

**ORGANIZATIONAL DESIGN
AND BEHAVIOR
(87139)**

**OD challenges,
hierarchy and structure**

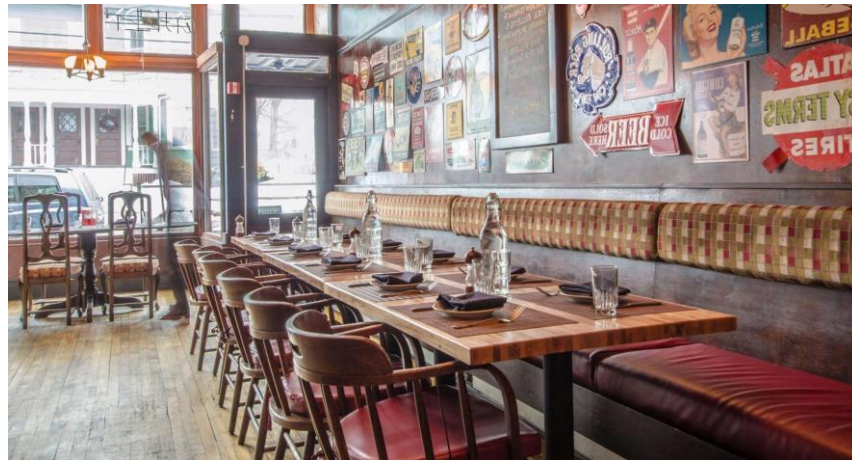
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**Office hours
Thursday, 1-2 pm**

PART I

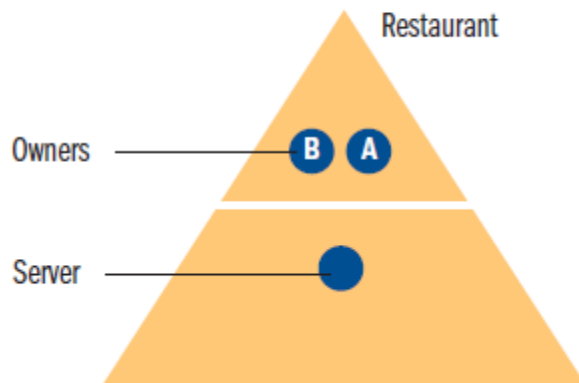
OD challenges

B.A.R. and Grille restaurant Introductory CASE

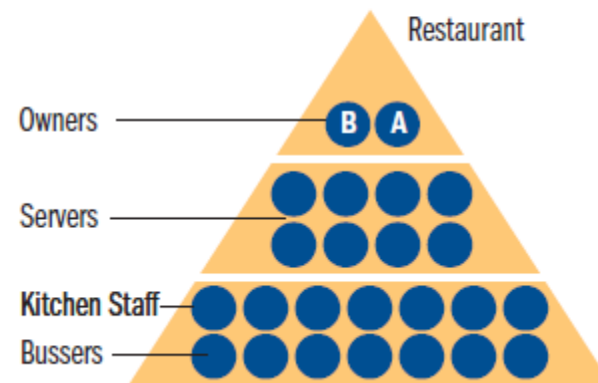


- 1) How did the role of Bob and Amanda change while their company grew?
- 2) Identify and name the different phases in the growth of the B.A.R. and Grille organization.

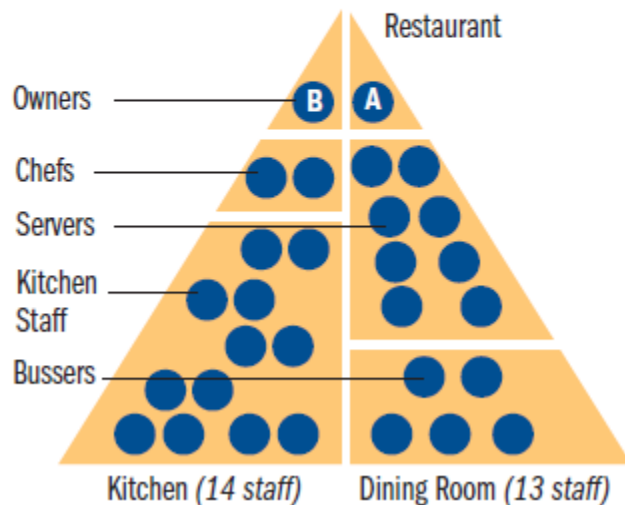
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- A.** Bob and Amanda, the owners, cook and wait tables as needed. They employ one additional server. (3 individuals in the organization)



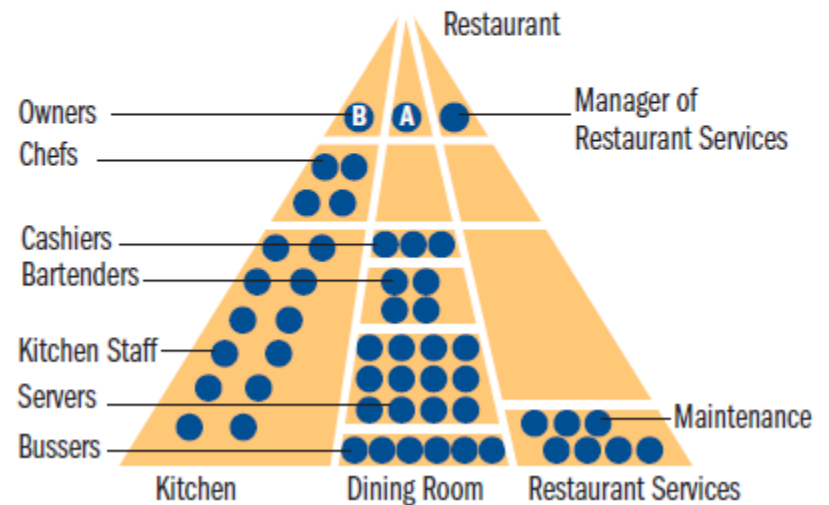
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- B.** Bob and Amanda work in the kitchen full time. They hire servers, bussers, and kitchen staff. (22 individuals in the organization)



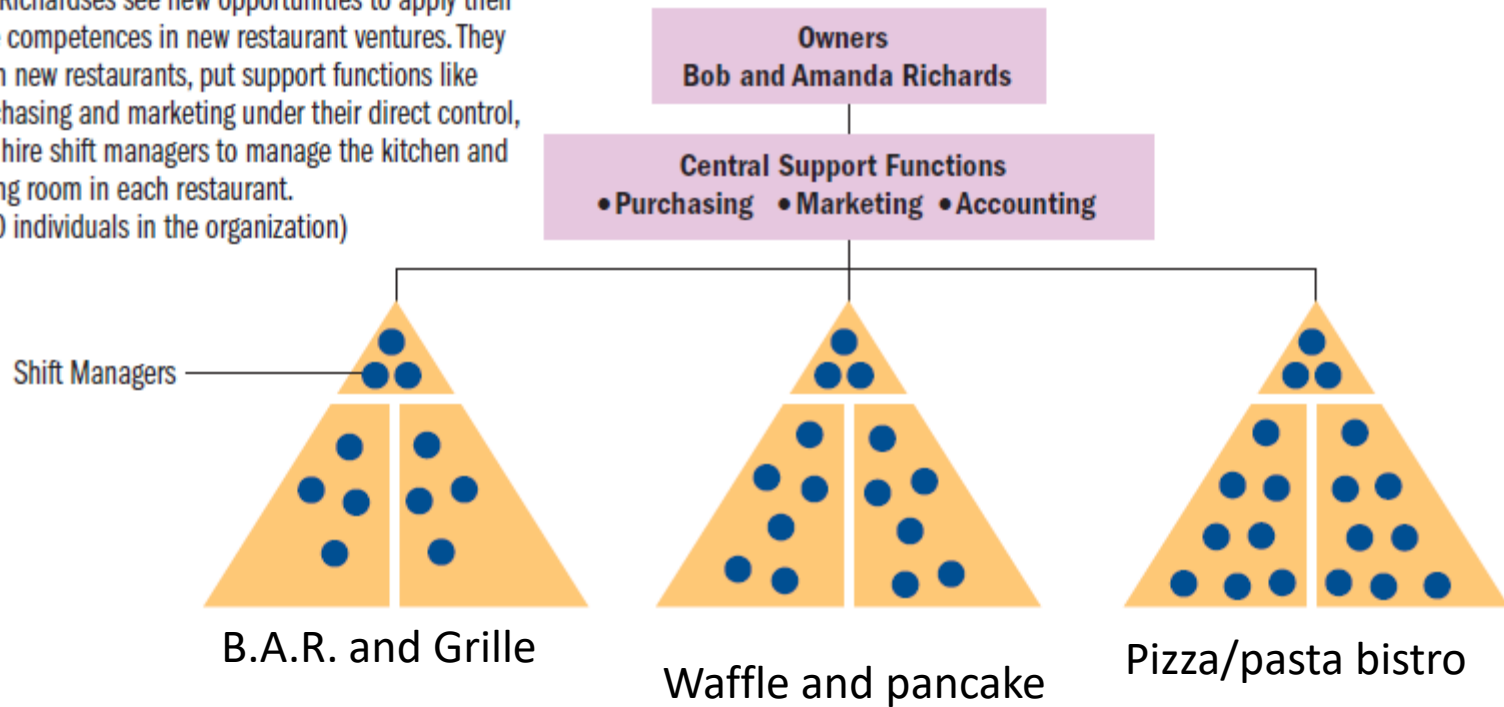
- C.** Unable to manage both the kitchen and the dining room, they divide tasks into two functions, kitchen and dining room, and specialize. Bob runs the kitchen, and Amanda runs the dining room. They also add more staff. (29 individuals in the organization)



