

## CHAPTER 2

# Fundamental organization models

Some writers maintain that organization theory is basically a two-dimensional subject, with the vertical axis representing hierarchy, and the horizontal axis, specialization and the division of labor. By 'hierarchy' is meant the chain of command, or in other words, who reports to whom.

It is hard for people to escape from the two dimensions of a flat piece of paper. It is a pity that we are so easily trapped in this duality, for there are other dimensions worth investigating. In organization theory these dimensions are not mutually exclusive, but overlap, so we have to select the dimensions that best illuminate the things we are interested in, and on the basis of a basket of 'dimensions' and dependencies, create our theory.

Managers faced with an organization problem can always use Benchlearning®<sup>2</sup> to look for a role model. The apparent similarities thrown up by the categories of industry, goods and services, etc, should at first be ignored, and attention paid instead to the essential parameters of the situation.

In this chapter we give an overview of the models commonly used to define and categorize different types of organizational structure. We would like to point out that the reality is never as simple and rational as suggested by these models. In this section we

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operate on the theoretical level with the aim of simplifying, clarifying and underpinning a considerably more complicated reality.

## Function, division and matrix

Every organization is constructed on the basis of a division of work and responsibility. This can be done in three ways, although there are a number of variations:

1. **The function organization** is structured according to the **work** the organization has to carry out.
2. **The division organization** is structured according to the most important dependence relationship in the **external environment** and the **market**.
3. **The matrix organization** is structured according to **two or more co-dependence relationships**, such as product and geography, or function and geography.

Internal network organizations are sometimes mentioned in connection with organizational structure, but this is usually in reference to how an organization *really* works rather than to organizational structure. The project organization is a variation on the theme, but we will be coming to this later in the book.

An enterprise usually starts off as a function organization and later, when it grows, becomes diversified and more complex, assuming the character of a division organization. An organization can adopt a matrix structure if it decides that demands made on it by the external environment do not necessarily oblige it to organize itself on the basis of one co-dependence relationship. The three main types of organization are briefly described below.

### *Function organization*

When an enterprise comprising a leader and a group of employees develops beyond the stage where it can run its own affairs, it normally adopts the structure of a function organization.