Chapter 10

Organizational Structure and Design

Management

Chapter Outline

- Defining Organizational Structure
  - Discuss the traditional and contemporary views of work specialization
  - Describe each of the 5 forms of departmentalization
  - Explain cross-functional teams
  - Differentiate chain of command, authory, responsibility, and unity of command
  - Discuss the traditional and contemporary views of chain of command
  - Discuss the traditional and contemporary views of span of control

© Copyright McGraw-Hill. All rights reserved.

Chapter Outline (cont'd)

- Tell what factors influence the amount of centraliation and decentralization
- Explain how formalization is used in organizational design

• Organizational Design Decisions

- Contrast mechanistic and organic organizations
- Explain the relationship between strategy and structure
- Tell how organizational size affects organizational design
- Discuss Woodward's findings on the relationship of technology and structure

© Copyright McGraw-Hill. All rights reserved.

Chapter Outline (cont'd)

- Explain how environmental uncertainty affects organizational design

• Common Organizational Designs

- Contrast the three traditional organizational designs
- Explain team-based, matrix, and project structures
- Discuss the design of virtual, network, and modular organizations
- Describe the characteristics of a learning organization

© Copyright McGraw-Hill. All rights reserved.

A Manager's Dilemma

© Copyright McGraw-Hill. All rights reserved.

Defining Organizat

Organizing

Organizational Structure

- A vast factory complex ma bomb military
- A Canadian Customs and Revenue Agency
- Organizing
  - The process of creating an organization's structure
- Organizational structure
  - It's the formal arrangement of jobs within an organization
- Organizational design
  - A process that involves decisions about six key elements: work specialization, departmentalization, chain of command, span of control, etc

© Copyright McGraw-Hill. All rights reserved.

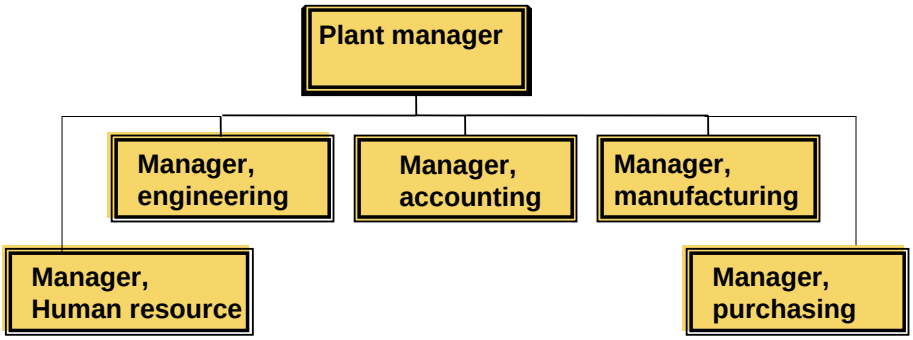
1.Work Specialization

- The degree to which tasks in an organization are divided into separate jobs, also known as division of labor
- Essence
  - An job is broken down into steps
  - Each step is compeleted by a different person
- During the first half of twentieth century, work specialization did increase productivity, but it is not as a source of ever-increasing productivity

© Copyright McGraw-Hill. All rights reserved.

2.Departmentalization

- The basis by which jobs are grouped together
  - Functional departmentalization
    - Groups jobs by functions performed



© Copyright McGraw-Hill. All rights reserved.

Departmentalization

- The basis by which jobs are grouped together
  - Product departmentalization
    - Groups jobs by product line
  - Geographical departmentalization
    - Groups jobs on the basis of territory or grography such as southern, midwestern, etc

© Copyright McGraw-Hill. All rights reserved.

