

Chapter **SIXTEEN**

Foundations of Organizational Structure

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What Is Organizational Structure?

Organizational Structure

How job tasks are formally divided, grouped, and coordinated

Key Elements

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

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Key Design Questions and Answers for Designing the Proper Organization Structure

The Key Question

The Answer Is Provided by

- | | |
|---|-------------------------------------|
| 1. To what degree are activities subdivided into separate jobs? | Work specialization |
| 2. On what basis will jobs be grouped together? | Departmentalization |
| 3. To whom do individuals and groups report? | Chain of command |
| 4. How many individuals can a manager efficiently and effectively direct? | Span of control |
| 5. Where does decision-making authority lie? | Centralization and decentralization |
| 6. To what degree will there be rules and regulations to direct employees and managers? | Formalization |

EXHIBIT 16-1

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What Is Organizational Structure? (cont'd)

Work Specialization

The degree to which tasks in the 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

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Economies and Diseconomies of Work Specialization

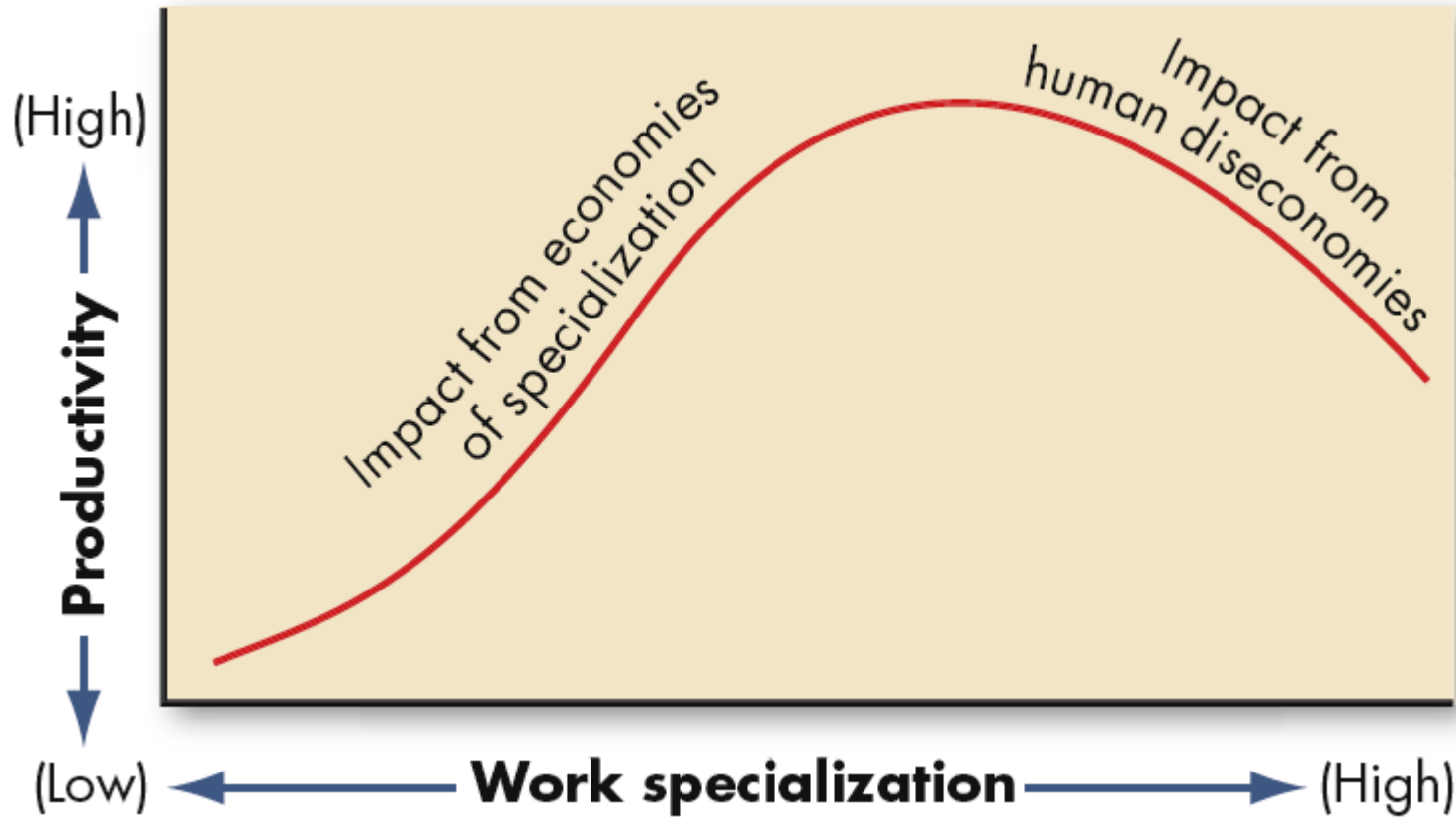


EXHIBIT 16-2

What Is Organizational Structure? (cont'd)

Departmentalization

The basis by which jobs are grouped together

Grouping Activities by:

- Function
- Product
- Geography
- Process
- Customer



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What Is Organizational Structure? (cont'd)

Authority

The rights inherent in a managerial position to give orders and to expect the orders to be obeyed

Chain of Command

The unbroken line of authority that extends from the top of the organization to the lowest level and clarifies who reports to whom

Unity of Command

A subordinate should have only one superior to whom he or she is directly responsible

What Is Organizational Structure? (cont'd)

Span of Control

The number of subordinates a manager can efficiently and effectively direct

Concept

Wider spans of management increase organizational efficiency

Narrow Span Drawbacks

- Expense of additional layers of management
- Increased complexity of vertical communication
- Encouragement of overly tight supervision and discouragement of employee autonomy

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Contrasting Spans of Control

