Organizational Design Change and Transformation
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Module - 03
Lecture - 14
Organizational Structure

[FL]. We will be continuing with our discussion on Organizational Structures. This is week 3, lecture 4.

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In the previous lecture, we have spoken about the basic challenges of organizational design, designing organizational structure authority and control, organizational structures and types of structures. Today, we will be moving on to Contemporary Design Structures.

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Now, with a rising trend towards flatter structures, organizations today prefer structures with fewer layers of hierarchy and with a focus on removing organizational boundaries. And, there are different kinds of structures which are being proposed by organizations worldwide and are being successfully adopted and practiced.

Some of these structures you know which manifest characteristics of fewer layers of hierarchy and elimination of organizational boundaries include horizontal structures, virtual structures, team structures, circular structures, hybrid structures, boundaryless organizations, network structures and E-commerce. So, we will be discussing these in today's lecture.

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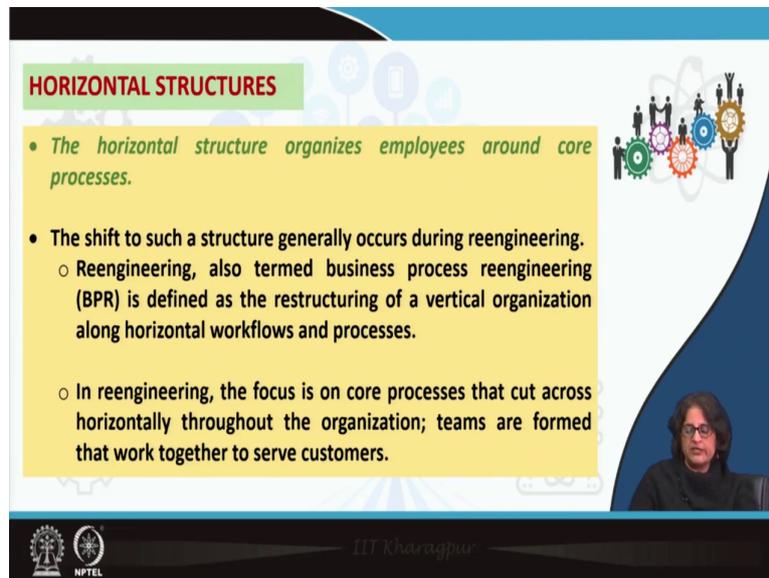
Let us first start with horizontal structure. Now, the horizontal structure organizes employees around core organizational processes. So, the shift to such a structure generally occurs during reengineering. Now, what is reengineering? Reengineering also termed as business process reengineering is defined as the restructuring of a vertical organization along horizontal workflows and horizontal work processes, ok.

So, the shift to such a structure is basically you know to restructure the vertical organization along horizontal workflows and processes. Now, in reengineering the focus is on the core processes that cut across horizontally throughout the organizations. Teams are formed that work together to serve the various customers, ok. So, it what a horizontal structure means is that it employees are organized around core processes.

And, the focus is on teams ok and which are formed to work together to serve customers and the customer interests. So, the focus is on core processes that cut across horizontally through the organizations and teams are formed to serve the customers.

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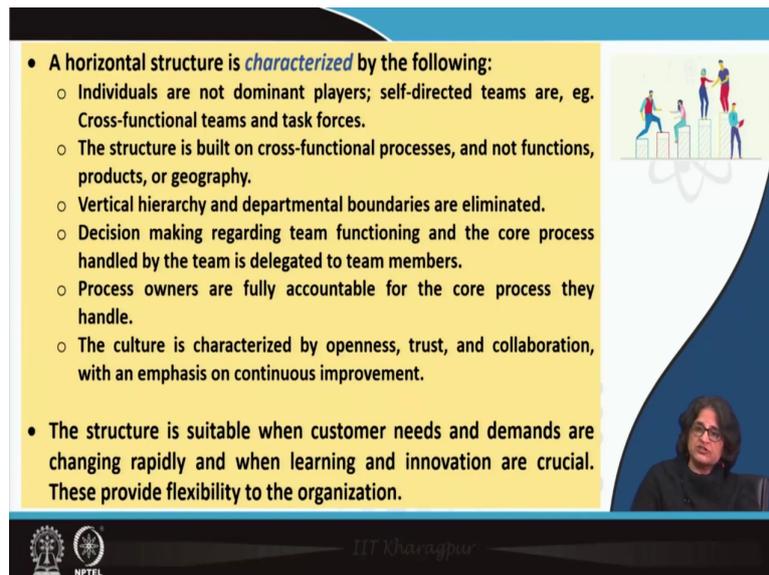
- A horizontal structure is *characterized* by the following:
  o Individuals are not dominant players; self-directed teams are, eg. Cross-functional teams and task forces.
  o The structure is built on cross-functional processes, and not functions, products, or geography.
  o Vertical hierarchy and departmental boundaries are eliminated.
  o Decision making regarding team functioning and the core process handled by the team is delegated to team members.
  o Process owners are fully accountable for the core process they handle.
  o The culture is characterized by openness, trust, and collaboration, with an emphasis on continuous improvement.

