Organization Theory/Structure and Design
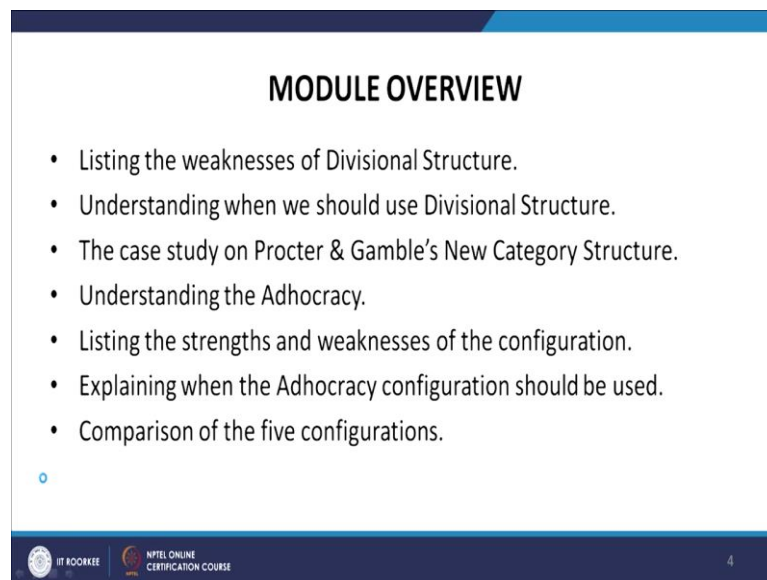**Prof. Zillur Rahman**
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 26
Organizational Design Options - III

Welcome to module 26 of this course called as Organization Theory, Structure and Design. Now, this is the last module that will talk about Organizational Design Options. So, we have already talked about organizational design options in module 24 and 25. Now, let us see what are the things that we will talk about in this module.

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So, we will start with listing the weaknesses of divisional structure, understanding when we should use the divisional structure and the case study on Procter and Gamble's New Category Structure.

Then we will understand the adhocracy, listing the strengths and weaknesses of this kind of configuration, explaining when the adhocracy configuration should be used and then comparison of the five configurations. So, these are the things that will be covered in this module.

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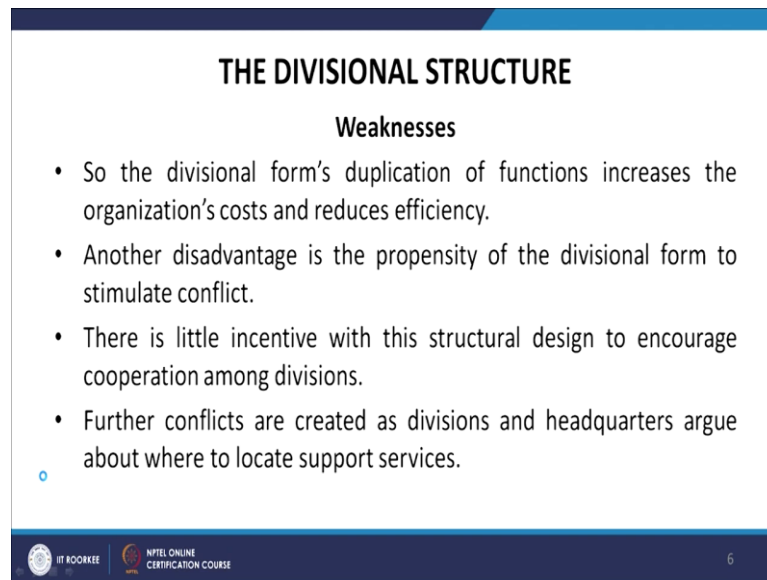So, now, let us start with the weaknesses of the divisional structure. We have already talked about the strengths of this kind of structure in the earlier module. So, in last module, we closed the discussion with the strengths of divisional structure. Let us turn now to its weaknesses, of which there is no shortage.

First is the duplication of activities and resources. Second each division, for instance may have a marketing research department. And in the absence of autonomous divisions, all the organizations marketing research might be centralized and done for a fraction of the cost that divisionalization requires.

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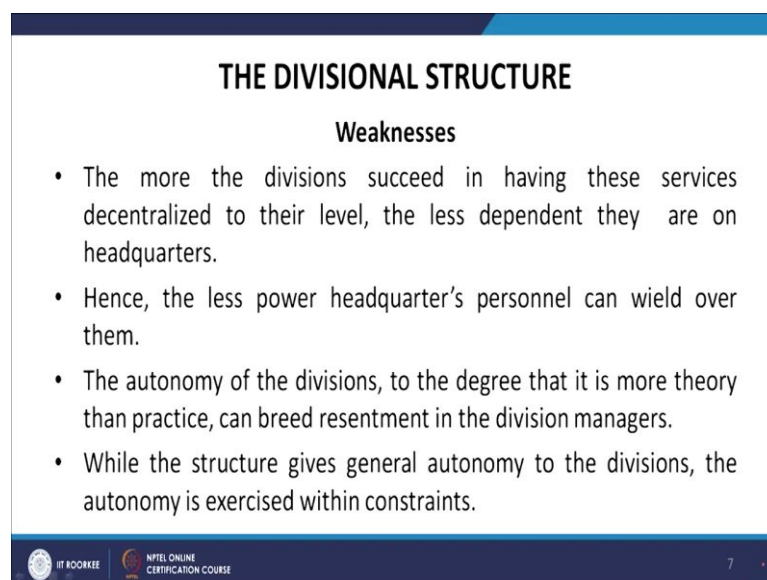So, the divisional form's duplication of functions increases the organization's cost and reduces efficiency. Another disadvantage is the propensity of the divisional form to stimulate conflict. There is little incentive with this structural design to encourage cooperation among divisions. Further conflicts are created as divisions and headquarters argue about where to locate support services.
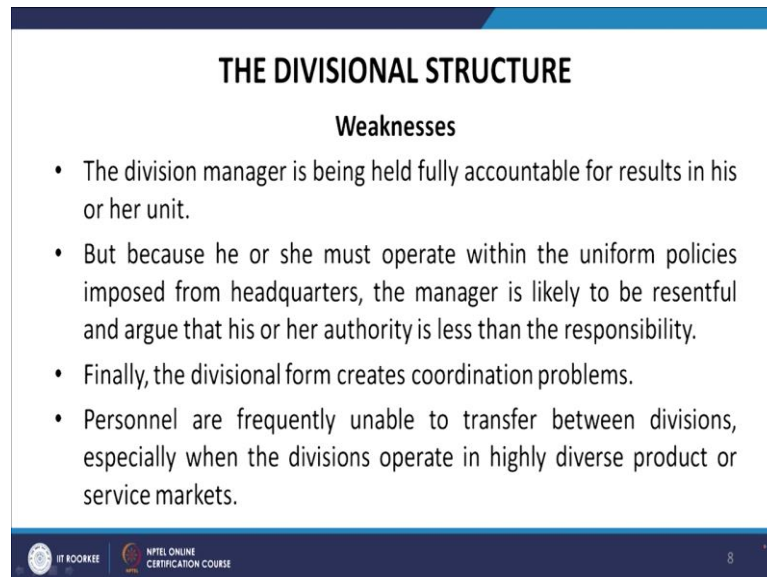
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The more the divisions succeed in having these services decentralized to their level, the less dependent they are on the headquarters. Hence, the less power headquarter's

personnel can wield over them. The autonomy of the divisions to the degree that it is more theory than practice can breed resentment in the division managers. While the structure gives general autonomy to the divisions, the autonomy is exercised within constraints.

