



Note on Organization Structure

Introduction

Organizations exist to enable a group of people to effectively coordinate their efforts and get things done. The structure of an organization is the pattern of organizational roles, relationships, and procedures that enable such coordinated action by its members. Organization structure serves the following functions:

1. It enables the members of the organization to undertake a wide variety of activities according to a division of labor that defines the specialization, standardization, and departmentalization of tasks and functions.
2. It enables the members of the organization to coordinate their activities through integrating mechanisms such as hierarchical supervision, formal rules and procedures, and training and socialization.
3. It defines the boundaries of the organization and its interfaces with the environment or the other organizations and institutions with which it must interact.

Shaping an effective organization structure is one of the central functions of the general manager. While few managers except those at the highest levels of the organization have the ability to change or redesign the overall structure of an organization, all managers have to get things done within this framework. Moreover, most managers must structure the activities in their sphere of responsibility. Therefore, understanding how organizations are structured is vital to being an effective manager.

This note is written with a view to provide the reader with a basic understanding of organization structure. The first section outlines some of the key concepts and factors that must be taken into account in designing organization structures. Some archetypical forms of organization structure and their strengths and weaknesses are described in the second section. Finally, some

Professor Nitin Nohria prepared this note as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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emerging trends in how organizations are structured are discussed in the last section of this note. A brief history of the main ideas that have shaped our knowledge of organization structure and a selected bibliography are provided at the end for the reader who may wish to pursue this subject in greater depth.

Organization Structure—Central Concepts

The structure of an organization is far more complex than drawing an organization chart of lines and boxes. In thinking about the structure of any organization, the following issues must be addressed:

1. The division of labor Since no one person can do everything, how should various tasks and responsibilities be divided among the members of an organization? This includes deciding upon: (i) the extent of horizontal and vertical specialization of jobs, i.e., the breadth of the job in terms of number of different activities to be performed job and the depth of the job in terms of the extent to which the conception, execution, and administration of activities are combined; and (ii) the grouping of activities according to the goods and services the firm markets or to whom it supplies them or to the functions, skills, and knowledge the firm uses to produce its goods and services. Deciding upon the division of labor in an organization involves some key trade-offs. On the one hand, highly specialized jobs focus attention, permit the development of skills and standards. But on the other hand, extreme specialization increases coordination costs and leads to monotonous jobs that provide low satisfaction.

2. Coordination mechanisms A direct consequence of the division of labor is the need to coordinate the independent activities of the members of the organization. Effective integration is as important as careful differentiation. There are various modes of vertical and horizontal coordination within and among groups such as direct supervision, formal rules and procedures, plans and budgets, negotiation and adjustment, and other integrating devices such as liaison roles, meetings, committees, task forces, etc. The choice of coordination mechanism depends on the degree to which integration issues are routine versus exceptional. Routine coordination such as integration across the various stations in an assembly line or the monthly processing of paychecks can be accomplished by direct supervision or standard operating procedures. Coordination issues involving the use of limited resources and the resolution of infrequent or unusual matter often requires other mechanisms such as plans and budgets, mutual negotiation, coordinating committees, task forces, etc. Though it is important to ensure smooth coordination in any organization, it is important to remember that coordination is costly. Coordination meetings, for example, can be helpful, but if excessive can be wasteful and an inefficient use of time.

3. The distribution of decision rights Since information is distributed among the members of the organization, a third issue that must be addressed in any organization is how information flows should be organized and who should make what decisions? This means allocating different decision rights such as the rights to initiate, approve, implement, and control various types of strategic or tactical decisions. The main axis along which these rights vary is the vertical dimension (the dimension spanning the different levels of the organization) leading to the well-known problem of determining the appropriate degree of centralization or decentralization of decision-making authority. Decision rights also have to be distributed along the horizontal dimension (the dimension spanning different activities at the same level of the organization) so that it is clear, for example, whether the marketing or engineering department has the right to decide on the specifications of new products. In order to support coordinated decision making,

various mechanisms for information to flow vertically and horizontally such as reports, meetings, face-to-face conversations, etc. must also be put in place.

Ideally, decision rights should be given to those who have the best information relevant to the decision. Typically these are people lower down or on the front lines in the organization. For example, a manufacturing manager probably knows the most about the production capacity of the plant and a field sales manager the most about customers. Yet, it may not always be optimal to allow the manufacturing manager to make plant loading decisions or the sales manager to make pricing decisions because they may be unable to make the necessary trade-offs that lead to decisions that are in the best interest of the firm as a whole. One reason why their decisions can be sub-optimal is that they do not have information on other relevant factors. Even if they did have all the necessary information, a second reason why they might make sub-optimal decisions is because their self-interest may often be at odds with those of the firm as a whole. The manufacturing manager, for instance, may wish to increase production because she is compensated for capacity utilization and the sales manager may wish to offer deep discounts because she has a sales quota to meet. Decision rights must, therefore, be allocated while keeping in mind the extent of goal congruence and the incentives of the various members of the organization.

