

Principles of Management

Organization Structure and Design



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LEARNING O U T L I N E

After reading this you'll learn

- ❑ **Definitions :**
Organizing , Organization Structure, Organizational Design
- ❑ **Purpose of Organizing**
- ❑ **Six Key Elements in Organizational Design**

The Horizontal Dimension of Organizations

Work Specialization , Departmentalization

The Vertical Dimension of Organizations :

Chain of Command , Span of Control , Centralization and Decentralization , Formalization

☐ **Mechanistic and Organic Structures**

- **Contrast mechanistic and organic structures.**

☐ **Contingency Factors that Affecting Organization's Structural Choice**

❑ **Organizational Structure and Design**

- **Organizing:**

Arranging and structuring work to accomplish the organization's goals.

➤ It's an important process during which managers design an organization's structure.

- **Organizational Structure**

The formal arrangement of jobs within an organization.

■ **Organizational Design**

Organizational design is the creation or change of an organization's structure.

It's process that involves decisions about six key elements:

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

□ Purpose 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 (use) organizational resources.

❑ Six Key Elements in Organizational Design

1- WORK SPECIALIZATION:

- Dividing work activities into separate job tasks. *OR* The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.
- Individual employees “specialize” in doing part of an activity rather than the entire activity in order to increase work output.
- It’s also known as division of labor.

Example:

McDonald's uses high work specialization to get its products made and delivered to customers efficiently and quickly— that's why it's called “fast” food.

- One person takes orders at the drive-through window,
- Others cook and assemble the hamburgers,
- Another works the fryer, another gets the drinks,
- Another bags orders, and so forth.

Such single-minded focus on maximizing efficiency has contributed to increasing productivity.

An other Example Could be :

Wilson Sporting Goods factory, make footballs , To meet daily output goals, the workers specialize in job tasks such as molding, stitching and sewing, lacing, and so forth .. So it's dividing work activities into separate job tasks.

2- DEPARTMENTALIZATION

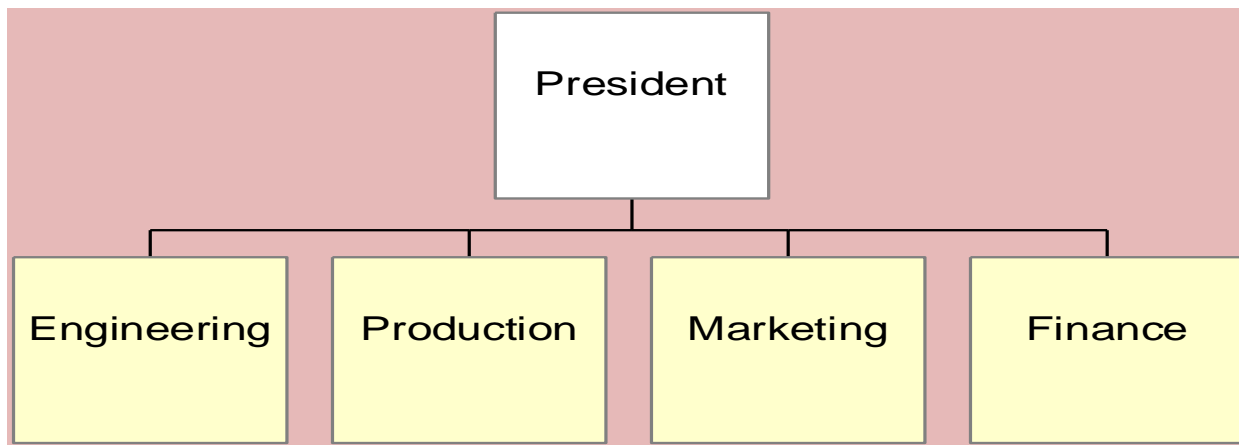
- **Dividing an organization into different departments, which perform tasks according to the departments' specializations in the organization.**
- **“The basis by which jobs are grouped together”**
- **How jobs are grouped together is called departmentalization**

DEPARTMENTALIZATION BY TYPES

Five common forms of departmentalization are used, although an organization may develop its own unique classification.

1- Functional Departmentalization :

“It group jobs according to functions performed”



- **Advantages**

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

- **Disadvantages**

- Limited view of organizational goals

2. Product Departmentalization

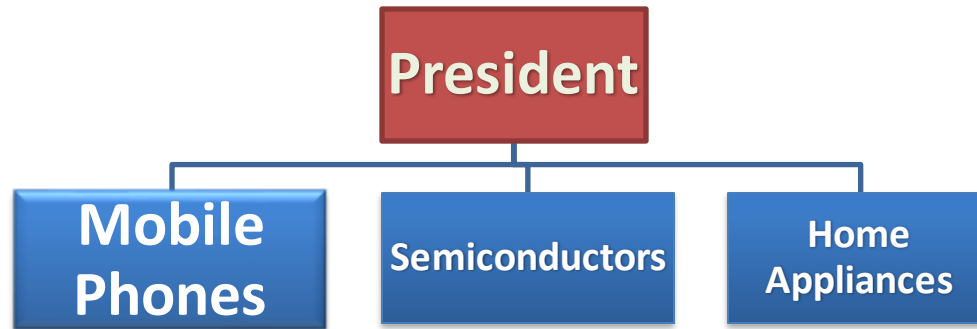
“It groups jobs by product line”

Companies may have multiple products.

