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# IENG 450

# INDUSTRIAL MANAGEMENT

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## CHAPTER 5

## ORGANIZING

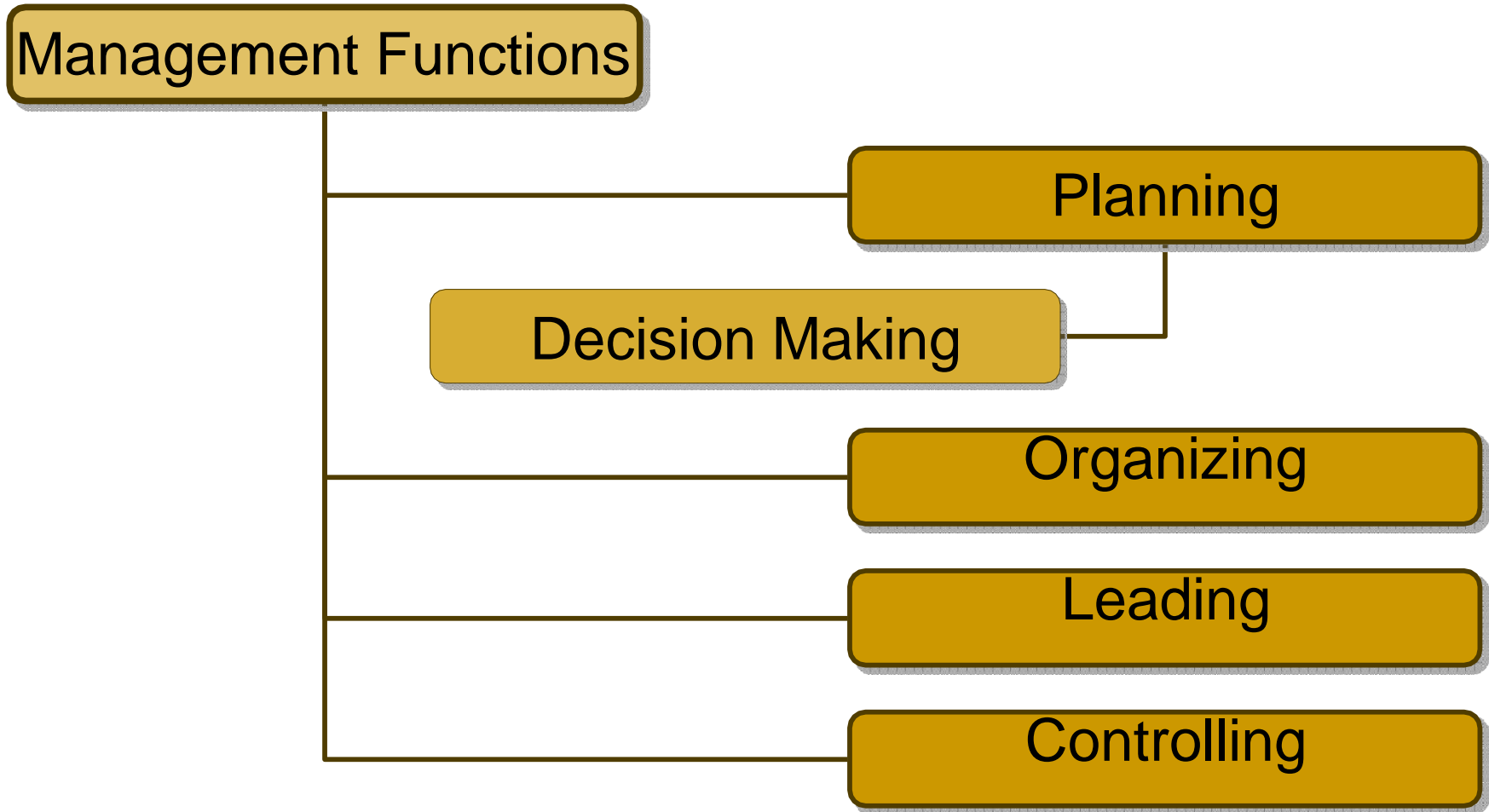
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# Introduction

- ❑ This chapter begins by distinguishing between the legal forms of organization: proprietorship, partnership, and corporation.
  - ❑ Next discussed is the organizing process and the various logics of subdivision, or departmentation.
  - ❑ The effective spans of control are discussed.
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# Functions of Management



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# Nature of Organizing

- Legal Forms of Organization

An organization is a group of individuals who work together toward a common goal.

