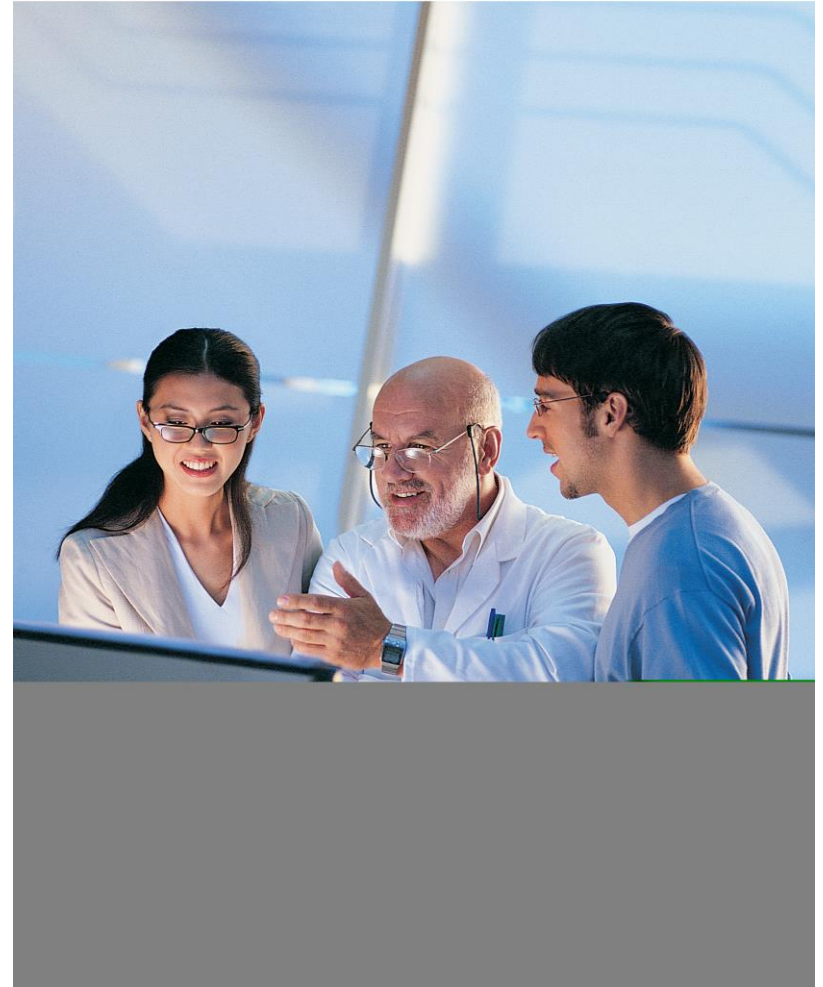


Designing Organizational Structures

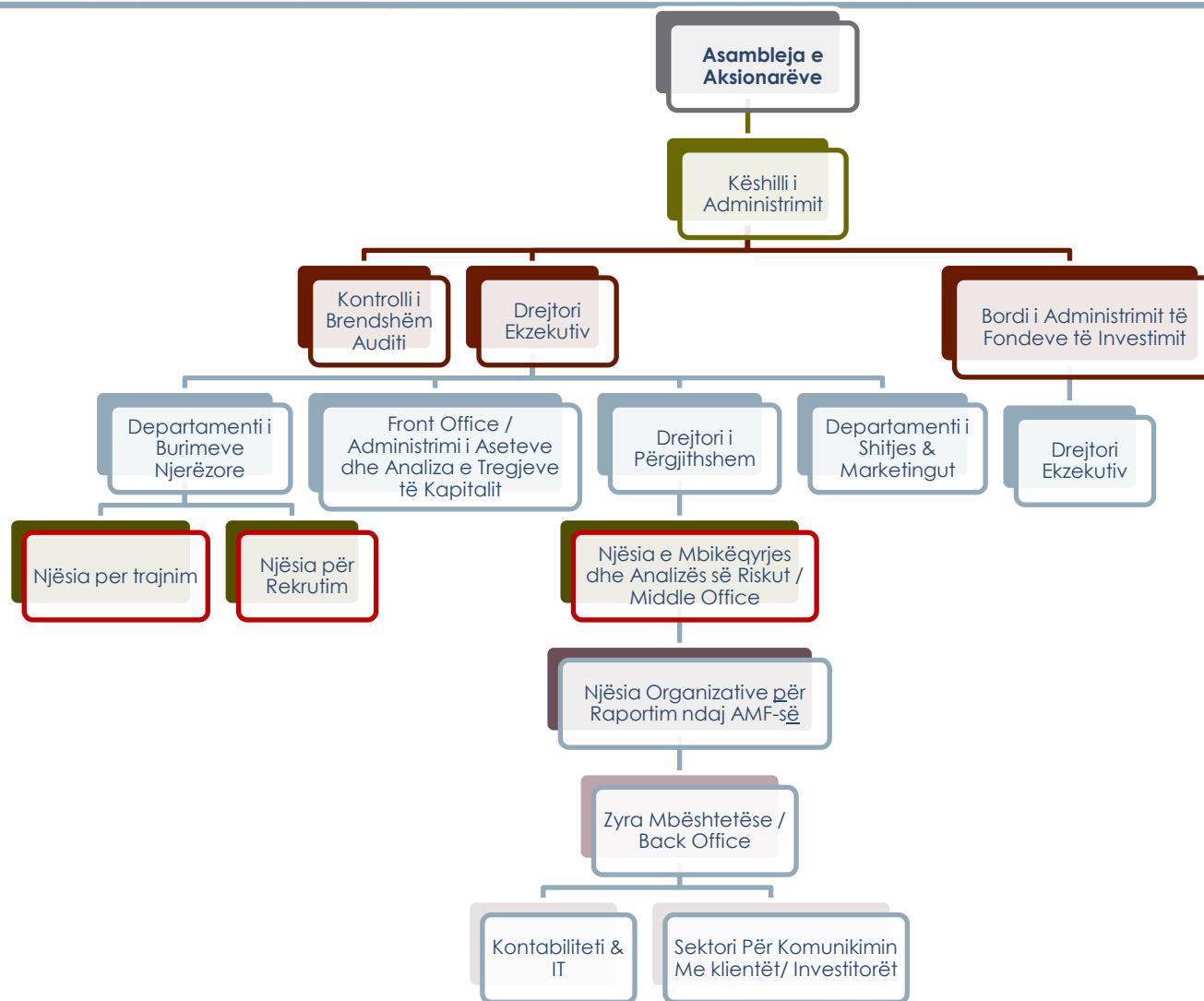
Organizational Structure Defined

- Division of labor and patterns of coordination, communication, workflow, and formal power that direct organizational activities
- Relates to many OB topics (job design, teams, power)

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Organizational Structure (WVP Albania)



Division of Labor and Coordination



■ Division of labor

- Results in specialization, separate jobs for different people
- Improves work efficiency

