

4. Organizational Structure of Business

Objectives

At the end of this chapter, students should be able to explain the organizational setup of any business; explain and draw different organization charts showing various positions and formal relationships in an organization that result from responsibility, authority and accountability. Also, they should be able to distinguish between the power of an office and the power of an individual in an organization.

4.1 Introduction

The structure of any organization specifies the hierarchy of positions in terms of responsibility, authority and accountability for achieving the corporate objectives of that organization. It is necessary to note that in business organization, the immediate result is the creation of organizational structure, that is, a framework of the formal relationships in the organization which defines the position of members of the organization in relation to one another, and to the common objective. The purpose is to assist in regulating and supporting the efforts of members so that they are co-ordinated in accordance with the organization's objectives. A diagrammatical or graphic representation of this structure is known as organization chart, which shows the flow of authority and responsibilities, or channels of communication, or lines of authority or chains of command within an organisation.

However, organization charts cannot be planned in a vacuum but must be made relevant to the nature of the organizations they are designed to serve.

4.2 Types of Organizational Structures

It is appropriate to identify, as much as possible, some types of organizational structures since it is difficult to put types of organizations in separate neat compartments. Usually, the following types are identifiable for convenience:

(a) Line or Direct Organization Structure

Here, the hierarchy of posts is plain. It indicates the immediate and ultimate superiors and subordinates and the responsibility and authority bestowed on each. Line structure is created by downward differentiation or separation of primary or organic functions of an organization or enterprise. For example, in a manufacturing organization, these primary functions (also called line functions) are production, marketing and finance. So in the line organization structure as shown in Figure 4.1, all members are either producing, selling or financing, or are in the direct chain of command above these three functions. Thus responsibility, authority and accountability are set up or established in one way by adding another level of line organization as the relationship is vertical. The flow of communication or command is from the production manager through the foreman to the workmen and vice versa. In the department of marketing, for instance, communication flow is from the marketing manager

through the district manager to the salesmen and vice versa. In the finance department, the flow of communication or chain of command is from the finance manager through the assistant to the accounts clerks. Lines on the chart linking one level of authority to the other are referred to as links of authority or command or communication.

Notes

- (i) The Board of Directors is at the apex of authority of the organization.
- (ii) Similarly, the Managing Director (MD), though a member of the Board, is directly responsible to the Board.
- (iii) The General Manager (GM) is directly responsible to the Managing Director, and to the Board.
- (iv) All other managers also are directly responsible to the General Manager and, through him, to the Managing Director.
- (v) Each officer below the respective manager is responsible directly to that manager.

