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Business Management
BMA 204

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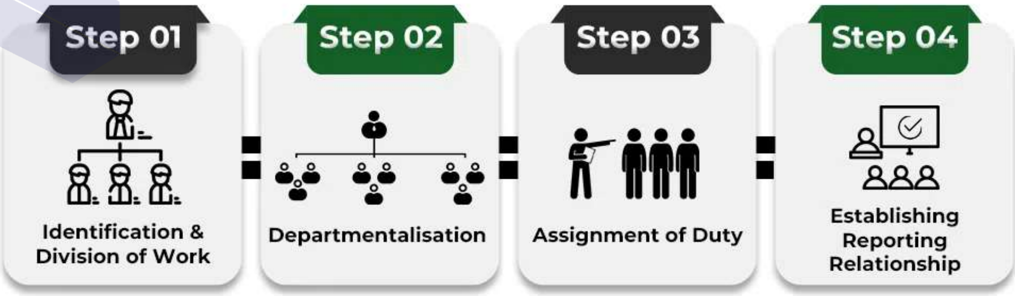
Part III
Organizational Structure and Design

Introduction to Organizing

- Identifying and grouping different activities in the organisation different activities in the organization and bringing together the physical and financial and human resources to establish the most productive relations for the achievement of organizational goals.
- Organization is deciding how best to group organizational activities and resources so that the organization will achieve its goals

Organizing process



1. Identification and division of work

- The organizing function begin with division of work into smaller units – such unit is called a job
- One individual is assigned only one job according to his capabilities and qualifications
- This leads to systematic working and specialization

2. Departmentalization

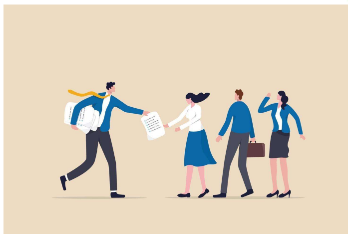
- Once the work is divided into smaller manageable units, related jobs are grouped together and put under one department – this process is called departmentalization

Functional departmentalization
- Jobs of similar nature are grouped under one department
- Suitable for organizations that have diversified activities.
- Example: All work related to production will come under the production department

Divisional departmentalization
- Jobs related to one product are grouped under one department
- Suitable for organizations which have varieties of products.
- Example: If an organization has four divisions, then each department will have a separate department for production, marketing, finance, etc.

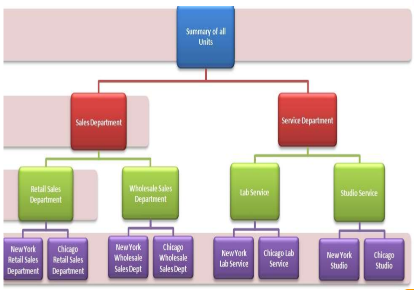
3. Assignment of duties

- Once departments are formed, each department is put under the charge of an individual
- The work must be assigned to those who are best suited for it
- Employees are assigned duties by giving them a document called job description.
- This document clearly defines the contents and responsibilities related to the job.



4. Establishing reporting relationships

- After assigning duties, all individuals must also be assigned matching authority
- This will result in creation authority –responsibility relationship (superior-subordinate relationship) between superior and subordinate.
- With this managerial hierarchy is created (chain of command), there everyone knows who has to take orders from and to whom he is accountable to.
- The individual of higher authority becomes the superior and with less authority becomes the subordinate.



Importance of organizing

- Benefit of specialization
  - Each work is divided into smaller jobs and one individual is assigned only one job according to his qualification. Such division of work leads to specialization
- Clarity in working relationships
  - Organizing function defines the authority or power enjoyed by every individual – to whom he can order and from whom he should receive orders
  - Helps in creation of managerial hierarchy
- Optimum utilization of resources
  - Organizing helps in proper usage of men, material and money
  - Jobs are properly assigned, so there is no confusion or duplication
  - This helps in minimizing the wastage of resources
- Adaptation to change
  - Organizing function helps in the creation of different departments and managerial hierarchy
  - This structure helps in adapting and adjusting to the activities in response to the changes in the external environment

- Effective administration
  - Organizing function provides a clear description of jobs, there is no confusion and duplication
  - Every individual knows his role and position very clearly
  - Therefore, management become easy, and this brings effectiveness in administration
- Development of Personnel
  - Organization structure helps in reducing the workload of managers y assigning their routine jobs into their subordinates
  - This helps managers to develop new methods and ways perform the job
  - It gives them an opportunity and time to innovate and helps in strengthening the company's competitive position
  - This helps to develop the subordinate by giving them the ability to handle challenges and to realize their full potentials
- Expansion of growth
  - Optimum utilization of resources, proper division of work and departmentalization helps companies to meet challenges and can expand their activities in a planned manner
  - It helps to add more job positions, departments, and even diversify their product lines
  - New geographical areas can also be added to increase sales and profits

Authority | Responsibility | Power | Accountability

Authority

- Authority mans "Power to take decision"
- Definition - "The power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve organizational objectives"
- Refers to the right of an individual to command his subordinates with the scope of his position or right to give commands, orders and get the things done
- When the managers are passing their responsibilities to the subordinates, they also pass some authority, matching the responsibility- they should not pass all their authority to their subordinates
- Authority should be well-defined
- All people who have the authority should know the scope of their authority and they should not under-utilize to misuse it
- Top level managers has the greatest authority, and it always flaws from top to bottom
- It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it

