Organizational Structure and Design (Organizing)
Designing Organizational Structure

**Organizational Structure** - the formal arrangement of jobs within an organization.
Designing Organizations

Organizational design provides a framework of how a group of people gets the job done.
The Process of Organizing
Contd...

Differentiation

Integration

- Determining work activities and dividing up tasks
- (division of labor)
- Grouping jobs and employees
- (departmentalization)
- Assigning authority and responsibilities
- (delegation)
Purpose of Organizing

- Establishes relationships among individuals, groups and departments
- Establishes formal line of authority
- Allocates resources
Six Key Elements of Organizational Design

- Work specialization
- Departmentalization
- Chain of command
- Span of control
- Centralization and decentralization
- Formalization
Work Specialization

- The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.

- Overspecialization can result in human diseconomies such as boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.
Economies and Diseconomies of Work Specialization
Departmentalization

- **Division of labour** creates **work specialization** which further needs coordination. This coordination is facilitated by **grouping specialists** together in departments.

- **Departmentalization** is an aspect of organizational design that includes the subdivision of a business into units based on their function or other criteria.
### Departmentalization by Type

<table>
<thead>
<tr>
<th>Department Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional</td>
<td>Based on the primary functions performed</td>
</tr>
<tr>
<td>Product</td>
<td>Based on the goods/services produced or sold</td>
</tr>
<tr>
<td>Process</td>
<td>Based on the production process used</td>
</tr>
<tr>
<td>Customer</td>
<td>Based on the primary type of customer served</td>
</tr>
<tr>
<td>Geographic</td>
<td>Based on the geographic segmentation of organizational units</td>
</tr>
</tbody>
</table>
Departmentalization contd..

Functional Departmentalization

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Efficiencies from putting together similar specialties and people with common skills, knowledge and orientations</td>
<td>• Poor communication across functional areas</td>
</tr>
<tr>
<td>• Coordination within functional area</td>
<td>• Limited view of organizational goals</td>
</tr>
<tr>
<td>• In-depth specialization</td>
<td></td>
</tr>
</tbody>
</table>
Departmentalization contd..

Product Departmentalization

- Tide
- Pampers
- Charmin
- Pringles

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Allows specialization in particular products and services</td>
<td>• Duplication of function</td>
</tr>
<tr>
<td>• Managers can become experts in their industry</td>
<td>• Limited view of organizational goals</td>
</tr>
<tr>
<td>• Closer to customers</td>
<td></td>
</tr>
</tbody>
</table>
Departmentalization contd..

Geographical Departmentalization

- Vice President for Sales
  - Sales Director Western Region
  - Sales Director Southern Region
  - Sales Director Midwestern Region
  - Sales Director Eastern Region

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• More effective and efficient handling of specific regional issues that arise</td>
<td>• Duplication of function</td>
</tr>
<tr>
<td>• Serve needs of unique geographic markets better</td>
<td>• Can feel isolated from other organizational areas</td>
</tr>
</tbody>
</table>
Departmentalization contd..

Process Departmentalization

- State Motor Vehicle Office
  - Motor Vehicles Division
  - Licensing Department
  - Treasury Department

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• More efficient flow of work activities</td>
<td>• Can only be used with certain types of products</td>
</tr>
</tbody>
</table>
Departmentalization contd..

Customer Departmentalization

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Customers need and problems can be met by specialists</td>
<td>- Duplication of functions</td>
</tr>
<tr>
<td></td>
<td>- Limited view of organizational goals</td>
</tr>
</tbody>
</table>
Chain of Command (cont.)

- **Chain of Command** - the continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization—clarifies who reports to whom.

- **Authority** - the rights inherent in a managerial position to tell people what to do and to expect them to do it.

- **Responsibility** - the obligation or expectation to perform.

