Organization Theory/Structure and Design
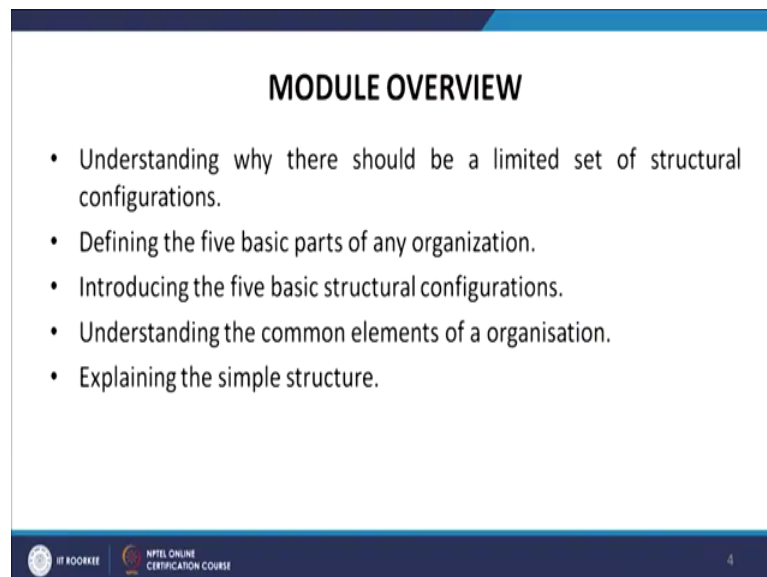**Prof. Zillur Rahman**
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Lecture - 24
Organizational Design Options – I

Welcome to this course Organization Theory/Structure and Design. Now, we will move on to part-3 of this course that is Organizational Design and it is about choosing the right structure form. So, this part covers module 24 to module 30. Module 24, 25 and 26 are related to Organizational Design Options. So, now, let us start with module 24 and look at what are the things that we will talk about in this module.

So, to start with this part and this module, we will understand why there should be a limited set of structural configurations, then defining the five basic parts of any organization, introducing the five basic structural configurations, understanding the common elements of a organization and then we will finish off this module by explaining the simple structure.

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Now, to introduce, is every organization really unique? So, that is the question. In one way, organizations are like fingerprints. Each has its own unique structure. Coca-Cola and Pepsico for instance are both large corporations that derive most of their income from soft drinks. But a careful review of their organization finds that their structures are not identical clones of each other. Yet, again like fingerprints, no structure is truly unique.
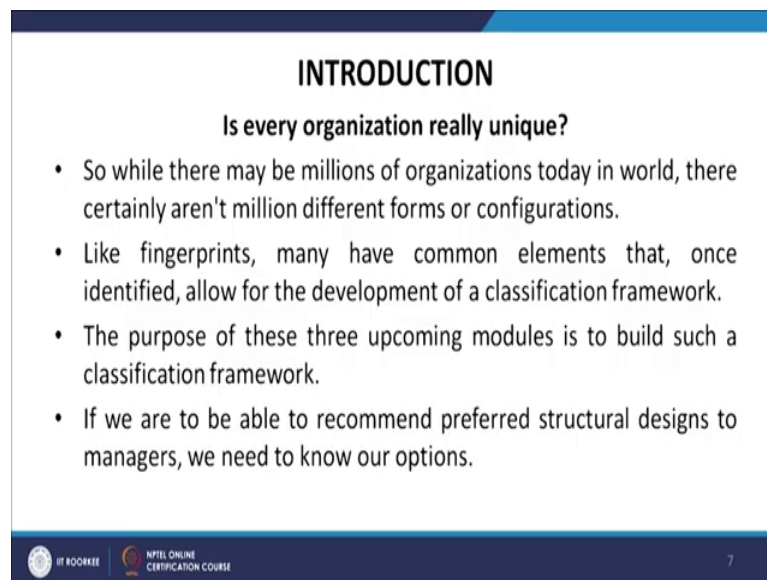
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All fingerprints, for instance, have common properties that allow them to be classified around common elements. If you look at the organizations that currently exist, it is quickly obvious that they too have common elements.

To make our point, Pepsico, B.F. Goodrich, Citicorp and Phelps Dodge are all in very different industries. However a close look at their structures reveals that they share at least two things in common; each is high in complexity and high in formalization.
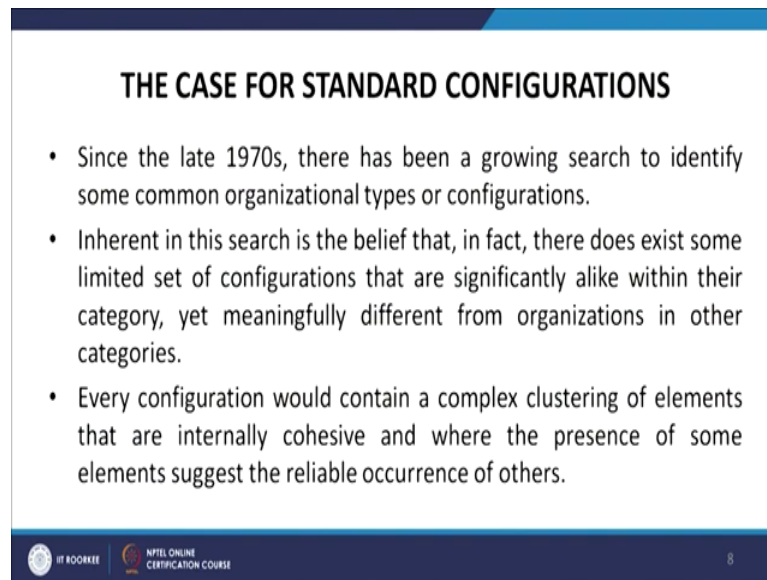
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So, while there may be millions of organizations today in the world, there certainly are not million different forms or configurations. Like fingerprints, many have common elements, that once identified, allow for the development of a classification framework. The purpose of these three upcoming modules is to build such a classification framework. If we are to be able to recommend preferred structural designs to managers, we need to know our options.

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THE CASE FOR STANDARD CONFIGURATIONS

- Since the late 1970s, there has been a growing search to identify some common organizational types or configurations.
- Inherent in this search is the belief that, in fact, there does exist some limited set of configurations that are significantly alike within their category, yet meaningfully different from organizations in other categories.
- Every configuration would contain a complex clustering of elements that are internally cohesive and where the presence of some elements suggest the reliable occurrence of others.

