

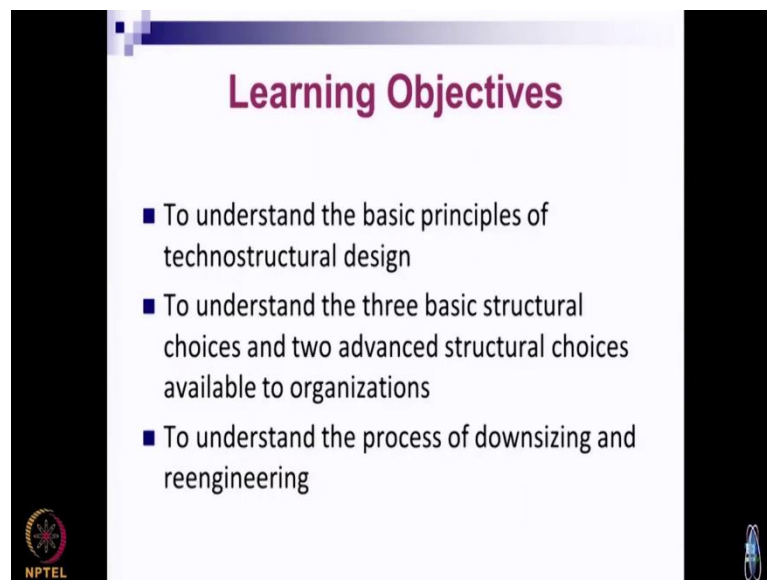
Organization Development and Change in 21st Century
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Lecture – 16
Managing OD and Change through Restructuring Organizations

Today's session is on Organization Development and Change and specifically looks at Restructuring Organizations. You must have seen that many organizations which are of very large sizes, they have operations across the world; you might have heard about the organizations which have operations or factories in dozens of countries and they might be marketing their products in 40, 50, 60, even 80 countries.

So, you might have thought about how these organizations are designed, how the structure of these organizations is decided and if required we have to change the structure, what is the science behind it. What are the things to be taken care of when we restructure any organization.

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Learning Objectives

- To understand the basic principles of technostructural design
- To understand the three basic structural choices and two advanced structural choices available to organizations
- To understand the process of downsizing and reengineering

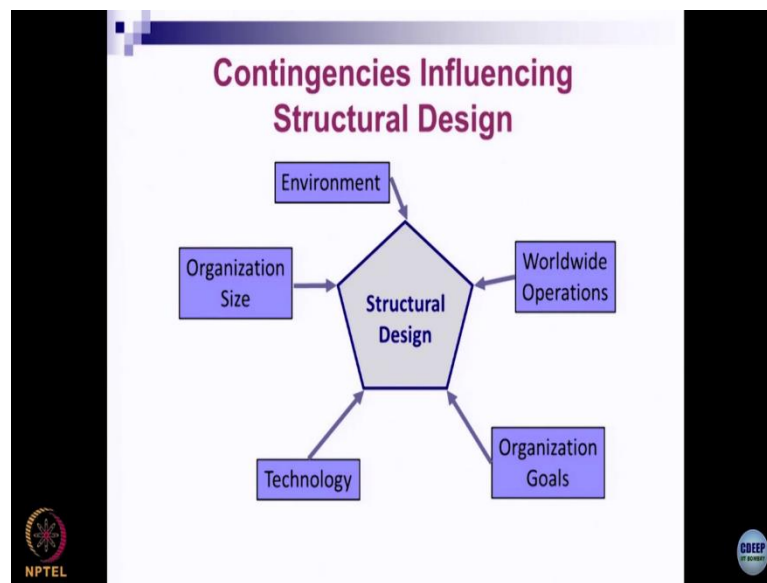
The slide features a white background with a purple gradient header. The title 'Learning Objectives' is in a bold, purple font. The bullet points are in a dark blue font. In the bottom left corner, there is a small circular logo with the text 'NPTEL' below it. In the bottom right corner, there is a small blue icon of a person.