- The structure is suitable when customer needs and demands are changing rapidly and when learning and innovation are crucial. These provide flexibility to the organization.

So, horizontal structure is characterized by what? It first and foremost individuals are not dominant players self directed teams are ok. So, it is not an individual working or performing a role, it is the self directed teams which are doing so, and the focus is on cross-functional teams and task forces.

In the previous lecture, we have discussed what cross-functional teams and task forces are where we said that teams or task forces are composed of people from different functional areas with different expertise, with different knowledge skills and abilities and they all get together to identify problems to look for solutions to those problems and they try to

implement those solutions so that organizations can be more effective and efficient in their performance.

So, in a horizontal structure individuals are not the dominant players; self directed teams are. Cross-functional teams and task forces are crucial the structure is built on cross-functional processes and not on functions or products or geography. The vertical hierarchy and departmental boundaries are eliminated. Decision making regarding team functioning and the core processes is handled by the team is actually delegated to the team members.

The process owners are fully accountable for the core processes that they handle. And, the culture is one which is characterized by openness, trust, collaboration, you know information sharing and with an emphasis on continuous improvement. So, the so, this is the kind of a structure which companies today or organizations today are looking for and they because they feel that such structures can actually be very useful in adapting to the changing environment.

They can adapt to you know quickly and promptly to the changing environment, they can adapt to the needs of the environment, they can help take advantage of opportunities in the environment, they can help fight threats in the environment. So, the focus is not on vertical differentiation, the focus is not on hierarchy, but the focus is more on horizontal differentiation on division of work, on specialization.

And, the focus is on cross-functional teams and task forces where a structure is built not on you know functions or product or geography but, on cross-functional processes where decision making regarding team functioning and the core process is delegated to the team members.

The process owners are fully accountable for the core process that they handle and the culture is one of openness, trust, collaboration, information sharing and continuous improvement. So, such a structure is highly suitable when customer needs and demands are changing very rapidly and when learning and innovation are crucial for an organization to exist.

So, they the such structures provide a huge amount of a flexibility to organizations and help the organizations in adapting to change, help the organizations innovate, help the organizations be more creative and help the organization be more responsive to the changing needs and wants of the customers.

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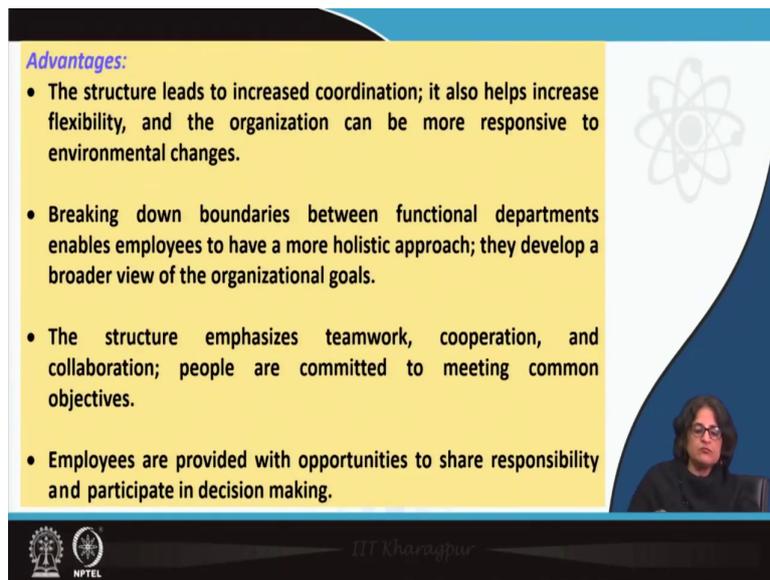
So, what are the advantages of such a horizontal structure? The structure leads to it enhances coordination it helps increase flexibility organization can be more responsive to the environmental changes the structure breaks down boundaries between different functional departments or divisions it.

