



Hierarchical Organizational Structure

SKILLS

Dr. Amit K Lal



Hierarchical Organizational Structure

A hierarchical organizational structure contains a direct chain of command from the top of the organization to the bottom. If someone at the bottom of this organizational pyramid wants to make a decision, they pass the request up through the chain of command for approval, for which a decision will eventually be returned.

- Senior management makes all critical decisions, which are then passed down through subsidiary levels of management.
- A hierarchical structure operates well when there are few products that are sold in high volume, so that tight control can be maintained over the design, quality, production, and distribution of goods.

ADVANTAGES



- **Control Orientation** - When there are just a few key products being sold, or there is a specific marketing message to be distributed, the hierarchical system works well.
- ❖ For example, a high-end women's handbag manufacturer will likely need to employ a hierarchical system in order to closely monitor the design and production of handbags.
- ❖ Similarly, a high-volume consumer products company needs to maintain a consistent worldwide brand image, and so needs to control all aspects of production, distribution, and marketing.

ADVANTAGES



- **Clear reporting**.-Since power is so centralized, it is easy to determine who is authorized to make a decision.
- **Career path**- There is a clear career path through this type of organization, with employees gradually advancing through the various levels of management over a number of years
- **Specialization**.- Employees are more likely to have niche positions that allow them to become in-depth specialists. If their expertise is used effectively, this means that a company can have a number of centers within the organization where best practices are employed.

DISADVANTAGES



Restricted information- Information tends to flow toward the top of the organizational structure, so that the management team has a complete set of information with which to run the business. However, the reverse is not the case.

Slow decision-making- This system takes time for management decisions to percolate down through the various levels of management and be enacted. If a company operates in a swiftly-changing environment, this can mean that the business is slow to react to competitive and environmental pressures, and so can lose market share.

Added costs. This system requires a considerable amount of corporate overhead to support the senior management group, including extra layers of management, internal auditors, budgeting and control departments, and so forth. This can be an excessive burden on profits when the bureaucracy is especially bloated.

THANK YOU