

LESSON FOUR -PART B

ORGANISATIONAL STRUCTURES

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A structure stands for the parts that are held together as a single whole on the basis of some relationship. In the context of strategic management, the term “structure” signifies a design that helps him to formulate and implement the strategies in an effective way. Structure is very closely related to strategy and the environment; it is because the structure is a sub-mechanism or frame-work of relations or a sub-system that works under a supra system namely environment.

“Corporate Structure” or an “Organisational Structure” stands for the formal configuration between individuals and the group with regard to the allocation of tasks, responsibilities, and authority well within the organisation. An organisation structure is the way the tasks and sub- tasks needed to implement a strategy are arranged.

Organisation as a ‘Structure’ is the network of horizontal and vertical dimensions designed to accomplish the common objectives. It is the mechanism or the frame-work whereby people function and facilities are integrated to achieve preset goals. It is a group of people working together towards attaining the given goals.

Definitions of Structure in Narrow Sense:

“It is the framework of duties and responsibilities through which an undertaking works.” –Mr. Cameron MA

“Internal organisation is the structural framework of duties and responsibilities, required of personnel in performing various functions within the company. It is blue print a mechanism.” –Professor Wheeler

“Organisational structure is the formal or quasi-formal network of reporting or controlling relationships in an organisation and powers and duties associated with each role in this net-work.” –Mr. Pradeep N. Khandwalla

‘It is the division of tasks for efficiency and clarity of purpose and coordination between the interdependent parts of the organisation to ensure organisational effectiveness.’ –Professors John, A. Pearce II and Richard B. Robinson Jr.

As a “process”—in broad sense, “structure” is defined as follows by the experts. As a “process” it is the great task of creating harmonious relations between the parts of the organisation.

Definitions of Structure in Broad Sense:

“It is the establishing of effective authority relationships among selected work, persons, and the work-places in order for the group to work together effectively.” -Professor George Terry

“Organisation is the process of identification and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling the people and the work most effectively together in accomplishing objectives.” —Professor Luis. A. Allen

“Organisation is the grouping of activities necessary to attain enterprise objectives and the assignment of each grouping to a manager with authority ancestry to supervise it.” —Professors Koontz and O. Donnell

In other words, organisation, as a ‘process’, is the function of identifying and grouping the work to be performed, defining and delegating the responsibility and establishing the relationship for the purpose of enabling the people to work most effectively. It is the crucial task of building, developing and maintaining structure of working relations in order to attain the common objectives.

The organisations are structured or designed in order to- (a) Divide and allocate the work, authority and responsibility. (b) Establishing working relationships and operating mechanisms, (c) Establish the pattern of managerial supervision and control, (d) Establishing the ways and means of retaining expertise, knowledge and experience, (e) Indicating the areas of responsibility, authority and accountability. (f) Providing the very basis for fair and justified reward system, (g) Meeting the aspirations of people involved in it. (h) Guaranteeing efficiency, economy and effectiveness in organisational activities in the light of organisational objectives.

These questions for which answers are sought are:

What decisions are needed to arrive at results in the light of organisational goals?

(b) What is the nature of such decisions?

(c) What is the decision level in the organisation?

(d) What activities are involved in such decisions?

For answers to this question prepare a base that helps in determining the degree of authority for a particular position, its interface with other positions and the placement of positions in an organisational hierarchy. It is worthwhile to note that these three approaches are mutually exclusive. That is one is substitute for another. One can combine these for his benefit depending on the unique position he is facing or supposed to work.

Relevance of Organizational Structures

Sound organisation structure can contribute greatly to the survival continuity and stability of the enterprise. The need and importance of organising and organisational structure can be understood more precisely on the basis of the following points:

Facilitates Administration: Sound organisation helps in the performance of management functions like planning, staffing, directing and controlling. Inadequate organisation may result in duplication of work and efforts and some of the important operations may be left out. Sound organisation facilitates the performance of various managerial functions by division of labour, consistent delegation or job definition and clarity of authority and responsibility relationship.

