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Common Organizational Structures | Boundless Management

Organizational Structure

23-29 minutes

Functional Structure

An organization with a functional structure is divided based on functional areas, such as IT, finance, or marketing.

Learning Objectives

Explain the functional structure within the larger context of organizational structures in general

Key Takeaways

Key Points

- A functional organization is a common type of organizational structure in which the organization is divided into smaller groups based on specialized functional areas, such as IT, finance, or marketing.

- Functional departmentalization arguably allows for greater operational efficiency because employees with shared skills and knowledge are grouped together by function.

- A disadvantage of this type of structure is that the different functional groups may not communicate with one another, potentially decreasing flexibility and innovation. A recent trend aimed at combating this disadvantage is the use of teams that cross traditional departmental lines.
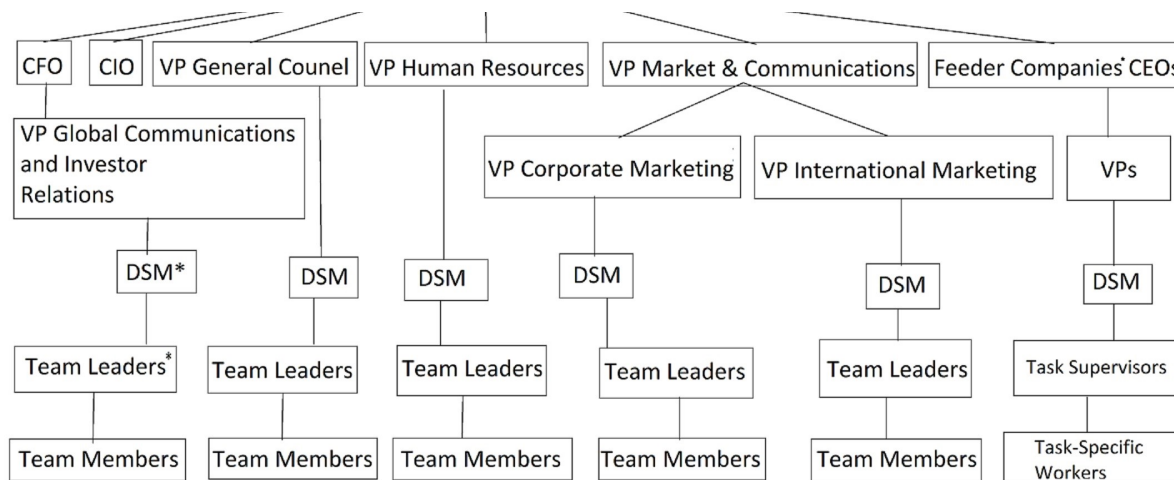
Key Terms

- **silo**: In business, a unit or department within which communication and collaboration occurs vertically, with limited cooperation outside the unit.
- **departmentalization**: The organization of something into groups according to function, geographic location, etc.

Overview of the Functional Structure

An organization can be arranged according to a variety of structures, which determine how the organization will operate and perform. In a functional structure, a common configuration, an organization is divided into smaller groups by areas of specialty (such as IT, finance, operations, and marketing). Some refer to these functional areas as " silos "—entities that are vertical and disconnected from each other. Correspondingly, the company's top management team typically consists of several functional heads (such as the chief financial officer and the chief operating officer). Communication generally occurs within each functional department and is transmitted across departments through the department heads.

*DSM = Departmental Senior Managers, each manager oversees specific sectors within the department
*FedEx's Feeder Companies include: FedEx Ground, FedEx Air Freight, FedEx Custom Critical, FedEx Trade Networks, FedEx Express
* Team Leader = Supervisor of each of FedEx small problem-solving teams

CEO and Board of Directors

Functional structure at FedEx: This organizational chart shows a broad functional structure at FedEx. Each different functions (e.g., HR, finance, marketing) is managed from the top down via functional heads (the CFO, the CIO, various VPs, etc.).

Advantages of a Functional Structure

Functional departments arguably permit greater operational efficiency because employees with shared skills and knowledge are grouped together by functions performed. Each group of specialists can therefore operate independently with management acting as the point of cross-communication between functional areas. This arrangement allows for increased specialization.