- ❑ **Sole Proprietorship;**
- ❑ **Partnership;**
- ❑ **Corporations;**
- ❑ **Cooperatives;**

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# Nature of Organizing

## ■ Legal Forms of Organization

- **Sole Proprietorship** - Business owned and operated by one person.
- Advantages:
  - Simple to organize and to shut down;
  - Few legal restrictions;
  - The owner is free to make all decisions;
- Disadvantages:
  - The owner faces unlimited responsibility for the debts of the business;
  - He or she may find it difficult to raise capital to fund growth of the business;
  - The duration of the business is limited to the life of the owner;

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# Nature of Organizing

## ■ Legal Forms of Organization

**Partnership-** Association of two or more partners to carry on as co-owners, of a business for profit,

□ Advantages:

- Almost as easy to organize as a proprietorship;
- Has relatively few legal restrictions;
- Permit pooling the managerial skill and judgments and the financial strengths of several people who have a direct financial interest in the enterprise;

□ Disadvantages:

- Suffer the disadvantages of divided decision-making authority and potential damage to the business when partners disagree;
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# Nature of Organizing

- Legal Forms of Organization

**Corporations** - Legal entities owned by shareholders, who in general have no liability beyond loss of the value of their stock,

- **Advantages:**

- Have long-lasting life (as long as they submit an annual report to the state in which they are chartered);
- Find it easier to raise money, transfer ownership, and change management;

- **Disadvantages:**

- More difficult and expensive to organize;
  - Corporate income is taxed twice: once as corporation income tax the year the profit is made, and again as personal income tax when the after-tax profit is distributed as dividends;
  - Also, corporations are subject to many state and federal controls not affecting other forms of business;
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# Nature of Organizing

- Legal Forms of Organization

**Cooperatives-** Special type of organization owned by users or customers, to whom earnings are usually distributed tax-free in proportion to patronage.

- For example, about 1,000 rural electric cooperatives distribute electricity over much of America's nonmetropolitan land area; each customer of this service buys a share initially for a few dollars, and he or she can cast one vote to elect the board members who manage the cooperative.



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# Nature of Organizing

- Legal Forms of Organization
  - Sole proprietorships are the most common form of business organization in sheer numbers,
  - Most large organizations are corporations.

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# Nature of Organizing

- Organizing;

Wehrich and Koontz believe that people “will work together most effectively if they know the parts they are to play in any team operation and how their roles relate to one another....Designing and maintaining these systems of roles is basically the managerial function of organizing.”

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# Nature of Organizing

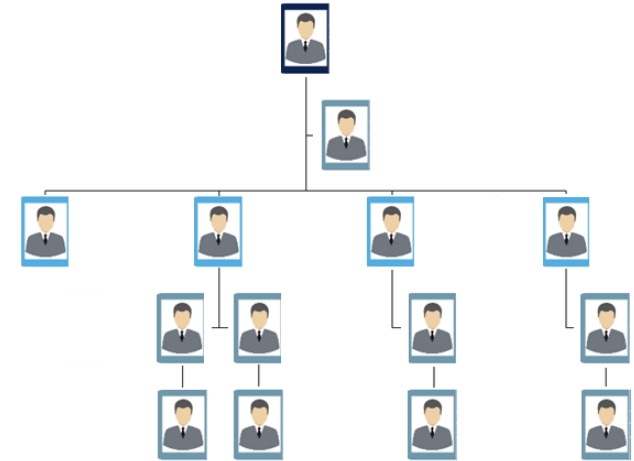
- Organizing Defined;
  1. The identification and classification of required activities;
  2. The grouping of activities necessary to attain objectives;
  3. The assignment of each grouping to a manager with the authority (delegation) necessary to supervise it;
  4. The provision for coordination horizontally (on the same or similar organizational level) and vertically (i.e., corporate headquarters, division, and department) in the organization structure;

# Traditional Organization Theory

## ❑ Patterns of Departmentation

Hierarchical organization:

- A hierarchical organization is an organizational structure where every entity in the organization, except one, is subordinate to a single other entity. This arrangement is a form of a hierarchy.
- Most corporations, governments, and organized religions are hierarchical organizations.
- This arrangement of individuals within a corporation may be according to power, status, and job function.



