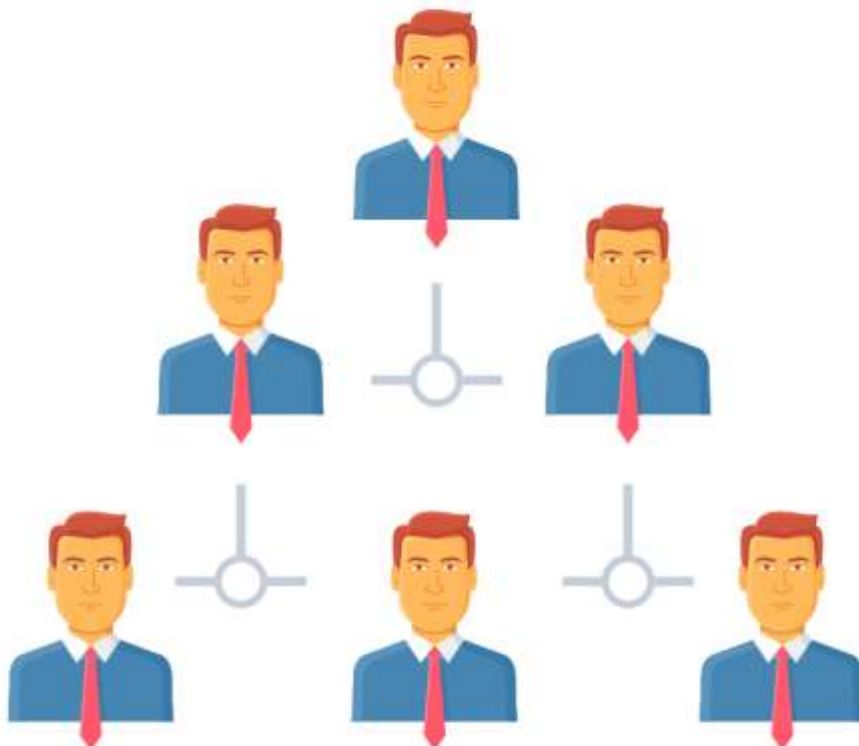# Organizational Structure

# What Do We Mean By The Term 'Organizational Structure'?

Organizational structure is the formal framework within a business organization which identifies the roles/ job functions of different people in an organization, their responsibilities, the system of flow of information across different levels, and the way in which authority is passed down the organization through the chain of command.

## Importance Of Formal Organizational Structure:

1. An effective organizational structure helps in establishing a clear authority- responsibility relationship among different people. This helps them to identify who is responsible to them and whom they are responsible to.
2. There is a systematic flow of information across different levels which avoids confusion.
3. The job functions of the people at different positions is clearly defined, which gives them a sense of responsibility and accountability.
4. A proper framework is vital to the accomplishment of overall organizational objectives effectively and efficiently.

## Factors That Influence The Organizational Structure:

1. The size of business and the number of employees- There is no requirement of proper formal organizational structure in a sole proprietorship business but in a partnership firm and a limited company, a well-defined structure must be formed to avoid confusion/ delay in communication.
2. Style of leadership and the culture of management- The style of leadership also affects the organizational structure. Autocratic leadership (where the employees are not actively involved in the decision making), there will be narrow spans of control unlike the democratic style of leadership (where the leaders actively involve

employees in the decision making), where there is wider span of control.

3. Corporate objectives- The corporate objectives also affect the structure of an organization.
(4) New technologies- If there is any technological advancement, for e.g. automated operations, then the number of line workers might have to be reduced.

# Job Roles Of Human Resources (As Per The Hierarchical Structure) In The Organization:



CEO

BODs

Middle Managers

Supervisors and team leaders

Line Workers

Organizational hierarchy

## 1) Chief Executive Officer (CEO)/ Managing Director (MD)

- The most senior and highest-ranking corporate executive in the hierarchy.
- Head of the board of directors,
- Accountable and responsible to the BODs.

- The CEO manages the overall operations of the organizations and takes all the major corporate decisions.

