

Organizational Structure

INTRODUCTION

Organizational mission is expressed in terms of organizational goals. These goals have to be attained by combined efforts of various resources, which involves division of labour on one hand and grouping of various activities on the other. Organizational structure plays an important role in attaining these goals. Any organization when it starts has a small structure and it takes a mega form as it develops. The development is both **vertical** and **horizontal**. Vertical structure indicates the line authority and reporting channel. Horizontal structure indicates the division of work and specialization. Tiers of organizational structure are indicative of power structure, positions and its inter-se relationship, roles, channels of reporting, delegation and accountability. Organizational structure to be effective must be continuously reviewed, modified especially in the present scenario where cost cutting is the order of the day if an organization has to be competitive. It has been observed that the formation of organizational structure is subject to influence of various people who have a say in the organization and therefore there exist a divergence between planned and operating organizational structure.

DEFINITION

According to Sheldon¹ *Organization is the process of combining the work, which individuals and groups have to perform with the facilities necessary for its execution, that the duties so performed provide the best channels for the efficient, systematic, positive and coordinated application of the available efforts.*

Koontz and Donnell have defined organizational structure as *'the establishment of authority relationships with provision for coordination between them, both vertically and horizontally in the enterprise structure'*.

Good organizational structure indicates the following:

- The structure must lay down formal reporting hierarchy right from the lowest level of worker to the highest level of board of directors/MD as the case may be.
- Grouping of identical activities in one department so that equipment, machines, processes and expertise can be developed at one place under the guidance of one departmental head. If the department grows unwieldy then the identical

organization of two or more departments can be structured with formal reporting policy laid down.

- Coordination of various activities be laid down and coordinating authority specified.
- Individual, group and departmental goals should be laid down with specific time frame. Monitoring of goals is essential.
- Seniority between the departmental heads is generally the point of organizational conflict hence the lateral and vertical relationship with particular reference to seniority must be laid down in the policy or the standing orders for the organization.
- Standing orders, policies, procedures, drills, rules and regulations should exist in an organization. These are required to be laid down in details. Duties of each and every appointment reduces operating problems.

Operating structure of any organization differs from the formal structure because of *social systems* and *power blocks*. Formal structure only represents the technical part of the functional organization. Human behaviour, attitude, value system and culture play a dominant role in execution of assigned task when interaction between various work groups and departments are involved. It is necessary to promote organizational culture which starts from top management level down to the lower levels. There are basically two forms of organizational structure:-

FORMS OF ORGANIZATION STRUCTURE

- (a) ***Mechanistic form of organizational structure.*** An organizational structure based on formalized system that is relatively rigid in nature. This is generally applicable to those organizations that are not influenced by technological, product, market changes and generally maintains a constant pattern. In mechanistic form of organizational structure, authority is centralized at the top level of management and has a rigid hierarchy of authority. Decision making is generally reserved at the top level. The tasks are well defined so that the goals set by the top level management are attained smoothly. The structure is characterized by plenty of written orders and instructions.
- (b) ***Organic form of organizational structure.*** Organizations those are subject to change due to environmental factors like technology, market changes and product development generally adopt organic form of organizational structure. For example software industry. In such structures authority is delegated to various functional levels/individuals. Decentralised decision making is practised that allows people to make their own decisions based on the environment and that they do not have to look over their shoulders. There are very few levels of organizational hierarchy and existence of flexible reporting system. Jobs are fairly well defined with few orders and instructions. These days organic form of organizational structure is related to work groups and teams working independently on a particular project that report directly to top management. They are self-supervised, self-directed and self-controlled sub units that are self-accounted for their performance and attainment of organizational goals. The structure is more loose and subject to changes very frequently to adopt to the environmental changes. It is highly flexible.

Bureaucracy

Max Weber, a German Sociologist has introduced a mechanistic form of organizational structure. He envisaged bureaucracy as an ideal form of organizational structure. The system is based on logic, a systematic order of delegation of authority. He felt that the bureaucratic system was far better than other forms of organizational structure that functioned on the whims and fancies of a leader like charismatic leadership or the structure based on precedence (history). Weber felt that ideal bureaucracy is based on the principles of equity and rationality. In bureaucratic model every individual has an equal chance of personal growth based on performance. The system has detailed policy, rules, regulations and charter of duties of various appointments inbuilt in it. Weber's bureaucracy has been widely criticized since it has following dysfunctional characteristics.

- (a) The model is highly rigid, that creates inflexibility in the organization. In the present scenario situational aspects has a higher chance of success.
- (b) Weber's model emphasises on rules and regulations that tend to become an end in itself. This promotes delays and has a tendency to promote red tapism.
- (c) Bureaucracy promotes politics in an organization. This system tends to serve interests of few elite personalities.
- (d) Specialisation has been recommended in the bureaucracy model. Specialists have self-serving tendencies. This at times overlooks the general interests of the common employee in the organization.
- (e) The model is detrimental to personal growth due to high demands on an individual to conform to the system, which is rigid.