Now, we are making a case for standard configurations. Since the late 1970s, there has been a growing search to identify some common organizational types or configurations. Inherent in this search is the belief that, in fact, there does exist some limited set of configurations that are significantly alike within their category, yet meaningfully different from organizations in other categories.

Every configuration would contain a complex clustering of elements that are internally cohesive and where the presence of some elements suggest the reliable occurrence of others.
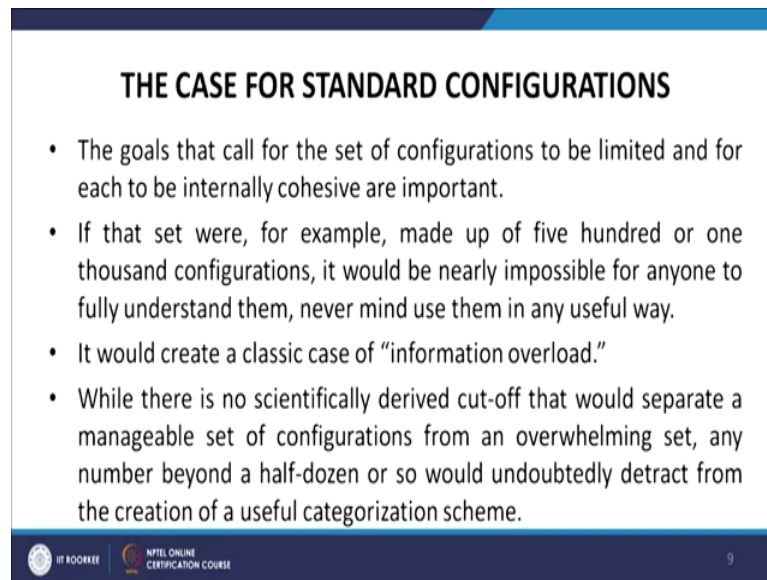
The goals that call for a set of configurations to be limited and for each to be internally cohesive are important. If that set were, for example, made up of 500 or 1000 configurations, it would be nearly impossible for anyone to fully understand them, never mind use them in any useful way.
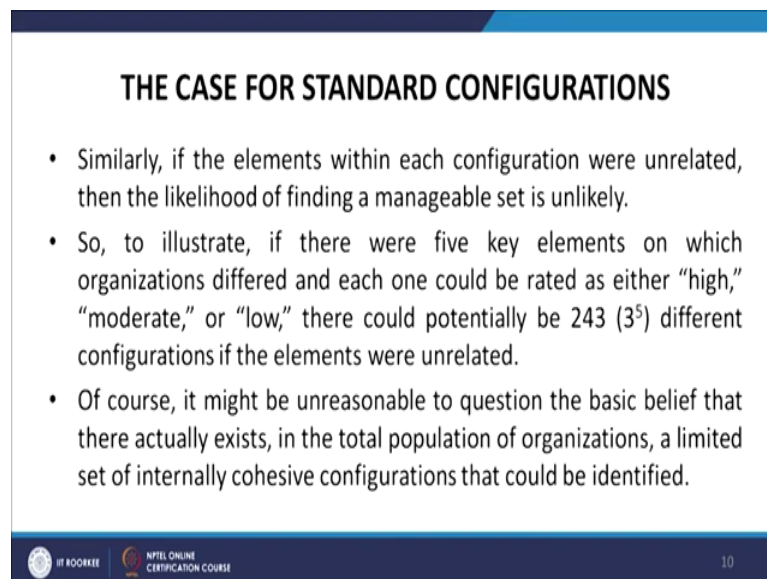
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THE CASE FOR STANDARD CONFIGURATIONS

- The goals that call for the set of configurations to be limited and for each to be internally cohesive are important.
- If that set were, for example, made up of five hundred or one thousand configurations, it would be nearly impossible for anyone to fully understand them, never mind use them in any useful way.
- It would create a classic case of "information overload."
- While there is no scientifically derived cut-off that would separate a manageable set of configurations from an overwhelming set, any number beyond a half-dozen or so would undoubtedly detract from the creation of a useful categorization scheme.

It would create a classic case of information overload. While there is no scientifically derived cutoff that would separate a manageable set of configurations from an overwhelming set, any number beyond a half dozen or so, would undoubtedly detract from the creation of a useful categorization scheme.

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THE CASE FOR STANDARD CONFIGURATIONS

- Similarly, if the elements within each configuration were unrelated, then the likelihood of finding a manageable set is unlikely.
- So, to illustrate, if there were five key elements on which organizations differed and each one could be rated as either "high," "moderate," or "low," there could potentially be 243 (3^5) different configurations if the elements were unrelated.
- Of course, it might be unreasonable to question the basic belief that there actually exists, in the total population of organizations, a limited set of internally cohesive configurations that could be identified.
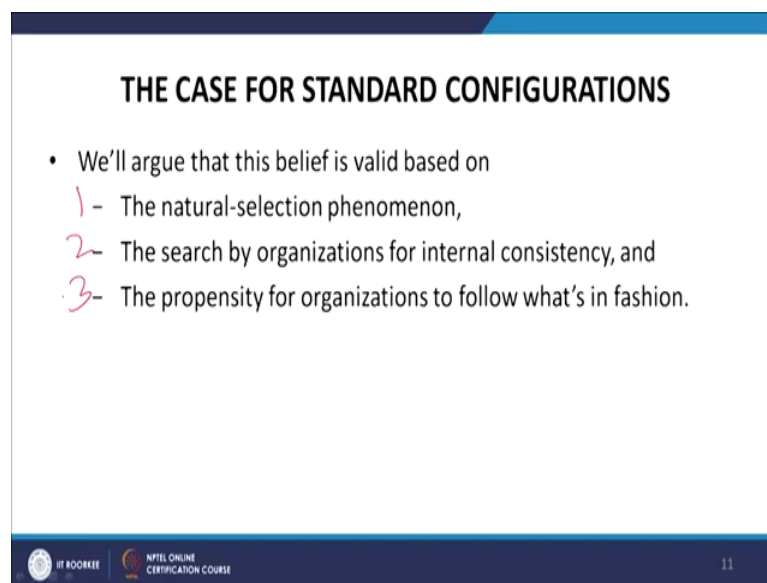
Similarly, if the elements within each configuration were unrelated, then the likelihood of finding a manageable set is unlikely. So, to illustrate, if there were five key elements on which organizations differed and each one would be rated as either "high",

"moderate" or "low", there would potentially be 243, that is, 3^5 different configurations if the elements were unrelated.

