

An aerial photograph of a large, colorful geometric plaza. The plaza is composed of various colored rectangular sections: light blue, white, red, purple, and green. A large green square is the central focus, with several people walking on it. Other people are scattered throughout the plaza, some walking on the light blue paths. The overall design is reminiscent of Piet Mondrian's abstract art style.

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MANAGEMENT

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Designing organisation structure

CHAPTER 10



CHAPTER 10

Designing organisation structure

1

Discuss the fundamental characteristics of organising the vertical structure of organisations and explain concepts such as work specialisation, chain of command, span of management and centralisation versus decentralisation

2

Describe the ways that organisations are often departmentalised, with focus given to the different functional and divisional approaches to structure, and explain the matrix approach to structure and its application to both domestic and international organisations

3

Describe more contemporary approaches to departmentalisation, including team and virtual network structures, and why they are being adopted by organisations

4

Explain why organisations need coordination across departments and hierarchical levels, and describe mechanisms for achieving coordination

5

Identify how structure can be used to achieve an organisation's strategic goals and define production technology, and explain how it influences organisation structure.



What are your leadership beliefs?

	Mostly true	Mostly false
1 A leader should take charge of the group or organisation.		
2 The major tasks of a leader are to make and communicate decisions.		
3 Group and organisation members should be loyal to designated leaders.		
4 The responsibility for taking risks lies with the leaders.		
5 Leaders should foster member discussions about the future.		
6 Successful leaders make everyone's learning their highest priority.		
7 An organisation needs to be always changing the way it does things to adapt to a changing world.		
8 Everyone in an organisation should be responsible for accomplishing organisational goals.		



ORGANISING THE VERTICAL STRUCTURE

organising

- The deployment of organisational resources to achieve strategic goals.

organisation structure

- The framework in which the organisation defines how tasks are divided, resources are deployed and departments are coordinated.

organisation chart

- The visual representation of an organisation's structure.



THE ORGANISATION STRUCTURE

- the set of formal tasks assigned to individuals and departments
- formal reporting relationships, including lines of authority, decision responsibility, number of hierarchical levels and span of managers' control
- the design of systems to ensure effective coordination of employees across departments



EXAMPLE OF ORGANISATION STRUCTURE

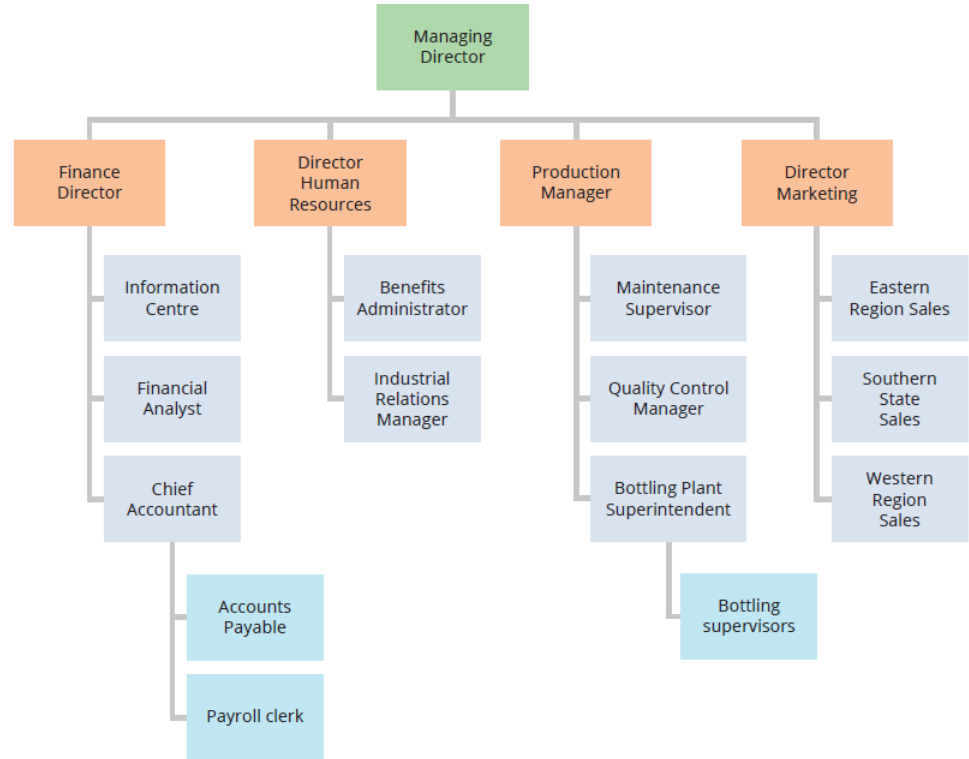


Exhibit 10.1 Organisation chart for a soft drink bottling plant

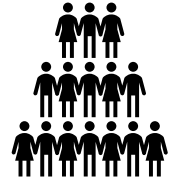


WORK SPECIALISATION

- Refers to the degree to which organisational tasks are subdivided into **individual jobs**, or **division of labour**
- Involves:
 - Specialisation, which results in efficiency
 - But too much specialisation:
 - Reduces motivation
 - Creates silo effects



