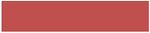




*Business  
Management*

***3. ORGANIZATIONAL STRUCTURE***

2º Sem 2021/22



## READINGS

*Principles of Management by Saylor*

<https://www.pdfdrive.com/principles-of-management-saylororg-e7057851.html>

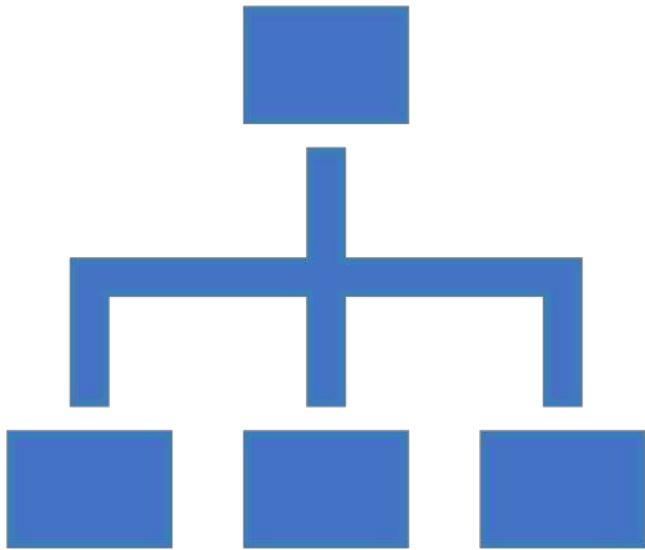
*Ch. 7*

A complex network of white lines and dots on a dark blue background, resembling a molecular structure or a data network. The dots are of varying sizes and brightness, and the lines connect them in a dense, interconnected pattern. The overall effect is a sense of depth and complexity.

# Questions

- *How many Departments;*
- *The scope of action of each Department;*
- *Degree of Formalization within the Organization;*
- *Degree of Decision Centralization within the Organization*

# Questions



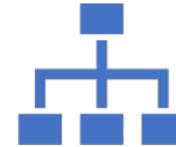
- *Definition of Organizational Structure;*
- *The importance of Horizontal and Vertical Relations in internal information transmission– its design should ensure an effective communication, coordination and integration of efforts between departments;*
- *Some alternative forms for the design of organizational structures;*
- *Different strategies for the grouping of activities within the firm;*
- *How the organizational structure can help the organization in attaining its objectives.*



***Organizational Structure** is a **pattern of relationships** that **unites** an organization's resources*



***Organizational Structure** (definition): the set of **formal relationships** between individuals and groups that make up the organization, **defining functions** of each unit and the **cooperation methods** between them, as well as **hierarchical relationships** and the **scope of actions** of each unit*



*Organizational Structure is usually represented in a diagram called the **Organizational Chart** (see next slide for an example of a simple organizational chart)*



*Individual group in **Departments** and **Departments** group together in order to form the **Organization***



