Lesson 14: Foundations of Organization Structure
Learning Objectives

After studying this chapter, you should be able to:

1. Identify the six elements of an organization’s structure.
2. Identify the characteristics of a bureaucracy.
3. Describe a matrix organization.
4. Identify the characteristics of a virtual organization.
5. Show why managers want to create boundaryless organizations.
6. Demonstrate how organizational structures differ, and contrast mechanistic and organic structural models.
7. Analyze the behavioral implications of different organizational designs.
Identify the Six Elements of an Organization’s Structure

### Exhibit 15-1
Key Design Questions and Answers for Designing the Proper Organizational Structure

<table>
<thead>
<tr>
<th>The Key Question</th>
<th>The Answer Is Provided by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To what degree are activities subdivided into separate jobs?</td>
<td>Work specialization</td>
</tr>
<tr>
<td>2. On what basis will jobs be grouped together?</td>
<td>Departmentalization</td>
</tr>
<tr>
<td>3. To whom do individuals and groups report?</td>
<td>Chain of command</td>
</tr>
<tr>
<td>4. How many individuals can a manager efficiently and effectively direct?</td>
<td>Span of control</td>
</tr>
<tr>
<td>5. Where does decision-making authority lie?</td>
<td>Centralization and decentralization</td>
</tr>
<tr>
<td>6. To what degree will there be rules and regulations to direct employees and managers?</td>
<td>Formalization</td>
</tr>
</tbody>
</table>
Identify the Six Elements of an Organization’s Structure

• Work Specialization (division of labor)
• describes the degree to which activities in the organization are subdivided into separate jobs

• By the late 1940s, most manufacturing jobs in industrialized countries involved work specialization – the division of labor into separate activities.
  • Repetition of work.
  • Training for specialization.
  • Increasing efficiency through invention.
  • Henry Ford
Identify the Six Elements of an Organization’s Structure
Identify the Six Elements of an Organization’s Structure

- Departmentalization
  -Grouping jobs together so common tasks can be coordinated is called **departmentalization**.
    - By functions performed.
    - By type of product or service the organization produces.
    - By geography or territory.
    - By process differences.
    - By type of customer.
Identify the Six Elements of an Organization’s Structure

• Chain of Command
  • **Chain of command** – an unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom.
  • Once a basic cornerstone in organization design.
  • Two complementary concepts:
    • Authority
    • Unity of command
Identify the Six Elements of an Organization’s Structure

- The chain of command is less relevant today because of technology and the trend of empowering people.
  - Operating employees make decisions once reserved for management.
  - Increased popularity of self-managed and cross-functional teams.
- Many organizations still find that enforcing the chain of command is productive.
Identify the Six Elements of an Organization’s Structure

Exhibit 15-3: Contrasting Spans of Control

<table>
<thead>
<tr>
<th>Organizational 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>1</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>256</td>
</tr>
<tr>
<td>5</td>
<td>256</td>
<td>1,024</td>
</tr>
<tr>
<td>6</td>
<td>1,024</td>
<td>4,096</td>
</tr>
<tr>
<td>7</td>
<td>4,096</td>
<td></td>
</tr>
</tbody>
</table>

Span of 4:
- Operatives = 4,096
- Managers (Levels 1–6) = 1,365

Span of 8:
- Operatives = 4,096
- Managers (Levels 1–4) = 585
Identify the Six Elements of an Organization’s Structure

• Centralization and Decentralization
  • **Centralization** refers to the degree to which decision-making is concentrated at a single point in the organization.
  • Advantages of a *decentralized* organization:
    • Can act more quickly to solve problems.
    • More people provide input into decisions.
    • Employees are less likely to feel alienated from those who make decisions that affect their work lives.
Identify the Six Elements of an Organization’s Structure

• Formalization
  • **Formalization** – the degree to which jobs within the organization are standardized.
    • A highly formalized job gives the job incumbent a minimum amount of discretion.
    • The greater the standardization, the less input the employee has into how the job is done.
  • Low formalization – job behaviors are relatively non-programmed, and employees have a great deal of freedom to exercise discretion in their work.
Identify the Characteristics of a Bureaucracy

Exhibit 15-4
A Simple Structure (Jack Gold’s Men’s Store)

- Jack Gold, owner-manager
- Johnny Moore, salesperson
- Edna Joiner, salesperson
- Bob Munson, salesperson
- Norma Sloman, salesperson
- Jerry Plotkin, salesperson
- Helen Wright, cashier
Identify the Characteristics of a Bureaucracy

- The **simple structure** is most widely practiced in small businesses in which the manager and the owner are one and the same.
  - **Strengths:**
    - Simple, fast, and flexible.
    - Inexpensive to maintain.
    - Accountability is clear.
  - **Weaknesses:**
    - Difficult to maintain in anything other than small organizations.
    - Risky—everything depends on one person.
Identify the Characteristics of a Bureaucracy

• A **bureaucracy** is characterized by standardization.
  • Highly routine operating tasks.
  • Very formalized rules and regulations.
  • Tasks grouped into functional departments.
  • Centralized authority.
  • Narrow spans of control.
  • Decision making that follows the chain of command.
Identify the Characteristics of a Bureaucracy

• Strengths:
  • Ability to perform standardized activities in a highly efficient manner.

• Weaknesses:
  • Subunit conflicts.
  • Unit goals dominate.
  • Obsessive behavior.
  • Covering weak management.