CHAIN OF COMMAND



- **Chain of command** is an unbroken line of authority that links all employees in an organisation and shows who reports to whom
- It is associated with two underlying principles
 - **unity of command** means that each employee is held accountable to only one supervisor
 - **scalar principle** refers to a clearly defined line of authority in the organisation that includes all employees
- Authority and responsibility for different tasks should be distinct
- All in the organisation should know to whom they report and management levels all the way to the top



AUTHORITY, RESPONSIBILITY AND DELEGATION

Authority is the formal and legitimate right of a manager to make decisions, issue orders and allocate resources to achieve organisationally desired outcomes

1. Authority is vested in organisational positions, not people
2. Authority flows down the vertical hierarchy
3. Authority is accepted by subordinates

responsibility
<ul style="list-style-type: none">•duty to perform the task or activity an employee or other stakeholder has been assigned.

accountability
<ul style="list-style-type: none">•people with authority and responsibility are subject to reporting and justifying task outcomes to those above them in the chain of command.

delegation
<ul style="list-style-type: none">•process managers use to transfer authority and responsibility to positions below them in the hierarchy.



LINE AND STAFF AUTHORITY

line authority

- A form of authority in which individuals in management positions have the formal power to direct and control immediate employees.

staff authority

- The number of employees who report to a supervisor, also called span of control.



SPAN OF MANAGEMENT

- **Span of management** is the number of employees reporting to a supervisor
- Sometimes called the span of control
- Determines how closely a supervisor can monitor subordinates
- Traditional views of organisation design recommended a span of management of about seven to 10 subordinates per manager
- Many lean organisations today have spans of management as high as 30 or 40 and even higher



TALL VERSUS FLAT STRUCTURE

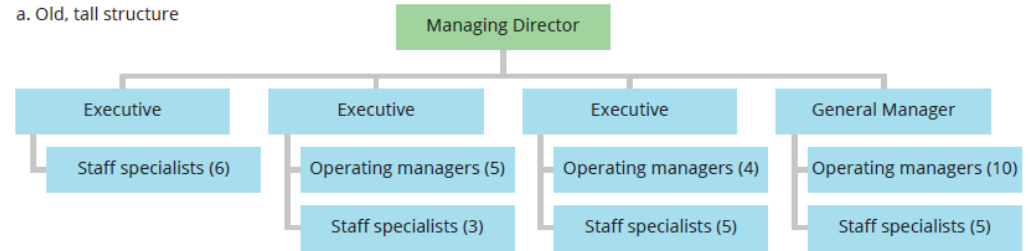
Tall structure

- Narrow span of control
- More hierarchical levels
- Slower decision making

Flat structure

- Trend toward this
- Broader span of control
- Relatively few hierarchical levels

a. Old, tall structure



b. New, flat structure

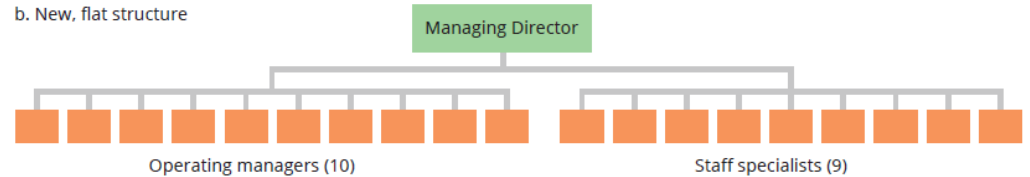


Exhibit 10.2 Reorganisation to increase span of management for managing director of an international metals company



CENTRALISATION AND DECENTRALISATION

- **Centralisation**
 - The location of decision authority near top organisational levels
- **Decentralisation**
 - The location of decision authority near lower organisational levels

