Lecture - 37
Organizational structure and Design (Contd.)

Welcome, today we will continue with our discussion on organizational structure and design. In the last class, we have discussed about what is structure, and like structure is the anatomy of the organization. We have also discussed, what are the different types of structures possible, and we have also discussed about the key elements in structure, along with like what are the variables affecting structure; like technology, like environment, like the strategy of the organization so on and so forth. Today we are going to continue with the structure effectiveness relationship, and some researches on previous researches on organizational structure. And also we will try to see, like what are the major challenges of organizational design in this lecture. In the next lecture we are trying to see some of the design options, along with like Indian organizations, and how they are function, and empowerment in organizations, and the cultural effects in the Indian organizations. Like, when we are talking of effectiveness of structure, structure and its relationship to effectiveness.

We have to understand, like structures, like similar to that of organizations are also goal oriented, and they are purposive in nature. So, structure should be focused towards the organizational effectiveness. So, sometimes what happens, people do not understand the structure in a scientific way. They try to interpret structure based on their own understandings, and taking cues from the things present around them, and they form their own perception, about the structure. These are called implicit models of structure, based on one's own understanding about what a structure is, and putting own judgments into it, and not following like, what exactly the process of structure should be based on scientific feedback; that is called implicit model of structure. When visiting some of the earlier research findings on structure relationship with effectiveness, and trying to see how it affects, the structure affects the behavior of the structure, or the design affects the behavior of the employees in the organization. We get to see two very important studies which are called Lawrence and Lorsch studies, and Burn and Stalker study on issues of, like organization designing. So, here we will try to visit those two studies; first along

with the other research findings that are obtained when we are talking of organizational design, and its effect on employee behavior.

(Refer Slide Time: 04:17)

What we get to see over here is, like the research findings is work specialization, contributes to higher employee productivity, but it reduces job satisfaction. The benefits of specialization have decreased rapidly, as employees seek more intrinsically rewarding jobs. The effect of span of control on employee performance, is contingent upon individual differences and abilities task structure and other organizational factors. Participative decision making in decentralized organizations, is positively related to job satisfaction. So, this benefits of specialization decreasing rapidly, as employees seeking more intrinsically rewarding jobs. This we have discussed earlier in the earlier class, as we find like, if the jobs are too much specialized in nature, then employee do not get a holistic idea of how to do the job, what is the meaningfulness of this job, how it is contributing towards the total organizational functioning. As a result it may lead to stress and boredom, and loss of connectivity with the main purpose of the organization. So, this can be less rewarding, and lead to less productivity, as sometimes employees seek jobs, which are intrinsically more rewarding more challenging in nature, from which they are able learn something new.

The effect of span of employee behavior as you have seen, is also dependent on, like the thing, like when. It is dependent on the ability of the employee, and the competence of

the employee. If the employee is able enough, is competent enough to take decisions, to decide about things to do, to know how to do the things differently, then the span of control could be large, because one to one supervision, one to one guidance is may be not required, because employees are matured enough to think in their own way, but when that is not. The situation, or the task structure is too much complex, which requires one to one guidance, may be then the span of control is less, as compared to when the task structure is simple, or routine in nature. When organizational decision making is decentralized, then participative management, employees participating in the decision making process leads to better job satisfaction. So, these are some of the research findings as far as organizational design, and employee behavior is concerned. Next we will move to the Laurence and Lorsch studies, which we talked about differentiation and integration and its effect on environment, and how these factors affect, design process of the organization.

(Refer Slide Time: 08:01)

Here we try to see Lawrence and Lorsch, they investigated, how companies in different industries differentiate, and integrate their structures to fit the environment. So, when we are talking of differentiation and integration, then it may appear to be like two oppositely acting thing. Once we are trying to differentiate into small jobs and then we are again trying to integrate it together. So, how to balance it, based on and the, what is the nature of the environment. So, what we found is that, when environment is perceived as more unstable and uncertain, so what happens, to deal with that effective organizations are

formalized, more decentralized, and rely on mutual adjustment, because when the environment is unstable, uncertain, then we do not have a set procedure of understanding, how to react to this uncertainties. There is no set formula for it.

