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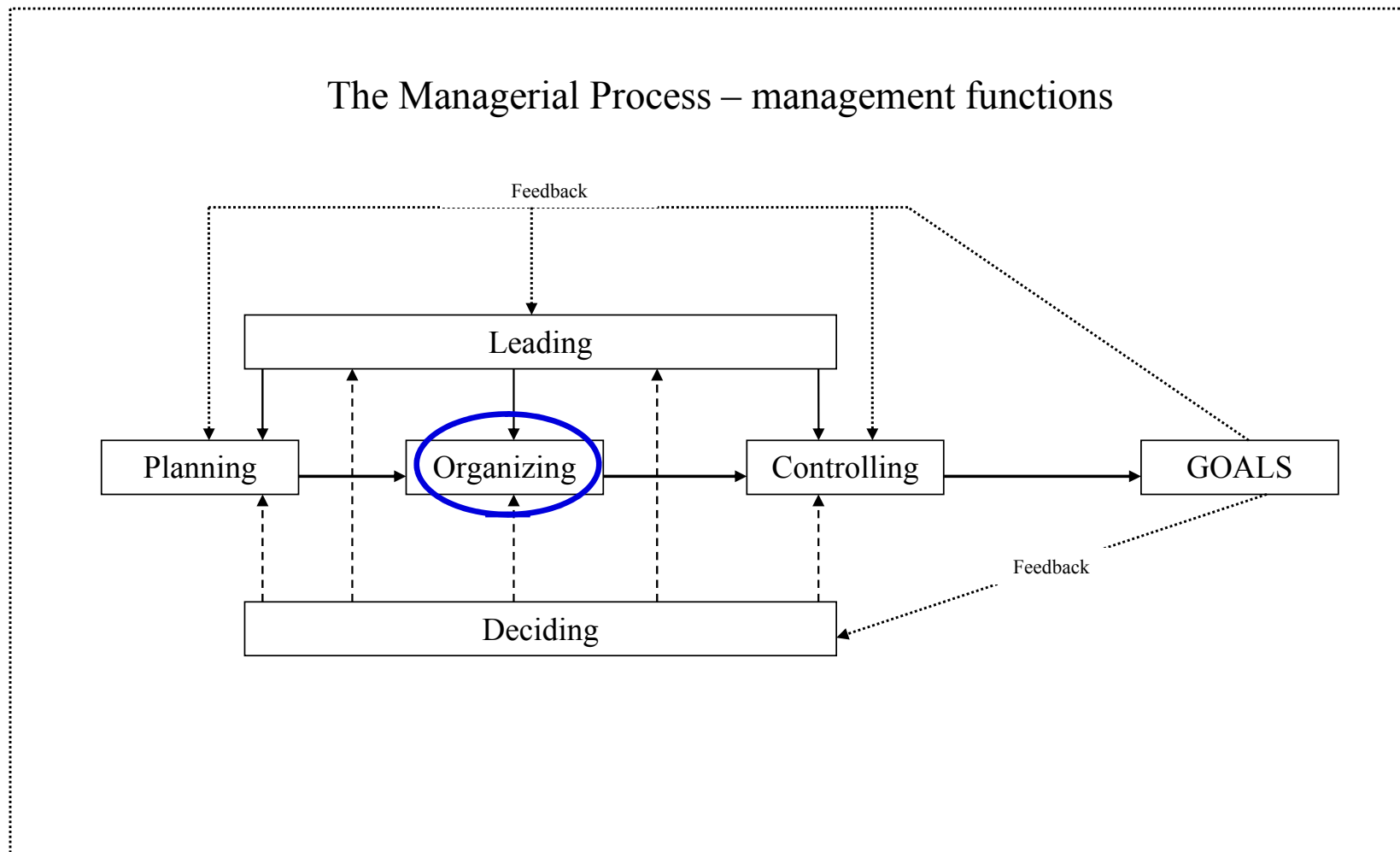
Organizing

Lecture 5

Agenda for today

- Organizational structures
- Organizational design
- Contingency factors
- Types of org. structures

Where are we?



