Organizational Design and Structure

What is an Organization?

An **organization** is a system of consciously coordinated activities or forces of two or more persons

An organization is an open system, meaning that its survival and operation depends on constant interaction with its environment
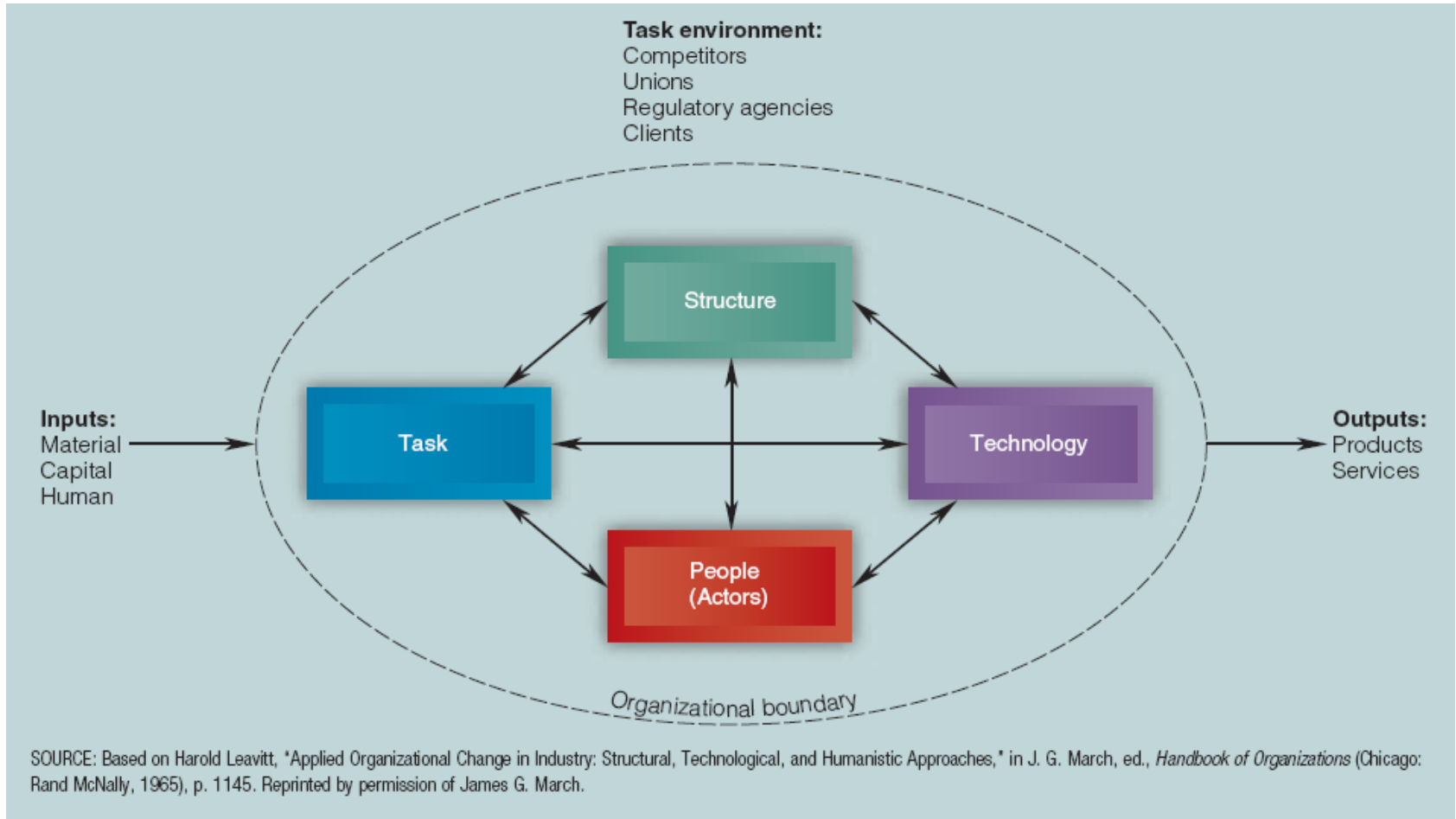
What is an Organization?

Open System Theory:

Open: Organizations are open to, and influenced by, their environments

System: Movement in one part leads to predictable movement in another

Organizations import resources, transform it into a product characteristic of organizational processes, export the product, and re-energize from sources in the environment

What is an Organization?

Task environment:
Competitors
Unions
Regulatory agencies
Clients

Inputs:
Material
Capital
Human

Structure

Task

Technology

People
(Actors)

Outputs:
Products
Services

Organizational boundary

SOURCE: Based on Harold Leavitt, "Applied Organizational Change in Industry: Structural, Technological, and Humanistic Approaches," in J. G. March, ed., *Handbook of Organizations* (Chicago: Rand McNally, 1965), p. 1145. Reprinted by permission of James G. March.

