

Module 2 - Organizational Structure and Life Cycle



Organizational Theory and Behavior

MGMT 630

In this module you will learn:

- About the different ways in which organizations can be structured and designed.
- How to design and structure an organization to increase the likelihood that it will achieve its business objectives.
- How organizational life cycles impact organizational design and strategy. You will be able to design and implement structures that are best-suited to the current life-cycle of your organization, and propose re-design or re-invention options for greater business success.

Module 2 Organization Structure and Life Cycle

Introduction: What is Organizational Structure

Organizational structure is a tool that managers can use to make organizations more effective. More specifically:

- Structure designates who reports to whom, the number of layers in an organization from top to bottom, and the number of people who report to each manager or supervisor (span of control).
- It defines how people are grouped together into departments.
- The structure also dictates how effectively we can communicate, coordinate and integrate activities across the departments.

Most of us have seen our own organization's structure by viewing its organizational chart. This chart representation of how the organization is designed communicates the distribution of formal or legitimate power, reporting

relationships and span of control.

While we have come to believe that form follows function, we will learn that the design is not just a product of the organization's function, but it is also a product of the kind of environment it operates in, its size and its life cycle stage.

There are a number of terms and definitions that are part of the lexicon of organizational structure and some of these are listed below.

- **Vertical Links:** Communication activities and procedures between the top and the bottom of the organization for the purpose of control and accountability.
 - **Centralization:** Refers to where power, control, and decision making rests in an organization. In centralized organizations decision making resides at the top and in decentralized organizations decisions are distributed more evenly between the various levels.
 - **Formalization:** Refers to the degree to which there are formal rules, policies and procedures within an organization.
 - **Chain of Command:** Refers to the formal reporting relationships in the organization's hierarchy each person is reporting to and taking orders from the next most senior person.
 - **Horizontal Links:** Communication activities across work units to achieve collaboration and coordination.
 - **Line Units:** Work groups or teams that conduct the major business of the organization. (The Technical Core)
 - **Staff Units:** Professionals and experts clustered into groups to assist the line units by providing specialized services. Human Resources is an example of a staff unit. (Support Staff).
 - **Span of control:** the number of individuals reporting to a manager
- (Daft 2013)

More working definitions especially important to describing larger, more established organizations and institutions:

- **Organizational Chart:** A "picture" or graphic representation of the organization's reporting structure
- **Department:** An employee grouping, based on shared resources and expertise.
- **Function:** Grouping employees based on the nature of their work or their knowledge
- **Bureaucracy:** A highly structured organization that has many written policies and practices, along with an emphasis on roles/responsibilities of various staff.

Today's Organizational Structures

There are a number of ways in which organizations can be structured and designed each of which has its plusses and minuses.

1. The **geographical** structure: The organization is divided into geographic regions. Each region has all of the functions needed to produce and market products and services in that region.
2. **Functional Structure**: People are grouped together by common function. For example, all HR personnel report to the HR department which is headed up by a VP of Human Resources.
3. **The Divisional Structure** organizes people and functions around specific product lines or brands. For example, Marriott lodging group is organized around product lines, such as Fairfield Inns, Resident Inns, Full-Service Hotels to name a few. General Motors is organized around different car divisions (Chevrolet, Buick, Cadillac, GMC)
4. **The Matrix Structure**: In this structure employees from functional units are placed on project teams for a period of time. They report to both their functional head and to the team leader for the remainder of their assignment.
5. **The Horizontal Structure** is a flat structure where autonomous teams are organized around core processes. They are given the autonomy to make decisions which will best serve customer needs.
6. The **hybrid** structure combines characteristics from various structures. Most organizations combine characteristics of the structures mentioned above to gain from the strengths of each and avoid some of the weaknesses.

(Daft, 2013)

As leaders and managers, we must recognize that organizational structures should align with the external environment in which the organization operates. In rapidly changing and unstable environments we need structures that support flexibility, responsiveness, and adaptability. Formal and rigid structures will not serve organizations that need to respond quickly to changes in customer preferences, competition, and changing economic and market conditions. Communication, coordination, and cooperation must be supported and facilitated by the design and structure of the organization.

Each structure functions best in different situations, and there is no one best way to organize. In the end, the most important thing to remember is that structure must create a balance between vertical control and horizontal coordination. The structure must function in ways that provide stability and foster efficiency, while allowing for

flexibility and innovation.