Of course it might be unreasonable to question the basic belief that there actually exists in the total population of organizations or limited set of internally cohesive configurations that could be identified. We will argue that this belief is valid based on the natural selection phenomenon, the search by organization for internal consistency and the propensity for organizations to follow what is in fashion.

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So, these are the 3 arguments. So, we start with the first argument that is a natural selection argument. The natural selection argument was developed in module 18 to 20 in our discussion of population ecology. It resurfaces here for us to point out that the environment may encourage only relatively few organizational forms to survive in the same settings.

To be cost efficient and competitive, an organization may need to adopt structural properties similar to those of other organizations in its industry or its market niches or that are following similar strategies. The natural-selection thesis for example, might predict that successful fast-food franchises would have similar "industry" structure.

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Those that developed structures different from the industry norms would be less successful and over the long run, die off. The second argument is that organizations may be driven towards a given configuration to achieve consistency in their internal characteristics and to fit with their situation.

For example the extensive use of division of labour, standardization and the employment of unskilled personnel to do repetitive tasks tend to be associated with high formalization. Internal inconsistencies will lead to reductions in performance. So, over time, organizations should develop a set of structural characteristics that fit well together.

This should lead to a limited set of configurations in which internal consistencies are achieved.

Finally the number of viable configurations that are in use will be limited by fashion or what is currently in vogue. Organizational design makers are not immune from the influence of other organizational decision makers.

Just as what we wear, eat or drive are influenced by peers, the media and other sources, so is an organization's design, Decision makers like to think they are current and progressive. If the current fashion favors adaptive, decentralized organizations, there will be pressures on organizations to look contemporary.

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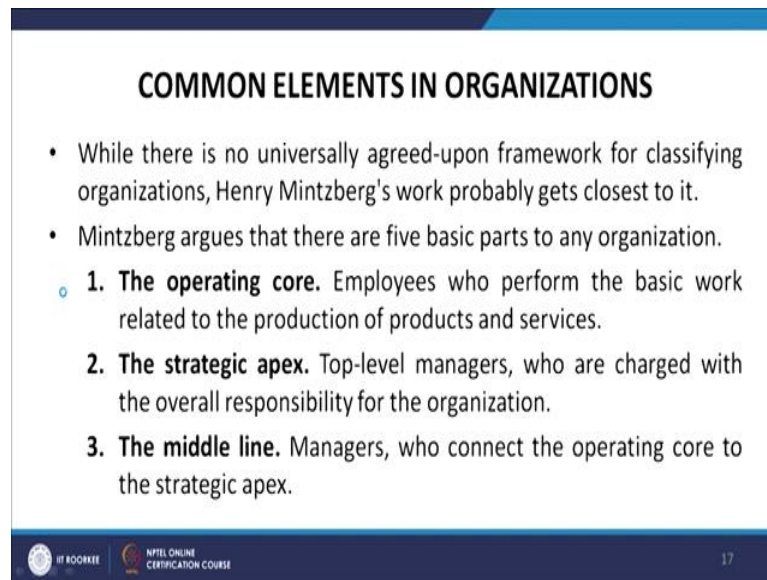
If for no other reason, such limitations conveys to strategic constituencies like bankers, labour unions, and security analysts that management is up to date on current management practices. A contemporary organization design symbolically conveys to constituencies that the organization is striving for effectiveness.

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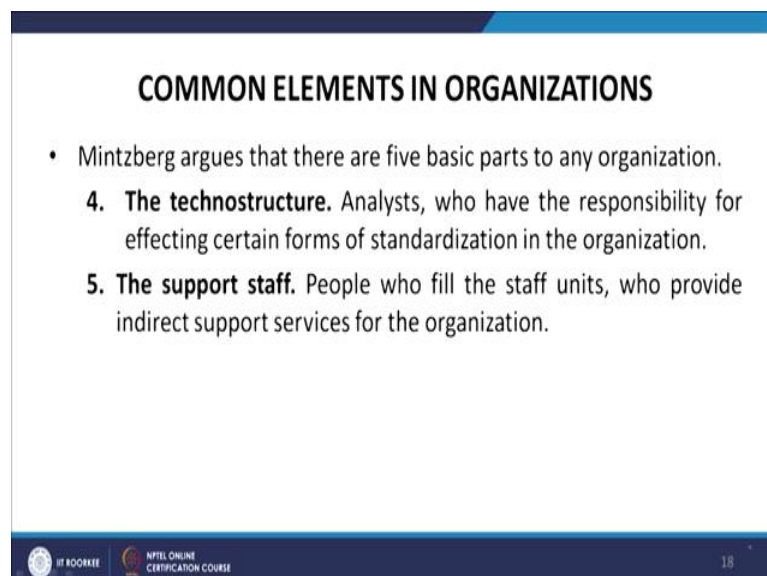

Now, let us look at the common elements in organization. While there is no universally agreed-upon framework for classifying organizations, Henry Mintzberg's work probably gets closest to it. Mintzberg argues that there are five basic parts to any organization.