Promotes Growth and Diversification: Sound organisation designed on scientific principles can create conditions conducive to planned expansion and diversification of the activities of the enterprise. It can help in keeping the various activities under control and increase the capacity of the enterprise to undertake more activities.

Co-Ordination: Organisation is an important means of bringing co-ordination among the various departments of the enterprise. It creates clear-cut relationship between the departments and helps in laying down balanced emphasis on various activities. It also provides for the channels of communication for the coordination of the activities of different departments.

Optimum Use of Technological Innovations: A sound organisational structure is flexible to give adequate scope for the improvement in technology. It facilitates introducing changes in the enterprise by modifying the authority and responsibility relationship in the wake of new developments.

Optimum Use of Human Resources: Sound organisation matches the jobs with the individuals and vice-versa. It ensures that every individual is placed on the job for which he is best suited. This helps in the better use of individuals working in the enterprise.

Stimulates Creative Thinking: An organisational structure based on clear-cut demarcation of authority, higher range of responsibility, discretionary freedom granted to personnel, incentives offered for specialised work, etc. will certainly foster the spirit of constructive and creative thinking. Such an atmosphere will give an opportunity for the staff to display their hidden creative talents which, in turn, will lift the enterprise to achieve higher goals of business.

Training and Development: An effective organisation facilitates delegation of authority which is an important device for training and developing the personnel. Delegation of authority is also an important means of directing the subordinates. It prepares them to take more responsibilities whenever need arises.

Peter Drucker has rightly remarked, "Good organisation structure does not by itself produce good performance, but a poor organisation structure makes good performance impossible, no matter how good the individual managers may be.... A good organisation structure... is not the only thing that matters in managing.... But the right organisation structure is necessary foundation; without it the best performance in all other areas of management will be ineffectual and frustrated."

It may be noted that there is no single organisation structure that works best in all kinds of situations. While designing an organisation structure, the management must consider external environment, objectives and strategies of the enterprise, types of human resources and the nature of technology.

Factors to consider while designing organization structures.

Organisation structure provides a basis or framework within which managers and non-managerial employees perform the jobs assigned to them. In other words, organisation structure may be considered as the core element around which various functions are performed and several processes operate. The structure of organisation is consciously designed by the management.

However, in designing the structure, the following factors are to be considered:

Objectives and Strategy: Design of structure begins with the identification of organisational objectives. There is no way of devising what the main structure of an organisation should be, without an understanding of what the organisation is for and what it is trying to achieve. Since an organisation is a goal-oriented system, it is quite legitimate that its goals have decisive role in designing its structure. The goals determine its tasks and strategies. Alfred Chandler's studies demonstrate that structure follows strategy. If management makes a significant change in its strategy, the structure will need to be modified to accommodate and support such change. However, in some cases, it may be true that strategy follows structure, particularly where the manager has no choice but to cope with the existing structure. In any case, there must be a 'fit' between an organisation's strategy and structure for its success.

Environment: Organization is a system, and every system has its boundaries. Beyond the boundaries, there exists external environment which affects not only the formation and functioning of the organisation but also its structure. To cope with changing environment, among other things, organisational process, goals and structure are changed and made in line with changes. Environment includes all those economic, social, cultural, political, legal and technological factors which directly or indirectly affect the functioning of the organisation. Therefore, the structure of the organisation is to be designed in view of changes likely to take place in environment. Added to it, organisation being a sub-system of environment interacts with the environment on regular basis for getting inputs and supplying output. So, the structure of organisation is bound to be affected by the environment. If the organisation operates in fast changing uncertain environment, its structure should be more adaptive, dynamic and flexible. On the other hand, if the environmental changes have slow pace and are less complex in nature, the structure of the organisation will be marked by higher degree of stability. It may be noted that rapid, diverse and more complex changes in environment have rendered traditional structures ineffective.

Technology: An organization is a socio-technical system. Technological aspect which refers to the way various activities will be performed, is an important part of organisational structure. As the activities are related to objectives, they are also related to technology. Because every activity to be performed requires some kind of technology, the type of technology being used in the organisation for performing different activities would also affect the structure of the organisation directly and indirectly. For example, use of sophisticated technology leading to greater degree of specialisation may complicate pattern of relationships among the employees. The span of management, shape of organisation, length of chain of command, number of managerial and non-managerial employees and flow of work, etc. might be greatly influenced by the technology used by the organisation.

