
FORMALIZATION AND SPECIALIZATION IN ORGANIZATIONAL DESIGN

Joyce J. C. Kiplimo

PhD student, Department of Leadership Studies, Pan African Christian University

Email address: jkiplimo2013@gmail.com

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ABSTRACT

Purpose of the study: The purpose of this study was to examine the relationship between organizational design, formalization, specialization, and learning organizations. The study also sought to determine whether organizations that are high on one dimension are also high on the others.

Research methodology: The study used a systematic review of the literature. The authors searched a variety of databases for articles that examined the relationship between organizational design, formalization, specialization, and learning organizations. They also reviewed articles that discussed how formal or specialized learning organizations are designed in volatile, uncertain, complex, and ambiguous (VUCA) contexts.

Findings of the study: The study found that formalization and specialization in organizational design are dependent on organizational dimensions and the life cycle stage. For example, organizations that are more mechanistic (as opposed to organic) and that are in the early stages of their life cycle tend to be more formalized and specialized. However, organizations that are more organic and that are in later stages of their life cycle tend to be less formalized and specialized. The study also found that formal or specialized learning organizations are designed differently depending on the VUCA context. In VUCA contexts, organizations need to be more flexible and adaptable, which can be difficult to achieve if they are highly formalized or specialized. As a result, formal or specialized learning organizations in VUCA contexts tend to be more decentralized and to have flatter hierarchies.

Conclusion: The study concluded that there is no one-size-fits-all approach to organizational design. The best approach for a particular organization will depend on its specific characteristics and needs. However, the study did provide some general guidelines for designing organizations that are effective in VUCA contexts.

Recommendation: The study recommended that organizations in VUCA contexts should focus on designing organizations that are flexible, adaptable, and learning-oriented. These organizations should be decentralized and have flat hierarchies. They should also have strong communication and coordination mechanisms in place.

Keywords: *Formalization, Specialization, Organizational, Design*

INTRODUCTION

Although there has been an increase in interest in sustainable business models recently, little is known about the organizational design that is best for developing new business models or making adjustments to current ones (Lemus-Aguilar et al., 2019). He pointed out that the organizational design aims to align the firm's strategy with its structures and processes in order to achieve organizational performance. Organizational behaviour and design are founded on customs and routines, and they must consider both structural and contextual factors, which may be changed to produce desired results (Daft, 2016). Donaldson and Joffe (2014) noted that organizations are not static and therefore need to adapt to changes beyond their control in the face of uncertainty. Alignment between strategy, design, and environment is an ongoing process of adjustment (Roberts, 2007). Optimum organization design is a complex process that affects productivity and profits (Daft et al., 2014). He further noted that perspectives on organizational design have changed throughout time. Gaining a historical perspective and comprehending fundamental organizational arrangements may help managers better understand organizations. Getting complete design fit, strategic fit, contingency fit, and design parameter fit is the goal of strategic organizational design (Burton & Obel, 2012).

LITERATURE REVIEW

Understanding structural and contextual factors, according to Daft (2016), is essential for providing a framework so that organization can be designed in a manner that would maximize performance and effectiveness.

Structural Dimensions

An organizational structure should consider formalization, specialization, authority hierarchy, staff ratio, professionalism, and centralization (Daft, 2016; Daft et al., 2014). The scientific management approaches are responsible for the formalization of organizational design. First, Taylor's scientific management emphasizes scientifically established positions and management procedures in order to increase effectiveness and labor productivity (Daft, 2016, Stephen, 1990). They argue that organizations are attempting to create a system to maximize efficiency and productivity by developing procedures, selecting employees with the necessary skills, educating them, organizing the task, and offering pay incentives. Second, Henry Fayol's fourteen principles of administration examined the functioning and general structure of the organization that gave rise to bureaucratic organizations. The emphasis was on developing and operating organization's using procedures that included clearly defined authority and obligations, rigorous documentation, and consistent application of established standards (Daft et al., 2014). Because of technological advances, globalization, employee education, and knowledge-based work, organizational design has become more flexible. Organizations require a "goodness of fit" between their internal structure and the demands of their external environment in order to function effectively, as there is no "one best way" to manage an organization in turbulent times.

Finally, Henry Mintzberg focused on organizational design, specifically how parts fit together (Daft, 2016). He proposed a five-part organizational structure comprised of a technological core, top management, middle management, technical support, and administrative support, each of which varies in size and significance depending on the type of organization. What works depends on the circumstances, which can change. If the environment is predictable, a traditional approach based on formal communication, hierarchical structure, and bureaucratic control processes may be feasible, at least as long as there is no significant change in the environment. Most businesses face some level of environmental unpredictability, which may encourage greater levels of creativity and flexibility, leading to the development of more fluid management procedures. In contrast to the 'one best method' ideology, a contingent approach proposes that the appropriate management strategy is dependent on the organization's evolving circumstances (Daft et al., 2014).

