

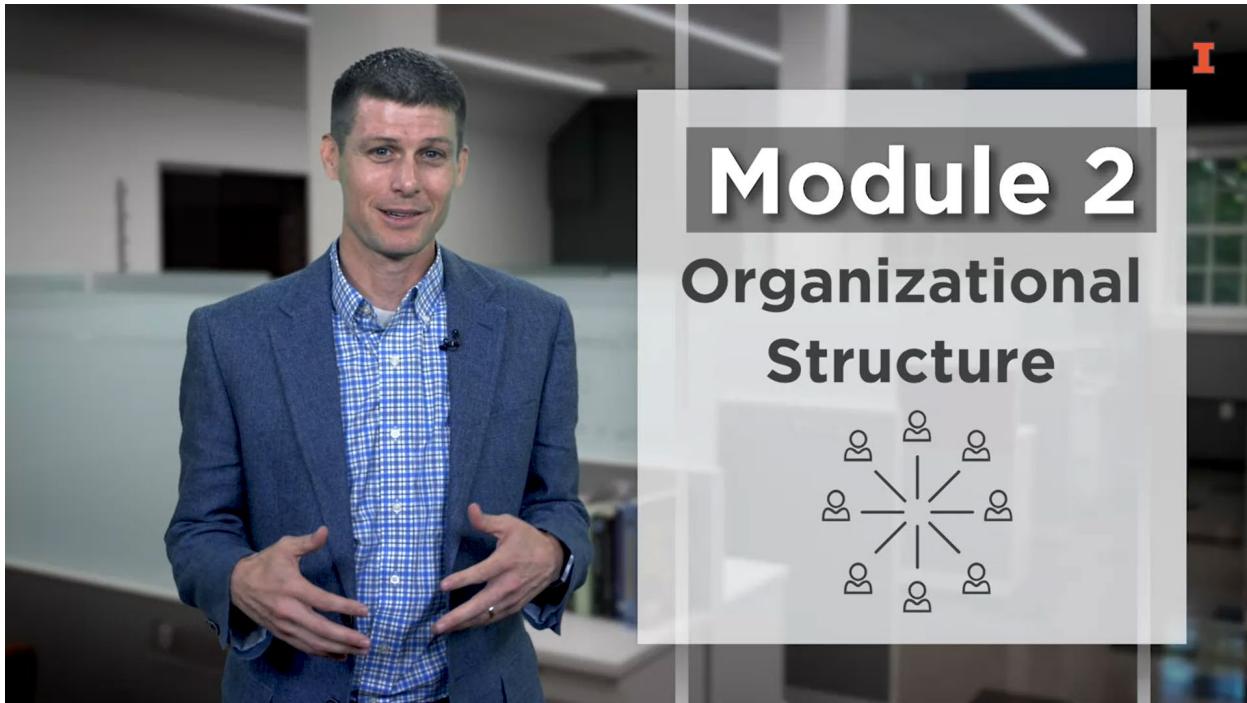
Module 2: Organizational Structure

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Lesson 2-1

[Lesson 2-1.1: Introduction to Organizational Structure](#)

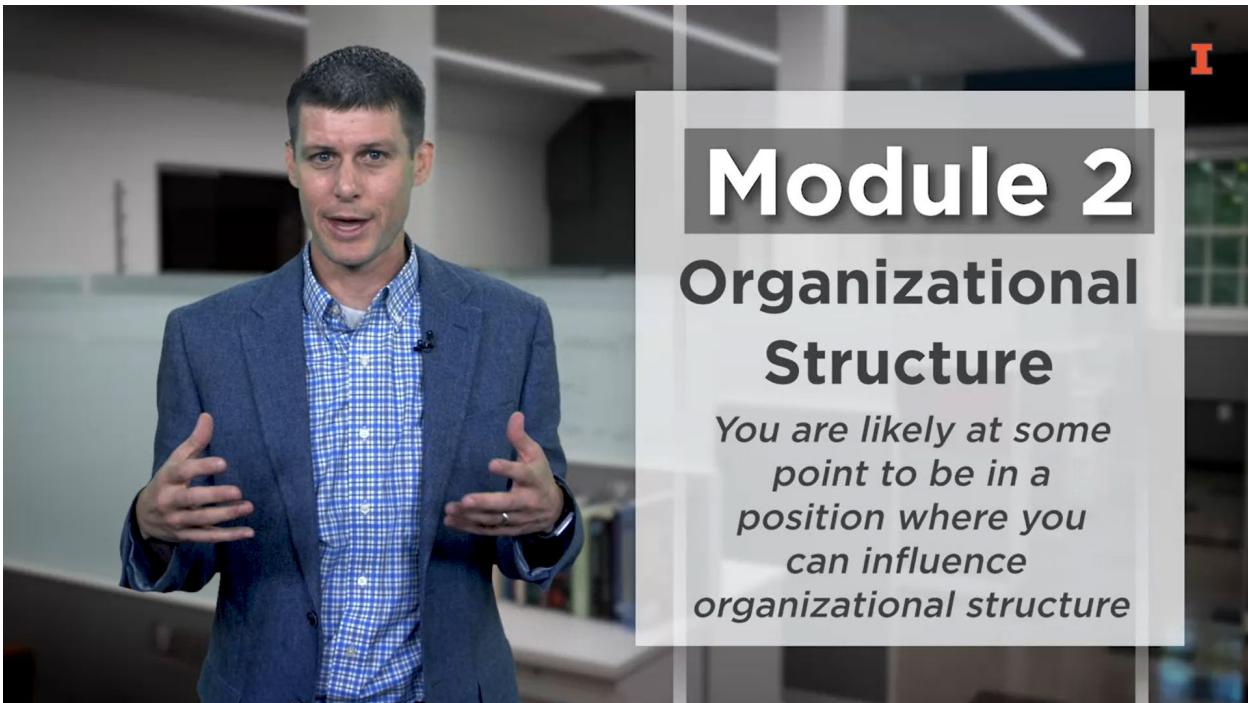


The image shows a video frame of a man in a blue suit jacket and a blue and white plaid shirt, gesturing with his hands while speaking. To his right is a graphic overlay. The overlay has a white background with a dark border. At the top, it says "Module 2" in large white letters. Below that, it says "Organizational Structure" in a smaller dark font. At the bottom, there is a diagram of a network or organizational chart, consisting of a central point connected to eight other points, each representing a person.

In this module, we're going to be talking about organizational structure. We'll discuss what structure means and why it's so important for organizations. We'll then talk a little bit about some of the most common organizational structures that you will find in most organizations. Now, some of you may be sitting there thinking, talking about structure doesn't apply to me because I'm not in charge of the structure of the organization, maybe this matters to the top executive team, but not so much to me. Well, regardless of where you are in an organization, understanding the basics of organizational structure can be very important for a couple of reasons.



First, everyone operates within an organizational structure. So to the extent that you better understand the organizational structures that you operate in and some of the inherent advantages and disadvantages of those structures, you'll be better equipped to successfully navigate organizational life and ultimately be more productive in your role.

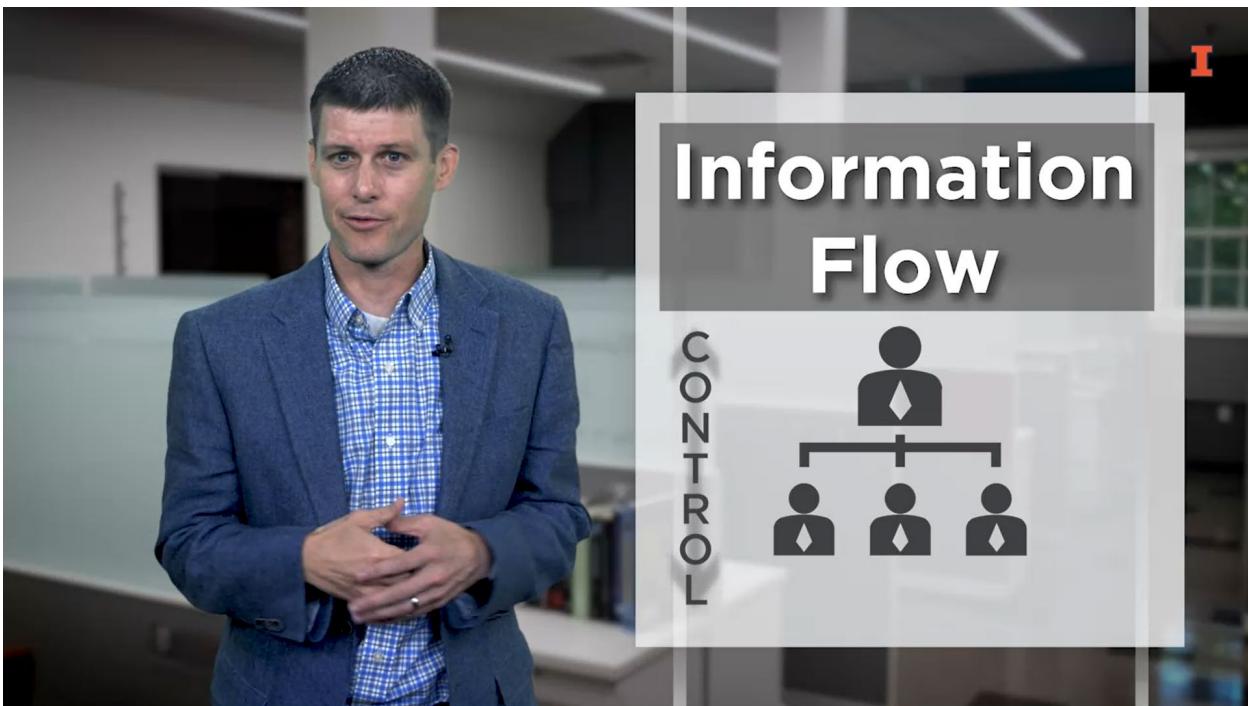


Second, you're likely at some point to be in a position where you can influence organizational structure. In fact, it's likely that as a manager, you have some influence over structure right now. So, whether you're an executive discussing the structure of the entire organization, maybe

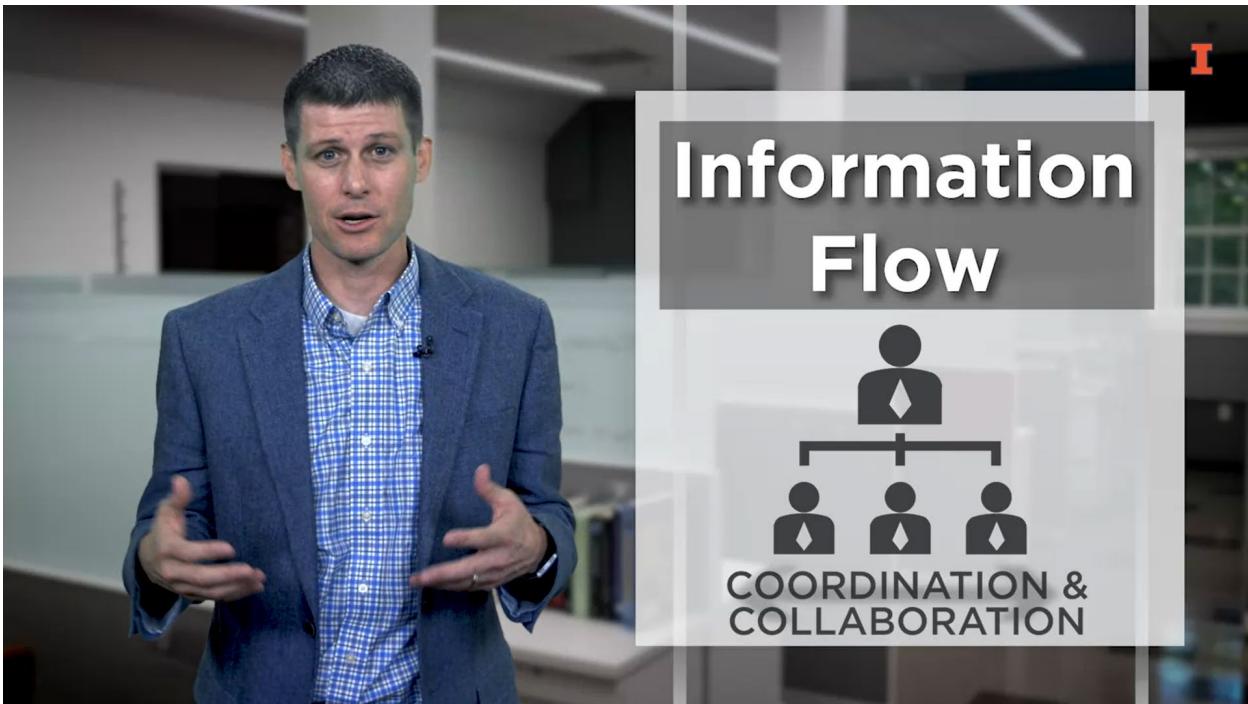
you're a head of a department thinking about how to structure your part of the organization or maybe a project manager trying to design the best structure for your team. Most managers eventually come face-to-face with questions about the best way to structure an organization or some part of an organization. So, this module will equip you with some useful tools to help you better understand and answer these important questions.



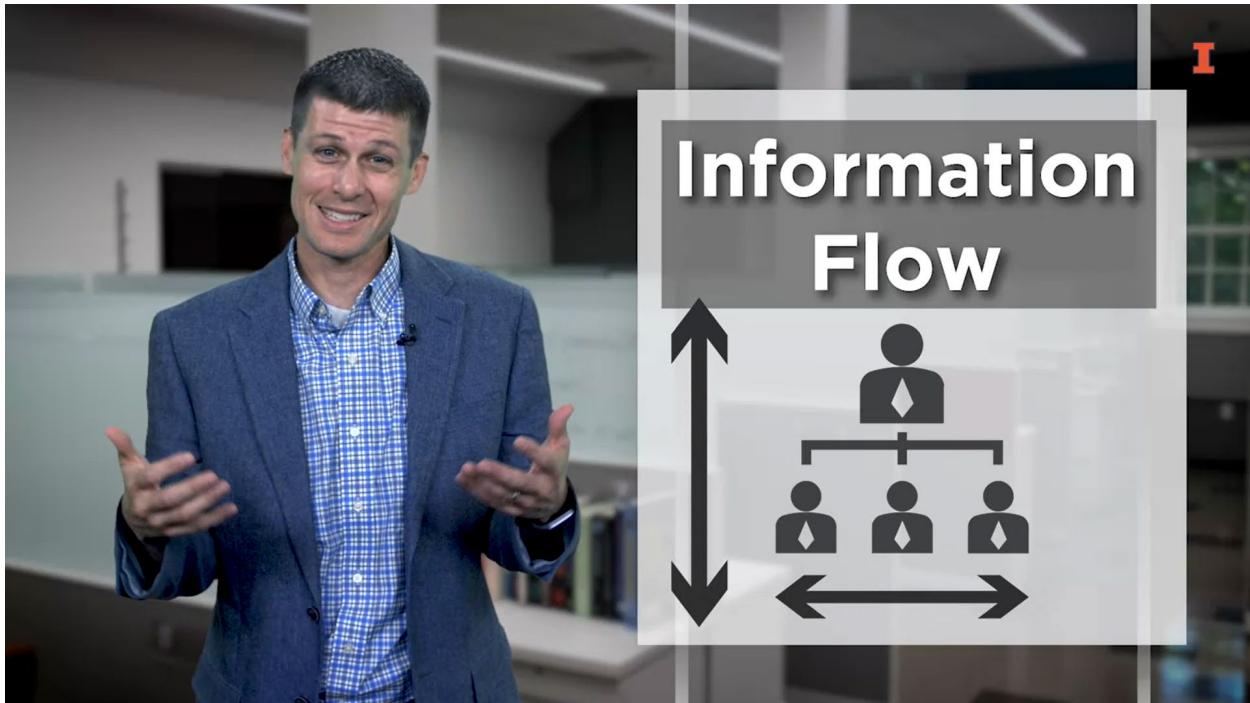
As a manager, you need timely and correct information to help you make good decisions, but in every organization, there's a fundamental problem of information flow. We need information to flow vertically and horizontally in the organization.