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# Traditional Organization Theory

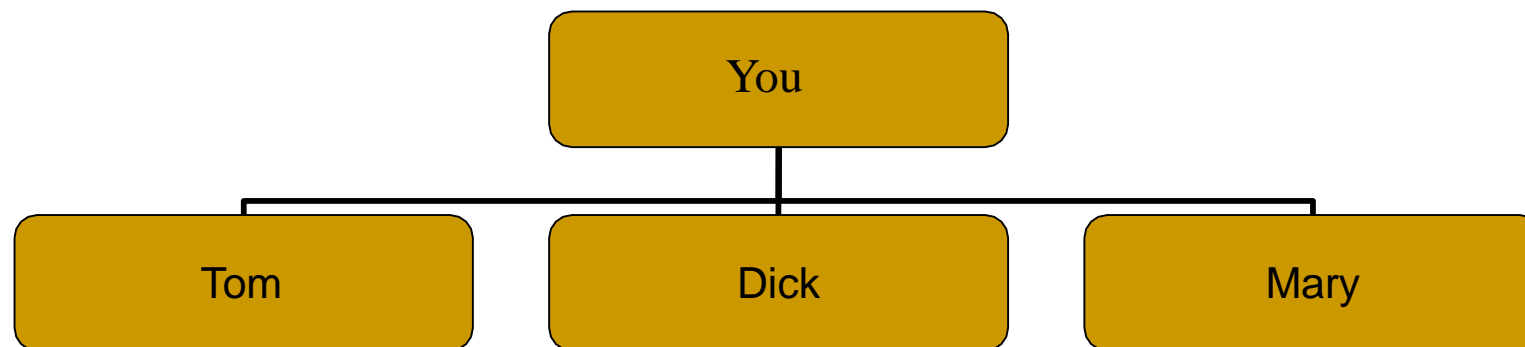
## Patterns of Departmentation

- Organizations are divided into smaller units (a process called departmentation or departmentalization)
  1. Functional departmentalization;
  2. Product departmentalization;
  3. Geographic departmentalization;
  4. Customer departmentalization;
  5. Process departmentalization;

# Patterns of Departmentation

## Example: Basic Organization

- Assume that you have a large collection of CDs and that you also enjoy wood-working. You begin to make some attractive wooden cabinets for your CDs in your basement or garage.
- They are admired by your friends and neighbors, who buy some, and then you find several local stores who want to carry them.
- As demand increases, you need help in the shop, and you hire several local people (Tom, Dick, and Mary) who will take direction from you.



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# Patterns of Departmentation

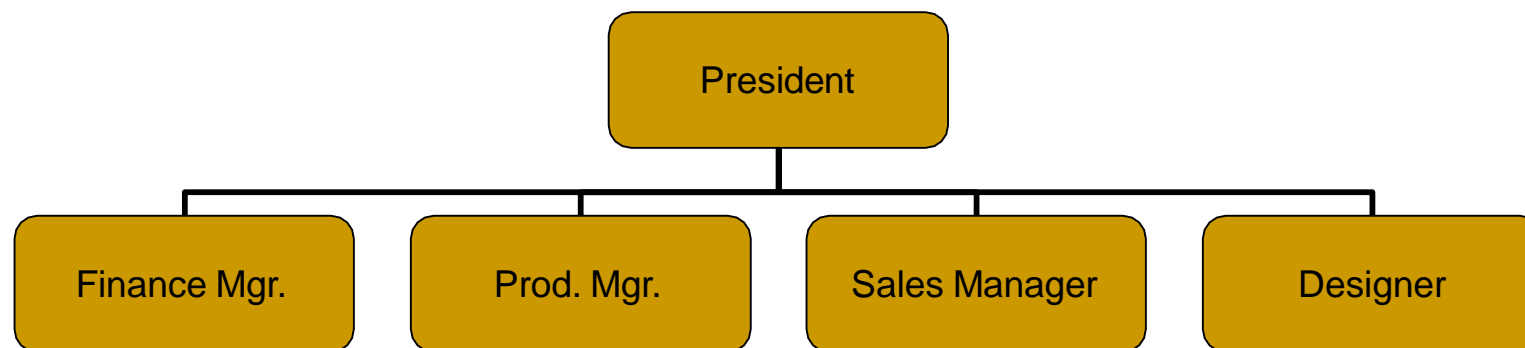
## 1. Functional Departmentation

- ❑ Grouping activities by functions performed.
- ❑ Activities can be grouped according to function (work being done) to pursue economies of scale by placing employees with shared skills and knowledge into departments for example human resources, IT, accounting, manufacturing, logistics, marketing, and engineering.
- ❑ Functional departmentalization can be used in all types of organizations.

