



Making decisions Organizational Structure

Chapter-4 lectuer-2

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MGM111

Principle of Management

Organizational Structure and Design

OUTLINE



☐ **Defining Organizational Structure**

- ✓ Work specialization
- ✓ Departmentalization
- ✓ Chain of Command
- ✓ Span of Control
- ✓ Centralize vs. Decentralize
- ✓ Formalization

☐ **Organization Design Decisions**

- ✓ Mechanistic and Organic
- ✓ Contingency Factors
- ✓ Common Designs

Defining Organizational Structure

❑ Organizational Structure

- ✓ The formal arrangement of jobs within an organization

❑ Organizational Design

- ✓ A process involving decisions about six key elements:

1. Work specialization
2. Departmentalization
3. Chain of command
4. Span of control
5. Centralization and decentralization
6. Formalization

Grouping Jobs into Functions

□ Functional Structure

- An organizational structure composed of all the departments that an organization requires to produce its goods or services.

Purposes of Organizing

- **Divides work to be done into specific jobs and departments**
- **Assigns tasks and responsibilities associated with individual jobs**
- **Coordinates diverse organizational tasks**
- **Clusters jobs into units**
- **Establishes relationships among individuals, groups, and departments**
- **Establishes formal lines of authority**
- **Allocates and deploys organizational resources**

Organizational Structure

□ Work Specialization

- The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person
 - Overspecialization can result in human diseconomies from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover



Departmentalization by Type



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1- Functional

- Grouping jobs by functions performed

2- Product

- Grouping jobs by product line

3- Geographical

- Grouping jobs on the basis of territory or geography

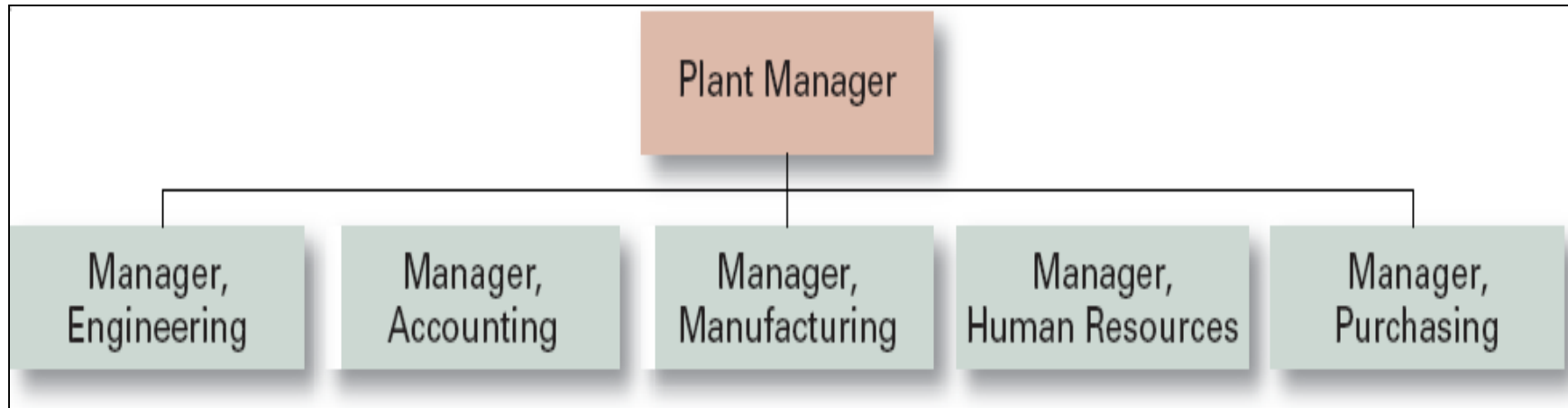
4- Process

- Grouping jobs on the basis of product or customer flow

5- Customer

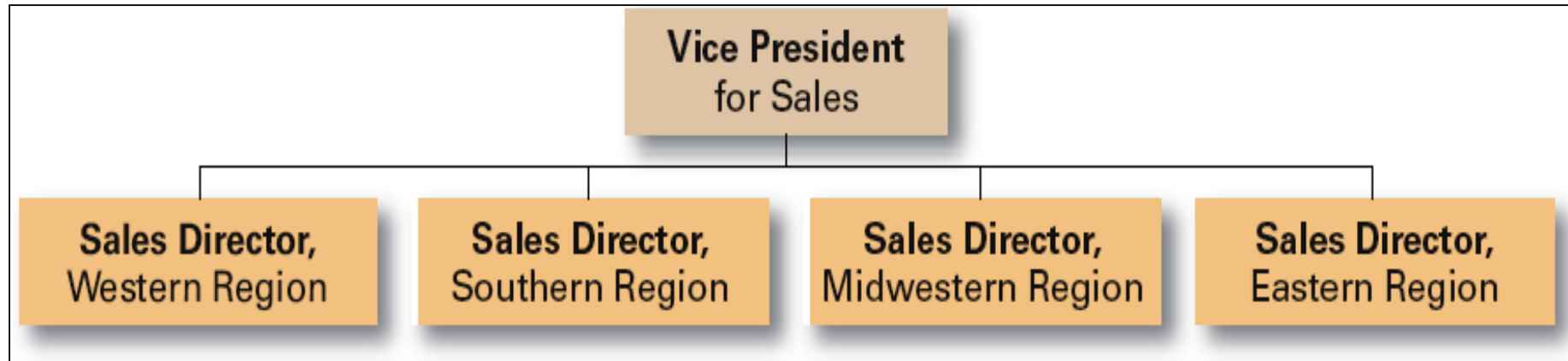
- Grouping jobs by type of customer and needs

1- Functional Departmentalization



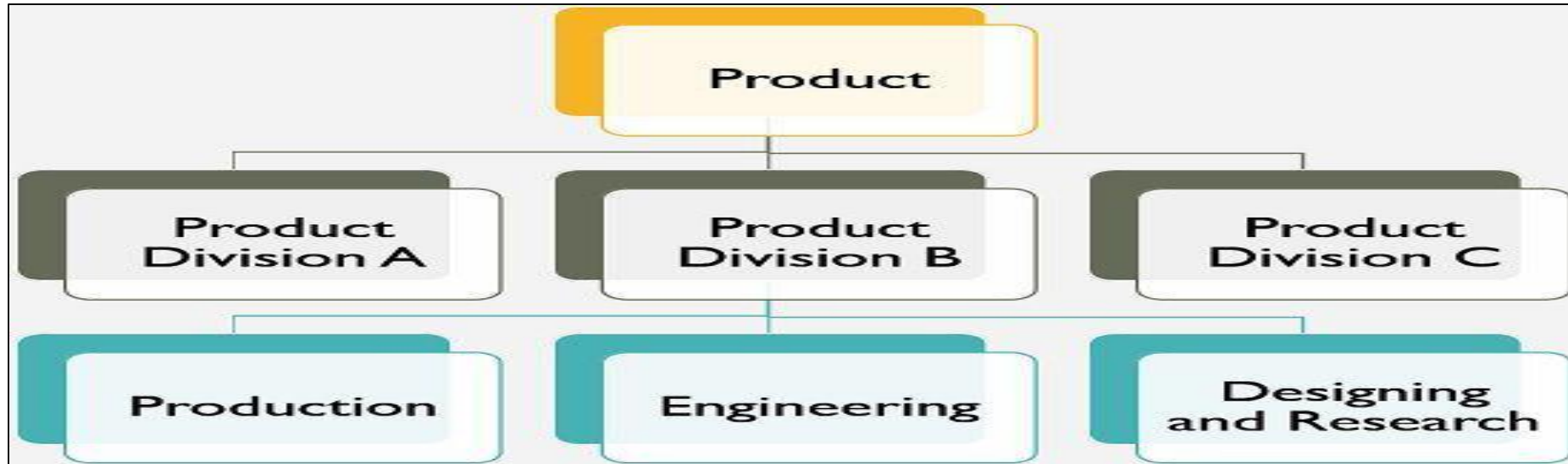
- + Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations**
- + Coordination within functional area**
- + In-depth specialization**
- Poor communication across functional areas**
- Limited view of organizational goals**

