Can you imagine what your school would be like if it had no organizational design or structure? How would the instructors know what to teach students if they hadn’t been assigned certain subjects and classes? How would the principal know what rules to enforce without the authority of the school board? It could easily turn into chaos! When an organization has a clear, well-planned design, it provides the best possible environment for everyone involved—administrators, teachers, and students alike. Everyone knows what his/her job is and to whom s/he is responsible.

Businesses work the same way. Without structure, there’s confusion and loss of productivity. Learn more about the principles of organizational design and the common structures that businesses use to keep operations flowing smoothly.

It’s All in the Design

Marlie has just started her own company. She serves as a consultant to other businesses, advising them on how to implement environmentally-friendly practices. Right now, Marlie’s business is a one-person operation. But as it grows, and Marlie hires other employees, she’ll need to put some serious thought into organizational design. Organizational design (also called organizational structure) is the process of structuring a business’s people, information, and technology to enable the business to achieve its goals and to be successful.

Why design?

Implementing a well thought-out organizational design is crucial to the success of any business. Let’s take a look at a few of the reasons organizational design is important:

- It creates clear lines of authority. Every employee has at least one authority that s/he must answer to. Even the CEO of a large public corporation is responsible to the authority of the company’s stockholders and board of directors. We’ll discuss the concept of authority in more detail later, but it’s important for everyone in an organization to know who his or her supervisor is. A strong organizational design makes it plain.

- It improves communication within the organization. Let’s say you’ve just started a new job at a local clothing store. A customer comes in and asks you when the next shipment of a certain brand of jeans will arrive. You don’t know the answer, but because the business has a clear organizational design, you know exactly who your direct supervisor is and can get the answer to the question quickly without having to ask several other employees. In this case, good organizational design has helped communication to flow smoothly within the business.

- It encourages innovation. When a business’s employees enjoy an excellent flow of communication, they are more likely to share ideas and help each other solve problems. This spurs innovation, meaning something new—perhaps a new product, a new process, or a new strategy. Can you think of a time when you thought of something new or figured out a workable solution because you were able to communicate your thoughts with others?

Objectives

A Explain key concepts of organizational design.

B Identify types of organizational design.
efficient manner. It's important, however, that a business not take specialization to such a great degree that workers are assigned only mundane, repetitive tasks that make them feel bored and dissatisfied with their jobs.

**Unity of command.** The principle of unity of command states that no employee should have to report to more than one manager or supervisor. Sticking to this idea when creating an organizational design keeps things simple. When employees have more than one authority to answer to, they can get confused or feel unsure about which manager's expectations should take precedence. Without unity of command, efficiency and productivity are likely to drop. In an organizational design that includes both line authority as well as staff authority, this principle can be difficult to follow.

**The scalar principle.** Creating authority that flows in a clear, continuous line means that you are following the scalar principle. The flow of authority within an organization is often referred to as the chain of command or line of command. A good organizational design features a chain of command that is unbroken from the top level of executives all the way to the bottom. Like the unity of command principle, the scalar principle keeps things simple and helps employees to know exactly where authority lies within the organization.

**Span of control.** Also called span of management, span of control refers to how many workers are managed by one supervisor. Logic, experience, and research have taught business owners that there is a limit to how many employees one manager can effectively supervise at one time. However, there is no set number that works in every situation. It depends on the manager, the company, the industry, and the skill levels of the employees on the work team. If the employees are highly skilled in their jobs, they will require less supervision from their manager, and the manager can handle more employees at once—a wide span of control. If the employees are less skilled in their jobs, they will require more supervision from their manager, and the manager can handle fewer employees at once—a narrow span of control. Taking these factors into account is crucial for every organization's leaders when they select an organizational design.

**Summary**

Organizational design is the process of structuring a business's people, information, and technology to enable the business to achieve its goals and to be successful. A good organizational design creates clear lines of authority, improves communication within the organization, encourages innovation, increases productivity, and allows the business to better compete. Principles of organizational design include the importance of company objectives, the concept of authority, division of labor, unity of command, the scalar principle, and span of control.
You Need Some Structure

To achieve its goals and be successful, an organization must choose and implement an appropriate organizational design. There are no hard-and-fast rules about what organizational design must look like. Business owners or leaders must decide what works best for their particular firm and its unique needs and objectives. It's useful, however, to be familiar with the main types of organizational structures.

A Functional Organizational Structure

Functional structure

In a functional structure, each unit or department within the organization has its own set of responsibilities and activities. Think of a business with a marketing department, an accounting department, a sales department, a production department, etc. This traditional structure is ideal for organizations that function within a stable environment, such as a company that produces a small number of products with a steady demand.

Here are some advantages of using the functional structure:

- Employees become even more skilled in their areas of expertise. Marketers focus on marketing, finance officers focus on finance, salespeople focus on selling, etc.
- It reduces the duplication of certain activities. The organization has just one department creating advertising campaigns, one department balancing the company budget, one department fielding customer complaints, etc.
- The chain of command is easily defined. Each department has a head manager or supervisor. These supervisors report to the company's president or other executive leaders. Depending on how the organizational chart is designed, the manager of one department may report to the manager of another department. For example, the head of the accounting unit may be responsible to the company's overall head of finance, who is in turn responsible to the company president.
- Decisions can be made faster. When each department is responsible for its own performance and activities, it has the ability to make departmental decisions quickly, without the need to go through several other departments or channels first.

The functional structure does have some disadvantages as well:

- It can create narrow perspectives among managers and employees. In the functional structure, managers are responsible for only their specific departments and employees, so their focus is often not on the organization as a whole. This perspective can filter down to subordinates. The separation between departments can also take away from potentially beneficial cooperation among the employees.
- Sometimes, the organization faces a problem or issue that can't be solved by just one department. A drop in market share, for instance, is a problem that both the marketing and sales departments need to address. In the functional structure, the separation between these departments may make working together more difficult.
- As you can see, the functional structure suffers from an overall lack of flexibility. It's difficult to communicate and coordinate between departments, and when special projects or problems arise, it may take a while to generate ideas and solutions. Change does not come quickly within the functional structure.
Lateral relations

Before we close, it's worthwhile to take a quick look at the concept of lateral relations. This refers to the amount of teamwork included in any type of organizational design, particularly in the form of special projects and task forces. No matter what structure an organization's leaders choose to implement, they should strive to include as much teamwork and cooperation between employees as possible. These types of teams become increasingly important as an organization grows.

Summary

Three common types of organizational designs are the functional structure, the divisional structure, and the matrix structure. No matter what type of design an organization chooses to implement, its leaders should be sure to include lateral relations, or special teams.