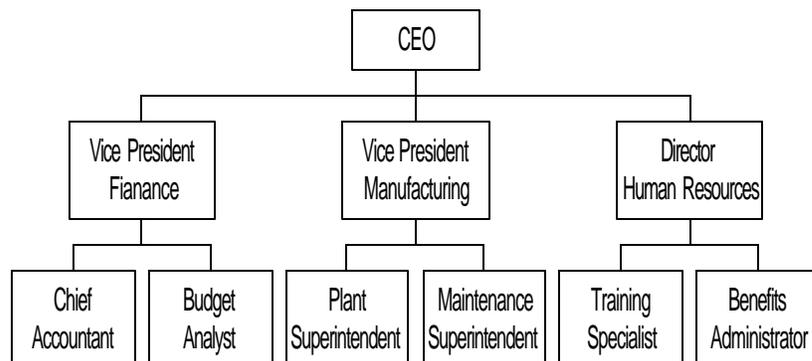


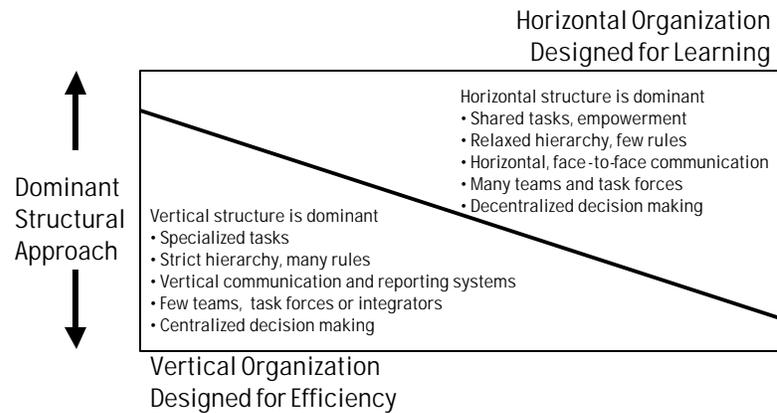
# Chapter Three

## Fundamentals of Organization Structure

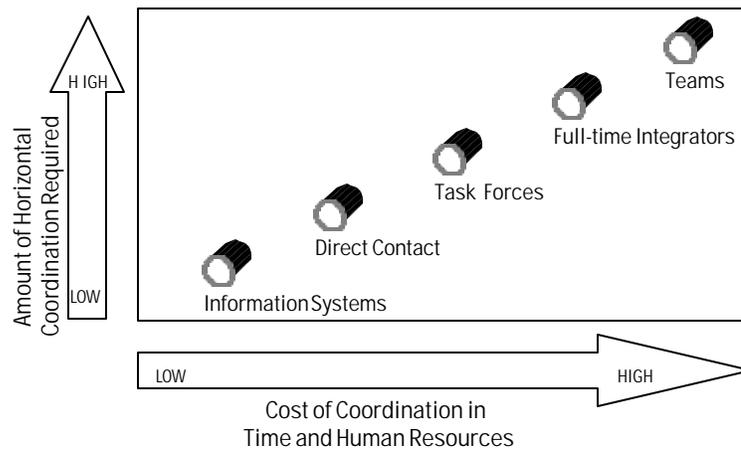
### A Sample Organization Chart



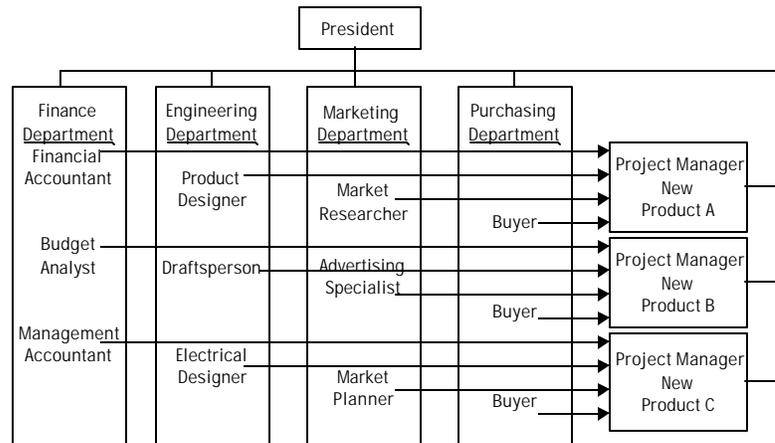
## The Relationship of Organization Design to Efficiency vs. Learning Outcomes



