

Functional structure and operational issues: An examination of core challenges and remedies.

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I. Introduction

In matching structure with strategy, David (2011) state that a change in strategy usually needs a change in the manner an organization is structured. There are two reasons for this. First, it is the structure of the organization that will determine how objectives and policies will be set. For example, “objectives and policies established under a functional organizational structure are couched in functional terms”. The second reason why changes in strategy often require changes in structure is that structure determines how resources will be allocated. In this case, as organization’s structure is established along functional business lines, it follows that resources are allocated along functions. It is only when new or revised strategies retain emphasis in the same area as the old strategies, otherwise structural changes become inevitable in strategy implementation.

An organisational structure defines the reporting relationships in a company; in other words, who works for whom. In fact, there cannot be any one optimal organizational design or structure ideal for a particular strategy or kind of organization. What is suitable for one organization may not be suitable for same type of organization, notwithstanding successful organizations in an industry tend to structure themselves in the same manner. Small firms tend to be functionally structured (centralized), while medium-sized firms tend to be divisionally structured (decentralized). Large firms tend to use a strategic business unit (SBU) or matrix structure, (David 2011). Once a firm changes its strategy, the current organizational structure may become ineffectual. Nonetheless, what is more crucial is deciding what kinds of structural changes are necessary to effect new strategies and how to best accomplish these changes. This work is structured in the manner following the introduction in section 1 is section 2, definition and discussion of functional organization structure, then in section 3, advantages of functional structure will be discussed, in section 4, challenges of functional structure and operational issues. Remedies of functional and operational issues will make up section 5 while the paper ends in section 6 conclusion.

II. Functional organization structure

“The importance of structure as a source of influence is so widely accepted that some experts define the concept as those features of the organization that serve to control or distinguish its parts”, Gibson, Ivancevich, Donnly Jr and Konopaske (2003). The key word in this definition is control. Workers behaviour is controlled in the organisation. We just don’t do what we want to do or come to work when we want; we do what the organisation wanted and paid us to do.

Functional organizational structure, also referred to as centralised structure is one of several reporting structures a company could implement. It is the most widely used structure because it is the simplest and least expensive of the seven alternatives. The other six structures are: divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix, (David, 2011). In a functional structure, tasks and activities are grouped by business function, for example production/operations, finance/accounting, marketing, research and development, human resources management and management information system. This form of structure tend to sort their employees on their specific skills and job functions and best suited for smaller companies or those that focus on single product or service. Generally, all functional heads will report directly to the company president or managing director or CEO, as designated. In the view of Griffin (2014), because such structure is not designed to change rapidly, functional organisational structure works well in a stable environment where business strategies are less inclined to need changes or updating. This form of structure is particularly effective where there is large volume of standardised product or sales; reduced level of change within the industry; large fixed asset base and minimal amount of entirely new product line introductions. Functional organisational structure is also effective where there are minimal changes due to fashion or other changes in taste or technology and where competition is primarily based on cost (<http://www.accountingtools.com/functional-org-structure>)

Indeed, functional organisation structure is ideal where activities of a business are organised around areas of specialization. It involves a considerable amount of process standardization with a business, with the real decision-making authority centred at the top of the organisation. Weihrich & Koontz (2005) inform that functional departmentation is not only the most widely used basis for organising activities but it is present in almost every enterprise at some level in the organisation structure. Furthermore, coordination of activities

among departments may be achieved through rules and procedures, through various aspects of planning such as goals and budgets, the organisational hierarchy, personal contacts, and sometimes liaison departments.

III. Advantages of functional structure

Of the various advantages of functional structure, bringing efficiency into the operations of the business seems most important. When employees are allowed to focus on one specific functional area to the exclusion of all else, they can achieve significant efficiencies in terms of process flow and management methods. As a principal advantage, it seems logical to have a department that consists of experts in a particular field such as accounting or product. See Gibson et al (2003). By having departments of specialists, management creates efficient units. An engineer is generally more efficient when working with other engineers and other individuals who have similar backgrounds and interests. They can share expertise to get the work done.

Besides, there is a very clear chain of command in this structure, so everyone knows what decisions they are allowed to make and who to report to and the number of employees reporting to you.

With functional structure, it is easier to set career paths and programmes for employees (and implement them through promotions) and monitor their progress toward the goals outlined for their functional areas.

Through structure an organisation can nurture a crop of extraordinary specialists who can contribute immensely to organisation's wellbeing and growth. In other words, structure encourages specialisation, moreover as employees with related skills are grouped in functional departments. According to Anthony & Govindarajan (2004), the basis for the functional structure of organisation is on the idea of a manager who brings specialised knowledge to bear on decisions related to a specific function as contrasted with the general-purpose manager who lacks the specialised knowledge. They add, "A skilled marketing manager and a skilled production manager are likely to make better decisions in their respective fields than would a manager responsible for both functions". This goes to reinforce the position that efficiency is one of the most important advantages of functional form of organisational structure.

By structure, training is made easier because it is easier to delineate the training needs of employees, effect training, and monitor and update the training programmes of workers.

In addition, Weihrich & Koontz (2005) list the following as advantages of functional organisational structure:

- Logical reflection of functions;
- Maintains power and prestige of major functions;
- Follows principles of occupational specialisation;
- Simplifies training; and
- Furnishes means of tight control at the top.

IV. Challenges of functional structure and operational issues.

Regardless of the advantages of the functional structure, there are a number of challenges involved. First, because of the hierarchical nature of decision making, the system is likely to be bedeviled with bureaucratic bottlenecks. Usually, before decisions are reached, even for trivial and routine matters, files must pass through certain officers in the chain, even when little or no value would be added. This forth and back processes will inadvertently delay jobs.