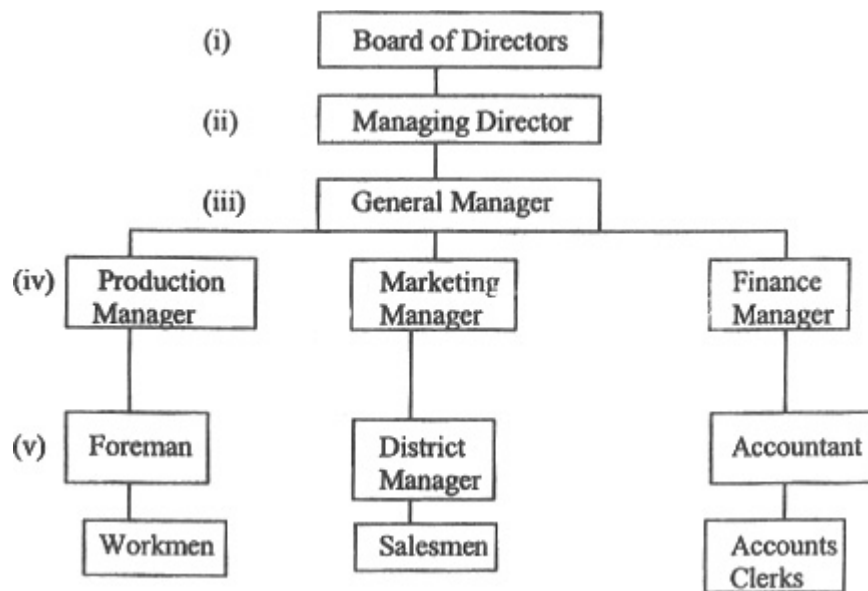


Fig. 4.1: Line Organization Structure

Merit or Advantages

- (i) Line of authority is clear and well understood.
- (ii) Officers have power and duty to act.
- (iii) Discipline is easier to enforce.
- (iv) It makes for stability and therefore suitable to the civil service and the army.
- (v) It is simple as it is a type without complications.
- (vi) It is easy to understand by all members concerned.
- (vii) Decision making and actions can be done rapidly because there are fewer people to consult.
- (viii) It is possible to develop a general background for most personnel.
- (ix) Accountability is made clear and inescapable.

Demerits or Disadvantages

- (i) It can be too rigid, inflexible and long-winding.
- (ii) Power is top-heavy and can be autocratic.
- (iii) It does not give room for the use of initiative by resourceful subordinates.
- (iv) A missing link in the chain of authority, for instance, the loss of an executive, may bring about disaster for the administration.
- (v) Lack of managerial specialization results in an increasing loss of effectiveness of the organization.
- (vi) There is usually the reluctance to co-operate with coordinate managers.
- (vii) Because line structure emphasizes vertical relationships, there is no cross-fertilization between staff of various units or department.

(b) Functional Organization Structure

This is an organization where some specialist functions have developed. Such experts are referred to as **Functional Managers**. The functional managers have some responsibility in their fields with authority to command rather than to offer advice to those who have direct responsibility for carrying out the main operations, e.g. the quality controller may pass instructions directly to the production Workers without necessarily going through the production manager.



Fig. 4.2: *Functional Organization Structure*

In the diagram above, the quality controller department and the personnel department are set up with functional relationships to the supervisor and the foreman. Here for instance, the personnel department does not recommend that a foreman accept an applicant; it orders him to do so. On matters of wages, grievances, training, etc. the personnel department can

overrule the line of personnel. The foreman must look to the personnel department in matters pertaining to personnel. In other areas, he looks to the appropriate functional supervisor if such an official exists, e.g. quality controller.

In short, in functional organization, the specialist or expert enforces his directives. It should be noted that no firm is completely functional in the sense presented above. One or two departments may be set up in this capacity, with the greater majority retaining the usual staff relationship. Functional authority is usually justified only in cases where operations require much more expertise than line supervisors can provide. This is known as functional differentiation outward, where it is believed that expert knowledge will produce more effective result.

Merits

- (i) It makes expert knowledge available to the organization.
- (ii) It forges a positive marriage for efficient operation between the expert and non-expert staff.

Demerits

- (i) There may be too many "bosses" for the junior staff, e.g. the functional and the line managers. According to Frederick Taylor, this breaks "unity of command".
- (ii) The junior staff may also become confused – and Taylor refers to this as breaking "the chain of command".
- (iii) There may also emerge some "buck passing" – a situation whereby some responsibilities are deliberately left unattended.
- (iv) As Mooney pointed out, staff line gives the erroneous impression that the structure of organization is like a double-track railroad, whereas it is single.

(c) The Line and Staff Type of Organization Structure

This is the blending of both the line and staff relationships. Thus, the line allows for the use of specialists, the functional managers, by the line managers. For instance, the personnel manager will recruit and train staff for other departments who will maintain control over such staff. The chief accountant trains accounting staff for use and control by the line managers of other units of the organization. The line and staff relations typify the real life situation in any organization and adhere strictly to what Mooney regards as a single track authority that must prevail in any organization.

