Chap 3: Organizational Structure

- Organization versus Structure
- Theories of contingency approach
  - Internal and external factors
  - A typology of organizations (Mintzberg)
- Types of organizational structures
  - Functional organization (U-form)
  - Divisional organization (M-form, H-form)
  - Matrix organization (matrix-form)
  - Network organization
  - Composite structure examples
  - Formal and informal structure

Five circles model
(Hatch, 1997)
Definitions

• **organization** is a pattern of relationships through which people, under the direction of managers, pursue their common goals

• organizational **structure** is the way in which organization’s activities are divided, organized and coordinated
Theories of contingency approach

Organizational structures are influenced by:
- Internal Variables
  - age
  - size
  - technology
  - strategy
  - coordination
  - Labor division
- External Variables (environment)
  - variability
  - turbulence
  - relativity
  - national culture

Starbuck, Greiner, Stinchcombe
Dale, Blau, Aldrich
Woodward, Perrow
Chandler, Child
Mintzberg
Burns et Stalker
Emery et Trist
Laurence et Lorsch
Hofstede

Chandler

Structure has to match strategy

Multidivisional firm
Diversification
Functional evolved organization
Vertical integration
Unit firm
Geographic expansion
Field unit
Environment’s factors

• Burns and Stalker
  – The Mechanistic Organization
  – The Organic Organization

• Lawrence and Lorsch
  – Differentiation and Integration
  – Three sub-environments

Organization Environment

<table>
<thead>
<tr>
<th>Stable</th>
<th>Dynamic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Stable Demand</td>
<td>1. Changes in Demand</td>
</tr>
<tr>
<td>2. Unchanged set of competitors</td>
<td>2. Changes in the nature of competition</td>
</tr>
<tr>
<td>3. Evolutionary technological innovation and new product developments</td>
<td>3. Revolutionary technological innovation and new product development (R&amp;D)</td>
</tr>
<tr>
<td>4. Government policies change little over time</td>
<td>4. Quickly evolving government policies</td>
</tr>
</tbody>
</table>
**Burns and Stalker**

<table>
<thead>
<tr>
<th>Mechanistic - <strong>RIGID</strong></th>
<th>Organic - <strong>FLUID</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• specialization and fragmentation of tasks</td>
<td>• coordination of tasks to achieve a common goal</td>
</tr>
<tr>
<td>• hierarchic structure of control</td>
<td>• continuous re-definition of responsibilities</td>
</tr>
<tr>
<td>• knowledge vertical flow through hierarchy</td>
<td>• lateral flow of knowledge</td>
</tr>
<tr>
<td>• loyalty and obedience to the superior</td>
<td>• knowledge dictate authority center</td>
</tr>
<tr>
<td>• instructions and decisions</td>
<td>• information and advice</td>
</tr>
<tr>
<td>• prestige due to job titles</td>
<td>• prestige due to expertise</td>
</tr>
</tbody>
</table>

**Mechanistic and Organic Organization**

- **Mechanistic**:
  - Specialization&Tall Hierarchy
  - Centralized Decision Making
  - Knowledge at the top of the pyramid
  - Employees – procedure oriented

- **Organic**:
  - Flat structure
  - Decentralized decision making
  - Knowledge locates everywhere
  - People – goal oriented
Lawrence and Lorsch (1969)

- Differentiation
  - Different organizational functions deal with distinct segments of environment
  - People in different functions develop unique perspectives and orientations

- Integration
  - Functional activities are coordinated and controlled to achieve goals of organization
  - Vertical and horizontal coordination

Sub-Environment

- The market sub-environment
  -- Marketing function
- The technical-economic sub-environment
  -- Production function
- The scientific sub-environment
  -- Research and Development
Functional Sub-Structure

- **Production**
  Short time horizon, stable environment, rules and procedures

- **Research and development**
  Long time horizon, unstable situation, fluid and organic

- **Marketing**
  Between these two extremes

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Comparative Study

<table>
<thead>
<tr>
<th>Industry</th>
<th>Environment</th>
<th>Differentiation</th>
<th>Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plastics Industry</td>
<td>Dynamic</td>
<td>High</td>
<td>Permanent lateral integration mechanism</td>
</tr>
<tr>
<td>Consumer Food Industry</td>
<td>Medium</td>
<td>Medium</td>
<td>Rules and centralized decision making; Lateral integration sometimes can be found</td>
</tr>
<tr>
<td>Containers Industry</td>
<td>Stable</td>
<td>Low</td>
<td>Rules and centralized decision making</td>
</tr>
</tbody>
</table>
WS2 Contingency Factors

Questions on contingency factors

– How old is your organization?
– What is its size?
– How could you characterize technologies used?
– What is the status of the environment (stable or unstable, rate of change)?
– What are the nature of the tasks (repetitive or differentiated)?
– How would define the division of labor? (specialization into single tasks, differentiated tasks)
– How would describe the ways the members of your organization coordinate their respective tasks? How activities of each members are integrated to produce common goals?