## 2) Board Of Directors (BODs)

- Representatives of shareholders and accountable to the shareholders.
- They are responsible to issue directions related to the management policies, company's objectives, strategies, and routine affairs.

## 3) Middle Managers

- The middle managers take over the roles and responsibilities as delegated by the BODs.
- They are accountable and responsible to the BODs.
- They have the key role to make decisions and manage their departments. They are in charge of team leaders and supervisors.

## 4) Supervisors And Team Leaders

- They are accountable to the middle managers who delegate their responsibilities to them.
- They direct other employees/ line workers and review their day-to-day activities and targets.

## 5) Line Workers

- These people account for the maximum proportion of the workforce and are actively involved in operations work of the company.
- They are accountable for their activities to their respective team leaders.
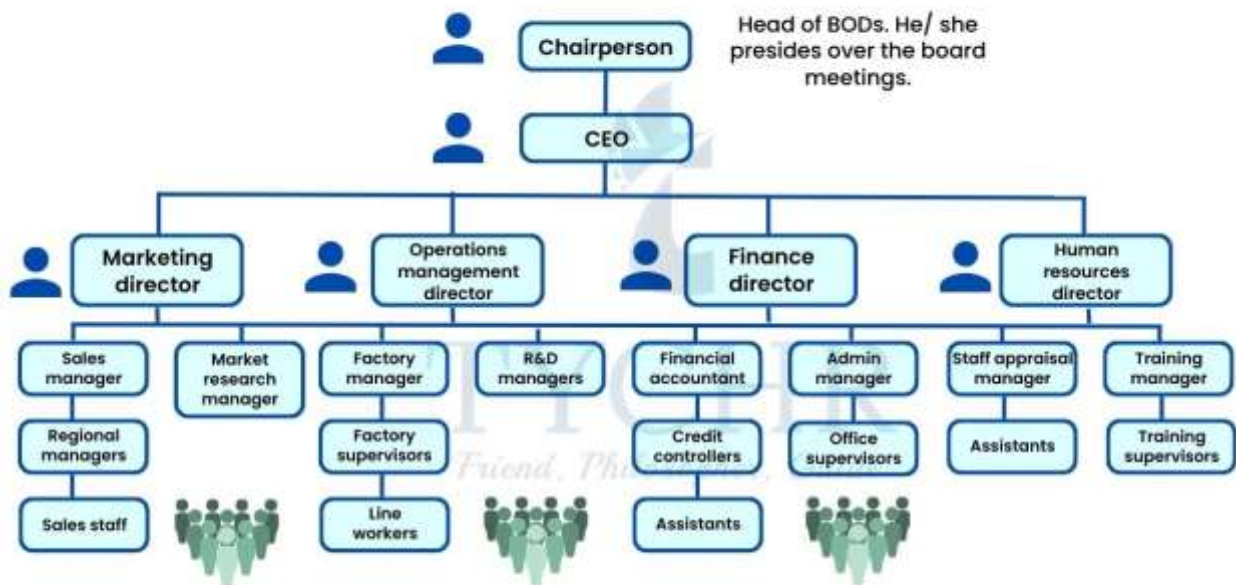
## An example of organizational structure

The diagram/ hierarchical chart drawn above represents the structure of an organization. It is called an 'organizational chart'. The five key elements in the organizational chart are different departments, chain of command, span of control, channels of communication and the levels of hierarchy. Different organizations structure their organization in different ways.

- The organizations which offer various products might choose to create the structure on the basis of different products.
- ost of the time, the organizations are structured on the basis of the functions/ operational roles such as marketing, HR, R&D, finance, production, etc.
- If an organization operates in several regions within a country's geographic boundaries or internationally, the classification may be based on geographic area.

