Organizational Design Change and Transformation
Prof. Sangeeta Sahney
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Module - 03
Lecture - 13
Organizational Structure

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[FL] We will be continuing with our module 3 and our discussion on Organizational Structure. In the previous lecture we have spoken about the basic challenges of organizational design and designing organizational structure authority and control.

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In today's lecture which is lecture 3, we will be speaking about organizational structures and the type of structure.

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So, let us first start with organizational structure. Now an organizational structure is actually indicative of the number of levels in the hierarchy, the span of control and it illustrates formal reporting relationships. So, it is a formal division or grouping and a coordination of jobs; job tasks, it illustrates the grouping together of individuals into units or into departments or into functions or into divisions and into the total organization.

Also called the situational structure, the organizational structure is indicative of what the organization is in terms of departments, functions, responsibilities, reporting relationships, span of control and so forth. So, Robbins and Judge have defined an organization structure as how job tasks are formally divided, grouped and coordinated.

So, an organization structure is something which indicates the number of levels in the hierarchy, the span of control it illustrates the formal reporting relationships and it actually

shows how you know it shows how people are grouped together into units or into departments and the departments into the total organization.

We also call it the situational structure, where which indicates what the organization is in terms of the departments, of the divisions, of the functions, of the responsibilities, reporting relationships and so forth.

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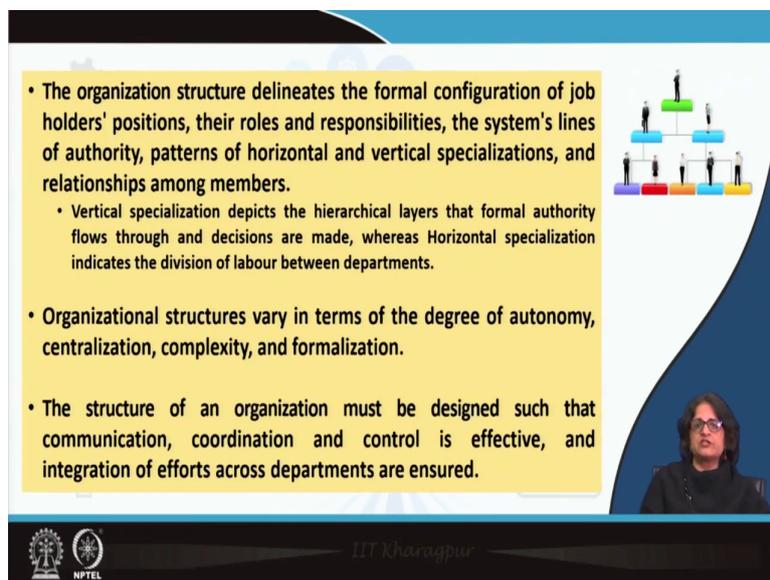
So, it basically delineates the formal configuration of job holder's positions, their roles, their responsibilities, the lines of authority, the horizontal and vertical differentiation, the specializations and relationships amongst members. So, vertical specialization or vertical differentiation depicts the hierarchical layers, the different hierarchical layers which we have spoken of in the previous lecture as well.

And that is a formal authority flows through; so its vertical specialization depicts the hierarchical levels that formal authority flows through and decisions are made whereas, horizontal differentiation indicates the division of labour between different departments. So, while the vertical differentiation pertains to the hierarchy, the horizontal pertains to the division of labour and organization structures vary in terms of degree of autonomy, centralization, complexity and formalization which we will see subsequently.

And so, the structure of the organization must be such design that there is communication, coordination and control and all of these is effective. And there is integration of efforts across different departments, across different levels which can be ensured.

So, the organization structure here actually is depicted of both the horizontal and vertical differentiations horizontal pertains to the division of labour and specialization, vertical pertains to the hierarchy and the structure of the organization must be designed. So, that the coordination, the communication and the control is effective. And there is integration across different levels as well as across different functions, different departments and different subunits in the organization.

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So, what are the elements of an organization structure and we will be discussing each of these elements a work specialization, departmentalization, chain of command, span of control, centralization and decentralization, formalization and boundary spanning. Of course some of these terms you have heard earlier is heard about chain of command, about span of control, about centralization decentralization, about formalization, about boundary spanning.

So, we will spend very short time on each one of these and I will show to you, how they are relevant as elements to the organization structure.

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And how they address various you know issues and concerns. So, if the key question is to what degree are activities subdivided into separate jobs? The answer is specialization. If the question is on what basis will jobs we group together? The answer is departmentalization. If the question is to whom do individuals and groups report? It is the chain of command. If the question is how many individuals can a manager effectively and efficiently direct? It is a span of control.

If the question is where does decision making authority lie? The answer is centralization and decentralization. If the question is to what degree will the will there be rules and regulations to direct employees and managers? The answer is formalization. And if it is the question is do individuals from different areas need to regularly interact? The answer is boundary spanning.

So, each of these answers which you see on the right side of the; in the right column these are the 7 different elements of the organization structure and we shall be discussing each one of them one by one.

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So, first is work specialization. So, what is work specialization? Of course, as I just said the question related to work specialization is that to what extent are tasks in an organization subdivided into distinct jobs or to what degree are activities divided into separate jobs or distinct jobs? So, work specialization defines that, work specialization is the extent to which organizational tasks are subdivided into distinct jobs.

