



Organization Design

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What does *organization design* entail?

1. "All the formal and informal ways in which labor is ***divided*** and ***coordinated*** within a collectivity of people"
2. What are the roles of top managers, division or business managers, middle managers, supervisors, direct labor and support staff?
3. How should the structure be designed and by whom?
4. Is there one way to organize this division and coordination of labor or is design contingent upon something?
5. Simply: How do organizations in different environments work?





Major historical developments, a selected list

Scott (1998) distinguishes between three major perspectives on how we approach organizations:

1. Organizations as *rational systems*
 - organizations are instruments designed to attain specific goals
 - *Rationality* here refers not to the selection of goals but to their implementation
2. Organizations as *natural systems*
 - organizations are first and foremost *collectivities*
 - sometimes the rational elements are not the most important characteristics of an organization
3. Organizations as *open systems*
 - organizations interact with the environment
 - organizations are dependent on the interaction
 - there is no *one best way* to organize
 - emergence of *systems theory* in organizational analysis



Major historical developments

1. **Scientific management (rational; Frereric Taylor; 1911)**
 - Separation of "planning from doing" → **management**
 - "Time and motion" studies
 - One best way to complete a given task
 - People are economically motivated
2. **Administrative theory (rational; Henri Fayol; 1919)**
 - Principles of management
 1. The scalar principle
 2. The unity-of-command principle
 3. The span-of-control principle
 4. The exception principle
 5. The departmentalization principle
 6. The line-staff principle





Major historical developments

3. **Human Relations School (natural; Elton Mayo; 1945)**
 - ❑ The Hawthorne Studies → other than economic motivations of human action
 - ❑ Emphasis on the *social aspects* of management → study of *leadership*
4. **Institutional theory (natural; Philip Selznick; 1949)**
 - ❑ Organizations are not only tools and instruments, they also have a "life of their own"
 - ❑ In addition to (and aside from) formal structure, emphasis is on (informal) social structure
 - ❑ Organizations develop a distinctive character through their social structure
 - ❑ Some processes, principles, technologies and structures become institutionalized, infused with value, *independent of the technical or economic value* they may provide



Major historical developments

5. **Administrative behavior (natural; Herbert Simon; 1945)**
 - ❑ How do decision-makers actually behave? → positive (≠normative) theory
 - ❑ More realistic assumptions about human behavior and capabilities (e.g., bounded rationality)
 - ❑ Criticizes Fayol's principles for their internal inconsistency
 - ❑ Organizations must simplify decisions
6. **Contingency theory (open; Paul Lawrence and Jay Lorsch; 1967)**
 - ❑ There is no one best way to divide labor and coordinate activities, "everything depends" → *contingency*
 - ❑ Internal and environmental contingencies are reflected in organizational design





Conceptualizing the design

(according to Mintzberg)

There are 5 basic parts to an organization:

1. The operating core
 - The part of the organization that performs work directly related to the production of goods and services
2. The strategic apex
 - The part of the organization whose task it is to ensure the organization serves its mission
 - Ultimately allocate resources, authorize decisions
3. The middle line
 - Joins the operating core to the strategic apex
 - Senior managers → ... → first-line supervisors

2-3 are called *managers*

1-3 are parts of the *line organization*



Conceptualizing the design

(according to Mintzberg)

4. The technostructure
 - Standardizes certain activities in the organization
 - "Serves the organization by affecting the work of others"
 - standardization of (1) work processes, (2) outputs and (3) skills
5. The support staff
 - Provides support to the organization outside its operating work flow
 - found at various levels of the line hierarchy

4-5 are parts of the *staff organization*

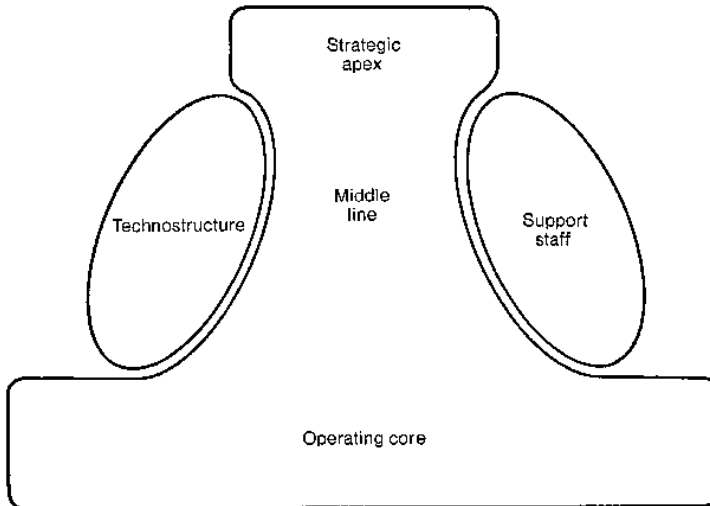




Conceptualizing the design

(Mintzberg, 1983)