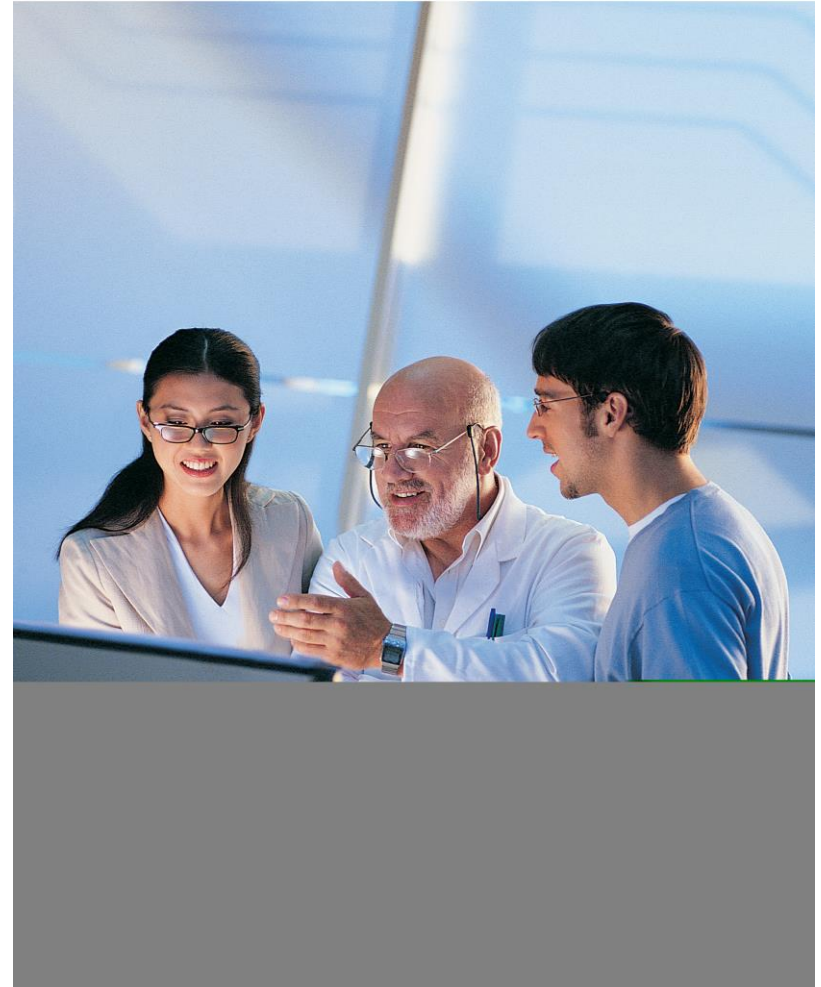
■ Coordination of work

- Value of division of labor is limited to ability to coordinate that work
- Coordinating work can be costly

■ Three coordinating mechanisms

- informal communication
- formal hierarchy
- standardization

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Coordination Through Informal Communication



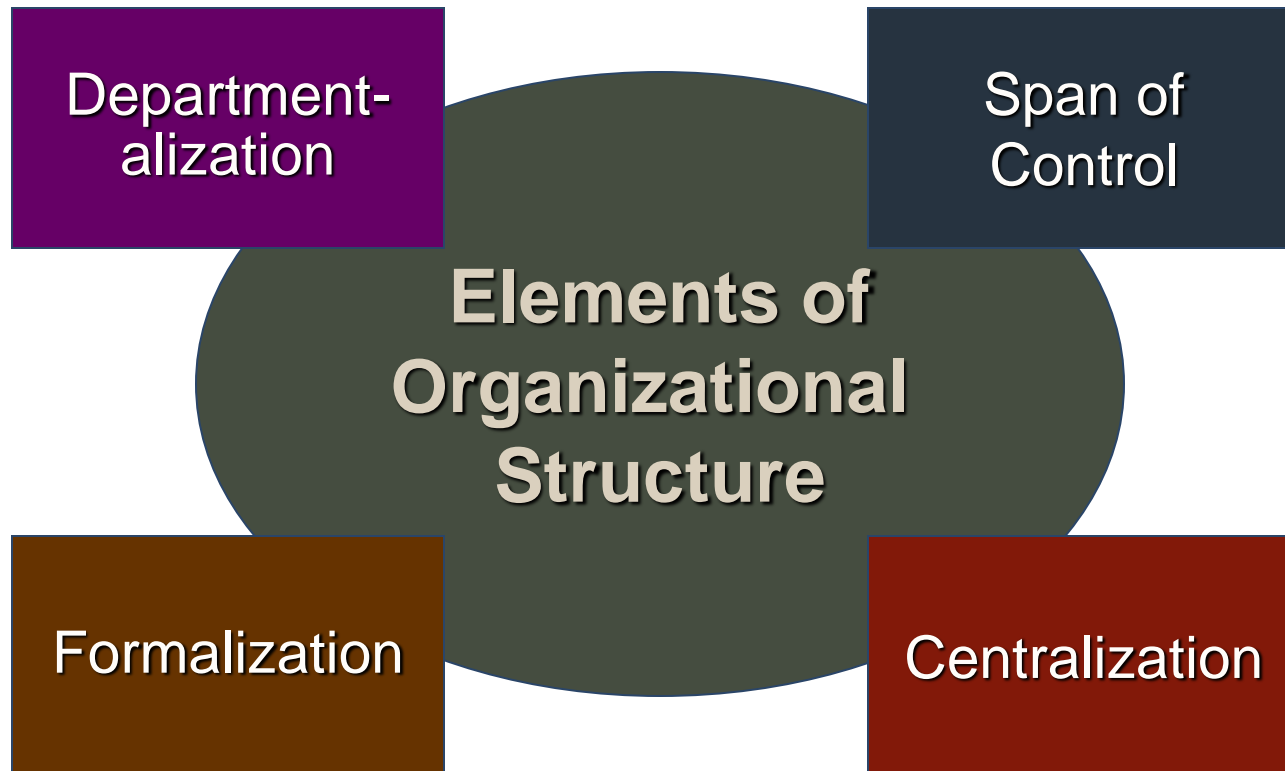
- All firms use informal communication for coordination
- Vital in nonroutine and ambiguous situations
- Easiest in small firms, but technology extends its use in large firms
- Larger firms also apply informal communication through:
 - Liaison roles
 - Integrator roles
 - Temporary teams