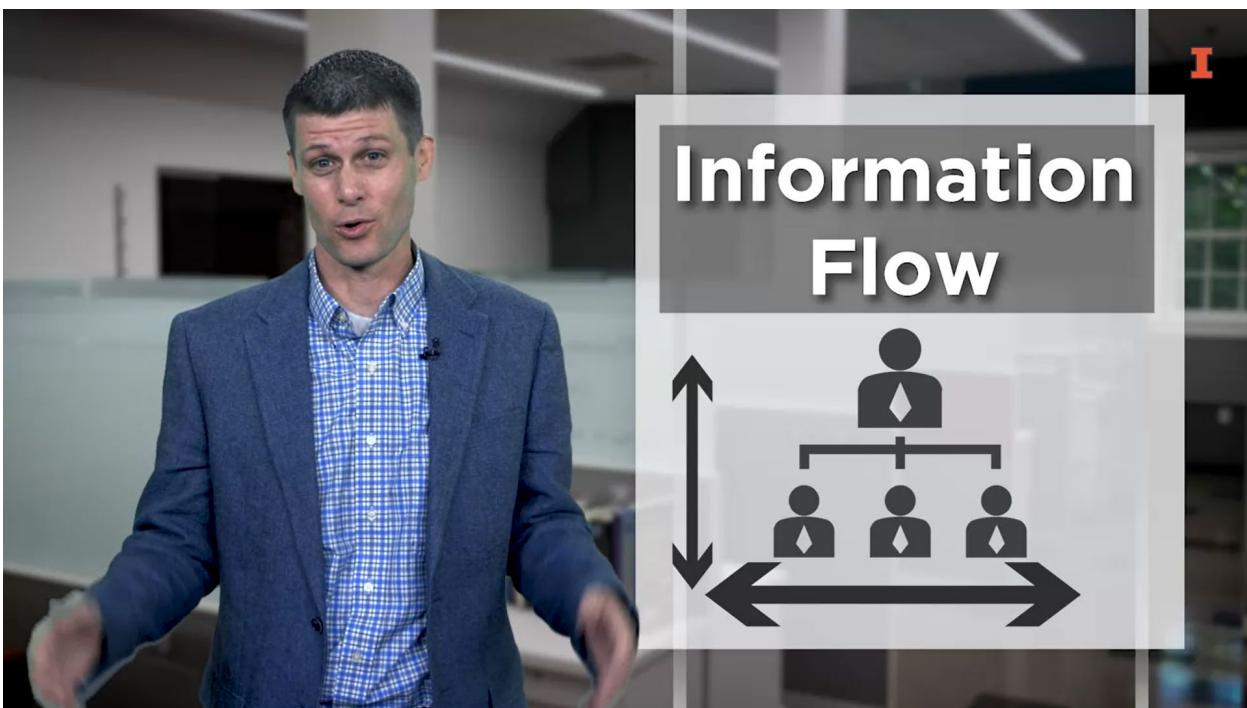
When we think about vertical information flow, we realize that managers need to receive good information from those below them in the organization if they're going to make good decisions. At the same time, managers at the top of the organization have specific information that they want employees throughout the organization to receive and act upon. Now, this type of vertical information flow is mostly concerned with control and that's necessary for the organization to operate efficiently and with consistency.



Now, when we talk about horizontal information flow, we think of information that needs to flow between different groups or individuals. Various managers and individuals are making decisions in different parts of the organization all the time. And so we need to make sure that those decisions are in sync. So, horizontal information flow is more concerned with coordination and collaboration and that's necessary for adaptation and innovation in the organization. Well, it turns out that often as we focus on one problem of information flow, it tends to make the other problem worse.



So, when we try to ensure more control, that sometimes means we become less adaptive



or when we try to become more adaptive, it can seem like everything's out of control.



Organization structure is one way that organizations try to manage this tension as we try to ensure that the organization is efficient and appropriately adaptive. So, what do we mean by organizational structure? Well, structure refers to the way in which tasks in the organization are divided, grouped and coordinated. So structure is really just about dividing things up and then coordinating to make sure that things work together. That sounds simple enough, but it's actually quite difficult to decide what the most important tasks are, decide how those tasks

should be divided up and then figure out how to coordinate between different people and groups that are working on those different tasks. And don't forget that all of these different tasks are supposed to be in pursuit of common organizational goals. There's lots of decisions to make about division of labor and coordination within the organization.

Organizational Structure

How specialized should the tasks be that people perform?

Should tasks & groupings be formalized or remain informal?

Who should have the decision-making authority in the organization?

For example, how specialized should the tasks be that people perform? Should the tasks in groupings be formalized or should they remain informal? Who should have the decision-making authority in the organization?

Organizational Structure

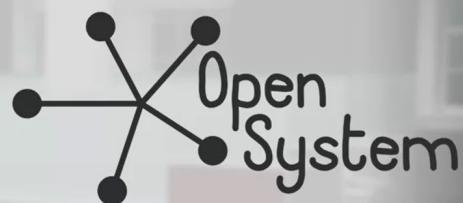
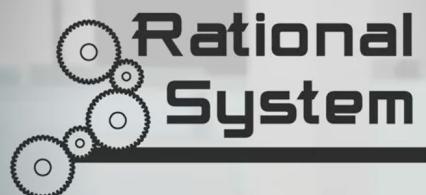
Should authority be centralized at the top, or should it be decentralized so that more people are involved?

How many layers of management should we have?

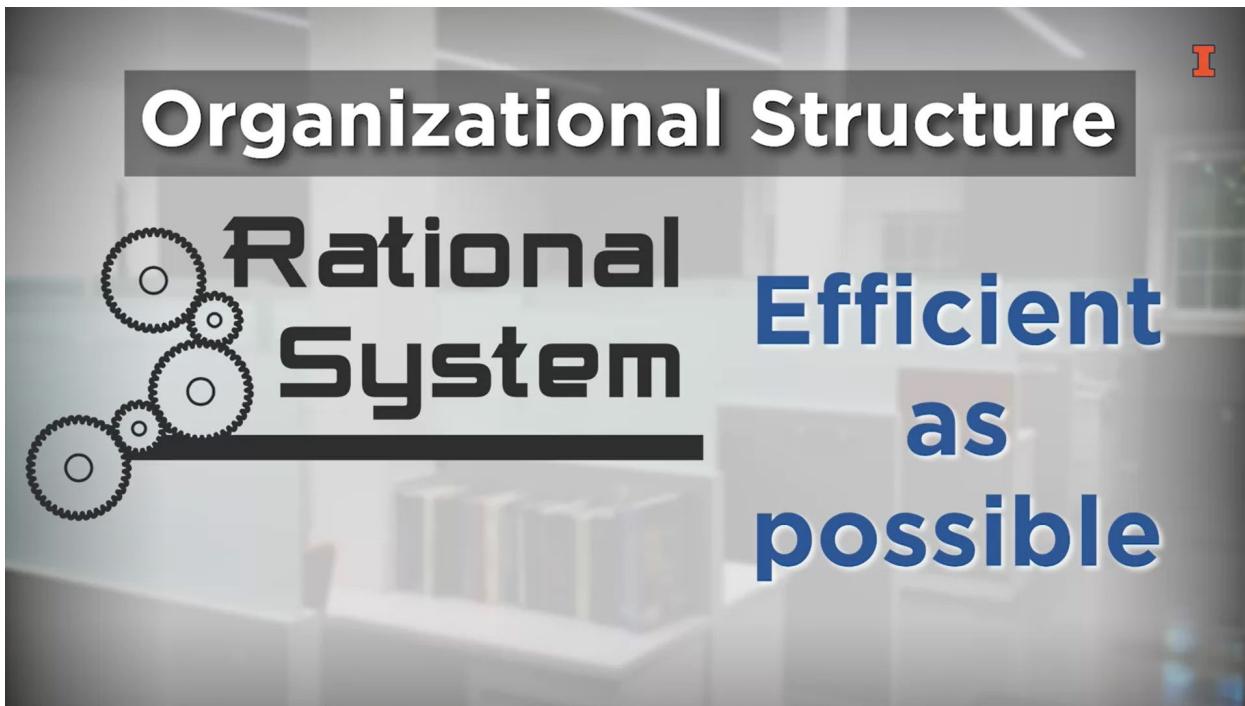
Do we build a tall hierarchical structure, or do we have a flatter organization where managers may oversee a larger number of employees?

Should it be centralized at the top or should it be decentralized so that more people are involved? How many layers of management should we have? Do we build a tall hierarchical structure or do we have a flatter organization where employees may oversee a larger number of employees?

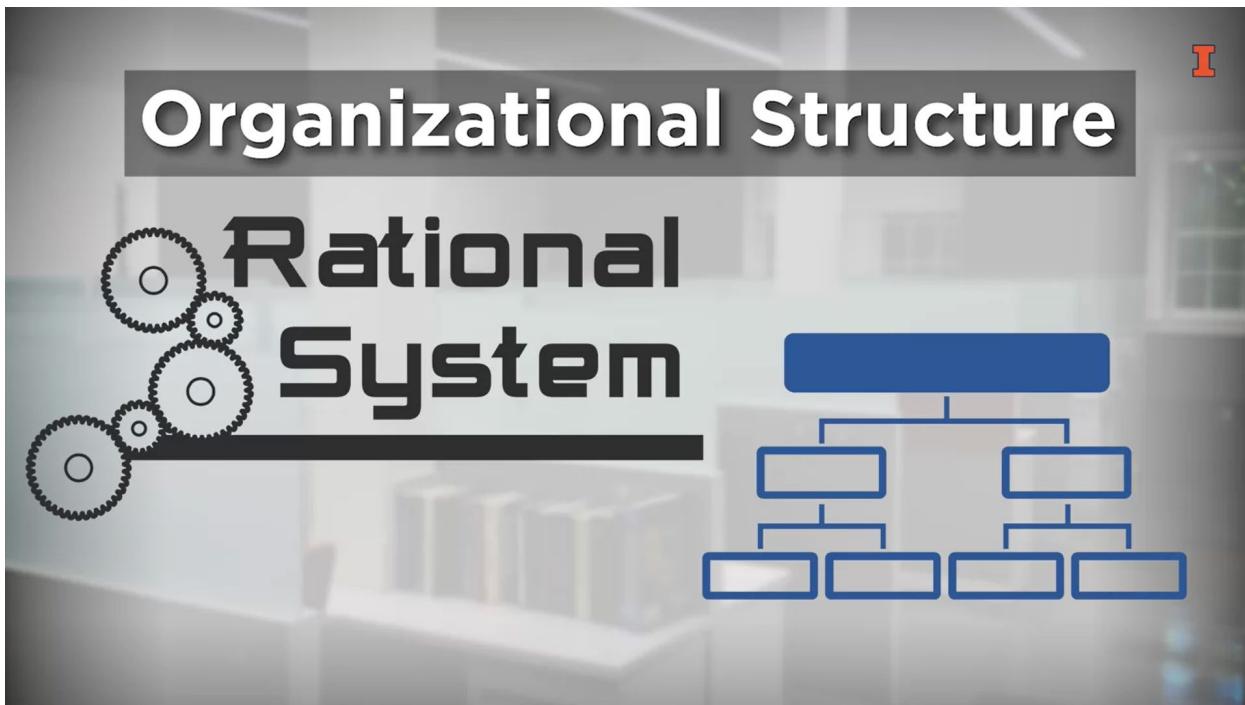
Organizational Structure



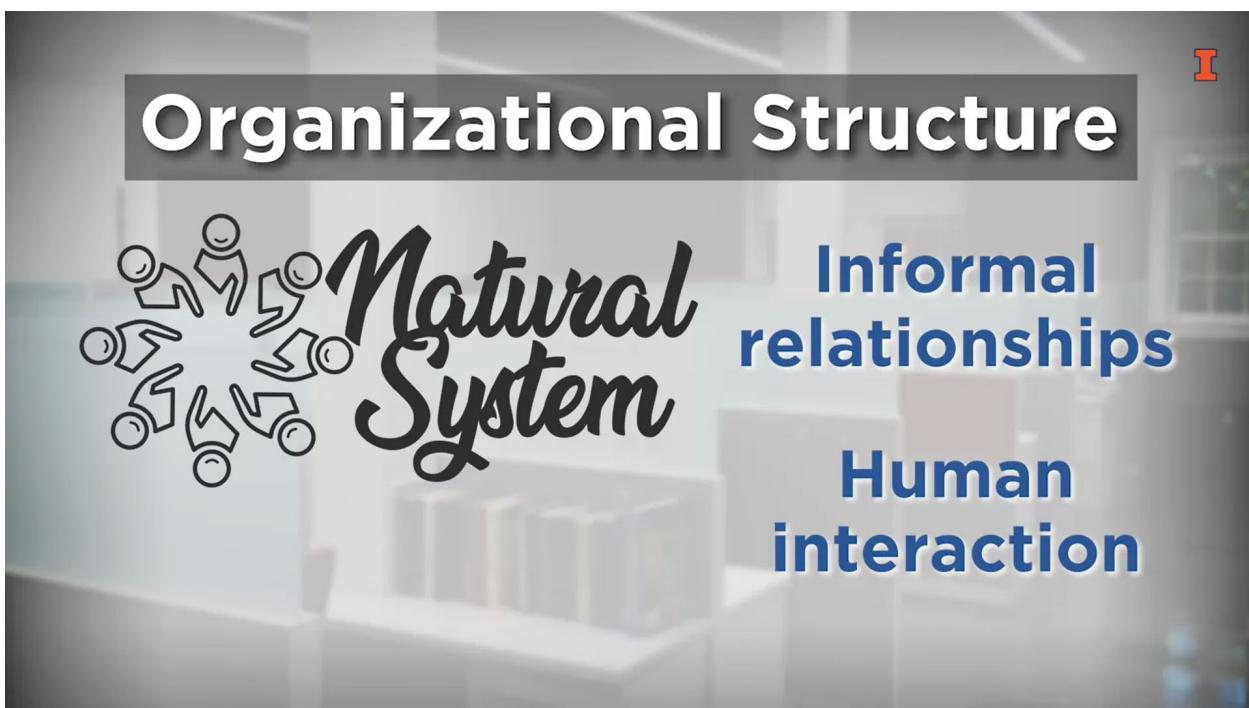
These are all important questions that we have to consider as we make structural decisions. One last note by way of introduction to structure, remember our three lenses that we've been talking about so far, the rational, natural and open system lenses.