- D.** The business continues to prosper. Bob and Amanda create new tasks and functions and hire people to manage the functions. (52 individuals in the organization)

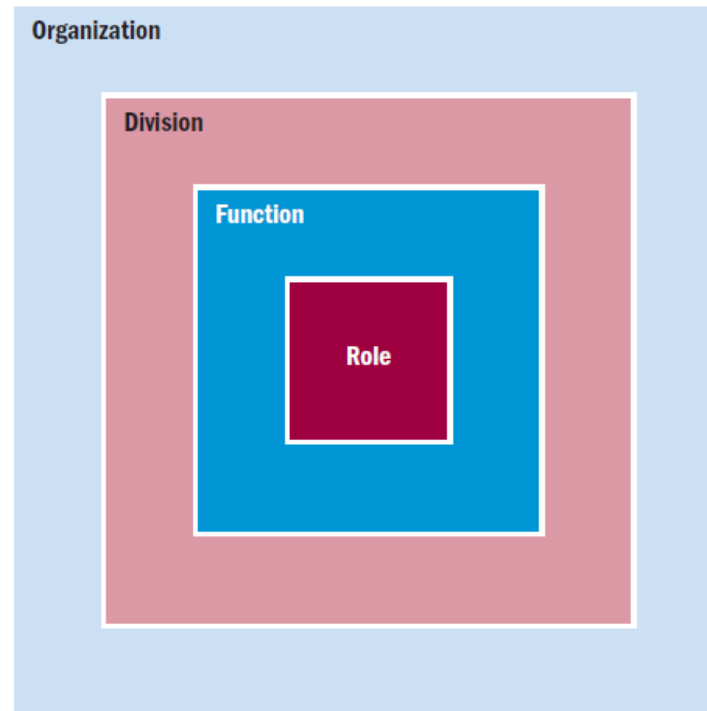


E. The Richardses see new opportunities to apply their core competences in new restaurant ventures. They open new restaurants, put support functions like purchasing and marketing under their direct control, and hire shift managers to manage the kitchen and dining room in each restaurant. (150 individuals in the organization)



Organizational roles

Figure 4.2 Building Blocks of Differentiation



The basic building blocks of differentiation;

A role is a set of **task-related behaviors** required of a person by his or her position in an organization.

Operative and managerial roles

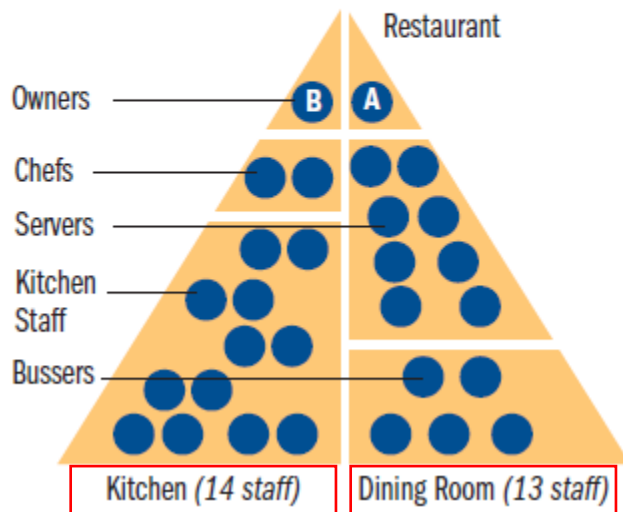
Operative roles are those directly involved in the production of a good or a deliver of a service to the customer;

Managerial roles are those that coordinate and motivate people to work in the organization's interests.

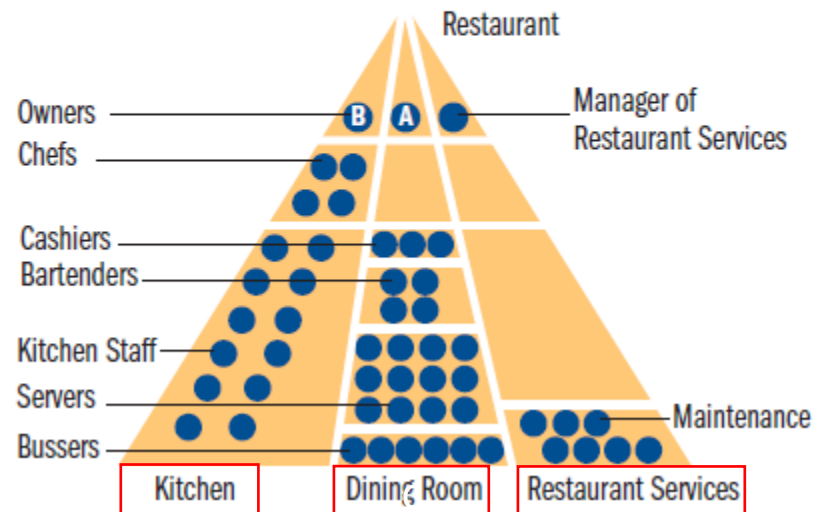
Functions

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

C. Unable to manage both the kitchen and the dining room, they divide tasks into two functions, kitchen and dining room, and specialize. Bob runs the kitchen, and Amanda runs the dining room. They also add more staff. (29 individuals in the organization)



