



CHAPTER 9 ORGANIZING STRUCTURE

Learning Objectives

1. Discuss the different stages an organization goes through as it grows and matures.
2. Explain what an organization chart is.
3. List several factors that can affect which structure is the most appropriate for a given organization.
4. Describe the general relationship between an organization's strategy and its structure.
5. Define outsourcing, and summarize its potential benefits as well as its potential drawbacks.
6. Describe a contingency approach to organizing.
7. Identify the different types of departmentalization.
8. Briefly describe each of the following types of organizational structure: line structure, line and staff structure, matrix structure, horizontal structure, and virtual organization.
9. Describe several trends that have taken place regarding the popularity of different types of organizational structures.
10. Describe how committees can be made more effective.
11. Explain the difference between an inside and an outside board of directors.

Chapter Overview

Successful organizations are in a constant state of change. Like the life cycle of products, organizations go through different stages as the change process occurs. The astute manager learns how to manage this change process to the benefit of the organization.

The organization chart is a visual way to see and understand the complexities of the relationships that exist within an organization. This chart also provides an aid to understanding the structure of the organization so effective strategy can be planned. One of the chief goals of strategy formulation or planning is to organize the workforce so that effective interactions can take place.

There are a variety of formats (line, line and staff, and matrix) that can be used to align employees and management into effective and coordinated groups or teams. Given the intense nature of international competition, the choice of the correct configuration or alignment is critical. Management is rethinking the necessity of flat or tall organizational structures. Managers are also learning which systems work best under a variety of conditions and organizational cultures. The newest and perhaps the most lasting change that is being incorporated into organizational structures is the more efficient use of committees and teams. This form of organizational empowerment is helping the corporation stay "lean and mean."



Lecture Outline

- I. Introduction
 - A. **Organization structure** is the framework that defines the boundaries of the formal organization within which the organization operates.
 - B. The structure of an organization:
 - 1. Reflects how groups compete for resources.
 - 2. Where responsibilities for profits and other performance measures lie.
 - 3. How information is transmitted.
 - 4. How decisions are made.

Key Term # 1

- II. Organization Growth Stages
 - A. Craft or family stage—characterized by the absence of formal policies, objectives, and structure.
 - B. Entrepreneurial stage—the organization grows first at an increasing rate then at a decreasing rate.
 - C. Professional management stage—the entrepreneur is replaced by or evolved into a professional manager who performs the processes of planning, organizing, staffing, motivating, and controlling.
 - 1. Profits are realized more from internal efficiency and less from external exploitation of the market.
 - 2. The organization becomes characterized by written policies, procedures, and plans.

Learning Objective #1; Review Question #1; Figure 9.1

- III. Organization Charts
 - A. An organization chart uses a series of boxes connected with one or more lines to graphically represent an organization's structure.
 - 1. Boxes indicate positions.
 - 2. Lines indicate the nature of the relationships.
 - B. The chart gives the manager a sense of how the entire organization fits together.
 - C. As the organization becomes larger and more complex, it is more difficult to accurately represent the relationships.

Learning Objective #2; Review Question #2; Figure 9.2



IV. Factors Affecting Organization Structure

- A. Strategy—which comes first (strategy or structure), no one is really sure
 - 1. An appropriate structure enhances the organization’s chances for success.
 - 2. The organization structure can either facilitate or inhibit strategic implementation.
 - 3. A ground breaking study by Alfred D. Chandler, described a pattern in the evolution of organizational structures.
 - a. He concluded that changes in strategy ultimately led to changes in the organization’s structure.
 - b. His work related particularly to growth and to the structural adjustments made to maintain efficient performance during market expansion, product line diversification, and vertical integration.
- B. Size—gross sales and number of employees are usually the primary measures.
 - 1. Small organizations tend to be less specialized, less standardized, and more centralized.
 - 2. Larger organizations tend to be more specialized, standardized, and decentralized.
- C. Environment—the external environment does affect structure.
 - 1. **Mechanistic systems**—rigid delineation of duties, fixed authority, precise job descriptions, well-developed organizational hierarchy where information filters up and instructions flow down; often successful firms in stable industries.
 - 2. **Organic systems**—less formal job descriptions; emphasis on adaptability, informality, and participation; and less fixed authority; successful firms in dynamic industries.
 - 3. Paul Lawrence and Jay Lorsch conducted a study dealing with organization structure and its environment. They concluded that to be successful:
 - a. Firms operating in a dynamic environment needed a relatively flexible structure.
 - b. Firms operating in a stable environment needed a more rigid structure.
 - c. Firms operating in an intermediate environment needed a structure somewhere between the two extremes.
- D. Organization and technology—usually affects the structure by increasing the number of layers of management.
 - 1. Joan Woodward classified firms along a scale of “technical complexity” with particular emphasis on three modes of production:
 - a. Unit or small-batch production
 - b. Large-batch or mass production
 - c. Continuous flow or process production
 - 2. Edward Harvey undertook a similar study, grouping firms along a continuum from technical diffuseness to technical specificity.

Key Term #2, 3; Learning Objective #3, 4; Review Question #3, 4, 5; Figure 9.3



V. Changes Affecting Organization Structure

- A. **Outsourcing**—the subcontracting of work to independent outside sources.
- B. Potential benefits
 - 1. Permits focus on core competencies.
 - 2. Reduces operating costs.
 - 3. Accesses top talent and state-of-the-art technology without owning it.
 - 4. Produces fewer personnel headaches.
 - 5. Improves resource allocation by allowing growth to take place more quickly.
- C. Potential drawbacks
 - 1. Loss of control.
 - 2. Loss of in-house skills.
 - 3. Threatens workforce morale.
 - 4. Provides no guarantee on save money or higher service standards.

Key Term #4; Learning Objective #5; Review Question #6; Management Illustration 9.1

VI. Contingency Approach

- A. The **contingency approach states** that the most appropriate structure depends on the technology used, the rate of environmental change, and other dynamic forces.
- B. There is no one best way to organize.