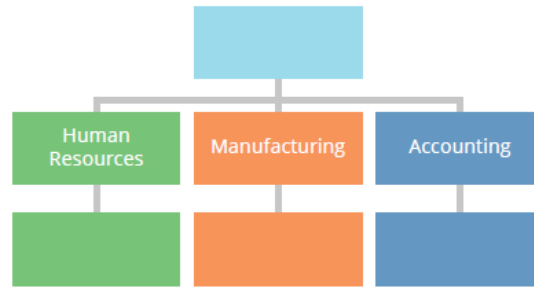


DEPARTMENTALISATION

- Based on which individuals are grouped into department and departments into total organisations
- Vertical functional approach
- Divisional approach
- Horizontal matrix approach
- Team-based approach
- Network approach



1. Vertical functional



2. Divisional



Exhibit 10.3 Five approaches to structural design



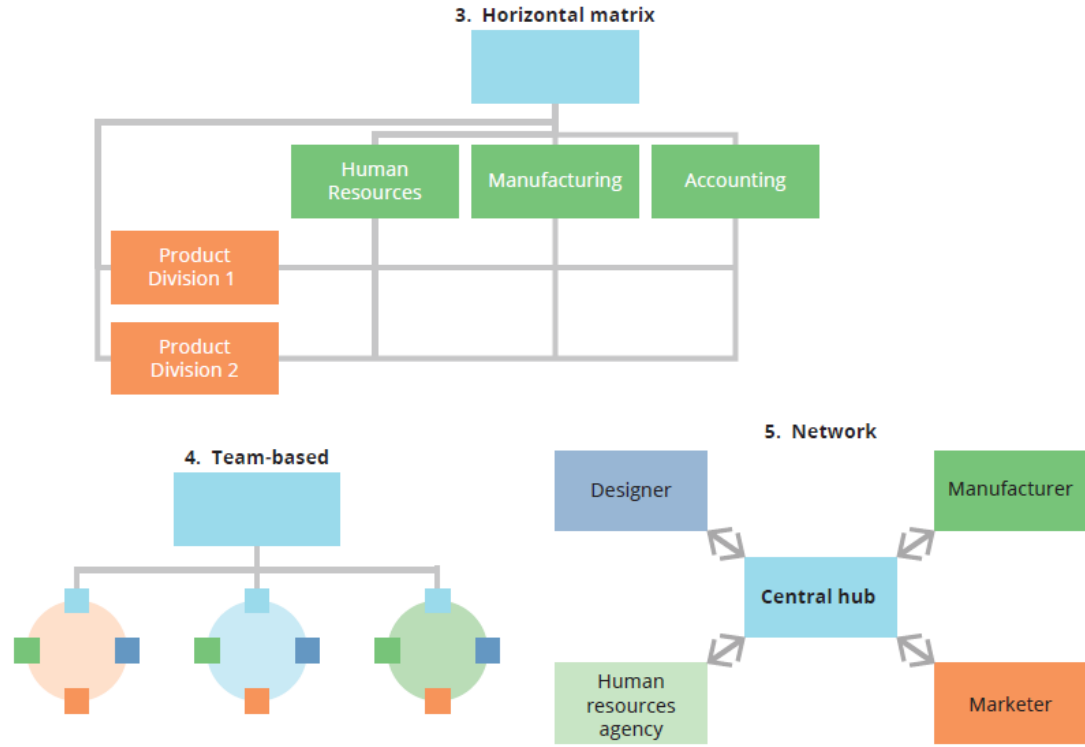


Exhibit 10.3 Continued



VERTICAL FUNCTIONAL APPROACH

- **Functional structure**, also called a unitary structure (U-form), activities are grouped together by common function from the bottom to the top of the organisation
- Positions grouped into departments based on similar skills, expertise and resource use

Advantages	Disadvantages
Efficient use of resources, economies of scale	Poor communication across functional departments
In-depth skill specialisation and development	Slow response to external changes, lagging innovation
Career progress within functional departments	Decisions concentrated at top of hierarchy, creating delay
Top manager direction and control	Responsibility for problems is difficult to pinpoint
Excellent coordination within functions	Limited view of organisational goals by employees
High-quality technical problem solving	Limited general management training for employees

Exhibit 10.4 Advantages and disadvantages of functional structure



DIVISIONAL APPROACH

- Grouping based on similar organisational outputs
- Self-contained units
- Also called **product structure**, **program structure** or **self-contained unit structure**