So, employees are working together cross-functional teams, cross-functional task groups are there. So, the very the narrow focus gets changed to a more holistic focus. Instead of thinking

in terms of the department or in terms of the function employees begin to think more holistically in terms of organization.

So, the sub unit orientation can be reduced or can be you know you know eliminated if with this kind of an approach where people begin to work together and so, they develop a very holistic approach to understanding organizations and manage organizations. So, employees have a very holistic approach.

They develop a very broad view of the goals the structure emphasizes teamwork, cooperation, collaboration, people work together to achieve objectives and employees are provided with opportunities to share responsibility and to participate in decision making.

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What are the disadvantages? That identifying you know and recognizing the core processes is very critical, defining the core processes is very critical. It is a very complex task time consuming and if it is not done properly, then the huge effort then it can lead to huge problem for the organization.

Also shifting from the traditional structure, traditional orientation, vertical orientation, vertical differentiation and hierarchy and hierarchy as well as authority you know responsibility relationship, superior subordinate linkage, shifting from that traditional structure to horizontal one requires a total change in management orientation and philosophy, requires a change in coordination and control mechanisms and this can be highly challenging.

Resistance to change can be very high because you know when people are made to move from a traditional structure of you know where you have a unity of command you have the unbroken chain of command where there is centralization, where you know decisions are top down, where communication flows are again top down vertical, you know and people are just obey what orders from the top.

Breaking from such a structure to a structure which is horizontal which is which requires a breaking down of these vertical boundaries, breaking down of the hierarchy, also you know which demands open openness, a climate of trust a communication etcetera it is this kind of a change can be bringing up this kind of a change from the traditional to the more modern can be really challenging for managers, the resistance of change can be very high. And so, the structure requires training regarding work orientation and styles.

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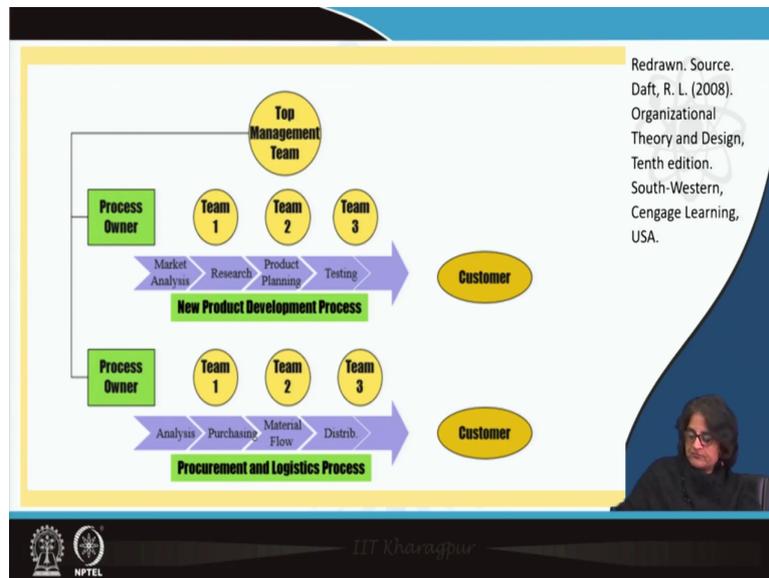
So, this is what a horizontal structure would look like where there is process 1 for example, there is another process. Both the processes if you see process 1 and process 2 they have different teams to deal with those processes. So, there is one process which is procurement and logistic process there is a process owner there are 5 4 3 teams taking care of four activities.