As a result when there is no set formula, and roles for deciding like that, like how to act in certain ways, in conditions of environment which is like, may be known to us. So, what happens in this condition of uncertainty, and unstable environment. The effective organization tend to be less formalized, more decentralized, and rely more on mutual adjustment. When environment is perceived to be like stable and certain, so what are the challenges, and how it what will be the outcome, and how it is to be made, when. All these things are known, then effective organizations are more centralized, centrally defined roles and procedures, which is applicable throughout the organization, decision making is centralized in nature, because we do not get any uncertainty from special pockets of the environment, throughout which the, with throughout geography which are organization is spread, and formalized structure. So, this was Lawrence and Lorsch's finding about the relationship of differentiation and integration, and environment, and how it affects the design of the organization.

(Refer Slide Time: 10:56)

Next, we move on to a study by Burns and Stalker, which talks of the relationship of uncertainty, differentiation and integration. So, accordingly like it tells, like when degree of uncertainty, in terms of complexity of the environment. The dynamism and the

environment, and the richness of the environment is high. It is need to high degree of departmental differentiation, and cross functional integration. So, environmental uncertainty and structure; organizations need different kinds of structures to control their activities based on the environment, unstable and changing environment. In unstable and changing environment, organizational structures are more organic in nature. So, organic structure is a complex structure with high differentiation, high integration, decentralized decision making mutual adjustment.

When it is a stable environment, centralized formalized, and standardized mechanistic structures are more effective. Mechanistic structures are simple structures, with low differentiation, low integration centralized decision making, and standardization. So, what we find over here, is like the degrees of uncertainty, in terms of the, like when you are talking of capacity, volatility, or complexity of the environment. Capacity; in the terms of, whether the resource is scarce or abundant in nature. In the degrees of volatility, in terms of whether it is environment is stable, or dynamic in nature. And complexity in terms of, whether it is simple and complex in nature. All these will define, whether the degrees of department differentiation and cross functional integration. And we find, like in a more dynamic complex, and scarce environment. Organic structure is the answer, and in more simple then stable and abundant environment, mechanistic structure is the answer to it.

(Refer Slide Time: 13:57)
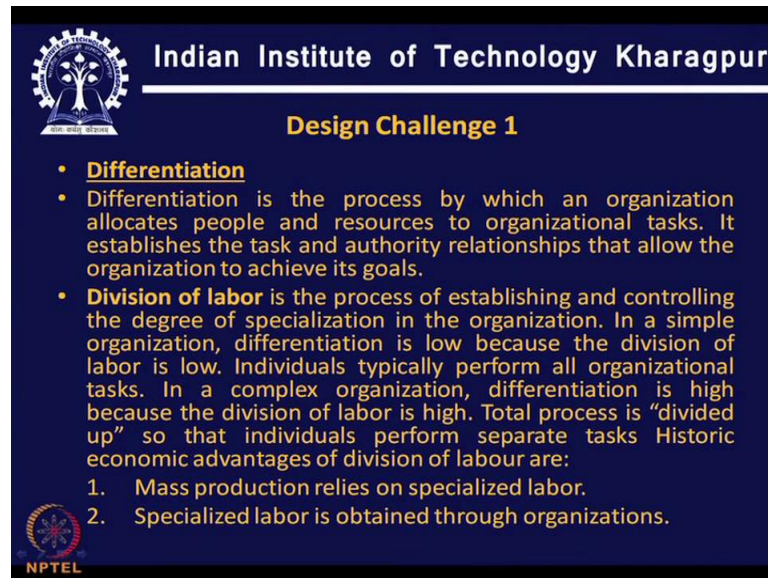
The decisions to be made, while designing an organization are, like how to divide the task into successively smaller jobs. So, what we can do, is we can divide it into smaller sets of similar jobs, and also into specialized activities and responsibilities. So, that is how we define, the first is how to define divide a job into smaller units. So, either u take as units, like smaller sets of related activities, or we take as specialized activities and responsibilities. How to, like when you are talking of how to distribute authority, it is like, what is authority, is the right to make a decision, without higher approval. Like we do not have to take the higher authorities approval of for making certain decisions, so that is authority. Authority is also defined by the ability to control the behavior of others and right to extract obedience from others.

