

# Organizational Structure

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## A. Effectiveness as a measure of success

This chapter addresses the problem that organizations might be efficient, but not effective. There is a lot of discussion about which organizations are successful, and on what successfulness is based. Many theorists actually refer to effectiveness, when we talk about successful organizations.

All departments within an organization influence an organization's effectiveness, such as marketing, by identifying market opportunities, finance, by identifying the best investments, or product & operations, by improving the supply chain, and accounting, by providing information for entrepreneurs about the best strategic decisions are best for the firm.

Highly significant in obtaining organizational effectiveness, is deciding upon an appropriate organizational structure. Moreover, organizational behavior, is important in maximizing organizational effectiveness. Another important factor influencing organizational effectiveness is its interaction with the environment and stakeholders, think of:

- Investor preferences;
- Government policies;
- Community pressures.

Formerly, organizational effectiveness was defined as whether a firm achieved its goals or not, also called the goal attainment approach. But goals can differ between employees, managers, shareholders and stakeholders, so who's goals should we try to achieve? Another approach is the survival approach. If companies do survive by merging, restarting, reorganizing themselves, what does that say about the effectiveness? After the 1960's, a review of different researches on organizational effectiveness identified 30 criteria for which effectiveness can be measured, table with these criteria can be found on page 75 of the textbook. There are so many criteria because the type of organization also influences the appropriate measure of criterion. Nowadays, there is the ability to assess effectiveness of organizations, based on both means (processes) and ends (outcomes), but there is not one criteria that is suited for every organization.

During this literature we will measure **organizational effectiveness** by the following: To what extent an organization is able to accomplish its short-term and long-term goals, the selection of which reflects strategic constituencies in the organization's environment, the self-interest of the evaluator and the life stage of the organization. This is different from efficiency, a company can be very efficient in the way it produces it's products, but might not be effective in that the way that the products do not sell as they hoped it would. However, if an organization is effective, it is by definition efficient.

### **The goal-attainment approach**

The goal-attainment approach believes that every organization sets goals it wishes to accomplish. Once it does accomplish these goals, it is logical to say the organization is effective. This approach uses the extent to which an organization attains its ends (outcomes) while measuring the means (processes) used to attain the ends, examples are: profit objectives, budgets, quality standards, reaching a certain minimum of customers, etc.

The goal-attainment approach assumes that organizations are deliberate, rational and goal-seeking entities. However, there are some qualifications to which these goals should satisfy:

1. The organization should have goals;
2. The goals should be publicly known and obvious;
3. There should be enough goals to be able to measure the company on and the goals should be appropriate for the organization to set;
4. The goals should be the same for every stakeholder;
5. Processes used to attain these goals need to be measurable;
6. The goals should have deadlines.

Problems that arise are the following:

- Different stakeholders have different goals, the goals of which stakeholder should be set? Management might want to establish long-term relationships with customers, while shareholders want fast returns;
- Are the organization's stated goals really its goals? If the stated goal is "being social responsible", while the real goal is attracting a new customer group interested in sustainable companies, the stated goal is not the actual goal;
- What if the short-term goals are totally different from long-term goals? Different goals could counteract;
- When is a goal accomplished? Being socially responsible is subject to someone's opinion on social responsibility;
- Goals should be classified on their importance, but how is that decided?

In some cases, organizations act and come with goals while they are already in the process of attaining that "goal", does this say anything about effectiveness?

The main issue in this approach is measurement and identification of goals, these issues can be reduced by:

- Including all stakeholders when identifying the goals;
- Including goals on the basis of behavior of organization members;
- Increasing realignment of counterpart goals;
- Separate short-term from the long-term goals;
- Set practical and feasible goals;
- See goals as changeable rather than fixed.

### **The systems approach**

The systems approach focuses on means (processes) rather than outcomes. Outcomes still matter but are not the only important factor anymore. Systems models focus on its ability to acquire resources, maintain itself internally as a social organization and interact with its external environment. With the resources is meant tacit knowledge such as ideas, inventions, patents, brand names etc. The systems approach states the importance of instant investment in these resources.

This approach assumes that organizations can be divided into divisions, and those divisions should be measured independently as well as the interrelation between these decisions. Moreover, it assumes that the relationship with external environmental stakeholders such as consumers, suppliers, shareholders etc. is good.

