

Bases for organising

Introduction

Organisational design can generally be seen as being about differentiation and integration. Differentiation is about dividing the total task of the organisation into do-able chunks and integration is about grouping and coordinating the individual chunks so that they indeed add up to the whole.

This paper reviews the two fundamental bases for grouping activities: by function (i.e. by relation to inputs) and by market (i.e. by relation to outputs). At any given organisational level, organisations normally elect to organise by either one or the other (but commonly use the other at the next level). Hybrids are also found.

Sometimes organisations try to use both bases at once – matrix organisation (see separate note).

Functional organisation

In functional organisations, the basis for grouping is the work function which is carried out or the discipline or skill of the people. Examples would be:

- A manufacturing organisation: purchasing, production, engineering, sales, marketing, warehouse.
- A University: faculties and departments based on academic disciplines.
- A training organisation: development and design, delivery, support systems, administration and finance, account management and marketing.

Advantages

The advantages of functional organisation stem from its defining feature of functional specialisation. The main ones are:

- Technical excellence because of higher levels of specialisation and specialist functional management.
- Economies of scale and utilisation of specialist resources: by grouping all the engineers say together the optimum number can be employed and it becomes feasible to employ specialists in particular branches of the subject. If the engineering expertise was dispersed to product or project groups there would normally have to be more of them and they would be more likely to have to be generalists.
- Better career development for the specialists within their own specialist career streams.

Disadvantages

However the functions are also highly interdependent - all must cooperate to achieve effective overall task performance. This interdependence is associated with most of the disadvantages. The main ones are:

- Sub-optimisation: each functional unit pursues its own goals which can be in conflict with the goals of other sub-units and can reduce the overall performance of the whole organisation. There is no built-in mechanism for coordination.
- Difficulty at the customer interface with customers finding it difficult to know who to talk to about their needs (unless they have a copy of the organisation chart), being passed from person to person or having to deal with several disjointed parts of the same organisation.
- Difficulty in managing projects which cut across functional boundaries.
- Decisions pile up at the top especially those involving resolving inter-function conflicts and priorities.
- Only the overall head has the total picture of what is going on and is often the only person with total responsibility for outputs and cross-functional processes.
- Compartmentalisation - people identify with their subgroups rather than with the organisation as a whole.
- Such organisations often become excessively formalised and bureaucratised.
- Functional organisations are often inward looking and insensitive to environment change and customer demands.

These problems are not necessarily insuperable of course. Various coordination mechanisms can be used short of going to matrix organisation, most obviously: committees, working groups and task forces. The problems of the customer interface can frequently be addressed by insulating the functionally organised operating core from the customers by the creation of interface roles such as account manager or personal banker.

Functional organisation may be most appropriate when cost reduction is a key issue.

Market organisation

This basis for grouping involves the creation of relatively self contained units to deal with particular **client groups, products or services, projects or geographical areas**. Each unit contains all (or at least most of) the specialist resources it needs to serve its market segment. Considerations of efficiency often mean that there are some pooled resources which are shared between several market-based units e.g. support services such as printing or specialised skills such as contracts administration. In general therefore the two defining features of market-based organisation designs are the creation of units to produce particular products or serve particular customers or areas and a low level of interdependence between the units.

Advantages

The advantages of market-based organisation are:

- It is more responsive to the demands of customers: the structure lends itself to collecting information about needs, to coordinating specialist inputs to deliver products and services which meet requirements and to collecting feedback.
- Customer contact may be easier, provided the customer falls into one of the segments defined by the organisation.
- It is more flexible: changes can be made within the unit with less consequences for other units, new units can be added or old ones disbanded with fewer ramifications.
- Product innovation is often strengthened.

Disadvantages

The disadvantages are the converse of the benefits of functional organisation:

- It can be wasteful in terms of resources: if each team needs its own accountant for example but does not generate enough work to keep one person fully occupied some diseconomies of small scale are inevitable.
- It can be difficult to maintain standardisation and uniformity if each unit has the resources to go its own way. The result can also be wasteful duplication of effort and reinvention of the wheel.
- Dispersal of technical expertise and generalist line management can result an overall reduction in technical excellence as short term and market considerations take precedence over longer term professional ones.
- It can be difficult to form a total view of the customer: for example several product divisions may all be selling to the same customer.

Organisation by output may be appropriate where technical innovation in outputs is important. Organisation by customer groups may be appropriate where the organisation wants to compete on customer service.