And when we are talking of, like which jobs to be grouped together, and what is the appropriate size of the group. Like what will be the span of control, what will be the number of people, who will be working together as pairs, which types of jobs will be grouped together. These are some of the questions which are relevant for, while we are talking of designing an organization. When we are talking of thinking of organizational design, it is faced by certain challenges, which are called design challenges. Now we will try to find out some of these design challenges, and how to deal with those challenges. One of the design challenges, the first of the design challenges, is differentiation. So, we will try to see first is differentiation, and when you are talking of Differentiation what we mean by division of labor, what is meant by vertical differentiation; horizontal differentiation, and will try to find out issues regarding it.

(Refer Slide Time: 16:46)

So, first design challenge is of course, differentiation. So, differentiation is the process by which an organization allocates people and resources to organizational tasks. It establishes task and authority relationship, that allow the organization to achieve its goal. So, what we do is, we divide the task into, like organization. There are certain tasks and what we do is, allocate people and resources to that task. And so what it establishes, like the authority relationship task relationship, then which allows the organization to achieve its goal. Division of labor is the process of establishing and controlling the degree of specialization in the organization. So, what happens in a simple organization the differentiation is low, because the division of labor is low. So, what happens here individuals typically perform, all organizational tasks, because there, we can understand.

So, because there are less number of employees, its small organization, there are less number of employees. So, one employee there is, have to perform different tasks, and there is less of like specialization in it. So, when the organization becomes complex in nature, there are more employees added to it. The task also gets complex in nature, as a result what happens, like the division of labor takes place, as the differentiation is high, because of the division of labor is high, division of labor takes place and they are taken in for doing specialized, separate task with, like specialized type of task, because of this complexity of the job situation in the organization. So the advantage of this is; like mass production relies on specialized (( )). So, if we are doing some repetitive task, and with less of variations in it, so what happens, if it is a specialized labor like focusing on each

portions of the thing, then it helps in mass production, and specialized labor is obtained through organizations.

(Refer Slide Time: 20:02)

What are the different building blocks of differentiation, if you want to see. The four building blocks of differentiation, are organization, division, function and role. So, when we are talking of organizational level, there are two types of differentiation; vertical differentiation, and horizontal differentiation. Vertical differentiation is the way an organization designs its hierarchy of authority, and creates reporting relationships to link organizational roles and subunits. So, how employees are place in the hierarchy, who reports to whom, all this like, and what is the then authority how it is designed at each level of the organization. These are parts of vertical differentiation. When we are talking of horizontal differentiation, it is the way in which organization groups task into roles and roles into subunits.

So, like what are the things, which are there at the similar level in the organization. Organization and roles are a set of task related behaviors required of a person by his or her position, in an organization, as the division of labor increases manager specialized in some roles, and hire people to specialize in others. Specialization allows people to develop their individual abilities and knowledge within their specific role. The identification of role leads to authority and control issues. So, what we do over here, we it is a set of roles that we task related activities that are created; like these required of a

person in his position, and these are first defined properly task related behaviors. Then as the division of labor increases, more and more people join you have more number of manpower.

Manager specialized in some roles, and hire people to specialize in others. So, specialization allows one employee to become expert in that particular domain. The identification of roles with their roles, become a supercentre for authority and control issues. Authority is the power to hold people accountable for their actions, and to make decisions concerning the use of organizational resources. So, the power it is a legitimate power given by the organization, to hold people responsible for their actions, and to make decisions concerning, like how to use organizational resources. Control is the ability of the organization to coordinate, and motivate people to work in the organization's interest. So, these are four major blocks, building blocks of, like differentiation.

