3. ORGANIZATIONAL STRUCTURE

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ORGANIZATIONAL STRUCTURE

- Word “structure” means composition, complex, scheme
- Every organization, every company, has its inner composition, and that means structure
- Many authors have defined organizational structure
Organizational Structure

The formal system of task and authority relationships that controls how people are to cooperate and use resources to achieve organization's goals.

Can be managed and changed through the process of organizational design.
ORGANIZATIONAL STRUCTURE

- It is often equalized with organization
- Organization is broader concept which includes:
  - organization structure
  - organizational resources
  - organizational procedures
- It is equalized with management → it is one of elements of the organization structure
Organizational structure is dynamic, not static, because of the constant change in the organizational environment.

Relationship: goals – strategy – structure

Relationship of internal and external design elements
Designing organizational structure

- Choosing the right organization structure is one of the most important decisions in the company.
- There is no “one right way” to design organizational structure.
- There are no universal organization principles which are good for all cases.
- Each internal and external design element has different effect in every special case.
The ways of forming org. structure:

1. Top down system
   - based on classical theory
   - set global organization units, department services, and then design specific tasks

2. Basis upward system

3. Combined approach
   - structuring organization top down and basis upward at the same time (bipolar strategy)

4. Spearhead strategy
   - changes begin from middle management levels

5. Multiple nucleus strategy
   - Many organization changes begin at the same time on different management levels and in various sections
The ways of forming org. structure:

- In every day use, ways that we are talking about are used combined, rarely separate.
- While forming organization structure of a new company and for big reorganization procedures top down system is mostly used.
- In all the other cases various combinations are possible.
The ways of forming organizational structure:

- **Stability and flexibility of organization structure:**
  - **Stability** makes specialization, rationalization and expenses decrease possible
  - **Flexibility** makes adjustment to environment changes possible

- The balance should be found.
Organizational structure has to provide:

1. reaching organization goals
2. optimal grouping of activities
3. full attention on key functions
4. efficient use of all available resources
5. organization flexibility
6. clear responsibility
7. rational use of human resources
8. adequate information and communication system
Formal and informal organization

- **Formal organization structure** is a result of the process of organization design and it represents backbone of each organization.

- It is set by regulations and use of written rules and procedures.
Formal organization

- Formal organization structure regulates all relevant questions referred to organization:
  - It connects people and resources in closer and wider groups (workplaces, work units, org. units, company)
  - It allocates and connects organizational tasks
  - It defines people status in a company (managers and employees)
  - It sets rules and behavioral norms in a organization
Formal organization

- Formal organization structure is shown with graphs and schemes
Formal and informal organization

- Real organization structure (objective existing) develops spontaneously in process of formal organization structure functioning.

- In the moment of setting organization structure company’s real organization structure matches formal. While time goes by, differences between those two organizational structures get bigger and bigger.
Formal and informal organization

- Formal organization structure needs to adjust to the real:
  - Simultaneously (constantly adjusting every year - difference is small)
  - Reorganization (if difference is big – every 4-5 years)

- Differences between formal and real organization structure come by changing elements of organization structure
Formal and informal organization

- **Informal organization** is related to people and their work in organization.
- Informal organization structure is a group of relations between people in an organization, which have grown while they have been working together, and which affect formal goals of an organization.
- Informal organization is usually connected with informal groups in a company. Usually it is considered negative, which does not have to be true.
Formal and informal organization

- In every formal organization there are many informal groups. They can be:
  - **interest groups** – they come as a result of job which is done by group members
  - **friendly groups** – result of companionship between members outside the company
  - **E.g.:** football team, aerobic team
Formal and informal organization

- Informal organization structure can not be shown:

Football team

Areobics team

Saturday shopping group
Formal and informal organization

- Informal organization is very important, it can dominate over formal organization.
- It has hierarchy, it’s leaders and goals
- Formal organization → intended, thought trough, planned
- Informal organization → spontaneous
Types of organization structures

- Types of organization structures represent ways of carrying out internal work division in a company, and forming lower organization units on all company levels (departments, sectors, services).

- Forming lower organization units in a company is done according to the theory of departmentalization.
Types of organization structure

- There are two types of bureaucratic, classical, traditional organization structure:
  - Functional
  - Divisional (product, geographic, market)

- Characteristics:
  - specialization
  - clear hierarchy of authority
  - formal planing
  - employment based on competency
Types of organization structure

- Around 1960
  - Development of modern, organic organization structures
  - Adaptive - adjustment to the changes in the environment
  - Most significant: project structure
    - matrix structure
    - network structure
    - horizontal structure
Types of organization structure

- In every day use we often find combined, mixed organization structures which include classic and organic structures (conglomerate organization)
Functional organization structure

- Activities are grouped together by common function from the bottom to the top of the organization (e.g. manufacturing, research and development, marketing, finance...)

- Most spread form of organization structure

- It is applied in:
  - small and middle companies
  - if company produces one or several similar products by using same technology for the same market (oil, sugar, cement, beer)
Functional organization structure

- Observed by **number** of functional organization units we can talk about three basic forms of functional organizational structure:
  - Initial
  - Standard
  - Developed
Functional organization structure

- Initial form fos
- Number of formed functional organization units in a company is smaller than number of business functions
Functional organization structure

- Standard form fos
  - Number of formed functional organization units is equal to number of business functions
Functional organization structure

- developed form fos
- Number of formed functional organization units is bigger than number of business functions

CEO

- R&D
- Procurement
- Manufacturing
- HR
- Home Sales
- Accounting & Finance

Developement

Manufacturing prep.

Maintainance

Export

= Manufacturing

= Sales
Functional organization structure

❖ Advantages:
  ❖ high level of specialization
  ❖ unique coordination of jobs in the same function
  ❖ applying one-way models and procedures
  ❖ rational use of space and equipment
  ❖ low overhead expenses
Functional organization structure

❖ Problems:
  ❖ slow adjustment to changes in the environment
  ❖ there is no cooperation and team work among functional managers
  ❖ slow and inadequate decision making
  ❖ starched line of coordination and communication
  ❖ absence of functional managers responsibility for final business result
Functional structure of the company with foreign branch offices
Functional structure of the company with International Division

- CEO
  - International Division
    - International Division Services
      - Marketing
      - R&D
      - Planning
    - International Division Services
      - Finance
      - Planning
      - HR
Typical model of foreign company organizational structure

- CEO
- Marketing
- Manufacturing
- R&D
- Finance
- Planning
- HR