

**Organization Development and Change in 21st Century**  
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**Lecture – 17**  
**Different Types of Organization Designs**

Now, we will look at the Organization Design, if we have to make changes in the organization design, we need to understand the Different Types of Organization Design and then we will look at what should be the approach of designing or redesigning of any organization. Most basic design of organization can be the functional design or functional organization.

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Where, there is one head of the organization to whom different heads of different functions are reporting – it is called Functional organization. This is the pictorial representation of the functional organization where different functions are held by the managers and they all report to one head of the organization. There are certain disadvantages and advantages of having functional organization.

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**The Functional Form**

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"><li>■ Promotes skill specialization</li><li>■ Reduces duplication of scarce resources and uses resources full time</li><li>■ Enhances career development for specialists within large departments</li><li>■ Facilitates communication and performance because superiors share expertise with their subordinates</li><li>■ Exposes specialists to others within same specialty</li></ul>	<ul style="list-style-type: none"><li>■ Emphasizes routine tasks; encourages short time horizons</li><li>■ Fosters parochial perspectives by managers and limits capacity for top-management positions</li><li>■ Multiplies interdepartmental dependencies; increases coordination and scheduling difficulties</li><li>■ Obscures accountability for overall results</li></ul>

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Generally, organizations start with the functional design when a new business is set up. The advantages of functional forms of organization are - it promotes the skill specialization, because people keep working in one department and when they keep working in the one department, they keep getting experience and expertise within that department for a long period of time. This promotes their skills and this process of following the functional design also ensures that we recruit people who have a particular type of a skill. So, in both ways in recruitment as well as in the general functioning the functional form of organization design promotes skill specialization.

It reduces duplication of scarce resources and uses the resources full time, since the task of the people are clear and well identified, The clarity ensures that there is no duplication of the scarce resources and within the function people keep working and getting expertise.

When function grows people can also grow in terms of their career advancement. When organizations keep growing and they keep having functional design people get opportunity to be promoted from the worker to supervisor to foremen to or from assistant manager to the deputy manager or senior manager.

So, as the organization keep growing and keep following the functional design, managers get the opportunity for the career development within that function. So, they keep

building their expertise and they can also do their career advancement when there is a functional design operating in an organization.

Another point about the functional form is that it facilitates the communication and performance because supervisors share expertise with their subordinate. So, within the function all the people are familiar to that kind of function. That is the specialty of a functional organization and due to this familiarity, people are able to connect with each other because they are doing similar work and when they are able to connect and communicate with each other, all of them learn from each other and the expertise keeps growing.

Another benefit of functional form is that it exposes a specialist to other experts within the same specialty. So, when people are working in the same function year after year, they can connect to the experts in that field even if they are not in the same organization.

Professionals thus have exposure to those specialists who are working in the similar task and they can benchmark their competency with respect to professionals working in that similar function, which might be in different organization. These are the advantages of functional design of organization and that is why many organizations start their operations with the functional design.

But functional design also has some disadvantages. For example, functional design emphasizes the routine task. People have to keep on working same task month after month, quarter after quarter and at times years after years.

It fosters the parochial perspectives by managers and limits the capacity for top management position. This means that their perspective is confined to that function and their ability to make judgment becomes restricted to that function itself.

We know that SBU head or organization head cannot afford to have exposure to only one function. They have to make decision about various functions, but people or particularly managers who have exposure to only one function may find it difficult to handle the generalistic role of the head of the organization, because at the head of the organization they have to understand roles and responsibility of other functions as well.

They need to have appreciation and understanding about other functions as well but if the person is so practiced and so habitual to stick to only one function then it becomes difficult for that person to hold the organization level responsibility. It is not that it always happens in this manner, but people working in the functional role year after year may develop this tendency.