(Refer Slide Time: 24:09)

How differentiation is done, how the different units are formed, are like it is called, based on like functions and divisions. Function is 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. So, function, it you can think of their similar type of people who have similar set of skills, use the same kind of knowledge tools and techniques to perform their jobs. And division is a subunit that consist of, division is a

subunit that consist of collection of functions at departments, that share responsibility for producing a particular good or service. So, here what happens. So, in division, under a certain division there are n number of functions, which are grouped together, so that a particular good a services if is developed properly. So, what happens when you putting all the functions under one department, there is good communication collaboration between these functional areas, and holistically they contribute towards the development of the products, and for the organization.

Five function types are; like support functions, which facilitate an organizations control of its relations with environment and stack holders; example, like purchasing sales and marketing, public relations and legal effects. Product functions, is the manage and improve the efficiency of an organization conversion process, so that more value is created, example production, operations, production control, and quality control. Third function is that of maintenance function, is where an enable an organization, to keep its departments in operation like personal engineering and janitorial services. Adaptive functions is to follow an organization to, sorry allow an organization to adjust to changes in environment, example research and development, market research and long range planning. Managerial function is to facilitate the, control and coordination of activities within and among departments; top management, middle management, and lower management. These are the five function types, when you are talking of, like differentiation.

(Refer Slide Time: 27:50)

Indian Institute of Technology Kharagpur

Departmental Bases are the reasons for grouping certain tasks. It refers to grouping of tasks and is necessary for coordination.
Departmentalization bases
1. **Functional Departmentalization**
a. Divisions based on function.
b. Advantage—efficiency.
c. Disadvantage—organizational goals may be sacrificed in favor of departmental goals.
2. **Territorial departmentalization**
a. Divisions based on geographical area.
b. Helpful in large organizations where centralization is difficult.

So, departmental basis are the reasons for grouping certain task. It refers to grouping task, and it is necessary for coordination. So, functional departmentation and divisions based on functions. The advantages that of efficiency, disadvantage is organizational goals, may be sacrificed in favor of departmental goals, and territorial departmentalization; like division is based on geographical area, helpful in large organizations, where centralization is difficult. So, first of this departmentalization technique, is functional departmentalization. Next is, like when you are talking of product departmentalization.

(Refer Slide Time: 29:03)

Product departmentalization; the division is based on product line, it is helpful in like large diversified components. What happens over here, is the manager is developed in his developing experience in, or expertise in many areas. The disadvantage is, there could be some redundancy, because each product line has its own research, and engineering, and marketing. Customer departmentalization, in this departmentalization, there is division is based on customer groups or clients, and better able to satisfy customer needs. And we have mixed and changing departmentalization, where organizations use a mix of basis at different levels, organizations will change department basis over time, as conditions change. These are mixed and changing departmentalization. Next we move on to the design challenge two, which is the again balance that we have to do, between a differentiation and integration, because as we told

earlier differentiation and integration are sometimes understood as two oppositely acting forces and terms.

(Refer Slide Time: 31:13)

