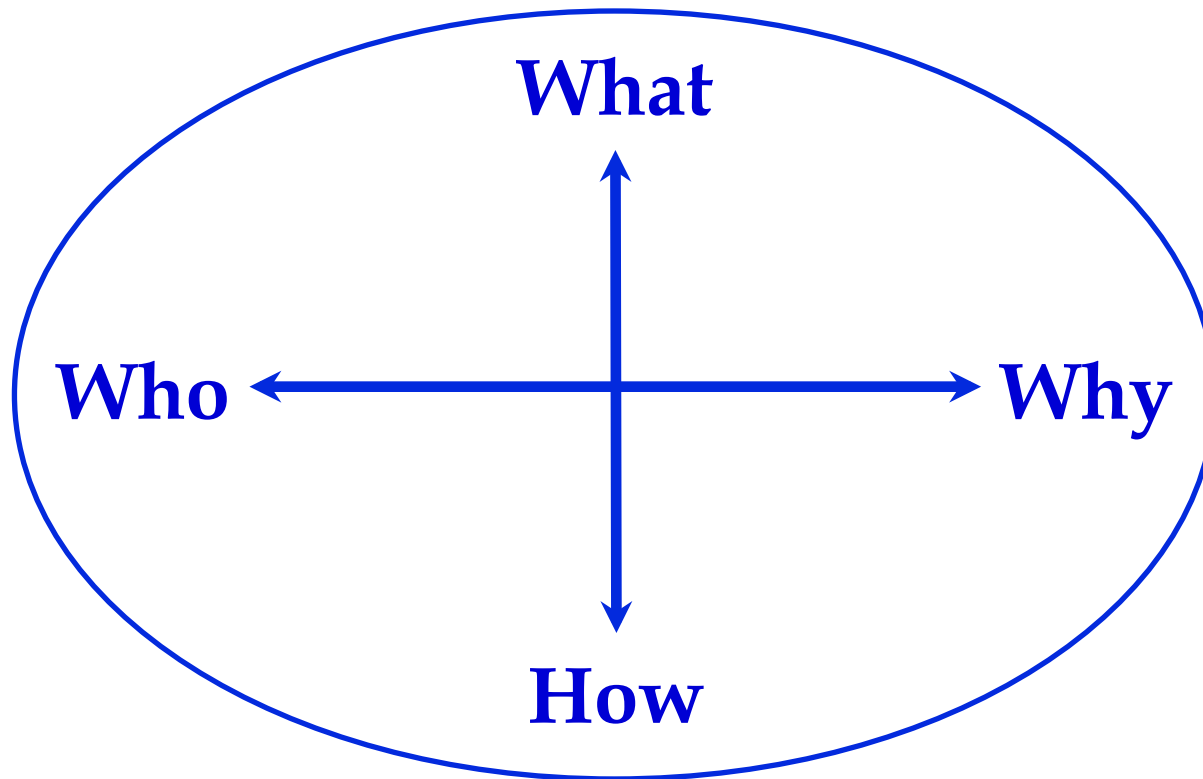


15.320 Strategic Organizational Design

Organizational Design Basics

Elements of organizational patterns



Elements of organizational patterns (cont.)

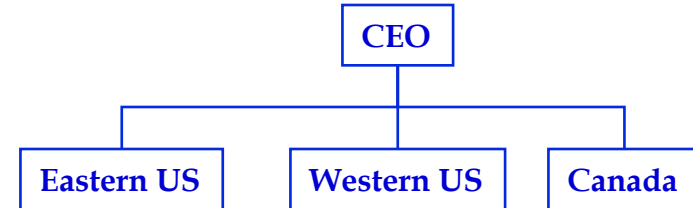
	Galbraith	15.311
What is being done?	Strategy	
How is it being done?	Structure Process	Grouping Linking
Who is doing it?	People	
Why are they doing it?	Rewards	Aligning

How can activities be grouped?