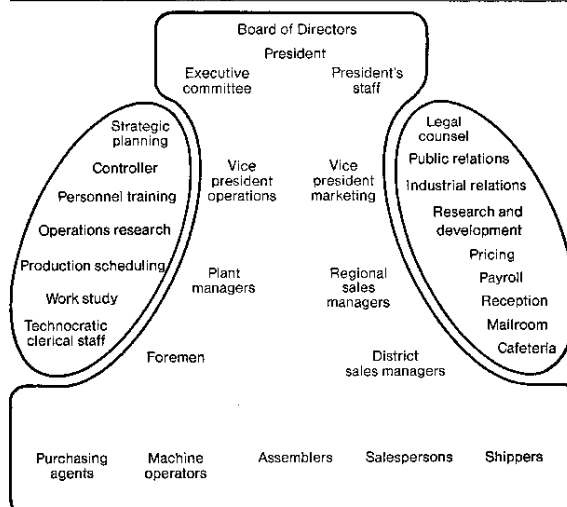
FIGURE 1 • THE FIVE BASIC PARTS OF ORGANIZATIONS



Conceptualizing the design: An example

(Mintzberg, 1983)

FIGURE 5 • SOME MEMBERS AND UNITS OF THE PARTS OF THE MANUFACTURING FIRM





Conceptualizing the design

Mintzberg's *organigram* shows us

1. what roles and positions exist in an organization
2. how these positions are grouped into units
3. how formal authority flows among them

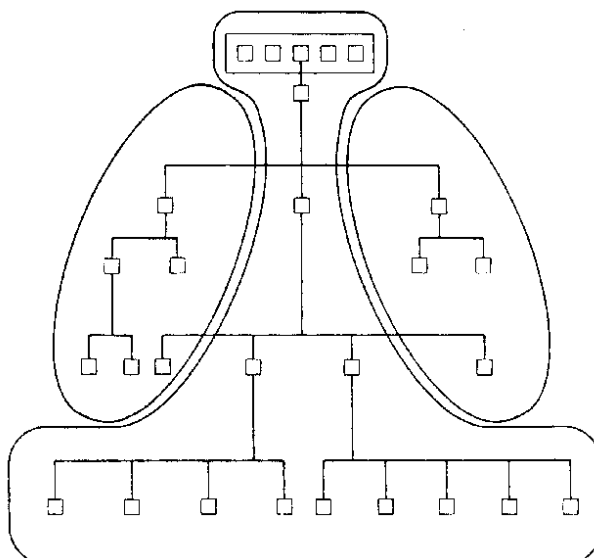
Needless to say, there's a lot that the organigrams do not show, but they do provide us with the basic concepts and vocabulary to discuss informal structure as well.

Organizational role and organizational member are not synonymous – one person can have several roles.



Flow of formal authority

(Mintzberg, 1983)



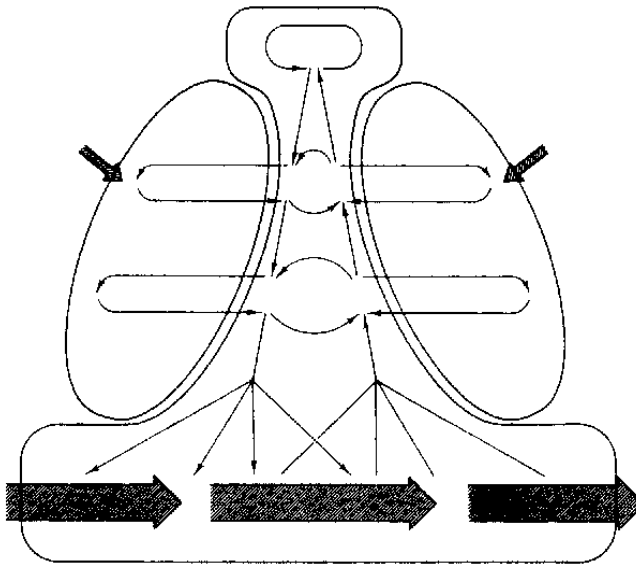
"Agrees" with the organigram, as expected





Flow of regulated activity

(Mintzberg, 1983)