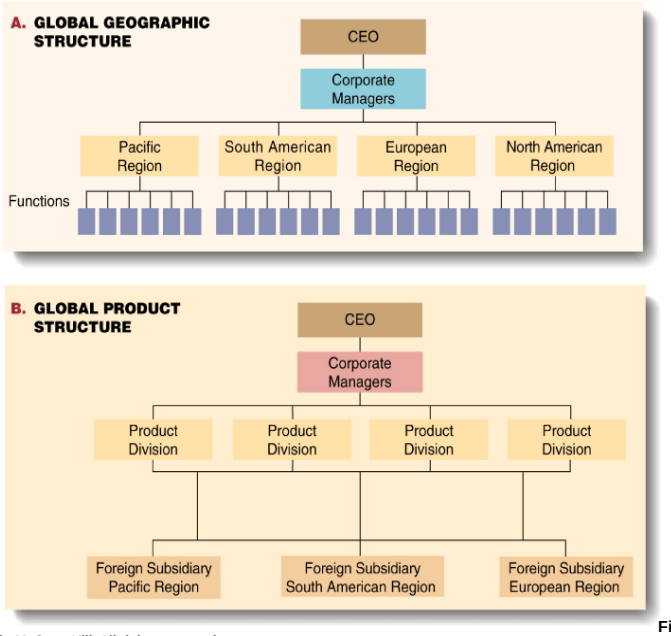
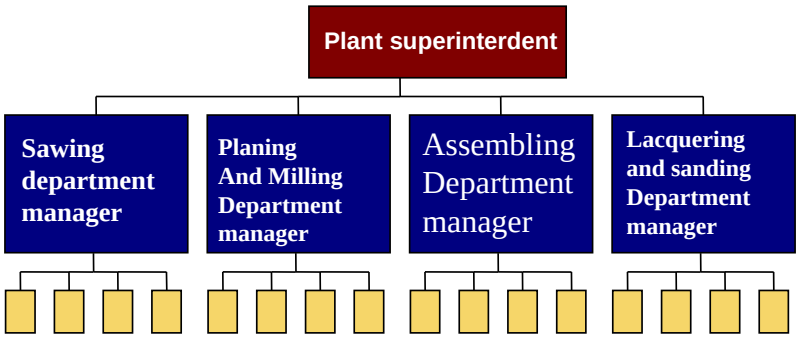


Figure 9.6

© Copyright McGraw-Hill. All rights reserved.

Departmentalization

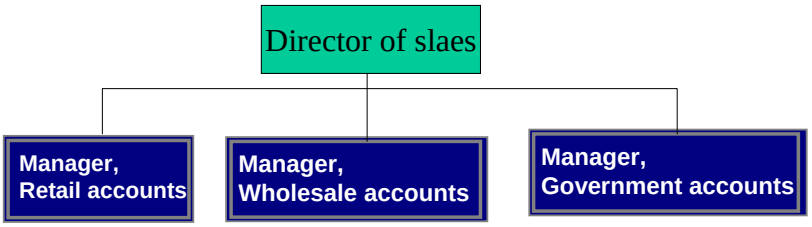
- The basis by which jobs are grouped together
  - ➢Process departmentalization
    - Groups jobs on the basis of product or customer flow



© Copyright McGraw-Hill. All rights reserved.

Departmentalization

- The basis by which jobs are grouped together
  - ➢Customer departmentaliztion
    - Groups jobs on the basis of customers who have common needs or problems that can best be met by having specialists for each



© Copyright McGraw-Hill. All rights reserved.

Departmentalization

- Two popular trends in departmentalization
  - The increasing use of customer departmentalization
  - Cross-functional teams
    - FORD

© Copyright McGraw-Hill. All rights reserved.

3.Chain of Command

- The continuous line of authority that extends from upper organizational levels to the lowest levels and 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 to perform any assigned duties
  - Unity of command
    - The management principle that each person should report to only one manager

© Copyright McGraw-Hill. All rights reserved.

4.Span of Control

- The number of employees a manager can effciently and effectively manage
- The 2 organizations example
- Factors influencing the span of control
  - ➢The skills and abilities of manager and the employees
  - ➢Characeristics of the work being done
  - ➢Similarity of employee tasks
  - ➢The complexity of tasks
  - ➢The physical proximity of subordinates
  - ➢The degree to which standardized procedures,etc

© Copyright McGraw-Hill. All rights reserved.

Flat Organizations

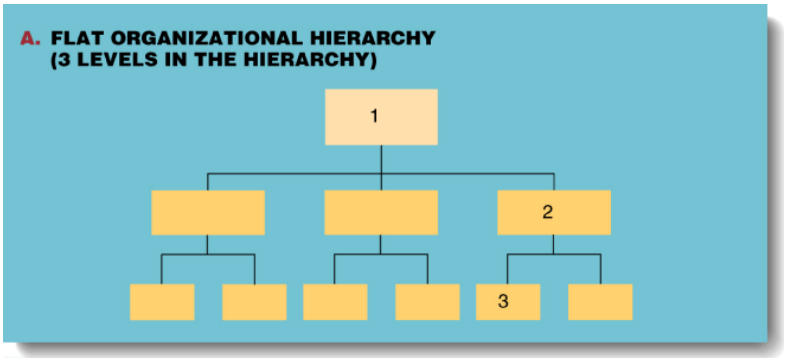


Figure 9.10a

© Copyright McGraw-Hill. All rights reserved.

