

# ORGANIZATION

**IPE 493: Industrial Management**

# What is Organization?

**Organization** is a pattern of relationship-many interwoven, simultaneous relationships through which people, under the direction of managers, pursue their common goals.

**Organizational structure** is a framework that managers devise for dividing, organizing and coordinating the activities of members of an organization.

## **Organization Charts**

- ▣ Clarify structure and to show employees where they fit into a firm's operations
- ▣ Show the chain of command, or reporting relationships, within a company

# Determinants of Organizational Structure



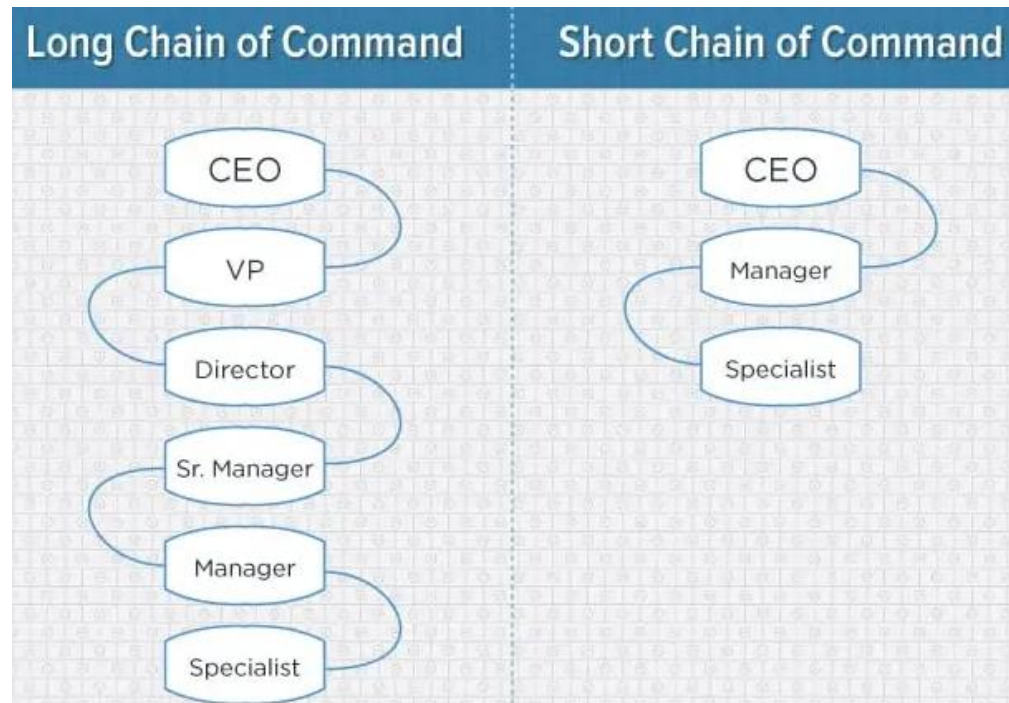
# Organizational Design Decisions

- Managers decide how to divide the overall task into successively smaller jobs
- Managers decide the bases by which to group the jobs
- Managers decide the appropriate size of the group reporting to each superior
- Managers distribute authority among the jobs

# Six building blocks of organizational structure

## 1. Chain of command

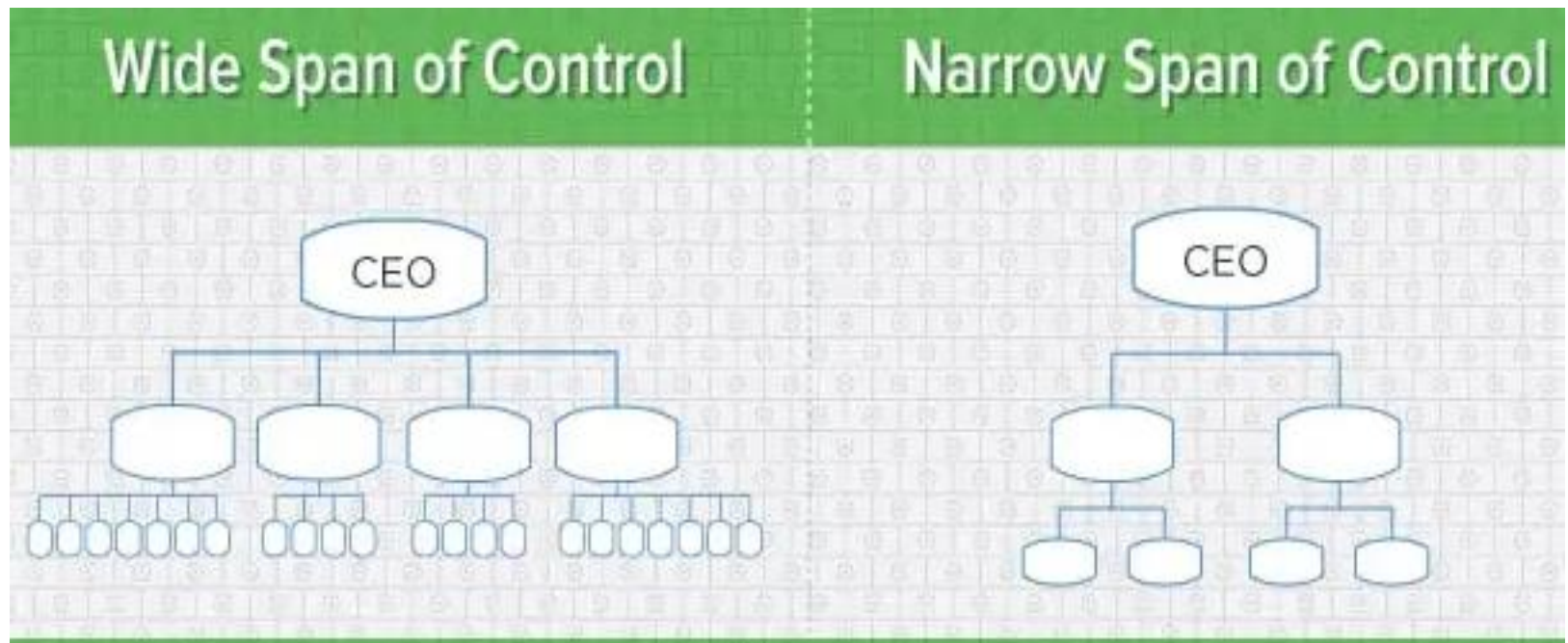
One of the most basic elements of an organizational structure, chain of command is exactly what it sounds like: an unbroken line of authority that extends from the top of the organization (e.g. a CEO) all the way down to the bottom. Chain of command clarifies who reports to whom within the organization.