4. Organizational boundaries Since all activities are not organized within the boundaries of the firm, structuring an organization also involves deciding what to do inside and what outside the boundaries of the firm? This means making choices about the extent of horizontal and vertical integration, make-versus-buy choices for different goods and services, and choices about strategic alliances with other firms. Also, choices have to be made about the extent to which the different parts of the organization interact directly with the outside environment. Should customers be allowed to interact directly with workers in the manufacturing plant or should they only interact with the sales-force? How much input and output inventory should the organization hold in stores and warehouses to buffer itself from the environment? Overall, these choices define the boundaries of the organization and how it interacts with its environment.

Managers have considerable discretion in the choices they make regarding the above four issues. These are features of the organization that they can willfully manipulate and change. However, there are some other structural features of organizations that are equally important to an understanding of how organizations work, but over which managers have a more limited influence. These are the informal structure of the organization, its political structure, and what is regarded as the legitimate basis of authority.

5. The informal structure Formal roles and relationships are not the only basis of social interaction in organizations. Since organizations are social systems as much they are productive systems, there are relationships among the members of the organization that develop based on proximity, liking, friendship, advice, and shared background and interests. As anyone who joins an organization quickly recognizes, these informal relations are often as important as the formal ones in terms of how information flows and things get done in an organization. Thus, in order to be effective in any organization, a manager must be cognizant of the informal network, tap into it, and in making changes be careful of how they might affect the informal structure.

6. The Political Structure Since organizational members have varying interests and agendas, it is impossible to escape or deny the political nature of organizations. As in the public domain, there are political coalitions inside organizations that have competing agendas and viewpoints about how the actions the organization should undertake. Often the political lines in organizations are drawn across departmental, functional or divisional lines. But there are other times when political coalitions cut across formal boundaries. In order to be effective, a manager must assess the political landscape in the organization. She must also assess her own power and that of those she must interact with in order to get things done.

7. The legitimate basis of authority Formal position undoubtedly defines to a certain degree who has legitimate authority in an organization. Rank and title do count. But they do not provide a complete picture of who has authority in an organization. There are other sources of authority that are often granted legitimacy in an organization including one's expertise, charisma, and social status.

The structure of an organization can vary in terms of the above seven dimensions. The strengths and weaknesses of different structures can be evaluated along several dimensions. Some of the more important dimensions are: (i) efficiency of resource utilization, (ii) efficiency of time utilization, (iii) responsiveness to the environment, (iv) adaptability over time, and (v) the ability to hold people accountable. Resource efficiency refers to the organization's ability to perform its tasks reliably, with quality, and with economy of effort and resources such as labor and capital. Time efficiency is the speed and timeliness with which the organization is able to execute its tasks. Responsiveness is the organization's ability to satisfy the demands of the various domains of the environment in which it operates. Adaptability is the ability of the organization to innovate and to change dynamically over time. Accountability refers to the ability to hold individuals in the organization accountable for the performance of certain activities that contribute to the improved overall performance of the firm. While all organizations must strive for improvements along all these dimensions, trade-offs are often necessary. For different organizations one or more of these characteristics may be especially important and their structures must be shaped accordingly.

In theory, given the number of dimensions along structure can vary, there can be a very large number of organization structures. In practice, only a few designs are observed. We now turn to a discussion of these main forms of organization structure.

Organization Structure—Basic Forms

There are three basic structural forms—functional, divisional, and matrix—and some combinations or hybrids of them. Most organizations begin with a functional organization structure. As they become larger and more complex in terms of the products and services they offer or markets and clients they serve, they reorganize into some form of divisional structure, perhaps with a few centralized functional departments. If the environmental demands they experience place strong demands upon them along two or more dimensions such as product and function or product and geography, they may then adopt a matrix structure.

The Functional Form

When an organization grows beyond the affairs that can be handled by a single group of people and one boss, it usually adopts a functional structure (Exhibit 2). This creates an initial division of labor in terms of the main activities or functions that need to be performed by the organization if it is to carry on its business—such as production, sales, engineering, and finance and administration. As it grows, the organization may add new functions and further divide its presently employed functions.

In a functional structure, activities are grouped together by common function, from the bottom to the top of the organization. All engineers, for example, are located in the engineering department and the vice-president of engineering is responsible for all engineering activities. Their

activities are coordinated vertically within the function by hierarchical supervision, rules, and plans. Employees are committed to achieving the goals of their respective functional departments. Planning and budgeting is by function and reflects the cost of resources used in each department. Careers are normally defined on the basis of experience within the function.