Functional differentiation or separation downward and outward produces a line and staff organization which relates the position of specialists to the line managers. Most business organizations, except the very small ones, have this type of structure. As problems of management become complex, it is believed that expertise will produce better results in selected areas such as personnel, quality control and production. However central, it is not possible to separate an entire function from the line.

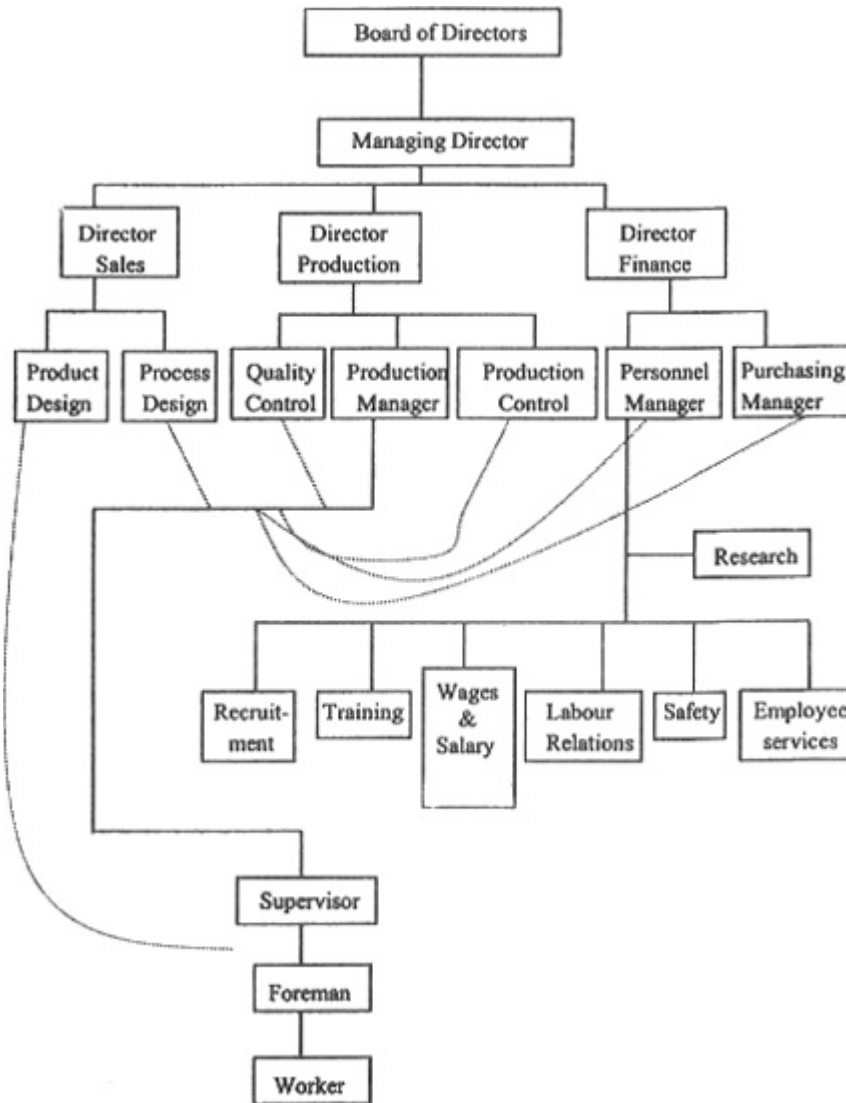


Fig. 4.3: *Line and Staff Organization Structure*

The following should be noted about the structure:

1. The personnel function is not the only function to be separated into staff.
2. It is but one part of the staff organization and must provide services for other staff as well as for the line to which it is attached.
3. Other staff shown in the chart are product design, process design, quality control, production control and purchasing.
4. There has been no attempt to show the organization's sales and finance functions and the various staff units that can be developed in these two areas.
5. A function can be differentiated outward at any level of the organization structure. This chart shows the personnel department joined or added to the production division, an arrangement which is common.