Delegation refers to the process in which the authority is passed down the organizational hierarchy from the superiors to the subordinates. Delegation generally takes place when the directors

and managers cannot perform all the tasks themselves. The lesser important tasks are delegated so that they can put more time and focus upon the core activities/ activities of strategic importance.

| Advantages Of Delegation | Disadvantages Of Delegation |
|---|---|
| ● Delegation helps the senior managers to focus more on strategic issues that are vital to the organization's performance. <br> ● Delegation motivates the subordinates because it shows them that they are trusted. This causes them to undertake extra tasks in a more innovative manner. <br> ● The subordinates receive training for senior positions and thus they are pre-developed. | ● Delegation requires the seniors to clearly outline the tasks and provide adequate training to subordinates. Delegation can be unsuccessful in absence of that. <br> ● In general, the employees are demotivated because the managers often delegate the most boring tasks. <br> ● Poor delegation causes confusion and results in delay in the achievement of targets. |

**Span of control** refers to the number of people who are responsible to a person in a leadership position. Span of control can be wide or narrow. Higher the position of the person in the hierarchy, wider is the span of control.

**Wide span of control** → Larger number of subordinates under a person → Fewer layers of hierarchy → Flatter/ horizontal structure

- Due to flat structure, communication is effective in terms of speed andaccuracy when there is a wide span of control, but the possibility of conflict among the team members increases due to the larger number of people in the same team.

- It encourages cost control due to lesser managerial positions in the hierarchy. Flatter/ horizontal structure
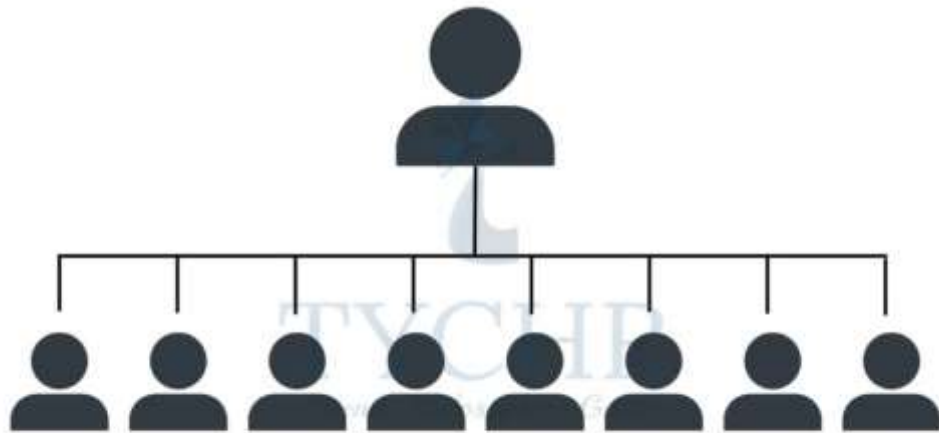


**Narrow span of control** → Fewer number of subordinates under a person → More layers of hierarchy → Taller/ vertical organizational structure