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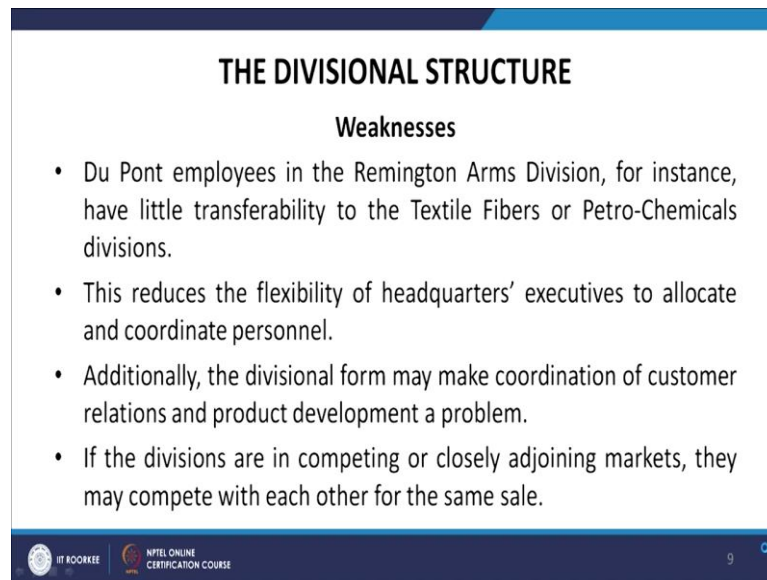

THE DIVISIONAL STRUCTURE

Weaknesses

- The division manager is being held fully accountable for results in his or her unit.
- But because he or she must operate within the uniform policies imposed from headquarters, the manager is likely to be resentful and argue that his or her authority is less than the responsibility.
- Finally, the divisional form creates coordination problems.
- Personnel are frequently unable to transfer between divisions, especially when the divisions operate in highly diverse product or service markets.

The division manager is being held fully accountable for results in his or her unit. But because he or she must operate within the uniform policies imposed from headquarters, the manager is likely to be resentful and argue that his or her authority is less than the responsibility. Finally, the division form creates coordination problems. Personnel are frequently unable to transfer between divisions, especially when the division operates in highly diverse products or service markets.
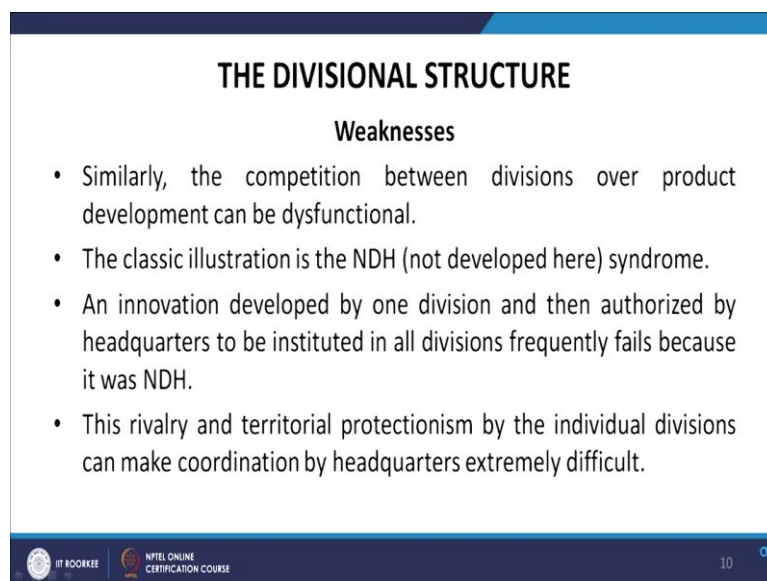
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Du point employees in the Remington Arms Division, for instance, have little transferability to the Textile Fibers or Petro Chemicals divisions. This reduces the flexibility of headquarters executives to allocate and coordinate personnel.

Additionally, the divisional form may make coordination of customer relations and product development a problem. If the divisions are in competing or closely adjoining markets, they may compete with each other for the same sale.

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Similarly, the competition between divisions over product development can be dysfunctional.

The classic illustration is the NDH, not developed here syndrome. An innovation developed by one division and then authorized by headquarters to be instituted in all divisions, frequently fails because it was NDH, not developed here. The rivalry and territorial protectionism by the individual divisions can make coordination by headquarters extremely difficult.

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Now, when should you use the divisional structure? The primary criterion determining the use of the divisional structure is product or market diversity. When an organization chooses a diversification strategy to become a multiproduct or multimarket organization, the divisional form becomes preferable to the machine bureaucracy.

When an organization diversifies, conflicts along the horizontal dimension, between functions become too great and a change in structural design becomes necessary. Other contingency factors include size, technology, and environment.

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As size increases, it becomes more difficult to coordinate functional units and to keep members' attention focused on the organization's goals. Organizational size and goal displacement appears to be highly correlated. So, increase in size encourages movement to the divisional structure. All technologies are not compatible with the division forms. To be applicable, the organization's technology must be divisible.

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Divisionalization is possible only when the organization's technical systems can be efficiently separated into segments, one for each division. Finally, environment affects

preference for a divisional form. The divisional structure works best, when the environment is neither very complex nor very dynamic. Why?

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Highly complex and dynamic environments are associated with non standardized processes and outputs, yet the division form is a lot like the machine bureaucracy in its emphasis on standardization. So, the divisional form tends to have an environment that is more simple than complex and more stable than dynamic.

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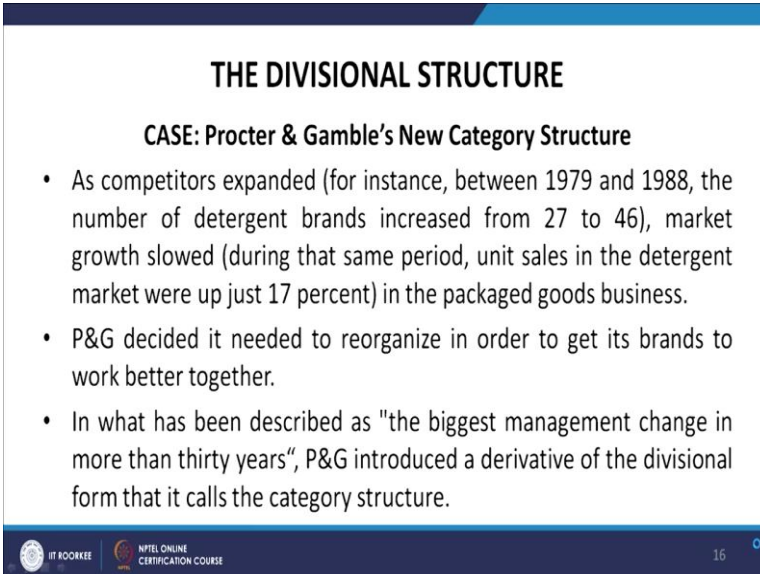Now, let us look at the case of this Procter and Gamble's New Category Structure. For more than fifty-five years, Procter and Gamble was organized around brands. Each brand such as Tide, Head and Shoulders and the likes had its own brand manager who was singularly accountable for his or her brand's performance.