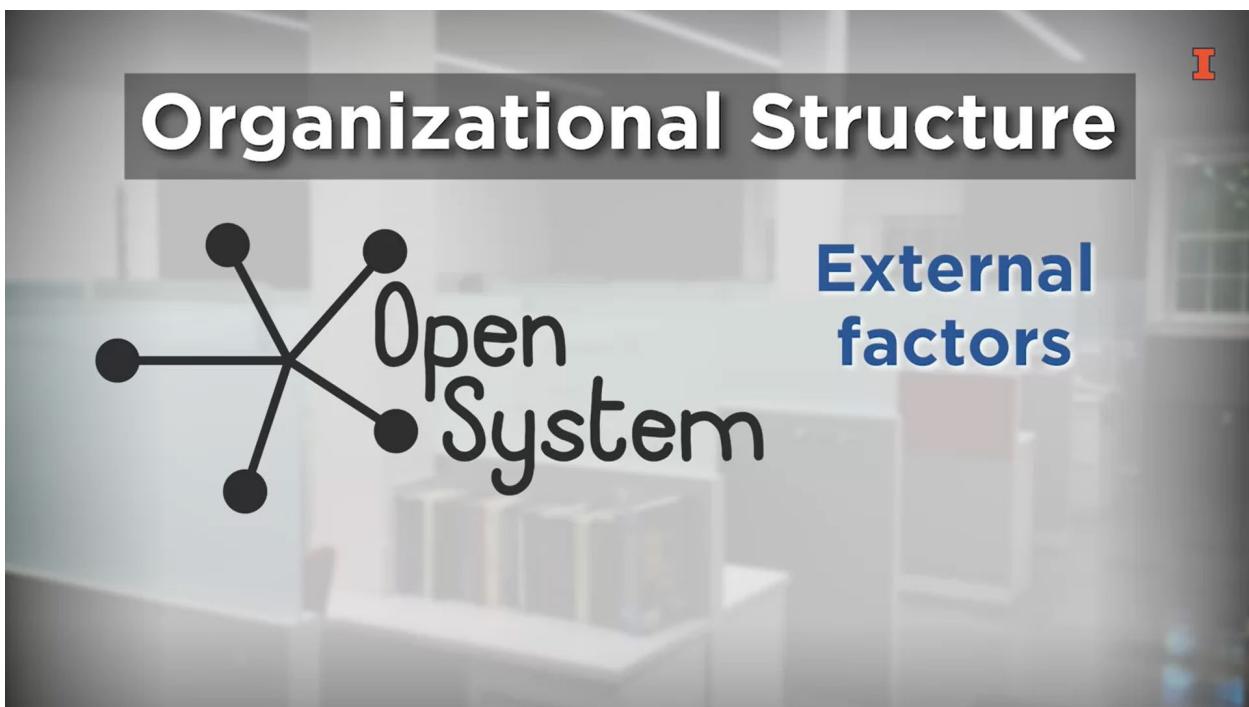
Well, when we talk about organizational structure, we usually think about it from a rational system lens. So if the organization is like a machine, then organizational structure is how we build the machine to do its job as efficiently as possible.



We often think of a traditional organization chart that outlines formal relationships among key groups and individuals in the organization and shows how they interact with each other



but we can also view structure through a natural system lens. There are lots of important informal relationships in organizations that may not show up in the formal organizational chart, but that can be very important to achieving organizational effectiveness. And it's important to remember that as you divide up tasks in the organization, that creates the necessity for human interaction, that creates politics and conflicting goals and interests.



Finally, when we view structure from an open system lens, we realize that we shouldn't implement structure in a vacuum. We need to account for all kinds of factors outside the organization that will help us to determine what's the right structure for our organization.

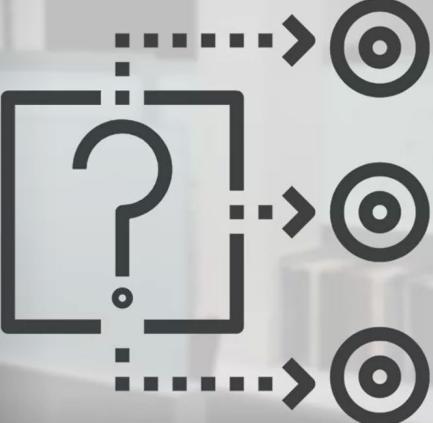
Lesson 2-2

Lesson 2-2.1: Contingency Theory



What's the best way to structure a firm? There is really a simple answer to this question. It depends. Now, that alone is probably not a very satisfying answer to you as a manager. So we're going to talk about a way of thinking about structure that can help you to make more informed design choices that take into account all the relevant factors that are likely to have applied to and affect your organization.

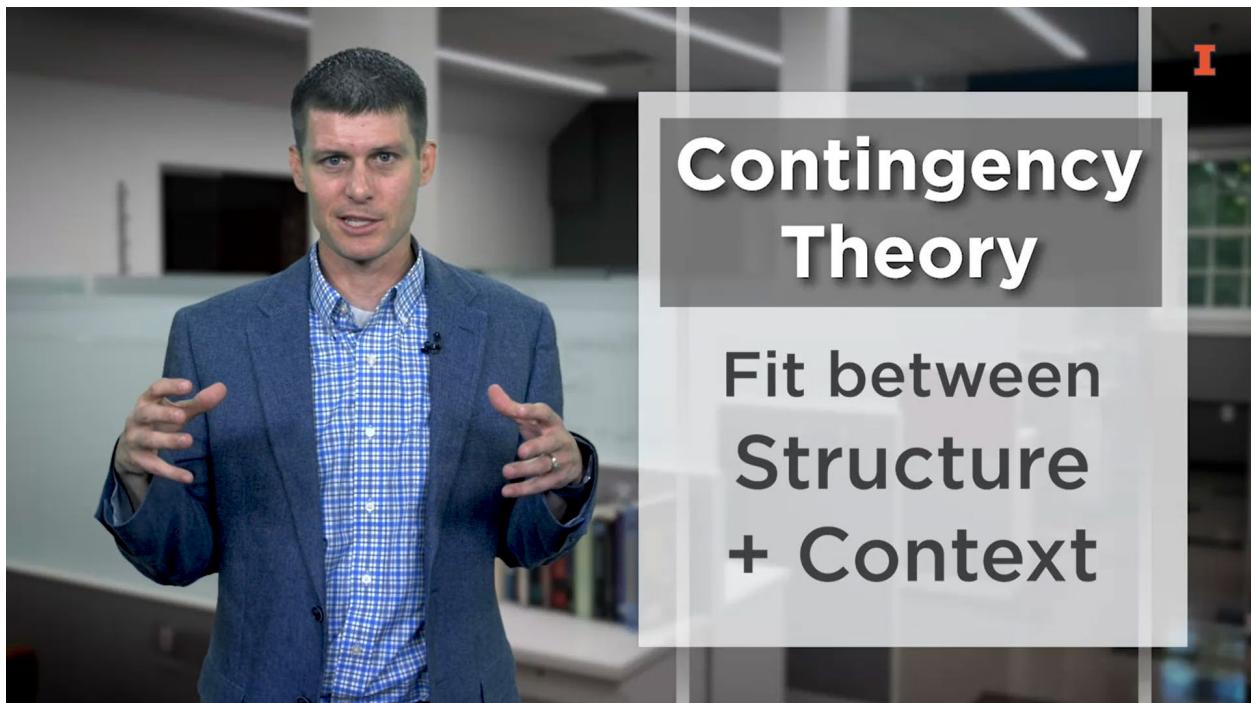
Contingency Theory



There isn't one best way to organize

Best structure depends on a variety of different **contingencies**

Contingency theory says that there isn't one best way to organize. Rather, the best structure depends on or is contingent upon a variety of different contextual factors or contingencies that you need to account for when making designed choices.

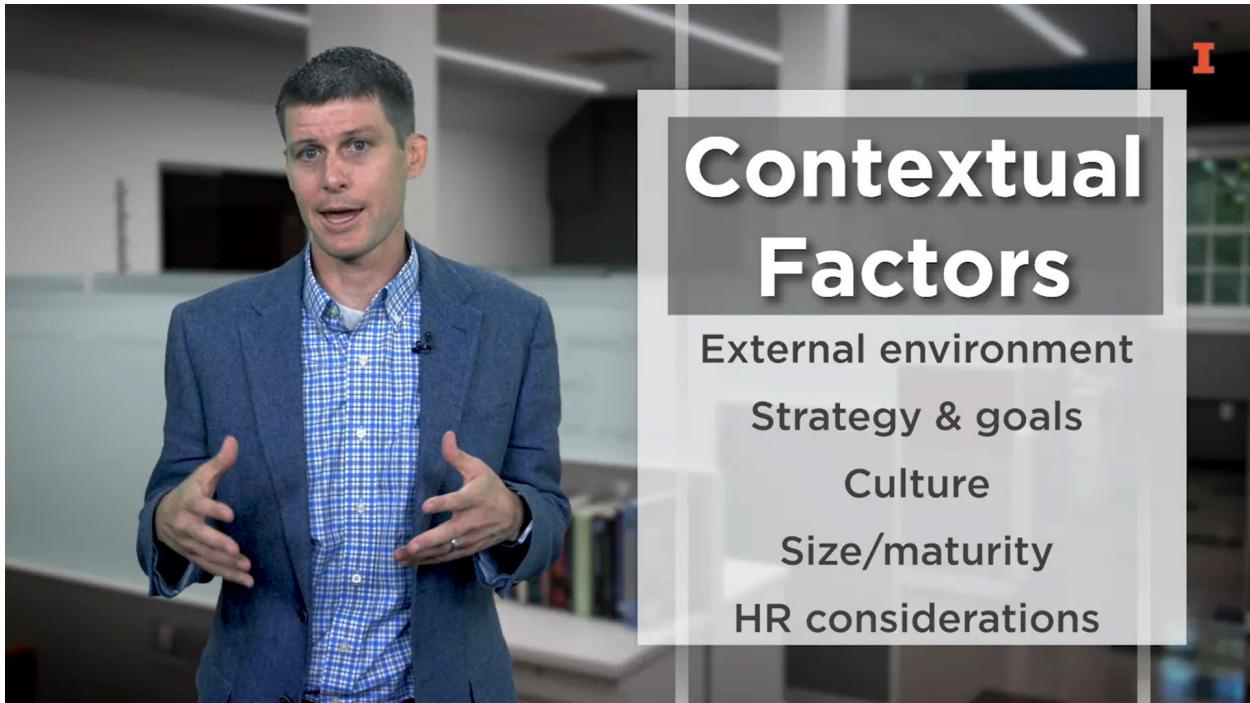


Contingency Theory

Fit between Structure + Context

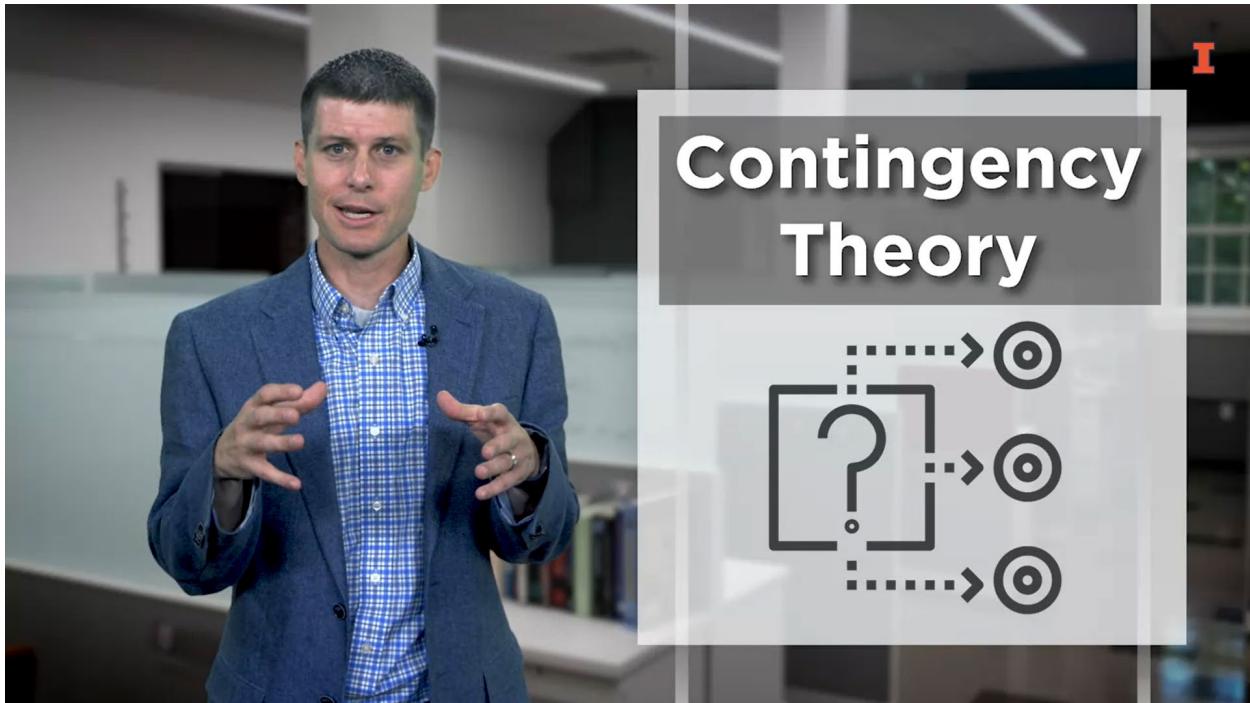
Another way to think about contingency theory is that structure alone is not very likely to lead to higher performance. Rather, it's the fit between structure and the organization's context that could lead to better performance. So the job of a manager is to understand the context that the

firm is operating in, and then make structural choices that are a good fit with those contextual factors or contingencies.



So what are some of the contextual factors that you need to account for when making structural design choices. One of the most important contextual factors is the external environment that you're operating in. Now, some firms operate in dynamic and unstable industries where innovation is key and firms that can't adapt aren't going to survive. Well, there are structures that are more adaptive and more conducive to innovative breakthroughs. Other structures are better suited for more stable environments where things don't change very often. Now, another key factor would be the strategy and the goals of the organization. So for firms that use primarily a low-cost strategy, where they primarily compete on price, a structure that promotes efficiency is probably most appropriate. On the other hand, a firm that uses mostly a differentiation strategy where they rely on being a higher quality or better meeting customer needs, they're going to want to choose a structure that allows faster and more responsive changes in the face of customer demands. Managers also want to consider the culture of the organization, both the existing culture and the culture that they're trying to create. Structure definitely has an impact on culture. So managers want to be particularly careful to make sure that the structural choices that they make fit with the culture that they're trying to create. So if we're trying to create a culture that promotes creativity and innovation, formalized structures with lots of rules and procedures may not be the best fit. The size and maturity of the organization will also have implications for choosing the best structure. Smaller organizations tend to have simple structures that become more complex as the organization grows and matures. As organizations grow, they typically need to change their structures to better handle the increasing complexity of their organization and the external environment. There are also human resource considerations, such as the skill level of the workforce that can influence the types of structures that will be most appropriate.

