DESIGNING ORGANIZATIONAL STRUCTURE—BASIC DESIGNS
LEARNING OBJECTIVES

1. **Describe** six key elements in organizational design.
   - Know how to delegate work to others and develop your skill at delegating.
2. **Contrast** mechanistic and organic structures.
3. **Discuss** the contingency factors that favor either the mechanistic model or the organic model of organizational design.
4. **Describe** traditional organizational designs.
DESIGNING ORGANIZATIONAL STRUCTURE

- **Organizing** – arranging and structuring work to accomplish an organization’s goals.

- **Organizational Structure** – the formal arrangement of jobs within an organization.
DESIGNING ORGANIZATIONAL STRUCTURE

- **Organizational chart** – the visual representation of an organization’s structure.

- **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.
Work specialization – dividing work activities into separate job tasks.

- Early proponents of work specialization believed it could lead to great increases in productivity.
- Overspecialization can result in human diseconomies such as boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.
EXHIBIT 10-2
ECONOMIES AND DISECONOMIES OF WORK SPECIALIZATION

Impact from economies of specialization

Impact from human diseconomies

Productivity

Low

High

Low

High

Work Specialization
DEPARTMENTALIZATION

- **Departmentalization** – the basis by which jobs are grouped together.

  - **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
THE FIVE COMMON FORMS OF DEPARTMENTALIZATION

FUNCTIONAL DEPARTMENTALIZATION—Groups Jobs According to Function

- Plant Manager
  - Manager, Engineering
  - Manager, Accounting
  - Manager, Manufacturing
  - Manager, Human Resources
  - Manager, Purchasing

+ Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
+ Coordination within functional area
+ In-depth specialization
- Poor communication across functional areas
- Limited view of organizational goals

GEOGRAPHICAL DEPARTMENTALIZATION—Groups Jobs According to Geographic Region

- Vice President for Sales
  - Sales Director, Western Region
  - Sales Director, Southern Region
  - Sales Director, Midwestern Region
  - Sales Director, Eastern Region

+ More effective and efficient handling of specific regional issues that arise
+ Serve needs of unique geographic markets better
- Duplication of functions
- Can feel isolated from other organizational areas
EXHIBIT 10-3
THE FIVE COMMON FORMS OF DEPARTMENTALIZATION (CONT.)

PRODUCT DEPARTMENTALIZATION—Groups Jobs by Product Line
Source: Bombardier Annual Report.

Bombardier, Ltd.

- Mass Transit Sector
- Recreational and Utility Vehicles Sector
- Rail Products Sector

- Mass Transit Division
- Bombardier-Rotax (Vienna)
- Rail and Diesel Products Division

- Recreational Products Division
- Logistic Equipment Division
- Industrial Equipment Division
- Bombardier-Rotax (Gunskirchen)

+ 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
THE FIVE COMMON FORMS OF DEPARTMENTALIZATION (CONT.)

PROCESS DEPARTMENTALIZATION—Groups Jobs on the Basis of Product or Customer Flow

- Plant Superintendent
  - Sawing Department Manager
  - Planing and Milling Department Manager
  - Assembling Department Manager
  - Lacquering and Sanding Department Manager
  - Finishing Department Manager
  - Inspection and Shipping Department Manager

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

CUSTOMER DEPARTMENTALIZATION—Groups Jobs on the Basis of Specific and Unique Customers Who Have Common Needs

- Director of Sales
  - Manager, Retail Accounts
  - Manager, Wholesale Accounts
  - Manager, Government Accounts

+ Customers’ needs and problems can be met by specialists
- Duplication of functions
- Limited view of organizational goals
DEPARTMENTALIZATION TRENDS

- Increasing use of customer departmentalization
- **Cross-functional team** – a work team composed of individuals from various functional specialties.
CHAIN OF COMMAND

Chain of Command— the continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization—clarifies who reports to whom.
AUTHORITY

- **Authority** – the rights inherent in a managerial position to tell people what to do and to expect them to do it.
  - **Acceptance theory of authority** – the view that authority comes from the willingness of subordinates to accept it.
AUTHORITY (CONT.)

- **Line authority** – authority that entitles a manager to direct the work of an employee.
- **Staff authority** – positions with some authority that have been created to support, assist, and advise those holding line authority.
EXHIBIT 10-4
CHAIN OF COMMAND AND LINE AUTHORITY

Chief Executive Officer

Executive Vice President

President

Executive Vice President

Vice President

Vice President

Vice President

Vice President

Region 1

Region 2

Region 3

Region 4

Region 5

District A

District B

District C

District D

District E

District F

District G
EXHIBIT 10-5
LINE VERSUS STAFF AUTHORITY
RESPONSIBILITY AND UNITY OF COMMAND

- **Responsibility** – the obligation or expectation to perform.
- **Unity of command** – the management principle that each person should report to only one manager.
SPAN OF CONTROL

- Span of control – the number of employees who can be effectively and efficiently supervised by a manager.
EXHIBIT 10-6
CONTRASTING SPANS OF CONTROL

Members at Each Level

<table>
<thead>
<tr>
<th>Organization Level</th>
<th>Assuming Span of 4</th>
<th>Assuming Span of 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Highest)</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>16</td>
<td>64</td>
</tr>
<tr>
<td>4</td>
<td>64</td>
<td>512</td>
</tr>
<tr>
<td>5</td>
<td>256</td>
<td>4,096</td>
</tr>
<tr>
<td>6</td>
<td>1,024</td>
<td></td>
</tr>
<tr>
<td>(Lowest)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,096</td>
<td></td>
</tr>
</tbody>
</table>

Span of 4:
Employees: 4,096
Managers (level 1–6): 1,365

Span of 8:
Employees: 4,096
Managers (level 1–4): 585
CENTRALIZATION AND DECENTRALIZATION

- **Centralization** – the degree to which decision-making is concentrated at the upper levels of the organization.