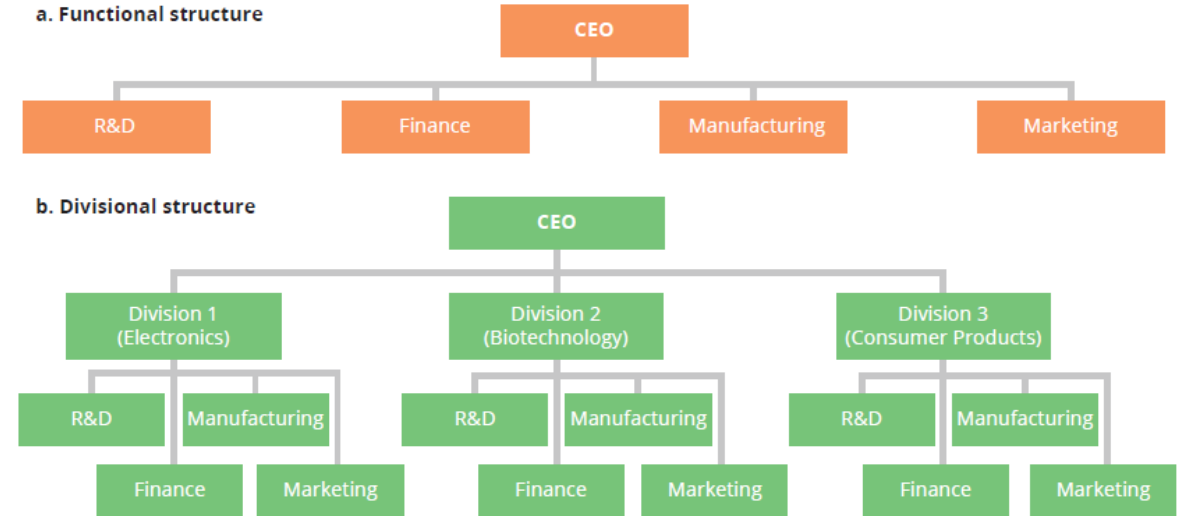


Exhibit 10.5 Functional versus divisional structures



GEOGRAPHIC- OR CUSTOMER-BASED DIVISIONS

- Group organisation activities by geographic region
- All functions in a specific country or region report to the same division manager
- Structure focuses organisation activities on local market conditions
- Competitive advantage may come from the production or sale of a product adapted to a given country

Example:

- KFC recognises that food sits at the heart of national and regional cultures – in China KFC has a distinct business model to infuse the Western brand with Chinese characteristics



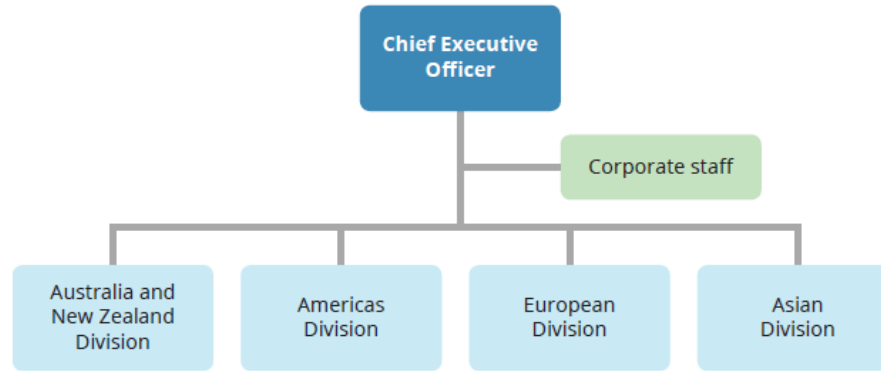


Exhibit 10.6 Geographic-based global organisation structure

Advantages	Disadvantages
Fast response, flexibility in an unstable environment	Duplication of resources across divisions
Fosters concern for customers' needs	Less technical depth and specialisation in divisions
Excellent coordination across functional departments	Poor coordination across divisions
Easy pinpointing of responsibility for product problems	Less top management control
Emphasis on overall product and division goals	Competition for corporate resources
Development of general management skills	

Exhibit 10.7 Advantages and disadvantages of divisional structure



MATRIX APPROACH

- An organisation structure that utilises **functional** and **divisional** chains of command simultaneously in the same part of the organisation
- Attempt to improve **horizontal** coordination and information sharing
- Often used by global organisations
- Success of the matrix structure depends on the abilities of people in key matrix roles
- **Two-boss employees** – those who report to two supervisors simultaneously – must resolve conflicting demands from the matrix bosses



