Organization Structure
After Studying Chapter 8, You will know:

- How differentiation and integration influence an organization’s structure.
- How authority operates.
- The roles of the board of directors and the chief executive officer.
- How span of control affects structure and managerial effectiveness.
- Why effective delegation is important.
- The difference between centralized and decentralized organizations.
- The different ways organizations can be structured.
- The unique challenges of the matrix organization.
- The nature of important integrative mechanisms.
Often a firm’s structure is described through the use of an Organizational Chart

The Organizational Chart depicts the positions in the firm and how they are arranged

There are two fundamental concepts around which organizations are structured

- Differentiation
- Integration
Each box represents different work
Titles in the box represent the work performed
Reporting relationships are indicated by solid lines
Horizontal layers indicate different levels of management
The vertical dimension of a firm’s structure relates to issues of:
- Reporting relationships
- Authority
- Responsibility

The role of a corporation’s executive staff and board of directors in ensuring that the firm’s activities meet the goals of the firm’s stakeholders refers to corporate governance.
Authority is the legitimate right to make decisions and to tell other people what to do. Traditionally, authority resides in positions. Formal authority is generally the primary means of running an organization; this is the traditional boss–employee relationship. Informal authority refers to the authority an individual may possess due to expertise, experience, or personal quality.
Authority in Organizations: The Board of Directors

The board, led by the chair, makes major decisions affecting the organization.

Boards perform at least three major sets of duties:
- Selecting, assessing, rewarding, and perhaps replacing the Chief Executive Officer.
- Determining the firm’s strategic direction and reviewing financial performance.
- Assuring ethical, socially responsible, and legal conduct.
Hierarchy refers to the authority levels of the organizational pyramid.

An authority structure is the glue that holds the levels of an organization together.

Most executives today believe that fewer layers create a more efficient, fast-acting, and cost-effective organization.
Span of Control

- Refers to the number of subordinates who report directly to an executive or supervisor.
- The differences in the span of control have direct implications on the shape of the organization.
  - Tall organizations – span of control remains constant, or narrow.
  - Flat organizations – span of control is wide with fewer reporting levels.
Span of Control

- Organizations must find the optimal span of control to be effective
  - Narrow enough to permit managers to maintain control over subordinates
  - Wide enough so that the possibility of micromanaging is minimized
- The optimal span of control is dependant on the following factors
  - Is the work clearly defined
  - Are subordinates highly trained and do they have access to information
  - Is the manager highly capable and supportive
  - Are jobs similar and performance measures comparable
  - Do subordinates prefer autonomy to close supervisory control
Delegation refers to the assignment of new or additional responsibilities to a subordinate.

Delegation is perhaps the most fundamental feature of management because it entails getting work done through others.

Delegation is important at all hierarchical levels.
Delegation

- When delegating responsibilities, the manager should also delegate enough authority to the subordinate for the task to be completed.
- As managers delegate responsibilities, subordinates are held accountable for achieving results.
  - Accountability means that the subordinate’s manager has the right to expect the subordinate to perform the job, and the right to take corrective action if the subordinate fails to do so.
- The ultimate responsibility for the task lies with the manager doing the delegating.
How to Delegate

1. Define the goal succinctly
2. Select the person for the task
3. Solicit the subordinate's views about suggested approaches
4. Give the subordinate the authority, time, and resources (people, money, equipment) to perform the assignment
5. Schedule checkpoints for reviewing progress
6. Follow through by discussing progress at appropriate intervals
Decentralization

Organizations in which high-level executives make most decisions and pass them down to lower levels for implementation are known as centralized organizations.

Decentralized organizations allow lower-level managers to make important decisions.

Decentralization:
- Can speed the decision making process
- Allows the people who are most affected by the decision to make the decision
- Allows individuals with the most relevant information, and who can best foresee the consequences of the decision, to make the decision
As the tasks of the organization become increasingly complex, the organization will most likely subdivide into smaller units or departments.

- Line departments are those which have responsibility for the principal activities of the firm.
- Staff departments are those which provide specialized or professional skills that support line departments.