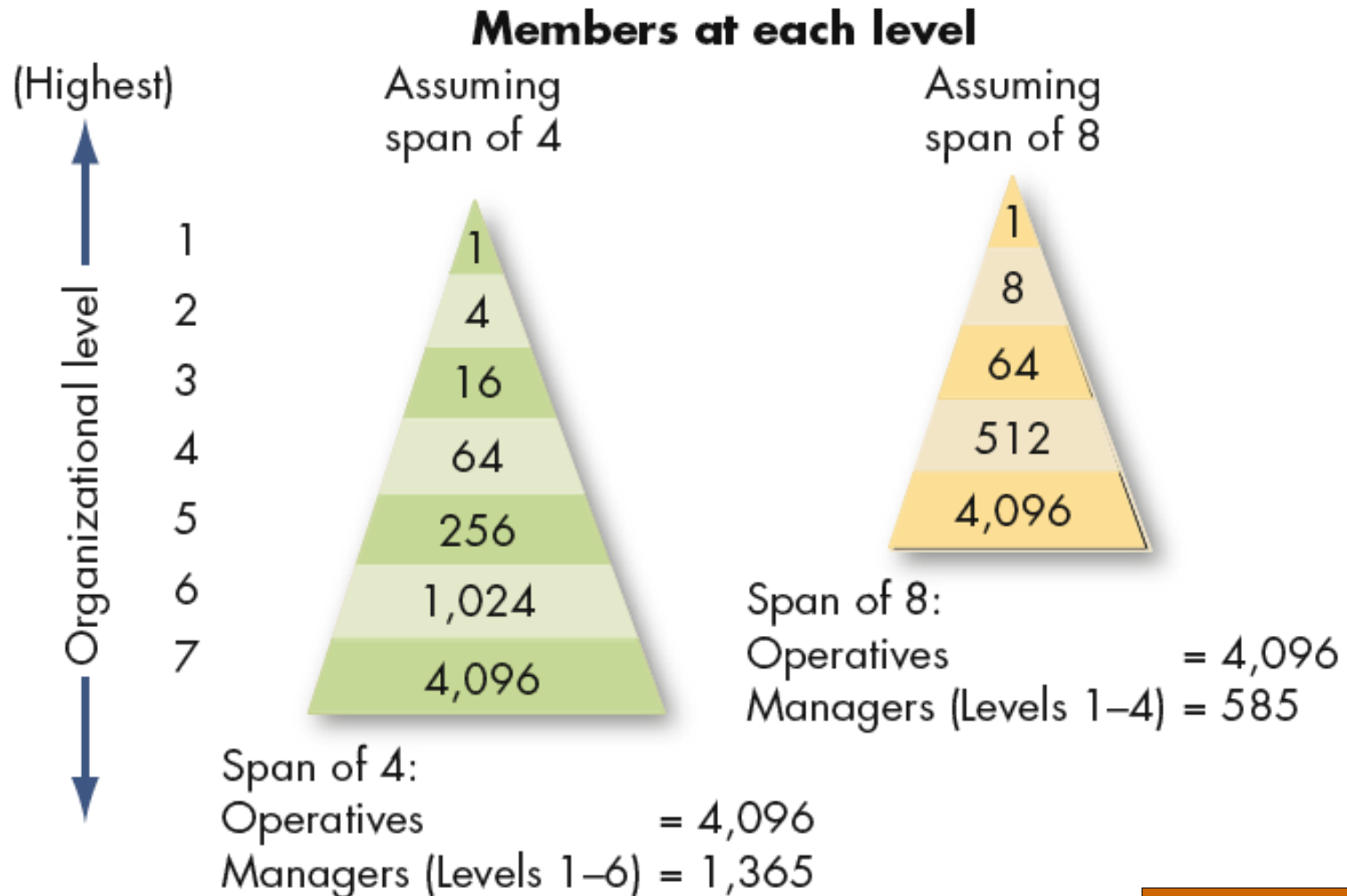


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What Is Organizational Structure? (cont'd)

Centralization

The degree to which decision making is concentrated at a single point in the organization.

Decentralization

The degree to which decision making is spread throughout the organization.

Formalization

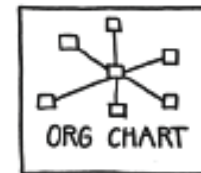
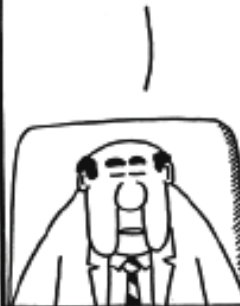
The degree to which jobs within the organization are standardized.



YOU WILL APPEAR TO BE A
VISIONARY PLANNER IF YOU
DECENTRALIZE EVERYTHING
WHICH IS CENTRALIZED
AND CENTRALIZE EVERY-
THING WHICH IS DECENTRAL-
IZED.



WE'VE GOT TO DECENTRALIZE
TO REMOVE THE BOTTLENECKS.



ONE YEAR LATER

WE'VE GOT TO CENTRALIZE
TO BE MORE EFFICIENT.