# Six building blocks of organizational structure

## 2. Span of Control

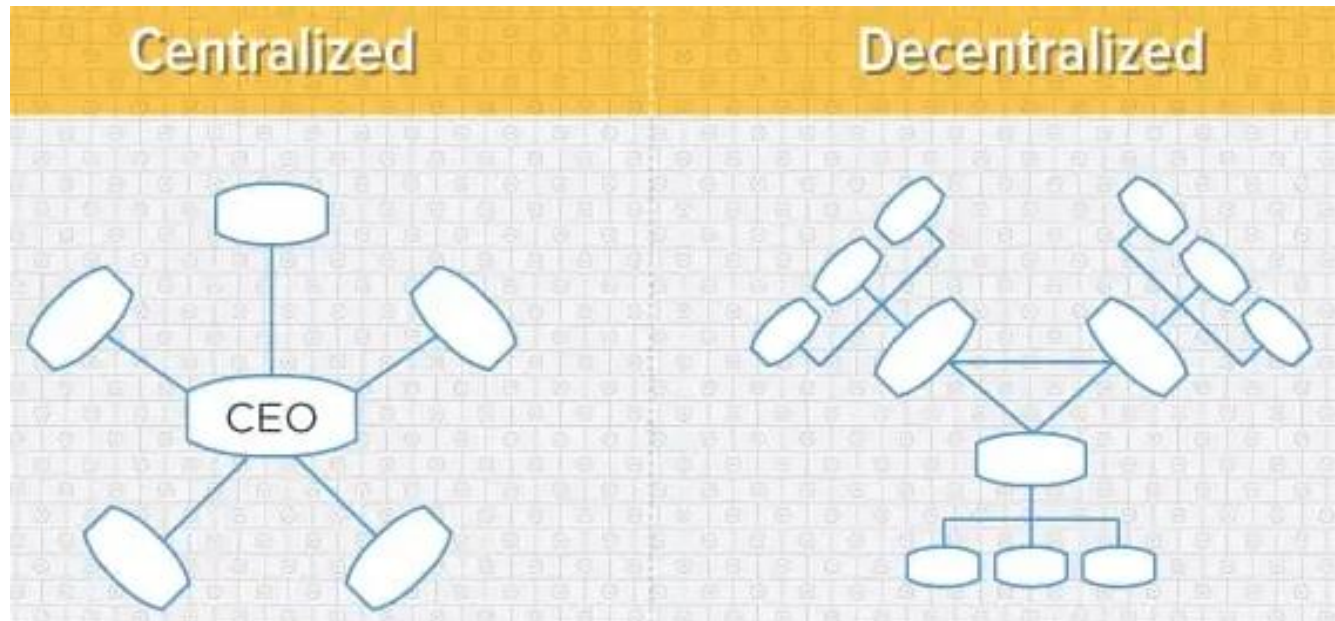
Span of control refers to the number of subordinates a superior can effectively manage. The higher the ratio of subordinates to superiors, the wider the span of control.



# Six building blocks of organizational structure

## 3. Centralization

- Who makes the decisions in an organization? If decision-making power is concentrated at a single point, the organizational structure is centralized. If decision-making power is spread out, the structure is decentralized.
- While a decentralized structure promotes a more democratic decision-making process, it can also slow down the decision-making process, making it harder for organizations to operate efficiently.