- **Decentralization** – the degree to which lower-level employees provide input or actually make decisions.

- **Employee empowerment** – giving employees more authority (power) to make decisions.
## EXHIBIT 10-7
### CENTRALIZATION OR DECENTRALIZATION

<table>
<thead>
<tr>
<th>More Centralization</th>
<th>More Decentralization</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Environment is stable.</td>
<td>• Environment is complex, uncertain.</td>
</tr>
<tr>
<td>• Lower-level managers are not as capable or experienced at making decisions as upper-level managers.</td>
<td>• Lower-level managers are capable and experienced at making decisions.</td>
</tr>
<tr>
<td>• Lower-level managers do not want a say in decisions.</td>
<td>• Lower-level managers want a voice in decisions.</td>
</tr>
<tr>
<td>• Decisions are relatively minor.</td>
<td>• Decisions are significant.</td>
</tr>
<tr>
<td>• Organization is facing a crisis or the risk of company failure.</td>
<td>• Corporate culture is open to allowing managers a say in what happens.</td>
</tr>
<tr>
<td>• Company is large.</td>
<td>• Company is geographically dispersed.</td>
</tr>
<tr>
<td>• Effective implementation of company strategies depends on managers retaining say over what happens.</td>
<td>• Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.</td>
</tr>
</tbody>
</table>
FORMALIZATION

- **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 AND ORGANIC STRUCTURES

- **Mechanistic organization** – an organizational design that’s rigid and tightly controlled.

- **Organic organization** – an organizational design that’s highly adaptive and flexible.
EXHIBIT 10-8
MECHANISTIC VERSUS ORGANIC ORGANIZATIONS

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 AFFECTING STRUCTURAL CHOICE

Strategy and Structure

– Changes in corporate strategy should lead to changes in an organization’s structure that support the strategy.
– Certain structural designs work best with different organizational strategies.
  • The organic structure works well for organizations pursuing meaningful and unique innovations.
  • The mechanistic organization works best for companies wanting to tightly control costs.
CONTINGENCY FACTORS (CONT.)

- Size and Structure – as an organization grows larger, its structure tends to change from organic to mechanistic with increased specialization, departmentalization, centralization, and rules/regulations.
CONTINGENCY FACTORS (CONT.)

- Technology and Structure
  - Organizations adapt their structures to their technology.
  - Woodward’s classification of firms based on the complexity of the technology employed:
    - **Unit production** of single units or small batches.
    - **Mass production** of large batches of output.
    - **Process production** in continuous process of outputs.
# EXHIBIT 10-9
WOODWARD’S FINDINGS ON TECHNOLOGY AND STRUCTURE

<table>
<thead>
<tr>
<th></th>
<th>Unit Production</th>
<th>Mass Production</th>
<th>Process Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural characteristics:</td>
<td>Low vertical differentiation</td>
<td>Moderate vertical differentiation</td>
<td>High vertical differentiation</td>
</tr>
<tr>
<td></td>
<td>Low horizontal differentiation</td>
<td>High horizontal differentiation</td>
<td>Low horizontal differentiation</td>
</tr>
<tr>
<td></td>
<td>Low formalization</td>
<td>High formalization</td>
<td>Low formalization</td>
</tr>
<tr>
<td>Most effective structure:</td>
<td>Organic</td>
<td>Mechanistic</td>
<td>Organic</td>
</tr>
</tbody>
</table>

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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.
TRADITIONAL ORGANIZATIONAL DESIGNS

» **Simple structure** – an organizational design with low departmentalization, wide spans of control, centralized authority, and little formalization.

» **Functional structure** – an organizational design that groups together similar or related occupational specialties.

» **Divisional structure** – an organizational structure made up of separate, semiautonomous units or divisions.
EXHIBIT 10-10

TRADITIONAL ORGANIZATIONAL DESIGNS

**STRENGTHS**

- Fast; flexible; inexpensive to maintain; clear accountability.

**WEAKNESSES**

- Not appropriate as organization grows; reliance on one person is risky.

**Simple Structure**

- Pursuit of functional goals can cause managers to lose sight of what's best for the overall organization; functional specialists become insulated and have little understanding of what other units are doing.

**Functional Structure**

- Duplication of activities and resources increases costs and reduces efficiency.

**Divisional Structure**

- Focuses on results—division managers are responsible for what happens to their products and services.

- Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment); employees are grouped with others who have similar tasks.
REVIEW LEARNING OBJECTIVE 10.1

• Describe six key elements in organizational design.
  - The key elements in organizational design are:
    • Work specialization
    • Chain of command
    • Span of control
    • Departmentalization
    • Centralization-decentralization
    • Formalization
REVIEW LEARNING OBJECTIVE 10.2

• Contrast mechanistic and organic structures.
  – Mechanistic organization – a rigid and tightly controlled structure.
  – Organic organization – highly adaptive and flexible.
REVIEW LEARNING OBJECTIVE 10.3

- Discuss the contingency factors that favor either the mechanistic model or the organic model of organizational design.
  - Structural decisions are influenced by:
    - Overall strategy of the organization
    - Size of the organization
    - Technology use employed by the organization
    - Degree of environmental uncertainty
REVIEW LEARNING OBJECTIVE 10.4

• Describe traditional organizational designs.
  – Simple structure – low departmentalization, wide spans of control, authority centralized in a single person, and little formalization.
  – Functional structure – groups similar or related occupational specialties together.
  – Divisional structure – made up of separate business units or divisions.