Disadvantages of a Functional Structure

A disadvantage of this structure is that the different functional groups may not communicate with one another, potentially decreasing flexibility and innovation. Functional structures may also be susceptible to tunnel vision, with each function perceiving the organization only from within the frame of its own operation. Recent trends that aim to combat these disadvantages include the use of teams that cross traditional departmental lines and the promotion of

cross-functional communication.

Functional structures appear in a variety of organizations across many industries. They may be most effective within large corporations that produce relatively homogeneous goods. Smaller companies that require more adaptability and creativity may feel confined by the communicative and creative silos functional structures tend to produce.

Divisional Structure

Divisional structures group various organizational functions into product or regional divisions.

Learning Objectives

Describe the basic premise behind divisional structures within the general framework of organizational structure

Key Takeaways

Key Points

- The divisional structure is a type of organizational structure that groups each organizational function into a division. These divisions can correspond to either products or geographies.

- Each division contains all the necessary resources and functions within it to support that product line or geography (for example, its own finance, IT, and marketing departments).

- A multidivisional form (or "M-form") is a legal structure in which one parent company owns subsidiary companies, each of which uses the parent company's brand and name.

- The divisional structure is useful because failure of one division doesn't directly threaten the other divisions. In the multidivisional structure, the subsidiaries benefit from the use of the brand and capital of the parent company.

- Disadvantages of divisional structure can include operational inefficiencies from separating specialized function. For the multidivisional structure, disadvantages can include increased accounting and taxes.

Key Terms

- **parent company**: An entity that owns or controls another entity.

- **division**: A section of a large company.

- **subsidiary**: A company owned by a parent company or holding company.

Divisional Structure Overview

Organizations can be structured in various ways, with each structure determining the manner in which the organization operates and performs. A divisional organization groups each organizational function into a division.

* The Deputy Secretary also serves as the Chief Operating Officer   21 Jan 09
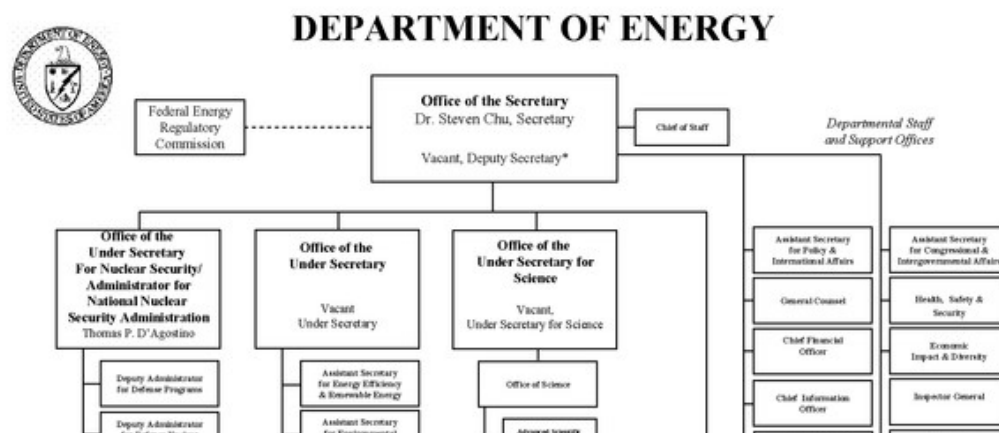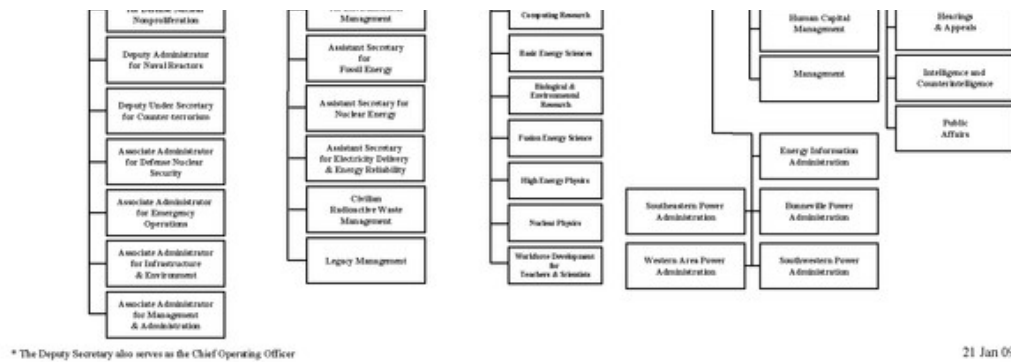
U.S. Department of Energy organization chart: The DOE organization chart shows a divisional structure with different divisions under each of three under-secretaries for energy. Each of the three division is in charge of a different set of tasks: environmental responsibilities, nuclear-energy responsibilities, or research responsibilities.