So, design challenge two is balancing differentiation and integration. Horizontal differentiation is supposed to enable people, to specialize and become more productive. However, this specialization may limit the communication between subunits, as people develop subunit orientation. Subunit orientation is a tendency to view one's role in a time frame, goal and interpersonal orientation of one subunit. Integration is the process of coordinating various tasks functions, and divisions is the process of coordinating various task functions division, so they work together and are not at cross purposes. So, like how we do it. We know on one side there is differentiation, which may develop in people some reservations to share, so more orientation toward their own group. And on the other side we are also talking of integration, which means like finding something common, and people coordinate between the task and, so they get to work together and not at cross purposes. Now challenge is to blend these concepts together.
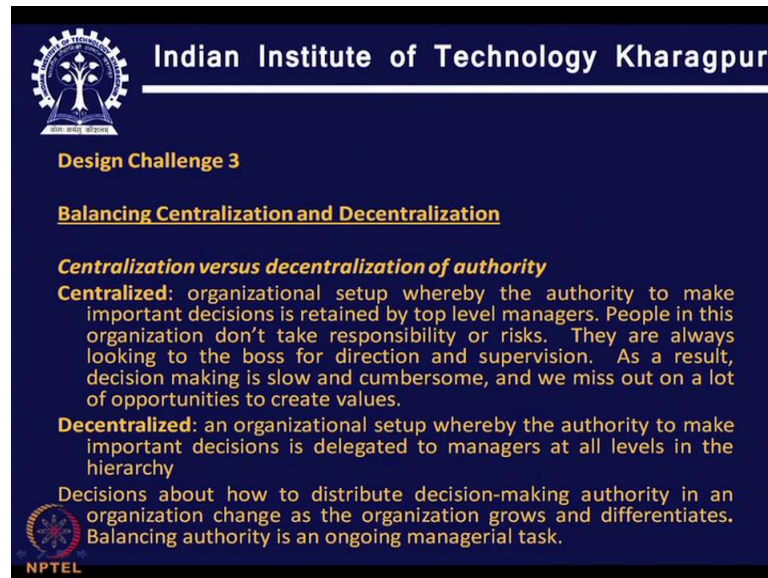
(Refer Slide Time: 33:09)

Seven types of integrating mechanisms are; like hierarchy of authorities in the sense who reports to whom, and next is like direct contact, in the sense managers meet face to face to coordinate activities. Liaison roles is a specific manager is given responsibility for coordinating his managers, from other subunits and behavior on behalf of their own subunits. The task forces is, where managers meet in temporary committees to coordinate cross functional activities. Teams; where managers meet regularly in permanent committees to coordinate activities. Integrating role is a new role in established to coordinate, activities of two or more functions or departments.

So, integrative department is a new department that is created to coordinate the activities of the functions or divisions. So, these are seven types of integrity integration, seven types of integration mechanism. Challenge is how to balance the differentiation and integration. What can be done over here, is the challenge is how to face make managers face the challenge of balancing these two things together. So, the first is the differentiation should be done very properly, minutely carefully in the sense, to find out what are the competencies in which the people differ, and make them into two separate headings. The two things that are to be done, are in differentiation carefully guide the processes of differentiation, so that it develops core competencies, and that keeps the organization a competitive advantage. And like carefully integrating the organizations, by choosing their mechanisms, by choosing appropriate integration mechanisms, that

allows subordinates to coordinate, and then bind them together, and which builds up the core competency of the organization.

(Refer Slide Time: 36:56)

When we are talking of when we are talking of the when we are talking of design challenge three, then we are trying to balance centralization and decentralization. What is done in centralization, verses decentralization of the authority. In centralized organizations set up, where by the authority to make important decisions is, retained by the top level managers. People in this response organization, do not responsibly or risks. They are always looking for the boss for directions, and supervision. as a result decision making is low, and decision making is low and cumbersome. And it\ is like and it misses out a lot of opportunities to create values, because everything is decide the top level, employees do not get a chance to contribute to tell their own ideas to this problem at hand.

Decentralized is an organizations set up, where by the authority to make important decisions, is delegated to managers at all levels in the organization. Decisions about how to distribute decision making authority, is even organization changes, as organization grows and differentiates. So, how to balance authority is an ongoing managerial task. So, whether to go for all centralized structure, or whether there is a mix of centralized and decentralized structure, these things have to be decided as a part of the designing activity. Then what is the related part of discussion for it, is the delegation of authority.