Organizational Design

Organizational structure is the vertical and horizontal configuration of departments, authority, and jobs within an organization
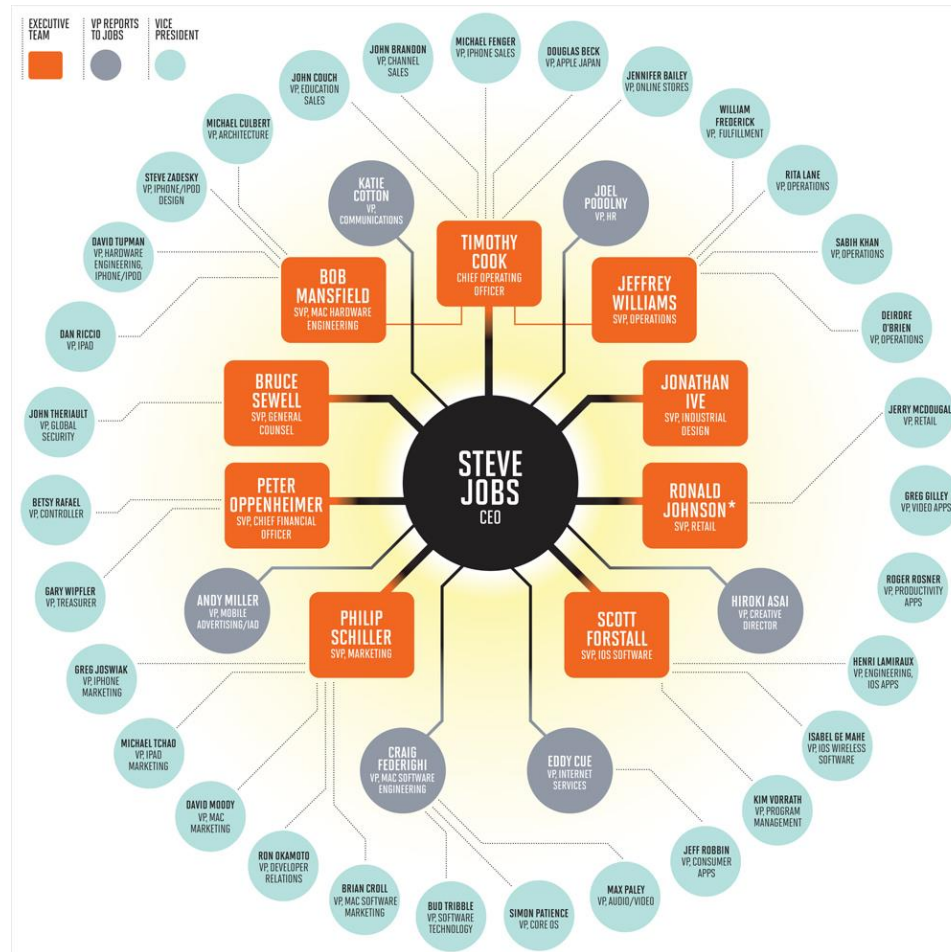
Organizational design is the process of constructing and adjusting an organization's structure to achieve its business strategy and goals relative to its environment
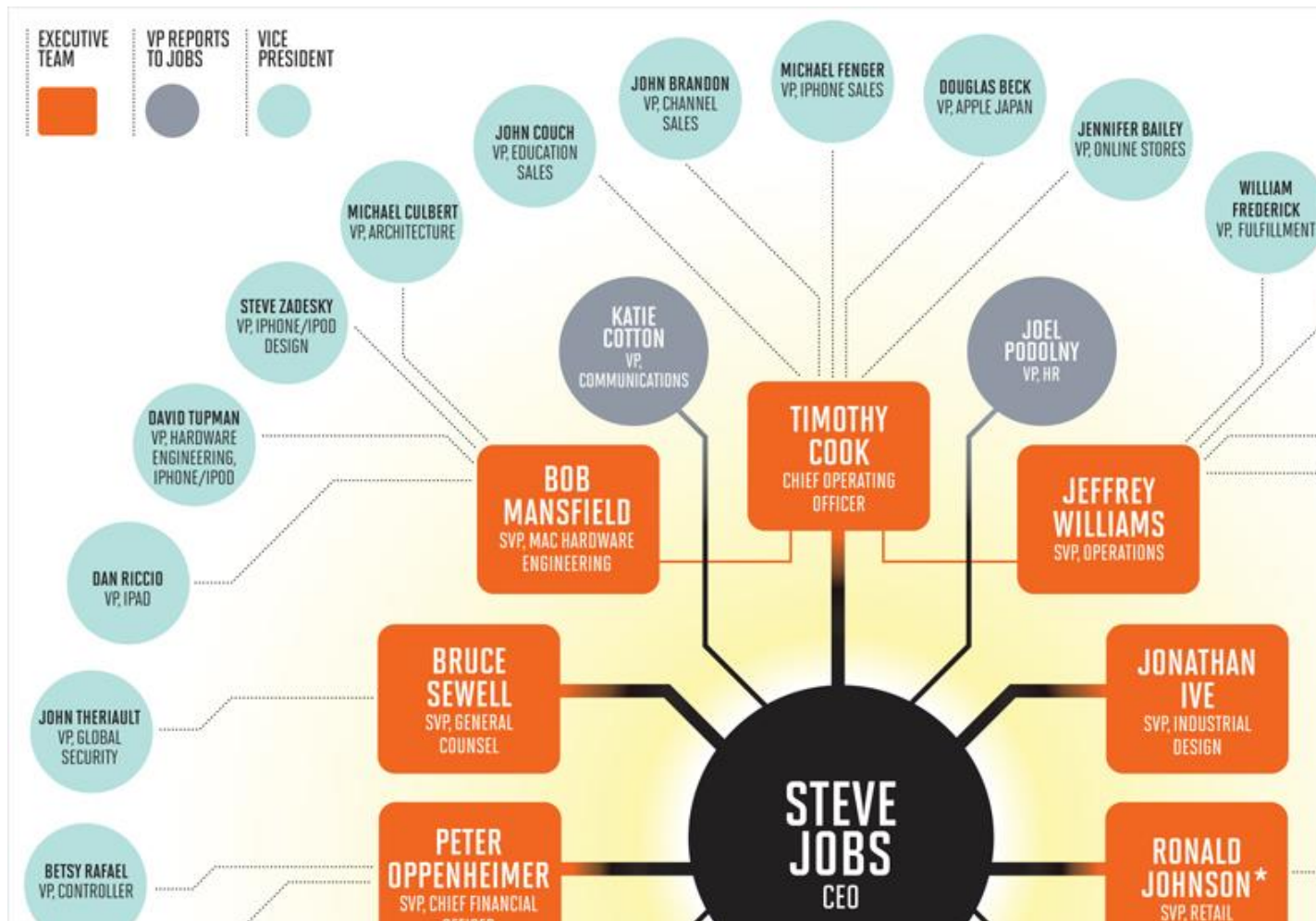
Organizational Design

By differentiating and integrating both tasks and roles, organizational structure determines **organizational process** (activities that transform input into output) by clarifying :

1. Formal lines of authority and responsibility
2. Formal systems of communication, coordination, and integration

Organization Design

Organization Design

Differentiation

Differentiation is the process of breaking down organizational goals into tasks; there are three types of differentiation

Horizontal: Between organizational sub-units

- ✓ Based on employee knowledge, education, and training (i.e., task specialization)
- ✓ Increased specialization leads to increased departmentalization – if unique jobs may need a new department

Differentiation

Vertical: Between hierarchical/authority levels

- ✓ Decrease as span of control (number of subordinates a manager supervises) increases
- ✓ More control, bureaucratic communication, high opportunity for promotion

Spatial: Between geographic locations NY LA

- ✓ Political and legal issues also play a role in decisions to spatially differentiate

Differentiation

As differentiation increases, so does **complexity**; as complexity increases, firms need more links to coordinate different parts

Integration is the process of linking tasks and roles together to form a structure that supports strategy and goal accomplishment

Integration

Vertical linkages coordinate hierarchical tasks:

Hierarchical referrals (problem solving; delegation)

Rules/procedures (standing information)

Plans and schedules

Management information systems

Horizontal integration connects jobs

Liaison roles/integrators

Task forces or teams (new interdependent entities)

Organizational Design

Traditional organizational designs rely on high vertical differentiation to control workers in horizontally differentiated jobs; high specialization and standardization standard bureaucratic organization

Organized by function, division (e.g., products, services, regions, etc.), or matrix (integration of function and division, intersecting command structures) (function or divisions - leads to silos)

Organizational Design

MATRIX ORGANIZATION STRUCTURE
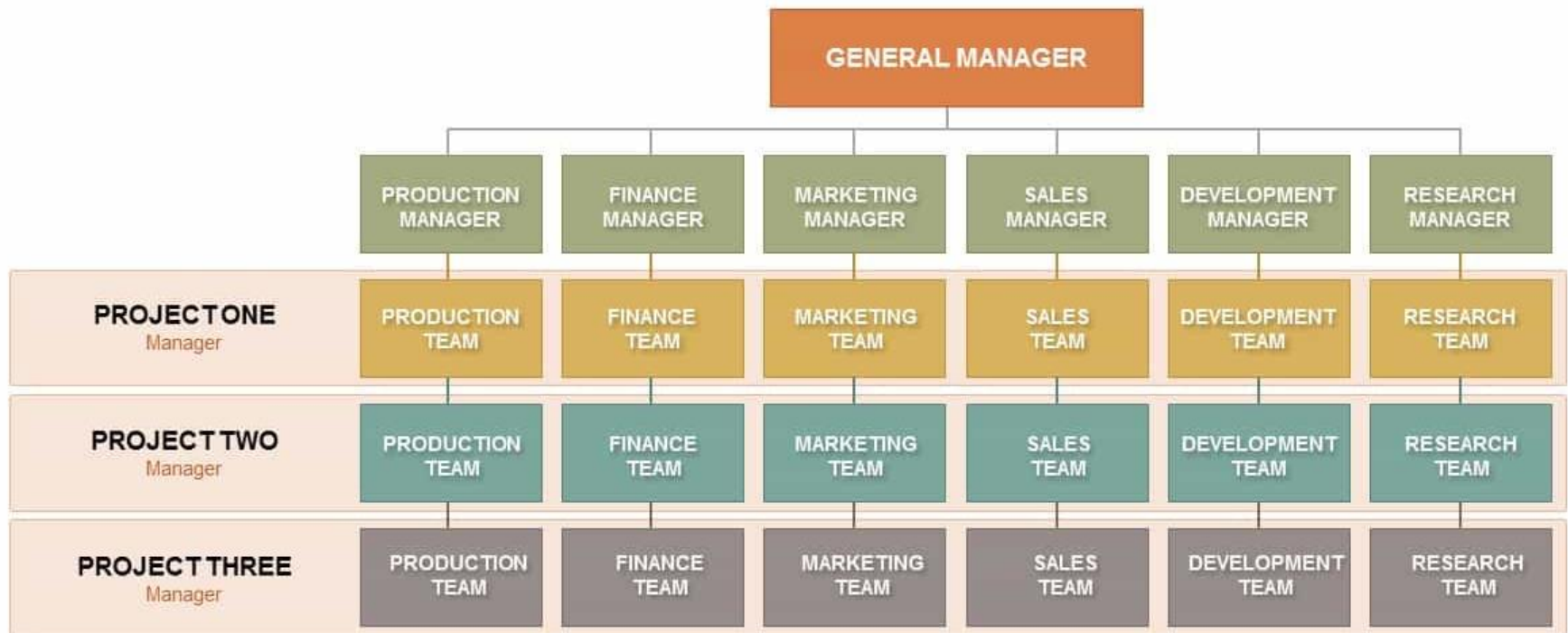
Organizational Design