2- Geographical Departmentalization



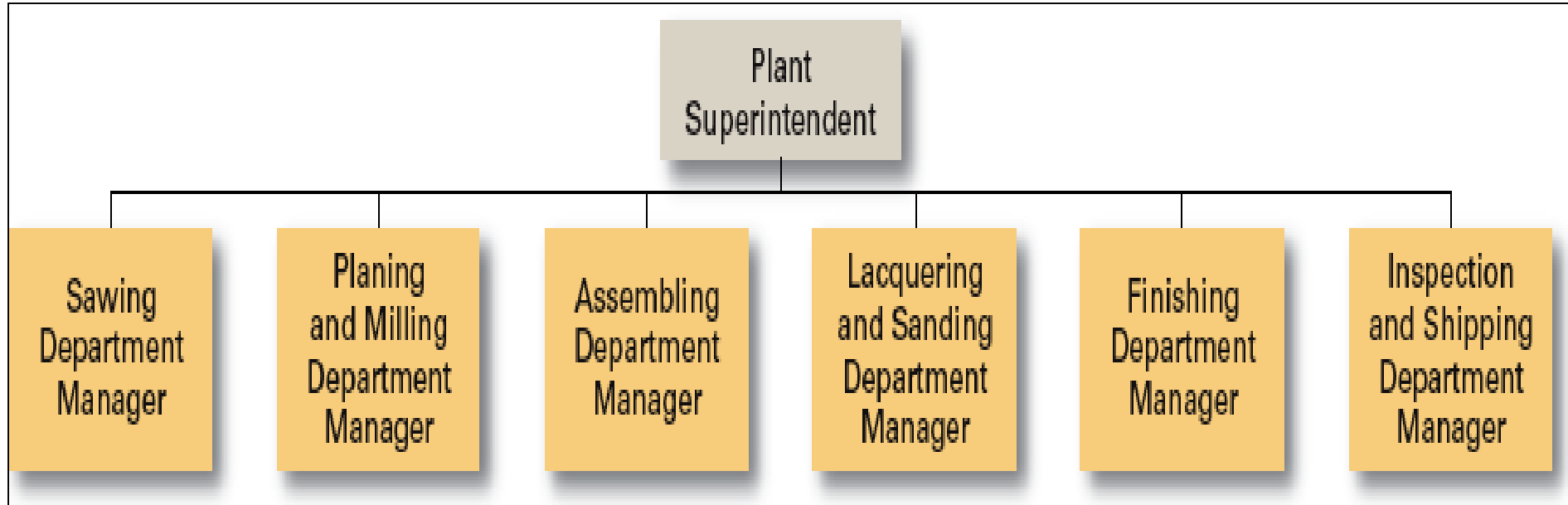
- + More effective and efficient handling of specific regional issues that arise
- + Serve needs of unique geographic markets better
- Duplication of functions
- Can feel isolated from other organizational areas

3- Product Departmentalization



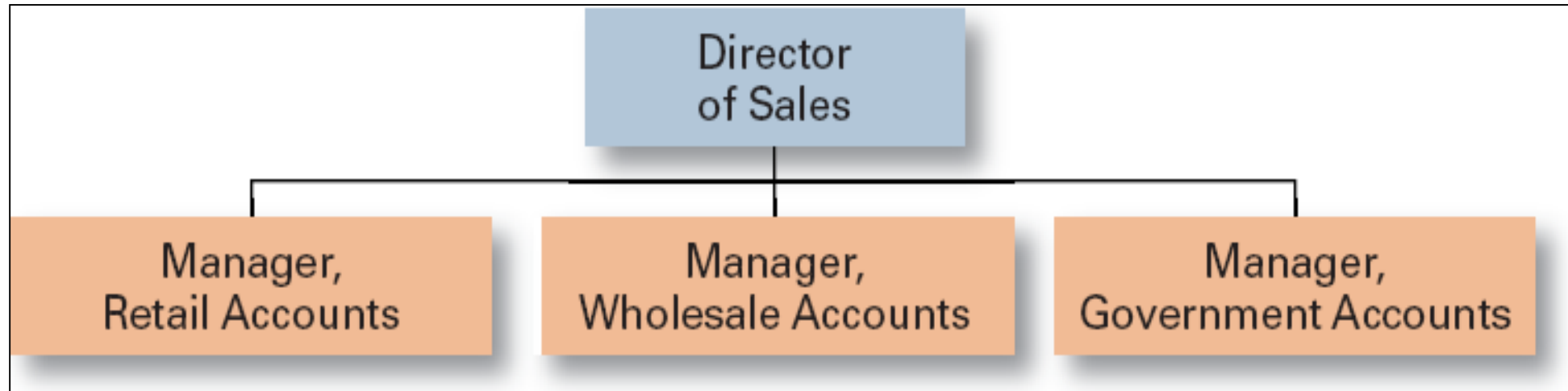
- + Allows specialization in particular products and services
- + Managers can become experts in their industry
- + Closer to customers
- Duplication of functions
- Limited view of organizational goals

4- *Process Departmentalization*



- + More efficient flow of work activities
- Can only be used with certain types of products

5- Customer Departmentalization



- + Customers' needs and problems can be met by specialists
- Duplication of functions
- Limited view of organizational goals

Chain of Command

□ Chain of Command

- The continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization and clarifies who reports to whom



Organizational Structure concept

➤ **Authority**

- The rights inherent in a managerial position to tell people what to do and to expect them to do it