The brand management structure fostered internal competition and established strong incentives to excel. But having brands compete directly against each other created conflict and inefficiencies.

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As competitors expanded for instance between 1979 and 1988, the number of detergent brands increased from 27 to 46, market growth slowed; during that same period unit sales in the detergent market were up just 17 percent in the packaged goods business.

P and G decided, it needed to reorganize in order to get its brands to work better together. In what has been described as the biggest management change in more than thirty years; P and G introduced a derivative of the divisional form that it calls the category structure.

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THE DIVISIONAL STRUCTURE

CASE: Procter & Gamble's New Category Structure

- The new design leaves the brand managers intact but adds a new layer of management over the brand managers.
- Products have been segmented into 39 categories from diapers to cake mixes each run by a category manager.
- This manager has direct profit responsibility and oversees all advertising, sales, manufacturing, research, engineering, and other activities related to his or her category.

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THE DIVISIONAL STRUCTURE

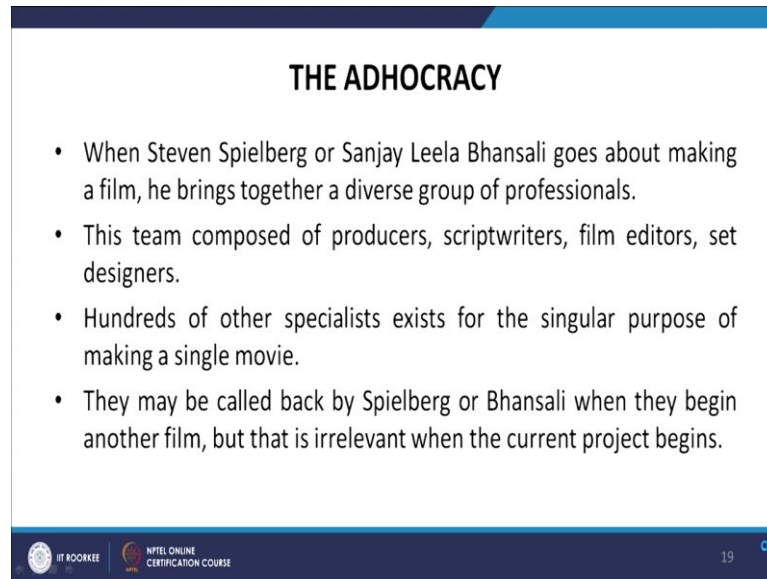CASE: Procter & Gamble's New Category Structure

- The category manager for laundry detergents, for example, becomes a mini general manager, accountable for his or her entire product line, with direct responsibility over the half-dozen or so brand managers of laundry detergent products.
- The major advantage of this new structural design is that it allows P&G to create marketing strategies that encompass entire categories and fit brands together.
- For instance, now a category manager decides how to position advertising for Tide and Ariel in order to avoid confusion in the minds of consumers.

The category manager for laundry detergents, for example, becomes a mini general manager; accountable for his or her entire product line, with direct responsibility over the half dozen or so brand managers of laundry detergent products. The major advantage of

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For instance, now a category manager decides how to position advertising for Tide and Ariel in order to avoid confusion in the minds of the consumers.

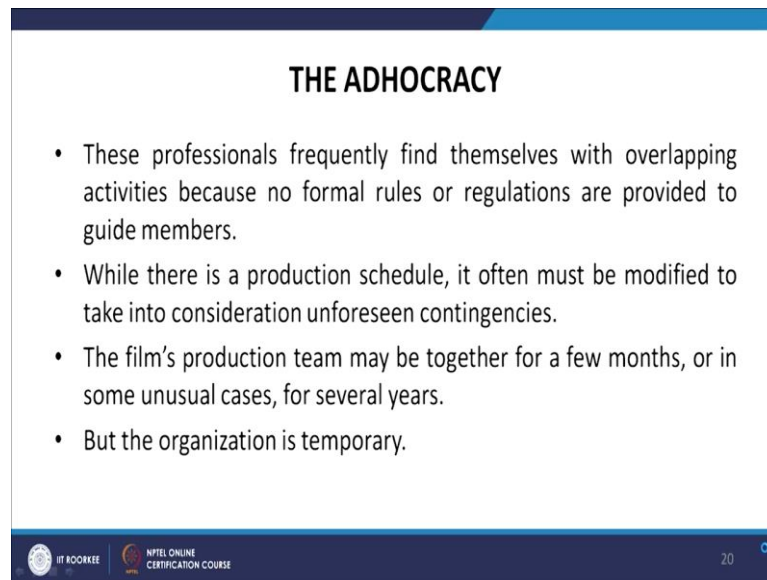(Refer Slide Time: 09:14)

The next in line is the adhocracy. When Steven Spielberg or Sanjay Leela Bhansali goes about making a film, he brings together a diverse group of professionals. This team composed of producers, scriptwriters, film editors, set designers.

Hundreds of other specialists exist for the singular purpose of making a single movie. They may be called back by Spielberg or Bhansali when they begin another film; but that is irrelevant when the current project begins.
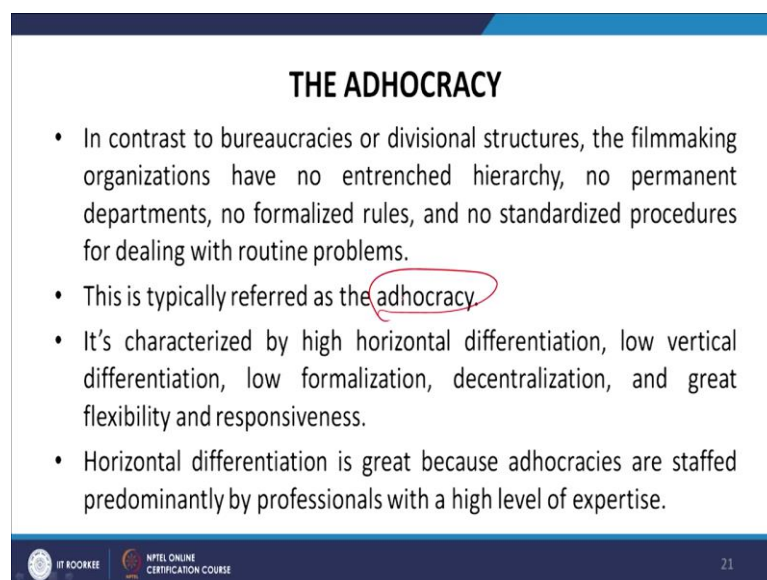
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These professionals frequently find themselves with overlapping activities, because no formal rules or regulations are provided to guide members. While there is a production schedule, it often must be modified to take into consideration unforeseen contingencies. The film's production team may be together for a few months or in some unusual cases for several years. But the organization is temporary.

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In contract to bureaucracies or divisional structures, the filmmaking organization have no entrenched hierarchy, no permanent departments, no formalized rules, no standardized

procedures for dealing with routine problems. This is typically referred as the adhocracy. It is characterized by high horizontal differentiation, low vertical differentiation, low formalization, decentralization, and great flexibility and responsiveness.