# Patterns of Departmentation

## Example: Functional Departmentation

- As you grow, you find yourself away from the plant for extended periods, selling your product and arranging financing.
- You appoint the most experienced worker as foreman, and later as production manager.
- You hire salespeople to help sell your product, and as they increase in number, appoint one as sales manager.
- Appoint a local Certified Public Accountant (CPA) to work half- times as your finance manager.
- Appoint an engineering student as your designer.





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# Patterns of Departmentation

## 2. Product Departmentation

- ❑ Grouping activities by product line.
- ❑ Tasks can also be grouped according to a specific product or service, thus placing all activities related to the product or the service under one manager.
- ❑ Each major product area in the corporation is under the authority of a senior manager who is specialist in, and is responsible for, everything related to the product line.

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# Patterns of Departmentation

## **Example: Product Departmentation**

- As your business grows, you may also become interested in producing clear plastic storage boxes for CDs.
- You discover that production methods for plastic boxes are very different from those for wooden cabinets, and you organize separate production shops under separate supervisors to produce the two kinds.
- Next, you discover that your diskette boxes appeal to a different market, and you need a different group of sales people.
- You may now ready to reorganize by product.

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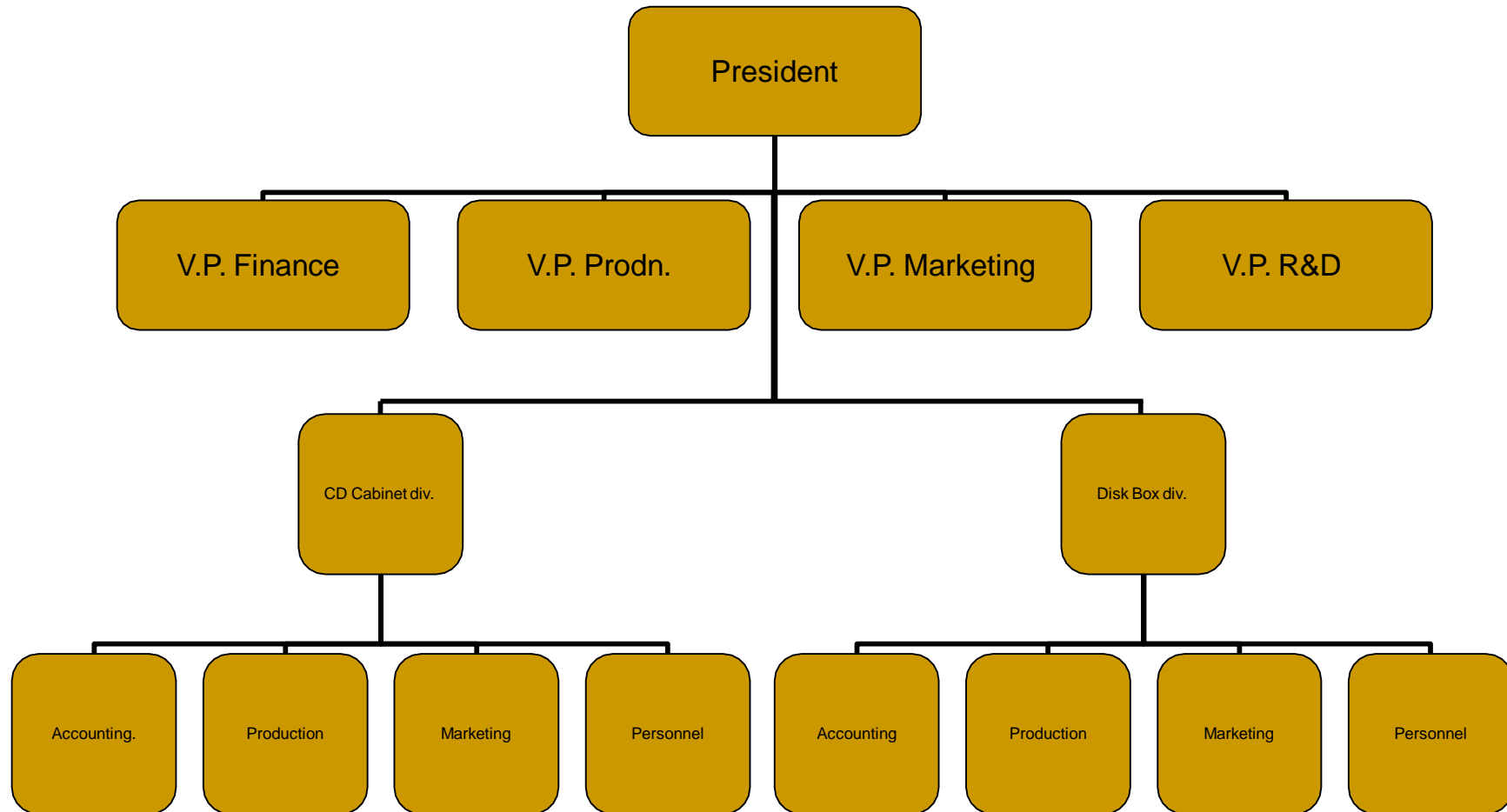
# Patterns of Departmentation

