direct practice. A contingency is an association between two phenomena. If one phenomenon exists, then a conclusion can be drawn about another phenomenon. Theorists explained that this theory indicates, the most suitable organizational structure depends not only on the organizational objectives but also on the situation, which includes the environment, the technology employed, the rate and pace of change, the managerial style, the size of the organization, and other dynamic forces. This approach is derived from the leadership and organizational structures.

# organizational structures

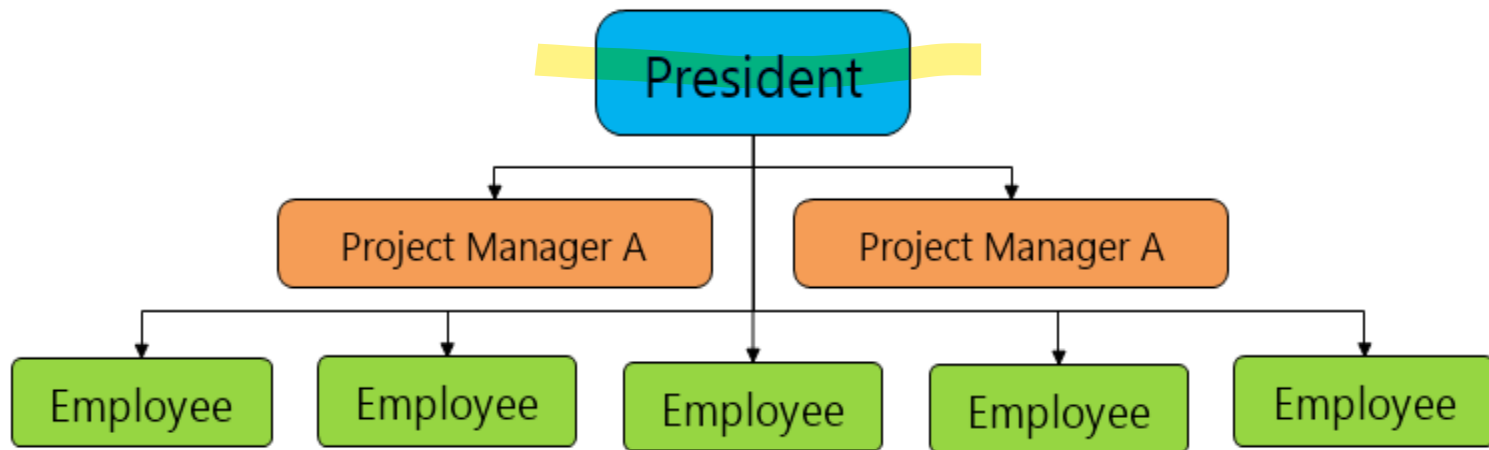
- Organizations are set up in specific ways to accomplish different goals, and the structure of an organization can help or hinder its progress toward accomplishing these goals. Organizations large and small can achieve higher sales and other profit by properly matching their needs with the structure they use to operate. There are four main types of organizational structure: simple, functional structure, divisional structure and a blend of the two, called matrix structure.

# ○ Simple organisation structures:

## ○ Flat and Tall organizations

**Flat organization:-** Which have relatively few or even one level of management.

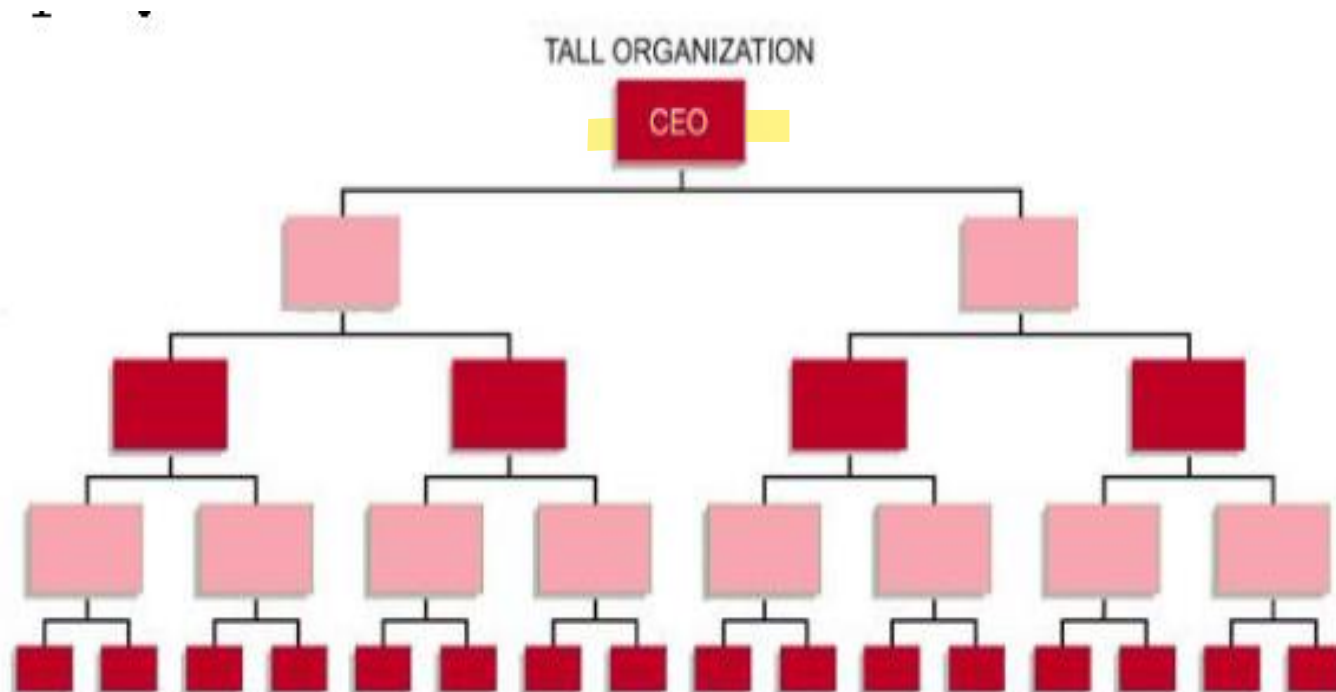
Flat is also known as wider span of control