Similarly, there is the second process which is new product development process. Again, there are four different tasks taken care of by three teams and so, identifying the identifying the process, identifying the core process, deciding on the process owner, designing the team I mean formulating the team, creating the team and empowering them you know empowering the cross-functional team, developing a climate of openness, trust, free flow information,

sharing etcetera is something which actually distinguishes such an organization from the traditional structures prevalent earlier.

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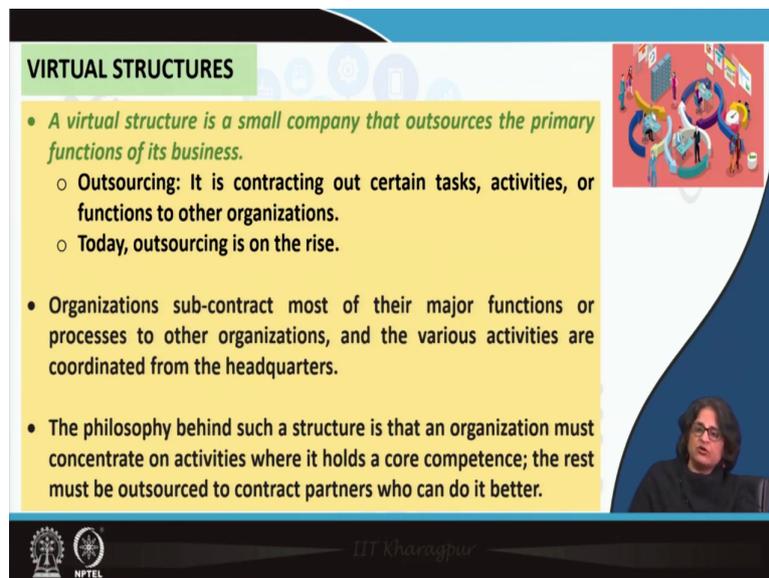
The second structure is a virtual structure. Virtual structure is a small company that outsources the primary functions of its business. Today, outsourcing is on the rise. Outsourcing is contracting out certain tasks activities or functions to other organizations. So, what is really seen today in a major way is that organizations subcontract most of their major functions or processes to other organizations and the various activities are coordinated by from the headquarters.

So, the philosophy behind such a structure is that the organization must concentrate on activities where it holds core competence and the rest must be outsourced to contract partners who can do it better. So, this is the fundamental logic of a virtual structure, where the

organization outsources most of its activities, most of its tasks and confines itself to something where it is core competent as well as confines itself to coordinating activity, coordinating between different outsourcing partners.

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So, small number of executives form the core of the organization which you see as a yellow core and the job is restricted to monitor any in -house activity which is there and if and the major task of this executive group here which is seen in the yellow core is to coordinate and control relationships with other external organizations to whom the business functions have been outsourced.

So, in it is similar to a central hub surrounded by external specialist. So, there is somebody who is manufacturing, there is somebody who is advertising for you, there is somebody who is doing your R and D and you as an organization is only performing a role a small role which

you feel your core competent in plus a major role of coordinating with the different outsourced partners.

So, the dotted lines here illustrate the contractual relationships which are maintained under contracts. So, each project or team comprises staff that is qualified on the job and long term risks and costs are reduced as the concept of long term is missing and a team has a finite life once the task is over it gets disbanded.

So, what we see here is an organization which actually you know takes care of you know change and change which can happen very quickly, so that it can adapt to change, so that that the perspective of the long term is something which gets diminished.

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The advantage is that the structure has a scope of being purely global in the sense that inputs and resources can be obtained at the best price and you know best prices from all across the world and output can be also sold through partners anywhere in the world. So, for a new company or for a small company, the structure is highly suitable as it you know as the company can procure it is inputs you know and easily and it can sell it is outputs without huge investments in facilities and infrastructure.

Also, administrative expenses can be reduced, in a big way it is cost saving as it reduces the need for permanent infrastructure, permanent staff, and other hierarchical roles. And, the structure enables extreme flexibility and prompt response to the changing environment.