Sometimes it is difficult to lay responsibility for an action on a particular employee when inputs must be made by so many individuals before a final decision is made. It is more difficult when critical decisions are to be taken or when a mistake has been made. Nobody will claim responsibility. With so many specialists involved in a process, it is difficult to pin the blame for a specific product or service malfunction on any individual.

Another challenge is the tendency towards poor communication across the various functional silos within an organisation, potentially decreasing flexibility and innovation. Besides, functional areas may have difficulties working with other functional areas. There is often a perception that they are competing with other functional areas for resources and a lack of understanding what other areas do for the organisation. So the IT department, for example, may be upset that its request for additional staff was turned down, but the company financial results point to a need for additional sales people rather than IT hands.

One other challenge of the functional structure is the tendency for employees to take a specialist viewpoint in organisational matters. When everyone in the company is herded into clusters of functional silos, only very few persons will be capable of seeing the total strategic direction of the company, which can result in a very difficult decision-making process. As a corollary, functional areas may become distracted by their own goals and focus on them, rather than on overall company objectives. For instance, there may be the desire for the IT department to implement a new, state of the art computer system, but the overall company objectives support investment in new products instead. Since the department doesn't have an overview of the entire company, it may focus attention on goals that it believes are important but which are not priorities for top management.

Furthermore, in a functional structure there is no unambiguous way of determining the effectiveness of separate functional managers (e.g., the managers of marketing and production) because each function contributes jointly to the organisation's final output. Therefore, there is no way of measuring what fraction of profit was contributed by each. Similarly, at the lower levels in the organisation there is no way of determining how much of the profit was earned respectively by the several production departments, the product engineering department, and the sales office.

Yet another challenge is taking decisions at the functional level could be time-consuming and frustrating. For example, dispute involving managers at different functional levels and functional departments could take time to resolve as that can only be done at the top level management. "Taking the issue up through several levels in the organisation and then communicating the decision down to the level where it originated can be time-consuming and frustrating". See Anthony & Govindarajan (2004).

Wehrich & Koontz (2005) sum up the disadvantages of the functional organisation thus:

- De-emphasises overall company objectives;
- Overspecialises and narrows viewpoints of key personnel;
- Reduces coordination between functions;
- Responsibility for profits is at the top only;
- Slow adaptation to changes in the environment; and
- Limits development of general managers.

V. Remedies of functional and operational issues

Cross-Functional Teams

On the issues of poor communication arising from the functional silos in the organisation, this can be mitigated by using cross-functional teams. These are teams that cross traditional departmental lines. The Stanford University Center for Professional Development advocates the deployment of cross-functional system solution to resolving conflicts that may arise in functional relationships. As an irony, it sees cross-functional teams as arteries of an organisation especially in project management.

The simplest definition of cross-functional teams (or CFTs) is groups that are made up of people from different functional areas within a company—marketing, engineering, sales, and human resources, for example. These teams take many forms, but they are most often set up as working groups that are designed to make decisions at a lower level than is customary in a given company. They can be either a company's primary form of organizational structure, or they can exist in addition to the company's main hierarchical structure.

Cross-functional teams have become more popular in recent years for three primary reasons: they improve coordination and integration, span organizational boundaries, and reduce the production cycle time in new product development. Bringing people together from different disciplines can improve problem solving and lead to more thorough decision making. The teams foster a spirit of cooperation that can make it easier to achieve customer satisfaction and corporate goals at the same time (<http://www.inc.com/encyclopedia/cross-functional-teams.html>).

To "pull down silos" so formed through functional structure, managers could supplement the vertical functional structure with lateral cross-functional processes such as cross-functional job rotation and team-based rewards. Under the 'teaming' approach, employees of production can talk directly with engineering, which could result in an innovative and efficiently built product that could become the company's standard.

Stoner, Freeman & Gilbert Jr (2007) advocate organisational coordination as a panacea for function loyalty to the detriment of the organisation-wide goals. Coordination, according to them, is the process of integrating the activities of separate departments in order to pursue organisational goals effectively. In the absence of coordination people will lose sight of their roles within the total organisation and be tempted to pursue their own departmental interests at the expense of organisational goals. However, Cheng (1983) observes that the extent of coordination depends on the nature of the tasks performed and the degree of interdependence of people in the various units performing them. When these tasks require or can benefit from communication between units, then a high degree of coordination is best. A high degree of coordination is likely to be beneficial for work that is non-routine and unpredictable, for work in which factors in the environment are changing and for work in which interdependence is high. Thompson (1967) avers that organisations that set high performance objectives usually require a higher level of coordination. Coordination can also occur among people working at different organisations, e.g., a gigantic project like power plant.

On a final note, Woods (n.d.) says that companies who find that functional structure doesn't work well with their business should consider a switch to either divisional structure or matrix structure. In the divisional structure, a specific geographic or product area acts as a mini-company, with division staff for various functions, such as accounting, marketing, and engineering. Each division is responsible for its financial results and generally reports to the company CEO. In the matrix structure, staffs have dual reporting relationships, generally to both functional manager and a product manager. This allows a single functional area expert to report to and

support multiple products. It also gives staff a functional area manager, who understands their specialty and can review their work and additional knowledge and direction.

VI. Conclusion

A functional organisational structure is a structure that consists of activities such as coordination, supervision and task allocation, all grouped according to functions in departments. Simplicity and ease of administration coupled with efficiency are the major advantages of the functional organisational structure. Meanwhile, challenges are abound, a major one being departments turning to silos with the tendency of pursuing departmental goals at the expense of the organisational objective. Notwithstanding the drawbacks, a key remedy is the adoption of coordinated effort and cross-functional teams. Use of committees – ad hoc or/and standing will go a long way in improving communication in functional outfits.

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