## **Example: Product Departmentation**

- The separate CD cabinet and diskette box divisions will begin with their own manufacturing and marketing functions, and later you may add accounting and personnel functions to each division.
- Because obtaining bank loans, selling stock and other financial activities are best handled centrally, you will need
  - consistent personnel policies in both divisions;
  - some top level advice on new markets; and
  - new technical advances;
- Thus you will need to organize a *staff* at the corporate level in addition to your product divisions.

# Patterns of Departmentation

## Example: Product Departmentation



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# Patterns of Departmentation

## 3. Geographic or Territory Departmentation

- ❑ Grouping activities on the basis of territory.
- ❑ If an organization's customers are geographically spread, it can group jobs based on geography.
- ❑ For example, the organization structure of Coca-Cola has reflected the company's operation in two broad geographic areas – the North American sector and the international sector, which includes the Pacific Rim, the European Community, Northeast Europe, Africa and Latin America groups.

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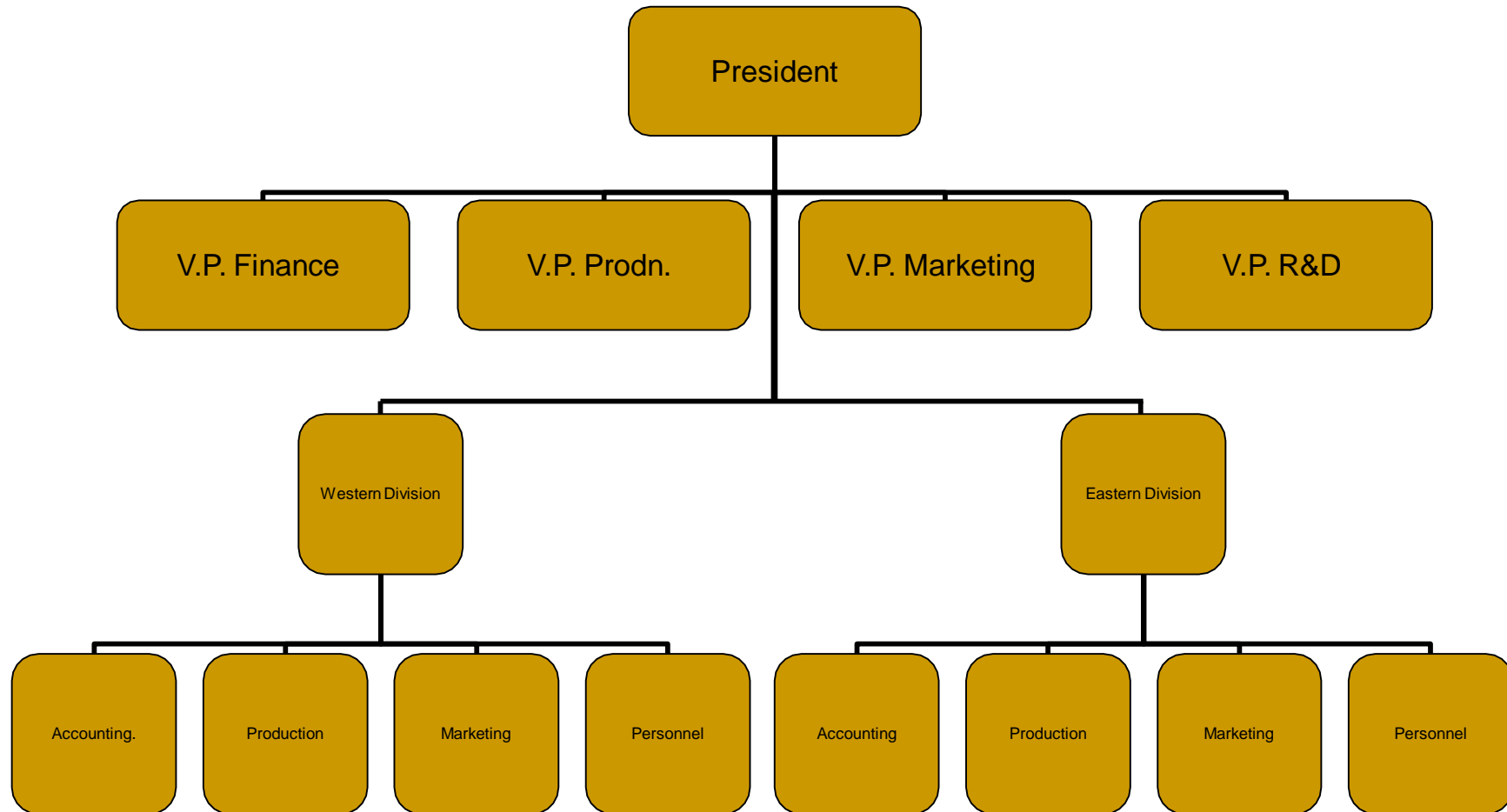
# Patterns of Departmentation

## **Example: Geographic or Territory Departmentation**

- In old days, long-distance communication was slow and unreliable. If an enterprise on the American east coast wished to set up a west coast division, they would have to give regional manager broad authority.
- Today managers communicated by the Internet, telephone, fax or even they can jet anywhere for daily meetings, which makes regional division unnecessary.
- However, you may find that accommodating regional differences is the key to effective management.
- A company that builds housing developments may find regional differences in housing styles, construction codes, marketing media, and methods of mortgage financing are very important, and it may set up separate geographic divisions.
- Geographic subdivision is more common at lower levels; sales forces are commonly divided by region for more efficient and more personal customer contact.

# Patterns of Departmentation

## Example: Geographic or Territory Departmentation



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# Patterns of Departmentation

## 4. Customer Departmentation

- ❑ Grouping activities on the basis of common customers or types of customers.
- ❑ Jobs may be grouped according to the type of customer served by the organization.
- ❑ The assumption is that customers in each department have a common set of problems and needs that can best be met by specialists.
- ❑ The sales activities in an office supply firm can be broken down into three departments that serve retail, wholesale and government accounts.



