Chapter 7. Designing Organizational Structures

Corporation communications is no longer just about marketing. The importance of an effective communications strategy cannot be understated in today's 24/7 business environment. Corporate communication executives have taken on an expanded role in many organizations, according to a recent survey by the Korn Ferry Institute. Of the senior communications executives from Fortune 500 companies who responded to the survey, nearly 40 percent said chief communications officers report directly to the CEO. In addition, more than two-thirds of respondents believe the most important leadership characteristic for communications professionals is having a strategic mindset that goes beyond day-to-day communications activities and looks ahead to future possibilities that can be translated into achievable corporate strategies at all levels of the organization.

This module focuses on the different types of organizational structure, the reasons an organization might prefer one structure over another, and how the choice of an organizational structure ultimately can impact that organization's success. In today's dynamic business environment, organizational structures need to be designed so that the organization can quickly respond to new competitive threats and changing customer needs. Future success for companies will depend on their ability to be flexible and respond to the needs of customers. In this chapter, we'll look first at how companies build organizational structures by implementing traditional, contemporary, and team-based models. Then, we'll explore how managers establish the relationships within the structures they have designed, including determining lines of communication, authority, and power. Finally, we'll examine what managers need to consider when designing organizational structures and the trends that are changing the choices companies make about organizational design.

Building Organizational Structures

1. What are the traditional forms of organizational structure?
The key functions that managers perform include planning, organizing, leading, and controlling. This module focuses specifically on the organizing function. Organizing involves coordinating and allocating a firm's resources so that the firm can carry out its plans and achieve its goals. This organizing, or structuring, process is accomplished by:

- Determining work activities and dividing up tasks (division of labor)

- Grouping jobs and employees (departmentalization)

- Assigning authority and responsibilities (delegation)

The result of the organizing process is a formal structure within an organization. An organization is the order and design of relationships within a company or firm. It consists of two or more people working together with a common objective and clarity of purpose. Formal organizations also have well-defined lines of authority, channels for information flow, and means of control. Human, material, financial, and information resources are deliberately connected to form the business organization. Some connections are long-lasting, such as the links among people in the finance or marketing department. Others can be changed at almost any time—for example, when a committee is formed to study a problem.

Every organization has some kind of underlying structure. Typically, organizations base their frameworks on traditional, contemporary, or team-based approaches. Traditional structures are more rigid and group employees by function, products, processes, customers, or regions. Contemporary and team-based structures are more flexible and assemble employees to respond quickly to dynamic business environments. Regardless of the structural framework a company chooses to implement, all managers must first consider what kind of work needs to be done within the firm.

Division of Labor

The process of dividing work into separate jobs and assigning tasks to workers is called division of labor. In a fast-food restaurant, for example, some employees take or fill orders, others prepare food, a few clean and maintain equipment, and at least one supervises all the others. In an auto assembly plant, some workers install rearview mirrors, while others mount bumpers on bumper brackets. The degree to which the tasks are subdivided into smaller jobs is called specialization. Employees who work at highly specialized jobs, such as assembly-line workers, perform a limited number and variety of tasks. Employees who become specialists at one task, or a small number of tasks, develop greater skill in doing that particular job. This can lead to greater efficiency and consistency in production and other work activities. However, a high degree of specialization can also result in employees who are disinterested or bored due to the lack of variety and challenge.

Traditional Structures

After a company divides the work it needs to do into specific jobs, managers then group the jobs together so that similar or associated tasks and activities can be coordinated. Organizational structures determine the culture and internal workings of an organization. These structures determine the role of each individual, their reporting and relationship with other employees, and the organization's overall communication. The organizational structure is fundamental, depending on the industry and type of the organization. If your structure fails to meet the needs of the business, then it is useless.

Features of an Organizational Structure

To fully understand the workings of an organizational structure, you need to first look at the features of an organizational chart. So, let's dive right in:

Centralization & Decentralization

An organization can be centralized or decentralized depending on how the decisions are made. If each team or department is making its own decisions, then the organization is decentralized. If the decisions are made by top-level management only, then it is centralized.

Span of Control

The span of control shows what tasks are the manager's responsibility. These can include the people under his management and all the tasks related to that department.

Chain of Command

The chain of command or line of reporting means the multiple approvals needed to get a task done. One must ensure everyone they are reporting to must be in the loop. All issues, requests, and proposals must be effectively communicated to management.

Work Specialization

Employees working in a specific department specialize in the tasks related to their department. This limits their knowledge and skills. Some organizational structures allow employees to work in multiple departments at once, improving their skill set immensely.

Types of Organizational Structures

There are multiple types of organizational structures to cater to the needs of all kinds of businesses. Let's look at some of the significant types of Organizational structures:

1. **Functional Organizational Structure**

Organizational Chart for Marketing

The functional structure is the most common kind of organizational structure, and it greatly resembles hierarchical structure. The organization is divided into multiple departments, and each department is led by a Department head. The department head directly reports to the CEO.

Now let's look at the advantages and disadvantages of using a functional organizational structure:

Pros:

This organizational design can work well for companies of all sizes.
By working in their department, employees can become specialized in their roles.
The department becomes self-sufficient and innovative like this and creates a sense of a team.

Cons:

This creates silos within an organization as inter-department communication is minimal. Employees outside the department have minimal knowledge about the department.

Who Need: Functional structure is perfect for organizations with multiple departments, and each department reports to its department head.