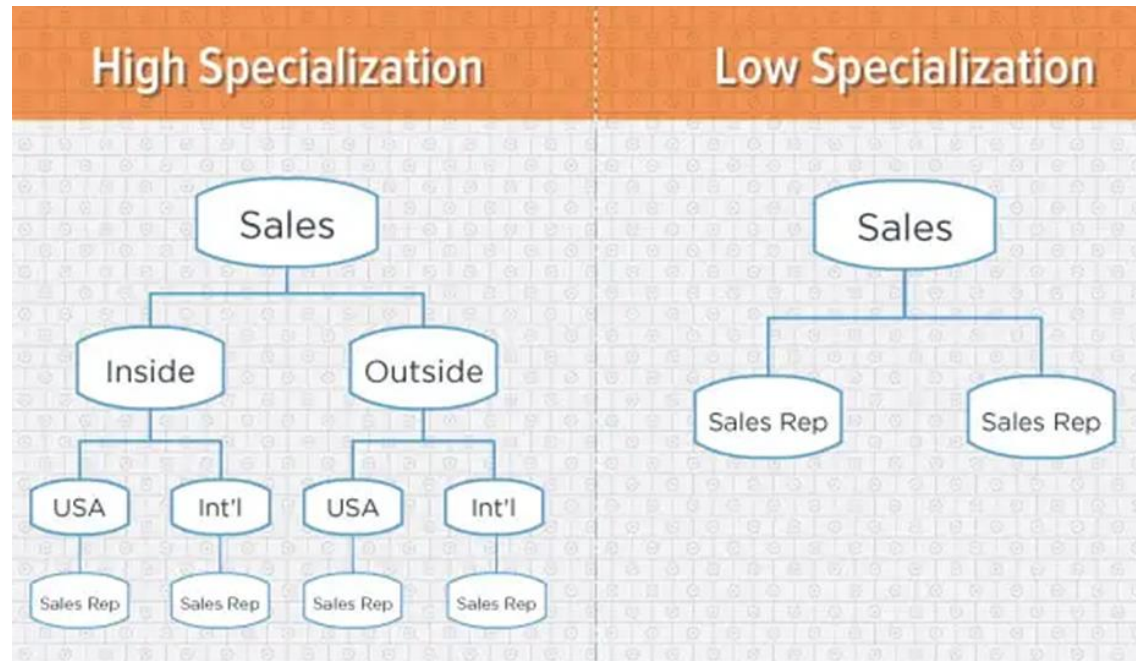


# Six building blocks of organizational structure

## 4. Specialization

- Also known as division of labor, specialization is the degree to which activities or tasks in an organization are broken down and divided into individual jobs.
- High specialization can be beneficial for an organization, as it allows employees to become “masters” in specific areas, increasing their productivity as a result.

□ However, low specialization allows for more flexibility, as employees can more easily tackle a broader array of tasks (as opposed to being specialized for a single task).





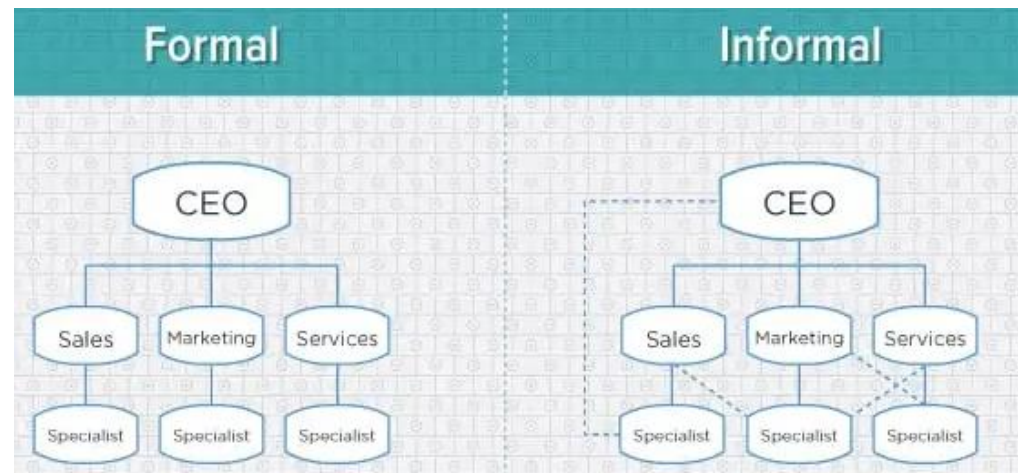
# Six building blocks of organizational structure

## 5. Formalization

Similar to specialization, formalization deals with the how jobs are structured within an organization. The key differentiator here is that formalization also takes into account the degree to which an employee's tasks and activities are governed by rules, procedures, and other mechanisms.

A formal organizational structure seeks to separate the individual from the role or position, as the role or position stays the same regardless of who's holding it.

An informal organization, on the other hand, places more value on the individual. It allows for the evolution of a role or position based on an individual's preferences, skill set, etc., and places less importance on what team or department that individual is part of.