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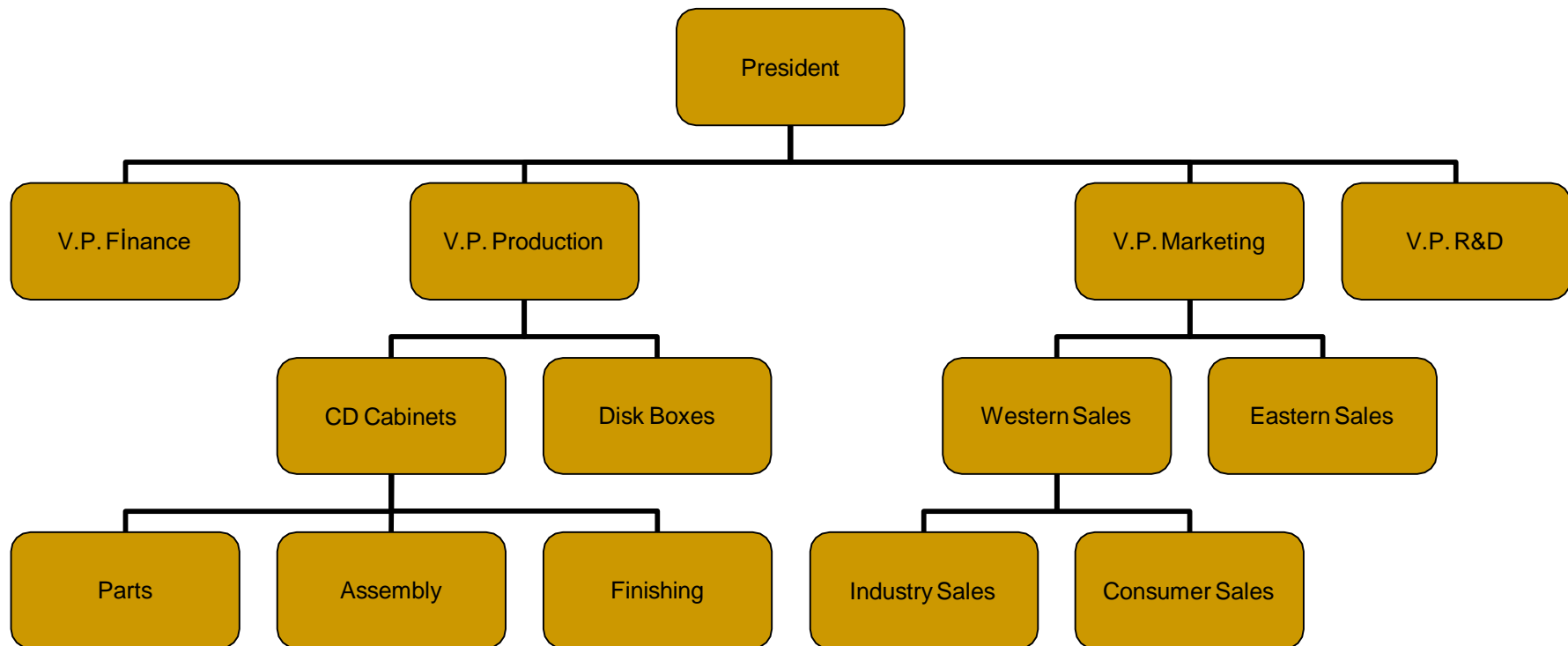
# Patterns of Departmentation

## 5. Process Departmentation

- ❑ Grouping activities on the basis of product or service or customer flow.
- ❑ Because each process requires different skills, process departmentalization allows similar activities to be categorized.
- ❑ For example, the applicants might need to go through several departments namely validation, licensing and treasury, before receiving the driver's license.

# Mixed Departmentation

- Functional subdivision is at the top level with product and process subdivision in manufacturing, and geographic and customer departmentation in marketing.



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# Traditional Organization Theory

- Span of Control
  - As soon as a new organization grows to a significant size, subordinate managers must be appointed to help the top manager manage.
  - This need was recognized as soon as large groups of people began working toward a common purpose.

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# Traditional Organization Theory

- Span of Control – Significance
  - ❑ The question is not whether intermediate managers are needed, but how many.
  - ❑ This depends on the number of people reporting directly to each manager, referred to as the *span of management* (or span of control).
  - ❑ Span of control refers to the number of subordinates a supervisor has.