Horizontal differentiation is great because adhocracies are staffed predominantly by professionals with a high level of expertise.
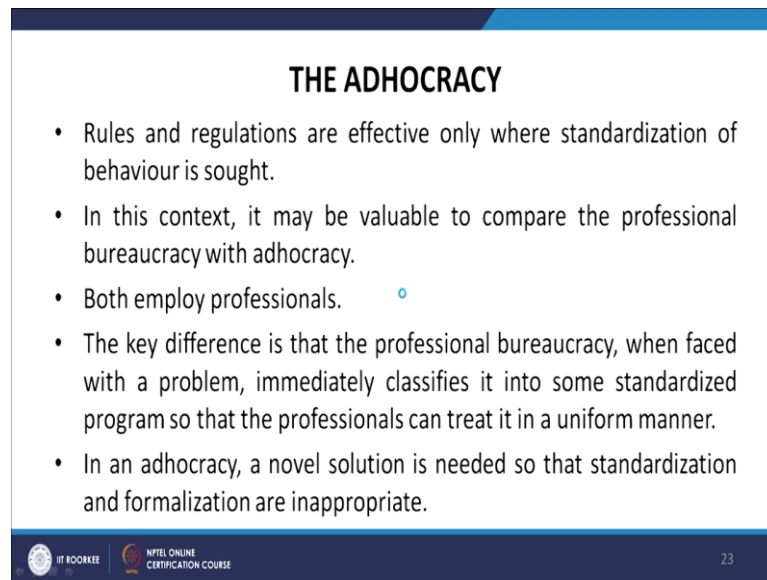
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Vertical differentiation is low, because many levels of administration would restrict the organization's ability to adapt. Also, the need for supervision is minimal, because professionals have internalized the behaviour that management wants. We have already found professionalization and formalization to be inversely related. The adhocracy is no exception.

There are few rules and regulations. Those that exist tend to be loose and unwritten. Again, the objective of flexibility, demands an absence of formalization.

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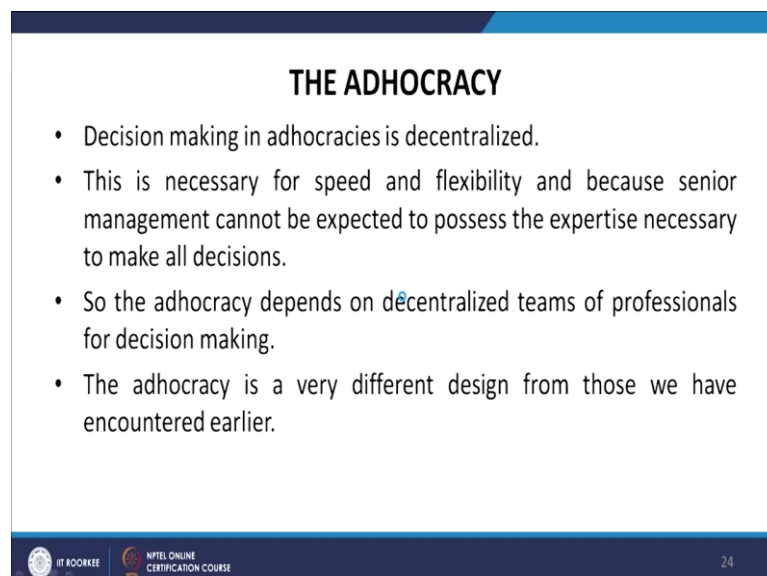
Rules and regulations are effective only when standardization of behaviour is sought. In this context, it may be valuable to compare the professional bureaucracy with adhocracy; both employ professionals. The key difference is that, the professional bureaucracy, when faced with a problem, immediately classifies it into some standardized program, so that the professionals can treat it in a uniform manner.

In an adhocracy, a novel solution is needed, so that the standardization and formalization are inappropriate.

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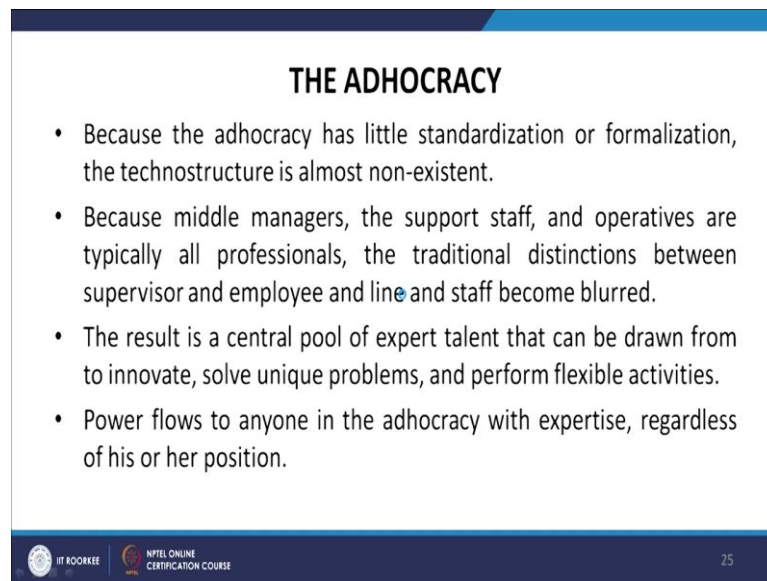Decision making in adhocracies is decentralized. This is necessary for speed and flexibility and because senior management cannot be expected to possess the expertise necessary to make all decisions. So, the adhocracy depends on decentralized teams of professionals for decision making. The adhocracy is a very different design from those we have encountered earlier.

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Because the adhocracy has little standardization or formalization, the techno structure is almost non-existent. Because middle managers, the support staff, and operatives are typically all professionals; the traditional distinction between supervisor and employee and the line and staff becomes blurred.

The result is a central pool of expert talent that can be drawn from to innovate, solve unique problems, and perform flexible activities. Power flows to anyone in the adhocracy with expertise, regardless of his or her position.

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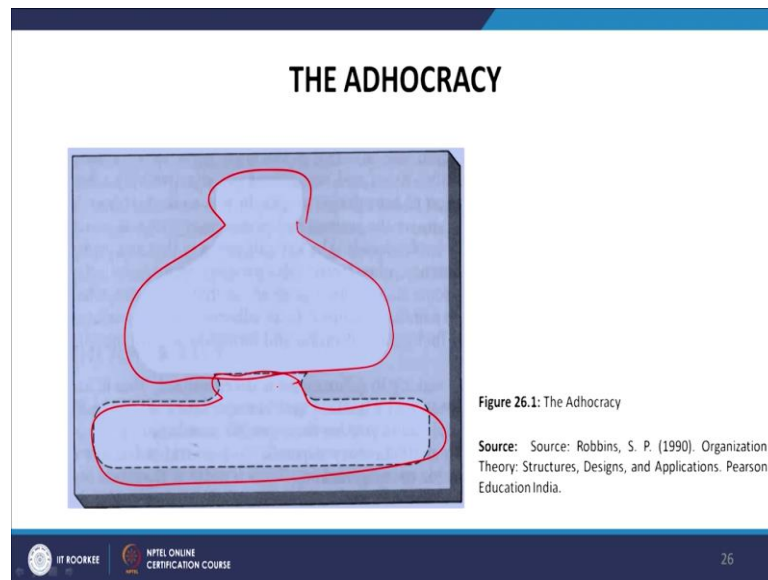
So, this is what this adhocracy looks like. So, we have seen these structure earlier, then again there is this structure here. So, this is the structure of adhocracy.

