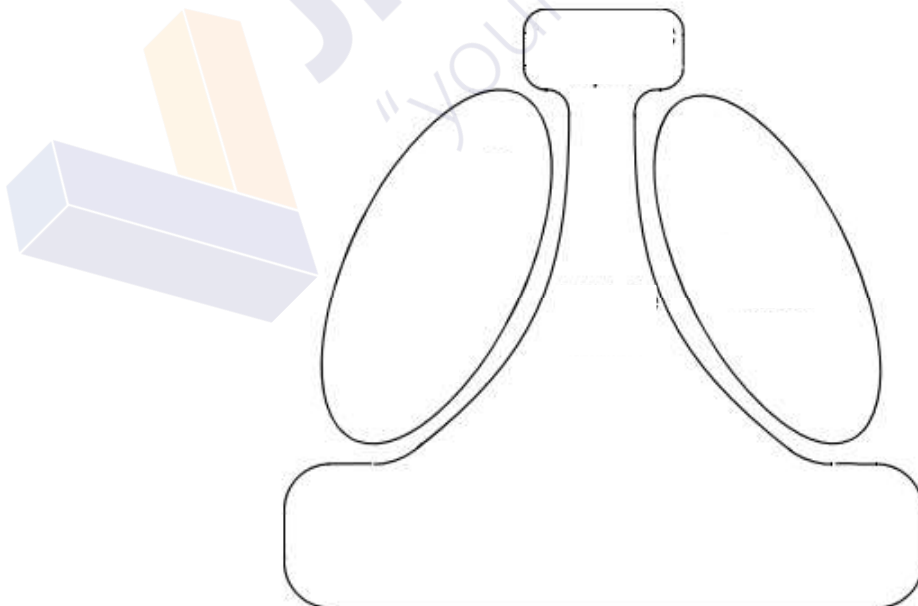


# ORGANIZATION STRUCTURE



## COMPONENTS OF THE ORGANIZATION



Component	Job	Preferred means of co-ordination
<b>Strategic apex</b>	Ensures the organisation follows its mission. Manages the organisation's relationship with the environment.	Direct supervision (especially in small businesses)
<b>Operating core</b>	People <b>directly</b> involved in the process of obtaining inputs, and converting them into outputs.	Mutual adjustment; standardisation of skills
<b>Middle line</b>	Converts the desires of the strategic apex into the work done by the operating core	Standardisation of outputs (results)
<b>Technostructure</b>	<ul style="list-style-type: none"> <li>Analysers determine the best way of doing a job</li> <li>Planners determine outputs (eg goods must achieve a specified level of quality)</li> <li>Personnel analysts standardize skills (eg training programmes)</li> </ul>	Standardisation of work processes or outputs
<b>Support staff</b>	Ancillary services such as public relations, legal counsel, the cafeteria. Support staff do not plan or standardise production. They function independently of the operating core	Mutual adjustment



## FUNCTIONAL DEPARTMENTATION

**Functional organisation** involves grouping together people who **do similar tasks**. Primary functions in a manufacturing company might be production, sales, finance and general administration. Sub-departments of marketing might be market research, advertising, PR and so on

### Advantage

- Expertise is pooled - division of work into specialist areas.
- It avoids duplication and enables economies of scale
- It facilitates the recruitment, management and development of functional specialists.
- It suits centralised businesses.

### Disadvantages

- It focuses on internal processes and inputs, rather than the customer and outputs.
- Communication problems may arise between different functions.
- Poor co-ordination, especially if rooted in a tall organisation structure.
- Functional structures create vertical barriers to information and work flow.

Eg:

## GEOGRAPHIC DEPARTMENTATION

Where the organisation is structured according to **geographic area**, some authority is retained at Head Office but day-to-day operations are handled on a **territorial** basis. (eg southern region, western region). Many sales departments are organised territorially.