THE MAN IS A
MANAGEMENT
GENIUS.



Source: S. Adams, *Dogbert's Big Book of Business*, DILBERT
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EXHIBIT 16-4

Common Organization Designs

Simple Structure

A structure characterized by a low degree of departmentalization, wide spans of control, authority centralized in a single person, and little formalization

A Simple Structure:
Jack Gold's Men's
Store

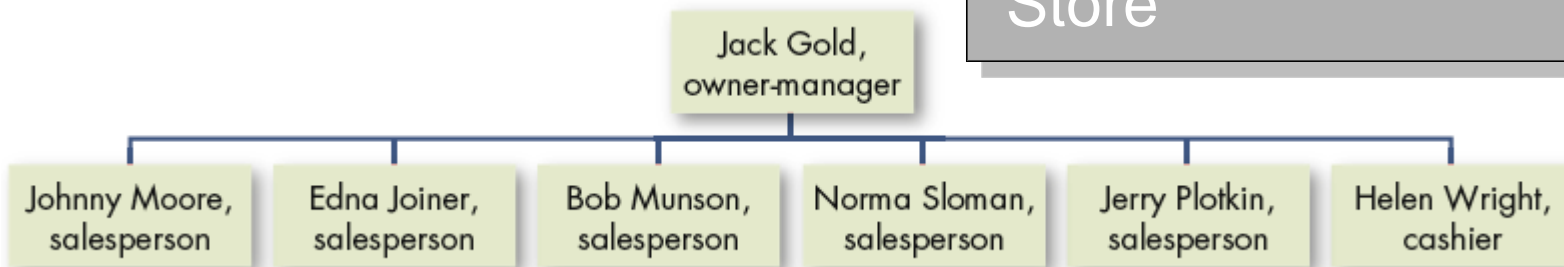


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Common Organization Designs (cont'd)

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



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The Bureaucracy

➤ Strengths

- Functional economies of scale
- Enhanced communication
- Centralized decision making

