

## **Lecture 2 : company structure**

### **1. Centralized Or Decentralized Organizations structure**

**Centralization and decentralization are not classified as separate types of organizational structure because they represent different degrees or styles of decision-making authority distribution within an organization's existing structure, rather than distinct structural frameworks themselves.**

#### **1.1 Centralized Structure**

In a centralized organization, decision-making power is concentrated at the top levels of management, typically with senior executives or a central authority such as the CEO or board of directors.

- **Advantages:** Allows for uniform policies, consistent decision-making, and clear leadership; reduces duplicated effort and operational costs; facilitates quick implementation of strategic directives from top management.
- **Disadvantages:** Slows down decision-making processes at lower levels, reducing responsiveness to local or market-specific issues; employee motivation may decline due to limited autonomy; can lead to rigidity and decreased innovation, especially in dynamic environments.

#### **1.2 Decentralized Structure**

In a decentralized organization, decision-making authority is dispersed across various levels, such as department managers, regional offices, or project leaders.

- **Advantages:** Speeds up decisions at local or operational levels, allowing the company to be more flexible and responsive; enhances employee motivation and empowerment by giving more autonomy; fosters innovation by allowing different units to adapt strategies to their specific contexts.

- Disadvantages: Can lead to inconsistencies in decisions, policies, and customer experience across units; coordination and control become more challenging; risk of duplication of efforts and increased operational costs.

| Feature              | Centralized         | Decentralized        |
|----------------------|---------------------|----------------------|
| Decision-making      | Concentrated at top | Spread across levels |
| Speed of decisions   | Slower              | Faster               |
| Control              | Strong, uniform     | Flexible, adaptive   |
| Employee empowerment | Limited             | High                 |
| Innovation           | Usually lower       | Usually higher       |

## **2/ Types of Organizational Structure**

Departments in a company include Human Resources, IT, Accounting and Finance, Marketing, Research and Development (R&D), and Production. Some product-based or project-based companies may divide up business units by addressing a single product or project as a department.

There are four general types of organizational structure that are widely used by businesses all around the world:

### **1. Functional Structure**

Under this structure, employees are grouped into the same departments based on similarity in their skill sets, tasks, and accountabilities. This allows for effective communications between people within a department and thus leads to an efficient decision-making process. Companies with departments such as IT and Accounting are good examples of a functional structure.

- Advantages: Encourages specialization, efficiency, and role clarity.

- Disadvantages: Can create silos that reduce communication between departments

## **2. Divisional Structure**

This structure organizes business activities into specific market, product, service, or customer groups. The purpose of the divisional structure is to create work teams that can produce similar products matching the needs of individual groups. A common example of the divisional structure is geographical structure, where regional divisions are built to provide products or services to specific locations.

- Advantages: Promotes accountability and responsiveness to local markets.
- Disadvantages: May lead to duplication of resources and inefficiencies if divisions perform similar functions.

## **3. Geographic Structure**

Common in multinational and regionally distributed firms, the geographic structure groups operations by location (e.g., North America Division, European Division).

- Advantages: Enhances local market adaptation and cultural understanding.
- Disadvantages: Can increase administrative costs and weaken global control.

## **4. Matrix Structure**

Matrix Structure is a combination of functional and divisional structures. This structure allows decentralized decision making, greater autonomy, more inter-departmental interactions, and thus greater productivity and innovation. Despite all the advantages, this structure incurs higher costs and may lead to conflicts between the vertical functions and horizontal product lines.

- Advantages: Facilitates cross-functional collaboration and resource optimization.

- Disadvantages: Can create confusion and conflict due to dual authority lines.

## **5. Hierarchical Structure**

A hierarchical structure is the traditional top-down model, forming a pyramid of leadership where authority flows from senior executives to lower-level employees.

- Advantages: Clear chain of command and well-defined career paths.
- Disadvantages: Slower decision-making and limited creativity.

## **Flat (Horizontal) Structure**

A flat structure minimizes layers of management, giving employees more autonomy and broader responsibilities.

- Advantages: Encourages collaboration and faster communication.
- Disadvantages: May cause role ambiguity and be hard to maintain as the company grows.

## **7. Network Structure**

A network structure is a modern, flexible model where a central company outsources many functions to external organizations while focusing on coordination and strategic control.

- Advantages: Highly adaptable, cost-efficient, and suitable for digital or global businesses.
- Disadvantages: Increased dependency on external partners and reduced internal control.

## **8. Hybrid Structure**

The hybrid structure combines two or more structures (e.g., functional and divisional) to balance control, specialization, and flexibility.

- Advantages: Flexible and scalable for large enterprises.
- Disadvantages: Complexity in management and coordination.

## **Summary Table**

| <b>Structure Type</b> | <b>Basis of Organization</b>        | <b>Best For</b>               | <b>Main Advantage</b> | <b>Main Disadvantage</b> |
|-----------------------|-------------------------------------|-------------------------------|-----------------------|--------------------------|
| <b>Functional</b>     | Departmental specialization         | Small to mid-sized firms      | High efficiency       | Departmental silos       |
| <b>Divisional</b>     | Product, service, or region         | Large multi-product firms     | Market focus          | Resource duplication     |
| <b>Geographic</b>     | Location or region                  | Multinational firms           | Local responsiveness  | High costs               |
| <b>Matrix</b>         | Dual authority (function & project) | Large, project-driven firms   | Collaboration         | Authority conflicts      |
| <b>Hierarchical</b>   | Command levels                      | Traditional corporations      | Order & control       | Slow decision-making     |
| <b>Flat</b>           | Minimal hierarchy                   | Startups, agile teams         | Innovation & autonomy | Ambiguous roles          |
| <b>Network</b>        | Outsourced system                   | Global digital firms          | Flexibility           | Dependency on partners   |
| <b>Hybrid</b>         | Mixed methods                       | Large diversified enterprises | Balance & synergy     | Coordination complexity  |

In summary, the four core corporate structures are functional, divisional, geographic, and matrix, while modern organizations often adapt hybrid, flat, or network variations to meet evolving business demands.