People: Organizations are formed by and operated through people. Large number of people are employed for both managerial and non-managerial jobs and various activities are assigned to them and finally they are put in authority relationships. These people carry some goals, values, perceptions, beliefs and attitudes which have direct reflection on the structure of organisation. Therefore, these factors must be taken care of at the time of designing the organisational structure. Indeed, the tasks, activities, goals and technology will gain more meaning if they are built around the people. Moreover, organisation operates through the people and its efficiency to a large extent depends on the level of efficiency of its employees. And the efficiency of its employees is affected by factors such as supportive supervision, participative decision-making and problem solving, existence of cohesive groups, democratic leadership, etc.

Size: There are several criteria to determine size of an organisation such as number of persons employed, amount of capital invested, volume of turnover, and physical capacity (e.g., factory area, or number of beds in a hospital, or classrooms in the college, etc.). However, 'size' has generally been used to refer to the number of employees or members of an organization. Thus, organizations could be small or large depending upon the number of their employees. As an organisation grows in size, its structure naturally becomes more complex or complicated. Jobs that could once be handled by a single person are split and split again; new layers of supervision are inserted between the top executive and the rank and file. An organisation is forced, if its size increases, to realign duties and responsibilities and often, to add new integrating units.

The research studies support the view that a strong positive relationship exists between size and organisation structure. Size increases complexity and influences structure. Increase in size tends to increase differentiation and integration; direct surveillance is replaced by formalisation (rules and procedures); decentralisation is substituted for centralisation.

Thus, there is strong, positive relationship between size on one hand and complexity and formalisation (two components of structure) on the other hand. If size increases, complexity and formalisation also increase. However, there is inverse, opposite relationship between size and centralisation (third component of structure). If size increases, centralisation decreases, being replaced by decentralisation. In small organisations, there is less complexity, less formalisation, but greater degree of centralisation.

Common Principles in Organizations

Unity of Objectives: the enterprise influences the organization structure and hence the objectives of the enterprise should first be decided clearly and firmly. In addition, there should be unity among the objectives decided. This gives clear direction to the whole organization, and it will be geared for the achievement of such objectives. The organization acts as a tool for achieving the objectives.

Division of Work and Specialization: Division of work leads to specialization. Every department of an organization should be given specialized functions. This will raise the overall efficiency and quality of work of an organization.

Delegation of Authority: There should be proper delegation of authority in every organization, particularly in large organizations. The basic idea behind delegation is to see that decision-making power is placed at a proper place. Delegation should go to the lower levels of management. Everyone should be given authority, which is adequate to accomplish the task assigned to him. Delegation is useful for getting the things done through others. A successful manager normally does not perform the jobs by himself. He delegates the

authority and responsibility to his subordinates. He also motivates his subordinates and sees that they take initiative, work efficiently, and contribute for achieving organizational objectives.

Coordination: Organization involves division of work and departmentation. This naturally suggests the need of proper coordination among the departments and efforts of people working in an organization. Due to coordination one clear-cut direction is given to people/departments, and efforts will not be wasted.

Unity of Command: Unity of command principle suggests that each subordinate should have only one superior whose command he has to obey. Dual subordination is undesirable as it leads to confusion, disorder, uneasiness, and indiscipline. An employee should not have more than one boss to whom he must report and also function as per his orders and instructions. Reporting to more than one boss leads to confusion.

Flexibility: According to the principle of flexibility, the organization structure should be flexible and not rigid. Such structure is adaptable to changing situations and permits expansion or replacement without any serious dislocation and disruption. There should be an in-built arrangement to facilitate growth and expansion of an enterprise.

Simplicity: The organization structure should be simple for clear understanding of employees. The structure should be easy to manage. Internal communication will be easy due to simplicity of organization. The organization structure should be simple as far as possible. The levels of management should also be limited.

Span of Control: The span of control, as far as possible, should be small and fair. This means a manager should not be asked to keep supervision on large number of subordinates. The span of control should be narrow and manageable. It should be properly balanced.