And the job is divided into number of stages or number of steps and each of which is completed by a different person by a separate individual. So, this results in division of labour and effective usage of worker skills, it promotes skill enhancement because of repetition of

work, it leads to specialization, if there is reduced downtime between jobs and all of this boosts productivity.

So, if you see here in the figure which is there, that you know as a person begins to specialize on the job his productivity keeps on increasing up to a point after which it begins to fall because you know when work specialization is too high, it also leads to boredom and monotony and person is doing the same job again and again and again and again and again and again. So, so it becomes boring, it becomes monotonous and also he performs a routine task without bringing in creativity.

And so does a he does it day by day, year by year and so when he is doing that gradually productivity begins to fall. So, it is the impact of economies of specialization is up to a point and thereafter you also the organization can also suffer from human diseconomies. And so it is very important that work specialization is adhered to up to a particular limit, thereafter the functional outcomes may reduce and the dysfunctional outcomes in form of decreased productivity may happen.
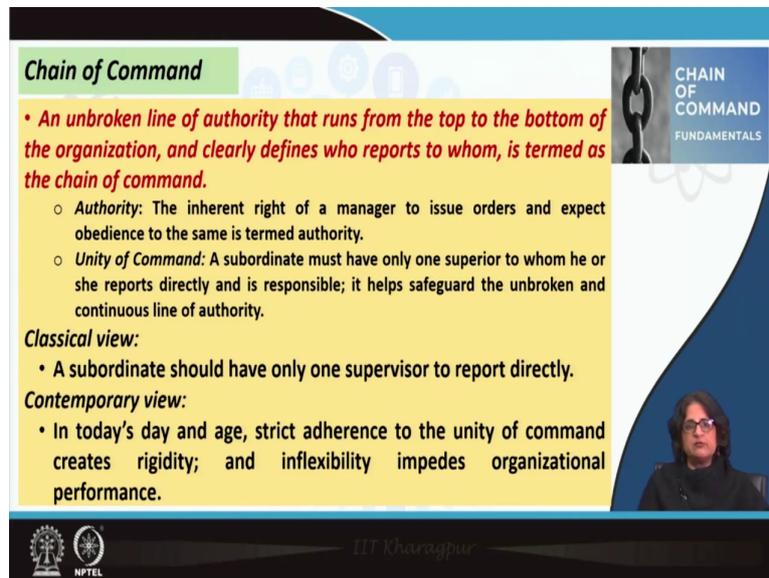
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The second element of organization structure is departmentation. So, the question pertaining to this was that on what basis will job be grouped together? So, the basis of grouping jobs, so that common and or similar jobs, common and or similar tasks can be coordinated is called departmentation. The various basis on which activities can be grouped could be function performed.

So, that or say we call it functional department departmentalization or product and service produced, which is referred to as product departmentalization or geography and territory, which is referred to as geographic departmentalization or process involved which is referred to as process departmentalization or customer serve which is referred to as customer departmentalization.

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The third element is a chain of command. Now, what is the question with relates to chain of command to whom do individuals and groups report? So, that is the chain of command. So, an unbroken line of authority, which runs from the top to the bottom of the organization, clearly specifying who reports to whom is the chain of command ok. And according to the unity of command principle a subordinate must have only one superior to whom he or she directly reports and is responsible.

Because that helps safeguard the unbroken and continuous line of authority. Now, the classical view to management was that you know subordinate should only have one supervisor to report directly, of course the contemporary view today in is that strict adherence to unity of command, creates a lot of rigidity and this kind of a rigidity or inflexibility actually affects organizational performance in a negative way ok.

So, while this is an element of organization structure. there it needs to be carefully assessed because today the world is moving towards you know different forms of structures where the chain of command, principle may not hold good in entirety.

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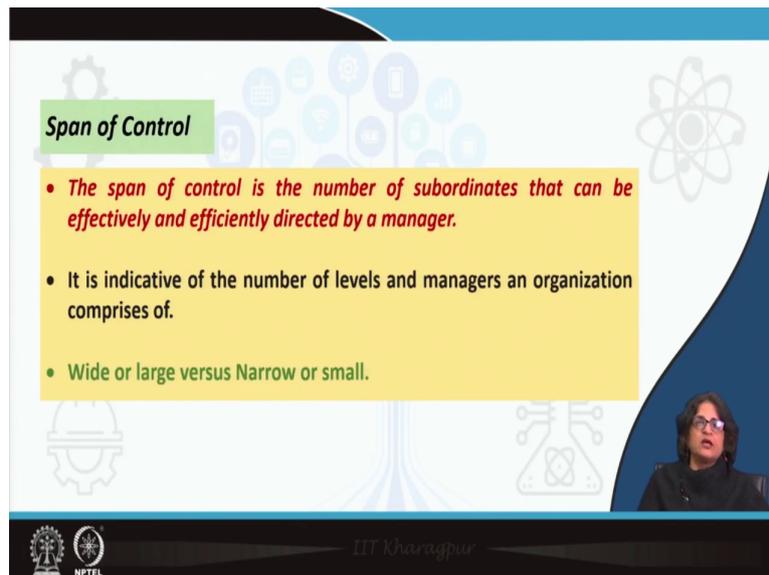
The fourth element is span of control. So, the question is how many individuals can a manager efficiently and effectively direct? We just we spoke about the span of control in the previous lecture. So, it is actually the indicative; it is actually indicative of number of levels and managers and organization comprises of, it because actually it is to define it, it is the number of coordinates that a manager can effectively and efficiently manage or direct and span of control can be wide or large or it can be narrow or small.

