

Chapter 10: Designing Organizational Structure

Defining Organizational Structure

- Organizational Structure

- The formal arrangement of jobs within an organization.

- Organizational Design

- A process involving decisions about six key elements:

- ❖ Work specialization
 - ❖ Departmentalization
 - ❖ Chain of command
 - ❖ Span of control
 - ❖ Centralization and decentralization
 - ❖ Formalization

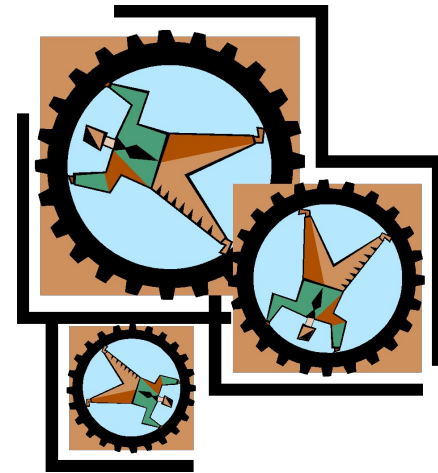
Exhibit 10–1 Purposes of Organizing

- **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

- **Functional**

- Grouping jobs by functions performed

- **Product**

- Grouping jobs by product line

- **Geographical**

- Grouping jobs on the basis of territory or geography

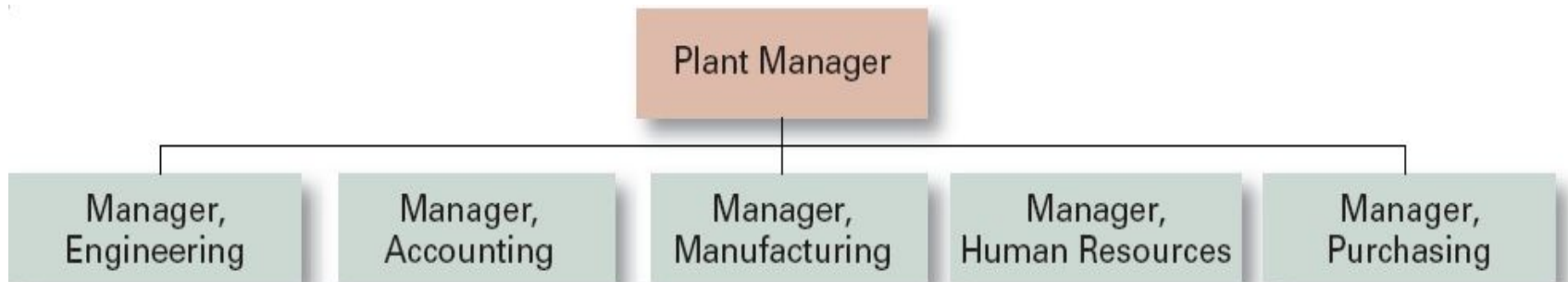
- **Process**

- Grouping jobs on the basis of product or customer flow

- **Customer**

- Grouping jobs by type of customer and needs

Exhibit 10–3 Functional Departmentalization



- **Advantages**

- **Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations**
- **Coordination within functional area**
- **In-depth specialization**

- **Disadvantages**

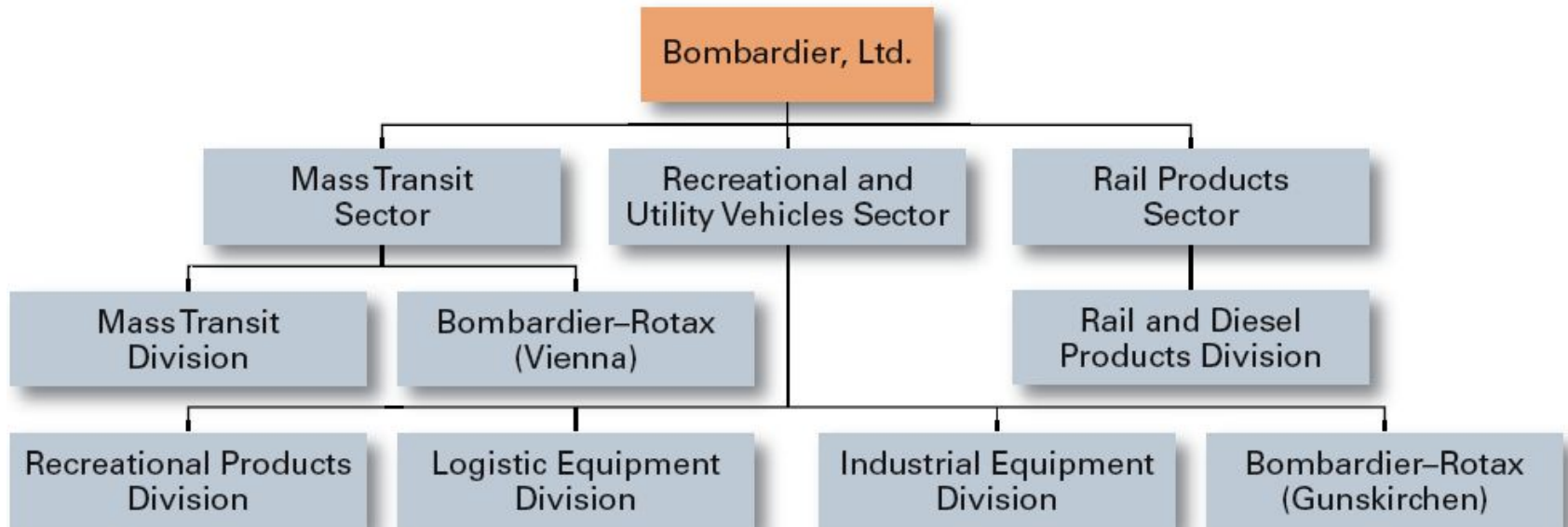
- **Poor communication across functional areas**
- **Limited view of organizational goals**