Authority and Responsibility: Authority acts as a powerful tool by which a manager can achieve a desired objective. Authority of every manager should be clearly defined. Moreover, it should be adequate to discharge the responsibilities assigned. The superior should be held responsible for the acts of his subordinates. He cannot run away from the responsibility simply by delegating authority to his subordinates.

TOP TYPES OF ORGANISATIONAL STRUCTURES

1. Functional and Multidivisional Structure:

A functional structure consists of a CEO who is supported by functional managers belonging to production, marketing, purchase, finance, personnel, R&D, etc. This structure enables the achievement of functional excellence, efficiency and specialisation, but suffers from problems, such as, lack of product focus, long channels of communication, coordination problems, lack of importance given to overall corporate missions and objectives, and excessive involvement of the CEO in integrating decisions and actions across various functions. As against this, the multidivisional structure (also called M – Form) consists of more than one operating division, each of which is a distinct business area. Here, the CEO delegates responsibilities for formulation and implementation of business-level strategies and managing day-to-day affairs to the respective divisional heads, thereby making the corporate office responsible for the development and implementation of the corporate-level strategy and for exercising strategic and financial controls.

Strategic control, as exercised by the corporate office, is defined as the process of target-setting and monitoring in relation to the key operating areas pertaining to each business division, which are otherwise autonomous. To do an effective job in this regard, the corporate office must have a proper understanding of the environment, strategy and operational issues relating to each distinct business area. The financial controls, exercised by the corporate office ensure that each division achieves the target profit, cash-flows and ROI. Interdependence between the operating divisions (a normal feature in a company which has grown through a related diversification strategy) makes it difficult to exercise financial control, since attributing financial performance correctly to one or the other divisions may involve subjective discretion. This implies that there is a possibility of dilution of internal control when a firm pursues extensive product diversification using the resources of various divisions. Of all the options available in the organisational structure, an M-Form is the one most used. Chandler identified this form of structure as an innovative response to problems of coordination and control which are normally faced in a functional structure. Other advantages include ease in evaluating business performance, less complexity in allocating financial resources, improved coordination, and availability of more time to the top management for concentrating on long-term strategic issues. For diversified businesses (both related and unrelated), the M-Form structure is more useful vis-a-vis the functional structure, which works well when the firm is implementing single or dominant business strategies. Once an M-Form structure is put in place, a firm's potential to enter many diversified businesses (related/unrelated) increases.

Functional Structure:

Advantages:

- a. The CEO in touch with entire operations,
- b. Reduction/Simplification of control mechanisms,
- c. Clarity of roles and responsibilities,
- d. Specialists at senior and middle management levels, and
- e. Efficiency and specialization.

Disadvantages:

- i. Senior management overburdened with operational matters,
- ii. Lack of attention to strategic issues,
- iii. Difficulty in coping with diversity,
- iv. Coordination between different departments and functions become difficult, and
- v. Inability to adapt to changes.

Multidivisional Structure:

Advantages:

- a. Focus on each business area (product-market),
- b. Ease of evaluation of unit performance,
- c. Facilitates acquisition/divestment of units,
- d. Helps in drawing attention of the senior management to strategic issues, and
- e. Facilitates development of general management competencies.

Disadvantages:

- i. Possible confusion with regard to the extent of centralisation and decentralization.
- ii. Inter-divisional conflict and resulting sub-optimisation.
- iii. Problems of setting transfer prices for inter-unit trading.
- iv. Duplication of resources.
- v. Difficulty in coordination if there are too many divisions.

2. Geographical Structure:

In a geographical structure, a firm's overall geographical spread is divided into a certain number of homogeneous regions or territories, each headed by a regional or territorial head responding to the CEO. Each region, which deals with all the products of the company, is made by and large independent with the required resource support and is expected to pursue region specific strategies. Sometimes, a geographical structure is built-in within a functional or M-Form structure. For example, in cases where there are one or two centralised manufacturing facilities, the firm can have a functional structure below the CEO, but within the overall sales function, it can have a geographical structure.