Other Coordinating Mechanisms



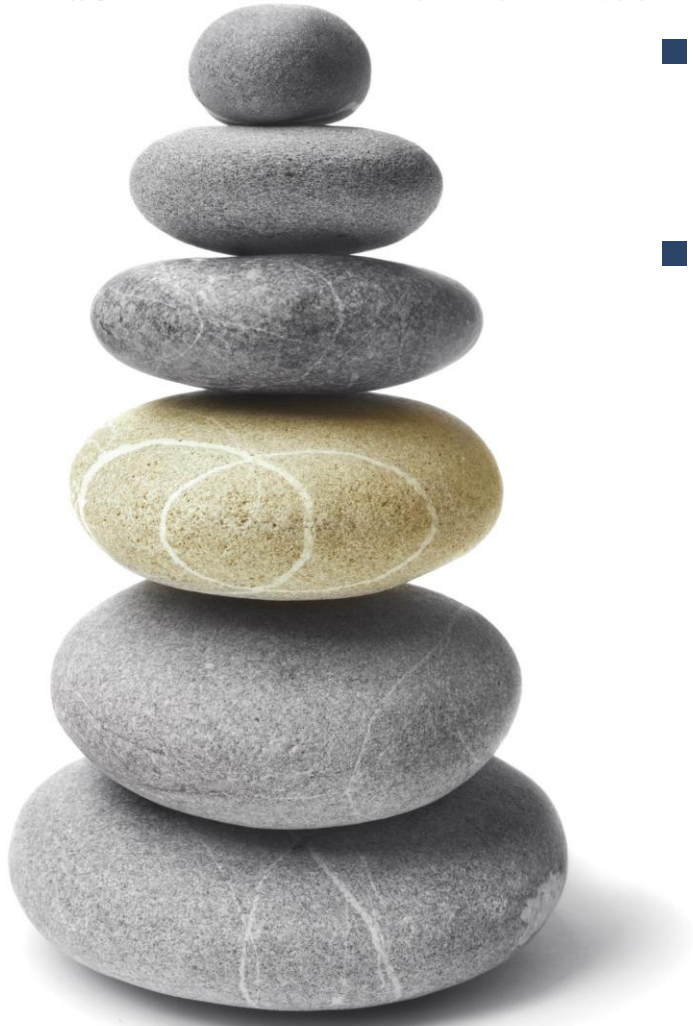
- Formal hierarchy
 - Direct supervision
 - Assigns legitimate power to manage others
 - Necessary in most firms, but has problems
- Standardization –routine behavior/output
 - Standardized processes (e.g., job descriptions)
 - Standardized outputs (e.g., sales targets)
 - Standardized skills (e.g., training)

Elements of Organizational Structure



Span of Control

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- Number of people directly reporting to the next level
- Wider span of control is possible when:
 - Other coordinating mechanisms are present
 - Routine tasks
 - Low employee interdependence

