

THE DESIGN OF THE ORGANIZATIONAL STRUCTURE

The design of the macrostructure of the organization is the creation of organizational units and the definition of appropriate mechanisms of connection between them.

Organizational units are groupings of duties and positions between their interdependent.

The creation of organizational units, it is necessary in the face of the growing complexity of the company, which is often the result both of the larger size, and a external context more complex.

Group tasks and positions within a single organizational unit have the objective to facilitate the coordination and control, through the mechanism of direct supervision.

The creation of organizational units also facilitates mutual adaptation and the use of mechanisms of standardization.

Organizational units are directed by a chief, a person who is responsible for the activities carried out by the unit.

The chief has the role to coordinate and organize the work and has formal authority over the people you are covering the positions enclosed within the organizational unit.

One of the fundamental choices of the organizational design concerns the determination of the number of people who depend on a head "span of control" and, consequently, the number of hierarchical levels "length of the hierarchical chain"

The goal of the design of organizational structure is to minimize the costs of coordination, with mechanisms that meets the needs of coordination in the most efficient way possible.

This is obtained:

- Maximizing the interdependencies within the organizational units;

- By minimizing the interdependencies between the organizational units.

Organization Structure

The organization chart is the visual representation of underlying activities and processes.

The overall design of organization structure indicates: required work activities, reporting relationships, and departmental groupings.

Departments are created to perform strategically important tasks.

The chain of command, an unbroken line of authority, is represented by vertical lines on an organization flow chart.

Structure includes three key components pertaining to both vertical and horizontal aspects of organizing:

- designation of formal reporting relationships including number of levels in the hierarchy and span of control of managers and supervisors;
- grouping of individuals into departments and of departments into the total organization;
- design of systems to ensure effective communication, coordination, and integration across departments.

The structure must fit information requirements of the organization so people have neither too little information nor too much irrelevant information.

Vertical linkages are designed primarily for control, in contrast to horizontal linkages that are designed for coordination and collaboration; all organizations need a mix.

Managers create *information linkages* to facilitate communication and coordination among organizational

elements.

Vertical Information Sharing

Vertical linkages are used to coordinate activities between the top and bottom of an organization and are designed primarily for control of the organization.

- **Hierarchical referral**
The lines of the organization chart act both up and down the chain as the communication channel.
- **Rules and plans**
For repetitious problems and decisions, a rule or procedure can be established so employees know how to respond without communicating on each separate issue.
The budget is a good example.
- **Vertical information systems**
This strategy to increase vertical information capacity includes periodic reports, written information and computer-based communications distributed to managers.

Horizontal Information Sharing

Horizontal communication overcomes barriers between departments and provides opportunities for coordination among employees to achieve unity of effort and organizational objectives.

Horizontal linkage refers to communication and coordination horizontally across organizational departments.

- **Information systems**

Cross-functional information systems enable employees to routinely exchange information.

- **Direct contact**

Higher level horizontal linkage is direct contact between employees affected by a problem.

The *liaison role* can be used to identify a person in one department with the responsibility for communicating and achieving coordination with another department.

- **Task forces**

As a temporary committee composed of representatives from each department affected by a problem, the group links several departments to solve common problems.

The task force is disbanded after tasks are accomplished.

- **FULL-TIME INTEGRATOR**

Usually with a title such as product manager, project manager, or brand manager, this full-time position outside the affected departments is created to achieve coordination between two or more departments. The integrator does not have formal authority over team members (because that rests with managers of the functional departments), but nevertheless the integrator has responsibility for the entire product (or project or brand).

- **Teams**

Teams can be the strongest horizontal linkage mechanism. Teams are permanent task forces, often used in conjunction with a full-time integrator.

- A virtual team is made up of organizationally or geographically dispersed members who are linked through advanced information and communications technologies.

In summary, the mechanisms available to managers for achieving horizontal linkages. The higher-level devices provide more horizontal information capacity, which is appropriate to utilize only when the need is present

Departmental Grouping Options

Departmental grouping can be a functional, divisional, multifocused, horizontal, or modular grouping.

Functional Structure

In a functional structure, activities are grouped together by common function from the bottom to the top of the organization.

Functional structure consolidates human knowledge and skills with respect to specific activities in order to provide depth of expertise.

This structure is most effective when in dept expertise is critical to meeting organizational goals, when the organization needs to be controlled and coordinated through the vertical hierarchy, and when efficiency is important.

The functional structure, is *centralized*, because it forces decisions all the way to the top before a problem affecting several functions can be resolved.

Divisional Structure

Divisional structure, sometimes called *product structure* or *strategic business units*, means that departments are grouped based on organizational outputs.