(Refer Slide Time: 39:45)

Why we are talking of delegation of authority. Every job has a range of alternative configurations of authority, and each has its gain and losses. Advantages of delegation of authority are; develop professional managers, leads to a more competitive climate, managers expressive, it leads to a competitive climate, managers exercise more authority, satisfying their p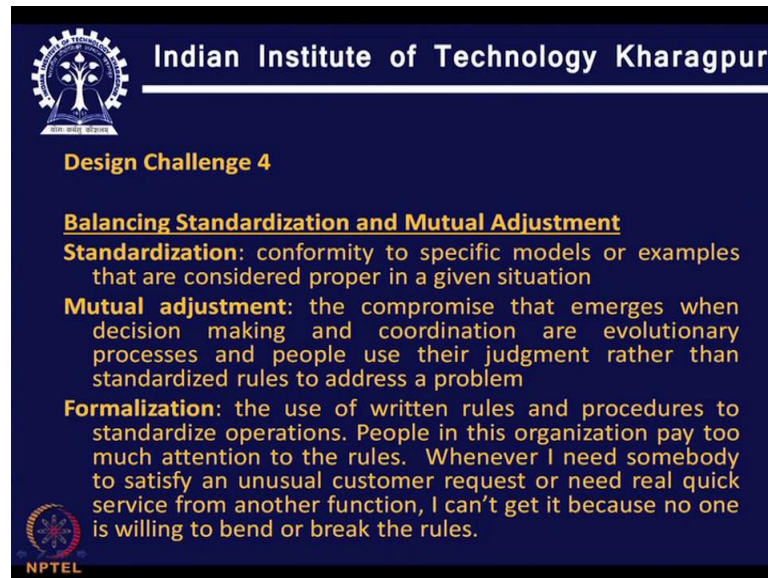roblem solving desires, but there are certain there are certain cause of high delegation of authority; like costly training in decision making may be necessary. Managers do dot delegates to subunits or for fear of losing control. Monitoring systems to evaluate, decision making are expensive to develop in use. So, these are certain thing, which affects the delegation of authority.

(Refer Slide Time: 41:36)

When we are talking of the design challenge four, it is about balancing standardization and mutual adjustment. Then standardization is the conformity to specific models. For example, that are considered to be given in a particular situation. Mutual adjustment is like the compromise that emerges, when decision making and coordination are evolutionary in process, and people use their judgment, rather than standard rules and procedures, to address a particular problem. Formalization is the use of written rules and procedures to standardize operations. People in these organizations pay much attention to the rules. So, what happens over here is, the drawback over here is the, because people pay too much of attention to rules and the procedures. I do not get a service whenever required it, whenever I need somebody to satisfy unusual customer requires, or need like a real quick solutions to problems. Then may be no we do not get this, because no one is ready to bend or break the rules.

(Refer Slide Time: 44:00)

So, what is the major part of this standardization, is the rules and processes, the norms and socialization what we find over here is, rules are formal written statements that specify the appropriate means for reaching desired goals. Norms are standards or types of behavior that are considered to be acceptable for a group of people. And socialization is the process by which, organizational members learn the norms of an organization and internalize this unwritten rules of conduct. So, the challenges faced my managers, is to find a way in find a way of their using rules and norms to standardise the behavior. So, at the same time, managers need to allow for mutual adjustment, to find out discover new and better ways for achieving the goals. So, what can understand from this situation is that, there are various design challenges as we have seen; like design challenge of differentiation, where the main question is, again of how to differentiate into, like whether the organization should be more of vertical in nature, or horizontal in nature.

Again question of, if it is horizontal in nature, what should be the maximum like spread of the organization. If it is vertical in nature then, what is the structure of the organization in the vertical like hierarchy, like how much tall should be the organization, or how much flat the organization should be. When we are talking of differentiation according, like we know like there are five functions of the organization, like supportive functions, then we have like main functions of the organizations, maintenance functions etcetera. So, or if you are talking of, in the sense departmentations which, should we go for departmentation by functions, should we go for departmentations for by products, or

for customers, or we go for territorial departmentation, or we go for according to the mix departmentation.

