

# Organizing the Business Enterprise

## Outline

- What is Organizational Structure?
- The Building Blocks of Organizational Structure
- Establishing the Decision-Making Hierarchy
- Informal Organization

## What is Organizational Structure?

Specification of the jobs to be done within an organization and the ways in which they relate to one another

## Determinants of Organization

- Every business needs structure to operate. Organizational structure varies according to a firm's mission, purpose, and strategy.
- Size, technology, and changes in environmental circumstances also influence structure.

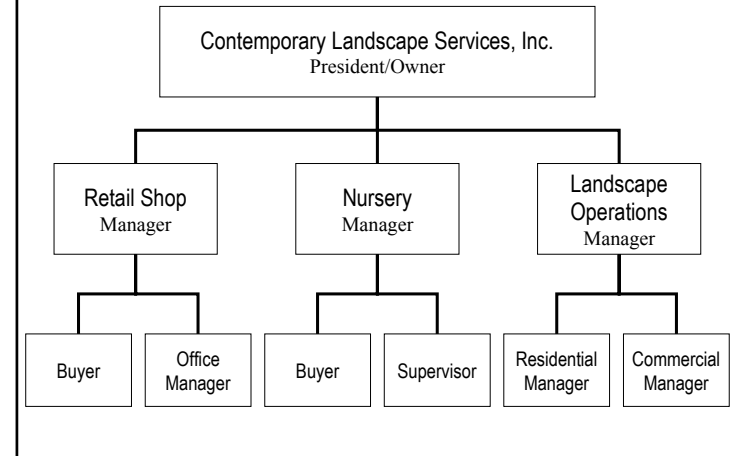
Although all organizations have the same basic elements, each develops the structure that contributes to the most efficient operations.

## Chain of Command

### Organization Chart

Diagram depicting a company's structure and showing employees where they fit into its operations

## The Organizational Chart



## Chain of Command

### Organization Chart

Diagram depicting a company's structure and showing employees where they fit into its operations

### Chain of Command

Reporting relationships within a company

## The Building Blocks of Organizational Structure

The first step in developing the structure of any business, large or small, involves two activities:

### Specialization

Determining who will do what

### Departmentalization

Determining how people performing certain tasks can best be grouped together

## Specialization

### Job Specialization

The process of identifying the specific jobs that need to be done and designating the people who will perform them

## Specialization and Growth

- In a very small organization, the owner may perform every job.
- As the firm grows, however, so does the need to specialize jobs so that others can perform them.

## Departmentalization

### Departmentalization

Process of grouping jobs into logical units

### Profit Center

Separate company unit responsible for its own costs and profits

## Departmentalization

### Customer Departmentalization

Departmentalization according to types of customers likely to buy a given product

### Product Departmentalization

Departmentalization according to specific products being created

### Process Departmentalization

Departmentalization according to production processes used to create a good or service

## Departmentalization

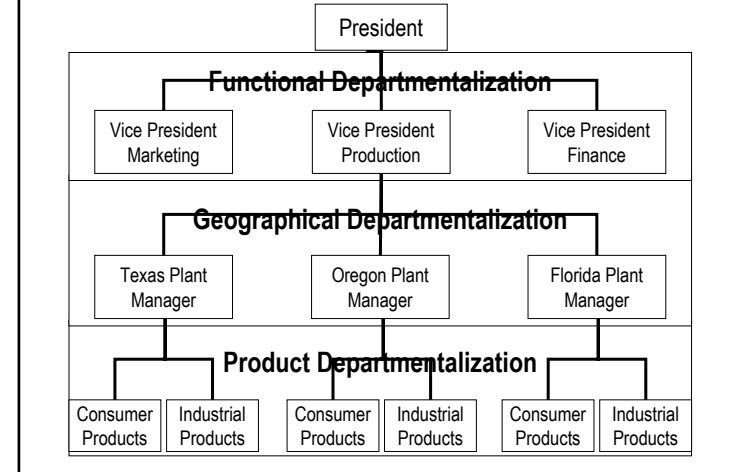
### Geographic Departmentalization

Departmentalization according to areas served by a business

### Functional Departmentalization

Departmentalization according to groups' functions or activities

## Multiple Forms of Departmentalization



## Establishing the Decision-Making Hierarchy

*Who makes which decisions?*

The answer almost never focuses on an individual or even on a small group. The more accurate answer usually refers to the decision-making hierarchy.

