

Organizational Structure and Design Lecture 6

MGM111
Principle of Management

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- ❑ Organizational Structure
- ❑ Organization Structure Design



**Learning Outcomes of
the Lecture**



The Organization?





The Organization Definition

- **A group of people who work together in a structured way for a shared purpose**
- **is a two or more people who work together in a structured way to achieve a specific goal or set of goals**
- **can be any structured body such as department, business, company in private or public sector or nonprofit association.**

Other definition

is an arrangement of people and resources to accomplish some specific purpose



Organizational Performance

Efficiency and Effectiveness

Efficiency (Means)

Resource
Usage

Low Waste



Effectiveness (Ends)

Goal
Attainment

High Attainment



Management Strives for:
Low Resource Waste (high efficiency)
High Goal Attainment (high effectiveness)

The formal arrangement of jobs within an organization



1. Organizational Structure

Organizational Structure Definition

An organizational structure is a system that outlines how certain activities are directed to achieve the goals of an organization. These activities can include rules, roles, and responsibilities.



Why Do We Need the Organizational Structure

Organizational structure provides a clear framework for decision-making and resource allocation, enabling a company to operate effectively and achieve its goals. The structure can vary widely depending on the size of the company, its industry, and its culture, among other factors



Why Do We Need the Organizational Structure in details

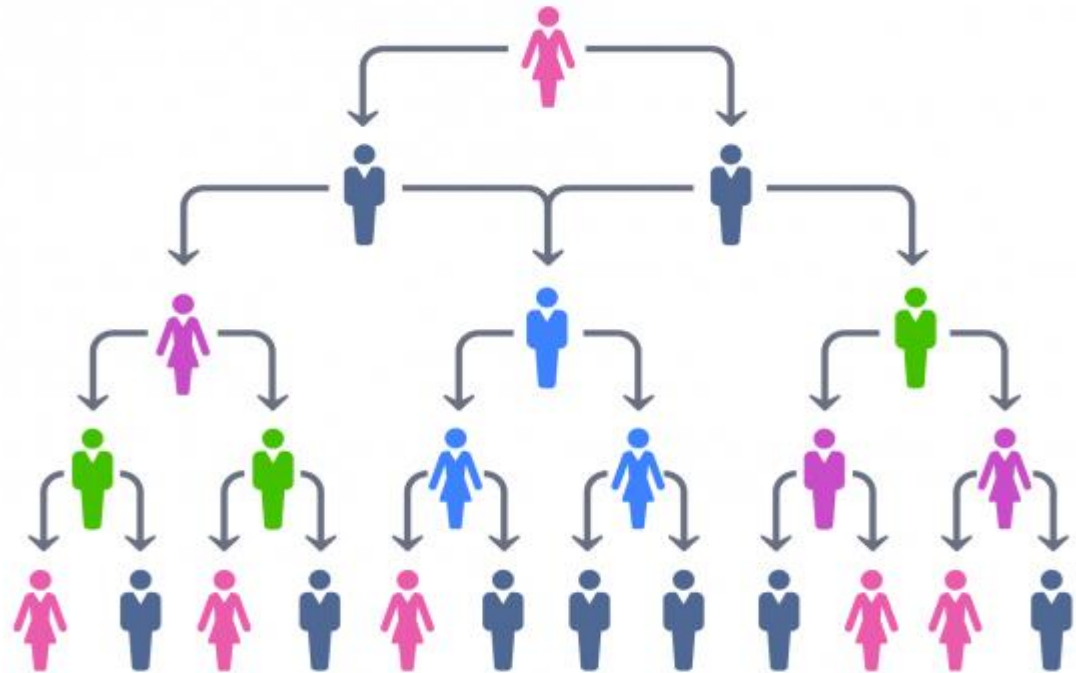
- Divides work to be done into specific jobs and departments
- Assigns tasks and responsibilities associated with individual jobs
- Coordinates diverse organizational tasks
- Clusters jobs into units
- Establishes relationships among individuals, groups, and departments
- Establishes formal lines of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



Types of organizational structures

1. Hierarchical structure: This is a traditional organizational structure with a transparent chain of command and relationships. Each employee reports to a single manager, and decision-making power flows from top to bottom.