2. **Horizontal/Flat Organizational Structure**
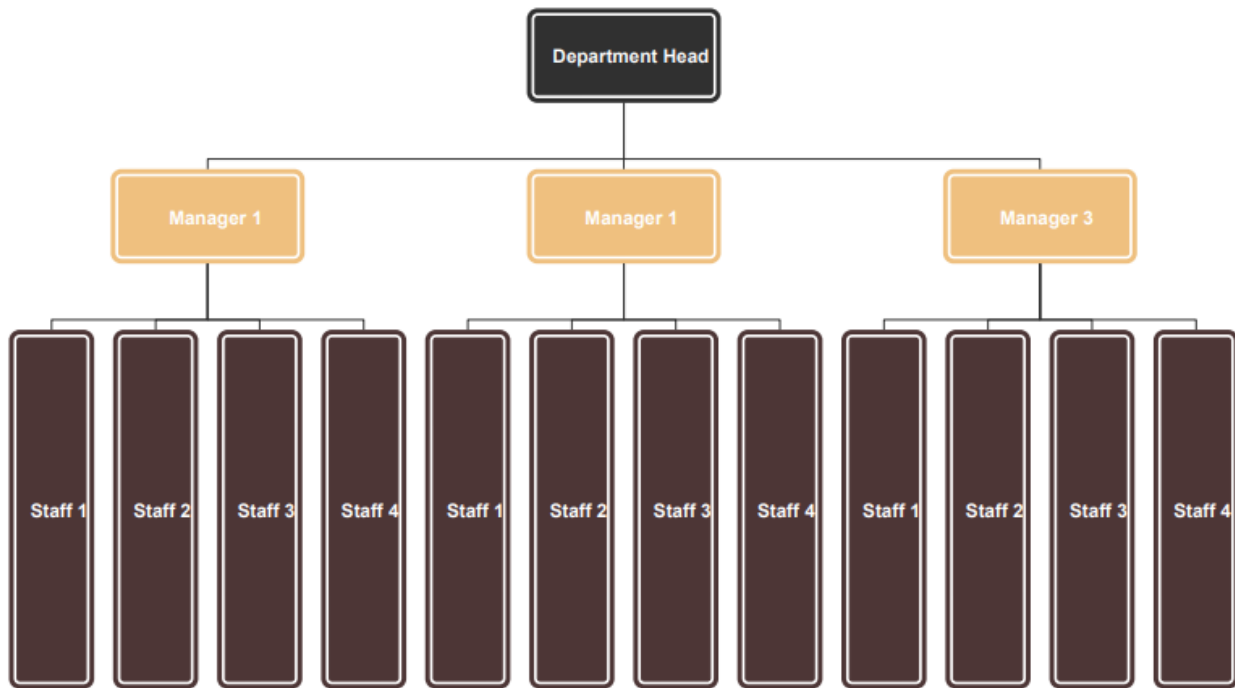
A flat or Horizontal structure is perfect for encouraging innovation and unity amongst organizations. In this structure, all employees have equal power, but the executive management has more than the others. There is no hierarchy, and everyone besides the executive management is on the same level.

Pros:

Flat structures ensure faster implementation of ideas with a lesser chance of error.
Employees have more independence and responsibility here.
Flat organization structures increase innovation and communication.

Cons:

Employees lack any kind of supervision.
The scalability deteriorates as the company grows.
There is confusion around reporting procedures.
Employees develop no specialized skills.

Who Need: This structure is perfect for a new startup with just a few employees. Big tech

businesses are also taking on this approach to increase innovation by improving communication between employees.

3. Matrix Organizational Structure
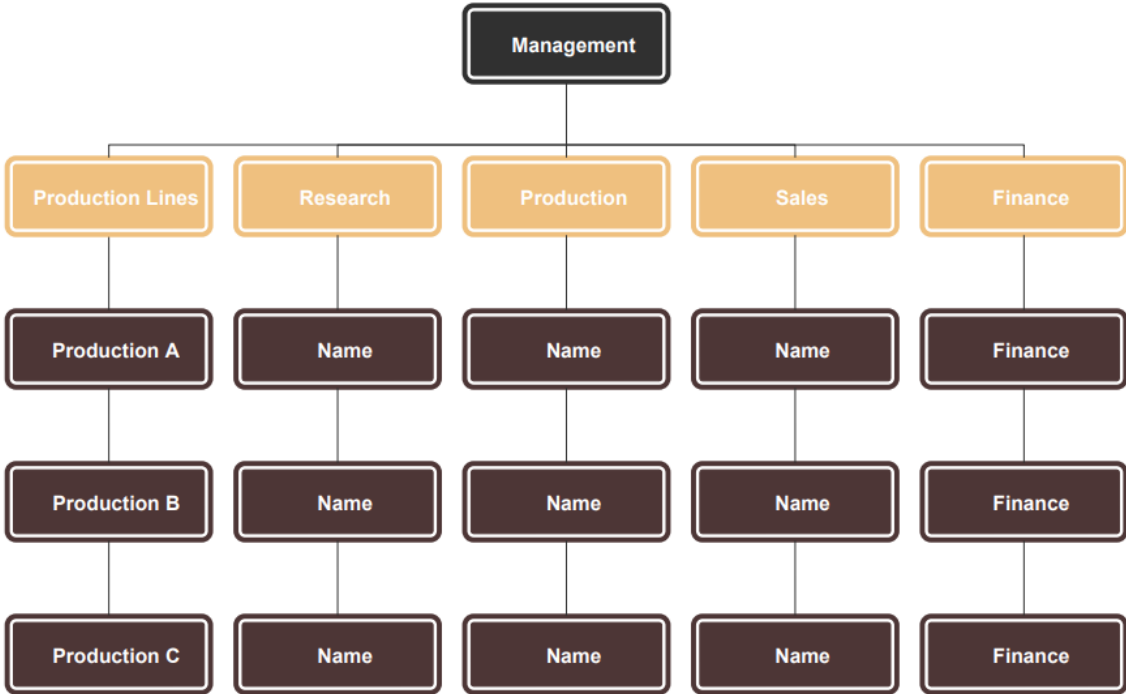
The matrix structure is the combination of functional and Projective Organizational structures. Even though the organization is divided into departments, the departments work together on each task project-wise. Each member can fluidly move from one department to another.

Pros:

There is greater flexibility as supervisors can choose the best employees for the job.
Employees have the chance to work in multiple departments and learn new skills.
The chart is dynamic to keep up with the varying responsibilities of individuals.

Cons:

There might be some conflicts between the supervisor of the project and department managers.
The organizational chart is not prone to regular changes.

Who Need: This structure is perfect for dynamic organizations that work on tasks project-wise. This is the perfect structure for organizations that take a modern approach.

