Chapter 05: Organizational Structure and Design

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**Organizing** is the process of creating the organization’s structure. The structure is how job tasks are formally divided, grouped and coordinate within the organization. The purpose of organizing includes:

* Dividing the work into specific jobs and departments
* Assigning tasks and responsibilities associated with individual jobs
* Coordinating diverse organizational tasks
* Clustering jobs into units
* Establishing relationships between individuals, groups and departments
* Establishing formal lines of authority
* Allocating and deploying organizational resources

When developing or changing the structure of an organization, managers follow an **organizational design**. This requires attention to six key elements: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization.

## Work Specialization

**Work Specialization** is the degree to which a task is subdivided into separate jobs. Individual employees specialize in doing the separate jobs rather than the entire task. High specialization increases productivity but taking things too far results in job dissatisfaction and a low sense of accomplishment.

## Departmentalization

The specialized jobs must be divided into groups so that they can be coordinated. The basis on which this is done is called **departmentalization**. This can be of several types:

* **Functional Departmentalization** - Group jobs based on their functions, e.g., HR, Sales, Marketing, etc.
* **Product Departmentalization** - Group jobs based on the products they create.
* **Geographical Departmentalization** – Group jobs based on their location.
* **Process Departmentalization** – Group jobs based on their product or customer flow, e.g., shampooing, coloring, cutting hair, etc. for a beauty salon.
* **Customer Departmentalization** – Group jobs based on the needs of customers so that customers can be assigned to whichever group has the specialist needed for their problem.

## Chain of Command

The **chain of command** is a continuous line of authority that extends from the upper organizational levels to the lowest ones and clarifies who reports to whom. The chain of command involves several other concepts:

* **Authority** – The right of a managerial position to tell others what to do and expect them to do it.
* **Responsibility** – The obligation of employees to perform any assigned duties.
* **Accountability** – The need to report and justify work to a manager’s superiors.
* **Unity of Command** – Every employee should receive orders from only one superior. This preserves the concept of a continuous line of authority and prevents conflicting demands and priorities.
* **Delegation** – The assignment of authority to another person to carry out specific duties, allowing the employee to make some decisions.

## Span of Control

The **span of control** is the number of employees a manager can effectively and efficiently manager. This determines the number of levels and managers an organization needs. A larger span of control results in fewer levels or authority and thus less bureaucracy.

## Centralization and Decentralization

**Centralization** is the degree to which decision making is concentrated at a single point in the organization. In a highly centralized organization, key decisions are taken by top managers with little to no input from below. By contrast, the more lower-level employees provide input or make decisions, the more **decentralization** there is. In large companies, lower-level managers have better knowledge about problems and how to solve them, which suggests that higher decentralization at lower levels is better. Giving more decision making authority to employees is called **employee empowerment**.

## Formalization

**Formalization** is the degree to which jobs within the organization are standardized and the extend to which employee behavior is guided by rules and procedures. Low formalization means job behaviors are relatively unstructured.

## Organizational Structures

There are two types of organizational structures, mechanistic and organic.

A **mechanistic** organization is rigid and tightly controlled. Every role is highly specialized, and no employee ever goes outside their strictly defined role. For example, in McDonalds, a waiter will never cook food. Mechanistic organizations are characterized by high specialization, rigid departmentalization, a limited information network, narrow span of control, little participation in decision making by lower-level employees and high formalization.

An **organic** organization by contrast, is the different opposite. It is highly adaptive and flexible with the jobs of employees being less defined.

Mostly, companies are organic at the lower levels and mechanistic at the higher levels. For example for Wikipedia, anyone can contribute but the final decisions about what appears in articles are taken by top-level employees with strict rules.

### Contingency Factors

The appropriate structure for an organization depends on four factors: the organization’s strategy, size, technology, and the degree of environmental uncertainty.

* **Strategy** – The structure of the organization should facilitate the achievement of its goals. The strategy may focus on three dimensions: innovation, cost minimization and imitation. Depending on which strategic direction the organization chooses to follow, the structure must be set. A mechanistic structure for example, allows for more control and can be useful for cost minimization, while an organic structure allows for easier innovation. If an imitation strategy is being used, whichever structure is being followed by competitors is implemented, which usually results in a mixed structure.
* **Size** – The size of the organization has a significant impact on the structure it uses. Larger organizations tend to shift towards more mechanistic structures than smaller ones.
* **Technology** – Organizations that use the same technology routinely tend to become more mechanistic. For example, a web development company which uses the same tools all the time. On the other hand, customized technology being used in a company results in more organic structures since the product delivery process cannot be standardized. For example, a custom furniture company.
* **Environmental Uncertainty** – Industries which are unstable require companies to be able to respond to changes rapidly. This requires more flexibility, resulting in an organic structure.

## Organizational Designs

### Traditional Organizational Designs

There are three traditional organizational designs. Following these designs results in mechanistic organizations.

* **Simple Structure** – This design has low departmentalization, wide spans of control, authority centralized in a single person and little formalization. It is used by small businesses where the owner and manager are the same. As the business becomes larger, the structure becomes more specialized and formalized and the organization becomes increasingly bureaucratic.
* **Functional Structure** – This design groups similar or related specialties together, departmentalizing the entire organization.
* **Divisional Structure** – This design creates separate business units or divisions, each of which have limited autonomy. The parent corporation acts as an external overseer to coordinate and provide support.

### Contemporary Organizational Design

Contemporary designs allow the corporation to be more flexible to change.

* **Team Structure** – Small, tightly focused teams tackle each project. There are no line managers or top-to-bottom authority. The teams design work in whatever way they think is best. Representatives from each team are given the job of coordinating with other teams. This results in high employee empowerment.
* **Matrix Structure** – Specialists from different functional departments are taken to work on a project lead by a project manager. Thus, the specialists have two managers, the functional department manager and the project manager. The project manager has authority with regards to the project goals while the functional manager has authority with long-term changes such as promotions, salary, etc.
* **Boundaryless** – Organizations have horizontal boundaries in the form of departments and vertical boundaries in the form of organizational levels and hierarchies. Boundaryless organizations eliminate these boundaries by not having a chain of command and replacing departments with teams. A good example are movie corporations which have teams responsible for hiring a directory. The directory in turn is responsible for the rest of the movie. The director is not a full-time employee of the organization.
* **Virtual Organizations** – These organizations rely on recent developments in information technologies to exist. Essentially, a company that only has employees working from home is a virtual organization.
* **Network Organizations** – A network organization has a small core organization and outsources major business functions to companies that specialize in those activities. For example, Cisco designs devices but the manufacturing of their devices is handled by independent manufactures. There are several challenges for this structure:
  + Choosing the wrong activities to outsource
  + Choosing the wrong vendor
  + Writing a poor contract
  + Failing to consider personnel issues
  + Losing control over the activity
  + Ignoring the hidden costs
  + Failing to develop an exit strategy

## Organizational Design Challenges

* **Keeping Employees Connected** – Many organizational structures remove the concept of employees working under a manager’s supervision, such as virtual and network organizations. This brings up the challenge or keeping employees connected.
* **Building a Learning Environment** – If the organization tends to be flexible to change, it must create an environment where employees are constantly learning. They must be able to share information and collaborate throughout the organization. This is best managed by a team structure.
* **Managing Global Structural Issues** – Since business environments are becoming more global, the global issues involved with certain design elements must also be considered. The concept of PESTEL is useful here.