Responsibility

- Obligation of the subordinates to properly perform the work assigned to him or the duty of person to complete the task assign to him
- The process of delegation begins when the manager passes on some of his responsibilities to his subordinates – responsibility can be delegated
- When an employee is given the responsibility of some job, he must also be given requisite authority to carry out his job
- A person who is given the responsibility should ensure that he accomplishes the task assigned to him and he is bound for and if he is failed to accomplish the task, he should not give any explanation or excuses
- Responsibility without adequate authority leads discontent and dissatisfaction
- Responsibility flows from bottom to top
- Middle level and Lower-level managers and hold more responsibility

Relationship between Authority and responsibility

- Authority and responsibility are interdependent in any organizational structure.
- Authority grants individuals the power to make decisions, issue directives, and allocate resources, while responsibility entails the obligation to complete tasks and achieve outcomes.
- For effective operation, authority must be paired with corresponding responsibility; otherwise, it can lead to inefficiencies or misuse of power.
- If someone has responsibility without sufficient authority, they may be unable to perform their duties effectively, whereas authority without responsibility can result in a lack of accountability and direction.
- Therefore, aligning authority with responsibility ensures that individuals have both the means and the obligation to meet their objectives, fostering a balanced and accountable environment.

Differences between Authority and Responsibility

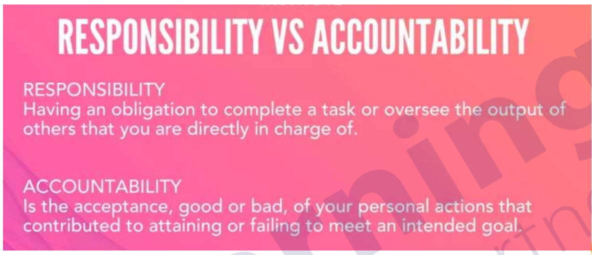
Authority	Responsibility
It is the legal right of a person or a superior to command his subordinates	It is the obligation of subordinate to perform the work assigned to him
Authority is attached to the position of a superior in concerns	Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him.
Authority can be delegated by a superior to a subordinate	Responsibility cannot be shifted and is absolute
It flows from top to bottom	It flows bottom to top.

Accountability

- The obligation to demonstrate and take responsibility for performance considering agreed expectations
- An acceptance of responsibility for honest and ethical conduct towards others
- The difference between accountability and responsibility

  Responsibility is obligation to act, and accountability is the obligation to answer for an action

- Accountability consists of giving explanations for any variance in the actual performance from the expectations set.
- Accountability cannot be delegated



Power

- It is a broader concept than authority
- The ability of a person to influence others
- Authority is one source of the power
- Managers can get the authority and responsibility from their position; they should develop power based on other sources
- Five power sources introduced by French and Raven

Legitimate
Comes from the belief that a person has the formal right to make demands and to expect compliance and obedience from others

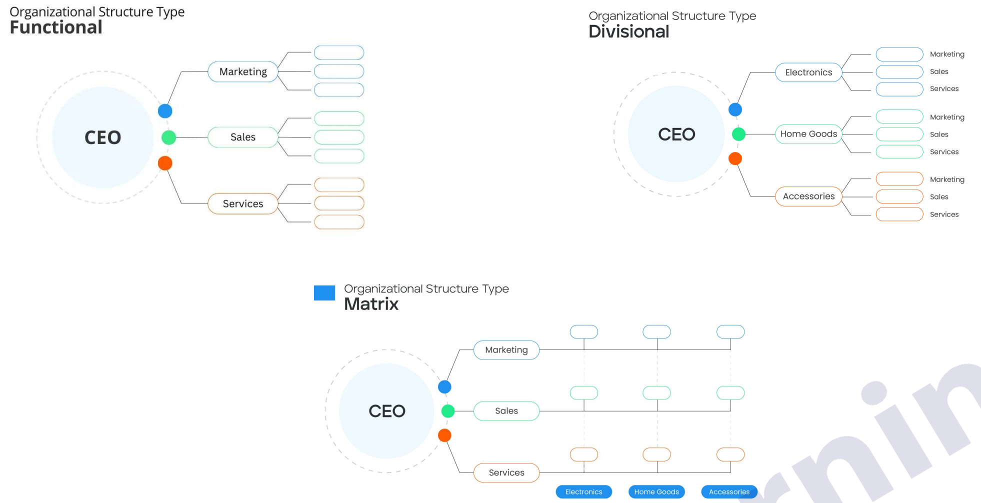
Reward
Results from on person's ability to compensate another for compliance

Expert
Based on a person's superior skill and knowledge

Referent
Result of a person's perceived attractiveness, worthiness and right to respect from others

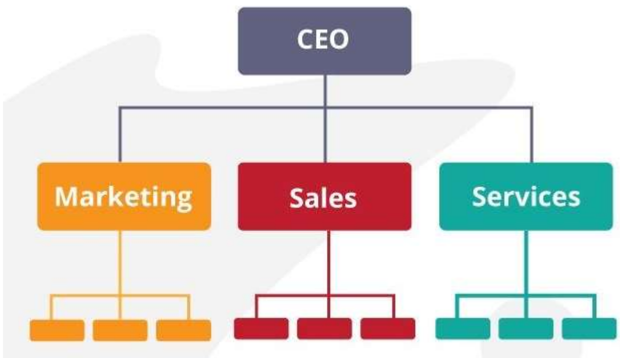
Coercive
Comes from the belief that a person can punish others for noncompliance