➤ Weaknesses

- Subunit conflicts with organizational goals
- Obsessive concern with rules and regulations
- Lack of employee discretion to deal with problems

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Common Organization Designs (cont'd)

Matrix Structure

A structure that creates dual lines of authority and combines functional and product departmentalization

Key Elements

- + Gains the advantages of functional and product departmentalization while avoiding their weaknesses
- + Facilitates coordination of complex and interdependent activities
- Breaks down unity-of-command concept

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Matrix Structure (College of Business Administration)

Academic departments	Programs	Undergraduate	Master's	Ph.D.	Research	Executive development	(Director) Community service
Accounting							
Administrative studies (Dean)							Employee
Finance							
Information and decision sciences							
Marketing							

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New Design Options (cont'd)

Virtual Organization

A small, core organization that outsources its major business functions

Highly centralized with little or no departmentalization

Concepts

Advantage: Provides maximum flexibility while concentrating on what the organization does best

Disadvantage: Reduced control over key parts of the business

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A Virtual Organization

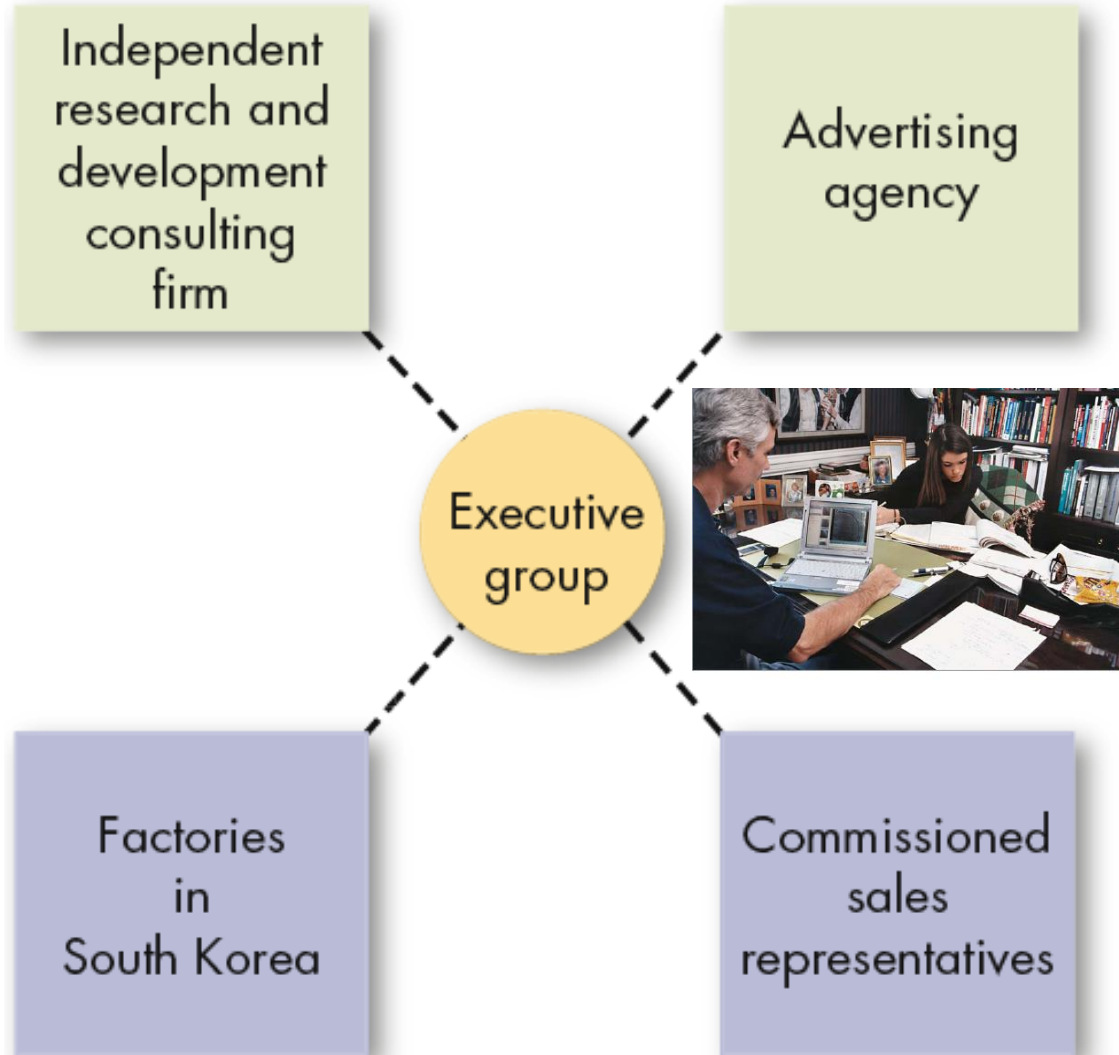


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New Design Options (cont'd)