Fed up with hierarchy, many organizations shifted to a **horizontal** structure, which removes vertical structures (departments, authority) and instead supports teams and social interaction; complex but allows for greater agility (makes for a more nimble, flexible organization)

Organized by cross-functional teams that form and dissolve as needed; 'processes' that involve all the tasks and roles to fulfill a customer need…. Processes come and go as needed

Organizational Design

Organizational Design

With the rise of external services, many organizations opt for an **open** structure, in which they outsource many functions and rely on external collaboration; allows for rapid response to market changes

Organized as a network (outsource all processes but core function), modular (outsource entire product segments), or virtual (workers collaborating together under unified company)

ACTIVITY

Configurations

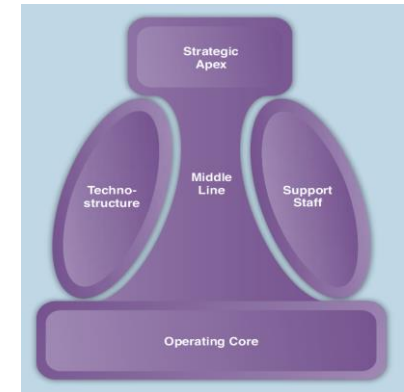Mintzberg delineated five basic parts of every organization:

Strategic apex CEO

Middle line - managers

Operating core - production

Support staff – payroll - facilities

Technostructure – QA - R&D

Configurations

There are five general configurations; each emphasizes one part of the organization's parts

Simple structure: Centralized, low formalization, low vertical differentiation, heavy use of direct supervision
Strategic APEX most important

Machine bureaucracy: Limited horizontal decentralization, high vertical differentiation, high formalization, high standardization, technical staff have much power
Technostructure most critical

Configurations

Professional bureaucracy: Decentralized, vert/horiz differentiation, high standardization of professionals' skills, staff support the <u>operating core (professionals)</u> most critical

Divisionalized form: Vertical decentralization (focus on middle line), each part functions in own market, standardized output Middle line most important

Adhocracy: Decentralization, with support staff that link experts into project based teams support staff most important

Configurations

Structural Configuration	Prime Coordinating Mechanism	Key Part of Organization	Type of Decentralization
Simple structure	Direct supervision	Upper echelon	Centralization
Machine bureaucracy	Standardization of work processes	Technical staff	Limited horizontal decentralization
Professional bureaucracy	Standardization of skills	Operating level	Vertical and horizontal decentralization
Divisionalized form	Standardization of outputs	Middle level	Limited vertical decentralization
Adhocracy	Mutual adjustment	Support staff	Selective decentralization

SOURCE: H. Mintzberg, *The Structuring of Organizations*, © 1979, 301. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, N.J.

Organizational Culture

Organizational Culture

Organizational culture is the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments (norms)

Culture is rooted in 3 levels unspoken (1)*assumptions* that are often understood in the form of (2)*values*, which are learned or communicated via (3)*artifacts*

Artifacts

Artifacts communicate the values of a culture in the physical and social work environments, five common artifacts include:

ex. office with window, dress code,

Personal enactment: Behaviors that model, mimic, or reinforce organizational values

Ceremonies & rites: Elaborate sets of activities enacted on important occasions (commencement)

Artifacts

Stories: Themes emerge when stories are passed down and guide organizational behavior; can be used to inspire and motivate as well

rituals: everyday, repetitive organizational practices (going to happy hour Thursdays)

Symbols: Physical entities that communicate culture through unspoken messages

Values

Values are beliefs about what is or is not important, and how to make important things happen

There are two types of values in a company:

- ✓ ***Espoused values:*** <u>What</u> employees and managers <u>say they value</u>

- ✓ ***Enacted values:*** Values reflected in the way employees and managers <u>actually behave</u>

Assumptions

Assumptions are deeply held beliefs that guide behavior and tell employees how to perceive situations, people, and reality

Assumptions are so strongly held that violating them is nearly unthinkable; they non-consciously guide behavior

Power culture, never talk back to someone with power
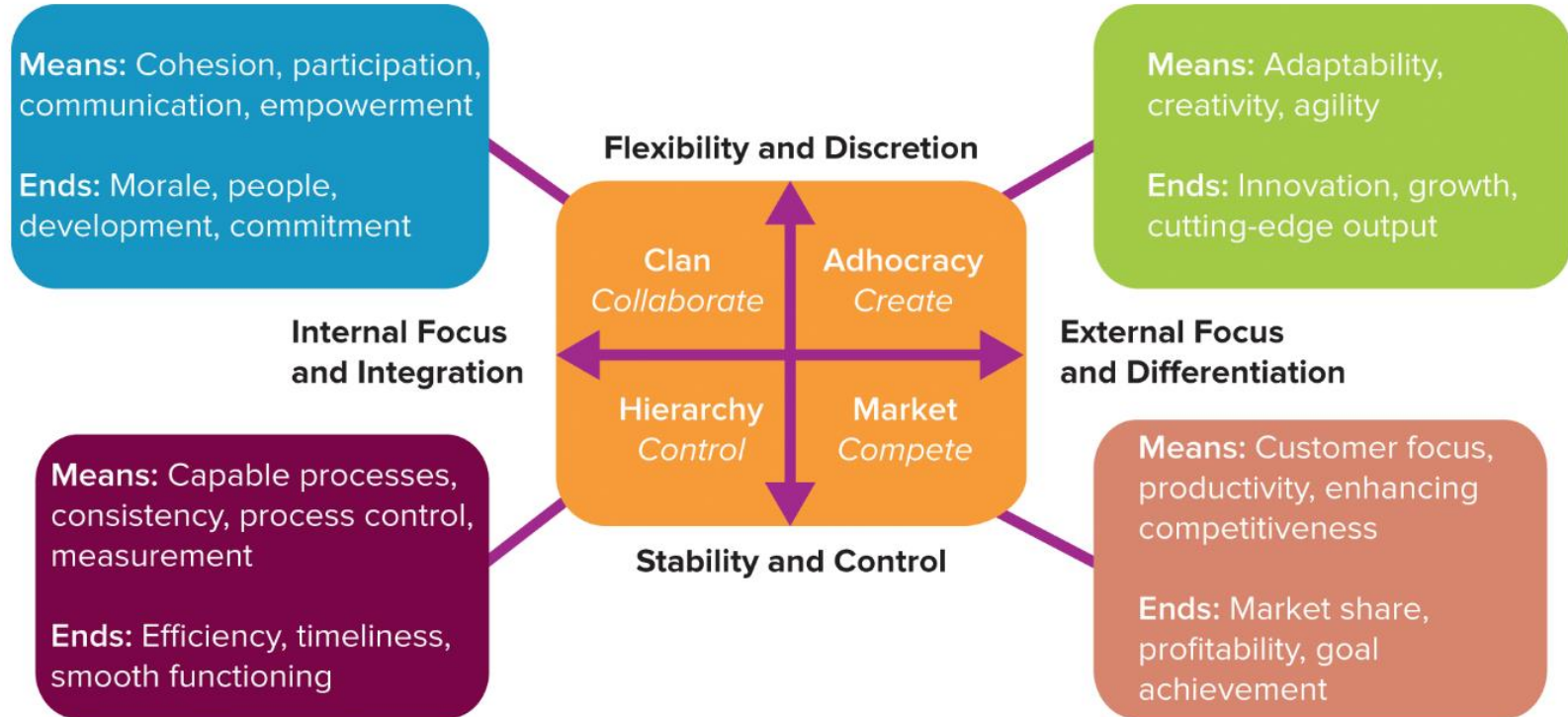
Three levels (1)Artifacts, (2)Values, (3)Assumption