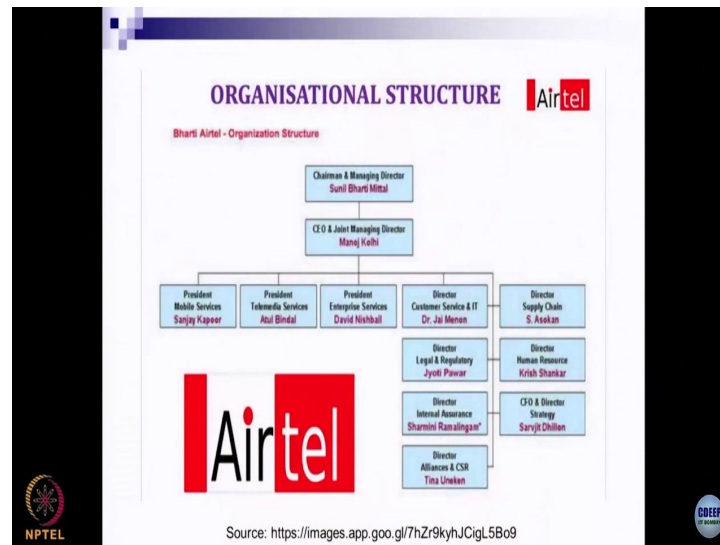
Third disadvantage is that it multiplies the interdepartmental dependencies, since people know the job about their department only. So, sometimes, they cannot handle even the simple problems and challenges that are not within their department and which are related to the other department.

So, that increases the coordination and the scheduling difficulties. Due to less familiarity of the other functions, people are more dependent on others for any combined task and there must be lot of coordination and scheduling requirements.

In functional organizations, overall accountability is obscured. This is another disadvantage of the functional organization. Often people develop the tendency of silo working; that means, they take accountability only for their specific output and they obscure the general accountability for the overall result. Because of this tendency, at times organization suffer or at times customers suffer, because the services of products are offered to the customers as a complete whole.

The offering to customer is not as a marketing product or operations product. Product or services to the customers is offered as the combined result of different functions in that situation. If people are habitual of taking accountability of their function or their role only and they do not have the broader perspective, then that may hurt the customer experience. So, that is another disadvantage of a functional form.

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Now, let us look at another organizational structure, this organizational structure is of the famous telecommunication company Airtel. You can see that Chairman and the Managing Director is Mr. Bharati, then there is a CEO and Joint Managing Director.

But if you look at the line below the position of the joint managing director, there is a president of mobile service, there is a president of telemedia service, enterprise services, customer services, supply chain etcetera. What do you make out of this diagram? We do not see here the production head, marketing head, operations head, etcetera - the designations related to specific functions reporting to the CEO or the Joint Managing Director.

So, this type of organization design where the first layer of organization design after the business head is not about functions but is about the services or products being offered. So, these mobile services, telemedia services are different lines of business in the Airtel, these heads are responsible for the business in their line. So, for example, president of mobile services is responsible for the mobile subscription, this sales target of the subscription, profitability of their services.

Similarly, telemobile services person would be responsible for the operations of the managing their human resource, of managing their profitability, of managing their quality etcetera. So, you can see these people who are reporting to the business head are not responsible for a specific function, they are responsible for the service or a product

line. When this is the situation about the organizational structure, we call it divisional organizational structure.

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In the divisional organizational structure, business functions are divided first according to the geography or according to the business and products or the product lines. the heads of these lines are responsible for the geography or product or product line and reporting to them would be the functional heads of those products product line or in the division - this is called a divisional organization design.