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Adhocracies are best conceptualized as group of terms. Specialists are grouped together into flexible teams that have few rules, regulations and stan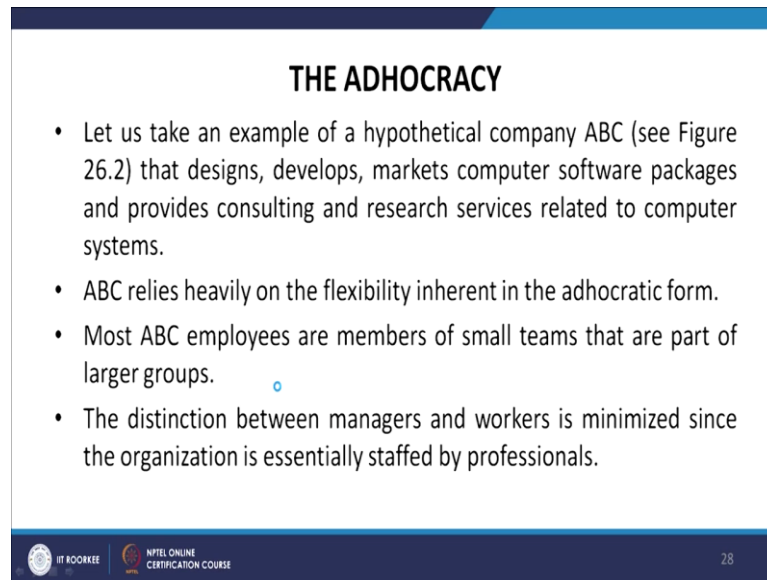dardized routines. Coordination between team members is through mutual adjustment. As conditions change, so do the activities of the members.

But adhocracies do not have to be devoid of horizontally differentiated departments. Frequently, departments are used for clarity, but then department members are deployed into small teams which cut across functional units to do their tasks.

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Let us take an example of a hypothetical company ABC. So, which is shown in figure 26.2 that designs, develops, markets computer software packages and provides consulting and research services related to computer systems. ABC relies heavily on the flexibility inherent in the adhocratic form. Most ABC employees are members of small teams that are part of larger groups. The distinction between managers and workers is minimized since the organization is essentially staffed by professionals.

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All employees enjoy a great deal of autonomy. ABC's structure is primarily designed around solving problems rather than narrow functional specialties. Rather than being permanently part of a team, employees have tenure on a specific team depending on how long it takes for that team to accomplish its current tasks.

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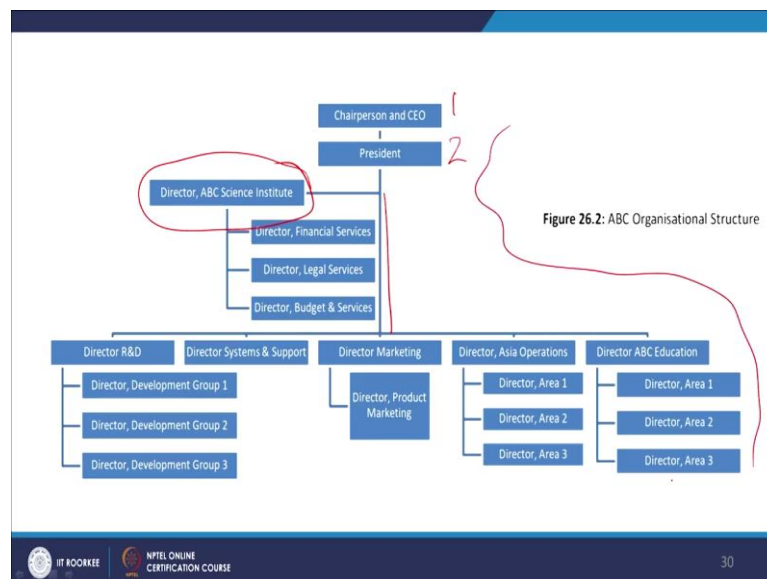
So, this is this ABC's organization structure, again at the top you will find chairperson and the CEO and he is followed by president. And then there are director ABC science institute; then there are director of financial services, director legal services, and director

budget and services. So, this is a separate unit here. Now, this president has director R and D, director systems and support, director marketing, director Asia operations, director ABC education under him who reports to him.

Now, this director R and D, he has director development group 1, director development group 2, director development group 3 reporting to him. Director marketing has director product marketing under him. This director Asia operations have three directors; director of area 1, and area 2 and area 3. Then director of ABC education has director again of area 1, area 2, and area 3. So, you see how complex this kind of a structures they keep on becoming.

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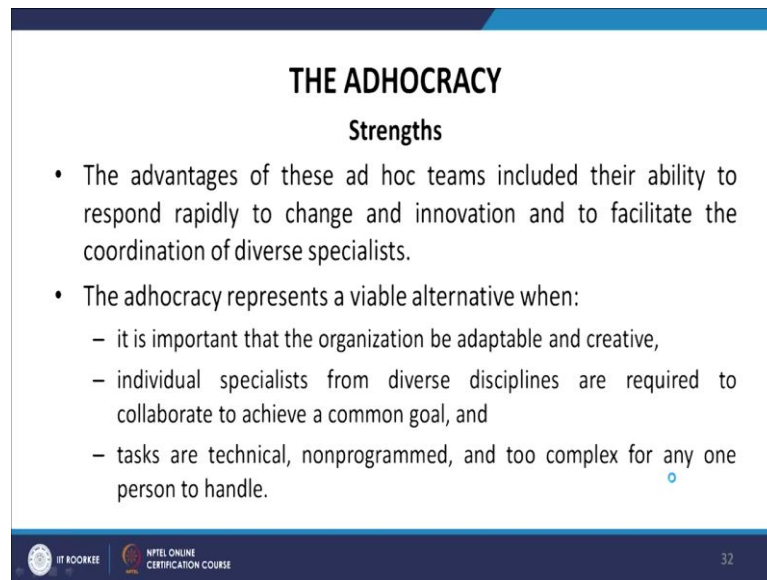
Now, let us look at the strengths of the adhocracy. The history of adhocracy can be traced to the development of task forces during World War II, when the military created ad hoc teams that were disbanded after completion of their missions. There was no rigid time span for their existence; teams could last a day, a month, or a year.

Roles performed in the teams were interchangeable. Depending upon the nature and complexity of the mission, the group could be divided into sub units, each responsible for different facets of the job to be performed.

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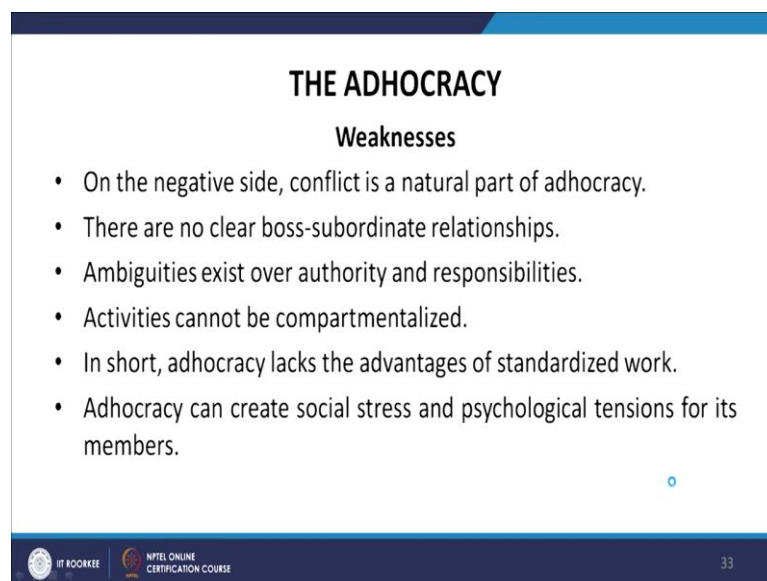
The advantage of these ad hoc teams included their ability to respond rapidly to change and innovation and to facilitate the coordination of diverse specialists.