There are three basic approaches to departmentalization (subdividing into smaller subunits) of an organization:

- Functional
- Divisional
- Matrix
The Functional Organization

- In a functional organization, jobs are specialized and grouped according to business function.
- Common in both large and small organizations.
The Functional Organization

Advantages include:
- Economies of scale
- Monitoring of the environment is more effective
- Performance standards are better maintained
- Specialized training
- Technical specialists are relatively free of administrative work
- Decision making and lines of communication are simple

Disadvantages include:
- People may care more about their own function than about the company
- May lose focus on overall product quality and customer satisfaction
- Over specialization
- Lack of communication and coordination between functions
In a divisional organization, departmentalization will group units around products, customers, or geographic regions.
# Functional vs. Divisional

<table>
<thead>
<tr>
<th>Functional Organization</th>
<th>Divisional Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>A central purchasing department.</td>
<td>Each division has its own purchasing unit.</td>
</tr>
<tr>
<td>Separate companywide marketing, production, design, and engineering departments.</td>
<td>Each product group has experts in marketing, design, production, and engineering.</td>
</tr>
<tr>
<td>A central-city health department.</td>
<td>The school district and the prison have their own health units.</td>
</tr>
<tr>
<td>Plantwide inspection, maintenance, and supply departments.</td>
<td>Production Team Y does its own inspection, maintenance, and supply.</td>
</tr>
<tr>
<td>A university statistics department teaches statistics for the entire university.</td>
<td>Each department hires statisticians to teach its own students.</td>
</tr>
</tbody>
</table>
A matrix organization is a hybrid form of organization in which functional and divisional forms overlap; managers and staff personnel report to two bosses – a functional manager and a divisional manager.
The Matrix Organization

Advantages of the Matrix organization include:
- Decision making is decentralized
- Communication networks process large amounts of information
- Decentralization keeps higher management from becoming overloaded
- Employees learn to collaborate
- More career options for employees

Disadvantages of the matrix organization include:
- Subordinates may become confused regarding their primary responsibility
- Power struggle between managers
- Thinking that matrix management is the same thing as group decision making
- Too much democracy can lead to not enough action
The Matrix Organization

- **Top Executive**: Needs to balance power and emphasis between functions and divisions.
- **Functional Manager**: Must collaborate and manage conflicts with product/division manager.
- **Product Manager**: Must collaborate and manage conflicts with functional manager.
- **“Two-Boss” Manager/Employee**: Must learn how to respond to two superiors and prioritize multiple demands.
The Network Organization

The network organization is a collection of independent, mostly single function firms that collaborate to produce a product or service.
Network organizations are flexible arrangements among designers, suppliers, producers, distributors, and customers where each firm is able to pursue its own distinctive competence, yet work effectively with other members of the network.

A very flexible version of the network organization is the dynamic network.

A dynamic network is characterized by temporary arrangements among partners that can be assembled and reassembled to adapt to the environment.
Several things must occur for a network to be successful

- Firms must choose the right specialty
- The firm must choose collaborators that also are excellent at what they do and provide complementary strengths
- All parties must fully understand the strategic goals of the partnership
- There must be trust among the partners
As organizations differentiate their structures they also need to be concerned about integration and coordination of activities.
When organizations coordinate activities by establishing routines and standard operating procedures that remain in place over time, we say that work has been standardized.

To improve coordination, organizations may also use formalization.

- Presence of rules and regulations governing how people in the organization interact.
Coordination by Plan

- Interdependent units are required to meet deadlines and objectives that contribute to a common goal
Coordination by Mutual Adjustment

- The simplest and most flexible approach to coordination
- Units interact with one another to make accommodations in order to achieve flexible coordination
- This approach may take more time than other coordination models
Option 1: Reduce the Need for Information

- Creating slack resources (extra amounts that can be used in emergencies) allows organizations the ability to adjust
- Creating self-contained tasks provides groups with the resources needed to complete tasks, therefore each task group is responsible for their own information needs

Option 2: Increase the information processing capabilities

- Invest more into information technology
- Capitalize on the intellect and experience of the organization’s human assets to increase collaboration and effectiveness through horizontal relationships between units; a byproduct of this is increased integration
Chapter 9 Organizational Agility

- Why it is critical for organizations to be responsive.
- The advantages of an organic organization structure.
- The strategies and dynamic organizational concepts that can be used to improve an organization’s responsiveness.
- How a firm can be both big and small.
- How firms organize to meet customer requirements.
- How firms organize around different types of technology.
Differentiation means that the organization is composed of many different units that work on different kinds of tasks, using different skills and work methods.

One of these things is not like the others.
Integration means that these differentiated units are put back together so that work is coordinated into an overall product.
Chief Executive Officer

- The CEO is personally accountable to the board and to the owners for the organization’s performance.
- In some corporations one person will hold the position of CEO, chair of the board of directors, and president of the company.
The product approach to departmentalization offers a number of advantages

- Information needs are managed more easily
- People have a full-time commitment to a particular product line
- Task responsibilities are clearer
- People receive broader training