**CHAPTER NINE**

**ORGANIZATIONS STRUCTURE AND DESIGN**

**9.1 THE MEANING OF ORGANIZATION STRUCTURE AND DESIGN**

**Organization Structure:** *How job tasks are formally divided, grouped, and coordinated*

* Is the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups in achieving organizational goals.
* Organization structure enables management to arrange duties used in organizing the work to be done.
* The word formal in this context refers to the fact that organization structures typically are created by management for specific purposes related to achieving organizational goals and, hence are official, or formal, outcomes of the organizing function.
* Organizations also have informal structures, or patters of interaction, which are not designed by management but which emerge usually because of common interests or friendship.

**Organization structure consists mainly of four elements:**

1. The assignment of tasks and responsibilities
2. The clustering of individual positions in to units and of units in to departments and larger units to form an organization’s hierarchy.
3. The various mechanisms required to facilitate vertical coordination, such as the number of individuals reporting to any given managerial position and the degree of delegation of authority.
4. The various mechanisms needed to foster horizontal coordination, such as task forces and interdepartmental teams.

**9.1.2The Organizational Chart**

* The organizational chart is the most visible representation of the organization’s structure and underlying components.
* It refers to a line diagram that depicts the broad outlines of an organization’s structure that indicates the relationship of functions, departments and individual positions within an organization.

Organizational chart provides four major pieces of information about an organization structure.

* **Task**: The chart shows the range of different tasks within the organization.
* **Subdivision**s: Each box represents subdivision of the organization that is responsible for a portion of the workload.
* **Level of management**: It shows the management hierarchy from the head to the various functional managers. All those directly subordinate to the same individual usually appear at the same management level and are directly connected to that individual.
* **Lines of authority**: Vertical lines connecting the boxes on the chart show which positions have authority over others. For example, the engineering director, who in turn reports to the managing director?

**9.2 Basic Elements of Organization structure**

1. **Division of Labor (Specialization**)**:** *The degree to which tasks in the organization are subdivided into separate jobs*
* It refers to the process of dividing the total task of a unit in to successively smaller jobs. All jobs are specialized to some degree, since every one cannot do everything, but some jobs are considerably more specialized than others.

**Division of labor provides some benefits to managers**:

* A group of people working together through division of labor are able to produce more than they could if they were working alone,
* Minimal training required for the jobs,
* Economic gains from employees who find ways of doing their jobs very efficiently,
* It creates greater proficiency by allowing employees to perform the same repetitive activity,
* Less time is lost in going from activity to another,
* There is better quality control of output,
* Special tools can be developed that can lead to complete automation of a task.

**Job specialization** is *low* when employees perform a *variety of different tasks* and *high* when each person performs *only a single task*.

For example, the degree of specialization is low if three typists are allowed to edit, type, and proofread the manuscripts they type. However, if each of these functions is assigned to a different individual, the degree of specialization would be high. Managers must create jobs that are deep enough to encourage a commitment to the pursuit of excellence. This is done through job design, job enlargement, and job enrichment. In addition, managers should find ways for people in different parts of the organization to share knowledge and insights with one another.

**9.2.2 Delegation of Authority:**

* Refers to the transfer of various types of powers and authority to supervisors and other employees at lower hierarchical level of the organization structure to make decisions with out the approval of top managements.
* The ***more decentralized an organization***, the greater the extent to which the rank-and-file employees can participate in and accept responsibility for decisions concerning their jobs and the activities of the organization.
* The amount of decision making authority delegated to subordinates can vary along a continuum from highly centralized to highly decentralize. In practical terms, delegation of ***authority concerns the relative benefits of decentralization***.
* Whenever ***managers delegate authority*** and ***responsibility***, they cannot delegate ***accountability***. Ultimately the manager is accountable for the organization effectiveness.
* **Delegation of decision making** is the center of a decentralized organizational structure.
* **Command and control** hierarchical organizations have highly centralized structures. As already mentioned, the trend today is toward more delegation and less centralized

**The Art of Delegation**

* **Determine what to delegate**: Identify and list responsibilities that need to be assigned to others. Try to be as specific as possible.
* **Match projects to staff members**: Determine which assignments would be best suited to each employee. Also try to offer projects that you know with which employees enjoy with it. They will jump in to the work more enthusiastically.
* **Communicate your expectations**: Do not simply provide a laundry list of tasks. Instead, explain the ultimate objectives of the project and how it helps your department or the company achieve certain goals.
* **Follow up**: Occasionally check on the individual’s progress to find out if he /she need additional assistance or guidance. Your role is to help or remove any obstacles, but you still need to trust the person to complete the task.
* **Show appreciation**: A heartfelt “thank you” can go a long way toward motivating someone. You might recognize the person in a team meeting.