The adhocracy represents a viable alternative when: it is important that the organization be adaptable and creative; individual specialists from diverse disciplines are required to collaborate to achieve a common goal; and task are technical, non-programmed, and too complex for any one person to handle.

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Now, let us look at the weaknesses of this kind of a structure. On the negative side, conflict is a natural part of adhocracy. There are no clear boss-subordinate relationships. Ambiguities exist over authority and responsibilities. Activities cannot be compartmentalized. In short, adhocracies lack the advantages of standardized work. Adhocracies can create social stress and psychological tensions for its members.

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THE ADHOCRACY
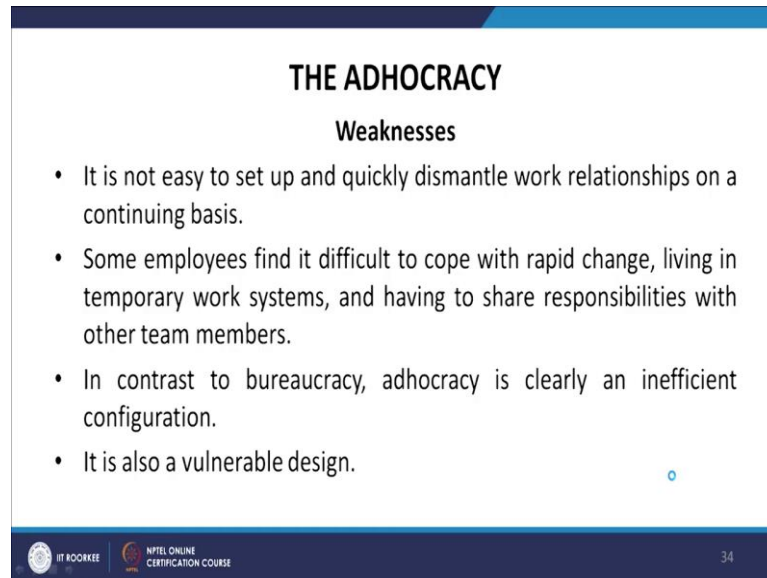
Weaknesses
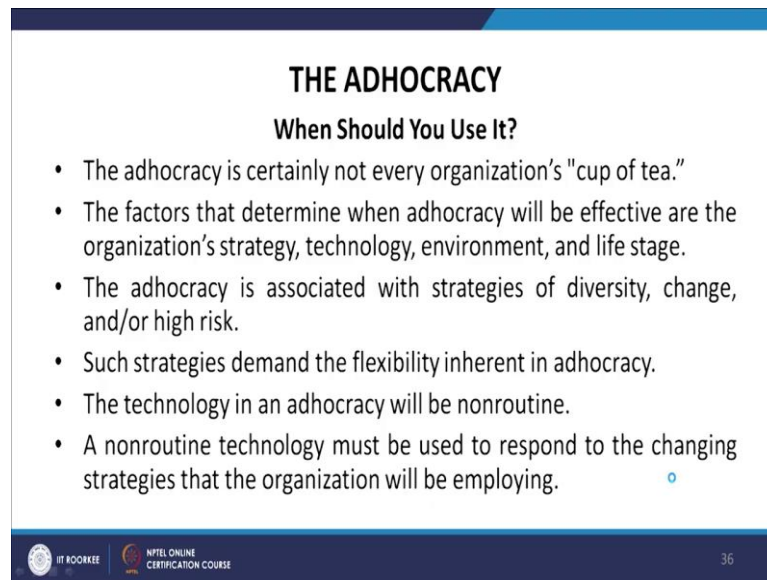
- It is not easy to set up and quickly dismantle work relationships on a continuing basis.
- Some employees find it difficult to cope with rapid change, living in temporary work systems, and having to share responsibilities with other team members.
- In contrast to bureaucracy, adhocracy is clearly an inefficient configuration.
- It is also a vulnerable design.

It is not easy to set up and quickly dismantle work relationships on a continuing basis. Senior employees find it difficult to cope with rapid change, living in temporary work systems, and having to share responsibilities with other team members. In contrast to bureaucracy, adhocracy is clearly an inefficient configuration.

It is also a vulnerable design. As one author noted many of them either die early or else shift to bureaucratic configurations to escape the uncertainty. So, why you might ask, would it ever be used? Because its inefficiencies in certain circumstances are more than offset by the need for flexibility and innovation.

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Now, let us look at that when should this kind of structure be used? The adhocracy is certainly not every organization's cup of tea. The factors that determine when adhocracy will be effective are the organization's strategy, technology, environment, and life stage. The adhocracy is associated with the strategies of diversity, change, and or high risk. Such strategies demand the flexibility inherent in adhocracy.

The technology in an adhocracy will be non-routine. A non routine technology must be used to respond to the changing strategies that the organization will be employing.

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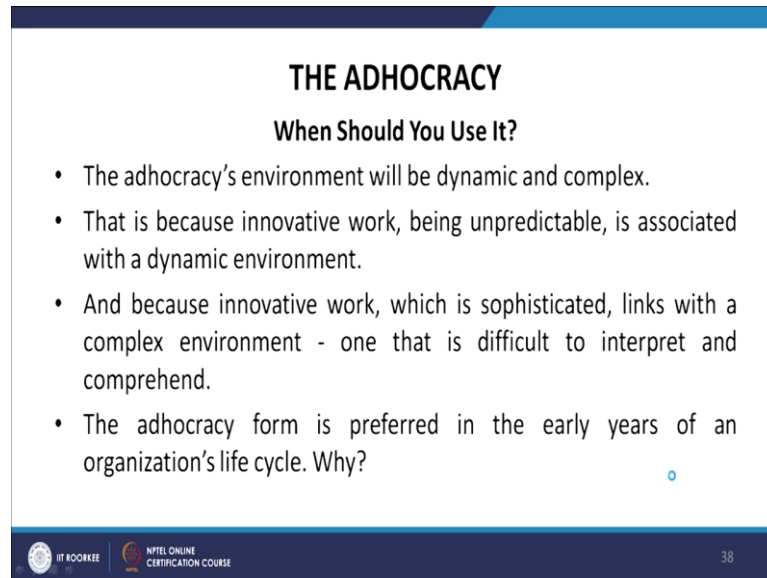
The technology will contain little formalization, relying on the expertise of professionals to provide the right response. Additionally, the technology will be complex in that it will draw on the talents of diverse specialties. This, in turn, requires coordination and integration of specialized and heterogeneous skills. The adhocracy is the preferred mechanism for facilitating this integration.