In a functional structure, the employees in each department get differentiated, adopting similar values, goals, and orientations. Similarity encourages collaboration, efficiency, and quality within the function, but makes coordination and cooperation or integration with other departments more difficult.

However, since an organization's performance is dependent on all the functions working together in a coordinated manner, the functional structure requires a good deal of information processing among the functions. Procedures that cut across functions have to be created to process orders, to manage inventories and cash, and to coordinate product development and design changes, to name a few. Often this cross-functional information processing load falls on the general manager who is also required to mediate the conflicts that may arise among the functions. The general manager can add a central staff or create some formal mechanisms for coordination such as planning and budgeting systems to manage this integrative load. With the help of such mechanisms, some organizations such as the old AT&T operating companies, have been able to scale up immensely while retaining a basic functional structure.

The functional organization is best when the dominant competitive issues and goals of the organization stress functional expertise, efficiency, and quality. It is most effective in a relatively stable environment. This is because the functional structure promotes economies of scale. Producing all products in a single plant, for instance, enables the organization to acquire the latest and most scale intensive machinery. Constructing only one facility instead of a separate facility for each product line reduces duplication and waste. The functional structure also promotes in-depth skill development of employees by providing a well-defined functional career ladder that allows employees to be exposed to a range of activities within their own functional expertise.

The weakness of the functional structure is its inability to respond to environmental changes that require coordination between departments. In these cases the coordination mechanisms across functions can get overloaded. Decisions pile up and top management cannot respond fast enough. Other disadvantages of the functional organization is that each employee has a restricted view of the overall goals of the organization. This can lead to local optimization at the expense of firm-wide goals. There is also diffuse accountability since profit and loss accounts can only be calculated for the firm as a whole and not for each function.

Overall, the functional form is usually best suited for small to medium-sized organizations where the firm's strategy calls for a single or closely related set of products and services to be produced efficiently.

The Divisional Form

The divisional structure (Exhibit 3) differs from the functional by grouping diverse functions into divisions. All the necessary resources such as manufacturing, research and development, and marketing are contained within each division. If the functional structure is organized according to the various inputs that enable an organization to produce goods and services, the divisional structure is organized according to the various outputs of the organization. Each

division may be responsible for a different set of products, geographical markets, or clients. Thus, one can have product, region, market-segment, or client-based divisional structures.

Coordination across functions within each division is maximized in a divisional structure. Employees identify with their division rather than with their own function. Budgeting and planning is on a profit basis, because each division can be run as a separate business with both revenues and costs calculated. Managers with influence are those who lead the divisions. Promotion into higher management is typically on the basis of management and integration skills rather than on the basis of functional expertise.

Though each division is managed like a separate business, coordination across the divisions is overseen by a group of managers at corporate headquarters that is responsible for allocating resources among divisions and setting the long-term strategy of the firm. One of the main issues in a divisional structure is the degree of autonomy granted to the divisions in making decisions that are strategic and involve significant resource commitments.

The divisional structure is excellent when environmental uncertainty is moderate to high and the dominant competitive issue and goals of the organization emphasize coordinated action to innovate, satisfy clients, or to maintain a market segment. Since each division has the full complement of functional resources, it can respond to the requirements of individual products, markets, customers, or regions and adapt quickly as these needs change. Also, each division can be held fully accountable for its performance and this enables better control.

One disadvantage is that the organization loses economies of scale. For example, instead of fifty engineers sharing a common facility in a functional organization, ten engineers may be assigned to each of five divisions. The critical mass required for in-depth research is lost, and physical facilities have to be duplicated for each division. Another problem is that coordination across divisions can be difficult and in pursuing their own goals, divisions may work at odds with each other. For example, several divisions may have common customers and the salespersons from these different divisions may compete with each other for the customer's attention. In-depth competence and technical specialization may also be weakened in this structure, since employees identify with and invest in the division rather than with a functional specialty.

The divisional structure typically works best in medium or large sized organizations that operate in heterogeneous environments and have adopted a diversified strategy of producing multiple products, operating in different businesses and markets, serving different customers, and/or selling products in different geographical regions.

Hybrid Forms

Most large corporations do not have either a pure functional structure or a pure divisional structure. Two types of hybrid structures are found quite frequently. In one form, project or product groups may be overlaid on the functional structure so that these groups facilitate coordination across functions. In the other hybrid form, some key functions such as manufacturing or sales that require economies of scale and specialization may be centralized and located at headquarters, thus superimposing a functional structure on a divisional one. By combining characteristics of both functional and divisional structures, hybrid structures can take advantage of both forms of structure and avoid some of their weaknesses.