- **Unity of Command** - the concept that a person should have one boss and should report only to that person.
Span of Control

- The number of subordinates a manager can effectively and efficiently direct

<table>
<thead>
<tr>
<th>Organization Level</th>
<th>Members at Each Level Assuming Span of 4</th>
<th>Members at Each Level Assuming Span of 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Highest)</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>16</td>
<td>64</td>
</tr>
<tr>
<td>4</td>
<td>64</td>
<td>512</td>
</tr>
<tr>
<td>5</td>
<td>256</td>
<td>4,096</td>
</tr>
<tr>
<td>6</td>
<td>1,024</td>
<td></td>
</tr>
<tr>
<td>(Lowest)</td>
<td>4,096</td>
<td></td>
</tr>
</tbody>
</table>

Span of 4:
- Employees: = 4,096
- Managers (level 1–6) = 1,365

Span of 8:
- Employees: = 4,096
- Managers (level 1–4) = 585
## Span of Control

<table>
<thead>
<tr>
<th>Narrow Span</th>
<th>Broad Span</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close supervision &amp; directed control.</td>
<td>Overloaded supervisors, loss of control.</td>
</tr>
<tr>
<td>Many levels of management, high cost of management</td>
<td>Low management overhead, better operational cost and profit margins.</td>
</tr>
<tr>
<td>staff.</td>
<td></td>
</tr>
<tr>
<td>Less independence and decision authority for</td>
<td>Encourages empowerment through delegation of authority and decision making.</td>
</tr>
<tr>
<td>subordinates.</td>
<td></td>
</tr>
<tr>
<td>Large distance between top management &amp; bottom staff.</td>
<td>Employees have better communication with the top management.</td>
</tr>
<tr>
<td>Poor executive communication and visibility.</td>
<td></td>
</tr>
</tbody>
</table>
Factors Influencing Width of Span of Control

- Skills and abilities of the manager
- Employee characteristics
- Characteristics of the work being done
- Similarity of tasks
- Complexity of tasks
- Physical proximity of subordinates
- Standardization of tasks
- Sophistication of the organization’s information system
- Strength of the organization’s culture
- Preferred style of the manager
Centralization & Decentralization

• Centralized decision making
  ▫ Concentration of power/authority
  ▫ Slow response time
  ▫ Stakeholder’s satisfaction ??

• Decentralized decision making
  ▫ Delegation of Power
  ▫ Involvement
## Centralization & Decentralization

<table>
<thead>
<tr>
<th>More Centralization</th>
<th>More Decentralization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment is stable.</td>
<td>Environment is complex, uncertain.</td>
</tr>
<tr>
<td>Lower-level managers are not as capable or experienced at making decisions as upper-level managers.</td>
<td>Lower-level managers are capable and experienced at making decisions.</td>
</tr>
<tr>
<td>Lower-level managers do not want a say in decisions.</td>
<td>Lower-level managers want a voice in decisions.</td>
</tr>
<tr>
<td>Decisions are relatively minor.</td>
<td>Decisions are significant.</td>
</tr>
<tr>
<td>Organization is facing a crisis or the risk of company failure.</td>
<td>Corporate culture is open to allowing managers a say in what happens.</td>
</tr>
<tr>
<td>Company is large.</td>
<td>Company is geographically dispersed.</td>
</tr>
<tr>
<td>Effective implementation of company strategies depends on managers retaining say over what happens.</td>
<td>Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.</td>
</tr>
</tbody>
</table>
Formalization

- **Formalization** - the degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures.

  - Highly formalized jobs offer little discretion over what is to be done.
  
  - Low formalization means fewer constraints on how employees do their work.
Mechanistic Versus Organic Organizations

**Mechanistic**
- High specialization
- Rigid departmentalization
- Clear chain of command
- Narrow spans of control
- Centralization
- High formalization

**Organic**
- Cross-functional teams
- Cross-hierarchical teams
- Free flow of information
- Wide spans of control
- Decentralization
- Low formalization
Contingency Factors

- Structural decisions are influenced by:
  - Overall strategy of the organization
  - Size of the organization
  - Technology use employed by the organization
  - Degree of environmental uncertainty
Contingency Factors (cont.)

• **Strategy and Structure**
  - Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change.

• **Strategy Frameworks:**
  - **Innovation**
    - Pursuing competitive advantage through meaningful and unique innovations favors an organic structuring
  - **Cost minimization**
    - Focusing on tightly controlling costs requires a mechanistic structure for the organization
Contingency Factors (cont.)