- **Tall organizations**

Tall organizations have many levels of management

Tall organization involves narrow span of management

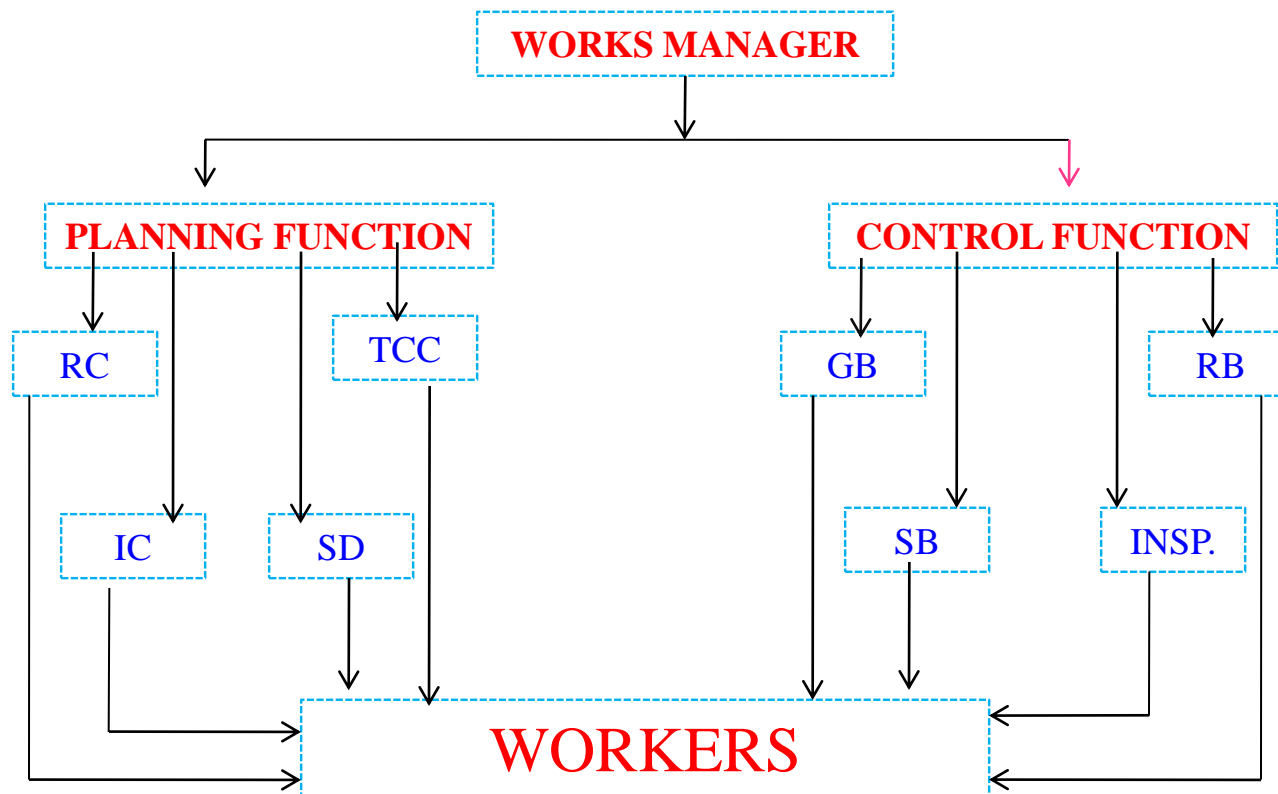


- **Functional Structure of an Organization**

Functional structure is set up so that each portion of the organization is grouped according to its purpose. In this type of organization, for example, there may be a marketing department, a sales department and a production department. The functional structure works very well for small businesses in which each department can rely on the talent and knowledge of its workers and support itself.

However, one of the drawbacks to a functional structure is that the coordination and communication between departments can be restricted by the organizational boundaries of having the various departments working separately.