Again there are, these are challenges, because it is widely interest by the environment in which we are functioning the nature of the task. The challenges found outside the organization, and how it affects the business, and which is the best answer. So, should we stick to one type of departmentation, or we have to change based on the changing conditions. These are again challenging questions of designs; like should we stick to one thing for throughout the, again throughout the organization, or if you have a different like, or it should be different according to the different types of business we are doing or different product lines. So, or should it be similar throughout the time frame, or we need to change that is one question. Third important part is, like when we are talking of differentiating, and integrating these two terms.

Then how to keep a balance between differentiating and integrating, if the organization is too much of like differentiated, then how do we integrate, and do we redefine managerial roles, in terms of including functions like liaison roles to be played, like to assimilate in terms of task forces, to know what other teams are doing or to communicate with each other, so that they get to know like what are different groups doing. So, what we have to think of is first differentiate based on the core competencies that are specifically required for a particular type of job. And then try to again establish certain functions roles, which will act as linking pins between these two different factors, so that each gets to know, how the other group is functioning, so that is again the integrating role. And managers now may be having more the role of integrating, so should it be defined clearly in the managerial role, what training people get for like this integrating roles.

Next is the another concern for the organization is, how to take a balance between centralization and decentralization in the sense, like what decision should be centralized, what decision should be de centralized. So, and if it is decentralized, what is the authority given for making independent decisions, without getting it informed to the central part of the organization, to what level this authority should be given. Now, when we are talking of delegation of authority, like do we. Another question is like who are the types of managers, who would love to delegate authority, and if that the, and should I delegate the authority, and free myself of all responsibility, or delegation of the authority means, like I have to a train that person whom the authority is delegated, so that that

person functions properly. It does not mis-utilise the power, or does not threatened when the authority is delegated to that person, these are questions to be answered, before we talk of design.

Then when we are talking of standardization, and rules formalization, socialization processes is in the organization norms excreta. So, what is the degree of it, that should be there in the organization. So, what would be the defined rules, and what are the defined norms in the organizations, or standards of behavior that are strictly followed. And what is done is, what should be told to the employees as a part of the orientation and socialization, so that they get to know the views of the organization. These are certain ways of, certain important, like challenges like do we want all people to behave in similar way, or we want to them to maintain their individuality, so that some diversity is maintained and the creativity is there in the organization.

And people, like it is just not like they are functioning as pure templates of the organization, but their individuality is there, which creates a heterogeneous group, and they can utilize that diversity for creativity purposes. So, these things we have to differ. (( )) say from here that, it really depends on the situation, and it depends on the vision that the main organization, has the philosophy it nurtures, and the pressures from the environment. the type of people that they have from within, and the type of work that they are doing that, will define their design options, and the structure that the organization is following, like we cannot generalize in cases, for like what will be the structure, and what type of structure or design is going to make people happy and more functioning in the organization, because, people vary in their individual differences, their perceptions, their attitudes their values.

And some people love or is more comfortable with more specialized works some, while others are get bored out of it, some people love autonomy, while others see autonomy as a threat. Then some people are likes to be decide, have that power of decision making loves empowerment, but some people wants to be guided, and that will affect their performance. So, it is not like that all people will be comfortable with working with all types of organizations, or all types of organizations will take in any type of person, and try to fit in them into the relevant structure or design which is there. So, because this is like mutual adjustment of the organizational set up with the persons personal set up, in terms of the his preferences like and dislikes attitudes, personality pattern etcetera.

So, while selection process going for selecting employees, these things these individual differences should be more specifically checked, to know like whether this employee will fit into the particular work environment, that is there, the nature of the work that is there. And the design of the organization that we are working with based on the, like working within the sense, like based on the environmental demands and the nature of task that we are doing, and how that is the culture that is the culture which the organization has been developed. Now if the design is done and the structure is established, then we want to take employees into it. We have to check while taking in employees, are will they be happy working in this set up, or will they gel with their set up or not. Otherwise the performance may be affected.

Thank you.