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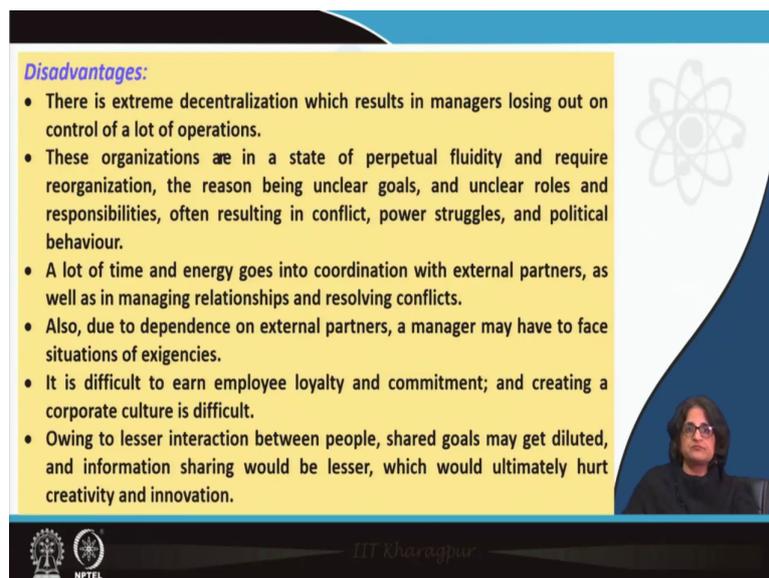
However, there are also disadvantages. There is extreme decentralization which results you know in the core team gradually losing out its control on a lot of operations in the with the

happening in the outsource partners. These organizations are in a state of perpetual fluidity and require reorganization, the reason being non clarity of goals, unclear roles and responsibilities often resulting in conflict, power struggle and political behavior.

A lot of time is spent by the core committee to coordinate with external partners, to manage relationships to resolve conflicts. Also, due to dependence on outsource partner I mean on the partners to whom you have outsourced. Ultimately, the core committee or the manager in the core committee may have to face situations of exigencies. And, it is also very difficult to earn employee commitment; and loyalty creating a corporate culture is difficult.

And, owing to lesser interaction between people, shared goals may get diluted, information sharing may get reduced which would ultimately have a negative impact on creativity and innovation.

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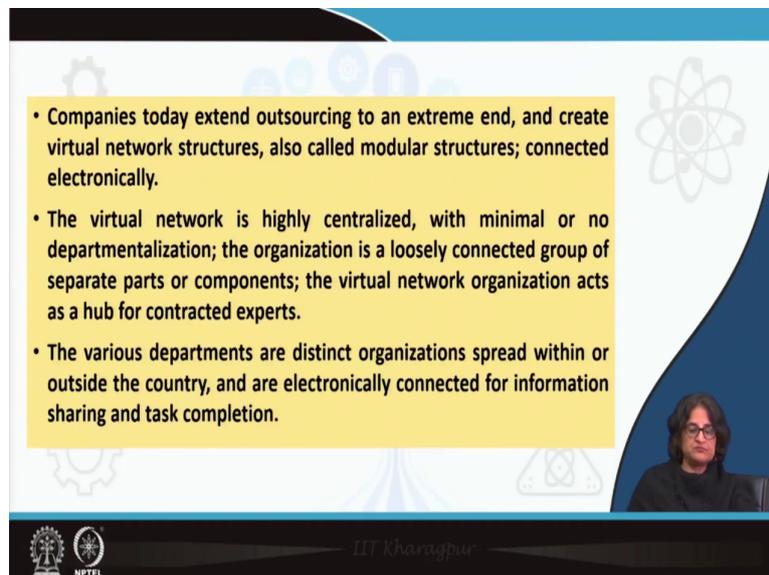
Nonetheless companies today extend outsourcing to an extreme end, and create virtual network structures also called modular structures; which are connected electronically. The virtual network is highly centralized, there is minimal departmentalization; the organization is loosely connected as a group of separate components of parts and the virtual network organization acts as a hub for contracted experts.

So, the various departments are distinct organizations spread within the country or outside the country, and they are all electronically connected for information sharing and task completion.