Tall Organizations

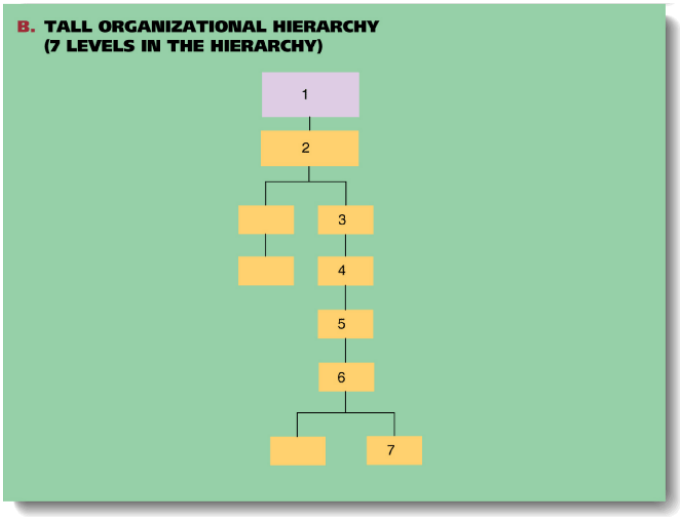


Figure 9.10b

© Copyright McGraw-Hill. All rights reserved.

5.Centralization and Decentralization

- Centralization: the degree to which decision making is concentrated at a single point in the organization
- Decentralization: the degree to which lower-level employees provide input or actually make decisions
- A current distinct trend
  - Decentralizing decision making
- Factors influencing the amount of centralization and decentralization

© Copyright McGraw-Hill. All rights reserved.

6.Formalization

- To the degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures
- The strengths and weaknesses of formalization

© Copyright McGraw-Hill. All rights reserved.

Organizational Design Decisions

- Mechanistic and Organizations
  - ➢Mechanistic organizations: Highly controlled structure
    - High/Narrow span of control, centralized information network, decision making by lower-level employees
  - ➢Organic organizations: Organization design that's highly adaptive and flexible
    - Flexible/Division of labor/

How to choose from these 2?
Which one is more appropriate?

© Copyright McGraw-Hill. All rights reserved.

Organizational Design Decisions

- Contigency factors
  - Stragety and structure
    - A differentiation strategy needs a flexible structure, low cost may need a more formal structure.
    - Increased vertical integration or diversification also requires a more flexible structure.
  - Size and structure
  - Technology and sructure
  - Environmental uncertainty and structure

© Copyright McGraw-Hill. All rights reserved.

Determinants of Structure

- Technology
  - The combination of skills, knowledge, tools, equipment, computers and machines used in the organization.
  - More complex technology makes it harder for managers to regulate the organization.

© Copyright McGraw-Hill. All rights reserved.

Determinants of Structure

- Technology (cont'd)
  - Technology can be measured by:
    - Task variety: the number of new problems a manager encounters.
    - Task analyzability: the availability of programmed solutions to a manager to solve problems.
  - High task variety and low analyzability present many unique problems to managers.
    - Flexible structure works best in these conditions.
  - Low task variety and high analyzability allow managers to rely on established procedures.

© Copyright McGraw-Hill. All rights reserved.

Types of Technology

- Small Batch Technology
  - Small quantities of one-of-a-kind products are produced by the skills of the workers who work together in small groups.
    - Appropriate structure is decentralized and flexible.
- Mass Production Technology
  - Automated machines that are programmed to make high volumes of standard products.
    - Formal structure is the best choice for workers who must perform repetitive tasks.

© Copyright McGraw-Hill. All rights reserved.

Types of Technology

- Continuous Process Technology
  - Totally mechanized systems of automatic machines.
    - A flexible structure is necessary to allow workers to react quickly to unexpected problems.
- Information Technology (IT)
  - Knowledge management
    - The sharing and integrating of expertise within and between functions and divisions through realtime, interconnected IT that allows for new kinds of tasks and job reporting relationships.

© Copyright McGraw-Hill. All rights reserved.

