

# Organizational Structure



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**Management  
course material-  
Chapter 2.-  
page 13.-18.**

# Outline

- ❑ **Main definitions**
- ❑ **Basic characteristics of organizational structures**
- ❑ **Main organizational structure types**
- ❑ **Factors affecting structure**



Please read this slideshow again  
at home!

Just go through it again, and  
everything will be clear.

# Definition of Management

Management is about

- planning,
  - organizing,
  - controlling, and
  - leading
- 
- the financial-, physical-, informational-, and human resources
  - in an **effective** and **efficient** way.



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# Organizing

*Organizing is the process of **assigning duties to personnel** and **coordinating employee efforts** in order to ensure **maximum efficiency**.*

- **Job design:** specialization, rotating jobs, job enrichment, job description
- **Resource allocation:** aligning tasks and people and other necessary resources
- **Coordination:** tools to make people work together, laid down rules, teamwork
- **Organizational structure:** based on the activities, knowledge and environment, thoughts of shareholders (shareholder vs stakeholder)

# Organizational Structure

- The **anatomy of the organization**, providing a foundation within which the organization functions.

As a framework it focuses on the **differentiation of positions, formulations of rules and procedures, and prescriptions of authority.**

- Organizational structure refers to **the pattern of roles, authority, and communication** that determines the coordination of the technology and people within an organization.

# Structural characteristics

- **Division of labor** (who does what?)

Function, product, customer...

One dimension / Multi-dimension

- **Authority** (chain of command)

authority, responsibility, decision making

One-line / Multi-line

- **Coordination** (how do we work together)

technocratic,  
structural,

Employee-oriented

- Secondary characteristics

Centralized / decentralized,  
Size of hierarchy



# Structural Characteristics of Organizations (1)

## Division of labor:

*dividing work into small components* so that the workers become specialists in their tasks. Can be based on:

- functions,
- products,
- regions (geographical areas), clients.



# Structural Characteristics of Organizations (1)

## Division of labor:

*dividing work into small components* so that the workers become specialists in their tasks. Can be :

If managers departmentalize using one/more basis:

- One-dimension: functional structure;
- Multi-dimension: divisional, matrix organizations.



# Structural Characteristics of Organizations (2)

**Authority- Chain of command:**  
the right to command.

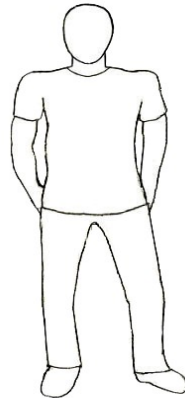
*It refers to **the right of individuals to make decisions without approval by higher management** and to demand obedience from others.*

- One-line: linear structure
- Multi-line: functional, matrix structures

# Structural Characteristics of Organizations (2)

**Authority:** the right to command.

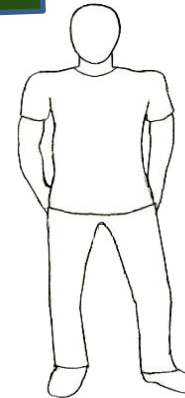
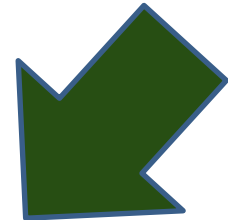
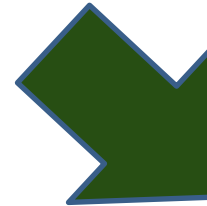
Production and  
Functional control do not  
come from different  
places



**One-line**

Production  
control (tasks,  
resources, etc)

Functional  
control  
(holiday,  
promotion,  
salary)



**Multi-line**

# Structural Characteristics of Organizations (3)

## Coordination:

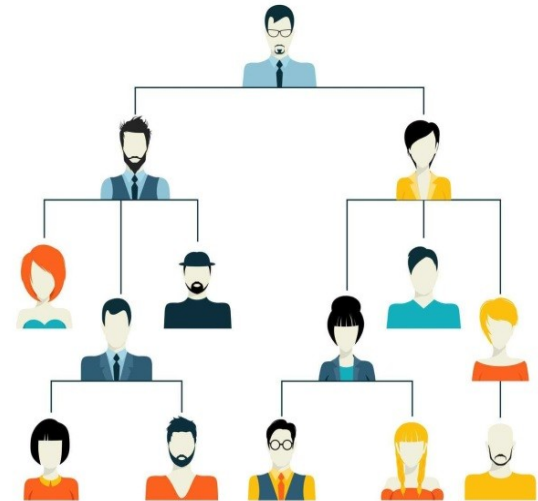
*the **synchronization** of human **efforts** of individuals and groups for the purpose of attaining organizational efficiency*

### Coordination tools :

- **Technocratic** – planning system, budgeting rules and sanctions;
- **Structural** – report system, teams, projects; **!size of hierarchy!** (flat – tall)

## Size of hierarchy- Span of control:

Determines levels of leadership and controlling intervals.



**Flat structure:** 4 or less levels, wide controlling interval (usually decentralized)

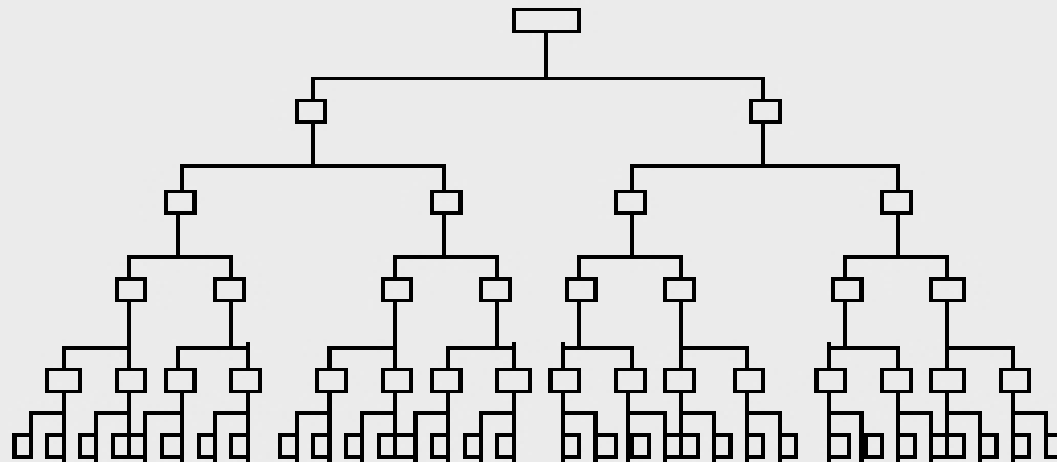
**Tall structure:** more than 4 levels, narrow controlling interval (usually centralized)

BUT: the flat organizations need a very strong manager! (e.g: Elon, Steve, etc)  
(Cooks spoil the broth.)