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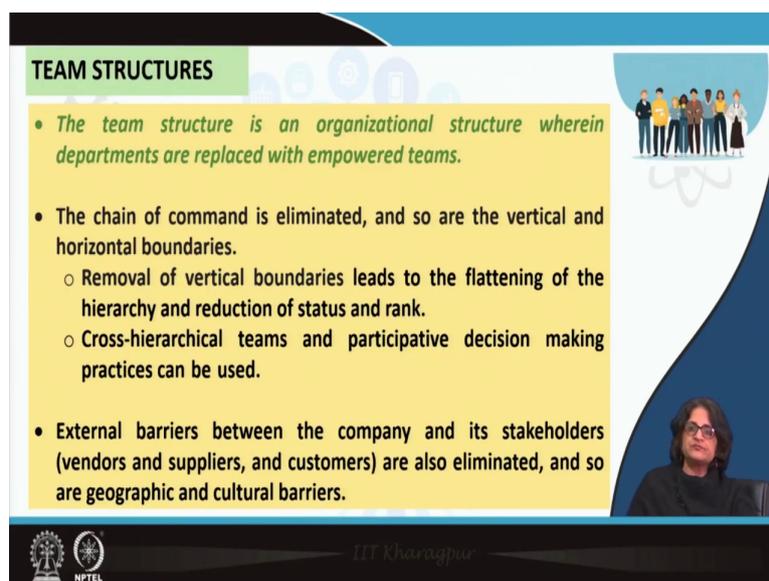

The third is team structures. Now, the team structure is an organizational structure where departments are replaced with empowered teams. Of course, you will we will see teams and we have seen teams in the case of the previous two structures as well in the case of horizontal

structures as well as in the case of in the case of virtual say structures where we where teams do exist, but in team structures the chain of command is eliminated and so are vertical and horizontal boundaries.

Removal of vertical boundaries leads to the flattening of the hierarchy and reduction of status and rank. Cross-hierarchical teams and participative decision making practices can be used. External boundaries between the company and the stakeholders is eliminated and so are geographical barriers and cultural barriers. So, the team structure is actually where departments totally get replaced with empowered teams.

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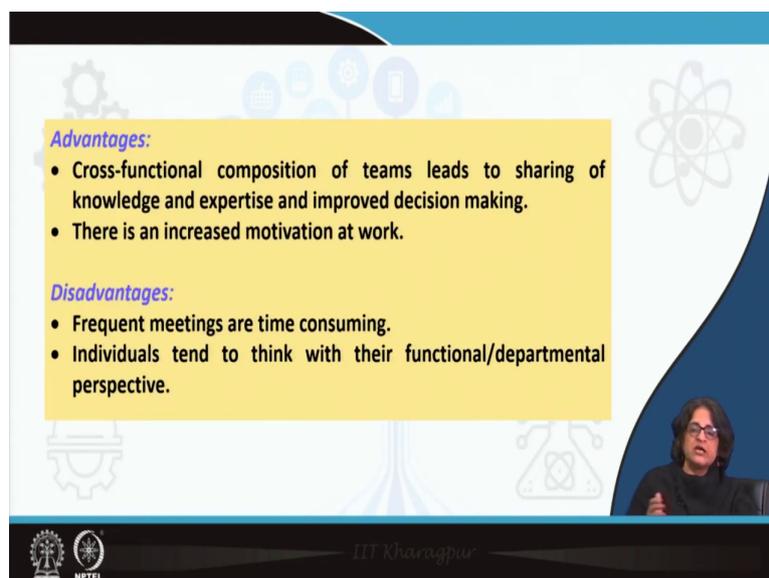
Advantages are there is a cross-functional composition of teams which leads to sharing of knowledge and expertise and improved decision making. There is increased motivation to

work. Disadvantages are that there are frequent meetings which may be time consuming and individuals tend to think with their functional or departmental perspective.

In spite of the fact that attempts are made you know to have cross-functional teams, yet this tendency is always there in the team structure because the team the because the department is being replaced with a team.

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And, and next is a circular structure an organization structure in which the top executive forms the core at the center and you know they are surrounded outwardly in rings grouped by the function. So, there is the worker surrounding him are the specialists and then the managers. The top manager management is that the heart of the organization and spreads the vision outside.