- In a narrow span of control, the tall structure with more managerial positions leads to increase in overall cost.The productivity is more because the team members work with higher spirit and motivation in small teams.
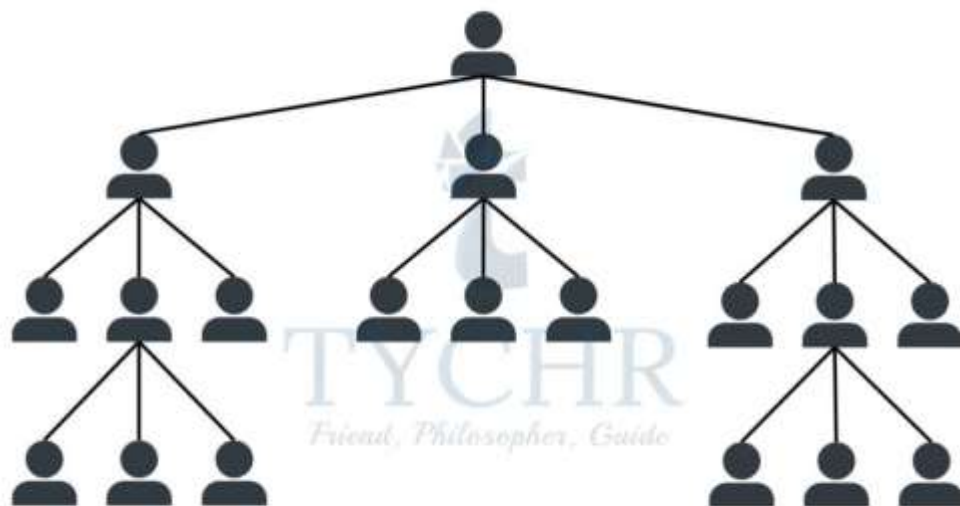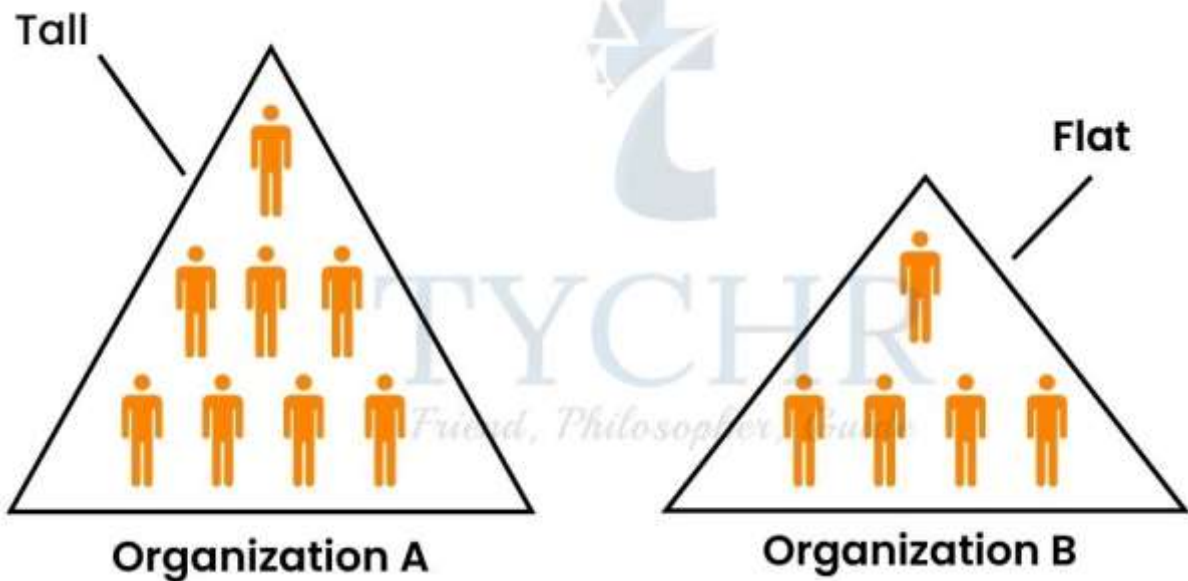
Tall and Flat Organizations (based on hierarchy)

# Factors That Affect The Span Of Control:

1) Ability and experience of the senior- If the manager/ director is more skilled and experienced to handle large number of people, that person is likely to have a wider span of control.

2) Leadership style- An autocratic style leads to a narrow span of control unlike a democratic style of leadership that leads to wider span of control.

3) Tasks- If the tasks to be performed are complex, narrow span of control is preferable. It helps the manager to communicate the requirements and provide training effectively in smaller teams. On the other hand, simple tasks can be performed by the subordinates even with less supervision. Thus, span of control is widened in this case.

4) Skill of subordinates- Highly skilled workers can easily perform delegated tasks and can work in larger teams. This leads to an extension of the control scope.On the other hand, the less skilled employees need to be given adequate training and they must be monitored closely. This would demand narrow span of control.

# Levels Of Hierarchy



The term 'hierarchy' in a business simply refers to the organizational structure that is based on the system of ranking. A level of hierarchy represents the rank of members of that level. There are different levels of hierarchy in an organization based on the skills, abilities, responsibilities, authority, and the job functions of people.

## Benefits Of Hierarchical Structure

● The hierarchical structure shows the **clear lines of communication** and avoids confusion in the organization.
● The **authority-responsibility relationship is clearly defined**.

## Limitations Of Hierarchical Structure

● **Hierarchical structures are inflexible**. This creates a problem when there is sudden change in the external environment and business needs to adapt with the change.
● Such a type of structure causes **demotivation among employees** many times as they feel isolated.