Some principles of line and staff relationships

It should be noted that the creation of a staff department introduces new problems. This is because the simple relationships of the pure line form have been somewhat complicated. To facilitate effective co-ordination and co-operation between these two functions, line and staff, the following principles of relationships should be observed

1. *The Principle of Staff Advice:* This states that staff can only advise line on what to do; should never command or order. The staff should rely upon persuasion and sometimes upon "politicking" to achieve their aim.
2. *The Principle of Limitation of Staff Economy:* This emphasizes the service relationship of staff, i.e. that staff should serve the line and not vice versa. In other words, the staff can afford to make a sacrifice in order to serve the line properly.
3. *The Principle of Compulsory Staff Advice:* This principle compels line to listen to staff, to consult staff prior to decisions and actions. Since the staff is an expert, in a particular area, it is likely that the line decision will be affected by this consultation.
4. *The Principle of Staff Security:* This states that staff personnel should have sufficient security to be able to give truthful advice to their superiors without fear of losing their jobs.

Merits

- (i) Formally, the use of experts by line managers becomes acceptable in the organization.
- (ii) Each expert at any level has only one boss.
- (iii) It obviates the problem of giving too much authority to one supervisor as in the line type.

Demerit

One major criticism of the line and staff type of organization is that while it combines the features of both line and functional organizations, it has only their disadvantages, for instance:-

The specialist (a mere staff status) has no authority over the employees. He is like a toothless bulldog which could only bark and not bite. For this reason, the specialist may be frustrated out of his/her job.

4.3 Forms of Organization Charts

Although the vertical form of organization chart is the most common, there are three major forms of organization charts:

- (a) **The Vertical Charts:** The three specimens shown above (Fig. 4.1 – 4.5) are in vertical form. Here, the lines of command proceed from the top to the bottom in vertical lines, although in functional organizations the lines may be shown in diagonal relationship – see line and staff organization above.

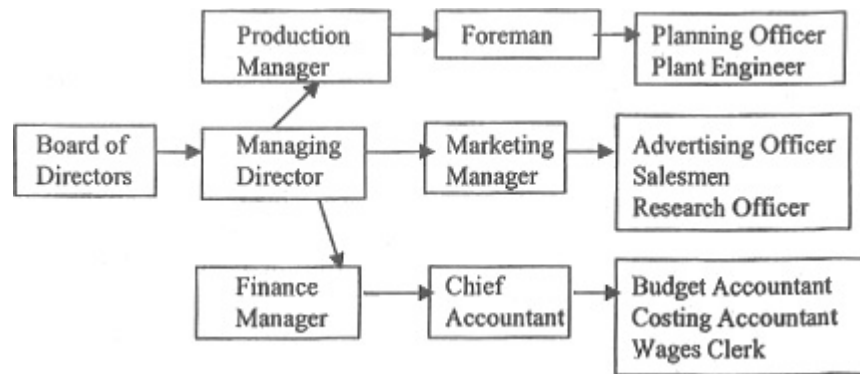


Fig. 4.4: *A Specimen Horizontal Organization Chart*

- (b) **Horizontal Charts:** This charts depicts the same information as for the vertical chart, except that the hierarchy lies horizontally instead of standing in its usual vertical position. The lines of authority (command) move, therefore, from the left to the right.
- (c) **Circular or Spherical Chart:** Here, the information is basically the same as for the vertical and the horizontal.

