Organizational Structure and Design (Organizing)
Designing Organizational Structure

**Organizational Structure** - the formal arrangement of jobs within an organization.
Designing Organizations

Organizational design provides a framework of how a group of people gets the job done.

Jobs
Roles and Responsibilities

Interest
Knowledge and skills.
The Process of Organizing

1. IDENTIFICATION OF ACTIVITIES
2. GROUPING OF ACTIVITIES
3. ASSIGNMENT OF DUTIES
4. DELEGATION OF AUTHORITY
Contd...

<table>
<thead>
<tr>
<th>Differentiation</th>
<th>Integration</th>
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<tbody>
<tr>
<td>Determining work</td>
<td>Differentiation</td>
</tr>
<tr>
<td>activities and</td>
<td>Integration</td>
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<tr>
<td>dividing up tasks</td>
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<tr>
<td>Grouping jobs and</td>
<td>(division of labor)</td>
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<tr>
<td>employees</td>
<td>(departmentalization)</td>
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<tr>
<td>Assigning authority</td>
<td>(delegation)</td>
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<tr>
<td>and responsibilities</td>
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Purpose of Organizing

- Establishes relationships among individuals, groups and departments
- Establishes formal line of authority
- Allocates resources
Six Key Elements of Organizational Design

- Work specialization
- Departmentalization
- Chain of command
- Span of control
- Centralization and decentralization
- Formalization
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 such as boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.
Economies and Diseconomies of Work Specialization
Departmentalization

- **Division of labour** creates **work specialization** which further needs coordination. This coordination is facilitated by **grouping specialists** together in departments.

- **Departmentalization** is an aspect of organizational design that includes the subdivision of a business into units based on their function or other criteria.
# Departmentalization by Type

<table>
<thead>
<tr>
<th>Departmentalization Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional</td>
<td>Based on the primary functions performed</td>
</tr>
<tr>
<td>Product</td>
<td>Based on the goods/services produced or sold</td>
</tr>
<tr>
<td>Process</td>
<td>Based on the production process used</td>
</tr>
<tr>
<td>Customer</td>
<td>Based on the primary type of customer served</td>
</tr>
<tr>
<td>Geographic</td>
<td>Based on the geographic segmentation of organizational units</td>
</tr>
</tbody>
</table>
Departmentalization contd..

Functional Departmentalization

- **Plant Manager**
  - Manager engineering
  - Manager Accounting
  - Manager manufacturing
  - Manager HR

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
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</thead>
<tbody>
<tr>
<td>• Efficiencies from putting together similar specialties and people with common skills, knowledge and orientations</td>
<td>• Poor communication across functional areas</td>
</tr>
<tr>
<td>• Coordination within functional area</td>
<td>• Limited view of organizational goals</td>
</tr>
<tr>
<td>• In-depth specialization</td>
<td></td>
</tr>
</tbody>
</table>
Departmentalization contd..

Product Departmentalization

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Allows specialization in particular products and services</td>
<td>• Duplication of function</td>
</tr>
<tr>
<td>• Managers can become experts in their industry</td>
<td>• Limited view of organizational goals</td>
</tr>
<tr>
<td>• Closer to customers</td>
<td></td>
</tr>
</tbody>
</table>
Departmentalization contd..

Geographical Departmentalization

- Vice President for Sales
  - Sales Director
    - Western Region
  - Sales Director
    - Southern Region
  - Sales Director
    - Midwestern Region
  - Sales Director
    - Eastern Region

<table>
<thead>
<tr>
<th>Positive</th>
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</tr>
</thead>
<tbody>
<tr>
<td>- More effective and efficient handling of specific regional issues that arise</td>
<td>- Duplication of function</td>
</tr>
<tr>
<td>- Serve needs of unique geographic markets better</td>
<td>- Can feel isolated from other organizational areas</td>
</tr>
</tbody>
</table>
Departmentalization contd..

Process Departmentalization

- **State motor vehicle office**
  - Motor vehicles division
  - Licensing department
  - Treasury department

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• More efficient flow of work activities</td>
<td>• can only be used with certain types of products</td>
</tr>
</tbody>
</table>
Departmentalization contd..

Customer Departmentalization

- Manager consumers account
- Manager large corporation account
- Manager software developers account
- Manager small business account

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
</table>
| Customers need and problems can be met by specialists | Duplication of functions
| | Limited view of organizational goals |
Chain of Command (cont.)

• **Chain of Command** - the continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization—clarifies who reports to whom.

• **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 subordinates a manager can effectively and efficiently direct
## Span of Control

### Comparison of span-of-control

<table>
<thead>
<tr>
<th>Narrow Span</th>
<th>Broad Span</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close supervision &amp; directed control.</td>
<td>Overloaded supervisors, loss of control.</td>
</tr>
<tr>
<td>Many levels of management, high cost of management staff.</td>
<td>Low management overhead, better operational cost and profit margins.</td>
</tr>
<tr>
<td>Less independence and decision authority for subordinates.</td>
<td>Encourages empowerment through delegation of authority and decision making.</td>
</tr>
<tr>
<td>Large distance between top management &amp; bottom staff. Poor executive communication and visibility.</td>
<td>Employees have better communication with the top management.</td>
</tr>
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</table>
Factors Influencing Width of Span of Control

- Skills and abilities of the manager
- Employee characteristics
- 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
Centralization & Decentralization

• Centralized decision making
  ▫ Concentration of power/authority
  ▫ Slow response time
  ▫ Stakeholder’s satisfaction ??

• Decentralized decision making
  ▫ Delegation of Power
  ▫ Involvement
# Centralization & 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 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.

## 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 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.

  - Highly formalized jobs offer little discretion over what is to be done.

  - Low formalization means fewer constraints on how employees do their work.
Mechanistic Versus Organic Organizations

**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

- Structural decisions are influenced by:
  - Overall strategy of the organization
  - Size of the organization
  - Technology use employed by the organization
  - Degree of environmental uncertainty
Contingency Factors (cont.)

• **Strategy and Structure**
  ▫ Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change.

• **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
Contingency Factors (cont.)

- **Size and Structure**
  - As an organization grows larger, its structure tends to change from organic to mechanistic with increased specialization, departmentalization, centralization, and rules/regulations.
Contingency Factors (cont.)

• 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
Contingency Factors (cont.)

- 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.
Traditional Designs

- Simple structure
  - Low departmentalization, wide spans of control, centralized authority, little formalization
Traditional Designs

- **Functional structure**
  - Departmentalization by function
  - Operations, finance, marketing, human resources, and product research and development
Traditional Designs

- **Divisional structure**
  - Composed of separate business units or divisions with limited autonomy under the coordination and control of the parent corporation
Matrix Organizational Structure

- The reporting relationships are set up as a grid, or **matrix**, rather than in the traditional hierarchy. In other words, employees have dual reporting relationships - generally to both a functional manager and a product manager.
Traditional Organizational Designs

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); 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 the 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.
Strategic Business Units
Strategic Business Units

- Define Opportunity
- Perform Customer Needs Assessment
- Define Market's Size
- Determine Overhead and Cost Structure
- Define Gross Profit and Net Profit

Strategic Business Unit