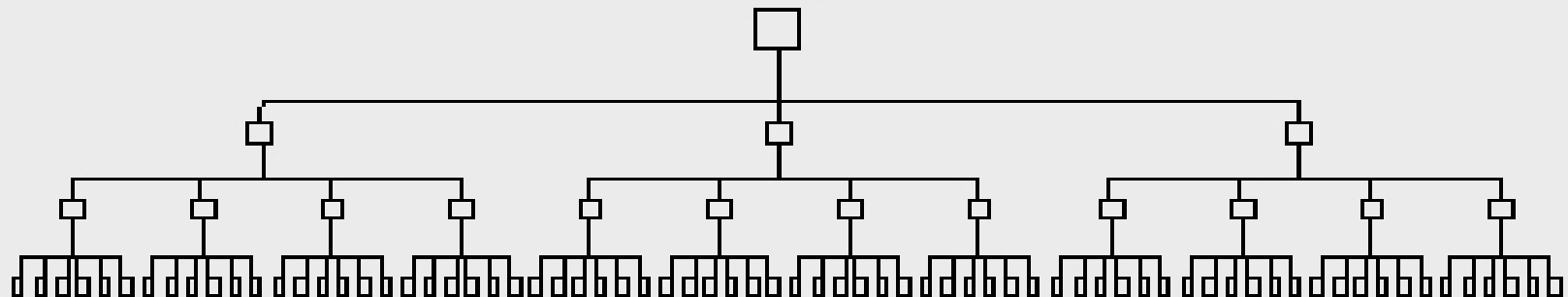
## Size of hierarchy- Span of control (examples)

### Exhibit 2: Flat vs. Tall Organizational Hierarchy

### Tall Organizational Structure



### Flat Organizational Structure



# Structural Characteristics of Organizations (3)

## Coordination:

*the **synchronization** of human **efforts** of individuals and groups for the purpose of attaining organizational efficiency*

### Coordination tools :

- **Technocratic** – planning system, budgeting rules and sanctions;
- **Structural** – report system, teams, projects; **!size of hierarchy!** (flat – tall)
- **Employee-oriented** (personalized) – individual/group motivation, education, problem solving (!)



# Centralized - decentralized

- Where do we call the shots?
- Subsidiary

# Structural characteristics

- **Division of labor** (who does what?)

Function, product, customer...

One dimension / Multi-dimension

- **Authority** (chain of command)

authority, responsibility, decision making

One-line / Multi-line

- **Coordination** (how do we work together)