Key Term #5; Learning Objective #6; Review Question #7; Figure 9.4

VII. Departmentalization

- A. **Departmentalization** is the grouping of jobs into related work units.
- B. **Functional Departmentalization** occurs when organization units are defined by the nature of work, such as production, marketing, finance, or human resources.
- C. **Product Departmentalization** has all activities needed to produce and market a product or service under a single manager.
- D. **Geographic Departmentalization** defines organizational units by territories; it is most likely to occur in organizations that maintain physically dispersed and autonomous operations or offices.
- E. **Customer Departmentalization** organizes units based on the customers served.
- F. Other types of departmentalization: simple numbers, process, equipment, shift, etc.
- G. **Hybrid Departmentalization** occurs when the organization uses more than one type of departmentalization.



Key Terms #6, 7, 8, 9, 10, 11; Learning Objective #7; Review Question #8; Figures 9.5, 9.6, 9.7, 9.8

VIII. Types of Organization Structures

- A. **Line structure**—structure with direct vertical lines between the different levels of the organization.
1. Authority originates at the top and moves downward in a line.
 2. The work of all organizational units is directly involved in producing and marketing the organization's goods and services.

Key Term #12; Learning Objective #8; Review Question #9; Figure 9.9

- B. **Line and staff structure**—structure that results when staff specialists are added to a line organization.
1. **Staff functions** are advisory and supportive in nature; they are designed to contribute to the efficiency and maintenance of the organization (e.g. research and development, personnel, employee training, etc.).
 2. **Line functions** and activities are directly involved in producing and marketing the organization's goods and services.
 3. Conflict can be created by this structure.
 - a. Some staff specialists resent having no real authority over the line.
 - b. Line managers may be reluctant to listen to staff specialists.

Key Terms #13, 14, 15; Learning Objective #8; Review Questions #9, 10; Figure 9.10

- C. **Matrix (project) structure**—a hybrid structure in which individuals from different functional areas are assigned to work on a specific project or task.
1. Temporary project assignments complement permanent assignments.
 2. The right mix of people and resources can be readily organized and changed.
 3. Can violate the unity of command principle, can create evaluation problems, can be costly to implement, may not be accepted, and may stress communication networks.

Key Term #16; Learning Objective #8; Review Question #9; Figure 9.11; Management Illustration 9.2

- D. **Horizontal (team) structure**—a structure that consists of two groups: senior management (who are responsible for strategic decisions and policies) and empowered employees (who work together in different process teams).
1. The organization is built around three to five core processes.



2. The hierarchy is flattened to reduce supervision.
3. Teams manage everything, including themselves.
4. Customers drive performance.
5. Team performance and staffers with multiple skills are rewarded.
6. Customer contact with employees is maximized.
7. Informing and training all employees is emphasized.

Key Term #17; Figure 9.12; Management Illustration 9.3

- IX. The virtual organization—temporary network of independent companies, such as suppliers, customers, and even rivals, who are linked by information technology to share skills, costs, and access to one another's markets.

Key Term #18; Figures 9.13, 9.14; Management Illustration 9.4

- X. Trends in organization structure
- A. A **flat structure** has few levels, large spans of management at each level.
 - B. A **tall structure** has many levels and small spans of management.
 - C. A wide span forces managers to delegate authority and develop more direct communication links with subordinates.
 - D. Japanese organizations have fewer middle layers of management.
 - E. One cannot conclude that all flat structures are better than all tall structures, or vice versa.

Key Terms #19, 20; Learning Objectives #8; Review Questions #9, 11; Figure 9.15

- XI. Committees
- A. **Committees** in organization structures describe a group of people which are formally appointed, organized, and super-imposed on the line or line and staff structure to consider or describe certain matters.
 - B. Effectively using committees includes the following steps:
 1. Clearly define functions, scope, and authority.
 2. Carefully select members.
 3. Make them no larger than necessary.
 4. Encourage all members to participate.

Key Term #21; Learning Objective #10; Review Question #13; Figure 9.16



C. Boards of Directors

1. A **board of directors** is a carefully selected committee that reviews major policy and strategy decisions proposed by top management.
2. The two broad types are:
 - a. Inside—majority of board members work for the company.
 - b. Outside—majority of board members do not work for the company.
3. Board involvement varies widely; most boards of directors restrict their inputs to the policy and strategic level and do not participate in day-to-day operations.
4. Boards are becoming more active than in the past.
5. Boards should be focused on determining the company's standard of performance.

Key Term #22; Learning Objective #11

Barriers to Student Understanding

1. The first barrier to student understanding is related to the basic standard organizational chart. Students can obviously see an organization chart, but they do not generally understand how one can be used. The best remedy for this is to show the diagrammatic figures from this chapter and carefully explain how line and staff functions are linked in the organizational chart. Ask the students how changes would occur in the organization if one were to move the functions to different positions.
2. The second barrier to understanding generally occurs in understanding the matrix form of organization. The students will understand the line function and the line and staff function from number one above. However, even though the matrix is a popular form, most students will not be familiar with the matrix format. Use Figure 9.4 to show the process. The descriptive material from the text should be an aid in this description. If additional examples are necessary, it is recommended that the instructor contact a local engineering or engineering-oriented manufacturing firm and ask them if they would supply the class with an explanation and drawing of their structure. Many engineering-based firms have popularized the matrix structure because of their orientation toward projects.
3. Lastly, it is sometimes difficult for students (because of their inexperience with management structures) to understand the difference between a flat and a tall organizational structure (the simple form, lean staff is also associated with this description). After reviewing the various organizational forms described in this chapter, use Figure 9.8 as a beginning point for discussion with respect to this subject. Use the university or college structure to describe the differences between flat and tall structures. Ask them to describe how they would characterize the existing structure? How could they change it to the other form? What are the advantages and disadvantages of both forms? How could hybrids be formed? A discussion such as the one proposed in the above sentences will help the students to solidify these concepts. In addition, by assigning material from



the Student Projects area (found at the end of this chapter section) the students' understanding will be improved.

