CHAPTER 9

Learning Objectives

1. Explain why organizational design is important for organizational success.
2. Identify the three major components of organizational design.
3. Discuss the four types of organizational structure and the strategic conditions under which each might be appropriate.
4. Describe the factors that affect an organization’s need for coordination and explain how integrating mechanisms can be used to coordinate organizational activities.

Organizational Design Defined

- A plan for arranging and coordinating the activities of an organization for the purpose of fulfilling its mission and achieving its goals.

Components of Organizational Design

- Overall organizational design is defined by three primary components:
  - Organizational structure
  - Integrating mechanisms
  - Locus of decision making

Organizational Structure

- Defines the primary reporting relationships that exist within an organization.
- The chain of command and hierarchy of responsibility, authority, and accountability are established through organizational structure.

Common Forms of Organizational Structure

- Functional structure
- Divisional structure
- Matrix structure
- Network structure

Functional Structure

- Members of the organization are grouped according to the particular function that they perform within the organization.
- Appropriate when an organization’s greatest source of complexity comes from the diverse tasks that must be performed rather than from its products, geographic markets, or consumer groups.

Functional Structure: Advantages

Functional Structure: Disadvantages

Example of a Functional Structure

Common Forms of Organizational Structure

- Functional structure
• Divisional structure
• Matrix structure
• Network structure

14 • **Divisional Structure**
• Members of the organization are grouped on the basis of:
  – Common products
  – Geographic markets
  – Customers served

15 • **Types of Divisional Structure**
• Product divisional
  – Most appropriate for organizations with relatively diverse product lines that require specialized efforts to achieve high product quality.
• Geographic divisional
  – Most appropriate for organizations with limited product lines that either have wide geographic coverage or desire to grow through geographic expansion.
• Customer divisional
  – Most appropriate for organizations that have separate customer groups with very specific and distinct needs.

16 • **Product Divisional**
• Advantages
  – Enhanced coordination.
  – Better assessment of manager performance and responsibility.
  – Development of generalist managers.
• Disadvantages
  – Managers may lack expertise to operate in wide geographic areas.
  – Duplication of resources.

17 • **Product Divisional Structure**

18 • **Geographic Divisional**
• Advantages
  – Allows for focus on specific new markets.
  – Good structure for growth along geographic lines.
  – Adaptable to local needs.
• Disadvantages
  – Duplication of product or product/technology efforts.
  – Coordination and integration are difficult.
  – May be difficult to manage diverse product lines.

19 • **Geographic Divisional Structure**

20 • **Common Forms of Organizational Structure**
• Functional structure
• Divisional structure
• Matrix structure
• Network structure

21 • **Matrix Structure**
• A structure in which the tasks of the organization are grouped along two organizational dimensions simultaneously.
• Examples include:
  – Product/function
  – Product/geographic region

22 📋 Matrix Structure: Advantages
23 📋 Matrix Structure: Disadvantages
24 📋 A Multinational Matrix Structure
25 📋 Common Forms of Organizational Structure
  • Functional structure
  • Divisional structure
  • Matrix structure
  • Network structure

26 📋 Network Structure
  • A contemporary organizational structure that is founded on a set of alliances with other organizations that serve a wide variety of functions.

27 📋 Types of Network Structure
  • Internal network
    – A network structure that relies on internally developed units to provide services to a core organizational unit.
  • Stable network
    – A network structure that utilizes external alliances selectively as a mechanism for gaining strategic flexibility.
  • Dynamic network
    – A network structure that makes extensive use of outsourcing through alliances with outside organizations.

28 📋 Network Structure: Advantages
29 📋 Network Structure: Disadvantages
30 📋 Sample Network Structure
31 📋 Components of Organizational Design
  • Overall organizational design is defined by three primary components:
    – Organizational structure
    – Integrating mechanisms
    – Locus of decision making

32 📋 Managing Complexity Through Integration
  • Interdependence is the degree to which work groups are interrelated.
  • Three primary levels of work group integration:
    – Pooled interdependence
    – Sequential interdependence
    – Reciprocal interdependence

33 📋 Pooled Interdependence
  • Occurs when organizational units have a common resource but no interrelationship with one another.
34 Sequential Interdependence

- Occurs when organizational units must coordinate the flow of information, resources, and tasks from one unit to another.

35 Reciprocal Interdependence

- Occurs when information, resources, and tasks must be passed back and forth between work groups.

36 Integrating Mechanisms

- Methods for managing the flow of information, resources, and tasks within the organization.
- Three major categories of integrating mechanisms are:
  - General management systems.
  - Methods of increasing coordination potential.
  - Methods of reducing the need for coordination.

37 General Management Systems

- Some coordination of work units may be achieved through the development of general management systems such as:
  - The managerial hierarchy
  - Rules and procedures
  - Plans and goals
- Such mechanisms form the foundation of an organization’s integration system.

38 Increasing Coordination Potential

- Two popular mechanisms for increasing coordination potential both vertically and horizontally in the organization are information systems and lateral relationships.
  - Information systems facilitate the flow of information up and down the traditional chain of command and across organizational units.
  - Lateral relationships exist across work units and serve as mechanisms for exchanging decision-making information.

39 Boundary Spanning Coordination

- Lateral relationships that help to integrate and coordinate the activities of the organization.
- Examples include:
  - Liaisons
  - Committees
  - Task forces
  - Integrating positions
  - Interfunctional work teams

40 Reducing the Need for Coordination

- In essence, the organization creates “slack resources” that reduce the interdependence of the work groups.
- As a result, the need for integrating mechanisms is reduced.

41 Components of Organizational Design

- Overall organizational design is defined by three primary components:
  - Organizational structure
  - Integrating mechanisms
  - Locus of decision making

42 Locus of Decision Making
Locus of decision making refers to the degree to which decision making is centralized versus decentralized.

**Centralized Decision Making**
- **Advantage**
  - Gives top-level management maximum control.
- **Disadvantage**
  - Limits the organization’s ability to respond quickly and effectively to changes in the environment.

**Decentralized Decision Making**
- **Advantage**
  - Organizations can respond to environmental change more rapidly and effectively because the decision makers are the people closest to the situation.
- **Disadvantage**
  - Top-level managers lose some control.

**Mechanistic Vs. Organic Systems**
- **Mechanistic Systems**
  - Highly centralized organizations in which decision-making authority rests with top-level management.
- **Organic Systems**
  - Decentralized organizations that push decision making to the lowest levels of the organization in an effort to respond more effectively to environmental change.

**The Impact of Environmental Stability**
- **Stable Environments**
  - Environments that experience little change.
- **Turbulent Environments**
  - Environments that are characterized by rapid and significant change.

**Organizational Design for a Changing Environment**
- **Adaptive Organization**
  - An organization that eliminates bureaucracy which limits employee creativity and brings the decision makers of the organization closer to the customer.

**Implications for Leaders:**
- Remember that organizational design provides an important mechanism for achieving the strategic and operational goals of the organization.
- Structure their organizations to cope with their source of greatest complexity.
- Consider ways that partnerships between members of the organization, as well as alliances with other organizations, can create synergy and improve organizational performance.
- Utilize advanced information technology to support dispersed operations, people, and partners.

**Implications for Leaders:**
- Look for ways to increase the integration potential of the organization or to reduce the need for integration.
- Evaluate the advantages and disadvantages associated with centralized versus decentralized decision making, given the specific circumstances of the organization.
- Strive to develop an adaptive and flexible organization that is effective in a dynamic business environment.