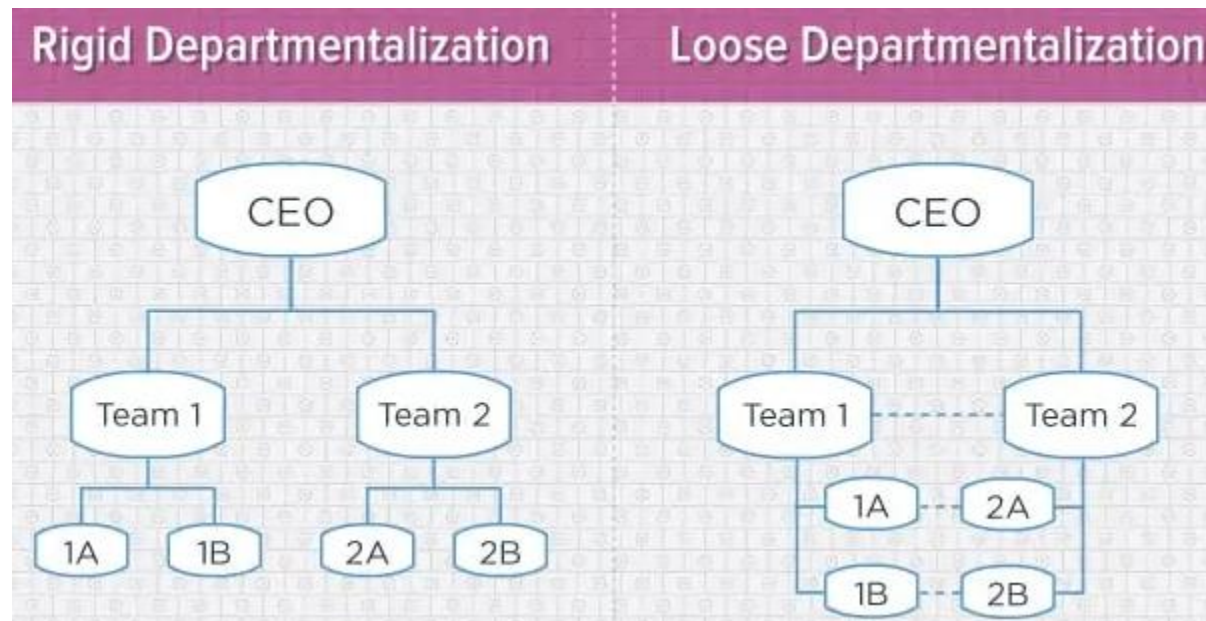


# Six building blocks of organizational structure

## 5. Departmentalization

Departmentalization refers to the process of grouping jobs together in order to coordinate common activities and tasks.

If an organization has rigid departmentalization, each department or team is highly autonomous, and there is little (or no) interaction between different teams. In contrast, loose departmentalization entails that teams have more freedom to interact and collaborate.



# Organizational Structure

- An organizational structure details how certain activities are delegated toward achieving an organization's goal. It outlines an employee's role and various responsibilities within a company. The more authority employees have, the higher up they'll be on the organizational structure. In addition, the more organized a structure is, the more efficiently a company operates.

# Types of Organizational Structure

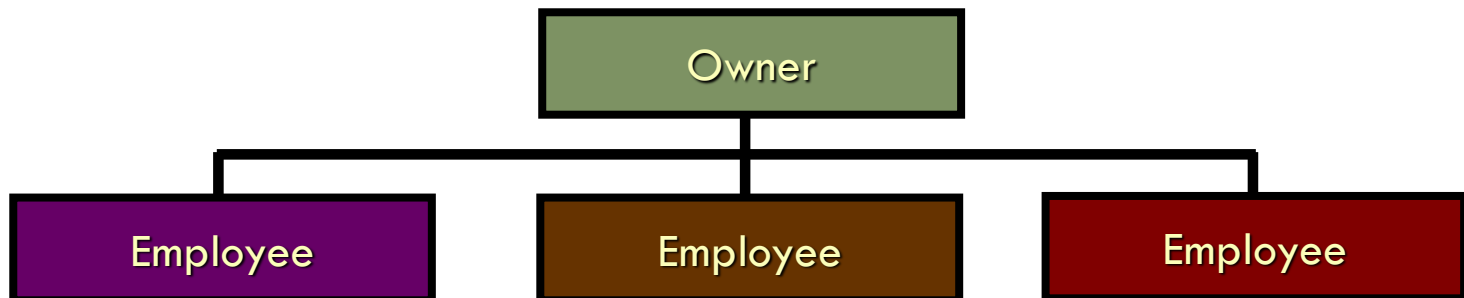
- ❑ **Simple structure-** An organization that is low in specialization and formalization but high in centralization
- ❑ **Functional structure-**An organization in which similar and related occupational specialties are grouped together
- ❑ **Divisional structure-**An organization made up of self-contained units
- ❑ **Matrix structure-**An organization in which specialists from functional departments are assigned to work on one or more projects led by a project manager
- ❑ **Team-based structure-**An organization that consists entirely of work groups or teams

# Simple Structure

10-13

An organizational form in which the owner-manager makes most of the decisions and controls activities, and the staff serve as an extension of the top executive.