The 1st part is the operating core: Employees who perform the basic work related to the production of products and services. The 2nd part is the strategic apex: Top-level managers who are charged with the overall responsibility for the organization. The 3rd is the middle line: Managers, who connect the operating core to the strategic apex.
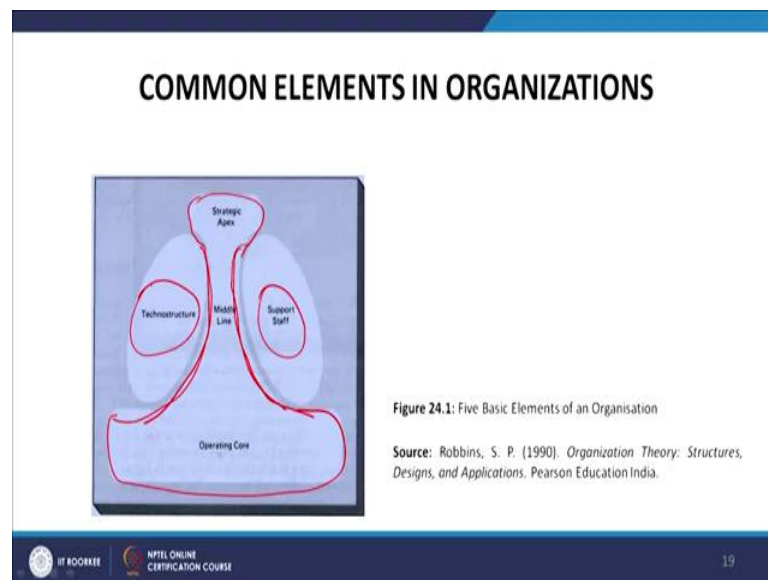
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The 4th is the technostructure: Analysts, who have the responsibility for effecting certain forms of standardization in the organization. And the 5th is the support staff: People who fill the staff units, who provides indirect support services for the organization. So, these are the five basic elements of an organization.
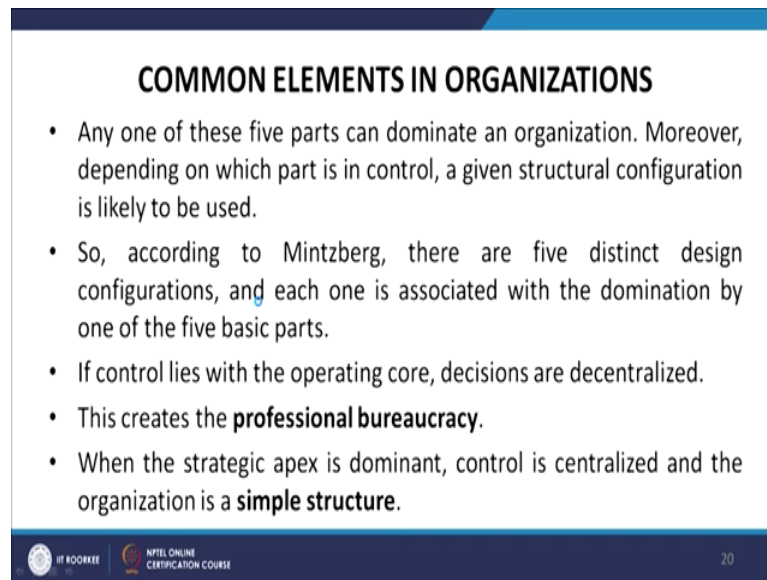
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Figure 24.1: Five Basic Elements of an Organisation

Source: Robbins, S. P. (1990). *Organization Theory: Structures, Designs, and Applications.* Pearson Education India.

At the bottom is the operating core and at the top is strategic apex. So, now, you see that the operating core is large and the strategic apex is small and this middle level managers they connect the two. Now, look at the portion within this red lines, strategic apex is obviously at the top and at the bottom is the operating core and they both are linked in between by this middle line.

This operating core is very big as compared to the strategic apex. Now, this neck is supported by two things, one is technostructure and the support staff. So, they support this middle line, so that it looks like an organization.
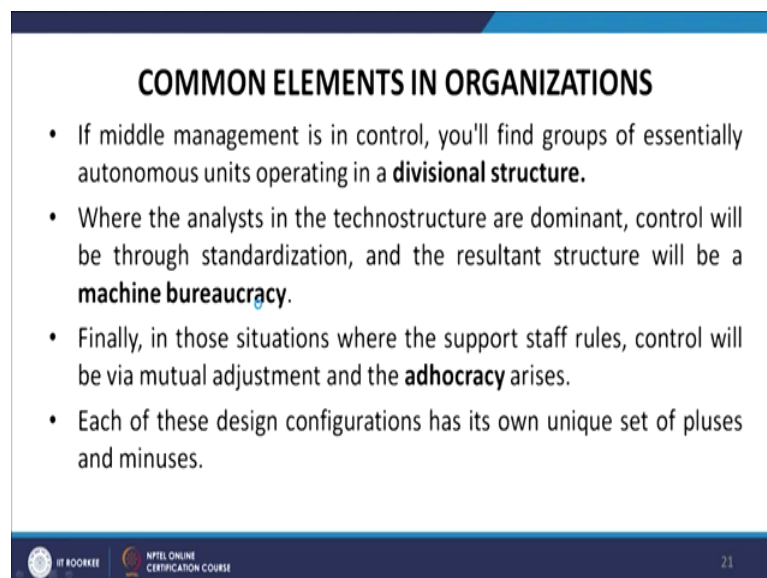
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Any one of the five parts can dominate an organization. Moreover, depending on which part is in control, a given structural configuration is likely to be used.

So, according to Mintzberg, there are five distinct design configurations and each one is associated with the domination by one of the five basic parts. If control lies within the operating core, decisions are decentralized. This creates the professional bureaucracy. When the strategic apex is dominant, control is centralized and the organization is a simple structure.

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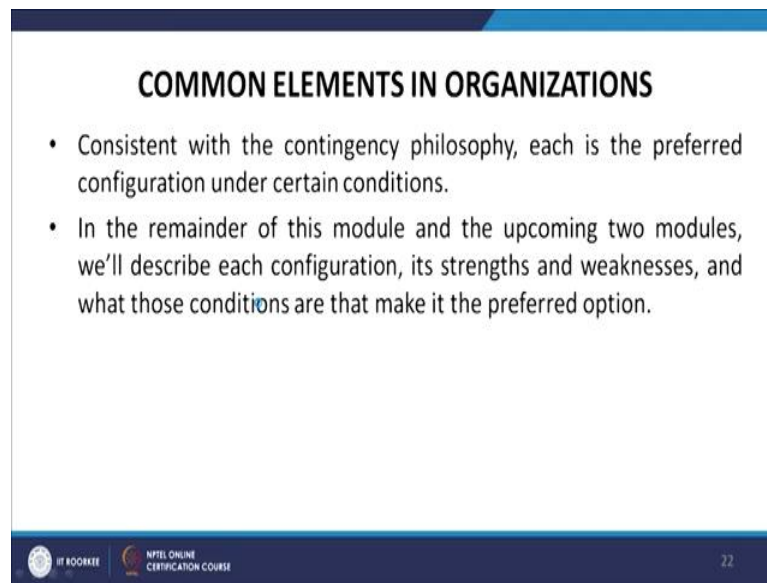
If middle management is in control, you will find groups of essentially autonomous units operating in a divisional structure. Where the analysts in the technostructure are dominant, control will be through standardization, and the resultant structure will be a machine bureaucracy.