The Matrix Form

While most organizations find that some variation of either the functional or the divisional structure provides the best arrangement to achieve organizational goals, in a few situations, organizations face a special dilemma. They need the benefits of both the functional and divisional structures. The organization needs both technological expertise within functions and horizontal coordination across functions. For instance, a defense contractor may need deep functional skills as well as the ability to coordinate across these functions for each contract or project. A multinational firm may need to coordinate across the demands of functions, products, and geographic locations.

The matrix organization (Exhibit 4) is often the answer in these cases. The unique characteristics of the matrix form is that both divisional and functional structures are implemented simultaneously. The division managers and functional managers have equal authority within the organization, and employees report to both of them. Most of the firm's employees will have dual assignments. An engineer, for example may be assigned to both a particular project as well as the engineering department. Upon completion of a particular assignment, the engineer would go back to the engineering department and then be assigned to a new project. The engineer has a home base, but works full time on different projects. The reporting relationship is dual; the engineer reports to both project and department manager. Since the necessary resources in a matrix organization are distributed between functions and divisions, resource allocation in the form of scheduling and priorities must be negotiated among these groups.

The dual hierarchy may seem an unusual way to design an organization. But it is the correct structure when the following conditions are met. First, environmental pressures are from two or more critical dimensions, such as function and product, or function and region. This pressure means that a balance of power is required within the organization, and a dual authority structure is needed to reflect the environmental pressure. Second, the task environment of the firm is both complex and uncertain. Frequent external changes and high interdependence between departments require extremely effective linkages in both vertical and horizontal directions. Third, economies of scale in the use of internal resources is needed. The organization feels pressure for the shared and flexible use of people and equipment.

The strength of the matrix is that it enables the organization to meet multiple demands from the environment. Resources can be flexibly allocated and the organization can adapt to changing external environments. It also provides an opportunity for employees to acquire either functional or general management skills depending on their interests.

A basic problem is determining the responsibility and authority relationships between, for instance, functional and project managers. There is commonly a lack of jurisdictional clarity. Also, each person who reports to two bosses is caught in a conflict. Whenever conflicts arise, the person and both bosses have to resolve the conflict. People in a matrix spend a great deal of time in meetings. Some of the conflict built into the matrix is healthy since it forces discussion and coordination to resolve issues that pertain to both functions and projects. It also provides top management with the ability to influence which dimension gets more or less attention in different situations. However, dual reporting relationships and assignments can cause role ambiguity, hamper career development, and weaken ties with professional reference groups for employees.

If managers do not adapt to the information- and power-sharing required by the matrix, it will not work. They must collaborate with each other rather than rely on vertical authority in decision-making. Many organizations have found that the matrix is difficult to install and

maintain. When the matrix fails, it is usually because one side of the authority structure dominates, or employees have not learned to work in a collaborative fashion.

Emerging Organization Structures

Recently, managers and academics have attempted to articulate an alternative concept to the Weberian bureaucracy that served as the foundation for functional, divisional, and matrix organization structures. Among the labels suggested have been network organizations, cluster organizations, self-designing organizations, information-based organizations and post-industrial organizations. Though there are important differences among these different emerging conceptions of organization structure, they all share a number of common characteristics that can be discussed under the label of a "network structure"(see Exhibit 5).

A network structure differs from the traditional bureaucratic structures in several ways (see Exhibits 6 and 7). The division of labor in a network structure is envisaged in terms of different types of "knowledge workers" who may act as individual contributors or be a part of a cluster defined in terms of the expertise it provides. These knowledge workers and the specialized know-how they provide are seen to be the building blocks of the organization.

Coordination in a network structure takes place primarily through cross-functional teams that can be more or less permanent. These teams bring together different combinations of knowledge workers and operate under little formal supervision. Some teams such as an autonomous work group on an assembly line are relatively permanent and are responsible for the production of a complete product or sub-assembly. Others such as product development teams oversee the development and introduction of a new product, forming and disbanding according to the life cycle of the product. Yet others are formed to focus on addressing a specific problem or meeting a specific customer need. Broad oversight of and strategic direction for these teams is provided by top management executive teams.

Decision rights in a network structure are pushed as far down as possible. With the help of information technology, information is made available to support decisions being made by the knowledge workers directly, instead of by managers higher up in the organization. Middle managers who traditionally played the role of relaying information up the organization and decisions down are redundant in network organizations, leading to flatter organization structures with fewer levels and broader spans of control.