In this session, our learning objectives are to understand the basic principles of technostructural design. What are the basic principles based on which structures are based? Then, we understand the three basic structural choices and two advanced structural choices available to organizations.

There are different types of structures possible. They can be classified in a certain way, which we are going to discuss. Generally, organizations, particularly established organizations, do not have one form of structure. They have a combination of structures, which we are going to discuss.

Then, we will aim to understand the process of downsizing and reengineering and these are the major change initiatives being taken up by organizations from time to time.

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Why the organization structure has to be changed? So, we must understand that a structural design of organization is influenced by many factors: Environmental factors, Worldwide Operations, Organizational Goals, Technology and Organization design. These are the factors because of which organizations have to modify their structural designs. Environment can keep changing. We have seen that from localized trades and businesses to global business operations, this was a major change in the economic environment.

Similarly, political environment can change or other regulatory international trade related environment can change and because of which organizations might have to change their structure.

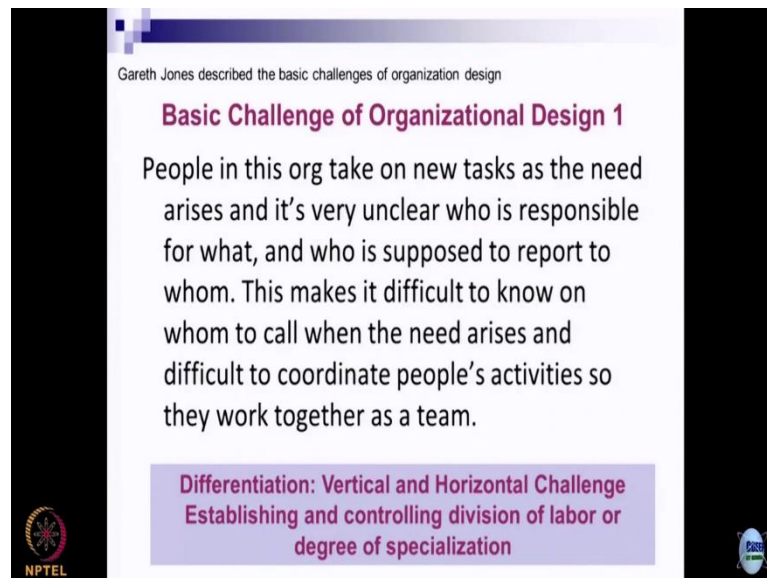
When operations grow worldwide for any organization, they realize that in different parts of the world, different rules and regulations apply; different types of conditions exist, which organizations need to deal with and they have to interact with different stakeholders.

In order to facilitate the smooth process, organizations when their operations reach the global level, they need to modify their design, which is suitable to the area of their operations.

At times organizations goals may also change. At one point of time organizations might be aiming at marketing one type of product; at another point of time organizations may decide to look at different types of product design and different kinds of offerings. In light of those needs many times organization design has to be changed. Another factor is technology. Technology is proving to be one of the strongest factors affecting the organization design. Thanks to IT, thanks to many revolutions in the telecommunication and internet related discoveries, new business models are coming up.

As new business models are coming up, organization design has to be changed and that is how the different types of designs for organization have emerged in the last 10 years. Many times, organization design has to be changed just because of the sheer size of the organization. When operations grow, when the number of departments increase, when the hierarchical levels increase, at times it is necessary to review and redesign the hierarchical levels or the departmental differentiation within the organization.

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Gareth Jones described the basic challenges of organization design

Basic Challenge of Organizational Design 1

People in this org take on new tasks as the need arises and it's very unclear who is responsible for what, and who is supposed to report to whom. This makes it difficult to know on whom to call when the need arises and difficult to coordinate people's activities so they work together as a team.

Differentiation: Vertical and Horizontal Challenge
Establishing and controlling division of labor or degree of specialization

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So, size itself can be the cause for change in organization design. Gareth Jones has studied numerous organizations and identified the four basic challenges of organization design.

These challenges can be understood by looking at certain conditions in organizations. So, this is example number one.

When people in this organization take on new task as the need arises and it is very unclear who is responsible for what and who is supposed to report to whom. This makes it difficult to know on whom to call when the need arises and difficult to coordinate people's activities. So, they work together as a team.