4. Divisional Organizational Structure
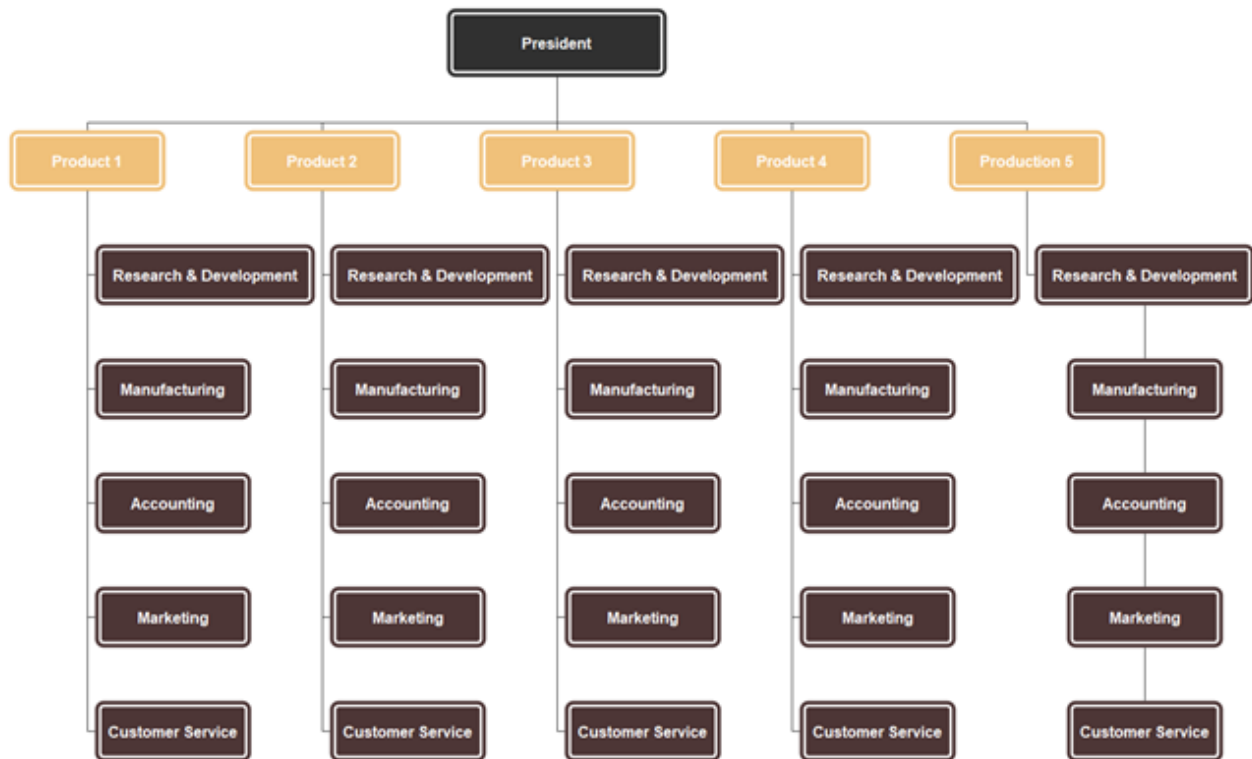
The divisional organizational structure divides an organization according to its product lines or geographical locations. This ensures that each of the products has its autonomy and can operate in its way. Each product or line has its commanding officer in this structure, as you can see in the image below.

Pros:

Each product's departments have the flexibility to work as they like.
Each department has room for creativity and innovation.
This structure allows every product line to be more adaptable and personalize their practices according to the product.

Cons:

However, this chart may cause duplication of resources as one department might be unaware of the other.
The departments have little to no communication with each other that disrupts the unity amongst them.
This structure can also cause internal competition amongst departments which takes their focus away from external competitors.

Who Need: This structure is perfect for large conglomerates or companies with a wide range of products or geographical locations. This structure will help them focus on each product individually rather than the company as a whole.

5. Line Organizational Structure
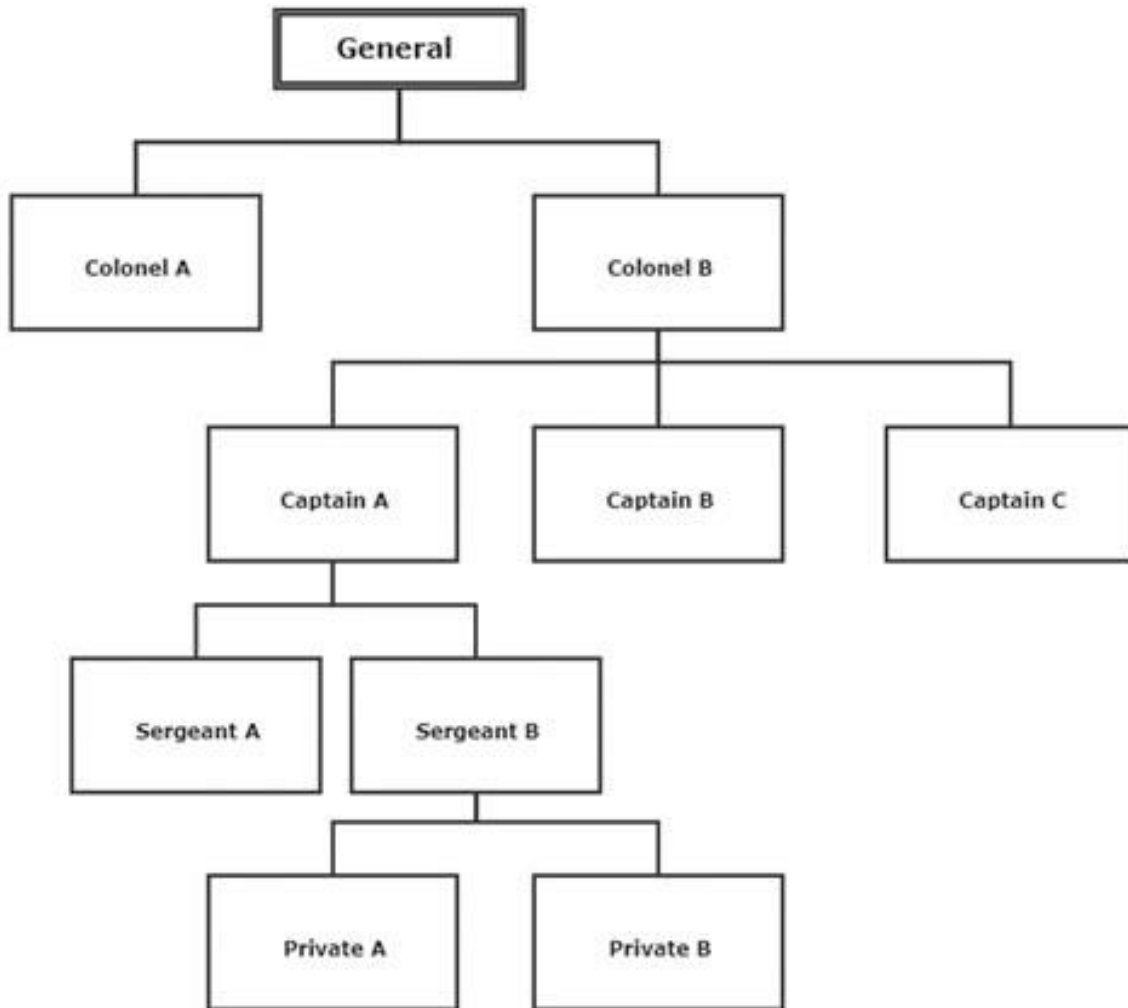
Line organization is also called Military organization or scalar type organization. In this type, authority flows from the topmost person to the low ranks. Each person above the other has direct authority over them.

