

## CHAPTER 4

# FUNDAMENTALS OF ORGANIZATION STRUCTURE

# Organization Structure

- Key components
  - Designation of formal positions and reporting relationships
  - Identification of the grouping together of individuals into departments and of departments into the total organization
  - Inclusion of the design of systems to ensure effective communication, coordination, and integration of efforts across departments
- Organization chart: The visual representation of a whole set of underlying activities and processes in an organization

# A Sample Organization Chart

# Information-Sharing Perspective on Structure

- Vertical and horizontal information flow
  - Vertical linkages are designed primarily for control
  - Horizontal linkages are designed for coordination and collaboration
  - Hierarchy levels at which decisions are made
    - **Centralized:** Decision authority is located near the top of the organization.
    - **Decentralized:** Decision authority is pushed downward to lower organization levels

# Efficiency versus Learning Outcomes

# Vertical Information Sharing

- **Vertical linkages** coordinate activities between the top and the bottom of the organization and are designed primarily for control of the organization

# Horizontal Information Sharing and Collaboration

- **Horizontal linkages** provide opportunities for communication and coordination horizontally across organizational departments

# Project Manager Location in the Structure



# Teams Used for Horizontal Coordination

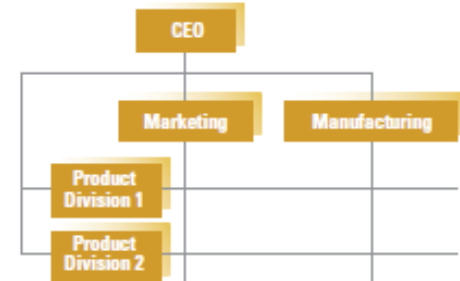
# Relational Coordination

- Frequent, timely, problem-solving communication carried out through relationships of shared goals, shared knowledge, and mutual respect
- Relational coordination is part of the fabric of the organization
- Employees coordinate and collaborate directly across units
- Rewards are based on team efforts and accomplishments
- Managers create specific cross-functional roles that promote coordination across boundaries

# Organization Design Alternatives

- Required work activities
- Reporting relationships
- Departmental grouping options
  - Functional
  - Divisional
  - Matrix
  - Virtual network
  - Holacracy team

# Structural Design Options for Grouping Employees



# Functional Structure

- Activities are grouped by common function
- All specific skills and knowledge are consolidated
- The functional structure is a prevalent approach, but few companies can respond in today's environment without **horizontal linkages**

# Functional Structure: Strengths & Weaknesses

**Strengths**

**Weaknesses**

# Divisional Structure

- Separate divisions are responsible for individual products, services, product groups, major projects or programs, divisions, businesses, or profit centers
- Grouping is based on organizational outputs
- Organizations tend to shift from functional to divisional structures as they become more complex

# Reorganization from Functional to Divisional Structure



# Divisional Structure: Strengths & Weaknesses

**Strengths**

**Weaknesses**

# Geographic Structure

- Groupings are based on the geographical locations of the organization's users or customers
- Many multinational corporations are organized by country
- Managers and employees focus on specific geographic regions
- Strengths and weaknesses are like those of a divisional structure
- Horizontal coordination within a region is emphasized rather than linkages across regions or to a national office

# Geographic Structure Example

# Matrix Structure

- A matrix is multifocused with strong horizontal linkage
- Product divisions and functional structures (horizontal and vertical) are implemented simultaneously
- Product managers and functional managers have equal authority within the organization, and employees report to both of them

# Matrix Structure Example

# Conditions for Matrix Structure

# Matrix Structure: Strengths & Weaknesses

**Strengths**

**Weaknesses**

# Virtual Network Structure and Outsourcing



# Virtual Network Structure Example

# Virtual Network Structure: Strengths and Weaknesses

**Strengths**

**Weaknesses**