A network structure involves the blurring of boundaries between the organization and its environment which includes vendors, customers, and competitors. Value-added partnerships with vendors and customers, strategic alliances with competitors, and other such relationships blur what is inside and what is outside the organization. The blurring of the inside/outside boundary combined with customized products and services for specific customers and just-in-time production techniques means that the production process is performed on the boundary of the firm in real-time interaction with vendors and customers. This is quite different from the functional hierarchy in which the production process is viewed as a core that is buffered from the environment with inventories on the input and output side. In the network organization, everyone in the firm is expected to deal with the environment—there is no core that is buffered and sealed off from the world to keep uncertainty at bay.

The network structure also overturns the traditional importance of the formal over the informal organization. While the informal structure was undoubtedly important even in

traditional organization, it not only dominates but in a very real sense renders the concept of the formal organization meaningless in the network organization. In network organizations, the structure is so fluid, changes so often, and is so dependent on actions taken by people through mobilizing personal ties, that the only organizational structure that has reality for people is an informal one.

Given the fluidity of network structures, political coalitions are rarely organized along the lines of formal structural boundaries as tends more often to be the case in traditional organizations. Also, authority is based minimally on formal position and is derived much more from the expertise and resources one possesses.

The main advantage of the network structure over traditional structures is its adaptability. The fluidity and ease with which network structures can be adapted also means that the network structure has the advantage of being fast and responsive to environmental demands. At the same time, resources are often duplicated in network structures and accountability can be diffuse and poorly defined. A network structure is ideally suited for volatile environments that change rapidly and dramatically and when innovation is the primary basis of strategic advantage. Under more stable conditions, the network structure may not be as effective as some of the other more traditional structures.

Finally, it is important to remember that an organization's structure is not an end in itself. It merely sets the context for managerial action. The most wonderfully designed structure provides no guarantee that the desired actions will follow. Ultimately, the job of the manager is to mobilize individual and collective actions with the greatest economy of resources and the best prospects of effective performance. Structure is just one useful tool that managers can employ to achieve this objective.

A Brief History of the Theory of Organization Structure

The development of a proper theory of organization structure began in the first decade of this century with the work of the German social scientist Max Weber. In about 1910, Weber described and outlined the features of the bureaucracy as an ideal form of organization.¹ Weber's model of the bureaucracy has served as an organizing framework for most modern organizations. The distinctive structural features of an ideal bureaucracy include (i) a clear differentiation of tasks and responsibilities among individuals, (ii) coordination through a strict hierarchy of authority and decision rights and standardized rules and procedures, (iii) the vertical separation of planning and execution so that plans are made in the upper ranks of the organization and executed in the lower, and (iv) the use of technical criteria for recruitment and promotion. The structure of the military and the church are two of the best examples of Weberian bureaucracy. The main benefit, according to Weber, of the bureaucratic form was its ability to make organizations more rational and efficient.

Efficiency considerations dominated the thinking of the early thinkers on organization structure. Following Weber's influential ideas, the work of Taylor (1911) and Fayol (1916) led to an elaboration of the principles of effective administration or what came to be known as "scientific

¹ The word "ideal" does not, in Weber's conception of bureaucracy, mean "perfect." It simply means the abstract form of bureaucracy as distinguished from the real life manifestations. At the same time, there is little doubt that he did think highly of the form because of its many advantages that he perceived.

management." These scientific principles focused on two areas. One was an examination of how jobs, work, and incentive schemes could be designed to improve productivity using industrial engineering methods. The second was an examination of the principles of effective supervision which led to law-like rules such as the maximum span of control should not exceed six, there should be unity of command, and authority should flow in an unbroken line from the top executive to the lowest employee. In these early theories, the organization was regarded as being analogous to a machine, which, if properly designed would efficiently achieve its objectives.

In the 1930s, the human relations perspective advanced by Mayo and Roethlisberger came to the fore. This view emphasized the importance of informal social relations at work. These scholars admonished the earlier theorists for their machine-like view of organizations. Instead, they contended that organizations must properly be understood as systems of interdependent human beings who share a common interest in the survival and effective functioning of the system. Organizations, according to them, were not just technical systems that enabled the production of goods and services; they were social systems that served as arenas for social interaction. The main contribution of this school of thought was to draw attention to the informal and social side of organization structure.

The next step in the evolution of organization theory were attempts to ground the study of organizations on a more realistic behavioral foundation and to develop the implications of these assumptions for the task of management. Barnard (1938), for instance, focused on the problem of securing the cooperation of the members of the organization who may have divergent interests. Simon (1945) focused on the implications of the bounded rationality of the members of an organization. And Cyert and March (1963) emphasized the political nature of organizations and its implications for how organizations were structured and how they worked.