Types of organizational structures



Functional structure

- Business structure that organizes a company into different departments based on areas of expertise.
- These departments serve as functional units and are overseen by functional managers or department heads



Functional structure - Advantages

Specialization
- Activities are grouped according to functions to be performed
- Similar tasks are placed under one department
- Leads to efficiency and specialization

Easy supervision
- Tasks to be done in one department are similar in nature and it becomes easy to guid and supervise employees preforming their jobs

Easy coordination
- Similarity of tasks being performed help in promoting control and coordination within the departments

Increase managerial efficiency
- Managers in each department are performing the job again and again and make them specialized and increase their efficiency

Effective training
- Easy to trains employees since the focus is only on a limited range of skills

Decrease cost
- Minimum duplication of efforts and economies of scale results in lower cost

Functional structure - Disadvantages

- The department become specialized I their own way and fail to see the prospect of the whole organization – difficult to achieve organizational goals
- Department head tend to think their department t to be functional empires – leads to conflicts among various departments
- When departments are large it becomes difficult to coordinate
- Even when the organizational goals are not achieved it becomes difficult to fix responsibility as all the departments are interrelated
- Employees and managers are trained for only one function. This develop inflexibility in them as they have difficulty in appreciating other point of view

Suitability

1. The size of the business unit is large
2. Specialization is required
3. Decentralization of authority is needed
4. Only one product is sold

Divisional structure

- An organization which is very large in size and producing more than one product need to evolve a design to cope with complexity
- Activities related to one product are grouped under one division
- Structure consists with separate divisions, each such division has its own manager
- Within each division, functions kike production, marketing finance etc. are performed
- Each division tends to adopt a functional structure
- Functions may vary across divisions in accordance their product line
- Examples

Jhon Keells Holding(JKH) – one of the largest conglomerate (leisure, transport, consumer foods, retail, property, financial services, IT)

Hemas Holdings – Fast-Moving Consumer Goods (FMCG), healthcare, Leisure, transportation and manufacturing

Ceylon Biscuit Limited(CBL) – Famous for brands like 'Munchee' – biscuits, chocolate, cereals

General Electric – GE Aviation, GE Healthcare, GE Power, GE Renewable energy

Divisional structure

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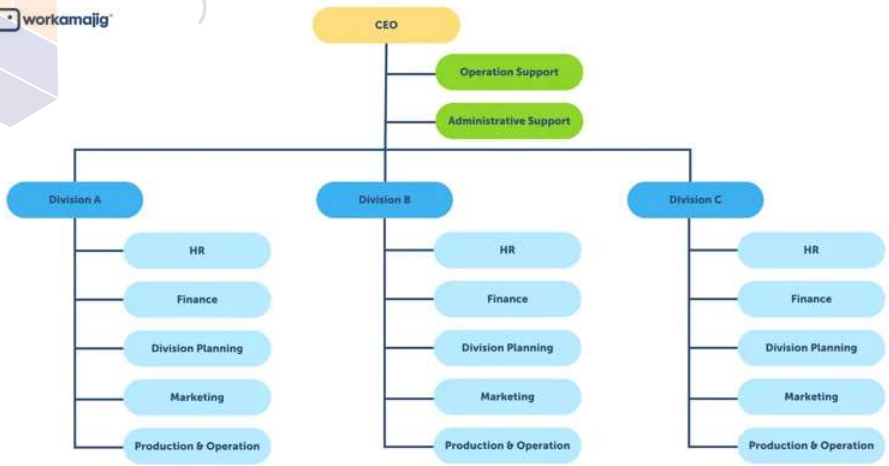


Divisional Structure – Advantages

Development of personnel

- All activities related to one type of product are grouped under one department only
- This helps in development of varied skills in the head and prepares him for higher cost

Accountability

- The performance of each department can be easily accessed
- Helps in fixation of responsibility for poor performance so that appropriate remedial action can be taken

Fast decision making

- Each division functions independently and decisions are much faster
- Promoted flexibility and initiative

Expansion and growth

- New departments can be easily added without disturbing the existing departments

Divisional Structure – Disadvantages

- There may be conflicts among different divisions on allocation of resources. A particular division may seek to maximize profits at the cost of others
- Each department requires all the resources to work as an independent unit. This increases cost as there may be duplication ao activities across products
- The divisional heads focus only on their product. They may fail to identify themselves as a part of the common organization and develop divisional conflicts, ignoring organizational interests

Suitability

1. The number of products is more than one
2. Different manufacturing technologies and marketing methods are used
3. The size of the concerns is very large or is growing

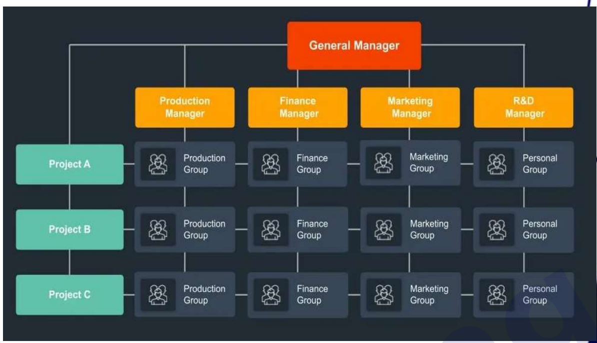
Common type of divisional structures are based on different types of product categories