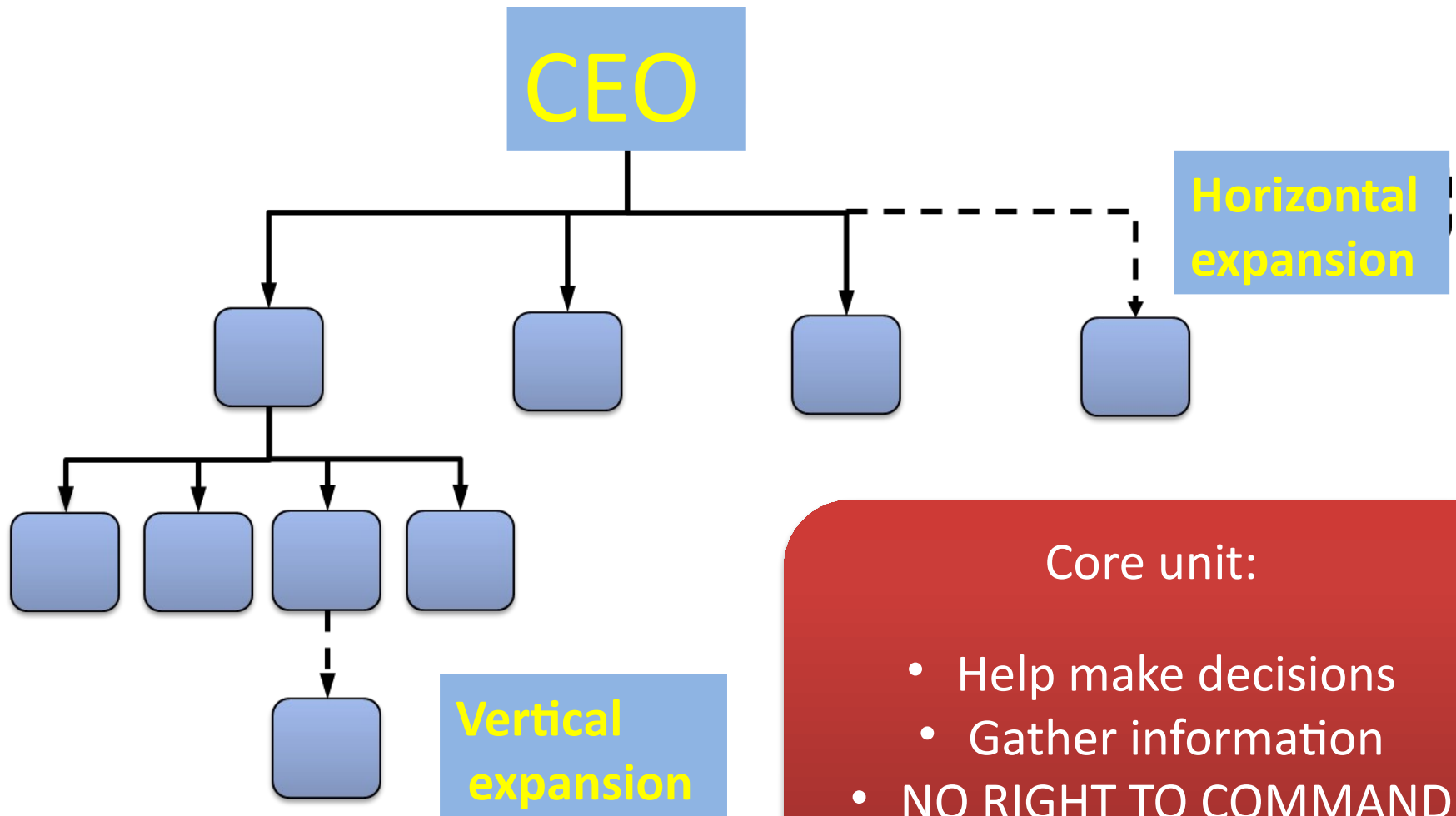
technocratic,  
structural,

Employee-oriented

- Secondary characteristics

Centralized / decentralized,  
Size of hierarchy

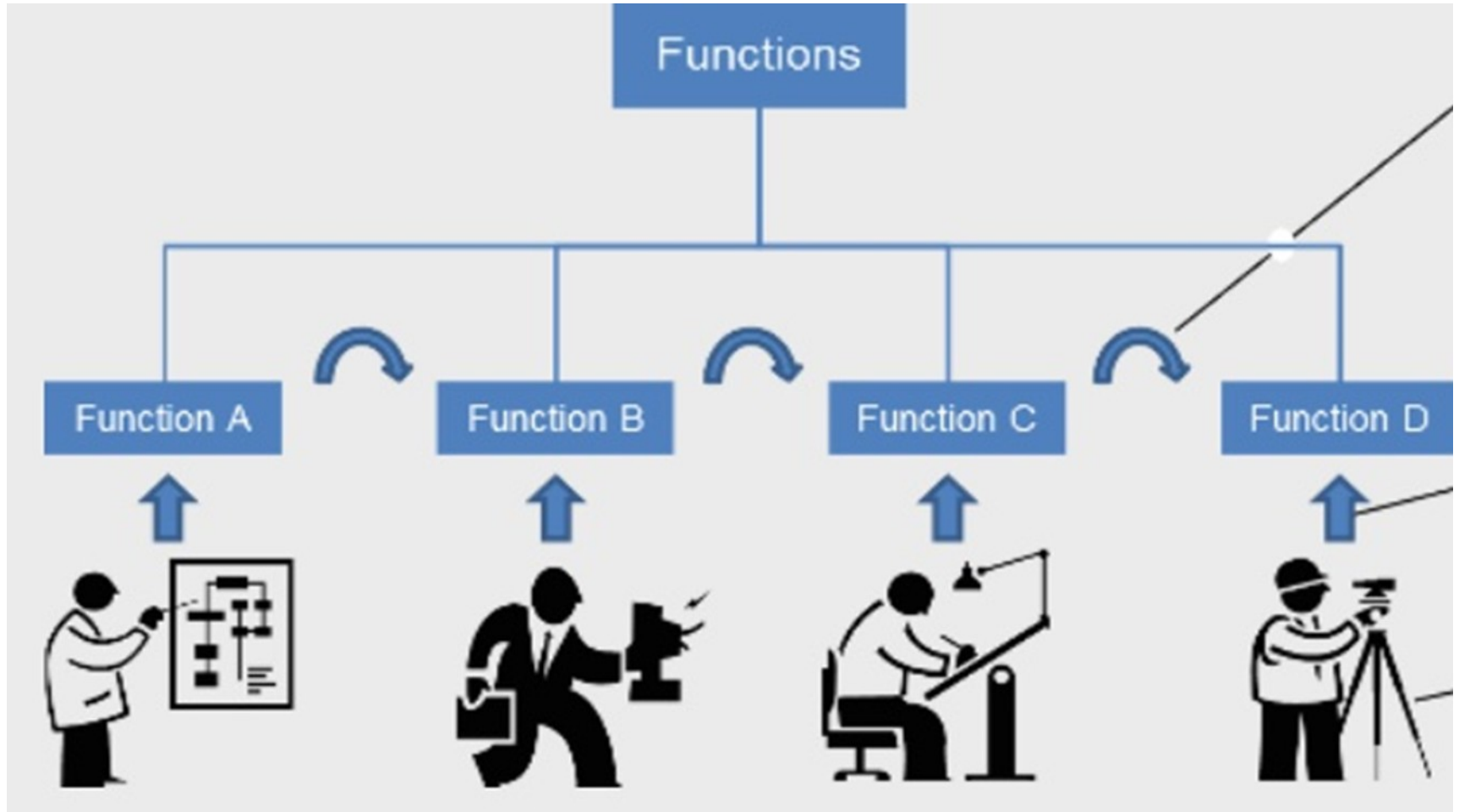
# Linear



# Core unit

- II Adolf Gustav, 1618-1648 (30 years war)
- Noticed that his generals and commanders were so busy with the next-next-next battle, that they did not have the time to create strategies to win the war.
- He gathered the best generals into a team, and they had only one task: to create strategies.

# Functional Form



# FUNCTIONAL STRUCTURE

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# Functional Form

- **Division of labor:** one-dimensional→according to functions,
- **Authority:** multi-line; decision making according to functions centralized,  
highly regulated decisions
- **Coordination:** technocratic tools→ vertically through the official way, horizontally on the same level of hierarchy, strong regulations
- **Advantages:** high efficiency, clear regulations, complicated tasks could be accomplished
- **Disadvantages:** slow decision making process, decisions are concentrated on the top of the hierarchy, decrease the ability of accommodation, can not use wide range of products, difficult to use in dynamic environment
- **Application:** stable environment, a narrow range of products

