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Functional organizational structure example company

Whenever the production of goods or services involves more than one person, some kind of organizational structure comes into play. Even in the most ad hoc and informal work groups, people divide up and coordinate tasks and communicate regularly with each other. The larger the scale and complexity of the production and distribution, the more structured and hierarchical this structure grows. A company organizes itself around the technologies it uses and the type and number of goods and services it produces. Small-batch custom-manufacturers redesign their work-flows with each new product. Collaboration and knowledge-sharing are thus a must. Mass manufacturing entails automated assembly lines and a large number of unskilled and semi-skilled workers. Control is paramount. Continuous-process production relies heavily on machinery monitored by far fewer workers. Upper echelons here collectively plan and coordinate work-flows; lower echelons follow standard operating procedures. Small firms are usually run by their founders or a few principals, each having a wide span of control. There is little if any hierarchy, a shared knowledge base and centralized decision-making. Decision-making in very large firms is also centralized. But here the division of labor is compartmentalized by functional speciality. Coordinating such a diverse set of operation requires multiple layers of supervision. Structurally, the organization resembles a pyramid-shaped hierarchy where individual managers have a narrower span of control. Organizational structures tend to be either mechanistic or organic. Hierarchical, compartmentalized bureaucracies lauded by early organizational theorists work with machine-like precision. Everything – job-tasks, production sequencing, logistics, etc – is routinized to maximize efficiency. Difficulties arise, though, when producing goods or services does not naturally lend itself to systemization. Rigidly formal structures thwart creativity and collaborative thinking. Impromptu, cross-functional work-groups free to experiment and innovate are better at solving complex problems. In key respects, their adaptive process-orientation resembles a living organism's. In a functional organization, a chief operating officer (COO) oversees one department tasked with marketing, another with production, a third with research and development, etc. In a product or geographic area, each profit center or region has its own set of functional departments overseen by a general manager who reports to the COO. Or a company can retain its functional structure by assigning a manager to coordinate each functional department's work on a given product and become a matrix organization. Many start-up businesses with a good product and growing sales nonetheless fail eventually because they lack organizational structure. Established businesses hamstrung with an organization structure ill-suited to its competitive environment likewise fail. Hierarchical ones respond slowly to changing market condition. Product or geographical ones sacrifice economies-of-scale. When product and functional manager have different agendas, matrix ones fall prey to internal gridlock. Finding the optimal organizational 'fit' given the size, technologies employed and markets served by a business is thus crucial. Want a simple way to organize your small business? Try a functional organizational structure. A functional organizational structure is the most straightforward and common organizational structure for small- to medium-sized businesses. It works best for companies that have one or just a few product lines. Grouping employees by function or specialization is a simple organizational method to use when starting a business. A functional organizational structure groups employees together based on their functions or roles and areas of specialization. Typical departments are marketing, human resources, finance, engineering, sales and customer service. Departments in a functional structure are often called "silos" because they work independently from each other. The employees communicate exclusively with others in their group and report to a department head. Department heads communicate with their peers in other departments. Managers of departments report directly to top management or the CEO. This type of organizational structure works best in a stable environment with few changes where job tasks are standardized and continuous. Consider the functional organizational structure advantages and disadvantages. Specialization and efficiency: Employees achieve a high level of specialization. Grouping employees with similar skills increases efficiency and results in higher-quality work output. By executing standardized tasks repeatedly, workers become more skilled and productive. Training and promotions: The path for growth is clear with well-defined objectives for receiving promotions. Since the tasks are usually standardized, training new employees is easier and quicker. Accountability: Employees have a clear chain of accountability by reporting to a single department head, not multiple supervisors from other divisions. : Silo effect on decision making: The silo effect leads to poor communication across functions since employees don't communicate and aren't accountable to each other. The structural bureaucracy slows down decision making. Everything must go up the chain to top management and then back down to the employees taking action on the decisions. Lack of cooperation: Because each department operates separately, employees can become territorial, excessively loyal to their own department and unwilling to cooperate with other departments. Growth: Functional models have difficulty adapting to the increased diversification that results from growth. Top management must assume the responsibility of coordinating and integrating the work of the various functional departments. : Sales: Eight salespeople are divided by geographically defined regions. Marketing: The marketing department has seven employees who are constantly monitoring consumer buying habits and competitors' promotional campaigns. Accounting and finance: Seven employees are in charge of sending invoices to customers and making payments for overhead expenses and supplies. One employee handles bank account reconciliations. Office: The administrative staff has 11 employees with an office manager, a receptionist, a customer service person and several people in charge of correspondence and filing. Production: Manufacturing uses 36 employees to handle the purchases of raw materials, production operations, warehousing and delivery of the products to customers. Research: The research staff has six employees working on improvements for Swifty Feet. Human resources: With 82 employees, the company needs seven employees in the human resources department to handle employment issues such as: recruiting hiring performance reviews benefits payroll insurance matters The organizational structure for Hasty Hare is considered "flat" because the seven department heads report directly to the president. This reporting chain of command will change as the company grows and adds more specialized departments. However, the president can only handle a certain number of people reporting to him without getting overloaded. At some point, the president will have to start relinquishing authority and delegating responsibility to other managers. When that happens, the organizational chart will become taller, with fewer department heads reporting to the president and other top management officers. A functional organizational structure is a logical starting point for most small businesses. It is simple to implement and easy to manage. Its limitations are the difficulty in adapting to growth and additions of new territories or product lines. A functional organizational chart will define the span of control and expose any limitations. From a layperson's perspective, an organizational diagram for a manufacturing company may seem like an easy read. The president or CEO is at the top, and the workers are at the bottom with various vice presidents, directors, managers and supervisors sprinkled in between. For those deciding on the