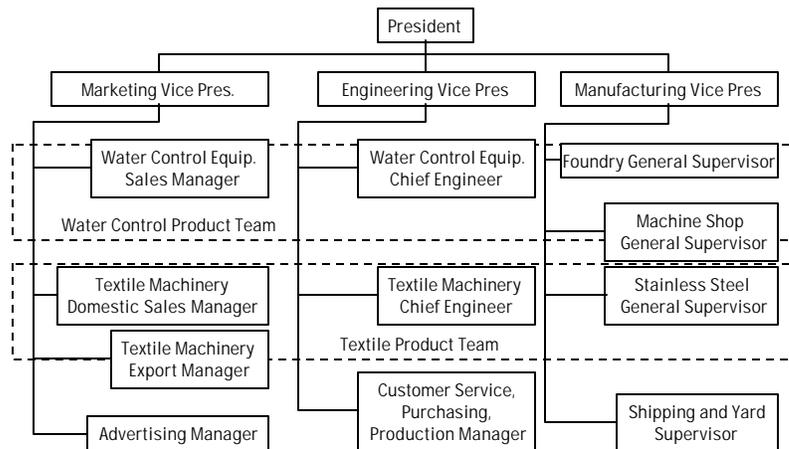
## Ladder of Mechanisms for Horizontal Linkage and Coordination



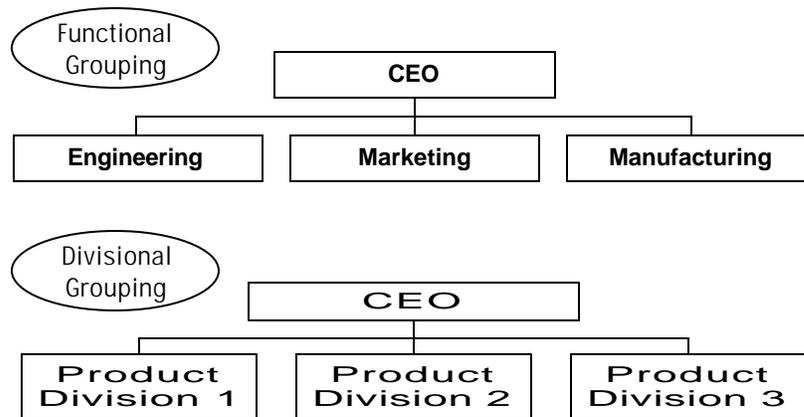
## Project Manager Location in the Structure



## Teams Used for Horizontal Coordination at Rodney Hunt Company



## Structural Design Options for Grouping Employees into Departments



Source: Adapted from David Nadler and Michael Tushman, *Strategic Organization Design* (Glencview, Ill.: Scott Foresman, 1988), 68.

## Strengths and Weaknesses of Functional Organization Structure

### ∞ STRENGTHS:

- Allows economies of scale within functional departments
- Enables in-depth knowledge and skill development
- Enables organization to accomplish functional goals
- Is best with only one or few products

### ∞ WEAKNESSES:

- Slow response time to environmental changes
- May cause decisions to pile on top, hierarchy overload
- Leads to poor horizontal coordination among departments
- Results in less innovation
- Involves restricted view of organizational goals

Source: Adapted from Robert Duncan, "What Is the Right Organization Structure? Decision Tree Analysis Provides the Answer," *Organizational Dynamics* (Winter 1979): 429.