Now, this is a kind of a situation, this is a difficult situation, but this is not a rare situation. Many times, you might have experienced this situation in the organization you are working or in the organization you might have visited as a customer.

So, this is the first type of organization design challenge and this challenge is about differentiation of the vertical and horizontal challenges, establishing the control on division of labour or degree of specialization. In the simple terms, it means the challenge about differentiation. Differentiation in the organization design happens in two ways; hierarchical level differentiation, it means the responsibility of one layer of hierarchy is different from the next level of hierarchy.

How many hierarchical levels need to be created is always an important question to design an effective organization. Similarly, decision about differentiation also needs to be made about the departments of the organization, which is called the horizontal level differentiation. That simply means how many departments an organization can create. You might have seen some organizations starting with simple operations at a lower scale and then growing.

If you can take example of a restaurant in your neighborhood, initially they may start with simply two functions: a front desk function and service function and kitchen function.

But as the restaurant size increases, as the number of customers increase, they can differentiate different functions; like they can introduce a purchase function, front desk function, service function, marketing function, customer relations function, kitchen functions and kitchen functions can also be further differentiated. So, organizations have to keep creating different departments and that is called the differentiation at the horizontal level.

But organizations cannot keep on creating new departments because when we create new departments, these departments, at times, develop a barrier in the communication and coordination function. So, that is always a challenge to decide how many departments should be created in the organization and is the first challenge of organization design. In a nutshell, the basic challenge of organization design is about how many hierarchical levels can be created and how many departments can be created.

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Basic Challenges of Organizational Design 2

We can't get people to communicate and coordinate in this organization. Specifying tasks and roles is supposed to help coordinate the work process, but here it builds barriers between people and function.

Challenge of balancing differentiation versus integration

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Now, there is another situation. Suppose you are working in an organization or you come across an organization, where we cannot get people to communicate and coordinate in that organization. Specifying tasks and roles is supposed to help coordinate the work process, but there it builds barriers between people and function. When we face this kind of situation, we know that basically we are facing the second challenge of organization design, that is balancing differentiation versus integration.

You may keep creating differentiation at vertical and horizontal levels but after a while, people may not be communicating very well amongst themselves, across the hierarchy or across the department, that is the second challenge of organization design.

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Basic Challenges of Organizational Design 3

People in this org don't take responsibility or risks. They are always looking to the boss for direction and supervision. As a result, decision making is slow, and we miss out on a lot of opportunities to create value.

Challenge of balancing centralization and decentralization

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Then, there is another situation and this is a situation where people in the organization do not take responsibility or risk. They are always looking to the boss for the direction and supervision. As a result, decision-making is slow and organization miss out on a lot of opportunities to create value for themselves and for the customers. What do you infer? What challenge is this situation indicating? So, this challenge is about balancing of centralization and decentralization.

It means to what extent authority should be centralized, to what extent the decision-making should be centralized and to what extent authority is delegated to the people at the front-line level or people at the lower level of hierarchy.

If you can have an organization, where most of the decisions are centralized that has its challenges. We can also have an organization where decisions are decentralized to a great extent and as a result of that, people use their autonomy in an indiscriminate manner. So, what is the right balance of centralization and decentralization becomes the third basic challenge of organization design.

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Basic Challenges of Organizational Design 4

People in this org pay too much attention to the rules. Whenever I need somebody to satisfy as unusual customer request or need real quick service from another function, I can't get it because no one is willing to bend or break the rule.