# Functional Form

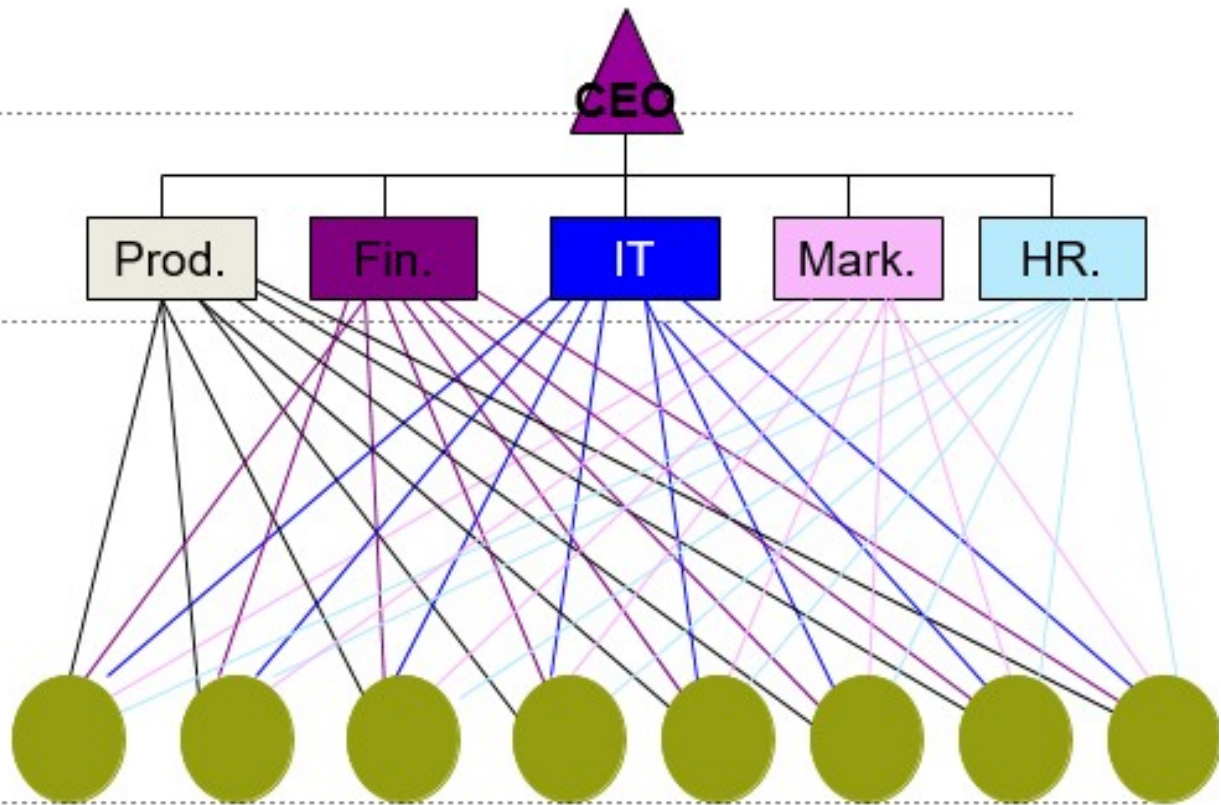
Level 1



Level 2

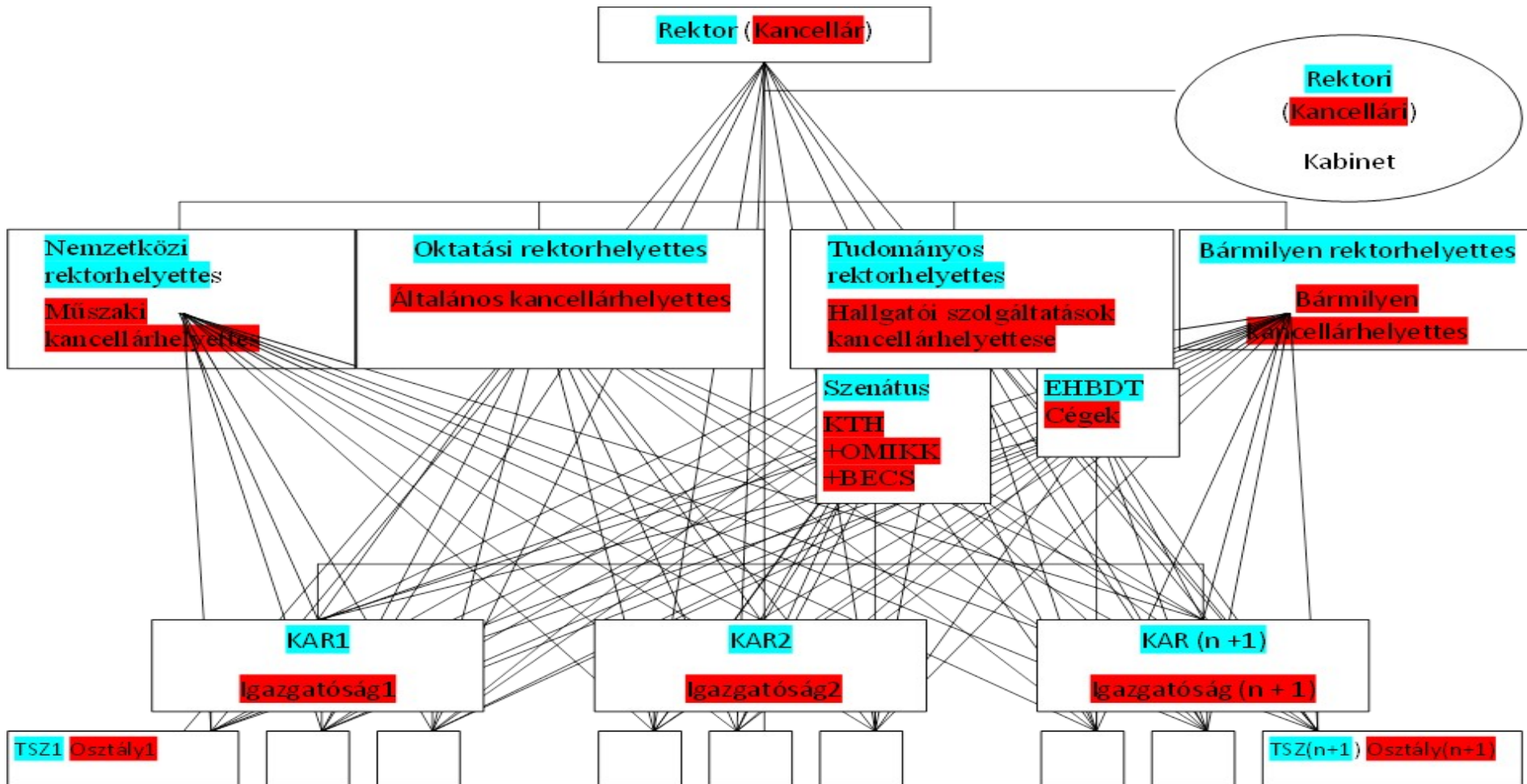


Level 3

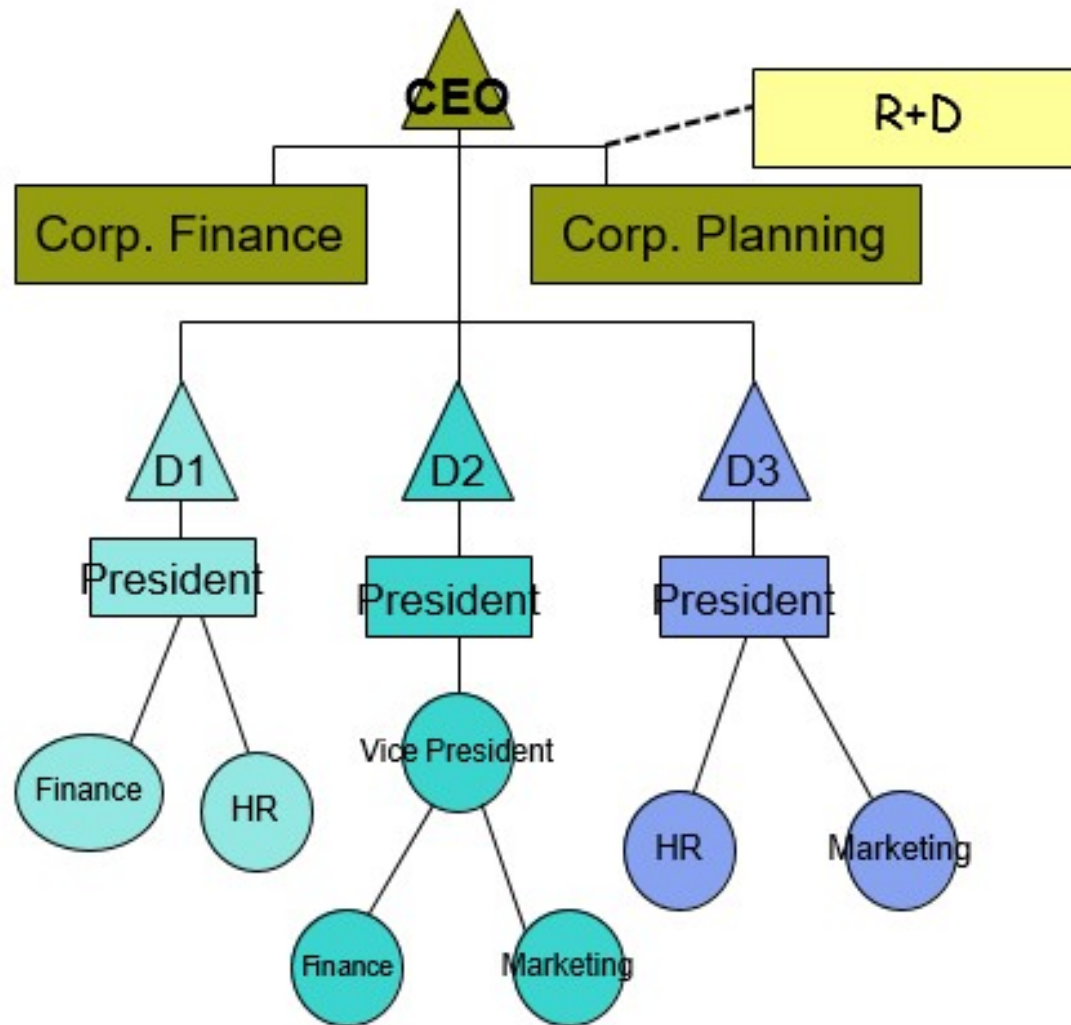




# Organizational structure of the University



# Divisional Form

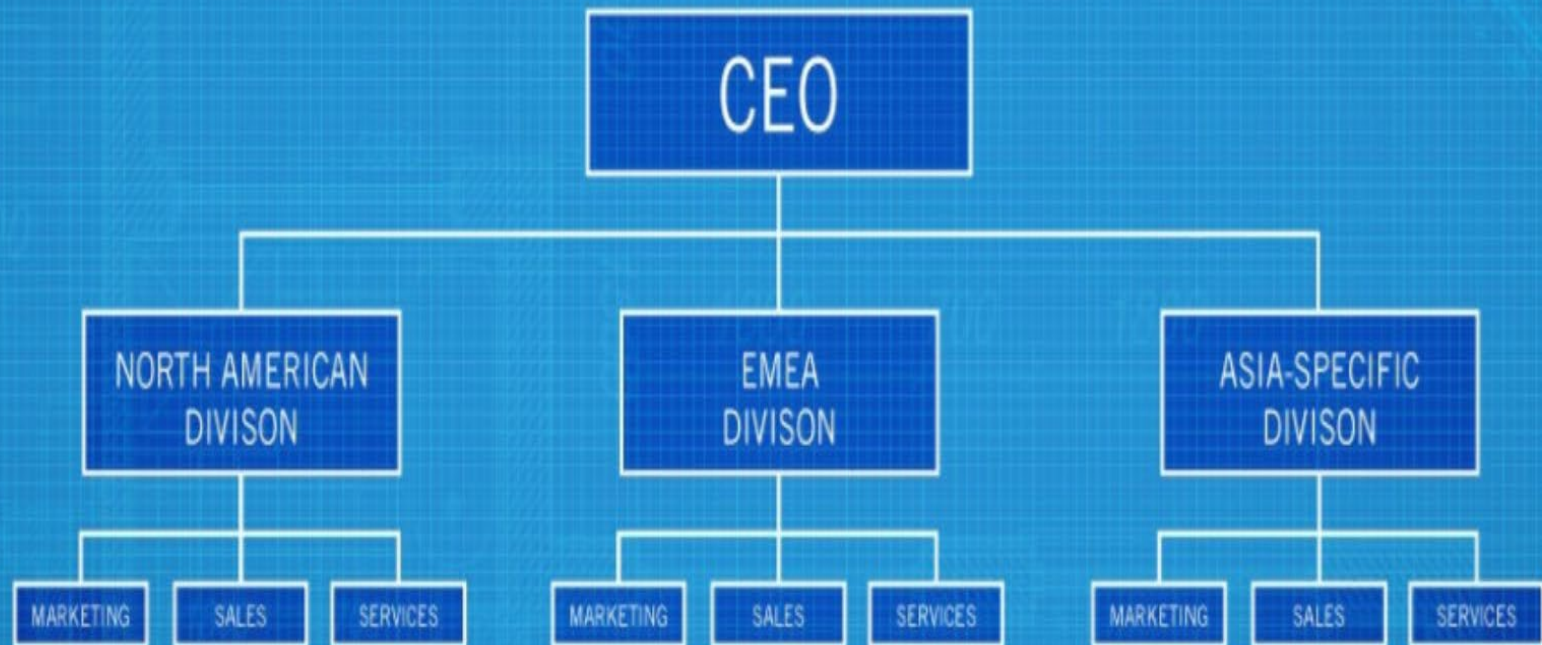


# Divisional Form

Divisions (formed and operating as a smaller company within the real company) enclose a complete set of functions, like having their own accounting, sales or HR. Divisions can be specified by product, market or geographic area too. The independence of divisions may vary. Based on this, we distinguish:

- **cost centers** (costs can be traced or segregated to the division and the head of a cost centre will be responsible for the costs only: not revenue or profits);
- **profit centers** (both costs and revenues are identified in the division and the head of the profit center will also be responsible for revenues, not just costs);
- **investment centers** (costs, revenues and also capital investment are identified in the division and the head of the investment center will be responsible for costs, revenues, and capital expenditure (all financial aspects))