## **TAYLOR'S FUNCTIONAL ORGANISATION**

**RC = ROUTE CLERK**

**SD = SHOP DISCIPLINARIAN**

**GB = GANG BOSS**

**INSP. = INSPECTOR**

**IC = INSTRUCTION CLERK**

**TCC = TIME & COST CLERK**

**RB = REPAIR BOSS**

# • Divisional Structure of an Organization

Divisional structure typically is used in larger companies that operate in a wide geographic area or that have separate smaller organizations within the umbrella group to cover different types of products or market areas. For example, the now-defunct Tecumseh Products Company was organized divisionally – with a small engine division, a compressor division, a parts division and divisions for each geographic area to handle specific needs.

The benefit of this structure is that needs can be met more rapidly and more specifically, as each division can operate more or less independently for the other divisions in the company. However, a divisional arrangement can also be cumbersome, as communication is inhibited because employees in different divisions are not working together. Divisional structure is costly because of its size and scope. Small businesses can use a divisional structure on a smaller scale, having different offices in different parts of the city, for example, or assigning different sales teams to handle different geographic areas.

**Managing Director**

Cosmetics

Footwear

Medicines

Garments

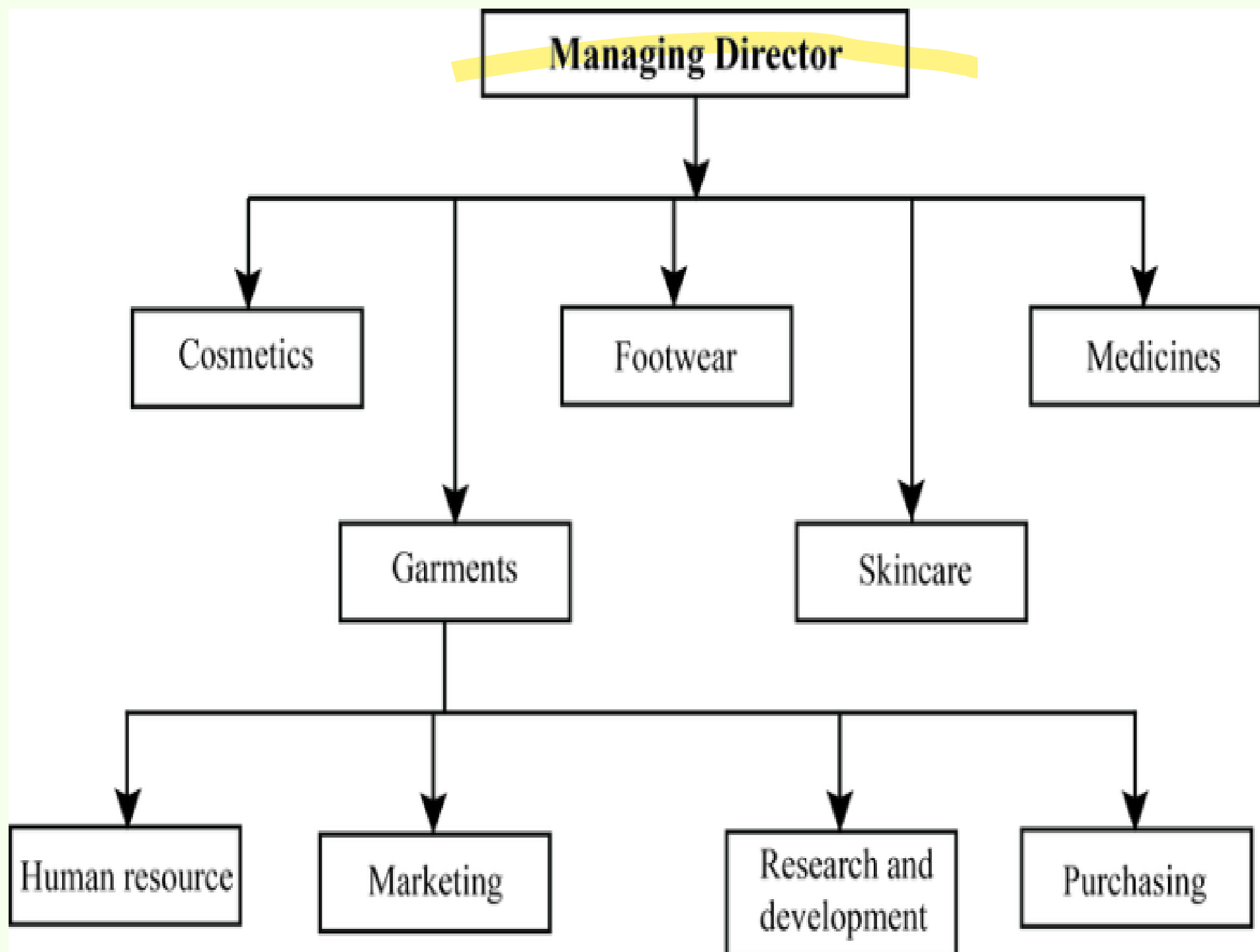
Skincare

Human resource

Marketing

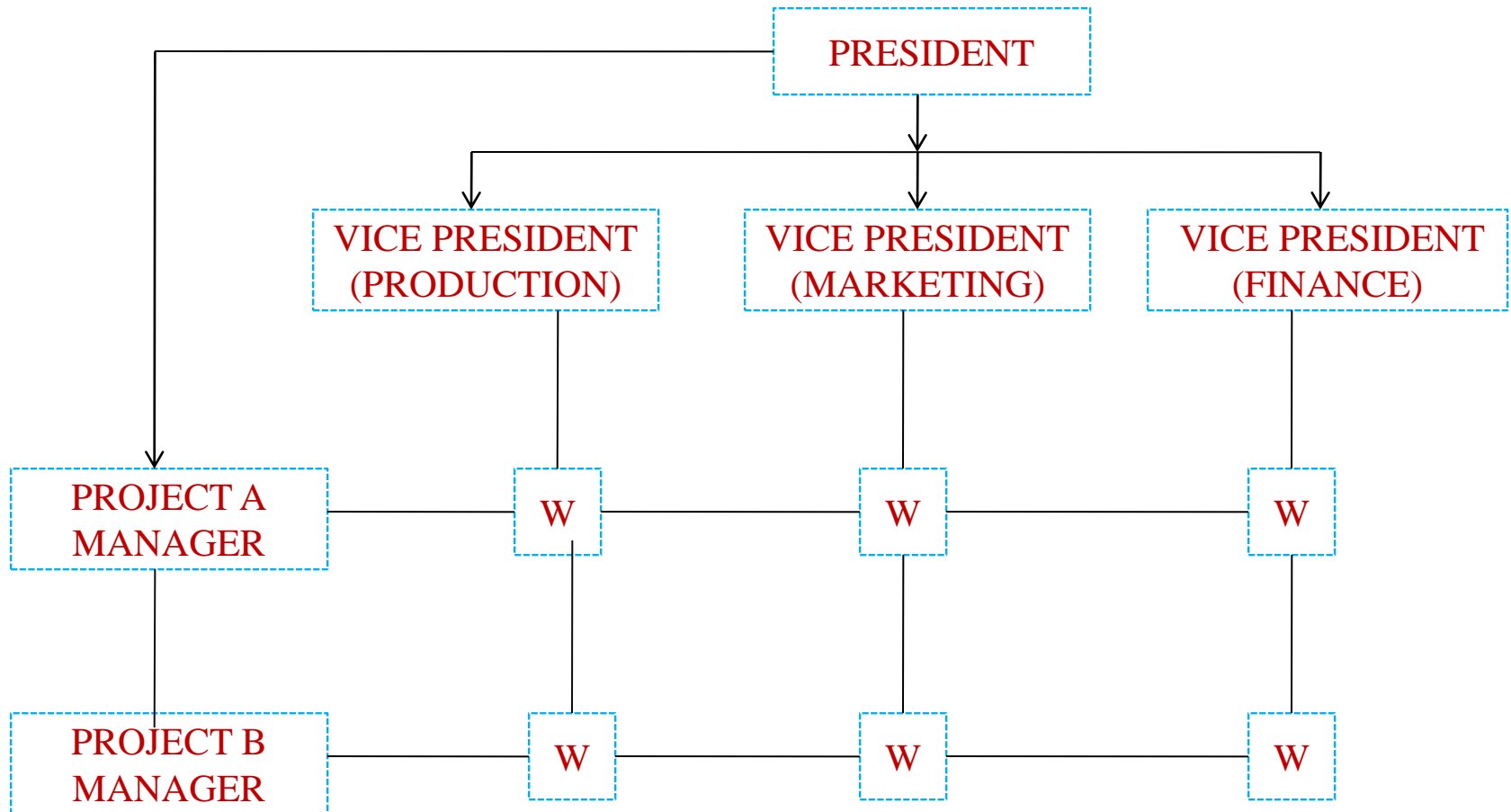
Research and  
development

Purchasing



- **Matrix Structure of an Organization**

The third main type of organizational structure, called the matrix structure, is a hybrid of divisional and functional structure. Typically used in large multinational companies, the matrix structure allows for the benefits of functional and divisional structures to exist in one organization. This can create power struggles because most areas of the company will have a dual management – a functional manager and a product or divisional manager working at the same level and covering some of the same managerial territory.

