Chapter Three

Fundamentals of Organization Structure

A Sample Organization Chart

- CEO
  - Vice President Finance
    - Chief Accountant
  - Vice President Manufacturing
    - Budget Analyst
    - Plant Superintendent
  - Director Human Resources
    - Maintenance Superintendent
    - Training Specialist
    - Benefits Administrator
The Relationship of Organization Design to Efficiency vs. Learning Outcomes

Horizontal Organization
Designed for Learning
- Shared tasks, empowerment
- Relaxed hierarchy, few rules
- Horizontal, face-to-face communication
- Many teams and task forces
- Decentralized decision making

Vertical Organization
Designed for Efficiency
- Specialized tasks
- Strict hierarchy, many rules
- Vertical communication and reporting systems
- Few teams, task forces or integrators
- Centralized decision making

Ladder of Mechanisms for Horizontal Linkage and Coordination
- Information Systems
- Direct Contact
- Task Forces
- Full-time Integrators
- Teams

Amount of Horizontal Coordination Required
- LOW
- HIGH

Cost of Coordination in Time and Human Resources
- LOW
- HIGH
**Structural Design Options for Grouping Employees into Departments**

- **Functional Grouping**
  - CEO
  - Engineering
  - Marketing
  - Manufacturing

- **Divisional Grouping**
  - CEO
  - Product Division 1
  - Product Division 2
  - Product Division 3

Source: Adapted from David Nadler and Michael Tushman, *Strategic Organization Design* (Glenview, 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

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


Reorganization from Functional Structure to Divisional Structure at Info-Tech

Diagram showing the reorganization process from functional to divisional structure at Info-Tech.
Structural Design Options for Grouping Employees (Continued)

**Multi-focused Grouping**

- **CEO**
- **Marketing**
- **Manufacturing**
- **Product Division 1**
- **Product Division 2**

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

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**Horizontal Grouping**

- **CEO**
- **Human Resources**
- **Finance**
- **Core Process 1**
- **Core Process 2**

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

CEO
Steve Jobs

Apple Products
- Apple Americas
  - Canada
  - Latin America/Caribbean
  - Sales Service and Marketing to Regions
- Apple Europe
  - France

Apple Pacific
- Australia
- Japan
- Far East

Source: www.apple.com

Dual-Authority Structure in a Matrix Organization

President

Director of Product Operations
- Product Manager A
- Product Manager B
- Product Manager C
- Product Manager D

Design Vice President

Mfg Vice President

Marketing Vice President

Controller

Procurement Manager
Strengths and Weaknesses of Matrix Organization Structure

STRENGTHS:

• Achieves coordination necessary to meet dual demands from customers
• Flexible sharing of human resources across projects
• 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

Matrix Structure for Worldwide Steel Company

[Diagram of the matrix structure with the following positions:
- President
- Vertical Functions:
  - Mfg. Vice President
  - Marketing Vice President
  - Finance Vice President
  - Mfg. Services Vice President
  - Metallurgy Vice President
  - Field Sales Vice President
  - Industrial Relations Vice President
- Horizontal Functions:
  - Open Die Business Mgr.
  - Ring Products Business Mgr.
  - Wheels & Axles Business Mgr.
  - Steelmaking Business Mgr.]
A 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:
Hybrid Structure
Part 1. Sun Petrochemical Products

Sources: Based on Linda A. 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 A. 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

Chapters 4, 5
Culture Chapter 9
Size Chapter 8
Strategy, Goals Chapter 2
Technology Chapters 6, 7
Environment Chapters 4, 5

Sources: Adapted from Jay R. Galbraith, Competing with Flexible Lateral Organizations, 2nd 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

Functional Structure
- Functional with cross-functional teams, integrators
- Divisional Structure
- Matrix Structure
- Horizontal Structure

Dominant Structural Approach

Vertical:
- Control
- Efficiency
- Stability
- Reliability

Horizontal:
- Coordination
- Change
- Learning
- Innovation
- Flexibility
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