**9.2.3 Departmentalization:** *The basis by which jobs are grouped together*

* It is the process of combining jobs into groups or departments. Managers must make a crucial decision regarding the most appropriate basis for forming departments, and central to this issue is the **degree of similarity among the jobs within the department**.
* Jobs can be grouped according to several criteria, and the most popular criteria include function, product, territory and clients or customers.
1. **Functional Departmentalization**
* **All the jobs associated with performing a particular function can be grouped together in to the same department**. For example, all the jobs associated with accounting, such as general ledger accountant, accounts payable clerk, accounts receivable clerk and cost accountant could all be combined in to an accounting department.
* Organizing the department by function would be a homogeneous form of departmentalization, since every one in the department shares the same specialized skills.

**Functional departmentalization** is probably the ***most widely used*** scheme in most organizations because in most situations it is the most effective method. This explains why a manufacturing company is typically departmentalized in to production, marketing, finance, accounting, research and development, and personnel departments.

**Advantages of Functional Departmentalization:**

* Promotes skill specialization by having people who face similar problems and opportunities to work together.
* Permits the maximum use of resources.
* Encourages the use of specialists and specialized equipments.
* Eliminates the duplication of equipment and effort.
* Communication and performance are usually improved because superiors share expertise with their subordinates.

**Disadvantages:**

* Reduces communication and cooperation between departments.
* Promotes self interest.
1. **Product Departmentalization**
* Product departmentalization consists of combining into ***a department jobs that involve producing similar products.***
* This type of departmentalization typically occurs in large firms when it becomes difficult to coordinate the various functional departments. A product-oriented department can develop greater expertise in researching, manufacturing, and distributing a specific product line.

**Advantages:**

* Creates greater interdepartmental coordination

**Disadvantages:**

* Lead to increased costs because of duplication of activities, especially staff functions.
* Resources and skills of the organization are not fully employed unless the organization is extremely large.
1. **Geographic Departmentalization**
* Organizations use geographic form of departmentalization when they assign all the activities in a geographic area to the same unit.
* This type of departmentalization occurs when organizations are ***dispersed over a large geographic area.***
* All activities in a geographic area are assigned to a particular manager. This manager is in charge of all operations in that geographic area.
* Firms whose operations are similar from region to region frequently use the territorial basis. Telecommunication and Ethiopian Electricity Power Authority establish departments along territorial lines.

**Advantages:**

* Minimizes problems created by distance, such as difficulties in communicating, observing and making timely decisions.

**Disadvantages:**

* Organizations are required to give up the important advantages associated with functional and product forms of departmentalization.
1. **Customer Departmentalization**
* Customer departmentalization groups together jobs and activities that are serving the ***same customers or clients***.
* Customer oriented departments are found frequently in educational institutions. Some educational institutions have regular (day and night) courses and extension courses. Some department stores are departmentalized on a customer basis. They have such groupings as a women’s wear, men’s wear and children’s wear.

**Advantage:**

Customers’ needs and problems can be met by specialists.

 **Disadvantage:**

* + Duplications of functions.
	+ Limited view of organization goals.

**E) Matrix Organization**

* Matrix organization is sometimes called matrix structure. Many organizations found that a combination of ***functional and product departmentalization*** provides the best reporting relationships and horizontal linkages, enabling them to achieve their organizational goals.
* This dual structure simultaneously organizes part of the organization along functional lines to gain the advantages of both. This simultaneous overlapping of these two functions is a matrix organizational structure.
* **In matrix organization**, *each department reports simultaneously to both managers that have equal authority with in the organization, and employees report to both of them.*

**Advantages of matrix organization:**

* Better inter functional cooperation in operations and problem solving.
* Increased flexibility in adding, removing, and/or changing operations to meet changing demands.
* Better customer service since there is always a program, product, project manager who is fully informed and available to answer questions.
* Better performance accountability through the program, product, or project managers.
* Improved decision making as problem solving takes place at the team level, where the best information is available.

**Disadvantages:**

* It increases role of ambiguity, stress, and anxiety because people are assigned to more than one department.
* Violates the principle of unity of command.