# Strengths and Weaknesses of Divisional Organization Structure

## STRENGTHS:

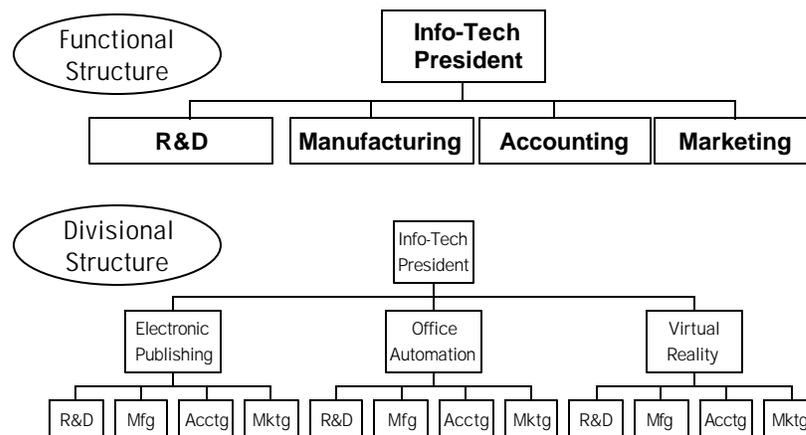
- Suited to fast change in unstable environment
- Leads to client satisfaction because product responsibility and contact points are clear
- Involves high coordination across functions
- Allows units to adapt to differences in products, regions, clients
- Best in large organizations with several products
- Decentralizes decision-making

## WEAKNESSES:

- Eliminates economies of scale in functional departments
- Leads to poor coordination across product lines
- Eliminates in-depth competence and technical specialization
- Makes integration and standardization across product lines difficult

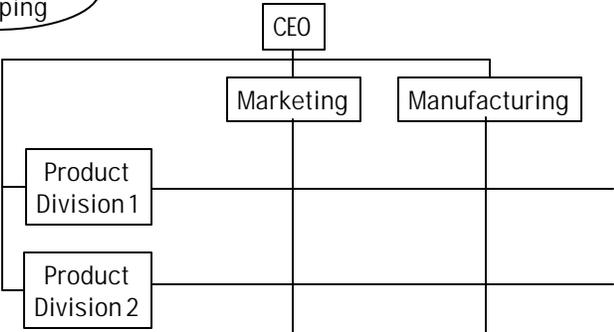
Source: Adapted from Robert Duncan, "What Is the Right Organization Structure? Decision Tree Analysis Provides the Answer," *Organizational Dynamics* (Winter 1979), 431.

# Reorganization from Functional Structure to Divisional Structure at Info-Tech



# Structural Design Options for Grouping Employees (Continued)

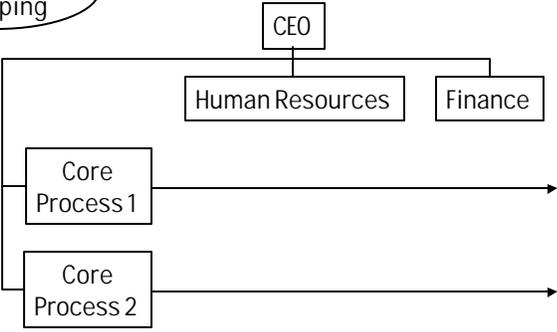
Multi-focused Grouping



Source: Adapted from David Nadler and Michael Tushman, *Strategic Organization Design* (Glenview, Ill.: Scott Foresman, 1988), 68.