Contextual Dimensions

The contextual dimensions reflect both the organization and the environment, filling in the gaps left by traditional techniques' disregard for the outside world. Some of the aspects addressed by contextual dimension include size, environment, corporate objectives, and strategy (Daft, 2016). Today's business climate is volatile, and managers can no longer maintain the appearance of predictability and order. Organizations should be viewed as natural systems rather than well-oiled, predictable machines. According to Daft (2016), organizations are critical, and managers must ensure that they are properly created and shaped to meet societal demands. Labels for formalization, specialization, authority hierarchy, centralization, professionalism, staff ratios, size, organizational technology, environment, objectives and strategy, and culture are among the tools for analyzing structural and contextual dimensions.

Organizational Life Cycle

According to some theories, the organization's life cycle stage may have a significant impact on which organizational design should take precedence. Robert (1990). Exploring the concept of an organizational life cycle, in which organizations are born, grow, and then die, is a useful way to think about organizational growth and change. Organizational structure, leadership style, and administrative procedures all follow a fairly predictable pattern throughout the life cycle. Organizations must adapt as they move through the four stages of their life cycle, which naturally and orderly follow one another (Daft, 2016). There are four major stages: the entrepreneurial stage, the collective stage, the formalization stage, and the development stage. Every time a company enters a new stage of its life cycle, it enters a new game with new rules for how it should conduct internal operations and interact with the outside world.

Learning Organization

Many businesses have embraced the new way of thinking, abandoning traditional vertical hierarchies in favor of decentralized, flexible organization's that priorities flexibility, extensive information sharing, and horizontal cooperation. Organizations are shifting away from rigid, mechanically-based systems with high levels of rigidity and towards more loose, flexible systems. The desire to reorganize businesses in the direction of the ideal "learning organization" is driving this movement; however, when more cooperation is perceived as harmful, there is defensive

opposition (Daft et al., 2014). The learning organization fosters communication and cooperation in order for everyone to be involved in identifying and addressing issues, allowing the organization to constantly experiment, develop, and boost its capabilities.

THEORETICAL REVIEW

The degree of formalization of work processes has frequently been mentioned in research on how organizational design influences creativity and learning (Ahuja et al., 2008; Jansen et al., 2006). Formalization can help with the formation and implementation of internal agreements across divisions and departments, which improves internal predictability (Foss et al., 2014). On the contrary, he observed that formalization can lead to structural rigidity, increased paperwork, decreased creativity, and increased time spent on coordination and planning tasks. Specialization, on the other hand, underpins the concept of work division by referring to the level of knowledge and expertise required to complete a set of tasks (Huber & McDaniel, 1986).

Stephen (1990) emphasizes Henry Mintzberg's five key organizational components: the operation core, the strategic apex, the middle line, the technical infrastructure, and the support staff. According to Daft (2016) and Stephen (1990), Mintzberg identifies five major design configurations: the divisional structure, the simple/entrepreneur structure, the machine bureaucracy, and the professional bureaucracy, each of which is associated with the dominance of one of the five fundamental components. These configurations correspond to the organizational life cycle and determine the appropriate structure for an organization (Daft 2016; Daft et al. 2014). First, a modest start-up business with senior management and staff at the technological core is a good example of an entrepreneurial or simple structure (Stephen, 1990; Daft, 2016). There is little need for support personnel because things are managed and coordinated by directed supervision from the top. There is little formalization or specialization because the main goal is to survive and establish oneself in the sector. Because of its flexibility and simplicity, this form is appropriate for a dynamic environment.

The founders of start-ups are non-hierarchical and informal, focusing more on the technical aspects of marketing and production. As a result, the ideal organizational design at the entrepreneurial stage will be a non-formal structure with some level of specialization to encourage innovation and spur growth. As the start-up matures, leadership is required to run day-to-day operations, which

(Daft 2016) refers to as the "Crisis of leadership." The lack of formalities and specialization that is prevalent at this stage can only last for a short time before the organization moves on to the next stage.

According to Stephen (1990), an adhocracy structure emerges in a complex, rapidly changing environment with the design goal of frequent innovation and meeting constantly changing demands. Decentralization is high, formalization is low, vertical differentiation is low, flexibility is high, and responsiveness is high. The company hires highly experienced professionals, and its decentralized primary structure is made up of several overlapping teams. There is little standardization and formalization, with very few rules, and those that do exist are frequently informal and unwritten. Adhocracy design is preferred during the startup phase of the organizational life cycle because it is an effective alternative when the organization requires flexibility, innovation, and creativity to survive. Adhocracy, on the other hand, corresponds well with the belief held by many managers today that the operating environment is complex and dynamic. As a result, it spreads across various organizational designs because it prioritizes decentralized informal teams with high levels of specialization.

The second stage of the organizational lifecycle is collectivity (Daft 2016; Daft et al. 2014). They stated that if the leadership issue is addressed, the organization will begin to establish clear objectives and a direction. Departments develop job descriptions and specialization, and while some formal procedures are emerging, most forms of communication and control remain informal. In this phase, Henry's machine bureaucracy stands out due to its well-developed technological core, centered on mass production, as well as its fully developed technical and administrative divisions (Daft, 2016; Stephen, 1990). To achieve the organization's goals, the organization's design must account for formalization and specialization as a result of the division of labour, job assignments, and the tall control hierarchy. To ensure that top-down leadership and the implementation of new rules do not limit workers' efforts and commitment to identify with organizational objectives, a balance between formalization and specialization must be struck.

