Organisational Structure

Session 9

Organisational Structure Defined

- Division of labour and patterns of coordination, communication, workflow, and formal power that direct organisational activities
- Relates to many OB topics (e.g. job design, teams, power, organisational culture, organisational change)

Division of Labour

- Subdividing work into separate jobs assigned to different people
- Division of labour is limited by ability to coordinate work
- Potentially increases work efficiency
- Necessary as company grows and work becomes more complex
Coordinating Work Activities

1. Informal communication
   - Sharing information, forming common mental models
   - Allows flexibility
   - Vital in nonroutine and ambiguous situations
   - Easiest in small firms
   - Applied in team-based structures
   - Includes integrator roles

2. Formal hierarchy
   - Direct supervision
   - Assigns formal (legitimate) power to manage others
   - Coordination strategy for departmentalisation

3. Standardisation
   - Standardised processes (eg. job descriptions)
   - Standardised outputs (eg. sales targets)
   - Standardised skills (eg. training)

Elements of Organisational Structure
Span of Control

- Number of people directly reporting to the next level
- Assumes coordination through direct supervision
- Wider span of control possible when:
  1. Other coordinating mechanisms are present
  2. Routine tasks
  3. Low employee interdependence

Tall vs. Flat Structures

- As companies grow, they:
  - Build taller hierarchy
  - Widen span, or both
  - Problems with tall hierarchies
    - Overhead costs
    - Worse upward information
    - Focus power around managers, so staff less empowered

Problems with Flatter Structures (Delayering) in Large Firms

1. Undermines management functions
2. Increases workload and stress
3. Restricts management career development
Formal decision making authority is held by a few people, usually at the top

Centralisation

Decision making authority is dispersed throughout the organisation

Decentralisation

Formalisation

- The degree to which organisations standardise behaviour through rules, procedures, formal training, and related mechanisms
- Formalisation increases as firms get older, larger, and more regulated
- Problems with formalisation
  - Reduces organisational flexibility
  - Discourages organisational learning/creativity
  - Reduces work efficiency
  - Increases job dissatisfaction and work stress

Mechanistic vs. Organic Structures

**Mechanistic**
- Narrow span of control
- High formalisation
- High centralisation

**Organic**
- Wide span of control
- Little formalisation
- Decentralised decisions
Effects of Departmentalisation

Specifies how employees and their activities are grouped together.

Three functions:
1. Establishes chain of command (supervision structure)
2. Creates common mental models, measures of performance, etc.
3. Encourages staff to coordinate through informal communication

Features of Simple Structures

- Minimal hierarchy – staff reports directly to owner
- Roles are fairly loosely defined for flexibility
- Informal communication for coordination
- Centralised structure – owner makes most decisions

Functional Organisational Structure

Organises employees around specific knowledge or other resources (e.g., marketing, production).
Evaluating Functional Structures

- Benefits
  - Economy of scale
  - Supports professional identity and career paths
  - Easier supervision

- Limitations
  - More emphasis on subunit than organisational goals
  - Higher dysfunctional conflict
  - Poorer coordination – requires more controls

Divisional Structure

- Different forms of divisional structure
  - Geographic structure
  - Product structure
  - Client structure

- Best form depends on environmental diversity or uncertainty

- Movement away from geographic form
  - Less need for local representation
  - Reduced geographic variation
  - More global clients

Evaluating Divisional Structures

- Benefits
  - Building block structure – accommodates growth
  - Focusses on markets/products/clients

- Limitations
  - Duplication, inefficient use of resources
  - Specialisations are dispersed – silos of knowledge
  - Politics/conflict when two forms of equal value
Team-Based Structure

- Self-directed work teams
- Teams organised around work processes
- Typically organic structure
  - Wide span of control – many employees work without close supervision
  - Decentralised with moderate/little formalisation
- Usually found within divisionalised structure

Evaluating Team-Based Structures

- Benefits
  - Responsive, flexible
  - Lower admin costs
  - Quicker, more informed decisions
- Limitations
  - Interpersonal training costs
  - Slower during team development
  - Role ambiguity increases stress
  - Problems with supervisor role changes
  - Duplication of resources

Matrix Structure (Project-based)

Employees (○) are temporarily assigned to a specific project team and have a permanent functional unit.
Evaluating Matrix Structures

- **Benefits**
  - Uses resources and expertise effectively
  - Improves communication, flexibility, innovation
  - Focuses specialists on clients and products
  - Supports knowledge sharing within specialty
  - Solution when two divisions have equal importance

- **Limitations**
  - Increases goal conflict and ambiguity
  - Two bosses – dilutes accountability
  - More conflict, organisational politics and stress

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Network Organisational Structure

- Alliance of firms creating a product or service
- Supporting firms beehived around a "hub" or "core" firm

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Evaluating Network Structures

- **Benefits**
  - Highly flexible
  - Potentially better use of skills and technology
  - Not saddled with same resources for all products

- **Limitations**
  - Exposed to market forces
  - Less control over subcontractors than in-house
<table>
<thead>
<tr>
<th>External Environment &amp; Structure</th>
<th>Dynamic</th>
<th>Stable</th>
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<tbody>
<tr>
<td>• High rate of change</td>
<td>• Steady conditions, predictable change</td>
<td></td>
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<tr>
<td>• Use team-based, network, or</td>
<td>• Use mechanistic structure</td>
<td></td>
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<tr>
<td>other organic structure</td>
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<thead>
<tr>
<th></th>
<th>Complex</th>
<th>Simple</th>
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<tbody>
<tr>
<td>• Many elements (such as stakeholders)</td>
<td>• Few environmental elements</td>
<td></td>
</tr>
<tr>
<td>• Decentralise</td>
<td>• Less need to decentralise</td>
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<thead>
<tr>
<th>External Environment &amp; Structure (cont.)</th>
<th>Diverse</th>
<th>Integrated</th>
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<tbody>
<tr>
<td>• Several products, clients, regions</td>
<td>• Single product, client, place</td>
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<tr>
<td>• Use divisional form aligned with the diversity</td>
<td>• Use functional structure, or geographic division if global</td>
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<thead>
<tr>
<th>Hostile</th>
<th>Munificent</th>
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<tr>
<td>• Competition and resource scarcity</td>
<td>• Plenty of resources and product demand</td>
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<tr>
<td>• Use organic structure for responsiveness</td>
<td>• Less need for organic structure</td>
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<th>Effects of Organisational Size</th>
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<tbody>
<tr>
<td>As organisations grow, they have:</td>
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<tr>
<td>• More division of labour (job specialisation)</td>
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<tr>
<td>• Greater use of standardisation</td>
</tr>
<tr>
<td>• More hierarchy and formalisation</td>
</tr>
<tr>
<td>• More decentralisation</td>
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Technology and Structure

- Technology refers to mechanisms or processes by which an organisation turns out its product or service.
- Two contingencies:
  - Variability – the number of exceptions to standard procedure that tend to occur.
  - Analysability – the predictability or difficulty of the required work.

Organisational Strategy

- Structure follows strategy.
  - Strategy points to the environments in which the organisation will operate.
  - Leaders decide which structure to apply.
- Differentiation strategy
  - Providing unique products or attracting clients who want customisation.
- Cost leadership strategy
  - Maximise productivity in order to offer competitive pricing.