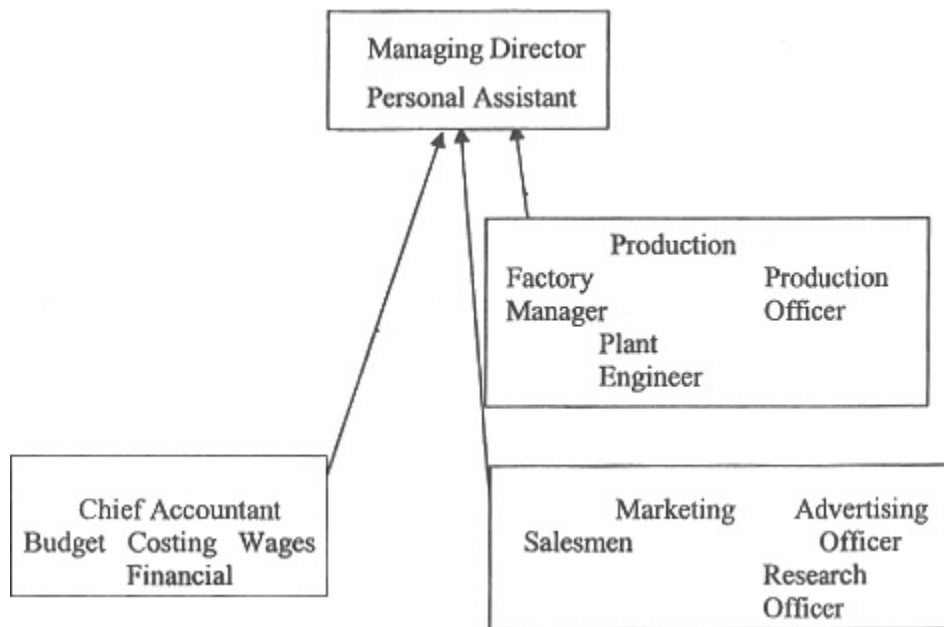


Fig. 4.5: *A Specimen Circular or Spherical Chart*

Notes

- Information is the same as in vertical or horizontal form.
- But there is the added advantage that the circular chart shows clearly the sphere of responsibility of each manager.
- However, where there is a multi-level structure of functions and activities, circular charts may be difficult to draw.

- (iv) The circular chart also does not clearly show the relationships between the line and the staff organization as depicted in both the vertical and the horizontal charts.

4.4 Purpose of Organization Charts

The following useful purposes are common to all the forms of charts mentioned above.

- (i) *A complete picture of organization:* It gives, in simple terms, the complete picture of the organization to all the staff.
- (ii) Relationship-line, staff and lateral, can be clearly shown and appreciated.
- (iii) *Responsibility:* It assists in portraying at a glance the responsibility attached to each post and to whom such responsibility is owed.
- (iv) *Cadres and staff strength:* It is always possible to indicate grades and numbers of officers on such charts. When this is done, the chart could provide a basis for staff control and ensure a reasonable balance between the various grades.

4.4.1 Advantages of Organization Charts

In addition to the objectives listed above, the following additional advantages could be gained by the use of organization charts:

- (i) **A source of information:** It forms part of an organization's manual from which staff draw a lot of information about the organization.
- (ii) **Induction courses:** It is useful during induction courses for new workers or staff. It is particularly useful in giving a brief of the organization to august visitors to the company, e.g. the head of state, governors, ministers and others.
- (iii) **A reference source:** It can be of immense use to organization and methods consultants, especially when the assignment involves a review or change in the organization structure.

4.4.2 Disadvantages of Organization Charts

The following criticisms are usually leveled against organization charts:

- (i) **Lack of flexibility:** A chart by nature, looks static and therefore, usually restricts an organization from being dynamic. In addition changes in such charts, in order to accommodate the changes (if they are rapid in an organization) may become time-consuming and expensive in terms of manpower and material resources.
- (ii) **Outdated chart:** Following from (i) above, a chart may be outdated by the time it comes into use.
- (iii) **Narrow interpretation of responsibility:** A chart may convey a narrow interpretation of the duties and responsibilities of a staff. Similarly, the drive of an enthusiastic and resourceful staff may dampened.
- (iv) **Misleading interpretation status:** Such charts often given the false impression that the status of an employee is necessarily indicated by the level at which his name is shown. This can have negative effects on those who are "status conscious" (This disadvantage may not be as pronounced in a circular chart).