Job Design

- Job Design
  - The process by which managers decide how to divide tasks into specific jobs.
  - The appropriate division of labor results in an effective and efficient workforce.
- Job Simplification
  - The process of reducing the tasks each worker performs.
    - Too much simplification and boredom results.

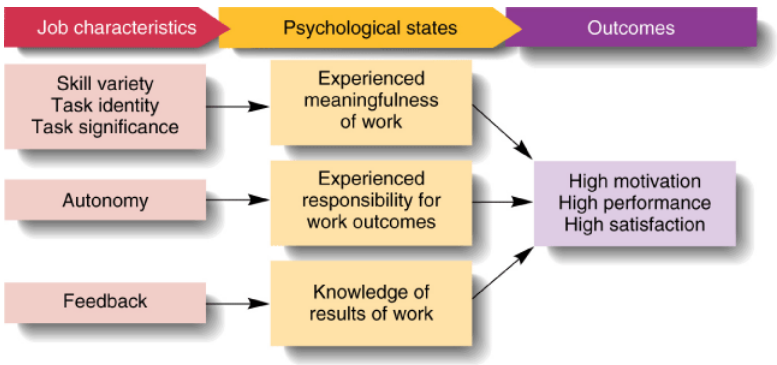
© Copyright McGraw-Hill. All rights reserved.

Job Design

- Job Enlargement
  - Increasing the number of tasks for a given job to reduce boredom.
- Job Enrichment
  - Increasing the degree of responsibility a worker has over a job.
  - can lead to increased worker involvement.

© Copyright McGraw-Hill. All rights reserved.

The Job Characteristics Model



Source: Adapted from J. R. Hackman and G. R. Oldham, *Work Redesign* (Reading, MA: Addison-Wesley, 1980).
© Copyright McGraw-Hill. All rights reserved.

Figure 9.2

Job Characteristics Model

Job Characteristic	
Skill variety	Employee uses a wide range of skills.
Task identity	Worker is involved in all tasks of the job from beginning to end of the production process
Task significance	Worker feels the task is meaningful to organization.
Autonomy	Employee has freedom to schedule tasks and carry them out.
Feedback	Worker gets direct information about how well the job is done.

© Copyright McGraw-Hill. All rights reserved.

Common Organizational Designs

- Traditional organizational design
  - Simple structure
    - An organizational design with low departmentalization, wide spans of control, anthority centralization in a single person, and little formalization
  - Functional structure
    - An organization design that groups similar or related occupational specialties together
  - Divisional structure
    - An organization structure made up of separate business units or divisions

© Copyright McGraw-Hill. All rights reserved.

Divisional Structures

- Divisional Structure
  - An organizational structure composed of separate business units within which are the functions that work together to produce a specific product for a specific customer
    - Divisions create smaller, manageable parts of a firm.
    - Divisions develop a business-level strategy to compete.
    - Divisions have marketing, finance, and other functions.
    - Functional managers report to divisional managers who then report to corporate management.

© Copyright McGraw-Hill. All rights reserved.

Functional structure

© Copyright McGraw-Hill. All rights reserved.

Divisional structure

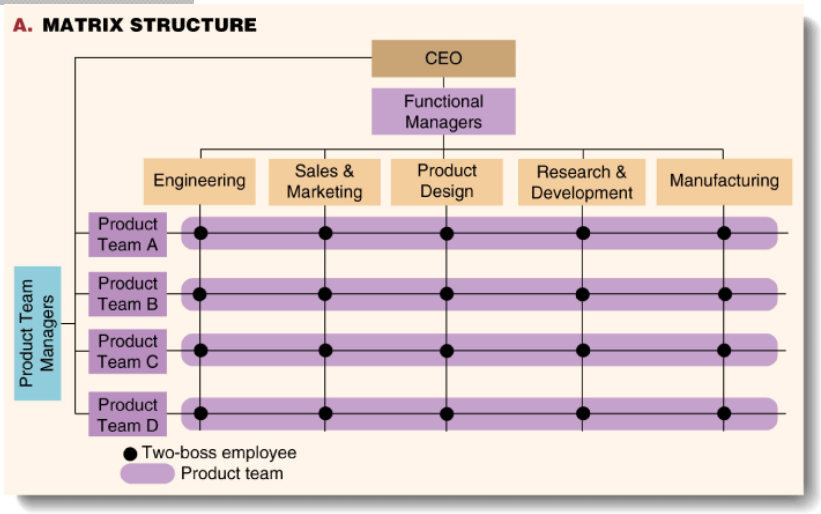
© Copyright McGraw-Hill. All rights reserved.

