

Management

tenth edition

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Chapter

9

Organizational Structure and Design

Designing Organizational Structure

- **Organizational Design**

- A process involving decisions about six key elements:
 - ❖ Work specialization
 - ❖ Departmentalization
 - ❖ Chain of command
 - ❖ Span of control
 - ❖ Centralization and decentralization
 - ❖ Formalization

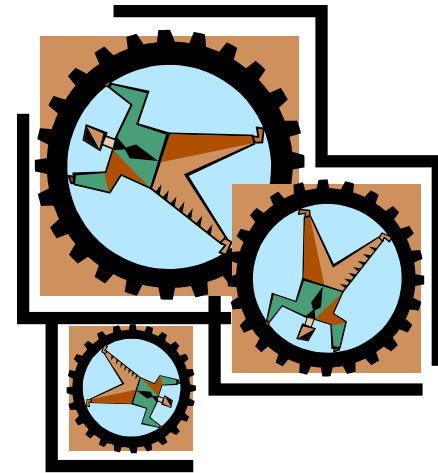
Exhibit 9–1 Purposes of Organizing

- **Divides work to be done into specific jobs and departments.**
- **Assigns tasks and responsibilities associated with individual jobs.**
- **Coordinates diverse organizational tasks.**
- **Clusters jobs into units.**
- **Establishes relationships among individuals, groups, and departments.**
- **Establishes formal lines of authority.**
- **Allocates and deploys organizational resources.**

Organizational Structure

- **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 from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.



Departmentalization by Type

- **Functional**

- Grouping jobs by functions performed

- **Product**

- Grouping jobs by product line

- **Geographical**

- Grouping jobs on the basis of territory or geography

- **Process**

- Grouping jobs on the basis of product or customer flow

- **Customer**

- Grouping jobs by type of customer and needs

Organizational Structure (cont'd)

- **Chain of Command**

- The continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization and clarifies who reports to whom.



Organizational Structure (cont'd)

- **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.

Organizational Structure (cont'd)

- **Span of Control**
 - The number of employees who can be effectively and efficiently supervised by a manager.

Exhibit 9–3 Contrasting Spans of Control

		Members at Each Level	
		(Highest) Assuming Span of 4	Assuming Span of 8
Organizational Level		1	1
	2	4	8
		16	64
	4	64	512
		256	4,096
	6	1,024	
		4,096	
(Lowest)			
		Span of 4:	Span of 8:
		Employees: = 4,096	Employees: = 4,096
		Managers (level 1–6) = 1,365	Managers (level 1–4) = 585

Organizational Structure (cont'd)

- **Centralization**

- The degree to which decision making is concentrated at upper levels in the organization.
 - ❖ Organizations in which top managers make all the decisions and lower-level employees simply carry out those orders.

- **Decentralization**

- Organizations in which decision making is pushed down to the managers who are closest to the action.

- **Employee Empowerment**

- Increasing the decision-making authority (power) of employees.

Exhibit 9–4 Factors that Influence the Amount of Centralization and Decentralization

- **More Centralization**

- Environment is stable.
- Lower-level managers are not as capable or experienced at making decisions as upper-level managers.
- Lower-level managers do not want to have a say in decisions.
- Decisions are relatively minor.
- Organization is facing a crisis or the risk of company failure.
- Company is large.
- Effective implementation of company strategies depends on managers retaining say over what happens.

Exhibit 9–4 (cont'd) Factors that Influence the Amount of Centralization and Decentralization

- **More Decentralization**

- Environment is complex, uncertain.
- Lower-level managers are capable and experienced at making decisions.
- Lower-level managers want a voice in decisions.
- Decisions are significant.
- Corporate culture is open to allowing managers to have a say in what happens.
- Company is geographically dispersed.
- Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

Exhibit 9–5 Mechanistic Versus Organic Organization

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**

Common Organizational Designs

- **Traditional Designs**

- Simple structure

- ❖ Low departmentalization, wide spans of control, centralized authority, little formalization

- Functional structure

- ❖ Departmentalization by function
 - Operations, finance, marketing, human resources, and product research and development

- Divisional structure

- ❖ Composed of separate business units or divisions with limited autonomy under the coordination and control the parent corporation.

Exhibit 9–7 Strengths and Weaknesses of 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) and 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 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.

Exhibit 9–8 Contemporary Organizational Designs

Team Structure

- **What it is:** A structure in which the entire organization is made up of work groups or teams.
- **Advantages:** Employees are more involved and empowered. Reduced barriers among functional areas.
- **Disadvantages:** No clear chain of command. Pressure on teams to perform.

Matrix-Project Structure

- What it is:** A structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.
- **Advantages:** Fluid and flexible design that can respond to environmental changes. Faster decision making.
 - **Disadvantages:** Complexity of assigning people to projects. Task and personality conflicts.

Exhibit 9–8 (cont'd) Contemporary Organizational Designs

Boundaryless Structure

- What it is:** A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes virtual and network types of organizations.
- **Advantages:** Highly flexible and responsive. Draws on talent wherever it's found.
 - **Disadvantages:** Lack of control. Communication difficulties.

Organizational Designs (cont'd)

- **Contemporary Organizational Designs**

- Team structures

- ❖ The entire organization is made up of work groups or self-managed teams of empowered employees.

- Matrix and project structures

- ❖ Specialists from different functional departments are assigned to work on projects led by project managers.
- ❖ Matrix and project participants have two managers.
- ❖ In project structures, employees work continuously on projects; moving on to another project as each project is completed.

Organizational Designs (cont'd)

- Contemporary Organizational Designs (cont'd)

- Boundaryless Organization

- ❖ An flexible and unstructured organizational design that is intended to break down external barriers between the organization and its customers and suppliers.
- ❖ Removes internal (horizontal) boundaries:
 - Eliminates the chain of command
 - Has limitless spans of control
 - Uses empowered teams rather than departments
- ❖ Eliminates external boundaries:
 - Uses virtual, network, and modular organizational structures to get closer to stakeholders.

Removing External Boundaries

- **Virtual Organization**

- An organization that consists of a small core of full-time employees and that temporarily hires specialists to work on opportunities that arise.

- **Network Organization**

- A small core organization that outsources its major business functions (e.g., manufacturing) in order to concentrate on what it does best.

- **Modular Organization**

- A manufacturing organization that uses outside suppliers to provide product components for its final assembly operations.

Today's Organizational Design Challenges

- **Keeping Employees Connected**
 - Widely dispersed and mobile employees
- **Building a Learning Organization**
- **Managing Global Structural Issues**
 - Cultural implications of design elements

Organizational Designs (cont'd)

- **The Learning Organization**

- An organization that has developed the capacity to continuously learn, adapt, and change through the practice of knowledge management by employees.
- Characteristics of a learning organization:
 - ❖ An open team-based organization design that empowers employees
 - ❖ Extensive and open information sharing
 - ❖ Leadership that provides a shared vision of the organization's future.
 - ❖ A strong culture of shared values, trust, openness, and a sense of community.