CHAPTER 10

Managing Organizational Structure & Culture

LEARNING OBJECTIVES

➢ To identify the factors that influence managers’ choice of an organizational structure.
➢ To explain how managers group tasks into jobs that are motivating and satisfying for employees.
➢ To describe the types of organizational structures managers can design, and explain why they choose one structure over another.
➢ To explain why there is a need to both centralize and decentralized authority.
➢ To explain why managers must coordinate and integrate between jobs, functions, and divisions as an organization grows.
1. Designing Organizational Structure

- To organize and control managers must design an organizational architecture that makes the best use of resources to produce goods and services that satisfy customer needs.

  • Organizational Architecture
    - The combination of organizational structure, control systems, culture, and human resource management systems that together determine how efficiently and effectively organizational resources are used.

  • Organizing
    - The process by which managers establish working relationships among employees to achieve goals efficiently and effectively.

  • Organizational Structure
    - Formal system of task and reporting relationships shows how workers use resources to achieve goals.

  • Organizational design
    - The process by which managers make specific choices that result in a particular kind of organizational structure.

- Contingency theory, noted in Chapter 2, states that managers design organizational structures to fit the circumstances that are affecting the company the most and causing them the most uncertainty. Thus, there is no one best way to design an organization.

Fig. 10.1 Factors Affecting Organizational Structure
1. Designing Organizational Structure

- **Determinants of Structure**
  
i. The Organizational Environment
   - The quicker the external environment changes, the more problems managers face in their effort to obtain scarce resources.
   - Structure must be more flexible (i.e., decentralized authority) when environmental change is rapid.

  ii. Strategy
   - Different strategies require the use of different structures.
     - ie. A differentiation strategy needs a flexible structure, a low cost strategy may need a more formal structure.
     - ie. Increased vertical integration or diversification also requires a more flexible structure.

  iii. Technology
   - The combination of skills, knowledge, tools, equipment, computers and machines used in the organization.
   - More complex technology makes it harder for managers to regulate the organization.
   - How complicated or non-routine technology is, can be measured by:
     - **Task variety**: the number of new problems a manager encounters.
     - **Task analyzability**: the availability of programmed solutions to a manager to solve problems.
   - Complicated technologies are characterized by high task variety and low analyzability which means that solutions require non-programmed decision making. ie. Development of new products.
     - Flexible structure works best in these conditions.
   - Routine technologies are characterized by low task variety and high analyzability allowing managers to rely on established procedures.
     - ie. Mass-production or assembly operations.
1. Designing Organizational Structure

- Types of Technology according to the relative contribution made by people or machines.
  - Small Batch Technology
    - Small quantities of one-of-a-kind products are produced by the skills of the workers who work together in small groups.
      - Appropriate structure is decentralized and flexible.
  - Mass Production Technology
    - Automated machines that are programmed to make high volumes of standard products. ie. Machines, light bulbs etc.
      - Formal structure is the best choice for workers who must perform repetitive tasks.
  - Continuous Process Technology
    - Totally mechanized systems of automatic machines. ie. Nuclear power stations
      - A flexible structure is necessary to allow workers to react quickly to unexpected problems.
  - Information Technology (IT)
    - Has a profound effect on the way an organization operates. IT is changing the ways of organizing. It allows for new kinds of tasks and job-reporting relationships among people connected electronically thus, promoting communication and coordination.
    - An example of IT enabled organizational relationship is Knowledge Management.
      - The sharing and integrating of expertise within and between functions and divisions through real-time, interconnected IT that allows for new kinds of tasks and job reporting relationships.
  - Human Resources
    - Highly skilled workers whose jobs require working in teams or highly skilled workers who have internalized professional norms (such as CPAs & doctors) usually need a more flexible, decentralized structure.
1. Designing Organizational Structure

- Managers must take into account all four factors (environment, strategy, technology and human resources) when designing the structure of the organization.
- The way an organization’s structure works depends on the choices managers make about the following four issues:
  - How to group tasks into individual jobs
  - How to group jobs into functions and divisions.
  - How to allocate authority in the organization among jobs, functions, and divisions.
  - How to coordinate or integrate among jobs, functions, and divisions.

2. Grouping Tasks into Jobs: Job Design

- **Job Design**
  - The process by which managers decide how to divide tasks into specific jobs.
  - The appropriate division of labor results in an effective and efficient workforce. i.e. McDonald’s

- **Job Simplification**
  - The process of reducing the tasks each worker performs.
  - Too much simplification may reduce efficiency and result to boredom and monotonous jobs.

- **Job Enlargement**
  - Increasing the number of tasks for a given job to reduce boredom.

- **Job Enrichment**
  1. Empowering workers to experiment to find new or better ways of doing the job
  2. Encouraging workers to develop new skills
  3. Allowing workers to decide how to do the work
  4. Allowing workers to monitor and measure their own performance
  - Increasing the degree of responsibility a worker has over a job.
  - Can lead to increased worker involvement and therefore increased quality.
  - Thus, managers who enlarge and enrich jobs create a flexible organizational structure while those who simplify jobs create a more formal structure.
The more employees feel that their work is meaningful and that they are responsible for work outcomes and responsible for knowing how those outcomes affect others, the more motivating work becomes and the more likely employees are to be satisfied and to perform at a high level.