Common Organizational Designs

- Contemporary organizational designs
  - Team structures
    - The organization is made up of work groups or teams
  - Matrix and project structures
    - Matrix structure
    - Project structure
  - The boundaryless organization
    - An organization whose design is not defined, or limited to, the horizontal, vertical, or external boundaries imposed by a predefined structure
  - The learning organization
    - An organization that has developed the capacity to continuously learn, adapt, and change

© Copyright McGraw-Hill. All rights reserved.

Matrix structures



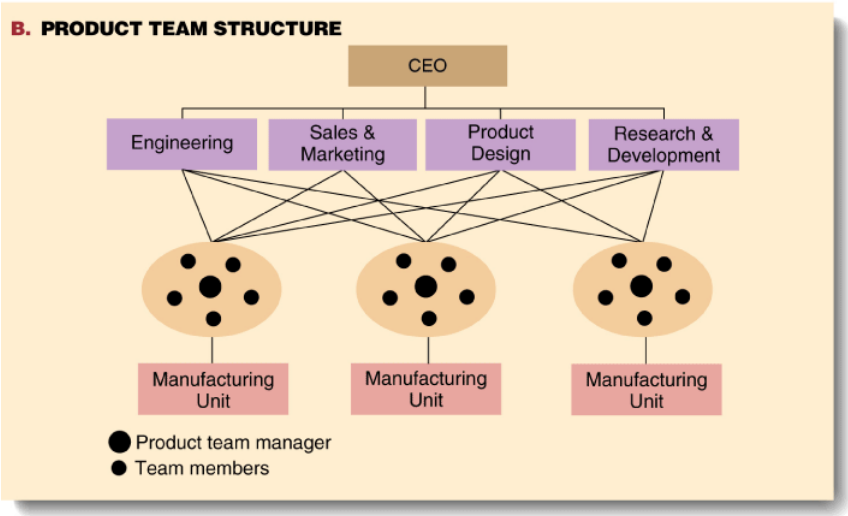
© Copyright McGraw-Hill. All rights reserved.

Matrix and project structrues

- Matrix structue: an organizational structure that assigns specialists from different functional departments to work on one or more projects being led by project managers
- Features
  - A dual chain of command, employees have 2 managers: their functional department manager
  - Results in a complex network of superior-subordinate reporting relationships.
  - The structure is very flexible and can respond rapidly to the need for change.
  - Each employee has two bosses (functional manager and product manager) and possibly cannot satisfy both.

© Copyright McGraw-Hill. All rights reserved.

Product Team Structure



© Copyright McGraw-Hill. All rights reserved.

Figure 9.7

Matrix and project structrues

- Project structures: a project structure has no formal departments that employees return to at the completion of a project. Instead, employees take their specific skills, abilities, and experience to other projects.
- Project structures tend to be fluid and flexible organizational designs

© Copyright McGraw-Hill. All rights reserved.

The boundaryless organization

- Boundaries
  - Internal boundaries
    - Horizontal boundaries: imposed by work specialization and departmentalization
    - Vertical boundaries: separate employees into organizational levels and hierarchies
  - External boundaries
    - Separate the organization from its customers, suppliers, and other stakeholders

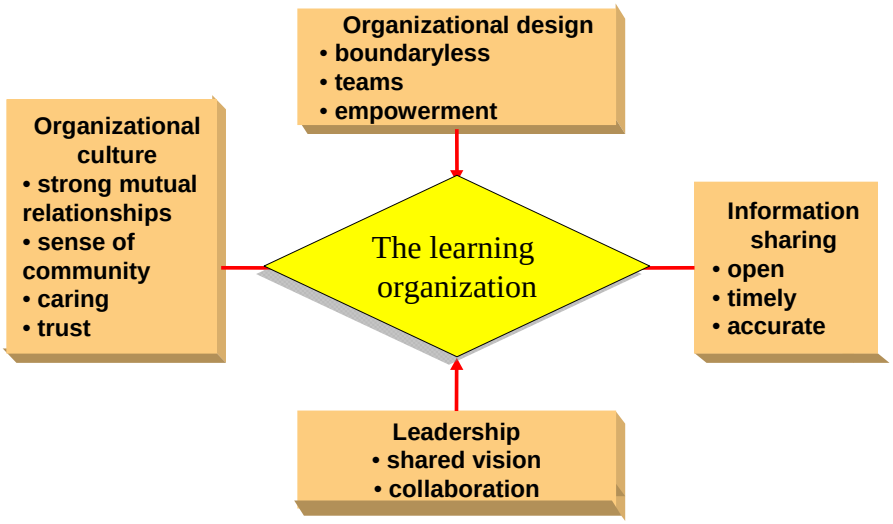
© Copyright McGraw-Hill. All rights reserved.