Organizing and organizational structures

Purposes of organizing

- Assigns tasks and responsibilities associated with individual jobs.
- Divides work to be done into specific jobs and departments.
- 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

= 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

Work specialization

= The **degree** to which tasks in the organization are divided into separate jobs with each step completed by a different person.

=> creating jobs

Overspecialization can result in human diseconomies from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.

Departmentalization

Departmentalization defined

**= grouping jobs into
departments**

=> creating departments

Types of departmentalization

Functional

- by functions performed

Product

- by product line

Geographical

- on the basis of territory or geography

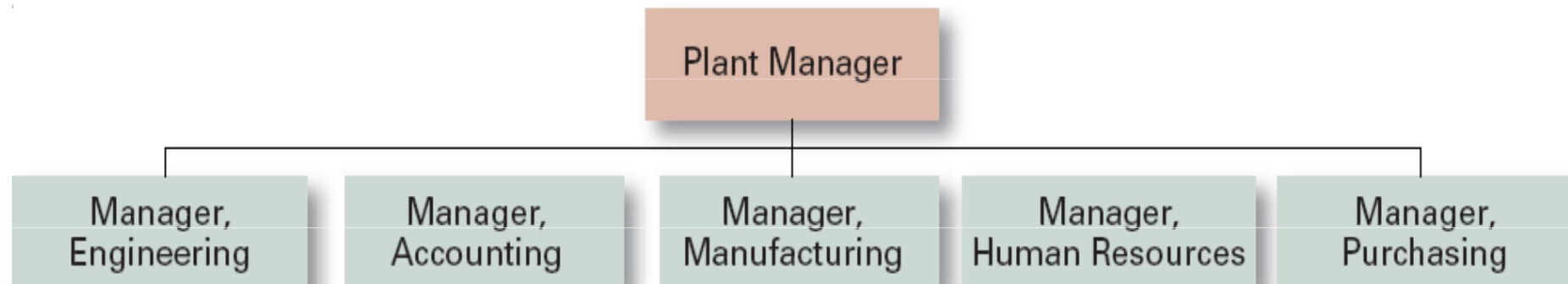
Process

- on the basis of product or customer flow

– Customer

- by type of customer and needs

Functional Departmentalization



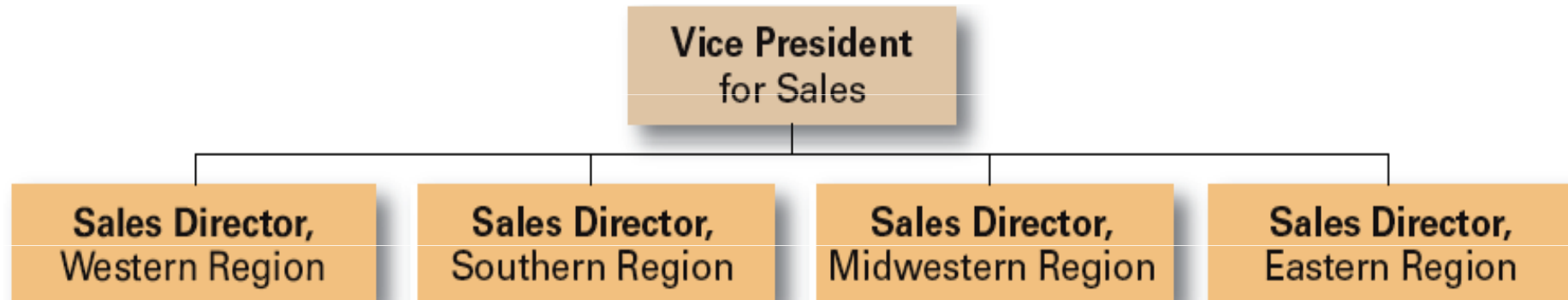
Advantages

- 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

Geographical Departmentalization



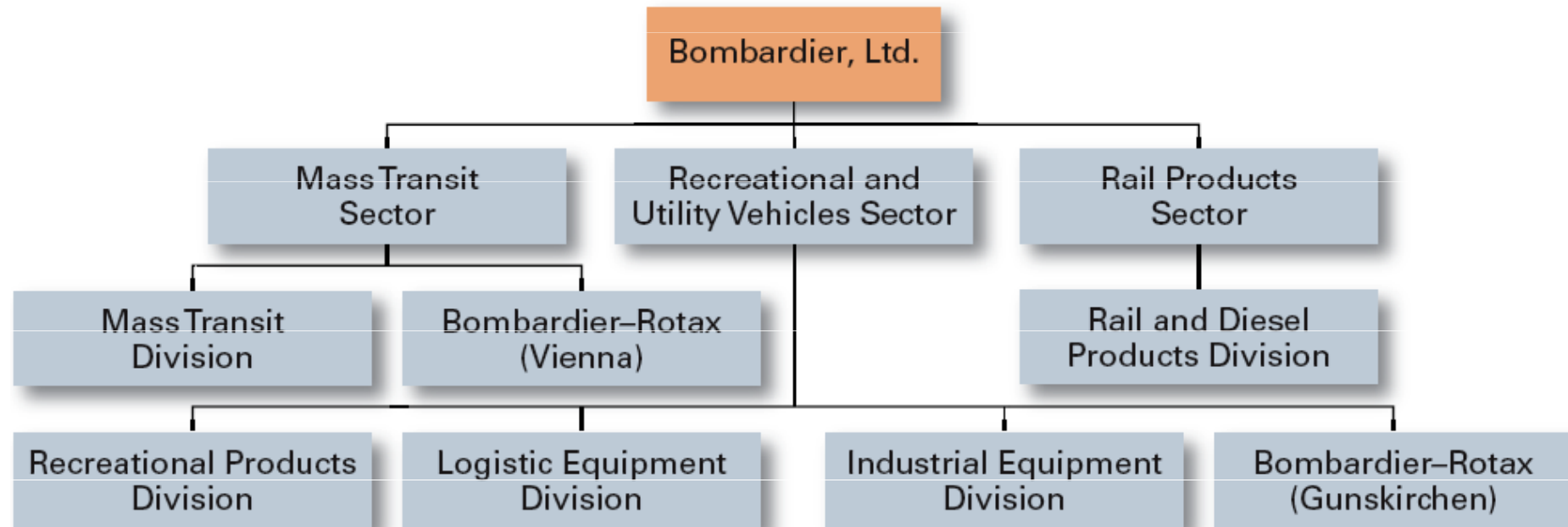
Advantages

- 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

Product Departmentalization



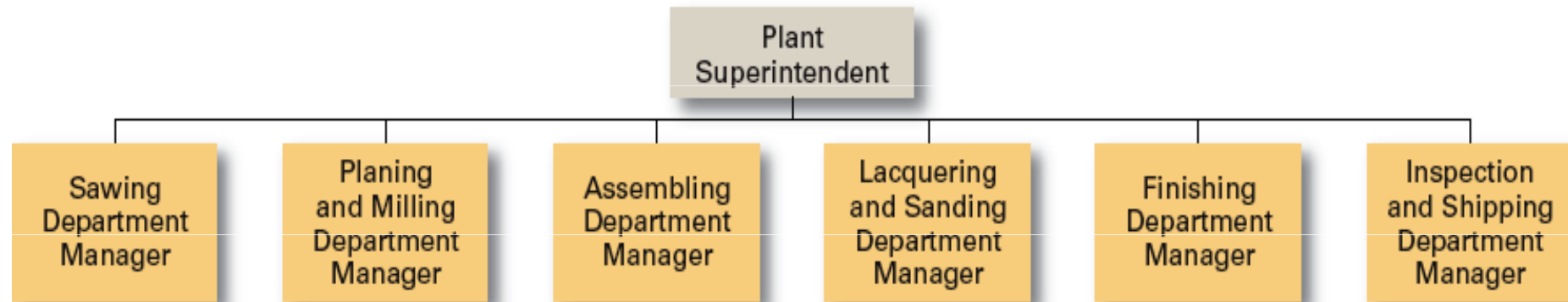
Advantages

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