The systems approach, in contrast to the goal-attainment approach, mainly focusses on the survival of the organization. It measures the ability to survive on the following factors:

- How it will remain able to continuously transform inputs into outputs;
- The possibility to be able to react on environmental changes;
- Efficiency of the internal processes;
- Quality of internal communications;
- The level of innovation;
- Conflicts between groups within and outside the organization.

To make the systems approach feasible, the measurement instruments are converted into ratio's like output/input, transformations/input, transformations/output, changes in input/output. Many organizations benchmark these ratios against competitors and standards.

Another feasible way of the systems approach is **added value**. This is a measurement for evaluating the amount of value difference between an organization's inputs and outputs. The difference in value between inputs and outputs is called the added value. An example is a company which purchases different elements, uses these elements to produce a car, and then sells the car with a cash surplus on top of the purchase price, which is called the added value. A company that is not able to add value to its inputs, will not be able to survive.

Problems with this approach are the following:

- Not all processes are (easily) measurable;
- The sole focus on means decreases the relevance of "organizational" effectiveness.

### **The strategic constituencies approach**

The strategic constituencies approach focuses merely on its stakeholders (constituencies), on which an organization's survival is dependent. Using this approach, an organization's effectiveness is being measured as the level at which an organization is able to satisfy its most important stakeholders. One could state that the organization is being seen as a political playground (or *political arena*) on which different groups battle for the power and control over the resources of the organization. Those stakeholders are in different ways depending on the organization, but examples are:

- Shareholders, want high returns and dividend payments;
- Employees, want high wages, holiday and pleasant work environment;
- Managers, want a sustainable and successful organization;
- Governments, want organizations to comply to the rules;
- Customers, want low prices and high quality;
- Interest groups, want a sustainable environment for instance;
- Suppliers, want high prices for the products they sell to the organization.

All the above-mentioned stakeholders have different interests and want different things from the organization, which can be contradictory. The strategic-constituencies approach assumes that managers define goals based on the interests of all these different interest groups, which is necessary in order for the organization to survive.

Setting the strategic constituencies approach consists of 4 steps:

1. Find out which are the most important stakeholders.
2. Put weights to the different groups. Which stakeholders are essential for the organization's survival? These stakeholder's interests are also more important for the organization to comply to.
3. Find out what are their wishes for and interests in the organization. One problem is that these interests often change.
4. Set goals for the most important stakeholders and make goals which satisfy each of these stakeholders in the order of the preference, so based on which stakeholders are most important for the organization's survival. The organizational effectiveness will be measured based on the level of accomplishments of these goals.

The most important problem is the dynamic nature of stakeholders, what may have been important for the organization yesterday might not be of much importance tomorrow. Another problem can be subjectivity of managers about what they consider are the most important stakeholders and how to comply to their interests.

### **The balanced scorecard approach**

The **balanced scorecard approach** (see page 92 in the textbook) integrates the goal-attainment approach, the systems approach and the strategic constituencies approach into one organizational effectiveness measurement tool. The balanced scorecard approach measures realignment between demands of an organization by stakeholders with its capabilities.

The balanced scorecard divides the organizational effectiveness in different components based on a certain perspective (strategic constituencies approach), it sets goals based on the certain perspective (goal-attainment approach) and defines measures which should assess attainment of the goals by looking at the processes (systems approach). There are four components in which the organization's effectiveness perspective is divided:

- Financial perspective (shareholders). Is the organization profitable?;
- Customer perspective (customers). Time for delivery, price, product utility, service. Market share is a good estimate for measuring customer satisfaction;
- Internal perspective (organization). It evaluates internal processes such as quality, availability of equipment, costs of production, after-sales service, time to new products, product cycles;
- Innovation and Learning perspective. It assesses product improvement and development and production efficiencies.

Important for this approach is for the management to make a selection of the most important goals, because the amount of goals can be unlimited. The goals should be clear and easy measurable.

A benefit of the balanced scorecard is that it integrates all the important factors necessary for a total measurement of organizational effectiveness. It includes both short-term efficiency and long-term adaptability of the organization. Also, it guards against overestimates of short-term performance, for instance, because it also incorporates long-term factors necessary for an organization's survival. Moreover, it incorporates stakeholders' vision on the company and the need to satisfy their wishes.