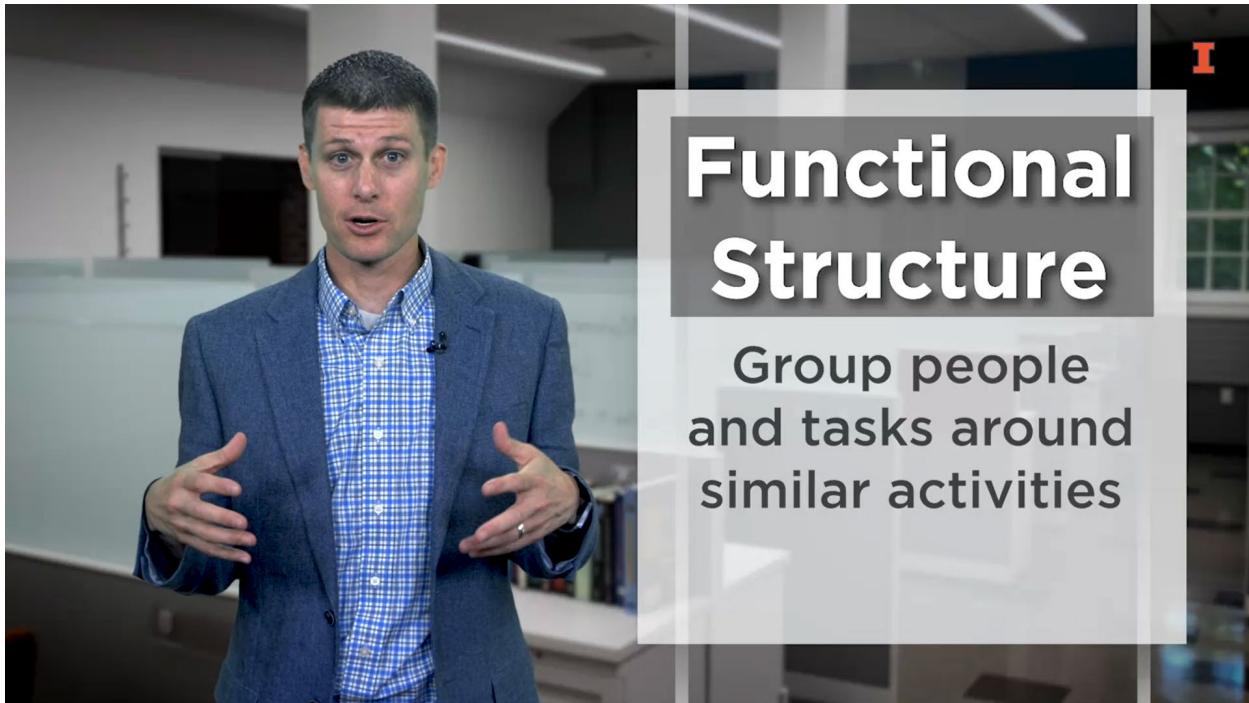
Now, these are just some of the many contextual factors that you'll want to take into account when making structural design choices for an organization.



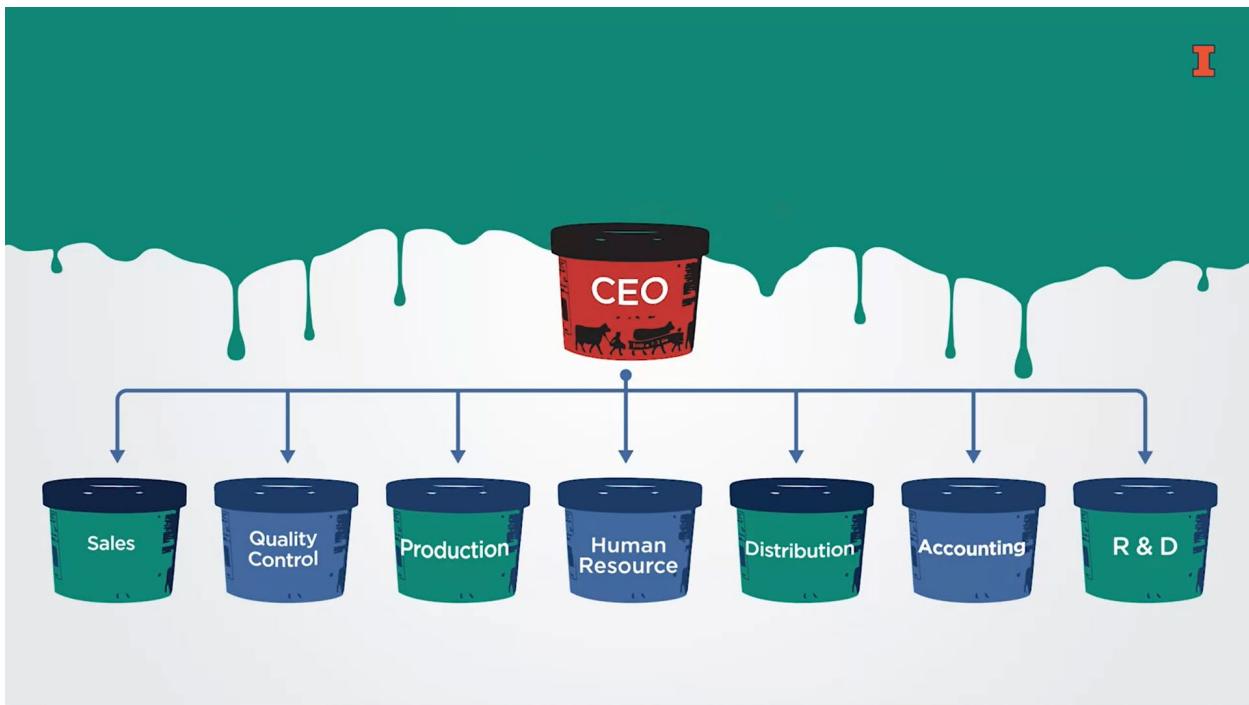
So in summary, there isn't one best structure. Copying the structures of other successful firms, that's not always a good solution either. Rather, managers need to gain a deep understanding of the context that they're operating in so that they can make intelligent decisions that account for the inherent trade-offs between these different contextual factors.

Lesson 2-3

Lesson 2-3.1: Functional Structure



One way to structure an organization is to group people and tasks around similar activities. This is what we'll call a functional structure.



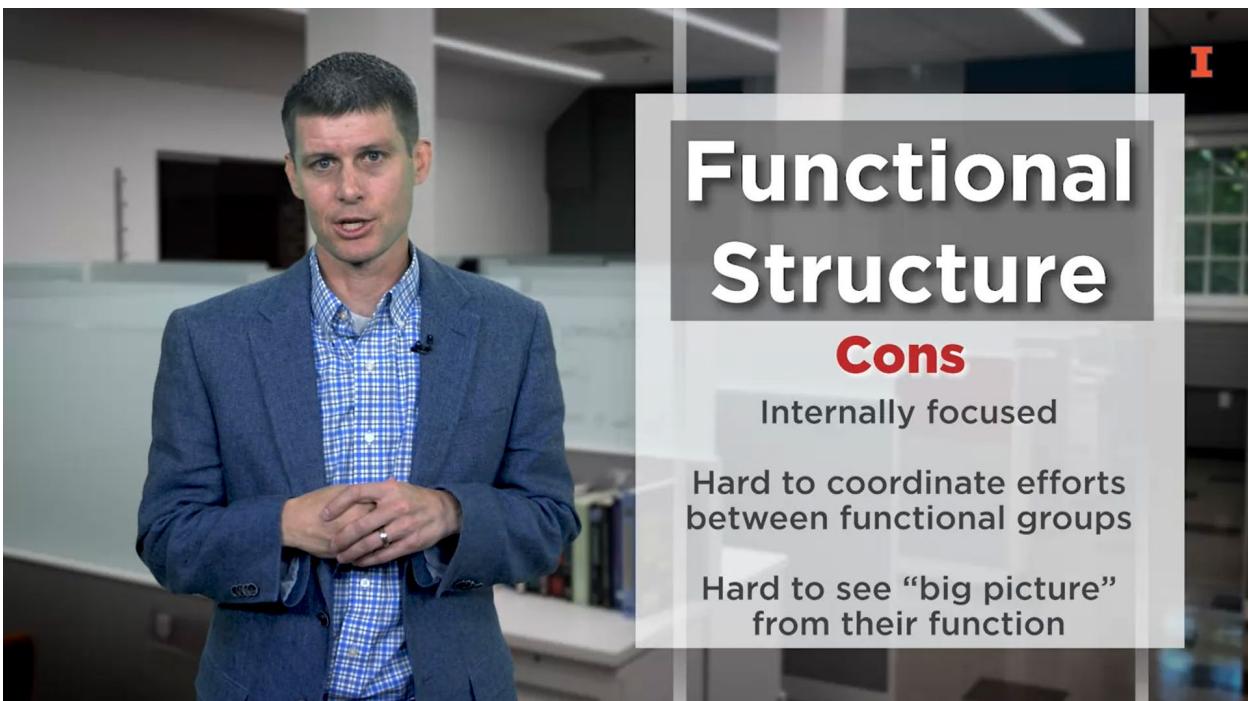
Now, let's say you're a regional ice cream firm and you're trying to figure out how to structure your company. Well first think about all the tasks that need to be done in your company. Well, you need to produce ice cream and then you need to sell it. You need to figure out how to distribute the ice cream to retailers. You need to invest in discovering new recipes and ways of making ice cream. You need to make sure that your end product is high-quality. You need to keep track of and manage your employees and you need to keep track of the money that's coming in and out. Given these different tasks, one way that you could organize your firm, would be to create a separate group for each of these tasks. So your organization chart might look something like this. Notice that all the tasks that we said are necessary to run our ice cream business are represented in this organization chart. Now, this organization chart is actually based off of a real company of an actual ice cream company, Blue Bell.



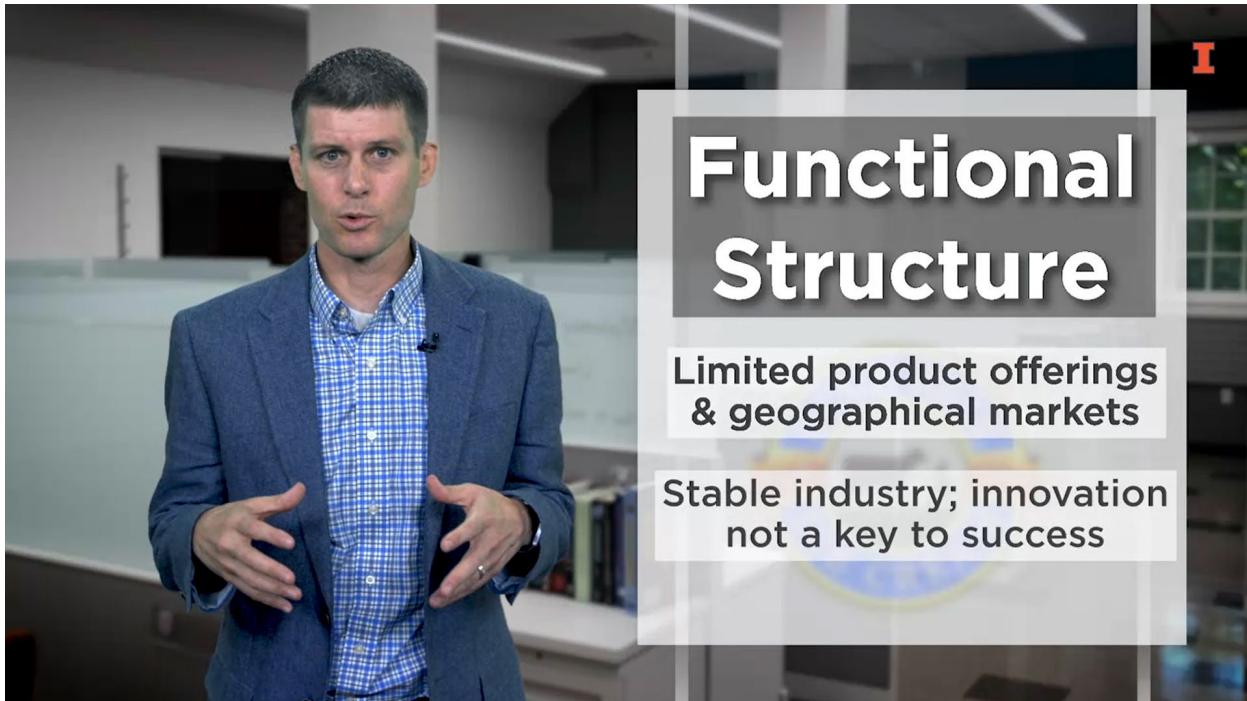
Blue Bell is based in Texas and sells its ice cream primarily in the southern part of the United States. When I was a graduate student at the University of Texas, my wife and I we had very little money, but we would splurge once a month for a half gallon of Blue Bell Ice Cream. It's amazing ice cream. So why would Blue Bell be organized in a functional structure? Well, it turns out that all structures have some pros and cons and so managers have to weigh these trade-offs when making design choices.



Functional structures are fairly simple and easy to manage in the right set of circumstances. They tend to allow people to develop deep expertise in their particular function. So for example, if I'm a marketing person in a marketing functional department, I'm surrounded by other marketing people. And so we tend to develop deep expertise in our function. Functional structures are typically quite efficient and reduce duplication of roles in the firm compared to other types of structures. And functional structures are also more conducive to upholding standards of quality and consistency.



Now, functional structures also have some drawbacks. They tend to be internally focused. So this can make it hard to adapt to a changing external environment and to come up with significant product breakthroughs. It can also be hard to coordinate efforts between the different functional groups. And while functional structures are pretty good at promoting the achievement of functional goals, sometimes it's hard for people in these different functions to see how their work directly impacts the big picture of the organization. In those big picture organizational goals.



So the question then is whether a functional design is an appropriate structure for Blue Bell Ice Cream to use. Well, remember that Blue Bell sells a limited number of products and they operate in a limited number of geographic markets. They're highly concerned with quality and efficiency and they compete in an industry that's relatively stable. It's not like in the ice cream industry breakthrough innovations are the key to success. So taking all of these factors into account the advantages of a functional design probably outweigh the potential disadvantages for a firm like Blue Bell. In fact Bluebell is a pretty good example of the type of firm that would benefit from implementing a functional design. Functional designs typically work best with small to medium-sized firms with limited product offerings that operate in relatively stable environments and where outcomes such as efficiency and consistency are key drivers of success.