All common activities required to produce and market a product are grouped together.

For example, Samsung manufactures Phones, T.V., Tablet etc.

Product Departmentalization has become important for large complex organization.



Advantages

- Allows specialization in particular products and services.
- Managers can become experts in their industry.
- Closer to customers.

Disadvantage

- Duplication of functions. (each product, they have same functional department like marketing, production etc.)
- Limited view of organizational goals.

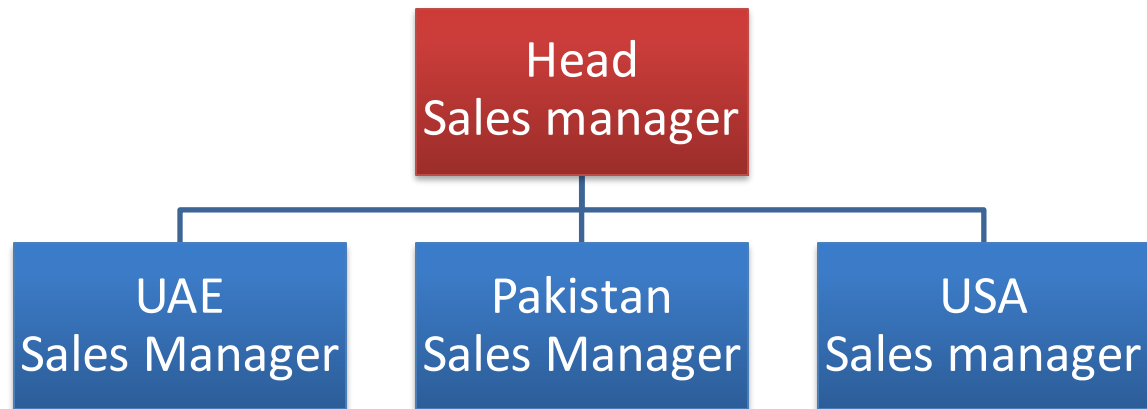
3 –Geographical Departmentalization

“Grouping jobs on the basis of territory or geographical region”

- Geographical departmentalization is an arrangement of departments according to geographic area or territory.
- It divides works well for international business.
- Even each part or areas have different requirement or interests.

For example, marketing a product in Pakistan may have different requirements than marketing the same product in USA.

- **The Salesman appointed for each territory report to their regional or territorial manager**
- **These manager reports to the sales manager who is head of the sales department.**



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**

4- Process Departmentalization

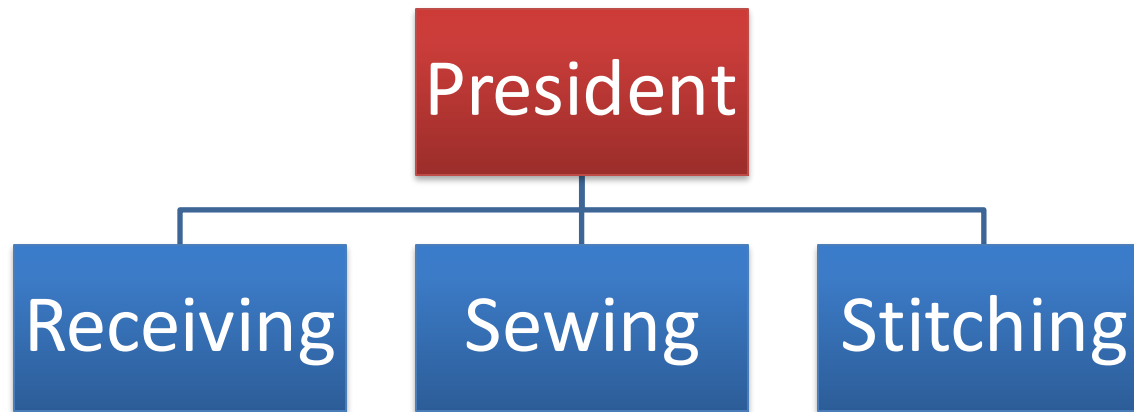
“Grouping jobs on the basis of product or customer flow”

- Departmentalization is done on the basis of processing

For Instance if we take example of manufacturing Organization departmentalization can be done depending on the types of machines required. The similar types of machines can be kept at one place e.g. all sewing, all stitching machines, all shapers etc...

Other Examples: NADRA , Licensing

- Activities are grouped into separate sections, each kept at one place.



Advantage:

- More efficient flow of work activities.

Disadvantage:

- Can only be used with certain types of products.