The third stage of the organizational lifecycle, formalization, is when rules, procedures, and control systems are established and operationalized (Daft 2016; Daft et al., 2014). With the addition of other specialized departments and the delegation of responsibilities, formal communication and specialization take on a new dimension, allowing top management to focus on strategy and

planning. As Henry points out, professional bureaucracies require a large administrative support staff to support a team of highly skilled specialists. There is a greater need for specialization and formalization of processes, which may result in what Daft et al. (2014) refer to as "too much red tape." The abundance of systems and programmers creates a sense of bureaucracy among middle-level executives, which may limit innovation. It is possible that formalization will fail because the organization is too large and complex for programmers to manage. At these points, some level of specialization may assist the organization in moving forward.

Elaboration, the fourth stage of an organization's lifecycle, aims to reduce bureaucracy by encouraging greater levels of cooperation and collaboration (Daft 2016; Daft et al., 2014). Self-discipline and social control reduce the need for additional formal constraints. The limits of bureaucracy have been reached, and there is no need to introduce additional rules and procedures. To continue meeting its objectives, some level of specialization is required, and the organization may be divided into many divisions. Because this stage is complex, Henry observed that organizations with a diverse structure are ideal. This organizational design, he claims, helps to resolve the rigidity of the enormous machine bureaucracy by breaking it up into smaller pieces. In this stage, there is a high level of specialization and less formalization in order to encourage revitalization and innovation and to align the organization with the environment (Daft, 2016).

STUDY FINDINGS

Organizations designed for successful performance are contrasted with those designed for continuous learning using the five organizational design components of structure, tasks, systems, culture, and strategy. Daft (2016). First, the horizontal structure of a learning organization is less formal and includes some degree of specialization. The flattening of the structure allows top management to act quickly in a changing environment. Second, rather than performing routine tasks, workers are given empowered roles that allow them to solve problems creatively to some extent. Employees, rather than managers, have knowledge of and control over actions, and there are few rules or procedures, resulting in little formalization and much specialization. Third, ideas and information are widely shared, and there are no formal control systems in place to ensure the organization operates optimally. This organizational design strives to return to a simple-entrepreneurial structure in which all employees have some degree of specialization and have enough information to act quickly.

Fourth, the transition from rigid to adaptive structure ensures that all formalities are flattened and open communication channels are strengthened both internally and externally. Finally, a collaborative strategy, as opposed to a competitive strategy, ensures that an empowered and informed workforce contributes to the strategy. Less formalization and some level of specialization ensure that expertise is available in strategy development. According to the literature review, whether an organization chooses a formal or specialized design is determined by structural as well as contextual factors. The organizational lifecycle is also a key determinant because it addresses the various parameters that are unique to each stage of the life cycle. The importance of an organization constantly reengineering itself through learning cannot be overstated. As a result, these variables influence whether formalization or specialization in organizational design is high or low.

CONCLUSION

With its volatility and complexity, the modern business environment necessitates a sophisticated and adaptive approach to organizational design. The study shed light on the multifaceted relationship between structural and contextual dimensions, organizational life cycles, and the emerging learning organization paradigm. It has demonstrated that, in the face of constant change, neither a one-size-fits-all approach nor a static model are adequate. Through a critical examination of formalization and specialization, the analysis highlighted the importance of aligning organizational design with the specific stage of the life cycle, taking into account the unique needs and objectives at each phase. It has also emphasized learning organizations' ability to constantly innovate, adapt, and grow, which is critical in today's volatile business environment. This study's implications extend beyond theoretical understanding, providing practical insights for practitioners seeking to foster resilient, flexible, and responsive organizations. It encourages ongoing reevaluation of organizational design, a dynamic balance of formalization and specialization, and a commitment to cultivating a culture of continuous learning and collaboration. Finally, the study's findings help to improve understanding of how organizations can navigate the complex landscape of modern business, responding creatively to challenges and capitalizing on opportunities for long-term growth and success.

RECOMMENDATIONS

Organizations must foster adaptability by implementing structures that enable quick responses to changes in the business environment. They should not be bound by excessive bureaucracy and should instead prefer flexible structures such as adhocracy when necessary. Achieving a balance between formalization and specialization is critical at various stages of the organizational life cycle. While formal procedures can help to ensure consistency and control, having too many of them can stifle innovation. Specialization ensures expertise, but it must be aligned with the current needs and goals of the organization. Encourage an environment in which continuous learning and development are valued. Creating a safe environment in which employees are encouraged to experiment, innovate, and learn from their successes and failures is a good place to start. Encourage cross-departmental communication and collaboration. Breaking down silos will improve information flow and ensure that everyone is on the same page with the organization's goals. Recognize that different stages of a company's life may necessitate different structures. Be prepared for organizational design to evolve as the organization grows and its needs change. Technology can help to improve collaboration, streamline processes, and support adaptability. It can assist in bridging communication gaps, reducing unnecessary paperwork, and fostering a more dynamic organizational structure.

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