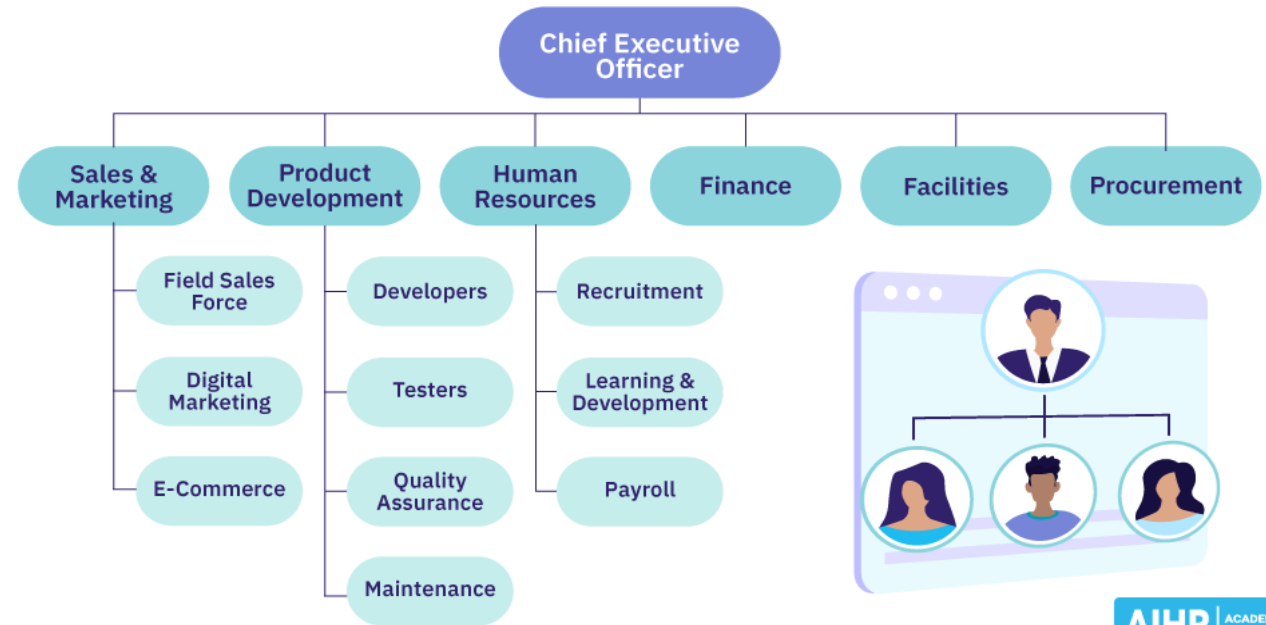
HIERARCHICAL ORGANIZATIONS



Types of organizational structures

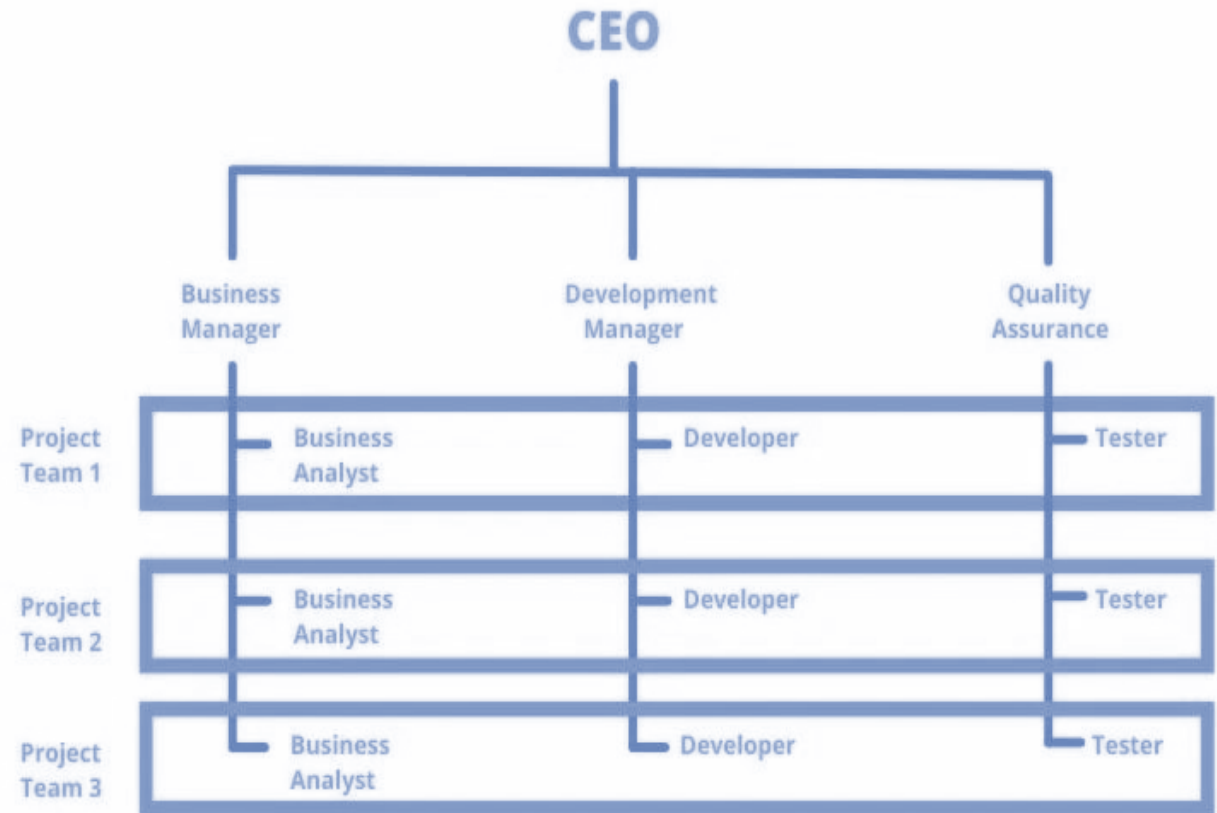
2. Functional structure: In an available form, departments are organized by function, such as marketing, finance, or operations. Each department is responsible for a specific set of tasks, and employees within each department have specialized skills.

Functional Organizational Structure



Types of organizational structures

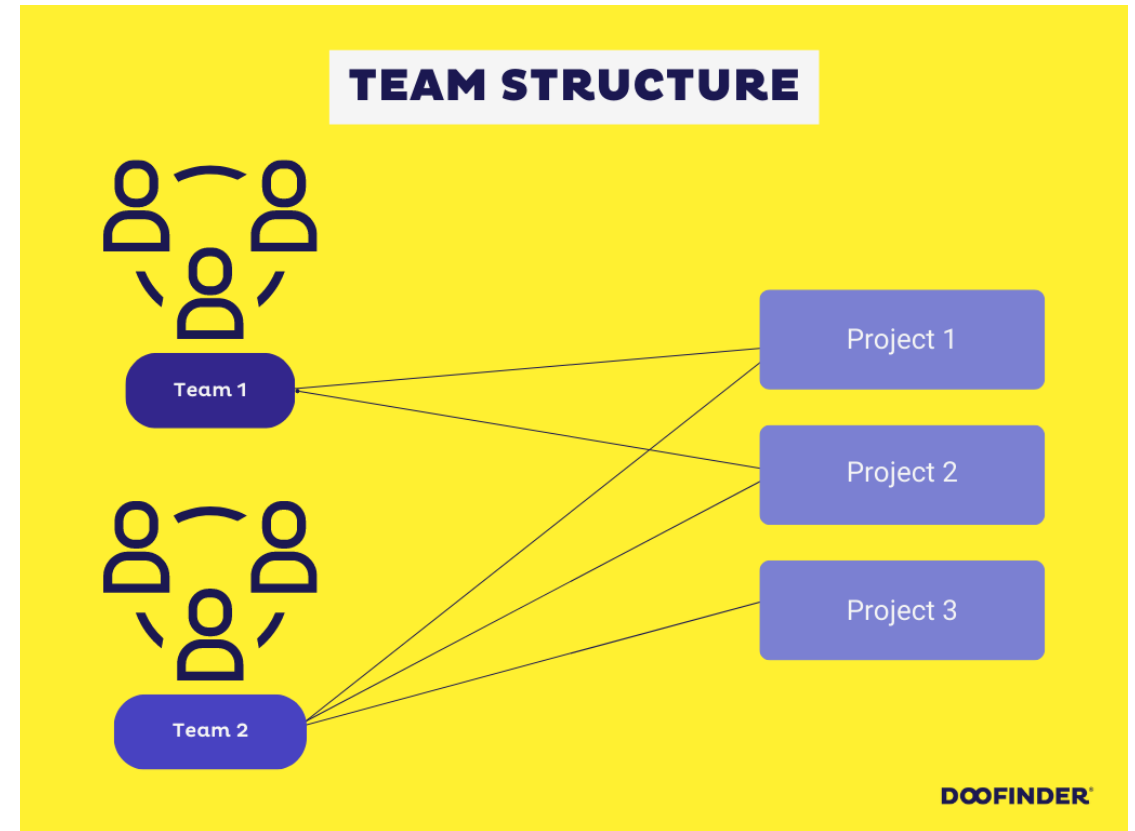
3. Matrix structure: A matrix structure combines elements of both a functional org structure and project-based systems. Employees may report to an active manager and a project manager, allowing for greater collaboration and flexibility.



Types of organizational structures

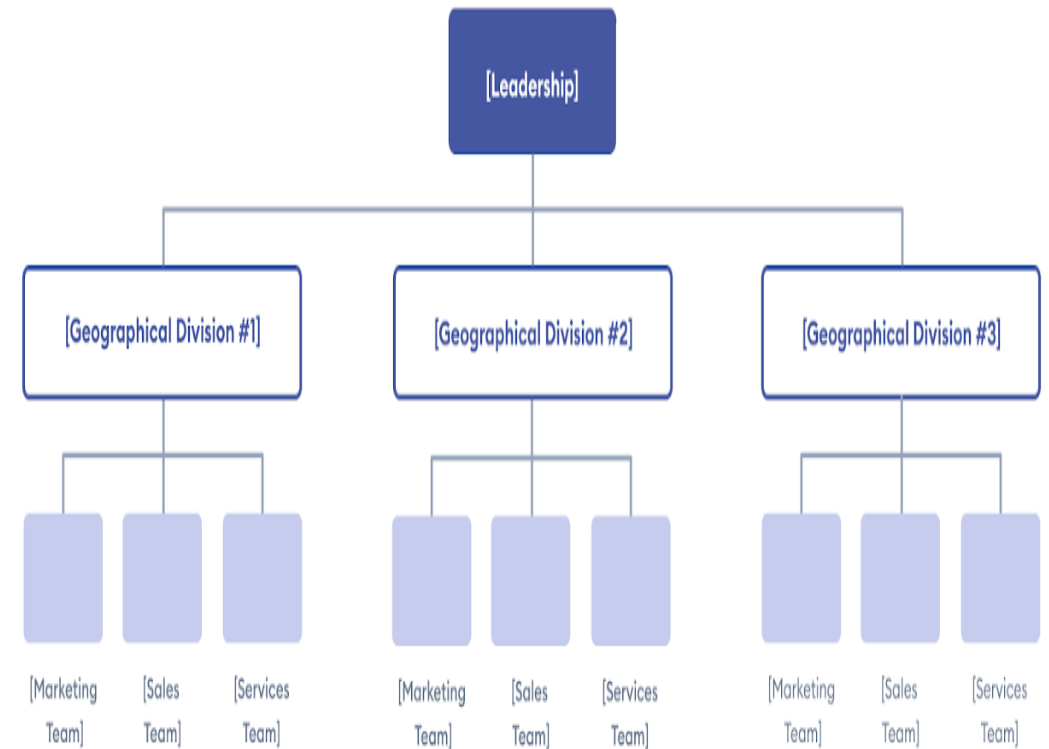
4. Team-based organizational structure:

In a team-based system, the organization is divided into self-managing teams that work together to achieve a common goal. Each unit has a specific set of tasks and is responsible for deciding how to move human resources to accomplish them.



Types of organizational structures

5. Divisional or multidivisional structure: A divisional structure is typically used by larger companies with multiple lines of business. Each division operates as a separate entity with its functional departments and reporting under one organizational structure.



a process for shaping the way organizations are structured and run. It involves many different aspects of life at work, including team formations, shift patterns, lines of reporting, decision-making procedures, communication channels, and more.



2. Organization Structure Design

Organizational Design

It involves decisions about six key elements:

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

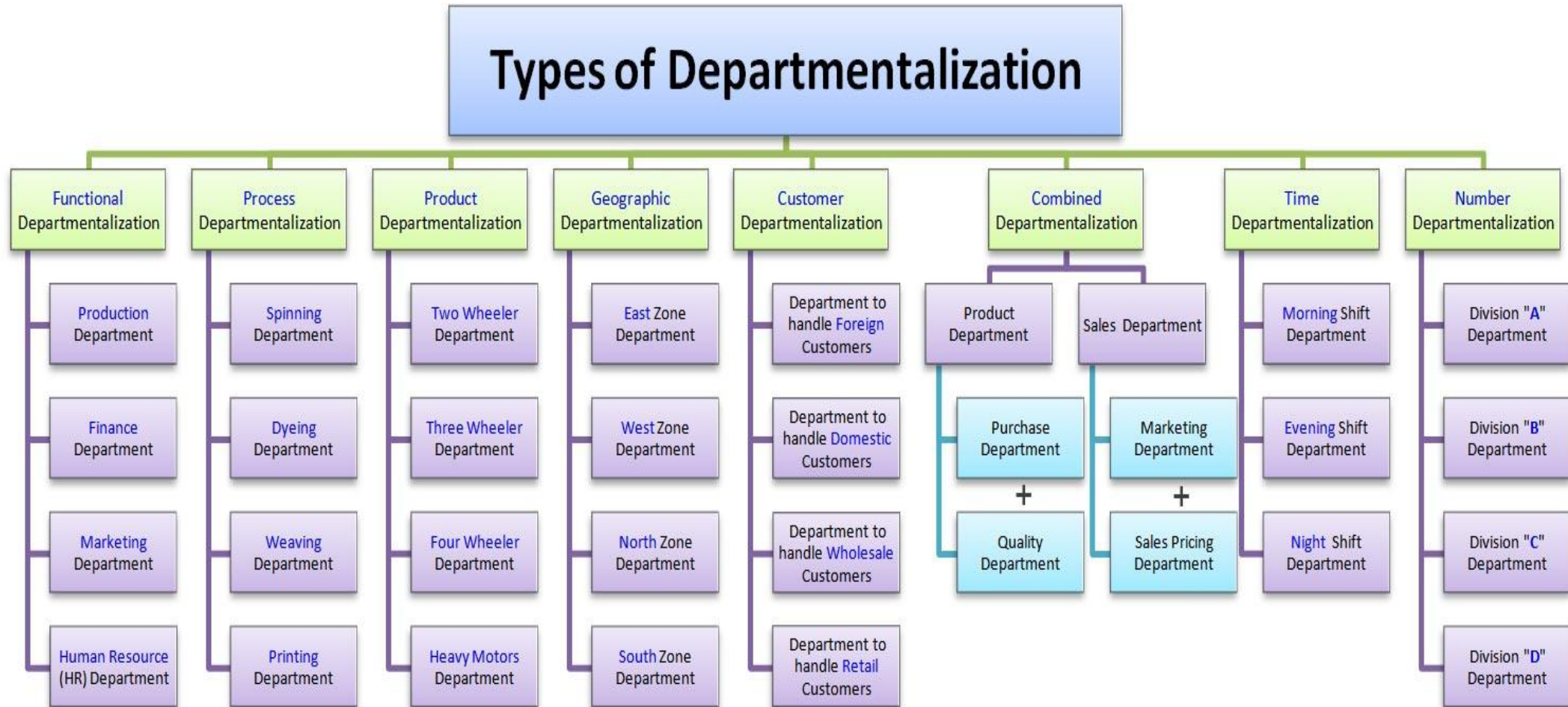
Work Specialization

The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.

Remember

Overspecialization can result in human diseconomies from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover

Departmentation by Type

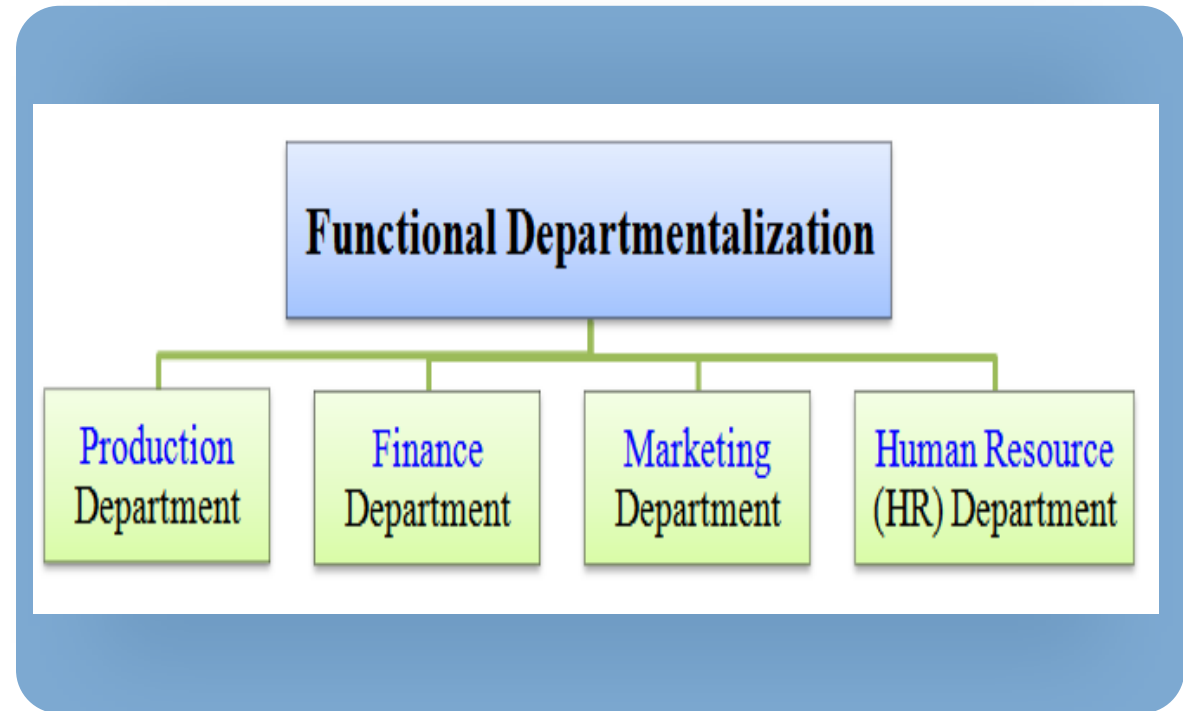


Types of departmentalization are listed as follows

- Functional departmentalization.
- Process departmentalization.
- Product departmentalization.
- Geographic departmentalization.
- Customer departmentalization.
- Combined departmentalization.
- Time departmentalization.