Pros:
Line organizations are simple to work with, and they are cost-effective.
The coordination between employees is quick and efficient.
The discipline is excellent.

Cons:

Employees are only limited to their department and have no skills other than those required by their department.
The structure is rigid and inflexible with autocratic management.
There is nowhere to complain if the manager is problematic.

Who Need: This structure is perfect for large conglomerates or companies with a wide range of products or geographical locations. This structure will help them focus on each product individually rather than the company as a whole.

6. **Team-based Organizational Structure**

Project Team Development
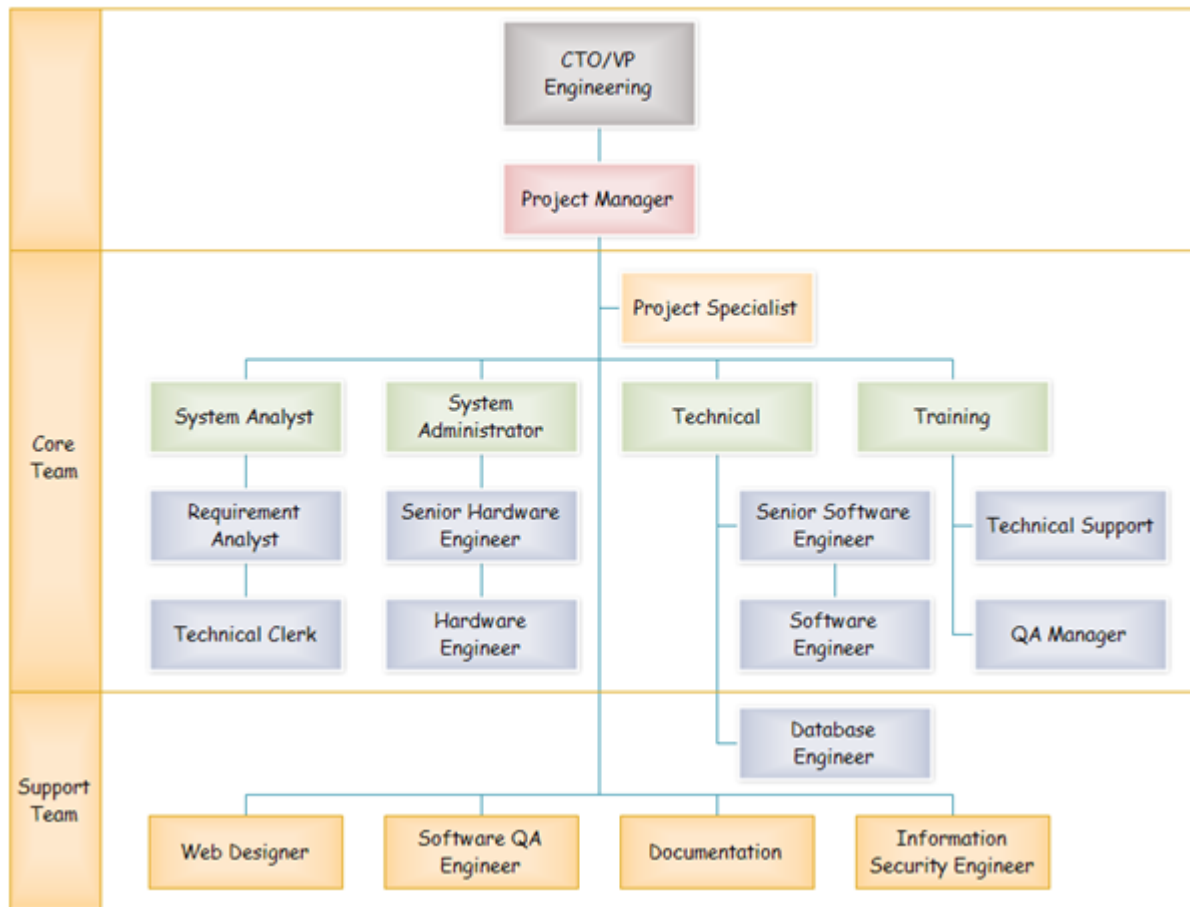
The team structure is quite similar to the matrix structure; however, the supervisors are fluid rather than the team members. This creates a decentralized structure. The supervisors can collaborate with employees of other departments and make their team. After the task is complete, the members return to their respective departments.

Pros:
When employees are not limited to their department, this improves productivity and leads to growth.
It minimizes employee management tasks and prioritizes employee experience.
This structure ensures transparency.

Cons:

This structure might be a bit confusing for employees who are used to traditional roles.
Employees might have to work harder to get noticed and promoted.
There is nowhere to complain if the manager is problematic.

Who Need: This structure is for organizations that work on a project basis and need a team. This decentralized structure will allow each team to have full autonomy over how the project is done.