Boundaryless Organization

An organization that seeks to eliminate the chain of command, have limitless spans of control, and replace departments with empowered teams

T-form Concepts

Eliminate vertical (hierarchical) and horizontal (departmental) internal boundaries

Breakdown external barriers to customers and suppliers

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Why Do Structures Differ?

Mechanistic Model

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



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Why Do Structures Differ?

Organic Model

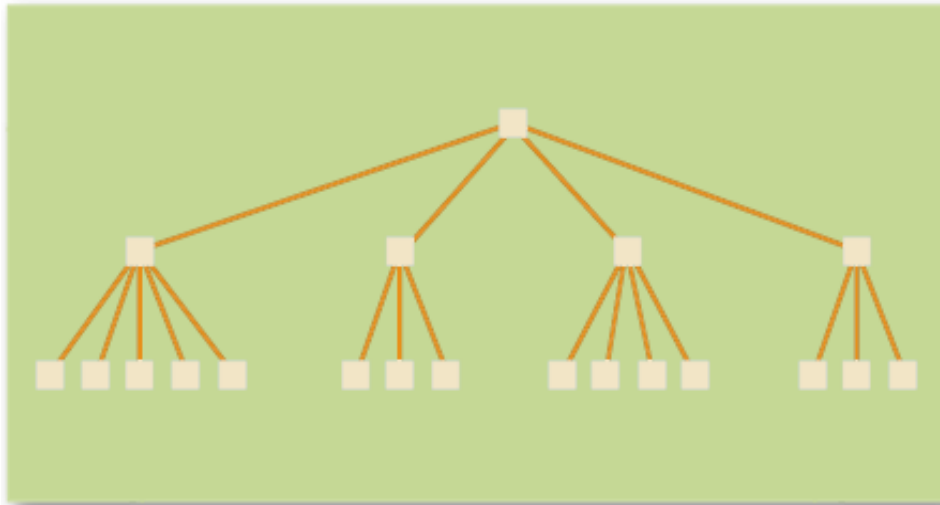
A structure that is flat, uses cross-hierarchical and cross-functional teams, has low formalization, possesses a comprehensive information network, and relies on participative decision making



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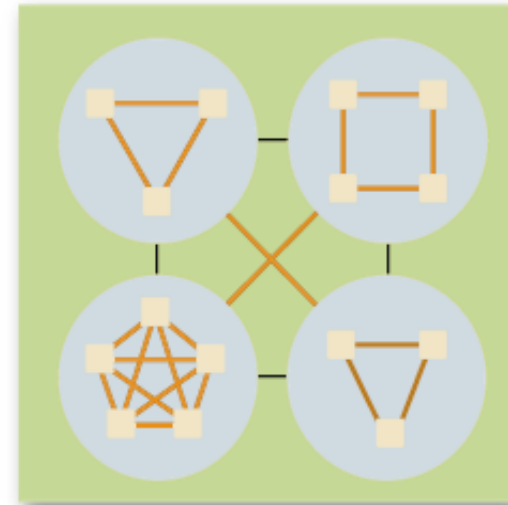
Mechanistic versus Organic Models

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

EXHIBIT 16-8

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Why Do Structures Differ? —Strategy

Innovation Strategy

A strategy that emphasizes the introduction of major new products and services

Cost-minimization Strategy

A strategy that emphasizes tight cost controls, avoidance of unnecessary innovation or marketing expenses, and price cutting

Imitation Strategy

A strategy that seeks to move into new products or new markets only after their viability has already been proven

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The Strategy-Structure Relationship

Strategy

Structural Option

Innovation

Organic: A loose structure; low specialization, low formalization, decentralized

Cost minimization

Mechanistic: Tight control; extensive work specialization, high formalization, high centralization

Imitation

Mechanistic and organic: Mix of loose with tight properties; tight controls over current activities and looser controls for new undertakings

EXHIBIT 16-9

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Why Do Structures Differ? —Size

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

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Why Do Structures Differ? —Technology

Technology

How an organization transfers its inputs into outputs



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.