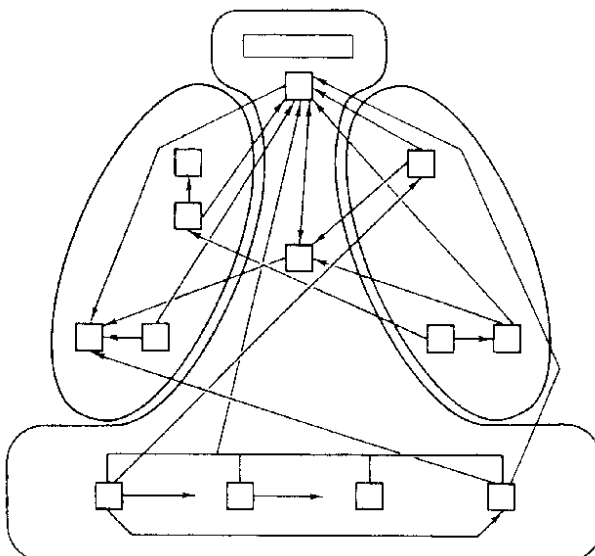


Some crossing of the
organigram
boundaries, but mainly
in agreement



Flow of informal communication (a *sociogram*)

(Mintzberg, 1983)



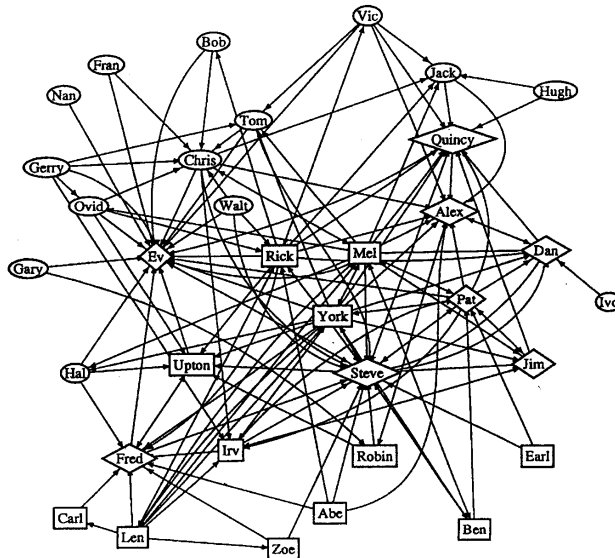
No necessary relation
to formal authority





Informal structure:

Another example (Krackhardt, 1999)



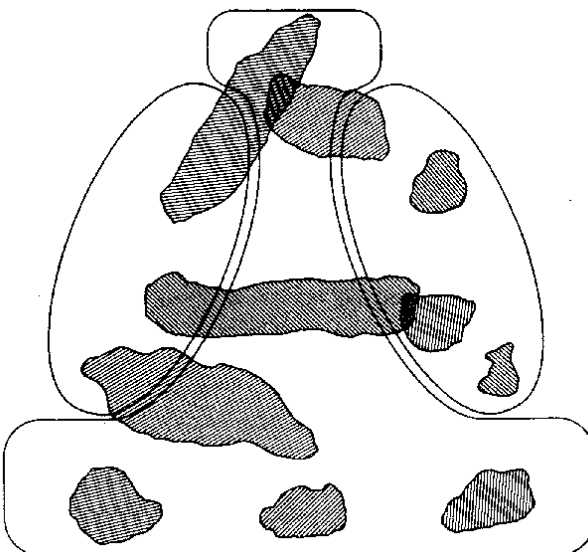
Note: Names in ovals are members of the potential bargaining unit.

Figure 4. Advice Sociogram of Silicon Systems



How does work actually get done?

(Mintzberg, 1983)



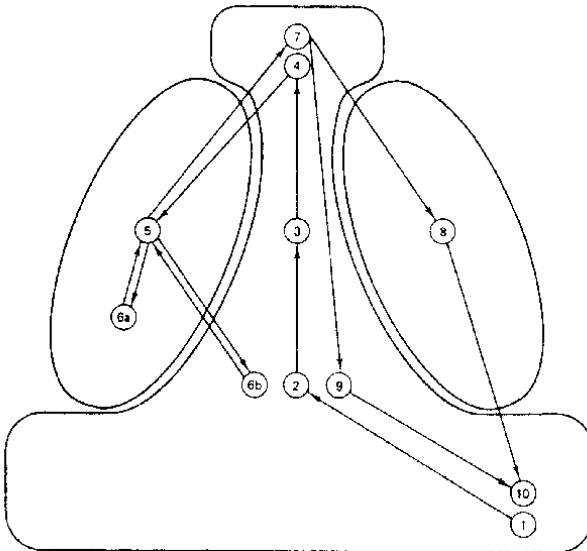
Involves crossing of
the organigram
boundaries





How is an actual decision made?