CABO VERDE AIRLINES

**TACV**  
**TACV**

*O prazer de viajar bem.*

**BOSTON OFFICE - USA**

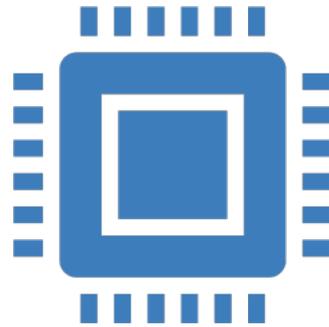
### Organizational Chart



# Organizational Structure



**FORMALIZATION** – MINIMIZES UNCERTAINTY BUT RESTRICTS INDIVIDUAL INITIATIVE

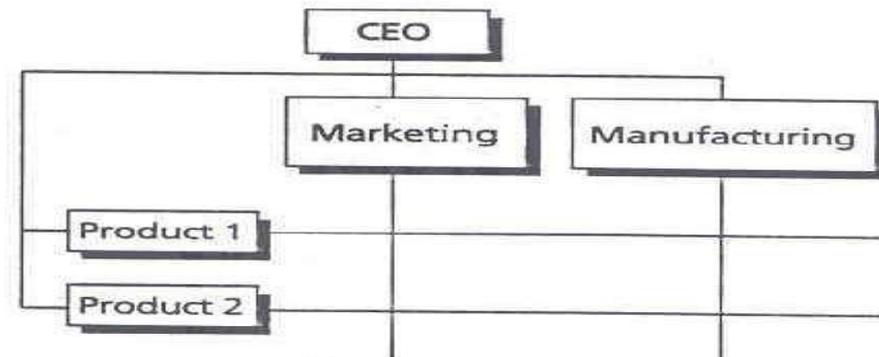
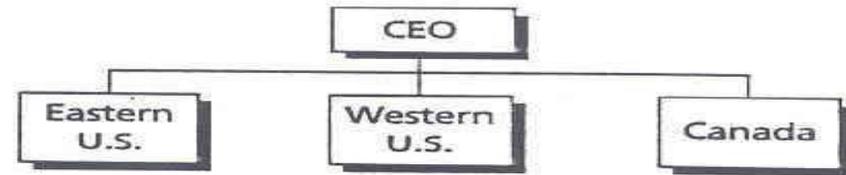
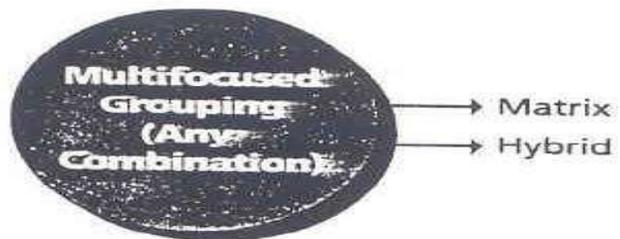
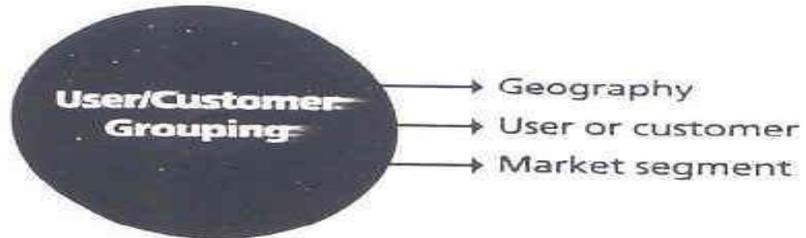
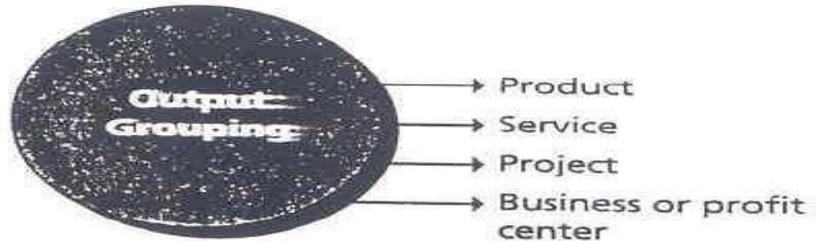
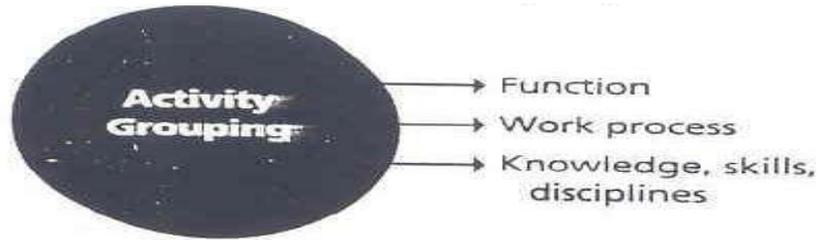


**CENTRALIZATION** – FACILITATES CONTROL AND COORDINATION BUT INCREASES THE RESPONSE-TO-MARKET TIME AND DECREASES MOTIVATION



**COMPLEXITY** – IS A FUNCTION OF SPACE DISPERSION, VERTICAL DIFFERENTIATION (HIERARCHICAL LEVELS) AND HORIZONTAL DIFFERENTIATION (LEVEL OF SPECIALIZATION OF TASKS)

# Structural Design Options for Grouping Employees into Departments



Source: Adapted from David Nadler and Michael Tushman, *Strategic Organization Design* (Glenview, Ill.: Scott Foresman, 1988), 68.

# Organizational Structure

- The Definition of the Structure involves
  - Defining existent activities
  - Defining Responsibility Relationships (Reporting)
  - Defining how to group activities – and there are several ways of doing it, each with its own advantages and disadvantages.
    - By Departments (per type of activity, per type of product, per type of client, region, etc)
    - Multi-focused – hybrid, matrix types.
  - **Ultimately, allowing a proximity with the customer/client**
- The main factors that **determines** the definition of the organizational structure are:
  - Dimension of the corporation / Target Market(s)
  - Diversity of product markets and/or geographical markets

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# *Organizational Structure*

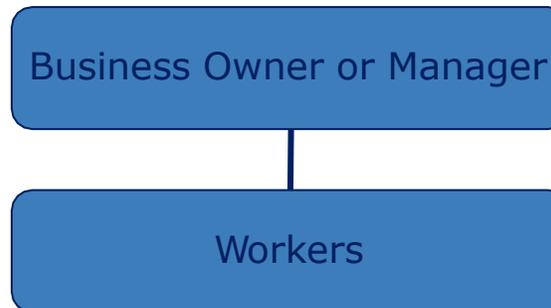
- Firm's Structure can be divided into two levels
  - **1. Macro-structure**
    - Involves all firm's divisions
    - Basic types (simple, functional, geographic and product structures...)
    - Advanced (business units, matrix type, network type...)
  - **2. Micro-structure**
    - Structures for specific activities