Let us now try to understand what chain of command, delayering and bureaucracy is.

# Chain Of Command

The formal line of authority through which the orders/ instructions are passed down the levels of hierarchy is called chain of command.

- Tall organizational structure = More number of levels of hierarchy = Long chain of command
- Flat organizational structure = Less number of levels of hierarchy = Short chain of command

For example: If a particular instruction has to be issued by the CEO of the organization to its employees, then the message will be communicated from CEO to the departmental directors who will further transfer the message to managers and then it will reach the employees. This is the chain of command.

# Delayering

Delayering is the process of removal of one or more layers/ levels from the hierarchical structure of the organization. It reduces the number of levels of hierarchy in an organization thus flattening the structure and widening the span of control. Some of the important advantages and disadvantages of delayering are given in the table below:

| Advantages Of Delayering | Disadvantages Of Delayering |
|---|---|
| <ul><li>The **costs (salaries) are reduced** since delayering removes a few levels.</li><li>**The speed of communication is improved** due to flattening of the organizational structure caused due to delayering.</li></ul> | <ul><li>Removal of one or more layers **increases the workload of other employees**.</li><li>When the structure is flattened due to delayering,</li></ul> |

- Delayering sometimes **increases the workforce motivation** for the simple fact that the workers can receive delegated work from more senior level managers and directors.

the **chances of conflict among the team members increases**.
- Delayering also creates the fear of downsizing/ redundancies. This might affect the motivation of workers.

# Bureaucracy

Bureaucracy is the organizational system where the organization is governed by the administrative formal rules and the standard procedures and policies. There are
a few advantages and disadvantages of bureaucracy. These are:

| Advantages | Disadvantages |
| --- | --- |
| • The formal rules and regulations help in the maintenance of discipline in an organization. <br><br> • The clear lines of authority, responsibility and accountability are formed. This improves the workers' performance and understanding of their job roles and responsibilities. | • Bureaucracy involves tedious and unnecessary formalities and paperwork. This leads to delay in decision- making. <br><br> • Moreover, bureaucracy prevents creativity on the part of employees and makes the organization inflexible due to the strict formalities and official rules/ guidelines. |

# Centralization And Decentralization



CENTRALIZED — HQ makes all major decisions

DECENTRALIZED — HQ allows subsidiaries to make decisions
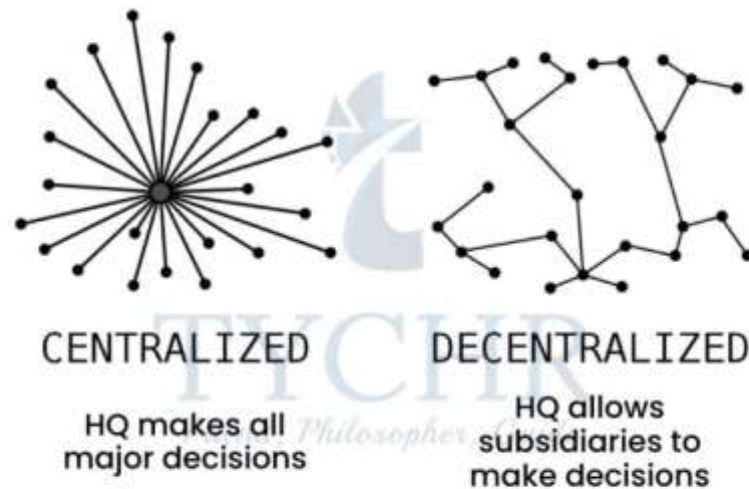
Let us have a look at the table to understand the meaning of the terms 'centralization' and 'decentralization' and the difference between the two.

| Basis Of Difference | Centralization | Decentralization |
|---|---|---|
| A. Definition | Centralization is the system of organization in which the authority is vested in the hands of central management. | On the other hand, decentralization is the system in which the decision-making power is shared with other people of the organization. |
| B. Decision-Making Speed | In a centralized management structure, the decision-making is comparatively faster. | The speed of decision-making is reduced when the organization structure is decentralized. |
| C. Flow Of Information | The information flows vertically. | The flow of information is free and open. |

| D. Motivation Of Employees | In the centralized system, the employees are demotivated since they are not given any decision-making power. This restricts their creativity. | In the decentralized system, the employees are motivated enough since power is shared with them. |
|---|---|---|