Divisional Strategies

Each division within this structure can correspond to either products or geographies of the organization. Each division contains all the necessary resources and functions within it to support that particular product line or geography (for example, its own finance, IT, and marketing departments). Product and geographic divisional structures may be characterized as follows:

- *Product departmentalization :* A divisional structure organized by product departmentalization means that the various activities related to the product or service are under the authority of one manager. If the division builds luxury sedans or SUVs, for example, the SUV division will have its own sales, engineering, and marketing departments distinct from those departments within the luxury sedan division.

- *Geographic departmentalization:* Geographic departmentalization

involves grouping activities based on geography, such as an Asia/Pacific or Latin American division. Geographic departmentalization is particularly important if tastes and brand responses differ across regions, as it allows for flexibility in product offerings and marketing strategies (an approach known as localization).

A common legal structure known as the multidivisional form (or "M-form") also uses the divisional structure. In this form, one parent company owns subsidiary companies, each of which uses its brand and name. The whole organization is ultimately controlled by central management; however, most decisions are left to autonomous divisions. This business structure is typically found in companies that operate worldwide—for example, Virgin Group is the parent company of Virgin Mobile and Virgin Records.

Advantages of a Divisional Structure

As with all organizational structure types, the divisional structure offers distinct advantages and disadvantages. Generally speaking, divisions work best for companies with wide variance in product offerings or regions of geographic operation. The divisional structure can be useful because it affords the company greater operational flexibility. In addition, the failure of one division does not directly threaten the other divisions. In the multidivisional structure, subsidiaries benefit from the use of the brand and capital of the parent company.

Disadvantages of a Divisional Structure

Some disadvantages of this structure include operational inefficiencies from separating specialized functions—for example,

finance personnel in one division do not communicate with those in another division. Disadvantages of the multidivisional structure can include increased accounting and tax implications.

Matrix Structure

The matrix structure is a type of organizational structure in which individuals are grouped via two operational frames.

Learning Objectives

Illustrate the way two different operational perspectives can be crossed in a matrix structure to organize a company

Key Takeaways

Key Points

- The matrix structure is a type of organizational structure in which individuals are grouped simultaneously by two different operational perspectives.

- Matrix structures are inherently complex and versatile, making them more appropriate for large companies operating across different industries or geographic regions.

- Proponents suggest that matrix management is more dynamic than functional management in that it allows team members to share information more readily across task boundaries; it also allows for specialization that can increase depth of knowledge.

- A disadvantage of the matrix structure is the increased complexity in the chain of command, which can lead to a higher manager-to-worker ratio and contribute to conflicting loyalties among

employees.

Key Terms

- **matrix**: A two-dimensional array.

Overview of the Matrix Structure

Organizations can be structured in various ways, and the structure of an organization determines how it operates and performs. The matrix structure is a type of organizational structure in which individuals are grouped by two different operational perspectives simultaneously; this structure has both advantages and disadvantages but is generally best employed by companies large enough to justify the increased complexity.

image

Matrix organizational structure: In a matrix structure, the organization is grouped by both product and function. Product lines are managed horizontally and functions are managed vertically. This means that each function—e.g., research, production, sales, and finance—has separate internal divisions for each product.

In matrix management, the organization is grouped by any two perspectives the company deems most appropriate. Common organizational perspectives include function and product, function and region, or region and product. In an organization grouped by function and product, for example, each product line will have management that corresponds to each function. If the organization has three functions and three products, the matrix structure will have nine (3×3) potential managerial interactions. This example illustrates how inherently complex matrix structures are in comparison to other, more linear structures.

