

Organizational Structure and Design

Prepared by Dr. Magdy Al-haj

MGM111
Principle of Management

Lecture 6





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الجميع الذكية
للتعليم القابضة



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www.midocean.ae

Learning Outcome

❑ 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



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Defining Organizational Structure

- ☐ **Organizational Structure**
 - ✓ **The formal arrangement of jobs within an organization**

Defining Organizational Structure

☐ 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

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

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

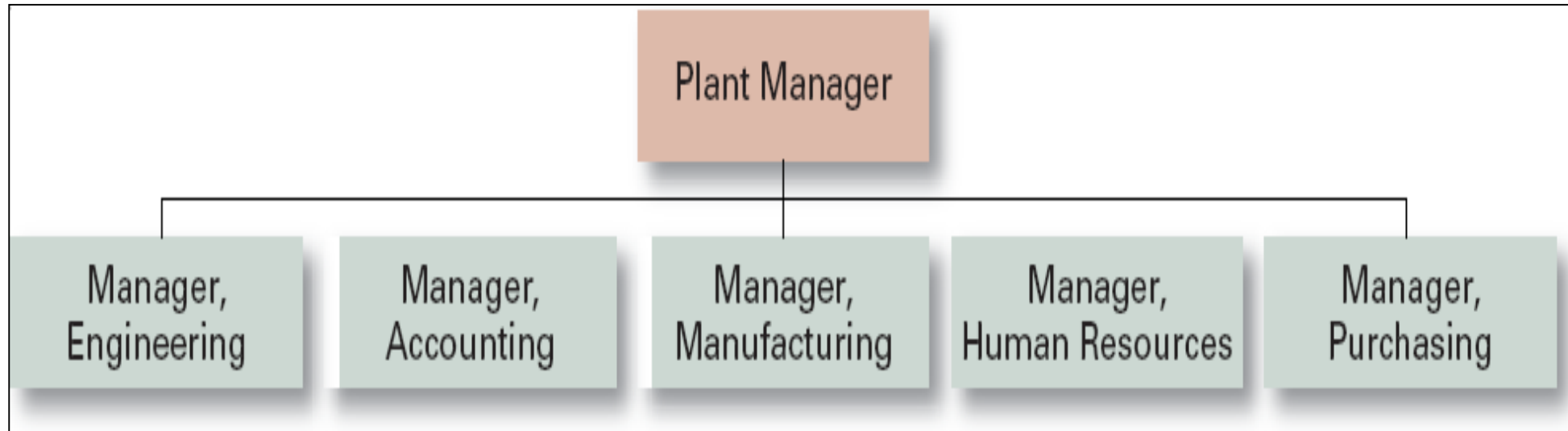
4- Process

- Grouping jobs on the basis of product or customer flow

5- Customer

- Grouping jobs by type of customer and needs

1- Functional Departmentalization



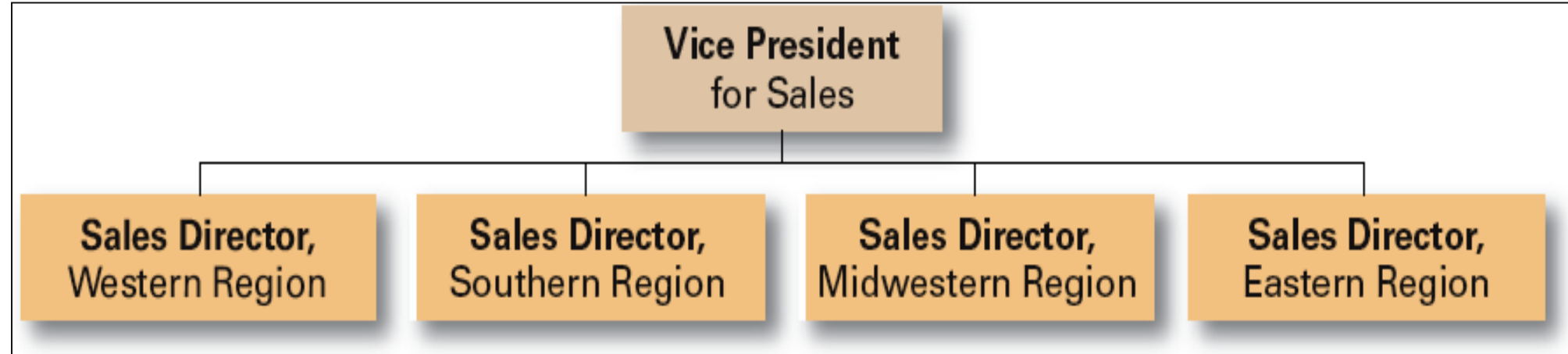
- + Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
- + Coordination within functional area
- + In-depth specialization
- Poor communication across functional areas
- Limited view of organizational goals