layout, however, creating a structure is no easy feat, particularly for a company that manufactures products. The organizational structure needs to ensure that responsibility is given to the right people without causing information bottlenecks, duplicating efforts or wasting resources. Most manufacturers today still use a traditional structure. However, each company can use a combination of five different methods for organizing its resources. The organizational structure for a manufacturer is usually unique from other types of companies. Some degree of responsibility and autonomy needs to be given to manufacturing operations, and other business units need to support those operations to keep the plant operating. The purpose of an organizational structure is to allocate and coordinate the company's resources so that management and employees can work effectively. The structuring or organizing process is accomplished by three primary decisions: Division of labor: determining job duties and responsibilities Departmentalization: grouping jobs together Delegation: assigning authority and responsibilities An organizational structure describes the relationships of resources within a company. It begins with people but also includes materials, money and information. A well-designed structure should have defined lines of authority, channels for the flow of information and a means of control. Some relationships are relatively permanent, like the relationship between a line worker and a manager, while others can be changed as needed, like an ad hoc committee. Manufacturing companies typically use traditional structures for organizing their resources. These almost always involve departmentalization so that similar tasks can be grouped together. Traditional structures are quite rigid, grouping employees by one or more of the following criteria: Function Products Processes Customers Regions Two other types of business structures are contemporary and team structures. These are more flexible than traditional structures, allowing management to move employees as needed to respond to dynamic working environments. Project-based companies, like software companies and service companies, for example, would often benefit from these more-flexible types of structures. A typical manufacturing company department structure would, for the sake of example, consist of three departments: finance, operations and marketing. A vice president would oversee each of these divisions and report to the company president, who is responsible for all three divisions and is normally at the top of a manufacturing company organizational chart. Finance: Managers of allocations, inventory control, accounting and financial planning all report to the VP of finance. Operations: Production managers and the director of human resources report to the VP of operations. Marketing: The sales manager, director of customer service and distribution manager all report to the VP of marketing. This example uses functional departmentalization, which bases the departments on the primary functions conducted by the company. Functions could include manufacturing, engineering, legal, finance, human resources, sales and marketing. For example, Ethan Allen Interiors, a furniture manufacturer, uses the functional model. It has five different departments for retail operations, manufacturing and sourcing, logistics, operations and product design. Product departmentalization divides company resources based on the products being manufactured. This is typically only done within the operations division. For example, an appliance manufacturer could have a production manager for small appliances and another for large appliances. IIT, a technology manufacturer for the transportation, industrial and oil and gas industries, uses four product divisions: Industrial Process: includes pumps, valves, and wastewater treatment equipment Control Technologies: includes motion control and vibration isolation products Motion Technologies: includes shock absorbers and brake pads Interconnect Solutions: includes connectors for several different markets Process departmentalization divides departments based on the work being done. For example, in a furniture manufacturing company, lumber cutting and treatment, furniture assembly and finishing could each be divided into separate departments with managers for each department or a supervisor for each department reporting to the operations manager. Customer departmentalization usually involves only the parts of the company that interact with customers rather than where products are manufactured. For example, sales and marketing could be two departments, particularly if the company has a large sales force or a large marketing department. Marketing could be further divided into different marketing efforts, such as online marketing and retailer relations. Sales departments are often compartmentalized between inside and outside sales forces or between different types of clients, like having a separate manager and staff for key accounts. When a manufacturer has more than one location, it's often advantageous to divide the company by region. How this is done depends on the size of the company and the work being done in each location. At one end of the spectrum, a large manufacturer with independent operations in different countries, like an auto manufacturer, could have separate companies in each country. A smaller company may have a plant manager at each location, each reporting to the VP of operations. Ford Motor Company, for example, has three global divisions: Americas, Asia-Pacific, Europe, Middle East and Africa. An executive VP is in charge of each of these divisions. These are in addition to the company's functional groups, which operate at a global level. For exceptionally large manufacturers, it doesn't make much sense to limit the company's organization structure to just one model. For example, Procter & Gamble's "four pillars" refer to four departmentalization models, which it uses at the same time. First Pillar: Global business units organize the company by its product lines, such as baby products, beauty products, fabric and home care, etc. Second Pillar: Selling and market operations groups are arranged with the geographical model for North America, Latin America, Asia-Pacific, Europe, China, India, the Middle East and Africa. Third Pillar: Global business services division also uses a geographic model to support its other business units in areas like accounting, information technology, payroll and facilities management. Fourth Pillar: Corporate functions, using the functional model, provides the company with resources such as human resources, legal, marketing, research and development and business development. If you are just starting out with a small manufacturing plant and a couple dozen employees, a functional structure may be sufficient. However, when the company grows, when more products are added to production facilities and when a second or third plant is needed, the questions surrounding organization become much more complex. Boston Consulting Group recommends aligning your choices in organizational structure with your company's strategies. This involves asking critical questions such as: Should manufacturing responsibility be centralized, or should decisions be made locally to account for regional differences? How can you best ensure technology standards are implemented across all business units? Should units like engineering, asset management and maintenance be integrated into manufacturing or separated from it? How much responsibility will plant managers have? How will responsibility be organized below the plant manager? Boston Consulting Group has identified a trend across different manufacturing industries toward more centralized decision making and the use of functional organization for units such as production control, engineering, IT, planning and asset management. This typically allows companies to move faster in increasingly global markets while ensuring standards are met across the company regardless of location. what is functional organizational structure example. what companies use functional organizational structure. what is functional organizational structure

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