# Advantages And Disadvantages Of Centralization:

| Advantages | Disadvantages |
|---|---|
| • Centralization leads to **quick decision-making** since there is no involvement of employees in the decision-making.<br>• Centralization allows the senior level managers to exercise **better control** over their subordinates.<br>• When the power is in the hands of central management, it helps in the maintenance of **strict discipline** and the **results are delivered timely**. | • This increases the **workload and pressure** for the senior management since the authority is not delegated.<br>• The **motivation of employees has dropped** heavily due to their non-participation or active role in the decision- making of the organization.<br>• The **workers do not have autonomy**. They follow the guidelines issued by the top management. This makes the working environment bureaucratic and causes the **organizational structure to be highly inflexible**. |

# Advantages And Disadvantages Of Decentralization:

| Advantages | Disadvantages |
|---|---|
| • Decentralization **improves the morale of employees as** they are allowed to | • The **cost of the firm increases** on account of financial incentives that are |

participate in decision-making.

- The different employees use **varied skills and creative ideas** which leads to better decision-making.
- Decentralization **reduces the workload and pressure** from one group of people.
- The people in the organization learn to **work in teams**. This creates a competitive environment which boosts the creativity of all the employees.

provided to subordinates when they perform the delegated tasks.

- The **authority is diluted** in such a structure. This reduces the overall control of senior management over the workers.
- Since the responsibility of completion of the tasks is divided, it **increases the chances of mistakes**.
- Decentralization leads to **delay in decision making** and **dilution of information**.

# What Is A Project-Based Organization?
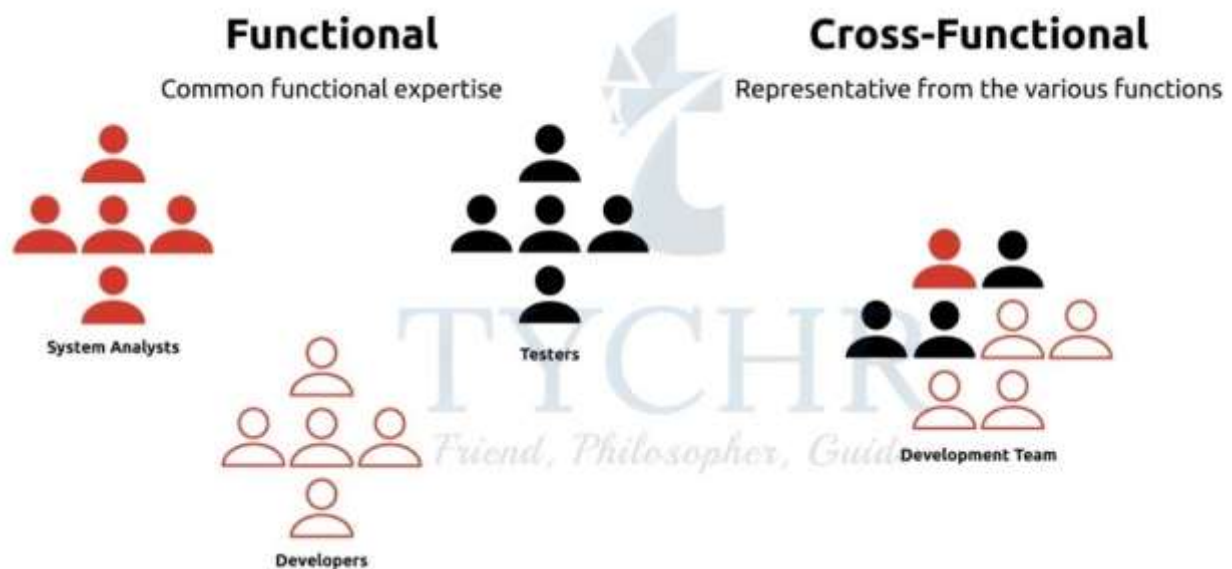


Types of Organizational Teams – Functional and Cross Functional

A project-based organization is an organization in which the human resources are structured on the basis of projects of different departments. Such a structure benefits the organization in terms of flexibility. For instance, a consulting services firm might have various groups of people working on different client projects. A matrix structure is a common form of project-based organizational chart in which the human resources are

temporarily classified into groups for the purpose of project completion, in addition to their existing job roles in the functional department. This makes them accountable to both the project managers as well as the department (line) manager for that period of time. The colleagues from the cross-department teams work with each other to work on a particular project.