Few employees reporting directly to one person (owner)



## Advantages

- Cost-efficient
- Highly informal
- Centralized decision making
- Little specialization

## Disadvantages

- Employees may not understand their responsibilities
- May take advantage of lack of regulation
- Leadership confusion

# Functional Structure

In a functional structure, organizations are divided into **specialized groups** with specific roles and duties. A functional structure is also known as a **bureaucratic organizational** structure and is commonly found in **small to medium-sized** businesses. Most people in the workforce have experience working in this type of organizational structure. For example, many companies divide their organization into various departments such as **finance, marketing and human resources**. Each of these departments then has a manager who oversees it. This manager is then supervised by an administrator or executive who oversees multiple departments.



# Functional organization

## Advantages of Functional organization:

- ❑ It is **simple, obvious, and logical**.
- ❑ It promotes **efficiency**.
- ❑ Promotes **skill specialization**.
- ❑ Reduces **coordination** problems within the functions.
- ❑ Enhances **career development** within departments.
- ❑ **Superiors & subordinates** share common expertise.
- ❑ Promotes **high-quality technical problem solving**.
- ❑ Greater sense of **team work**.
- ❑ It can facilitate the top manager's control.

# Functional organization

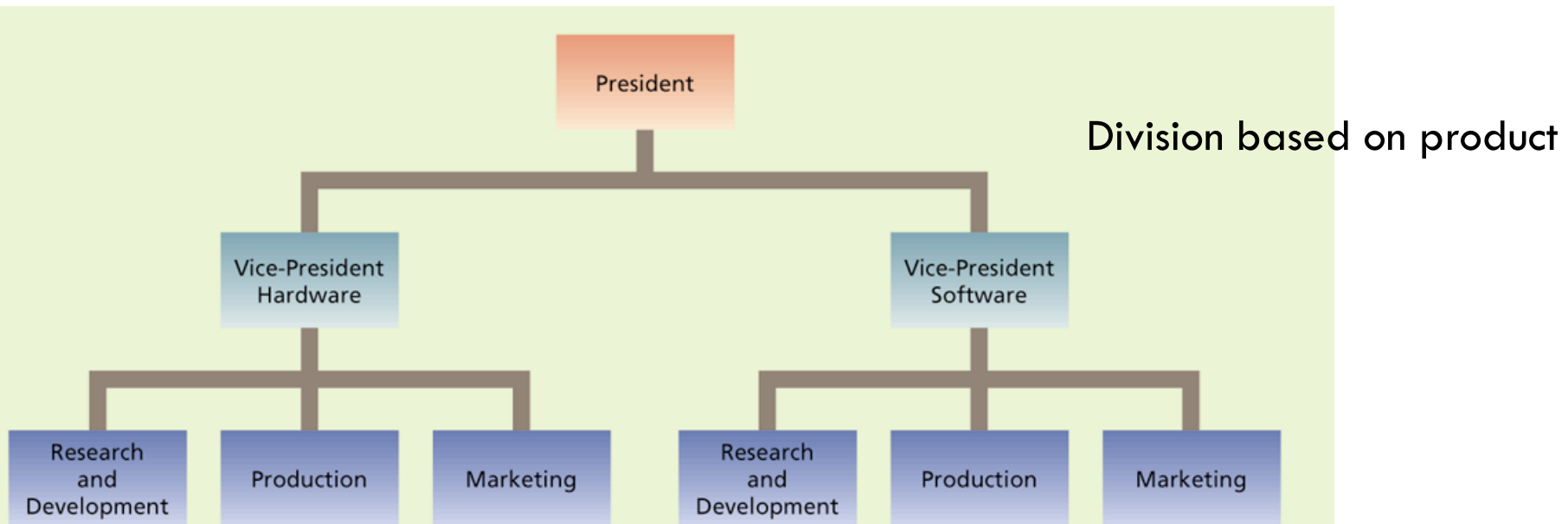
## Disadvantages of Functional organization

- ❑ Emphasizes routine tasks
- ❑ Reduces **communication between departments**
- ❑ Can make **scheduling difficult across departments**
- ❑ Focuses on **departmental as opposed to organizational issues**
- ❑ Develops **managers who are experts in narrow fields**
- ❑ It **increases the workload** on the executive to whom the functional department heads report.
- ❑ **Harmful competition** between departments.
- ❑ If organization grows
  - ❑ **Difficult to get quick decision**
  - ❑ Harder to **determine accountability and judge performance**