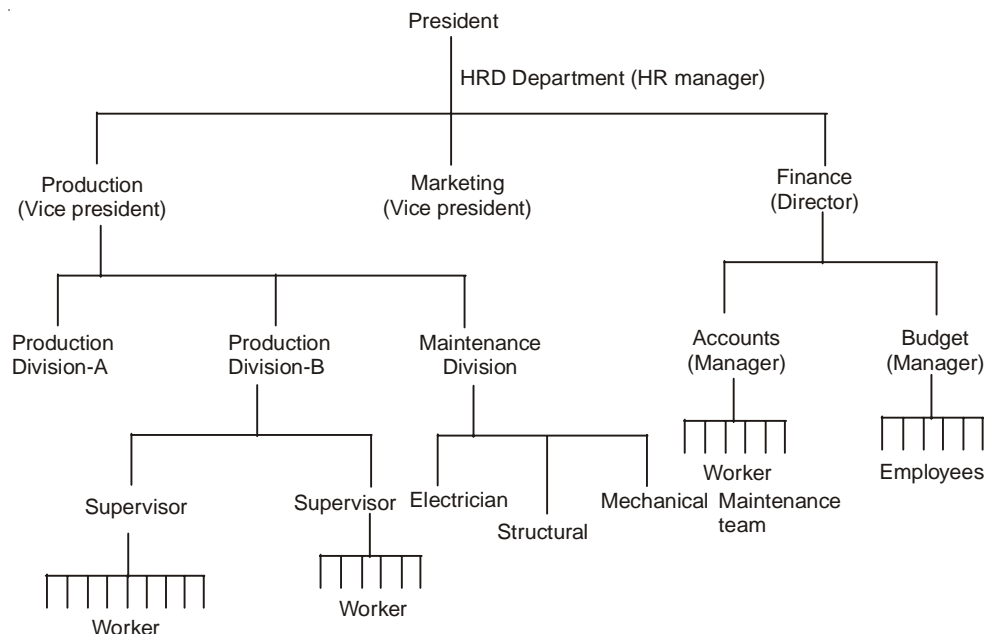


Fig. 16.1. Mechanistic form of organizational structure.

- (f) The model is impersonal, mechanical in nature. It promotes self-perpetuation. It promotes blind faith in rules. It is suitable only to large organization where changes are slow. The model cannot visualize individual needs and therefore cannot exploit full potential of individual.
- (g) There is no consideration for inter personal and mutual relations. It is highly bureaucratic.

It has been observed that most people structure their organizations on bureaucratic model, building on its strengths and minimizing dysfunctional features of the system. A diagrammatic layout of mechanistic form of organizational structure is given in Figure 16.1 above.

Comparative evaluation of mechanistic and organic form of organizational structures is given as under:

<i>Mechanistic system</i>	<i>Organic system</i>
<ul style="list-style-type: none"> • Centralized work culture • Highly formalized (exhaustive written orders) • High specialization • Standardised job structure • Narrow span of management • Tall organizational structure with number of organizational tiers • Centralised decision making 	<ul style="list-style-type: none"> • Decentralised work structure • Formalisation is very low(very few written instructions) • Low level of specialization (team work) • Fluctuation in work culture • Wide span of management • Flat organizational structure with few tiers • Decentralised decision making

CONCEPTS OF ORGANIZATIONAL STRUCTURE

Organizational structure must necessarily be formed taking in to consideration the organizational objectives it has to achieve. Vertical organizational structure indicates among other factors the line authority and unity of command principle of management. Horizontal organizational structure could be simple or complex. It will depend upon the complexity and the nature of work level and intensity of integration. Let us therefore study some of the important concepts that are related to organizational structure.

Centralisation and Decentralisation

Centralisation refers to reservation of authority for decision making at top level of management. Lower levels are responsible for implementing the decisions. They are operators or implementers. Generally speaking, the authority is not delegated to the lower levels. Subordinates carry out work to accomplish their assigned task. If there is a block, hurdle or operation is halted due to some reason, then the matter is referred to an appropriate authority who has the power to take appropriate decision to resolve the problem. Level of authority for any decision-making is generally spelt out in organization's standing orders. Centralisation is more pre-dominant to financial transaction. For example, in the banking services, authority to sanction loan for projects etc is reposed in a particular

authority, may be general manager of the bank and subordinates are only responsible to project the case after due investigation and ability of an individual/firm to repay. Centralisation of authority for small organization is more prevalent where the management wants to have a tight control over the activities of subordinates. Centralisation is found where the organization structure do not have many layers and it is relatively flat. It is found where subordinates are not trained to handle higher jobs, where there is a lack of trust in subordinates and the intricacy or the magnitude of work that demands centralized control.

Decentralisation on the other hand refers to authority being delegated to various levels of organization for making appropriate decisions. Centralisation and decentralization is not opposite to each other but two ends of continuum as under

Centralisation _____ **Decentralisation**

When we say that the organization is decentralized, what it means is that the authority for the decision making has been vested in appropriate levels, depending upon the ability of the individual. In decentralized organizations, individuals at lower levels are authorized to make decisions pertaining to their jobs that give them autonomy. Authority does not flow with the same rate to each of the levels of the organization. It is important to understand that each level is having appropriate authority for decision making when need arises and that one does not have to wait for upper level to take decisions for you. Decentralisation, commensurate with the need, ability of the individual to shoulder the higher responsibilities is necessary. It helps managers to take risk and to develop skills to achieve higher objectives. It motivates junior level managers if they have been vested with an authority to take decisions pertaining to various operations. Manager on the spot knows the local problems and therefore is better suited to take decisions. Flat organizational structure is ideal to have a decentralized command and control especially in the present environment where specialization, information technology, competencies, work teams, work group culture and systems prevail. It develops sense of responsibility among employees, cuts down time, improves productivity, team spirit, motivation and bring 'we' feeling among work groups. Greater decentralization offers employees higher level of job satisfaction as they feel that they have work autonomy. They can respond to a particular situation quickly. It must be remembered that delegation of authority to lower levels does not absolve the delegator the responsibility or the consequences of the actions of their subordinates. This is one reason why managers do not delegate authority to their subordinates.

Charlisle² suggested the following guidelines to determine whether there should be centralization or decentralization.

