

Organizational Design: A Library of Resources for Sustainable Entrepreneurs

Overview and Contents

An organization is any group of persons with a common objective. Simply put, two or more people may band together to form an organization because they determine that working together is a more effective means for creating value than if each of them continued to work separately. The study and practice of organizational design focuses on the structured processes that emerge within organizations to guide how their members (e.g., owners, executives, managers and non-managerial employees) interact with one another to pursue their mutually agreed goals and objectives with respect to the creation of value for themselves and the external environment in which the organization operates. While the initial idea for what becomes a new business may emerge suddenly, without warning, or after long deliberation but without any semblance of a formal roadmap as to how to proceed, efficient pursuit of the idea ultimately requires attention to creating and administering an appropriate organization for the business.

Structure is one of the key elements in organizational design, along with such things as strategy, culture and business processes, and establishes how senior management of the organization wishes to allocate the ability to control activities and resources throughout the organization. The building blocks of organizational structure are formal groupings of people and resources into units—departments or divisions—that focus primarily on one of several structural dimensions including functions, products, geographic areas or customers/markets. Organizational structure determines how power and authority is allocated, how information flows and who is accountable to whom through mandated reporting relationships. Structure alone cannot make an organization successful; however, if the structure is not aligned with organizational strategy it will be difficult for senior management to achieve the desired results.

There is no single structure that works best in all cases and the structure will continuously change as the organization grows and evolves with emphasis shifting from one dimension to another as circumstances dictate. In most cases an organization will initially choose a function-based organizational structure that divides work activities into functional groups such as research and development, production, sales and marketing, finance and administration (including human resources). As the organization grows it will shift the primary dimension of its structure to products or markets, either geographic or customer-based, through creation of divisions for each key product line or market. Other structures based on two or more of the dimensions—matrix or hybrid—may be used in appropriate cases when the activities of the organization have expanded into multiple product lines and/or markets.

The Sustainable Entrepreneur's Library of Resources for Organizational Design consists of eight Parts. Part I provides a brief introduction to the theory and study of organizations, sometimes referred to as organizational studies. The field of organizational studies is based on pursuing a better understanding of the structured

processes that emerge within organizations to guide how the members interact with one another to pursue their mutually agreed goals and objectives. Among the key topics covered in this Part are popular definitions of the term “organizations” and theories regarding the purposes of organizations; how organizations create value for the members of the organization and society as a whole; descriptions of the various internal and external stakeholders of an organization, including a review of their contributions and expectations; the fundamental elements of organizational management, including structure, culture, design and environmental factors; an overview of the academic foundations for organizational studies; a description of some of the key determinants of organizational effectiveness; an introduction to popular methods for measuring organizational effectiveness; and a discussion of networks and alliances.

Part II provides a brief introduction to organizational design and identifies and briefly describes the factors and issues that must be considered in designing, implementing and maintaining an effective organizational structure that is properly aligned with the strategy and culture of the organization. The Part describes several well-known models of the organizational design process and the key elements of those models including strategy, structure, business processes and lateral linkages, compensation and reward systems, culture and human resource management. The Part discusses how organizational design fits within organizational theory and explains why the design process is an important determinant of the competitiveness of an organization. The Part also includes a description of the information processing model of organizational design to illustrate how changes in organizational strategy, and the way in which the organization and its members must collect and process information, impact the other elements of organizational design. Separate chapters in the Part provide introductions to the relationship between organizational design and technology, the steps that need to be taken by top management to integrate organizational design into creating and exploiting the firm’s core competencies and competitive advantages and issues that should be considered when incorporating sustainability into organizational design.

Part III provides an introduction to organizational structure that includes a description of the building blocks of organizational structure and the way in which the structure of an organization typically evolves as it matures and grows; and discussions of some of the key challenges in designing the organizational structure (e.g., establishing the degree of horizontal and vertical differentiation, balancing differentiation and integration, balancing centralization and decentralization, and balancing standardization and mutual adjustment) and special topics such as tall versus flat organizational structures, the span of control, mechanistic and organic organizational structures, informal organizational structures and making changes to the organizational structure. Various chapters in the Part build on the introduction to the topic of organizational structure by providing a detailed discussion of several of the basic models of organizational structure including function-based structures, product-based structures, geographic-based structures, market-based structures, matrix structures and network structures.

Part IV describes several activities that need to be carried out in order to design an effective organizational structure. The Part begins by identifying the essential elements

of an organizational structure and suggesting a useful taxonomy of the various units that are typically found within the organizational structure including departments, functions or divisions, businesses, countries, products or projects. The Part continues with chapters that lay out certain fundamental principles for designing an effective organizational structure and illustrates how the structuring process might be conducted including the creation, evaluation and selection of structural design concepts. Additional chapters in the Part focus on integration strategies (i.e., direct contacts and development of interpersonal relationships, liaison roles, task forces, teams and integrating roles/departments) and project and team management.

Part V describes various issues that organizations must address as they seek to identify and manage the inevitable challenges that will arise as they grow and mature and the environment in which they operate changes. Part VI discusses the challenges of designing a global organization and explores various strategies and structures that might be selected by entrepreneurial firms.

Part VII includes an extensive discussion of the important “culture-free/culture-bound debate” which has been succinctly summarized as follows: “[d]o countries at approximately the same stage of industrial development, and having similar industrial structures, adopt the same approach to the organization and management of their institutions? Or are their distinctive cultural heritages sufficiently entrenched to mean that each society fashions its own unique administrative philosophy?” In addition, the Part identifies and describes various typologies of organizational structures that have been suggested for use in making comparisons across national or culture borders. The Part also discusses various studies that have been conducted regarding organizational structures in various developed countries. Part VIII discusses how organizations are structured in developing countries.

PART I THEORY AND STUDY OF ORGANIZATIONS

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About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change.

About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project and the Founding Director of the Business Counselor Institute (www.businesscounselorinstitute.org), which distributes Dr. Gutterman's widely-recognized portfolio of timely and practical legal and business information for attorneys, other professionals and executives in the form of books, online content, webinars, videos, podcasts, newsletters and training programs. Dr. Gutterman has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and

securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Dr. Gutterman, his publications, the Sustainable Entrepreneurship Project or the Business Counselor Institute, please contact him directly at agutterman@alangutterman.com.

Further Information

For further information about Dr. Gutterman, his publications, the Sustainable Entrepreneurship Project or the Business Counselor Institute, please contact him directly at agutterman@alangutterman.com.