Key Terms

1. Organization Structure
2. Mechanistic Systems
3. Organic Systems
4. Outsourcing
5. Contingency (Situational) Approach to Organization Structure
6. Departmentalization
7. Functional Departmentalization
8. Product Departmentalization
9. Geographic Departmentalization
10. Customer Departmentalization
11. Hybrid Departmentalization
12. Line Structure
13. Line and Staff Structure
14. Staff Functions
15. Line Functions
16. Matrix Structure
17. Horizontal Structure
18. Virtual Organization
19. Flat Structure
20. Tall Structure
21. Committees
22. Board of Directors

Suggested Answers to Analyzing Management Skills

- Do you think it is unusual for organizations to reorganize as they grow? What are some of the factors that might impact an organization's structure?



Successful organizations are in a constant state of change. Some of the important factors that impact an organization's structure are strategy, size, environment, and technology.

Suggested Answers to Applying Management Skills

- Have you ever been in or observed a work situation where you felt customer service was being hindered by the organization's structure? What would you do differently if you could change the structure?

There is no right or wrong answer to these questions. Student responses will differ based upon their experiences and observations.

Answers to Review Questions

1. Describe the different stages that an organization goes through as it grows and matures.

The first stage an organization goes through is the craft stage, which is characterized by the absence of formal policies, objectives, and structure. Generally, operations at this stage center around one individual and one functional area. The second stage is the entrepreneurial stage at which the organization grows first at an increasing and then a decreasing rate. By the third stage, the entrepreneur has been replaced by a professional manager, and profits are realized more from internal efficiency and less from a rapidly growing market.

2. What is an organization chart?

An **organization chart** uses a series of boxes connected with one or more lines to graphically represent an organization's structure.

3. What several factors can affect an organization's structure?

Strategy, size, environment, technology, national culture, objectives, age and tradition, differences in subunits, management approach and style, and the characteristics of the workforce.

4. Discuss the relationship between an organization's strategy and its structure.

An appropriate structure enhances the organization's chances for success. In addition to clarifying and defining strategy through the delegation of authority and responsibility, the organization structure can either facilitate or inhibit strategic implementation.



5. Discuss the relationship between an organization's technology and its structure.

As technical complexity increases, the levels of the organization and the ratio of total managers and supervisors to total personnel both increase. Organic structures tend to appear at both extremes of technical complexity while mechanistic structures predominate in the middle.

6. What is outsourcing?

Outsourcing is the practice of subcontracting work functions to an independent outside source.

7. What is the contingency approach to organizing?

The **contingency approach** to organization states that the most appropriate structure depends on many situational variables, including strategy, size, environment, technology, and employee characteristics. When taking a contingency approach, a manager should first analyze these variables and design a structure to fit the situation.

8. Describe: (a) functional departmentalization, (b) product departmentalization, (c) geographic departmentalization, (d) customer departmentalization, and (e) hybrid departmentalization.

- **Functional departmentalization**—organizational units defined by the nature of the work.
- **Product departmentalization**—all the activities needed to produce and market a product or service are under one manager.
- **Geographic departmentalization**—territories are the basis for organizing in situations where operations or offices are physically dispersed and autonomous.
- **Customer departmentalization**—organized by customer served (e.g., retail and wholesale or industrial).
- **Hybrid departmentalization**—occurs when an organization simultaneously uses more than one type of departmentalization.

9. Explain the following: (a) line structure, (b) line and staff structure, (c) matrix structure, (d) horizontal structure, and (e) virtual organization.

(a) A **line structure** is a structure with direct vertical lines between the different levels of the organization. (b) A **line and staff structure** results when staff specialists are added to a line organization. (c) A **matrix structure** is a hybrid structure in which individuals from different functional areas are assigned to work on a specific project or task. (d) A **horizontal (team) structure** consists of two groups: senior management (who are responsible for strategic decisions and policies) and empowered employees (who work together in different process teams). (e) The **virtual organization** is a temporary network of independent companies, such as suppliers, customers, and even rivals, who are linked by information technology to share skills, costs, and access to one another's markets.



10. What factors contribute to potential conflict between line and staff personnel in a line and staff organization?

Some staff specialists may resent the fact that they may be only advisers to line personnel and have no real authority over the line. At the same time, line managers, knowing that they have final responsibility for the product, are often reluctant to listen to staff advice. Next, the line and staff personnel may be different in orientation and behavior. Line managers are generally older and may have more practical experience and less formal education. Staff specialists are generally younger, have less practical experience, and have more formal and upper level education.

11. What are the advantages of a flat structure? What are the advantages of a tall structure?

- **Flat**—potential for greater job satisfaction, more delegation, and better communication.
- **Tall**—may foster better group performance; also provides more opportunities for promotion.

12. What types of organizational structures have organizations moved toward in recent times?

In the early 1980's emphasis shifted to the concept of simple form, lean staff. More recently, many organizations have abandoned the more traditional line and staff structures in favor of horizontal structures and virtual organizations.

13. How can committees be made more effective?

- Clearly define the scope, functions, and authority.
- Carefully select members.
- Keep it as small as possible.
- Encourage all members to participate.
- Plan meetings carefully, with an advance agenda.
- Take minutes and circulate them.
- Periodically evaluate the need for committee's continued existence.

Suggested Answers to Skill-Building Questions

1. As a practicing manager, how could you justify the use of a matrix structure given that it potentially violates the unity of command principle?

Using a matrix structure could be justified if the potential benefits of temporarily bringing together employees from different functional areas to work on a specific project outweigh the potential problems. Given the temporary nature of this hybrid arrangement, any problems that do exist should be only short-term in nature. Moreover, strategies can be developed for not duplicating the command function—two employee evaluations can be conducted, or only the temporary project manager may be permitted to evaluate if he/she has the most relevant performance knowledge.