Finally, in those situations where the support staff rules, control will be via mutual adjustments and the adhocracy arises. Each of these design configurations has its own unique set of pluses and minuses.

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Consistent with the contingency philosophy, each is the preferred configuration under certain conditions. In the remainder of this module and the upcoming two modules, we will describe each organization, its strengths and weaknesses, and what those conditions are that make it the preferred option.
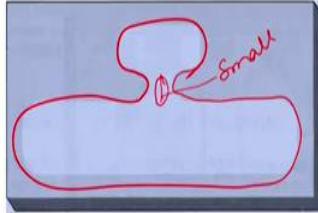
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So, this is a simple structure. What do a small retail store, an electronic firm run by a hard driving entrepreneur, and an airline in the midst of a companywide pilot's strike have in common? They probably all utilize the simple structure. So, this figure 24.2, shows a simple structure.

So, you see that the operating core is still weak, the strategic apex is of normal size, but the middle line is small. So, it means that if we look at this figure 24.1, it means that the support staff and technostructures, they are small in size in this kind of simple structure.
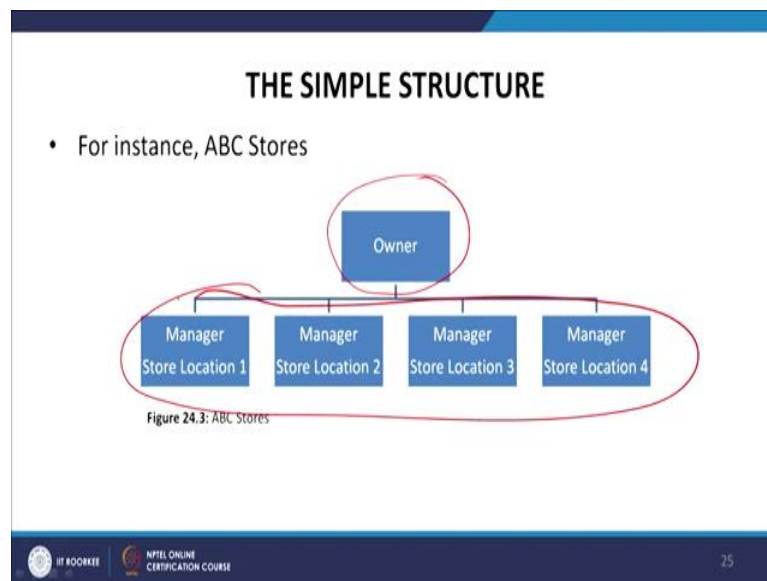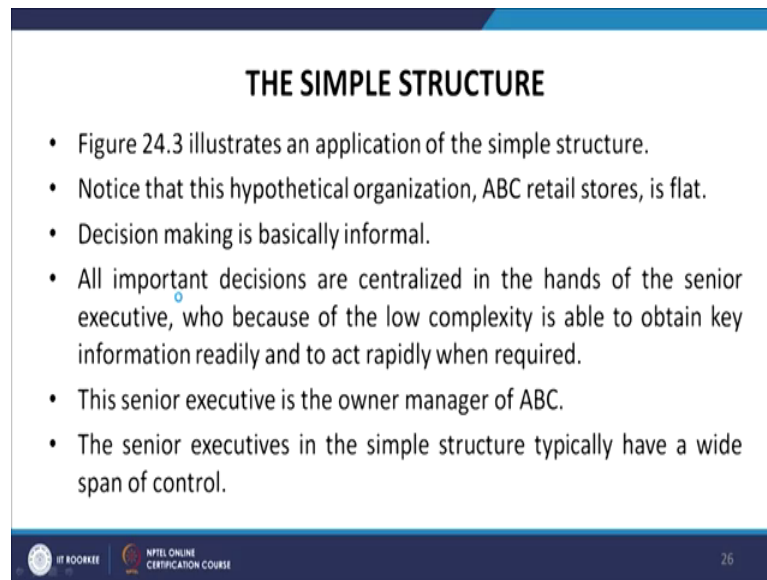
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The simple structure is said to be characterized most by what it is not rather than what it is. The simple structure is not elaborated, it is low in complexity, has little formalization, and has authority centralized in a single person. As shown in figure 24.2, the simple structure is depicted best as a flat organization with an organic operating core and almost everyone reporting to one person, strategic apex, where the decision making power is centralized.

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For instance look at this figure 24.3, ABC stores. So, there is one strategic apex, that is, the owner and then there are these operating core. Manager at store location 1, manager at store location 2, store location 3 and store location 4.

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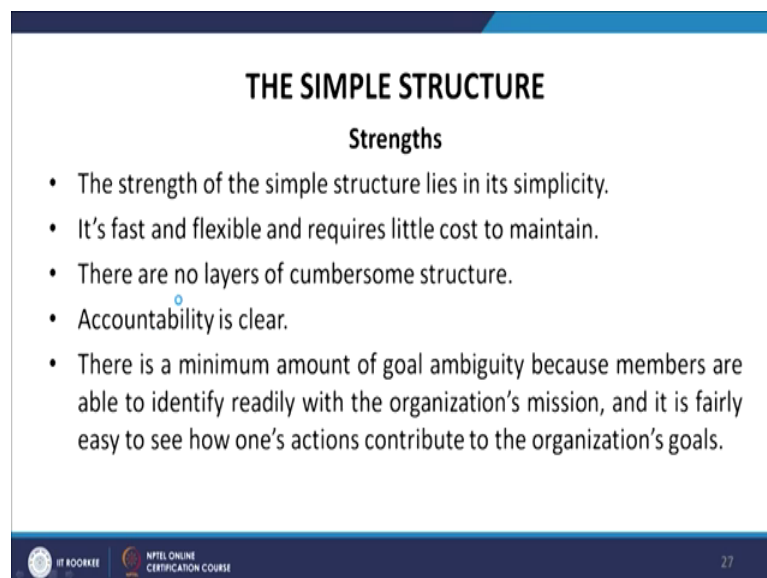So, this figure 24.3 illustrates an application of the simple structure. Notice that this hypothetical organization, ABC retail stores, is flat. Decision making is basically informal.

