

# **Introduction to Business Management**

## Lecture 4: Organizational Structure

# Learning Outcomes

Follow this Learning Outline as you read and study this chapter.

## **1 Designing Organizational Structure**

- Discuss the traditional and contemporary views of work specialization, chain of command, and span of control.
- Describe each of the five forms of departmentalization.
- Differentiate authority, responsibility, and unity of command.
- Explain how centralization–decentralization and formalization are used in organizational design.

# Learning Outcomes

## **2 Mechanistic and Organic Structures**

- Contrast mechanistic and organic organizations.
- Explain the contingency factors that affect organizational design.

## **3 Common Organizational Designs**

- Contrast the three traditional organizational designs.
- Describe the contemporary organizational designs.
- Discuss the organizational design challenges that managers face today.

# Designing Organizational Structure

1. Discuss the traditional and contemporary views of work specialization, chain of command, and span of control.
2. Describe each of the five forms of departmentalization.
3. Differentiate authority, responsibility, and unity of command.
4. Explain how centralization–decentralization and formalization are used in organizational design.

# Designing Organizational Structure

## Organizing

- Arranging and **structuring work** to accomplish an organization's goals.

## Organizational Structure

- The **formal arrangement** of jobs within an organization.

# Designing Organizational Structure (cont'd)

## Organizational Design

- A process involving decisions about six key elements:
  - Work specialization
  - Departmentalization
  - Chain of command
  - Span of control
  - Centralization and decentralization
  - Formalization

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## Exhibit 1 Purposes of Organizing

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- **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**.

# 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

## Functional

- Grouping jobs by **functions** performed

## Geographical

- Grouping jobs on the basis of **territory or geography**

## Product

- Grouping jobs by **product line**

## Process

- Grouping jobs on the basis of **product or customer flow**

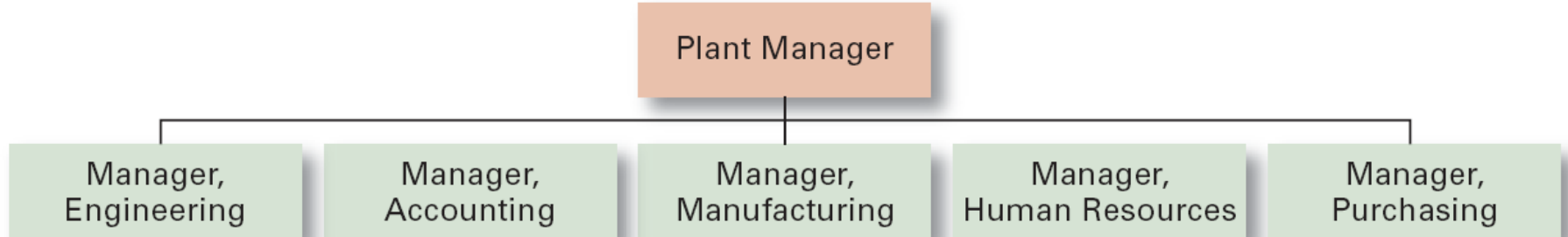
## Customer

- Grouping jobs by type of **customer and needs**

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## Exhibit 2 The Five Common Forms of Departmentalization: Functional

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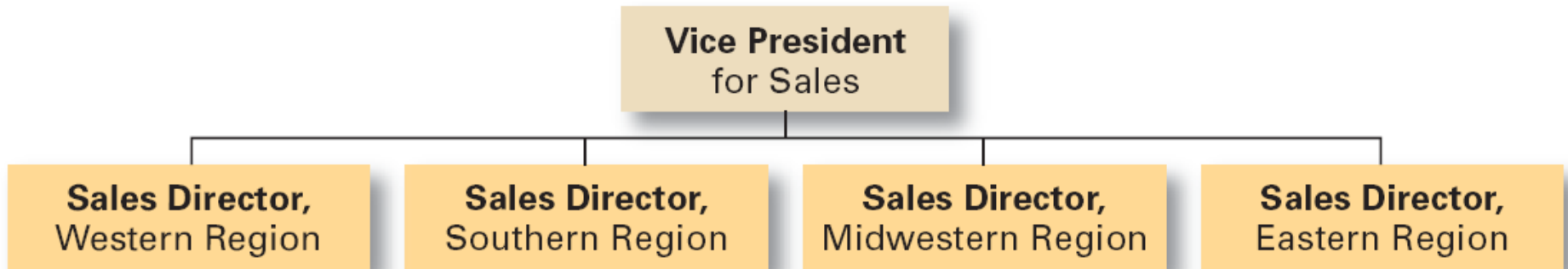


- + Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
- + Coordination within functional area
- + In-depth specialization
- Poor communication across functional areas
- Limited view of organizational goals

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## Exhibit 2 The Five Common Forms of Departmentalization: Geographical

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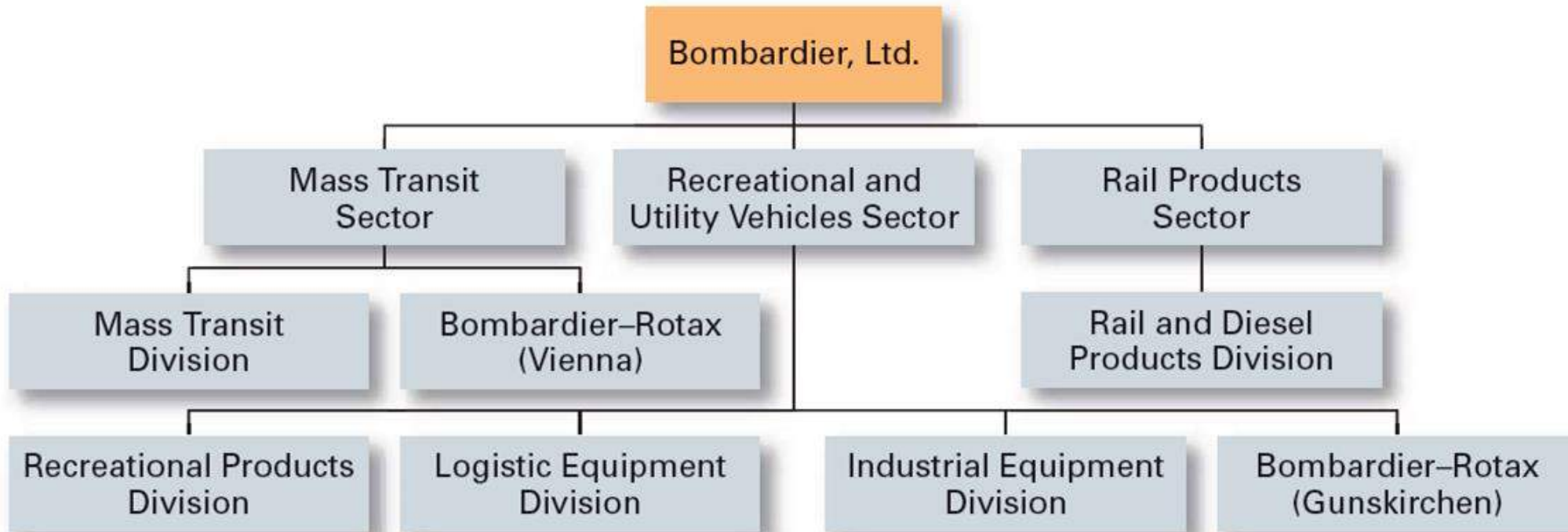


- + More effective and efficient handling of specific regional issues that arise
- + Serve needs of unique geographic markets better
- Duplication of functions
- Can feel isolated from other organizational areas

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## Exhibit 2 The Five Common Forms of Departmentalization: Product