# DIVISIONAL: GEOGRAPHICAL STRUCTURE

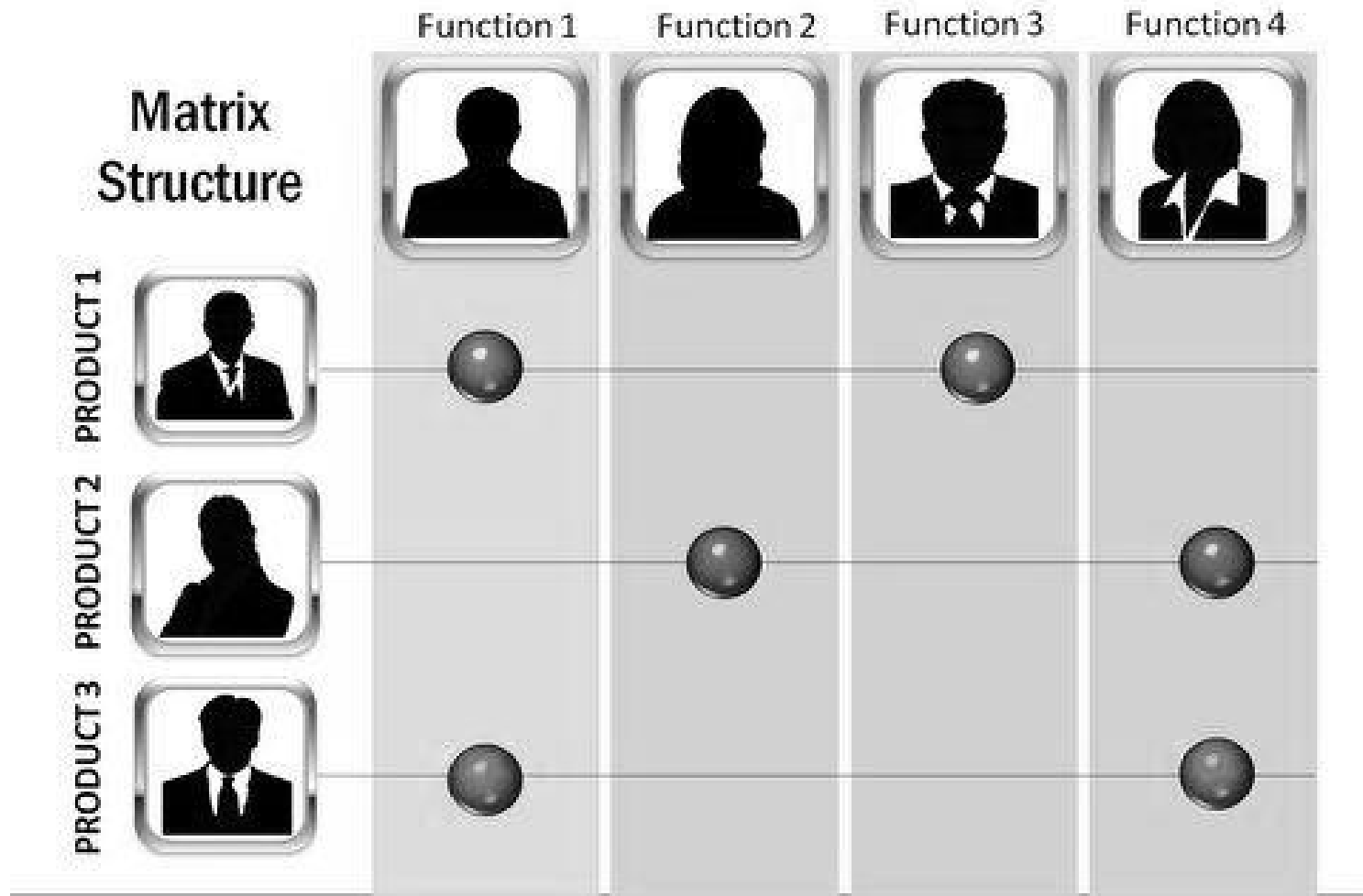


# Divisional Form

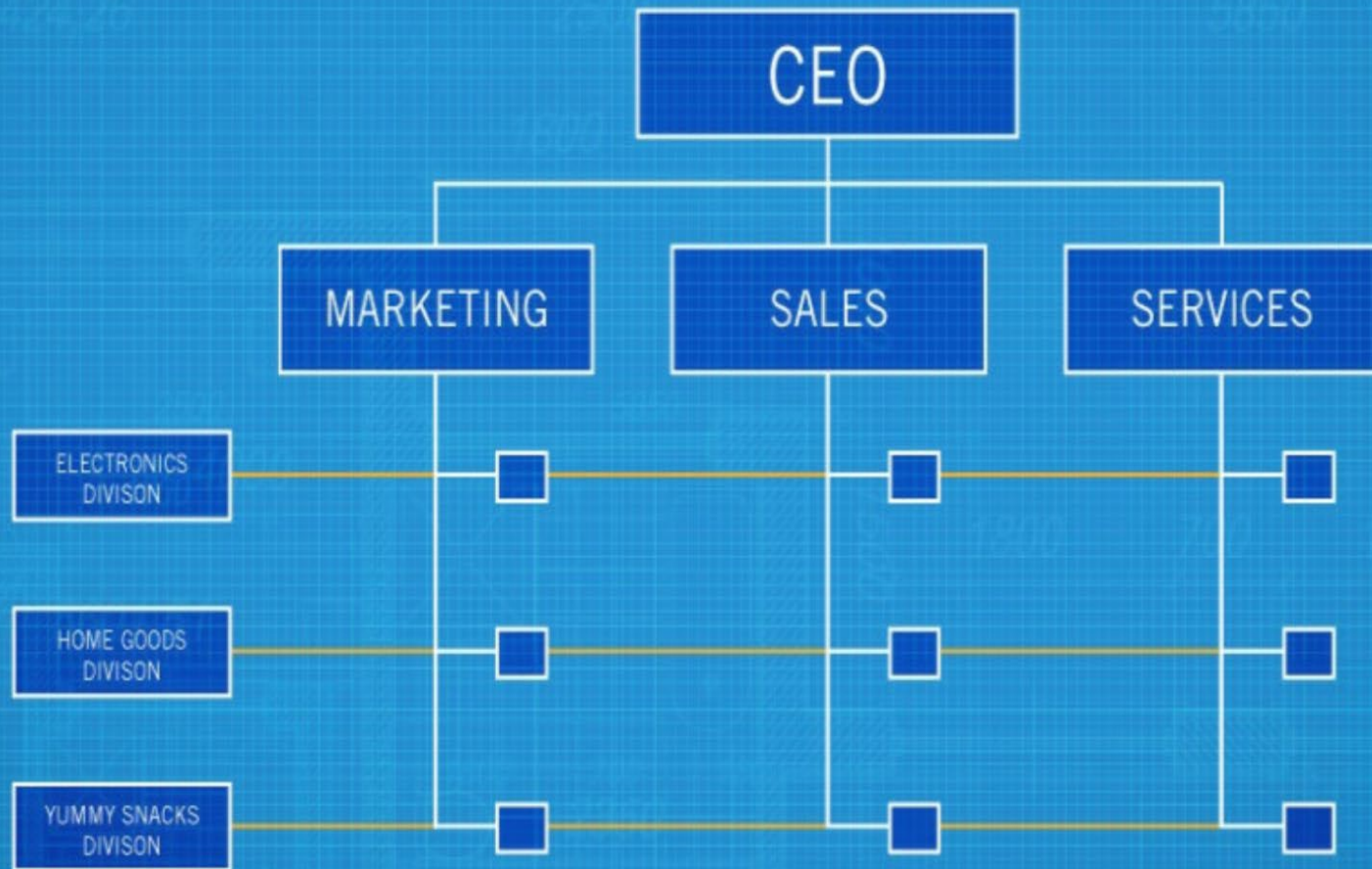
- **Division of labor:** multi-dimensional → according to products, customers or regions
- **Authority:** one- or multi-line → decentralized decisions between the central unit and the divisions, centralized within the divisions
- **Coordination:** technocratic tools; horizontally hardly among the divisions
- **Advantages:** big independency, motivation is important, strategic and operational tasks are separated
- **Disadvantages:** parallel existing functional organizations, increased number of staff, divisions became selfish
- **Application:** dynamic environment, a wide range of products