➤ **Responsibility**

- The obligation or expectation to perform. Responsibility brings with it accountability (the need to report and justify work to manager's superiors)

➤ **Unity of Command**

- The concept that a person should have one boss and should report only to that person

➤ **Delegation**

- The assignment of authority to another person to carry out specific duties

Organizational Structure concept

➤ **Line and Staff Authority**

- Line managers are responsible for the essential activities of the organization, including production and sales. Line managers have the authority to issue orders to those in the chain of command
 - The president, the production manager, and the sales manager are examples of line managers
- Staff managers have advisory authority, and cannot issue orders to those in the chain of command (except those in their own department)

Span of Control

□ Span of Control

- The number of employees who can be effectively and efficiently supervised by a manager
- Width of span is affected by:
 - ❖ Skills and abilities of the manager and the employees
 - ❖ Characteristics of the work being done
 - ❖ Similarity of tasks
 - ❖ Complexity of tasks
 - ❖ Physical proximity of subordinates
 - ❖ Standardization of tasks
 - ❖ Sophistication of the organization's information system
 - ❖ Strength of the organization's culture
 - ❖ Preferred style of the manager

Centralize vs. Decentralize

➤ Centralization

- The degree to which decision making is concentrated at a single point in the organization
 - Organizations in which top managers make all the decisions and lower-level employees simply carry out those orders

➤ Decentralization

- The degree to which lower-level employees provide input or actually make decisions
- Employee Empowerment
 - Increasing the decision-making discretion of employees

Factors that Influence the Amount of Centralization

□ More Centralization

- Environment is stable
- Lower-level managers are not as capable or experienced at making decisions as upper-level managers
- Lower-level managers do not want to have a say in decisions
- Decisions are significant
- Organization is facing a crisis or the risk of company failure
- Company is large
- Effective implementation of company strategies depends on managers retaining say over what happens

Factors that Influence the Amount of Decentralization

□ More Decentralization

- Environment is complex, uncertain
- Lower-level managers are capable and experienced at making decisions
- Lower-level managers want a voice in decisions
- Decisions are relatively minor
- Corporate culture is open to allowing managers to have a say in what happens
- Company is geographically dispersed
- Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions

Formalization

□ Formalization

- **The degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures.**

Organizational Design Decisions

- **Mechanistic Organization**
 - A rigid and tightly controlled structure

- **Organic Organization**
 - Highly flexible and adaptable structure

Mechanistic

- High Specialization
- Rigid Departmentalization
- Clear Chain of Command
- Narrow Spans of Control
- Centralization
- High Formalization

Organic

- Cross-Functional Teams
- Cross-Hierarchical Teams
- Free Flow of Information
- Wide Spans of Control
- Decentralization
- Low Formalization

Structural Contingency Factors

□ Structural decisions are influenced by:

- 1. Overall strategy of the organization**
 - Organizational structure follows strategy
- 2. Size of the organization**
 - Firms change from organic to mechanistic organizations as they grow in size
- 3. Technology use by the organization**
 - Firms adapt their structure to the technology they use
- 4. Degree of environmental uncertainty**
 - Dynamic environments require organic structures; mechanistic structures need stable environments

Structural Contingency Factors (cont'd)

□ Strategy Frameworks:

- **Innovation**
 - Pursuing competitive advantage through meaningful and unique innovations favors an organic structuring
- **Cost minimization**
 - Focusing on tightly controlling costs requires a mechanistic structure for the organization
- **Imitation**
 - Minimizing risks and maximizing profitability by copying market leaders requires both organic and mechanistic elements in the organization's structure

Structural Contingency Factors (cont'd)

➤ Strategy and Structure

- Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change

➤ Size and Structure

- As an organization grows larger, its structure tends to change from organic to mechanistic with increased specialization, departmentalization, centralization, and rules and regulations

Structural Contingency Factors (cont'd)

□ Technology and Structure

- Organizations adapt their structures to their technology
- Routine technology = mechanistic organizations
- Non-routine technology = organic organizations

Common Organizational Designs

1- Traditional Designs

2- Contemporary Organizational Designs

1-Traditional Designs

❑ Traditional Designs

❖ Simple Structure

- Low departmentalization, wide spans of control, centralized authority, little formalization

❖ Functional Structure

- Departmentalization by function
 - Operations, finance, human resources, and product research and development

❖ Divisional Structure

- Composed of separate business units or divisions with limited autonomy under the coordination and control of the parent corporation

2- Contemporary Organizational Designs

□ Contemporary Organizational Designs

○ Team Structures

- The entire organization is made up of work groups or self-managed teams of empowered employees