## Developing a Decision-Making Hierarchy

- **Assign Tasks:** Determine who can make decisions and specify how they should be made.
- **Perform Tasks:** Implementing decisions that have been made.
- **Distribute Authority:** Determine whether the organization is to be centralized or decentralized.

## Assigning Tasks

### Responsibility

Duty to perform an assigned task

### Authority

Power to make the decisions necessary to complete a task

## Performing Tasks

### Delegation

Assignment of a task, responsibility, or authority by a manager to a subordinate

### Accountability

Liability of subordinates for accomplishing tasks assigned by managers

## Fear of Delegating

Many managers actually have trouble delegating tasks to others.

This is especially true in small businesses where the owner-manager started out doing everything.

## Why do some small business managers have trouble delegating effectively?

- They feel that employees can never do anything as well as they can.
- They fear that something will go wrong if someone else takes over a job.
- They lack time for long-range planning because they are bogged down in day-to-day operations.
- They sense they will be in the dark about industry trends and competitive products because of the time they devote to day-to-day operations.

What can small business managers do to delegate effectively?

Admit that they can never go back to running the entire show and that they can in fact prosper—with the help of their employees.

*They must learn to let go.*

Four reasons some managers in big companies don't delegate as much or as well as they should:

- They fear that subordinates don't really know how to do the job
- They fear that a subordinate might "show the manager up" in front of others by doing a superb job
- They desire to keep as much control as possible over how things are done
- They simply lack the ability to effectively delegate to others

How can managers in big companies learn to delegate more effectively?

All managers should recognize that they can't do everything themselves.

If subordinates can't do a job, they should be trained so that they can assume more responsibility in the future.

Managers should recognize that if a subordinate performs well it also reflects favorably on the manager.

A manager who simply doesn't know how to delegate should seek specialized training in how to divide up and assign tasks to others.

## Distributing Authority

### Centralized Organization

Organization in which most decision-making authority is held by upper-level management

### Decentralized Organization

Organization in which a great deal of decision-making authority is delegated to levels of management at points below the top

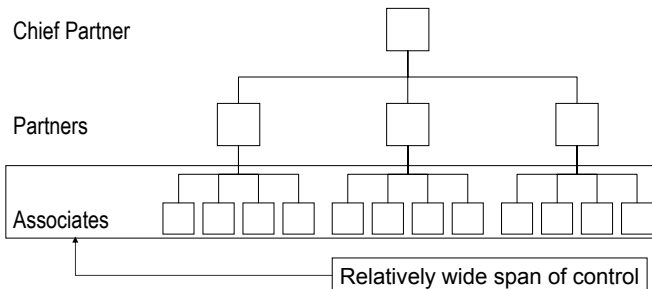
### Span of Control

Number of people supervised by one manager

## Flat Organizational Structure

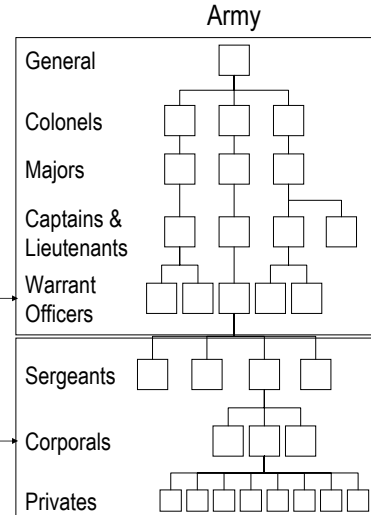
Characteristic of decentralized companies with relatively few layers of management and relatively wide spans of control