7. **Project Organizational Structure**
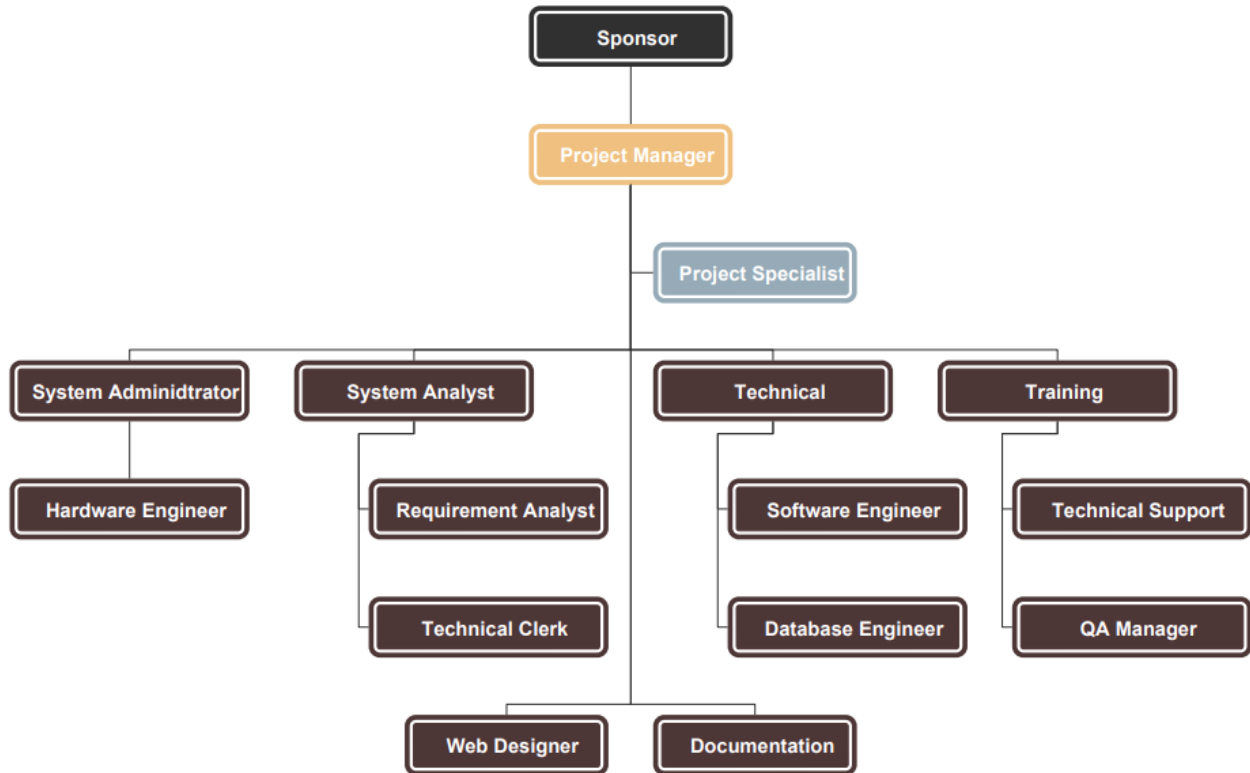
In Project Organizational Structure, an organization takes on one project at a time. The supervisor is a project manager who manages resource allocation, decision making, and conflict management. Unlike other structures like team-based and matrix structures, once the project is complete, the team disassembles. The structure is centralized, and a hierarchy exists in this structure.

Pros:

Efficient Decision making and communication.
Improves employee flexibility and versatility.
This also makes employees more cooperative as employees know they are on a deadline.

Cons:

The team-based structure is too short term to provide employees enough time to hone their skills.
The stress of the project deadline can affect the mental health of employees.
The project manager may have all the power with little given to team members.

Who Need: This structure is for organizations that work on a project basis and need a team. This decentralized structure will allow each team to have full autonomy over how the project is done.

8. Network Organizational Structure
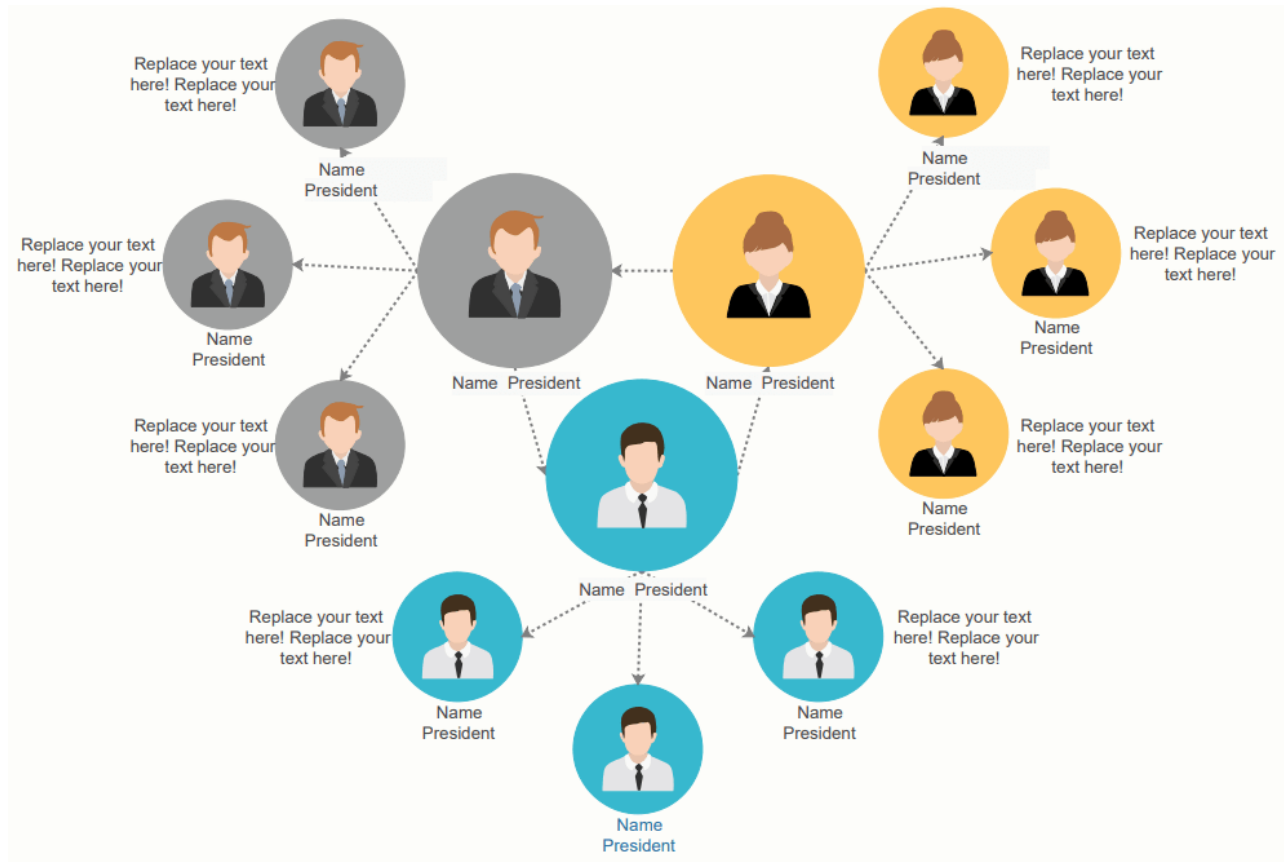
The network structure is excellent for companies that outsource a lot of their production. The network keeps track of all the suppliers, third-party companies, and even departments within the company. This might look too much to cover in one network diagram, but this is a handy tool to get a decentralized view of everything.