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So, here is the span, where a wider or a large span means employees at each level; more employees at each level and fewer levels. So, a wider and large span means that the levels are few and there are more employees at each level, wider spans are more cost efficient. However, when the manager or the supervisor is unable to manage the subordinates due to constraints of time, performance can suffer ok.

So, on the other hand, narrow spans or small spans they help maintain close control, close supervision, however a narrow span also suffers drawbacks one the number of levels are too much this makes operational cost very high it becomes too expensive and it also leads to increased complexity or vertical communication and decision making gets slowed.

Also third there is strict supervision which can also discourage, employee autonomy and autonomy and freedom. So, both you know wide spans as well as narrow spans have their

own advantages and disadvantages ok. A wider or large span means more employees at each level, which means fewer levels in the organization structure which means flatter structures.

On the other hand and because they are flatter they are more cost efficient, but narrow span means less employees at each level many, levels which means taller structures, which will also mean there is problems of coordination, control, there is complexity and too much of supervision and control which may affect employee performance as it discourages employee autonomy.

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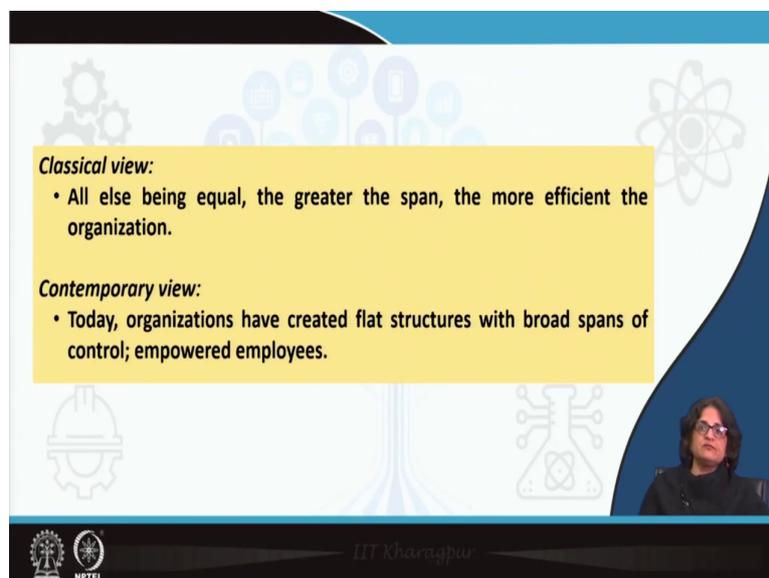
So, the classical view was that the greater the span the more efficient the organization. Today, but today the contemporary view is that organizations have created flatter structures with broad spans of control, but with un empowered employees. So, empowerment is the key ok, organizations have flat structures with broad spans of control and empowered employees.

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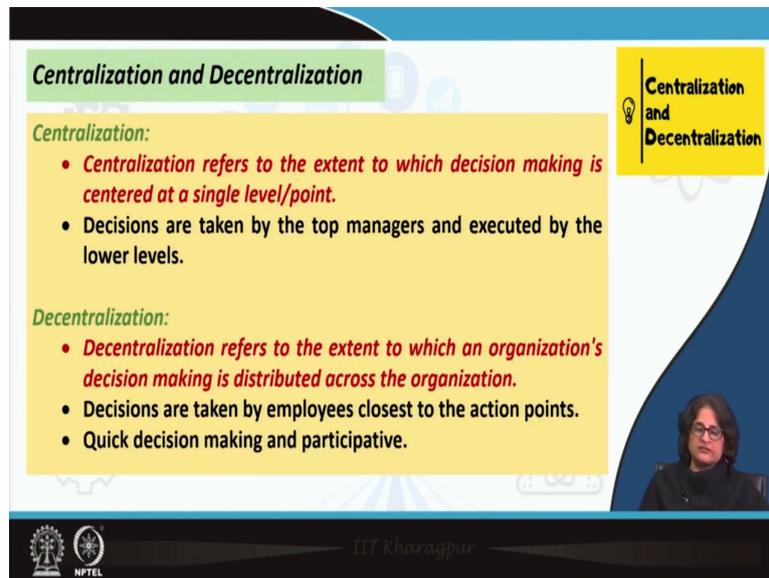
The next element in organization structure is centralization and decentralization. We have discussed centralization decentralization earlier as well. And so in centralization, the decisions are taken by the top managers and executed by the lower levels. But in decentralization decisions are also taken by employees close to the action points it leads to quick decision making and participative style of management.

So, the question this addresses is, where does decision making authority lie? So, when decision making authority lies at a single level or a single point it is centralization and when it is distributed throughout the organization it is decentralization.