- (v) **Wrong presentation of an organization:** An imperfectly drawn chart will invariably give a false picture of an organizational structure.
- (vi) **Bureaucratic implications:** Should the structure of charts be followed slavishly, it may lead to red-tapism; whereas the flow of information could possibly follow shorter channels and with greater efficiency.
- (vii) **Underrating the complexity of human relations:** Charts, to a large extent, do underrate the complexity of human relationships in an organization (see forms of relationship below).

4.5 Forms of Formal Relationships in an Organization

It has been stated earlier in the introduction that the functional structure of any business organization specifies the formal relationships, responsibility, authority, and accountability within an organisation. These are officially established and prescribed in the organization's manual, charts and job descriptions. These three basic relationships are discussed below:

- (1) **Responsibility:** This is the obligation of an individual to perform, to the best of his ability, an assigned function in accordance with instructions received. Responsibility is the first relationship to be established in any organization and is based on the analysis of the functions required to achieve the organization's objectives.

The following five principles guide formal assignment of responsibility:

- (a) *The Principle of Functional Similarity:* The principle states that functions assigned to an individual should be grouped on the basis of functional similarity to one another in order to facilitate specialization. As much as possible, functions to be assigned to make up a job, section, department or division should be sufficiently related to one another, for the advantages of specialized background. The greater the volume of work, the greater the opportunity to apply this principle, while excessive application of this principle brings about boredom, monotony, reduced interest in work, narrow and restricted viewpoint, and the lack of a broad background necessary for top management.
- (b) *The Principle of Preventing Overlapping Responsibilities:* According to this principle, there should not be overlapping responsibilities, i.e. the same function should not be assigned to two or more persons or individuals.
- (c) *The Principle of Defined Limits of Responsibility:* This principle states that the limits of individual responsibility should be properly and clearly defined.
- (d) *The Principle of Leaving no Gap:* This principle enjoins that there should be no gap in responsibility assignment, i.e. work that should be done must be assigned to someone or a group.
- (e) *The Principle of Assigning no Responsibility for Unnecessary Work:* This principle states that a responsibility should not be assigned for work that is not necessary and does not contribute toward organization's objectives.

The following should be noted about responsibility:

- (i) Responsibility is assigned through delegated authority.
 - (ii) When superior delegates, he relieves himself of one of his responsibilities.
 - (iii) The superior does not have to do the job but he has full responsibility for its execution.
- (2) **Authority:** This is the second basic relationship in any business organization structure. Authority is the right to decide what should be done or the right to do it, or to require someone else to do it, that is delegation. The basic principle that governs this relationship is the principle of co-equality of authority and responsibility. This states that a commensurate amount of authority should accompany a delegation of responsibility. As responsibility is derived from functional analysis, so also is authority derived from responsibility. The source of authority is from above through delegation. So the person in authority exercises the power of the office he is holding and not his personal power. Because authority or power is derived from responsibility has a boundary, i.e. you can order people about as far as your office or position in the organization permits, beyond that, you have no power.
- (3) **Accountability:** This is the requirement for being answerable for one's action or performance. It is the other phase of responsibility. Where one has been delegated an adequate amount of authority that is commensurate with his responsibility, it is logical to hold him accountable for the results. As mentioned earlier, responsibility is a derivative of functions. In the same way, authority is a derivative of responsibility and accountability is a derivative of authority. On the other hand, if insufficient authority has been delegated, it is not logical to hold a person fully accountable or answerable. This formal relationship of accountability is governed by the principle of Single Accountability. This principle states that the most desirable relationship is that each person should be accountable to only one superior. Where the individual or person is answerable to more than one boss, they would be greater susceptibility to conflict, poor co-ordination and misplaced emphasis.

Informal relationship: We have already made some reference to this in one of our comments on organizational structure.