2. Do you think the contingency approach to organizing is a useful concept that can be implemented, or is it really a cop-out?

Given that there is no one best way to organize, the contingency approach is not a cop-out. The appropriate organizational structure depends on a wide variety of factors, including strategy, size, the rate of environmental change, the use of technology, etc.

3. Discuss this statement: When the appropriate organization structure is determined and implemented, a firm no longer has to worry about structure.

This statement is false. Because the variables that make a particular structure appropriate change, organizations must be sensitive to the potential need to adapt their structure to such factors as environmental and technological changes.

4. Recognizing that most organizations' staffs expand considerably as the organization grows, respond to the following statement: There is no way to grow and keep the corporate staff small.

If managers recognize that corporate staff size is not necessarily indicative of success, then the mind set toward adding potentially unnecessary staff members should be put aside. Moreover, many organizations, such as Wal-Mart, function quite well with lean corporate staffs.

5. If you were an employee and your company embarked on a large-scale outsourcing program, how do you think you would react?

Different student responses should be expected to this question. However, most students will express concerns about job security and related issues.

6. Do you think that virtual organizations are going to become more and more prominent in the future? Why or why not?

As the potential of technology continues to develop and make these collaborations more possible and more cost effective, virtual organizations are likely to be more prominent in the future.

Skill Building Exercise 9.1

Applied Departmentalization

This exercise encourages students to think about alternate ways of organizing a company. It puts the students on the spot a little bit insofar as they are asked to organize in response to the situation and market presented. Remind them that combinations of structures are possible, although they add complexity to the task.

- 1 & 2. Design what you think would be the best way to organize the sales (marketing) division of the company. Design an alternative structure for your division.



Students can generate several versions; however, they should basically follow the formats in the text.

3. Why do you prefer one structure over the other?

Student's answers will vary according to what the student views as the most significant basis for segmentation.

4. Design a matrix structure (if you did not use one in question 1 or 2) for this situation; what would be the pros and cons of such a structure in this situation?

Figure 9.11 can be used for guidance and instruction. Advantages: The combinations of people and resources can be changed depending on changing department needs. Disadvantages: The structure may violate the principle of unity of command, create role conflict, and result in inaccurate performance evaluation.

Skill Building Exercise 9.2

The Composition of Boards

Answers may vary with different choices. The exercise will help students learn the importance of commitment and involvement of the board of directors, and they should see that it does not change with either internal or external directors. The students will be able to compare their findings and elaborate on other aspects helping or hurting such chosen companies.

Suggested Answers to Case Incident Questions

Case 9.1 Who Dropped the Ball?

1. What problems does Bill Marlowe faces

Unclear lines of authority and responsibility, buck-passing, finger-pointing, and violation of unity of command are all problems. The immediate problem faced by Marlowe is satisfying Sel Tex by getting their boilers inspected and re-poured. Organizationally, Marlowe is faced with the problem of assigning definite areas of responsibility between the chief engineer and manager of operations.

2. Are the problems related to the way IWT is organized, or are they related to the employee?

They are related to the way the company is organized. There is no evidence that any employees are not doing their jobs.

3. How could these problems be resolved?

Eliminate the two lines of command and return to something like the old structure. The new setup is too complicated and cluttered with people getting in each other's way while not getting the work done.



Case 9.2 A New Organizational Structure

1. Do you agree with Tom's concern? Why?

Tom has good reason for concern. The structure is not well organized to allow for the flow of information. Decision making overload is a definite burden for the administrator. The structure should be separated into different functional groups. The structure would be better if it shows that line and staff organization and administration are separate from the medical services. A revised organizational chart follows in question 2.

2. How would you redraw the organizational chart?

One possible revised organizational chart may be found on the following page.

Suggested Student Projects

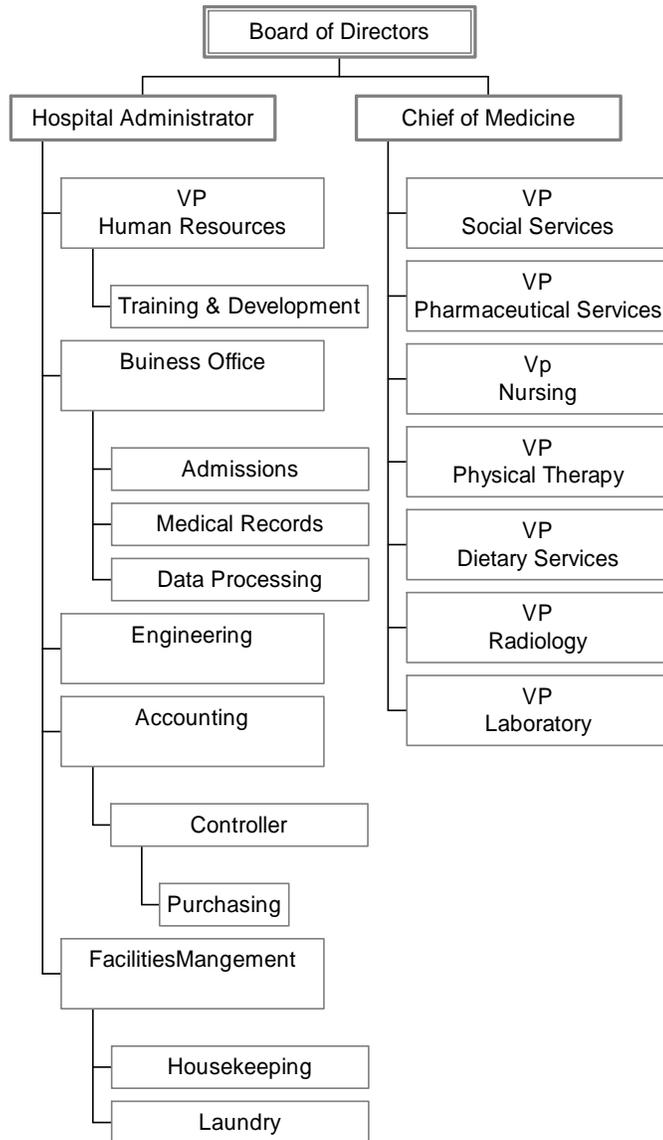
By using library resources, stock brokerage firms, or published annual reports, collect and analyze an organizational chart for a major company. What do you think might be the strengths or weaknesses?