# Matrix Design



# MATRIX STRUCTURE

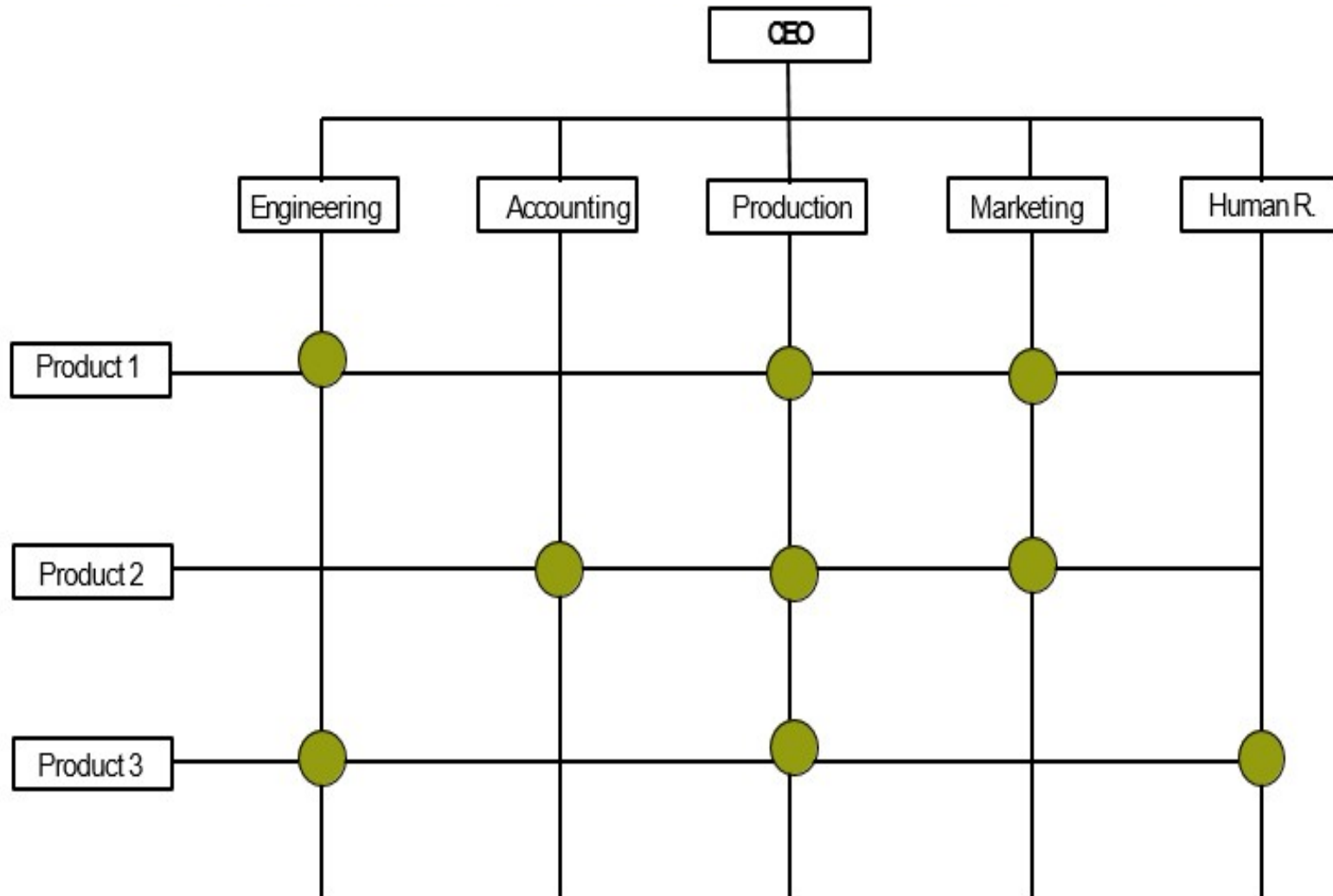


# Matrix Design

- **Division of labor:** multi-dimensional → horizontally functional (technical, sales, etc.), vertically products or projects
- **Authority:** multi-line; functional and project leaders making the decisions together, decentralized decisions, decisions are not highly regulated
- **Coordination:** employee-oriented tools; horizontally and vertically because of the structure
- **Advantages:** dynamic and flexible structure, good studying process at problem handlings, mixed structure, accommodate to the challenges
- **Disadvantages:** two-line management (possible competition among functional and productional manager), competition among the managers, nobody dares to take the responsibility for the decisions
- **Application:** dynamic environment, conflict management skills within the organization, at complex innovation claims



# Matrix Design



Structure type	Division of Labour	Authority	Coordination	Advantages	Disadvantages
Functional	one-dimensional (functions and tasks)	multi-line	technocratic tools (strong regulations)	high efficiency in production by well defined tasks	cannot produce wide range of products, difficult to use in dynamic environment
Divisional	multi-dimensional (products, regions or customers)	can be one or multi-line  ( strongly centralized decisions in divisions and decentralized between central unit and divisions)	technocratic tools (straight all company involved regulations)	big independency of the divisions, separated tasks within the company	increased number of staff,  risk of selfish divisions
Matrix	multi-dimensional (horizontally functional and vertically based on products at the same time)	multi-line (funcitonal and project leaders making decisions together)	employee-oriented tools	dynamic and flexible structure, great implementation of problem solving techniques and changes	possible competition among functional and productional manager, but little amount of taking responsibility

# Factors affecting structure

## 1. Environment



## 2. Production type



## 3. Strategy



# Production type



*the tools, techniques, which convert the raw material into a finished product*

## three groups of companies:

- **unique**, (organic (decentralized, adaptive)
- **mass**, (static structure (bureaucratic organic, decentralized, adaptive)
- **standardised** (organic (decentralized, adaptive)