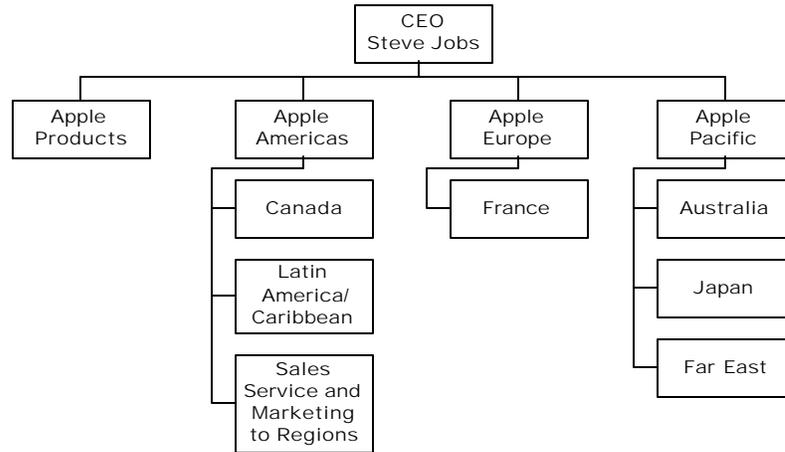
# Structural Design Options for Grouping Employees (Continued)

Horizontal Grouping



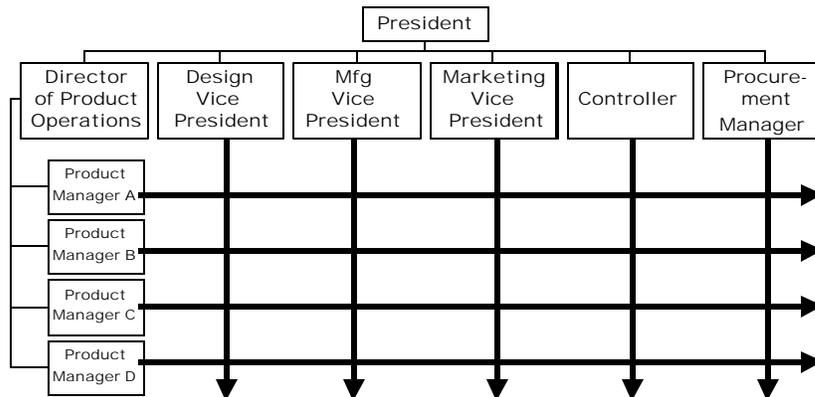
Source: Adapted from David Nadler and Michael Tushman, *Strategic Organization Design* (Glenview, Ill.: Scott Foresman, 1988), 68.

# Geographical Structure for Apple Computer



Source: www.apple.com

# Dual-Authority Structure in a Matrix Organization



# Strengths and Weaknesses of Matrix Organization Structure

## STRENGTHS:

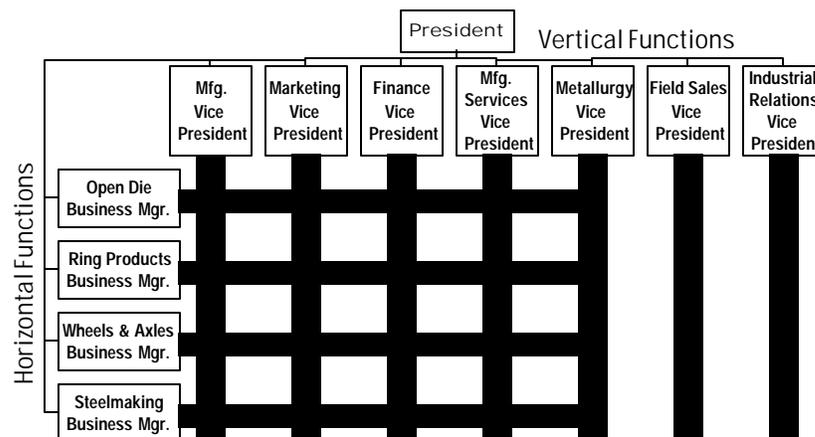
- Achieves coordination necessary to meet dual demands from customers
- Flexible sharing of human resources across products
- Suited to complex decisions and frequent changes in unstable environment
- Provides opportunity for both functional and product skill development
- Best in medium-sized organizations with multiple products