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Why Do Structures Differ? —Environment

Environment

Institutions or forces outside the organization that potentially affect the organization's performance

Key Dimensions

- Capacity: The degree to which an environment can support growth
- Volatility: The degree of instability in the environment
- Complexity: The degree of heterogeneity and concentration among environmental elements

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The Three-Dimensional Model of the Environment

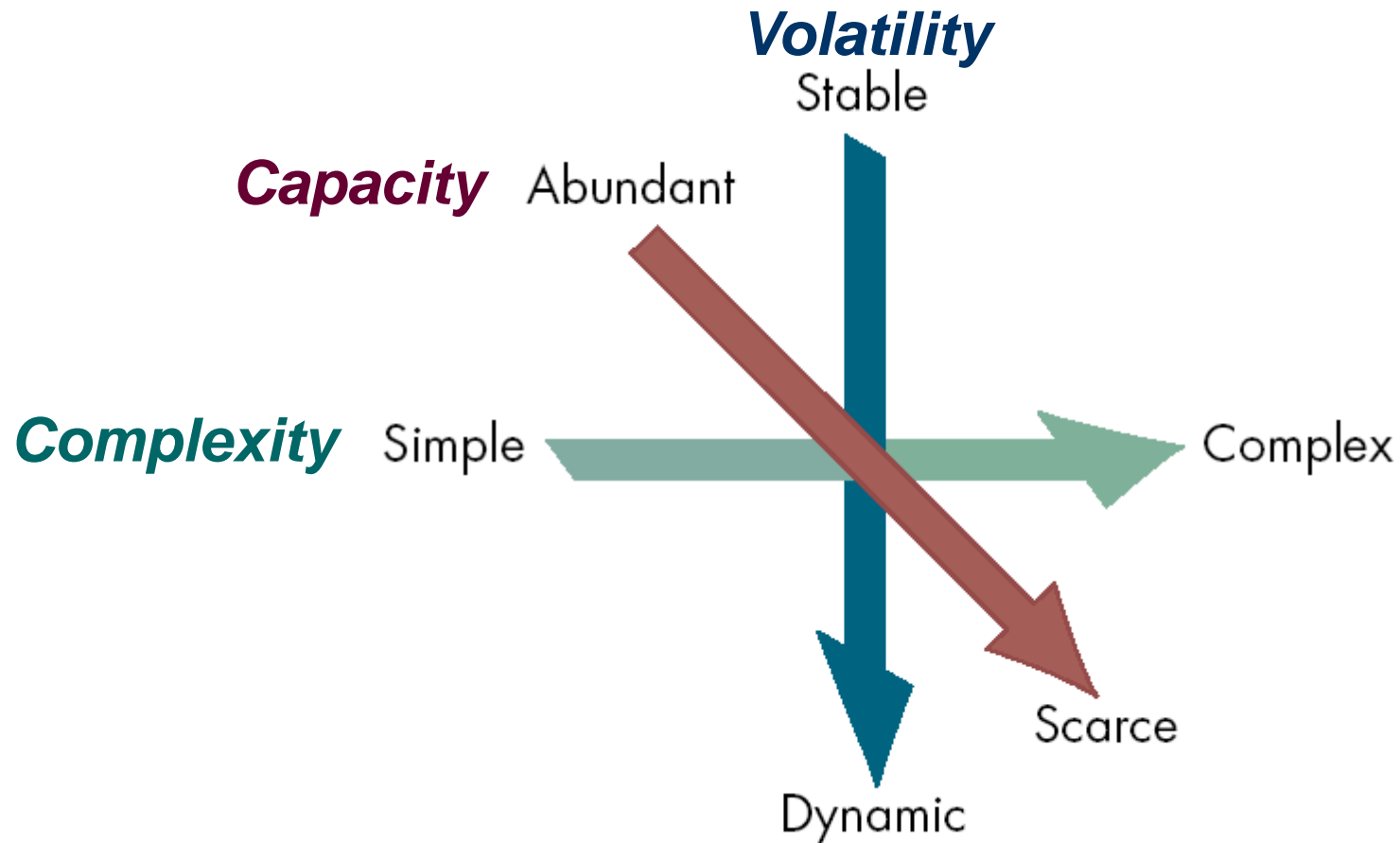


EXHIBIT 16-10

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“Bureaucracy Is Dead”