Lesson 2-4

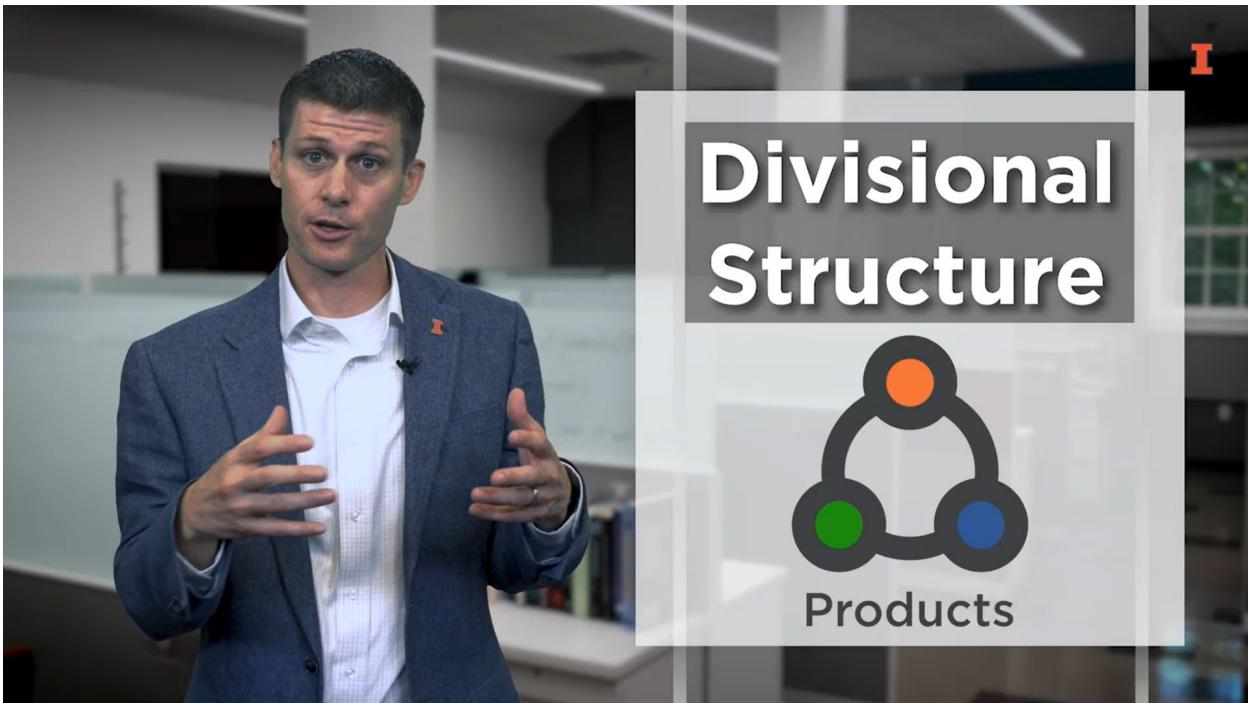
Lesson 2-4.1: Divisional Structure



Imagine you work for a large corporation that operates in different geographic areas, and it sells a number of different products to very different sets of customers. How do you structure this organization? Given the complexity of the environment that the firm is operating in, one option would be to create semi-autonomous business units or divisions.



Now these divisions would operate much like their own separate firms, with functional areas, like marketing accounting and production all housed within the division. They would have their own profit/loss statements and it would be easy to see how the division was performing, this type of structure is what we call a Divisional Structure.



Now there are different ways to organize these divisions, one option would be to organize divisions around different products. So if you had three main products, or groups of products, you could create three separate business units each focused on a particular product, many

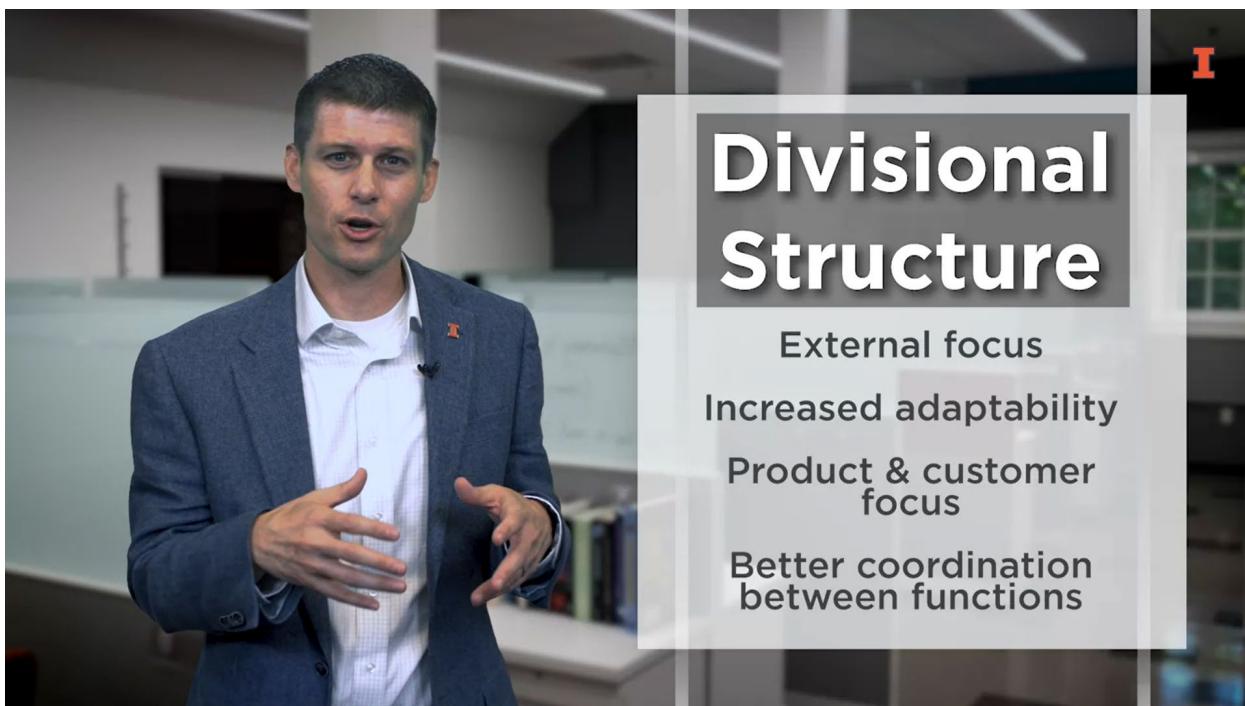
companies choose to organize in this manner, for example Microsoft for many years operated in this way.



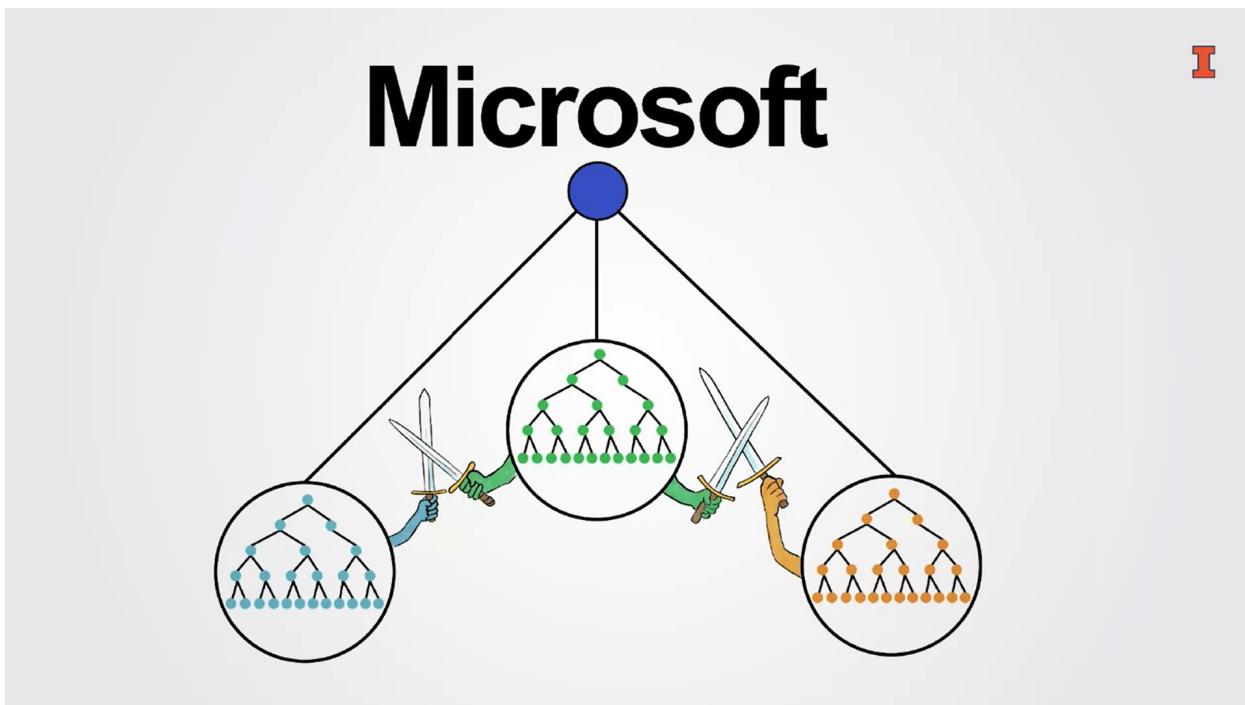
Back in 2005, Microsoft consolidated their businesses into three main product based divisions, one was called platforms and services, and that included Microsoft's main product Windows. A second division was called the Microsoft business division, this division focused on office products for businesses and consumers. Finally a third division focused on entertainment and devices, this is where you would find those working on the Xbox and mobile devices. So why would Microsoft choose to operate with these three separate divisions?



Well, it turns out that Divisional Structures are better suited for companies that want to focus on adaptability, at the time Microsoft was facing increased competition from a number of upstarts that were using online service offerings to compete against Microsoft's core products. By organizing in these three divisions, Microsoft could focus more on tailoring their product offerings to customer preferences. Take the entertainment division for example, at the time Xbox was competing directly with PlayStation and so by creating a separate entertainment business division, the thought was that this division could be more nimble and innovative because it could focus all of its resources on improving entertainment devices like the Xbox. So Microsoft would be able to respond more quickly to strategic moves or innovations from competitors like PlayStation.



Microsoft was trying to capture the potential advantages of a Divisional Structure, things like external focus, increased adaptability, more product and consumer focus, and better communication and coordination between functions. So that sounds like a great idea and just what Microsoft needed, right? Well remember that every structure has advantages and disadvantages.



This cartoon captures one of the main disadvantages that Microsoft experienced with the structure, these three divisions didn't cooperate very well at all. That's one of the reasons why

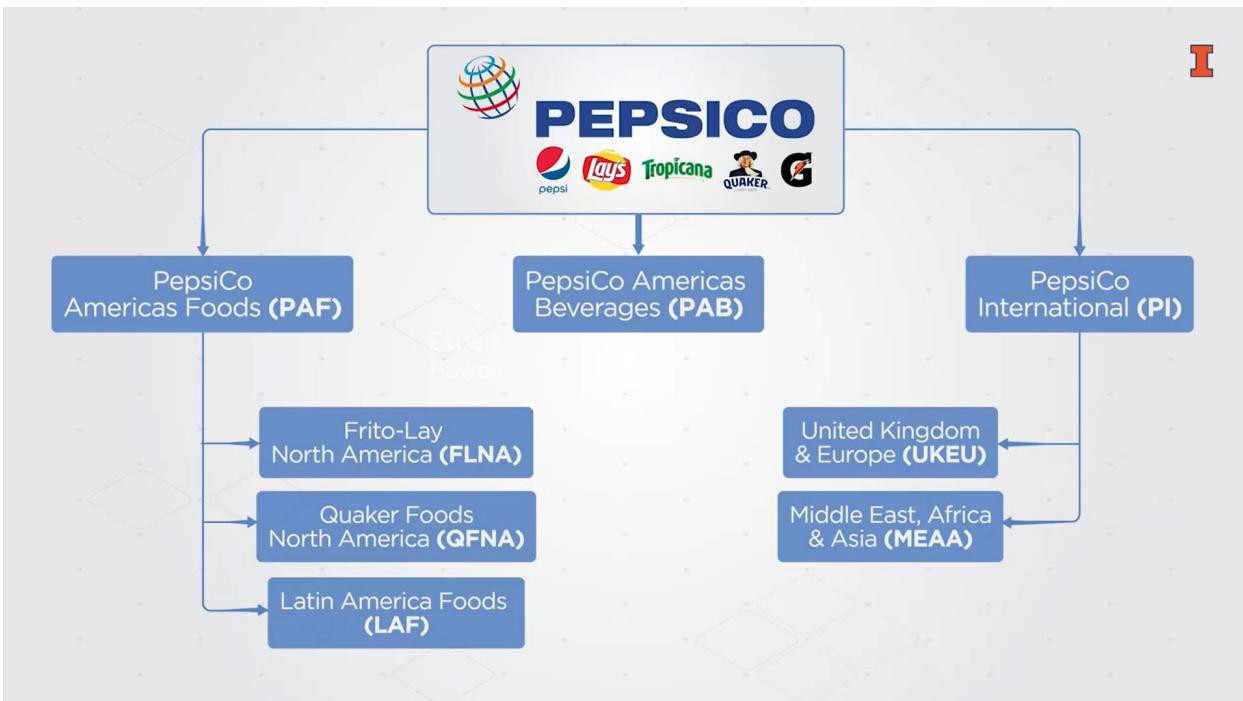
Microsoft for a long time had a really hard time offering an integrated line of products and services that could work together seamlessly. And a competitive culture developed, where individual business units fought for resources and looked after the interests of the business unit and not necessarily the interest of the company as a whole now, this is not uncommon.



In Divisional Structures there's often a lack of coordination between divisions, some of the other potential drawbacks include a lack of consistency and quality across the divisions. Divisional Structure is also tend to be less efficient because they require a duplication of functions in each of the divisions. This can also lead to less deep functional expertise.



Now there are other ways to create a Divisional Structure besides organizing around products. If you operate in different geographic areas, you might create distinct divisions based on location, such a structure would allow you to tailor each division to the different contextual factors, that would be found in each geographic location.



So here's an organization chart from PEPSICO, notice that they have some divisions based on product, but are also organized according to different regions of the world. This allows Pepsi to

tailor their product offerings to different customer tastes and preferences rather than having a one-size-fits-all model.



Now a third way to organize divisions, is to organize around different customer groups or what we'll call markets. So let's say that you have a business that sells to consumers, businesses, and educational institutions, so you could set up divisions around those three market segments. Now similar to product-based divisions both geographic, and market-based divisions will have advantages things like customer focus, and adaptability, but they'll also have disadvantages things like being less efficient and coordination across the divisions.



Remember Contingency Theory says, that the best structure depends on the context that the firm operates in. So what kind of a context would be most appropriate for a Divisional Structure?



Well Divisional Structures usually make sense for larger firms with many products or services, or for firms that serve distinct markets and operate in geographic locations where customer needs and wants are quite different across locations. Divisional Structures work best in more complex in fast changing environments, and for firms whose most important outcomes include product innovation, customer satisfaction, and an ability to adapt. A Divisional Structure is not

right for every company, but in the right set of circumstances, it can be a powerful tool that can facilitate organizational success.

