Lecture 16: Organizational Structure

Learning Objectives

1. Describe the seven elements of an organization's structure.

2. Identify the characteristics of the simple structure, the bureaucracy, and the matrix structure.

3. Analyze the behavioral implications of different organizational designs.

Organization Structure Defined

- An **organizational structure** defines how job tasks are formally divided, grouped, and coordinated.

  - It shapes employees' attitudes and behaviors.

  - It determines what relationships form and the formality of those relationships.

- **Organizational design** is the process of shaping an organization's structure to align the people and the work with the organization's strategy and goals.

  - There are at least 7 design elements to consider.

Elements of Organization Structure

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 people?	Formalization
7. Do individuals from different areas need to regularly interact?	Boundary Spanning

Work Specialization

- **Work specialization** is the degree to which job tasks are subdivided into specific and repetitive jobs.

  – Advantages of high specialization – Increased efficiency, skill improvement, lower selection and training costs

  – Disadvantages of high specialization – Boredom, fatigue, stress, low productivity, inferior quality, increased absenteeism, high turnover

- High specialization is more useful in some industries (fast-food, manufacturing, and technology) than others.

Departmentalization

- **Departmentalization** refers to how jobs are grouped together so common tasks can be coordinated.

- Tasks can be grouped by **function**.

  – E.g., commerce, defense, education, energy

  – Advantage – Increased efficiency from specialists working together and reducing duplication of effort
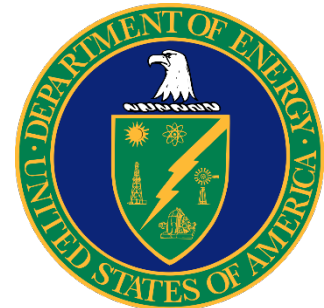
Departmentalization

- Tasks can be grouped by **product** or **service**.
  - E.g., health products and beauty products
  - Advantage – Increased accountability for the performance of the product or service
- Tasks can be grouped by **geography** or **territory**.
  - E.g., Africa, the Americas, Asia, Europe
  - Advantages – Increased customization of product or service, increased sensitivity to local laws

Departmentalization

- Tasks can be grouped by **process**.

    – E.g., sawing, milling, assembling, finishing, shipping

    – Advantage – Increased efficiency in the flow of work activities

- Tasks can be grouped by type of **customer**.

    – E.g., individuals, businesses, governments

    – Advantage – Increased customization of product or service

Chain of Command

- The **chain of command** is an unbroken line of authority that extends from the top of an organization to its lowest level and clarifies who reports to whom.

- **Authority** includes the rights inherent in a managerial role to give orders and to expect those orders to be obeyed.

  – It facilitates coordination through legitimate power.

- **Unity of command** is the idea that employees should have only one manager to whom they report directly.

  – It reduces role conflict and role ambiguity.
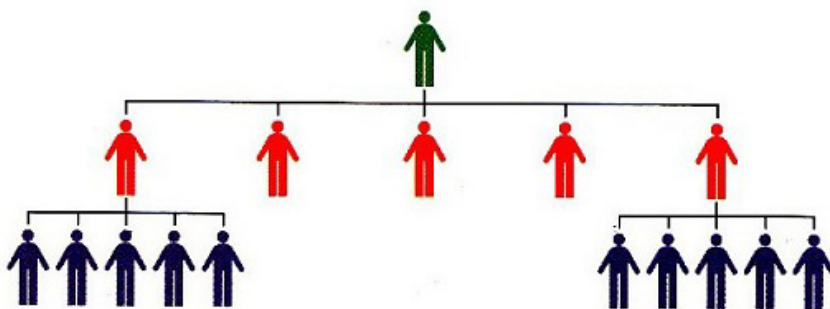
Chain of Command

- Today the chain of command structures are less relevant.

  - This is due in part to increased access to information, participation in decision-making, and popularity of self-managed and cross-functional teams.

- Despite its drop in popularity, this structure is still useful in some modern industries (medicine, law enforcement, and military).

Chief

Deputy Chief

Captain

Lieutenant

Sergeant

Police Officer

Class II Police Officer

Class I Police Officer

Civilian Supervisor
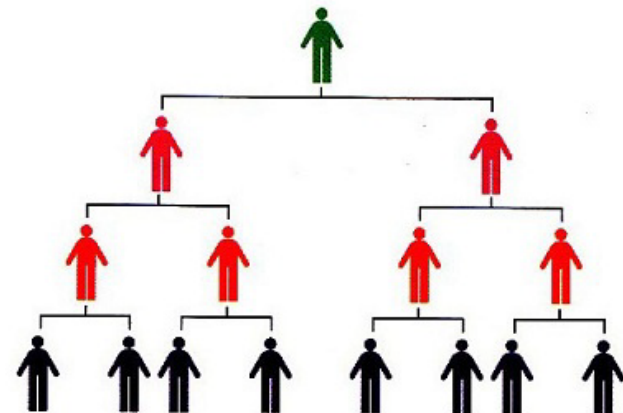
Civilian Employee

Span of Control

- **Span of control** is the number of employees that a manager can efficiently and effectively direct.