Questions on internal dynamics between members

– Could you define different types of staff and personnel inside the organization? What are their main role regarding the organization?
– Taking into account difference between formal authority, power and leadership, would you consider that specific groups of staff or personnel are in a "better position" regarding the whole organization? Are they in position to impose their views? On which matters?
– Do conflicts or potential conflicts exist ? On which? What are the most frequent type of conflicts? How are they solved? Which groups are concerned?
ways of coordination
• mutual adjustment
• direct supervision
• process standardization
• results standardization
• competences standardization

Mintzberg H. (1939-)
The Structuring of Organizations 1979
Power in and around Organizations 1983
Professional Bureaucracy

Multidivision form

Adhocracy
Types of organizational structures

– functional organization (U-form)
– divisional organization (M-form, H-form)
– matrix organization (matrix-form)
– network organization
– composite structure examples
– formal and informal structure

An organizational chart showing a functional structure
Functional structure (U-Form): advantages & defaults

A+
- efficiency if
  - environmental stability and stable technology
  - career plans policy in each function
  - best specialists at the top of each function

D-
- over-centralization due to the General Direction or/and its staff
- no mobility regarding technology
  - best solution once given a technology
An organizational chart showing a multi-divisional structure

General manager
CEO

Division B
Division A
Division C

ENG  MKG  SALES  FIN  ENG  MKG  SALES  FIN  ENG  MKG  SALES  FIN

Product M-form
CEO
R&D  Marketing
production  Finance
Pharmaceutical products  Hospital products  Personal-care products

Market M-form
CEO
Marketing  production
finance  human Resources
Latin America and Far East  North America  Europe, Africa and Middle East
H-form as specific case of multidivisional structure

CEO

branch food  packing glass  transport

Dry products  Fresh products

Milk & joint products  bakery products

Divisional structure (M-Form and H-form): advantages & defaults

A+

based on strategic segmentation: it allows assessment enterprise position in relation to its market

constructed as profit centers: it allows accountability and responsibility in each center control on same criteria

emergence of generalist senior executives permits:

strategy definition in each segment leaving global strategy to top management
duplication of general direction
no scale economies :
organization aimed at optimization at the level of the division only

no easy transmission of technical competences :
dispersion of specialists in the structure

complex to manage when interdependency between divisions grows
The global matrix

Matrix structure (Matrix-Form) : advantages & defaults

A+

double coordination on functions and products or markets
  vertical coordination allows efficiency in each function
  horizontal coordination allows effectiveness for each product or market
  avoids defaults of U-form and M-form

break the old principles (unity of command, unity of direction)
  insists on collective performance more than on individual performance

introduce some plasticity in the structure
D-
  efficiency and effectiveness linked to the acceptance of multiple management
  new rules are long to implement
necessity of arbitrage
  supremacy stake between functional and divisional departments
  if strong conflict, danger of overflow at direction level
huge cultural shock

Network structure
  • Relatively new
  • Replaces vertical communication and control with lateral relationships
  • Appear when rapid technological changes, shortened product life cycle, fragmented markets
  • Result of outsourcing or collaboration
  • Limit : virtual organization
Spider

Toyota and subcontractors

Hub

Dell
Benetton
Network structure: avantages & disavantages

A+
- Allows rapid growth
- Flexible
- Efficient if control (Ouchi: market, bureaucracy, clan)
- Common branding

D-
- Rapid decline too
- Danger if loss of control
- Common image may be difficult to share
Composit structures
existing structures
under specific conditions
internal growth
partial diversification
process of international expansion

U-Form internationalization

CEO
Direction subsidiary 1   Direction subsidiary 2
Production   Sales   Export   Finance

M-form internationalization

CEO
Direction subsidiary 1   Direction subsidiary 2
Division product A   Division product B   Division product C
Matrix-form internationalization
Product strategy dominant

CEO

Division product A
Division product B
International Division

Domestic
International

Zone X
Zone Y

Subsidiary country X
Subsidiary country Y

Product A
Product B

Coordination

Anne Drumaux     Management § Organization
Solvay Business School

Matrix-form internationalization
Country strategy dominant

CEO

Product A
Product B
International direction non-operational

Subsidiary A country Y
Subsidiary A country X
Subsidiary B country X
Country X
Country Y

Coordination
Formal & informal structure

Interpersonal relationships makes the informal organizational structure

H. Simon: « interpersonal relationships in the organization that affect decisions within it but either are omitted from the formal scheme or are not consistent with it »

C. Barnard: informal relationships help organization members to satisfy their social needs and get things done

P. Selznick: « operative system » is the result of both formal and informal structure