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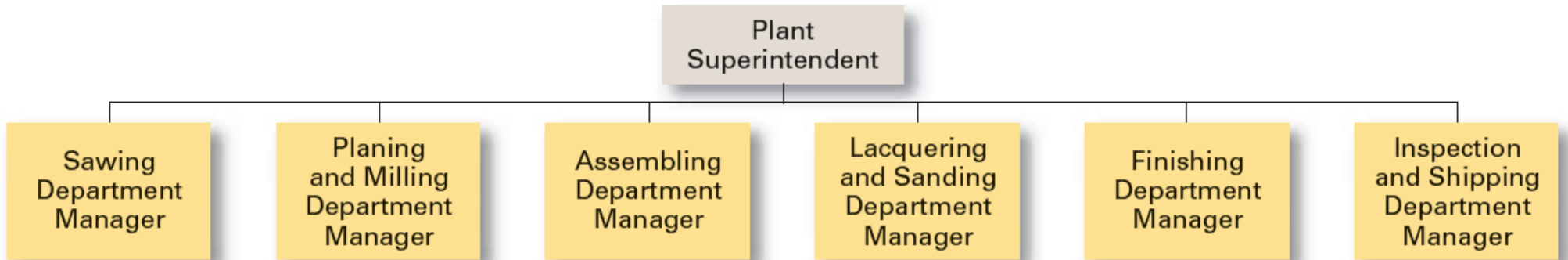


- + Allows specialization in particular products and services
- + Managers can become experts in their industry
- + Closer to customers
- Duplication of functions
- Limited view of organizational goals

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## Exhibit 2 The Five Common Forms of Departmentalization: Process

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

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## Exhibit 2 The Five Common Forms of Departmentalization: Customer

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

# 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 (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.

## Unity of Command

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



# 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
  - Employee characteristics
  - Characteristics of the work being done
  - Similarity and 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

# Exhibit 3 Contrasting Spans of Control

**Members at Each Level**

	(Highest)	Assuming Span of 4	Assuming Span of 8
<b>Organizational Level</b>		1	1
	2	4	8
		16	64
	4	64	512
		256	4,096
	6	1,024	
	4,096		
	(Lowest)		

Span of 4:	Span of 8:
Employees: = 4,096	Employees: = 4,096
Managers (level 1–6) = 1,365	Managers (level 1–4) = 585

# Organizational Structure (cont'd)

## Centralization

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

## Decentralization

- Organizations in which decision making is **pushed down** to the managers who are closest to the action.

## Employee Empowerment

- Increasing the decision-making **authority (power)** of employees.

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## **Exhibit 4    Factors that Influence the Amount of Centralization**

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### **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 relatively minor.
- 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.

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## **Exhibit 4    Factors that Influence the Amount of Decentralization**

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### **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 significant.
- 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**.
  - Highly formalized jobs offer little discretion over what is to be done.
  - Low formalization means fewer constraints on how employees do their work.

# Mechanistic and Organic Structures

1. Contrast the two models of Organizational Design: **mechanistic** and **organic** organizations.
2. Explain the contingency factors that affect organizational design.
  - Strategy and Structure
  - Size and Structure
  - Technology and Structure
  - Environmental Uncertainty and Structure

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## Exhibit 5 Mechanistic Vs. Organic Organization

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### 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



# Contingency Factors

## Strategy and Structure

- Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change.
- Organizational structure **follows** strategy.

## 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.

# Contingency Factors (cont'd)

## Technology and Structure

- Organizations adapt their structures to their technology.
- Woodward's classification of firms based on the complexity of the technology employed:
  - **Unit production** of single units or small batches
  - **Mass production** of large batches of output
  - **Process production** in continuous process of outputs
- Routine technology = mechanistic organizations
- Non-routine technology = organic organizations

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## Exhibit 6 Woodward's Findings on Technology, Structure, and Effectiveness

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	Unit Production	Mass Production	Process Production
Structural characteristics	Low vertical differentiation Low horizontal differentiation Low formalization	Moderate vertical differentiation High horizontal differentiation High formalization	High vertical differentiation Low horizontal differentiation Low formalization
Most effective structure	Organic	Mechanistic	Organic

# Contingency Factors (cont'd)

## Environmental Uncertainty and Structure

- **Mechanistic** organizational structures tend to be most effective in **stable and simple** environments.
- The flexibility of **organic** organizational structures is better suited for **dynamic and complex** environments.

# 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.

# Common Organizational Designs

1. Contrast the three traditional organizational designs.
  - Simple structure
  - Functional structure
  - Divisional structure
2. Describe the contemporary organizational designs.
  - Team Structures
  - Matrix and Project Structures
  - The Boundaryless Organization
3. Discuss the organizational design challenges that managers face today.

# Traditional Designs

- **Simple structure**
  - **Low** departmentalization, **wide** spans of control, **centralized** authority, **little** formalization
- **Functional structure**
  - Departmentalization by **function**
  - Operations, finance, marketing, 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.