Artifacts, values, and solutions to problems that are used repeatedly will, over time, become assumptions

Types of Culture

In the **Competing-Values Framework (CVF),** culture varies along two axes:

Means: Cohesion, participation, communication, empowerment

Ends: Morale, people, development, commitment

Means: Adaptability, creativity, agility

Ends: Innovation, growth, cutting-edge output

Flexibility and Discretion

Clan
Collaborate

Adhocracy
Create

Internal Focus and Integration

External Focus and Differentiation

Hierarchy
Control

Market
Compete

Stability and Control

Means: Capable processes, consistency, process control, measurement

Ends: Efficiency, timeliness, smooth functioning

Means: Customer focus, productivity, enhancing competitiveness

Ends: Market share, profitability, goal achievement

Impact of Culture

In general, culture serves four basic functions:

1. Provides a sense of identity to employees (enhance commitment, motivation)

2. Aide in interpretation of events and overall "sense-making"

3. Reinforces the values of the organization, and employee commitment to those values

4. Provides controls (e.g., norms) that guide behavior and enhance stability

Impact of Culture

Different perspectives explain the link between culture and firm performance

Strong culture perspective: As consensus of organizational values and assumptions increases, so does firm performance; enhances goal alignment, high motivation, effective control (without bureaucracy)

Weak culture does not help Improve performance.)

Impact of Culture

Fit Perspective: Cultures enhance performance only when they fit the firm's strategy or industry; culture is influenced by competitors, customers, and societal expectations

Adaptation Perspective: Adaptive cultures encourage confidence and risk taking among employees, their leaders produce change, and they focus on the changing needs of customers

Impact of Culture
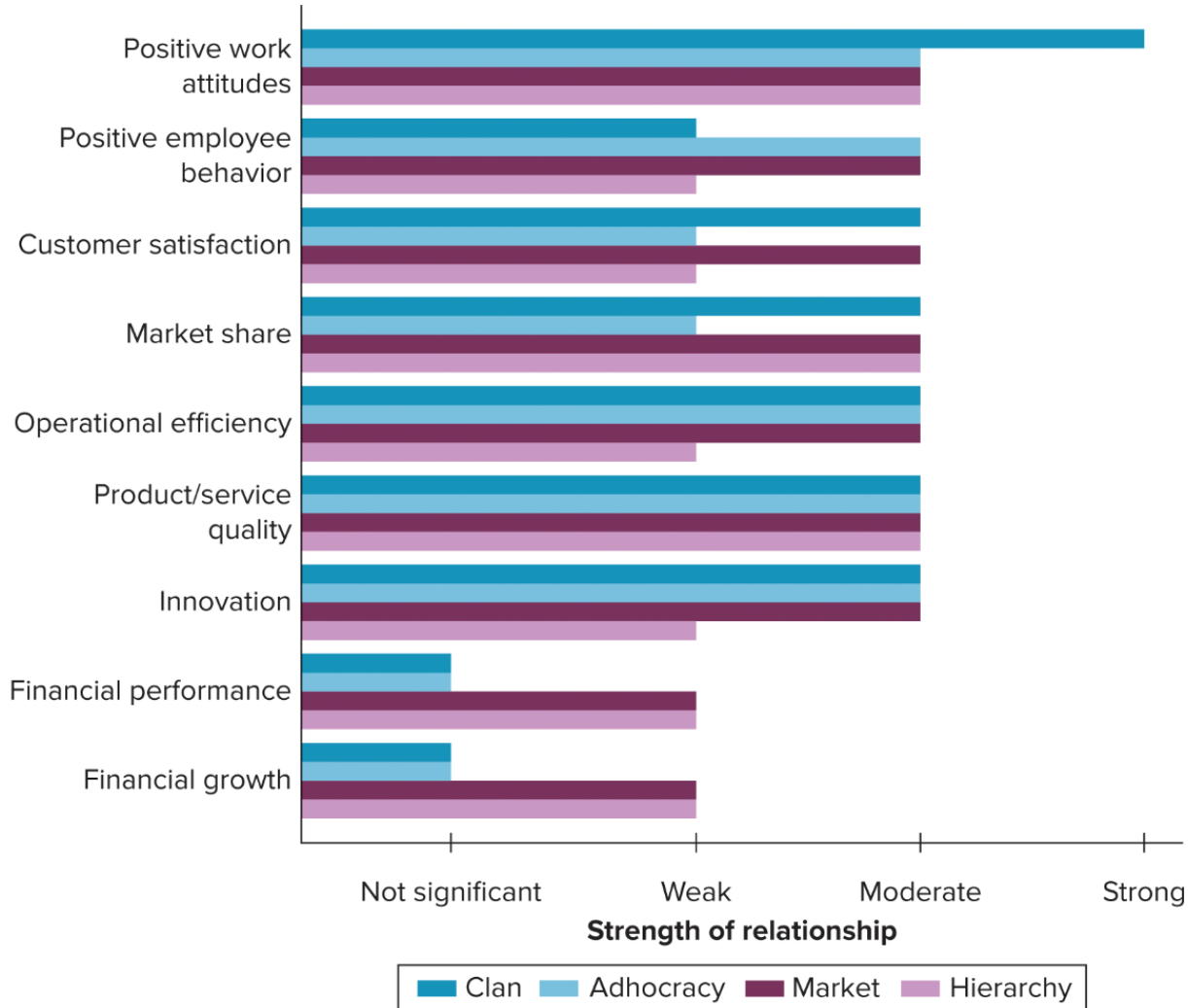
Leadership

Leaders play a critical role in shaping the culture of an organization; the culture developed by a company's founders can quickly become strongly embedded

There are five elements that strongly shape culture:

1. *What leaders pay attention to:* leaders send signals by what they notice, measure, control

2. *How leaders react to crises:* Company shows its fundamental requirements during crises

Leadership

3. *How leaders behave:* employees often model after leaders

4. *How leaders allocate rewards:* reward behavior that aligns with organizational values

5. *How leaders hire and fire employees:* leaders typically unconsciously seek newcomers who are similar to current employees, selection is also shaped by organizational goals and values

Culture Change

Changing organizational culture is very difficult because assumptions are often unconscious, and behavioral norms and rewards are well learned