Other than that,

- Customer group(customer based)
- Geographical areas (geographical based)
- Work group or teams (team based)
- Large scale organizations – based on separate Strategic business Units(SBU)

Matrix organizational structure

- Modern organizations are adopted to mix of functional and divisional structures
- Technical oriented firms are using organizational structures
- This is one in which staff and functional employees are allocated to both a basic functional area and to a productor project manager
- This structure is anticipated to make the best use of capable persons in a company by merging benefits of functional specialization and product-project specialization



Matrix organizational Structure – Advantages

- Better coordination and control
- Adaptable to dynamic environment
- Effective utilization of resources
- Sufficient time for top management with delegation of authority to project managers
- Excellence in inter disciplinary specialization
- Development of teamwork
- Improve skills of employees

Matrix organizational Structure – Disadvantages

- Violation of unity of command
- Costly structure
- Problem of over specialization
- Difficult to balance
- Feeling of insecurity
- Lack of coordination among separate function

Delegation of authority

- Definitions
  - A process of entrusting responsibility and authority to the subordinates and creating accountability on those who are entrusted with the authority and responsibility
  - Subdivision and suballocation of powers to the subordinates to achieve effective results
- It means downward transfer of authority from a superior to subordinate
- It entrust someone else to do a part of your job
- Required for efficient functioning of the organization, enabling managers to use their time on high priority work and helping subordinated to satisfy his needs
- Since managers cannot perform all the tasks assigned, to meet the targets, the manager should delegate authority
- Delegating the authority does not imply escaping from accountability
  - Accountability still rests with the person having utmost authority
  - Irrespective of the authority delegated, managers will be accountable to his senior
- It is not a process of abdication
  - Mangers will still be responsible for the performance of the job assigned to him
- Authority can be taken back and redelegate to another person

Accountability

- Being accountable means being innovative as the person will think beyond his scope of job
- In short, being answerable to the end result
- Accountability cannot be escaped
- Arise form responsibility
- Implies answerability of the subordinate for accomplishment or non-accomplishment of job assigned
- When the authority has been delegated and responsibility accepted cannot deny the accountability
- Can only be shared with subordinates and cannot delegate

Authority can be delegated, responsibility is assumed, and accountability is imposed

Authority can be passed on, responsibility is taken on by the person assigned the task, and accountability rests with the person who delegated the authority.

Example for delegation authority

If A is given a task with sufficient authority, and A delegate this tasks to B and asks him to ensure that task is done well, responsibility rest with B, but accountability still rest with A. the top-level management is the most accountable

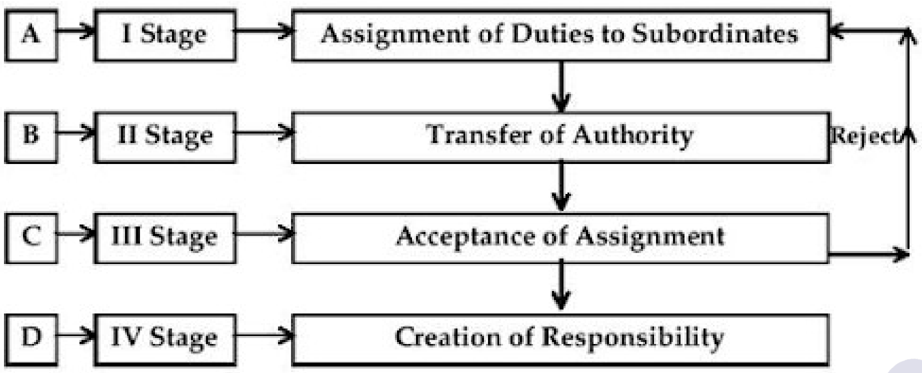
Example for accountability

If the sales manager is assigned a target of selling 1000 units in one month, and he divides this target among 5 salesmen under him and at the end of the month, if only 800 units could be sold, he cannot escape his accountability. Though he has passed this target to his subordinates, still he cannot get rid of his accountability. He should have checked the performance from time to time to make sure that the work is going on in the right direction and taken timely action

Objectives of delegation authority

- To reduce the excessive burden on the superiors (executives and managers functioning at different levels
- To provide opportunities of growth and self-development to junior executives
- To create a team of experienced and matured managers for the organization. It acts as a techniques of management and human resource development

Process of Delegation of Authority



Stage 1 - Assignment of duties to subordinates

- Firstly, delegator has to decide precisely the duties which are to be delegated to the subordinates or a group of subordinates
- Authority is delegated accordingly, and the subordinates is told what is expected from him
- Need to list the functions to be performed and targets to be achieved by the subordinates
- The delegator(manager) should clearly communicate his expectations
- Competent and responsible employees may give general guidelines about what need to be accomplished
- Less competent and responsible counter-parts need more specific guidelines

Stage 2 – Transfer of authority to perform the duty

- The authority is granted by the delegator to his subordinate (delegate)
- Authority must be delegated strictly to perform the assigned duty
- The performance of duties suffers serious setback when required authority is not delegated along with the duty
- The transfer of authority should be adequate considering the duties assigned to the subordinates