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## **Exhibit 7    Strengths and Weaknesses of Traditional Organizational Designs**

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### **Simple Structure**

Strengths: Fast; flexible; inexpensive to maintain; clear accountability.

Weaknesses: Not appropriate as organization grows; reliance on one person is risky.

### **Functional Structure**

Strengths: Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment) and employees are grouped with others who have similar tasks.

Weaknesses: 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**

Strengths: Focuses on results—division managers are responsible for what happens to their products and services.

Weaknesses: Duplication of activities and resources increases costs and reduces efficiency.



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# Exhibit 8 Contemporary Organizational Designs

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## Team Structure

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- **What is it?** A structure in which the entire organization is made up of work groups or teams.
- **Advantages:** Employees are more involved and empowered. Reduced barriers among functional areas.
- **Disadvantages:** No clear chain of command. Pressure on teams to perform.

## Matrix-Project Structure

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- **What is it?** 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.
- **Advantages:** Fluid and flexible design that can respond to environmental changes. Faster decision making.
- **Disadvantages:** Complexity of assigning people to projects. Task and personality conflicts.

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# Exhibit 8 Contemporary Organizational Designs

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## Boundaryless Structure

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- **What is it?** A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes virtual and network types of organizations.
  - **Advantages:** Highly flexible and responsive. Draws on talent wherever it's found.
  - **Disadvantages:** Lack of control. Communication difficulties.

# Contemporary Organizational Designs

- **Team structures**
  - The entire organization is made up of **work groups** or **self-managed teams** of empowered employees.
- **Matrix and project structures**
  - Specialists from different functional departments are assigned to work on projects led by project managers.
  - Matrix and project participants have **two managers**.
  - In project structures, employees work continuously on projects; moving on to another project as each project is completed.

# Contemporary Organizational Designs

- **Boundaryless Organization**

- A flexible and 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 External 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.

# Today's Organizational Design Challenges

1. Keeping Employees Connected
2. Building a Learning Organization
3. Managing Global Structural Issues

# Keeping Employees Connected

- Earlier organizational design concepts were developed assuming:
  - **predictable and constant** work tasks
  - **full time** jobs
  - **jobs** continued **indefinitely**
  - work done at an **employer's place of business**, and
  - under a manager's supervision.
- A major structural design challenge for managers is finding a way to keep **widely dispersed and mobile employees** connected to the organization.

# Building a Learning Organization

- An organization that has developed the **capacity to continuously learn**, adapt, and change through the practice of knowledge management by employees.
- Characteristics of a learning organization:
  - An open team-based organization design that **empowers** employees.
  - Extensive and open **information sharing**.
  - Leadership that provides a **shared vision** of the organization's future.
  - A strong culture of **shared values, trust, openness**, and a **sense of community**.



# Managing Global Structural Issues

- Structures and strategies of organizations worldwide are **similar**, “while the **behavior** within them is maintaining its cultural uniqueness.”. Managers may need to think about the **cultural implications** of certain design elements.

# Key Terms

organizing	المنظمة	span of control	مدى السيطرة
organizational structure	الهيكل التنظيمي	centralization	المركزية
organizational chart	الهيكل التنظيمي	decentralization	اللامركزية
organizational design	التصميم التنظيمي	employee empowerment	تمكين الموظف
work specialization	تخصص العمل	formalization	إضفاء الطابع الرسمي
departmentalization	التشعب	mechanistic organization	منظمة الميكانيكية
cross-functional teams	فرق الصليب وظيفية	organic organization	منظمة العضوية
chain of command	سلسلة القيادة	unit production	إنتاج وحدة
authority	السلطة	mass production	الإنتاج الضخم
responsibility	المسؤولية	process production	عملية الإنتاج
unity of command	وحدة القيادة	simple structure	بنية بسيطة
functional structure	الهيكل الوظيفي	virtual organization	منظمة افتراضية
divisional structure	هيكل الشعب	network organization	تنظيم الشبكة
team structure	هيكل الفريق	learning organization	منظمة تعليمية
matrix structure	هيكل المصفوفة		
project structure	بنية المشروع		