## WEAKNESSES:

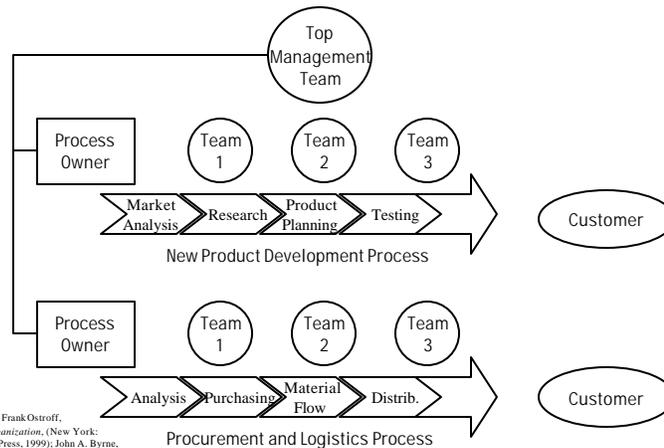
- Causes participants to experience dual authority, which can be frustrating and confusing
- Means participants need good interpersonal skills and extensive training
- Is time consuming; involves frequent meetings and conflict resolution sessions
- Will not work unless participants understand it and adopt collegial rather than vertical-type relationships
- Requires great effort to maintain power balance

Source: Adapted from Robert Duncan, "What Is the Right Organization Structure? Decision Tree Analysis Provides the Answer," *Organizational Dynamics* (Winter 1979): 429.

# Matrix Structure for Worldwide Steel Company



## A Horizontal Structure



Sources: Based on Frank Ostroff, *The Horizontal Organization*, (New York: Oxford University Press, 1999); John A. Byrne, "The Horizontal Corporation," *Business Week*, December 20, 1993, 76-81; and Thomas A. Stewart, "The Search for the Organization of Tomorrow," *Fortune*, May 19, 1992, 92-98.

## Strengths and Weaknesses of Horizontal Structure

### ∞ STRENGTHS:

- Flexibility and rapid response to changes in customer needs
- Directs the attention of everyone toward the production and delivery of value to the customer
- Each employee has a broader view of organizational goals
- Promotes a focus on teamwork and collaboration—common commitment to meeting objectives
- Improves quality of life for employees by offering them the opportunity to share responsibility, make decisions, and be accountable for outcomes

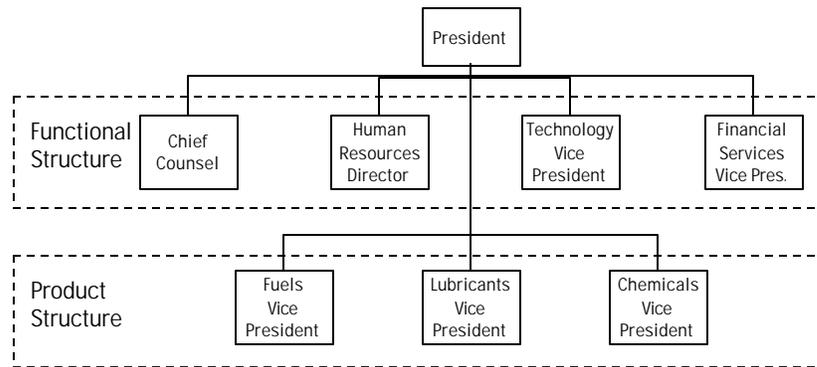
### ∞ WEAKNESSES:

- Determining core processes to organize around is difficult and time-consuming
- Requires changes in culture, job design, management philosophy, and information and reward systems
- Traditional managers may balk when they have to give up power and authority
- Requires significant training of employees to work effectively in a horizontal team environment
- Can limit in-depth skill development

Sources: Based on Frank Ostroff, *The Horizontal Organization: What the Organization of the Future Looks Like and How It Delivers Value to Customers*, (New York: Oxford University Press, 1999); and Richard L. Daft, *Organization Theory and Design*, 6<sup>th</sup> ed., (Cincinnati, Ohio: South-Western College Publishing, 1998) 253.