# I. Basic Macro-structures

## ① Simple Structure

- The business owner or the business manager directs directly all firm activities in a centralized way, with a short-run type of planning. More suitable for firms with product-market strategies with a small number of product lines and market segments

(Family firms and small businesses)



## *I. Basic Macro-structures*

### ① Simple Structure

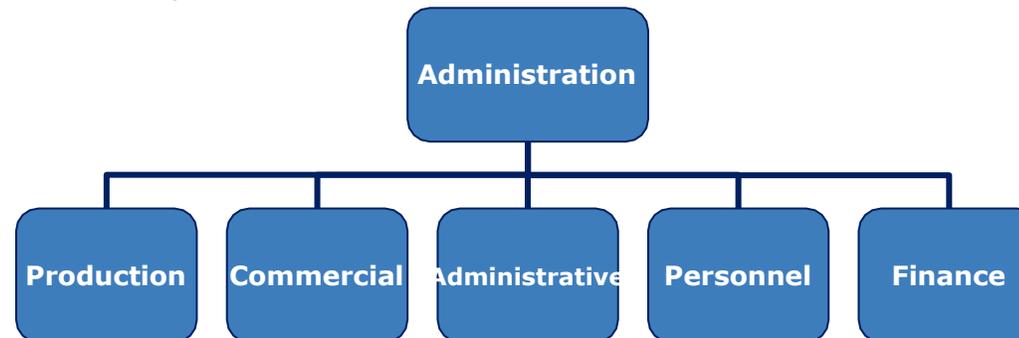
- Advantages: flexibility; easy coordination; commercially dynamic; fast decision-making
- Disadvantages: reduces motivation of workers, excessive dependency on owner or manager, may result in risks to operational continuity and may lead to leadership crisis

# I. Basic Macro-structures

## ② Functional Structure

- Based on division of tasks and delegation of authority and responsibility. Different managers are responsible for different functions. Collegial Decision-making; Medium-run planning.

Usually we find this type of structure in firms of relatively small dimension and with few products or activities



## *I. Basic Macro-structures*

### ② **Functional Structure**

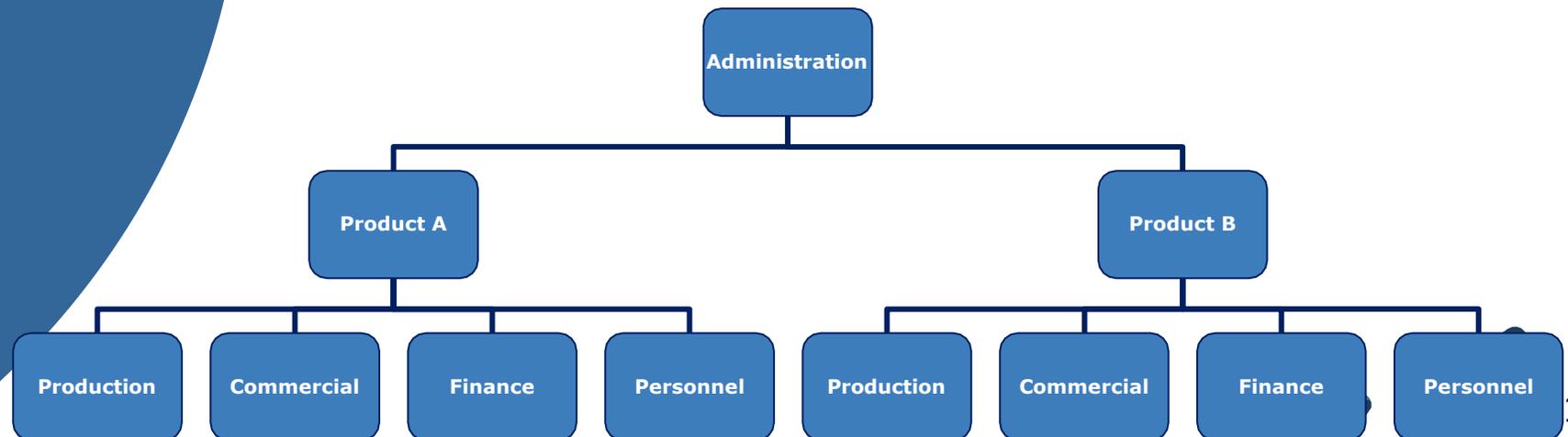
- Advantages: concentration of resources; specialization and activities' control; advancements in the learning curve and reduction of operational costs; career promotion and development of specific skills
- Disadvantages: conflicts of interest among areas; excessive specialization conducting to difficulties in communication and coordination; routine and demotivation; need of different criteria for performance evaluation; difficulty in identification of product or market profitability

# I. Basic Macro-structures

## ③ Divisional Structure

Different product lines and markets managed in decentralized way – division by products (or type of products), by business unit, by geographical area...