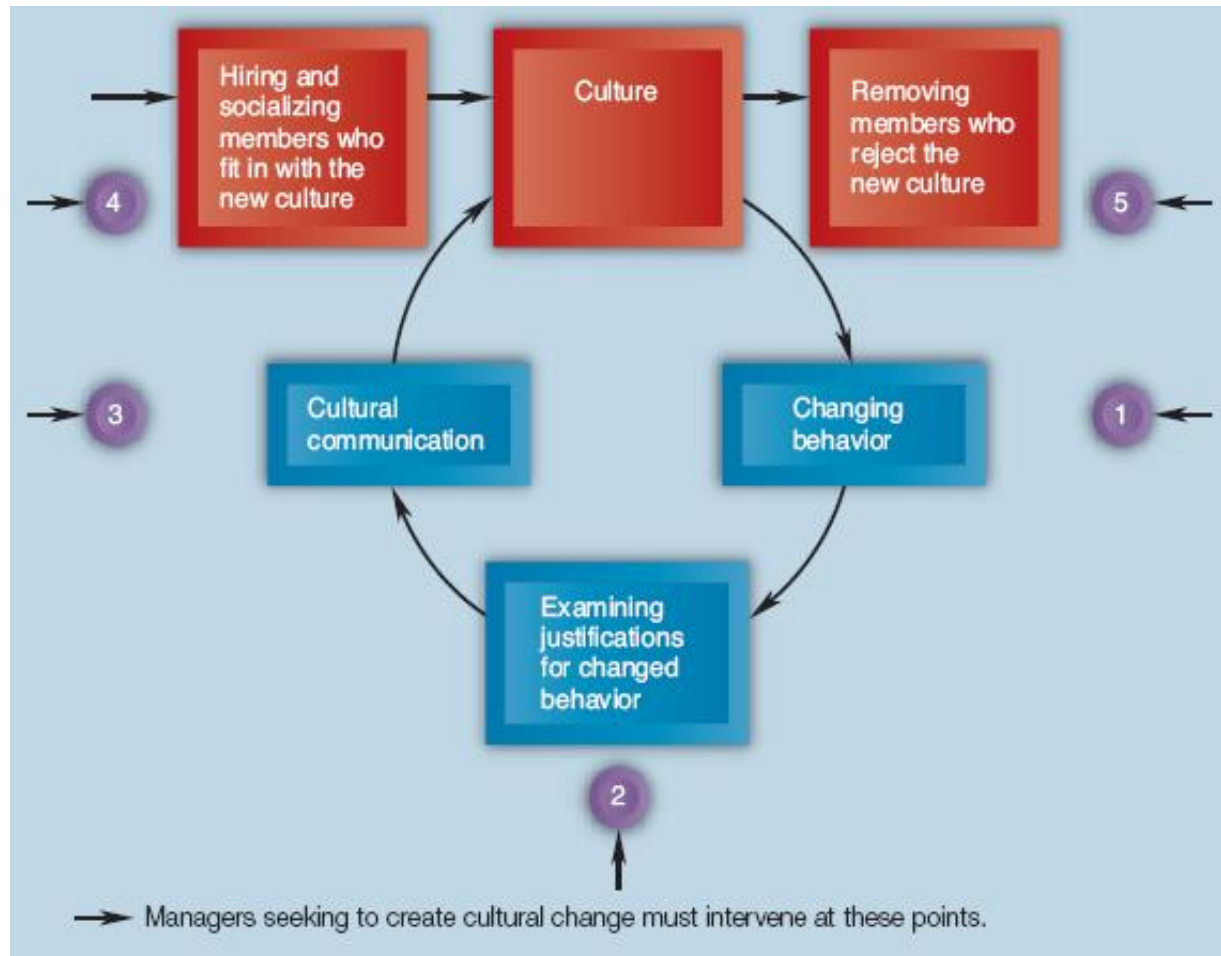Two basic approaches to culture change:

1. Help existing members adopt a new set of values (addition or substitution) alter employee behavior

2. Adding newcomers and socializing them to the organization, while removing current members that are inappropriate

Culture Change

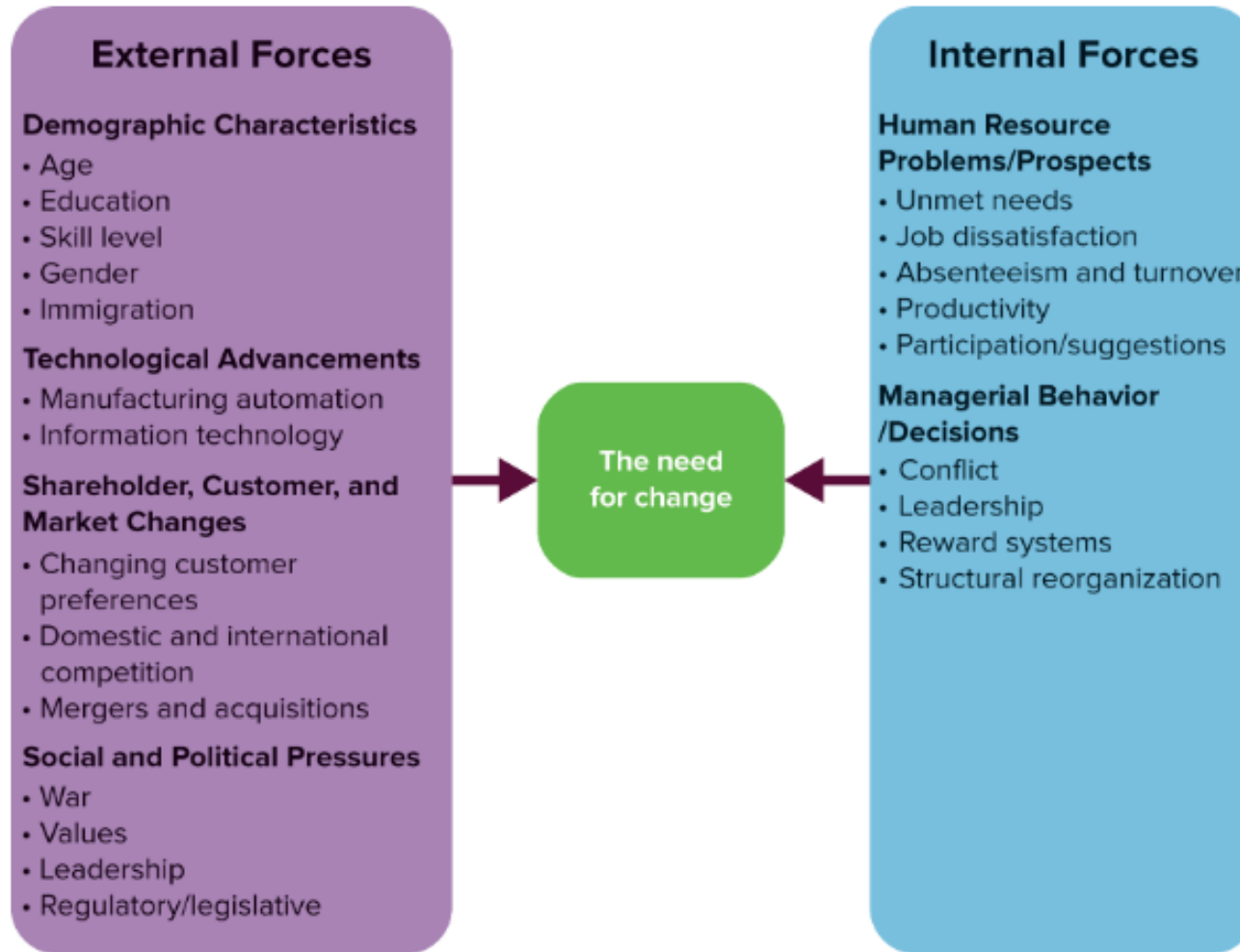There are five general steps to culture change:

1. Change overt behavior
2. Examine extent of value change
3. Communicate change; ensure that all artifacts and leader behaviors send a consistent message about new values/beliefs
4. Revise selection strategy to fit desired culture
5. Remove members who reject desired culture

Culture Change

Managing Change and Stress

Change

External Forces

Demographic Characteristics
- Age
- Education
- Skill level
- Gender
- Immigration

Technological Advancements
- Manufacturing automation
- Information technology

Shareholder, Customer, and Market Changes
- Changing customer preferences
- Domestic and international competition
- Mergers and acquisitions

Social and Political Pressures
- War
- Values
- Leadership
- Regulatory/legislative

The need for change

Internal Forces

Human Resource Problems/Prospects
- Unmet needs
- Job dissatisfaction
- Absenteeism and turnover
- Productivity
- Participation/suggestions

Managerial Behavior /Decisions
- Conflict
- Leadership
- Reward systems
- Structural reorganization

Change

Change occurs on a spectrum:

Adaptive change — Reintroducing a familiar practice

Innovative change — Introducing a practice new to the organization

Radically innovative change — Introducing a practice new to the industry

Low ├─────────────────────────────────────┤ High

- Degree of complexity, cost, and uncertainty
- Potential for resistance to change

Adaptive Change

Facing mounting pressure from PepsiCo in 1982, The Coca-Cola Company released a sweeter reformulation of Coca-Cola titled "New Coke"

After public outrage over the change, the original formula was re-introduced as "Coca-Cola Classic" and put the company back on track

The Coca-Cola Company had misunderstood the meaning of their taste and brand to our culture

Innovative Change

Innovative change requires integrating practices into multiple aspects of the firm, including social

In 1995, General Electric (GE) CEO Jack Welch implemented Six Sigma, which relies on empirical measurement and intensive practices that reduce defects and enhance service/product efficiency; after 5 years, GE saved roughly $10 billion

Welch spent much time shaping GE culture ** culture change **

Radical Change

Radical innovative change requires fundamental change to the strategy and architecture of a firm

The financial recession and regulatory changes in the late 2000s greatly impaired GE's profitability

In response, Jeff Immelt (CEO) opted to sell off major units of the company in 2015 in order to become a simpler, and more streamlined 'digital industrial' that focuses on data connectivity

Radical Change

Right now

Our brand is evolving to express a GE that is transforming industry by connecting machines to data and to people to help our cities run more smoothly, airplanes take off and land safely, and hospitals provide integrated care for healthier communities. We call ourselves a digital industrial because it's time for big, world-changing machines to be connected so they are safer, faster, and more effective. We're excited because while connectivity benefits many of us, the opportunity to do more is vast. Integrating software with industrial machines at scale to keep planes on time, and bringing electricity to the 1.2 billon people who still don't have it, will advance the world in a very big way.
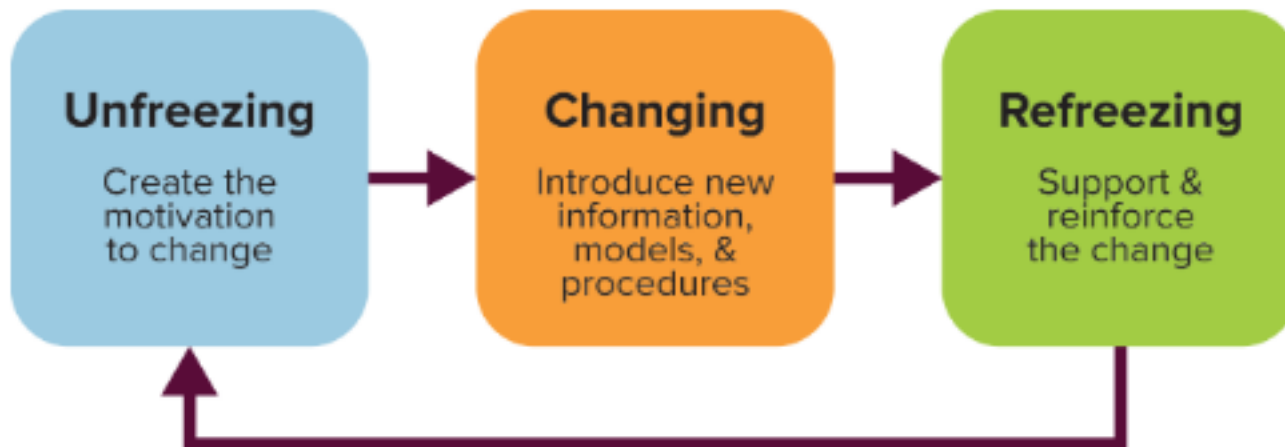
Radical Change

GE's radical innovation required them not just to alter their culture, but transform it:

Radical Change

Radical change, however, comes at great risk; downsizing GE and pivoting their culture wasn't enough to build the profits they expected:

Process of Change

Lewin's basic model of change:

Process of Change

Kotter's steps to successful change

STEP	DESCRIPTION
1. Establish a sense of urgency.	Unfreeze the organization using a compelling reason why change is needed.
2. Create the guiding coalition.	Create a team with appropriate knowledge and enough power to lead change.
3. Develop a vision and strategy.	Create a vision to inspire and a strategic plan to guide the change process.
4. Communicate the change vision.	Implement a communication strategy and "overcommunicate" the new vision and strategic plan.
5. Empower broad-based action.	Eliminate obstacles (processes and people) and encourage risk taking and creative problem solving.
6. Generate short-term wins.	Plan for and create short-term "wins" or improvements. Recognize and reward people who contribute to the wins.
7. Consolidate gains and produce more change.	Allow guiding coalition to use credibility from short-term wins to create more change. Additional people are brought into the change process as change cascades throughout the organization. Attempts are made to energize the change process.
8. Anchor new approaches in the culture.	Reinforce the changes by highlighting connections between new behaviors and processes and organizational success. Embed these in performance management and other processes—hiring, promotion, and leadership development and succession.

Change

Nearing the end of a decline in 2013, Nokia radically innovated by selling off their mobile phone division and focusing on manufacturing, patent licensing, and wearable technology

The success of this turnaround was partially rooted in a shifted relationship between their new Board of Directors and management

NOKIA
connecting People

Change

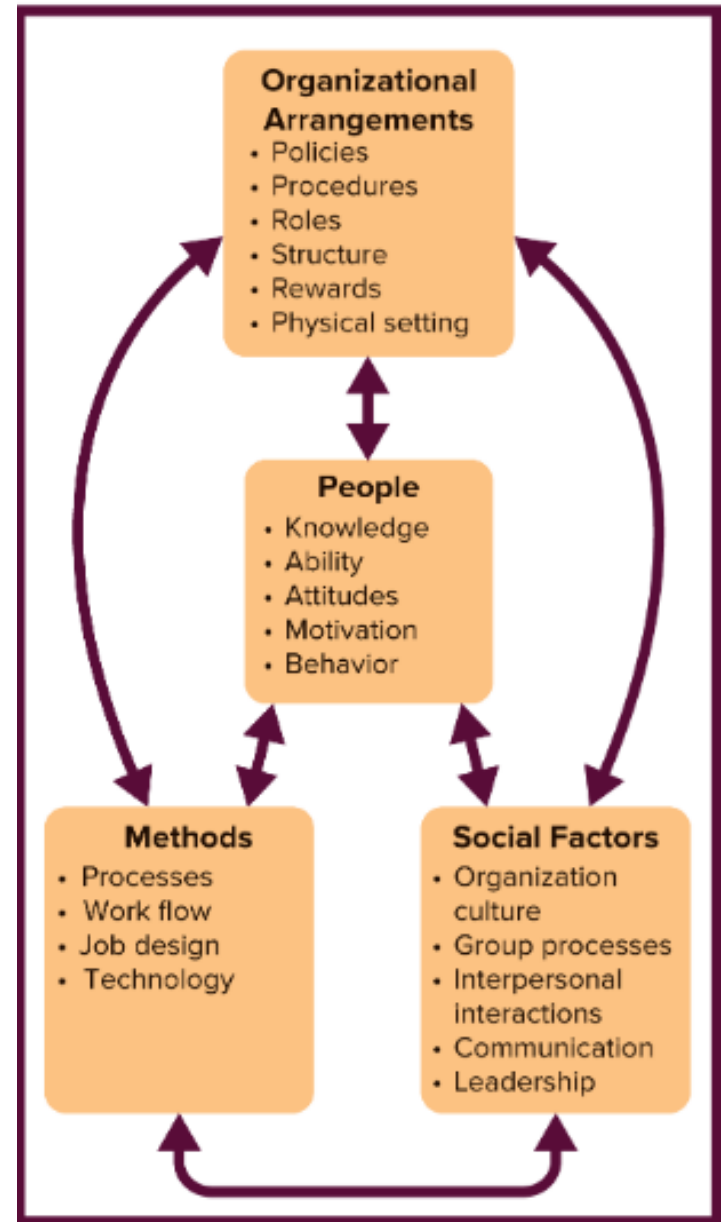The new chairperson made it safe to voice dissent and challenge the Board