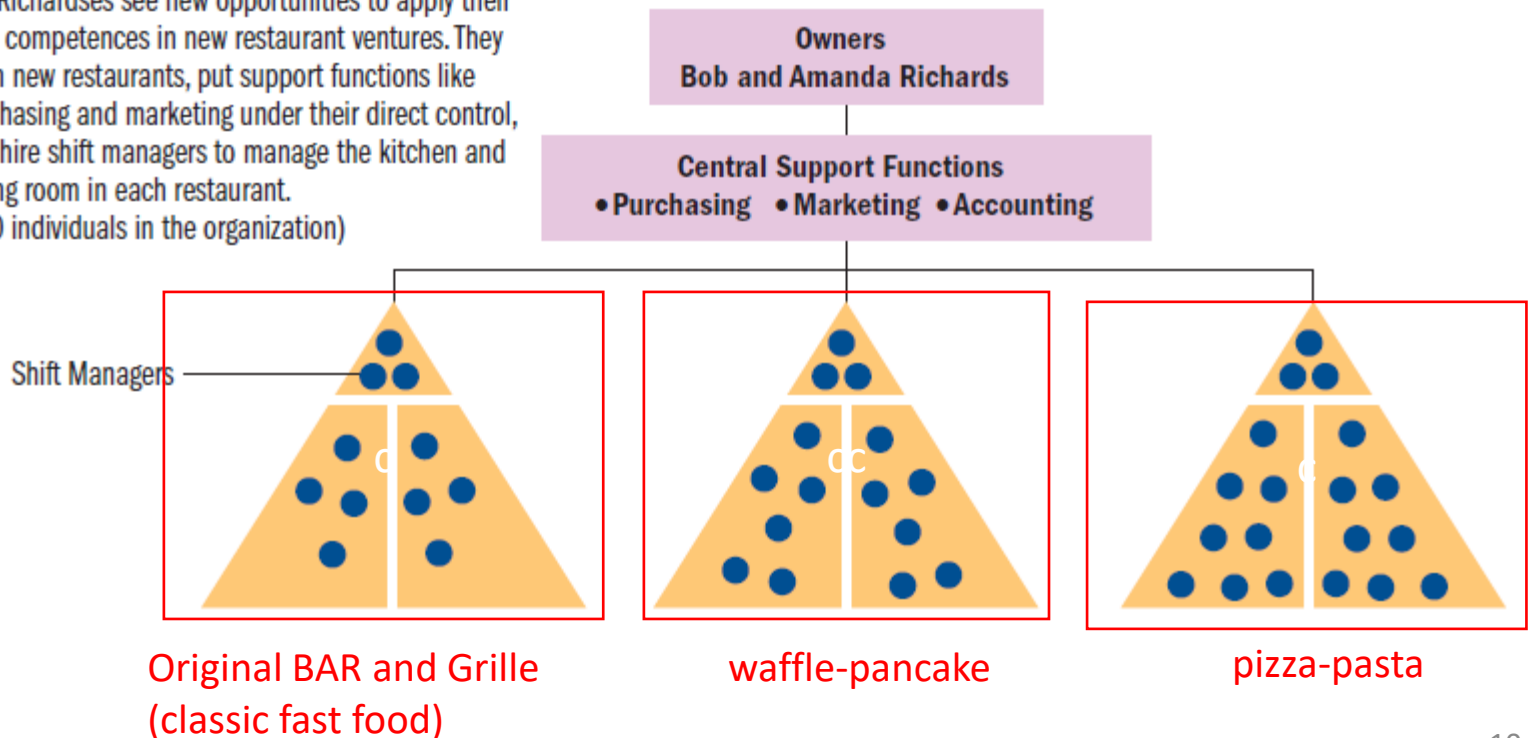
D. The business continues to prosper. Bob and Amanda create new tasks and functions and hire people to manage the functions. (52 individuals in the organization)



Divisions

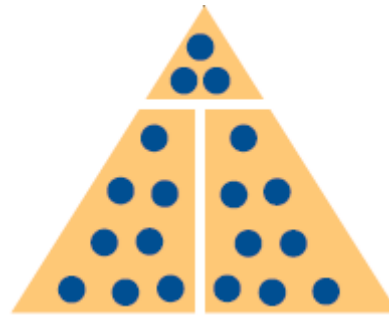
A subunit that consists of a collection of functions or units that share responsibility for producing a particular good or service.

E. The Richardses see new opportunities to apply their core competences in new restaurant ventures. They open new restaurants, put support functions like purchasing and marketing under their direct control, and hire shift managers to manage the kitchen and dining room in each restaurant. (150 individuals in the organization)



Vertical and horizontal differentiation

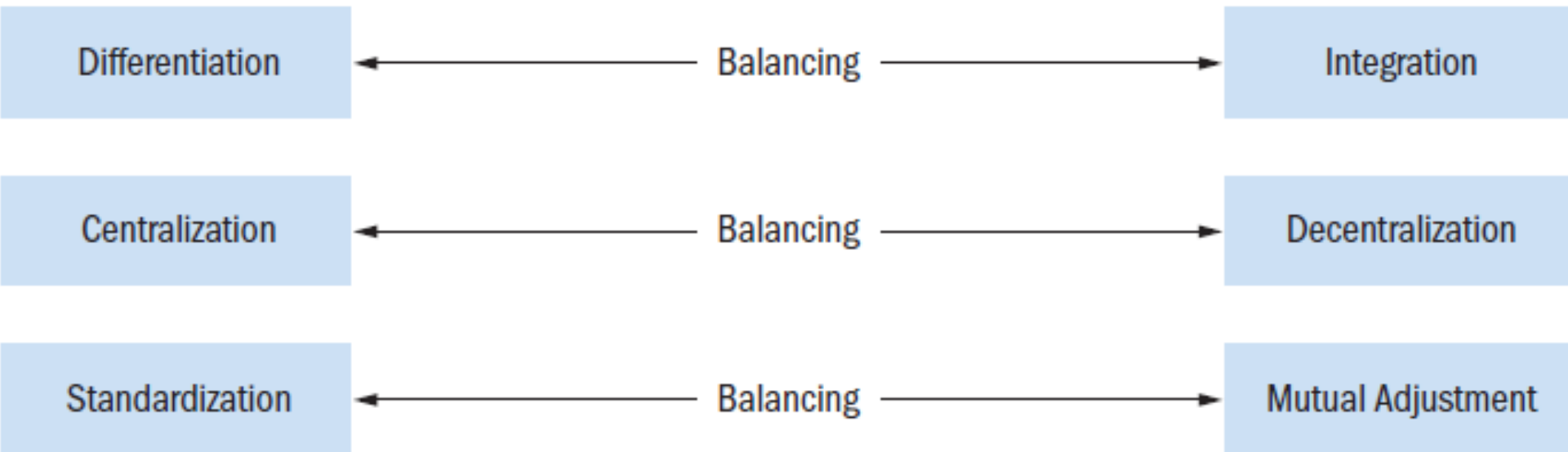
Horizontal differentiation refers to the way an organization groups organizational tasks into roles and similar roles into subunits.



Vertical differentiation refers to the way an organization designs its hierarchy of authority and creates reporting relationships to link organizational roles and subunits;

>>> the **organizational hierarchy** is the classification of people according to their relative authority and rank.

The three main OD challenges



Remember: you can't have it all!

1) Differentiation vs integration

Differentiation – is the result of the division of labor: activities and tasks get allocated to different people to increase efficiency (aka ‘specialization’)



Integration is the process of coordinating various tasks, functions, and divisions so they work together, not at cross purposes (aka ‘coordination’).

Integrating mechanisms



Mechanism

Description

Hierarchy of authority

A ranking of employees integrates by specifying who reports to whom.

Direct contact

Managers meet face to face to coordinate activities.

Liaison role

A specific manager is given responsibility for coordinating with managers from other subunits on behalf of his or her subunit.

Task force

Managers meet in temporary committees to coordinate cross-functional activities.

Team

Managers meet regularly in permanent committees to coordinate activities.

Integrating role

A new role is established to coordinate the activities of two or more functions or divisions.

Example

Salesperson reports to Diaper Division sales manager.

Diaper Division sales and manufacturing managers meet to discuss scheduling.

A person from each of J&J's production, marketing, and research and development departments is given responsibility for coordinating with the other departments.

A committee is formed to find new ways to recycle diapers.

A permanent J&J committee is established to promote new-product development in the Diaper Division.

One manager takes responsibility for coordinating Diaper and Baby Soap divisions to enhance their marketing activities.

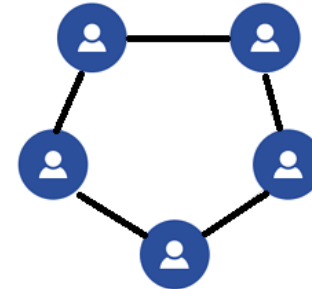
2) Centralization vs decentralization

- When the authority to make important decisions is retained by managers at the top of the hierarchy, authority is said to be highly **centralized**:

- + managers coordinate directly the activities;
- + keep the organization focused on its objectives;
- managers can get overwhelmed by operational decisions;
- long-term strategic goals are overlooked.



delegation



- When the authority to make important decisions is delegated to managers and employees at all levels in the hierarchy, authority is highly **decentralized**:

- + flexibility and responsiveness;
- loss of control and complex decision making happening at all levels.