5-Customer Departmentalization

“Grouping jobs by type of customer and needs”

- Customer divisions are divisions set up to service particular types of clients or customers .
- Some companies or organization divides the different units based on customers or markets.
- For example, any PC manufacturing company like HP has different divisions like Consumer PC, Commercial PC, and Workstations etc.
So the would have different departments for different types of customers .
Another Example: Nokia previously had three divisions

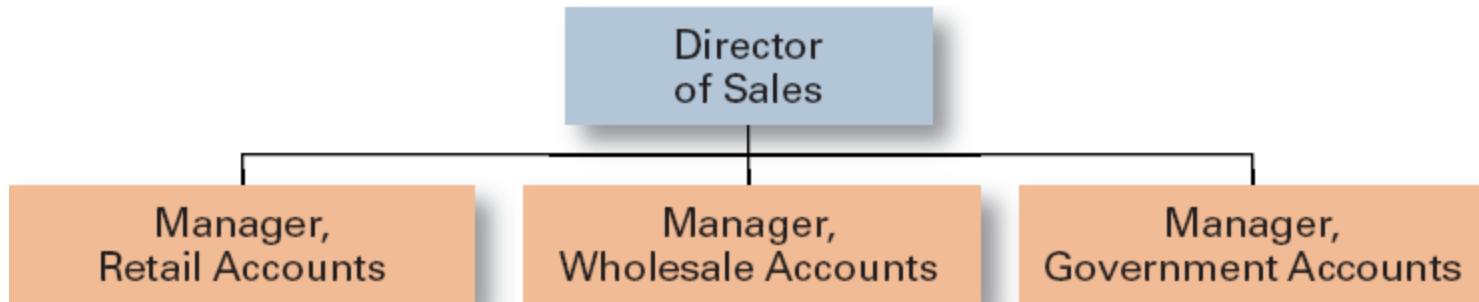
like Consumer Phone, Business Phone & Smart Phone. Recently Nokia had changed their departmentalization from customer to process base. Now there are only two divisions : Hardware and Software base departmentalization. They will also sell their software to other mobile company

Advantages :

- Customers' needs and problems can be met by specialists

Disadvantages:

- Duplication of functions.
- Limited view of organizational goals.



3- 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.

Managers need to consider it when organizing work because it helps employees with questions such as “Who do I report to?” and “Who do I go to if I have a problem?”

1. Authority :

It refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it.

Authority empowers the superior to make a subordinate to do the work.

2. Responsibility :

A manager assign work to employees & these employees has to perform the assigned duties. This obligation is known as responsibility.

3. Unity of Command :

It states that a person should report to only one manager, without unity of command it creates confusion & problems.

4- SPAN OF CONTROL

- The number of employees who can be effectively and efficiently supervised by a manager.
- No single manager should have more people looking to him for controlling & guidance .

Smaller span : fewer employees supervised by a manager , creates a tall vertical organizational structure.

Larger span: greater number of employees supervised, creates a flat organizational structure

Example:

Suppose, you have 4000 workers in Organization. If you divide those workers in 4 groups then you need 1000 Managers. So this span is small and you need 1000 managers -will take large amount of money in terms of Annual Salary of Managers.

But if we divide those workers in 8 groups then you need 500 Managers. So this span is large and you need 500 managers and will save company's money and workers will get proper supervision.

5- CENTRALIZATION AND DECENTRALIZATION

Centralization : *is the degree to which decision making takes place at upper levels of the organization .*

- Top managers make all the decisions and lower-level employees simply carry out those orders.
- It also depends on situation.

Factors that influence Centralization , so organization will be more centralized if :

1. Environment is stable.
2. Lower-level managers are not as capable or experienced.
3. Decisions are relatively minor.

4- Company is large.

5- Lower-level managers do not want a say in decisions.

Example: Dictatorship could be taken as example of centralized structure

Decentralization: *is the degree to which decision making takes place at lower-level.*

- Lower-level employees provide input or actually make decisions. It Empower employees.

Employee Empowerment

Giving employees more authority (power) to make decisions.

Factors that influence Decentralization , so organization will be more centralized if :

1. Environment is complex, uncertain.
2. Lower-level managers are capable or experienced at making decisions.
- 3- Company is geographically dispersed.
- 4- Lower-level managers want a voice in decisions.

Example: Democracy could be taken as example of decentralization.

6- 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 rules, and clearly defined procedures covering work processes.
- Management tendency toward Centralization.

Advantages :

1. Increase in production rate.
2. Quality of product is better.

Disadvantages :

1. Workers may lose interest due to repetition of jobs.
2. Workers may not get change for job enlargement.
3. Work becomes boredom & chances

❑ Mechanistic and Organic Structures

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
- chain-of-command principle

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

❑ **Contingency Factors that Affecting Organization's Structural Choice**

Managers having the responsibility for organizational design, study the contingency factors that affect organizational design and then design a structure to fit these contingency factors.

An appropriate structure is depends on four contingency variables:

1. Strategy
2. Size
3. Technology
4. Environmental uncertainty

- **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.

3- Technology and Structure

Organizations adapt their structures to their technology.

Routine technology = mechanistic organizations

Non-routine technology = organic organizations

4- 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.

Terms to Know

- organizing
- organizational structure
- organizational design
- work specialization
- departmentalization
- functional departmentalization
- product departmentalization
- geographical departmentalization
- process departmentalization
- customer departmentalization
- chain of command
- authority
- responsibility
- unity of command
- span of control
- centralization
- decentralization
- employee empowerment
- formalization
- mechanistic organization
- organic organization