In functional departmentalization, departments are segregated i.e. separated from each other based on functions or tasks they perform.

Examples; production department, finance department, marketing department, human resource (HR) department, etc. Here, all activities, which are directly or indirectly connected with production are grouped together to make a production department.



Advantages Vs. Disadvantages of Functional Departmentalization

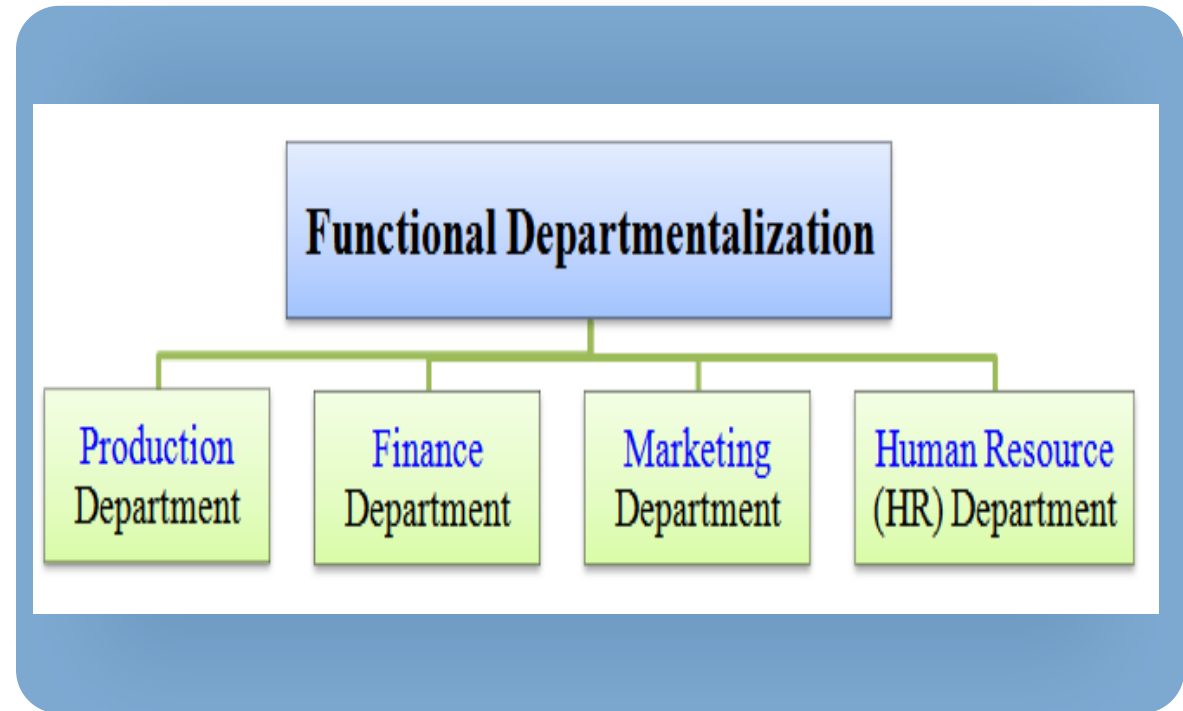
+ Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations

+ Coordination within functional area

+ In-depth specialization

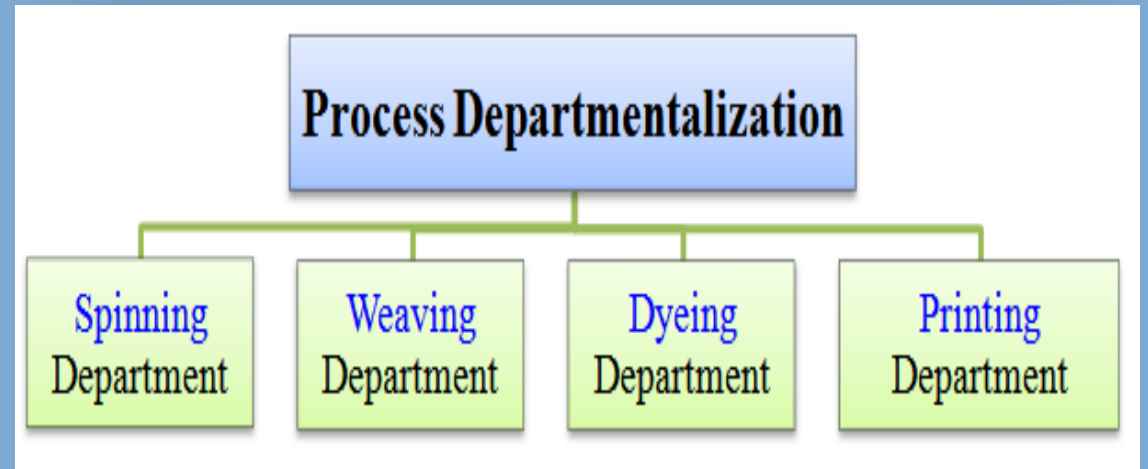
– Poor communication across functional areas

– Limited view of organizational goals



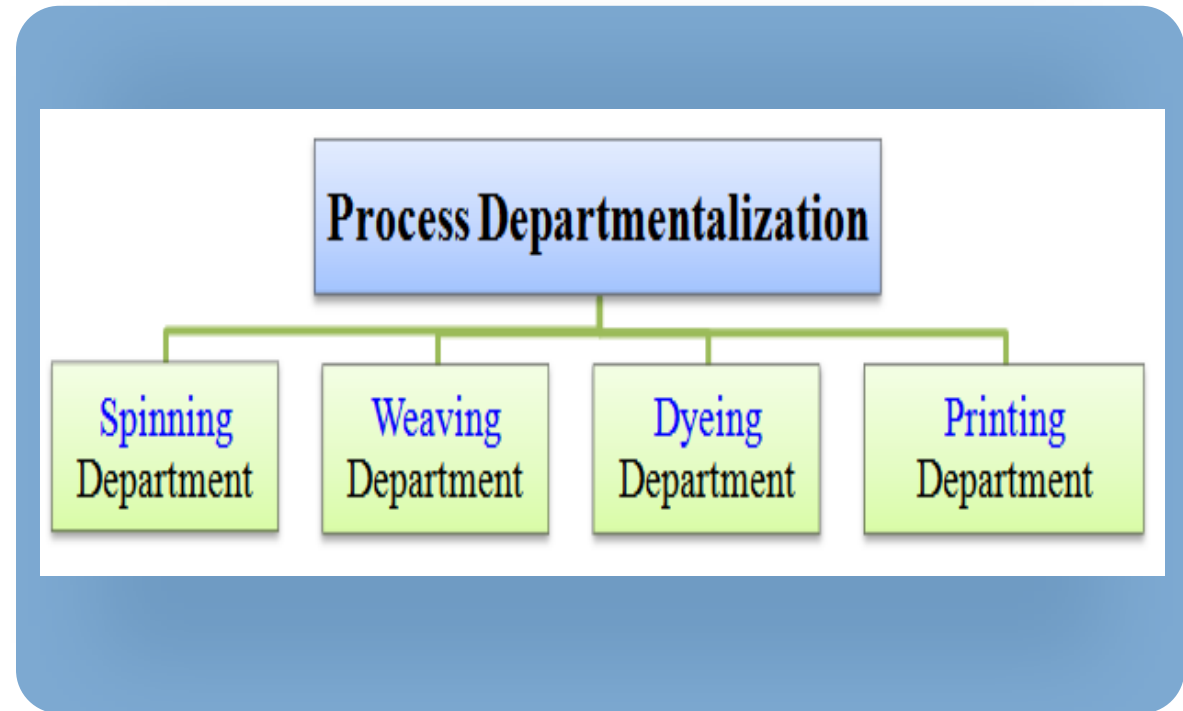
In process departmentalization, departments are separated based on their role in a production process.