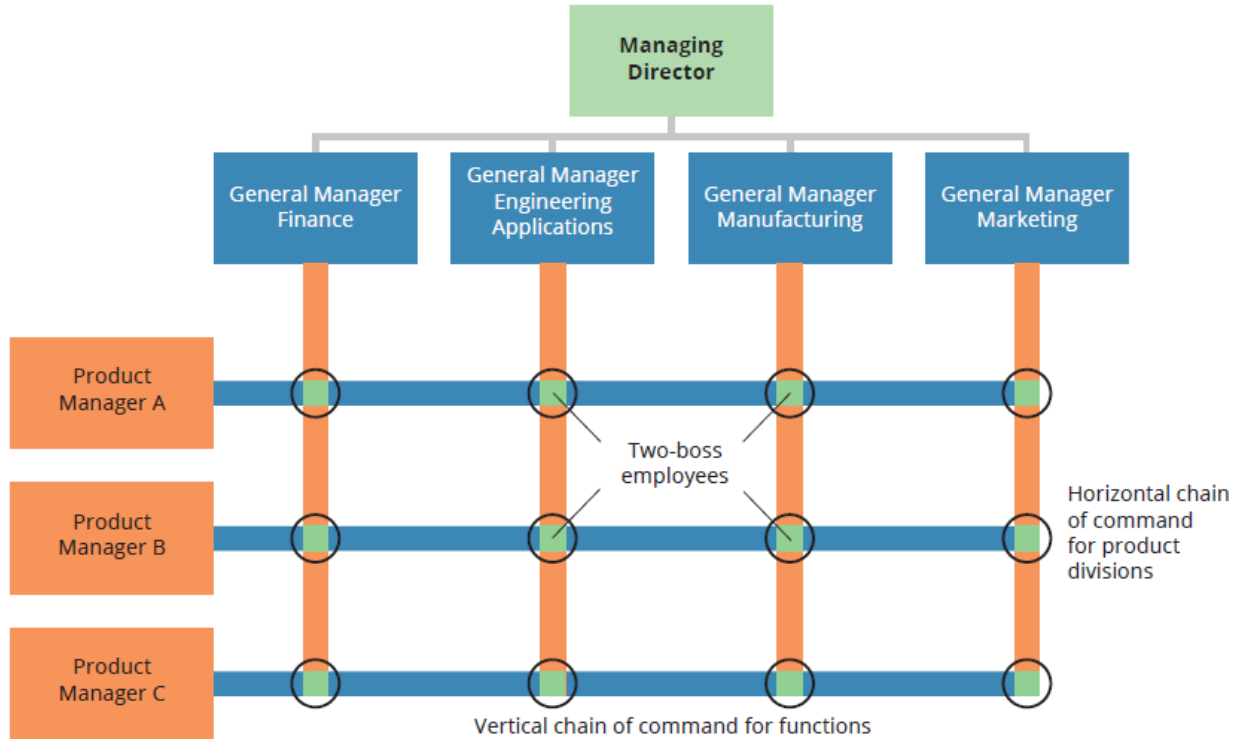


Exhibit 10.8 Dual-authority structure in a matrix organisation



MATRIX ADVANTAGES AND DISADVANTAGES

- Can be highly effective in a complex, rapidly changing environment in which the organisation needs to be flexible, innovative and adaptable
- Conflict and frequent meetings generated by the matrix allow new issues to be raised and resolved

Advantages	Disadvantages
More efficient use of resources than single hierarchy	Frustration and confusion from dual chain of command
Flexibility, adaptability to changing environment	High conflict between two sides of matrix
Development of both general and specialist management skills	Many meetings, more discussion than action
Interdisciplinary cooperation, expertise available to all divisions	Human relations training needed
Enlarged tasks for employees	Power dominance by one side of matrix

Exhibit 10.10 Advantages and disadvantages of matrix structure



INNOVATIVE APPROACHES TO DEPARTMENTALISATION

This section looks at more innovative approaches to departmentalisation that have developed in response to more turbulent environments

- Team-based approach
- Virtual network approach



TEAM-BASED APPROACH

- Most widespread trend in departmentalisation has been the effort by organisations to implement team concepts
- A way to delegate authority, push responsibility further down the organisation
- Create participative teams that engage the commitment of workers

cross-functional team
•group of employees assigned to a functional department that meets as a team to resolve mutual problems.

permanent teams
•group of participants from several functions who are permanently assigned to solve ongoing problems of common interest.