Common solutions

1) Division of managerial labor:

- top managers set the objectives and the long-term strategic vision;
- middle managers adapt and implement the strategy, dealing with operative issues.



2) Management by objectives:

targets are set from the top, but lower levels have the autonomy to decide how to accomplish them.

3) Standardization vs mutual adjustment

Standardization

conformity to specific models or examples—defined by internal rules—that are considered proper in a given situation:

- policies, rules, procedures;
- control, direct supervision;
- awards and punishments.

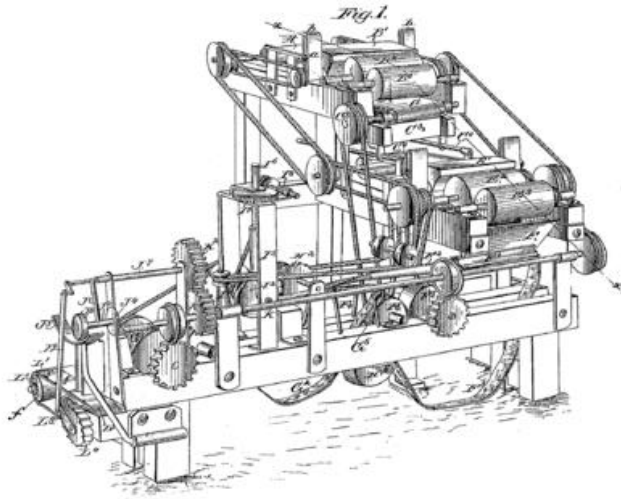
Mutual adjustment

the ever-evolving process through which people use their current best judgment of events to guide decision making, address a problem and promote coordination:

- work habits and practices;
- past experience and problem solving ability;
- informal norms and workplace culture.

} difficult to formalize

Two idealtypes of organizational design



Differentiation

Balancing

Integration

Centralization

Balancing

Decentralization

Standardization

Balancing

Mutual Adjustment

Mechanistic vs organic designs

- **Individual Specialization**

Employees work separately and specialize in one clearly defined task.

- **Simple Integrating Mechanisms**

Hierarchy of authority is clearly defined and is the major integrating mechanism.

- **Centralization**

Authority to control tasks is kept at the top of the organization. Most communication is vertical.

- **Standardization**

Extensive use is made of rules and SOPs to coordinate tasks, and work process is predictable.

- **Joint Specialization**

Employees work together and coordinate their actions to find the best way of performing a task.

- **Complex Integrating Mechanisms**

Task forces and teams are the major integrating mechanisms.

- **Decentralization**

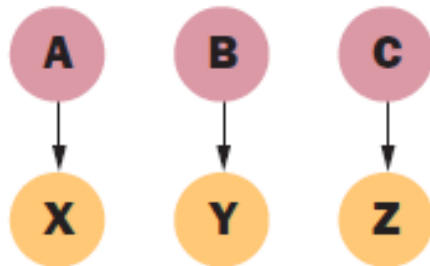
Authority to control tasks is delegated to people at all levels in the organization. Most communication is lateral.

- **Mutual Adjustment**

Extensive use is made of face-to-face contact to coordinate tasks, and work process is relatively unpredictable.

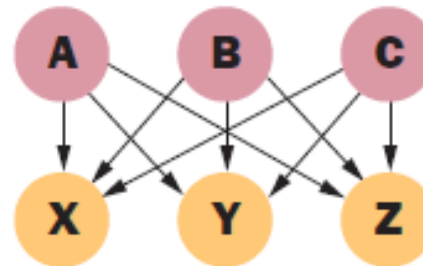
Tasks and role relationships

A. Individual Specialization in a Mechanistic Structure. A person in a role specializes in a specific task or set of tasks.



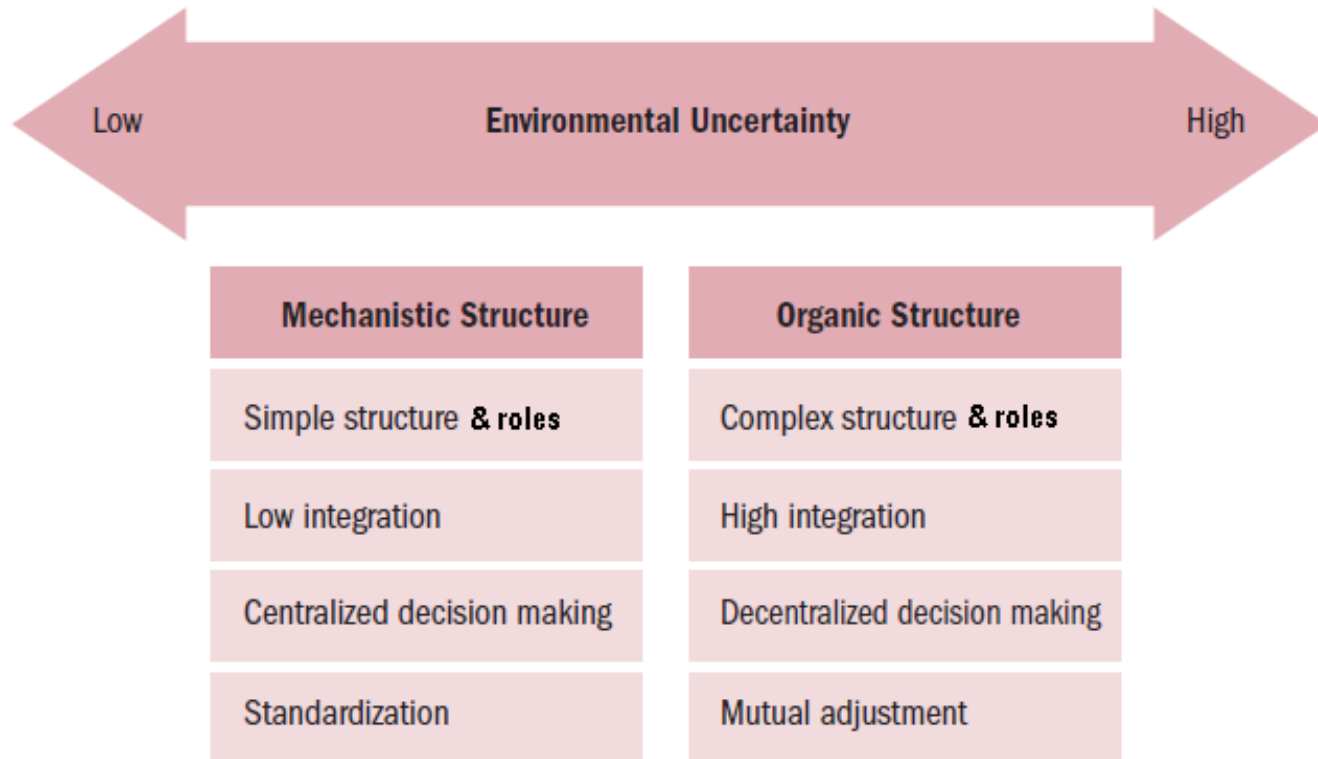
■ Roles
■ Tasks

B. Joint Specialization in an Organic Structure. A person in a role is assigned to a specific task or set of tasks. However, the person is able to learn new tasks and develop new skills and capabilities.



How to choose between different designs?

Contingency theory suggests to **tailor organizational design** to the sources of **uncertainty** in the environment i.e. the **structure** is designed to respond to various **contingencies**.





- 1) And you, would you prefer to work in a mechanistic or in an organic organization? Why? Do you think you could ever change your mind and why?
- 2) What are the pros and cons of each organizational model?
- 3) Would you want to use an organic design to coordinate the armed forces?
- 4) Would you opt for a mechanistic design in a consulting company?
- 5) What about a fast food restaurant chain, a high-tech company or a university?