Disadvantages

- Duplication of functions
- Limited view of organizational goals

Process Departmentalization



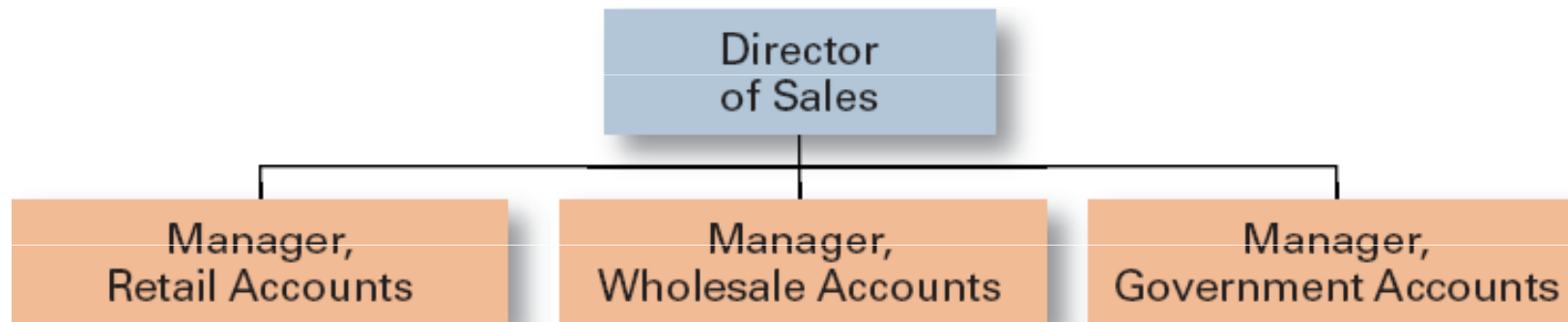
Advantages

- More efficient flow of work activities

Disadvantages

- Can only be used with certain types of products

Customer Departmentalization



Advantages

- Customers' needs and problems can be met by specialists

Disadvantages

- Duplication of functions
- Limited view of organizational goals

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.

Authority

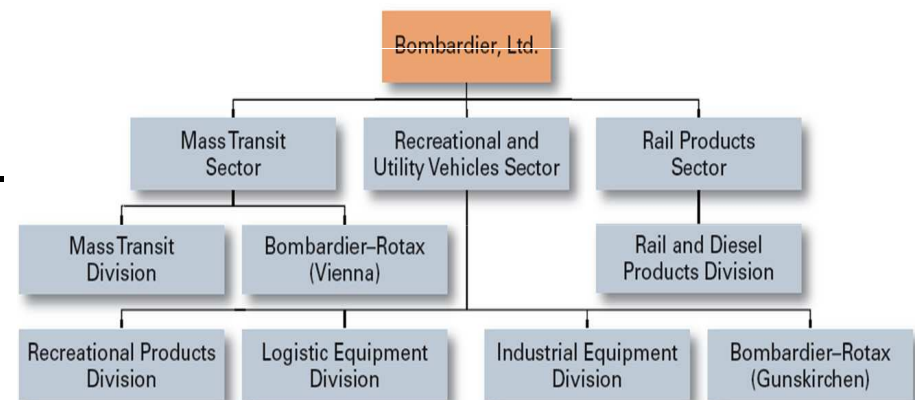
The rights inherent in a managerial position to tell people what to do and to expect them to do it.

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.