**9.2.4** **Span of Control**

* Span of control refers to the ***number of people who report to one manager or supervisor***. The span of control decision has a major influence on the organization’s shape and structure.
* **A wide span** of control implies large number of workers reporting to one supervisor and this creates flat organizational structure.
* **A narrow span** of control implies a small number of workers reporting to a single manager and this result in tall organizational structure.

The span of control comes down to the decision of how many people a manager can effectively oversee; that is, will the organization be more effective if the manager’s span of control is relatively large or small.

* The exact number of jobs (and people) reporting to a manager cannot be stated in specific terms for all managers in all organizations. Rather, the only feasible approach to determine optional span of control is to weigh the relative importance of a number of factors. Those factors include the following.
* The competence of both the manager and the subordinates: the more competent they are, the wider the span of control can be.
* The degree of interaction that is required among the units to be supervised: the more the required interaction, the narrower the span of control must be.
* The extent to which the manager must carry out non-managerial tasks: the more technical and job-related work the manager has to do, the less time is available to supervise others, and thus the narrower the span of control must be.
* The relative similarity or dissimilarity of the jobs being supervised: the more similar the jobs, the narrower it must be.
* The extent of standardized procedures: the more routine the jobs of sub-ordinates are, the greater the degree to which each job is performed by standardized methods, the wider the span of control can be.
* The degree of physical dispersion: if all the people to be assigned to a manager are located in one area, and within eyesight, the manager can supervise relatively more people than one whose people are dispersed throughout the plant or countryside at different locations.

**9.3. Coordinating Mechanisms in Organization**

Organizations need ***to process information and coordinate the efforts of their members***. Employees at lower levels need to perform activities consistent with top-level goals, and the managers at the top need to know about the activities and accomplishments of people at lower levels.

Organizations use a variety of integrating mechanisms to achieve coordination. Five different methods of achieving coordination have been identified.

1. **Direct supervision**: work is coordinated by designated supervisors who tell subordinates what to do.
2. **Standardization of work processes**: jobs that are highly routine, such as assembly can be coordinated through standard operating procedures or the technology itself.
3. **Standardization of outputs**: when products must be produced according to technical specifications, these specifications may serve as an adequate basis for coordinating the activities. Individual workers are allowed some discretion in performing the work as long as the output meets the required specification.
4. **Standardization of skills**: Highly skilled and trained employees can typically coordinate their own activities by performing activities consistent with their technical training.
5. **Mutual adjustment**: Consists of a constant interchange of informal communication, individuals coordinate their work through informal processes such as meetings, task forces, and liaison positions, mutually adjusting to one another’s needs. Employees communicate with whoever they need to communicate with, without regard for formal lines of communication.

Coordinating mechanisms influence the degree of formalization in an organization. The term formalization refers to the degree to which rules and procedures guide the action of employees.

In highly formal organizations, employees are required to follow strict rules and procedures that tell them exactly how to perform their work. Informal organizations have very few rules and procedures; the employees are largely free to structure their own jobs. Formal organizations tend to rely on direct supervision and standardization of work processes, while informal organizations tend to use mutual adjustment and standardization of skills.

**9.4 Organization Design**

* Organization design is the process of developing an organization structure. It specifies task activities associated with a particular job.
* Organization design is the process of determining the best over all, macro organizational structure and authority relationship for the organization and its major sub components. It implies choosing the best type of organizational structure for a given situation. It is a means of implementing the strategic plans that embody the organization’s goals.

**Job design is important to the organizing function for two major reasons**:

1. Task activities need to be grouped in reasonably logical ways; otherwise, it may be very difficult for organization members to function efficiently.
2. The way that jobs are configured has an important influence on employee motivation to perform well.
	* 1. **Approaches to Job Design**

There are four major approaches to job design: Job simplification, job rotation, job enlargement and job enrichment.

**Job Simplification**: is the process of configuring, or designing, jobs so that job holders have only a small number of narrow activities to perform.

**Job Rotation**: is the practice of periodically shifting workers through a set of jobs in a planned sequence. The approach is aimed at reducing the boredom associated with job simplification by providing some varieties of tasks. Job rotation also has the advantage of cross-training workers so that there is maximum flexibility in job assignments.

**Job Enlargement**: is the allocation of a variety of similar tasks to a job in order to make it more challenging. Job enlargement broadens job scope; the number of different tasks an employee performs in a particular job. Although it is an improvement over narrow job specification, job enlargement generally had somewhat limited success in motivating employees.

