Chapter 15 - Foundations of Organization Structure

Organizational structure defines how job tasks are formally divided, grouped, and coordinated.

Six elements of an organization's structure.:

1. **Work Specialization**
   - Work specialization = the degree to which tasks in an organization are subdivided into separate jobs.
   - Division of labor:
     – Makes efficient use of employee skills
     – Increases employee skills through repetition
     – Less between-job downtime increases productivity
     – Specialized training is more efficient
     – Allows use of specialized equipment

2. **Departmentalization**
   - Departmentalization = the basis by which jobs in organization are grouped together.
   - Grouping activities by:
     – *By functions performed*. E.g: engineering, accounting, etc
     – *By the type of product or service* the organization produces.
     – *On the basis of geography or territory,* when an organization's customers are scattered over a large geographic area and have similar needs based on their locations.
     – *By the process.* Customer or products probably went through several departments before receiving the service (for customer) or become the final goods (for products).
     – *By the type of customers the organization seeks to reach.* Customers in each department have a common set of problems and needs best met by having specialist for each.

3. **Chain of Command**
   - Chain of command = the unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom.
   - **Authority** itself is the rights inherent in a managerial position to give orders and to expect the orders to be obeyed.
   - **The unity of command** says a person should have one and only one superior to whom he or she is directly responsible.

4. **Span of Control**
   - Span of Control = the number of subordinates a manager can be efficiently and effectively direct >> The wider or larger the span, the more efficient the organization is.
   - Narrow span have three major drawbacks:
     - It's expensive because it adds levels of management.
     - It makes vertical communication in the organization more complex >> slow down decision making and tend to isolate upper management.
     - It encourages overly tight supervision and discourage employee autonomy

5. **Centralization and Decentralization**
   - **Centralization** = the degree to which decision making is concentrated at a single point in an organization.
     - Centralized organizations: top managers' makes all the decisions, and lower-level managers merely carry out their directives.
     - Decentralized: the degree to which decision making is spread throughout the organization.
       A decentralized organization can act more quickly to solve problems, more people provide input into decisions, and employees are less likely to feel alienated from those who make decisions that affect their work lives.

6. **Formalization**
   - **Formalization** = the degree to which jobs within the organization are standardized.
     - High formalization : explicit job descriptions, lots of organizational rules, and clearly defined procedures covering work processes in organizations
     - Low formalization : job behaviors are relatively unprogrammed, and employees have great deal of freedom to exercise discretion in their work.

Common Organizational Design
There are the **Simple Structure**, the **Bureaucracy**, and the **Matrix Structure**.

I. **The Simple Structure**
   - A structure characterized by a low degree of departmentalization, wide spans of control, authority centralized in a single person, and little formalization.
   - Most widely practiced in small businesses in which the manager and the owner are one and the same.
   - Advantages:
     - ✓ It's fast, flexible and inexpensive to operate
     - ✓ Accountability is clear
   - Disadvantages:
     - ✗ It's difficult to maintain in anything other than small organizations
     - ✗ Becomes increasingly inadequate as an organization grows because its low formalization and high centralization

✖ Decision making typically becomes slower

✖ It's risky because everything is depend on one person

II. **The Bureaucracy**

- A structure of highly operating routine tasks achieved through specialization, very formalized rules and regulations, tasks that are grouped into functional departments, centralized authority, narrow spans of control, and decision making that follows the chain of command
- Bureaucracy relies on standardized work processes for coordination and control. It usually implemented by Bank, Department Store and Government Offices.
- Advantages:
  - ✓ Has ability to perform standardized activities in a highly efficient manner
  - ✓ Standardized and high formalization allow decision making to be centralized
- Disadvantages:
  - ✖ Obsessive concern with the following rules
  - ✖ There is no room for modification
  - ✖ It's only efficient as long as employees confront familiar problems programmed decision rules

III. **The Matrix Structure**

- A structure that creates dual lines of authority and combines functional and product departmentalization
- Advantages:
  - ✓ It has ability to facilitate coordination when the organization has a number of complex and interdependent activities
  - ✓ Direct and frequent contacts between different specialties in the matrix can let information more quickly reach the people who need it
  - ✓ Achieves economics of scale and facilitates the allocation of specialties by providing both the best resources and an effective way of ensuring their efficient deployment
- Disadvantages:
  - ✖ Without unity of command concept, ambiguity who reports to whom is significantly increased and often leads to conflict
  - ✖ Reporting to more than one boss introduces role conflict and unclear expectations introduce role ambiguity.

New Design Options

1. *The Virtual Organization*
   - A small, core organization that outsources its major business functions.
   - Highly centralized with little or no departmentalization

- Minimizes bureucratic overhead because there is no lasting organization to maintain. And it lessen long-term risks and their costs because there is no long term—a team is assembled for a finite period and then disbanded.
- Advantage : Provides maximum flexibility while concentrating on what the organization does best.
- Disadvantages : Less adaptable and innovative than those with well-established communication and collaboration networks, reduced control over key parts of the business.