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The next element that we speak of is chain of; sorry the next element that we speak of is formalization. Now, the question that formalization relates to is to, what degree will there be rules and regulations to direct employees and managers? So, formalization is the magnitude to which jobs in a company are standardized it relates to clear and very explicit job descriptions, rules regulations, policies, procedures.
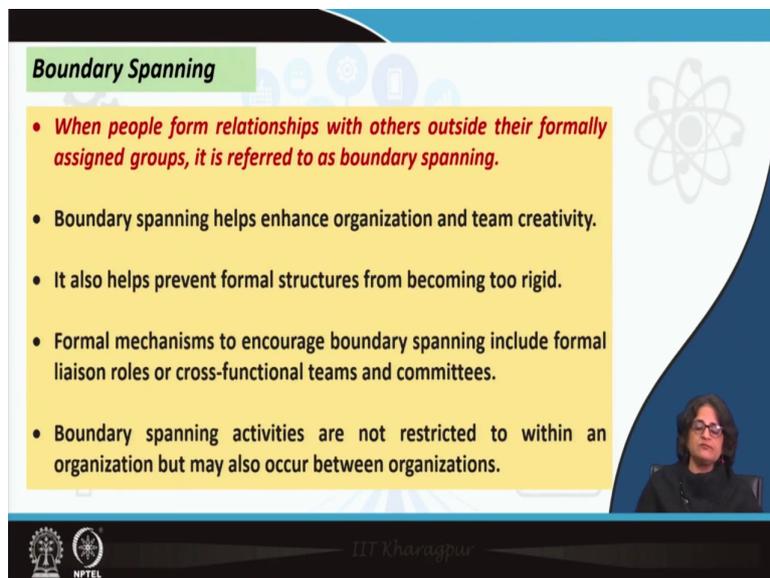
So, high formalization means there is very little freedom and dis discretion about how, what is to be done, how it is to be done, when it is to be done? You know the employees have very little freedom and discretion over all of these and its results, but it and so everybody performs in a standardized fashion and this results in consistency and uniformity of output ok.

So, high formalization will mean, there are there is very little freedom and discretion which people have or which employees have, about what to do how and when to do and because

there is little freedom and discretion. And there is you know there is huge amount of formalization in everybody behaves in the same way acts in the same way and it results in consistency and uniformity of output.

Low formalization means that people have freedom and can use their discretion and both formalization and both high and low formalization have their own advantages and disadvantages and organizations must try to strike a balance for them.

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The last element is boundary spanning. So, do individuals from different areas need to regularly interact, this defines boundary spanning. When people form relationships with others outside the assigned groups formally assigned groups it is actually called boundary spanning.

And boundary spanning helps, enhance you know creativity in organizations, it leads to cooperation, it leads to collaboration you know it also prevents a formal structures from being too rigid formal and companies organizations encourage formal mechanisms to encourage boundary spanning today and these include allies on roles, cross functional teams and committees and such activities are not restricted to within the organization but may also extend beyond the organization.

So, these are different elements of the organization structure.

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Now, we come to some types of structures. 1st is a simple structure where you see a manager, who is actually you know supervising employee 1 2 3 and 4. So, it is a simple structure, where there is a low level of departmentalization, broad span of control centralized authority

and very limited task specialization, a very flat structure with one level in a simple structure, the levels could go up.

In this figure you see one level, but in simple structures you know simple structures the levels could be just about two or three levels decision making power and authority west's you know centrally in one person, usually the owner and the manager or the manager who makes the decision.

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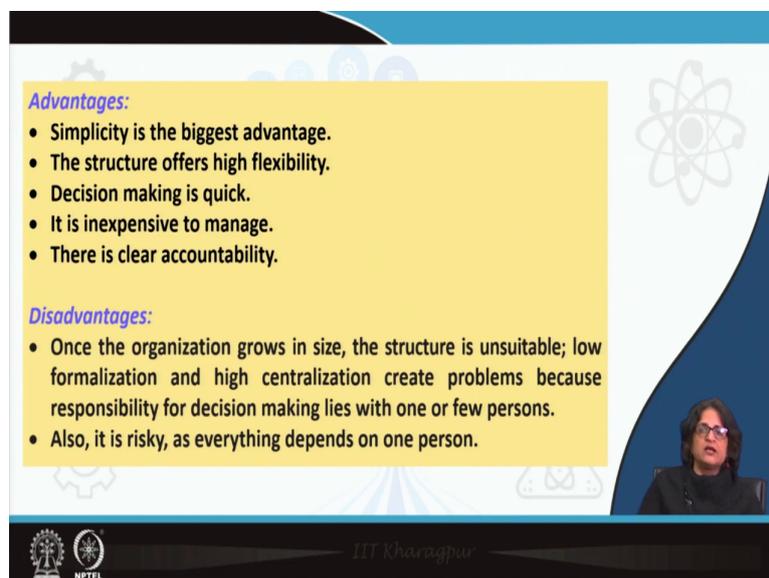
So, the advantages are its highly flexible, decision making is quick, it is inexpensive there is clear accountability. But the disadvantage is that once the organization grows in size, the structure is unsuitable the low formalization and high centralization can create problems because responsibility for decision making lies only with one or two people. Also it is risky you know because everything depends on one person.