So, this structure holds a huge amount of attraction for creative entrepreneurs who are just beginning, ok. So, at the core is the top manager or the entrepreneur and then they are surrounded by the manager and the specialist and the worker. So, the inner core is the entrepreneur, then and then comes the manager then comes the specialist and then comes the worker. So, the workers in the outermost ring or the outermost circle and then the specialists and the managers and in the center you have the entrepreneurs.

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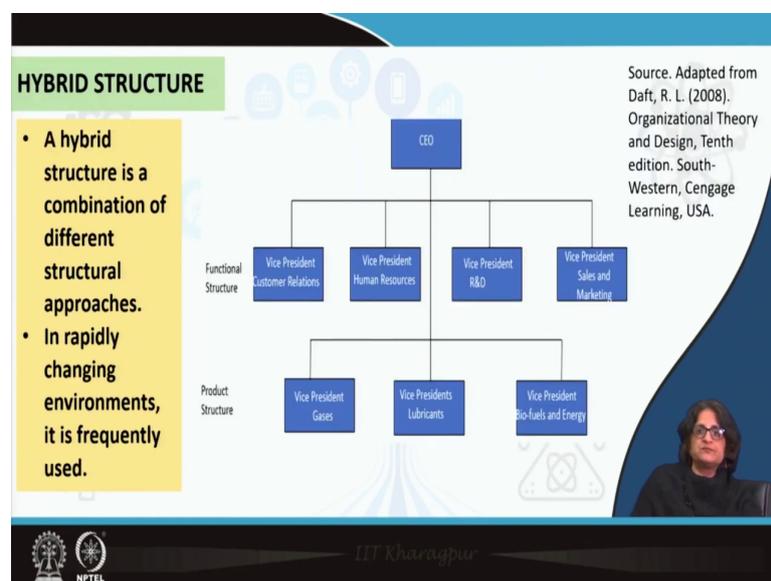
Then we have the hybrid structure which is a combination of different structural approaches. Here you see a hybrid between a functional and a product structure ok, where you have the functional structure, but within the functional you also have the product structure. In a rapidly changing environment, this is frequently used.

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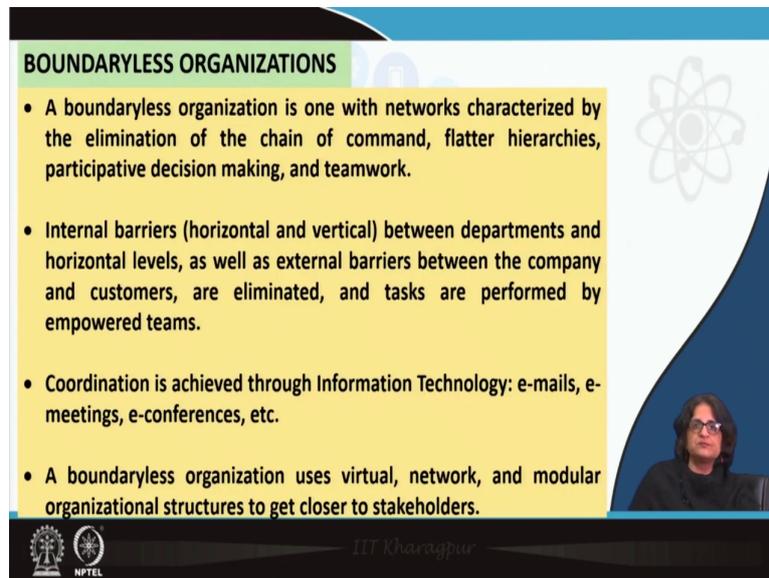
We have boundaryless organizations. These organizations with networks characterized by the elimination of chain of command, flatter hierarchies, participative decision making, and teamwork. So, in horizontal and vertical differentiation or and other internal barriers between departments and horizontal levels as well as external barriers between the company and customers are totally eliminated.

Tasks are performed by empowered teams. So, internal barriers horizontal and vertical between departments and horizontal levels in vertical and horizontal differentiation, as well as external barriers between the company and the various stakeholders are eliminated. Tasks are performed by empowered teams.