**Fig. 10.2 The Job Characteristics Model**

- The more employees feel that their work is meaningful and that they are responsible for work outcomes and responsible for knowing how those outcomes affect others, the more motivating work becomes and the more likely employees are to be satisfied and to perform at a high level.

**Job Characteristics Model**

- Explains how managers can make jobs more interesting and motivating.

<table>
<thead>
<tr>
<th>Job Characteristic</th>
<th>Description</th>
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<tbody>
<tr>
<td>Skill variety</td>
<td>Employee uses a wide range of skills. (researcher v. food server)</td>
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<tr>
<td>Task identity</td>
<td>Worker is involved in all tasks of the job from beginning to end of the production process (craftsworker making furniture than a worker who assembles a tv)</td>
</tr>
<tr>
<td>Task significance</td>
<td>Worker feels the task is meaningful to organization. (teacher v. dishwasher)</td>
</tr>
<tr>
<td>Autonomy</td>
<td>Employee has freedom to schedule tasks and carry them out. (salespeople v. assembly workers)</td>
</tr>
<tr>
<td>Feedback</td>
<td>Worker gets direct information about how well the job is done. (air traffic controller v. a statistician)</td>
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3. Grouping Jobs into Functions & Divisions: Designing organizational structure

A. Functional Structure

- An organizational structure composed of all the departments that an organization requires to produce its goods or services.

A function is a group of people, working together, who possess similar skills or use the same kind of knowledge, tools, or techniques to perform their jobs.

- Advantages
  - Encourages learning from others doing similar jobs.
  - Easy for managers to monitor and evaluate workers.

- Disadvantages
  - Difficult for departments to communicate with others.
  - Preoccupation with own department and losing sight of organizational goals.

Fig. 10.3 The Functional Structure of Pier 1 Imports
3. Grouping Jobs into Functions & Divisions

B. Divisional Structure

- An organizational structure composed of separate business units within which are the functions that work together to produce a specific product for a specific customer.
  - Divisions create smaller, manageable parts of a firm.
  - Divisions develop a business-level strategy to compete.
  - Divisions have marketing, finance, and other functions.
  - Functional managers report to divisional managers who then report to corporate management.

3. Grouping Jobs into Functions & Divisions

- Types of Divisional Structures
  i. Product Structure
  - When managers organize divisions according to the type of good or service they provide, they adopt a product structure.
  - Customers are served by self-contained divisions that handle a specific type of product or service.
    - Allows functional managers to specialize in one product area
    - Division managers become experts in their area
    - Removes need for direct supervision of division by corporate managers
    - Divisional management improves the use of resources
Viacom’s 2001 Product Structure

3. Grouping Jobs into Functions & Divisions

ii. Geographic Structure

- When managers organize divisions according to the area of the country or world they operate in, they adopt a geographic structure.
- Each regional or a country or area with customers with differing needs is served by a local self-contained division producing products that best meet those needs.
- Global geographic structure
  - Different divisions serve each world region when managers find different problems or demands across the globe.
  - Generally, occurs when managers are pursuing a multidomestic strategy
- Global product structure
  - Product divisions responsible for deciding where to manufacture and how to market products in foreign countries.
iii. Market (Customer) Structure

- When managers organize divisions according to the types of customer they focus on, they adopt a market structure.
- Each kind of customer is served by a self-contained division.
- Global market (customer) structure
  - Customers in different regions buy similar products so firms can locate manufacturing facilities and product distribution networks where they decide is best.
  - Firms pursuing a global strategy will use this type of structure.
3. Grouping Jobs into Functions & Divisions

C. Matrix Structure

- An organizational structure that simultaneously groups people and resources by function and product.
- When the environment is dynamic, is changing rapidly, and uncertainty is high managers must design either a matrix structure or a product team structure.
  - Results in a complex network of superior-subordinate reporting relationships.
  - The structure is very flexible and can respond rapidly to the need for change.
  - Each employee has two bosses (functional manager and product manager) and possibly cannot satisfy both.
3. Grouping Jobs into Functions & Divisions

D. Product Team Structure

- The members are permanently assigned to a cross-functional team that is empowered to bring a product to market and report only to the product team manager. I.e. DaimlerChrysler, Black & Decker
- Avoids problems of two-way communication and the conflicting demands of functional and product team bosses.
- A cross-functional team is composed of a group of managers from different departments working together to perform organizational tasks.
Fig. 10.6B Product Team Structure

3. Grouping Jobs into Functions & Divisions

E. Hybrid Structure

- The structure of a large organization that has many divisions and simultaneously uses many different organizational structures.
  - Managers can select the best structure for a particular division—one division may use a functional structure, another division may have a geographic structure.
  - The ability to break a large organization into smaller units makes it easier to manage.
Target’s Hybrid Structure

A. Allocating Authority

- Authority
  - The power to hold people accountable for their actions and to make decisions concerning the use of organizational resources.