PART II

Organizational hierarchy

Authority and control

Authority is the power to hold people accountable for their actions and to directly influence what they do and how they do it;

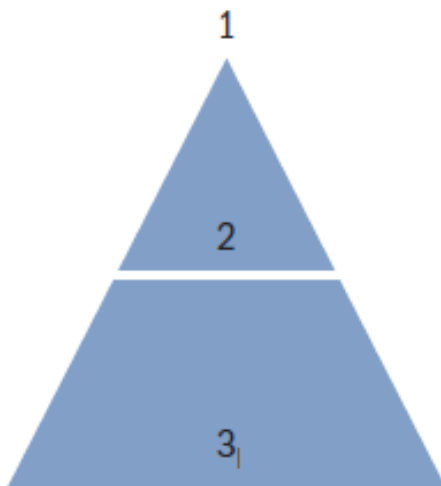


Direct supervision is a vital method of control in organizations.

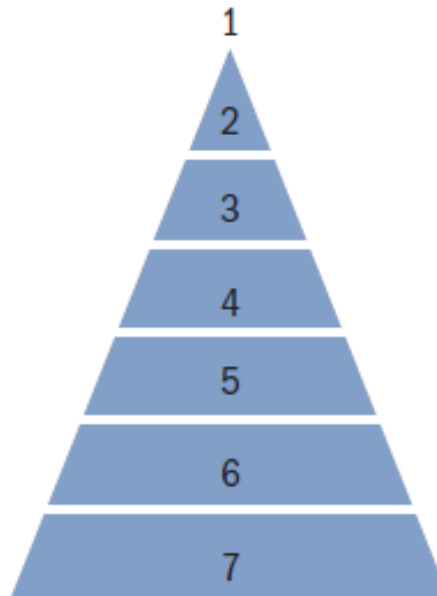
Flat and tall organizations

A tall organization has more hierarchical levels and more managers to direct and control employees' activities than does a flat organization with the same number of employees.

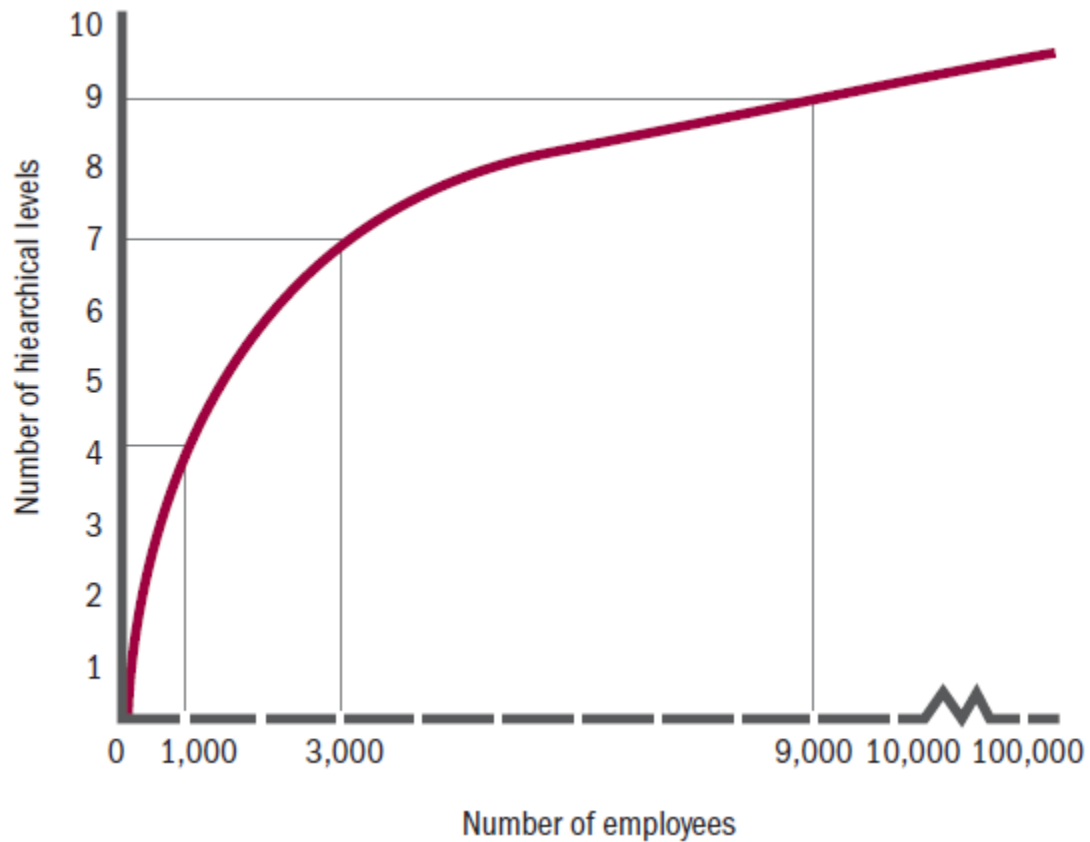
A. Flat structure



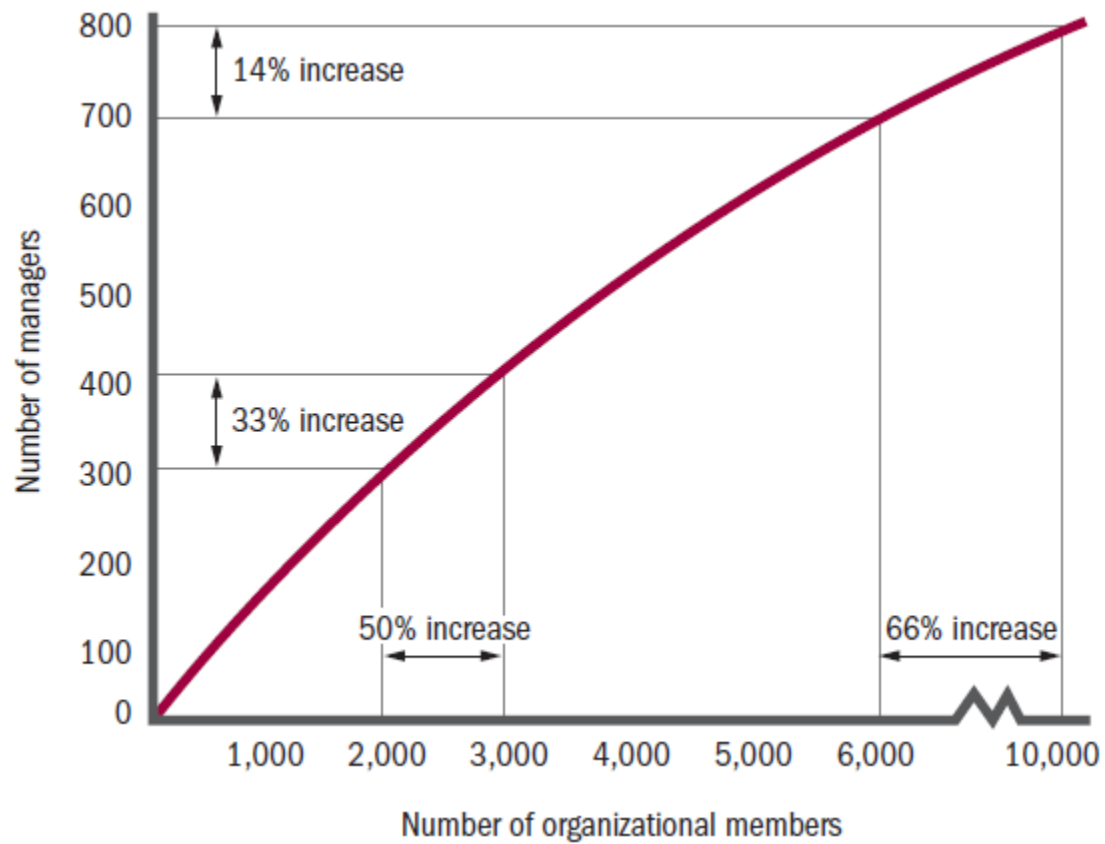
B. Tall structure



Relation between organizational size and number of managerial levels



Relation between organizational size and number of managers



> Why do organizations seem to restrain the number of managers and of managerial levels?