- (a) **Mission, goals and objectives of the organization.** Certain organizations which have a democratic power sharing set up should be decentralized. Small organizations have a centralized structure.
- (b) **Size of the organization and complexity of the work.** Large organizations with diverse production lines and conglomerates with companies involved in different fields should be decentralized.
- (c) **Geographical location of customers:** Organizations which cater for customers which are geographically located far apart should have decentralized organizational structure.

- (d) **Competency:** If the top management is highly skilled, knowledgeable and experienced and has the capacity to handle more activities at one time, then the centralization is recommended. When subordinates are skilled, experienced and have high level of efficiency, decentralization is appropriate. If on the other hand employees are not adequately trained, centralization is suitable.
- (e) **Communication:** If the communication between the management and employees is efficient, then the decentralization is recommended. This will enable problem solving and accord a sense of autonomy amongst workers.
- (f) **Timeframe:** If the work nature is such that the production is based on time schedule, then the decentralization is recommended as it involves self supervision.

Formalisation

Organizational structure is formed and displayed by various ways. Organizational charts are generally used for providing a picture of organization at a glance. They are indicative of level of authority, relationship (as it is related to each other's duties and responsibilities). These could be depicted in various forms

- (a) Skeleton form, expressed only by lines.
- (b) Function wise for each appointment.
- (c) Indicating names along with designation.

Depiction of organizational charts are important. What is more important is the process of functioning, duties that each of the individuals is required to perform in the organization. These are contained in '**standing orders**' of the organization. Standing orders are extensively written instructions in defence organizations. Standing orders for peace and war are written separately and gives full detail of authority, responsibility, duties to be performed by each of the individuals from junior most level to the highest rank and file in the organization. They are also related to various operations of war and terrain in which they are operating. **Policies** are general guidelines which are required to be considered by a manager while performing his work. Since these are guidelines, they are changeable considering the situation at a particular time. For example there may be a policy in an organization where every individual is required to undergo a refresher training for a duration of four weeks in a year. But the duration could be cut down or may be enhanced if the situation so demands. Policies lay down broad parameters under which the job is undertaken by individuals to attain the over all organizational goals. **Rules** on the other hand are prescribed code of conduct, which is required to be followed by every individual in the organization. They are rigid form of instructions like leave rules. If an individual avails more number of days of leave than prescribed, he will be subjected to penal deductions. There are no discretionary powers with manager when rules are required to be implemented. **Procedures** are written instructions as to how a work is to be done, what does it involve and the sequence to be undertaken. Assembly line procedure or grievance handling procedure are some of the important examples which are laid down by organization. It may be noted that standing orders, policies, rules and procedures must be drafted carefully taking into consideration the work culture in the organization. It would be desirable if these are provided into shortened form to the employees preferably in the language they understand. This will assist in smooth functioning of the organization. These are

necessary so that the managers can concentrate on the planning without wasting time on routine matters. These help managers to manage by exception. Too much of instructions in the form of standing orders, policies, rules and procedures may lead to false perception by employees as they may feel that the managers are functioning in impersonal and rigid way that may be suitably guarded against. Bureaucratic organizational structures are more formalized by way of detailed and exhaustive policy, rules and regulation enactment.

Standardization

Standardization involves repetitive and routine jobs. Jobs are formalized so that every individual can undertake such standardised jobs without additional training. A bit of briefing/explaining may be required. In manufacturing organizations manufacturing of various standard parts is a common phenomenon. In recent times standardisation of process has become important. For example “induction training”, where standard package of instructions are imparted to new entrants in the organization. Such a process takes a form of Standard Operating Procedures (SOPs). SOP relates to a standard approach towards a particular job, may be reception procedure or send off procedure for an employee. SOPs also lay down who is to officiate in case permanent incumbent proceeds on long leave, course or on a permanent posting. No fresh instructions are required in case of established, tried out time tested SOPs. These cover administrative and all other departmental activities.

Specilisation

When all related activities are put together in particular departments, division of work takes place. Every department attempts to specialise in the work assigned to them. Individual achieves expertise when he performs same job over and over again. Principle of unity of direction must be achieved when jobs are broken down in tiny compartments to achieve specialization. Individual doing a same job over a long period of time is likely to achieve boredom, that must be avoided by rotating him within the department on identical jobs. Variety is required to be achieved for higher job satisfaction. In research and development department, jobs are not well defined. Though there is specialist earmarked to do the job, it is not adequately defined, as it cannot be broken down in pre-determined manner. Division of labour principle therefore is not applicable in R and D department to a desired extent.

Stratification

Stratification is related to culture and power distance index between various levels of organization, work groups or in the appointment hierarchy. In bureaucratic organization, levels of command and control is well defined, interaction between staff in minimal and restricted to one up or one down levels. It is equally applicable to line personnel. In highly stratified organizations, office accommodation, cafeteria is separately earmarked for managers, supervisors and workers. This leads to minimum level of communication and reduced interaction between various levels of organization. Apart from leading to ego infatuations, it inhibits free flow of information, supervisor-subordinate interaction. When such stratification culture penetrates deep into work setting, it prohibits growth, creativity and innovation. A wide gap is created that is marked by ‘we-they’ feeling. This phenomenon is not good for development of organization. In high power distance, organizations decision

making is concentrated in highest authority and there is little delegation of authority. Subordinates have to be dependent on their superior even for the minor decisions. In organic form of organization stratification is minimal and therefore high growth prospects and cordial relationship among various levels of management exist. This type of organizations are marked with low power index ratio. Due to social change that is taking place so fast, organic type of organizations are preferable where free flow of communication, delegation of authority and freedom of work culture is prominently practiced.