Best example can be seen in a textile mill where we may have a spinning department, weaving department, dyeing department, printing department, etc. Here, inside a textile mill, all activities, which are directly or indirectly related with spinning are grouped together to make a spinning department.



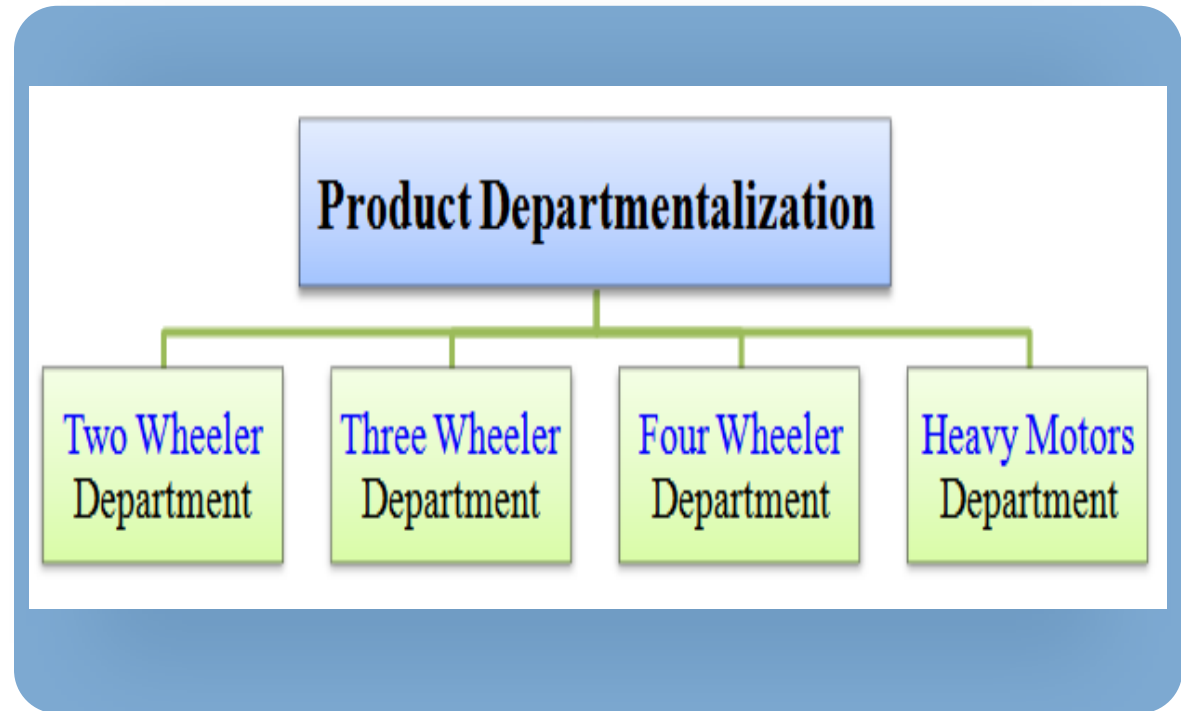
Advantages Vs. Disadvantages of Process Departmentalization

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



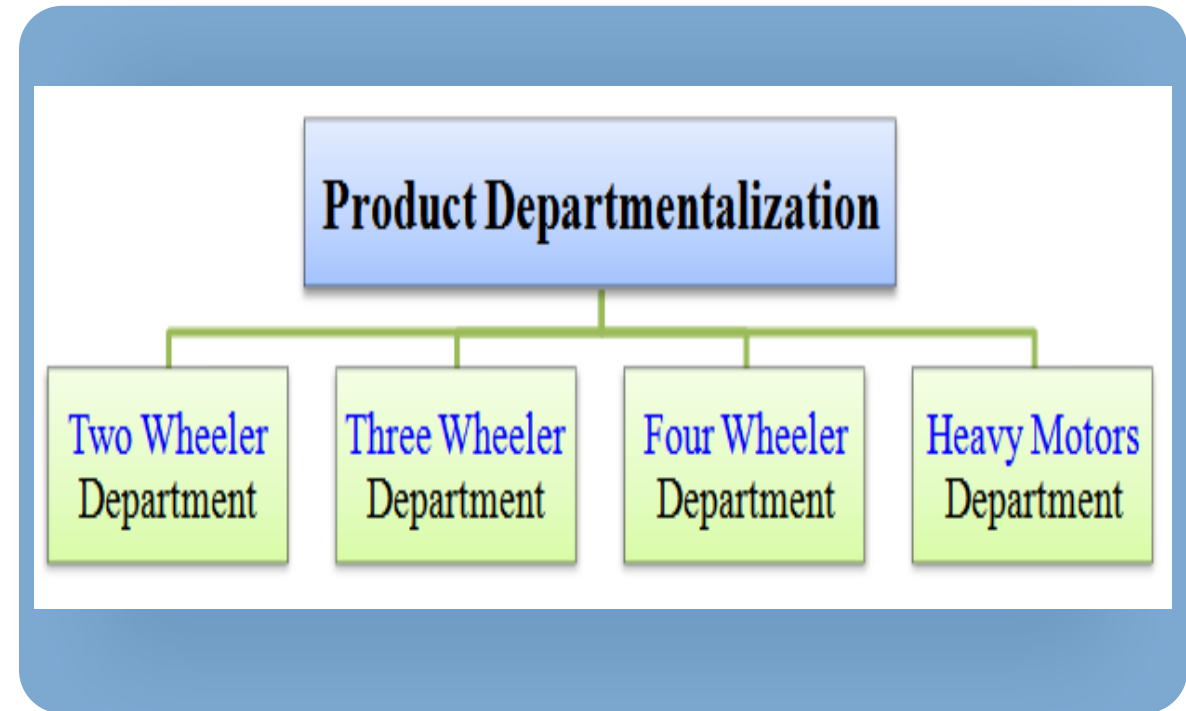
In Product departmentalization, departments are separated based on a type of product produced by the company. Here, every individual department is responsible for producing and selling the type of product assigned to them.

A good example is witnessed in an automobile manufacturing company. In such a company, we generally see departments like a two-wheeler department, three-wheeler department, four-wheeler department, heavy motors department, etc., which manufacture vehicles such as motorcycles (bikes), auto-rickshaws, cars, buses and trucks, respectively. Here, inside an automobile company, all activities, which are directly or indirectly related to car manufacturing are grouped together and assigned to four-wheeler or car department.