**Job Enrichment**: is the process of upgrading the job-task mix in order to increase significantly the potential for growth, achievement, responsibility and recognition. Job enrichment increases jobs depth; the degree to which individuals can plan and control the work involved in their jobs.

The more that these core characteristics are reflected in jobs, the more motivating the jobs are likely to be.

* + 1. **Organizational Design Decisions**

Organizations do not have the same structure. An organization with few employees is not going to look like one with many employees. But even organizations of comparable size do not necessarily have similar structures. What works in one organization may not work for another. Managers’ decision on organization design depends upon certain contingency factors. In this section, we will look at two generic models of organizational design and then at the contingency factors that favor each.

**Mechanistic and Organic Organizational Structure**

* A mechanistic organization is a rigid and tightly controlled structure. It is characterized by high specialization, rigid departmentalization, narrow span of control, high formalization, a limited information net work (mostly a downward communication), and little participation in decision making by lower level employees.
* Mechanistic organizational structure tends to be efficiency machines and rely heavily on rules, regulations, standardized tasks, and similar controls. This organizational design tries to minimize the impact of differing personalities, judgments, and ambiguity because these human traits are seen as inefficient and in consistent. Although there is no totally mechanistic organization, almost all large corporations and governmental agencies have some of these mechanistic characteristics.
* In direct contrast, the organic organization is highly adaptive and flexible while the mechanistic organization is rigid and stable. Rather than having standardized jobs and regulations, the organic organizations are flexible, which allow them to change rapidly as needs require. Organic organizations have division of labor, but the jobs people do are not standardized. Employees are highly trained and empowered to handle diverse job activities and problems, and these organizations frequently use employees’ teams. Employees in organic type of organizations require minimal formal rules and little direct supervision. Their high levels of skills and training and the support provided by other team members make formalization and tight managerial controls minimal.

 **Difference between mechanistic and Organic Structure**

 **Mechanistic Organic**

* High specialization -Cross-functional teams
* Rigid departmentalization -Flexible departmentalization
* Clear chain of command -Free flow of information
* Narrow span of control -Wide span of control
* Centralization -Decentralization
* High formalization -Low formalization

9.3.3 **Contingency Factors Influencing Organization Design Decision**

Top managers of most organizations typically put a great deal of thought in to designing an appropriate structure and this depends on four contingency variables.

These are:

* Organization’s strategy
* Size
* Technology
* Degree of environmental uncertainty
1. **Strategy and structure**: An organization structures should facilitate the achievement of goals. Because goals are influenced by the organization’s strategies, it is only logical that strategy and structure should be closely linked. More specifically, structure should follow strategy. If managers significantly change the organization’s strategy, they need to modify the structure to accommodate and support the change.

Most current strategy frameworks tend to focus on three dimensions:

1. Innovation, which reflects the organization’s pursuit of meaningful and unique innovations.
2. Cost minimization, which reflects the organization’s pursuit of tightly controlled costs.
3. Imitation, which reflects an organization’s seeking to minimize risk and maximize profit opportunities by copying the market leaders.

Innovators need the flexibility and free flowing of information of the organic structure, where as cost minimizes seek the efficiency, stability, and tight controls of the mechanistic structure. Imitators use both structural characteristics-the mechanistic structure to maintain tight controls and low costs and the organic structure to mimic the industry’s innovative directions.

1. **Size and structure**: There is considerable evidence that an organization’s size significantly affects its structures. For instance, large organizations-those with large employees tend to have more specialization, departmentalization, centralization and rules and regulations than do small organizations. Size becomes a less important influence on structure as an organization grows.
2. **Technology and structure**: Every organization has at least one form of technology to convert its inputs in to outputs. The processes or methods that transform an organization’s inputs into outputs differ by their degree of routines or standardization. In general, the more routine the technology the more mechanistic the structure can be. Organizations with more non-routine technology are more likely to have organic structures.

 4. **Environmental uncertainty and structure**

Every organization performs with its internal and external environments. Some organizations face relatively stable and simple environments; others face dynamic and complex environments. Because uncertainty threatens an organization’s effectiveness, managers will try to minimize it. One way to reduce environmental uncertainty is through adjustments in the organization’s structure. The greater the uncertainty, the more an organization needs the flexibility offered by an organic design. On the other hand, in stable, simple environments, mechanistic designs tend to be most effective. Mechanistic organizations are not equipped to respond to rapid environmental change and environmental uncertainty. As a result, we are seeking organizations designed to be more organic.