UNIT 12: STRUCTURAL IMPLEMENTATION

UNIT STRUCTURE

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12.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the Concept of Structure of Organisation
- discuss Structure and Strategy
- outline the stages of development of organizations
- list out the types of Organizational structures
- describe the organizational Design and Change

12.2 INTRODUCTION

In this unit we are going to discuss the various concept of Structure like Vertical Dimension and Horizontal Dimension. Also we will get a fair idea about the stages of development of Organizations like Entrepreneurial Stage, Functional Development Stage, Decentralization, Staff Proliferation, and Recentralization. We will learn about the various types of organizational structures.

At the end of the unit, we will look into the organizational Design and Change; Information system; Control system and Reward system.

12.3 CONCEPT OF STRUCTURE

An organisationaly structure is the outline of authority and responsibility relationship among different job positions. It is a formal arrangement of tasks and sub – tasks which are needed to implement strategies. An organisation structure has two broad dimensions; namely–

1. **Vertical Dimensions:** The vertical structure is planned to facilitate superiors to implement control over the work of subordinates. Vertical structures are known as tall structures. Such structures are suitable for companies which produce standardized products / services on a large scale with the help of mass production systems and well established technologies.

   The vertical dimension is characterized by

   i. Specialization of tasks
   ii. Chain of command
   iii. Formal reporting relationships
   iv. Grouping of individuals into departments
   v. Upward and downward communication

2. **Horizontal Dimensions:** The horizontal dimension is designed to make certain cooperation and coordination among employees working at the same level of authority. Horizontal structures are also known as flat structures. Such structures are more vital for companies making differentiated products. Medium sized manufacturing and service enterprises and nonprofit orgainsation which present specific social services are examples of these orgainsations.

   The main characteristics of horizontal dimensions are

   i. Sharing of tasks
   ii. Sharing of information
   iii. Decentralized decision making
   iv. Focus on learning

12.4 STRATEGY AND STRUCTURE

There is close interdependence between strategy and structure. There are two types of interdependence on forward and backward relationship.

i. **Forward Relationship**: A suitable organizational structure is required for effective implementation of strategy. A growth strategy requires a different structure then stability structure. Organizational structure is a means for strategy implementation. When there is a significant change in strategy the structure has to be redesigned. New organizational structure creates changes in corporate strategy.

ii. **Backward Relationship**: Strategy is also influenced by Structure. Structural consideration affects the implementation of present strategy and the formulation of future strategies. There is a reciprocal relationship between strategy and structure. Structural implementation is in fact an ongoing process of matching the structure of an organisation with its strategy. Whenever there is a mismatch between the two, changes in structure have to be made. Otherwise strategy implementation becomes difficult and performance suffers.An effective structural framework helps to deal with confusion, chaos and duplication of efforts arises at different levels.

12.5 STAGES OF DEVELOPMENT OF ORGANISATIONS

Cannon's Model consist of the five stages of development, which are discussed as follows—

Stage I: Entrepreneurial Stage: This stage represents the small business, generally operated by the owner – manager. The market of the firm is limited to a specific geographical area.

Stage II: Functional Development: When the company grows in its size, the owner manager cannot perform increased volume of managerial functions. A functional form of organization structure will be adopted. But the problem of functional structure will come to the surface with the further

increase in the company's operations. These problems include; delay in getting approval for new products and other innovations. This problem may push the company to the next stage.

Stage III: **Decentralization**: Organization will be restructured either based on product or geographic or customers. Control may become difficult when each division develops its own view of product quality, pricing etc.

Stage IV: **Staff Proliferation**: To regain control of the organization, management may employ additional human resources to assist top management.

Stage V: **Recentralization**: This stage involves increasing involvement of top management in strategic decision making. This move to recentralization may be a part of a cutback and turnaround strategy.

(Source: J.Thomas Cannon, op.cit.,pp. 525 -528., p. 302)



CHECK YOUR PROGRESS

Q1: What is organization Structure?

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Q2: What is Horizontal type organisational structure?

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12.6 TYPES OF ORGANIZATION STRUCTURE

The main types of orgainsational structures are given below:

1. **Entrepreneurial Structure**: The entrepreneurial structure is the most basic and the simplest type of organisational structure. This structure is suitable for an organisation that is owned and managed by one person. Such an organisation is typically a single product firm that serves a local market.

