

Fundamentals of Management

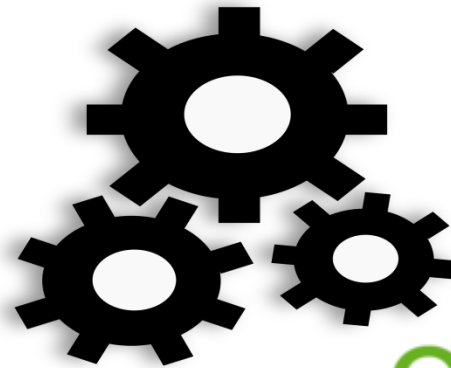
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Part Three: Organizing

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- Chapter Six: Organizational Structure and Design
 - Describe six key elements in organizational design.
 - Identify the contingency factors that favor either the mechanistic model or the organic model of organizational design.
 - Compare and contrast traditional and contemporary organizational designs.
 - Discuss the design challenges faced by today's organizations.



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Structure

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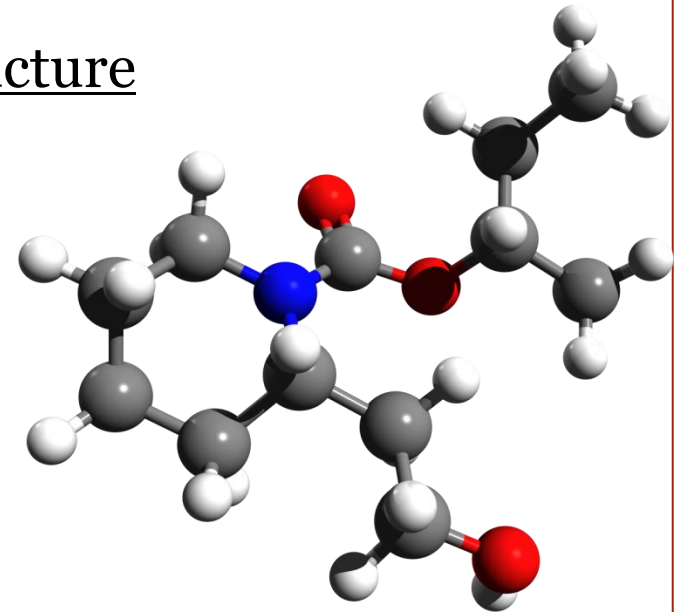
- Once the organization's goals, plans, and strategies are in place, managers must develop a structure that will best facilitate the attainment of those goals.



Organizational Design

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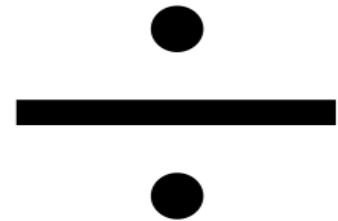
- Organizing is one of the primary functions of Management that creates structure and determines:
 - What needs to be done?
 - How will it be done?
 - Who will do it?
- Six Basic Elements of Organizational Structure
 1. Work Specialization
 2. Departmentalization
 3. Authority and Responsibility
 4. Span of Control
 5. Centralization vs. Decentralization
 6. Formalization



Work Specialization

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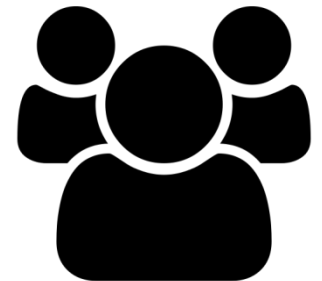
- Work Specialization is dividing work activities into separate job tasks, also known as, division of labor.
 - Individual employees “specialize” in doing part of an activity rather than the entire activity in order to increase work output.
 - ✦ Allows organizations to efficiently use the diversity of skills available.
 - ✦ However, despite efficiencies organizations must recognize limitations, such as:
 - Boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover.



Departmentalization

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- Once it is decided what job tasks will be done by whom, common work activities need to be grouped together so work is done in a coordinated and integrated way. Types of Departmentalization:
 - Functional
 - ✦ Groups employees based on work performed.
 - Product
 - ✦ Groups employees based on major product areas in the corporation.
 - Customer
 - ✦ Groups employees based on customers' problems and needs.
 - Geographic
 - ✦ Groups employees based on location served.
 - Process
 - ✦ Groups employees based on the basis of work or customer flow.



Authority and Responsibility

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- To understand Authority and Responsibility, you must be familiar with the Chain of Command – the line of authority extending from upper organizational levels to lower levels, which clarifies who reports to whom.



- Authority

- ✦ Refers to the rights inherent in a managerial position to give orders and expect the orders to be obeyed.
- ✦ It is relative to one's position within the organization.

- Responsibility

- ✦ When managers delegate authority, they must allocate commensurate responsibility.
- ✦ When employees are given rights, they also assume a corresponding obligation to perform.

Authority Relationships

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- Line of Authority

- Entitles a manager to direct the work of an employee.
- It is the employer-employee authority relationship that extends from the top of the organization to the lowest level, according to the chain of command.