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### The Divisional Form

Advantages	Disadvantages
<ul style="list-style-type: none"><li>■ Recognizes interdepartmental interdependencies</li><li>■ Fosters an orientation toward overall outcomes and clients</li><li>■ Allows diversification and expansion of skills/training</li><li>■ Ensures accountability by departmental managers and promotes delegation</li><li>■ Heightens departmental cohesion and involvement in work</li></ul>	<ul style="list-style-type: none"><li>■ May use skills and resource inefficiently</li><li>■ Limits career advancement by specialists</li><li>■ Impedes specialists' exposure to others within same specialties</li><li>■ Puts multiple-role demands upon people and creates stress</li><li>■ May promote departmental objectives as opposed to overall organizational goals</li></ul>

When organizations grow, their operations grow, when their product line increase or their product are sold in different parts of the world organizations cannot afford to work just as functional organizations. They have to divide their function according to the geography or according to the product or product line. That is how the divisional structure of the organization emerges, it has its advantages also the disadvantages.

The advantages are that divisional form recognizes the interdepartmental dependencies. So, they ensure that within one business unit, within one business line, there are multiple departments operating and they are operating in an interdependent way.

Divisional form fosters an orientation toward overall outcome and the clients. So, here if the head of the mobile phone or head of the telemarketing or teleservices is reporting to the business head they cannot talk about a specific function, they have to talk about their overall outcome and that is being promoted in the divisional structure.

Divisional form allows diversification and expansion of skills or training, when there is a divisional structure there is more probability for managers to move from one function to the next function. These managers are able to get exposure, diversify their skill So, this is the benefit of the divisional form of organization over the functional form of organization.

Fourth, divisional form ensures the accountability by departmental managers and promotes the delegation. It ensures that managers take responsibility, or they have accountability for the general business results.

Divisional structure also heightens the departmental cohesion and involvement in the work. People know that they will be evaluated as the business line and that they will not be evaluated as a function. So, there is a heightened interdepartmental cohesion and involvement in the situation.

Divisional structure or divisional form of organization has certain disadvantages. This structure may use skill and resources inefficiently. For example, we looked at the structure of the Airtel teleservices function and mobile function and other functions.

In all functions you will have marketing people, you will have sales-people, operations people and finance people and so on. Often different verticals might be hiring multiple talents for similar jobs.

So, if that divisioning is not done very consciously and human resource planning is not done very consciously, divisional structure may promote the inefficiency because of that duplication of the resources and expertise will happen. Some people have the tendency to be area specialists. For such people, there are less opportunities in the divisional structure because, divisional structure after certain level of hierarchy promotes the interdepartmental exposure.

Third divisional structure impedes a specialist exposure to others. A large number of people are not specific to or wedded to a function. They do not take the advantage of exposure to the expertise of different people in the same function.

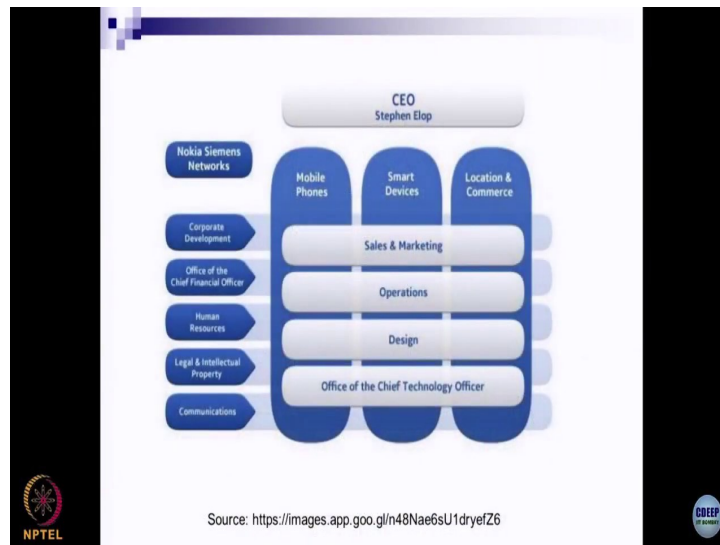
Another disadvantage is that divisional structure puts multiple role demands upon people and creates stress. People need to be well versed with not only their immediate function, but also their neighboring function, also the function to which they are giving their output as input.