Exhibit 10–3 (cont'd) Geographical Departmentalization



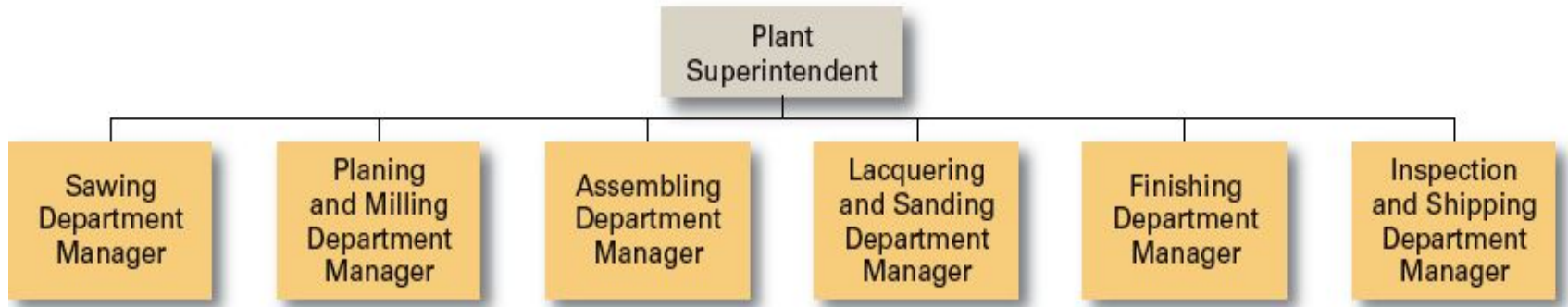
- **Advantages**
 - More effective and efficient handling of specific regional issues that arise
 - Serve needs of unique geographic markets better
- **Disadvantages**
 - Duplication of functions
 - Can feel isolated from other organizational areas

Exhibit 10–3 (cont'd) Product Departmentalization



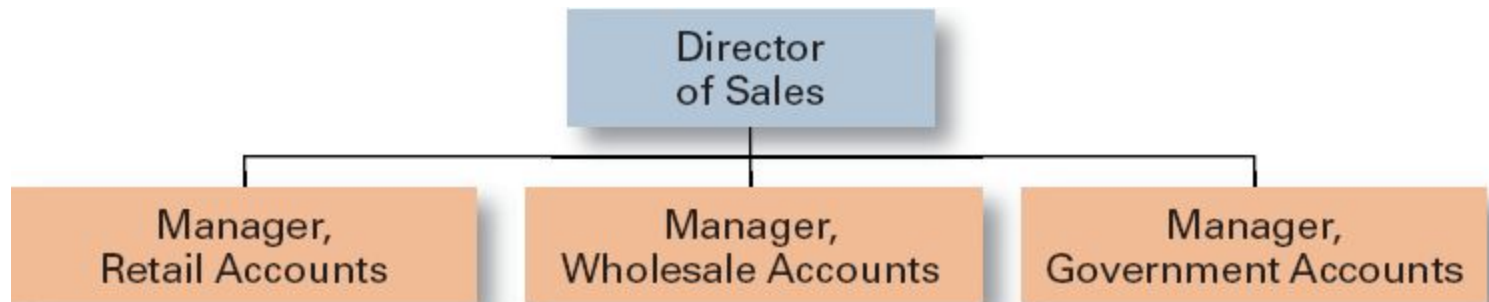
- + Allows specialization in particular products and services
- + Managers can become experts in their industry
- + Closer to customers
- Duplication of functions
- Limited view of organizational goals

Exhibit 10–3 (cont'd) Process Departmentalization



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

Exhibit 10–3 (cont'd) Customer Departmentalization



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

Organization Structure (cont'd)

- 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 who.



Organization Structure (cont'd)

- 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 of tasks
 - ❖ Complexity of tasks
 - ❖ Physical proximity of subordinates
 - ❖ Standardization of tasks

Exhibit 10–3 Contrasting Spans of Control

Members at Each Level		
(Highest)	Assuming Span of 4	Assuming Span of 8
	1	1
2	4	8
	16	64
4	64	512
	256	4,096
6	1,024	
	4,096	
(Lowest)		
	Span of 4: Employees: = 4,096 Managers (level 1–6) = 1,365	Span of 8: Employees: = 4,096 Managers (level 1–4) = 585

Organization Structure (cont'd)

- Centralization

- The degree to which decision-making is concentrated at a single point in the organizations.
 - ❖ 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.

Organization Structure (cont'd)

- 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.

Organizational Design Decisions

- Mechanistic Organization

- A rigid and tightly controlled structure
 - ❖ High specialization
 - ❖ Rigid departmentalization
 - ❖ Narrow spans of control
 - ❖ High formalization
 - ❖ Limited information network (downward)
 - ❖ Low decision participation

- Organic Organization

- Highly flexible and adaptable structure
 - ❖ Non-standardized jobs
 - ❖ Fluid team-based structure
 - ❖ Little direct supervision
 - ❖ Minimal formal rules
 - ❖ Open communication network
 - ❖ Empowered employees