Formal Organization

Formal organization has a mechanistic hierarchical structure. In such type of structure position, authority, responsibility and accountability is well defined. Formal organizations have well-defined lines of command and control, delegation of authority and a system where effective coordination can be carried out. Detailed policies, procedures, and standing orders are laid down for various departments so that everybody is aware of his duties and obligations towards the organization. In a formal organization goals are set and individual tasks are assigned. Supervisors exercise strict supervision and control.

Informal Organization

Informal organization comes into existence due to social interactions and exists outside the formal authority without any rules. Informal organization may consist of various groups, which are generally based upon socio-psychological support. Members of the informal group enjoy freedom and interaction within the group. Their existence depends on development of social contacts within and outside the organization. The bond of friendship among members is very strong and they display sense of belonging and togetherness. The informal organization develops in shadow of formal organizational structure and may have its own structure. Informal organization has group goals, social roles to play, leader-follower relationship, unwritten behaviour pattern and code of conduct. It serves as a parallel communication channel for the organization. The informal organization is a powerful instrument and runs parallel to formal organizational structure. The leader of the informal organization train subordinates, assist them when needed and ensures welfare. Promotional, financial, social, and religious obligations are fulfilled by the management. The power of the informal organizations is immense. Some times it means failure or a success of an organization that must be understood by the management.

Span of Management

In a classical organization, effectiveness and efficiency is determined by number of people a manager can handle effectively. This depends upon the relationship a manager enjoys with his subordinates. Span of management is also known as span of control. The basic principle of span of management is an ability of a manager to effectively supervise a finite number of people. It has been established that at higher levels a manager can control four to eight people while at lower levels eight to fifteen people can be supervised. There is a limit to the number of people a manager can effectively supervise as mentioned above, but the impact of effectiveness will depend upon individual situation, issues that consumes time in handling superior –subordinate relationship and identification of devices that reduces the time pressure. Span of management is of two types:

- (a) **Wide Span:** Wide span of management is suitable where work is delegated to work groups and teams and there is near autonomy in work environment. Clear policies are laid down and subordinates display a high degree of sense of responsibility. However, tendency to overload superiors to decision making and danger of superiors to loose control over the events must be evaluated. This can be achieved by employing high quality managers having successful track record.
- (b) **Narrow Span:** Organizations having narrow span can achieve fast communication, close command and control and keep track on the pulse on the progress of the work. In narrow span there are number of organizational layers and each of the individual is accountable to his leader. This type of structure is too costly. There is no freedom of work as supervisor's tend to get too much involved in the job of subordinates. Because of the excessive distance between lowest level and top level, danger of filtering of information should be guarded against.

Evaluation

Division of activities into departments, hierarchical nature of organization and creation of multiple levels are not desirable as they are not economical. On the contrary levels complicate communication planning and control. Urwick³ concluded, "No executive should attempt to supervise directly the work of more than five or at the most six direct subordinates whose work interlocks". This is considered as an ideal because too wide a span would put a heavy burdon on manager in effective guidance and control and too narrow a span would mean under-utilisation of managerial capacity, ability and resources.

DESIGNING OF ORGANISATIONAL STRUCTURE

Sheldon⁴ suggested – "Organization is the process of so combining the work, which individuals or groups have to perform with the facilities necessary for its execution, that the duties so performed provide the best channels for the efficient, systematic, positive and coordinated application of the available efforts".

Good organizational structure facilitates the following:

- (a) Every individual has to perform certain activities in the organization. He is responsible to accomplish the same and therefore certain amount of power and authority is given to him. Individual must also know his power position, seniority and official relationship in an organization so that he can perform his duties effectively. It is therefore necessary that an ideal structure is formed that will facilitate accomplishment of organizational objectives.
- (b) Identical activities are grouped together in order to facilitate efficient functioning and achievement of results. Organizational structure is therefore needed for integration of diversified activities.
- (c) It is necessary that idle machine time is avoided, capacity is fully utilized and operations of production in particular and other functions are regulated to achieve utilization of resources. Bottlenecks are avoided and smooth flow of activities is achieved. This is possible once a well thought out organizational structure is formed with specific functions allotted to each of the employees in the organization.

Steps in Formation of Organizational Structure

1. **Determination of organizational goals and identification of related activities:** Organizational goals must be well defined and clearly spelt out. Based on the goals all activities that are required should be identified and broken down into smallest possible sub activities that may be assigned as a task or a job to the worker. This is applicable to both managerial as well as operational functions in the organization.
2. **Grouping of activities:** All identical activities should be grouped keeping in mind formation of various departments or divisions. Set of activities could further be sub-divided and assigned to a particular section of a department. For example, in an automobile industry, activities relating to manufacturing of body of a vehicle could be grouped and assigned to a department responsible for it. Activities relating to manufacturing of chassis could be sub-divided and allotted to chassis manufacturing section and the like. This process will lead to formation of department and sections. It will also indicate the workload, human resource requirement, skills that may be necessary, the composition and layout of various facilities. Hence the progression in forming an ideal organizational structure.
3. **Delegation of authority:** A person can not perform his duties unless he has been given adequate authority to accomplish the assigned task. He can not be made responsible and accountable if requisite authority has not been given. Authority, responsibility and accountability are tied together. An individual employee can not be held responsible without authority. Production manager can not be held responsible for shortfall in production if he has not been authorised to hire additional workers if required to meet the production targets. It is therefore necessary to adopt the following process:
 - (a) Determination of course of action to meet the organizational objectives.
 - (b) Division of various activities into appropriate segments to be handled by individuals appropriate to their skills.
 - (c) Assignment of tasks to individuals delegating necessary powers and resources.
 - (d) Coordination to ensure that resources are adequately utilized and that there is no overlap or gap in task accomplishment.