Stage 3 – Acceptance of the assignment

- The subordinate/delegate has to accept or reject the task assigned to him in the first stage along with the authority given in the second stage
- Delegated refuse – the delegator has to make fresh plan of delegation or may consider some other subordinates who is capable and is willing to accept the assignment
- The process of delegation will move to the fourth and the last stage, if the first delegates accept the assignment of work accompanying the authority

Stage 3 – Acceptance of the assignment

- The creation of obligation on the part of the subordinate to perform duties assigned to him in a satisfactory manner by using the authority given
- When subordinates accept a task and authority is given, an obligation is created
- Subordinated has to perform the task by using the authority granted to him
- Subordinate also responsible/accountable for completing the assigned work
- Subordinate is held answerable to a superior for the satisfactory performance of that work assigned
- The delegator has to help his subordinate as and when necessary as he is responsible to his superior/ organization

Importance/ advantages of delegation

- Effective management
  - Managers can pass their routine work to their subordinates and can concentrate on more important matters
  - It will help them to excel in new areas and be more efficient and effective
- Employee development
  - Since the work is passed to employees, it gives them opportunity to use their talent and increase their experience
  - It makes them better leader and decision makers
  - Helps in producing better future managers
- Motivation of employees
  - When a superior passes on the responsibility to his subordinate, it is not merely sharing work but also sharing trust
  - It develops a sense of belonginess and commitment for the subordinate
  - It improves his confidence and feels encouraged to improve his performance

- Facilitation of growth
  - While passing on a responsibility and authority, managers have to take care of the qualification and capability of the employees
  - This division of work and specialization provides a ready work force to take the leading position in a new venue and thus help in the expansion of the enterprise
- Basis of management hierarchy
  - Delegation establishes authority, responsibility and relationships between employees
  - The degree and flow of authority determines who is to report and to whom
  - This decided the power enjoyed by each job position in the organization
- Better coordination
  - Authority, responsibility and accountability help to define the powers, duties and answerability related to various job positions in an organization
  - This helps to avoid overlapping and duplication of efforts and thus helps in maintaining coordination amongst departments and functions of management

Obstacles/Barriers on the part of Manager/ Superior/ Delegator

- Unwillingness of the manger to delegate authority
  - The attitude 'I can do it better myself'
  - Managers who are autocratic and power worshippers who feels delegation will lead to reduce their influence
- Fear of competition
  - Manager feels that subordinate will outshine if he delegate the authority
  - This happens when there is competent subordinates – fear of subordinate's excellence
- Lack of confidence in subordinates
  - When subordinates are not competent to deal with problem and make decisions
  - Due to fear of losing control over subordinate acts
  - Fear of being exposed due to personal shortcomings
- Lack of ability to direct
  - Difficulty in directing subordinates due to his inability to identify and communicate the essential features of long-range plans and programs

- Absence of control that warn of coming troubles
  - Organizations might not have developed the controlling techniques to know in advance the serious problems lying ahead
  - This happen due to concentration of power in the hands of few people
- Conservative and cautious temperament of the manager
  - if manager has a conservative and over-cautious approach, there will be psychological barrier in the way of delegation
  - A manager avoids delegation as he feels that something may go wrong even when the instructions given are clear and the subordinates are reliable
- Desire to dominate subordinates
  - Managers/ superiors have desire to dominate the subordinate functioning under their control

Obstacles/Barriers on the part of Subordinates
Why subordinate resist delegation?

- Too much dependence on the manager for decisions
- Fear of criticism – may criticised by other if they make misatakes
- Lack of information – necessary information not available
- Absence of positive incentives- lack of recognition, rewards, appreciation or monitory benefits
- Absence of self-confidence – cant take quick and correct decisions , unavble to accept challenges
- Difficulty in decision making – not have the skills and experience to take quick and correct desisons , prefer to go and ask opinions and guidance- non acceptance if delagtion
- Poor superior subordinate relations – absence of cordial relatiopship, not friendly
- Undue interference by superior – try to control, absence of legitimate freedom , subordinate become uneasy
- Fear of being exposed - feel that they are unable to work with new challenges, think that they have a limited capacity

Organizational structure

'Network of job positions, responsibilities , and authority at different levels'

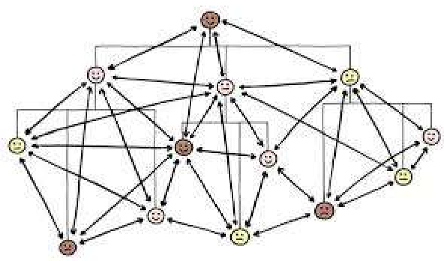
'An organizational structure is an indispensable means; and the wrong structure will seriously impair business performance and even destroy it'
Peter Drucker

Benefits of good structure

- It allows correlation and coordination among human, physical resources and enables the business to achieve its goals
- It ensures a smooth flow of communication and better control over the operations
- It provides the framework within which an organization functions while coordinating the responsibilities of individuals and departments
- It makes people accountable and sense of belonging or satisfaction of working groups

Problems occur due to badly designed organizational structures

- Employee may have low morale
- Uncertain about reporting lines
- Increasing conflicts among employees
- Lack of coordination among activities
- Slow respond to environmental changes
- Wasting resources

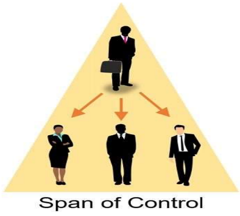


Span of Control

The number of direct reports or subordinates that a supervisor is tasked with overseeing.