In the 1950s, the focus shifted to understanding the differences among organizations. Some of the early work was done by Eric Trist, founder of the socio-technical viewpoint. He explained differences among social groups based on differences in the social, psychological, technical, and economic conditions they confronted. Joan Woodward (1958) found that the structure of organizations depended on the differences in the technology they employed (whether it was a batch, mass, or process production technology). Burns and Stalker (1961) reasoned that organization structures would differ depending on whether they were designed to execute certain stable tasks or uncertain, innovative tasks. They argued that formal "mechanistic" structures would be best suited for stable conditions that placed a premium on efficiency and informal "organic" structures would be best for uncertain conditions that required innovation.

All of this led, in the 1960s, to a vigorous shift away from the notion that there was one best way to structure an organization. Instead, a more contingent view emerged according to which an effective organization structure was based on a "fit" or "alignment" between the organization and various aspects its environment including the tasks it performed, the customers it served, the labor markets from which it recruited, the institutional and cultural context in which it was embedded, and so on (Exhibit 1 depicts some of the other important domains of an organization's environment). This came to be known as the contingency perspective and was best exemplified in the work of Lawrence and Lorsch (1967), Thompson (1967), and Galbraith (1973). The idea that an organization's structure needed to be aligned with its strategy was also advanced during this period. Chandler (1962) wrote one of the most influential historical accounts of how large U.S. corporations changed from a functional to a multidivisional structure in the 1920s, as firms moved from having single-product to diversified strategies.

During the 1970s and 1980s, a debate emerged between those who believed that an organization's structure could be changed by active managerial design to enhance an organization's performance and those who maintained that an organization's structure was so strongly determined

by environmental constraints that managers had very little discretion in structuring an organization. In the former camp were continuing proponents of the earlier contingency perspective as well as economists interested in organizations such as Arrow (1974), Nelson and Winter (1982), Williamson (1985) and Jensen and Meckling (1976). In the latter camp were the so-called population ecologists such as Hannan and Freeman (1977), proponents of resource dependency such as Pfeffer and Salancik (1978) and neo-institutionalists such as Meyer and Rowan (1977) and Zucker (1987). This debate has not yet been resolved.

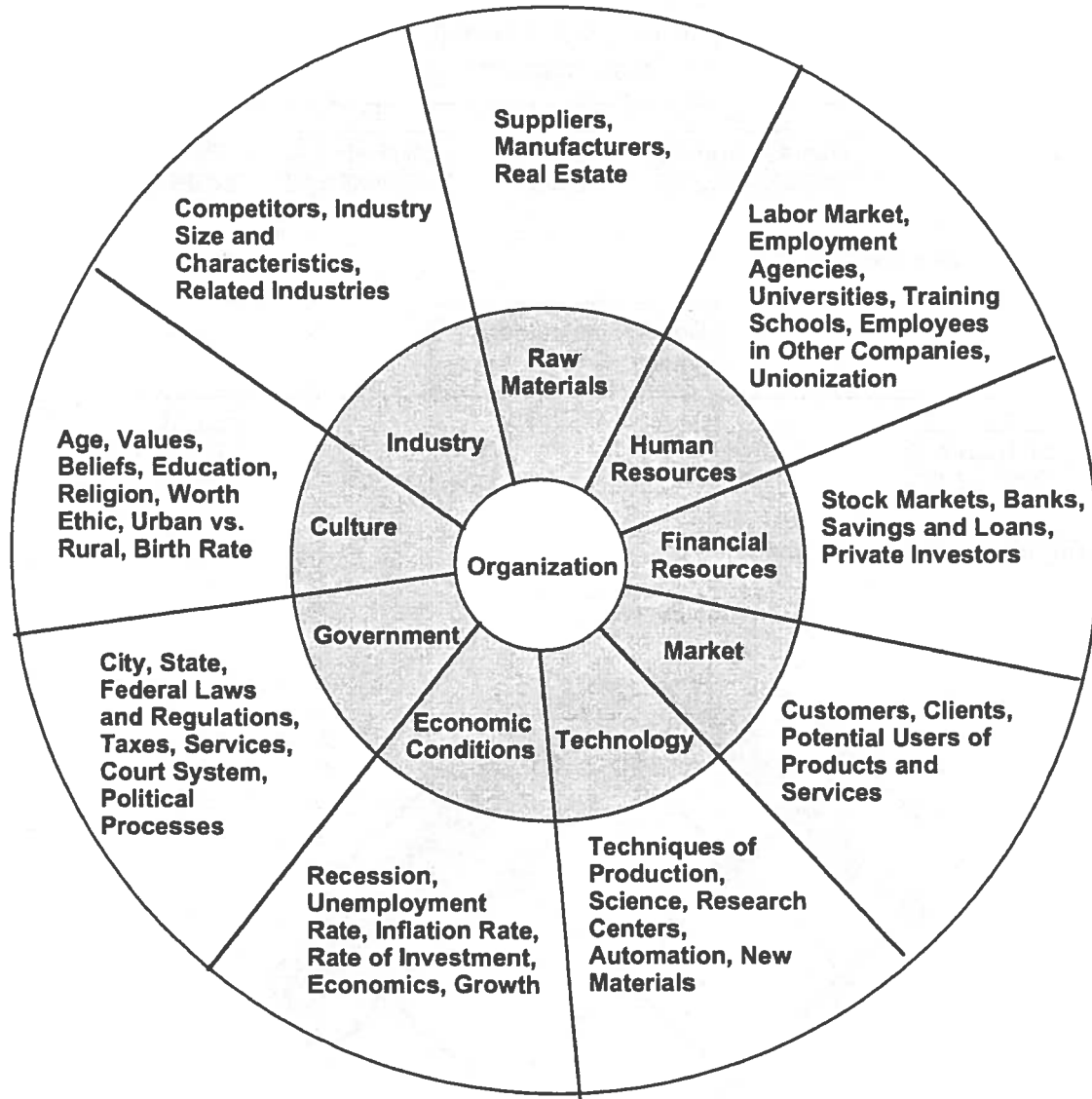
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Exhibit 1 Domains in an Organization's Environment