- **communication problems:** need to coordinate many people and levels, decision making becomes slow, distortion/manipulation of information...
- **motivational problems:** the taller the organizational hierarchy, the higher the power differential between lower and higher levels > perceived injustice, authority and responsibility are less shared...
- **bureaucratic costs:** managers cost money, they have relatively high salaries but they are non-productive employees...

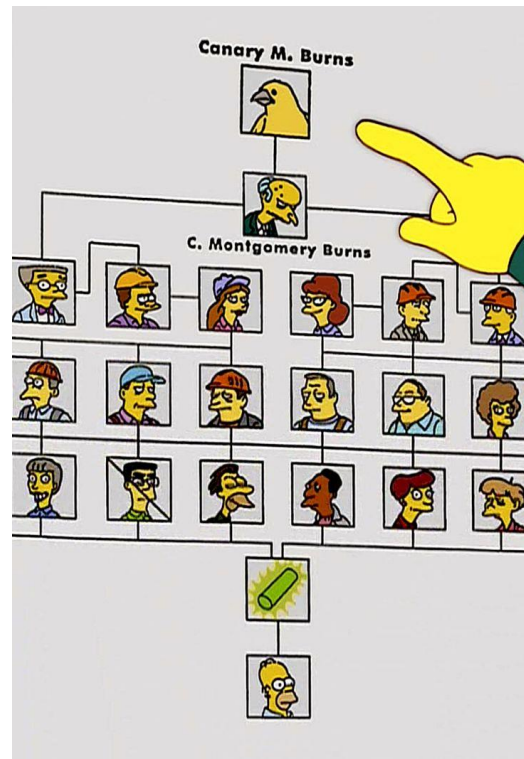
>>> downsizings, delayering and BPR

Principle of minimum chain of command

An organization should be kept as flat as possible!

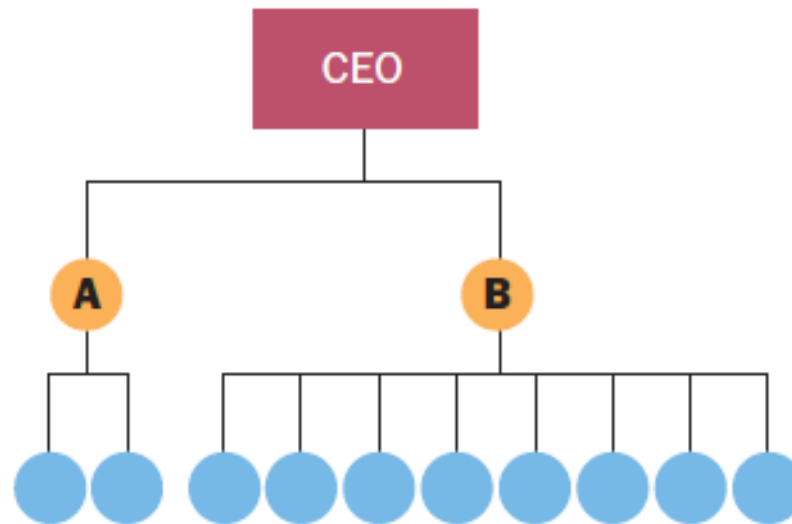
The only reason why an organization should choose a tall structure is when it needs a high level of direct control and personal supervision over subordinates.

Nuclear power plants typically have tall hierarchies



Because any error could produce huge disasters, managers continually oversee and crosscheck the work of managers below them

Different units, different span of control

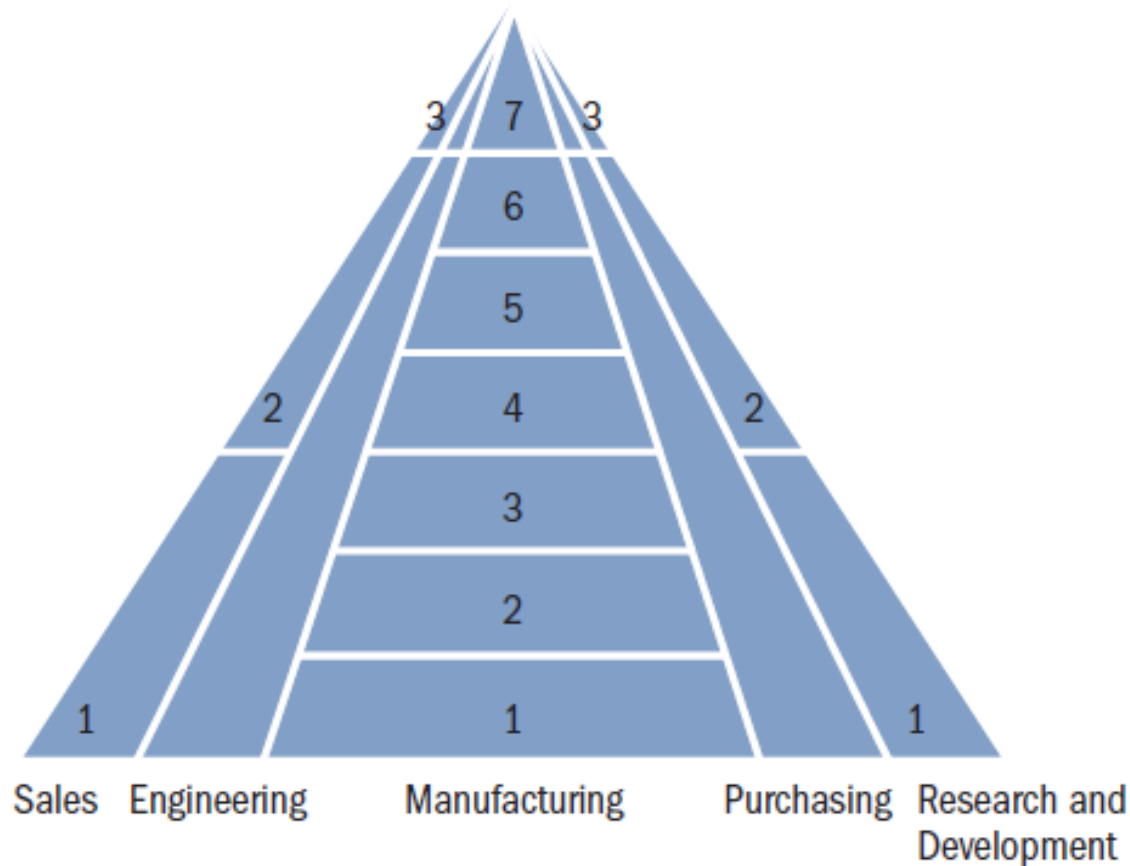


>> it is the number of subordinates a managers directly manage...

A: small

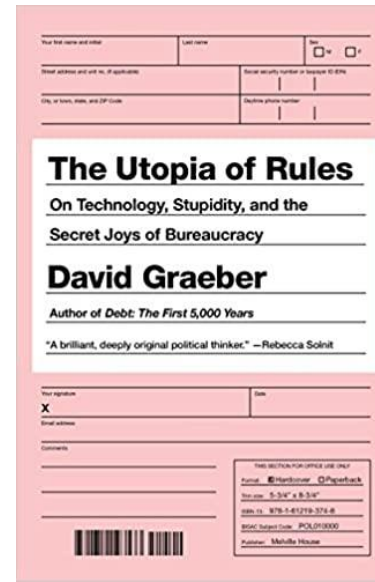
B: large

AND Different units, different no. of levels



Bureaucracy!

- 1) roles in an organization are held on the basis of technical competence;
- 2) a role's task, responsibility and authority in relation to other role should be clear;
- 3) each lower office in the hierarchy is under the control and supervision of a higher office;
- 4) rules, standard operating procedures, and norms should be used to control the behavior and the relationship between roles in the organization;
- 5) administrative acts, decisions, and rules should be formulated and put in writing.