All important decisions are centralized in the hands of the senior executive, who because of the low complexity is able to obtain key information readily and act rapidly when required. This senior executive is the owner manager of ABC. The senior executives in the simple structure typically have a wide span of control.
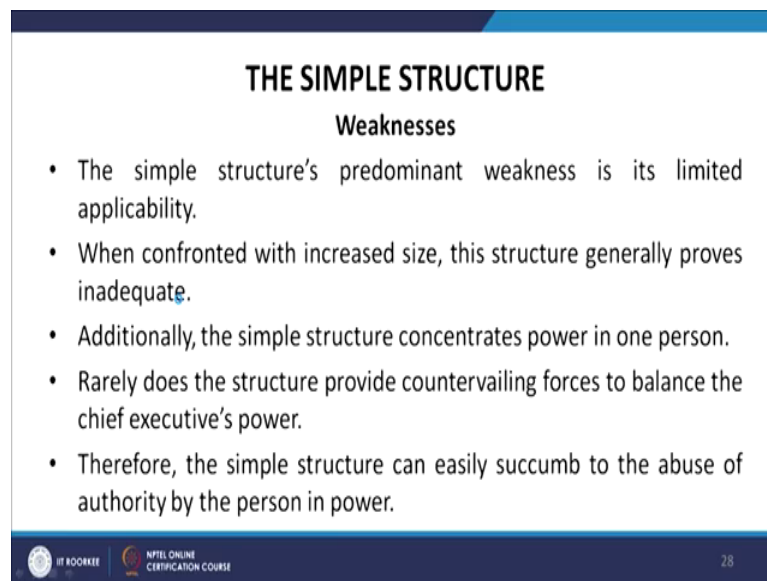
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So, what are the strength of the simple structure? The strength of the simple structure lies in its simplicity. It is fast and flexible and requires low cost to maintain. There are no layers of cumbersome structure. Accountability is clear. There is a minimum amount of goal ambiguity because members are able to identify readily with the organization's mission and it is fairly easy to see how one's actions contribute to the organization's goals.

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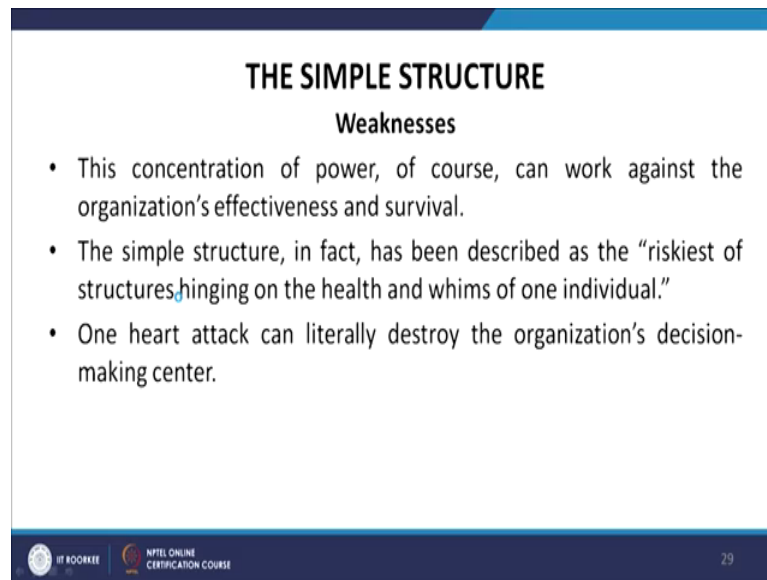

Now, what are the weaknesses of this simple structure? The simple structure's predominant weakness is its limited applicability. When confronted with increased size, this structure generally proves inadequate. Additionally, the simple structure concentrates power in one person.

Rarely does the structure provides countervailing forces to balance, the chief executive's power. Therefore, the simple structure can easily succumb to the abuse of authority by the person in power. This concentration of power of course, can work against the organization effectiveness and survival.
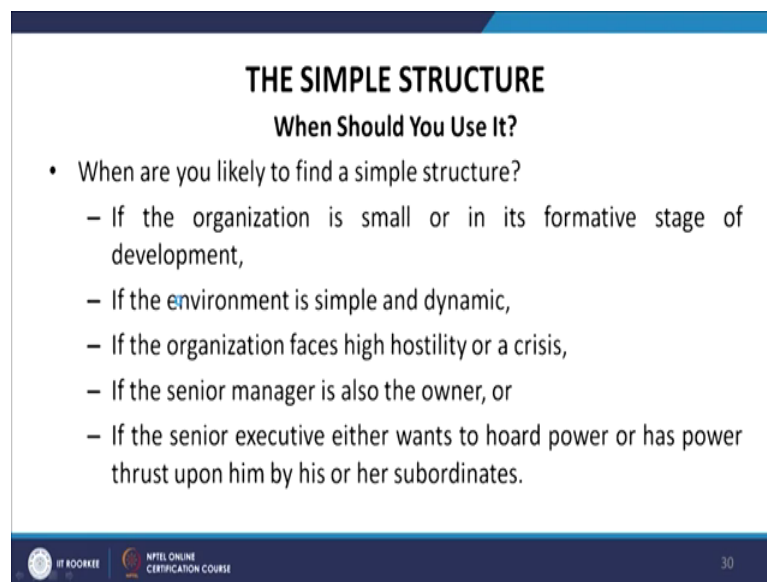
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The simple structure, in fact, has been described as the "riskiest of structures hang hinging on the health and whims of one individual". One heart attack can literally destroy the organization's decision-making center.

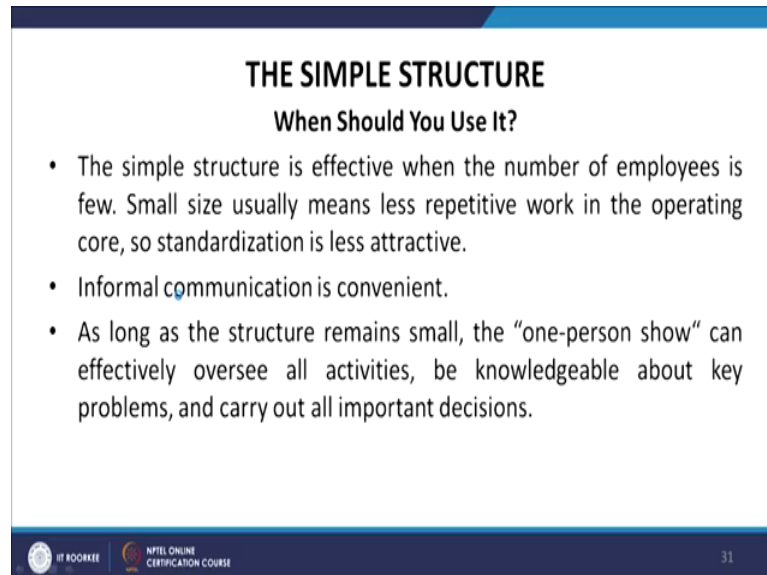(Refer Slide Time: 16:27)