Grouping Jobs into Functions

□ Functional Structure

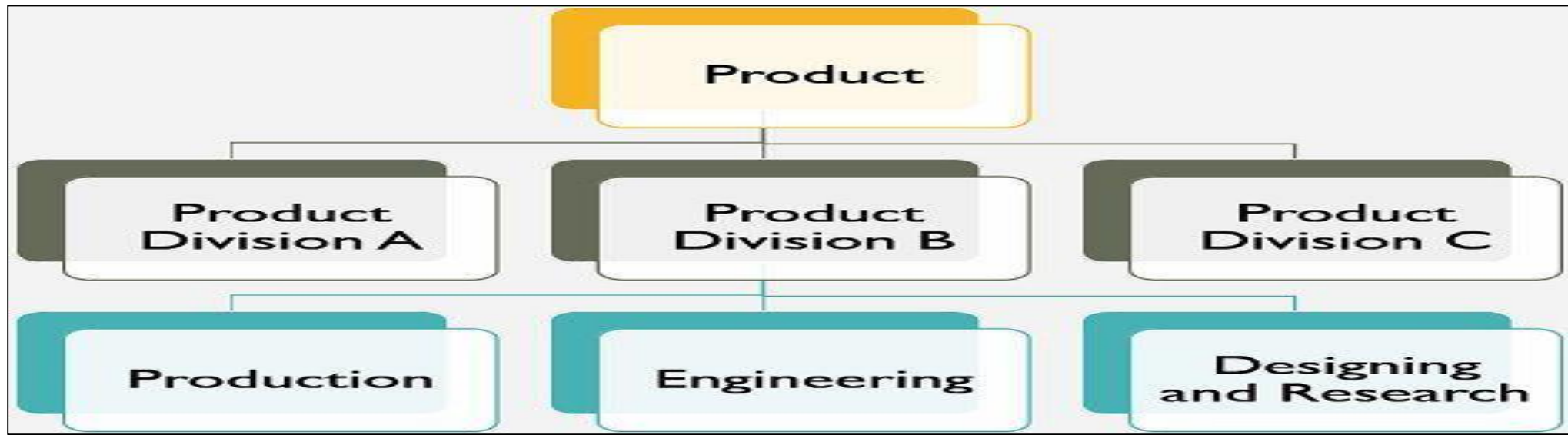
- An organizational structure composed of all the departments that an organization requires to produce its goods or services.

2- Geographical Departmentalization



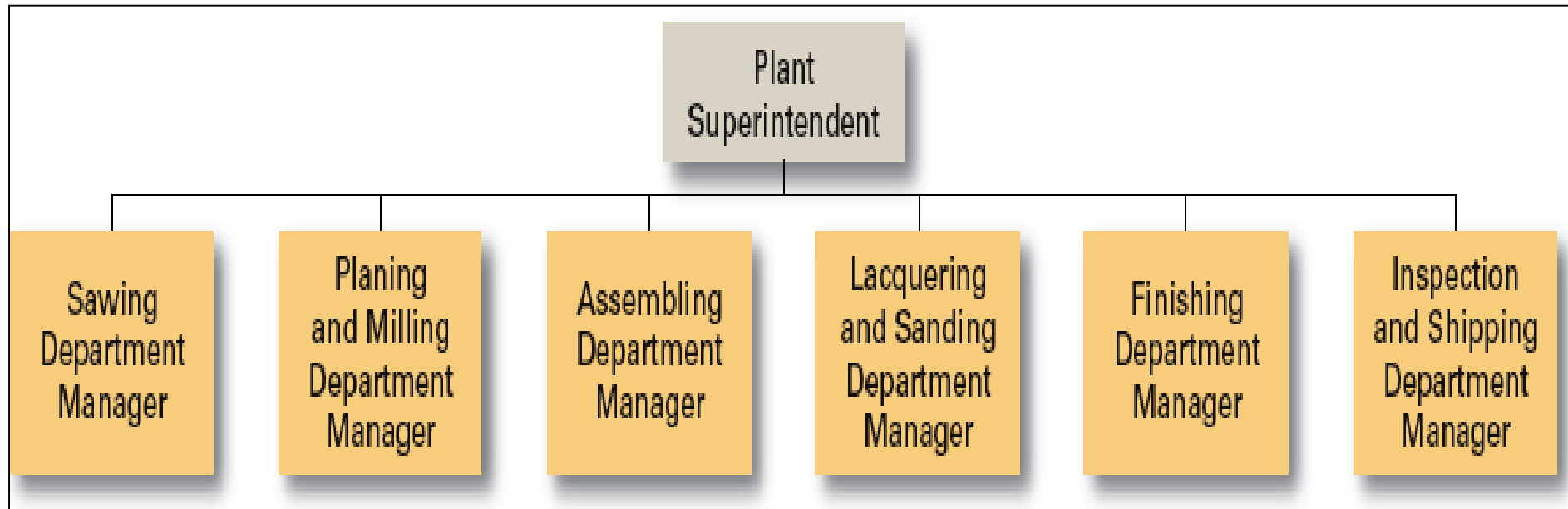
- + More effective and efficient handling of specific regional issues that arise
- + Serve needs of unique geographic markets better
- Duplication of functions
- Can feel isolated from other organizational areas