Pros:

This structure keeps track of everyone inside the organization and outside it. You can see how functional roles are distributed amongst freelancers, third-party groups, and company employees.
It improves communication and collaboration between employees.
It boosts flexibility and innovation.

Cons:

It can be a bit complex, especially where external parties are concerned.
There is no proper decision-making system.

Who Need: This structure is best suited for companies operating internationally or in multiple cities. Big multinationals or conglomerates may use this structure to keep track of all their outsourced data.

9. Hybrid Organizational Structure
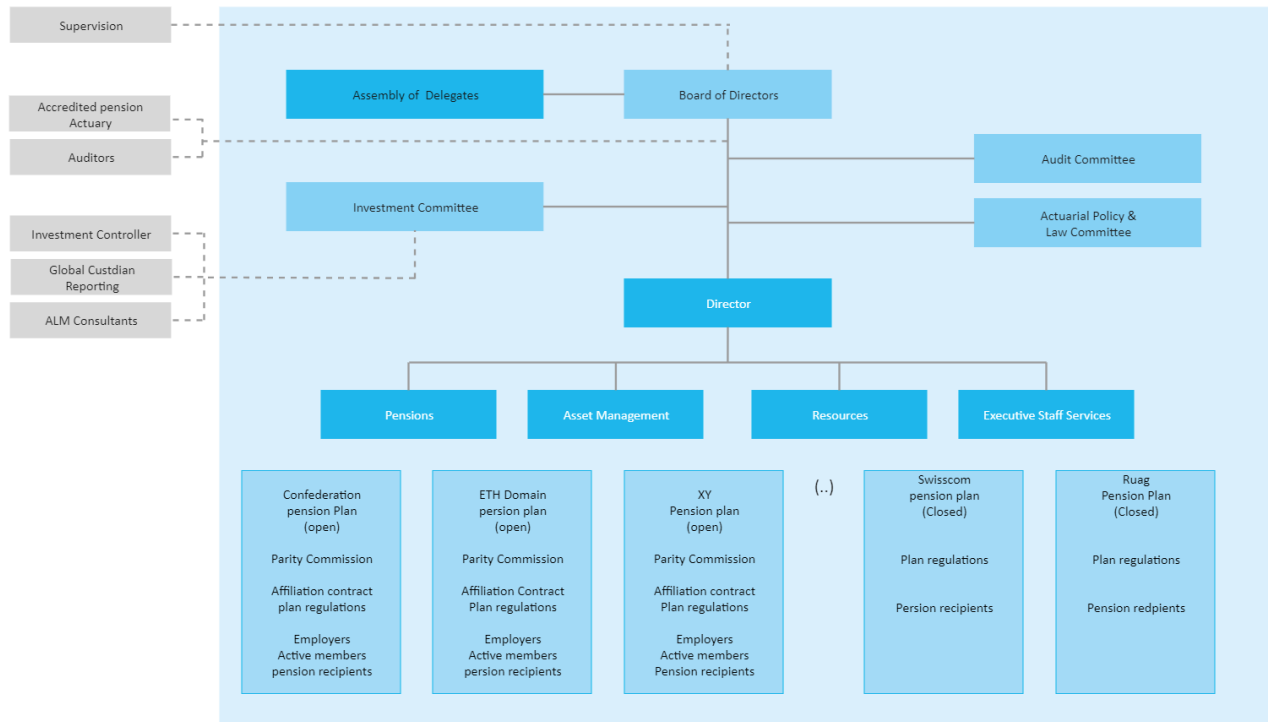
A hybrid structure is one in which multiple employees are reporting to multiple bosses. One employee may be a part of several teams working on different projects. In that case, the employee will report to multiple people.

Pros:

This structure has high flexibility, and employees will be able to learn many skills outside their department.
Organizations with hybrid structures need to hire less and a limited number of employees only as they can easily transfer employees from one area to another.
Employees in hybrid structures tend to have a better skill set due to working on multiple projects.

Cons:

This creates conflict in reporting.
Employees may feel stressed due to working on multiple projects.

Who Need: Organizations that have chains across the whole country might use hybrid structures based on geography. They may transfer employees from one area to another.

Which Organizational Structure is the Best?

Not all of the charts mentioned above are ideal for all kinds of businesses. You must choose the organization chart based upon multiple factors like the business hierarchy, employee empowerment, interaction, and innovation. The wrong kind of organizational chart will make all the effort worthless as it won't be effective.

Open Boundary Structures (Hollow, Modular Virtual And Learning)

More recent trends in structural forms remove the traditional boundaries of an organization. Typical internal and external barriers and organizational boxes are eliminated, and all organizational units are effectively and flexibly connected. Teams replace departments, and the organization and suppliers work as closely together as parts of one company. The hierarchy is flat; status and rank are minimal. Everyone—including top management, managers and employees—participates in the decision-making process. The use of 360-degree feedback performance appraisals is common as well.

Advantages of boundary-less organizations include the following:

- Ability to leverage all employees' talents.

- Faster response to market changes.

- Enhanced cooperation and information sharing among functions, divisions and staff.

Disadvantages include the following:

- Difficulty in overcoming silos inside the organization.

- Lack of strong leadership and common vision.

- Time-consuming processes.

- The possibility of employees being adversely affected by efficiency efforts.

- The possibility of organizations abandoning change if restructuring does not improve effectiveness quickly.

Boundary-less organizational structures can be created in varied forms, including hollow, modular and virtual organizations.

Hollow organizations. Hollow structures divide work and employees by core and noncore competencies. Hollow structures are an outsourcing model in which the organization maintains its core processes internally but outsources noncore processes. Hollow structures are most effective when the industry is price competitive and choices for outsourcing exist. An example of a hollow structure is a sports organization that has its HR functions (e.g., payroll and benefits) handled by outside organizations.