When jobs, activities are classified, divided and grouped under executives at various levels, it would give birth to a rough skeleton on which an organizational structure is established. Formulating an organizational structure on the basis of the content of the job and subsequently making placements of various people is generally carried out. However first assigning a job and later shaping an organizational structure can also happen. Some thinkers are of the opinion that beginning to allot the task should be made at the top level coming down to the bottom level. The others feel that the bottom level tasks should be allotted at the beginning and gradually moving up the ladder and making allocations. It is not important as to which approach is taken in making an organizational structure, what is important is grouping of jobs and activities, delegation of authority and utilization of resources to its full capacity. It is also important to keep in mind that each job is confined to single person and adequate care is taken for narrow specialization within the structure of the organization.

Determinants of Organizational Structure

Line Organization

Line organization is the simplest and very commonly used organizational structure. The basic form of the organizational structure is departments, sections and individuals working within. Superimposed on it is the organizational, departmental, sectional goals and allotment of individual tasks. In line organization authority, responsibility and accountability is clearly spelt out between various levels. The structure is hierarchical in nature. Instructions emanating from President at the top level passes through the departments down to the workers. There is a unity of command and reporting channels are clearly spelt out. Because of systematic demarcation of duties, roles and functions, adequate command and control mechanism exist between managers, managers and supervisors and supervisors and employees. Line personnel are directly involved in achieving the objectives of the organization. They are the ones who earn revenue for the organization. The organizational structure is explained in Figure 16.2 below:

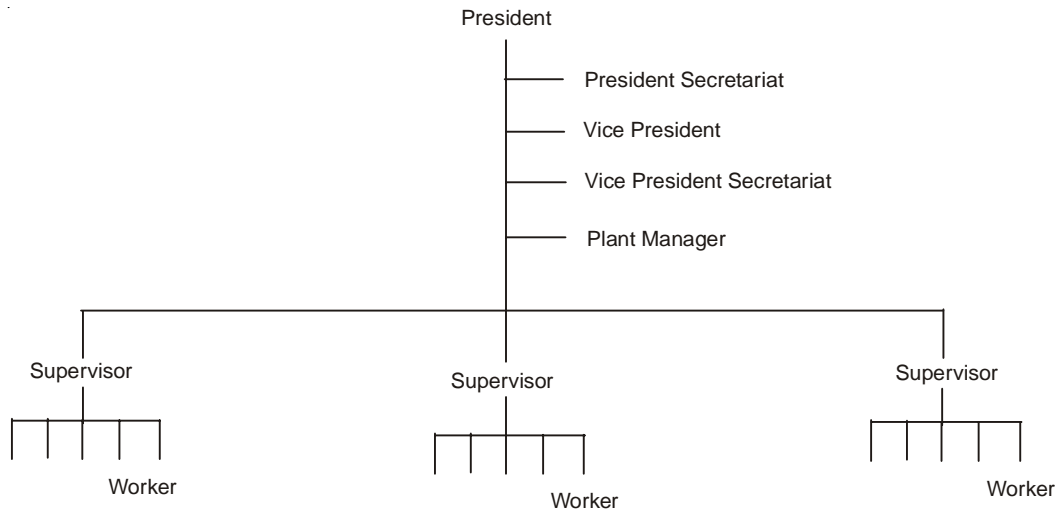


Fig. 16.2. Organizational structure

Because of the small size and compact nature of organization, it is easy to develop organizational culture in the organization. The sense of belonging and close knit relations are generally developed. The value system and the organizational climate further spills over in family life too. There are certain drawbacks in line organization. These are generally rigid in nature and there is little scope for creativity there is no scope for specialized work which is so essential for organizational growth.

Departmentation

Departmentation refers to grouping of individuals and/or functions by units of activities. Departmentalisation maintains that activities should be grouped so as to combine homogeneous activities within the same organizational unit or sub unit. Homogeneity may be based on similarity of purpose, place and activity. Departmentation may take following forms.

TYPES OF ORGANIZATIONAL STRUCTURE

1. Departmentation by Functions

One of the most popular ways to group activities is by functions performed by the organization. Traditional functions are human resources, marketing, finance, R&D and information technology departments. Each of the departments is known by the principle activities performed by the group of people. These departments could be further divided into functional groups like marketing department may further be sub-divided into sales, advertising, publicity and promotion departments and headed by manager/supervisor depending upon the work load, size of the organization and quantum of the work involved. A typical organization based on functions is given in Figure 16.3 below:

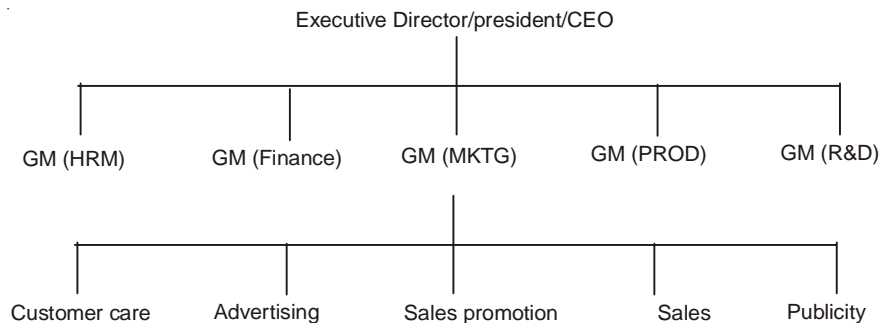


Fig. 16.3. Organization structure based on functions

This type of grouping has the following characteristics:

- (a) Jurisdiction of particular department is clearly defined. In good organizations standing orders are written down for each of the departments in which detailed functions and duties of each of the members are outlined. Interference in the functioning of other departments are avoided.
- (b) Since roles of the each of the department is outlined, supervision becomes easy. All the employees work within the parameter of their respective jurisdiction. Activities are easily managed by supervisors in terms of coordination and control. Each functional area develops its own guidelines for compliance.
- (c) It is easy to organize training and development activities. Employee's skill is further enhanced if employees are subjected to seminars, workshops and conferences. It is the responsibility of the departmental heads to ensure that the staff has updated knowledge in their areas of operations.
- (d) There is healthy competition between various departments. Each of the departments develop their culture over the a period of time. This type of departmentation is easy for command and control.

2. Departmentation by Place

Territory or geography is used as the base to departmentalise activities in the organization. Geographical departmentalization takes place when an enterprise is large and has number of divisions located in different areas. It may be dispersed within a nation or may

even be spread world wide. Enterprises divide their activities into zones or divisions. These are independent profit earning centers and work under local environment. Life Insurance Corporation of India is one such example where organizational policy is same but the nature of operation vary depending upon the local geographic, social and cultural disparities. Life Insurance Corporation of India is a classical example of organization based on place.

Geographic departmentation has following characteristics:

- (a) Product and services can be taken as close to customers as possible.
- (b) Local talent and resources can be exploited to the best of advantage.
- (c) Departmentation by place reduces the cost of material. It has been observed that organizations open their units as close as possible to the vendors and suppliers.
- (d) It reduces the cost of marketing the products and services.
- (e) Local talent can be put to optimum use especially in rural development /handicrafts manufacturing units.
- (f) Due to geographic dispersion, control by the head office becomes difficult. A situation may arise where goal of those who manage the unit become more important than the corporate goals. This may lead to empire building.
- (g) There is competition for acquiring of resources from the corporate exchequer.
- (h) Employees resist transfer to another unit

3. Departmentation by Product and Services

An organization may produce single product or multiple products. In the later case the unit becomes large that can not be managed easily due to multiplicity of products, services and processes. For example the Tata Group which has number of products being manufactured and sold under one umbrella like steel, finance services, hospitality, publishing, power, automobile and telecommunication etc. If these are grouped under one unit, it does not make a sense. These are to be independently managed because losses in one unit can be offset by profits in the rest of the units. An organization of a unit having departmentation by product/service is given at Figure 16.4 below:

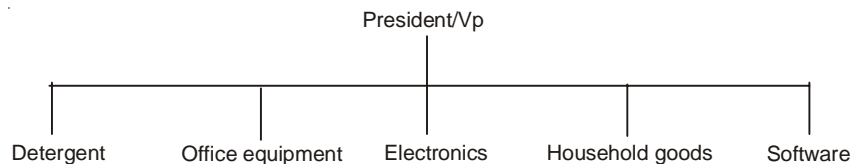


Fig. 16.4. Organization based on product/services

The characteristics of organization built around product/services are as under:

- (a) One of the most important characteristics of units that are structured based on departmentation by product/services is coordinating intra unit and inter unit activities to achieve organizational goals.
- (b) These units have been termed as independent profit earning centers. These have to function independently and contribute towards corporate earnings.
- (c) Competition by units.

- (d) Since units are independent, it becomes necessary to set up all the functional areas and employ a large number of employees at the cost of high expenses. This leads to duplication of efforts.
- (e) Corporate office should exercise its control and discourage empire building tendencies and one-upmanship.

4. Departmentation by Time

Hospitals and other public utility organizations like telephones, railways, hotels that work round the clock are departmentalized on the basis of shifts. For example hospital may have day shift, evening shift and night shift. Production units may also have this type of organizational structure when the load of production is adequate that makes organization to adopt such organizational structure.

5. Departmentation by Matrix

Where technological and product changes occur at a fast rate and co-ordination between functional and product department become critical, matrix system is recommended. In matrix system attention is paid towards co-ordination of various functional activities including product innovation. Matrix system is depicted in Figure 16.5 where every matrix has three sets of positions and role relationship.