Strategic planning is shared and planning takes place on a long-run perspective



# I. Basic Macro-structures

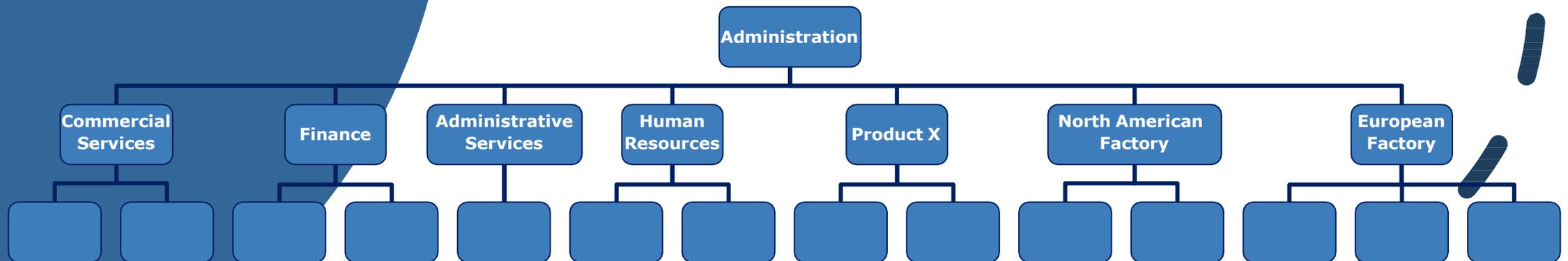
## ③ Divisional Structure

- Advantages: allows less restrictions in growing organizations; better monitoring of products / markets; strategic and operational control.  
Motivation: career promotion
- Disadvantages: complexity in terms of management and difficult coordination; conflicts of interest among divisions and losses in terms of market performance; creation of centralized services in order to take advantage of scale economies

# I. Basic Macro-structures

## ④ Hybrid Structure

In the real world, we frequently find structures that are not pure (neither pure functional, product, geographical...); The focus on Departmental division may follow more than one criteria. Example: product and function, product and geographic area... This is called a Hybrid Structure