| Advantagesof Project-Based Organization | Disadvantages Of Project-Based Organization |
|---|---|
| ● Project-based organizations are **flexible** since the classification on the basis of projects is done for a temporary duration. | ●Since the workers from different departments are moved from one project team to another continuously as per the requirements, the chances of **inefficiency** in the completion of project increases. |
| ● Project-based organizational structure **motivates the workers** sometimes because the individuals get an opportunity to break free from their monotonous departmental works. | ●The chances of **conflict** are always there because people from different teams and job roles come together to complete the project on a temporary basis. |

# Shamrock Organization
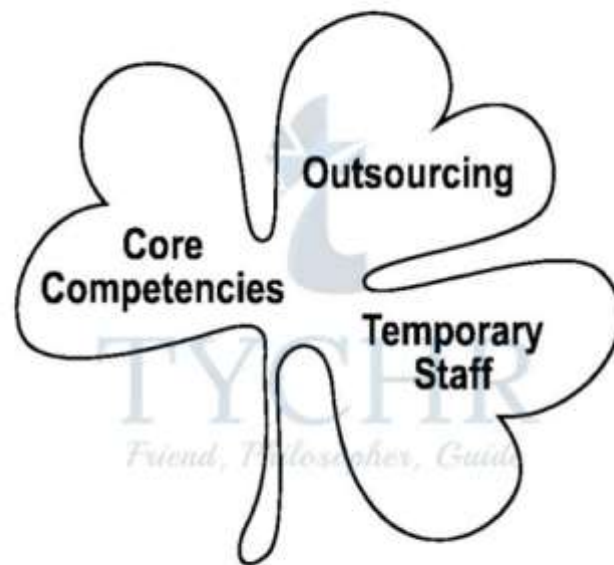


Charles Handy, an Irish author and philosopher coined the concept of Shamrock organization. The name for the organizational model has been derived from the plant named Shamrock which is three leaved. According to Handy, there are three groups of workers in the shamrock organization which are:

- Core workers- The full-time workers that handle the core activities in an organization and are vital to the growth and survival of the organization.
- Peripheral workers- The temporary and the flexible workforce that is hired as and when needed as per the requirements of the organization for shorter period of time. For e.g.- interns, contractual employees, etc.
- Outsourced workers- These are the workers who indirectly work for an organization without being a part of the organization. The individuals are employed to perform specialized tasks and the tasks that are of less importance. The process of getting the work done from outside organizations/ individuals is called outsourcing.

| Advantages Of Shamrock Organization | Disadvantages Of Shamrock Organization |
|---|---|
| ● The organization enjoys flexibility to hire and fire the peripheral workers. | ● Outsourced workers are relatively expensive. |
| ● The outsourced tasks are efficiently performed because of the expertise and specialization of the outsourced workers. | ● The peripheral workers do not have any job security. This reduces their incentive and efficiency to work. |

# What Is Meant By Informal Organization?

- The network of personal and social relationships that is developed among the people of formal organization is defined as informal organizational structure.
- The information organization can work in parallel to the norms and culture of the organization or against it, depending on the morale and motivation of people.
- An informal structure is formed voluntarily by people who share the same ideas, culture and tastes. It helps them to fulfill their socializing needs and provides an environment for informal communication.
- There are no rules and regulations or set standards of norms to be followed. There is no central authority to regulate their activities.

Let us cover the last topic of this chapter.