### Advantages

- (a) There is local decision making at the point of contact between the organisation
- (b) It may be cheaper to establish area factories/offices than to service markets from one location (eg costs of transportation and travelling may be reduced).

### Disadvantages.

- (a) Duplication and possible loss of economies of scale might arise.

Eg: A national organisation divided into ten regions might have a customer liaison department in each regional office. If the organisation did all customer liaison work from a centralised head office it might need fewer managerial staff.

- (b) Inconsistency in methods or standards may develop across different areas.



Eg:



### **Product/Brand Departmentation**

Some organisations group activities on the basis of **products or product lines**. Some functional departmentation remains (eg manufacturing, distribution, marketing and sales) but a divisional manager is given responsibility for the product or product line, with authority over personnel of different functions.

#### **Advantages**

- (a) Accountability - Individual managers can be held accountable for the profitability of individual products.
- (b) Specialisation - For example, some salespeople will be trained to sell a specific product in which they may develop technical expertise and thereby offer a better sales service to customers.
- (c) Co-ordination - The different functional activities and efforts required to make and sell each product can be co-ordinated and integrated by the divisional/product manager.

#### **Disadvantages :**

- (a) It increases the overhead costs and managerial complexity of the organisation.
- (b) Different product divisions may fail to share resources and customers.

### **Customer departmentation**

An organisation may organise its activities on the basis of types of customer, or market segment.

Eg:

### **Divisionalisation**

**Divisionalisation** is the division of a business into autonomous regions or product businesses, each with its own revenues, expenditures and capital asset purchase programmes, and therefore each with its own profit and loss responsibility.

Successful divisionalisation requires certain key conditions.

- (a) Each division must have properly delegated authority, and must be held properly accountable to head office (eg for profits earned).
- (b) Each unit must be large enough to support the quantity and quality of management it needs.
- (c) The unit must not rely on head office for excessive management support.
- (d) Each unit must have a potential for growth in its own area of operations.
- (e) There should be scope and challenge in the job for the management of each unit.
- (f) If units deal with each other, it should be as an 'arm's length' transaction.



### **Hybrid structures**

**hybrid organizational structure** as one in which more than one **organizational** design is used. Organisation structures are rarely composed of only one type of organisation.

- (a) Product organisation, to suit the requirements of brand marketing or production technologies
- (b) Customer organisation, particularly in marketing departments, to service key accounts
- (c) Territorial organisation, particularly of sales and distribution departments, to service local requirements for marketing or distribution in dispersed regions or countries



## **THE SIMPLE STRUCTURE**



**The simple structure is characteristic of small, young organisations.**

The strategic apex is a small group, or possibly one person, which exercises direct control over the people making up the operating core. There is little, if any, role for technical or support staff



- In small firms, a single entrepreneur or management team will dominate (as in the power culture). If it grows, the organisation might need more managerial skills than the apex can provide. Strategies might be made on the basis of the manager's hunches.
- Centralisation is advantageous as it reflects management's full knowledge of the operating core and its processes. However, senior managers might intervene too much.
- It is risky as it depends on the expertise of one person. Such an organization might be prone to succession crises. This problem is often encountered in family businesses.
- This structure can handle an environment that is relatively simple but fastmoving, where standardisation cannot be used to co-ordinate activities.
- Co-ordination is achieved by direct supervision, with few formal devices. It is, thus, flexible.
- This structure has its own particular characteristics: wide span of control; no middle line and hence minimal hierarchy; and no technostructure, implying little formalisation or standardisation of behaviour.