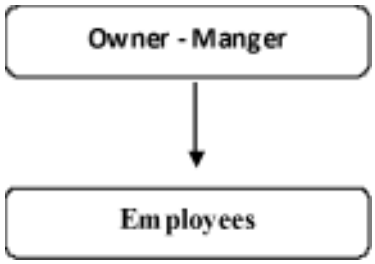


Fig 12.1: Entrepreneurial Structure

Advantages	Disadvantages
1. It is very simple 2. Quick Decision making 3. It ensures centralized control over the entire business 4. It is Flexible	1. Owner – manager is overburdened 2. Little scope for growth of business 3. Employees feel insecure 4. Overlooking strategic issues.

2. Functional Structure : The expansion into the same line of business necessitates specialization of tasks and delegation of authority to heads of different functional areas. Functional structure is suitable for medium sized firms having limited number of products. Grouping of activities on the basis of functions performed for strategic implementation creates functional structures. For example, production, marketing, finance and personnel are the basic functions in a manufacturing organization. The process of functional differentiation may continue through successive level in the hierarchy.

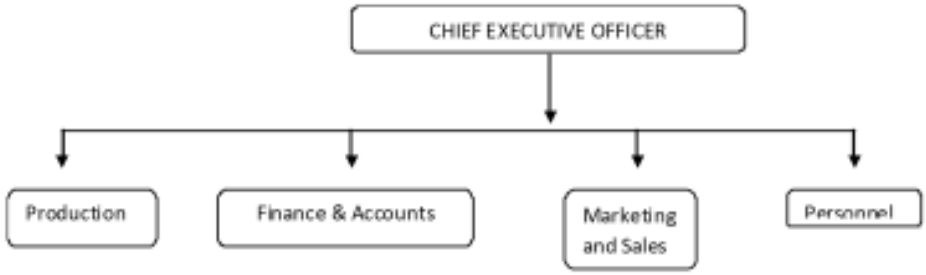


Fig 12.2: The Functional Structure

The main advantages of Functional Structures are as follows:

i. Specialization on the basis of functions results in efficient distribution of work and maximum utilization of functional skills.

ii. Delegation of operational matters enables the chief executive officers to concentrate on strategic issues.

iii. Structure can be linked to strategy by designing key activities as functional departments.

iv. It permits centralized control of strategic results.

v. There is minimum duplication of facilities.

The main disadvantages of functional structure are as follows:

i. There is difficulty in maintaining cooperation and coordination among different functional departments.

ii. Narrow specialization may lead to neglect of overall goals of the organisation.

iii. Conflicts may arise among functional and advisory staff.

iv. Decisions that require involvement of two or more functional areas may get delayed.

v. There is lack of quick response to environmental change.

3. **Divisional Structure**: The functional structure proves to be unsuitable, when the company expands into new products or geographical areas. Under the divisional organisation structure is divided into several divisions on the basis of geographical areas, types of customers and product line. Each division is self contained in terms of manufacturing and marketing facilities. Each division is self contained and headed by a divisional manager who is responsible for efficient and profitable working of the division.



Fig 12.3 : Divisional Structure

Divisional Structure offers the following **advantages**:

i. There is specific autonomy to each division for efficient management.
ii. Each division can respond quickly to environmental changes.
iii. Top management can focus on strategic matters.
iv. There is a scope of expansion and growth of business.
v. Each division can be held responsible for performance.

Divisional structure suffers from some **disadvantages,** which are—

i. Operating costs increase due to duplication of facilities.
ii. Cooperation and coordination among various divisions become difficult. There may be unhealthy competition among divisions.
iii. Policies pursued by different divisions may be inconsistent. Inconsistency may also arise from sharing of authority between corporate and divisional levels.
iv. Problems may arise in the allocation of resources among divisions. Inter-division conflicts may arise on sharing of resources, allocation of common overheads, etc.
v. Divisional structure is appropriate for multibusiness firms operating in a dynamic situation.

4. SBU Structure: Strategic Business Unit (SBU) implies an **independently managed division of a large company**, having its own vision, mission and objectives, whose planning is done separately from other businesses of the company. The vision, mission and objectives of the division are both distinct from the parent enterprise and elemental to the long-term performance of the enterprise. Simply put, an SBU is a cluster of associated businesses which are responsible for its combined planning treatment, i.e. the company engaged in a diversified range of businesses, categorises its multitude of businesses into a few separate divisions, in a scientific way. The task may include analysis and bifurcation of a variety of businesses.