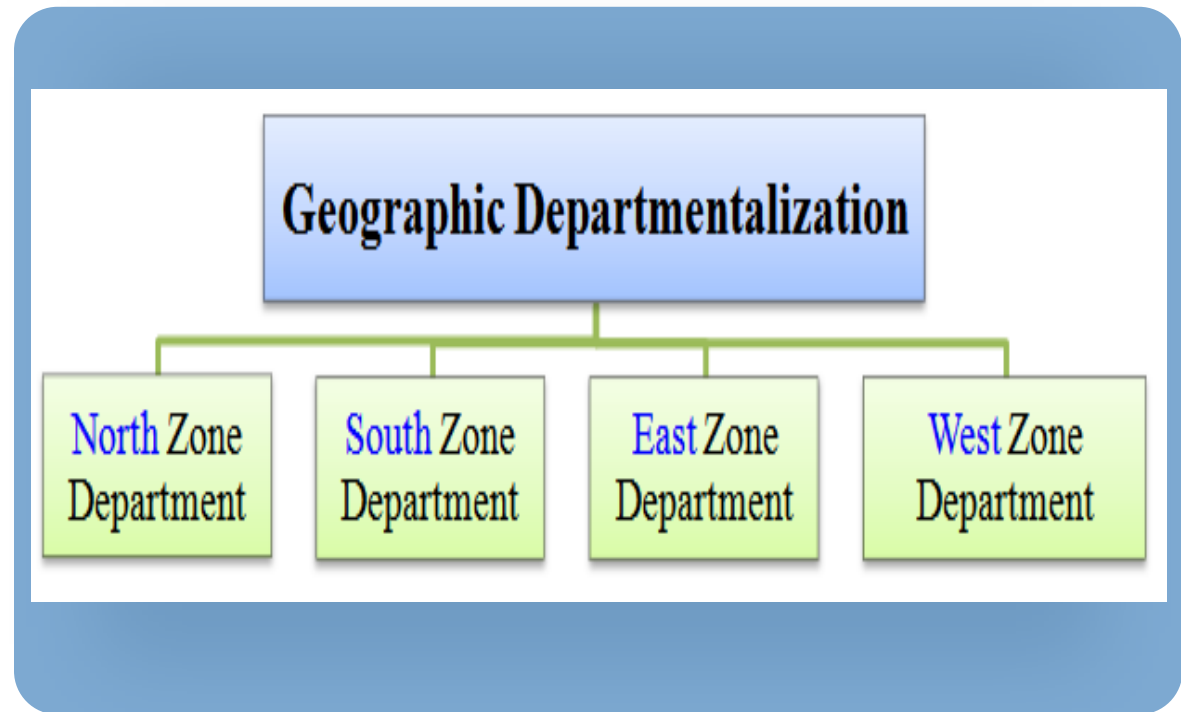
Advantages Vs. Disadvantages of Product Departmentalization

- + 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



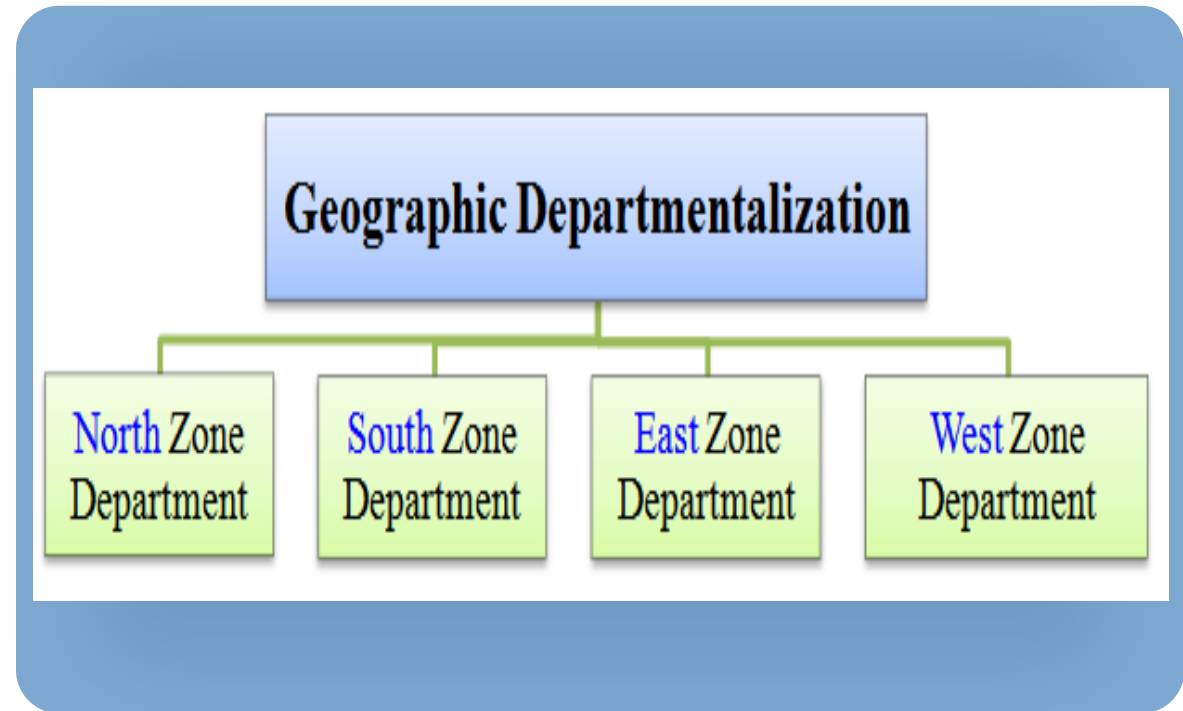
In geographic departmentalization, separate departments are made based on the company's (i.e. institution's) operations to be carried out either over a vast area or within some restricted area through branches or offices established at different zones or places in that area.

For example, a large company may operate globally through its different zonal departments established on a country basis. In a similar context, a small business or firm may operate only within city boundaries through its offices established in east zone, west zone, north zone and south zone of the city.



Advantages Vs. Disadvantages of 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

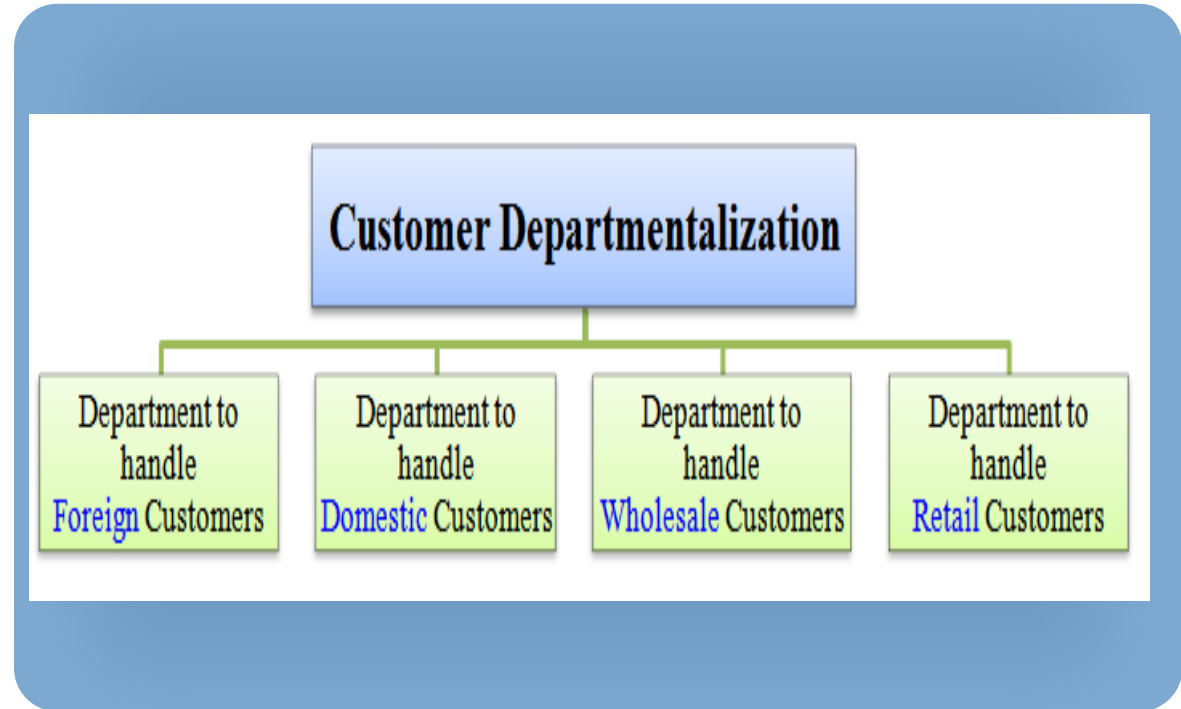


In customer departmentalization,

departments are separated from each other based on the types or groups of customers to be handled or dealt with.