ADVANTAGES AND DISADVANTAGES OF TEAM STRUCTURE

Advantages	Disadvantages
Some advantages of functional structure	Dual loyalties and conflicts
Reduced barriers among departments, increased compromise	Time and resources spent on meetings
Less response time, quicker decisions	Unplanned decentralisation
Better morale, enthusiasm from employee involvement	
Reduced administrative overheads	

Exhibit 10.11 Advantages and disadvantages of team structure



VIRTUAL NETWORK APPROACH

- Recent approach to departmentalisation
- Extends the idea of horizontal coordination and collaboration beyond the boundaries of the organisation
- Loosely interconnected groups of companies with permeable boundaries
- **Outsourcing**, which means farming out certain activities, such as manufacturing or credit processing, has become a significant trend that allows organisations, small and large, to focus on their core strengths and products
- Emergence of '**as-a-service**' organisations has enabled small organisations to capture, analyse data without having to employ staff with data analysis skills



NETWORK APPROACH TO DEPARTMENTALISATION

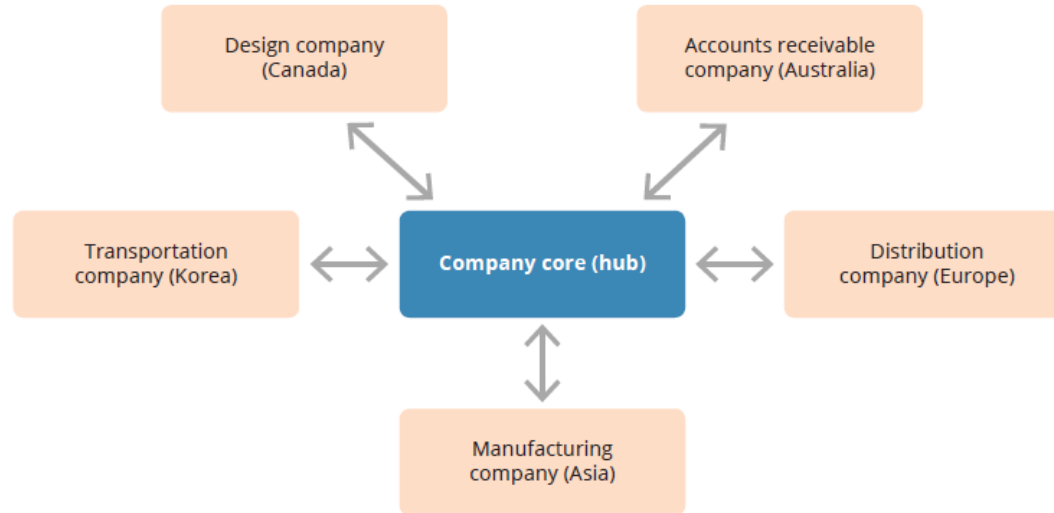


Exhibit 10.12 Network approach to departmentalisation



VIRTUAL NETWORK ADVANTAGES AND DISADVANTAGES

Advantages	Disadvantages
Global competitiveness	No hands-on control
Workforce flexibility/challenge	Can lose organisational part
Reduced administrative overhead	Employee loyalty weakened

Exhibit 10.13 Advantages and disadvantages of a virtual network structure



ORGANISING FOR HORIZONTAL COORDINATION

- Reason for the growing use of teams and networks is due to limitations of vertical organisation structures in a fast-shifting environments
- Trend is towards breaking down barriers between departments
- Moving towards horizontal structures based on work processes rather than departmental functions

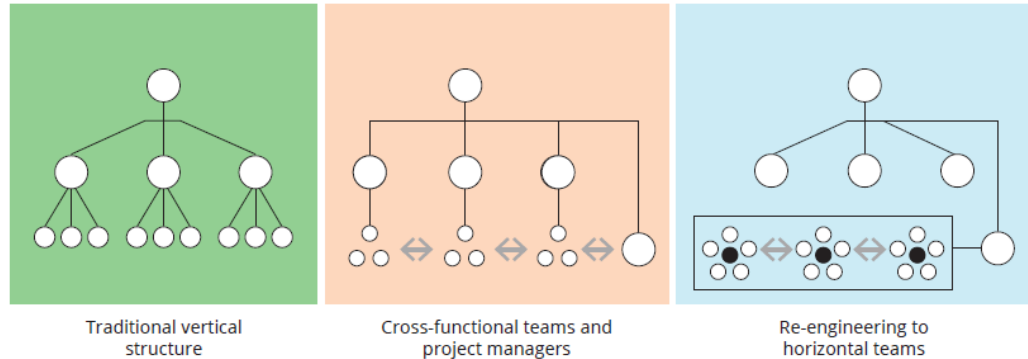


Exhibit 10.14 Evolution of organisation structures



THE NEED FOR COORDINATION

- As organisations grow and evolve
 - new positions and departments are added to deal with factors in the external environment or with new strategic needs
 - as positions and departments added to meet changing needs, they grow more complex
 - managers have to find a way to tie all these departments together

coordination

- task of adjusting and synchronising the diverse activities among different individuals and departments.

collaboration

- joint effort between people from two or more departments to produce outcomes that meet a common goal or shared purpose.