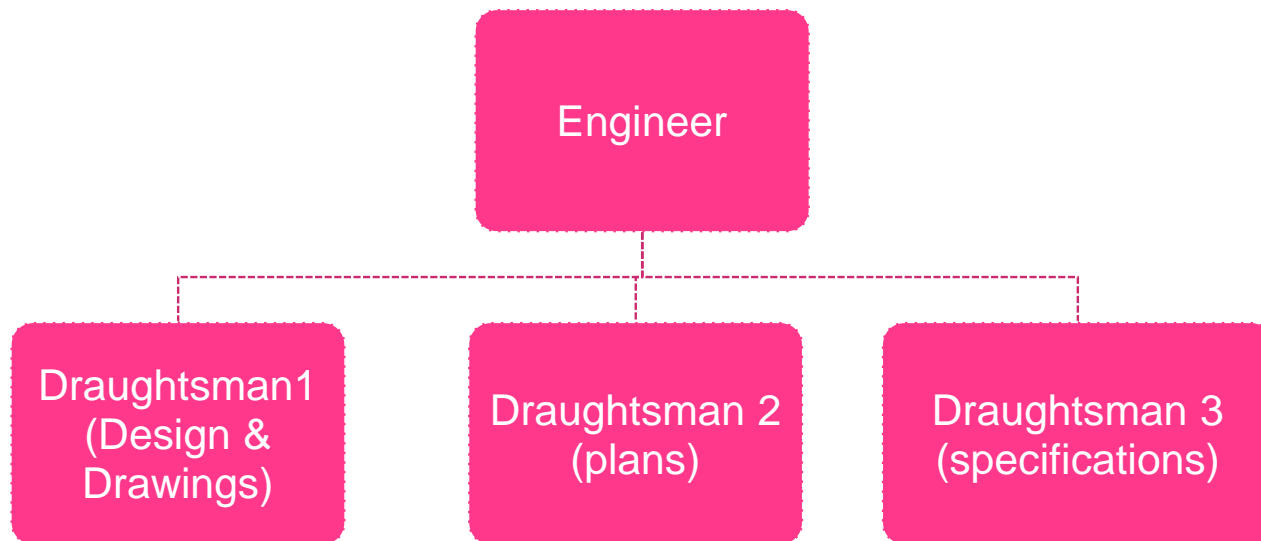


## MATRIX ORGANISATION

# Other Types of Organizations

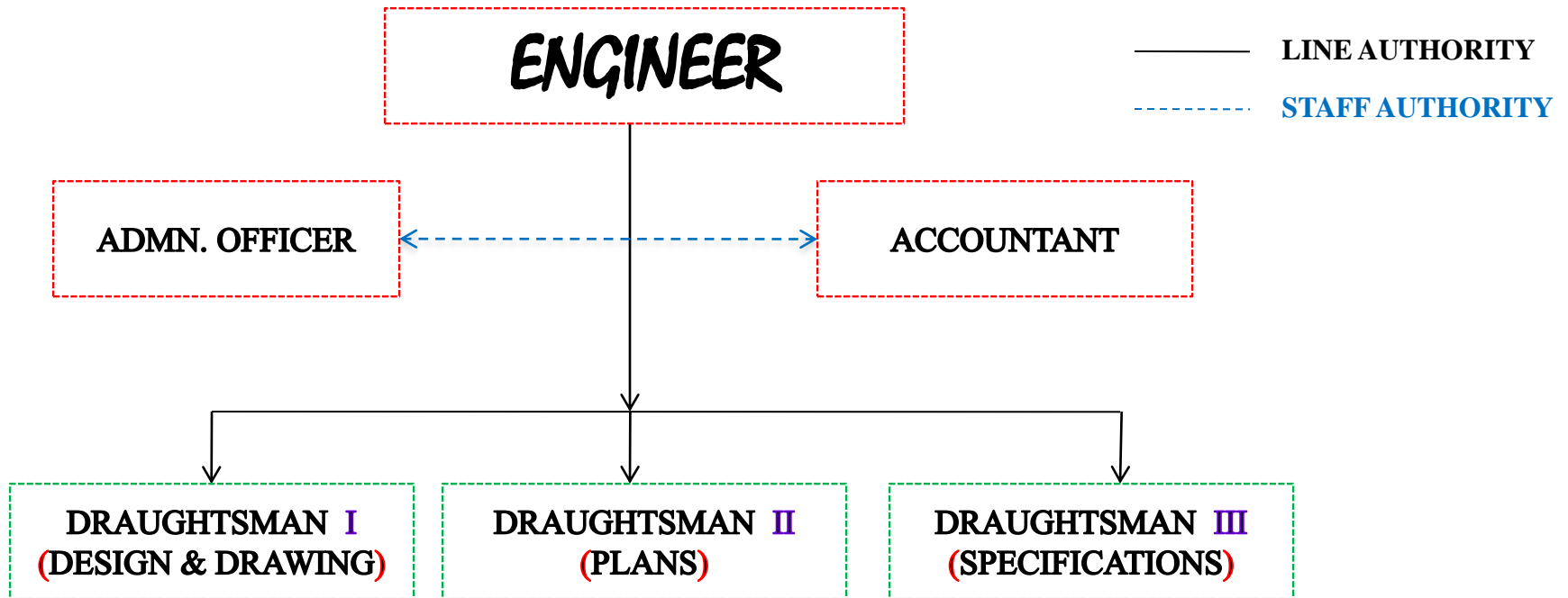
**Line organizations**:- This is also called **military** or scalar organization. is said to be the **oldest and most traditional type** of organizations. **Managers in this organizations have direct responsibility for the results.**