3. Matrix Structure:

A matrix structure is a combination of the structural options covered in (1) and (2) above. Such structures are chosen when there is a need for more than one consideration for designing the organisational structure (for example, there is no clear-cut preference for either functional specialisation or product-market focus or geographical thrust). Normally a matrix structure reflects the need to recognise the simultaneous importance of at least two dimensions, such as, (i) product focus as well as geographical thrust, or (ii) product focus as well as functional specialisation.

Advantages:

- a. Better quality of decision making since multiple perspectives are allowed to be built-in.
- b. Face-To-Face contact helps in reducing the impact of bureaucracy.

c. Improved managerial motivation and development.

Dis-Advantages:

- i. Dilution of priority, lack of ownership.
- ii. Confused/unclear job and task responsibilities.
- iii. Lack of focus in cost and profit responsibilities.
- iv. Potential for conflict within the teams.

If managed well, by clearly spelling out which arm of the matrix should lead, and duly supported by the right managerial mind set and competencies (for example, the managers should be capable of collaborating across the matrix and they should be comfortable to work under ambiguity), a matrix structure can deliver the desired results. It can improve the quality of decision making in situations where exclusive emphasis on one dimension (be it product, function or geographical) is likely to undermine the overall interest of the organisation.

FUNCTIONS OF ORGANISATIONAL STRUCTURES

Role Definition: Structure defines the roles and responsibilities of everyone in an organisation and forms the architecture for coordination of work. This, in turn, enables specialisation.

Specialisation and Standardisation: It creates departments, which in turn, allow creating standard operating procedures, rules, and regulations, which are essential for specialisation and standardisation.

Goal and Resource Allocation: Structure creates entities to which goals/ outcomes can be allocated and attributed. This helps in resource allocation to achieve the goals by allocating resources to each specialised function. For example, the management department in a college is a part of the structure of the college, and it gets allocation of money and resources to achieve the goals of the organisation. Another department, say the biology department, may not be given similar goals or resources.

Tasking to Achieve Goals: Structure lays down how people are tasked or allotted activities, how these activities are coordinated, supervised, and directed to achieve organisational goals; in simple terms, it defines how the resource called labour (people) is deployed to achieve organisational goals. It facilitates allocation of responsibilities for various activities, functions, and processes, and fixes responsibility and accountability. Consequently, it predicts whether the workload is optimal or not. It helps to link interdependent activities so that the goal can be achieved optimally.

Performance Monitoring: Structure helps to create departments/performance entities, which help in monitoring and holding people accountable for performance.

Managing Behaviour: Structure defines the limits of acceptable behaviour in an organisation. It allows for distribution as well as exercise of power and authority, and control of the activities including feedback and correction. It also helps to resolve conflicts.

Decision Process: It determines the decision process within an organisation, including the authority and power that one can exercise over others.

Coordinating: It controls the flow of information and channels of reporting. Thus, it facilitates coordination in an organisation without which specialisation would not be possible.

Creates Inimitability and Competitive Advantage: Complex structures create competitive advantage. Ground operators of Southwest Airlines sang and danced while unloading baggage. Even pilots helped them at times. As a result, they could turn around the aircraft in less time and do one additional trip per day per aircraft. Competitions could not mimic it. The secret of the competitive advantage of Southwest Airlines was the additional trip facilitated by the structure.

Creates External Link: Structure helps to connect an organisation with its environment. For instance, the structure lays down who in the organisation will represent the organisation, and interact with external stakeholders, how often this will be done, and so on.

SIX KEY ELEMENTS OF ORGANISATIONAL STRUCTURES

Work Specialization: Work specialization describes the degree to which tasks in an organization are divided into separate jobs. The main idea of this design is that an entire job is not done by one individual. It is broken down into steps, and a different person completes each step. Individual employees specialize in doing part of an activity rather than the entire activity. It involves respective performance of a few skills. It can also be viewed as a means to make the most efficient use of employee's skills. Some task requires highly developed skills whereas others can be performed by the untrained. Division of Labor is the subdivision of work into separate jobs assigned to different people. It potentially increases work efficiency. It makes efficient use of employee's skills. It increases employee's skills through repetition. Specialized training is more efficient.