TASK FORCES, TEAMS AND PROJECT MANAGEMENT

- **Task force** is a temporary team or committee designed to solve a short-term problem involving several departments
- **Cross-functional team** has participants from several departments meet regularly to solve ongoing problems
 - similar to a task force except that it works with continuing rather than temporary problems
- A **project manager** is responsible for coordinating the activities of several departments for the completion of a **specific project**



PROJECT MANAGER RELATIONSHIPS

- Project manager often not a member of one of the departments being coordinated
- Project managers sometimes included on the organisation chart to indicate authority over the project
- Dashed lines to the project manager indicate responsibility for coordination and communication

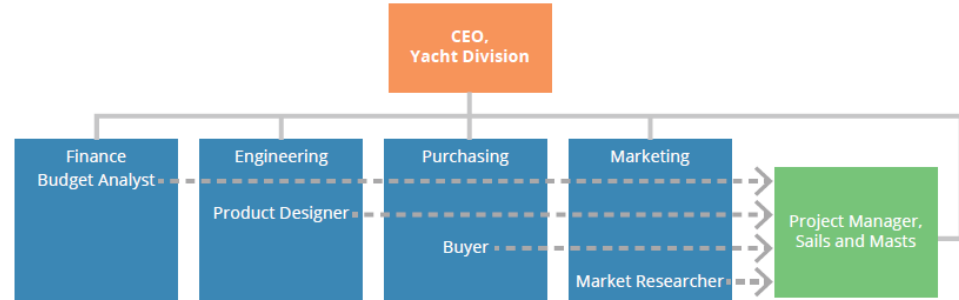


Exhibit 10.15 Example of project manager relationships to other departments

RELATIONAL COORDINATION

- Frequent horizontal coordination and communication carried out through ongoing relationships of shared goals, shared knowledge and mutual respect
- Requires exploring shared goals rather than emphasising goals of their separate departments
- Have the flexibility to interact and contribute wherever they are needed
- Rewards are based on team efforts and accomplishments



FACTORS SHAPING STRUCTURE

- Vertical hierarchy is often needed to organise a large number of people accomplish complex tasks within a coherent framework
- Structure often needs to be balanced with strong horizontal mechanisms to achieve
- Forces affecting organisation structure come from both outside and inside the organisation
- Structure follows strategy
- Structure fits the technology



CONTINGENCY FACTORS THAT INFLUENCE ORGANISATION STRUCTURE

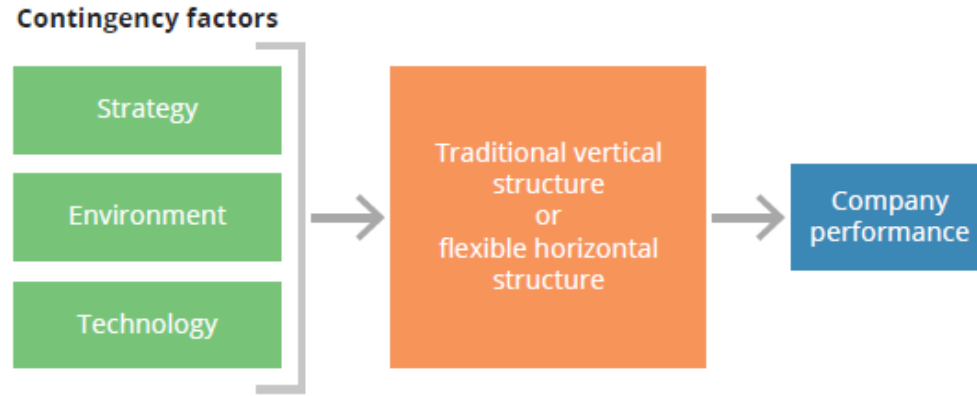


Exhibit 10.16 Contingency factors that influence organisation structure



STRUCTURE FOLLOWS STRATEGY

- Performance is strongly influenced by how well the company's structure is aligned with its strategic intent and the needs of the environment