## manufacturers

# Strategy

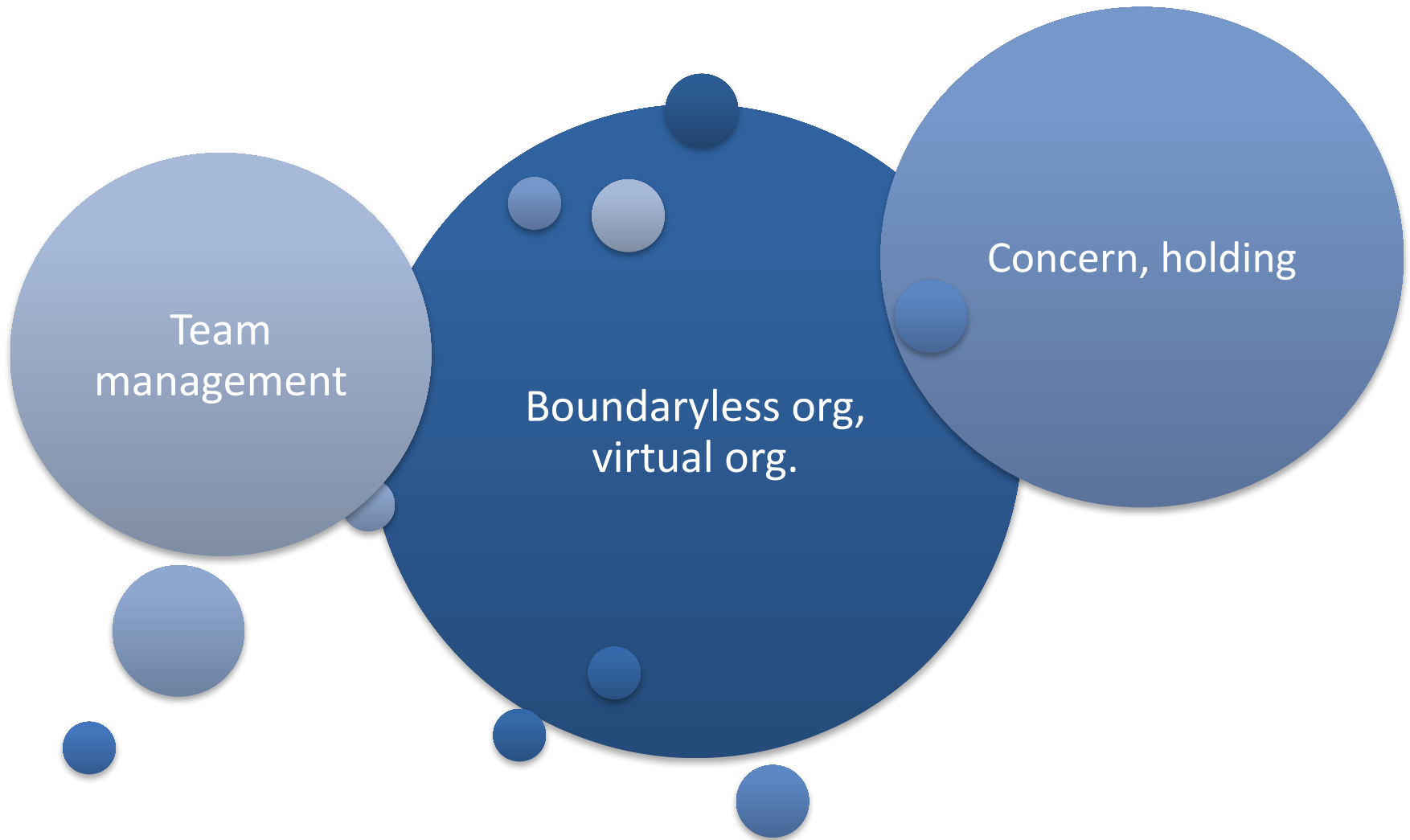


## Interaction between strategy and structure:

- Strategy defines structure
- The effect of the structure on the strategy is very weak

*Changes in strategy over the past decade have resulted in typical structural consequences. The product diversification, decentralization and growth strategies indicated redesign (in our case flatter organization)*

# Modern org. structures

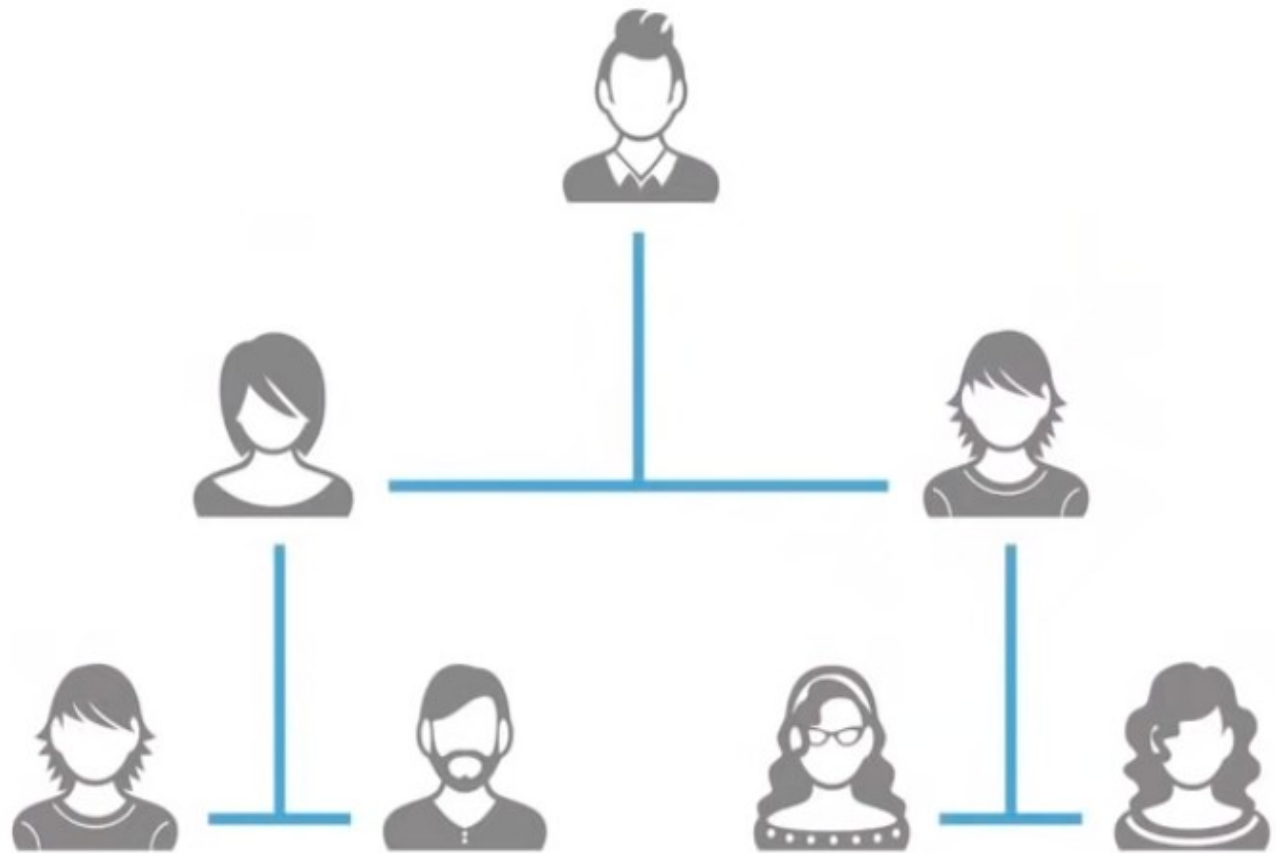


- **Boundaryless org.:** (Jack Welch, ceo of GE) eliminate vertical and horizontal boundaries as well: better interaction within the company, and with the environment.
  - **Virtual org.:** just electronic communication. Everything is in the virtual space (financial serv. Provider, marketing agency, etc) (If we are manufacturers, it can not happen. Or...? Industry 4.0, fully automated production line)

- **Concern**: merger of several legally independent companies into a single economic entity under unified management. (advocacy, lobbying, R&D cheaper and more efficient, aligned product range)
- **Holding**: subtype of concern: just the management of the financial assets is jointed



# What We're Used to...



# How Power Really Works...