Tall vs Flat Structures

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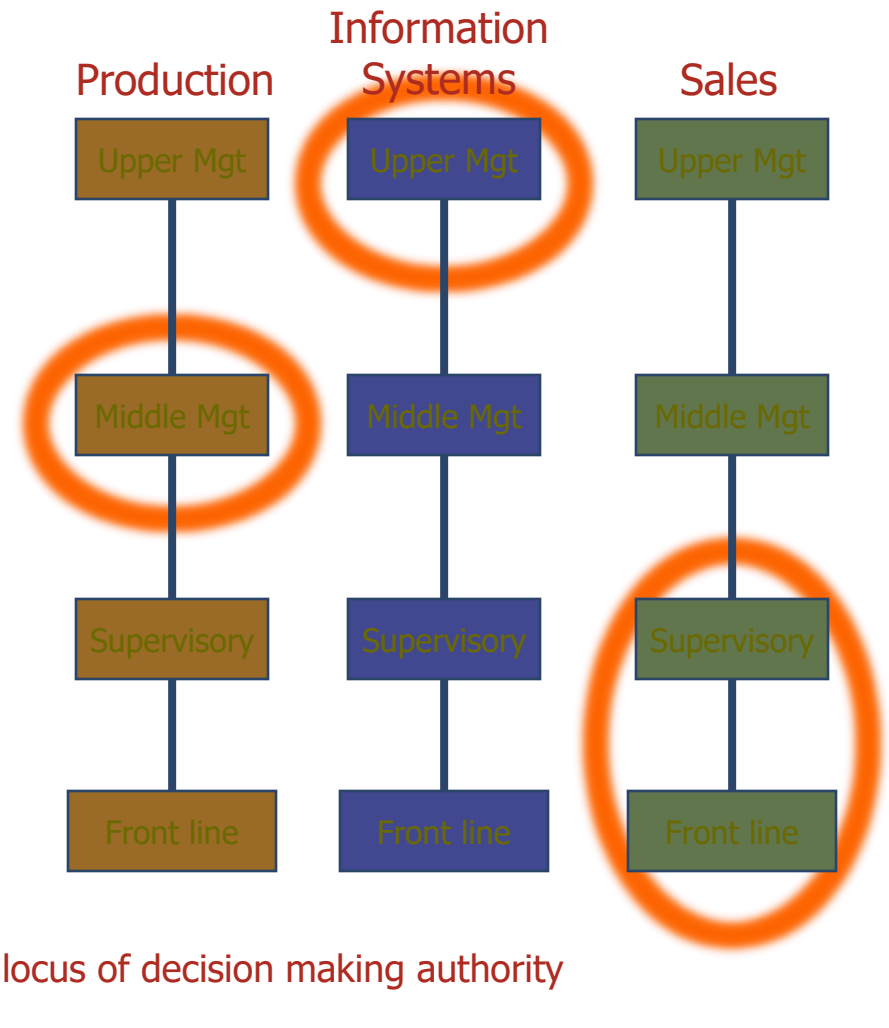


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- As companies grow, they:
 - Build a taller hierarchy
 - Widen span, or both
- Problems with tall hierarchies
 - Poorer upward information
 - Overhead costs
 - Focus power around managers, so staff feel less empowered

Centralization/Decentralization

- Centralization -- Formal decision making authority is held by a few people, usually at the top
- Decentralization increases as companies grow
- De/centralization varies in different work areas
 - e.g.: decentralized sales ; centralized info systems



Formalization



- Standardizing behavior through rules, procedures, training, etc
- Increases as firms get older, larger, regulated
- Problems with formalization
 - Less organizational flexibility
 - Discourages organizational learning/creativity
 - Less work efficiency
 - Increases job dissatisfaction and work stress
 - Rules/procedures become focus of attention