Departmentalization: It is the basis by which jobs are grouped together. For instance, every organization has its own specific way of classifying and grouping work activities. After reviewing the plans, usually the first step in the organizing process is departmentalization. Once jobs have been classified through work specialization, they are grouped so those common tasks can be coordinated. Departmentalization is the basis on which work or individuals are grouped into manageable units.

There are five traditional methods for grouping work activities:

(a) **Departmentalization by Function:** It organizes by the functions to be performed. The functions reflect the nature of the business. The advantage of this type of grouping is obtaining efficiencies from consolidating similar specialities and people with common skills, knowledge and orientations together in common units. It groups jobs by functions performed. It can be used in all kinds of organizations; it depends on the goals each of them wants to achieve.

Different aspects on this type of departmentalization:

Positive Aspects:

- i. Efficiencies from putting together similar specialities and people with common skills, knowledge, and orientations.
- ii. Coordination within functional area.
- iii. In-depth specialization.

Negative Aspects:

- i. Poor communication across functional areas.
- ii. Limited view of organizational goals.

(b) Departmentalization by Product:

Assembles all functions needed to make and market a particular product are placed under one executive. For instance, major departmental stores are structural around product groups such as home accessories, appliances, women's clothing, men's clothing, and children's clothing. It groups job by-product line. Each manager is responsible of an area within the organization depending of his/her specialization.

Different aspects on this type of departmentalization:

Positive Aspects:

- i. Allows specialization in particular products and services.
- ii. Managers can become experts in their industry.
- iii. Closer to customers.

Negative Aspects:

- i. Duplication of functions.
- ii. Limited view of organizational goals.

(c) Departmentalization by Geographical Regions:

Groups on the basis of territory or geography. For example, Merck a major pharmaceutical company has its domestic sales departmentalized by regions such as Northeast, Southeast, Midwest, Southwest and Northwest.

(e) Departmentalization by Customer:

Groups jobs on the basis of a common set of needs or problems of specific customers. For instance, a plumbing firm may group its work according to whether it is serving private sector, public sector, government, or not-for-profit organizations. A current departmentalization trend is to structure work according to customer, using cross-functional teams.

This group is chosen from different functions to work together across various departments to interdependently create new product or services. For example, a cross functional team consisting of managers from accounting, finance and marketing is created to preface a technology plane.

Different aspects on this type of departmentalization:

Positive Aspects:

Customer's needs and problems can be met by specialists.

Negative Aspects:

- i. Duplication of functions.
- ii. Limited view of organizational goals.

Chain of Command:

Chain of command is the unbroken line of authority that connects each level of management with the next level.

The chain of command helps organization to function smoothly by making two things clear:

- i. Who is responsible for each task, and
- ii. Who has the authority to make official decisions?

In organizations, employees are assigned.

- i. Responsibility for their jobs; they are obligated to perform those duties and to achieve goals and objectives associated with their positions.
- ii. Accountability for reporting their results to supervisors or team members and justifying outcomes that falls below expectations.
- iii. Managers ensure tasks are accomplished by exercising authority. Authority is the power to make decisions, issue orders, carry out actions, and allocate resources.

- iv. Delegation is the assignment of work and the transfer of authority and responsibility to do that work.

Span of Control:

It is important to a large degree because it determines the number of levels and managers an organization has. Also, determines the number of employee's manager can efficiently and effectively manage. The span of control in an organization is defined as the number of employees reporting directly to one supervisor. Traditionally, the span of control has been defined as a number between 4 and 7 subordinates under one manager. The span of control is a concept which developed during the 19th century for the organization of large European armies into smaller and smaller subunits. That is, one could have 7 soldiers in one platoon with 1 leader, 7 platoons with one higher-ranking leader, etc., to form a large army which was relatively easy for one general at the top to manage under conditions of combat. Wider spans of management increase organizational efficiency.

