

# Strategic Management of Change

Dr. Hamza Aib

University of M'Sila

## Chapter 4. Formal organizational structure

# Objectives of the chapter

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- Understanding Organizational Structure Formation;
- Understanding how to apply the principles of formal structure design (clustering and linking);
- Recognizing the advantages and disadvantages of the functional structure compared to the divisional structure.

# Formal organizational structure

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## Reminder: Why Organizations?

- Organizations emerge when individuals cannot achieve their goals through individual or informal group efforts.
- Formal organizations **coordinate and integrate** individuals with specialized knowledge and skills.

# Elements of the structural design

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The formal design of an organization includes:

- 1. Work Structure:** This encompasses the job description model, the organizational chart, and communication relationships (organizational contracts, job descriptions, etc.).
  - **Clustering:** Identifying who performs a specific task within a group.
  - **Linking:** Determining who coordinates activities between these groups.
- 2. Rewards:** This involves financial compensation, career opportunities, effective personal relationships, exciting job roles, and wage standards.
- 3. Measurement:** The procedures by which plans are formulated, measured, and results are determined.

# Structural design: Clustering

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Clustering is the assembly of individuals and secondary units associated with one another at the activity level, which tends to be more costly to manage.

Depending on the complexities of the activity, we obtain:

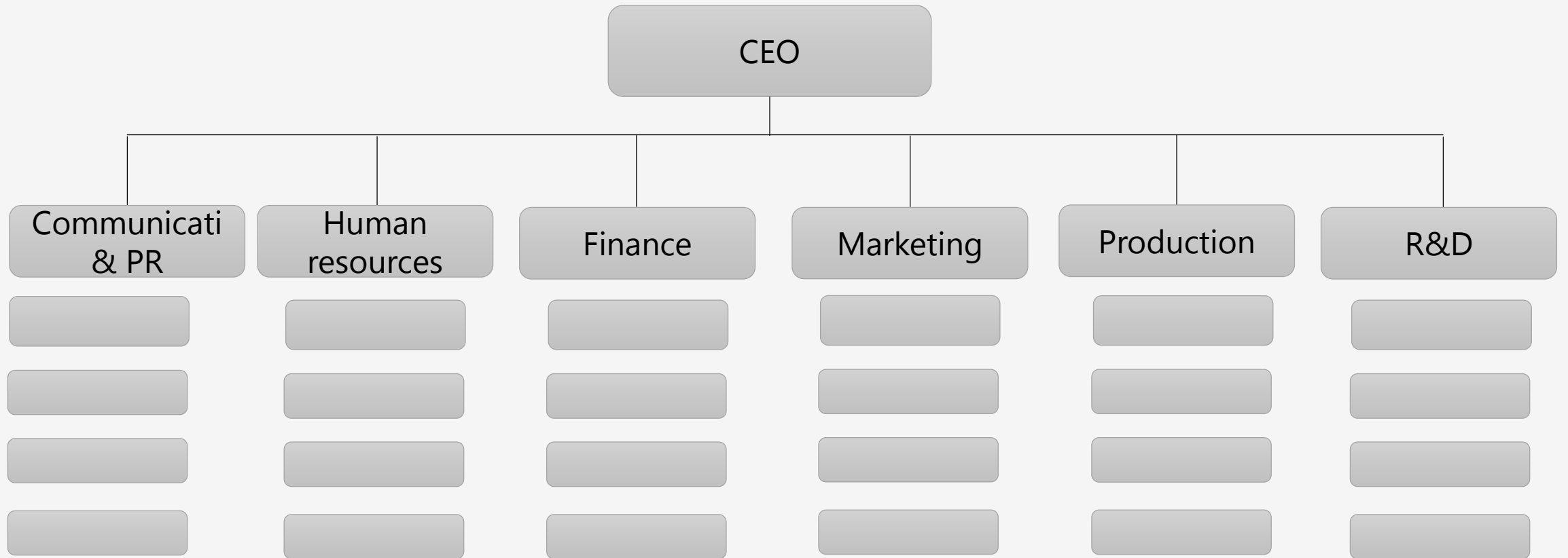
- Functional Structure (Finance, Human Resources, Marketing, etc.)
- Divisional Structure (Customer, Product, Region, etc.).

Hybrid structures are organizational structures in which functional structures are central. These structures integrate divisions and functional staff.