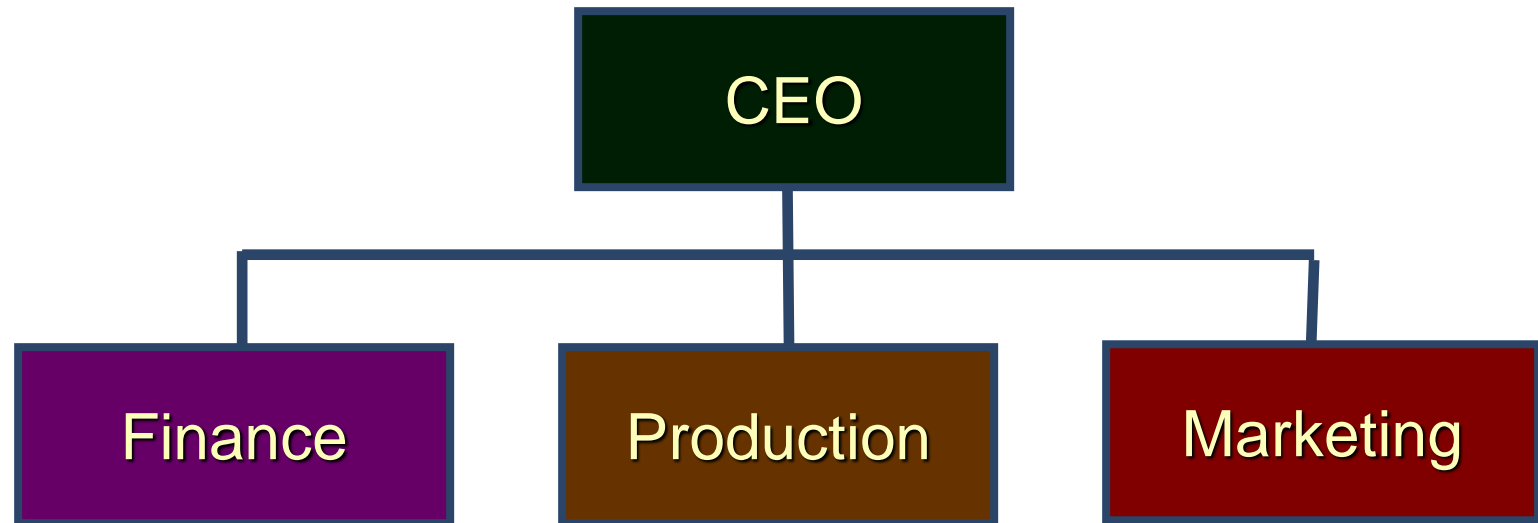
Mechanistic vs. Organic Structures



- Mechanistic Structure
 - Narrow span of control
 - High centralization
 - High formalization
- Organic Structure
 - Wide span of control
 - Decentralized decisions
 - Low formalization

Functional Organizational Structure

- Organizes employees around specific knowledge or other resources (e.g., marketing, production)



Evaluating Functional Structures



■ Benefits

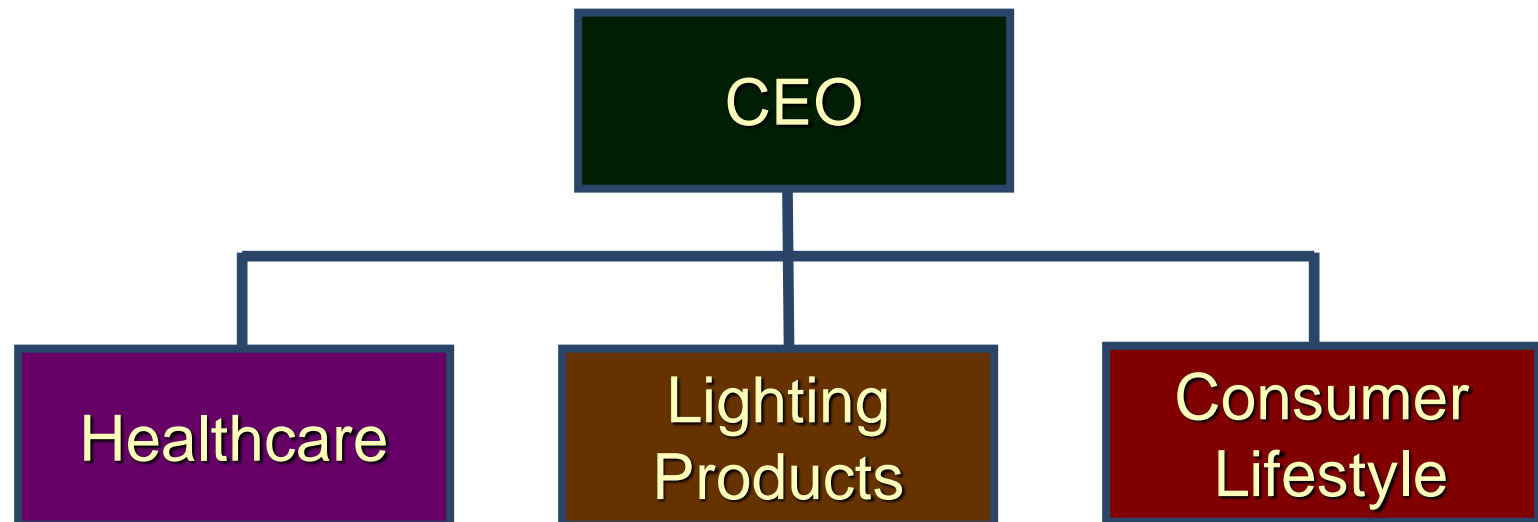
- Economies of scale
- Supports professional identity and career paths
- Easier supervision