The boundaryless organization

- Virtual organization:
  - an organization consists of a small core of full-time employees and that temporarily hires outside specialists to work on opportunities that arise
- Network organization:
  - a small core organization that oursources major business functions
- Modular organizaiton:
  - A manufacturing organization that uses suppliers to provide product components or modules which are then assembled into final products

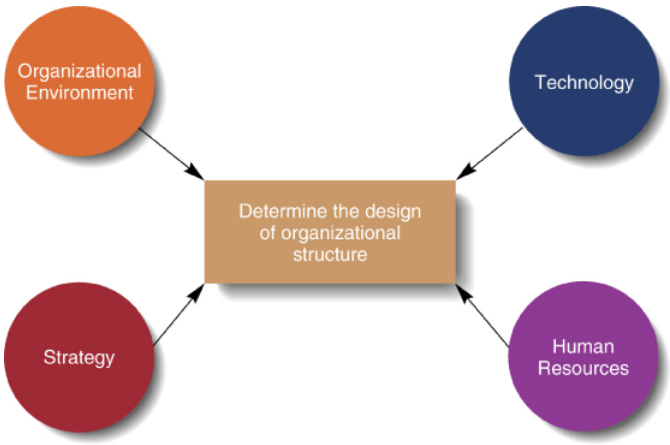
© Copyright McGraw-Hill. All rights reserved.

The learning organization



© Copyright McGraw-Hill. All rights reserved.

Factors Affecting Organizational Structure



© Copyright McGraw-Hill. All rights reserved.

Figure 9.1

Integrating Mechanisms

SIMPLE

Direct contact Marketing manager and research and development manager meet to brainstorm new product ideas.

Liason roles Assistant manager and project team leader indentify best product suggestions to put into development.

Task forces Representatives from marketing, research and development, and manufacturing meet to discuss launch of new product.

Cross-functional team A cross-functional team composed of all functions is formed to manage product to its launch in the market.

Integrating roles and departments Senior managers provide members of cross-functional team with relevant information from other teams and from other divisions.

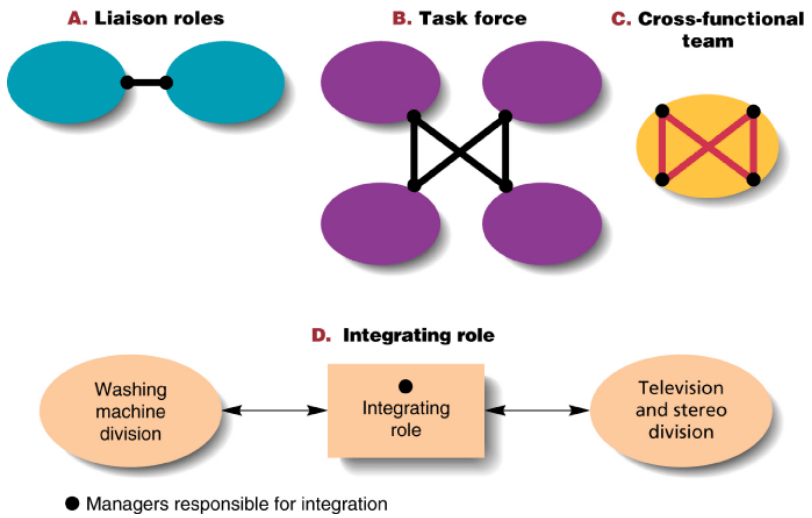
Matrix structures Top managers decide to move to a matrix structure to develop many new products simultaneously.

COMPLEX

© Copyright McGraw-Hill. All rights reserved.

Figure 9.11
9–43

Forms of Integrating Mechanisms



Source:
© Copyright McGraw-Hill. All rights reserved.

Figure 9.12
9–44