3- Product Departmentalization



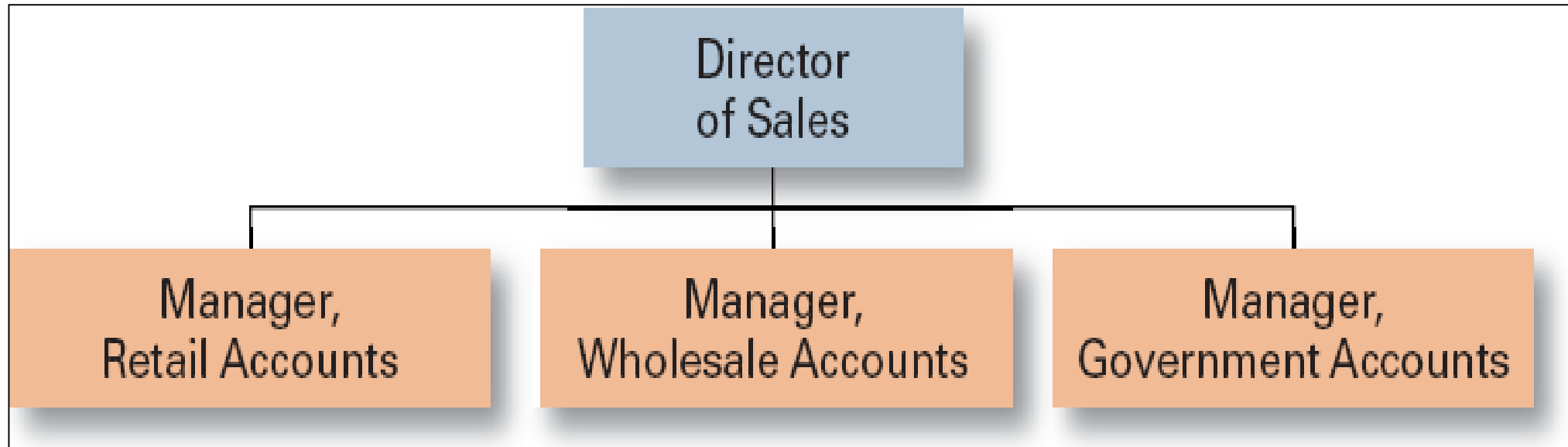
- + Allows specialization in particular products and services
- + Managers can become experts in their industry
- + Closer to customers
- Duplication of functions
- Limited view of organizational goals

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 (cont'd)

➤ 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 (cont'd)

➤ 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

Centralize vs. Decentralize

➤ 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

- 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
- ❖ Functional Structure
- ❖ Divisional Structure

Simple Structure

❖ Simple Structure

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

Functional Structure

❖ Functional Structure

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

Divisional Structure

❖ Divisional Structure

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

Strengths and Weaknesses of Common Traditional Organizational

Structure	Strengths	Weaknesses
Simple Structure	Fast; flexible; inexpensive to maintain; clear accountability.	Not appropriate as organization grows; reliance on one person is risky.
Functional Structure	Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment) and employees are grouped with others who have similar tasks.	Pursuit of functional goals can cause managers to lose sight of what's best for overall organization; functional specialists become insulated and have little understanding of what other units are doing.
Divisional Structure	Focuses on results—division managers are responsible for what happens to their products and services.	Duplication of activities and resources increases costs and reduces efficiency.