## Line organization



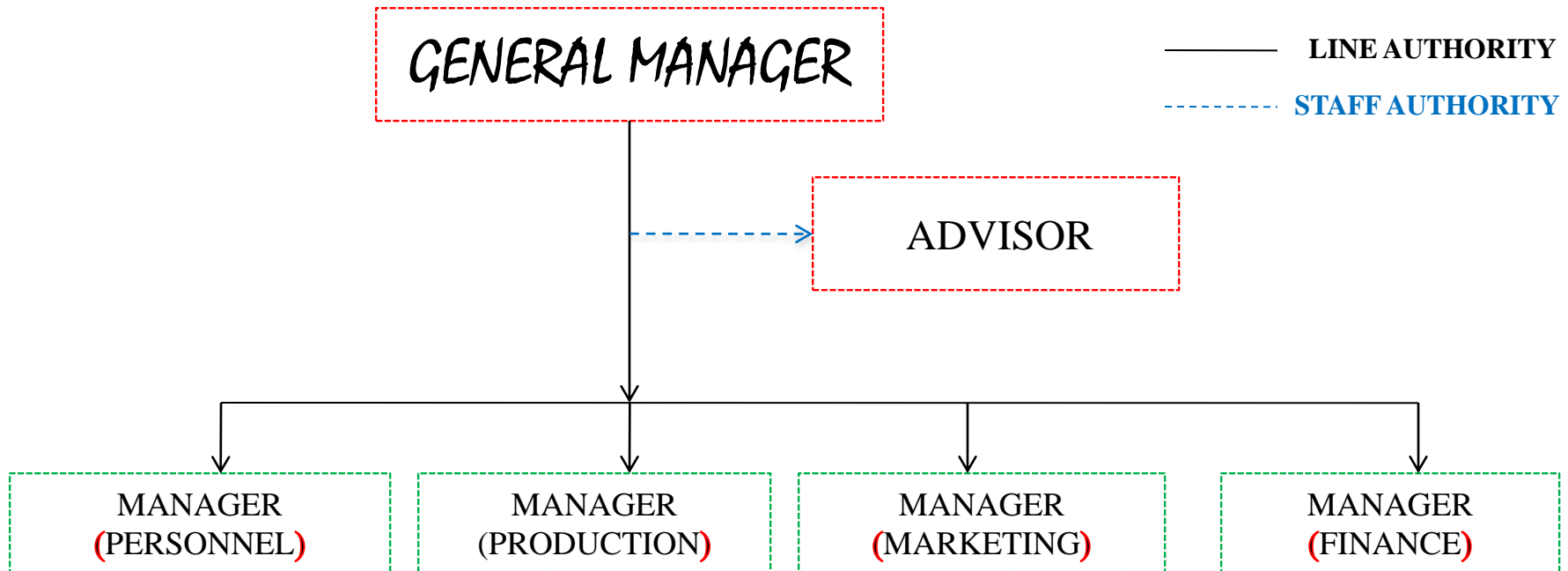
# Line and Staff Organization:-

- Drawn from earlier civilization and armies.
- Staff managers support the functions of the line managers.
- Line and staff organization is a service organization.
- Line and staff organization in a manufacturing unit.
- Line and staff in the armed forces.
- Line relationships in staff positions.