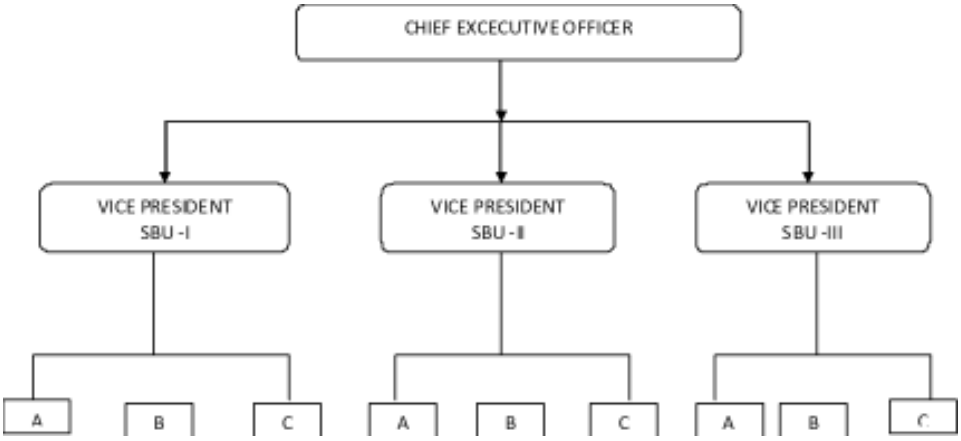


Fig : 12.4 SBU structure

The main **advantages** of SBU structure are as follows:

i. Each SBU head can be held accountable for ultimate results and operates as a stand-alone profit centre.

ii. Coordination between all divisions within an SBU becomes easier. There is greater decentralisation of authority.

iii. SBU structure facilitates strategic control over a large and diverse organisation.

iv. There is considerable scope for growth and expansion of business.

v. Individual SB Us can react quickly to changes in environment.

Some of the **disadvantages** of SBU structure are given below:

i. It is quite difficult to clearly define the autonomy and responsibility of various SBU heads and to achieve synergies across SBUs.

ii. The hierarchy increases due to addition of one more level between corporate management and divisional management.

iii. In a large and diversified company, effective handling of several SBUs may not be easy.

iv. It may lead to costly duplication of staff and facilities.

v. There may be rivalry among SBUs for corporate resources.

vi. Top level managers may lose touch with business level situations.

5. **Matrix Structure**: A matrix organizational structure is one of the most complicated reporting structures a company can implement. A **matrix organizational structure** is a company structure in which

the reporting relationships are set up as a grid, or matrix, rather than in the traditional hierarchy. In other words, employees have dual reporting relationships - generally to both a functional manager and a product manager.In the 1970s, Philips, a Dutch multinational electronics company, set up matrix management with its managers reporting to both a geographical manager and a product division manager. Many other large corporations, including Caterpillar Tractor, Hughes Aircraft, and Texas Instruments, also set up reporting along both functional and project lines around that time.

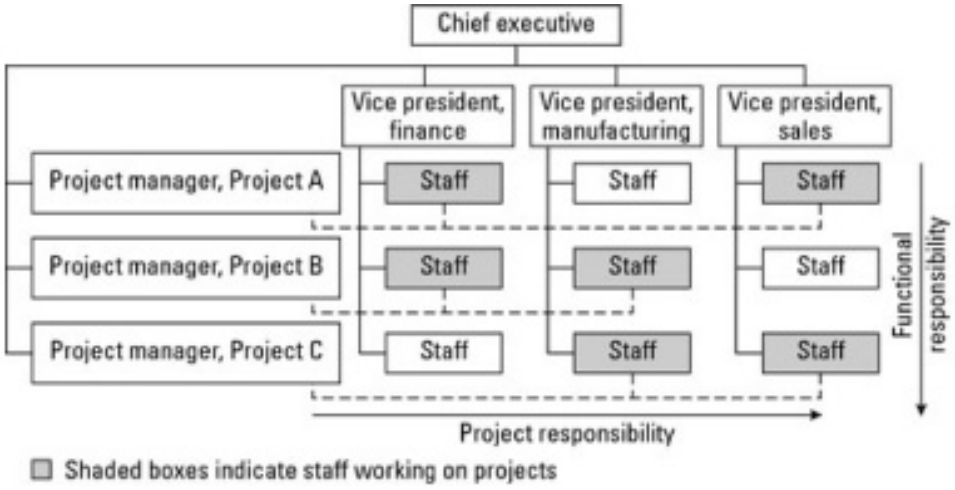


Fig : 12.5 Matrix structure

In a matrix organization, instead of choosing between lining up staff along functional, geographic or product lines, management has both. Staffers report to a functional manager who can help with skills and help prioritize and review work, and to a product line manager who sets direction on product offerings by the company. This structure has some advantages, which are discussed as follows—