- Staff Authority

- As organizations get larger and more complex, line managers may find that they don't have the time, expertise, or resources to get their jobs done effectively. In response, they create staff authority functions to support, assist, advise, and generally reduce some of their informational burdens.

Direct.

Unity of Command

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- Unity of Command is the belief that that each employee should report to only one manager.
 - An employee who has to report to two or more bosses might have to cope with conflicting demands or priorities.
 - However, strict adherence to this belief creates a degree of inflexibility that hinders an organization's performance.



Authority vs. Power

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- Authority is aligned with the position one holds, but power is associated with one's capacity to influence decisions.
 - The higher one is in the organization the greater the authority.
 - But, it is not necessary to have authority in order to wield power.
 - An exclusive focus on authority produces a narrow, unrealistic view of influence.
- You do not have to be a manager to have power, and power is not perfectly correlated with one's level in the organization.



POWER

Power

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- Five Sources or Bases of Power:

- Coercive

- ✦ Power based on fear.

- Reward

- ✦ Power based on the ability to distribute something that others value.

- Legitimate

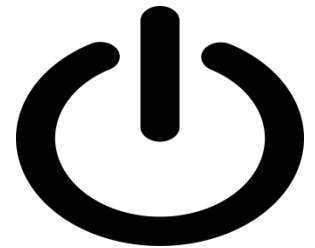
- ✦ Power based on one's position in the formal hierarchy.

- Expert

- ✦ Power based on one's expertise, special skill, or knowledge.

- Referent

- ✦ Power based on identification with a person who has desirable resources or personal traits.



Management Skill Builder

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- Managerial jobs come with the power of authority. But, sometimes that authority isn't enough to get things done. And, other times you may not want to use your authority as a means of getting people to do what you want.
 - You may, for instance, want to rely more on your persuasive skills than the power of your title.
 - ✦ Managers increase power by developing multiple sources of influence.

INFLUENCE



Management Skill Builder

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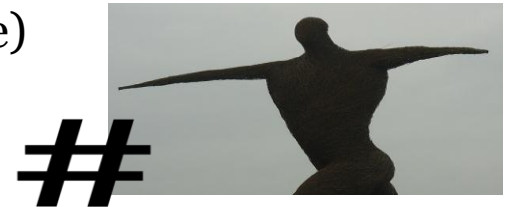
- You can increase your power in organizations by:
 - Taking on managerial responsibilities.
 - Gaining access to important information.
 - Developing an expertise that the organization needs.
 - Displaying personal characteristics that others admire.



Span of Control

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- Span of Control is the number of employees managed efficiently and effectively by one supervisor.
 - The most effective and efficient span depends on:
 - ✦ Employee experience and training (more they have, larger span)
 - ✦ Similarity of employee tasks (more similarity, larger span)
 - ✦ Complexity of those tasks (more complex, smaller span)
 - ✦ Physical proximity of employees (closer proximity, larger span)
 - ✦ Amount & type of standard procedures (more standardized, larger span)
 - ✦ Sophistication of information systems (more sophisticated, larger span)
 - ✦ Strength of organizations' value system (stronger values, larger span)
 - ✦ Preferred managing style (more or less to manage)



Centralization vs. Decentralization

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- Managers should choose the amount of centralization or decentralization that will allow them to best implement their decisions and achieve organizational goals.
 - Centralization
 - ✦ Degree to which decision-making takes place at upper levels of the organization.
 - Decentralization
 - ✦ Degree to which lower-level managers provide input or make decisions.
 - Managers today believe that decisions need to be made by individuals closest to the problems, regardless of the organizational level.



Formalization

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- Formalization refers to how standardized an organization's jobs are and the extent to which employee behavior is guided by rules and procedures.
 - Highly formalized organizations have explicit job descriptions, numerous organizational rules, and clearly defined procedures covering work processes.
 - Where formalization is low, employees have more discretion in how they do their work.
 - ✦ Although some formalization is necessary for consistency and control, many organizations today rely less on strict rules and standardization to guide and regulate employee behavior.

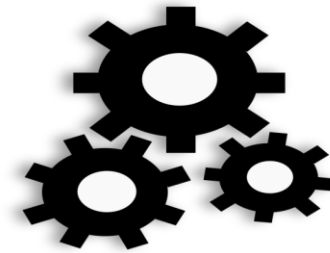


Organizational Structure

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- Mechanistic

- Rigid and tightly controlled structure.
 - ✦ Fixed duties - Many rules
 - ✦ Formalized communication channels
 - ✦ Centralized decision authority
 - ✦ Taller structures



- Organic

- Highly adaptive and flexible structure.
 - ✦ Collaboration (both vertical and horizontal)
 - ✦ Adaptable duties - Few rules
 - ✦ Informal communication
 - ✦ Decentralized decision authority
- Flatter structures
 - ✦ Loose structure allows for rapid adjustment to change.



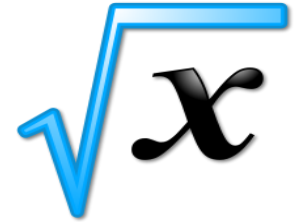
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Contingency Variables

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- Strategy Determines Structure

- Structure should facilitate goal achievement
 - ✦ Passionate pursuit of innovation – organic structure
 - ✦ Passionate pursuit of cost control – mechanistic structure



- Size Determines Structure

- A smaller organization with a more organic structure becomes more mechanistic if a significant number of new employees are added to it.