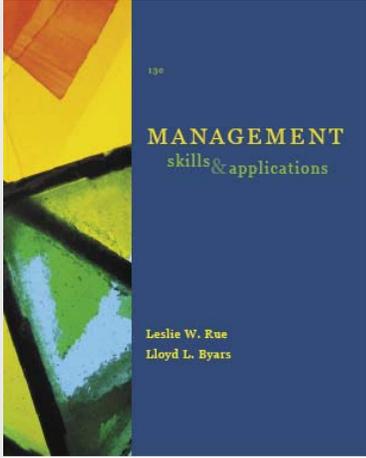
Find information in a current business publication about a downsizing or reorganization effort and describe how that these changes have affected the company and its organizational design and structure.

Find information in a current business publication about a merger or acquisition, and describe how these changes will affect the new combination of companies and their organizational design and structure.

Find two examples of what you perceive to be a flat, tall, and matrix organizations. Describe what you perceive to be the strengths and weaknesses of these structures.

Justify why you think the Japanese or the American form of organizational structure is best. What can each learn from the other? What do you think will be the next hybrid form of organizational structure to emerge?





Chapter 9

Organizing Structure

McGraw-Hill/Irwin

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Learning Objectives

After studying this chapter, you will be able to:

1. Discuss the different stages an organization goes through as it grows and matures.
2. Explain what an organization chart is.
3. List several factors that can affect which structure is most appropriate for a given organization.
4. Describe the general relationship between an organization's strategy and its structure.

9-2

Serving to Promote the Potential Of People & Organizations



Learning Objectives (cont'd)

After studying this chapter, you will be able to:

5. Define outsourcing and summarize its potential benefits and drawbacks.
6. Describe a contingency approach to organizing.
7. Identify the different types of departmentalization.
8. Briefly describe each of the following types of organizational structure: line structure, line and staff structure, matrix structure, horizontal structure, and virtual organization.

9-3

Learning Objectives (cont'd)

After studying this chapter, you will be able to:

9. Describe several trends that have taken place regarding the popularity of different types of organization structures.
10. Describe how committees can be made more effective.
11. Explain the differences between an inside and an outside board of directors.

9-4

Serving to Promote the Potential Of People & Organizations



Organization Structure

- Framework that defines the boundaries of the formal organization and within which the organization operates.
- The structure of an organization reflects the way:
 - Groups compete for resources, where responsibilities for profits and other performance measures lie.
 - Information is transmitted.
 - Decisions are made.
- Appropriate organization structures helps foster good performance.



9-5

Organization Growth and Change

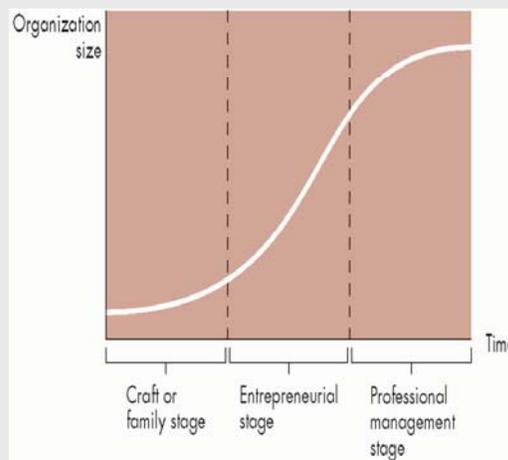


Figure 9.1



9-6

Serving to Promote the Potential Of People & Organizations



Organization Charts

- Uses a series of boxes connected with one or more lines to graphically represent the organization's structure.
 - It identifies specific relationships.
 - Provides an overall picture of how the entire organization fits together.
- As organizations get larger and more complex, the difficulty in representing all of the relationships accurately gets more difficult.



9-7

Sample Organization Chart

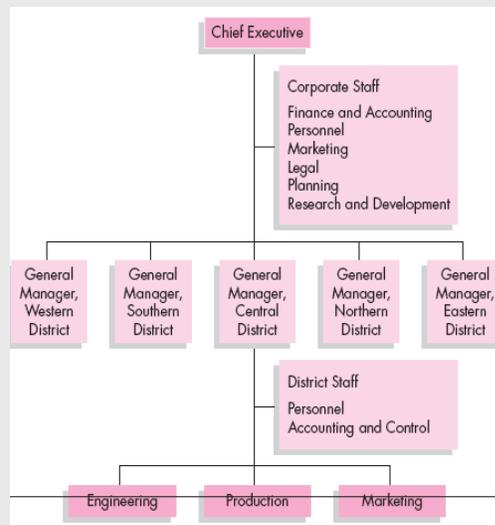


Figure 9.2



9-8

Serving to Promote the Potential Of People & Organizations



Factors Affecting Organization Structure

- Strategy
 - Alfred Chandler described a pattern in the evolution of organization structure:
 - Changing strategy.
 - Leads to administrative problems.
 - Followed by decline in performance.
 - Revised structure.
 - Subsequent return to economic health.
 - The process of matching structure to strategy should include a thorough understanding of:
 - Historical development of the current structure.
 - Other variables, including size, environment, and technology.

9-9

Factors Affecting Organization Structure (cont'd)

- Size
 - Sales volume
 - Number of employees
- Small organizations tend to follow horizontal division of labor. These are
 - Less specialized.
 - Less standardized.
 - More centralized.
- Larger organizations tend to be:
 - More specialized
 - More standardized
 - More decentralized

9-10

Serving to Promote the Potential Of People & Organizations



Factors Affecting Organization Structure (cont'd)

- Environment
 - Mechanistic Systems
 - Rigid delineation of functional duties.
 - Precise job descriptions.
 - Fixed authority and responsibility.
 - Well-developed organizational hierarchy.
 - Organic Systems
 - Less formal job descriptions.
 - Greater emphasis on adaptability.
 - More participation.
 - Less fixed authority.