Advantages :

i. Objectives will not only be clear but will also be balanced with the objectives of the functional aspects of the organization.

ii. Importantly, there is an actual mechanism for integration of across functional lines.

iii. Efficiency in Resource Management for eg.time saving deployment of company resources.

iv. Efficiency in Staff Management since staff can be used and shared between projects.

v. Efficiency in Facility Management as all of the hardware (computers, desks, rooms, etc.) are shared between or among projects.

vi. Horizontal flow for eg. Information that flows from functional unit to functional unit.

vii. Vertical flow for eg. Information that flows from project to project, and to other points of management.

viii. Groups of functional specialists and experts are preserved even though projects come and go.

ix. Morale difficulties happen with less frequency because the employees in the matrix get the experience of regularly working on successful projects.

Disadvantages:

i. The main drawback is that the employees on the project are working for two chiefs.

ii. The superimposition of a functional organization on a project organization is the creation of a matrix organization. This adds all the complexity of both organizations and adds even more.

iii. Multiple managers and employees involved and increased numbers of people that must be kept abreast of changes and progress.

iv. This is an issue because of the quantity of employees and organizational units involved.

v. All managers must ensure that they have touched base with each other for any important decisions in their areas of responsibility.

vi. Project managers don't have singular authority, and so considerable negotiation is necessary.

vii. Due to the complexity of a matrixed organization and no less than two lines of authority there is a lot of opportunity for conflicting direction and priorities. Each project manager obviously thinks their priorities should be everyone's priorities. And each functional manager thinks that their priorities is his own business.

viii. There is a natural effort in offsetting the objectives and goals of functional and project management. Maintenance of the balance between the goals of functional and project management must be assured by management.

6. Network Structure: A networking organisation is one that is created around a central organisation (called the hub organisation) that has relationship and arrangement with some other organisations, to perform functions like designing, manufacturing, marketing etc. for the central organisation, on a contractual basis. A networking organisation is called a boundary-less organization; as the central organisation has relationships and arrangements with many business partners beyond its own boundary lines. In an extreme case of a networking organisation, the hub organisation has arrangements with so large a number of business partners that it, on its own, does only the co-ordination work.A networking organisation is also called a virtual organisation, in that it is nearly a complete organisation; and any slight difference in the structure of organisation is not important.

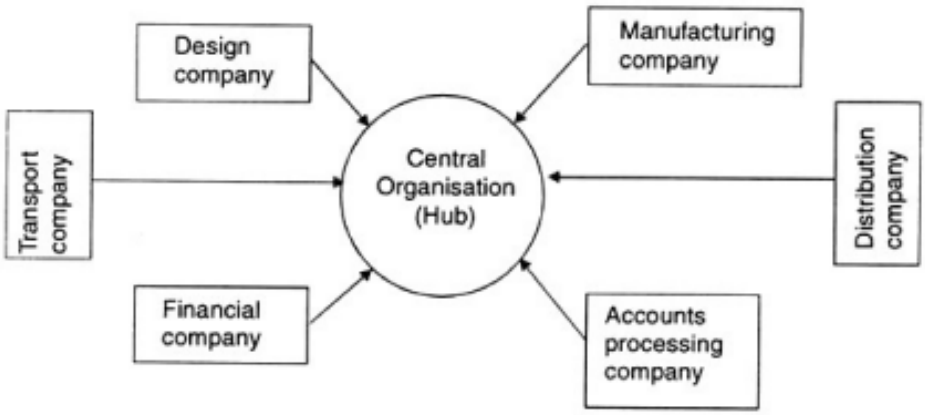


Fig : 12.6 Network structure

The main **advantages** of network structures are as follows:

1. There is high degree of adaptability to change its environment.
2. The firm can concentrate on important competencies.
3. To meet the changing business needs the structure can be modified.
4. Synergy can be achieved by combining complementary skills of different groups in the network.

The main **disadvantages** of network structure are as follows:

1. There are many conflicts among several semi – autonomous groups.
2. Due to many partners control and coordination becomes difficult.
3. As most tasks are performed by others, there are risks of overspecialization.
4. Duplication of facilitates and resources may result in high costs.