## *II. Advanced Macro-structures*

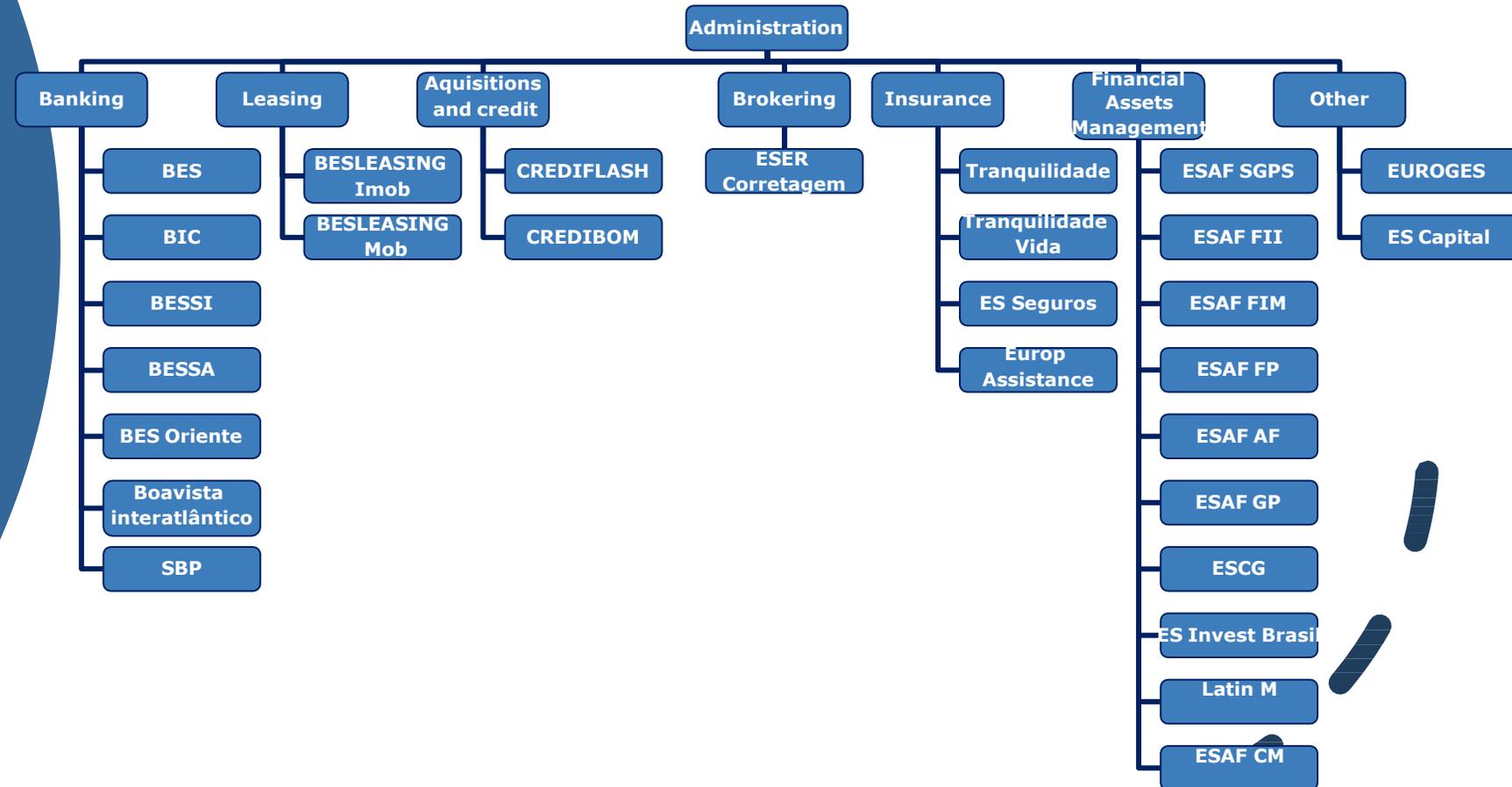
### ⑤ **Strategic Business Units**

Adopted by firms with many operations in few industries; coordination by one entity; sometimes strategic sectors are defined; adoption of diversification strategies.

Usually found in firms with a reasonable dimension involved in sufficiently differentiated business areas.

## II. Advanced Macro-structures

### ⑤ Strategic Business Units



## II. Advanced Macro-structures

### ⑤ Strategic Business Units

- Advantages: control the variety of business areas, decentralizing and coordinating. Emphasis on specific markets; Increases responsibility and mobility between functions (and thus increases motivation)
- Disadvantages: More difficult vertical communication and some organizational inflexibility; lower degree of organizational identity; behaviour between areas (e.g. Competition for resources, for ex.) may eventually hurt the organization as a whole.

## II. Advanced Macro-structures

### ⑥ Matrix-type Structure

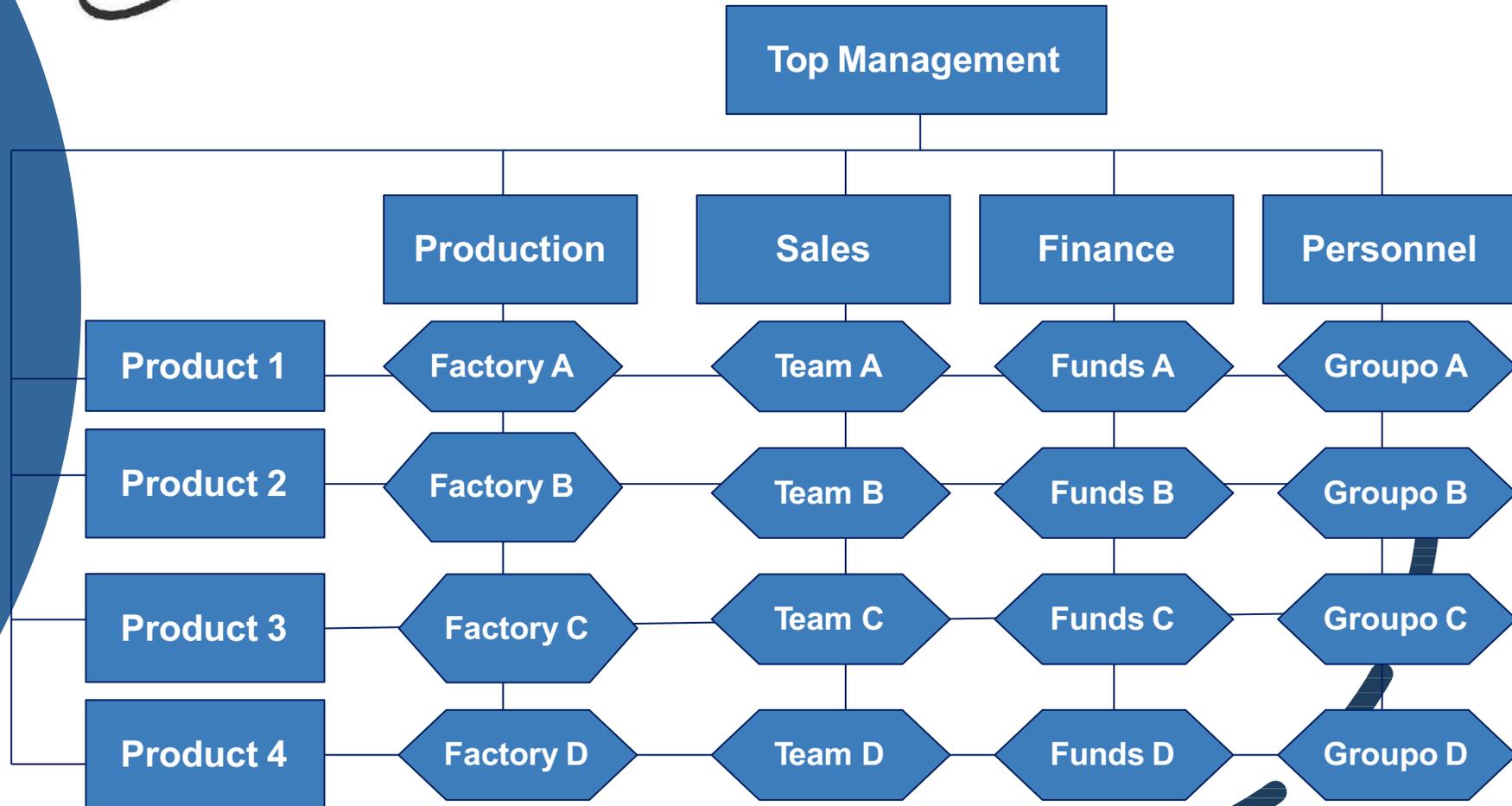
Two types of structure co-exist – for ex., product and functional structures.

