# Organizational Structure and Design

Organizational Structure

1. Start Up----Gaming Company

2. Manufacturing Company-Producing some products

3. Service Industry –Chain of Hotels

4. University

OS -

- Centralization (Minimum) -Jitesh
  - HR should be approachable
  - Based on specialization
- Kartik ---Based on some product
- Shreyash---Hierarchy should not be complex
  - Communication Flow should be easy
- Sneha- Inclusion of Diversity
- Shaurya –**OS should define roles of each individual**
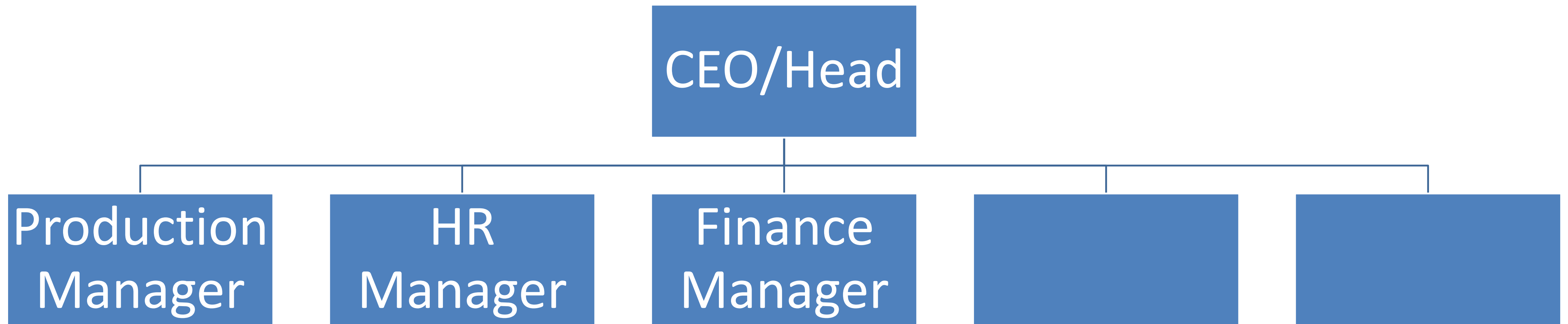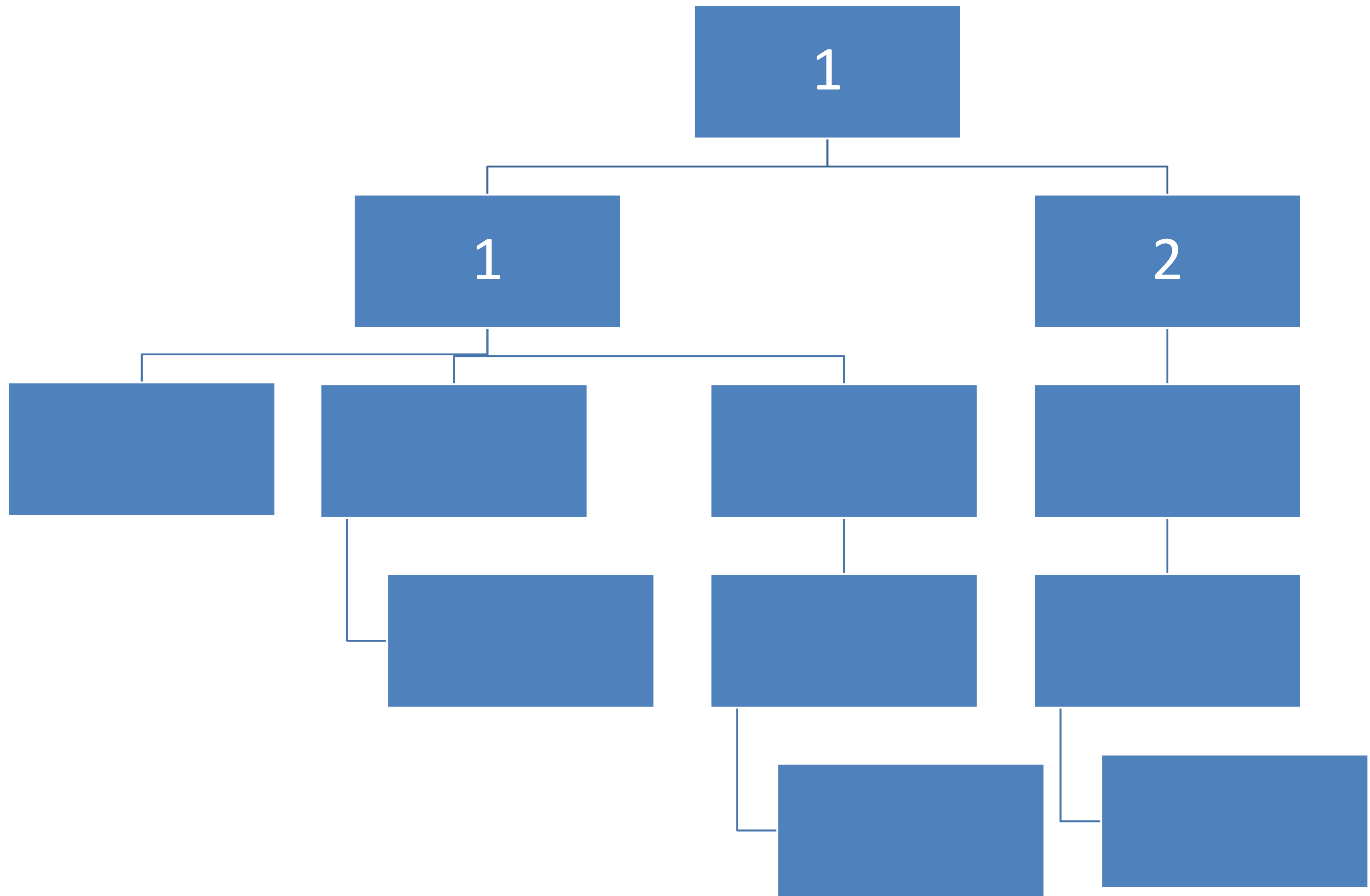
Purposes of Organizing