Advantages of a Matrix Structure

Proponents of matrix management suggest that this structure allows team members to share information more readily across task boundaries, countering the "silo" critique of functional management. Matrix structures also allow for specialization that can both increase depth of knowledge and assign individuals according to project needs.

Disadvantages of a Matrix Structure

A disadvantage of the matrix structure is the increased complexity in the chain of command when employees are assigned to both functional and project managers. This increase in complexity can result in a higher manager-to-worker ratio, which can in turn

increase costs or lead to conflicting employee loyalties. It can also create a gridlock in decision making if a manager on one end of the matrix disagrees with another manager. Blurred authority in a matrix structure can result in reduced agility in decision making and conflict resolution.

Matrix structures should generally only be used when the operational complexity of the organization demands it. A company that operates in various regions with various products may require interaction between product development teams and geographic marketing specialists—suggesting a matrix may be applicable. Generally speaking, larger companies with a need for a great deal of cross-departmental communication benefit most from this model.

Team-Based Structure

The team structure is a newer, less hierarchical organizational structure in which individuals are grouped into teams.

Learning Objectives

Classify team-based structures within the larger context of the most common organizational structures

Key Takeaways

Key Points

- The team structure in large organizations is a newer type of organizational structure. A team should be a group of workers, with complementary skills and synergistic efforts, all working toward a common goal.

- An organization may have several teams that can change over time. Teams that include members from different functions are known as cross- functional teams.

- Although teams are characterized as less hierarchical, they typically still include a management structure (or management team).

- Critics argue that the use of the word "team" to describe modern organizational structures is a fad—that some teams are not really teams at all but merely groups of staff.

- One aspect of team-based structures likely to persist indefinitely is the integration of team cultures within an broader structure (such as a functional structure with interspersed teams).

Key Terms

- **synergistic**: Cooperative, working together, interacting, mutually stimulating.

- **hierarchical**: Classified or arranged according to various criteria into successive ranks or grades.

Overview of the Team-Based Structure

Organizations can be structured in various ways, and the structure of an organization determines how it operates and performs. The team structure in large organizations is considered a newer type of organization that is less hierarchical, less structured, and more fluid than traditional structures (such as functional or divisional). A team is a group of employees—ideally with complementary skills and synergistic efforts—working toward a common goal. Teams are

created by grouping employees in a way that generates a variety of expertise and addresses a specific operational component of an organization. These teams can change and adapt to fulfill group and organizational objectives.

Some teams endure over time, while others—such as project teams—are disbanded at the project's end. Teams that include members from different functions are known as *cross-functional* teams. Although teams are described as less hierarchical, they typically still include a management structure.

Critics argue that the use of the word "team" to describe modern organizational structures is a fad; according to them, some teams are not really teams at all but rather groups of staff. That said, team-building is now a frequent practice of many organizations and can include activities such as bonding exercises and even overnight retreats to foster team cohesion. To the extent that these exercises are meaningful to employees, they can be effective in improving employee motivation and company productivity.

Integration with Other Structures

One aspect of team-based structures that will likely persist indefinitely is the integration of team cultures within an broader structure (e.g., a functional structure with teams interspersed). Such integration allows for the authority and organization of a more concrete structure while at the same time capturing the cross-functional and projected-oriented advantages of teams.

For example, imagine Proctor and Gamble brings together a group of employees from finance, marketing, and research and development—all representing different geographic regions. This

newly created team is tasked with the project of creating a laundry detergent that is convenient, economic, and aligned with the company's manufacturing capabilities. The project team might be allocated a certain number of hours a month to devote to team objectives; however, members of the team are still expected to work within their respective functional departments.

Network Structure

In the network structure, managers coordinate and control relationships with the firm that are both internal and external.

Learning Objectives

Identify the structural implications of a network-based organizational design

Key Takeaways

Key Points

- The network structure is a newer type of organizational structure viewed as less hierarchical (i.e., more "flat"), more decentralized, and more flexible than other structures.

- In a network structure, managers coordinate and control relationships that are both internal and external to the firm.

- The concept underlying the network structure is the social network—a social structure of interactions. Open communication and reliable partners (both internally and externally) are key components of social networks.

- Proponents argue that the network structure is more agile than

other structures. Because it is decentralized, a network organization has fewer tiers, a wider span of control, and a bottom-up flow of decision making and ideas.