Challenge of balancing standardization and mutual adjustment

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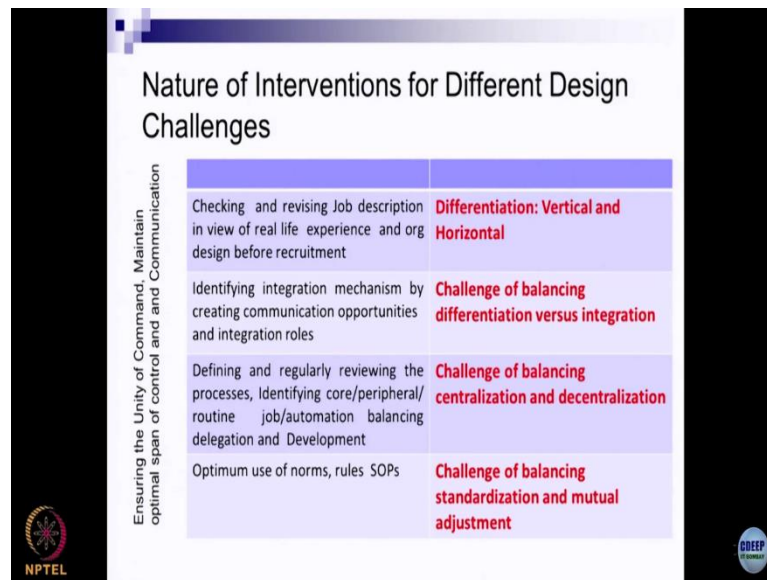
Now, we will look at the fourth situation. People in the organization pay too much attention to the rules. Whenever I need somebody to satisfy as unusual customer request or need real quick service from another function, I cannot get it because no one is willing to bend or break the rule. People are so bound by the rules and regulations that they are not able to cater the need of an unusual customer; even if the customer demand is very genuine.

These kinds of challenges are about balancing standardization and mutual adjustment. To run an organization, we decide on the processes and systems and how our tasks can be performed. After making certain norms, we make the rules around these norms to ensure that a particular task takes place in a certain way or a particular type of decision is made in a specific way, this process is called standardization. But many times, because of standardization, the flexibility in the organization is impacted.

Because of standardization, people cannot have the advantage of flexible decision-making. Flexibility in deciding upon an unusual customer request, working on the unforeseen opportunities or sometimes even unable to decide upon the unforeseen crisis. So, this is the fourth type of challenge, where organizations have to balance standardization and mutual adjustment.

Management of change experts need to know that what are the nature of interventions required or suggested for different design challenges.

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Checking and revising Job description in view of real life experience and org design before recruitment	Differentiation: Vertical and Horizontal
Identifying integration mechanism by creating communication opportunities and integration roles	Challenge of balancing differentiation versus integration
Defining and regularly reviewing the processes, Identifying core/peripheral/routine job/automation balancing delegation and Development	Challenge of balancing centralization and decentralization
Optimum use of norms, rules SOPs	Challenge of balancing standardization and mutual adjustment

Ensuring the Unity of Command, Maintain optimal span of control and Communication

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So, we will look at different challenges and how to tackle these design challenges. Before we talk about the specific design challenges and how these design challenges can be addressed, we must know that in an organization, it is important to ensure the unity of command. Meaning, specifically telling who will be having authority on whom, who will be reporting to whom. Second, organizations must maintain the optimal span of control; it means how many people are reporting to one person in an organization.

Span of control must be optimal; that means, not many people should be reporting to one person and not too few people should be reporting to a manager. When a job is very specialized, when it requires high level of expertise, then the span of control has to be low. That means, in a complex task environment lesser number of people should be reporting to a manager; but when the task is routine, when it is not complex, but simple; then, in that situation span of control can be higher. That means, more number of people can be reporting to a single manager.

And last, but not the least, communication. Communication is the important aspect of ensuring effective handling of the challenges of organization design; whether it is the challenge of structure or the challenge of culture.

People have to be constantly communicated about why a decision is made, what are the expected behaviors, what are the goals of an organization, what are the intentions of

management when they make certain choice or make an important decision. So, communication play a very important role in handling these design challenges.

Now, we look at these four design challenges and how specifically these challenges can be handled. So, the challenge related to vertical and horizontal differentiation can be addressed by checking and revising the job description in view of real-life experience and organization design before recruitment.

So, before recruitment itself, we have to have clarity about what is required to be done by this person who hold that particular position. And in that way, we can clearly think about how many hierarchical levels and how many departments or horizontal differentiation is required.