• Size and Structure
  ▫ As an organization grows larger, its structure tends to change from organic to mechanistic with increased specialization, departmentalization, centralization, and rules/regulations.
Contingency Factors (cont.)

• Technology and Structure
  ▫ Organizations adapt their structures to their technology.
  ▫ Woodward’s classification of firms based on the complexity of the technology employed:
    • **Unit production** of single units or small batches
    • **Mass production** of large batches of output
    • **Process production** in continuous process of outputs
  ▫ Routine technology = mechanistic organizations
  ▫ Non-routine technology = organic organizations
Contingency Factors (cont.)

• Environmental Uncertainty and Structure
  ▫ Mechanistic organizational structures tend to be most effective in stable and simple environments.
  ▫ The flexibility of organic organizational structures is better suited for dynamic and complex environments.
Traditional Designs

• Simple structure
  • Low departmentalization, wide spans of control, centralized authority, little formalization
Traditional Designs

- **Functional structure**
  - Departmentalization by function
  - Operations, finance, marketing, human resources, and product research and development
Traditional Designs

• Divisional structure
  • Composed of separate business units or divisions with limited autonomy under the coordination and control of the parent corporation
Matrix Organizational Structure

- The reporting relationships are set up as a grid, or **matrix**, rather than in the traditional hierarchy. In other words, employees have **dual reporting relationships** - generally to both a functional manager and a product manager.
Matrix Organizational Structure
Traditional Organizational Designs

Simple Structure
- Strengths: Fast; flexible; inexpensive to maintain; clear accountability.
- Weaknesses: Not appropriate as organization grows; reliance on one person is risky.

Functional Structure
- Strengths: Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment); employees are grouped with others who have similar tasks.
- Weaknesses: Pursuit of functional goals can cause managers to lose sight of what’s best for the overall organization; functional specialists become insulated and have little understanding of what other units are doing.

Divisional Structure
- Strengths: Focuses on results—division managers are responsible for what happens to their products and services.
- Weaknesses: Duplication of activities and resources increases costs and reduces efficiency.
Strategic Business Units
Strategic Business Units

- Define Opportunity
- Perform Customer Needs Assessment
- Determine Overhead and Cost Structure
- Define Market's Size
- Define Gross Profit and Net Profit

Strategic Business Unit
The Boundaryless Organization

The large Hadron Collider (LHC)

- $6 Billion world’s largest particle accelerator 175 meters below ground, 27-kilometre ring of superconducting magnets

- Involves 2900 authors to prepare status reports
- Scientists from 34 countries use 10000 computers to process the data
The Boundaryless Organization

• Free from two kinds of boundaries:

  ▫ Internal Boundaries
    • Horizontal Boundaries imposed by work specialization and departmentalized structures
    • Vertical boundaries which separates employees into the hierarchical levels

  ▫ External Boundaries
    • Boundaries that separates organizations from its suppliers, customers, and other stakeholders
The Boundaryless Organization: Forms

• Virtual Organizations
  ▫ Consists of a small core group of full-time employees and outside specialists (contingent workforce) temporarily hired as need for the project.
  ▫ Employees can work without being physically present in the organization, e.g. social media designers etc.

• Network Organizations
  ▫ The company outsources most of the parts of organizational functions including manufacturing, distribution and sales. E.g cellphone units.
  ▫ At Boeing, head of development of 787 Dreamliner manages thousands of employees and some 100 suppliers at more than 100 sites in different countries.
Organizing for Collaboration

Internal Collaboration

• Cross Functional Teams
  ▫ Work beyond traditional boundaries

• Task Forces
  ▫ To work of specific problem

• Communities of Practice
  ▫ A group of people who shares a common concern, problems and provide their insights in that area on an ongoing basis
Organizing for Collaboration

• External Collaboration
  ▫ Open Innovation
  ▫ Strategic Partnerships

Benefits:
• Give customers what they want
• Allow organizations to respond to complex problems
• Provides ways to reduce costs and uncertainties in product development

Drawbacks:
• High demand on managing the process
• Greater need for flexibility
• Challenges in control and sharing of knowledge