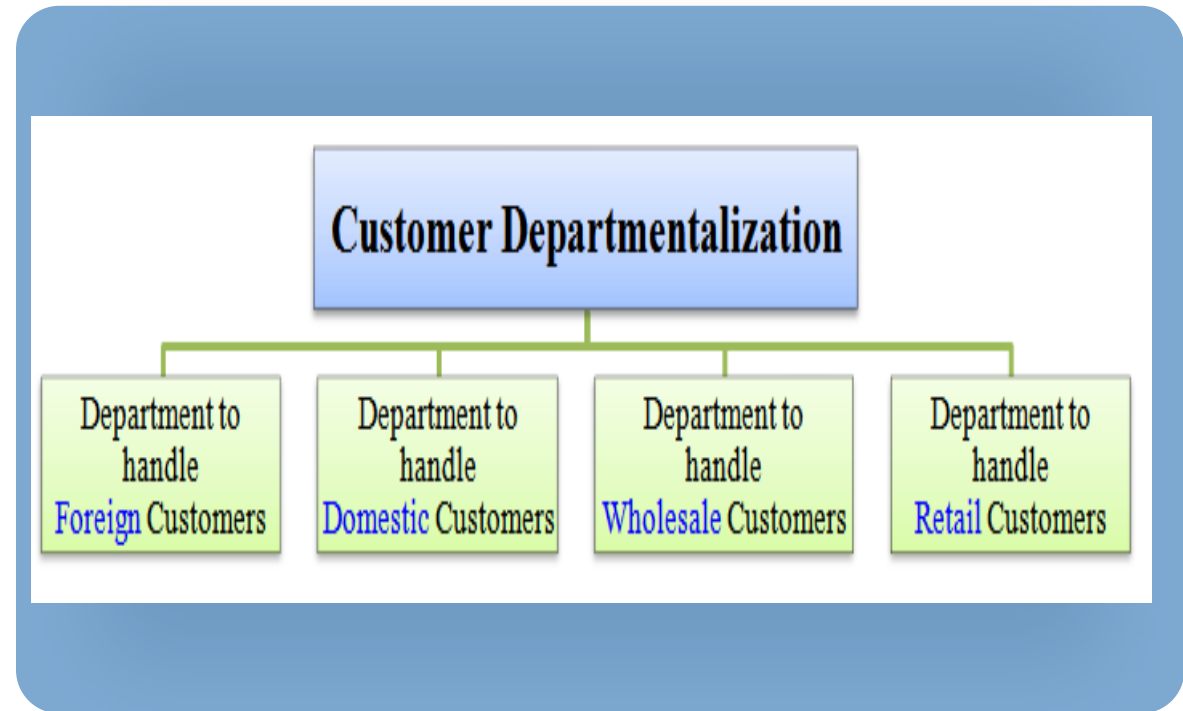
For example, customers can be classified under types such as, international or foreign customers, inland or domestic customers, bulk purchasing or wholesale customers, retail customers, etc.

Each group of customers needs different tactics and strategies to handle them better. Hence, an appropriate customer departmentalization serves this purpose



Advantages Vs. Disadvantages of Customer Departmentalization

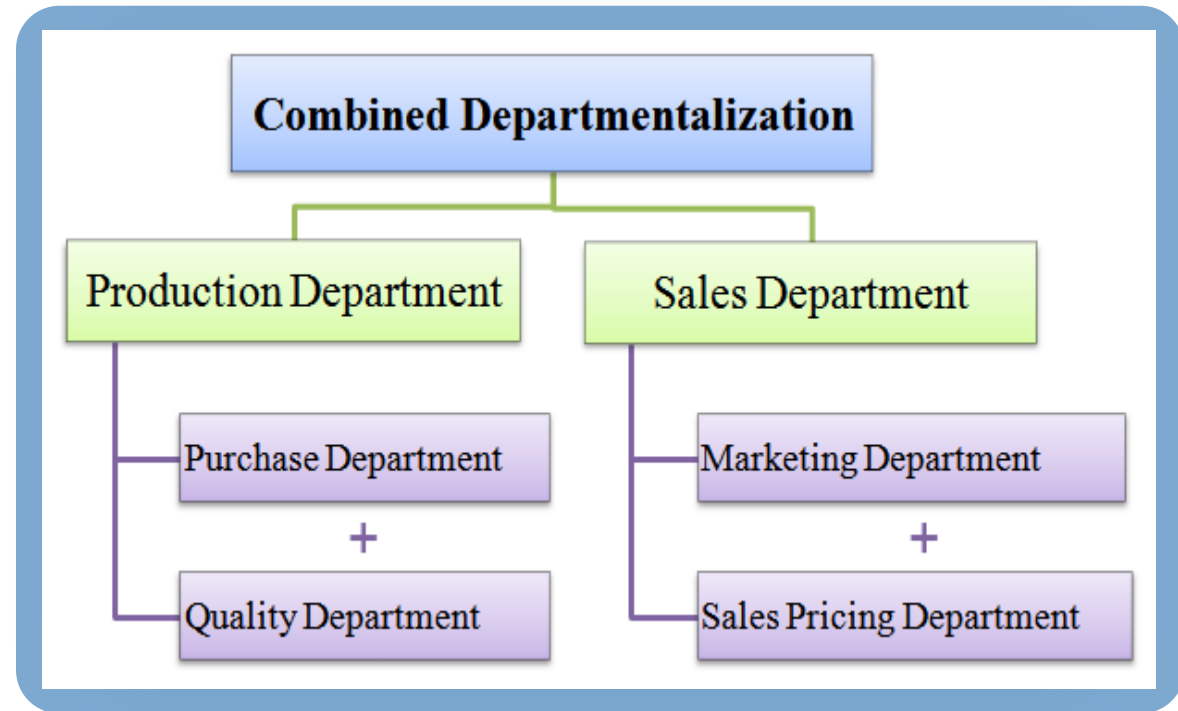
- + Customers' needs and problems can be met by specialists
- Duplication of functions
- Limited view of organizational goals



In combined departmentalization,

a company or an organization uses a mixture or combination or union of two or more different bases of departmentalization.

For example, in practice, owing to rising market competition and emerging complexity of tasks most organizations often uses a combination of above-discussed.