  - Wide spans have more employees per manager but fewer levels and fewer managers than narrow spans.

Wide Span of Control   **Narrow Span of Control**

Span of Control

- All else being equal, wide spans are more efficient.

  – It can reduce selection, payroll, and training costs, empower employees, speed up decision making, and increase the organization's adaptability.

- Yet, wide spans can also reduce effectiveness.

  – Managers may not be able to meet all their employees' needs, which can harm satisfaction and performance.

  – To minimize these negative effects, organizations must invest in employee training.

Span of Control

- Narrow spans allow managers to maintain close control over the job tasks and nurture professional relationships.

- The disadvantages of narrow spans include:

  – They tend to be more expensive because they employ more managers.

  – They complicate upward communication by slowing down decision making and isolating the lowest levels from the highest levels.

 – They discourage employee autonomy by encouraging close supervision.

Centralization and Decentralization

- **Centralization** is the degree to which decision-making is concentrated at a single point in the organization.

- In centralized structures, top-level managers make all the decisions, and low-level mangers implement them.

  - It minimizes risk by limiting the number of decision-makers.
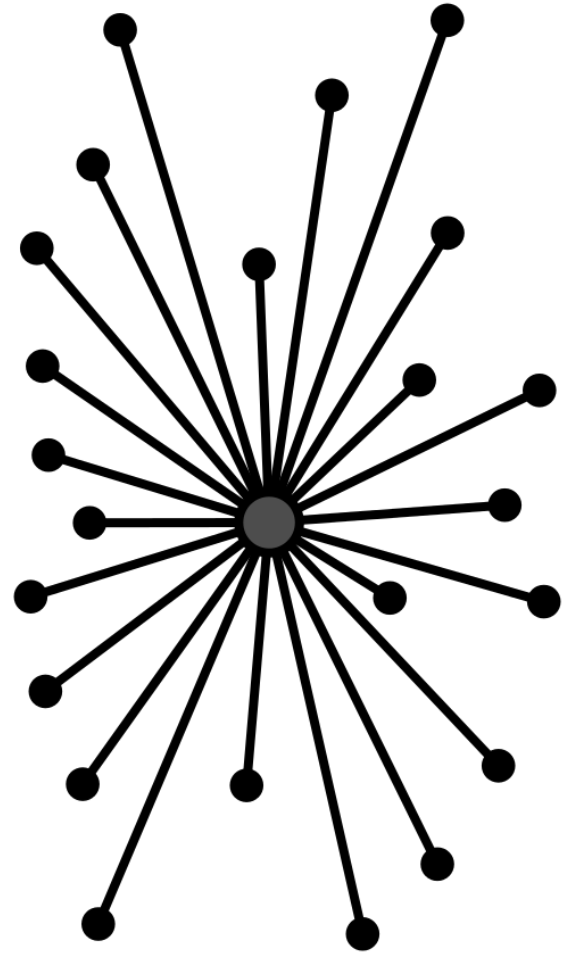
Centralization and Decentralization

- In decentralized structures, managers who know more about the situation make *and* implement decisions.

  – It enables the organization to be more flexible and respond more quickly to problems, customers' needs, opportunities, and local laws.
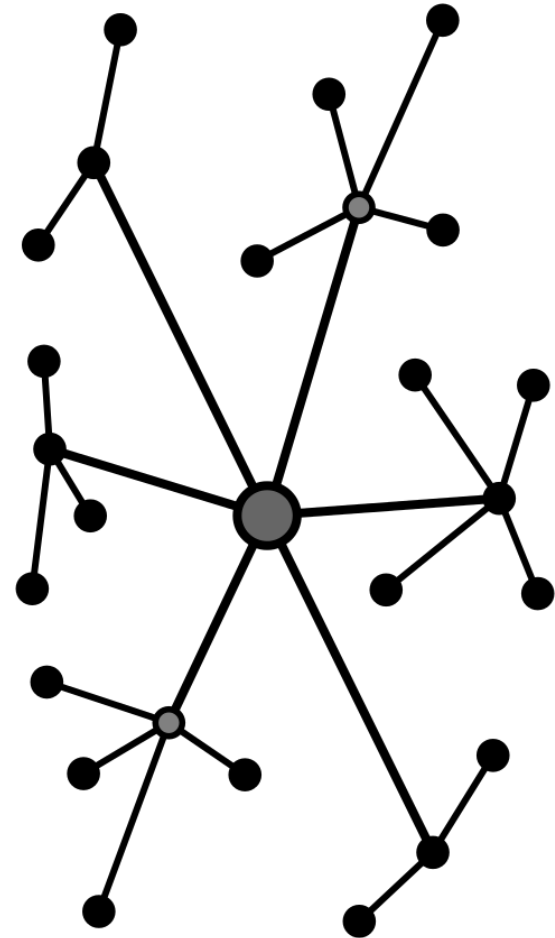
Formalization

- **Formalization** is the degree to which jobs within the organization are standardized.

