Chapter 15: Foundations of Organization Structure
Learning Objectives

After studying this chapter, you should be able to:
- Identify the six elements of an organization’s structure.
- Identify the characteristics of a bureaucracy.
- Describe a matrix organization.
- Identify the characteristics of a virtual organization.
- Show why managers want to create boundaryless organizations.
- Demonstrate how organizational structures differ, and contrast mechanistic and organic structural models.
- Analyze the behavioral implications of different organizational designs.
### Exhibit 15-1

**Key Design Questions and Answers for Designing the Proper Organizational Structure**

<table>
<thead>
<tr>
<th>The Key Question</th>
<th>The Answer Is Provided by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To what degree are activities subdivided into separate jobs?</td>
<td>Work specialization</td>
</tr>
<tr>
<td>2. On what basis will jobs be grouped together?</td>
<td>Departmentalization</td>
</tr>
<tr>
<td>3. To whom do individuals and groups report?</td>
<td>Chain of command</td>
</tr>
<tr>
<td>4. How many individuals can a manager efficiently and effectively direct?</td>
<td>Span of control</td>
</tr>
<tr>
<td>5. Where does decision-making authority lie?</td>
<td>Centralization and decentralization</td>
</tr>
<tr>
<td>6. To what degree will there be rules and regulations to direct employees and managers?</td>
<td>Formalization</td>
</tr>
</tbody>
</table>
LO 1

Identify the Six Elements of an Organization’s Structure

Work Specialization

By the late 1940s, most manufacturing jobs in industrialized countries involved work specialization – the division of labor into separate activities.

- Repetition of work.
- Training for specialization.
- Increasing efficiency through invention.
- Henry Ford
Identify the Six Elements of an Organization’s Structure
Identify the Six Elements of an Organization’s Structure

- Departmentalization
  - Grouping jobs together so common tasks can be coordinated is called **departmentalization**.
    - By functions performed.
    - By type of product or service the organization produces.
    - By geography or territory.
    - By process differences.
    - By type of customer.
Identify the Six Elements of an Organization’s Structure

- Chain of Command

  Chain of command – an unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom.

- Once a basic cornerstone in organization design.

- Two complementary concepts:
  - Authority
  - Unity of command
The chain of command is less relevant today because of technology and the trend of empowering people.

- Operating employees make decisions once reserved for management.
- Increased popularity of self-managed and cross-functional teams.

Many organizations still find that enforcing the chain of command is productive.
Identify the Six Elements of an Organization’s Structure

Exhibit 15-3: Contrasting Spans of Control

<table>
<thead>
<tr>
<th>Level</th>
<th>Span of 4</th>
<th>Span of 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>16</td>
<td>64</td>
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<td>4</td>
<td>64</td>
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<tr>
<td>5</td>
<td>256</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>1,024</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>4,096</td>
<td></td>
</tr>
</tbody>
</table>

Span of 4:
- Operatives = 4,096
- Managers (Levels 1–6) = 1,365

Span of 8:
- Operatives = 4,096
- Managers (Levels 1–6) = 585
Centralization and Decentralization

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

Advantages of a decentralized organization:
- Can act more quickly to solve problems.
- More people provide input into decisions.
- Employees are less likely to feel alienated from those who make decisions that affect their work lives.
Identify the Six Elements of an Organization’s Structure

- **Formalization**
  - Formalization – the degree to which jobs within the organization are standardized.
    - A highly formalized job gives the job incumbent a minimum amount of discretion.
    - The greater the standardization, the less input the employee has into how the job is done.
  - Low formalization – job behaviors are relatively non-programmed, and employees have a great deal of freedom to exercise discretion in their work.
Identify the Characteristics of a Bureaucracy

Exhibit 15-4: A Simple Structure (Jack Gold’s Men’s Store)

Jack Gold, owner-manager

- Johnny Moore, salesperson
- Edna Joiner, salesperson
- Bob Munson, salesperson
- Norma Sloman, salesperson
- Jerry Plotkin, salesperson
- Helen Wright, cashier

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The simple structure is most widely practiced in small businesses in which the manager and the owner are one and the same.

- Strengths:
  - Simple, fast, and flexible.
  - Inexpensive to maintain.
  - Accountability is clear.

- Weaknesses:
  - Difficult to maintain in anything other than small organizations.
  - Risky—everything depends on one person.
Identify the Characteristics of a Bureaucracy

- A **bureaucracy** is characterized by standardization.
  - Highly routine operating tasks.
  - Very formalized rules and regulations.
  - Tasks grouped into functional departments.
  - Centralized authority.
  - Narrow spans of control.
  - Decision making that follows the chain of command.
Identify the Characteristics of a Bureaucracy

- **Strengths:**
  - Ability to perform standardized activities in a highly efficient manner.

- **Weaknesses:**
  - Subunit conflicts.
  - Unit goals dominate.
  - Obsessive behavior.
  - Covering weak management.