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The 2nd structure is a functional structure. This is based on a different you know where the organization structure is based on different functional areas that exist in the organization. So, activities are grouped by common functions, people may share common skill sets and perform the same functions like for example, you have the CEO and then the four departments R and D production and operations, finance and accounting, sales and marketing.

So, people employees will be in the production and operations are those who are involved in the transformation process, in the R and D are those who are engineers and are into the design role and so the structure is you know; so here people are grouped by common function.

And the function structures are commonly used in large organizations and the structure is used for organizations, generally for such organizations that just produce one or two product

or services. And the it is efficiency if the structure is highly suitable when efficiency is important and more of vertical and less of horizontal coordination is required.

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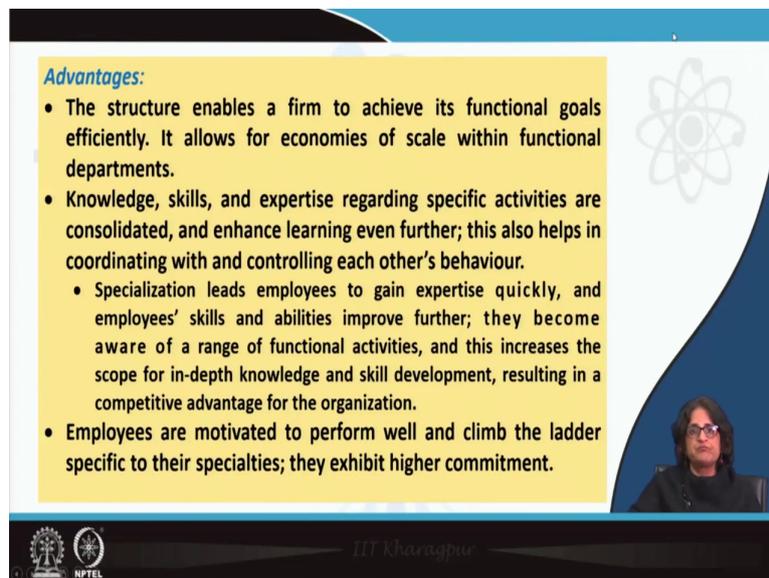
So, the structure enables a firm to achieve its goals, functional goals, efficiently it allows economies of scale within functional departments, employees are motivated to perform well in their functional roles and climb the ladder they are highly committed in the roles because they specialize in those functions and the knowledge skills and expertise regarding specific activities are consolidated.

This enhances learning further, specialization leads employees to gain, expertise quickly and employee skills and abilities improve even further ok so, all of this leads to competitive advantage for the organisation.

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But of course, disadvantage is that the structure slows down organization responds to environmental change, vertical hierarchy may get overloaded, managers may not respond fast, there is lesser of horizontal coordination within departments this stifles innovation also there are conflict as well as problems of coordination within a unit and between different units can affect motivation negatively ok.

And people also get restricted to their subunit orientation. They get very narrowed and restricted to their function and this basically you know results in a very restrictive view of the organizational goal.

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Then you have the divisional structure. The divisional structure is based on different units by product, service or customer or geographical market area. They are highly departmentalized in a way the division here or the structure here is based could be based on product or service manufacture could be on the customer, served could be on the geographical area served, so the divisions can be organized based on products or services or product groups or projects or programs or businesses or profit centers.

So, the grouping is based on any form of organizational output and the structure is suited for those kinds of organizations, which offer multiple products, cater to multiple geographic areas and to cater to multiple customer segments ok. And it also is good for organizations that operate in highly unstable in highly unstable environments.