Lesson 2-5

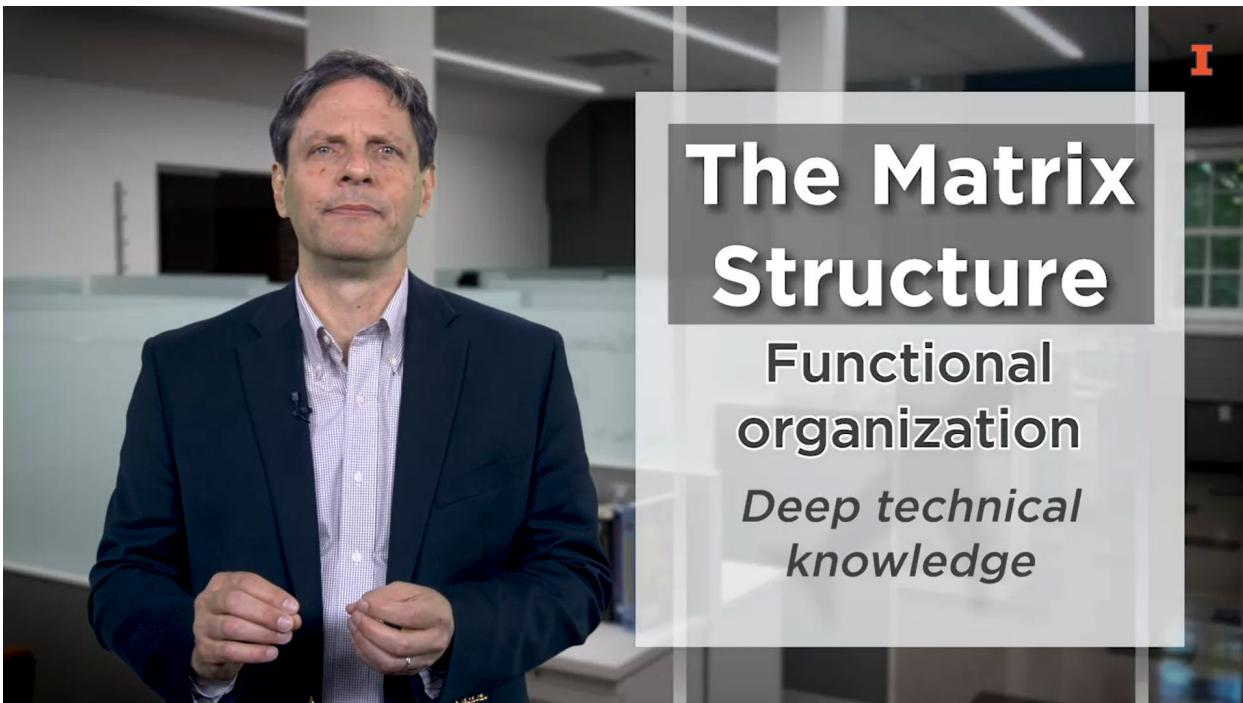
[Lesson 2-5.1: Matrix Structure](#)



So we're here to talk about The Matrix Structure. Now, some of you may have seen the movie The Matrix. Now, this is not that, it's all reality-based. But we're still going to have to see if companies get stuck in The Matrix. Well, anyway, to understand why this intriguing and useful structure came about, let's look first at two examples.



So first imagine you work for Boeing developing an airliner. Boeing often has multiple large airliners going each one time critical and complex. So you naturally want everyone to report up through the appropriate project manager. You're building a project-based organization, then that'll keep everyone's focus squarely on their project. But you also will want each airliner project to draw on expertise developed from other ones.



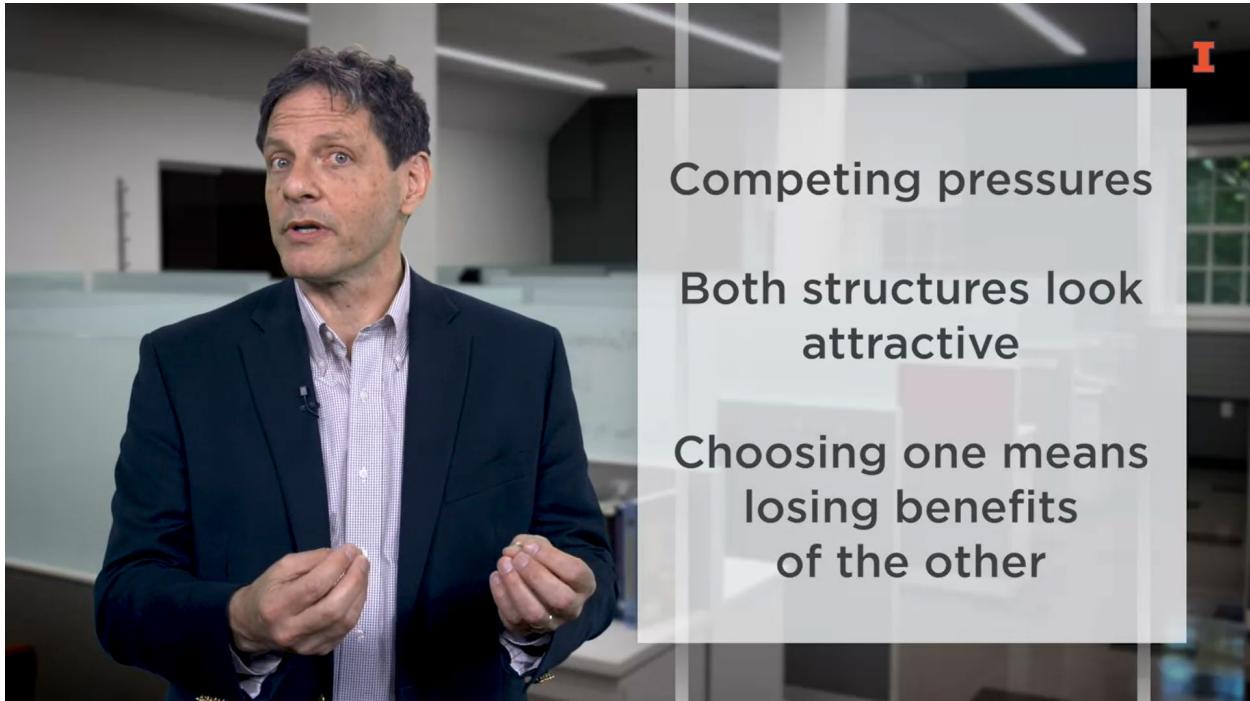
For example, in the electrical and control systems, deeply technical areas, that points instead towards a functional organization with its advantage of deep technical knowledge, okay?



Second example, imagine you're at Procter & Gamble the global consumer products company. And let's say you're a product manager in Germany. German markets are going to determine your products success, so you're going to report up through the country manager. That is you might think you want to country based divisional organization to allow you to focus on that specific country environment.

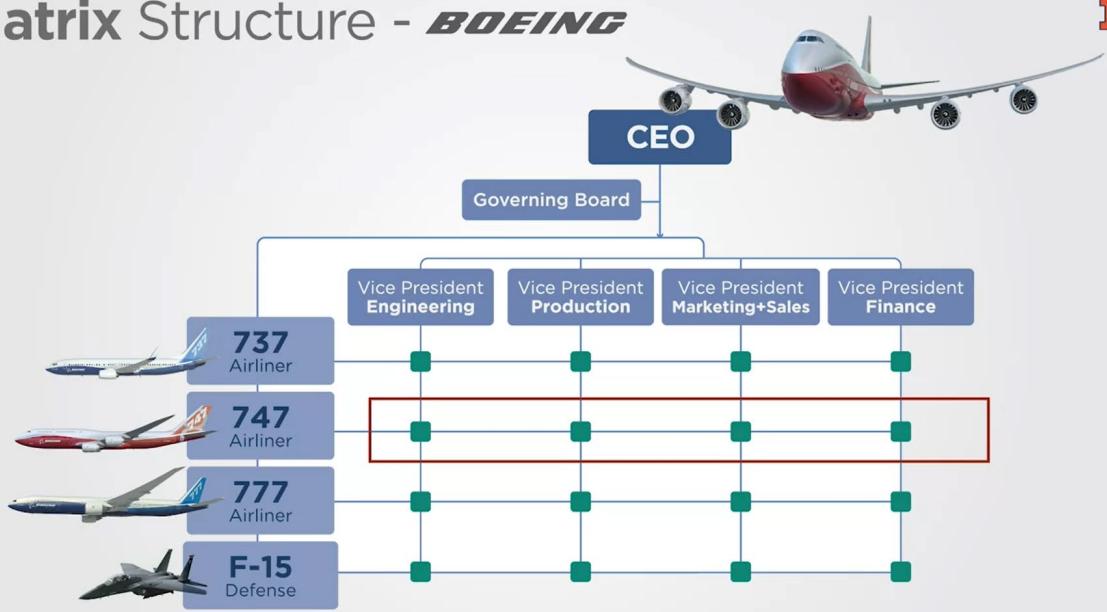


But at the same time, it's hugely valuable to connect closely to the global product experts because part of our whole advantage is our global scope and brand. So that would point to a different way of organizing, a product-based divisional organization.



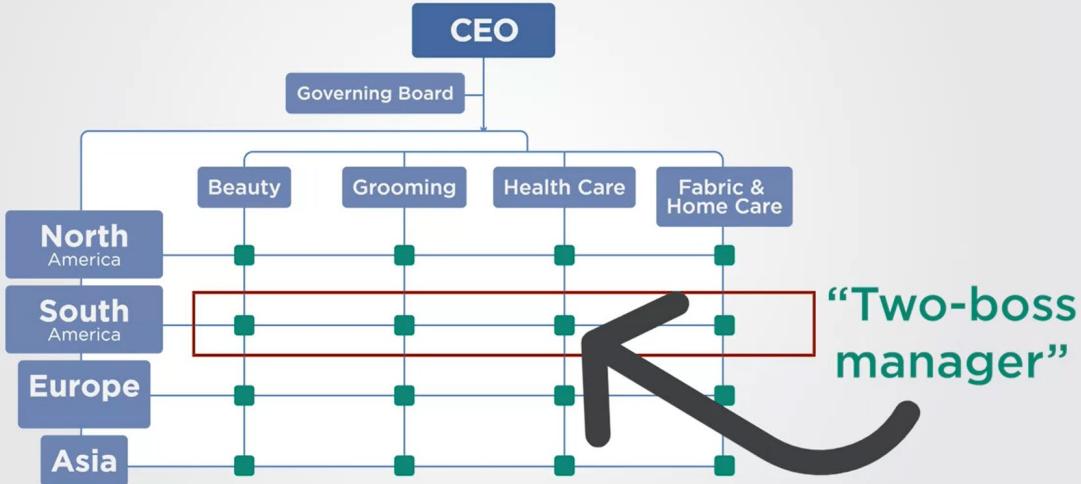
So each case is quite different on the surface, but fundamentally, they are the same in the sense that Boeing and P&G are each facing competing pressures. And so for each company, there are two different organizational structures that look attractive, but whichever way they choose, they seem to lose something important. Procter & Gamble used country based divisions for instance. They'd risk each country becoming a fiefdom and losing their global scope advantage. Now, these are both real cases, so what did they do? Well, both company use what is called The Matrix Structure. So what is this Matrix? Basically, the idea is you set up two hierarchies instead of the usual single one. And your goal is to get the benefits of each hierarchy.

Matrix Structure - **BOEING**



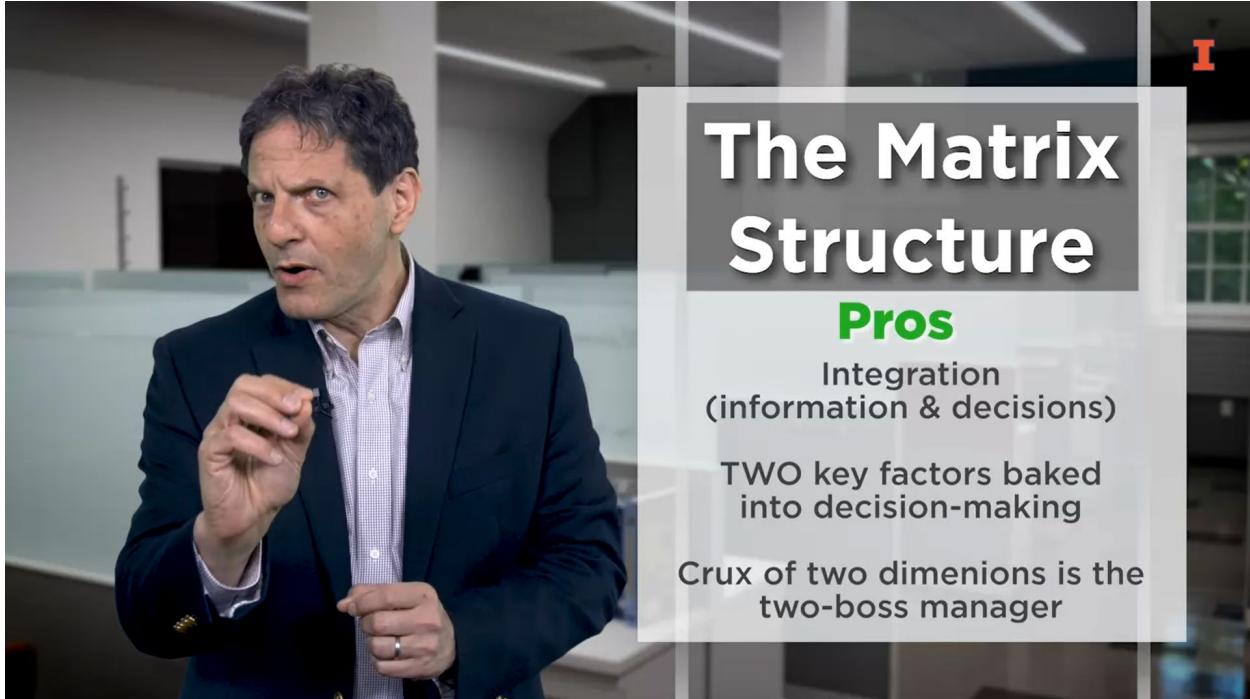
So in the Boeing example, you'd set up a project based hierarchy to get the benefits of focusing on each airliner project. But you also set up a functional hierarchy to get the benefits of deep functional expertise. Is this dual hierarchy approach is where the Matrix name comes from, as you can see in the diagram.

Matrix Structure - **P&G**

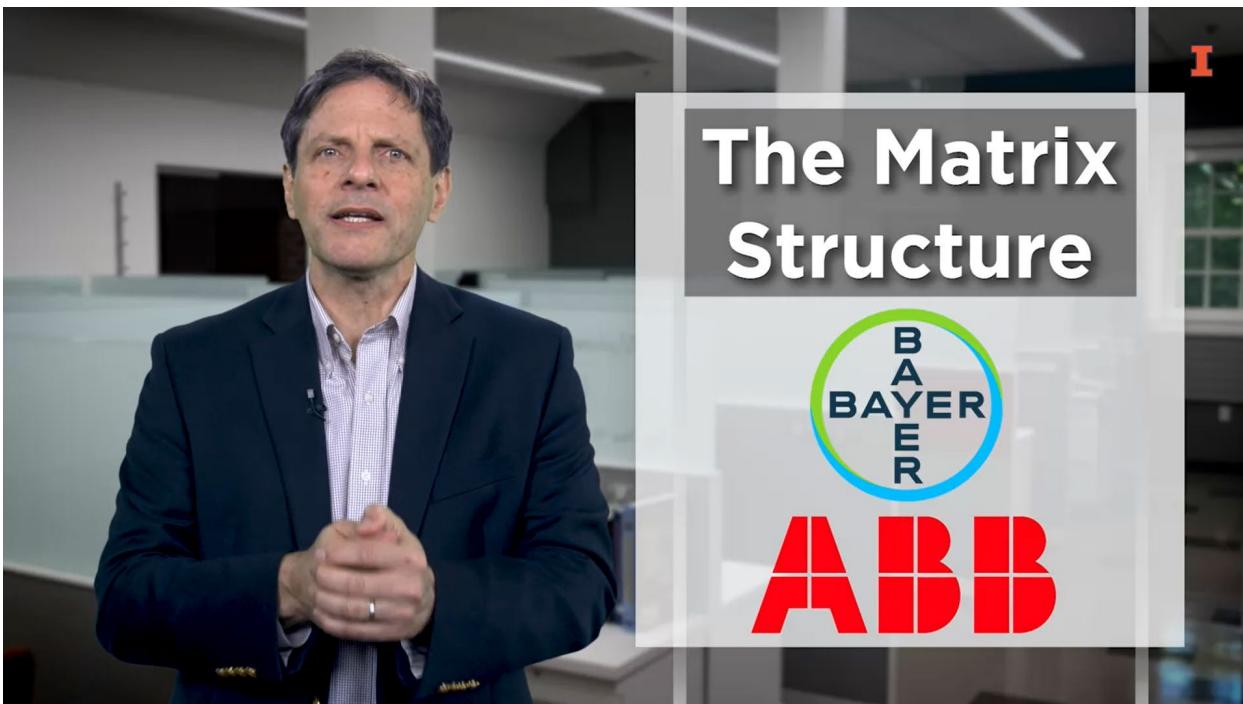


We'll now take the P&G example. You set up a country based hierarchy, you get the benefits of focus on that country's environment. But you also set up a product-based hierarchy and you get the advantage of global scope and branding. Now, in any Matrix, there is a key person, a key