- The bureaucracy is efficient only as long as employees confront familiar problems with programmed decision rules.
Describe a Matrix Organization

The **matrix structure** combines two forms of departmentalization—functional and product:

- The strength of functional is putting specialists together.
- Product departmentalization facilitates coordination.
- It provides clear responsibility for all activities related to a product, but with duplication of activities and costs.
Describe a Matrix Organization

### Exhibit 15-5: Matrix Structure for a College of Business Administration

<table>
<thead>
<tr>
<th>Academic Departments</th>
<th>Programs</th>
<th>Undergraduate</th>
<th>Master’s</th>
<th>Ph.D.</th>
<th>Research</th>
<th>Executive Development</th>
<th>Community Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
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<td>Finance</td>
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<tr>
<td>Decision and Information Systems</td>
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<tr>
<td>Management</td>
<td></td>
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<tr>
<td>Marketing</td>
<td></td>
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</tbody>
</table>
The Virtual Organization

- The essence of the **virtual organization** is that it is typically a small, core organization that outsources major business functions.
- Also referred to as a **modular or network** organization.
- It is highly centralized, with little or no departmentalization.
Identify the Characteristics of a Virtual Organization

Exhibit 15-6  A Virtual Organization

- Independent research and development consulting firm
- Advertising agency
- Factories in South Korea
- Commissioned sales representatives

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Show Why Managers Want to Create Boundaryless Organizations

The Boundaryless Organization

- The *boundaryless organization* seeks to eliminate the chain of command, has limitless spans of control, and replaces departments with empowered teams.
- Uses cross-hierarchical teams.
- Uses participative decision making practices.
- Uses 360-degree performance appraisals.
Show Why Managers Want to Create Boundaryless Organizations

- Functional departments create horizontal boundaries.
  - Replace these with cross-functional teams organized around processes.
- Boundaryless organizations break down geographic and cultural barriers.
  - Strategic alliances help blur cultural differences.
  - Telecommuting blurs organizational boundaries.
Show Why Managers Want to Create Boundaryless Organizations

- **The Leaner Organization: Downsizing**
  - The goal of the new organizational forms we’ve described is to improve agility by creating a lean, focused, and flexible organization.
  - Downsizing is a systematic effort to make an organization leaner by selling off business units, closing locations, or reducing staff.
Show Why Managers Want to Create Boundaryless Organizations

Strategies for downsizing include:

1. Investment
2. Communication
3. Participation
4. Assistance

Make cuts carefully and help employees through the process.
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

**Exhibit 15-7** 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
An organization’s structure is a means to help management achieve its objectives.

Most current strategy frameworks focus on three strategy dimensions:

1. Innovation
2. Cost Minimization
3. Imitation
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Structural Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>Organic: A loose structure; low specialization, low formalization, decentralized</td>
</tr>
<tr>
<td>Cost minimization</td>
<td>Mechanistic: Tight control; extensive work specialization, high formalization, high centralization</td>
</tr>
<tr>
<td>Imitation</td>
<td>Mechanistic and organic: Mix of loose with tight properties; tight controls over current activities and looser controls for new undertakings</td>
</tr>
</tbody>
</table>
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

- Organizational Size

- Large organizations—employing 2,000 or more people—tend to have more specialization, more departmentalization, more vertical levels, and more rules and regulations than do small organizations.

- The impact of size becomes less important as an organization expands.
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

- Technology
  - The way an organization transfers its inputs into outputs is called **technology**.
  - Numerous studies have examined the technology-structure relationship.
  - Organizations engaged in non-routine activities tend to prefer organic structures, and those performing routine activities prefer mechanistic structures.
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

- Environment
  - An organization’s environment includes outside institutions or forces that can affect its performance.
  - Dynamic environments create significantly more uncertainty for managers than do static ones.
  - To minimize uncertainty:
    - Broaden structure to sense and respond to threats.
    - Form strategic alliances.
Demonstrate How Organizational Structures Differ, and Contrast Mechanistic and Organic Structural Models

Exhibit 15-9
Three-Dimensional Model of the Environment

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Analyze the Behavioral Implications of Different Organizational Designs

- An organization’s structure can have significant effects on its members.
- It’s impossible to generalize!
  - Not everyone prefers the freedom and flexibility of organic structures.
  - Some people are most productive and satisfied when work tasks are standardized and ambiguity minimized.
Analyze the Behavioral Implications of Different Organizational Designs

- Organizational Designs and Employee Behavior
  - Work specialization contributes to higher employee productivity.
  - No evidence supports a relationship between span of control and employee satisfaction or performance.
  - Fairly strong evidence links centralization and job satisfaction, meaning that less centralization is associated with higher satisfaction.
  - National culture influences the preference for structure.
Implications for Managers

Exhibit 15-10: Organization Structure: Its Determinants and Outcomes

Causes
- Strategy
- Size
- Technology
- Environment
determines Structural designs
- Mechanistic
- Organic
associated with Performance and satisfaction
Moderated by individual differences and cultural norms
Implications for Managers

- Specialization can make operations more efficient, but remember that excessive specialization can create dissatisfaction and reduced motivation.
- Avoid designing rigid hierarchies that overly limit employees’ empowerment and autonomy.
- Balance the advantages of virtual and boundaryless organizations against the potential pitfalls before adding flexible workplace options.
Implications for Managers

- Downsize your organization to realize major cost savings, and focus the company around core competencies, but only if necessary, because downsizing can have a significant negative impact on employee affect.

- Consider the scarcity, dynamism, and complexity of the environment, and balance the organic and mechanistic elements when designing an organizational structure.
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