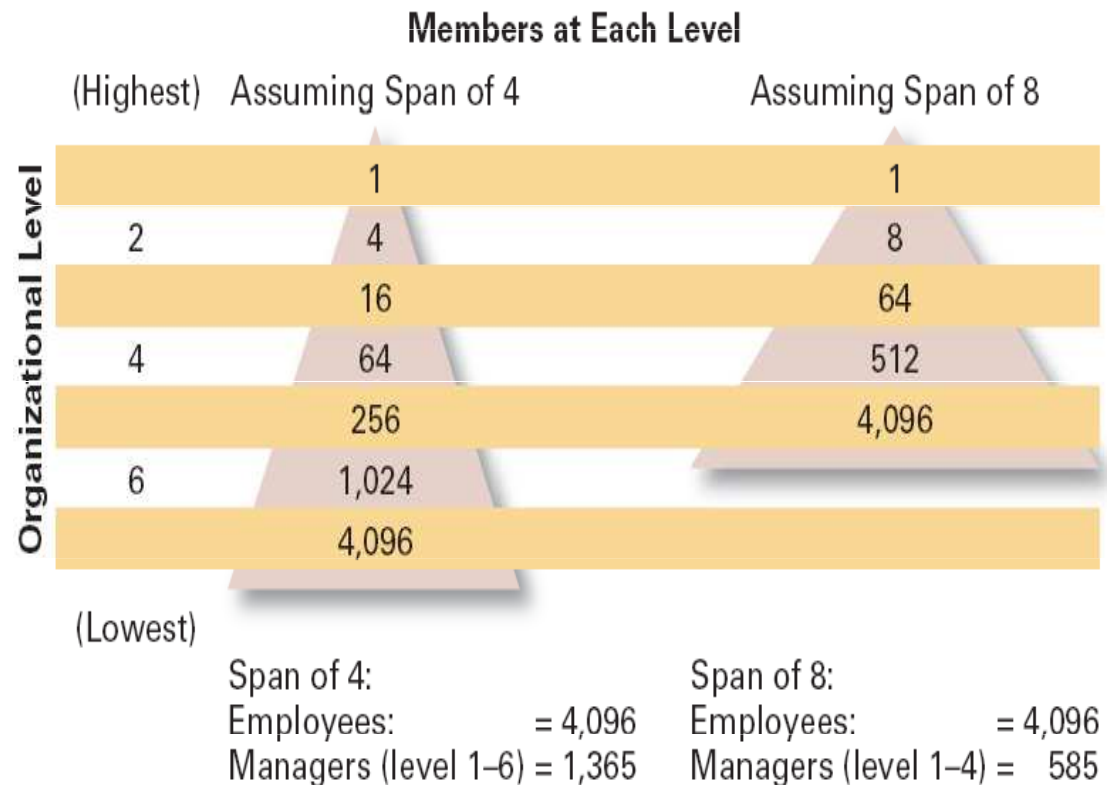


Span of Control

= the number of employees (who can be effectively and efficiently) directly 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



Centralization vs. Decentralization

Level (amount of) centralization

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

Centralized organizations

= top managers make all decisions, lower level staff just carries them out.

Factors supporting 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 to have 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.

Decentralized organizations

= decision making pushed to lower levels (authority delegated)

Factors supporting more centralization:

- 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 to have a say in what happens.
- Company is geographically dispersed.
- Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

Employee Empowerment

Increasing the decision-making authority (power) of employees.

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 vs. Organic organization

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**: Organizational structure always follows strategy.

Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change.

Size of the organization

Firms change from organic to mechanistic organizations as they grow in size => increasing specialization, departmentalization, centralization, and rules and regulations.

Technology: Firms adapt their structure to the technology they use.