So, people have to know and have appreciation for different functions and that may cause stress at times if the resources are less. In such situations, one resource has to take care of the multiple functions and as a result of that it there might be more stressful situation in the at the workplace.

Divisional structure may also promote the departmental objectives as opposed to the overall organizational goals. In a divisional structure, often their general goal is taken precedence over functional goals. At times, this situation may result in not following the most stringent processes within a function. So, these are some of the disadvantages of the divisional form of the organizational structure.



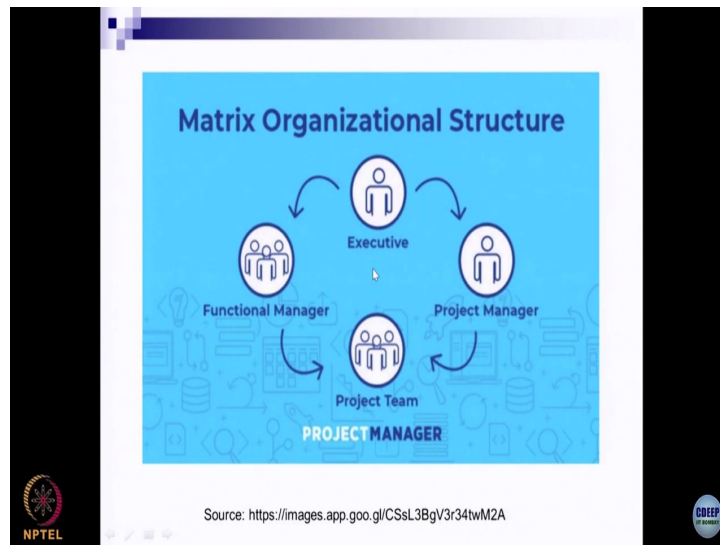
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Another example of the divisional form of structure is when sales and marketing, operations, design, office of the chief technology officer may be common in the mobile phones, smart devices, location and commerce.

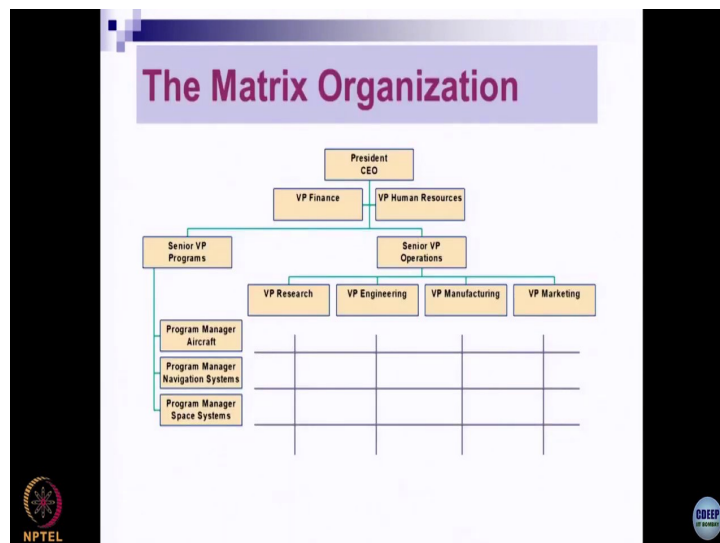
This is the example of the Nokia, Siemens network where you will see people working in the sales and marketing might be having two bosses, they might have to report to the head at the mobile phone or a smart devices and they also have to report the cooperate development or the corporate office of the marketing function. This is the example of matrix organizational structure.

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In the matrix organizational structure, there is a functional manager, there are project manager and there are project teams and executives. So, you can see in the matrix structure people are part of their team or department or the project and they are also reporting to the head of the organization or the organizational head or the business head.

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So, there are dual line of commands operating in the matrix organizational structure, This is one example where the President or CEO has V P Finance and V P Human Resources reporting to and there are two other senior V Ps related to programs and operations are

also reporting to. But if you look at the person who is located and who is here in this block will have to report to the V P Research as well as the Program Manager Navigation System or person located at this place will have to report to the V P Engineering and also the Program Manager of the Space System.