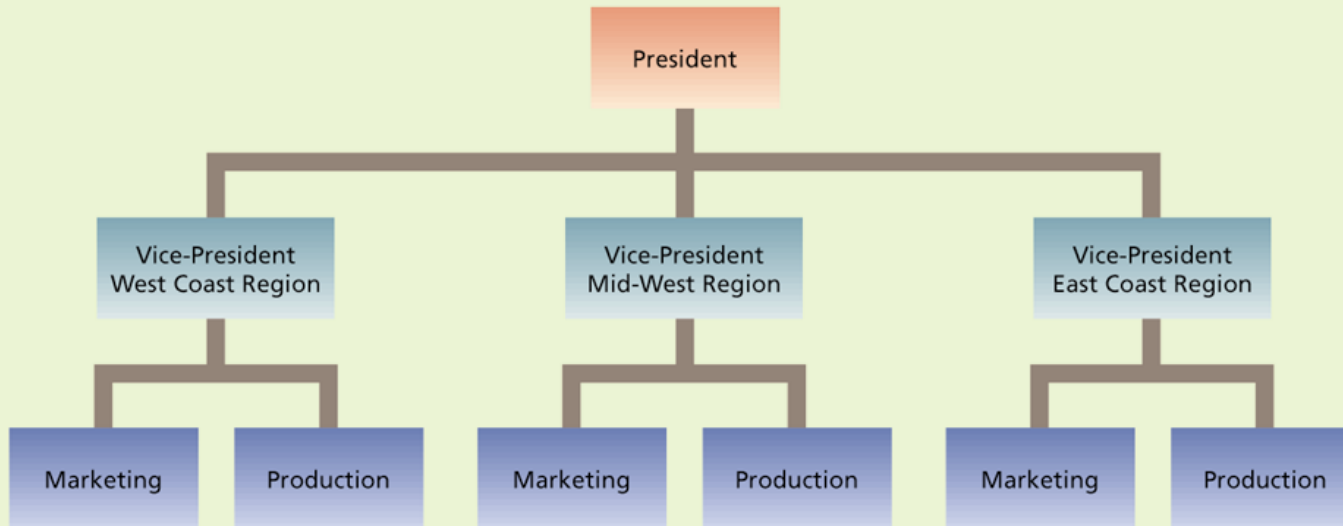


# Divisional Organization

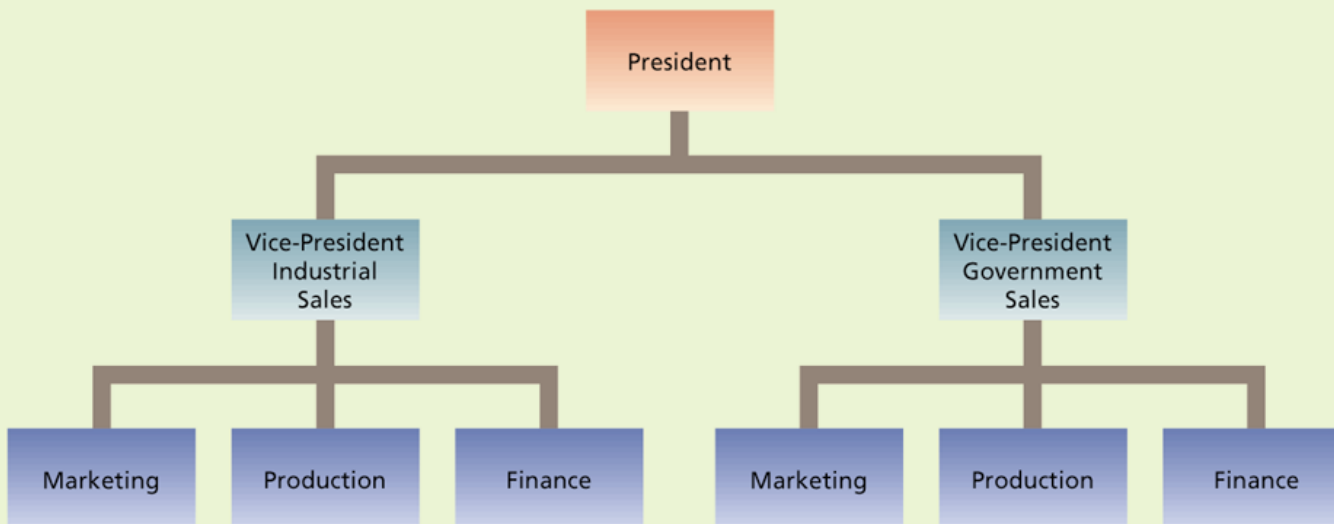
- ❑ An organizational form in which **products, projects, or product markets** are grouped internally. Also called **multidivisional** structure or M-Form
- ❑ When departmentalization becomes too complex to coordinate, top management creates semiautonomous divisions.
- ❑ In each division managers and employee **design, produce and market** their product.
- ❑ The division resembles a separate business and division head is accountable for profit or loss



# Divisional Organization



Division  
based on  
Geographic  
area



Division  
based on  
Customer

# Divisional Organization

## Divisional Organization Advantages

- ❑ The **product or service gets the single-minded attention** of its own general manager and unit,
- ❑ its customers may get better, more responsive service.
- ❑ More **centralized** leadership.
- ❑ It's easier to **judge performance**.
- ❑ Development of general management talent is enhanced
- ❑ It reduces the burden for the company's CEO.
- ❑ Separation of strategic and operating control
- ❑ Quick response to important changes in external environment
- ❑ Minimal problems of sharing resources across functional departments