9-11

Structural Differences between Organizational Systems

Characteristics of Mechanistic and Organic Organizations	
Mechanistic	Organic
Work is divided into narrow, specialized tasks.	Work is defined in terms of general tasks.
Tasks are performed as specified unless changed by managers in the hierarchy.	Tasks are continually adjusted as needed through interaction with others involved in the task.
Structure of control, authority, and communication is hierarchical.	Structure of control, authority, and communication is a network.
Decisions are made by the specified hierarchical level.	Decisions are made by individuals with relevant knowledge and technical expertise.
Communication is mainly vertical, between superior and subordinate.	Communication is vertical and horizontal, among superiors, subordinates, and peers.
Communication content is largely instructions and decisions issued by superiors.	Communication content is largely information and advice.
Emphasis is on loyalty to the organization and obedience to superiors.	Emphasis is on commitment to organizational goals and possession of needed expertise.

Figure 9.3

9-12

Serving to Promote the Potential Of People & Organizations



Organization and Technology

Woodward's findings:

- The number of levels in an organization increased as technical complexity increased.
- The ratio of managers and supervisors to total personnel increased as technical complexity increased.
- Organic systems predominate in firms at both ends of the scale of technical complexity, while mechanistic systems predominated in firms falling in the middle ranges.
- No significant relationship existed between technical complexity and organizational size.

9-13

Outsourcing: Benefits

- Practice of subcontracting information systems work to an independent outside source.
- Benefits:
 - Allows organizations to emphasize core competencies by not spending time on routine areas that can be outsourced.
 - Reduces operating costs by utilizing others who can do the job more efficiently.
 - Access to top talent and state-of-the-art technology without having to own it.
 - Fewer personnel headaches.
 - Improves resource allocation by allowing growth to take place more quickly.

9-14

Serving to Promote the Potential Of People & Organizations



Outsourcing: Drawbacks

- Drawbacks:
 - Jobs being lost to other countries through outsourcing.
 - Loss of control and being at the mercy of the vendor.
 - Loss of in-house skills.
 - Threat to the morale of the workforce if too many areas are dominated by outside vendors.
 - No guarantee of saving money or providing higher service standards.

9-15

A Contingency Approach

- States that the most appropriate structure depends on the technology used, the rate of environmental change, and other dynamic forces.
 - Since most of the relevant variables are dynamic, management should conduct periodical analysis and appraisal of the organization's structure in light of any relevant changes.

9-16

Serving to Promote the Potential Of People & Organizations

Variables Affecting Appropriate Organization Structure

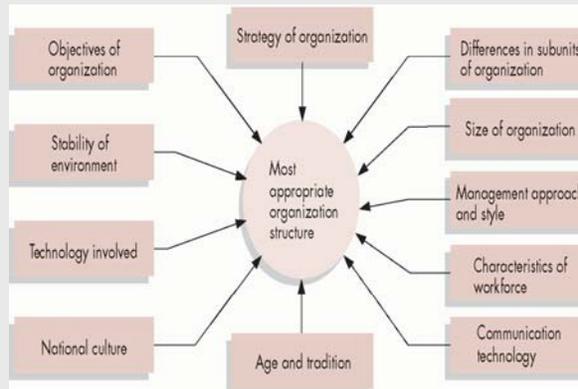


Figure 9.4

9-17

Functional Departmentalization

- Defining organizational units in terms of the nature of the work.
 - Advantages:
 - Allows for specialization within functions.
 - Allows efficient use of equipment and resources, potential economies of scale, and ease of coordination within the function itself.
 - Disadvantages:
 - Suboptimization of goals can occur.
 - Development conflict may develop among different departments with different goals.
 - Employees tend to have a restricted view of the organization.
 - Narrow functional scope of managers.

9-18

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Functional Departmentalization (cont'd)

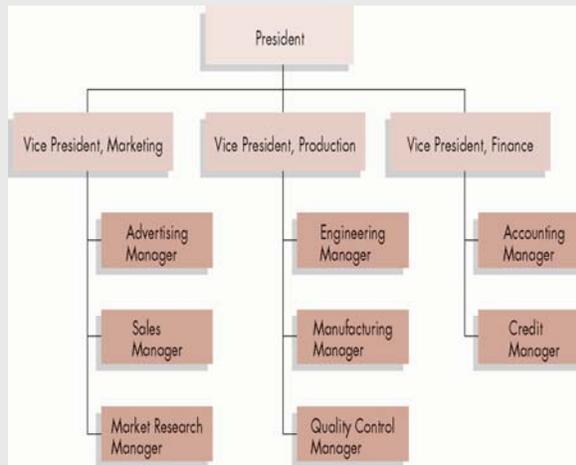


Figure 9.5

9-19

Product Departmentalization

- Grouping all activities necessary to produce and market a product or service under one manager.
 - Advantages:
 - Allows employees to identify with a particular product and thus develop solidarity.
 - Facilitates managing each product as a distinct profit center.
 - Provides opportunities of training for executive personnel through experience of a broad range of functional activities.
 - Disadvantages:
 - Departments can become overly competitive to the detriment of the overall organization.
 - Duplication of facilities and equipment.

9-20

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Product Departmentalization (cont'd)

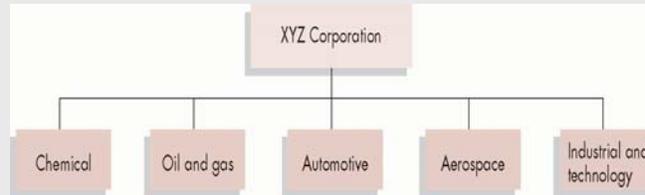


Figure 9.6

9-21

Geographic and Customer Departmentalization

- **Geographic Departmentalization**
 - Defining organizational units by territories.
 - Advantages:
 - Permits use of local personnel and results in a high level of service.
 - Create customer goodwill and an awareness of local feelings and desires.
 - Disadvantage:
 - Having too many locations can be costly.
- **Customer Departmentalization**
 - Defining organizational units in terms of customers served.
 - Advantages and disadvantages are similar to product departmentalization.