A problem with the balanced scorecard is that it is still subject to what is ought to be important goals and measures. Identification and ranking of goals is still a human process and can be a wrong vision of the organization. Also, the approach is a backward-looking approach, which is based on past information, while it does not try to influence future processes, for instance. Also, goals which were important in the past are not necessarily important today, which can make the backward-looking approach somewhat unreliable.

When to use what approach?

- When the goals are feasible, time-bound and easily assessable → goal attainment approach;
- When the relationship between inputs and outputs can easily be identified and measured → systems approach;
- When the organization is heavily dependent on stakeholders' interests and demands → strategic constituencies approach;
- When the organization is complex, and the environment is demanding → balanced scorecard approach.

## B. Organizational Design

The way an organization is structured influences the organizational effectiveness. An organization's design depends on its complexity. **Complexity** means the level of differentiation within an organization. Organizational complexity can be in terms of:

- Horizontal differentiation, for example the number of different departments within an organization;
- Vertical differentiation, the number of layers within the hierarchy of an organization;
- Spatial differentiation, which is geographical differentiation. An organization can have different parts of the organization located on different geographical places.

### Horizontal differentiation

The more widespread tasks there are in an organization, the larger the horizontal differentiation and the more complex the organization becomes. Different tasks require different skills and make communication more difficult and complex. For instance, an organization has a finance department, marketing department and a research and development department. These different departments need to communicate with each other, but it is harder because it takes more effort to interact. Specialized departments are also called **organizational silos**.

Background differences, cultural differences, task-oriented differences and **job specialization** (division of labor) between departments can create barriers to efficient communication. In complex organizations, not all people are suitable for every kind of task (not everyone can keep accounts), so divisions are necessary and beneficial because specialized knowledge is often expensive, so employing skilled employees for easy tasks is a waste of money. Creating divisions is also stimulating efficiency, because knowledge increases if someone is in an environment where it can exchange knowledge with other specialized employees.

Departments can be created through dividing the organization in terms of tasks, function, product or service, customer, geography or process. The larger the organization, the more departments will exist. Every task (job specialization) within the organization is identified by job descriptions as an area of responsibility. The larger the organization, the more detailed the job description.

### Vertical differentiation

An organization has different layers of management, which is called vertical differentiation. More layers mean higher complexity, because communication gets more difficult. Managers' task is to supervise, their **span of control** is the number of employees they are supervising. In an organization usually, the managers in the highest layers have the narrowest span of control, while the managers in the lowest layers of the hierarchical organization have the widest span of control. The management layers can be divided into three ranges:

1. Top management: who are responsible of the organization's strategy;
2. Middle management: who implement the strategy of the top management and make the strategy practical in terms of inputs and supervise the lower management;
3. Lower management: are responsible for the control of day-to-day inputs and processes in the organization.

Information technology (IT) has smoothed and increased the level of communication within an organization, both horizontally and vertically through the organization.

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### **Spatial dispersion**

Logically, spatial dispersion is high when an organization has divided its operations spread geographically, like multinationals such as McDonalds or Zara. The higher the spatial dispersion, the more difficult communication is and the more complex the organization becomes. Think of cultural differences, time zones issues and control problems.

### **The significance of complexity**

Organizations' divisions need communication, coordination and control and the more complex an organization becomes, the higher the need for effective interaction between the divisions. There is a paradox in growth of organizations: organizations want to grow because that provides them with economies of scale (lower costs) and economies of scope (higher efficiency) but at the same time makes the organization more complex, which creates more costs and lower efficiency. So, growth should be accompanied by investment of internal communication, control and coordination.

### **Formalization**

**Formalization** is the level of standardization of tasks and processes. If a task is highly formalized (in a tangible way), it means that it has a detailed job description and there is little space for personal input in the job. Formalization can also mean that there are standard and predictable approaches for completing the tasks within the organization (behavioral form of formalization).

Mostly the jobs which requires the lowest level of skills, have the highest degree of formalization, as the task is simple and repeatable, so formalization of the task is easy. The more specialized a job becomes, the less it is formalized (exceptions are for accountants and consultants) Moreover, the higher in the hierarchy, the lower the level of formalization, because tasks are often not repeatable and differ from day to day.

### **The significance of formalization**

Formalization is important because it increases effectiveness of the tasks. Also, the higher the formalization, the lower personal input is needed, and the lower paychecks can be. Formalization is also useful in decreasing risks of job failures that can harm the organization.