Source: Richard L. Daft, *Organization Theory and Design*, (St. Paul, MI: West Publishing, 1983) p. 43

Exhibit 2 Functional Structure

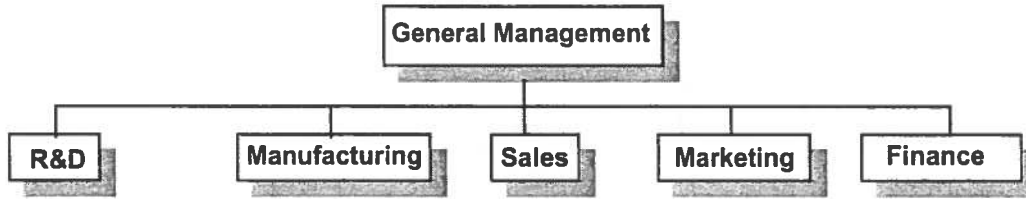


Exhibit 3 Divisional Structure

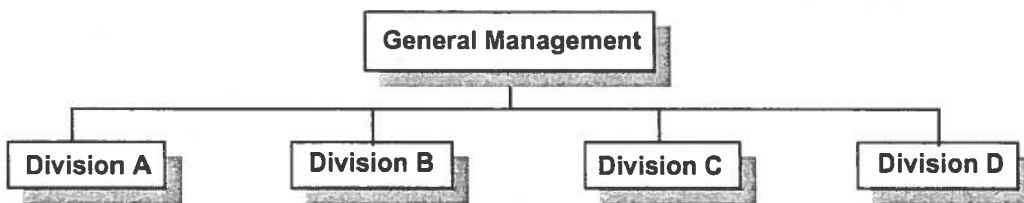


Exhibit 4 Matrix Structure

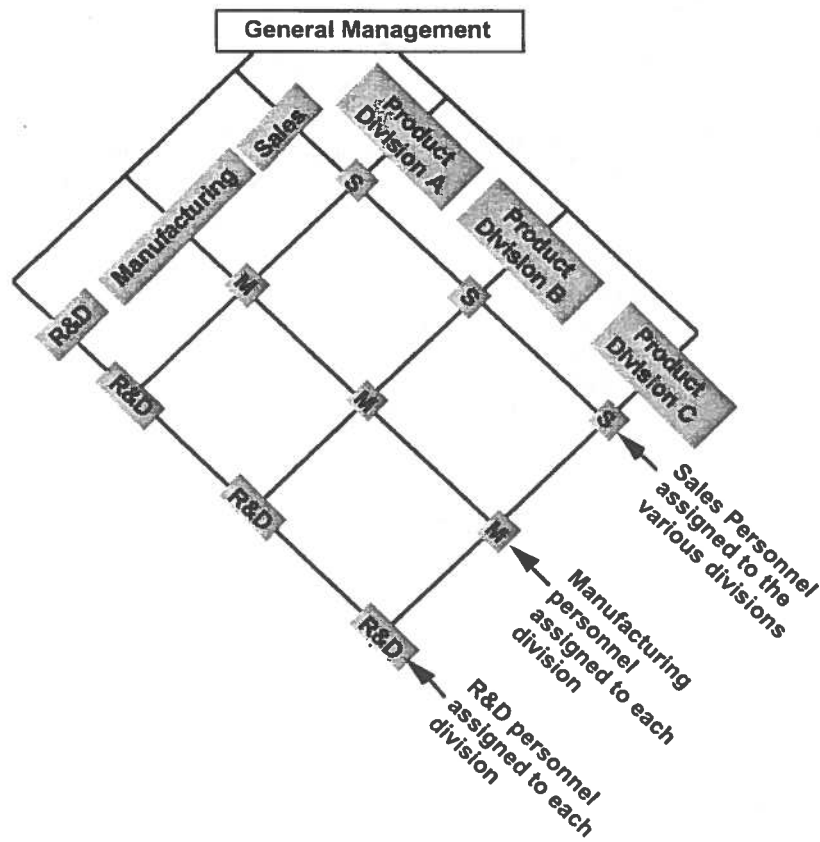


Exhibit 5 Network Structure

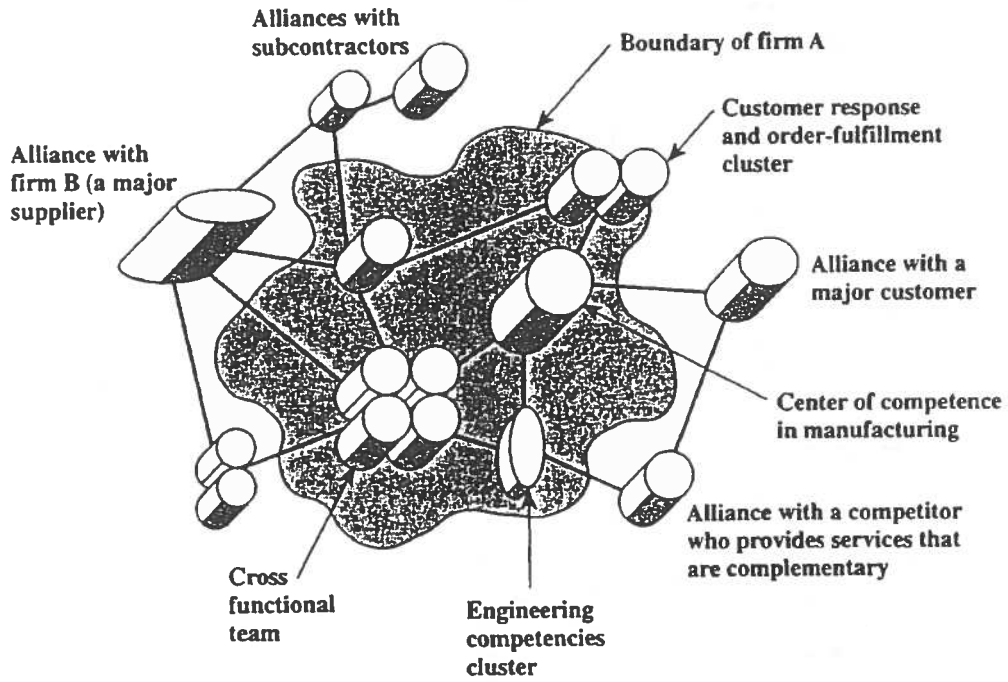


Exhibit 6 A Comparison of Different Organization Structures

	Functional	Divisional	Matrix	Network
DIVISION OF LABOR	By inputs	By outputs	By inputs & outputs	By knowledge
COORDINATION MECHANISMS	Hierarchical supervision, plans & procedures	Division general manager & corporate staff	Dual reporting relationships	Cross-functional teams
DECISION RIGHTS	Highly centralized	Separation of strategy & execution	Shared	Highly decentralized
BOUNDARIES	Core/periphery	Internal/external markets	Multiple interfaces	Porous & changing
IMPORTANCE OF INFORMAL STRUCTURE	Low	Modest	Considerable	High
POLITICS	Inter-functional	Corporate-division & Inter-divisional	Along matrix dimensions	Shifting coalitions
BASIS OF AUTHORITY	Positional & functional expertise	General management responsibility & resources	Negotiating skills & resources	Knowledge & resources

Exhibit 7 The Relative Advantages and Disadvantages of Different Structures

	Functional	Divisional	Matrix	Network
RESOURCE EFFICIENCY	Excellent	Poor	Moderate	Good
TIME EFFICIENCY	Poor	Good	Moderate	Excellent
RESPONSIVENESS	Poor	Moderate	Good	Excellent
ADAPTABILITY	Poor	Good	Moderate	Excellent
ACCOUNTABILITY	Good	Excellent	Poor	Moderate
ENVIRONMENT FOR WHICH BEST SUITED	Stable environment	Hetrogeneous environment	Complex environment with multiple demands	Volatile environment
STRATEGY FOR WHICH BEST SUITED	Focused/low cost strategies	Diversified strategies	Responsiveness strategy	Innovative strategy