Whit this structure, divisions can be organized according to individual projects or programs, divisions, businesses, or profit center.

Decision-making is *decentralized*.

The divisional structure promotes flexibility and change because each unit is smaller and can adapt to the needs of its environment.

Moreover, the divisional structure *decentralizes* decision making, because the lines of authority converge at a lower level in the hierarchy.

Matrix Structure

The matrix can be used when both technical expertise and product innovation and change are important for meeting organizational goals.

The matrix is a strong form of horizontal linkage.

The gives dual lines of authority to both the functional and product chains simultaneously.

Conditions for the Matrix

Matrix structure combines product and functional designs with its unique purposeful violation of unity of command.

Three conditions are necessary for the matrix.

1. Pressure exists to share scarce resources across product lines. The organization is typically medium size and has a moderate number of product lines
2. Environmental pressure exists for two or more critical factors such as in-depth technical knowledge and frequent new products. This dual pressure means a balance of power is needed between the functional and product sides of the organization and a dual authority structure is needed to maintain the balance
3. The environmental domain of the organization is both complex and uncertain

The functional matrix gives functional bosses primary authority, while project or product managers simply coordinate product activities.

The product matrix gives the project or product managers primary authority, while the functional managers simply offer advisory expertise as needed for projects.

Horizontal Structure

A horizontal structure organizes employees around core processes. Organizations shift to a horizontal structure during reengineering, or *business process reengineering*.

A process refers to a group of related tasks that transform inputs into outputs.

The horizontal structure organizes employees around core processes by bringing together people who work on a common process so they can easily communicate and coordinate their efforts.

Characteristics:

- Structure created around cross-functional core processes rather than tasks, functions, or geography
- Self-directed teams are the basis of organizational design
- Process owners have responsibility for each core process in its entirety
- Team members are given the skills and authority to make decisions central to the team's performance
- Teams have the freedom to think creatively and respond flexibly to new challenges that arise
- Customers drive the horizontal corporation with effectiveness measured by performance objectives.
- The culture is open, trustful and collaborative, with a focus on continuous improvement.

Modular Structure - Virtual Networks and Outsourcing

With a virtual network structure, sometimes called a *modular structure*, the firm subcontracts most of its major functions or processes to separate companies and coordinates their activities from a small headquarters organization.

In outsourcing, a firm contracts out certain tasks or functions, such as manufacturing, human resources, or credit processing, to other companies.

Virtual networks and outsourcing forms of organization design have become popular because they offer increased flexibility and more rapid response in a fast-changing environment. Outsourced departments can be added or dropped as conditions change.

Keeping control over all activities in-house might be more comfortable for some managers, but it discourages flexibility.

How the Structure Works

The virtual network organization may be viewed as a central hub surrounded by a network of outside specialists.

Rather than being housed under one roof or located within one organization, services such as accounting, design, manufacturing, marketing, and distribution are outsourced to separated companies that are connected electronically.

Organizational partners located in different parts of the world use networked computers or the Internet to exchange data and information rapidly.

Strengths and Weaknesses of Modular Structure - Virtual Networks

Strengths

- 1. Enables even small organizations to obtain talent and resources worldwide**
- 2. Gives a company immediate scale and reach without huge investments in factory, equipment, or distribution facilities**
- 3. Enables the organization to be highly flexible and response to changing needs**
- 4. Reduces administrative overhead costs.**

Weaknesses

- 1. Managers do not have hands-on control over many activities and employees**
- 2. Requires a great deal of time to manage relationships and potential conflicts with partners**
- 3. There is a risk of organizational failure if a partner fails to deliver or goes out of business**
- 4. Employee loyalty and corporate culture might be weak because employees feel they can be replaced by contract services**

Design Essentials

- **Organization structure must provide a framework of responsibilities, reporting relationships, and groupings, and it must provide mechanisms for linking and coordinating organizational elements.**
- **Organization structure can be designed to provide vertical and horizontal information linkages based on the information processing required to meet the organization's overall goal.**
- **Alternatives for grouping employees and departments into overall structural design include functional grouping, divisional grouping, multifocused grouping, horizontal grouping, and virtual network grouping.**
- **A virtual network structure extends the concept of horizontal coordination and collaboration beyond the boundaries of the organization.**
- **The matrix structure attempts to achieve an equal balance between the vertical and horizontal dimensions of structure.**
- **Managers attempt to find the correct balance between vertical control and horizontal coordination.**
- **The purpose of the organization chart is to encourage and direct employees into activities and communications that enable the organization to achieve its goals.**