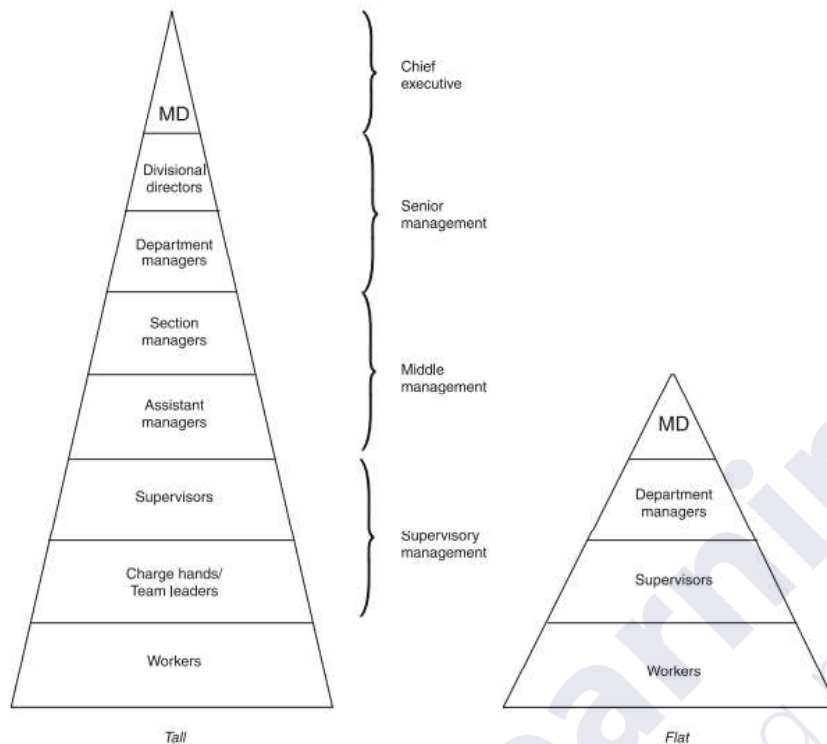


## **MATRIX AND PROJECT ORGANIZATION**

Eg:



# TALL & FLAT STRUCTURE



## Tall Structure

For	Against
Narrow control spans	Rigid supervision can be imposed, blocking initiative
Small groups enable team members to participate in decisions	Inhibits delegation
A large number of steps on the promotional ladders – assists management training and career planning	The same work passes through too many hands Increases administration and overhead costs Slow decision making and responses, as the strategic apex is further away

## Flat Structure

For	Against
More opportunity for delegation	Sacrifices control
Relatively cheap	Managers may only get a superficial idea of what goes on. If they are overworked they are more likely to be involved in crisis management
speeds up communication between strategic apex and operating core	Middle managers are often necessary to convert the grand vision of the strategic apex into operational terms





# TRENDS IN NEW ORGANIZATIONS

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- All non-core processes and activities in the organization are outsourced
- In modular organisations different elements or components of the product or service the organisation produces are outsourced to different suppliers
- Boundaryless organisations remove both the internal barriers that separate the hierarchy levels, different functions and different departments, and also remove the barriers between the organisation and its suppliers, customers and competitors.

**Delayering** is the reduction of the number of management levels from bottom to top.

- **Information technology –**
- **Empowerment**
- **Economy –**
- **Fashion -**



# ORGANIC AND MECHANISTIC ORGANISATIONS

- Flexible organisations can react quickly to change in order to gain competitive advantage and maintain its position in the market. Flexible organisations are those which have an organic structure.
- More rigid organisations have a mechanistic structure. Tall organisations are generally more mechanistic, whereas flatter organisations are more likely to have characteristics of an organic organisation.

Organic	mechanistic
Decentralised decision making	Centralised decision making
High degree of autonomy	High degree of supervision
Innovation and initiative encouraged	Heavy reliance on standardised policies and procedures
Favours informal communication	Favours formal communication channels
Flexible attitude to, and awareness of, change	Low perceived need to change
When implemented, change is embraced	When implemented, change is resisted



- Johnson et al (2005) identify three major groups of challenges for 21st century organisation structures:

1. **Flexibility of organisational design.** The rapid pace of environmental change and increased levels of environmental uncertainty demand flexibility of organisational design.
2. **Effective systems.** The creation and exploitation of knowledge requires effective and userfriendly systems to support the people for their day to day business activities.
3. **Globalisation.** It creates new types and a new scale of technological complexity in communication and information systems; at the same time, diversity of culture, practices and approaches to personal relationships bring their own new problems of organisational form.