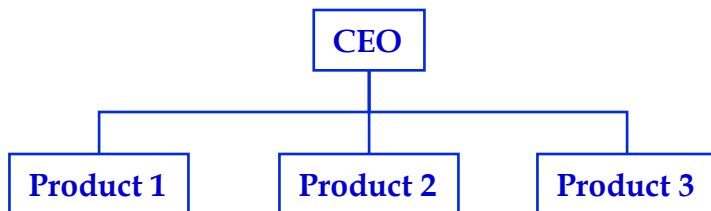
Functional Organization



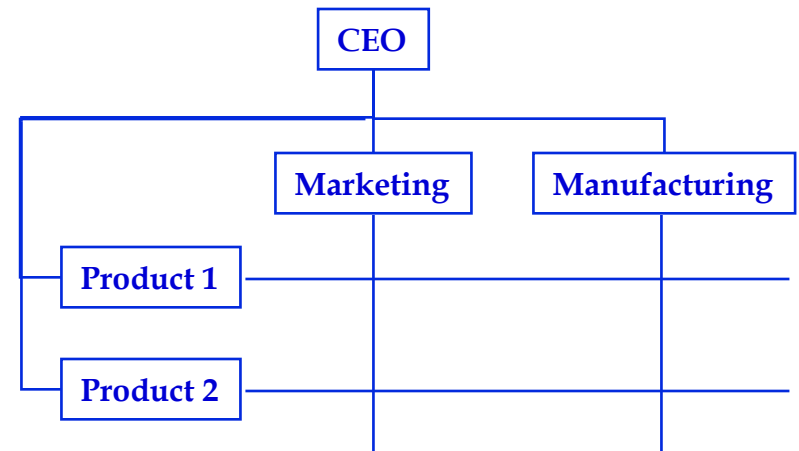
Geographical Organization



Product Organization

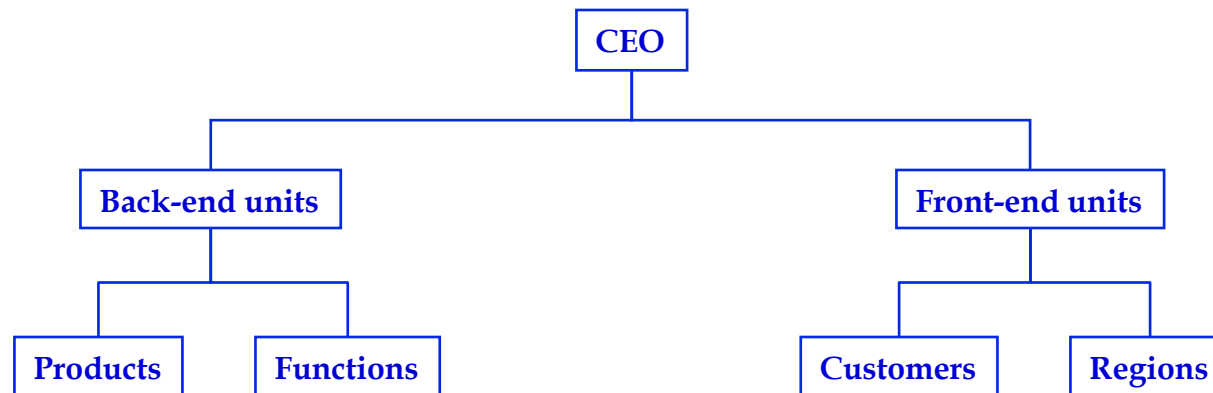


Matrix Organization



How can activities be grouped? (cont.)

Front-Back Organization



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

When are different groupings useful?

Structure	Strengths	Weaknesses
Functional	<ul style="list-style-type: none"> • Economies of scale within functional departments • In-depth knowledge and skill development • Enables organization to accomplish functional goals • Best with only one or a few products 	<ul style="list-style-type: none"> • Slow response time to environmental changes. Less innovation • May cause decisions to pile on top, hierarchy overload • Poor horizontal coordination among departments • Restricted view of organizational goals
Divisional (Product, Geography, Customer, Market)	<ul style="list-style-type: none"> • Suited to fast change and innovation in unstable environment • Higher client satisfaction because product responsibility and contact points are clear • Easier to adapt to differences in products, regions, clients • Decentralizes decision-making 	<ul style="list-style-type: none"> • Eliminates economies of scale in functional departments • Duplication of resources and poor coordination across divisions • Less in-depth competence and technical specialization • Integration and standardization across divisions (products, regions, etc.) more difficult
Matrix	<ul style="list-style-type: none"> • Achieves coordination to meet dual demands • Flexible sharing of human resources across divisions • Suited to complex decisions and rapidly changing environments • Opportunity for both functional and divisional skill development 	<ul style="list-style-type: none"> • Dual authority can be frustrating and confusing • Participants need good interpersonal skills and extensive training • Time-consuming: frequent meetings and conflict resolution sessions • Requires great effort to maintain power balance