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So, the division structure allows for unit specific concerns to be addressed and enables coordination across function departments. It allows organizations to make adjustments to differences in products or to regions or to customers there huge amount of flexibility and it promotes change and organization is quickly able to adapt to environmental needs, it also leads to decentralized decision making.
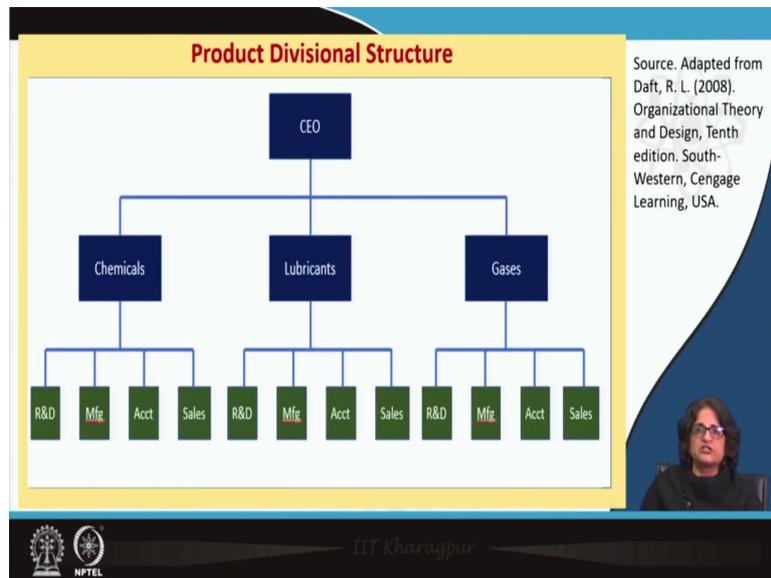
But the disadvantages are, that the economies of scale are lost there is lot of duplication of activities, coordination can also be a difficult task and employees identify with the product line, rather than the functional specialty and this results in dilution of in depth competence and technical specialization.
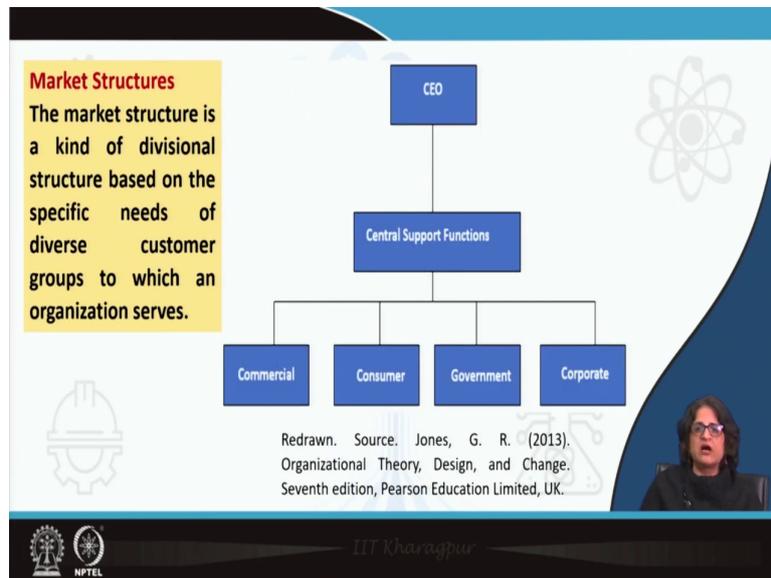
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So, this is a product level, product divisional structure, where there are three different product lines and under the three different product lines you have different functional areas.

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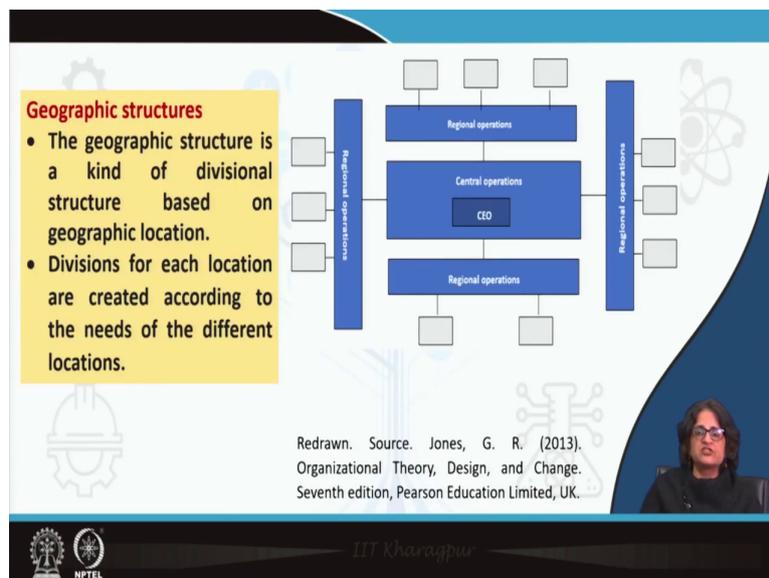
This is a geographic structure, which is based on the geographical location, where divisions are for each location are created.

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This is a market structure, where the division is based on the diverse customer group. So, commercial is one group, consumer is another, government is another, corporate is another.

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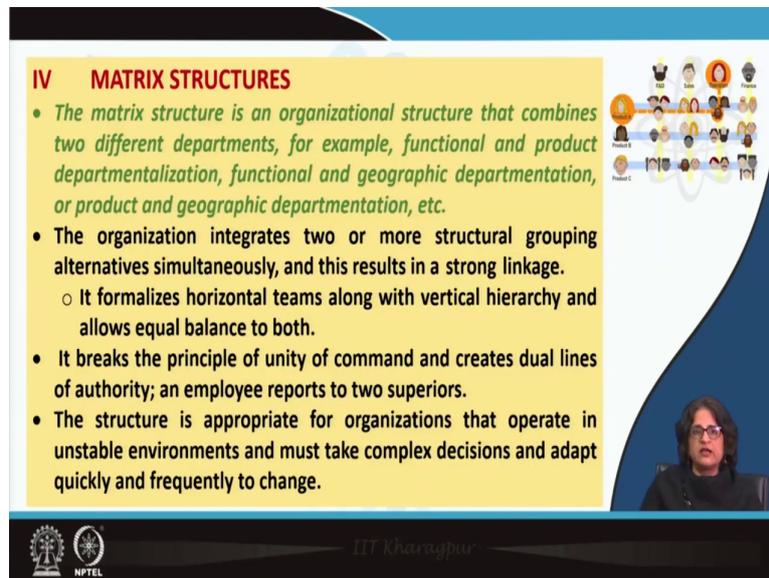
And then the next structure which we have is a matrix structure. The matrix structure is an organizational structure that actually combines two different departments for example, combination between functional product departmental or functional and geographic departmentalization. So, the organization integrates two or more structural groupings alternatives simultaneously and this results in a strong linkage.