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.

Comparison between formal and informal organisation

S.No.	Basis for comparison	Formal organisation	Informal organisation
1.	Meaning	An organisation where the job of an employee is clearly defined, whose authority, responsibility and accountability are fixed.	An organisation formed with a network of interpersonal relationship of employees.
2.	Creation	It is consciously and deliberately created.	It arises spontaneously.
3.	Purpose	To fulfill the objective of the organisation.	To satisfy the social and psychological needs.
4.	Communication	Formal communication	Informal communication
5.	Control Mechanism	Rules and procedure	Personal relationship between the individuals
6.	Authority and Responsibility	Authority flows downwards and responsibility flows upwards	There is no flow of responsibility
7.	Size	Large	Small
8.	Stability	Permanent and stable	Unstable

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

Organizational Design

Work Specialization

- The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.

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
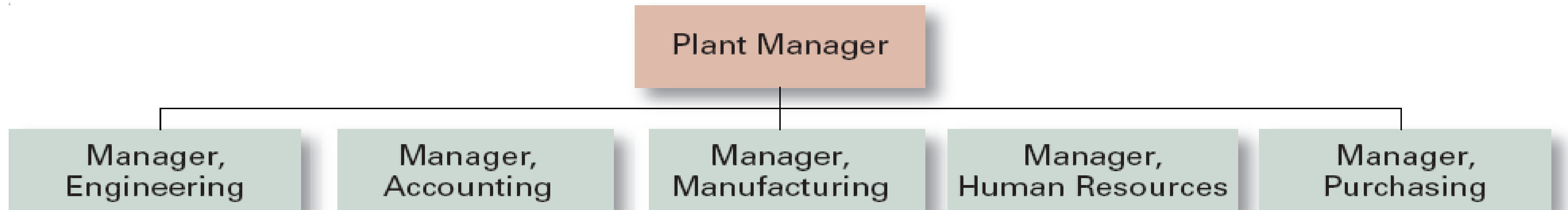
Process