Most common formalization techniques:

- Selection: select employees that fit into the organization;
- Write down task requirements: what is expected of the employee;
- Rules, procedures & policies: **rules** are what someone is allowed and is not allowed to do. **Procedures**, are standardized steps that someone uses in order to fulfill his or her task. **Policies** guide employees in unusual situations, which allow employees with some freedom to make their own judgements about what to do.

### **Socialization**

**Socialization** happens when people integrate with the values, norms and behavior patterns of the task, department and organization they will become a part of. Socialization is developed by observation, behavior modification and interaction.

### **Training**

Training within an organization can happen on-the job through development programs, or off-the-job by lectures for instance.

### **Rituals**

Rituals are somewhat alike with traditions in the organization but can also mean a certain dress code.

## **Centralization**

**Centralization** is about where the decision making is happening. If decision making is centralized, it means all decisions are made or need to be approved at the top of the organizational hierarchy or in case of geographical dispersion at the headquarters. If an organization is decentralized, it means decision making is done at every layer in the organization and in different geographical places.

Benefits of decentralization:

- Every person has a limit to the amount of information he or she can absorb and process effectively. So, a too centralized organization can be less effective when managers have too much information they need to process;
- Centralization results in bureaucracy, which makes the organization less flexible and less able to react to changes in the environment easily and fast;
- Decentralization results in decision making of the ones who are closest related to the problem and have most likely more accurate knowledge in order to make the right decision;
- Decentralization can motivate people which can participate in the decision making, which can result in higher productivity;
- Decentralization gives lower management the opportunity to develop their skills.

Benefits of centralization:

- Strategic decisions. Top management has best knowledge to make decisions about strategy.
- Some subjects or functions which are of interest for the whole organization, such as financial or legal decisions.

## **Coordination**

**Coordination** is the process of organizing the objectives and activities of different people or groups within an organization to achieve organizational goals efficiently.

### **Programmed coordination**

Programmed coordination covers the general management techniques of planning, goal setting, scheduling, timetabling, sequencing, and developing various types of standard operating procedures. Programmed coordination can be defined as the supervision of tasks which need to be done to attain the set goals.

### **Individual coordination**

Individual coordination is supervision of uncommon situations and mostly happens where managers supervise the work of others, such as in brand management, project management but also hierarchical coordination. Individual coordination is, because it is not a simplified task, so not used for cheap labor.

### **Informal coordination**

Informal coordination happens everywhere in the organization where people collaborate with others, also called **mutual adjustment**. Examples are: meetings, conversations, e-mails etc.

## **Organization structures**

Organization structures come in different ways, but most organization structures have a common basis. There are five different basic organization structures or forms, called **configurations**.

Mintzberg's research has identified five basic sections within organizations:

1. **Strategic apex**- the top management defining the strategy of the organization;
2. **Middle line**- middle management connecting operation to strategy;
3. **Operating core**- where the production is being done;
4. **Support staff**- staff that provide indirect support services to the organization.
5. **Technostructure**- experts responsible for processes, procedures, and rules.

There are five different basic structures of organizations and within each organization one of the above stated sections dominate the organization.

### 1. The simple structure

Consists merely of a small top management, mostly just one person, and an operating core. Mostly common for small organizations. It is an appropriate structure for small or new organizations which will most likely remain small and operating in a dynamic environment. Decision making is centralized.

Strengths:

- Decision making happens fast (low level of bureaucracy);
- Organization is flexible;
- Goals within the company are more easily aligned.

Weaknesses:

- When organizations become larger, the structure is no longer appropriate;
- Abuse of authority is relatively easy in this structure;
- The whole organization is dependent on the actions and decisions of one person.

### 2. The machine bureaucracy

This is a really standardized form of organization, with easily repeatable tasks which are formalized into departments, rules and regulations. It has centralized authority and decision making. Examples: supermarkets, fashion stores. It is most common for large organizations with standardized routines and a stable environment.

Strengths:

- The organization is highly efficient because of the standardized nature;
- Presence of departments increases knowledge transfer within the departments, increasing quality;
- The high level of formalization decreases personnel costs.

Weaknesses:

- The presence of departments (creating **silo's**) creates goal differences and can result in conflicts;
- The high level of standardization results in a lack of flexibility, which makes the organization slow in its ability to react to changes in the environment.