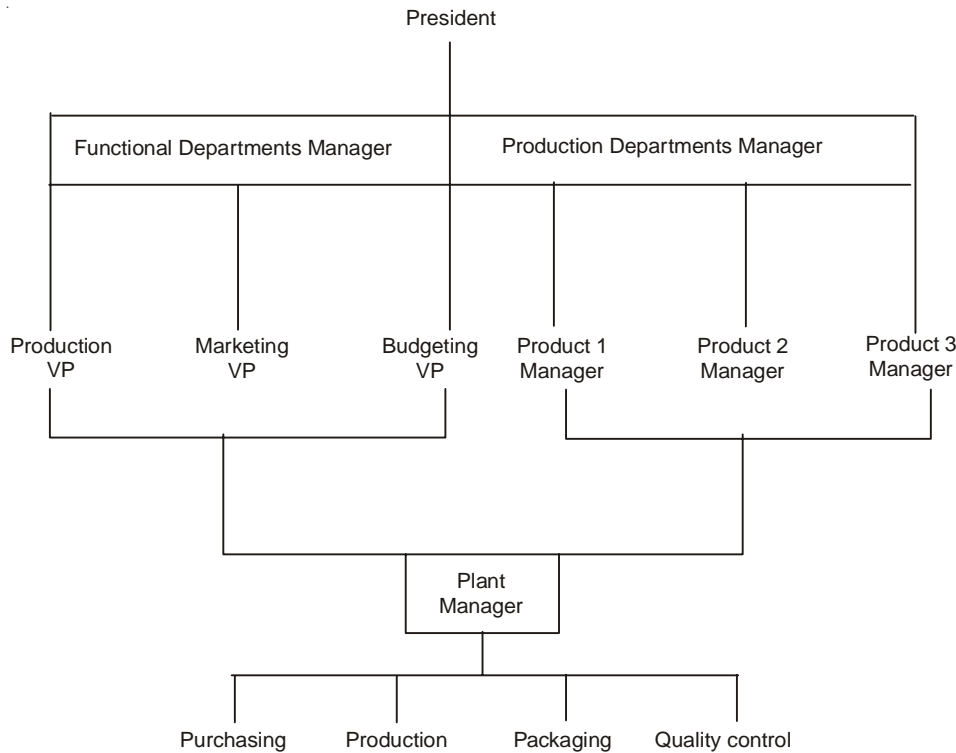


Fig. 16.5. Layout showing Matrix type of Organizational structure (Adopted from S.M Davis and P.R. Lawrence, 1977)

President heads the operation balancing dual chain of command; The functional and product managers who have equal authority and status, have the same subordinates

reporting to them. Finally the lower level managers and skilled specialists report to both functional and product managers. A unique characteristic of the matrix structure is the dual reporting system due to dual hierarchy that often creates problems and tensions for employees. The violation of unity of command principle is a weakness of this system. Projects of specific periods also function under the matrix system. The project managers are generally responsible for over all direction and integration of activities and resources related to the project. They are responsible for completing the project within time frame and resources. They are also responsible for integrating the efforts of the functional managers to accomplish the project and directing and evaluating project activities. The functional managers are concerned with the operational aspect as under:

- (a) Providing technical guidance.
- (b) Providing functional staff which should be highly skilled and specialized.
- (c) Completing the project based on qualitative requirement and technical specification
- (d) Hiring technical persons, processes and sub letting the work if required by time and technical constraints.

Greiner⁵ sees matrix organizations, in which cross functional teams are used, as a response to growing complexity associated with the organizational growth. These complexities, both internal (size and technology) as well as external (markets and competitors) create problems of information processing and communication that are best dwelt by matrix type of organizations. Stephen Robbins has emphasized that most of the business schools adopt this type of organizational structure where director of various schools superimpose additional programmes like faculty development programme on the existing infrastructure and utilize faculty and other teaching resources, which pays rich dividends. The merits of this type of organizational structure is as under:

- (a) greater coordination and control exercised by the project manager (both horizontal and vertical).
- (b) Optimum utilization of resources is achieved because of the utilization of resources for various projects going on at the same time. Utilisation of human resources is also achieved. No duplication of efforts and optimum use of various skills.
- (c) Faster response to organizational changes and interdisciplinary work environment is created. Autonomy of work is achieved.
- (d) Personnel development and employee motivation is achieved.
- (e) Delegation of authority is the key element of matrix system, this enables top management to devote maximum time and energy for planning.

Hybrid Structure

When organizations expand, there is a need of striking a balance in exercising command and control yet giving organizations a freedom of action so that the productivity is enhanced. Hybrid organizational structure is therefore adopted. This helps to capitalize on the strength of both forms (functional and product based structures). While avoiding disadvantages of both. Here, functions that are critical and central for each product or market are decentralized, but functions like legal services, employee welfare are centralized. An example of hybrid structure is given at Figure 16.6.

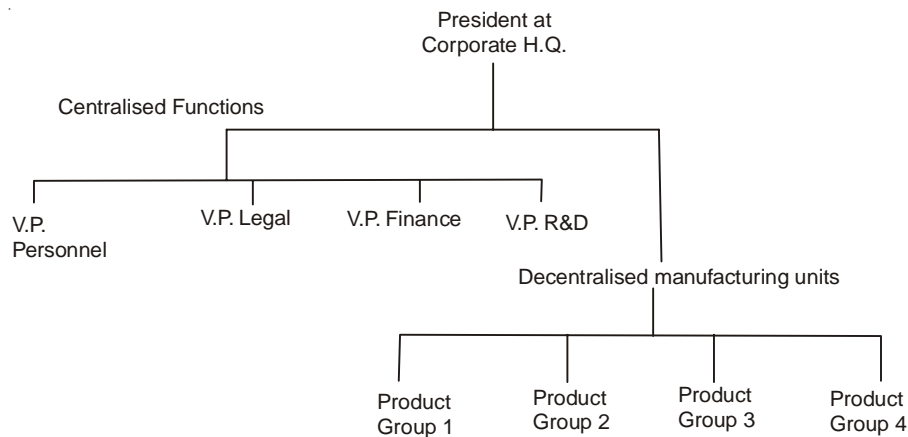


Fig. 16.6. Hybrid Structure

SUMMARY

Organizational structure takes into consideration division of work and grouping of activities. It indicates formal authority and reporting channels. Horizontal structure indicates division of labour while vertical structure indicates the line authority and unity of command. Formal structure and operating structure may be different due to social system and power blocks. There are various concepts of organizational structure. These are centralization, decentralization, formalisation, specialization, stratification and standardisation. Max Weber has suggested a concept of bureaucracy where maximum stress is laid on written orders, instructions, policy formulation, rules, and regulations. This type of concept is strict and employees are bound by formal rules in their day to day functioning. Bureaucracy is highly rigid and has a tendency to promote politics and power blocks. Organizational structure may be mechanistic or organic. Mechanic organizational structure is generally adopted by those organizations which are not influenced by technological, product or market changes and generally maintain a constant pattern. It is like bureaucratic model of organizational structure. On the other hand organic structure is flexible and prone to frequent changes due to technological, market or product change. Delegation of authority to various levels, autonomy in work environment and decentralization are the hallmarks of such organizational structure. When an organization is planned to be started a micro level centralized organizational structure is recommended.