Control is necessary in any system, serving the need for consistency and predictability. Standardization is an outcome of control avoiding the need to reinvent a response every time the organization has to respond to its environment. Control sets the boundaries of behavior and helps the organization stay on track.

Horizontal coordination is essential so that organizations do not become stove-piped and calcified. How many times have we witnessed incidents in our own organizations where “the right-hand doesn’t know what the left hand is doing”? Without horizontal coordination, functional areas become isolated from the other parts of the system and forget that they are part of a greater whole. They issue mandates or create procedures without thinking about the impact and consequences for other parts of the organization. Organizations face problems that are infinitely more complex than in the past and have to rely on teams of people who can bring their functional expertise together to solve problems and meet challenges.

Teams

An understanding of teams and teamwork is important because many of these structures require groups of people from different divisions or functions to work together. Bruce Tuckman (1995) developed a model to help understand how teams develop. His four stage model is presented below:

- **Forming:** People are unclear about the team’s purpose and their role in the group. They rely on the team lead to provide direction and guidance during which they become oriented to the group and its purpose. People have not yet identified with the group or its members. Commitment is low and questions abound.
- **Storming:** Conflicts emerge as individual vie for power and may decide to challenge the leader or other group members. The group’s purpose is becoming clear, but not everyone may buy into it. Cliques and factions form and there may be power struggles.
- **Norming:** Challenges and power struggles abate. People begin to formulate group norms around how they are going to work together and they begin to outline processes for getting the work done. Members are beginning to enjoy their membership in the group as they socialize and have fun together.
- **Performing:** The team understands its mission and is able to work toward achieving its goal. Members are committed to each other and to getting the work done. They are capable of solving problems and can resolve differences effectively. They need less direction from the leader.

This model is a way of looking at how teams develop. It is a framework for understanding the role of the leader at each stage and the issues that are likely to be faced by the group members and by the leader. It is not a perfect

representation of what happen in each group, but it does point to the fact that groups have to cycle through these stages in order to function well. This is not a one and done process. Groups will cycle through these stages more than once until they learn how to function well together.

Organizational Life Cycle and Structure

Organizational structures not only need to be aligned with external conditions, but they need to be aligned with the organization's life cycle. Organizations naturally go through a life cycle process of birth, growth, maturity, and death or renewal. At each stage of the organization's life cycle, leadership must determine the best way to design and structure the organization.

Let's first take a closer look at the different life cycle stages. These life cycle stages include:

- **Entrepreneurial:** The organization is birthed. Typically small, it is informal and non-bureaucratic. There are few formal rules and procedures. Energies are focused on the production and marketing of the product or service.
- **Pre-bureaucratic:** The company is now in its youth. As the company grows it begins to experience growing pains. More people, more problems. More time needs to be spent on management issues. Delegation becomes necessary while issues of control, standardization, and coordination become more important. Departments are organized and specialized functions are created. The need for policies and procedures emerge. Leadership and management become more important.
- **Formalization:** Mid- life has arrived. Bureaucratic procedures emerge along with formal policies and procedures. Division of labor and specialization occurs. Hierarchies are established, formal controls are put into place and lines of authority are more clearly delineated. The emphasis is on management with appropriate delegation and controls to assure accountability of performance.
- **Elaboration:** Daft notes that in this stage the organization can rely less on bureaucratic controls. Formal systems are loosened and rigid structures fade to allow for cross-functional collaboration and teamwork.

As organizations move through their life cycle stages, the following changes occur:

Formalization Increases. They develop formal rules and policies, employee handbooks, job descriptions and business processes that dictate how things should be done. The emphasis is on standardization and control,

division of labor, and specialization.

Centralization increases in some organizations to maintain control but may decrease in other organization for practical reasons. As organizations become larger, decision making must be decentralized to avoid bottlenecks and overload on senior managers.

The above illustrates that as organizations mature and grow they tend to take on more bureaucratic characteristics. Rules are expanded and standard ways of doing things become institutionalized. Hierarchies develop that provide control and supervision while specializations and stove piping become common. People are hired based on professional criteria and not because of who they know. Written procedures and records provide for stability and continuity.

(Daft, 2013)