- Technology Determines Structure

- An organization with routine technology is typically mechanistic, but one with non-routine technology is more likely to be organic.

- Environment Determines Structure

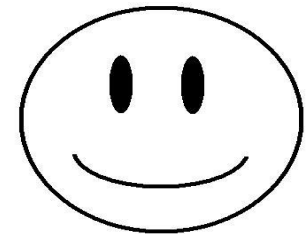
- Stable environment – mechanistic structure
- Dynamic or uncertain environment – organic structure

Traditional Organizational Design

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- Simple Structure

- An organizational design with low departmentalization, wide spans of control, authority centralized in a single person, and little formalization.
- Strengths
 - ✦ Fast – Flexible – Inexpensive to maintain – Clear accountability
- Weaknesses
 - ✦ Not appropriate as organization grows – Reliance on one person is risky



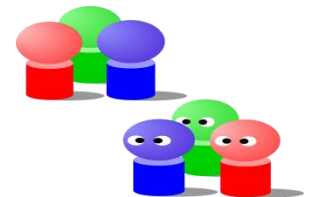
Have a Simple Day

Traditional Organizational Design

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- Functional Structure

- An organizational design that groups similar or related occupational specialties together.
- Strengths
 - ✦ Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment); employees are grouped with others who have similar tasks.
- Weaknesses
 - ✦ Pursuit of functional goals can cause managers to lose sight of what's best for the overall organization; functional specialties become insulated and have little understanding of what other units are doing.

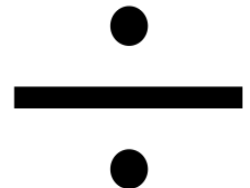


Traditional Organizational Design

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- Divisional Structure

- An organizational structure made up of separate business units or divisions. Each division has limited autonomy with a division manager having authority over the unit and is responsible for performance. The parent corporation oversees all divisions.
- Strengths
 - ✦ Focuses on results – division managers are responsible for what happens to their products and services.
- Weaknesses
 - ✦ Duplication of activities and resources increases costs and reduces efficiency.



Organizational Design

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- Managers are finding that traditional organizational designs often aren't appropriate for today's increasingly dynamic and complex environment.
 - Organizations need to be lean, flexible, and innovative; that is, more organic.



Contemporary Organizational Design

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- Team Structure

- A structure in which the entire organization is made up of work groups or teams.
- Advantages
 - ✦ Employees are more involved and empowered.
 - ✦ Reduced barriers among functional areas.
- Disadvantages
 - ✦ No clear chain of command.
 - ✦ Pressure on teams to perform.



Contemporary Organizational Design

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- Matrix-Project Structure

- Matrix is a structure that assigns specialists from different functional areas to work on projects who then return to their areas when the project is completed.
- Project is a structure in which employees continuously work on projects. As one project completes, employees move on to the next.
- Advantages
 - ✦ Fluid and flexible design that can respond to environmental changes.
 - ✦ Faster decision making.
- Disadvantages
 - ✦ Complexity of assigning people to projects.
 - ✦ Task and personality conflicts.



Contemporary Organizational Design

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- Boundaryless Structure

- A structure not defined by or limited to artificial horizontal, vertical, or external boundaries; includes virtual and network types of organizations.
- Advantages
 - ✦ Highly flexible and responsive.
 - ✦ Utilizes talent wherever it is found.
- Disadvantages
 - ✦ Lack of control.
 - ✦ Communication difficulties.



Organizational Design Challenges

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- As managers look for organizational designs that will best support and facilitate employees doing their work efficiently and effectively, there are certain challenges they must contend with, such as:
 - Keeping Employees Connected.
 - ✦ Virtual and Network Organizations
 - Managing Global Differences in Org. Structures.
 - ✦ Understanding Cultural Implications
 - Designing Flexible Work Arrangements.
 - ✦ Telecommuting – Compressed Workweeks – Flextime
 - ✦ Job Sharing – Contingent Workforce
 - Building a Learning Organization.



Building a Learning Organization

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- The concept of a learning organization doesn't involve a specific organizational design per se, but instead describes an organizational mind-set or philosophy that has significant design implications.
 - In a learning organization, employees are practicing knowledge management by continually acquiring and sharing new knowledge and are willing to apply that knowledge in making decisions or performing their work.
 - ✦ An organization's ability to learn and to apply that learning as they perform the work may be the only sustainable source of competitive advantage.



Characteristics of a Learning Organization

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- The Learning Organization has developed the capacity to continuously learn, adapt, and change.
 - Organizational Design
 - ✦ Boundaryless – Teams – Empowerment
 - Organizational Culture
 - ✦ Strong Mutual Relationships – Sense of Community – Caring – Trust
 - Information Sharing
 - ✦ Open – Timely – Accurate
 - Leadership
 - ✦ Shared Vision – Collaboration



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