"With [the new chairman] we are not afraid, we don't have to think about what we say too much. It's pretty easy to discuss things with him and throw in ideas and think out loud. With [the old chairman], this wouldn't even have crossed my mind."

> *-Top Manager at Nokia*

Much of Nokia's later revival came from this empowerment of managers

NOKIA
Connecting People

Process of Change

Change begets more change; a systems perspective is important for anticipating which other aspects of an organization must be managed during change

Organizational Arrangements
- Policies
- Procedures
- Roles
- Structure
- Rewards
- Physical setting

People
- Knowledge
- Ability
- Attitudes
- Motivation
- Behavior

Methods
- Processes
- Work flow
- Job design
- Technology

Social Factors
- Organization culture
- Group processes
- Interpersonal interactions
- Communication
- Leadership

Process of Change

Review the **"Causes of Resistance to Change"** sub-section on your own

Stress

Change in the workplace can drive stress, which can have a huge impact on employee behavior

These changes can be small (e.g., new tasks, technology upgrade, different co-workers) or dramatic (e.g., new vision, merger, industry shifts, etc.); either way, they force workers to readjust their equilibrium, which causes stress

Stress

Stress is a person's adaptive response to a stimulus that places excessive psychological or physical demands on him or her

Stress occurs when one or multiple of the following conditions occur (Hobfoll, 1989):

1) Resources (e.g., time, status, self-esteem, etc.) are lost

2) Resource loss is threatened

3) Resources are not regained following resource investment

Stress

The stress response releases chemical messengers (adrenaline) that activate the sympathetic nervous and endocrine systems that:

In preparing to fight or flee, the body:

1. Redirects blood to the brain and large-muscle groups

2. Increases alertness through improved vision, hearing, and other sensory processes

3. Releases glucose (blood sugar) and fatty acids into the bloodstream to sustain the body during the stressful event

4. Suppresses the immune system as well as restorative and emergent processes (such as digestion)

Stress

Stress

Potential stressors

Individual level
- Job demands
- Work overload
- Underload and monotony
- Role conflict
- Role ambiguity
- Job security

Group level
- Group dynamics
- Managerial behavior
- Harassment

Organizational level
- Culture
- Structure
- Technology
- Introduction of change in work conditions

Extraorganizational
- Family
- Socioeconomic status
- Commuting time
- Noise, heat, crowding, and air pollution

Cognitive appraisal
- Primary
- Secondary

Coping strategies
- Control
- Escape
- Symptom management

Outcomes

Psychological/Attitudinal
- Job satisfaction
- Organizational commitment
- Job involvement
- Self-esteem
- Burnout
- Emotions
- Depression

Behavioral
- Absenteeism
- Turnover
- Performance
- Accidents
- Substance abuse
- Violence

Cognitive
- Poor decision making
- Lack of concentration
- Forgetfulness

Physical stress
- Cardiovascular system
- Immune system
- Musculoskeletal system
- Gastrointestinal system

Stress

Stressors are people, systems, objects, or events that trigger a stress response

Distress (Strain) is the adverse psychological, physical, behavioral, and organizational consequences that may arise as a result of stressful events

Stress
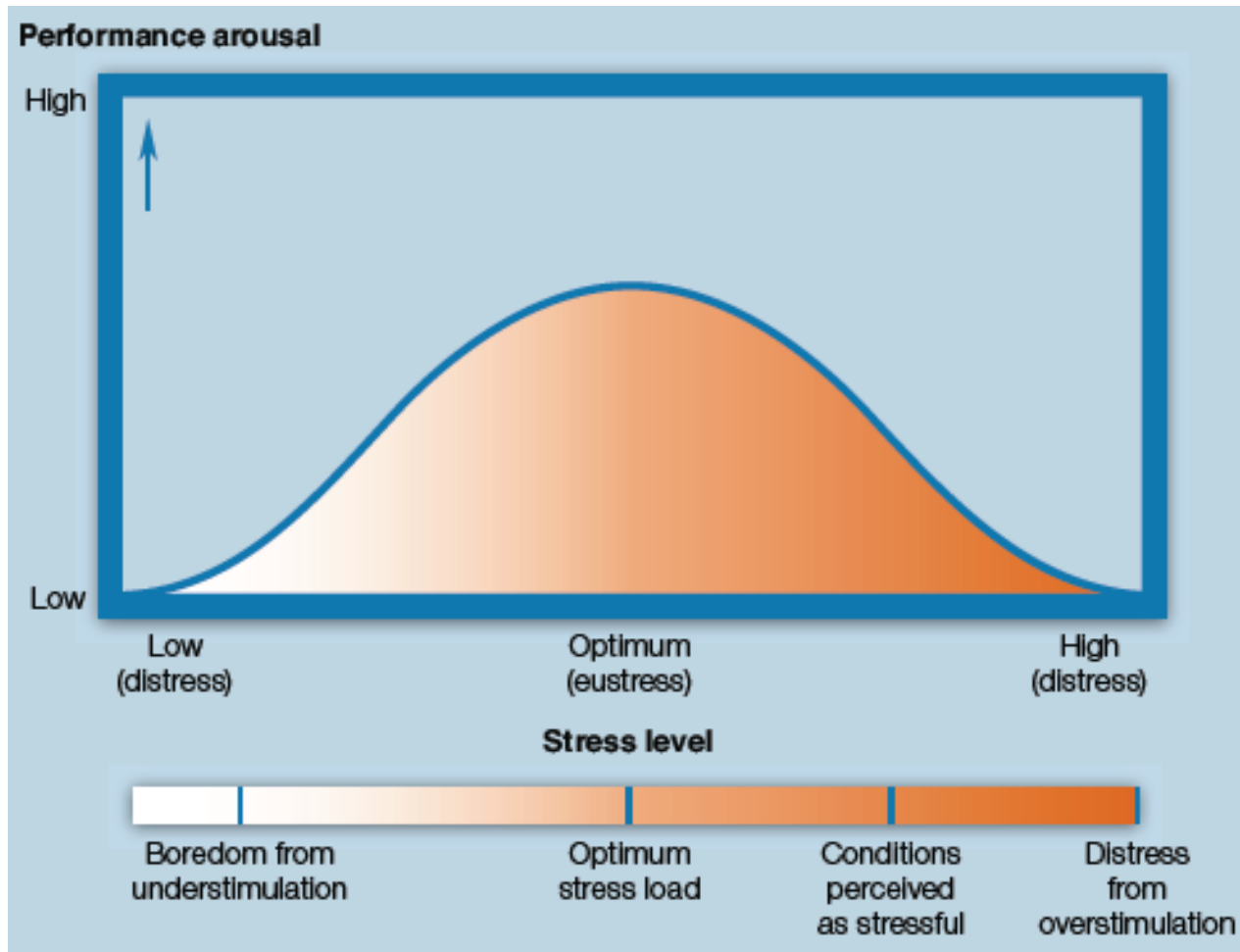
Stress

Positive stress (Eustress) occurs when stressful activities meet a person's ability to cope, and actually enhance a person's stress management abilities; it can provide an energy boost

Examples of things that cause positive stress:

Promotions, challenging yet achievable goals, valuable tasks at which one is competent, starting a new desirable job, etc.