- A disadvantage of the network structure is that this more fluid structure can lead to more complex relations in the organization.

Key Terms

- **network**: Any interconnected group or system.

- **decentralized**: Diffuse; having no center or several centers.

- **agile**: Apt or ready to move; nimble; active.

Overview of the Network Structure

An organization can be structured in various ways that determine how it operates and performs. The network structure is a newer type of organizational structure often viewed as less hierarchical (i.e., more flat), more decentralized, and more flexible than other structures. In this structure, managers coordinate and control relations that are both internal and external to the firm.

The concept underlying the network structure is the social network—a social structure of interactions. At the organizational level, social networks can include intra-organizational or inter-organizational ties representing either formal or informal relationships. At the industry level, complex networks can include technological and innovation networks that may span several geographic areas and organizations. From a management perspective, the network structure is unique among other organizational structures that focus on the internal dynamics within

the firm.

A network organization sounds complex, but it is at its core a simple concept. Take, for example, a T-shirt design company. Because the company leaders are mainly interested in design, they may not want to get too heavily involved in either manufacturing or retail; however, both aspects of the business are necessary to complete their operations. To maintain control of their product, they may rent retail space through their network and purchase production capabilities from a variety of partner organizations that have their own manufacturing facilities. While the core company focuses mainly on designing products and tracking finances, this network of partnerships enables it to be much more than just a design operation.

Like other organizational structures, the network structure has its advantages and its disadvantages.

Advantages of a Network Structure

Proponents argue that the network structure is more agile compared to other structures (such as functional areas, divisions, or even some teams). Communication is less siloed and flows freely, possibly opening up more opportunities for innovation. Because the network structure is decentralized, it has fewer tiers in its organizational makeup, a wider span of control, and a bottom-up flow of decision making and ideas.

Disadvantages of a Network Structure

On the other hand, this more fluid structure can lead to a more complex set of relationships in the organization. For example, lines

of accountability may be less clear, and reliance on external vendors can be quite high. These potentially unpredictable variables essentially reduce the core company's control over its operational success.

Modular Structure

In the modular structure, an organization focuses on developing specialized and relatively autonomous strategic business units.

Learning Objectives

Define the nature and value of a modular structure in an organizational framework

Key Takeaways

Key Points

- The modular structure divides the business into small, tightly knit strategic business units (SBUs),which focus on specific elements of the organizational process.

- Interdependencies between modules tends to be weak; however, flexibility is extremely high.

- An advantage of the modular structure is that loosely coupled structures enable organizations to be more flexible and restructure more easily. For example, a firm can switch between different providers and thus respond more quickly to different market needs.

- Increased internalization and more tightly coupled structures can produce better communication and intellectual property gains. As a result, some argue that the modularity of a firm should be limited to

the extent the flexibility it affords results in gains.

- Various degrees of modularity are possible; however, a business must be consistent in the degree of modularity it employs.

Key Terms

- **disaggregation**: A division or breaking up into constituent parts, particularly categories which have been lumped together.

- **modular**: Consisting of separate units, especially where each unit performs a specified function and could be replaced by a similar unit for the same function, independently of other units.

Overview of the Modular Structure

Organizations can be structured in various ways that determine how the organization operates and performs. The modular structure focuses on dividing the business into small, tightly knit strategic business units (SBUs), which focus on specific elements of the organizational process. Interdependence among the units is limited because the focus of many SBUs is more inward than outward and because loyalty within SBUs tends to be very strong.

The term *modularity* is widely used in studies of technological and organizational systems. Product systems are deemed modular when they can be broken down into a number of components that can then be mixed and matched to connect, interact, or exchange resources. Modularization within organizations leads to the disaggregation of the traditional form of hierarchical governance into relatively small, autonomous organizational units (modules). Although modules are not generally interdependent, the modular organization is extremely flexible.