■ Limitations

- Emphasizes subunit more than organizational goals
- Higher dysfunctional conflict
- Poorer coordination -- requires more controls

Divisional Structure

- Organizes employees around geography, products or clients
- Best type of divisional structure depends on environmental diversity or uncertainty
- Geographic structures becoming less common



Evaluating Divisional Structures



■ Benefits

- Building block structure -- accommodates growth
- Focuses on markets/products/clients

■ Limitations

- Duplication, inefficient use of resources
- Silos of knowledge – expertise isolated in divisions
- Executive power shifts with divisional structure

Team-Based Structure



- Self-directed work teams organized around work processes
- Typically organic structure
- Usually found within divisionalized structure

Evaluating Team-Based Structures



■ Benefits

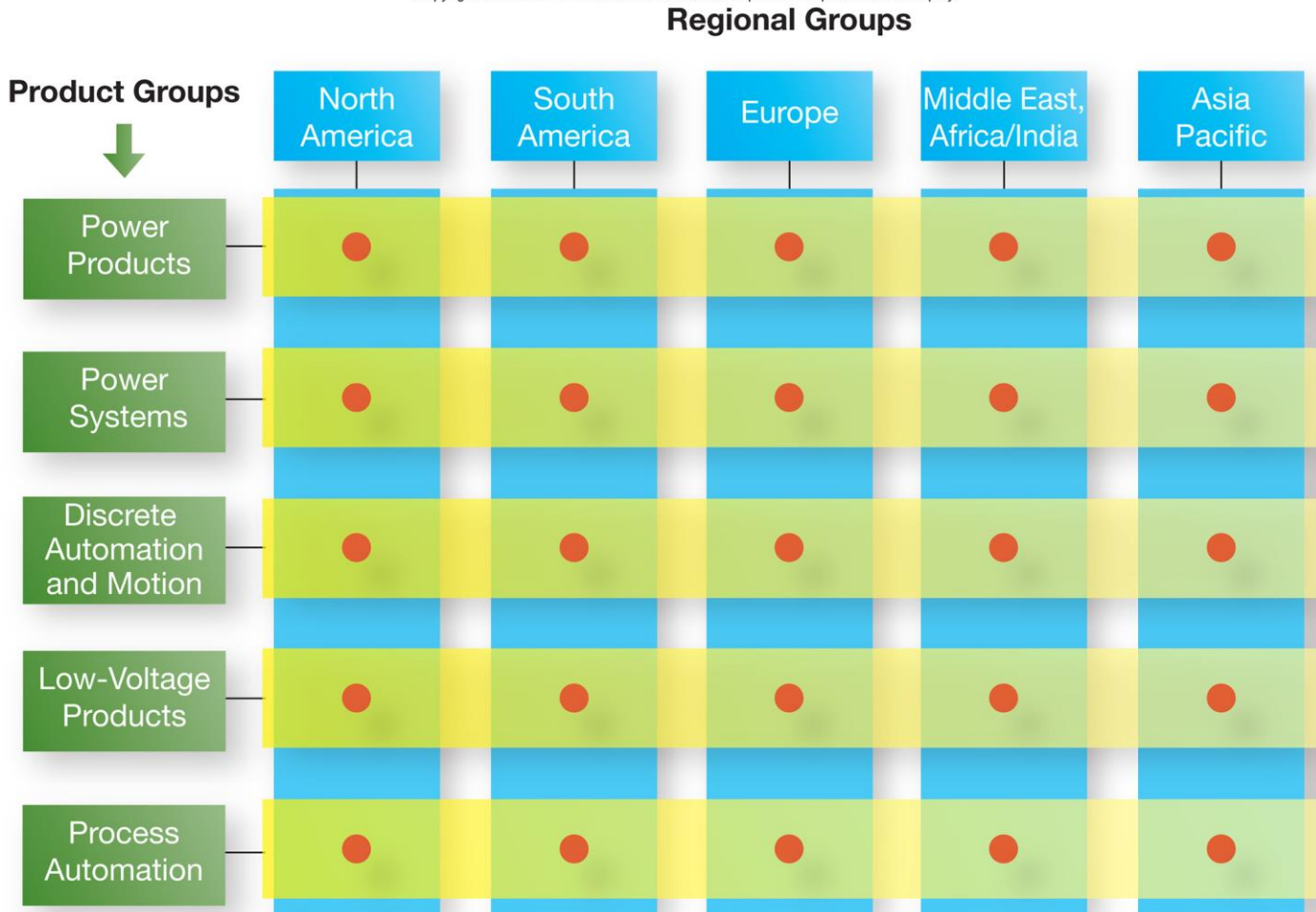
- Responsive, flexible
- Lower admin costs
- Quicker, more informed decisions