2- Contemporary Organizational Designs

□ Contemporary Organizational Designs

- Team Structures
- Matrix Structures
- Project Structures

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

Structure	Description	Advantages	Disadvantages
Team	A structure in which the entire organization is made up of work groups or teams.	Employees are more involved and empowered. Reduced barriers among functional areas.	No clear chain of command. Pressure on teams to perform.
Matrix-Project	Matrix is a structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.	Fluid and flexible design that can respond to environmental changes. Faster decision making.	Complexity of assigning people to projects. Task and personality conflicts.
Boundaryless	A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes virtual, networked, and modular types of organizations.	Highly flexible and responsive. Draws on talent wherever it's found.	Lack of control. Communication difficulties.
Learning Organization	A structure that supports an organization's capacity to continuously adapt and change.	Employees are continuously sharing and applying knowledge. Ability to learn can be a source of sustainable competitive advantage.	Getting employees to share what they know can be difficult. Collaboration conflicts can arise.

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

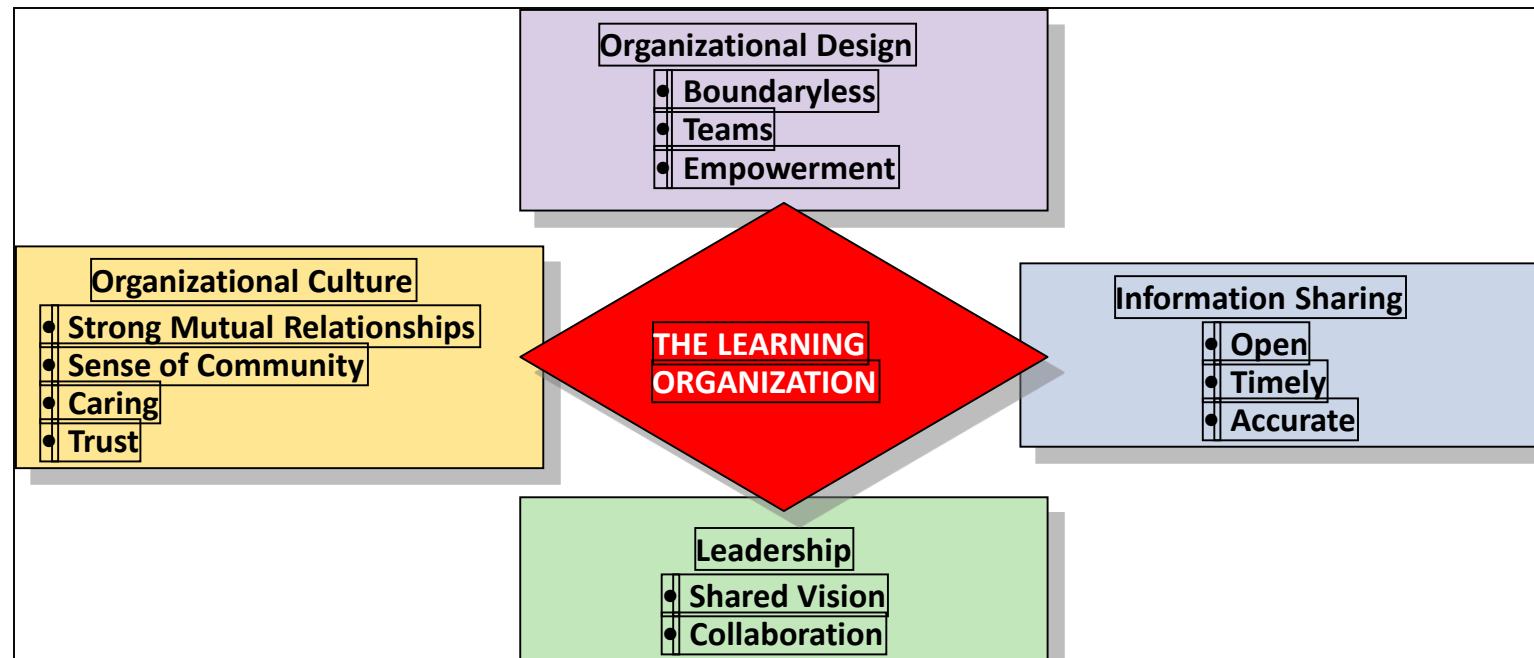
➤ Modular Organization

- ✓ 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





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