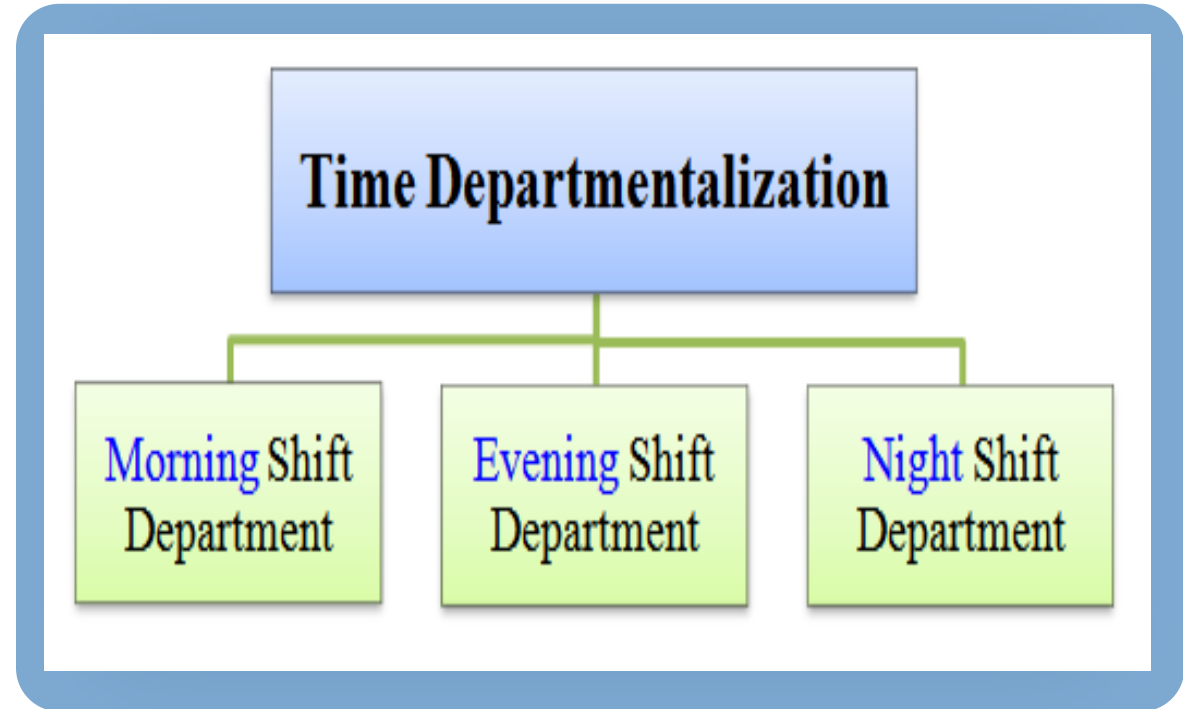


Time departmentalization,

departments are separated based on the division of their working time or job shifts.

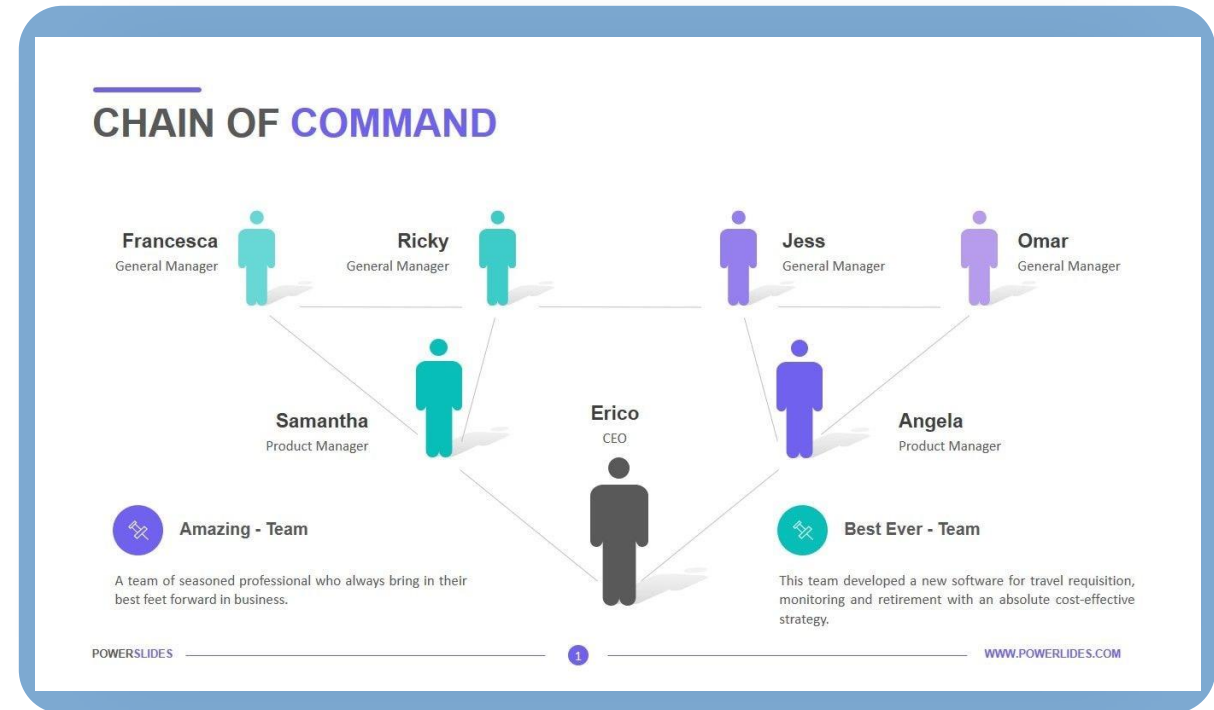
For an example, departments can be made based on night shift, morning or regular shift, evening shift, etc.

This method of departmentalization is generally seen among those organizations who render 24-hours emergency and/or essential public services for 365 days a year. Examples of such organizations include; hospitals, hotels, airports, police, security, and so on.



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



Chain of Command

Chain of Command

Flow (delegation and use) of

- ✓ Authority
- ✓ Responsibility

At every Level

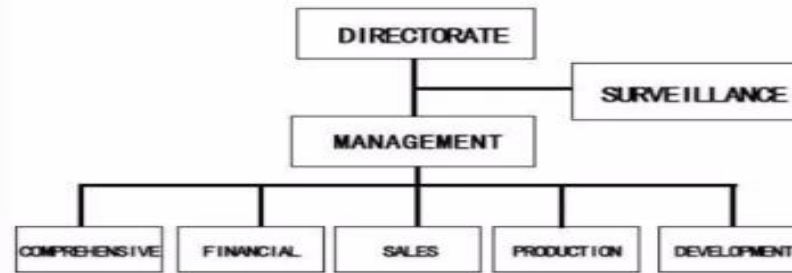
- From Top to Bottom

Within

- Organization

Why Chain of Command?

- ✓ What would you do?
- ✓ Who reports to whom?
- ✓ To whom should you go if have some issues/problems?



Chain of Command

➤ 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

Chain of Command advantages Vs. Disadvantages

Advantages:

- Increased efficiency,
- Clear directions,
- Structured responsibility,
- Stability

Disadvantages:

- less collaboration,
- slower communication,
- decreased employee empowerment
- More competition

Chain of Command

- | | |
|-------------------------|-----------------------------|
| • Less collaboration | • Increased efficiency |
| • Slow communication | • Clear direction |
| • Decreased empowerment | • Stability |
| • More competition | • Accountability |
| | • Structured responsibility |
| | • Outside understanding |

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

Span of Control

"The **number of subordinates** that manager or supervisor can **efficiently and effectively** manage / Control"

These numbers varies with the

- ✓ **Type of work**
- ✓ **Complexity**
- ✓ **Variable work** reduces it to **6**
- ✓ whereas **routine, fixed work** increases it to **20** or more.



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 and Decentralization

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

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

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



Thank You