So, what happens is? There is a it formalize horizontal teams along with vertical hierarchy and allows equal balance of both. So, this is in violation of the principle of unity of command and creates dual lines of authority, which means that one subordinate reports to two superiors. So, this structure is appropriate when organizations operate in highly unstable environments and must take quick decisions and adapt quickly to change.

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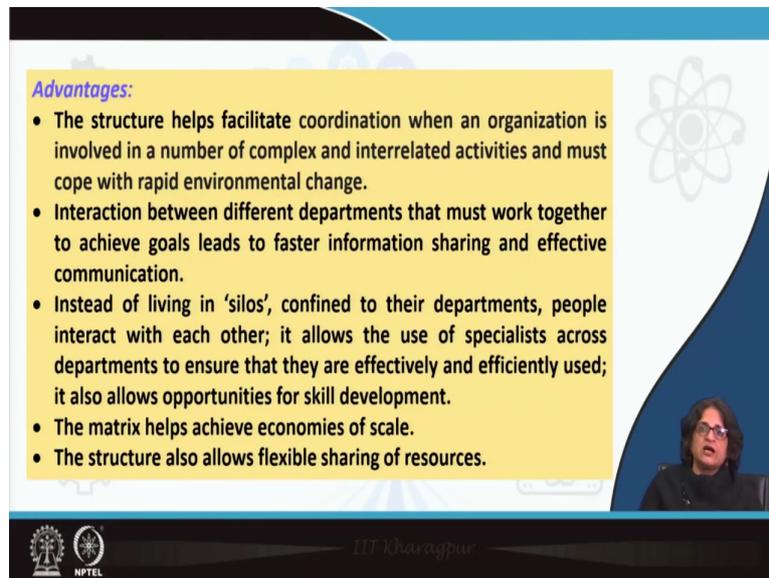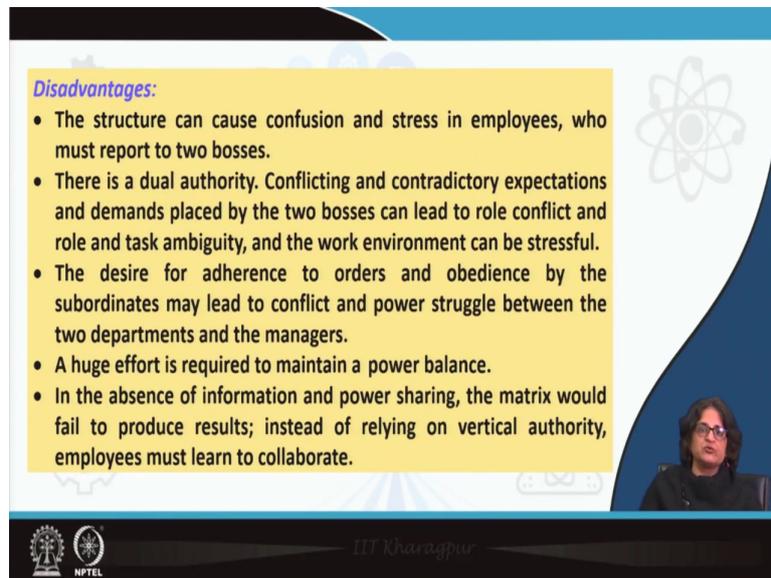

Advantages:
- The structure helps facilitate coordination when an organization is involved in a number of complex and interrelated activities and must cope with rapid environmental change.
- Interaction between different departments that must work together to achieve goals leads to faster information sharing and effective communication.
- Instead of living in 'silos', confined to their departments, people interact with each other; it allows the use of specialists across departments to ensure that they are effectively and efficiently used; it also allows opportunities for skill development.
- The matrix helps achieve economies of scale.
- The structure also allows flexible sharing of resources.

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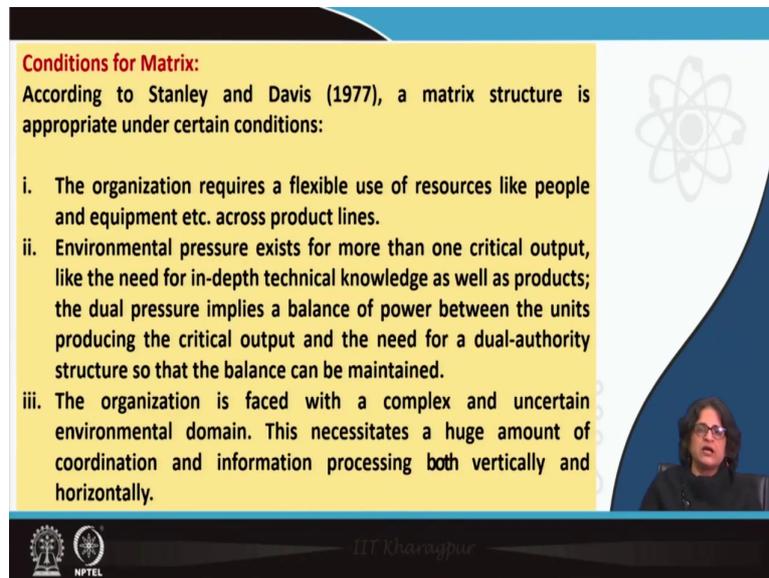(Refer Slide Time: 22:03)

And adapt quickly and frequently to change. So, I will first show you the structure and then we will come to the advantages and disadvantages of a matrix.