# Structural design: Clustering

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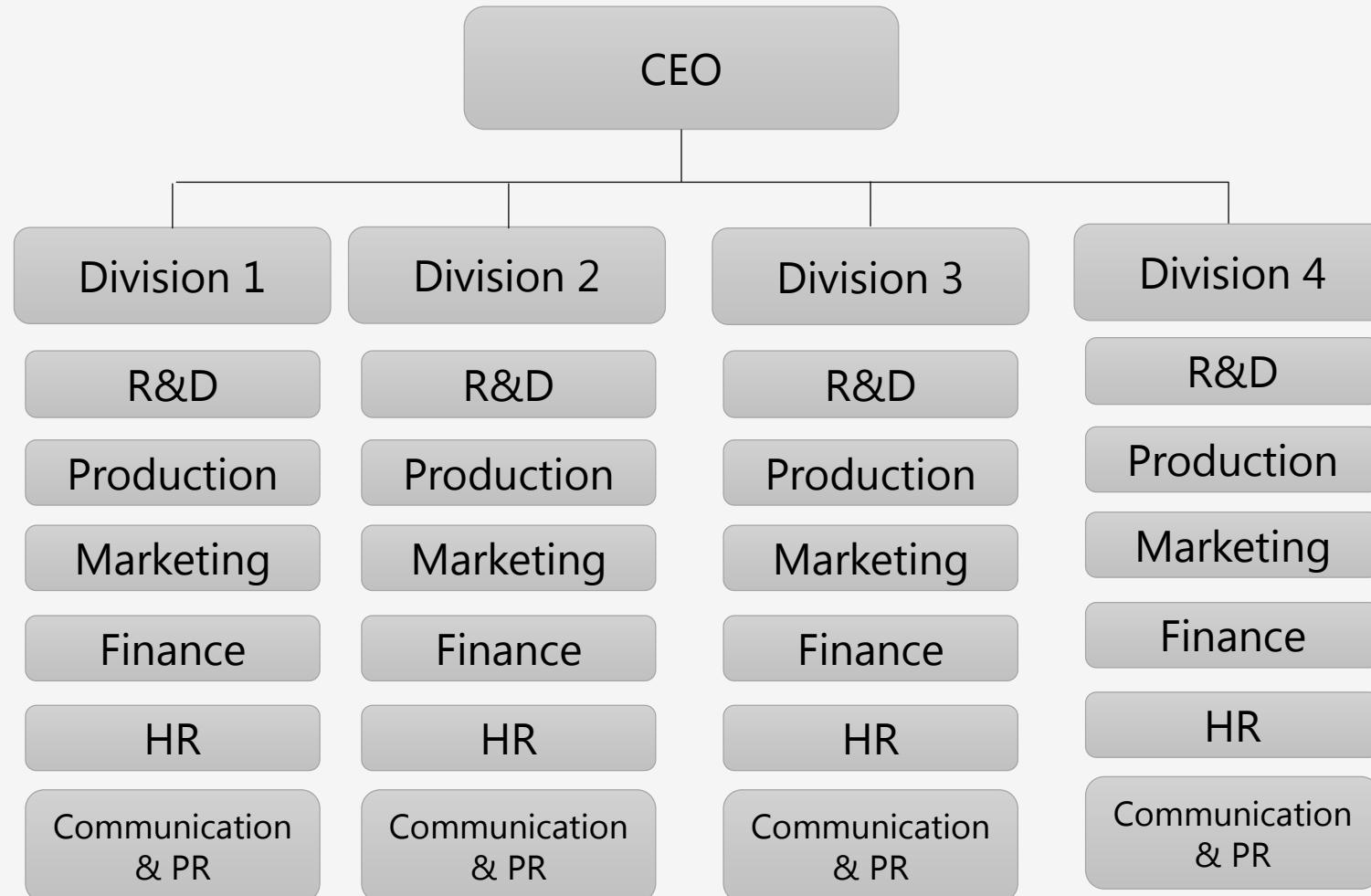
## Functional organizational structure



# Structural design: Clustering

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## Divisional organizational structure



# Structural design: Clustering

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## Advantages and disadvantages of the functional structure:

### Advantages:

Workforce specialization.

### Disadvantages:

- Conflict between secondary units.
- Accountability and responsibility distribution.
- Insufficient development of general managers.



# Structural design: Clustering

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## Advantages and disadvantages of the divisional structure:

### Advantages:

- Simplifies coordination within the department.
- Decentralizes decision-making (allows for growth).
- Deals with customers on a more personalized basis.

### Disadvantages:

- Job duplication.
- Costly specialization.