(Mintzberg, 1983)



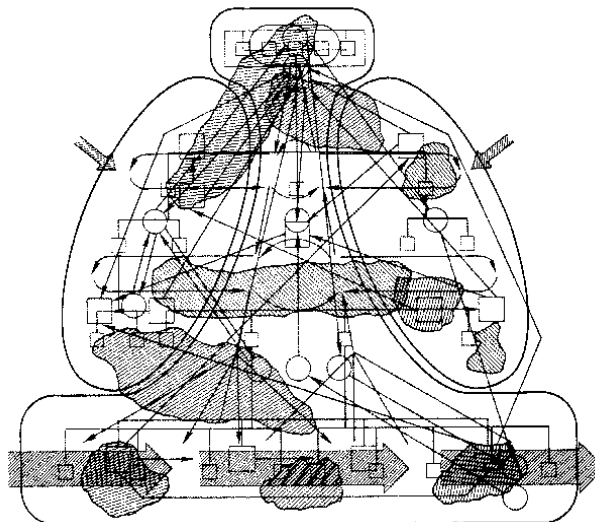
May or may not follow formal authority.

May or may not be routinized activity.



Superposing the various kinds of structure...

(Mintzberg, 1983)



... we find out how organizations really work.





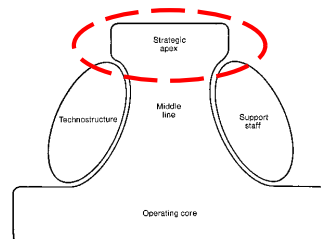
5 kinds of structure

1. Simple structure
2. Machine bureaucracy
3. Professional bureaucracy
4. Divisional form
5. Adhocracy

For management students, 1, 2, and 4 are perhaps the most relevant.



Simple Structure

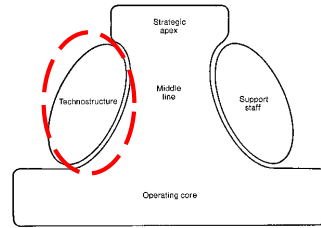


1. key part: **the strategic apex**
2. little managerial hierarchy
3. support staff and technostructure insignificant
4. low formalization of behavior
5. usually small organizations
6. examples: small entrepreneurial firms, law firms





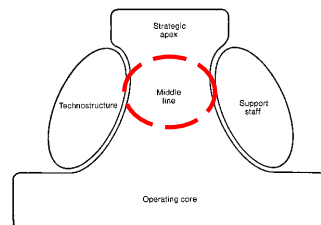
Machine Bureaucracy



1. key part: **technostructure**
2. high formalization and standardization of behavior
3. highly specialized jobs
4. examples: large organizations such as the national post office, large auto manufacturer, prison



The Divisionalized Form



1. key part: **middle line**
2. a set of quasi-autonomous entities (divisions) coupled together by a central administrative structure (headquarters)
3. divisions usually machine bureaucracies
4. elaborate support staff
5. technostructure used to develop a performance measurement system
6. examples: large corporations (e.g., the vast majority of Fortune 500 companies)





The Divisionalized Form, cont'd

The headquarters

1. manages the strategic portfolio
2. allocates overall financial resources
3. designs the performance control system
4. appoints division management
5. monitors divisions
6. provides certain common support services (e.g., tax, insurance, pension)



The Divisionalized Form, cont'd

The divisions

1. "run their own businesses" – control operations and determine the strategies
2. report to the headquarters in a standardized way (performance measurement system)





Discussion

Some current topics in organizational design and analysis:

1. Contemporary organizational forms: industrial networks, process and project-based organizations
2. Teams
3. Leadership
4. Knowledge (management)

How should we approach these topics?

- rational/natural/open systems and organization design

To guide discussion

1. What is the phenomenon you are describing and trying to understand?
2. What assumptions are you making, e.g., regarding human behavior and motives?
3. What is the goal of your endeavor? Description, understanding, prediction, control?



Suggested readings

- Burrell, G. and G. Morgan (1979). *Sociological paradigms in organisational analysis*, Arena, Aldershot, United Kingdom.
- Cyert, R. M. and J. G. March (1992 [1963]). *A behavioral theory of the firm*, 2nd Edition, Prentice-Hall, Englewood Cliffs, CA.
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- Scott, W. R. (1998 [1981]). *Organizations*, 4th Edition, Prentice Hall, Englewood Cliffs, NJ.
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