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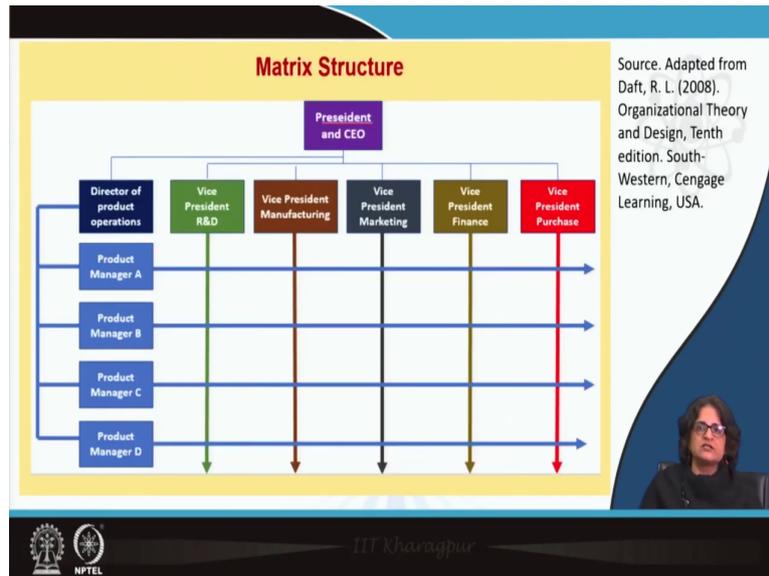
So, this is a matrix structure where you see on the one hand, you have product managers and the vertical differentiation is product wise. On the other hand there is the functional departmentation, where you have the different function. So, on the one hand you have product A, product B, product C and product D. On the other hand you have function R and D function, production operations and marketing finance and so forth.

So, one person reports, the person here basically the any person here on the if I scroll my cursor you will be able to see, that the person here has two bosses, he has reports to him and he also reports to him ok. So, this is the principle; this is the matrix. Now, what are the advantages?

It facilitates, coordination when an organization is involved in number of interrelated activities and they must work together to cope with environmental change instead of living in

watertight, silos, compartments in their departments, people interact with one another it you know.

So, the structure allows huge deal of flexibility, interaction between different departments that must work together to achieve goals, leads to faster information sharing, effective communication. But the disadvantage is it can cause, stress and confusion for a person who has to report to two bosses, there is huge amount of stress on him, there is dual authority and a huge and if the problem is more if the two bosses you know differ with respect to their goals and with respect to their you know expectations from the subordinate.

So, huge effort is required to maintain power balance and conflicting and coordinating expectations and demands placed by the two bosses can lead to a role conflict and role ambiguity. But when is a matrix you know appropriate it is when you when an organization wants flexible use of resources like, people and equipment, when there is huge pressure for more than one critical output like for example, the need for in depth technical knowledge as well as for products.

So, the dual pressure implies a balance of power between the units producing the critical output and the need for a dual authority structure, so that balance can be maintained. And if the organization operates in highly complex and uncertain domain even then this is a preferred mode.

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So, with this I come to an end of our discussion on organizational structure these are the references.

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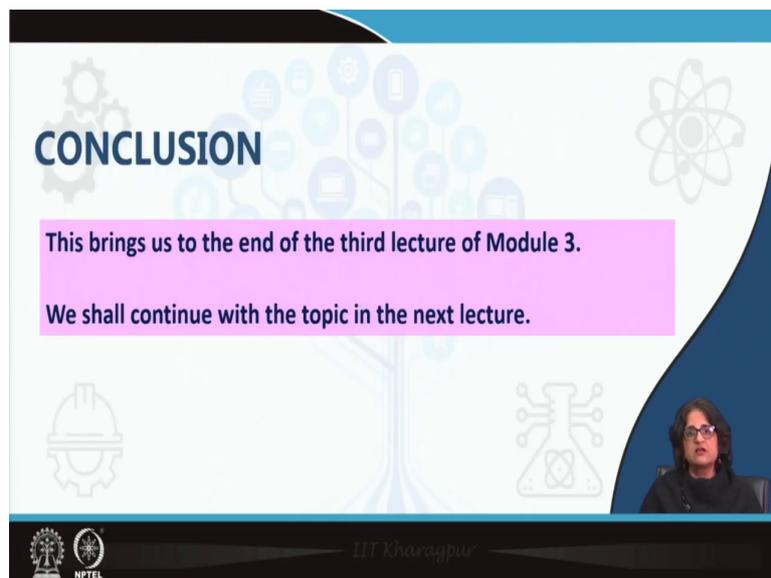
And we shall continue with the topic in the next lecture.

Thank you.