7. Virtual Organisation: This is an extension of the network structure. In this approach, independent organisations form temporary alliances to exploit specific opportunities, and then disband when their objectives are met. The term virtual means in effect but not actually so. The virtual organisation consists of a network of independent companies—suppliers, customers or even competitors—linked together to share skills, costs, markets and rewards. The members of a virtual organisation pool and share the knowledge and expertise of each other. The virtual organisation will have few full-time employees or may temporarily hire outside specialists to complete a specific project, such

as a new software application. These people do not become a part of the organisation, but join together as a separate entity for a specific purpose. Sometimes companies use a virtual approach to harness the talents and energies of the best people for a particular job, rather than trying to develop those capabilities in house. When an organisation uses a virtual approach, the virtual group typically has full authority to make decisions within certain predetermined boundaries and goals. Most virtual organisations use electronic media for sharing of information and data. Some organisations have redesigned offices to provide temporary space for virtual workers to meet or work on-site.

The advantages of virtual organization :

i. It can draw on expertise worldwide.

ii. It is highly flexible and responsive.

iii. It reduces overhead costs.

The disadvantages of virtual organization:

i. Lack of control because the boundaries of a virtual organisation are weak and ambiguous.

ii. Virtual teams place new demands on managers, who have to work with new people, new ideas and new problems.

iii. Virtual organisation poses communication difficulties, and managers may lose motivation.



CHECK YOUR PROGRESS

Q3: What is Network Structure?

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Q4: What is Matrix organisational structure?

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12.7 ORGANISATIONAL DESIGN AND CHANGE

The purpose of the organisation design is to create the right structure that fits the requirements of the strategy to be implemented. Organisation change is meant to modify existing structures that have gone wrong over the period of time and no longer fit the requirements of the strategy being implemented.

ORGANISATIONAL DESIGN:

Organisation design has two dimensions, each with several sub – dimensions. One is structural dimensions and another will be Contextual Dimensions, which are discussed follows—

i. **Structural Dimension:** describes the internal characteristics of an organisation like :
   - Formalisation
   - Specialisation
   - Hierarchy of Authority
   - Centralisations
   - Professionalism
   - Personnel Ratios

ii. **Contextual Dimensions:** describes the organizational settings that influences and shapes the structural dimensions. The sub dimensions of the contextual dimensions are :
   - Environment
   - Goals and Strategy
   - Culture
   - Technology
   - Size

The dimensions and sub dimensions of organisation design are interdependent. This study helps to provide a basis for the measurement and analysis of organisation and reveals significant information about them. The need for the organisation can be derived from the mission and objectives.These needs are the key activities which have to be performed to achieve the objectives and realize the mission. The sequence of the steps followed in organisation design could be described as below :

i. Identification of key activities necessary to be performed for the achievement of objectives and realization of mission through the formulated strategy.

ii. Grouping of activities that are similar in nature and need a common set of skills to be performed.

iii. Choice of Structure that could accommodate the different groups of activities.

iv. Creation of departments, divisions, etc. to which the group of activities could be assigned.

v. Establishing interrelationship between different departments for the purpose of coordination and communication.

These five steps lead to the development of an organization design.

ORGANIZATIONAL CHANGE:

The idea of change is ever-present in management literature. The organizational change takes place alongwith two broad dimensions: the structural changes and the accompanying behavioral changes. The first type of change is related to revision in structural relationship for instance, the creation or disbandment of departments or managerial positions. The second type of change relates to the concomitant behavioral modifications that are essential to absorb the impact of organizational changes. You are quite familiar with the concepts of formal and informal organizations. What we are referring to this situation are the formal and informal organizations respectively. While formal organizations changes are mainly administrative in nature and can be bought about by the means of organizational planning and implementation, the informal organization changes are more complex and evolve as a response to formal organisational changes. Once established, these informal changes impact the formal organisation in turn. All organizations make changes in their strategies, structure and administrative procedures from time to time. In the past, when the environment was relatively stable, managers were content with making small, incremental, continual changes to resolve problems as they occurred. The

perspectives of the past may not be suitable in the current environment that often requires big, radical and sudden changes.

12.8 INFORMATION SYSTEM

If a strategy is to be effectively implemented, then organizational arrangements are necessary, as they provide the information to managers to perform their tasks and relate their work to others. The information system enables the managers to recognize what they need to gasp in order to perform their tasks and also to coordinate their activities with others. Information technology is the means to make the information system work for managers. That is why, for managers, IT is a tool for managing rather than a strategy itself. Information systems, including the usage of IT, have to be dedicated by strategic considerations, rather than strategies being determined on the basis of the IT tools available.