Routine technology = mechanistic organizations

Non-routine technology = organic organizations

Degree of environmental **uncertainty**

Dynamic environments require organic structures; mechanistic structures need stable environments.

| | Unit Production | Mass Production | Process Production |
|----------------------------|--|--|---|
| Structural characteristics | Low vertical differentiation Low horizontal differentiation | Moderate vertical differentiation High horizontal differentiation | High vertical differentiation Low horizontal differentiation |
| Most effective structure | Low formalization Organic | High formalization Mechanistic | Low formalization Organic |

Traditional Organizational Designs

Simple structure

Low departmentalization, wide spans of control, centralized authority, little formalization

Functional structure

Departmentalization by function (operations, finance, human resources, and product research and development)

Divisional structure

Composed of separate business units or divisions with limited autonomy under the coordination and control the parent corporation.

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) and 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 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.

Contemporary Organizational Designs

Team structures

The entire organization is made up of work groups or self-managed teams of empowered employees.

Matrix and project structures

Specialists from different functional departments are assigned to work on projects led by project managers.

Matrix and project participants have two managers (dual chain of command)

In project structures, employees work continuously on projects; moving on to another project as each project is completed.

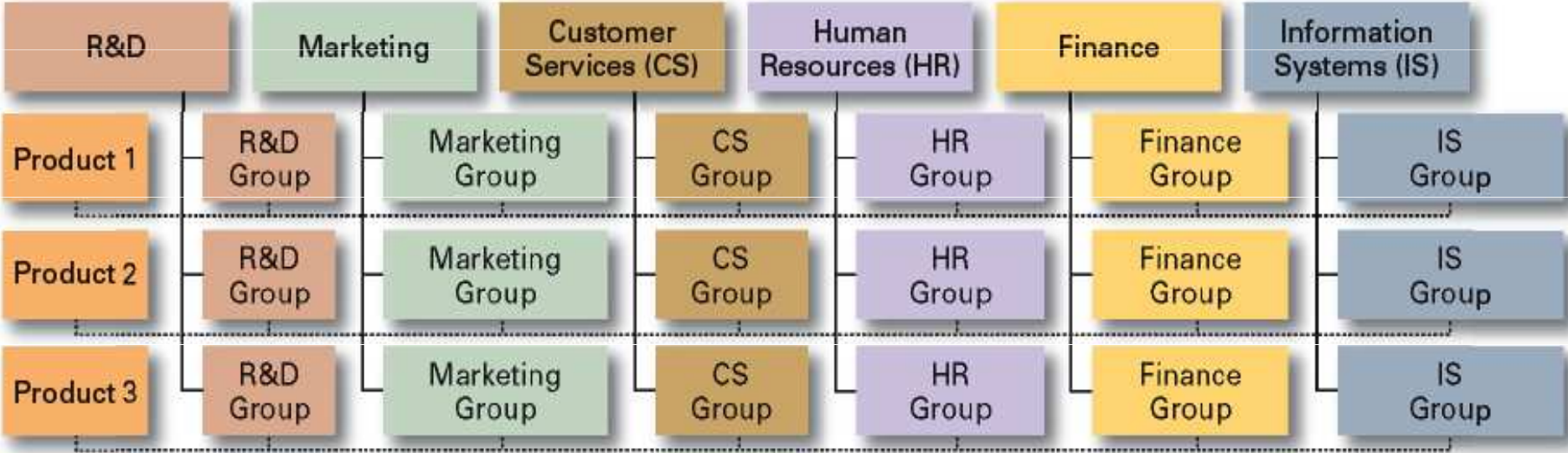
Team Structure

- **What it is:** A structure in which the entire organization is made up of work groups or teams.
- **Advantages:** Employees are more involved and empowered. Reduced barriers among functional areas.
- **Disadvantages:** No clear chain of command. Pressure on teams to perform.

Matrix-Project Structure

- What it is:** A structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.
- **Advantages:** Fluid and flexible design that can respond to environmental changes. Faster decision making.
- **Disadvantages:** Complexity of assigning people to projects. Task and personality conflicts.

Matrix Organization (Example)



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
matrix structure
project structure
organizational chart

responsibility
unity of command
span of control
centralization
decentralization
employee empowerment
formalization
mechanistic organization
organic organization
unit production
mass production
process production
simple structure
functional structure
divisional structure
team structure