# Structural design: Linking

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## Linking:

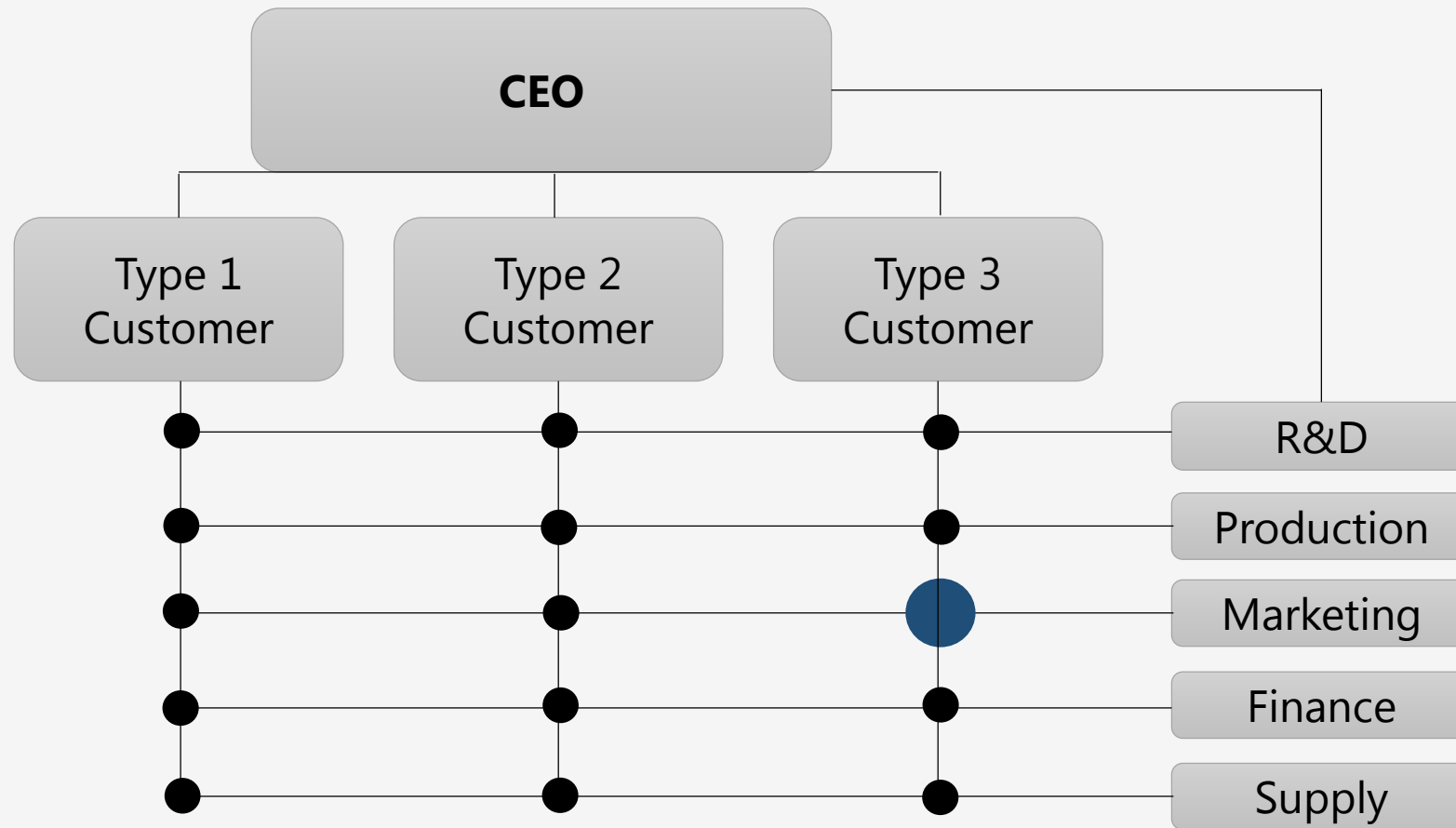
Any remaining interdependencies after clustering that can be managed through formal linking mechanisms.

- Laws, programs, and procedures (e.g. exchange rates).
- Cross-functional groups (temporary/permanent).
- Complementary roles: Formal responsibility but without reward or punishment authority (e.g. brand manager).
- Matrix structures: A dual reporting structure to address complex interdependencies, where both managers have authority.

# Structural design: Linking

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Matrix structure:



# Summary

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- The formal structure coordinates the behavior of individuals within organizations.
- There are two fundamental formal structures: the functional and divisional structures.
- The leader of the change process is responsible for designing the coherent formal structure.