Depends upon

- Capacity and intelligence level of managers
- The trust of managers in their employees
- The employees'' intelligence level
- Nature of job (routine or specialized)



Organizational Restructuring

This is the process of redesigning one or more aspects of a company

Factors affecting to restructuring

- Positioning the company to be more competitive
- Survive current adverse economic climate
- Poise the corporation to move in an entirely new direction

Restructuring a corporate entity is often necessity when the company has grown to the point that the original structure can no longer efficiently manage the output and general interests of the company

Corporate Restructuring

- The Corporate Restructuring is the process of making changes in the composition of a firm's one or more business portfolios in order to have a more profitable enterprise.
- Simply, reorganizing the structure of the organization to fetch more profits from its operations or is best suited to the present situation.
- Corporate restructure may take place as a result of acquisition of the company by new owners (al leveraged buyout, a hostile takeover or merger)

Corporate restructuring

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Financial Restructuring

- The Financial Restructuring may take place due to a drastic fall in the sales because of the adverse economic conditions.
- Firm may need to reorder finances as a means of keeping the company operational through this rough time.
- Cost may cut by combining divisions or departments, reassigning responsibilities and eliminating personnel or scaling back production at various facilities owned by the company.
- All this is done to sustain the profitability of the firm and sustain in the market.
- Generally, the financial or legal advisors are hired to assist the firms in the negotiations.

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Organizational Restructuring

- The Organizational Restructuring means changing the structure of an organization, such as reducing the hierarchical levels, downsizing the employees, redesigning the job positions and changing the reporting relationships.
- This is done to cut the cost and pay off the outstanding debt to continue with the business operations in some manner.
- Organizational restructuring combined with financial restructuring and portfolio restructuring affects the following feature:
  - Organizational culture
  - Centralization/decentralization of the organization
  - Changes in HR policies
  - Training and Redeployment
  - Rationalization of Pay Structure

Symptoms indicating the need for organizational restructuring

- Workforce productivity is immobile or weakening
- Parts of the organization are considerably over or understaffed
- Technology and/ or innovative are creating changes in workflow and production processes
- Organizational communications are unreliable, disjointed and unproductive
- New skills and capabilities are needed to meet existing or anticipated operational requirements
- Morale is declining
- Significant staffing escalations or reductions area anticipated
- Personnel retention and turnover is significant problem
- Accountability for results are not clearly communicated and measurable resulting in subjective and biased performance appraisals

Advantages of restructuring

- Lower cost
  - Restructuring result in downsizing, then the operational cost may decline. Outsourced operations are usually less expensive than in-house labor
- Better formulation and implementation of strategies
  - Restructuring will bring out innovative strategies and successful implementation
- Higher customer satisfaction
  - Flexible and flat structures are very sensitive to customer needs and customer oriented
- Faster speed to market for new products and services
  - Helps to understand new development of market and provide opportunities to introduce new products and services before competitors
- Less disruption and increased productivity and profitability
  - Management layers are removed, communication and decision making often improve
  - If the restricting process bring out new technology, productivity and profitability will increase

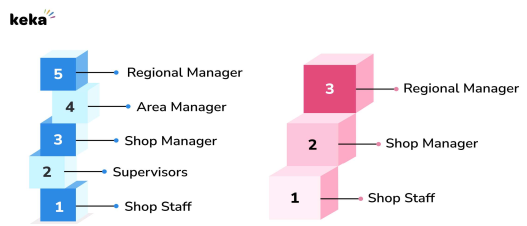
Disadvantage of Restructuring

- Uncertainty of employees
  - Employees get fear and wonder as to how the new process will affects job security
  - Cause less employee focus on their current work
- Investor reactions
  - Reactions of investors could be negative depending on the size and funding of the company
- Decreased public image
  - Public image of the company may shift.
  - Restructuring potentially leaves customer and the public in general questioning the future of the company
  - If the company decrease the staff, risk even greater public scrutiny, in tough economic times when many people are already unemployed
- Loss of assets
  - Restructuring results in downsizing the workforce, the facilities or product lined declined, and this will lead to loss of experienced, skilled and knowledge of company projects that those staff members hold

Restructuring strategies

- Downsizing
  - Downsizing is a process of strategic restructuring that involves reducing the number of personnel in an organization in order to cut costs and meet your financial goals.
  - It's a cost-cutting measure implemented to reduce the size of a company's workforce.
  - Methods - Attrition, early retirement, termination, outsourcing, reduction in hours, salary reduction, operational downsizing, operational downsizing
  - The tech layoff wave is still going strong in 2024. Following significant workforce reductions in 2022 and 2023, this year has already seen 60,000 job cuts across 254 companies, according to independent layoffs tracker Layoffs.fyi. Companies like Tesla, Amazon, Google, TikTok, Snap and Microsoft have conducted sizable layoffs in the first months of 2024

- De-layering
  - This is the breakdown the classical pyramid into a flat organization- reducing number of managerial levels between top executives and frontline staff
  - The aim of this is to thin out the top layer of unproductive and highly paid 'white collar'



- Verticalization
  - This is a modern restructuring trend
  - focusing on a specific industry or market segment to deliver more tailored products and services

- Virtualization
  - This involves pushing employees outside the office to places where they are more needed like at the clients site
  - Involves upgrading with technology, which allows unmanned virtual offices to be set up
  - Virtualization consolidates multiple physical servers onto a single virtual server, reducing the need for additional hardware. Instead of purchasing and maintaining several servers, companies can make better use of existing resources and lower infrastructure expenses.
- Change the base of departmentalization
  - In this strategy basis of departmentalization is changed to fit with the environment and strategies of organization
- Team based structuring
  - Their strategy involves changing the role of jobs by assigning the responsibilities to team other than individuals

Business Process Reengineering (BPR)

- BRP involves in changes in structure and in process within the business environment
- Entire technological, human, and organizational dimensions may be changed
- IT plays a major role in BPR as it provides office automation,
  - Allows the business to be conducted in different locations
  - Provides flexibility in manufacturing
  - Permits quicker delivery to customer and supports rapid and paperless transactions

The fundamental rethinking and radical redesign of the business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost , quality, service and speed.