# Divisional Organization

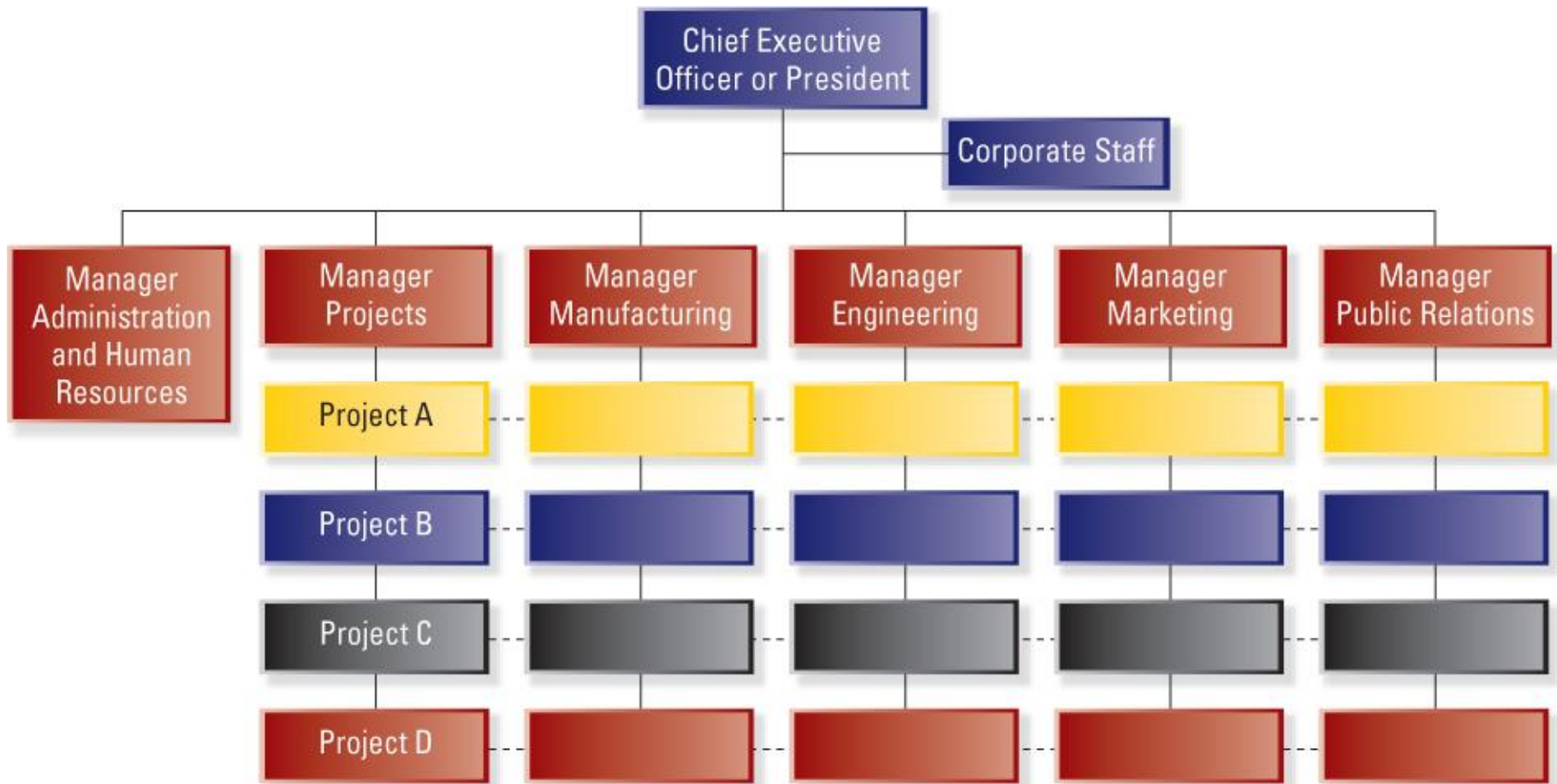
## Divisional Organization Disadvantages

- ❑ It creates **duplication of effort**.
- ❑ It may **diminish** top management's control.
- ❑ It requires **more managers** with general management abilities.
- ❑ It can breed compartmentalization.
- ❑ Can be very **expensive**
- ❑ Competition between divisions
- ❑ **Differences in image and quality** may occur across divisions
- ❑ Can **focus on short-term** performance

# Matrix Organization

- ❑ An organization structure in which employees are **permanently attached to one department** but also **simultaneously** have ongoing assignments in which they report to **project, customer, product, or geographic unit heads**.
- ❑ Also Called '**Multiple command system**' that attempts to combine the benefit of both types of design avoiding their drawbacks.
- ❑ Employees have to work in two chain of command. One is functional and diagrammed vertically in span of management. Second is horizontal that combines people from various functional departments into projects or business team (e.g. Construction firm).
- ❑ Employees working for companies using the matrix structure **have the potential to widen their skill set** since they might be assigned to various projects requiring different levels of expertise or skills.