Ambivalence of bureaucracy

- it is based on rational, shared and explicit principles
- it allows the coordination and cooperation among a large number of people;
- efficiency in reaching collective goals;



- extremely rational systems produce irrational consequences;
- has its own inertia, rigidity, tends to protect its norms and functionalities;
- repetitive, predictable, fosters incidents, alienation and conflict.

Reference

Adler, P. S. (2012). Perspective—the sociological ambivalence of bureaucracy: from Weber via Gouldner to Marx. *Organization Science*, 23(1), 244-266.

The iron cage



CASE 2

Wildcat strikes in the Gypsum Plant



PART III

Organizational structure

The formal system of task and authority relationships that control how people coordinate their actions and use resources to achieve organizational goals

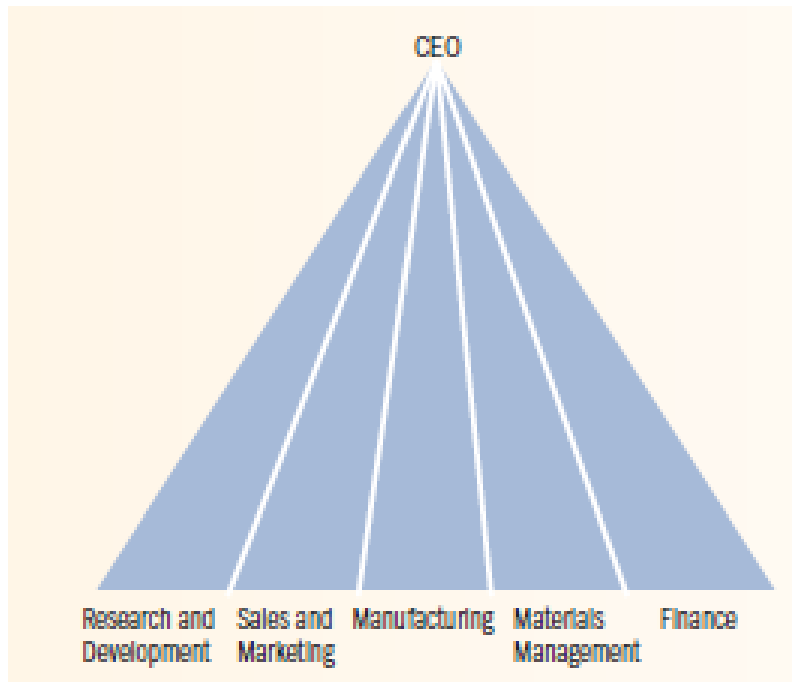


Types of organizational structure

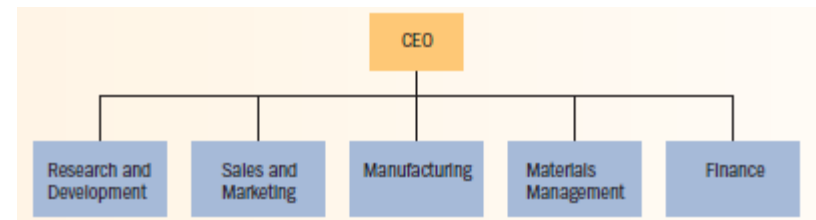
- functional structure;
- divisional structure;
- matrix structure;
- network organizations (?)

Functional structure

- it is the bedrock of horizontal differentiation;
- people are grouped into separate functions or departments because they share common skills and expertise and make use of the same resources.



Each function has its own hierarchy



Position of the functions in the hierarchy

Advantages of functional structure

- 1) it provides people with the opportunity to learn from one another and become more specialized and productive;
- 2) people who are grouped together by common skills can supervise one another and control one another's behavior;
- 3) people in a function who work closely with one another over extended time periods develop norms, values and work practices that allow them to become more efficient in what they do.



Functional structure is good when...

- 1) an organization limits itself to producing a small number of similar products (although in large volumes);
- 2) it produces those products in one or a few locations;
- 3) it sells them to only one major type of customer.



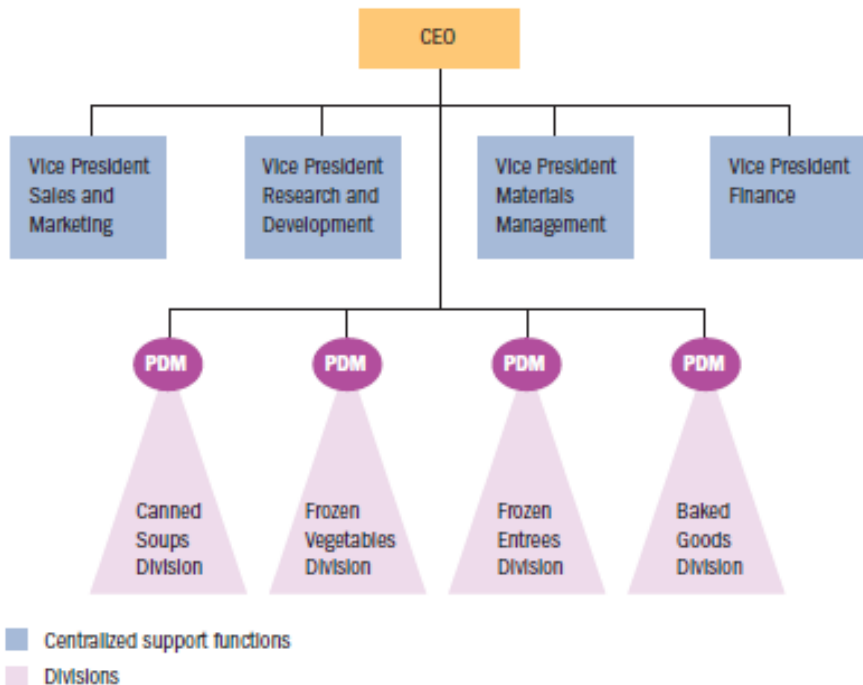
Disadvantages of functional structure

- 1) communication problems between functions;
- 2) difficult to measure the contribution and costs of each single function in the realization of a product;
- 3) location problems, if different functions are located in different sites;
- 4) they cannot easily satisfy customers' exigencies of product differentiation and quality.



Divisional structure

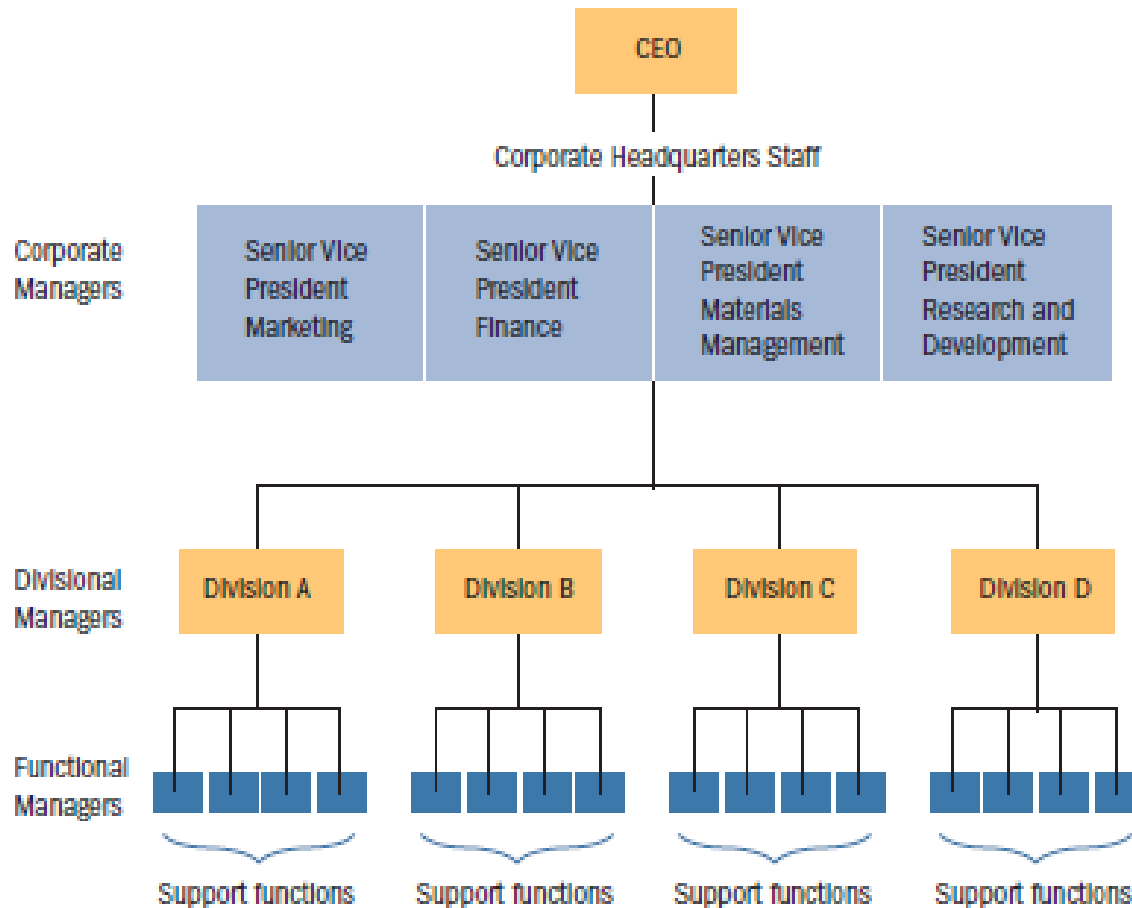
- a divisional structure groups functions according to the specific demands of *products, markets, or customers*;
- the functional criterion is subordinated to the divisional criterion.



