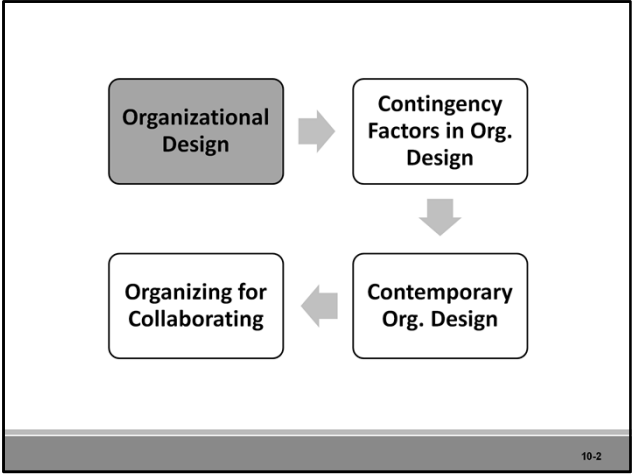




Once managers are done planning, then what? This is when managers need to begin to “work the plan.” And the first step in doing that involves designing an appropriate organizational structure. This chapter introduces the elements of organizational structure and the process for designing an effective organization structure.



Fayol's 14 Principles of Management

1. Division of Work. Specialization increases output by making employees more efficient.
2. Authority. Managers must be able to give orders, and authority gives them this right.
3. Discipline. Employees must obey and respect the rules that govern the organization.
4. Unity of command. Every employee should receive orders from only one superior.
5. Unity of direction. The organization should have a single plan of action to guide managers and workers.
6. Subordination of individual interests to the general interest. The interests of any one employee or group of employees should not take precedence over the interests of the organization as a whole.
7. Remuneration. Workers must be paid a fair wage for their services.
8. Centralization. This term refers to the degree to which subordinates are involved in decision making.
9. Scalar chain. The line of authority from top management to the lowest ranks is the scalar chain.
10. Order. People and materials should be in the right place at the right time.
11. Equity. Managers should be kind and fair to their subordinates.
12. Stability of tenure of personnel. Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
13. Initiative. Employees who are allowed to originate and carry out plans will exert high levels of effort.
14. Esprit de corps. Promoting team spirit will build harmony and unity within the organization.

10-3

The basic concepts of organization design are formulated by early management writers such as Henri Fayol and Max Weber. They offered structural principle for managers to follow.

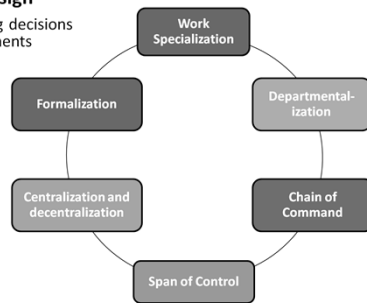
These include:

Many of these principles are already 90 years old. You might think that those principles would be pretty worthless today. Surprisingly, they are not. They still provide valuable insights into designing effective and efficient organizations. Of course, we have also gained a great deal of knowledge over the years as to their limitations.

Organizational Design

- **Organizational Design**

- a process involving decisions about six key elements

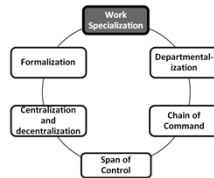


10-4

Organizational design means developing or changing an organization's structure. This process involves decisions about six key elements: work specialization, departmentalization, chain of command, span of control, centralization/decentralization, and formalization.

Work Specialization

- Work Specialization
 - Originated from the theory of scientific management
 - The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.
 - Reduction of labor costs
 - Hospital
 - Increase efficiency
 - Dafen village



10-5

Work specialization (also known as division of labor) means **dividing work activities into separate job tasks**. Individual employees often “specialize” in doing part of an activity rather than the entire activity in order to increase work output.

Work specialization **makes efficient use of the diversity of skills that workers have**. In most organizations, some tasks require **highly developed skills**; others can be performed by employees with lower skill level.

If an organization hire workers capable doing all kinds of jobs, then, **except the most complicated work**, the employees are actually doing many work that are below their skill level.

Since **workers are often paid at their highest skill level**, therefore this way will cause significant efficiency loss.

Example: Dafen Village

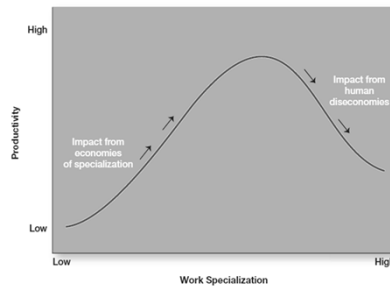


10-6

Example: Dafen Village in Shenzhen, 150 RMB for a painting but price varies by size and complexity.

Work Specialization (Cont.)

Overspecialization can result in human diseconomies such as boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.



10-7

Early proponents of work specialization believed that **it could lead to great increases in productivity**. However, later studies find that the relationship between the work specialization and productivity **is actually not linear**.

Overspecialization often result in diseconomies such as **boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover**— eventually exceed the economic advantages created by work specialization.

Work Specialization (Cont.)

- Today's View
 - Most managers today continue to see work specialization as important because it helps employees be more efficient.



- Other companies understand the limits of specialization and start to minimize work specialization and give employees a broad range of task to do



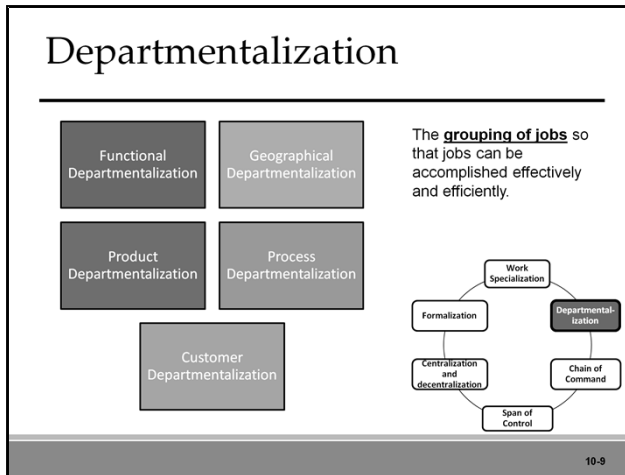
10-8

However, most managers today continue to see work specialization as important because it **helps employees be more efficient**.

For example, **McDonald** uses high work specialization to get its product made and delivered to customers efficiently. In many stores, there are **monitors** that keep track of how long it takes an employee to fulfill an order.

Another example would be **campus cafeteria**.

Other companies understand the limits of specialization and start to minimize work specialization and give employees a broad range of tasks to do.



Departmentalization refers to the grouping of jobs so that jobs can be accomplished effectively and efficiently. There are five major ways to departmentalize:

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