• The bureaucracy is efficient only as long as employees confront familiar problems with programmed decision rules.
Describe a Matrix Organization

• The **matrix structure** combines two forms of departmentalization—functional and product:
  • The strength of functional is putting specialists together.
  • Product departmentalization facilitates coordination.
    • It provides clear responsibility for all activities related to a product, but with duplication of activities and costs.
Describe a Matrix Organization

**Exhibit 15-5** Matrix Structure for a College of Business Administration

<table>
<thead>
<tr>
<th>Academic Departments</th>
<th>Programs</th>
<th>Undergraduate</th>
<th>Master’s</th>
<th>Ph.D.</th>
<th>Research</th>
<th>Executive Development</th>
<th>Community Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td></td>
<td></td>
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<tr>
<td>Finance</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Decision and Information Systems</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Management</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Identify the Characteristics of a Virtual Organization

• The Virtual Organization
  • The essence of the **virtual organization** is that it is typically a small, core organization that outsources major business functions.
    • Also referred to as a *modular* or *network* organization.
    • It is highly centralized, with little or no departmentalization.
Identify the Characteristics of a Virtual Organization

Exhibit 15-6: A Virtual Organization

- Independent research and development consulting firm
- Advertising agency
- Factories in South Korea
- Commissioned sales representatives
Show Why Managers Want to Create Boundaryless Organizations

• The Boundaryless Organization
  • The **boundaryless organization** seeks to eliminate the chain of command, has limitless spans of control, and replaces departments with empowered teams.
    • Uses cross-hierarchical teams.
    • Uses participative decision making practices.
    • Uses 360-degree performance appraisals.
Show Why Managers Want to Create Boundaryless Organizations

• Functional departments create horizontal boundaries.
  • Replace these with cross-functional teams organized around processes.

• Boundaryless organizations break down geographic and cultural barriers.
  • Strategic alliances help blur cultural differences.
  • Telecommuting blurs organizational boundaries
Show Why Managers Want to Create Boundaryless Organizations

• The Leaner Organization: Downsizing
  • The goal of the new organizational forms we’ve described is to improve agility by creating a lean, focused, and flexible organization.
  • Downsizing is a systematic effort to make an organization leaner by selling off business units, closing locations, or reducing staff.
Show Why Managers Want to Create Boundaryless Organizations

• Strategies for downsizing include:
  1. Investment
  2. Communication
  3. Participation
  4. Assistance

• Make cuts carefully and help employees through the process.
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

Exhibit 15-7  Mechanistic versus Organic Models

The Mechanistic Model

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

The Organic Model

- Cross-functional teams
- Cross-hierarchical teams
- Free flow of information
- Wide spans of control
- Decentralization
- Low formalization
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

• An organization’s structure is a means to help management achieve its objectives.

• Structure should follow strategy

• Most current strategy frameworks focus on three strategy dimensions:
  1. Innovation
  2. Cost Minimization
  3. Imitation
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Structural Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>Organic: A loose structure; low specialization, low formalization, decentralized</td>
</tr>
<tr>
<td>Cost minimization</td>
<td>Mechanistic: Tight control; extensive work specialization, high formalization, high centralization</td>
</tr>
<tr>
<td>Imitation</td>
<td>Mechanistic and organic: Mix of loose with tight properties; tight controls over current activities and looser controls for new undertakings</td>
</tr>
</tbody>
</table>
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

- Organizational Size
  - Large organizations—employing 2,000 or more people—tend to have more specialization, more departmentalization, more vertical levels, and more rules and regulations than do small organizations.
  - The impact of size becomes less important as an organization expands.
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

- Technology
  - The way an organization transfers its inputs into outputs is called **technology**.
  - Numerous studies have examined the technology-structure relationship.
    - Organizations engaged in non-routine activities tend to prefer organic structures, and those performing routine activities prefer mechanistic structures.
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

• Environment
  • An organization’s environment includes outside institutions or forces that can affect its performance.
    • Dynamic environments create significantly more uncertainty for managers than do static ones.
  • To minimize uncertainty:
    • Broaden structure to sense and respond to threats.
    • Form strategic alliances.
Analyze the Behavioral Implications of Different Organizational Designs

• An organization’s structure can have significant effects on its members.
• It’s impossible to generalize!
  • Not everyone prefers the freedom and flexibility of organic structures.
  • Some people are most productive and satisfied when work tasks are standardized and ambiguity minimized.
Organizational Designs and Employee Behavior

- Work specialization contributes to higher employee productivity.
- No evidence supports a relationship between span of control and employee satisfaction or performance.
- Fairly strong evidence links centralization and job satisfaction, meaning that less centralization is associated with higher satisfaction.
- National culture influences the preference for structure.
Implications for Managers

• Specialization can make operations more efficient, but remember that excessive specialization, can create dissatisfaction and reduced motivation.

• Avoid designing rigid hierarchies that overly limit employees’ empowerment and autonomy.

• Balance the advantages of virtual and boundaryless organizations against the potential pitfalls before adding flexible workplace options.
Implications for Managers

• Downsize your organization to realize major cost savings, and focus the company around core competencies, but only if necessary, because downsizing can have a significant negative impact on employee affect.

• Consider the scarcity, dynamism, and complexity of the environment, and balance the organic and mechanistic elements when designing an organizational structure.