Advantages of this type of structure include the following:

- Minimizing overhead.

- Enabling the organization to focus on its core product and eliminating the need to develop expertise in noncore functions.

Disadvantages include:

- Loss of control over functions that affect employees regularly.

- Restriction by certain industries (e.g., health care) on the extent of outsourcing.

- Lack of competitive outsourcing options.

Modular organizations. Modular structures differ from hollow organizations in that components of a product are outsourced. Modular structures may keep a core part of the product in-house and outsource noncore portions of the product. Networks are added or subtracted as needs change. For a modular structure to be an option, the product must be able to be broken into chunks. For example, computer manufacturer Dell buys parts from various suppliers and assembles them at one central location. Suppliers at one end and customers at the other become part of the organization; the organization shares information and innovations with all. Customization of products and services results from flexibility, creativity, teamwork and responsiveness. Business decisions are made at corporate, divisional, project and individual team member levels.

Advantages include the following:

- Minimizing the specialization and specialists needed.
- Minimizing overhead.
- Enabling the company to outsource parts supply and coordinate the assembly of quality products.

Disadvantages include concerns about the actions of suppliers outside the control of the core management company. Risk occurs if the partner organization removes itself form the quality check on the end product or if the outsourced organization uses a second outsourced organization. Examples of supplier concerns include the following:

- Suppliers, or subcontractors, must have access to—and safeguard—most, if not all, of the core company's data and trade secrets.
- Suppliers could suddenly raise prices on or cease production of key parts.
- Knowing where one organization ends and another begins may become difficult.

Virtual organizations. A virtual organization (sometimes called a network structure) is cooperation among companies, institutions or individuals delivering a product or service under a common business understanding. Organizations form partnerships with others—often competitors—that complement each other. The collaborating units present themselves as a unified organization.

The advantages of virtual structures include the following:

- Contributions from each part of the unit.
- Elimination of physical boundaries.
- Responsiveness to a rapidly changing environment.
- Lower or nonexistent organizational overhead.
- Allows companies to be more flexible and agile.
- Give more power to all employees to collaborate, take initiative, and make decisions.
- Helps employees and stakeholders understand workflows and processes.

The disadvantages of virtual organizations include the following:

- Potential lack of trust between organizations.

- Potential lack of organizational identification among employees.

- Need for increased communication.

- Can quickly become overly complex when dealing with lots of offsite processes.

- Can make it more difficult for employees to know who has final say.

Virtual structures are collaborative and created to respond to an exceptional and often temporary marketing opportunity. An example of a virtual structure is an environmental conservancy in which multiple organizations supply a virtual organization with employees to save, for example, a historic site, possibly with the intent of economic gain for the partners.

Understanding the organizational environment is crucial in open boundary models. For example, some industries cannot outsource noncore processes due to government regulation. (For example, health insurance organizations may be unable to outsource Medicare processes). Or, in some cases, outsourcing may have to be negotiated with a union.

The key to effective boundary-less organizations is placing adaptable employees at all levels. Management must give up traditional autocratic control to coach employees toward creativity and the achievement of organizational goals. Employees must apply initiative and creativity to benefit the organization, and reward systems should recognize such employees.

Learning organizations. A learning organization is one whose design actively seeks to acquire knowledge and change behavior as a result of the newly acquired knowledge. In learning organizations, experimenting, learning new things, and reflecting on new knowledge are the norms. At the same time, there are many procedures and systems in place that facilitate learning at all organization levels.

The advantages of learning organizations include the following:

- Open communication and information sharing.

- Innovativeness

- Ability to adapt to rapid change.

- Strong organizational performance.

- Competitive advantage.

The disadvantages of learning organizations include the following:

- Power difference is ignored.

- Process of implementing will be complicated and take longer.

- Fear of employee participation in organizational decisions.

- Breaking of existing organizational rules.

The Informal Organization

Up to this point, we have focused on formal organizational structures that can be seen in the boxes and lines of the organization chart. Yet many important relationships within an organization do not show up on an organization chart. Nevertheless, these relationships can affect the decisions and performance of employees at all levels of the organization.

The network of connections and channels of communication based on the informal relationships of individuals inside the organization is known as the informal organization. Informal relationships can be between people at the same hierarchical level or between people at different levels and in different departments. Some connections are work-related, such as those formed among people who carpool or ride the same train to work. Others are based on non-work commonalties such as belonging to the same church or health club or having children who attend the same school.

The informal organization has several important functions. First, it provides a source of friendships and social contact for organization members. Second, the interpersonal relationships and informal groups help employees feel better-informed about and connected with what is going on in their firm, thus giving them some sense of control over their work environment. Third, the informal organization can provide status and recognition that the formal organization cannot or will not provide employees. Fourth, the network of relationships can aid the socialization of new employees by informally passing along rules, responsibilities, basic objectives, and job expectations. Finally, the organizational grapevine helps employees to be more aware of what is happening in their workplace by transmitting information quickly and conveying it to places that the formal system does not reach.

Informal Communication Channels

The informal channels of communication used by the informal organization are often referred to as the grapevine or the rumor mill. Managers need to pay attention to the grapevines in their organization, because their employees increasingly put a great deal of stock in the information that travels along it, especially in this era of social media. A recent survey found that many business leaders have their work cut out for them in the speeches and presentations they give employees. Survey participants were asked if they would believe a message delivered in a speech by a company leader or one that they heard over the grapevine. Forty-seven percent of those responding said they would put more credibility in the grapevine. Only 42 percent said they would believe senior leadership, and another 11 percent indicated they would believe a blend of elements from both messages. Perhaps even more interesting is how accurate employees perceive their company grapevine to be: 57 percent gave it favorable ratings. "The grapevine may not be wholly accurate, but it is a very reliable indicator that something is going on," said one survey respondent.

With this in mind, managers need to learn to use the existing informal organization as a tool that can potentially benefit the formal organization. An excellent way of putting the informal organization to work for the good of the company is to bring informal leaders into the decision-making process. That way, at least the people who use and nurture the grapevine will have more accurate information to send it.

Smart managers understand that not all of a company's influential relationships appear as part of the organization chart. A web of informal, personal connections exists between workers, and vital information

and knowledge pass through this web constantly. Using social media analysis software and other tracking tools, managers can map and quantify the normally invisible relationships that form between employees at all levels of an organization.