9-22

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Customer Departmentalization

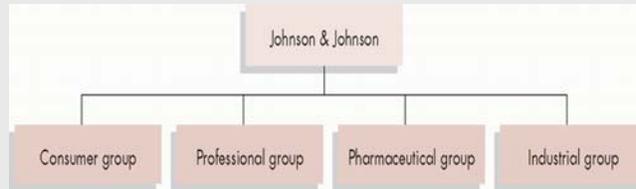


Figure 9.7

9-23

Other Types of Departmentalization

- Several types of departmentalization are possible.
 - By simple numbers
 - By process or equipment
 - By time or shift.
- Hybrid departmentalization
 - Occurs when an organization simultaneously uses more than one type of departmentalization.

9-24

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Possible Departmentalization Mixes for a Sales Organization

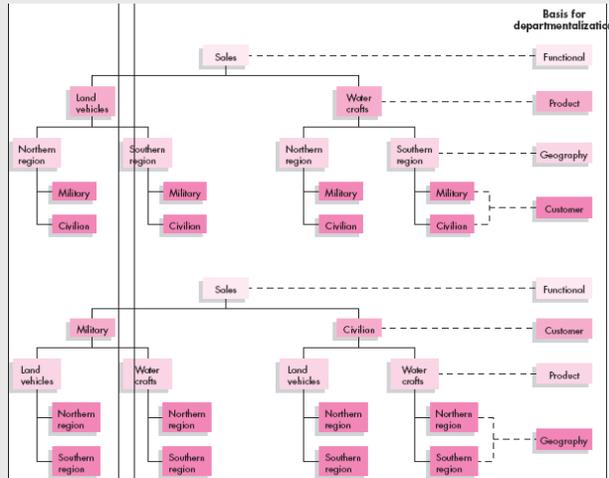


Figure 9.8

9-25

Types of Organization Structure: Line Structure

- Organization structure with direct vertical lines between the different levels of the organization.
 - Advantage:
 - Clear authority structure promoting rapid decision making and prevents “passing the buck.”
 - Disadvantages:
 - May force managers to perform too broad a range of duties.
 - May cause dependency on one or two key employees capable of performing many duties.

9-26

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Simplified Line Structure

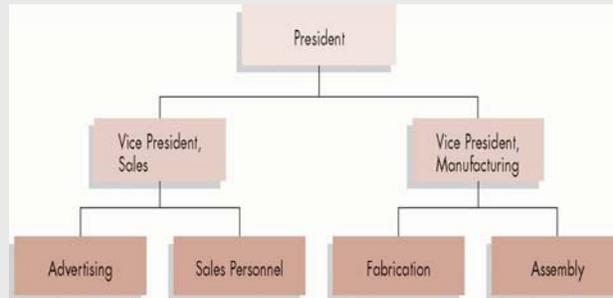


Figure 9.9

9-27

Line and Staff Structure

- Organization structure that results when staff specialists are added to a line organization.
 - Staff functions
 - Advisory and supportive in nature
 - Contribute to the efficiency and maintenance of the organization.
 - Contribute indirectly to the attainment of major organizational objectives.
 - Line functions
 - Directly involved in producing and marketing the organization's goods or services.
 - Relate directly to the attainment of major organizational objectives.
 - Conflicts arise between line and staff structures.

9-28

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Simplified Line and Staff Structure

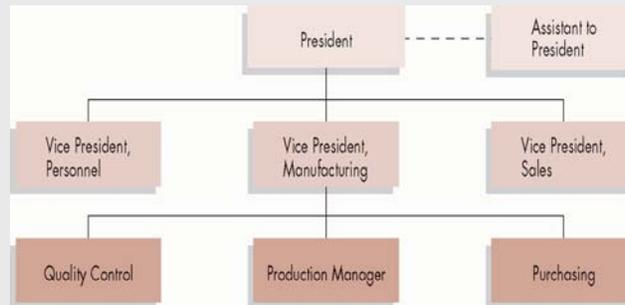


Figure 9.10

9-29

Matrix Structure

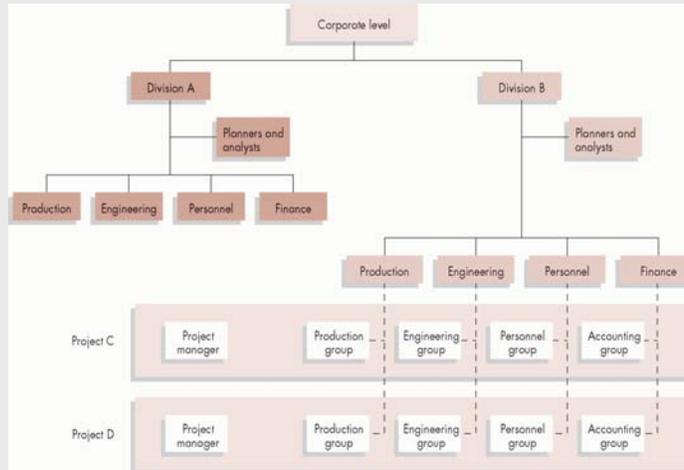
- Individuals from different functional areas are assigned to work on a specific project or task. Also referred to as project structure.
 - Advantage:
 - People and resources can readily be changed as required.
 - Emphasis placed on project by use of project teams.
 - Members can move back into the functional organization with relative ease once projects end.
 - Constant challenges for the employees and interdepartmental cooperation development.
 - Disadvantage
 - Possible violation of the principle of unity of command.
 - Evaluation of personnel by the functional manager.
 - Defy tradition, and put undue stress on communication networks.