When should we use this simple structure? So, when are you likely to find a simple structure? If the organization is small or in its formative stages of development, If the environment is simple and dynamic, if the organization face high hostility or a crisis, if

the senior manager is also the owner or if the senior executive either wants to hoard power or has power thrust upon him by his or her subordinates.
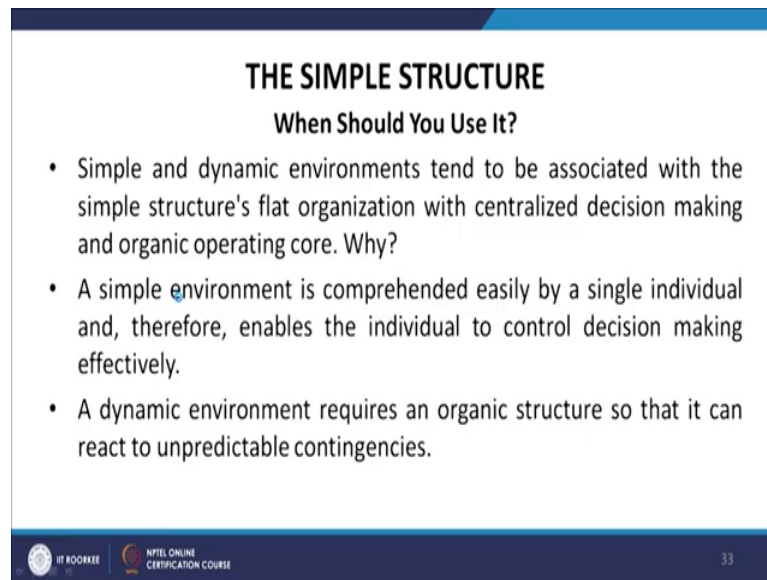
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The simple structure is effective when the number of employees is few. Small size usually means less repetitive work in the operating core, so standardization is less attractive. Informal communication is convenient. As long as the structure remains small, the "one-person show" can effectively oversee all activities, be knowledgeable about key problems, and carry out all important decisions.

The simple structure also meets the needs of organization when they are in their formative years. The new organization tends to adopt the simple structure no matter what its environment or technical system because it has not had the time to elaborate its administrative structure. Almost all organizations therefore, pass through the simple structure stage. For those that remain is small in size, the simple structure may be permanent rather than transitory.
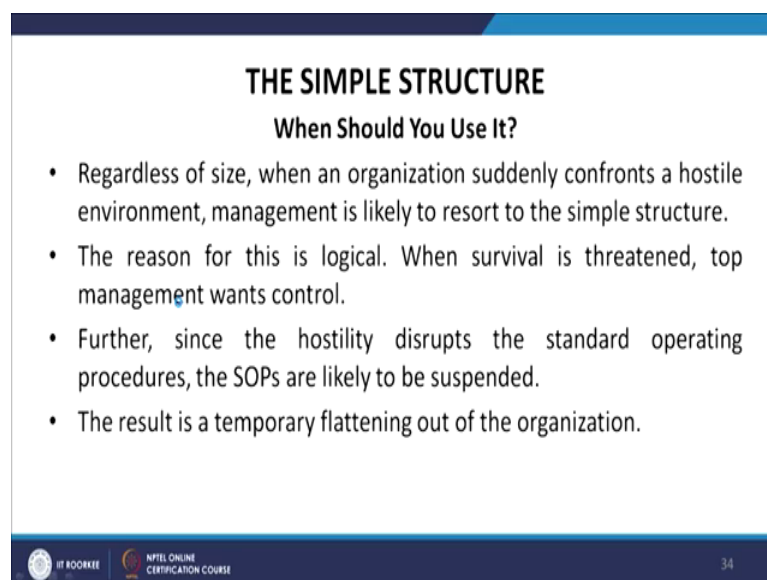
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Simple and dynamic environments tend to be associated with the simple structure's flat organization with centralized decision making and organic operating core. Why? A simple environment is comprehended easily by a single individual and, therefore, enables the individual to control decision making effectively. The dynamic environment requires an organic structure so that it can react to unpredictable contingencies.

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Regardless of size, when an organization suddenly confronts a hostile environment, management is likely to resort to the simple structure. The reason for this is logical,

when survival is threatened, top management wants control. Further, since the hostility disrupts the standard operating procedures, the SOPs are likely to be suspended.

