Organizational Design Basics
Elements of organizational patterns

- What
- Why
- Who
- How
## Elements of organizational patterns (cont.)

<table>
<thead>
<tr>
<th></th>
<th>Galbraith</th>
<th>15.311</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What</strong> is being done?</td>
<td>Strategy</td>
<td></td>
</tr>
<tr>
<td><strong>How</strong> is it being done?</td>
<td>Structure Process</td>
<td>Grouping Linking</td>
</tr>
<tr>
<td><strong>Who</strong> is doing it?</td>
<td>People</td>
<td></td>
</tr>
<tr>
<td><strong>Why</strong> are they doing it?</td>
<td>Rewards</td>
<td>Aligning</td>
</tr>
</tbody>
</table>
How can activities be grouped?

Functional Organization

CEO

Engineering
Marketing
Manufacturing

Geographical Organization

CEO

Eastern US
Western US
Canada

Product Organization

CEO

Product 1
Product 2
Product 3

Matrix Organization

CEO

Marketing
Manufacturing

Product 1
Product 2

How can activities be grouped? (cont.)

Front-Back Organization

CEO

Back-end units
- Products
- Functions

Front-end units
- Customers
- Regions

Hypothetical example: Green Motors (GM)

- **Mission**
  - Help combat global climate change by providing environmentally friendly personal transportation devices

- **Strategy**
  - Be the market leader in providing innovative transportation technologies for 1 or 2 people at prices that are affordable for middle class consumers in both the developing and developed world
Green Motors (cont.)

- **Products**
  - **Current**
    - Very low emissions gasoline-powered motorcycle
  - **Development to start soon**
    - One-person electric car
    - Modular electric car (2 one-person modules can be joined)

- **Core functions**
  - Design
  - Manufacturing
  - Sales (includes marketing)

- **Geography**
  - US now
  - China and India to be added soon

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### When are different groupings useful?

<table>
<thead>
<tr>
<th>Structure</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Functional</strong></td>
<td>• Economies of scale within functional departments</td>
<td>• Slow response time to environmental changes. Less innovation</td>
</tr>
<tr>
<td></td>
<td>• In-depth knowledge and skill development</td>
<td>• May cause decisions to pile on top, hierarchy overload</td>
</tr>
<tr>
<td></td>
<td>• Enables organization to accomplish functional goals</td>
<td>• Poor horizontal coordination among departments</td>
</tr>
<tr>
<td></td>
<td>• Best with only one or a few products</td>
<td>• Restricted view of organizational goals</td>
</tr>
<tr>
<td><strong>Divisional</strong></td>
<td>• Suited to fast change and innovation in unstable environment</td>
<td>• Eliminates economies of scale in functional departments</td>
</tr>
<tr>
<td>(Product,</td>
<td>• Higher client satisfaction because product responsibility and contact points are clear</td>
<td>• Duplication of resources and poor coordination across divisions</td>
</tr>
<tr>
<td>Geography,</td>
<td>• Easier to adapt to differences in products, regions, clients</td>
<td>• Less in-depth competence and technical specialization</td>
</tr>
<tr>
<td>Customer,</td>
<td>• Decentralizes decision-making</td>
<td>• Integration and standardization across divisions (products, regions, etc.) more difficult</td>
</tr>
<tr>
<td>Market)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Matrix</strong></td>
<td>• Achieves coordination to meet dual demands</td>
<td>• Dual authority can be frustrating and confusing</td>
</tr>
<tr>
<td></td>
<td>• Flexible sharing of human resources across divisions</td>
<td>• Participants need good interpersonal skills and extensive training</td>
</tr>
<tr>
<td></td>
<td>• Suited to complex decisions and rapidly changing environments</td>
<td>• Time-consuming: frequent meetings and conflict resolution sessions</td>
</tr>
<tr>
<td></td>
<td>• Opportunity for both functional and divisional skill development</td>
<td>• Requires great effort to maintain power balance</td>
</tr>
</tbody>
</table>
### When are different groupings useful? (cont.)

<table>
<thead>
<tr>
<th>Structure</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front-Back</td>
<td>• An alternative way (in addition to Matrix) to optimize on multiple dimensions at once (e.g., products, functions, customers, regions)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Often suited to large, complex organizations</td>
<td>• Very complex to manage (needs top-down management from CEO and Executive Committee combined with lateral coordination throughout organization)</td>
</tr>
</tbody>
</table>

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When are different groupings useful? (cont.)

<table>
<thead>
<tr>
<th>Strategy framework</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>Explore, Exploit</td>
</tr>
<tr>
<td>Galbraith (Treacy &amp; Wiersema)</td>
<td>Product, Operations, Customer</td>
</tr>
<tr>
<td>Porter</td>
<td>Differentiation, Low cost</td>
</tr>
<tr>
<td>Hax</td>
<td>Product, Customer</td>
</tr>
</tbody>
</table>

**Corresponding organizational structure**

- Product
- Functional
- Customer, Market, Geography
How can different groups be linked? (lateral coordination processes)

In order of coordination capability (and management time and difficulty)

- Low
  - Informal communication (e.g., voluntary conversations, informal groups, networks)

- Formal groups (part-time teams, simple to complex)

- Integrating manager (full-time)

- Matrix organization

High

## Hierarchical reporting relationship

<table>
<thead>
<tr>
<th></th>
<th>Unitary</th>
<th>Dual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grouping</strong></td>
<td>Functional</td>
<td>Matrix</td>
</tr>
<tr>
<td></td>
<td>Divisional</td>
<td></td>
</tr>
<tr>
<td><strong>Linking</strong></td>
<td>Informal communi-</td>
<td>Formal groups</td>
</tr>
<tr>
<td></td>
<td>cation</td>
<td>(part-time)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Integrating</td>
</tr>
<tr>
<td></td>
<td></td>
<td>manager</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(full-time)</td>
</tr>
</tbody>
</table>

*How are units grouped in hierarchy?*

*How are groups linked?*
Who is doing the activities?

• How are the people selected?

• What skills do they have?
  – Amateurs
  – Professionals

• Which activities are done by people and which by machines?

• …
Why are people doing the activities?

- Financial incentives
- Social incentives
  - Companionship
  - Competition
  - Recognition
- Intrinsic enjoyment
  - Challenge
  - Curiosity
  - ...
- ...

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Alignment

• For an organizational pattern to work well, all its elements need to be aligned.
  – Don’t copy only parts of a pattern.
  – Don’t use a pattern that is not appropriate for your situation.
Conclusions

• All organizational patterns can be thought of in terms of 5 basic questions: What, How, Who, Why, and When.
  – There are a few very common patterns in how activities are grouped and linked in hierarchies.
  – There are a few standard tradeoffs that help determine when these patterns are appropriate.
  – The details of who performs the activities and why they do so are more varied.

• For a pattern to work well, all its elements need to be aligned.
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Spring 2011

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