Coordination is achieved through IT, through e-mails, through e-meetings, through e-conferences. And, a boundaryless organization uses a virtual network virtual, network and modular organizational structures to get closer to the various stakeholders.

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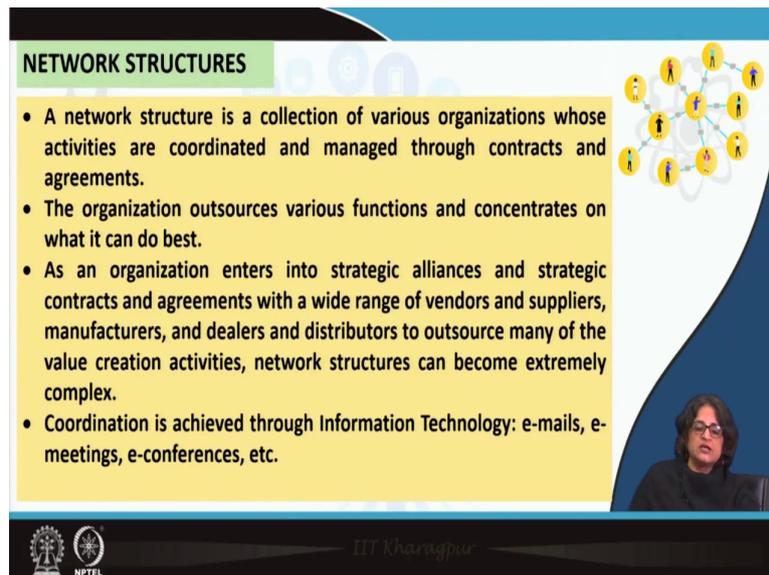
Then we have the network structure. It is again a collection of various organizations whose activities are coordinated and managed through contracts and agreements. An outsourced structure which we spoke of which we said was a virtual structure can also make use of network structures. I repeat the virtual structures which we spoke of, also make use of network structures ok where you know activities are coordinated and managed through contracts and agreements.

The organization outsources various functions and concentrates on what it can do best and coordination is achieved again through IT. As the organization enters into strategic alliance

and strategic contracts and agreements with a wide range of vendors and suppliers, manufacturers, and dealers and distributors to outsource many of the value creating activities, network structures become highly complex.

And, coordination becomes difficult. But in today's day and age with information technology this problem can always be um dealt with.

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E-commerce is the use of IT and the internet to conduct business between companies and between companies and individual customers. So, you have B2B commerce and you have B2C commerce, we are all aware and informed about that.

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With this we come to an end of this lecture. These are the references.

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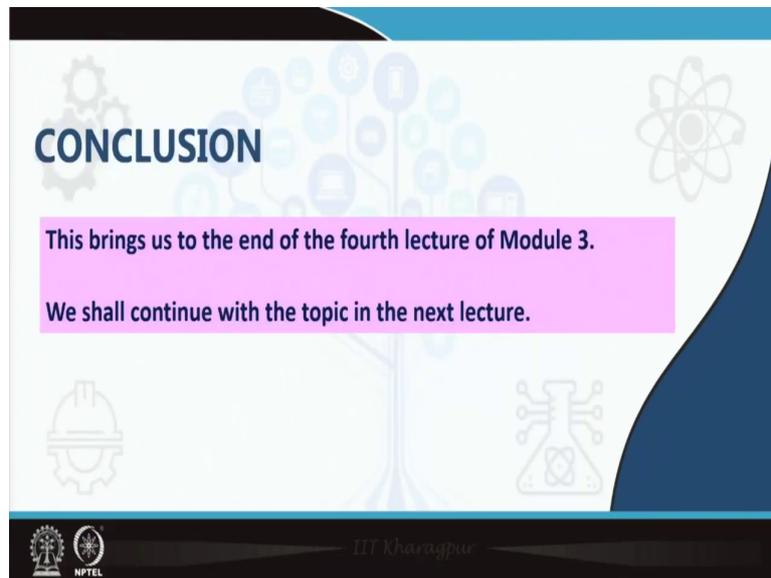
And, we will continue with this topic in the next lecture which will be the last lecture of module 3 on Organizational Structures.

Thank you.