The information systems play a significant role in all types of organizations, in enhancing not only the efficiency of other systems and processes but, through the techniques of data. In the design and administration of the information system, strategists have to concern themselves with the need to have an appropriate organizational arrangement that will support the implementation of a particular strategy.

12.9 CONTROL SYSTEM AND REWARD SYSTEM

Control System:

Control has traditionally been considered as a major management function along with planning, organizing, and leading. In controlling, the manager essentially deals with the processes for ensuring the behaviors and performance conform to organization standards including rules, procedures and goals. In other words, control ensures that the implementation of strategy takes place according to predetermined plans. Strategic controls are specific types of controls intended to check whether appropriate strategies are being used. Basically control operates in a cyclic manner. It is viewed as a four step process consisting of:

1. Establishing Standards
2. Measuring actual performance
3. Evaluating actual performance against standards
4. Determining corrective action.



Fig: 12.7 The Control Cycle

The control process works to bring performance in line with the predetermined plan. Standards are in the form of budgeted performance. Measurement of performance is done through an appraisal system. The actual performance is evaluated with reference to the standards and positive and negative variation is observed. Corrective actions follow so that the performance corresponds to the standards. This is the manner in which any control system works. Controls are in fact devices to enforce or facilitate strategic behavior so that the organization, as an entity, moves towards predetermined goals.

Reward System:

Employee rewards are usually linked to their performance. Such linkage helps to control the behavior of employees. There is thus, a close relationship between appraisal system and control system. The reward system helps in strategy implementation. Rewards are given in several forms e.g. salary increase, bonus, stock options, perquisites, promotion etc. In the strategic reward system the focus is on alignment between rewards and corporate

strategy so as to secure desired behavior and achievement. Team based reward s and group incentives are more appropriate in case of diversification and internationalization strategies. Strategies and structure influence the design and administration of reward systems.



12.10 LET US SUM UP

In this unit we have discussed the following:

- An organization structure is the outline of authority and responsibility relationship among different job positions.
- An organisation structure has two broad dimensions: Vertical Dimensions and Horizontal Dimensions
- There is close interdependence between strategy and structure. There are two types of interdependence on forward and backward relationship.
- Cannon's Model consist of the five stages of development.
  - Stage I: Entrepreneurial Stage
  - Stage II: Functional Development
  - Stage III: Decentralization
  - Stage IV: Staff Proliferation
  - Stage V: Recentralization
- The main types of orgainsational structures are: Entrepreneurial Structure, Functional Structure, Divisional Structure, SBU Structure, Matrix Structure and Network Structure.
- The purpose of the organisation design is to create the right structure that fits the requirements of the strategy to be implemented. Organisation change is meant to modify existing structures that have gone wrong over the period of time and no longer fit the requirements of the strategy being implemented.
- The information system enables the managers to recognize what they need to gasp in order to perform their tasks and also to

coordinate their activities with others. Information technology is the means to make the information system work for managers.

- Control System: Control has traditionally been considered as a major management function along with planning, organizing, and leading. In controlling, the manager essentially deals with the processes for ensuring the behaviors and performance conform to organization standards including rules, procedures and goals.
- Reward system: Employee rewards are usually linked to their performance. Such linkage helps to control the behavior of employees.



12.11 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P;Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



12.12 ANSWER TO CHECK YOUR PROGRESS

Ans to Q No.1: An organization structure is the outline of authority and responsibility relationship among different job positions. It is a formal arrangement of tasks and sub – tasks which are needed to implement strategies.

Ans to Q No.2: The horizontal dimension is designed to make certain cooperation and coordination among employees working at the same level of authority. Horizontal structures are also known as flat structures.

Ans to Q No.3: A networking organisation is one that is created around a central organisation (called the hub organisation) that has relationship and arrangement with some other organisations, to perform functions like designing, manufacturing, marketing etc. for the central organisation, on a contractual basis. A networking organisation is called a boundary-less organization.

Ans to Q No.4: A matrix organizational structure is a company structure in which the reporting relationships are set up as a grid, or matrix, rather than in the traditional hierarchy. In other words, employees have dual reporting relationships - generally to both a functional manager and a product manager.



12.13 MODEL QUESTIONS

1. Define Organisational Structure
2. Discuss the two dimensions of organisational structure
3. Write the interdependence between strategy and structure
4. Outline the stages of development of organizations
5. What is Entrepreneurial Structure? Discuss its advantages and disadvantages.
6. What is Divisional Structure? Discuss its advantages and disadvantages.
7. Define Matrix Structure. Discuss its advantages and disadvantages.
8. Write short note on organizational design and change.

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