- **Power** is the ability to get things done
- **Authority** is related to position power. It is the right to take certain decisions within certain boundaries.
- **Responsibility** is the obligation a person has to fulfil a task he or she has been given

Power	Detail
Physical power	
Resource power	
Coercive power	
Reward power	
Position power or legitimate power	
Expert power	
Referent power	

**Influence** is the process by which one person modifies the behaviour or attitude of another

- **1. Senior management**

Senior managers enjoy **high position power**: in theory they take the major decisions and set constraints over the decisions taken by other people. In practice, however, this power is never absolute. Senior managers depend on decisions and information supplied by subordinates, and it is quite possible that the information is shaped at a lower level. Informal leaders may have upward or sideways influence (eg experts, front-line workers).

Senior managers have **high resource powers** which they exercise over budget allocations and strategic direction.

- **2 Middle managers**

Middle managers have **limited reward power** over their own subordinates; expert power and some decisions; and perhaps **negative power** to delay or subvert decisions taken by senior managers. They need **legitimate power**, hence the need for formal job descriptions, authorisation limits and so on. They may also gain influence from networking: tapping into valued sources of information, or influential mentors and coalitions

- **3 Interest groups**

Formal interest groups are groups which represent the interests of their members, in order to wield greater power than their individual members. Examples include trade unions and occupational/professional associations.

## Departmental power

- (a) Dependency. A department which depends on another department may not be in a position to exercise power over that department, without support at a higher level. A department may use its resource power to make other departments dependent on it.
- (b) Financial resources. This is another sort of dependency, but a department with a larger budget can spend it with more discretion. (c) Centrality. How critical is the department in the primary activities of the organisation?
- (d) Non-substitutability. Some departments cannot easily be broken up and their activities carried out elsewhere. This used to be the case with information systems departments, before the advent of cheap personal computers and software.
- (e) Uncertainty. A department which reduces the levels of uncertainty faced by other departments (in dealing with key environmental variables) has a sort of expert power.



**Authority** is the right to do something, or to ask someone else to do it and expect it to be done. Authority is thus another word for **position or legitimate power**

Max Weber (many years before French and Raven's work on power) proposed three ways in which managers exercised what he called legitimate power (or authority).

- **Charismatic authority**
- **Traditional authority**
- **Rational-legal authority**

**Responsibility** is the **obligation** a person has to fulfil a task which he or she has been given. **Accountability** is a person's **liability** to be called to account for the fulfilment of their tasks.



## **Centralization and Decentralization**

A centralized structure is one in which there is a greater degree of central control

### **Advantages of Centralization**

- Great control over activities
- Procedures can be standardized throughout the organization
- Senior managers can make decisions based on corporate view
- Balance of power
- Lower overheads
- Leadership

### **Advantages of decentralization**

- Greater job satisfaction
- It reduce the stress and burden of senior management
- Better Local knowledge from subordinates
- Flexibility and speed
- Grooming middle and junior level management

**Delegation** of authority is the process whereby a superior gives to a subordinate part of his or her own authority to make decisions.

### **Methods**

- (a) Abdication
- (b) Custom and practice
- (c) Explanation
- (d) Consultation

### **Process**

- **Step 1** Specify performance: Inform the goals and standards expected of the subordinate.
- **Step 2** Formally assign tasks to the subordinate, who should formally agree to do them.
- **Step 3** Allocate resources and authority to the subordinate to enable him or her to carry out the delegated tasks at the expected level of performance.
- **Step 4** Back off and allow the subordinate to perform the delegated tasks.
- **Step 5** Maintain contact, to review progress made, make constructive criticism and be available to give help and advice if requested.