Typical Law Firm



## Tall Organizational Structure

Characteristic of centralized companies with multiple layers of management and relatively narrow spans of control



## Three Forms of Authority

### Line Authority

Organizational structure in which authority flows in a direct chain of command from the top of the company to the bottom

### Line Department

Department directly linked to the production and sales of a specific product

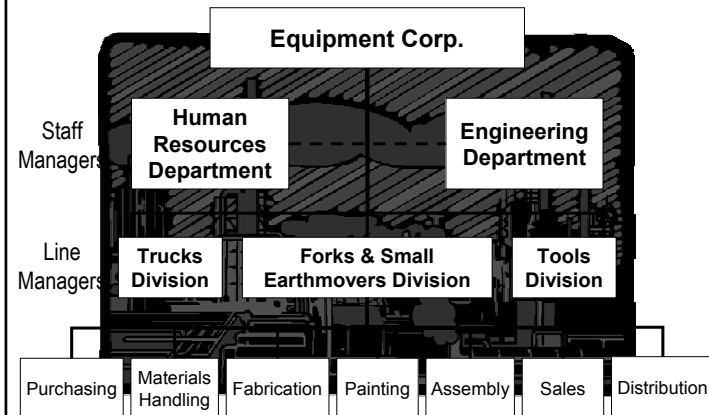
### Staff Authority

Authority based on expertise that usually involves advising line managers

### Staff Members

Advisors and counselors who aid line departments in making decisions but do not have the authority to make final decisions

## Line and Staff Organization



## Committee & Team Authority



Authority granted to committees or work teams involved in a firm's daily operations

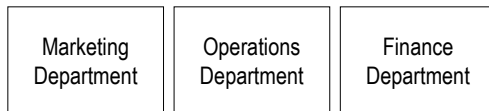
## Basic Forms of Organizational Structure

- Organizations can structure themselves in almost an infinite number of ways based on the specialization, departmentalization, or decision-making hierarchies.
- The four basic forms of organizational structure that reflect the general trends followed by most firms are:
  - Functional
  - Divisional
  - Matrix
  - International

## Functional Organization

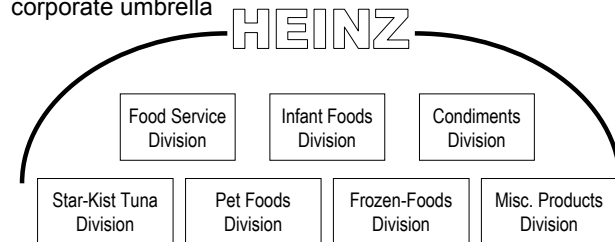
Form of business organization in which authority is determined by the relationships between group functions and activities

### Company Structured Around Basic Business Functions



## Divisional Organization

Organizational structure in which corporate divisions operate as autonomous businesses under the larger corporate umbrella