- In a highly formalized structure, employees have minimal discretion and must follow explicit rules and procedures.

  – The result is consistent and uniform output.

  – This structure conflicts with decentralized structures.

- Structures low in formalization are high in autonomy.

  – Employees have more discretion to decide what, when, and how work should be done.

Boundary Spanning

- **Boundary spanning** is the process of developing work relationships with people outside one's formal work group.

  - The advantages include enhanced creativity, decision making, knowledge sharing, and performance.

- Organizations can encourage boundary-spanning by:

  - Assigning a formal liaison.

  - Developing cross-functional committees.

  - Encouraging individual growth and development.

  - Using job rotation.

Simple Structure

- The **simple structure** is characterized by a low degree of both departmentalization and formalization, wide spans of control, and centralized authority.
  - It is relatively flat with only 2-3 levels and an owner who also serves as the top manager.
  - It is common in small businesses and start-ups.

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                        Jack Gold,
                       owner-manager
   ┌──────────┬──────────┬──────────┬──────────┬──────────┐
Johnny Moore,  Edna Joiner,  Bob Munson,  Norma Sloman,  Jerry Plotkin,  Helen Wright,
salesperson    salesperson   salesperson  salesperson    salesperson     cashier
```

Simple Structure

- The advantages are that it enables the organization to:

  – Be flexible and respond quickly.

  – Maintain clear accountability.

  – Minimize personnel costs.

- The disadvantages are that it is:

  – Difficult to maintain in anything other than small organizations.

  – Risky because everything depends on one person.

Bureaucracy

- The **bureaucracy** is characterized by:
    - High levels of both specialization and formalization,
    - Functional departmentalization,
    - Centralized authority,
    - Narrow spans of control, and
    - The strong presence of a chain of command.

Bureaucracy

- There are two types of bureaucracies:

  - The **functional structure** groups employees by their similar specialties, roles, or tasks.

  - The **divisional structure** groups employees into units by product, service, customer, or geographical area.
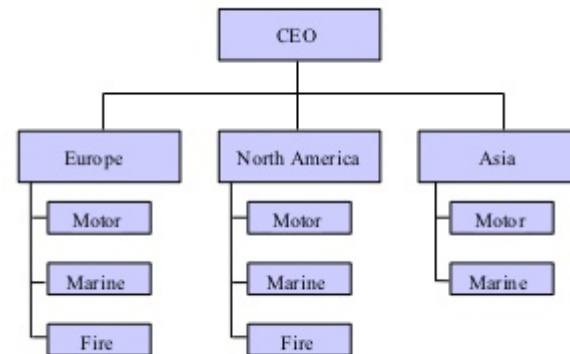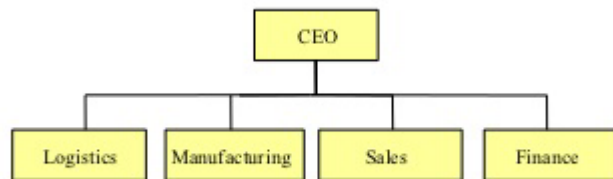
Bureaucracy

- The advantages are that it can:

    - Enable tasks to be performed in a highly efficient manner.

    - Tolerate less talented lower- and middle-managers.

- The disadvantages are that it can:

    - Create subunit conflicts.

    - Lead to an obsessive concern with following the rules.

    - Hinder employees' ability to solve novel problems.

Matrix Structure

- The **matrix structure** creates dual lines of authority and combines functional and product departmentalization.

  – Functional departmentalization groups specialists together and pools their resources.

  – Product departmentalization facilitates coordination among them.

- It breaks the unity of command principle as employees have multiple bosses.

Matrix Structure

Academic Departments / Programs	Undergraduate	Master's	Ph.D.	Research	Executive Development	Community Service
Accounting						
Finance						
Decision and Information Systems						
Management						
Marketing						

Matrix Structure

- The advantages are that it facilitates:
  - The coordination of complex and interdependent activities.
  - Knowledge sharing.
  - The efficient allocation of specialists.

- The disadvantages are that it can create:
  - Confusion.
  - Power struggles.
  - Role conflict and role ambiguity.

Behavioral Implications of Organizational Design

- An organization's structure can impact is employees.

- To understand this impact, however, we must consider individual differences.

  – High specialization is linked to higher productivity and satisfaction *for people who prefer routine work*.

  – Decentralization is linked to high satisfaction *for people who prefer autonomy*.

Implications for Managers

- Be intentional in shaping organizational structure.

- Design a structure that supports the organization's goals.

- Specialization can make operations more efficient, but excessive specialization can create dissatisfaction and reduce motivation.

- Avoid designing rigid hierarchies that overly limit employees' empowerment and autonomy.