■ Limitations

- Interpersonal training costs
- Slower coordination during team development
- Role ambiguity increases stress
- Team leader issues – less power, ambiguous roles/career
- Duplication of resources

Geographic-Product Matrix Structure at ABB*

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● Product leader in that region

Note: This diagram is for illustrative purposes only. ABB's structure has eight regional groups rather than the five shown here. It also has four nonmatrixed functional groups reporting directly to the CEO. In addition, this diagram assumes ABB has a pure matrix structure, where both product and regional chiefs have equal power, whereas either the regional or product groups might have more direct line authority.

Evaluating Matrix Structures



■ Benefits

- Uses resources and expertise effectively
- Potentially better communication, flexibility, innovation
- Focuses specialists on clients and products
- Supports knowledge sharing within specialty
- Solution when two divisions have equal importance

■ Limitations

- More conflict among managers who share power
- Having two bosses dilutes accountability
- More conflict, organizational politics, and stress

External Environment & Structure

Dynamic

- High rate of change
- Use team-based, network, or other organic structure

Stable

- Steady conditions, predictable change
- Use mechanistic structure

Complex

- Many elements (such as stakeholders)
- Decentralize

Simple

- Few environmental elements
- Less need to decentralize

External Environment & Structure



Diverse

- Several products, clients, regions
- Use divisional form aligned with the diversity

Integrated

- Single product, client, place
- Use functional structure, or geographic division if global

Hostile

- Competition and resource scarcity
- Use organic structure for responsiveness

Munificent

- Plenty of resources and product demand
- Less need for organic structure

Effects of Organizational Size



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As organizations grow, they:

1. Increase division of labor (job specialization)
2. Increase standardization and formal hierarchy as coordinating mechanisms
3. Become more decentralized



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Technology and Structure



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- Mechanisms/processes for making products or services
- Two contingencies:
 - Variability -- the number of exceptions to standard procedure that tend to occur
 - Analyzability -- the predictability or difficulty of the required work



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Organizational Strategy



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- Structure follows strategy
 - Strategy points to the environments in which the organization will operate
 - Leaders decide which structure to apply
- Innovation strategy
 - Providing unique products or attracting clients who want customization
- Cost leadership strategy
 - Maximize productivity in order to offer competitive pricing



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Designing Organizational Structures

Project-based Matrix Structure

Employees (●) are temporarily assigned to a specific project team and have a permanent functional unit