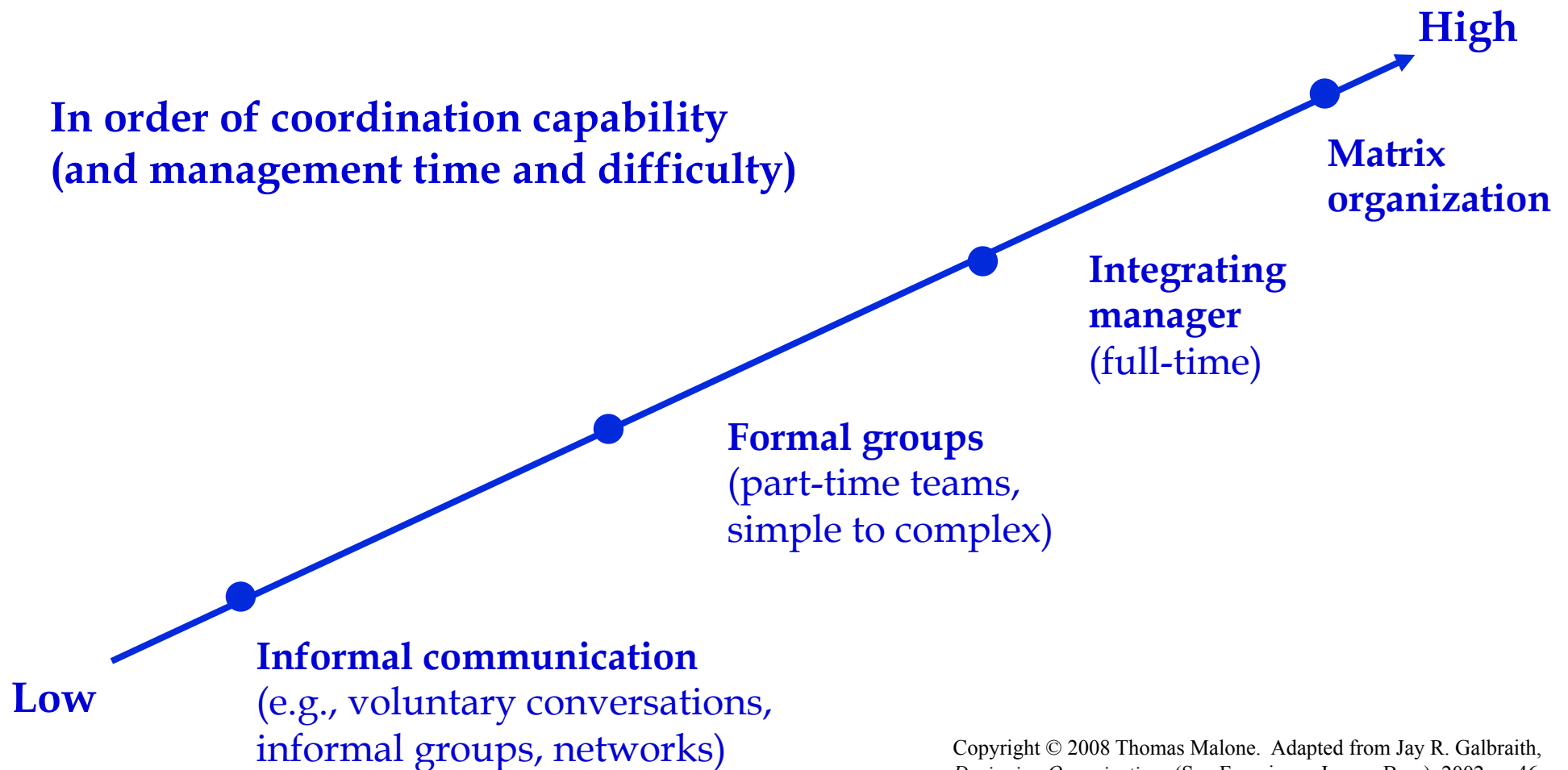
When are different groupings useful? (cont.)

Structure	Strengths	Weaknesses
Front-Back	<ul style="list-style-type: none">• An alternative way (in addition to Matrix) to optimize on multiple dimensions at once (e.g., products, functions, customers, regions)• Often suited to large, complex organizations	<ul style="list-style-type: none">• Very complex to manage (needs top-down management from CEO and Executive Committee combined with lateral coordination throughout organization)

When are different groupings useful? (cont.)

Strategy framework	Strategy		
March	Explore	Exploit	
Galbraith (Treacy & Wiersema)	Product	Operations	Customer
Porter	Differentiation	Low cost	
Hax	Product		Customer
Corresponding organizational structure	Product	Functional	Customer, Market, Geography

How can different groups be linked? (lateral coordination processes)



How?

Hierarchical reporting relationship

Unitary

Dual

Grouping

(How are units grouped in hierarchy?)

Functional

Divisional

Matrix

Linking

(How are groups linked?)

Informal communication

Formal groups (part-time)

Integrating manager (full-time)

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
 - ...
- ...

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.

MIT OpenCourseWare
<http://ocw.mit.edu>

15.320 Strategic Organizational Design
Spring 2011

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.