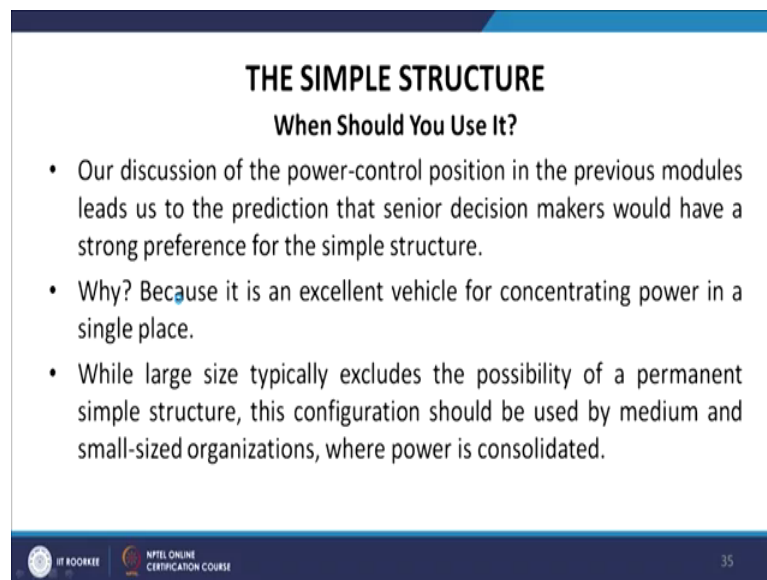The result is a temporary flattening out of the organization. Our discussion of the power-control position in the previous modules leads us to the prediction that senior decision makers would have a strong preference for the simple structure. Why? Because, it is an excellent vehicle for concentrating power in a single place.
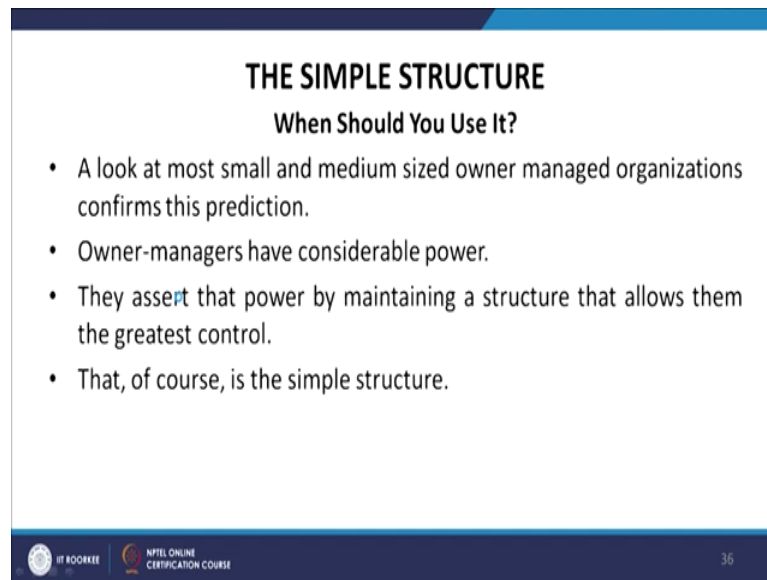
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While large size typically excludes the possibility of a permanent simple structure, this configuration should be used by medium and small sized organization, where power is consolidated.
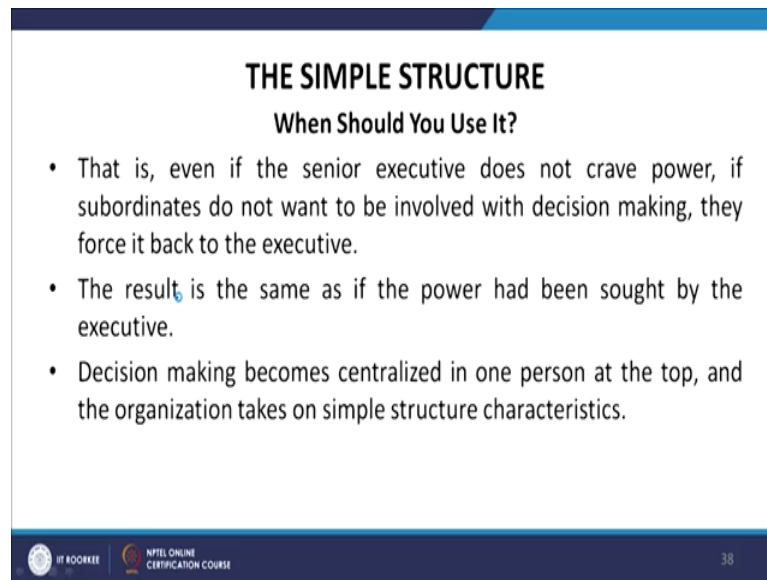
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A look at most small and medium sized owner managed organizations confirms this prediction. Owner-managers have considerable power. They assert that power by maintaining a structure that allows them the greatest control. That of course, is the simple structure.

Similarly, regardless of size when the top executive hoards power and purposely avoids high formalization, So as to maximize the impact of his or her discretion, that executive will in effect design a simple structure for the organization. Power and the simple structure are again correlated when organizational members defer power to the chief executive.
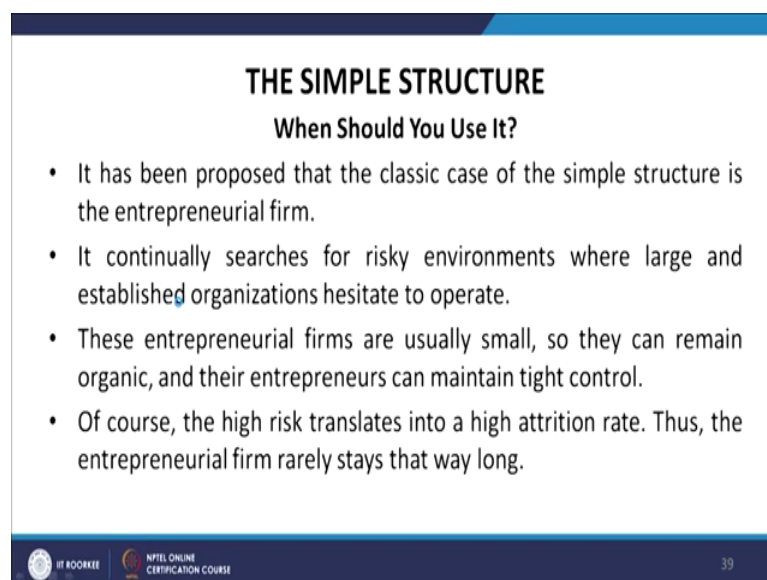
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THE SIMPLE STRUCTURE
When Should You Use It?
- That is, even if the senior executive does not crave power, if subordinates do not want to be involved with decision making, they force it back to the executive.
- The result is the same as if the power had been sought by the executive.
- Decision making becomes centralized in one person at the top, and the organization takes on simple structure characteristics.

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THE SIMPLE STRUCTURE
When Should You Use It?
- It has been proposed that the classic case of the simple structure is the entrepreneurial firm.
- It continually searches for risky environments where large and established organizations hesitate to operate.
- These entrepreneurial firms are usually small, so they can remain organic, and their entrepreneurs can maintain tight control.
- Of course, the high risk translates into a high attrition rate. Thus, the entrepreneurial firm rarely stays that way long.

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hesitate to operate. These entrepreneurial firms are usually small, so they can remain organic, and their entrepreneurs can maintain tight control. Of course, the high risk translates into high attrition rate.

Thus, the entrepreneur firm rarely stays that way for long. The weak one dies, the successful ones tends to grow and become increasingly risk averse.

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When this happens, the simple structure tends to be replaced by either a machine or professional bureaucracy.

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So, to conclude, we started this module by discussion on case for standardized organization structure. Then, we had discussed about the five basic parts of any organization. Finally, we explained the simple structure and its strengths and weaknesses. Finally, we discussed when we should use simple structures.

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And again the these are the four books used for this module.

Thank you.