Let us talk about the second challenge. That second challenge is about balancing differentiation versus integration. In an organization, we create differentiation by creating the number of hierarchy and by creating the different departments. This differentiation should not result in fragmentation, this differentiation should not result in silo functioning of the different functions and people who are associated with those functions. The need is to have the integration even if differentiation is required.

Now, what is the mechanism through which we can ensure that there is an integration and not fragmentation, when differentiation is created in the organization as per the hierarchy or as per the function. So, what is required is to identify the integration mechanism by creating communication opportunities and integration roles. What does this mean? That simply means when we have a large number of hierarchy or higher horizontal differentiation or what we call departments, then we need to create more opportunities where people can interact with each other.

People from different hierarchical levels or people from different functions or departments should get more opportunities and the opportunities have to be creatively identified and provided to the people so that there are a lot of channels of communication amongst the people.

And secondly, there can be some integration roles which can be created to ensure that differentiation across the hierarchy or across the functions does not result in fragmentation. What are those integration roles? Those integration roles are about interacting with the two

departments. For example, a market research department can interact with the branding, marketing and sales department. A quality department has to interact with the design department as well as the production department.

Similarly, across the functions, where we see there are silo working has started or people are not interacting enough, we can create some integration roles, where the people holding those roles would be responsible to ensure that they connect these two departments. Many times integration becomes such a challenge that we have to create integration department.

When an organization is huge, we need to create the integration department which is aimed at connecting different functions or ensuring the communication amongst different levels of hierarchy. Third challenge was about balancing centralization and decentralization, how much authority can be vested in one person at certain level of hierarchy, to what extent the authority is centralized and to what extent authority is decentralized or given to the people down the line.

So, how this challenge can be handled? This challenge can be handled by defining and regularly reviewing the processes because as the market changes, as the operations change, different or more or less processes might be required to be performed within an organization.

In that situation, formal processes or process map may not be relevant. To make the process maps and procedures relevant, organizations have to regularly review those processes. Secondly, organizations can identify the core and peripheral routines or jobs.

A simple rule of thumb about balancing centralization and decentralization is that the core functions can remain centralized because the control is better and control is more with the centralized function and the noncore functions can be delegated more quickly, more easily and they have to be customized according to the specific context, where they are being performed.

So, this is a rule of thumb, this is not something which can be applied anywhere and everywhere in any specific situation. But centralization and decentralization can be managed by identifying the core activities and the peripheral activities. Core activities can be centralized and peripheral activities can be decentralized. Third way of balancing the

centralization and decentralization is automation and balancing the delegation and development.

Many processes, many peripheral processes can be automated. If they are automated, they are centralized. With the help of technology many functions are now getting automated and that free up the manpower to cater the local needs of the market or to connect with the local customers.

One important thing is decentralization must be followed by development. That means, we cannot delegate, even if the work is peripheral, without proper development of the people whom we are going to delegate the function or delegate the authority or delegate the decision-making power, we should not do it without proper training and development of those people.

Before any delegation proper inputs about the function should be given and they must be developed to hold that responsibility. Our fourth challenge about organization design was the challenge of balancing standardization and mutual adjustment. This challenge can be addressed by having optimum use of norms, rules and SOPs. A standardization is required, but we cannot deny the contingencies in terms of the environment change, in terms of the customers specification or arrival of an unusual customer demand.

In those situations, organization should be having the flexibility to address the situation. If the norms are very stringent, people in the organization, employees of the organization and managers of the organization will not be able to address the customers expectation or they cannot address the unforeseen competition emerging in the market.

So, norms have to be flexible enough for people to address the unforeseen situation emerging in the market. But at the same time, they should be strong enough for people to understand those and follow those. Because it is only through the proper norms and rules and regulation, the quality can be maintained and ethical working can be ensured.

So, we need to specifically identify what is non-negotiable in the organization. What in terms of the ethical and integrity policy is non-negotiable? So, that bottom line must be clarified and any mutual adjustment can be done only after following the non-negotiable norms about integrity, ethics and standard. So, these are the general interventions to address these different design challenges which we talked about.