2. *The Boundaryless Organization*
   This is an organization that seeks to eliminate the chain of command, have limitless spans of control, and replace departments with empowered teams.
   This type has T-form Concepts :
   - Eliminate *vertical (hierarchial)* and *horizontal (departmental)* internal boundaries
   - Break down *external* barriers to customers and suppliers

>> The Leaner Organization : Organization Downsizing <<

The goal of the new organizational forms is to improve agility by creating a lean, focused, and flexible organization. Companies may need to cut divisions that aren't adding value. **Downsizing** is a systematic effort to make an organization learner by selling off business units, closing locations, or reducing staff.

Impacts:

- It may cause loss of market share and changes in consumer demand. Some companies probably needed downsizing just to be suvive, and others do to direct all their efforts toward their core competencies.
- Can reduce bureaucracy and speed decision making.
- Reducing the size of the workforce has an immediately positive outcome in the huge reduction in wage costs
- Employee attitudes. They will feel worried about future layoffs and may be less committed to the organization. It can also lead to more voluntary turnover so vital human capital is lost.

The following are some effective strategies for downsizing and suggestions for implementing them.

- ❖ *Investment*
  Companies that downsize to focus on core competencies are more effective when they invest in high-involvement work practices afterward

❖ *Communication*

Employees are less worried about outcomes and feel the company is taking their perspective into account while they are involving in discussion.

❖ *Participation*

Employees worry less if they can participate in the process in some way.

❖ *Assistance*

Providing severance, extended health care benefits, and job search assistance demonstrates a company does really care about its employees and honors their contributions.

Why do Stuctures Differ?

1. **Mechanistic model**

A structure characterized by extensive departmentalization, high formalization, a limited information network, and centralization.

2. **Organic model**

A structure that is flat, uses cross-hierarchical and cross-functional teams, has low formalization, possesses a comprehensive information network, and relies on participative decision making

The major causes of differentiation an organization's structure:

i. **Strategy**

- *Innovation strategy* is a strategy that emphasizes the introduction of major new products and services. Innovative firms will use competitive pay and benefits to attract top candidates and motivate employees to take risks.
- *Cost-minimization strategy* is a strategy that emphasizes yight cost controls, avoidance of unnecessary innovation or marketing expenses, and price cutting.
- *Imitation strategy* is a strategy that seeks to move into new products or new markets only after their viability has already been proven.

ii. **Organization Size**

How the size of an organization affects its structure. As an organization grows larger, it becomes more mechanistic.

Characteristics of large organizations**:**

- More specialization
- More vertical levels
- More rules and regulations

iii. **Technology**

Technology describes the way an organization transfers inputs into outputs. The common theme that differentiates technologies is their *degree of routines.*

Characteristics of routineness (standardized or customized) in activities:

- Routine technologies are associated with tall, departmentalized structures and formalization in organizations.
- Routine technologies lead to centralization when formalization is low.
- Nonroutine technologies are associated with delegated decision authority.

iv. **Environment**

Environment includes outside institutions or forces outside an organization that potentially affect the organization's performance, such as suppliers, customer, government, etc. An organization's structure can be affected by <u>environmental uncertainty</u>.

Organization's environment has three dimensions:

a. *Capacity* refers to the degree to which the environment can support growth.
b. *Volatility* describes the degree of instability in the environment.
c. *Complexity* is the degree of heterogeneity and concentration among environmental elements.

Simple environments are homogeneus and concentrated, and heterogeneity one are complex and diverse, with numerous competitors.

Some general conclusions: The more scarce, dynamic, and complex the environment, the more organic a structure should be. The more abundant, stable, and simple the environment, the more the mechanistic structure will be preferred.

Organizational Designs and Employee Behavior

Research Findings:

- Work specialization contributes to higher employee productivity, but it reduces job satisfaction.
- The benefits of specialization have decreased rapidly as employees seek more intrinsically rewarding jobs.
- The effect of span of control on employee performance is contingent upon individual differences and abilities, task structures, and other organizational factors.
- Participative decision making in decentralized organizations is positively related to job satisfaction.

Summary and Implications for Manager
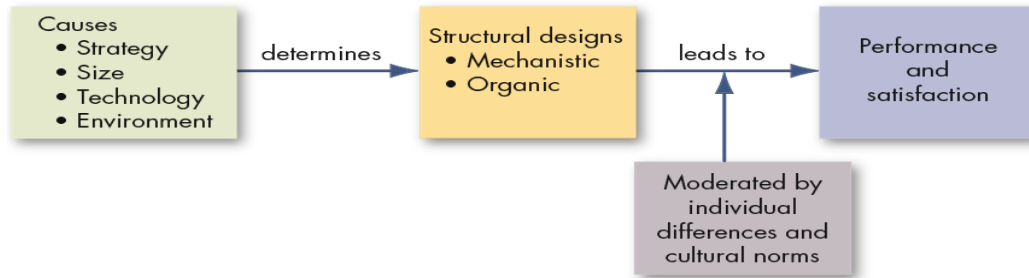
This diagram summarizes the discussion of this chapter. Strategy, size, technology, and environment determine the type of structure an organization will have. To simplify, we classify the structural designs to mechanistic and organic. The specific effect of structural designs on performance and satisfaction is moderated by employee's individual preferences and cultural norms. Finally, technology is reshaping work such that organizational structures may be increasingly amorphous. This allows a manager the flexibility of taking into account things like employee preferences, experience, and culture to design work systems that truly motivate their employees.