9-30

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Illustrative Matrix Structure



Source: From David Cleland and William King, *Systems Analysis and Project Management*.
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Figure 9.11

9-31

Horizontal Structure

Characteristics:

- The organization is built around three to five core processes, each with an owner or champion.
- The hierarchy is flattened to reduce supervision.
- Teams manage everything, even themselves. They are held accountable for performance goals.
- Customers, not stock appreciation or profitability, drive performance.
- Team performance, not just the individual, is rewarded.
- Customer contact is maximized with employees.
- Emphasis is on informing and training all employees.

9-32

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Horizontal Structure

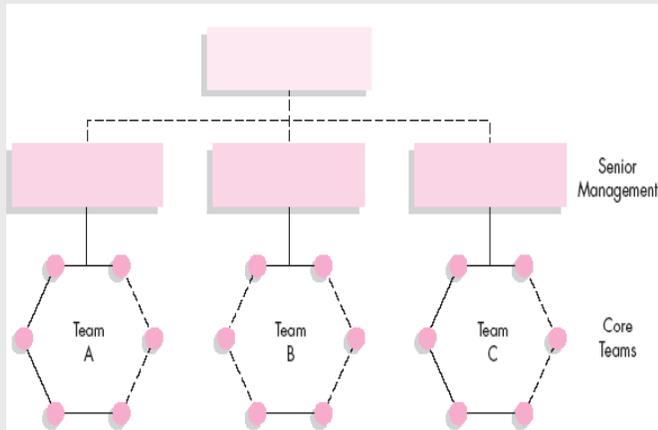


Figure 9.12

9-33

Virtual Organization

- Temporary network of independent companies—suppliers, customers, and even rivals—linked by information technology to share skills, costs, and access to one another's markets.
- Three common types of virtual organizations have been identified.
 - One type exists when a group of skilled individuals form a company by communicating via computer, phone, fax, and videoconference.
 - A second type occurs when a group of companies, each of which specializes in a certain function such as manufacturing or marketing, partner together.
 - A third type occurs when one large company outsources many of its operations by using modern technology to transmit information to its partner companies so that it can focus on its specialty.

9-34

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Virtual Organization

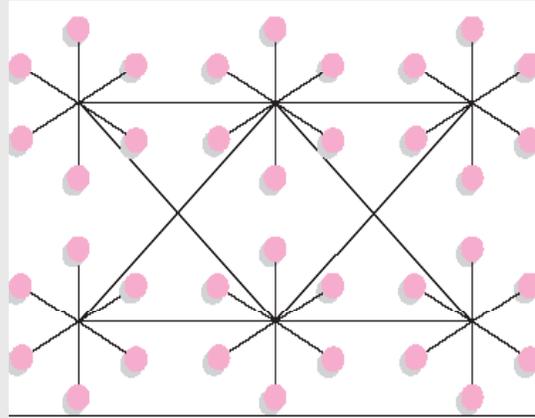


Figure 9.13

9-35

Benefits and Challenges of Transitioning to a Virtual Organization

Benefits

- Increases productivity.
- Decreases the cost of doing business.
- Provides the ability to hire the best talent regardless of location.
- Allows you to quickly solve problems by forming dynamic teams.
- Allows you to more easily leverage both static and dynamic staff.
- Improves the work environment.
- Provides better balance for professional and personal lives.
- Provides competitive advantage.

Challenges

- Leaders must move from a control model to a trust method.
- New forms of communication and collaboration will be required.
- Management must enable a learning culture and be willing to change.
- Staff reeducation may be required.
- It can be difficult to monitor employee behavior.

Figure 9.14

9-36

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Trends in Organization Structure

- Flat structure
 - Organization with few levels and relatively large spans of management at each level.
- Tall structure
 - Organization with many levels and relatively small spans of management.

9-37

Flat versus Tall Structures

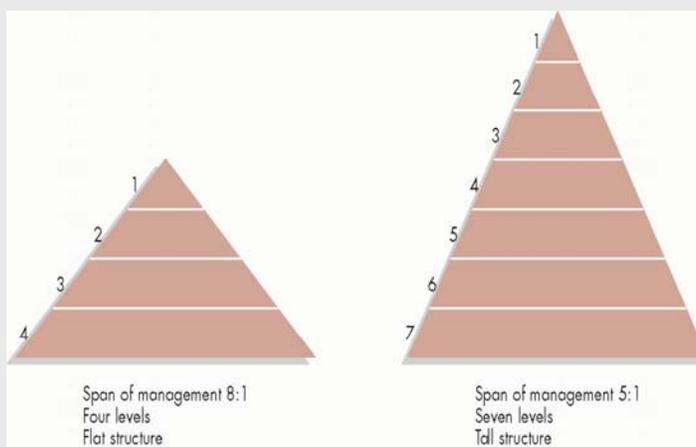


Figure 9.15

9-38

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Committees and Boards

- Committee
 - Organization structure in which a group of people are formally appointed, organized, and superimposed on the line or line and staff structure to consider or decide certain matters.
 - Using committees effectively
 - Define clearly its functions, scope, and authority.
 - Selection of the committee members and chairperson should be done carefully.
- Board of Directors
 - Carefully selected committee that reviews major policy and strategy decisions proposed by top management.
 - Inside boards
 - Outside board



9-39

Methods of Selecting Committees

Method	Advantages/Disadvantages
Appointment of chairperson and members	Promotes sense of responsibility for all. May result in most capable members. Members may not work well together.
Appointment of chairperson who chooses members	Will probably get along well. Lack of sense of responsibility by members. May not be most capable or representative.
Appointment of members who elect chairperson	Lack of sense of responsibility by chairperson. May not choose best chairperson for the job. Election of chairperson may lead to split in the committee.
Volunteers	Will get those who have greatest interest in the outcome or those who are least busy. Lack of responsibility. Potential for splits among committee members is great.

Figure 9.16



9-40

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