- Grouping jobs on the basis of product or customer flow

Customer

- Grouping jobs by type of customer and needs

Functional Departmentalization

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                          ┌─────────────────┐
                          │  Plant Manager  │
                          └─────────────────┘
        ┌──────────┬──────────┬──────────┬──────────┐
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│ Manager, │ │ Manager, │ │ Manager, │ │  Manager,    │ │ Manager, │
│Engineering│ │Accounting│ │Manufactur│ │Human Resource│ │Purchasing│
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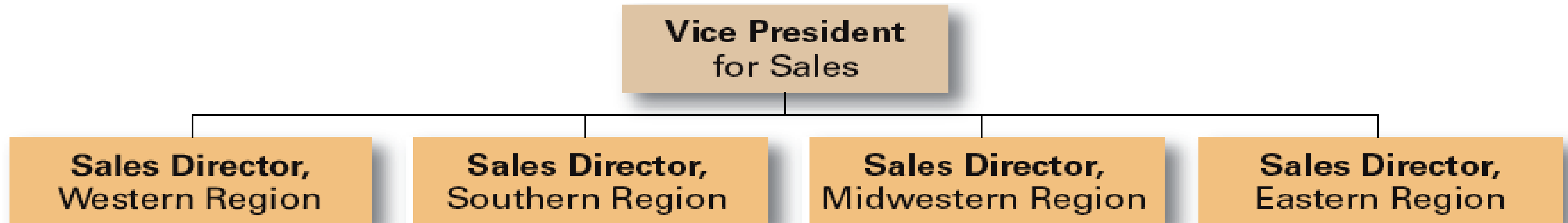
Advantages

- **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**

Geographical Departmentalization

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                    ┌──────────────────┐
                    │  Vice President  │
                    │    for Sales     │
                    └──────────────────┘
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| Sales Director, Western Region	Sales Director, Southern Region	Sales Director, Midwestern Region	Sales Director, Eastern Region

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

Product Departmentalization
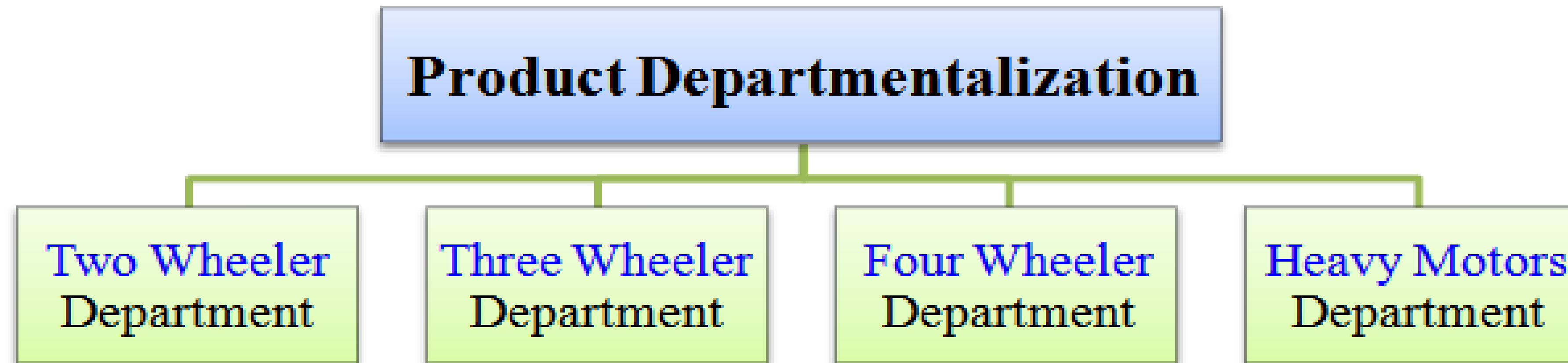
+ Allows specialization in particular products and services