Centralization and Decentralization:

Centralization is the remaining of power or authority to upper levels of management. The advantages to centralization involve a closer control of company operations-including policies and practices. By retaining power at the top, those decisions that directly affect a company will be made by the proper governing board. Decentralization is the degree to which authority is dispersed throughout the lower levels of an organization. One of the main advantages to decentralization is that decisions can be made considerably faster, without having to seek approval from upper levels of authority. Also, the presence of decentralization acts as a motivational tool for employees to work their way through the ranks. Decentralization also cases the workload for busy executives who may not have time to oversee all aspects of the company.

Formalization:

It refers to the degree to which jobs within the organization are standardized and the extent to which employee behaviour is guided by rules and procedures. As formalization is the degree to which jobs within the organization are standardized, so it is of two levels.

i. High Levels:

- a. Minimum amount of discretion over what, when and how
- b. Consistent output
- c. Explicit job descriptions
- d. Organizational rules
- e. Clearly defined procedures.

ii. Low Levels:

- a. Unprogrammed behaviours

- b. Exercise discretion
- c. Great deal of freedom
- d. Less standardization
- e. Consider alternatives.

Factors Influencing Design of Organization Structures

Strategy: It is pertinent to mention that structure, once built, often makes changes in strategy difficult and organisations have to undertake painful restructuring.

Size of the Organisation: All organisations start small with just a few people and no specialisation or departmentation. This is the first stage. In the second stage, when the organisation grows bigger by size, departmentation is inevitable. In the third stage, the organisation grows further and includes many geographical areas and each of these areas becomes semi-autonomous, with its own departmentation. For example, Bharti Airtel expanded to Africa and would have different departments to run the organisation in Africa. In the fourth stage, firms are diversified and organised in the lines of business. For instance, Tata has many businesses such as steel business, automobile business, Tata Consultancy Service (TCS), and so on. The structure of each of these organisations is autonomous though centrally controlled by Tata Sons, the holding company. Thus, we can say that the size of the organisation influences the structure. Research has also shown reverse causality, that is, it is the structure that influences growth. For example, if the structure is adhocracy, several innovations are likely to take place that leads to growth.

Complexity of the Organisation: When an organisation is large, its operation involves multiple interrelated activities using advanced technologies. For instance, launching a missile is more complex than running a coffee shop. Complexity necessitates greater control and coordination, which influences the structure.

Technology: Industries can be grouped into those, which make small batch production (For example, someone manufacturing grills and gates for your house), mass manufacturing units (those manufacturing cars), and process industries where the entire conversion of input into output is a continuous flow or process as in the case of a cement industry or chemical industry. Use of technology for mass production increases the level of complexity. Consequently, standardisation increases, more managers and supervisors are employed, and span of control decreases. This makes the organisation more vertical. This insight of the 1950s, though largely true, needs modification in the knowledge era. In highly specialised units such as a cardiothoracic unit or an R&D unit, close supervision is not required, and hence the span of control can be increased and levels decreased. In addition, IT has created new ways to control and coordinate using ERP, sensors, bar code detectors, and so on. These factors tend to make the organisations flatter.

Interdependence: There are three types of interdependence—pooled, sequential, and reciprocal. Pooled interdependence indicates the least level of interdependence where the performance of a unit may have an overall impact on the organisational performance but would have little impact on another unit. For example, the performance of one branch of a bank is not dependent on the performance of another branch; yet there is some link between these for overall performance. Sequential interdependence means that the output of one unit affects the work of another. For instance, land acquisition has to precede construction or pizzas have to be made before they are delivered. Now, consider what happens in the airlines industry. The aircraft lands

and then the flight crew hands it over to the maintenance crew who completes the maintenance and hands it back to the flight crew.

This is called reciprocal interdependence. The structure has to vary in each of these cases. For instance, a highly vertical structure is not necessary in pooled interdependency. It may be an impediment in reciprocal interdependency, but may be essential in sequential interdependency.

Environment: Modern organisations exist in a volatile, uncertain, complex, and ambiguous environment. This results in constant change in strategy, and consequently the structure of an organisation. Modern organisational structure should be flexible enough to change rapidly as per the environment requirement. Departments would have to undertake larger and more complex tasks, depend more on liaison to achieve collaboration and resolve differences and enable more delegation.