### 3. The divisional structure

The divisional structure means that the organization is divided into departments and the dominant part of the structure lies with the middle-management. The organization is more decentralized and divisional managers have more authority. The division can be based on function, customer, product, or geographic area. The structure is mostly common for product or market diversity, which means an organization serves different markets at the same time or produces many different products or product lines. Also, if an organization grows larger it can be beneficial to separate the company in smaller business units to stay efficient. The structure is best when the environment is not complex nor dynamic, as the structure is somewhat standardized.

Strengths:

- It separates day-to-day operation from strategic decision making, so everyone can maximize their professionalism;
- Accountability and responsibility are clear for every department;
- It provides good training opportunities for middle-management;
- Malfunctioning divisions can easily be removed from the company with the least impact on effectiveness or efficiency of the organization.

Weaknesses:

- Every department has its own functions which can cause double work and increase costs and reduce efficiency. Can be overcome by shared resource units such as logistics, warehousing, transport, financial services and purchasing of advertising space.
- It makes communication and cooperation between divisions more difficult.
- Conflicts arise due to interest differences
- Flexibility is low, people within the organization cannot easily be moved from one division to another. It makes coordination and allocation harder.
- Competition between divisions can be harmful to the organization.

### 4. The professional bureaucracy

The professional bureaucracy is a decentralized and highly specialized structure. Examples are: universities, hospitals, museums and consultancies. The operating core dominates the organization because that is where the knowledge is. Also, the support staff is important in these types of organizations. In the organization is a high level of complexity, internalization of external rules and regulations. Especially the support staff is highly formalized in this type of organization. The structure is most appropriate in complex but stable environments because in a complex environment there is much need for specialized people, and a stable environment causes little problems for the company's relatively inflexible structure.

Strengths:

- It is an appropriate structure for highly specialized tasks, while it has the same efficiency as the machine bureaucracy.

Weaknesses:

- Conflicts between the different specialists in the organization;
- The specialists are limited by the rules and regulation, which makes the organization less flexible to changes in the environment;
- Coordination is hard because the specialized jobs cannot easily be standardized;
- Often the organization lacks strategic departments, which can harm the organization on the long run.

## 5. The adhocracy

This type of organization is typical for its low level of vertical differentiation, high level of horizontal differentiation and low level of formalization. It consists of a high level of specialized professionals. Because of the low level of vertical differentiation, the organization is flexible and responsive to environmental changes. Logically, decision making is decentralized. You can see the organization as a group of experts coming together to perform flexible activities or unique problems. It is mostly used in organizations with strategies of diversity, change, complexity or risk, such as a marketing or innovation firm. Another example is a movie producing company.

Strengths:

- The organization is highly flexible and as such can easily adapt to change.

Weaknesses:

- Conflict over authority and responsibilities, because of the lack of centralization and formalization;
- It is relatively inefficient, there are no clear rules or procedures.

Overview of the different structures and their characteristics:

	<b>Degree of specialization</b>	<b>Degree of formalization</b>	<b>Degree of centralization</b>
<b>The simple structure</b>	Low	Low	High
<b>The machine bureaucracy</b>	High (functional)	High	High
<b>The divisional structure</b>	High (functional)	High (within departments)	Low
<b>The professional bureaucracy</b>	High	Low	Low
<b>The adhocracy</b>	High	Low	Low

## C. Glossary

<b>Added value</b>	The difference in value between inputs and outputs
<b>Centralization</b>	Where the decision making is happening. If decision making is centralized, it means all decisions are made or need to be approved at the top of the organizational hierarchy.
<b>Complexity</b>	The level of differentiation within an organization
<b>Coordination</b>	The process of organizing the objectives and activities of different people or groups within an organization to achieve organizational goals efficiently
<b>Formalization</b>	The level of standardization of tasks and processes.
<b>Organizational effectiveness</b>	To what extent an organization is able to accomplish its short-term and long-term goals, the selection of which reflects strategic constituencies in the organization's environment, the self-interest of the evaluator and the life stage of the organization.
<b>Organizational silo's</b>	Specialized departments
<b>Socialization</b>	When people integrate with the values, norms and behavior patterns of the task, department and organization they will become a part of.
<b>Span of control</b>	The number of employees a manager is supervising

## Epilogue

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*- Sinds 1994 -*