The Impact of Growth Stages on Organizational Structure

Organizations typically mature in a consistent and predictable manner. As they move through various stages of growth, they must address various problems. This process creates the need for different structures, management skills and priorities.

The four stages of development in an organization's life cycle include the following:

Startup
The beginning stage of development is characterized by an inconsistent growth rate, a simple structure and informal systems. At this stage the organization is typically highly centralized. "Dotcom" companies are a good example of startup companies.

Expansion
The expansion stage is evidenced by rapid, positive growth and the emergence of formal systems. Organizations at this stage typically focus on centralization with limited delegation.

Consolidation
The consolidation stage is characterized by slower growth, departmentalization, formalized systems and moderate centralization.

Diversification
The diversification stage occurs when older, larger organizations experience rapid growth, bureaucracy and decentralization.

As an organization grows or passes from one stage of development to another, carefully planned and well-conceived changes in practices and strategies may be necessary to maximize effectiveness. There are no guarantees that an organization will make it from one stage to the next. In fact, a key opportunity for leadership is to recognize indicators that suggest an organization is in a risky or unhealthy stage and to make appropriate structural adjustments.

Metrics

The art of organizational design is assessing the environment's essential aspects and their meaning for the organization's future. Translating those characteristics into the right structure is critical to increasing efficiency and controlling costs. When selecting the best structure for the organization, company leaders should examine and evaluate current key structural dimensions and contextual factors.

STRUCTURAL DIMENSIONS

Leaders can develop an understanding of the organization's internal environment through

measurement and analysis of its structural dimensions. Key dimensions, which are usually measured through a survey, include:

Specialization. The extent to which an organization's activities are divided into specialized roles.
Standardization. The degree to which an organization operates under standard rules or procedures.
Formalization. The extent to which instructions and procedures are documented.
Centralization. The degree to which leaders at the top of the management hierarchy have authority to make certain decisions.
Configuration. The shape of the organization's role structure, which includes:

- *Chain of command.* The number of vertical levels or layers on the organizational chart.

- *Span of control.* The number of direct reports per manager or the number of horizontal levels or layers on the organizational chart.

CONTEXTUAL FACTORS

A review of contextual factors will provide a better understanding of the external environment and the relationship between the internal and external environment. Some of the significant contextual factors to consider in this review include:

Origin and history. Was the organization privately founded? What changes have occurred in ownership or location?

Ownership and control. Is the organization private or public? Is control divided among a few individuals or many?

Size. How many employees does the organization have? What are its net assets? What is its market position?

Location. How many operating sites does the organization maintain?

Products and services. What types of goods and services does the organization manufacture and provide?

Technology. Are the organization's work processes effectively integrated?

Interdependence. What is the degree to which the organization depends on customers, suppliers, trade unions or other related entities?

After examining the structural dimensions and contextual factors and developing an understanding of the connection between an organization's structure and strategy, organization leaders can consider alternative structures. They may use diagnostic models and tools to guide the design process.

Communications and Technology

The last few years have seen an unprecedented expansion and improvement of online

communication. Software has pushed the boundaries of workplace communication beyond e-mail into collaborative social media platforms and innovative intranets. The decline in traditional communication methods and the dramatic increase in cyber communication has had a major impact on the workplace and is leading to restructuring.

As organizations continue to restructure to remain competitive, communications can drive the transition to an effective new organizational structure. Research suggests that companies can positively affect their credibility with employees through various organizational communication programs.

In establishing internal communication channels, leadership must be aware of the advantages and shortcomings of communication technologies and match them to the organization's needs, strategic goals and structure. Employers should also be cognizant of, and be prepared to deal with, the common communication challenges in various organizational structures. For example, communications technology has enabled organizations to create virtual workplaces and teams. In a virtual team, members from various geographical locations work together on a task, communicating via e-mail, instant messaging, teleconferencing, videoconferencing and web-based workspaces. Although virtual teams have significant advantages—most notably reduced travel costs and flexibility in staffing and work schedules—they also pose challenges. Virtual teams often find coordinating team logistics and mastering new technologies difficult.

Communication is also a major challenge because of the absence of visual (body language) and verbal (intonation) clues. Research suggests that organizations can overcome these challenges through effective support and training.

Global Issues

Organizational structures often need to change as companies expand around the globe. An organization's leaders should plan carefully before opening offices in another country.

Many issues arise when an employer plans to open an international branch, hire international workers and formulate a globalized strategy. Among the questions that must be answered are:

- How do human resource legal requirements and practices vary from country to country?
- Should HR officials at headquarters do the work, or should a company open HR offices in the other country?
- Should an organization hire consultants to handle local hiring and personnel services?

Unless employers have a sound HR strategy ready before leaping into another country, they could fail.

When an organization opens international offices, HR professionals and other business leaders should be able to communicate as effectively with workers across the globe as around the corner. That can be a challenge. Having a robust intranet and using videoconferencing are alternatives to face-to-face communication.

As rapid changes in technology affect global communication, employees must be aware of linguistic, cultural, religious and social differences among colleagues and business contacts.

The organization should train all employees (not just managers and CEOs who travel) in cultural literacy.

Moreover, employers should be aware that language difficulties, time-and-distance challenges, the absence of face-to-face contact, and, above all, the barriers posed by cultural differences and personal communication styles make global virtual work far more complex than local structures. These practices can enhance global virtual team relationships:

- Using online chats, video- and audioconferencing in addition to one-on-one conversations and e-mail.

- Posting profiles of team members that outline their expertise and roles in the organization.

- Being sensitive to the level of engagement team members are likely to deliver if they must meet at inconvenient hours across multiple time zones.

Legal Issues

Regardless of the type of structure, employers must ensure compliance with legal requirements in the countries where their organizations operate. Some of those requirements will be quite extensive (for example, public companies must ensure compliance with the Sarbanes-Oxley Act, and most organizations must ensure compliance with the Fair Labor Standards Act and its related state laws). When organizational structures change, or if the chain of command is weak or fails to keep up-to-date with changes in the business, a company may have compliance problems because the structure has not been evaluated with regard to these laws. Imagine, for example, a restructuring that reduces the number of direct reports for an entire layer of management, which perhaps leads to those individuals no longer being exempt.

As an organization moves internationally, laws in the host countries must also be evaluated and a plan put in place for compliance before the expansion occurs. Employers must anticipate and plan for laws affecting all aspects of the employee experience, including hiring, benefits, leaves and termination.