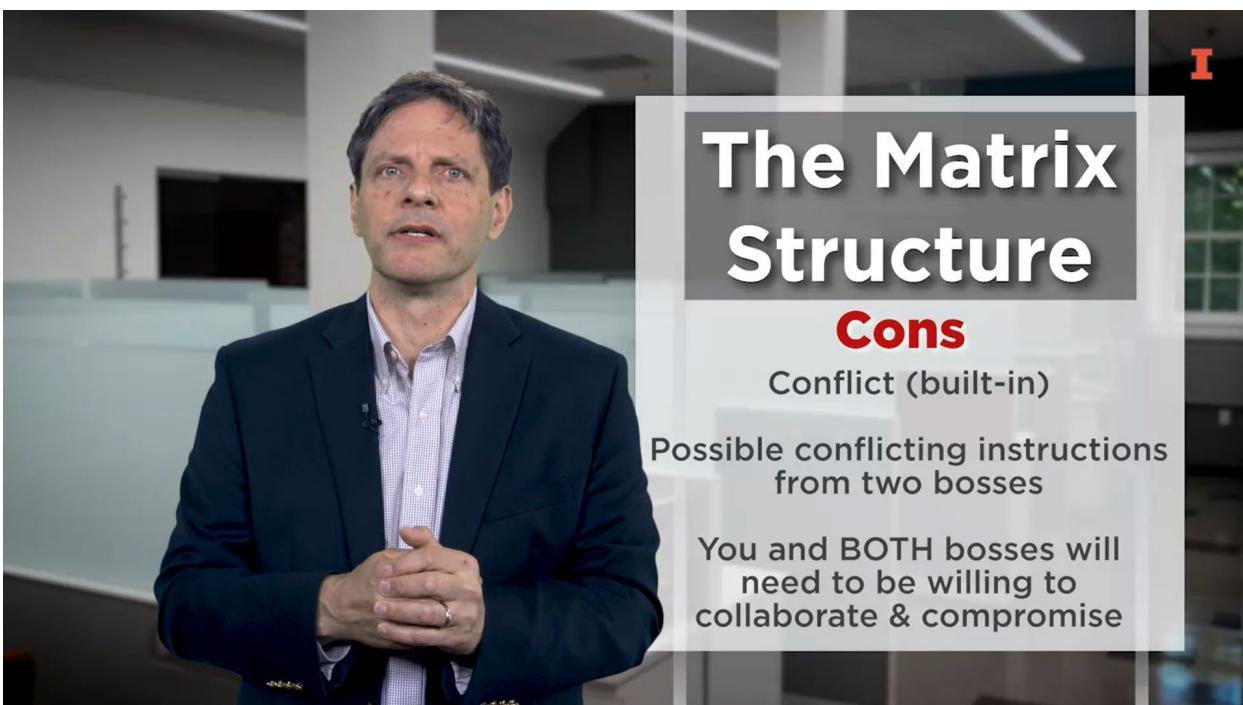
position in the P&G example here, it's the product manager in the country. That's where the two hierarchies, the country one and the product one, that's where they meet. And so the country product manager is known as a two boss manager because they have two bosses, and they report up through to hierarchies, that's the essence of the Matrix.



And so let's talk more about what the advantage is here. So at a conceptual level the promises of integration, integration of information, integration of decisions. Decisions aren't just driven by sales over RND, or by functional priorities, or project priorities, two key dimensions are baked into decision-making. As the P&G example shows regarding country needs and product needs. Or the Boeing example shows regarding project priorities and functional priorities. The structure builds in a place to integrate two key dimensions, with the crux of it being that two-boss manager.

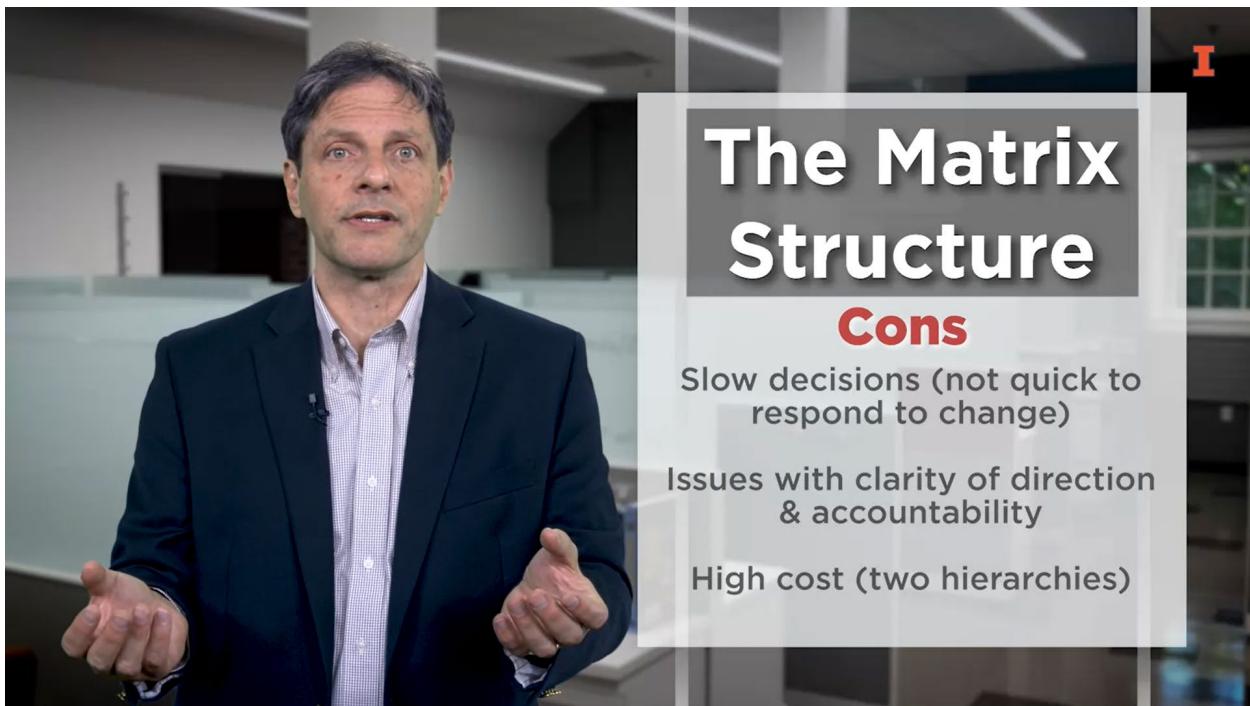


So how does this work in practice? Well, some companies have reported great success. It's been given credit for rejuvenating large global multi-product firms. For instance Bayer and ABB, where the complexity of different products and geographies overwhelmed functional organizations. But others have reported The Matrix is difficult to make work well. Why do they have problems with it?

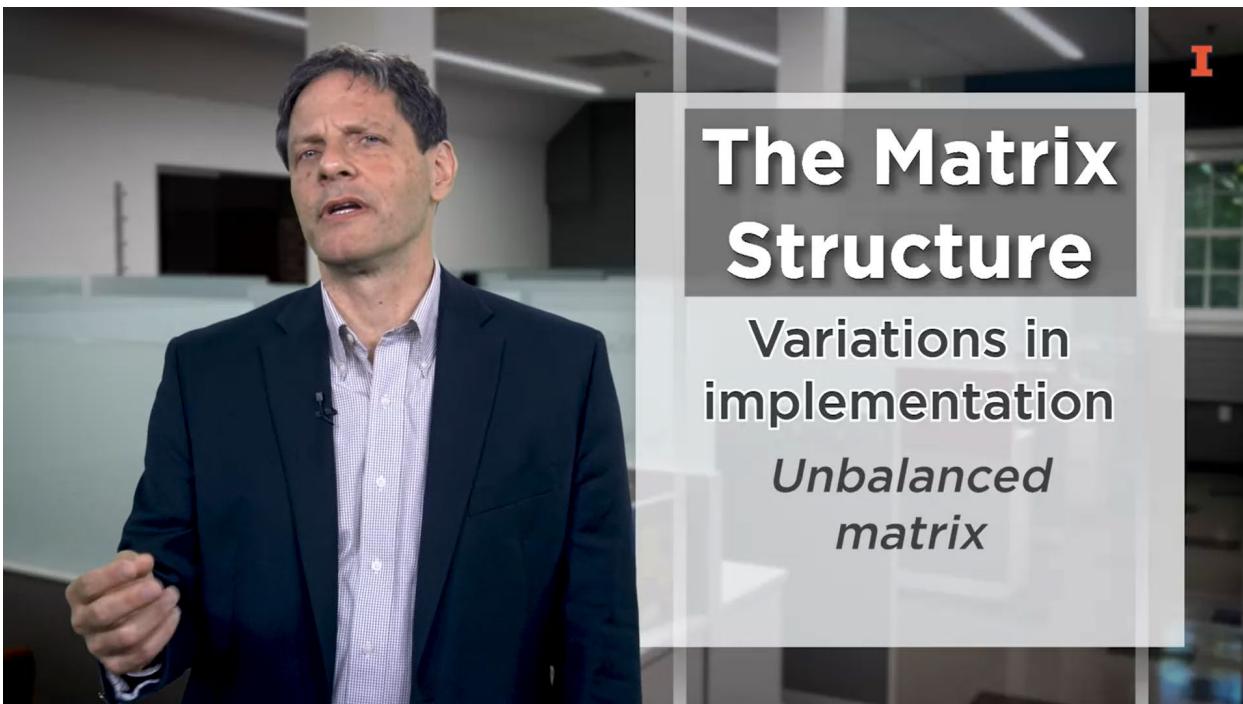


Well, the first thing is conflict. The Matrix builds in conflict, and to see this, consider that to boss manager. So imagine you're Proctor & Gamble country product manager. But now you're getting

conflicting instructions from your bosses because they have different priorities. Global product manager might want you to send a couple of application engineers back to the USA to help finish development of a key project. But the country manager, your second boss, might instead want you to deploy those application engineers to help close sales at major customers in Germany. So you are caught in the middle of a perfectly natural but very difficult situation here. To properly resolve it, means you and both bosses will have to agree in some way whether through collaboration or compromise. So both you and your bosses will need to be very good at resolving conflicts. So you'll have to be willing to collaborate intensively and be willing to put in the time to do that. That's the core issue The Matrix brings up, this conflict. Some say The Matrix is more a state of mind than a structure. If your managers are comfortable working in that multiple complex conflict heavy environment, that is they're comfortable with collaboration, it'll probably do fine and bring those unique benefits, if not, it can be ineffective and frustrating. There are other concerns, some of which are related to the one just mentioned.



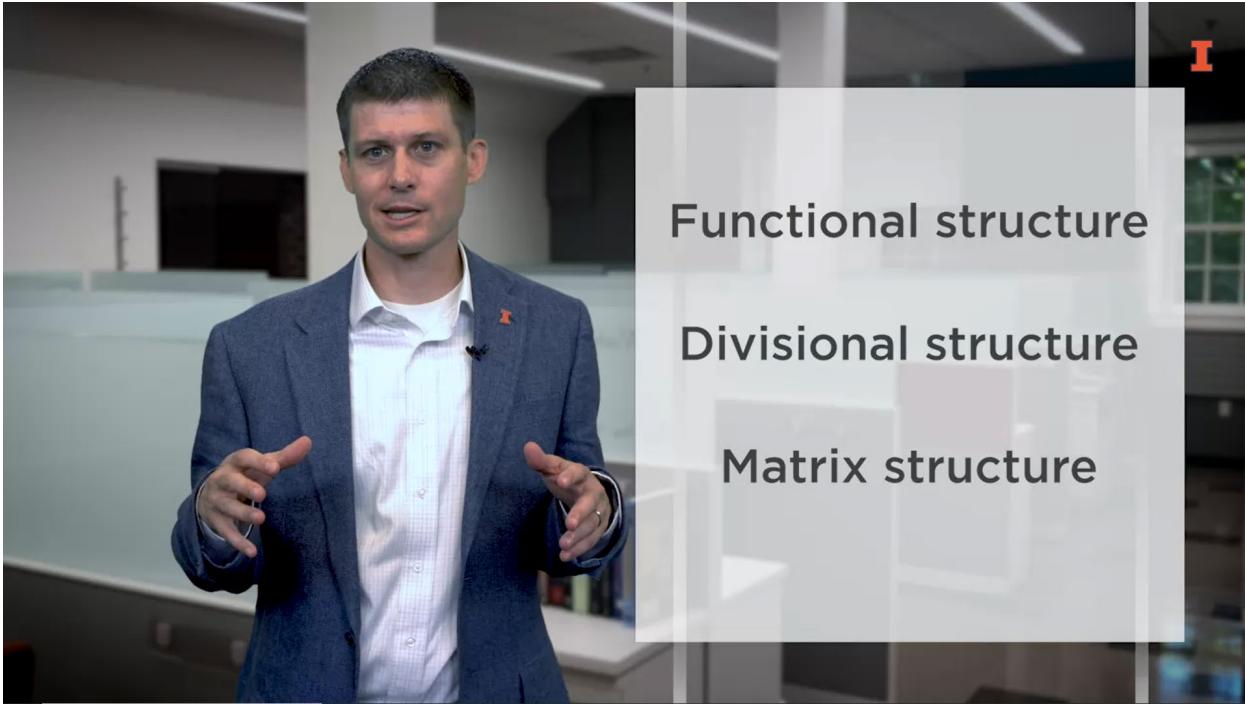
You can also imagine how the two boss environment can result in slow decisions as we resolve conflict, get everybody together and so on. Difficulties responding to change because both sides of the hierarchy have to agree and perhaps revisit hard-fought compromises about priorities and direction. Metaphorically, things can get stuck in The Matrix. There can also be trouble with clarity of direction and accountability if conflict is just dealt with through compromise. And The Matrix could be seen as high cost because there's two hierarchies which do appear as overhead costs. So these are some of the reasons The Matrix structure has had kind of boom and bust existence. It gained considerable popularity in the 80s and 90s, fell out of favor as companies tried it and had initial successes, but then found it exhausting and expensive. One author says The Matrix kind of went into stealth mode only to resurge more recently as leaders became more comfortable with the kind of collaborative management that The Matrix requires.