So, this is example of a matrix organization, one even simpler example can be of a construction company you can imagine a large construction company which is having projects large projects which worth of hundreds of crores in different parts of the world or in different parts of the country, people working in that project may also be having operations, finance and quality functions.

And the corporate office of that team a corporate office of that organization may also have the quality, finance and H R team and many a time people may have to interact, may have to report to the bosses and authorities within the project which might be localized and they have to also report for certain decisions to the heads in the corporate office as well. So, this is the structure of a matrix organization.

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### The Matrix Structure

Advantages	Disadvantages
<ul style="list-style-type: none"><li>■ Makes specialized, functional knowledge available to all projects</li><li>■ Use people flexibly</li><li>■ Maintains consistency by forcing communication between managers</li><li>■ Recognizes and provides mechanisms for dealing with legitimate, multiple sources of power</li><li>■ Can adapt to environmental changes</li></ul>	<ul style="list-style-type: none"><li>■ Can be difficult to implement</li><li>■ Increases role ambiguity, stress, and anxiety</li><li>■ Performance is lowered without power balancing between projects and functions</li><li>■ Makes inconsistent demands and can promote conflict and short-term crisis orientation</li><li>■ May reward political skills over technical skills</li></ul>

Matrix organization also has certain advantages and certain disadvantages, matrix organization has the advantage because it makes the specialized functional knowledge available to all the projects. There is an organizational head who is very competent and expert and specialized in a specific function. He/she can give the benefit of their expertise to the people working in different projects.

Matrix structure uses people flexibly, people can work in the project, people can also move to the corporate office. It maintains the consistency by forcing communication between managers, they have to interact and communicate with the multiple managers to report on a specific item related to their project and related to their organization.

Matrix structure also recognizes and provides a mechanism for dealing with the legitimate multiple sources of the power. Since people working in the matrix organization have to report to the multiple bosses, multiple supervisors, they have to deal with different people with the varying kind of authority in a specific way.

It can adapt to environmental changes. The matrix structure since it is localized or since it is specific to a project at the same time it is connected to the larger organizational functions, people in this structure have more flexibility to maneuver their path and respond to the project requirement or the customer's requirement.

There are disadvantages as well. Number one it can be difficult to implement - matrix organizations are complex organizational structures. If you remember in the very beginning, we said that span of control, unity of command, centralization and decentralization are the challenges and have to be decided a priori to the extent possible to avoid any confusion when organizations start working.

In a matrix organization we need to identify the structure of the job, we need to identify the span of control, a priori authority and centralization and decentralization a priori before establishing the organization. So, it can be difficult to implement, because we may not be able to foresee all the requirements.

It at times also increases the role ambiguity. The project boss say something and corporate boss may say something different. It might result in stress and anxiety to me. Performance is lowered without power balancing between projects and functions.

If the project head and the functional head who sits in the organizational head office - if they have very significant power difference then employees have to do the power balancing and in that process the performance may be lowered, employee at times have to go by what so called the most more powerful boss says, but what more powerful boss says may not be the best thing for the corporate office or for the project. So, this at times may lower the performance.

Next point is that it makes consistent demands and can promote the conflict and short term crisis orientation, the supervisors and managers in the project site or on the corporate site may have different understanding about a situation and as a result of that may pose inconsistent demands and that can promote the conflict them and short term crisis.

Last, but not the least matrix organization may reward the political skills over technical skills, lot of time at times is spent in just communication to the different bosses and different supervisors. If I have to spend lot of time on managing and communicating with my different supervisors, naturally I am left with lesser time to focus on the task at hand.

And this process may result in the rewarding those people who are good at this kind of communication rather than rewarding those employees who are good at work and may not be as good in the communication and communicating with the two supervisors. So, this is one of the disadvantages of the matrix structure.