Seeks to explore synergies between similar products and in many different markets. Functional affiliation tends to be more stable than product or market affiliation.

(ex. NASA)

II. Advanced  
Macro-structures

⑥ Matrix-type Structure



## II. Advanced Macro-structures

### ⑥ Matrix-type Structure

- Advantages: Information and Resource sharing; organizational flexibility and operational stability; consensual decisions and culture of cooperation
- Disadvantages: Morosity in the implementation of strategies; conflicts of interest that can be resolved only at an upper level; difficult operational control and determination of responsibilities; works better if subordinates have higher education levels

## II. Advanced Macro-structures

### ⑦ Network Structure

A central Department that connects activities of firms and divisions inside and outside\* the organization; strategic alliances, synergies, diversification and vertical integration, sharing of resources, organizational flexibility

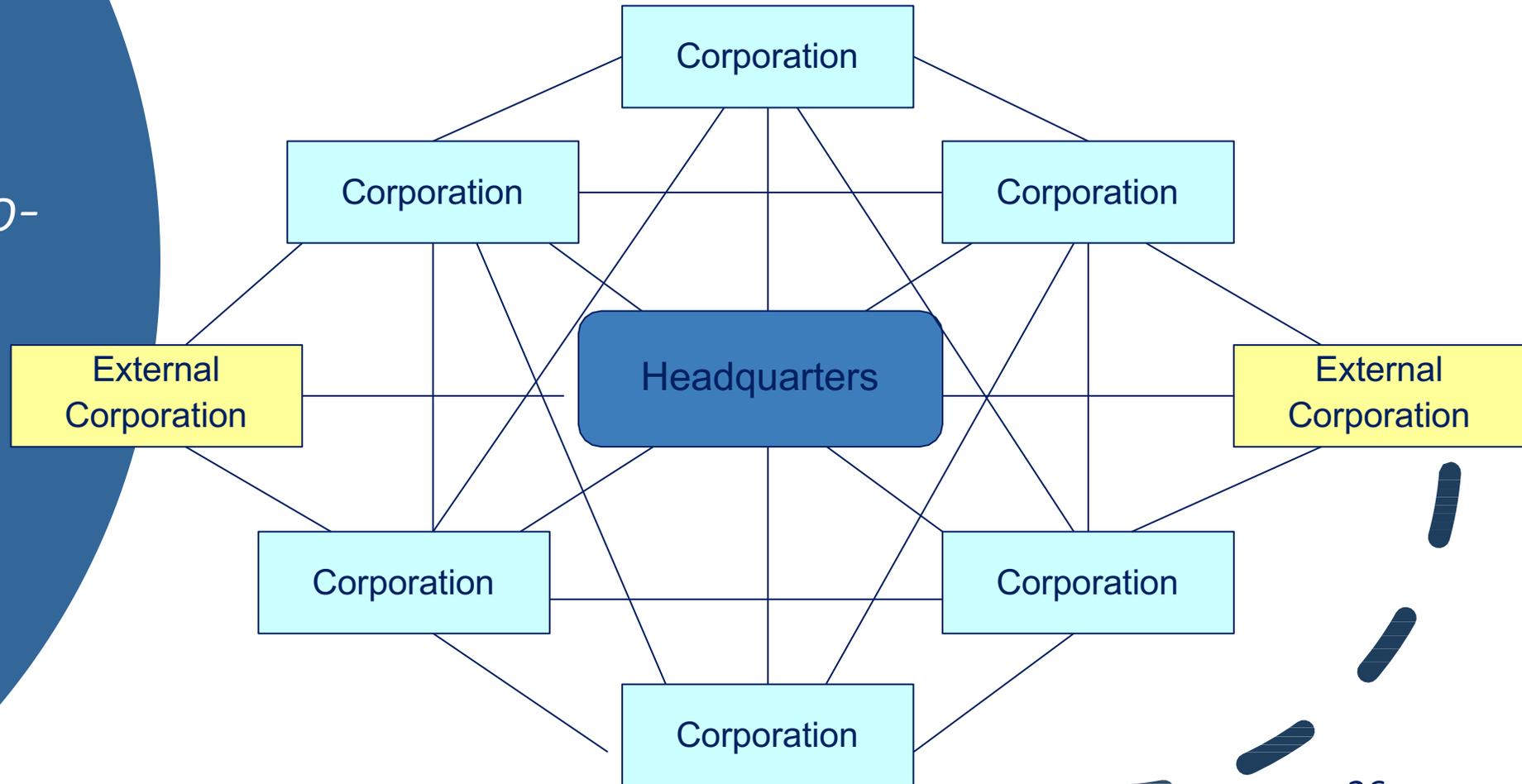
\*e.g. outsourcing firms

Strategic alliances, synergies, diversification and vertical integration

Resource sharing; Organizational flexibility

II. Advanced Macro-  
structures

⑦ Network Structure



## 2. *Micro-Structures*

Micro-structures to the organization of **work groups in the firms departments**. Some examples:

### **Departmental Group**

Autonomous activities, with no need for coordination amongst the different areas

### **Liaison Groups**

Active members of Departments maintain their usual functions and participate in the specific group, council or commission, coordinating group work among the different departmental areas

### **Project Unit**

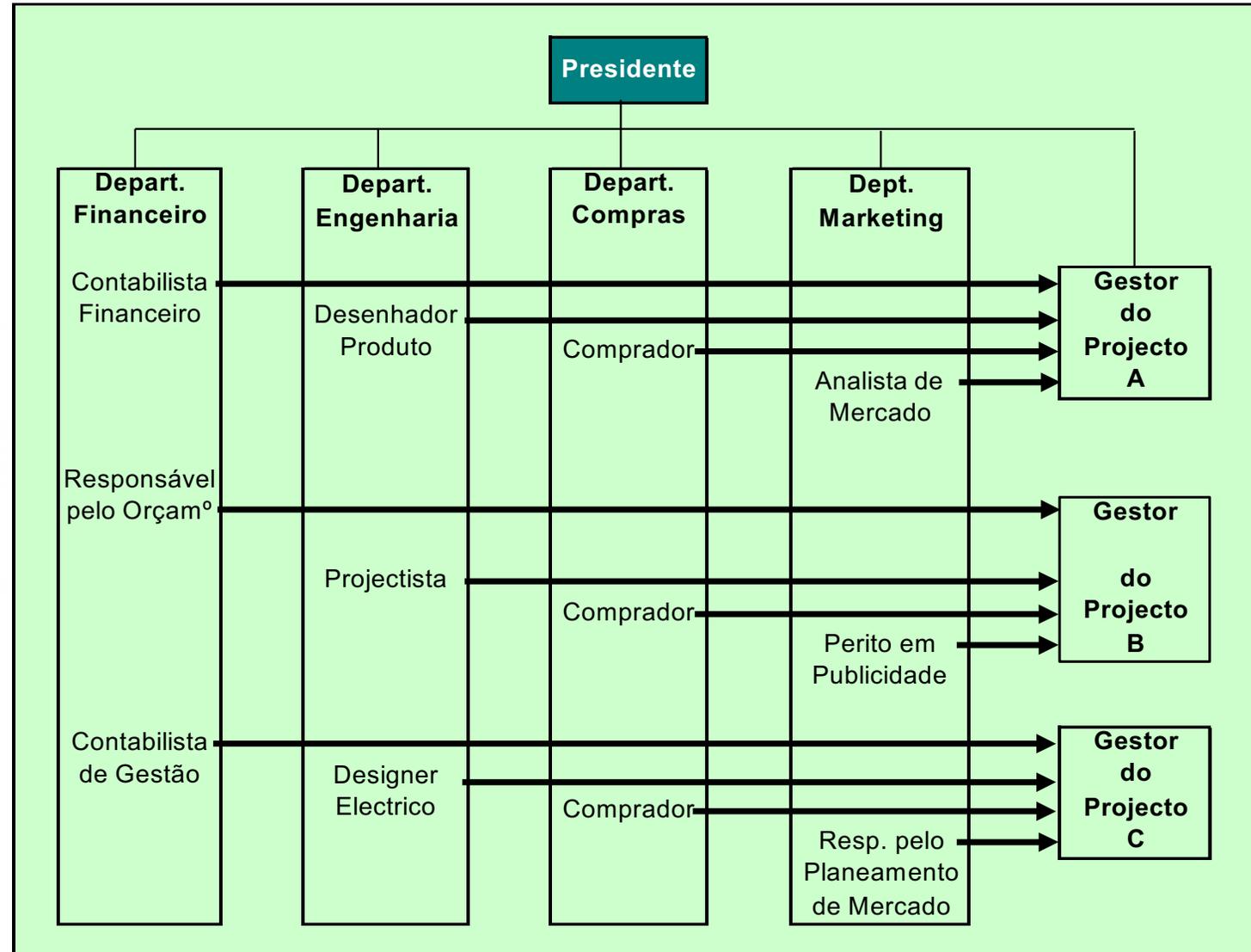
Double Responsibility; Development of a specific project in a determined period of time across different areas.