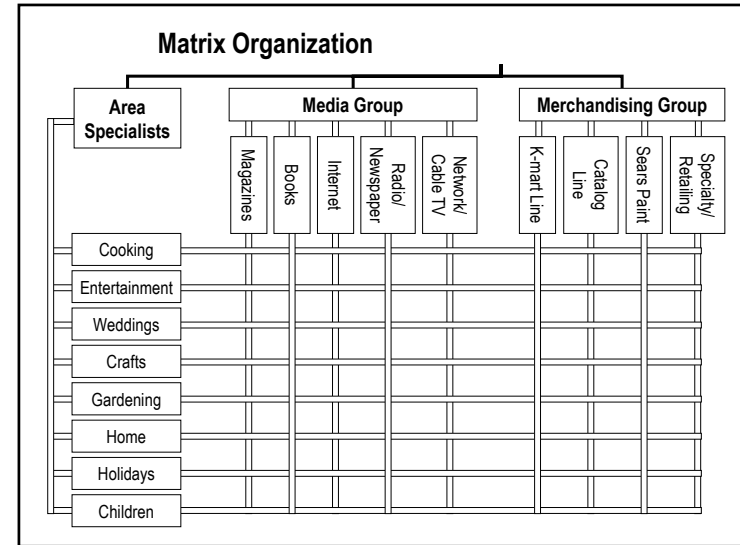


**Division:** Department that resembles a separate business in producing and marketing its own products

## Matrix Organization

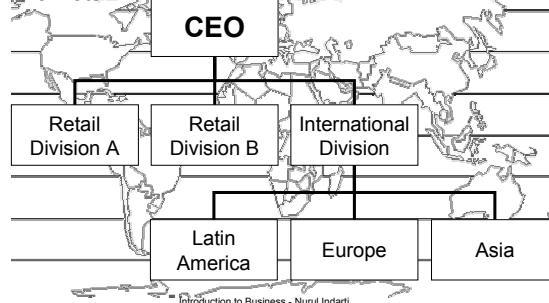
Organizational structure in which teams are formed and team members report to two or more managers

- ➔ A matrix is a highly flexible form that is readily adaptable to changing circumstances.
- ➔ Matrix structures rely heavily on committee and team authority.
- ➔ Some companies use the matrix organization as a temporary measure to complete a specific project. The end of the project usually means the end of the matrix.



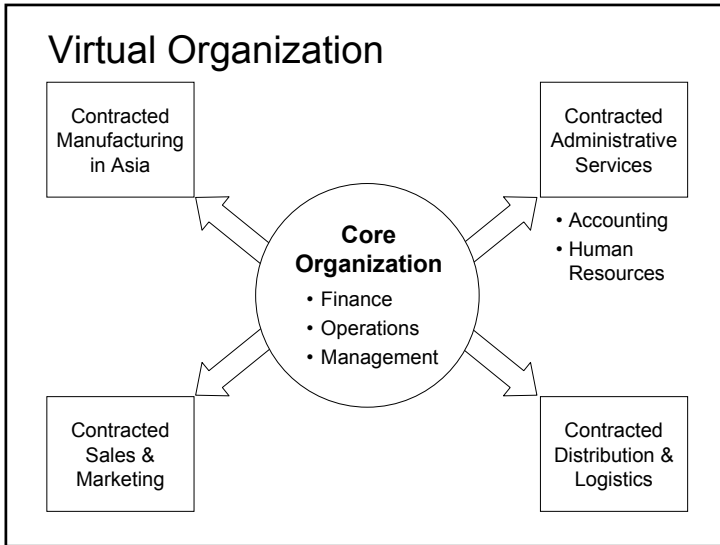
## International Organization

Approaches to organizational structure developed in response to the need to manufacture, purchase, and sell in global markets



## Organizational Design for the 21<sup>st</sup> Century

- **Boundaryless Organizations** minimize or eliminate traditional boundaries and structures.
- **Team Organizations** have little or no underlying functional hierarchy and rely almost exclusively on project-type teams.
- **Virtual Organizations** have little or no formal structure. They typically have only a handful of permanent employees, a very small staff, and a modest administrative facility.



### Organizational Design for the 21<sup>st</sup> Century

- Boundaryless Organizations minimize or eliminate traditional boundaries and structures.
- Team Organizations have little or no underlying functional hierarchy and rely almost exclusively on project-type teams.
- Virtual Organizations have little or no formal structure. They typically have only a handful of permanent employees, a very small staff, and a modest administrative facility.
- Learning Organizations work to integrate continuous improvement with continuous employee learning and development.

Introduction to Business - Nurul Indarti 38

### Informal Organization

- The formal organization of a business is the part that can be seen and represented in chart form.
- The informal organization within which people do their jobs in different ways and interact with other people in ways that do not follow formal lines of communication.

The informal organization is sometimes just as powerful, if not more powerful, than the formal structure.

Introduction to Business - Nurul Indarti 39

### Formal versus Informal Organizational Systems

#### Informal Groups

Groups of people who decide to interact among themselves

#### Grapevine

Informal communication network that runs through an organization

Introduction to Business - Nurul Indarti 40