Five Approaches to Organizational Design

Managers must make choices about how to group people together to perform their work. Five common approaches — functional, divisional, matrix, team, and networking—help managers determine departmental groupings (grouping of positions into departments). The five structures are basic organizational structures, which are then adapted to an organization's needs. All five approaches combine varying elements of mechanistic and organic structures. For example, the organizational design trend today incorporates a minimum of bureaucratic features and displays more features of the organic design with a decentralized authority structure, fewer rules and procedures, and so on.

Functional structure

The functional structure groups positions into work units based on similar activities, skills, expertise, and resources (see Figure 1 for a functional organizational chart). Production, marketing, finance, and human resources are common groupings within a functional structure.

Functional Organizational Structure

[Diagram of a functional organizational structure]
Figure 1: The functional structure.
As the simplest approach, a functional structure features well-defined channels of communication and authority/responsibility relationships. Not only can this structure improve productivity by minimizing duplication of personnel and equipment, but it also makes employees comfortable and simplifies training as well.

But the functional structure has many downsides that may make it inappropriate for some organizations. Here are a few examples:

The functional structure can result in narrowed perspectives because of the separateness of different department work groups. Managers may have a hard time relating to marketing, for example, which is often in an entirely different grouping. As a result, anticipating or reacting to changing consumer needs may be difficult. In addition, reduced cooperation and communication may occur.

Decisions and communication are slow to take place because of the many layers of hierarchy. Authority is more centralized.

The functional structure gives managers experience in only one field—their own. Managers do not have the opportunity to see how all the firm's departments work together and understand their interrelationships and interdependence. In the long run, this specialization results in executives with narrow backgrounds and little training handling top management duties.
**Example:**

Revlon is an American cosmetics, skin care, fragrance, and personal care company founded in 1932 by Charles Revson and his brother Joseph, along with a chemist, Charles Lachman, who contributed the "L" in the Revlon name.

Since 1932, Revlon has developed a long-standing reputation as a trendsetter in the world of cosmetics, skin care, fragrance, and personal care. Revlon is a global color cosmetics, hair color, beauty tools, fragrances, skincare, anti-perspirant / deodorants and beauty care products company whose vision is Glamour, Excitement and Innovation through High-quality Products at Affordable Prices.

![Figure 2: Revlon Organizational Structure](image)

Now Revlon has 6800 employee and its net income was 821 million us dollars in 2009.
Divisional structure

Because managers in large companies may have difficulty keeping track of all their company's products and activities, specialized departments may develop. These departments are divided according to their organizational outputs. Examples include departments created to distinguish among production, customer service, and geographical categories. This grouping of departments is called divisional structure (see Figure 2). These departments allow managers to better focus their resources and results. Divisional structure also makes performance easier to monitor. As a result, this structure is flexible and responsive to change.

However, divisional structure does have its drawbacks. Because managers are so specialized, they may waste time duplicating each other's activities and resources. In addition, competition among divisions may develop due to limited resources.

![Sample Divisional Organizational Structure](image)

**Figure 3: The divisional structure**
Example:

Walmart is an American multinational retailer corporation that runs chains of large discount department stores and warehouse stores.

History

Walmart was founded in 1962, with the opening of the first Walmart discount store in Rogers, Ark. The company incorporated as Wal-Mart Stores, Inc., on Oct. 31, 1969. The company’s shares began trading on OTC markets in 1970 and were listed on the New York Stock Exchange two years later.

The company grew to 276 stores in 11 states by the end of the decade. In 1983, the company opened its first Sam’s Club membership warehouse and in 1988 opened the first supercenter -- now the company’s dominant format -- featuring a complete grocery in addition to general merchandise. Walmart became an international company in 1991 when it opened its first Sam's Club near Mexico City.

The company is the world's 18th largest public corporation, according to the Forbes Global 2000 list, and the largest public corporation when ranked by revenue. It is also the biggest private employer in the world with over two million employees, and is the largest retailer in the world. Walmart remains a family-owned business, as the company is controlled by the Walton family who own a 48% stake in Walmart.
Figure 4: Walmart Organizational Structure.

Now Walmart has 2.2 million employees and its net income was 15.699 billion in 2011.
Matrix structure

The matrix structure combines functional specialization with the focus of divisional structure (see Figure 3). This structure uses permanent cross-functional teams to integrate functional expertise with a divisional focus.

![Sample Matrix Organizational Structure](image)

Figure 5: The matrix structure.

Employees in a matrix structure belong to at least two formal groups at the same time—a functional group and a product, program, or project team. They also report to two bosses—one within the functional group and the other within the team.

This structure not only increases employee motivation, but it also allows technical and general management training across functional areas as well. Potential advantages include:

- Better cooperation and problem solving.
- Increased flexibility.
- Better customer service.
- Better performance accountability.
- Improved strategic management.
Predictably, the matrix structure also has potential disadvantages. Here are a few of this structure's drawbacks:

- The two-boss system is susceptible to power struggles, as functional supervisors and team leaders vie with one another to exercise authority.
- Members of the matrix may suffer task confusion when taking orders from more than one boss.
- Teams may develop strong team loyalties that cause a loss of focus on larger organization goals.
- Adding the team leaders, a crucial component, to a matrix structure can result in increased costs.

**Team structure**

Team structure organizes separate functions into a group based on one overall objective (see Figure 4). These **cross-functional teams** are composed of members from different departments who work together as needed to solve problems and explore opportunities. The intent is to break down functional barriers among departments and create a more effective relationship for solving ongoing problems.

![Team structure](image)

**Figure 6: The team structure.**

The team structure has many potential advantages, including the following:

- Intradepartmental barriers break down.
- Decision-making and response times speed up.
- Employees are motivated.
- Levels of managers are eliminated.
- Administrative costs are lowered.

The disadvantages include:

- Conflicting loyalties among team members.
- Time-management issues.
- Increased time spent in meetings.

Managers must be aware that how well team members work together often depends on the quality of interpersonal relations, group dynamics, and their team management abilities.
Network structure

The network structure relies on other organizations to perform critical functions on a contractual basis (see Figure 5). In other words, managers can contract out specific work to specialists.

![Diagram of network structure]

Figure 7: The network structure.

This approach provides flexibility and reduces overhead because the size of staff and operations can be reduced. On the other hand, the network structure may result in unpredictability of supply and lack of control because managers are relying on contractual workers to perform important work.
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