Chapter 8

Organizational Structure

Learning Objectives

1. Explain how an organizational structure may be used by a firm to achieve its strategic plan.
2. Identify methods that can be used to departmentalize tasks.

Organizational Structure

- Allocation of Employees to Various Job Tasks
- Firm's Expenses
- Firm's Earnings
- Firm's Value

Organizational Structure

- Board of Directors
  - CFO
  - VP of Marketing
  - VP of Operations
- Sales Manager
- Advertising

Chain of Command: identifies the job position to which each type of employee must report.

Organizational Chart: a diagram showing interaction among employee responsibilities.

Board of Directors

- Executive who are responsible for monitoring the activities of the firm’s president and high-level managers.

Types of Board Members:
- Inside board members: managers of the firm, such as the CEO.
- Outside board members: high-level managers of other firms.

Board of Directors

- Board of Directors
- President
- CFO
- VP of Marketing
- VP of Operations

Types of Board Members: Percentage of Firms Whose Board Members Have That Background

<table>
<thead>
<tr>
<th>Background</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives of other firms</td>
<td>69%</td>
</tr>
<tr>
<td>Major investors in the firm</td>
<td>36%</td>
</tr>
<tr>
<td>Retired business executives</td>
<td>30%</td>
</tr>
<tr>
<td>Attorneys</td>
<td>20%</td>
</tr>
<tr>
<td>Accountants</td>
<td>22%</td>
</tr>
<tr>
<td>Bankers</td>
<td>18%</td>
</tr>
<tr>
<td>Business consultants</td>
<td>13%</td>
</tr>
<tr>
<td>Customers</td>
<td>2%</td>
</tr>
<tr>
<td>Others</td>
<td>3%</td>
</tr>
</tbody>
</table>
Elements of Organizational Structure

- Organizational Height
- Centralization versus decentralization
- Line versus staff positions
- Alternative structures
- Departmentalization

Organizational Height
The number of layers from the top to the bottom of the organization.

**Tall Organization**

- CEO
- President
- CFO
- Executive V-P
- Vice-President
- Finance
- Vice-President
- Marketing
- V-P
- R&D

**Short Organization**

- CEO/President
- General Manager
- Marketing Manager
- Finance Manager
- R&D Manager

Span of Control

- **Narrow Span of Control**
  - CEO
  - President
  - CFO
  - Sales Manager
  - Salesperson

- **Wide Span of Control**
  - CEO/President
  - Subsidiary 1
  - Subsidiary 2
  - Subsidiary 3
  - Subsidiary 4
  - Subsidiary 5

Centralization vs. Decentralization

- **Centralization**:
  - More control.
  - Only experienced managers make decisions.
  - Good for a firm with financial problems.
  - Reduces operating expenses.
  - Faster decision-making.
  - Motivates employees.

- **Decentralization**:

Comparison of Line and Staff Organization

- **Line Organization**
  - CEO
  - EVP of Finance
  - EVP of Operations
  - VP of Marketing
  - VP of R&D
  - VP of Sales

- **Staff Organization**
  - CEO
  - EVP of Finance
  - EVP of Operations
  - VP of Marketing
  - VP of R&D
  - VP of Sales

- **Line and Staff Organization**
  - CEO
  - EVP of Finance
  - EVP of Operations
  - VP of Marketing
  - VP of R&D
  - VP of Sales
  - Administrative Assistant
  - Marketing Manager
  - Marketing Research

- **Line positions**:
  - Make decisions that achieve specific business goals.

- **Staff positions**:
  - Support the efforts of line positions.

Structures that Allow More Employee Input

- **Matrix organization**
- **Intrapreneurship**
Matrix Organization

Interaction among various parts of the firm to focus on specific projects.

**Advantages:**
- Variety of skills and talent.
- Participation in decision-making.
- Greater employee satisfaction.

**Disadvantages:**
- Potential lack of accountability.
- Time used to participate in projects reduces time for normal tasks.
- Employees have two bosses.

Intrapreneurship

Employees are assigned to create ideas as if they were entrepreneurs.

**Advantage:**
- Innovative thinking occurs.

**Disadvantage:**
- Pulls employees away from normal duties.

Informal Organizational Structure

Informal communications network among a firm’s employees.

**Advantages:**
- Employees learn from peers.
- Reduces managerial involvement.

**Disadvantages:**
- Employees obtain incorrect or unfavorable information.
- Incorrect information can adversely impact employee morale.

Departmentalization

Departmentalization: the creation of departments which will handle assigned tasks.

**Organizations can departmentalize:**
- By function
- By product
- By location
- By customer