Hammer and Chapmy (1993)

Characteristics of BRP

- Several jobs are combined in to one
- Decision –making becomes part of the job employees(employee empowerment)
- Steps in the process are performed in natural order, and several jobs get dine simultaneously
- Processes have multiple versions. This enables the economies of scale that result from mass production , yet allows customization of products and series
- Work is performed where it makes the most sense
- Controls and checks and other non-value-added work are minimized
- Reconciliation is minimized by cutting back the number of external contact points and by creating business alliances
- A single point of contact is provided to customers
- A hybrid centralized/ de centralized operation is used

Advantages of BPR

- BPR revolves around customer needs and helps to give appropriate focus to the business
- BPR provides cost advantages that assist organization's competitive position
- BPR encourage a long-term strategic view of operational processes by asking radical questions about how things are done and how processes could be improved
- BPR helps overcome the short-sighted approaches that sometimes emerge from excessive concentration on functional boundaries. By focusing on entire processes, the exercise can streamline activities throughout the organization
- BPR can help to reduce organizational complexity by eliminating unnecessary activities

Disadvantages of BPR

- BPR was sometimes seen (incorrectly) as a mean of making small improvements in existing practice - it should be a more radical approach that questions whether existing practice make any sense in their present form
- BPR was often perceived (incorrectly) as a single one –for-all-cost-cutting exercise – it is not primarily concerned with cost cutting (through cost reduction often results) and should be regarded as ongoing rather than once-for-all. This misconception often creates hostility in the minds of staff who see the exercise as a threat to their security
- BRP requires a far reaching and long-term commitment by management and staff. Securing this is not easy task, and many organizations have rejected the whole idea as not worth the effort
- In many cases business process were not redesigned but merely automated
- In some cases, the efficiency of one department was improved at the expense of the overall process. To make BRP work requires a focus on intergraded processes that often involve obliterating existing processes and creating new ones
- Some companies become so focused on improving internal processes that they failed to keep up with competitors' activities in the market

Relationship between the organizational structure and strategy

Organizational structure should align with the organizational strategy

- Organizational Strategy: This refers to the long-term plan or set of goals that guides an organization's decisions and actions. It encompasses how the organization plans to compete in its market, the direction it wants to take, and how it aims to achieve its objectives.
- Organizational Structure: This is the framework that defines how tasks, responsibilities, and authority are distributed within the organization. It dictates how roles are coordinated, how information flows, and how decisions are made.
- The organizational structure should align with the organizational strategy to ensure that the strategy can be effectively implemented.

Structure Supporting Strategy execution

- The right structure can support the execution of a strategy by providing clear roles and responsibilities, facilitating communication, and enabling the effective allocation of resources.
- For example, a company with a differentiation strategy (offering unique products or services) might benefit from a structure that fosters innovation and creativity, such as cross-functional teams or project-based structures.

Adapting Structure to Changing Strategy

- As organizational strategies evolve in response to market conditions or internal goals, the organizational structure may need to change as well.
- For instance, a company that shifts from a local to a global strategy may need to transition from a simple, centralized structure to a more complex, multi-divisional structure to manage international operations effectively.

Efficient Communication and Coordination

- The organizational structure determines how information flows and how different parts of the organization coordinate their activities.
- A structure that supports efficient communication and collaboration is essential for executing strategies that require coordination across different departments or units.

Decision-Making Processes

- The structure influences how decisions are made and who has the authority to make them.
- For example, a centralized structure might concentrate decision-making power at the top levels, which can be effective for strategies that require strong control and consistency.
- In contrast, a decentralized structure allows lower levels to make decisions, which can be beneficial for strategies that rely on local responsiveness and adaptability.

Organizational Culture(Cultural Fit)

- The structure also impacts the organization's culture, which can either support or hinder strategy execution.
- For example, a collaborative and flexible culture might be more suited to a matrix or team-based structure, which aligns with strategies focused on innovation and customer satisfaction.

The organizational structure and strategy are interdependent.

A well-designed structure facilitates the execution of the strategy, while an appropriate strategy can lead to the development of an effective structure.

Both elements need to be continuously evaluated and adjusted to ensure alignment as the organization and its external environment evolve.