# Matrix Structure



# Matrix Organization

## Advantages of Matrix Organization:

- ❑ The matrix structure is an efficient means for bringing together the diverse specialized skills required to solve a complex problem.
- ❑ By working together people come to understand the demands faced by those who have different areas of responsibilities
- ❑ It gives the organization a great deal of cost saving flexibility
- ❑ Access to expertise.
- ❑ Stability of permanent department assignments for employees.
- ❑ Allows for focus on specific projects, products, or customers.

# Matrix Organization

## **Disadvantages of Matrix Organization:**

- ❑ Team members must have good interpersonal skills and be flexible and cooperative.
- ❑ If hierarchies are not firmly established and effectively communicated, conflicting directives and ill-defined responsibilities will tie managers' hands.
- ❑ Confusion of command.
- ❑ Roles may not be clearly defined
- ❑ Power struggles and conflicts.
- ❑ Lost time in coordinating.

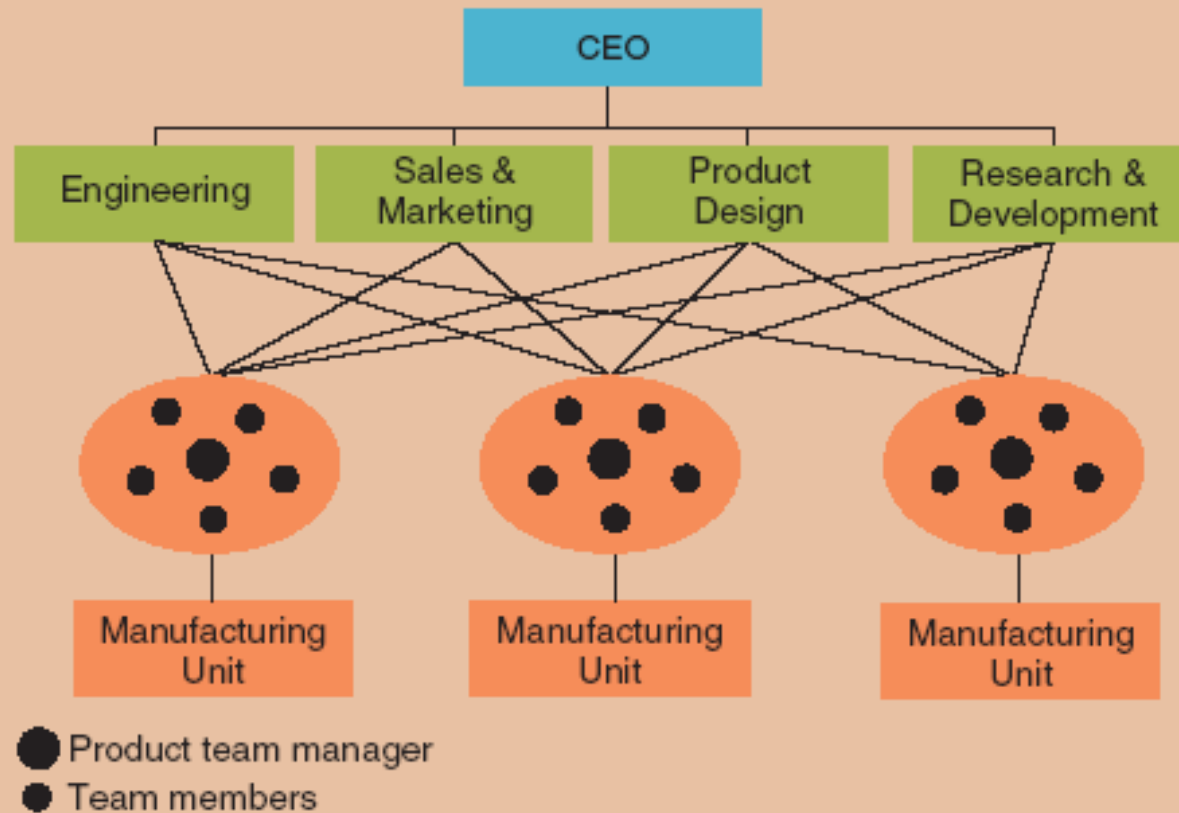


# Team-Based Structure

- Eliminate **dual reporting relationships and two-boss managers**
- Team-based organizational structure that **eliminates the traditional hierarchy**. Associates are organized around self-directed teams.
- Functional employees are permanently assigned to a cross-functional team that is empowered to bring a new or redesigned product to work
  - ▣ Self-directed work teams
  - ▣ Teams organized around work processes
  - ▣ Very flat hierarchy, few management levels
  - ▣ Very little formalization
  - ▣ Usually found within divisionalized structure

# Product Team Structure

## B. PRODUCT TEAM STRUCTURE



# Team-Based Structures

## □ Benefits

- Responsive, flexible
- Lower admin costs
- More informed decisions

## □ Limitations

- Interpersonal training costs
- Slower during team development
- Stress due to ambiguous roles
- Problems with supervisor role changes
- Duplication of resources