### **Independent Team**

Autonomy; own coordination; Departmental Affiliation is diluted; Development of new products and strategic change

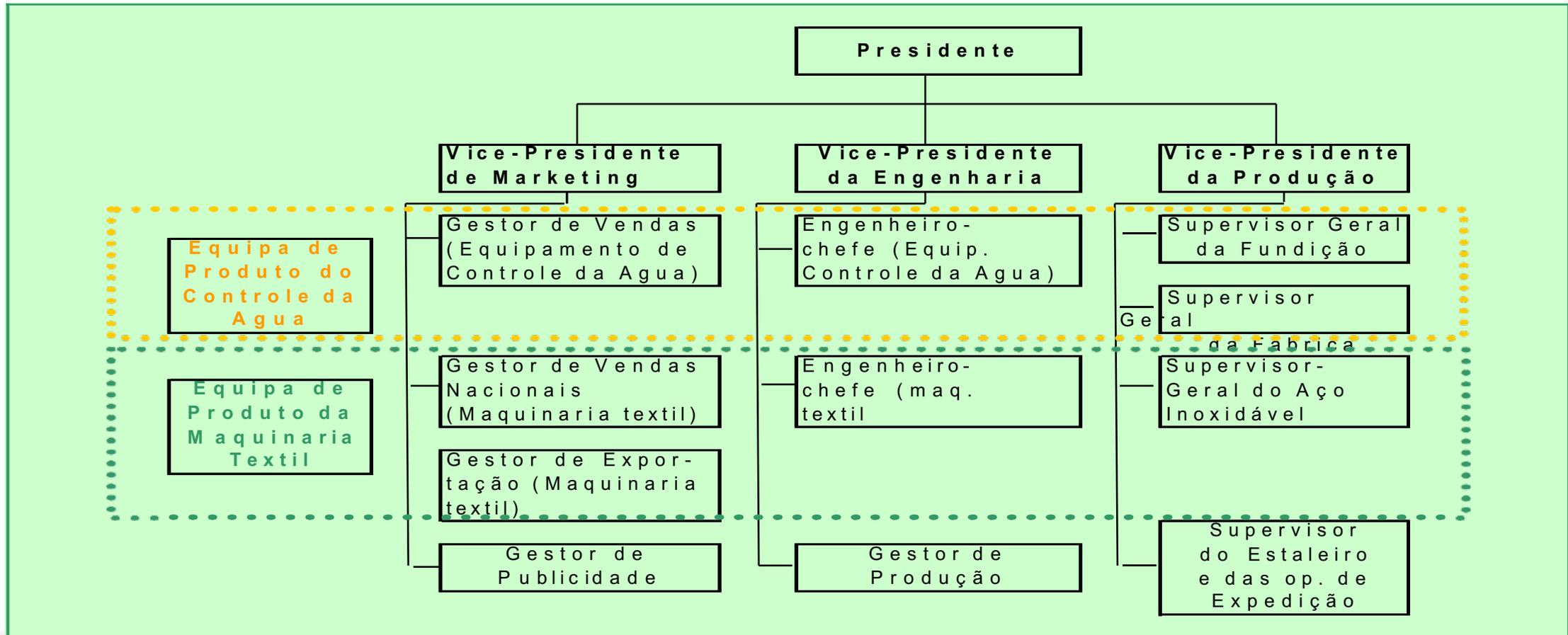
## 2. Micro-structures

### Project Managers



## II. Micro-Structures

**Example:** Rodney Hunt Co. – Makes and sells heavy industrial equipment (uses teams to coordinate each product line through every department)



# 2. Micro-Structures

		Degree of Strategic Change <i>(How new the product or project is)</i>	
		Reduced	High
Relevance of integration <i>(necessity for coordination)</i>	High		Independent Team
	Reduced	Departmental Group	Project Unit