# Control Span

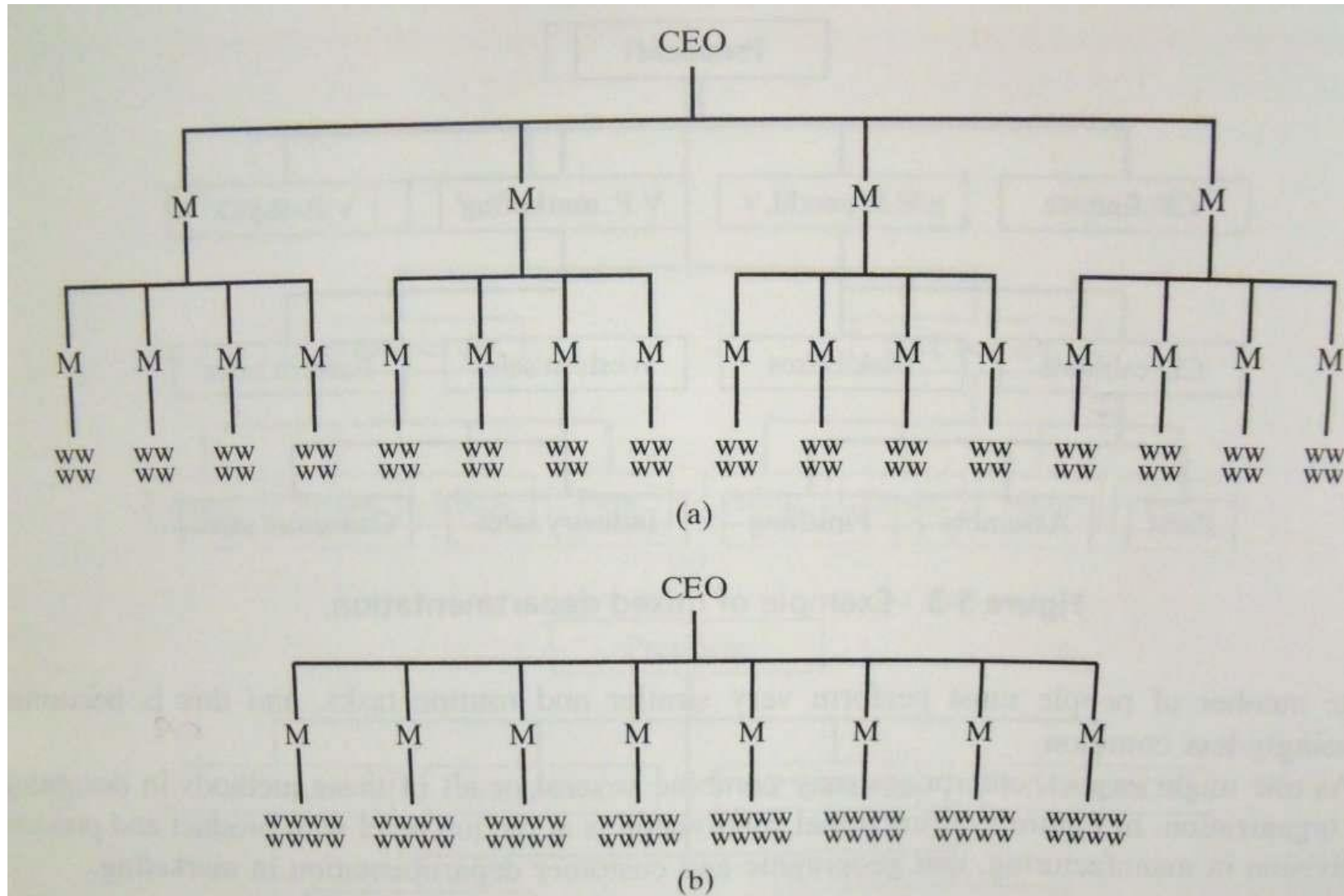


Figure 5-4 Control spans of (a) four and (b) eight compared. M, manager; w, worker.

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# Traditional Organization Theory

- Factors Determining Effective Spans
  - Graicunas (Gulick and Urwick, 1937) distinguished three types of interactions
    - Direct single relationships;
    - Cross-relationships; and
    - Direct group relationships – each of them contributing to the total amount of interactions within the organization;

# Traditional Organization Theory

- Let  $n$  be the number of subordinates reporting to a supervisor. Then, the number of relationships of direct single type the supervisor could possibly engage into is:

$$n$$

- The number of interactions between subordinates (cross relationships) he has to monitor is:

$$n(n - 1)$$

- The number of relationships for a manager with  $n$  subordinates as:

$$n[2^{(n-1)} + n - 1]$$

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# Traditional Organization Theory

- Factors Determining Effective Spans
  - Subordinate training;
  - Nature of jobs supervised – the simpler the tasks, the greater the similarity between the jobs supervised;
  - Rate of change of activities and personnel – an organization must be staffed for the rate of decision making required in a changing market situation;
  - Clarity of instruction and delegation;
  - Staff assistance;



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- **Thank you for your attention!**
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