➤ Characteristics of Bureaucracies

- Specialization
- Formalization
- Departmentalization
- Centralization
- Narrow spans of control
- Adherence to a chain of command

➤ Why Bureaucracy Survives

- Large size prevails
- Environmental turbulence can be largely managed
- Standardization achieved through hiring people who have undergone extensive educational training
- Technology maintains control

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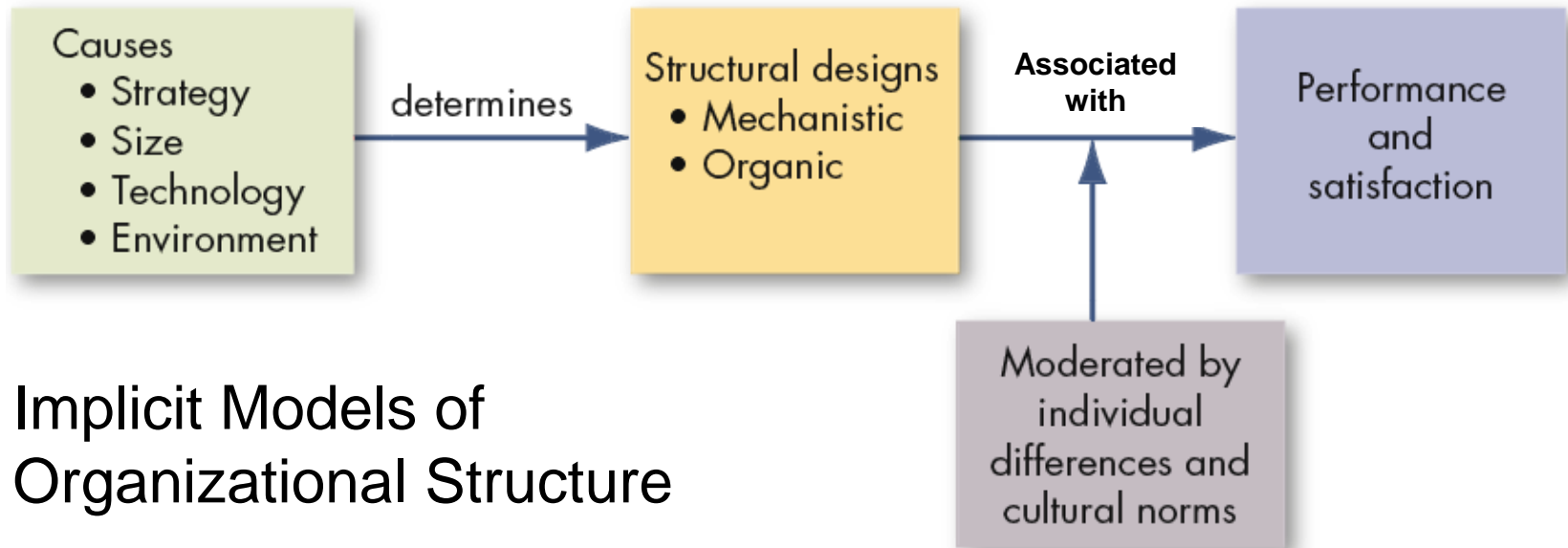
Organizational Designs and Employee Behavior

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.

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Organization Structure: Its Determinants and Outcomes



Implicit Models of Organizational Structure

Perceptions that people hold regarding structural variables formed by observing things around them in an unscientific fashion

EXHIBIT 16-11

Chapter Check-up: Structure

What kind of structure might someone who has a low tolerance for ambiguity feel most comfortable in?

Bureaucratic

Organic

Matrix

Virtual

Discuss with your neighbor why a virtual organization would not make this same person feel comfortable.

Chapter Check-up: Structure

If someone has a high need for affiliation, would a virtual organization be a good fit for him or her? Why or why not?

Discuss with a classmate whether or not an organic organization would be a good fit for this same person.

Chapter Check-up: Structure

With which type of structure do you think trust is most necessary? Why? Are the “substitutes for trust” that are potentially built into some structures? If so, which ones?

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