

7.3.5: Organizing

What you'll learn to do: describe the organizing function of management and common types of organizational structure

Organizing is a critical part of executing a plan, and it's a critical part of being a manager. In this section you'll learn what organizing entails and the different types of organizational structures that businesses can use.

Learning Objectives

- Differentiate between divisional, functional, and matrix structures

Organizing

Once a plan has been created, a manager can begin to organize. Organizing involves assigning tasks, grouping tasks into departments, delegating authority, and allocating resources across the organization. During the organizing process, managers coordinate employees, resources, policies, and procedures to facilitate the goals identified in the plan. Organizing is highly complex and often involves a systematic review of human resources, finances, and priorities.

Before a plan can be implemented, managers must organize the assets of the business to execute the plan efficiently and effectively. Understanding specialization and the division of work is key to this effort, since many of the “assets” are employees. Recall what Henri Fayol wrote about the division of work:



"The specialization of the workforce according to the skills of a person, creating specific personal and professional development within the labour force and therefore increasing productivity, leads to specialization which increases the efficiency of labour. By separating a small part of work, the workers speed and accuracy in its performance increases. This principle is applicable to both technical as well as managerial work."^[1]

Where workers are specialists, managers can group those employees into departments so their work is appropriately directed and coordinated. In short, work should be divided, and the right people should be given the right jobs to reduce redundancy and inefficiency.

Benefits of Organizing

While the planning function of managers is essential to reaching business goals, lots of careful planning can go to waste if managers fail to organize the company's assets and resources adequately. Some of the benefits of organizing include the following:

- Organization harmonizes employees' individual goals with the overall objectives of the firm. If employees are working without regard for the big picture, then the organization loses the cohesion necessary to work as a unit.
- A good organizational structure is essential for the expansion of business activities. Because organizational structure improves tracking and accountability, that structure helps businesses determine the resources it needs to grow. Similarly, organization is essential for product diversification, such as the development of a new product line.
- Organization aids business efficiency and helps reduce waste. In order to maximize efficiency, some businesses centralize operations while others arrange operations with customer or regional demands in mind.
- A strong organizational structure makes “chain of command” clear so employees know whose directions they should follow. This in turn improves accountability, which is important when outcomes are measured and analyzed.

This is a short list of the benefits managers (and businesses) realize when they take the time to organize. When it comes to the particular organizational structure a business follows, a variety of factors, such as size, industry, and manager preference come into play.

Types of Organizational Structure

Organizations can be structured in various ways, with each structure determining the manner in which the organization operates and performs. An organization's structure is typically represented by an **organization chart** (often called simply an “org chart”)—a diagram showing the interrelationships of its positions. This chart highlights the chain of command, or the authority relationships

among people working at different levels. It also shows the number of layers between the top and lowest managerial levels. Organizational structure also dictates the **span of control** or the number of subordinates a supervisor has. An organization with few layers has a wide span of control, with each manager overseeing a large number of subordinates; with a narrow span of control, only a limited number of subordinates reports to each manager. The structure of an organization determines how the organization will operate and perform.

Divisional Structure

One way of structuring an organization is by division. With this structure, each organizational function has its own division.

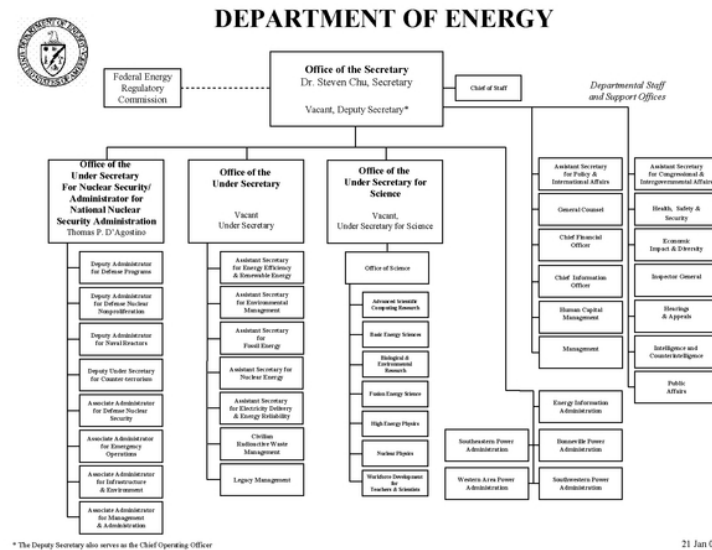


Figure 7.3.5.1: U.S. Department of Energy organization chart: The DOE organization chart shows a divisional structure with different divisions under each of three under-secretaries for energy. Each of the three division is in charge of a different set of tasks: environmental responsibilities, nuclear-energy responsibilities, or research responsibilities.