Top Management Attitudes: Top management with high/low achievement orientation would create different strategies and consequently, different structure. CEOs with high need for achievement also tend to create more centralised and standardised structure although technology may compel such CEOs to create different structure.

Attitudes of Personnel: If your employees are intelligent, competent, and have positive attitude, it is possible to run the organisation with less supervision.

Geographic Considerations: If you have global operations, dividing the globe into geographical areas such as North America, Europe, or Asia-Pacific is a common practice. Although the popular belief is that geographical dispersion leads to more hierarchy and narrower span of control, the vice versa is true.

Impact of Organization Structure on Organizations Behaviour

Each person is different, and hence making a general conclusion about the impact of structure on behaviour is difficult. Moreover, people select organisations and vice versa. For example, Google is not likely to recruit a conventional thinking/mechanistic person and such a person is not likely to select Google either. In other words, people opt for a structure that fits them, and organisations also selected a person for his/her fit into the structure of an organisation.

Performance: It is difficult to predict the impact of structure on the performance of people. If the person prefers a mechanistic structure, he/she is not likely to be productive in a new form of structure. However, in general, a new form of structure is more amenable to innovation and performance; especially, if we consider the characteristic of a knowledge worker and the Millennials.

Job Satisfaction: Managers are likely to feel more satisfied when the organisation is flat as they would have greater span of control. They prefer to have adequate scope to showcase their specialisation. They also like less standardisation so that they can be more innovative. If there is less formalisation and centralisation, participation and freedom to take initiatives would increase. While these are true for work, when it comes to personnel policy, everyone expects standardisation and formalisation.

Turnover: Job satisfaction is a good predictor of turnover. Hence, structure is likely to affect turnover through job satisfaction.

Team Dynamics: Teams operate better when the structure is one of the new forms. Teams are less effective when the organisation is mechanistic. Conversely, it is necessary for an organisation to foster teams and team dynamics if it wants to adopt horizontal, boundary-less, or virtual organisational structures. However, if a person is not a team player, he/ she would find such structures stifling and may feel that they do not enjoy any power.

Perception of Fairness: It is easier to create a perception of fairness in a highly standardised and formalised structure.

Learning: Employees can learn and change easily in a boundary-less organisation. However, all employees may not be comfortable with such a structure and if they have a conventional attitude, they may feel stressed in such an organisation.

Engagement: If the person enjoys taking responsibility and risks, and loves to learn, he/she would show positive engagement if the structure is one of the new forms.

Change: The attitude of the employees to change would decide their attitude towards new organisational structures. At the same time, it is important to note that new structures are more helpful to create change.

Organizational Structure – important Changes Recently Noticed

Organisation structures have been changing with the need and requirements of the firms. The disintegration of Soviet Union and opening up of global markets have created new demands for organisations. The globalisation of economy has created new opportunity for large and small organisations. The organisations can gain only if they mould or adjust as per the new requirements.

Some of the important changes recently noticed are:

Selling Products and Services around the World:

With the opening up of economies to international trade, there are opportunities to enter new markets. Selling products to international markets poses new challenges for organisations which are structured primarily for domestic sales. In order to compete successfully in global markets, companies have discovered that paying attention to local customs and cultures is important. This will require the association of persons from host countries. This will necessitate the creation of some type of organisational structure in the countries while activities are to be extended.

Some multinationals have extended their activities from only selling to manufacturing also. The South Korean and Japanese multinationals which were first selling their products like cars, televisions, fridges, washing machines, air are conditioners etc., in India have now started producing these products, partly or fully, in this country. Under such situations the organisational structure will require some changes to cope with the new opportunities.

The global sales and service functions require integration of company knowledge and information on a global scale. The telecommunication links have enabled firms to maintain tight controls of costs and provide a high level of service to customers.

Outsourcing Operations around the World:

Many companies have started taking advantage of production operations all over the world. The manufacturing and retailing companies try to achieve cost savings, while outsourcing some of their activities. Outsourcing allows companies to focus on core competencies and takes of strategic partnerships with other firms whose competencies are complementary or synergistic. For example, outsourcing has allowed Nike to focus on design and marketing, leaving manufacturing to other companies that specialise in that part of business.