Example 1

- **Organizational Strategy: Differentiation and Innovation**
- **Strategy**: Apple's strategy focuses on differentiation through innovation, high-quality design, and creating a seamless user experience across its product lines. This includes developing cutting-edge technology, unique designs, and a strong brand identity.
- **Organizational Structure**: Apple uses a **functional structure** with some elements of a **matrix structure**. The company has distinct functional departments such as design, engineering, marketing, and retail.
  - **Design and Engineering**: Apple places a high emphasis on design and innovation, which is why it has dedicated teams that focus on these areas. The functional structure allows for deep expertise and specialized skills within each department.
  - **Cross-Functional Collaboration**: To integrate innovation across products, Apple employs cross-functional teams that work on projects like the iPhone or MacBook, involving members from design, engineering, and marketing. This matrix-like approach helps ensure that all elements of a product line are cohesively developed and marketed.
  - **Centralized Decision-Making**: High-level strategic decisions, especially those related to product innovation and brand positioning, are centralized. This allows for a unified vision and consistent execution across different functions.

The organizational structure supports its strategy of innovation and differentiation by fostering deep specialization within functional areas and facilitating cross-functional collaboration. This structure aligns with its need for high-quality design and seamless integration across products.

Example 2

McDonald's

- Organizational Strategy: Cost Leadership and Operational Efficiency
- Strategy: McDonald's strategy focuses on cost leadership and operational efficiency. The company aims to provide fast, consistent, and affordable food through a highly standardized process.
- Organizational Structure: McDonald's utilizes a hierarchical structure with a strong emphasis on standardization and control.
  - Franchise Model: The organization's structure includes a franchise model where individual restaurants operate under strict guidelines to ensure consistency. This supports the cost leadership strategy by maintaining uniform standards and processes across locations.
  - Centralized Control: Key decisions related to menu offerings, marketing strategies, and operational procedures are made centrally. This centralized approach allows McDonald's to enforce standardization and maintain cost efficiencies across its global network.
  - Regional Management: While the overall strategy and major decisions are centralized, McDonald's also has regional management teams to address local market needs and ensure compliance with global standards.

McDonald's: The hierarchical structure with centralized control supports its strategy of cost leadership and operational efficiency. The franchise model ensures consistency and cost control, while regional management helps adapt to local market conditions.

Contingency factors affecting organization design

Strategy

- The organization's strategy—whether it's cost leadership, differentiation, innovation, or focus—affects its structure.
- For instance, a company pursuing innovation might opt for a flexible, decentralized structure to encourage creativity and responsiveness, while a company focused on cost leadership might use a more centralized, hierarchical structure to enforce standardization and efficiency.
- When strategy changes, structure must change
- At the corporate level, strategies are formulated based on the company's mission and strategic goals or objectives

Environment

- Environment has an impact on decision making- specially at the difficulty of making decisions in an uncertain or unpredictable environment
- Similarly, the stability and predictability of the environment have a direct bearing o the ability of the organization to function effectively
- An unstable environment that changes rapidly and is less predictable has two requirements
  - The organization must be able to adapt to change, for which it needs to be flexible and responsive
  - The organization needs greater coordination among departments
- For example, organizations operating in a dynamic and rapidly changing environment might use a more adaptive and flexible structure, while those in a stable environment may use a more rigid and stable structure.

Age of the organization

Birth Stage

- This is the stage where the organization is just starting out. The focus is on establishing a viable business model, creating a product or service, and finding initial customers.
- Organizational structures are often informal and fluid. Roles are not clearly defined, and communication is usually direct and informal.
- Resources are typically limited, including financial capital, human resources, and physical assets.
- The structure is generally flexible to adapt quickly to changing circumstances and opportunities. Decision-making is often centralized with the founders or early leaders.

Youth Stage

- The organization experiences growth in sales, customers, and market presence.
- The focus is on scaling operations and expanding the customer base.
- The organizational structure begins to formalize. Departments, roles and responsibilities become more defined, and processes are established to manage growth.
- Decision-making begins to be delegated to middle management, allowing founders to focus on strategic issues.

Midlife Stage

- The organization is more established and may focus on optimizing operations, improving efficiency, and consolidating its market position.
- The organizational structure becomes more complex, often with multiple layers of management and specialized departments.
- It has an extensive sets of rules, regulations, policies and systems to guide employees
- Emphasis shifts towards improving processes, managing costs, and maintaining competitive advantage.
- Organization engages in more formal strategic planning and may explore new markets or product lines to sustain growth.

Maturity Stage

- The organization has a strong market presence and stable revenue streams. It is often a leader in its industry.
- The structure is highly formalized with well-defined hierarchies and specialized functions. There may be multiple layers of management and formal procedures in place.
- Strategies often focus on maintaining market share, optimizing operations, and managing costs.
- To counteract stagnation, the organization may invest in innovation or diversify into new markets or product lines.

Size of the organization

- The number of employees working in an organization indicates its size- organizations differ structurally based on division of labour, rules and regulations, performance appraisal and budgeting procedure
- Larger organizations often require more complex structures to manage their diverse operations and multiple levels of hierarchy.
- Smaller organizations might use simpler structures with fewer layers and more direct communication.

Technology

- Some kind of technology is used to convert the resources into outputs technology includes the knowledge, machinery, work procedures and materials that covert the inputs into outputs
- The technology used to manufacture the product decides the kind of the organization for the production system
- The type and complexity of technology in use can influence organizational design.
- For instance, a company using advanced technology may adopt a more flexible and team-oriented structure to maximize innovation and technology integration and companies with simpler technology might use more traditional, hierarchical structures.

Past experience and pattern of ownership

- The history of the organization and whether the owners are directly involved in the business will have an impact on the organization structure
- Most of the one owner companies are tend to the centralized structure and reporting relationships are decided by one person

Thank You…