

STUDY UNIT 9
THE ORGANISATIONAL SYSTEM
FOUNDATIONS OF ORGANISATIONAL STRUCTURE

WHAT IS ORGANISATIONAL STRUCTURE

- An organisational structure defines how job tasks are formally divided, grouped and coordinated:
- Six key elements that need to be addressed when determining an organisation's structure:
 - To what degree are tasks subdivided into separate jobs. Answer provided by work specialisation.
 - On what basis will jobs be grouped together? Answer provided by departmentalisation.
 - To whom do individuals and groups report? Chain of command.
 - How many individuals can a manager direct efficiently and effectively? Span of control.
 - Where does decision-making authority lie? Centralisation and decentralisation.
 - To what degree will there be rules & regulations to direct employees and managers.
- The key concepts therefore are:
 - Work Specialisation, which sees the job broken down into a number of steps, each step being completed by a separate individual.
 - Therefore, individuals specialise in doing part of an activity rather than the entire activity.
 - Departmentalisation, which sees jobs grouped together.
 - One of the most popular ways to group activities is by functions performed.
 - Chain of command, which is an unbroken line of authority that extends from the top of the organisation to the lowest echelon and clarifies who reports to whom.
 - It answers questions for employees such as “to whom do I go if I have a problem” and “to whom am I responsible?”
 - Span of control determines the number of levels & managers an organisation has. All things being equal, the wider or larger the span, the more efficient the organisation.
- Centralisation v decentralisation:
 - Centralisation refers to the degree to which decision making is concentrated at a single point in the organisation.
 - The concept includes only formal authority, that is, like rights inherent in ones position.
 - It is said that if top management makes the organisations key decisions with little or no input from lower level personnel, then the organisation is centralised.
 - Decentralised organisation, action can be taken more quickly to solve problems, more people provide input into decisions, and employees are likely to feel alienated from those who make decisions that effect their work lives.
- Formalisation: refers to the degree to which jobs within the organisation are standardised if job is highly formalised, then the job incumbent has a minimum amount of discretion over what is to be done, when it is to be done and how he/she should do it.

COMMON ORGANISATIONAL DESIGNS

- Common organisational designs include:
 - The Simple Structure has:
 - A low degree of departmentalisation
 - Wide spans of control
 - Centralised authority
 - Little formalisation
 - The Bureaucracy is characterised by:
 - Highly routine operating basis achieved through specialisation
 - Very formalised rules and regulations
 - Tasks that are grouped into functional departments
 - Centralised authority
 - Narrow spans of control
 - Decision making that follows the chain of command.
 - The matrix structure:
 - It is used by advertising agencies, aerospace firms, research of development laboratories, companies, hospitals, government agencies, universities and consulting firms.
 - Matrix combines two forms of departmentalisation, functional and product.
 - The strength of functional lies in putting like specialists together, which minimises the number necessary, while it allows the pooling and sharing of specialised resources across products
 - Its major disadvantage is the difficulty of co-ordinating the tasks of diverse functional specialists so that their activities are completed on time and within budget.
 - Product departmentalisation has exactly opposite advantages and disadvantages.
 - It facilitates co-ordination among specialities to achieve on-time completion and meet budget targets.
 - It provides clear responsibility for all activities related to a product, but with duplication of activities and costs.
 - The matrix attempts to gain the strengths of each, while avoiding their weakness.

NEW DESIGN OPTIONS

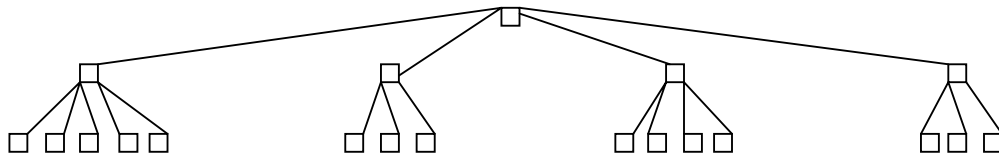
- Options include:
 - The Team Structure:
 - This structure breaks down departmental barriers and decentralises decision making to the level of the work team.
 - The teams are populated with generalists rather than specialists.
 - The Virtual Organisation:
 - Here management outsources all of the primary functions of the business.
 - The care of the organisation is a small group of executives, whose jobs are to oversee directly any activities that are done in house and to co-ordinate relationships with the other organisation that manufacture, distribute and perform other crucial functions for the virtual organisation.

- The virtual organisation is highly centralised, with little or no departmentalisation.
- The Boundaryless Organisation:
 - Seeks to eliminate the chain of command
 - Has limitless spans of control, and replaces departments with empowered teams.
 - Because it relies so heavily on information technology, some have turned to calling this structure the T-form (technology based) organisation.
 - By removing vertical boundaries, management flattens the hierarchy.
 - Status and rank are minimized.
 - Functional departments create vertical boundaries and these boundaries stifle interaction between functions, product lines and units.
 - The way to reduce these barriers is to replace functional departments with cross functional teams and to organise activities around processes.

WHY DO STRUCTURES DIFFER?

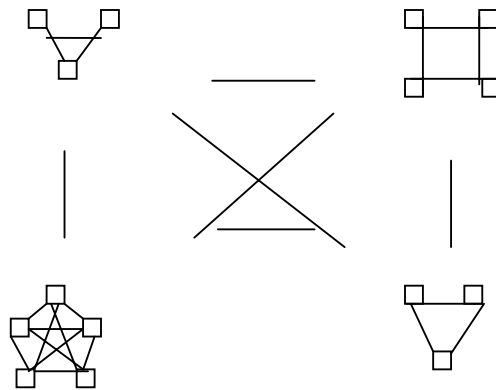
- Two extreme models of organisational design are the Mechanist vs. Organic models

The mechanist model



- The Mechanistic model is characterised by:
 - High specialisation
 - Rigid departmentalisation
 - Clear chain of command
 - Narrow spans of control
 - Centralisation
 - High formalisation

The organic model



- The organic model is characterised by:
 - Cross-functional teams
 - Cross-hierarchical teams
 - Free flow of info
 - Wide spans of control
 - Decentralisation
 - Low formalisation

- The following forces determine organisational structure types:
 - Strategy
 - Structure follows strategy
 - Options of strategy and their related structures are:
 - Innovation
 - This structure must support meaningful unique innovations.
 - Cost minimisation
 - This structure must promote cost controls and avoid unnecessary innovation.
 - Imitation
 - This structure must promote both innovation and cost minimisation. (415 / 17.9)
 - Organisation size
 - Larger organisations are characterised by greater specialisation, more departmentalisation, and more rules and regulations.
 - Technology
 - Technology refers to the way an organisation transfers inputs into outputs.
 - Technology is affected by the amount of routine (automated) versus non-routine (customised) activities.
 - Environment

- The organisation's environment is comprised of those institutions and forces that are outside the organisation and potentially affect the organisation's performance.
- The impact of the environment on structure is determined by:
 - Levels of environmental uncertainty
 - The capacity (degree to which it can support growth) of the environment
 - Environmental volatility (degree of unpredictable change)
 - Environmental complexity (variety of environmental elements which impact)