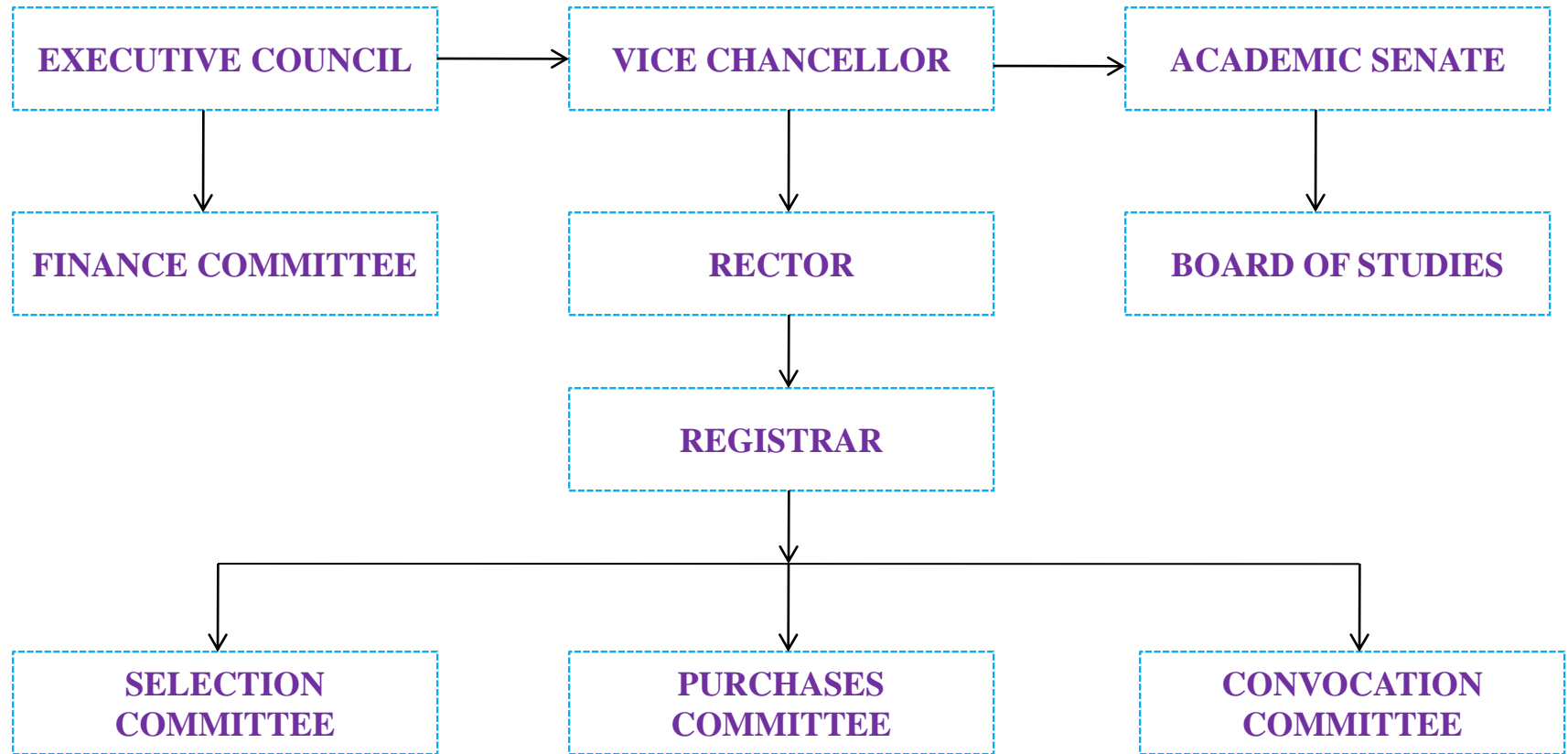
## LINE & STAFF STRUCTURE IN A SERVICES ORGANISATION





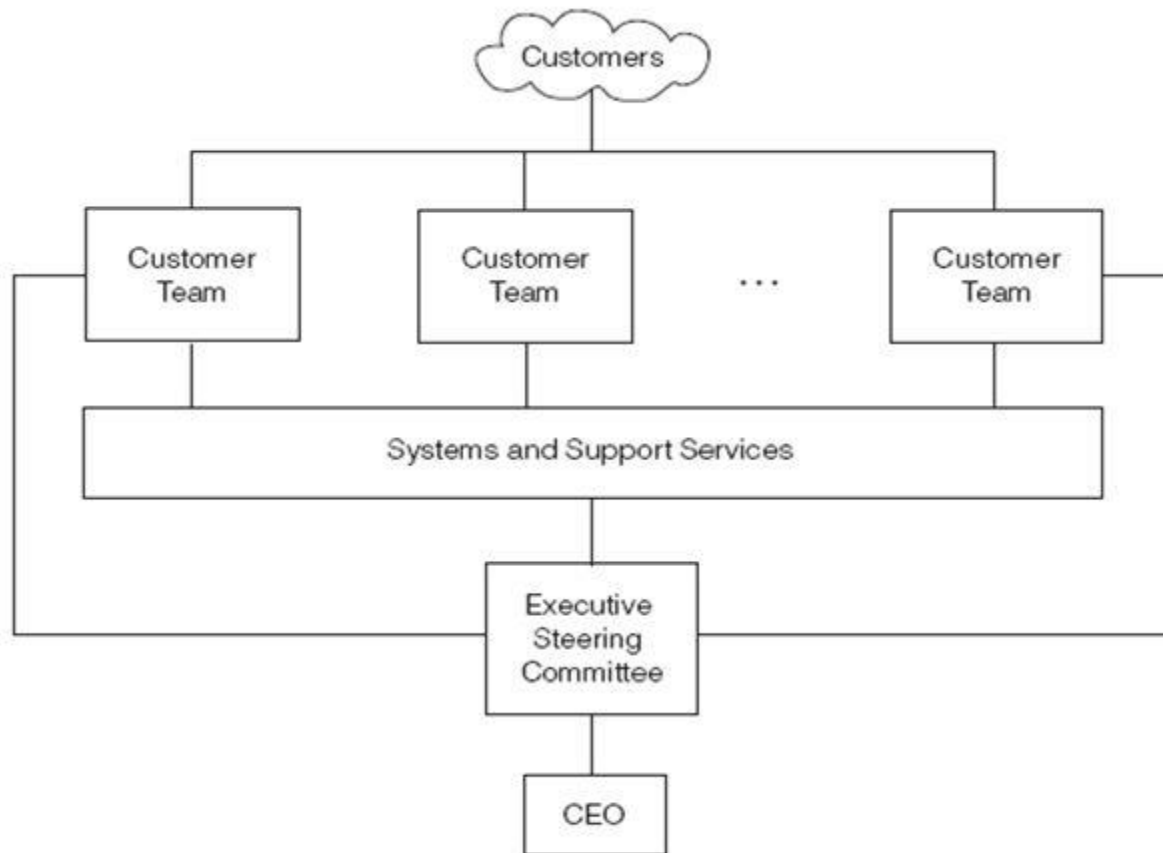
## LINE & STAFF STRUCTURE IN A MANUFACTURING UNIT

# COMMITTEE ORGANISATION



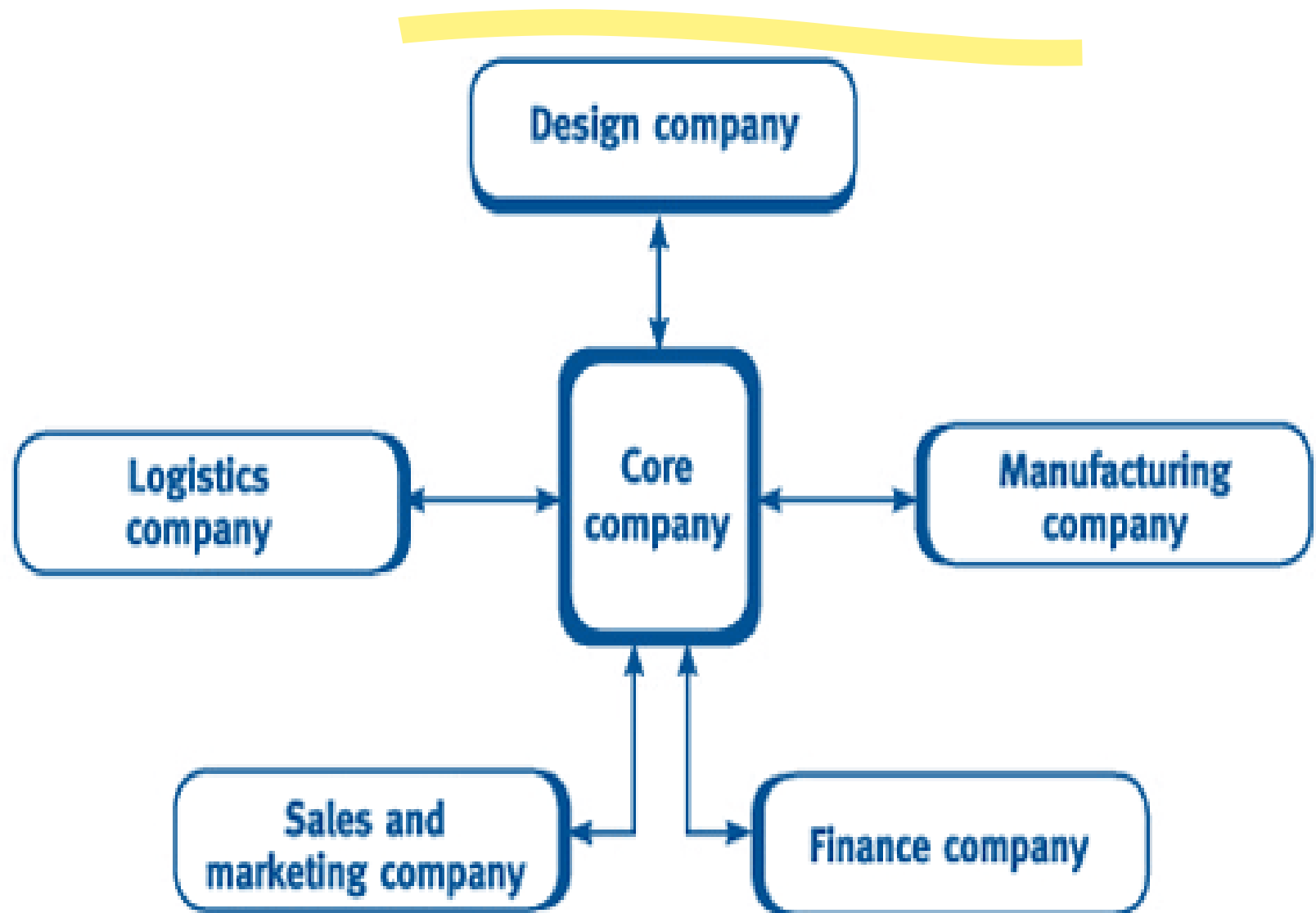
**COMMITTEE ORGANISATION IN A UNIVERSITY**

# Team-Based Organization Chart



# VIRTUAL ORGANISATION

- Also known as network or modular organization.
- “ Virtual corporation is a temporary network of independent companies , suppliers, customers, even erstwhile rivals linked by information technology to share skills, costs and access to one another's markets. It will neither central office nor organization chart. No hierarchy and no vertical integration.



# What is Boundary less Organization?

A boundary less organization is a contemporary approach in organizational design. It is an organization that is not defined by, or, limited to , the horizontal, vertical, or external boundaries imposed by a predefined structure.

- This term was coined by Jack Welsh who wanted to eliminate vertical and horizontal boundaries within the company and break down external barriers between the company and its customers and suppliers.



# INVERTED PYRAMID STRUCTURE



## Review Questions:

1. Define organisation. Explain principles of organisation.
2. Define organisation design. Explain different forms of organisation
3. Explain classical approaches to organisational design.
4. Explain neoclassical approaches to organisational design.
5. Explain contingency approaches to organisational design.
6. Explain types of organisation structures with appropriate examples



Thank You