For example, a firm that employs contract manufacturing rather than in-house manufacturing is using an organizational component that is more independent. The firm can switch between different contract manufacturers that perform different functions; the contract manufacturer can similarly work for different firms. Another (more internally focused) modular model involves the existence of various consumer services which cater to dramatically different needs or demographics. At GNU Health, for example, the surgery unit may interact with different departments at different times for different reasons.
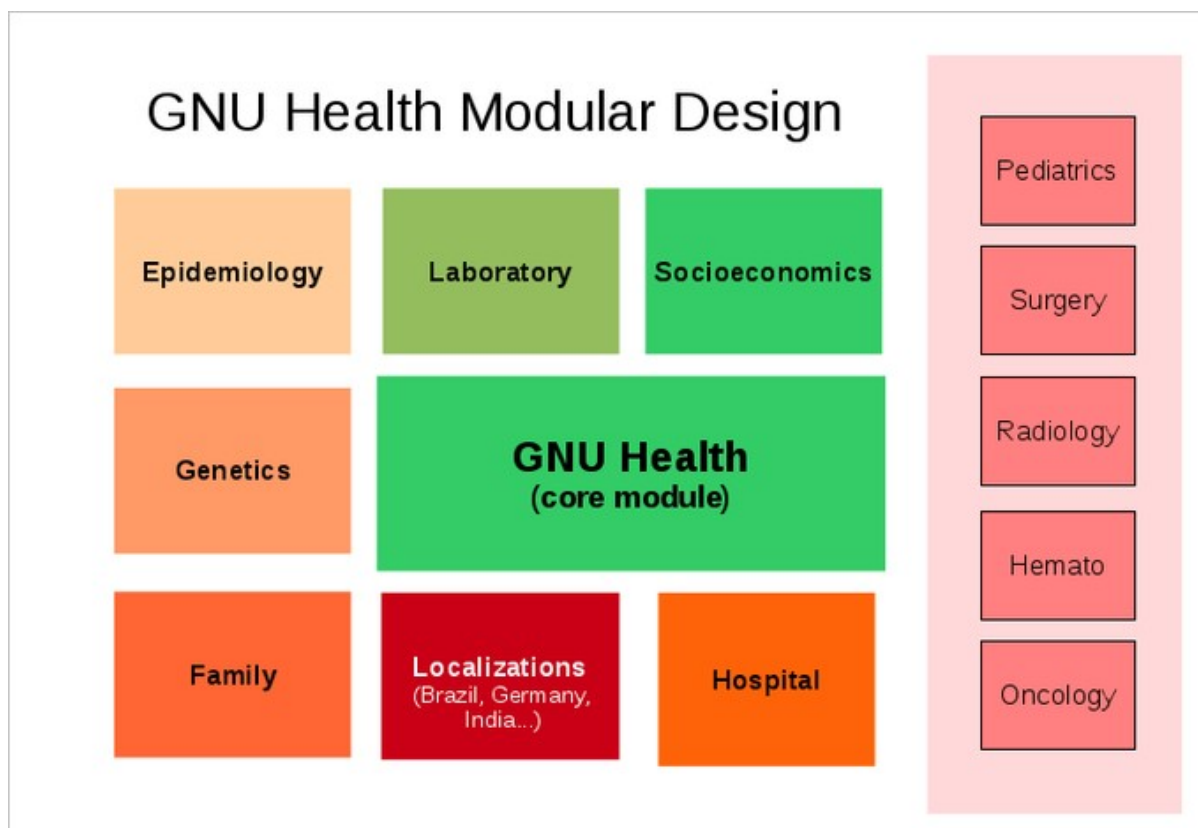
Modular organizations: A modular organization involves several largely independent bodies that can rearrange and work with different other departments as needed. This image shows the GNU health module interacting with many different departments, such as oncology, radiology, surgery and pediatrics, across many contexts, such as location and socioeconomic status.

Advantages of a Modular Structure

One advantage of the modular structure is that loosely coupled structures can enable organizations to be more flexible and restructure more easily. For example, a firm can switch between different providers and thus respond more quickly to different market needs. An organization can also fill its own corporate needs internally by creating a new modular department, which can operate interdependently with the whole.

Disadvantages of a Modular Structure

On the other hand, more internalization and more tightly coupled structures can produce better communication and intellectual property gains. As a result, critics of the modular organization argue that a firm's modularity should be limited to the extent that its flexible nature affords gains. Various degrees of modularity are possible but not necessarily useful if the pros do not outweigh the cons. Managers must carefully consider whether or not a modular structure would be useful, either entirely or partially, for a given organization.