○ Matrix Structures

- Specialists for different functional departments are assigned to work on projects led by project managers
- Matrix participants have two managers

○ Project Structures

- Employees work continuously on projects, moving on to another project as each project is completed

Contemporary Organizational Designs (cont'd)



□ Contemporary Organizational Designs (cont'd)

- **Boundary less Organization**

- ✓ A flexible and an unstructured organizational design that is intended to break down external barriers between the organization and its customers and suppliers
- ✓ Removes internal (horizontal) boundaries:
 - Eliminates the chain of command
 - Has limitless spans of control
 - Uses empowered teams rather than departments
- ✓ Eliminates external boundaries:
 - Uses virtual, network, and modular organizational structures to get closer to stakeholders

Removing Boundaries

➤ **Virtual Organization**

- ✓ An organization that consists of a small core of full-time employees and that temporarily hires specialists to work on opportunities that arise

➤ **Network Organization**

- ✓ A small core organization that outsources its major business functions (e.g., manufacturing) in order to concentrate on what it does best

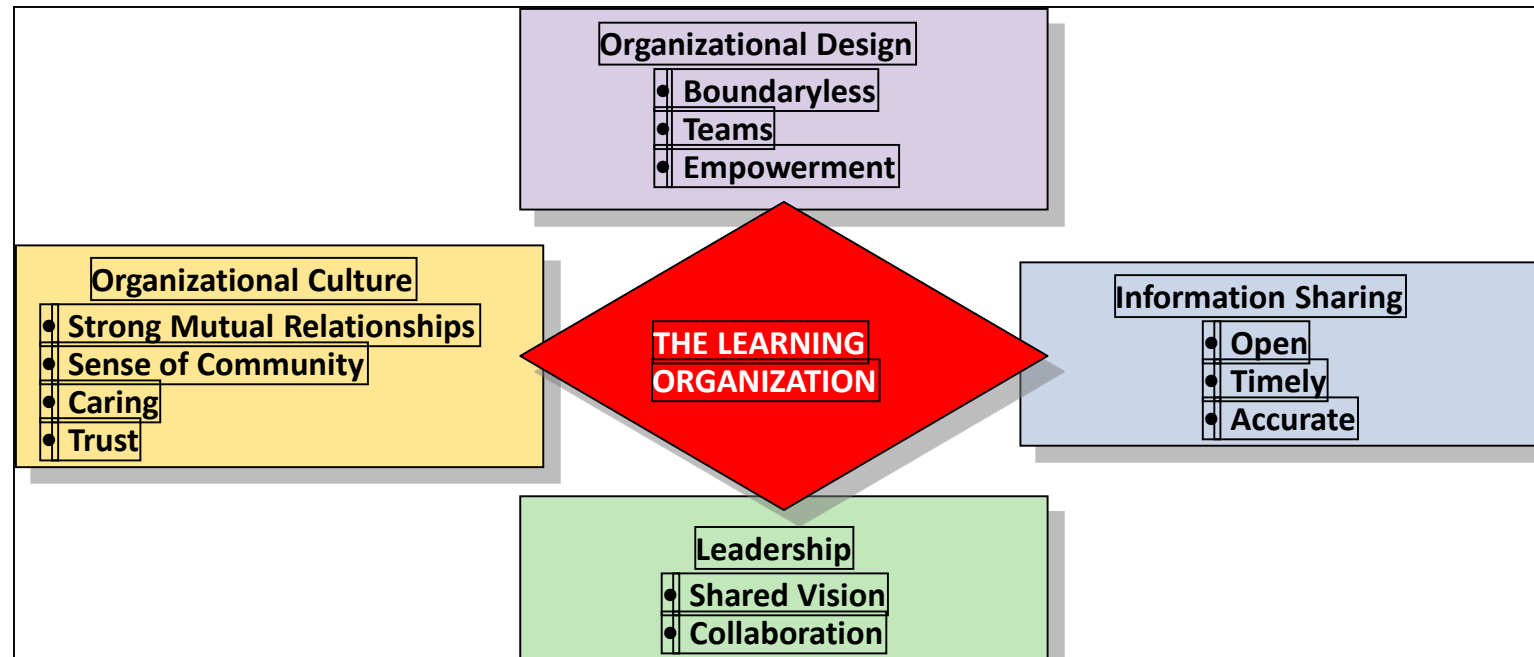
➤ **Modular Organization**

- ✓ A manufacturing organization that uses outside suppliers to provide product components for its final assembly operations

Learning Organization

❑ Learning Organization

- An organization that has developed the capacity to continuously learn, adapt, and change through the practice of knowledge management by employees



Thanks!