## Theories Related To Organizational Structure As Developed By Two Renowned Management Theorists Are Summarized Below:

According to Henry Mintzberg, the organization's strategy acts with the environmental (internal and external factors) forces to give rise to a particular organizational structure. The different types of organization as defined by him are:

Henry Mintzberg

1. Entrepreneurial organization- A relatively informal and flexible organizational structure where there is a lack of standardization.

2. Bureaucracy organization- A formal and an inflexible structure with formalized activities.

3. Professional organization- There is a high degree of professionalism and specialization on the workers part as they are highly skilled. The decision-making is decentralized.

4. Divisional organization- The entire organization is divided into small units and departments and functional lines through which the operations take place.

5. innovative organization- These are mostly project-based organizations that focus on innovation and creativity. For e.g.- consulting companies, etc.

1. Tom Peters developed the Seven-S model and suggested that an organization is made of seven elements.
2. The three hard S's that are practical and easily identifiable from the plans and documents of the company are- Structure, Strategy and Systems.
3. On the other hand, the four soft S's that are intangible and cannot be easily identified are: Skills, Staff, Style and Shared values.
4. He also pointed out that the elements are both influenced by other elements and also influences other elements.

Friend, Philosopher, Guide
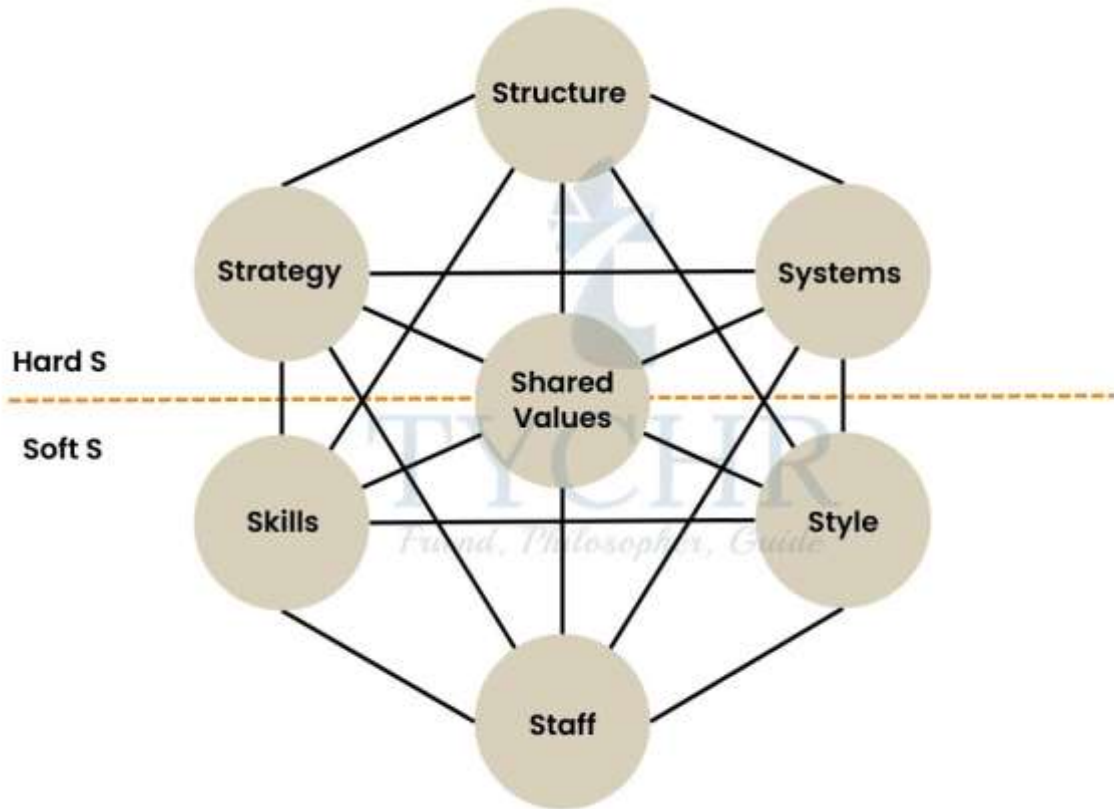
Seven-S model

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