- Hierarchy of Authority
  - An organization’s chain of command, specifying the relative authority of each manager.

- Span of Control
  - The number of subordinates that report directly to a manager.

- Line Manager
  - Managers in the direct chain of command who have authority over people and resources lower down and are primarily responsible for the production of goods or services.

- Staff Manager
  - Managers who are functional-area specialists responsible for managing one function (marketing or finance) that give advice to line managers about how to use organizational resources.
4. Coordinating Functions & Divisions

- **Tall & Flat Organizations**
  - Tall structures have many levels of authority and narrow spans of control.
    - As hierarchy levels increase, communication gets difficult creating delays in the time being taken to implement decisions.
    - Communications can also become garbled as it is repeated through the firm.
  - Flat structures have fewer levels and wide spans of control.
    - Structure results in quick communications but can lead to overworked managers.
Fig. 10-9A Flat Organization

A. FLAT ORGANIZATIONAL HIERARCHY
(3 LEVELS IN THE HIERARCHY)

Fig. 10-9B Tall Organization

B. TALL ORGANIZATIONAL HIERARCHY
(7 LEVELS IN THE HIERARCHY)
4. Coordinating Functions & Divisions

❖ The Minimum Chain of Command
  • Managers should carefully evaluate:
    ➢ Does the organization have the right number of middle managers?
    ➢ Can the structure be altered to reduce levels?
    ➢ Managers should follow the minimum chain of command principle which states that top managers should always construct a hierarchy with the fewest levels of authority necessary to efficiently and effectively use organizational resources.

❖ Centralized and Decentralized of Authority
  • Decentralizing authority
    ➢ giving lower-level managers and non-managerial employees the right to make important decisions about how to use organizational resources.
    ➢ Decentralization puts more authority at lower levels and leads to flatter organizations.
      - Works best in dynamic, highly competitive environment.
      - Stable environment favors centralization of authority.
  ➢ Disadvantages
    - Teams may begin to pursue their own goals at the expense of organizational goals
    - Can result in a lack of communication among divisions

Fig. 10-10 Types & Examples of Integrating Mechanisms

<table>
<thead>
<tr>
<th>SIMPLE</th>
<th>COMPLEX</th>
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<tbody>
<tr>
<td>Direct contact: Marketing manager and research and development manager meet to brainstorm new product ideas.</td>
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<tr>
<td>Liaison roles: Assistant manager and project team leader identify both product suggestions to put into development.</td>
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<tr>
<td>Task forces: Representatives from marketing, research and development, and manufacturing meet to discuss launch of new product.</td>
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<tr>
<td>Cross-functional team: A cross-functional team composed of all functions to brainstorm product ideas to put into development.</td>
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<tr>
<td>Integrating roles and departments: Senior managers provide members of cross-functional team with relevant information from other teams and from other divisions.</td>
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<tr>
<td>Matrix structures: Top managers decide to move to a matrix structure to develop many new products simultaneously.</td>
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MGT-101 Yiannos Rossides
5. Organizational Culture

Organizational culture
- shared set of beliefs, expectations, values, and norms that influence how members of an organization relate to one another and cooperate to achieve organizational goals.

Values
- Beliefs and ideas about the kinds of goals members of a society should pursue and about the kinds and modes of behavior people should use to achieve those goals.

Norms
- Unwritten, informal rules or guidelines that prescribe appropriate behavior in particular situations.

✓ Having norms and values that are suited to the organization’s environment is important.
Sources of an Organization’s Culture

A. Characteristics of Organizational Members
   - Ultimate source of organizational culture is the people that make up the organization
   - Members become similar over time which may hinder their ability to adapt and respond to changes in the environment

B. Organizational Ethics
   - moral values, beliefs, and rules that establish the appropriate way for an organization and its members to deal with each other and people outside the organization
C. The Employment Relationship
- Human resource policies:
  - Can influence how hard employees will work to achieve the organization’s goals,
  - How attached they will be to it
  - Whether or not they will buy into its values and norms

D. Organizational Structure
- In a centralized organization:
  - People have little autonomy
  - Norms that focus on being cautious, obeying authority, and respecting traditions emerge
  - Predictability and stability are desired goals
- In a flat, decentralized structure:
  - People have more freedom to choose and control their own activities
  - Norms that focus on being creative and courageous and taking risks appear
  - Gives rise to a culture in which innovation and flexibility are desired goals.

5. Organizational Culture
- Strong, Adaptive Cultures v. Weak, Inert Cultures
  - Adaptive cultures
    - Values and norms help an organization to build momentum and to grow and change as needed to achieve its goals and be effective
  - Inert cultures
    - Those that lead to values and norms that fail to motivate or inspire employees
    - Lead to stagnation and often failure over time

Review Questions
1. Define organizational culture and briefly explain the sources of an organization’s culture, using examples where appropriate to support your answer.