Three main subtypes:
-product division;
-geographic division;
-customer division.

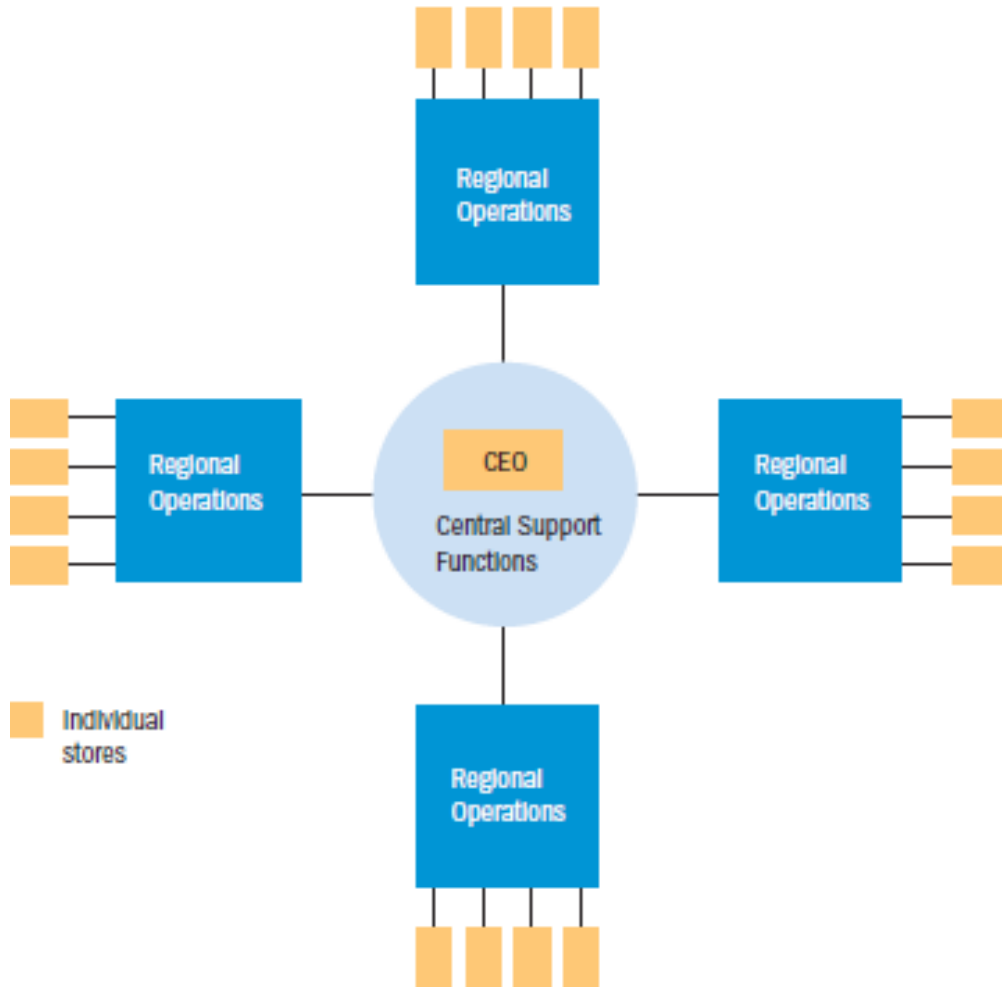
Example of **product** division structure in a food company

The Multi-divisional structure



- each product division is given its own set of support functions so they become entirely **self-contained** divisions;
- you have a new level of mgt, called **corporate headquarter staff**, which oversees the activity of divisional managers;
- divisional managers have **great autonomy** in designing the structure of their divisions.

Divisional structure #2

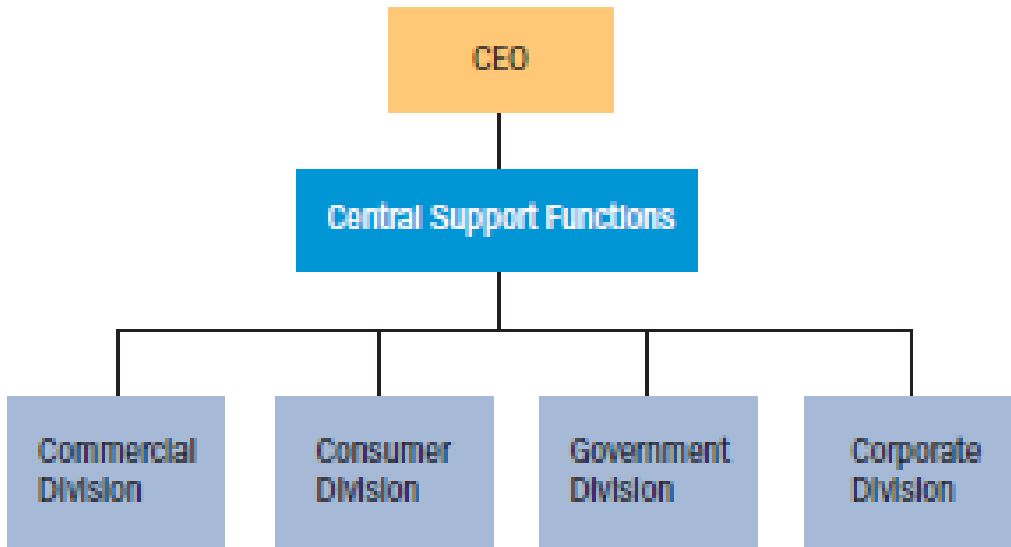


First managerial level reporting to the CEO are Regional Directors

Example of **geographic** division structure

Divisional structure #3

Each division serves a different type of customer



Example of **market** (or type of customer) structure

Advantages of divisional structure

- 1) product/service and quality-oriented: it allows to satisfy better customers' requests (responsiveness);
- 2) it allows more flexibility and adaptability to changes in the market and in the external environment;
- 3) major integration among the subfunctions dedicated to a single business division.



→ When an organization provides a wide range of products and services, consider using a divisional structure form.

Disadvantages of divisional structure

- 1) decrease inter-functional communication and integration: less possibility to share knowledge and experience;
- 2) duplication of functions within different divisions = less economies of scale;
- 3) competition and conflict among different divisions to control the scarce internal resources or to influence internal decision making.



CASE 3

Creating GM'S Multidivisional Structure



*To be
continued. . .*