Each division can correspond to products or geographies of the organization. Each division contains all the necessary resources and functions within it to support that particular product line or geography (for example, its own finance, IT, and marketing departments). Product and geographic divisional structures may be characterized as follows:

- **Product departmentalization:** A divisional structure organized by product departmentalization means that the various activities related to the product or service are under the authority of one manager. If the company builds luxury sedans and SUVs, for example, the SUV division will have its own sales, engineering, and marketing departments, which are separate from the departments within the luxury sedan division.
- **Geographic departmentalization:** Geographic departmentalization involves grouping activities based on geography, such as an Asia/Pacific or Latin American division. Geographic departmentalization is particularly important if tastes and brand responses differ across regions, as it allows for flexibility in product offerings and marketing strategies (an approach known as localization).

Functional Structure

In a **functional structure**, a common configuration, an organization is divided into smaller groups by areas of specialty (such as IT, finance, operations, and marketing). Some refer to these functional areas as “silos”—entities that are vertical and disconnected from one another. Accordingly, the company’s top management team typically consists of several functional heads (such as the chief financial officer and the chief operating officer). Communication generally occurs within each functional department and is transmitted across departments through the department heads.

Functional departments are said to offer greater operational efficiency because employees with shared skills and knowledge are grouped together according to the work they do. Each group of specialists can therefore operate independently, with management acting as the point of cross-communication between functional areas. This arrangement allows for increased specialization.

One disadvantage of this structure is that the different functional groups may not communicate with one another, which can potentially decrease flexibility and innovation within the business. Functional structures may also be susceptible to tunnel vision, with each function seeing the organization only from within the frame of its own operation. Recent efforts to counteract these tendencies include using teams that cross traditional departmental lines and promoting cross-functional communication.

Functional structures appear in a variety of organizations across many industries. They may be most effective within large corporations that produce relatively homogeneous goods. Smaller companies that require more adaptability and innovation may feel confined by the communication and creativity silos that result from functional structures.

Matrix Structure

The **matrix structure** is a type of organizational structure in which individuals are grouped by two different operational perspectives at the same time; this structure has both advantages and disadvantages but is generally best employed by companies large enough to justify the increased complexity.

In a matrix structure, the company is organized by both product and function. Product lines are managed horizontally and functions are managed vertically. This means that each function—e.g., research, production, sales, and finance—has separate internal divisions for each product. In matrix organizations, the company is grouped by the perspectives it deems most appropriate. Common organizational perspectives include function and product, function and region, or region and product. In an organization grouped by function and product, for example, each product line will have management that corresponds to each function. If the organization has three functions and three products, the matrix structure will have nine (3×3) potential managerial interactions. This example illustrates how inherently complex matrix structures are compared to other, more linear structures.

Proponents of matrix management argue that this structure allows team members to share information more readily across task boundaries, which addresses the silo problem of functional management. Matrix structures also allow for specialization, which can increase depth of knowledge and enable individuals to be assigned according to project needs.

A disadvantage of the matrix structure is the increased complexity in the chain of command when employees are assigned to both functional and project managers. This arrangement can result in a higher manager-to-worker ratio, which, in turn, can increase costs or lead to conflicting employee loyalties. It can also create a gridlock in decision making if a manager on one end of the matrix disagrees with another manager. Blurred authority in a matrix structure can hamper decision making and conflict resolution.

Matrix structures should generally only be used when the operational complexity of the organization warrants it. A company that operates in various regions with various products may require interaction between product development teams and geographic marketing specialists—suggesting a matrix may be beneficial. Larger companies with a need for a great deal of cross-departmental communication generally benefit the most from this model.

1. Fayol, H. (1949). *General and Industrial Management* (C. Storrs, Trans.). London: Sir Isaac Pitman & Sons ←

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