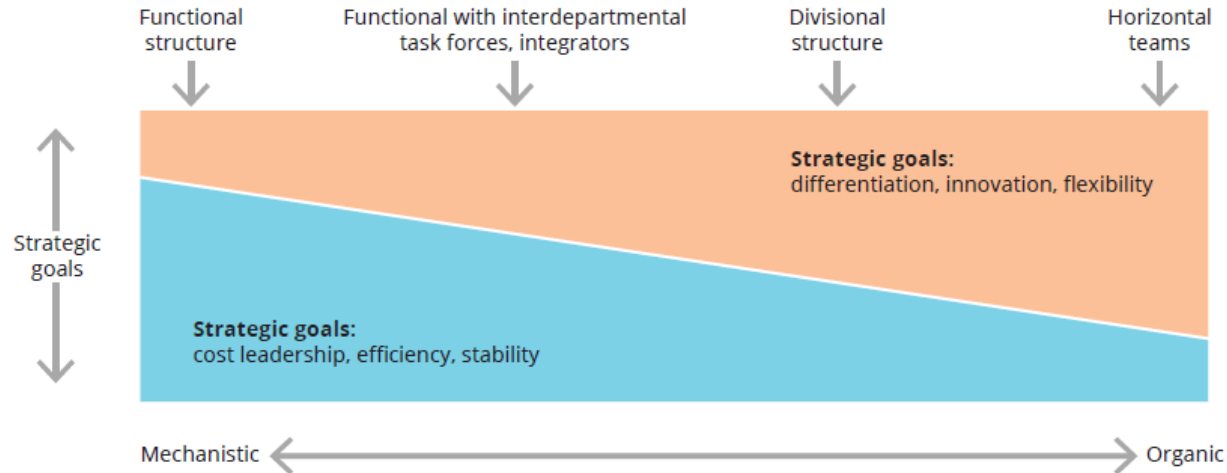


Exhibit 10.17 Relationship of structural approach to strategy and the environment



STRUCTURE FITS THE TECHNOLOGY

- Technology includes:
 - knowledge, tools, techniques, and activities used to transform organisational inputs into outputs
 - machinery, employee skills and work procedures
- Think about technology as ‘production activities’

	Manufacturing technology		
	Small batch	Mass production	Continuous process
Technical complexity of production technology	Low	Medium	High
<i>Structural characteristics:</i>			
Centralisation	Low	High	Low
Top administrator ratio	Low	Medium	High
Indirect/direct labour ratio	1/9	1/4	1/1
Supervisor span of control	23	48	15
<i>Communication:</i>			
Written (vertical)	Low	High	Low
Verbal (horizontal)	High	Low	High
Overall structure	Organic	Mechanistic	Organic

Exhibit 10.18 Relationship between manufacturing technology and organisation structure

Source: Based on Woodward, J. (1965). *Industrial Organizations: Theory and Practice* (London: Oxford University Press).



SERVICE TECHNOLOGY

- Service organisations include:
 - consulting companies, law firms, brokerage houses, airlines, data analytics, advertising companies, amusement parks and educational organisations
- Service technology influences structure by needing employees to be close to the customer

Intangible output.

- output of a service firm is intangible
- services are unlike physical products, cannot be stored in inventory
- service is either consumed immediately or lost forever

Direct contact with customers.

- employees and customers interact directly to provide and purchase the service
- production and consumption are simultaneous



ORGANISING FOR SUSTAINABLE DEVELOPMENT

- Develop a sustainability strategy
- Requires leadership from the centre and top of the organisation, widespread implementation and decision making
- **Involving:**
 - Strong stakeholder engagement
 - Values that include social and environmental policies and investments
 - Employee education and training
 - Long-term organisation culture



CHAPTER 10 – BRIEF SUMMARY

10.1 Organising refers to the deployment of organisational resources to achieve strategic goals.

10.2 The functional, divisional and matrix are traditional approaches that rely on the chain of command to define departmental groupings and reporting relationships along the hierarchy. The matrix approach uses both functional and divisional chains of command simultaneously in the same part of the organisation.

10.3 The use of teams and virtual networks has emerged to meet changing organisational needs in a turbulent environment. A team-based structure is one in which the entire organisation is made up of horizontal teams that coordinate their activities and work directly with customers to accomplish organisational goals, while virtual network structures focus on core activities by subcontracting most of their non-core activities to service providers.

10.4 In addition to the vertical structure, every organisation needs mechanisms for horizontal integration and coordination.

10.5 Contingency factors of strategic goals, environment and technology influence the correct structural approach.