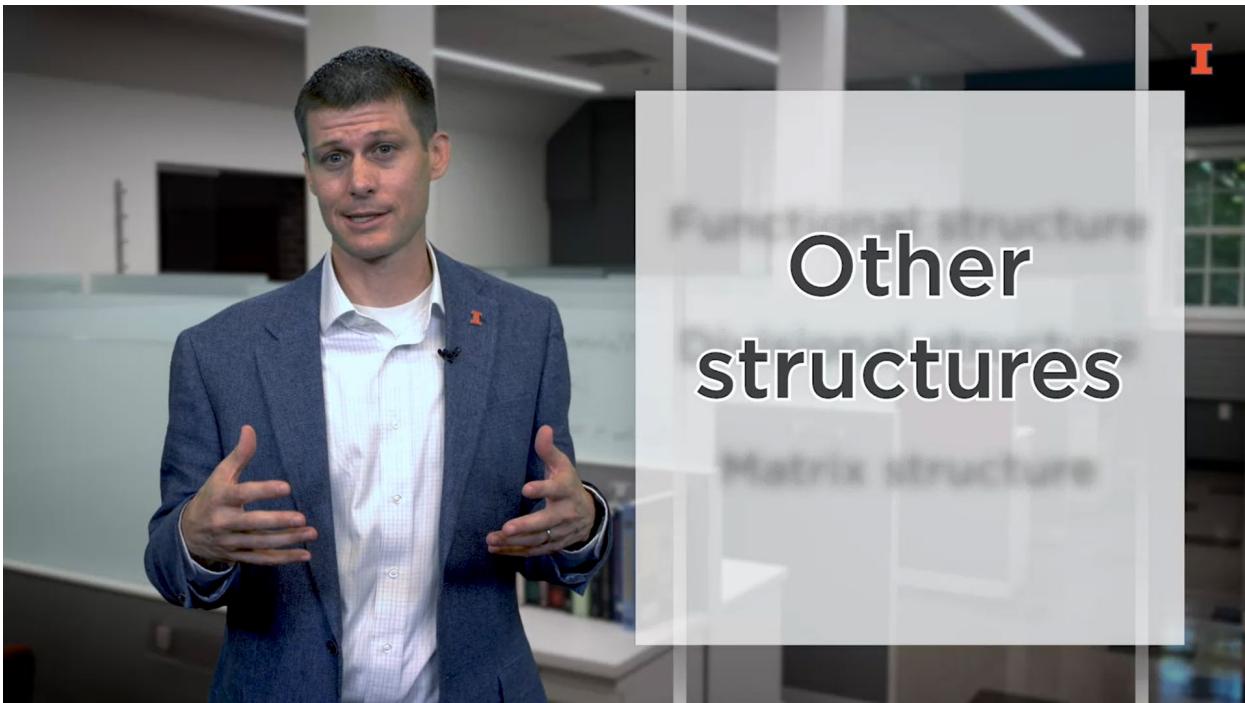
So before we close, there's another important point to make and that is that not all Matrix structures are the same, there's variations in how they're implemented. So far, I've been talking about what's known as the balance Matrix where both hierarchies have roughly equal influence, often, and this seems to happen quite a bit recently, firms implement what is called an Unbalanced matrix. This is where one side of the hierarchy is more dominant and the other is subordinate. For instance, in the Boeing example, the project side might be dominant so the project's needs are given priority in the last instance. But the functional side, nevertheless has a strong voice in how decisions are made. The advantage of that unbalanced approach is that deadlocks and paralysis from conflict are greatly reduced, while you still have a chance to meaningfully integrate information and decisions across the two dimensions. When people talk about matrixing you in, they are loosely referring to this idea of an Unbalanced Matrix. So there you have it, The Matrix Structure, not quite as much fun as the movie but an option that may fit the needs of companies that are facing competing pressures on different dimensions.

Lesson 2-6

Lesson 2-6.1: Other Structures



We've discussed some of the most common types of organizational structures, including functional, divisional, and matrix structures.



In this video, we'll be discussing some of the other structures that you're likely to see in organizations.



Now, some organizations use what is referred to as a network structure. In a network structure, the firm focuses on what it does best while outsourcing other key tasks to outside partners.



For example, let's say you have a fashion clothing company. Some of the key tasks that need to be done include product design, product manufacturing, advertising, and distribution. In a

network organizational design, the firm would focus on one or more of these key tasks where it can add the most value and then outsource the rest. So in our fashion company example, the firm may keep product design in-house, while partnering with other firms to manufacturer the clothing and maybe hire an external agency to do advertising. Why would a firm be organized like this?



Network Structure

Pros

- Extremely flexible
- Low cost
- Allows firm to focus on what it does best

Well, this kind of structure is extremely flexible and low-cost, and allows a firm to focus on the things that it does best.



Network Structure

Cons

Loss of control for the focal organization

Network designs weaken employee loyalty

On the flip side though, network structures cause a real loss of control for the focal organization, and network designs tend to weaken employee loyalty.



Team-Based/ Project-Based Structures



Teams
Projects

Other organizations are structured around teams and projects. Oftentimes, you will see a layer of hierarchy at the top with different types of teams based around projects underneath. Now, these team-based structures are extremely adaptable because depending on the project, you can take individuals from different functional areas to work on a particular project. As firms try to become more adaptive and nimble, team-based structures have gained in popularity.



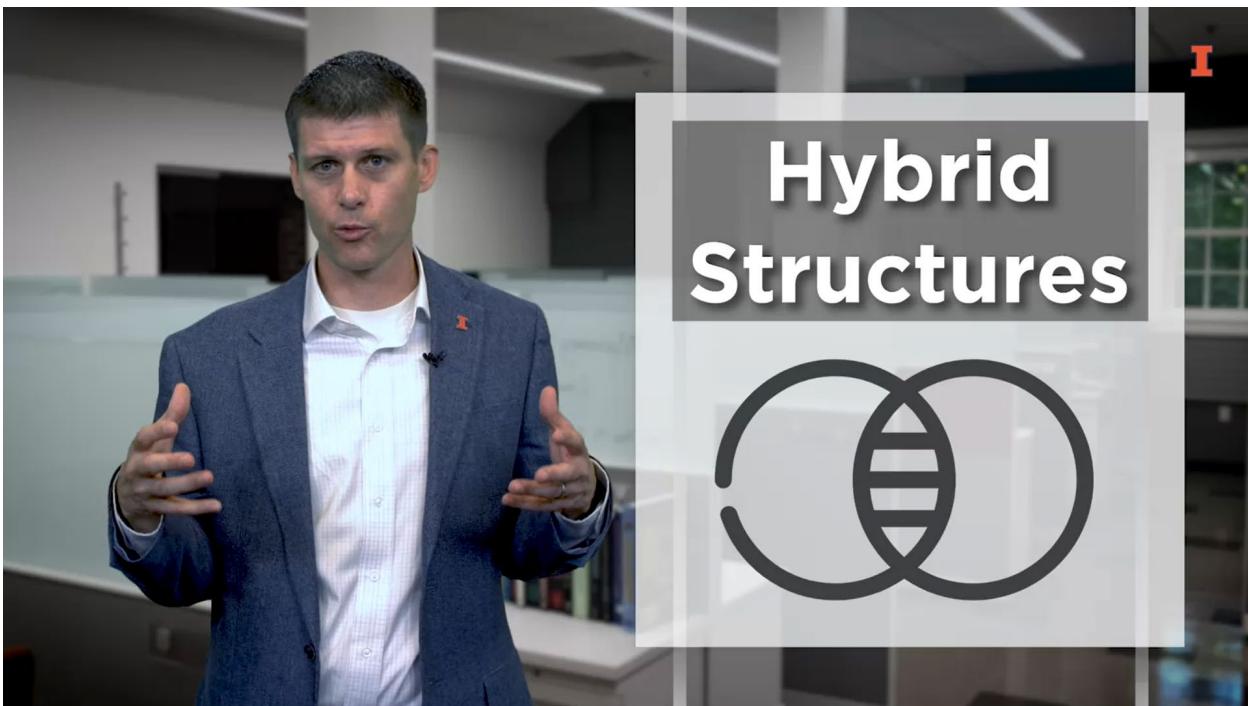
You may have also heard about some firms that claim to get rid of hierarchy altogether by introducing manager-free structures.



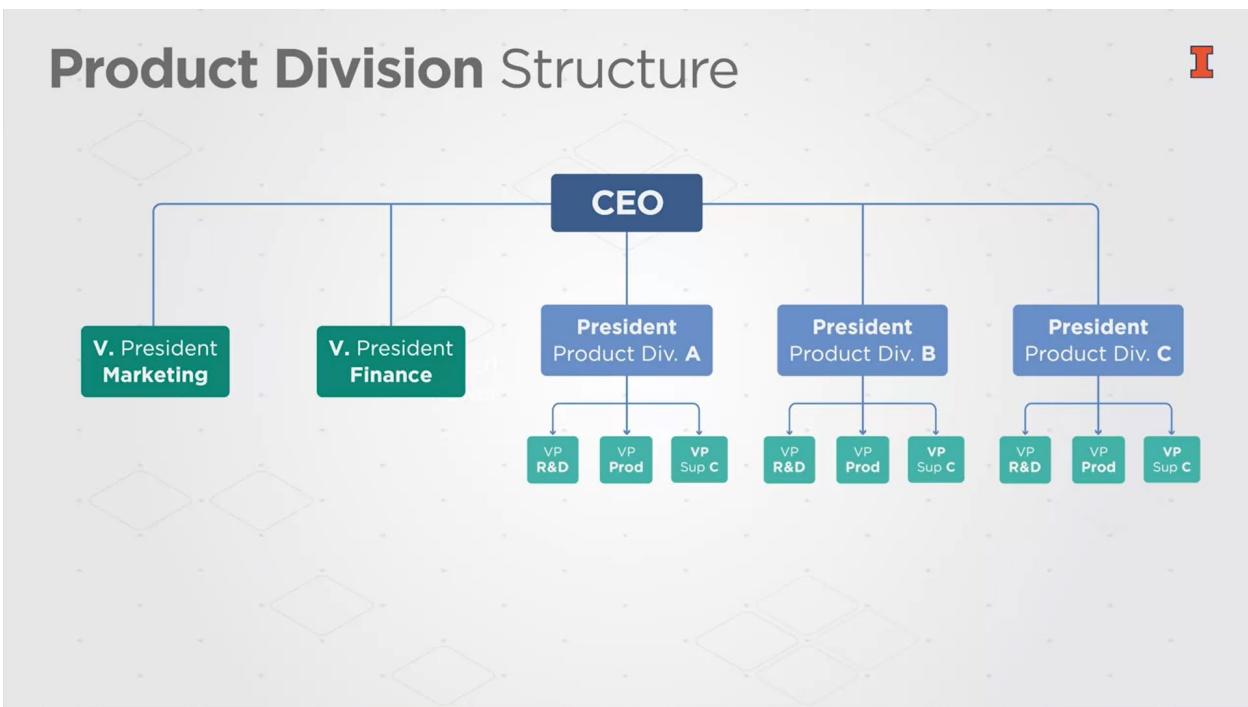
So for example, Zappos, which started as an online shoe retailer, they've implemented something that they call holacracy, which is patterned after the way a community is governed rather than a traditional organizational structure.



Now, the purpose of this design is to create a decentralized, flat organization that can respond quickly to the external environment. However, innovative structures like this can sometimes be confusing and even frustrating for many employees. So when Zappos adopted this holacracy model in 2015, about 15 percent of their workforce took a buyout offer from Zappos rather than continue working under this new design. With those who did remain, holacracy seems to work pretty well. It's clear that firms will continue to experiment with different ways of organizing. You'll probably continue to see unique structures and designs tattered as the next great advance that will make organizations leaner, more adaptive, and more effective than ever before. Just make sure and take those claims with a grain of salt. So far, that doesn't appear to be a workable substitute for hierarchy in traditional means of structure in most organizations.

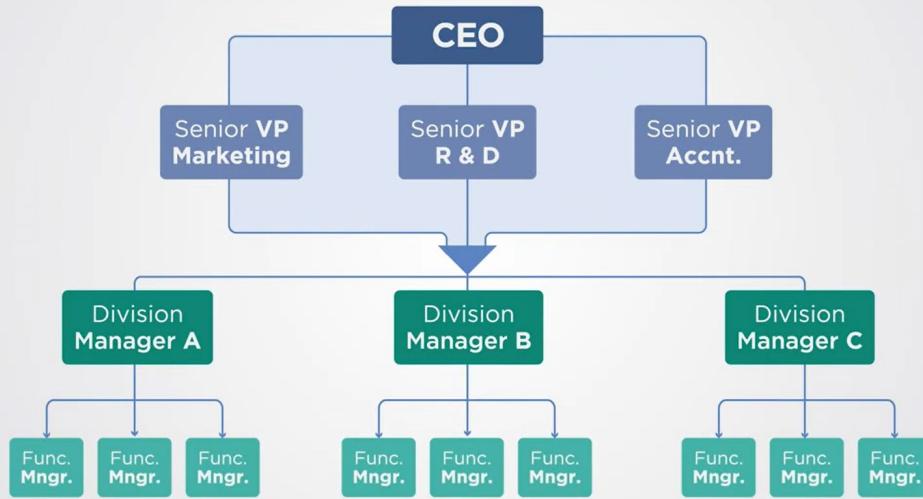


Now, the last structure that we'll talk about is what is called a hybrid structure. This simply means that many firms use some combination of the structures that we've been discussing throughout this module.



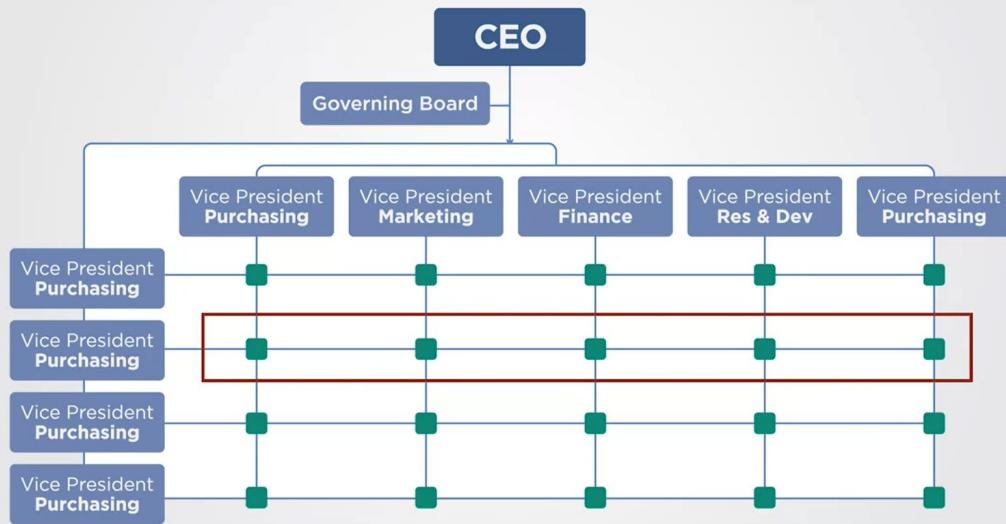
So you might have a firm that has a functional layer of roles and then product-based divisions,

Multidivisional Structure



or you could have a firm that looks like a traditional divisional structure, but has centralized finance and maybe human resource functions.

Matrix Structure



You can have a firm that has a matrix structure with some centralized functions. Firms that implement hybrid structures recognize the fact that all of the structures that we've been discussing have advantages and disadvantages. So by implementing hybrid structures, managers hope to create structures that are well-suited to the contexts that their firms operate in, and that can exploit the advantages of multiple different types of structures. So for example,

we can get efficiencies and deep functional expertise by centralizing certain functional groups while maintaining agile product-based divisions that can respond to competition. Remember, there's not one best way to structure an organization.



The right structure depends on the context. So to the extent that you understand key contextual factors of your organization, you'll be able to design your organization in a way that's more likely to succeed.