Informal organizations develop within the framework of formal organizational structure. They have their own structure, norms, leadership and working ethics. The formal structure can be either flat or narrow, depending upon the number of subordinates a manager is capable of handling. It is also known as span of management. It has been proposed by Lyndall that for achieving optimum efficiency, the number of subordinates under one manager should not be more than five/six. But this may not be true in present environment because of tremendous progress in information technology and communication. The type of organizational structure is a function of the micro-environment of business, the size of the organization, technology used, philosophy and the strategy adopted by the organization. A large organization using sophisticated technology lends itself to organic type of structure.

Various types of organizational structures include line structure that is very simple and hierarchical in nature where employees are involved in production of goods and services. The second type of organizational structure could be based on line and staff where specialists are added to assist the line. Then there is a functional structure that permits a specialist in a given area to enforce his directive within the clearly defined area. A matrix structure is a combination of project and functional structures in which cross functional teams are used. Both functional managers and project managers are specialists and are jointly responsible for operation and completion of the tasks.

Departmentation is most important aspect of the organizational structure. Organizations are formed based on the following parameters:

- (a) Departmentation by functions
- (b) Departmentation by place or geography
- (c) Departmentation by product and services
- (d) Departmentation by matrix
- (e) Hybrid structure of organization

TEXT QUESTIONS

- Q. 1 Define organizational structure and explain various implications that are associated with the organizational structure.
- Q. 2 What are various concepts of organizational structure.
- Q. 3 Explain various steps involved in formation of organizational structure. Give example of an organization.
- Q. 4 Differentiate between mechanistic and organic structure. Under what circumstances would each type of structure be more beneficial in achieving organizational goals.
- Q. 5 Explain centralized and decentralized authority. What are various variables taken into consideration in order to determine whether centralized or decentralized structure would be more effective.
- Q. 6 Differentiate between formal and informal organization. How important are informal groups within over all concepts of formal organization.
- Q. 7 Explain the concepts of span of management. What factors are considered while deciding whether to have a narrow span or wide span. Give merits and demerits of each of the types of span of management.
- Q. 8 What are various determinants of organizational structure. Visit an organization in your neighbourhood and study the organizational structure it has adopted. Evaluate the same and give your comments/modification to the existing structure.
- Q. 9 What are various types departmentation. Explain the same with the help of diagram.
- Q. 10 How does matrix organization differ from functional and project organization. How can matrix organizational structure be more effective in a brick type of work involved.
- Q. 11 Explain the following concepts in detail
 - (a) Line organization
 - (b) Line and Staff organization
 - (c) Project and functional organization
 - (d) Line and staff Conflicts
 - (e) Impact of technology on formation of organizational structure.

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Case

GHANDI MEDICAL CENTRE

Ghandi Medical University Centre is engaged in full time teaching and medical research for a medical college, dental college, nursing college and other health related professions. It is attached to university which enrolls approximately 2,000 students. It has about 800 beds in medical, surgical and psychiatric wings. It is funded by state government. It is widely recognized as top institution in the provision of medical services in the state. However, the medical center faced consistent financial problems, especially the teaching is unable to break-even.

The state government has brought Dr. Rao, previously Director of a large private hospital by offering lucrative salary and perks. Lured by an excellent salary, favourable climate and the opportunity to test his abilities, Dr. Rao accepted the post of Director of the center.

In the post of Director, Dr. Rao holds control of administration of the teaching, hospital and the college of health related professions. He is accountable for both its management and its budget. While Dr. Rao enjoys free hand in the internal affairs of the university, all long range plans and budgets are approved by state legislature and university. The medical center is expected to obtain approval for major programs from both the university and state it is subject to their rules, regulations and priorities. While the state favours expenditure on health care, the university prefers a budget structure supporting teaching and research.

This being the external intricacies, Dr. Rao found that the teaching and health care personnel directly reporting to him have conflicting priorities. While the former group emphasizes teaching and research, latter stresses on health care. A sluggish bureaucracy entrenched in the organization, most of the important people respect it as it provides necessary resources. However, many individuals within the bureaucracy flap well-conceived plans because they lack initiative or have interest in the effective management of the institution.

In this back drop, Dr. Rao found Mr. Das was handling all procurements, a unique personality, he being a retired military person. While purchasing, he buys exactly what every physician orders with no regard to cost. Many of his purchases are dictated by state specifications. This frequently resulted in running out of budget allocation within eight or nine months, contributing to deficit. This forced the center to borrow supplies from local

hospitals. Mr. Das, it seems neither made an attempt to change state specifications nor persuaded physician and teaching staff to order less expensive items of equal quality. However, he is not violating the rules, but discharging his duties perfectly with the bureaucracy. Dr. Rao recognized that he is not only an exception in the center.

QUESTIONS

1. What are the specific problems of Dr. Rao? How do you eliminate them?
2. How could you redesign the organization? Construct a chart.
3. Dr. Rao is not strong believer of bureaucracy. As such what type of leadership styles are appropriate in this case?

(The Case extracted from the book titled "The Process of Management" edited by Dr. M.L. Bhasin published by Global Business Press, Abhinav Publishing Industries Pvt. Ltd., Delhi, 1st Ed. 1994.)