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The adhocracy's environment will be dynamic and complex. That is because innovative work, being unpredictable, is associated with a dynamic environment. And because innovative work, which is sophisticated, links with a complex environment - one that is difficult to interpret and comprehend. The adhocracy form is preferred in the early years of an organizations life cycle. Why?

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THE ADHOCRACY

When Should You Use It?

- This is the time when the organization needs the greatest flexibility as it attempts to identify its market niche and determine precisely how it is going to go about achieving its goals.
- Innovation is high in an organization's formative years as it struggles to survive.
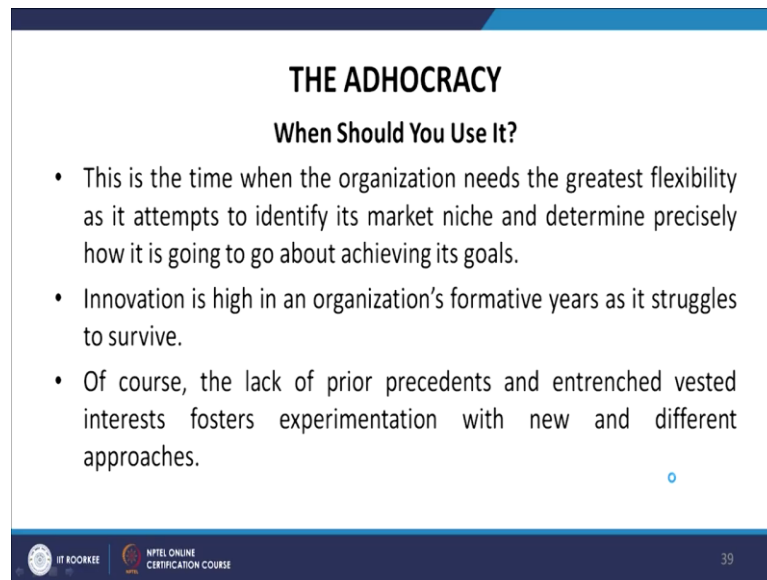- Of course, the lack of prior precedents and entrenched vested interests fosters experimentation with new and different approaches.

This is the time when the organization needs the greatest flexibility as it attempts to identify its market niche and determine precisely how it is going to go about achieving it is goals. Innovation is high in an organization's formative years as it struggles to survive. Of course, the lack of prior precedents and entrenched vested interest foster experimentation with new and different approaches

A final point regarding the adhocracy is its current trendiness. It fits well with the notion held by many managers today that, environment is dynamic and complex. Add to this the fact that organizations are increasingly being staffed by technical experts; it becomes fashionable for management to choose work designs that emphasize decentralized teams and tasks forces.

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Now, let us compare these five types of configurations. While our society is populated by millions of organizations, they can essentially be reduced into one of the five general configurations. The simple structure, the machine bureaucracy, the financial bureaucracy, the divisional structure, and the adhocracy; so, these are the five structures that we are talking about.

1, simple structure; 2, machine bureaucracy; 3, professional bureaucracy; 4, divisional structure and 5, adhocracy. The simple structure and adhocracy are essentially organic structures, while the other three are more mechanistic in form.

So, these are the five forms of organizational structure and the first and the last they are more organic while in between, then these three they are more mechanistic in form. Yet, each is unique and preferable to the other four under certain conditions and circumstances.

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COMPARING THE FIVE CONFIGURATIONS

- The simple structure is recommended:
  - for small organizations,
  - for those in their formative stage of development,
  - for organizations in environments that are simple and dynamic,

  as a response to times of crisis, or when those in control desire power to be centralized.

The simple structure is recommended for small organizations, for those in their formative stages of development, for organizations in environments that are simple and dynamic, as a response to times of crisis, or when those in control desire power to be centralized.
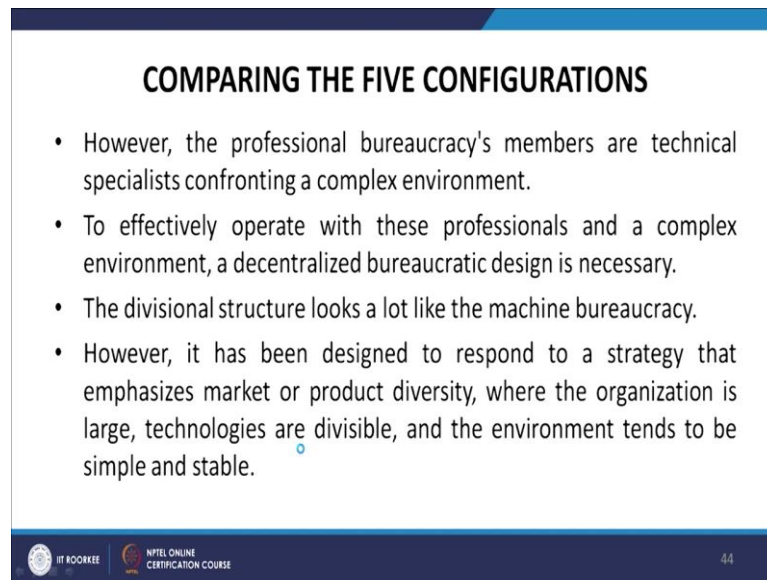
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COMPARING THE FIVE CONFIGURATIONS

- The machine bureaucracy is designed to effectively handle
  - large size,
  - a simple and stable environment, and
  - a technology that is composed of routine and standardized work.
- Its professional counterpart is also designed for large organizations with a routine technology.

The machine bureaucracy is designed to effectively handle large size, a simple and stable environment, and a technology that is composed of routine and standardized work. It is professional counterpart is also designed for large organizations with a routine technology.
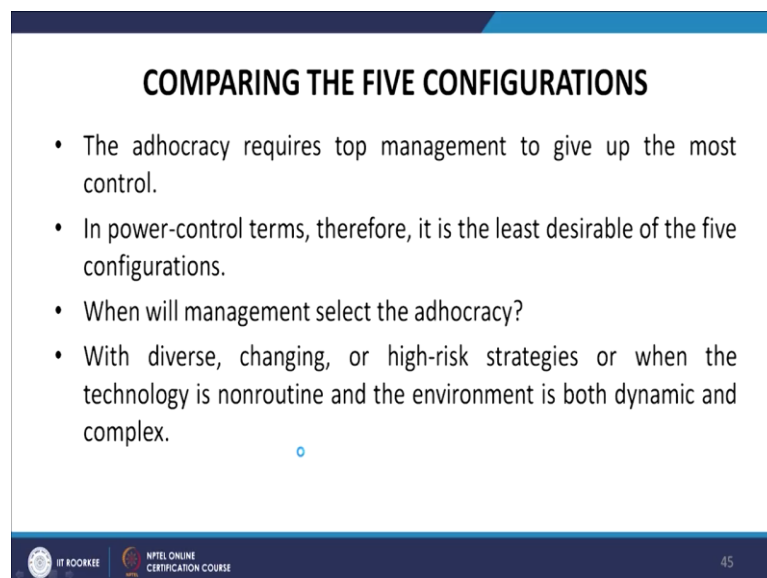
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However, the professional bureaucracy's members are technical specialists confronting a complex environment. To effectively operate with these professionals and a complex environment, a decentralized bureaucratic design is necessary. The divisional structure looks a lot like the machine bureaucracy.