# Hybrid Structure

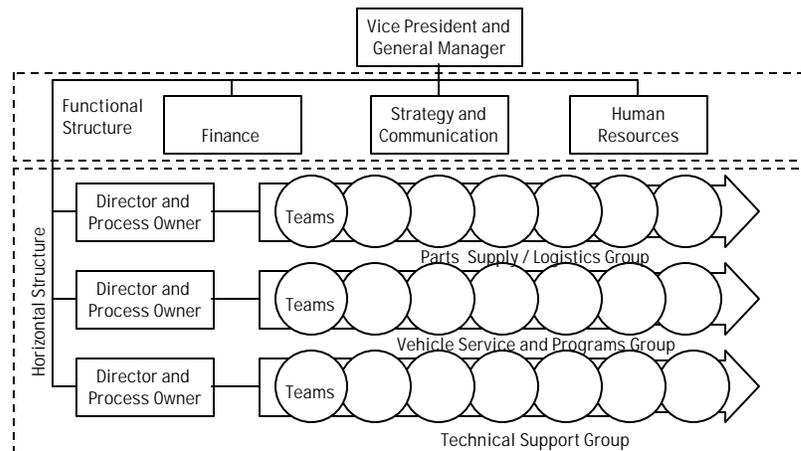
## Part 1. Sun Petrochemical Products



Sources: Based on Linda S. Ackerman, "Transition Management: An In-Depth Look at Managing Complex Change," *Organizational Dynamics* (Summer 1982): 46-66; and Frank Ostroff, *The Horizontal Organization*, (New York: Oxford University Press, 1999), Fig. 2.1, 34.

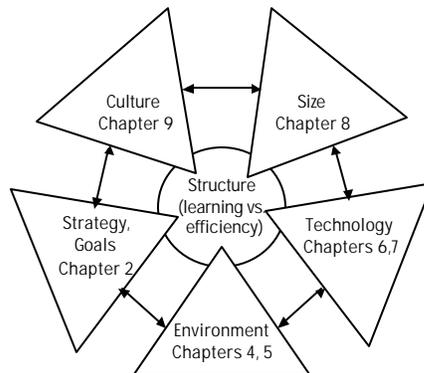
# Hybrid Structure

## Part 2. Ford Customer Service Division



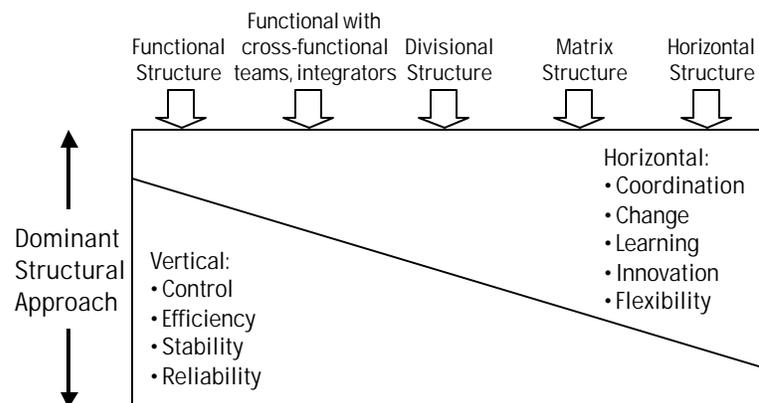
Sources: Based on Linda S. Ackerman, "Transition Management: An In-Depth Look at Managing Complex Change," *Organizational Dynamics* (Summer 1982): 46-66; and Frank Ostroff, *The Horizontal Organization*, (New York: Oxford University Press, 1999), Fig. 2.1, 34.

# Organization Contextual Variables that Influence Structure



Sources: Adapted from Jay R. Galbraith, *Competing with Flexible Lateral Organizations*, 2<sup>nd</sup> ed. (Reading, Mass.: Addison-Wesley, 1994), Ch. 1; Jay R. Galbraith, *Organization Design* (Reading, Mass.: Addison-Wesley, 1977), Ch. 1.

# The Relationship of Structure to Organization's Need for Efficiency vs. Learning



## Symptoms of Structural Deficiency

- ∞ Decision making is delayed or lacking in quality
- ∞ The organization does not respond innovatively to a changing environment
- ∞ Too much conflict from departments being at cross purposes is evident