Stress

Distress occurs when demands exceed coping capacity; examples include depression, psychosomatic disorders (e.g., physical ailments), aggression, medical issues, interpersonal conflicts, substance abuse, and burnout

Burnout consists of three components:

1. Emotional exhaustion
2. Depersonalization of others – don't care about others when under too much stress
3. Reduced perceptions of personal accomplishment

Stress

Distress is linked to a variety of consequences for an one's work behavior:

- ➢ **Withdrawal**: Absenteeism, lateness, turnover, strikes, work stoppages

- ➢ **Attitudes**: Reduced job satisfaction, reduced organizational commitment, lower motivation

- ➢ **Performance**: Poor quality/quantity of work, grievances, unscheduled downtime, impaired judgment in decision-making

- ➢ **Counter-productive work behavior**: Theft, sabotage, harassment, violence, bullying, etc.

Personal Coping

The likelihood of stressors leading to negative or positive outcomes depends on **how we perceive a particular stressor**

When stressed, people make two appraisals:

1. **Primary appraisal:** Our perceptions of whether a stressor is irrelevant, positive, or negative

2. **Secondary appraisal:** Our perceptions of how able we are to cope with a given demand

Personal Coping

Based on their appraisals, people tend to engage in one of three general types of coping behavior:

- ✓ *Control strategies (problem-focused):* Behavior and cognition that directly anticipates or solves problems; this involves managing (e.g., alter, reduce, eliminate, etc.) the actual stressor

- ✓ *Escape strategies (problem-focused):* Behavior and cognition that avoids or ignores stressors – dis-engage from the problem

- ✓ *Symptom strategies (emotion-focused):* Managing one's emotional/psychological response to the stressor – go for a run – helps you manage your stress

Personal Coping

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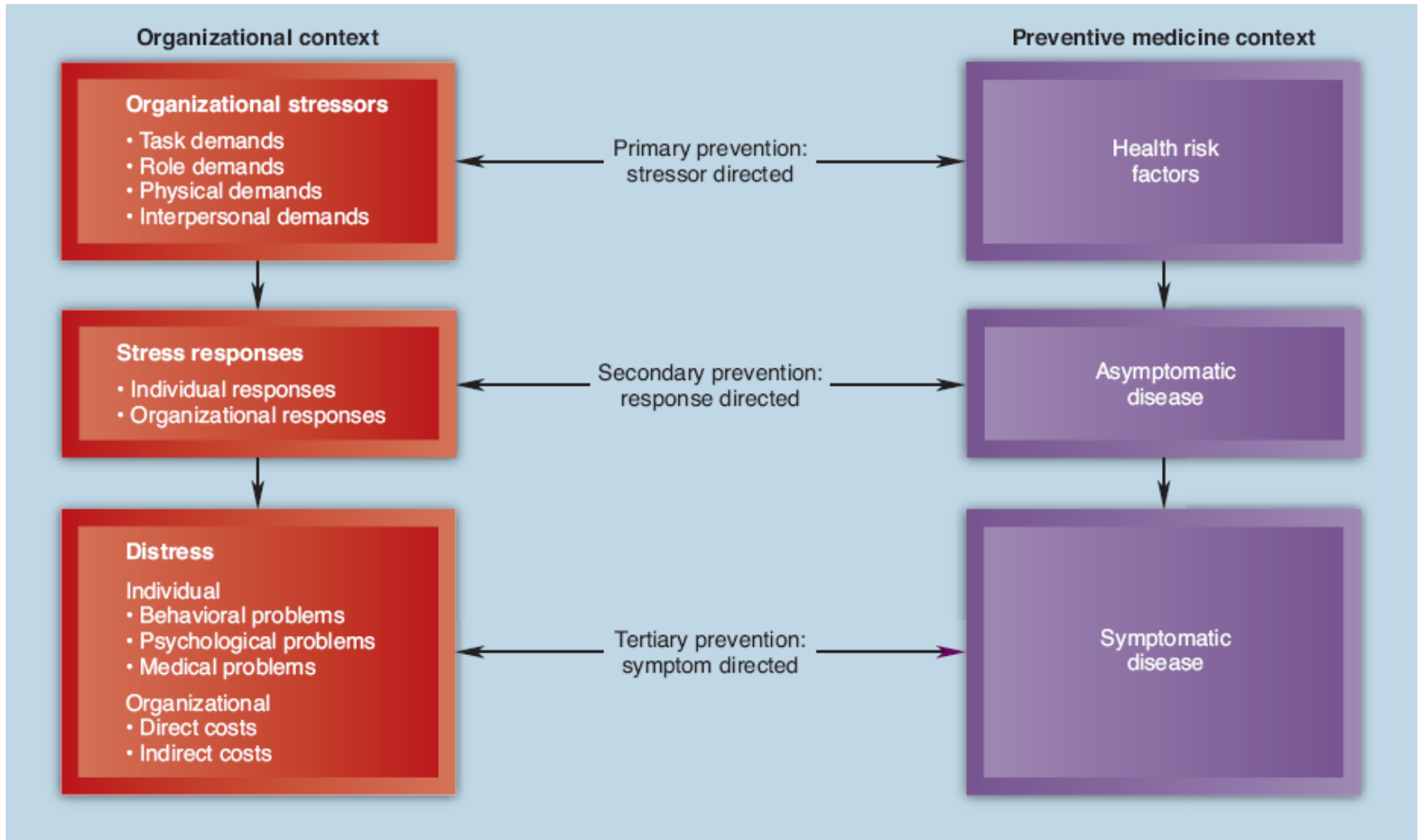- Performance
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Stress Management

Stress Management

Different levels of organizational stress prevention:

1. ***Primary (manager stressor):*** Alter problematic situations or change tasks (e.g., job re-design, role negotiation, job crafting), training and development (e.g., workshops, coaching), set appropriate goals and provide feedback, framing and leadership

2. ***Secondary (manage response/emotion):*** Employee wellness program, supportive organizational culture, flexible work arrangements, fair reward structure

3. ***Tertiary (heal outcomes/damage):*** Leave/time off, employee assistance programs, lower workload

Stress Management

Helping employees *perceive* they are in control of their work demands, can produce eustress

(Karasek, 1979; Karasek, 2008; Van der Doef & Maes, 1999)

Control works best when it alleviates *specific* aspects of a job, not when it is too general

	High Job Demands	Low Job Demands
High Control	Highest motivation and satisfaction	Lowest strain/distress (high well-being)
Low Control	Highest strain/distress and lowest satisfaction	Stress due to boredom, lack of motivation

Stress Management

Lack of control may be caused by inability to:

1. Influence the timing of tasks and activities
2. Select tools or methods for accomplishing the work
3. Make decisions that influence work outcomes
4. Exercise direct action to affect outcomes

There are many other practices that will relieve stress aside from giving greater control; they will only work, however, if they are matched to the **person** and the **situation**