+ Managers can become experts in their industry

+ Closer to customers

− Duplication of functions

− Limited view of organizational goals

Process Departmentalization

Process Departmentalization

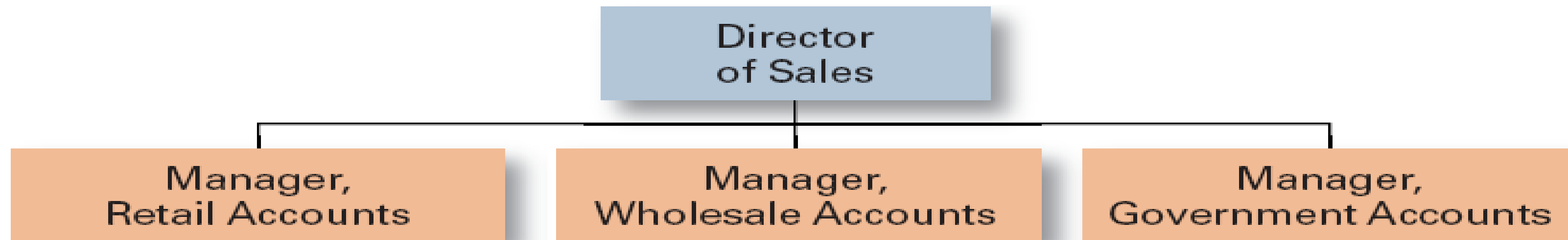| Spinning Department | Weaving Department | Dyeing Department | Printing Department |
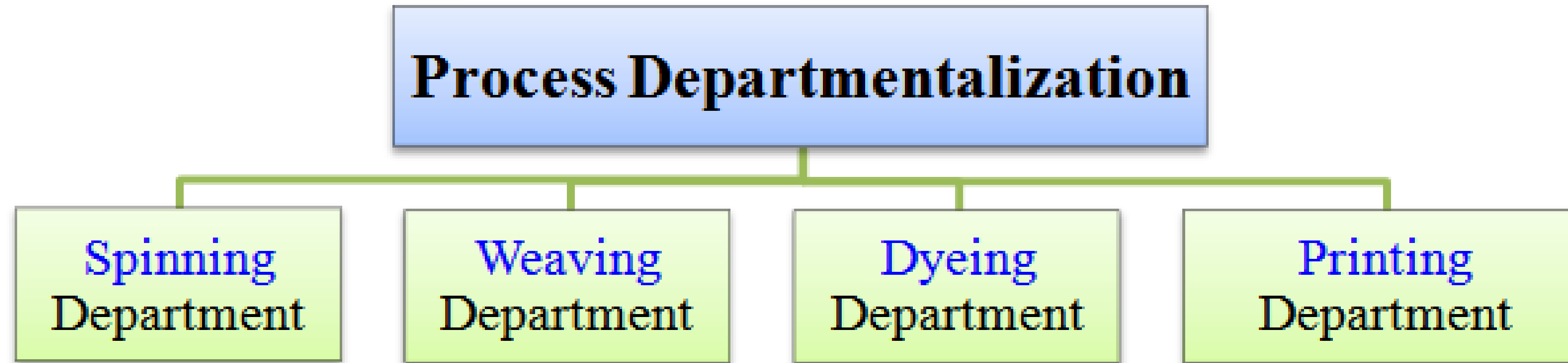
+ More efficient flow of work activities

– Can only be used with certain types of products

Customer Departmentalization

+ Customers' needs and problems can be met by specialists

- Duplication of functions

- Limited view of organizational goals

Scenario Analysis

- Two very different organizations, young and dynamic has achieved success in last five years.

- A famous ***Indian construction company*** and a ***Start up Gaming app*** company have succeeded in achieving high levels of employee engagement without a formal "Engagement Strategy".

- Each has achieved significant change through experimentation and learning, backed by sustained senior management effort without any kind of "best practice" guidelines.

- Both companies want to scale up their businesses and require designing of organizational structure due to the expansion strategy….

- What advise you will provide to both the companies when they are planning to increase their work force. Devise a organizational structure and give you views on the following parameters

  – From 50 ………100   to …………………………….400 Employees

  – Operating from 1 city to 8-10 Cities

  – Scaling up business valuation from Rs 1 Mn to 50 Min

  – What will be Span of Control?

    - What will be Chain of Command?

    - How you will divide authority and responsibility?

Organization Design

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.

Organization Design (cont'd)

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.

Organization Design (cont'd)

The number of employees who can be effectively and efficiently supervised by a manager.

Span of Control

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

Organization Design

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.

Factors that Influencing 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.

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.

Organization Design

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

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

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

Mechanistic versus Organic Organization

Mechanistic

Organic

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

- 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 Framework		
	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.
	Limitation	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

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
  - **Mass production** of large batches of output
  - **Process production** in continuous process of outputs
- Routine technology = mechanistic organizations
- Non-routine technology = organic organizations

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 Design