Although informal relationship is not mapped out on the organization chart, it is quite important in the strands of relationship that bind staff together in their place of work. Such a relationship may be between a superior and his subordinate within the same line (or in different lines) of authority. It may be among colleagues or employees of the same grade, in the same unit or in different sections of the organization. Thus it is a relationship that could be horizontal or vertical.

However, what is crucial is that such a relationship is purely on personal basis, although it is also being used for the furtherance of the organization's objectives. It is thus in the interest of the organization.

An informal relationship may be brought about through family ties, ethnic affiliations, social and religious contacts, attendance at the same educational institution and old teacher/students relationship, among others.

Summary

We discussed the different types of organizations

- (i) *Line or direct organization* – relates to the direct responsibility of junior staff to their superiors.
- (ii) *Functional*: This is where experts offer advice to those on direct line responsibility. This often causes a lot of confusion.
- (iii) *The line and staff*: This is an harmonious blending of (i) and (ii). This makes for peaceful co-existence of line authority and functional experts; although, the specialist authority is still not final on line authority and experts could be frustrated. The advantages and the disadvantages of the forms were stated.

In addition, different charts were drawn to depict the real situation in most organizations. Relationships– direct, functional, lateral, staff and informal were also highlighted.

Revision Questions

Essay Questions

1. (a) What is organization structure?
(b) Does a very small business need an organization structure at all? e.g. a one-man business?
2. What is the term given to an organization structure where lines of responsibility flow directly from the superior to the subordinate?
3. What benefits can be derived from the use of organization charts?
4. What are the limitations of organization charts?
5. Write short notes on
 - (i) vertical charts
 - (ii) horizontal charts
 - (iii) circular charts

Draw diagrams where necessary

Discussion Questions

- (i) What type of organization structure do you have in your school – from the Ministry of Education / schools board level downwards?
- (ii) What are the merits and demerits of this organization structure?

Objective Questions

1. A functional organizational structure is where
 - A. activities of similar nature are grouped together
 - B. staff performing similar functions are grouped together
 - C. staff performing the same functions are grouped together
 - D. departments performing similar functions are grouped together.

(JAMB 2001)

2. In the line type of organizational structure
 - A. the lines of authority are horizontal
 - B. specialization is carried to a maximum degree
 - C. there is the application of division of labour
 - D. the lines of authority are vertical
3. An important principle of a good organization structure is
 - A. ideal standard
 - B. span of control
 - C. clarity of mission
 - D. adequacy of resources

(JAMB 2002)

4. Organization chart is a diagram showing the
 - A. flow of authority
 - B. office of authority and responsibilities in an organization
 - C. organization of staff in an organization
 - D. positions of workers in an organization
 - E. span of control

(NECO 2003)

5. Staff position in an organization borders on
 - A. authority
 - B. advice
 - C. responsibility
 - D. control

(JAMB 1999)

6. The line function in a typical manufacturing enterprise is normally performed by the
 - A. public relations department
 - B. estate or properties department
 - C. marketing department
 - D. legal department

(JAMB 1999)

7. A firm's organizational structure would change if
 - A. one of the major partners dies
 - B. there is excessive competition
 - C. there is seasonal variation in demand
 - D. the scope of business operation changes *(JAMB 1995)*
8. This is not an advantage of the staff line organization
 - A. too many supervisors
 - B. use of expert knowledge
 - C. possible positive co-operation between the expert and non-expert staff

- D. expert staff have responsibility in their field
- 9. The type of organization where the personnel manager will recruit and train staff for the use of other departments who will exercise control over such staff is known as
 - A. line or direct organization
 - B. functional (staff line) organization
 - C. line and staff type
 - D. management by consultants
- 10. The demerit of line and direct organization is
 - A. clarity of understanding
 - B. rigidity and long-windedness
 - C. power and authority to act
 - D. discipline is easier to enforce

Project

Give sketch drawings of three types of organization charts which you have studied before or seen in practice.