However, it has been designed to respond to a strategy that emphasizes market or product diversity, where the organization is large, technologies are divisible, and the environment tend to be simple and stable.
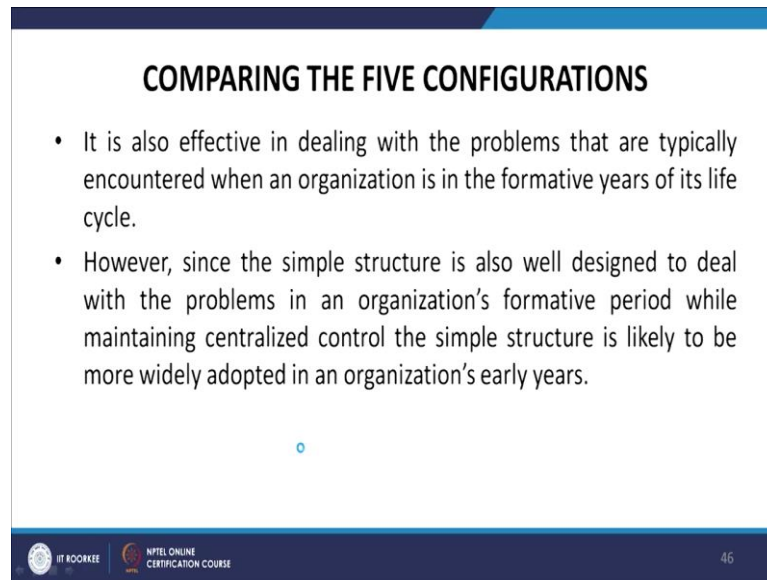
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The adhocracy requires top managers to give up the most control. In power control terms, therefore, it is the least desirable of the five configurations. When will management select the adhocracy? With diverse, changing or high-risk strategies or when the technology is non routine and the environment is both dynamic and complex.

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It is also effective in dealing with the problems that are typically encountered when an organization is in the formative years of its life cycle. However, since the simple structure is also well designed to deal with the problems in the organization's formative period while maintaining centralized control, the simple structure is likely to be more widely adopted in an organization's early years.

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COMPARING THE FIVE CONFIGURATIONS

CHARACTERISTIC	SIMPLE STRUCTURE	MACHINE BUREAUCRACY	PROFESSIONAL BUREAUCRACY	DIVISIONAL STRUCTURE	ADHOCRACY
Specialization	Low	High Functional	High Social	High Functional	High Social
Formalization	Low	High	Low	High within divisions	Low
Centralization	High	High	Low	Limited decentralization	Low
Environment	Simple and dynamic	Simple and stable	Simple and stable	Simple and stable	Complex and dynamic
General structural Classification	Organic	Mechanistic	Mechanistic	Mechanistic	Organic

Table 26.1: Summary of Five Configurations

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

So, this is how these five types of configurations compare with each other. So, on the extreme left-hand side, we have characteristic; that is first is specialization, second is formalization, third is centralization, environment, and the general structural classification.
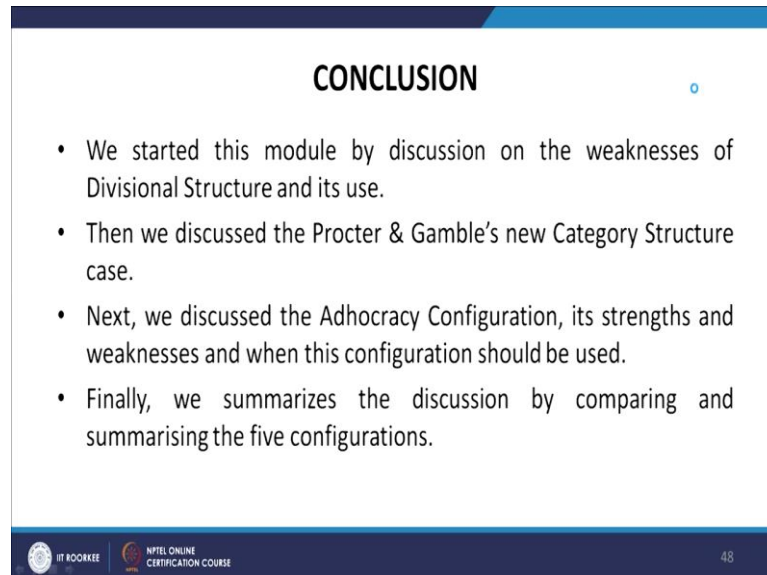
Now, these are the five types of structures; simple structure, machine bureaucracy, professional bureaucracy, divisional structure and adhocracy. Now, you see that, specialization is low in simple structure, highly functional in machine bureaucracy, high social in professional bureaucracy, high functional in divisional structure, and high social in adhocracy.

Formalization moves from being low in simple structure to high in machine bureaucracy, to again low in professional bureaucracy; then it is high within divisions in the divisional structure, and then it becomes low in adhocracy. While centralization is high in simple structure, again it is high in machine bureaucracy; in professional bureaucracy it is low, in divisional structure it is limited decentralization and in adhocracy it is again low.

The environment in simple structure should be simple and dynamic. In machine bureaucracy it is simple and stable; in professional bureaucracy it is simple, again simple and stable. In divisional structure it is simple and a stable; but in adhocracy it can be complex and dynamic. And the general structural classification in simple structure is

organic, in machine bureaucracy it is mechanistic; again in professional bureaucracy and divisional structure it is mechanistic, while in adhocracy it is organic.
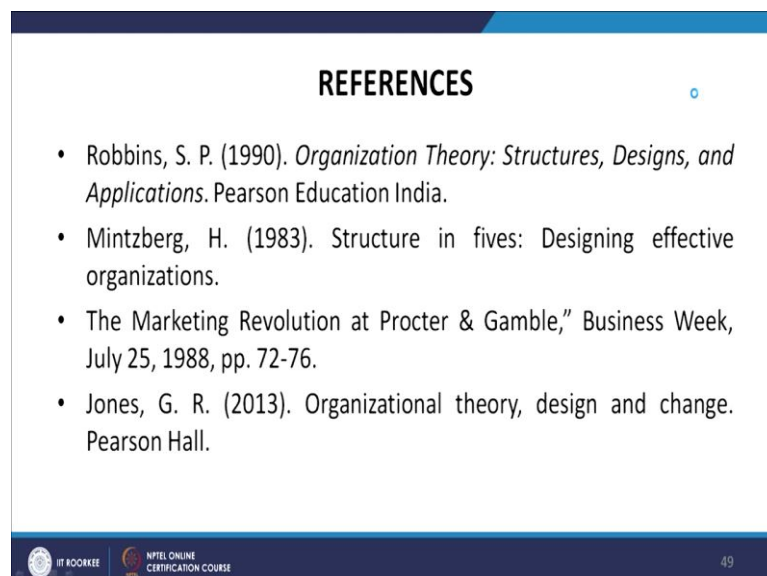
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So, in order to conclude, we started this module by discussion on the weaknesses of Divisional Structure and its use. Then we discussed the Procter and Gamble's new Category Structure case. Next, we discussed the Adhocracy Configuration, its strengths and weaknesses and when this configuration should be used. And finally, we summarize the discussion by comparing and summarizing the five configurations.

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And these are the four books from which the material for this module was used.

Thank you.