

Chapter 11: ORGANIZATIONAL STRUCTURES: CONCEPTS AND FORMATS

KEY TERMS

departmentalization the grouping of related functions into manageable units to achieve the objectives of the enterprise in the most efficient and effective manner.

delegation the process that makes management possible because management is the process of getting results accomplished through others. Delegation is the work a manager performs to entrust others with responsibility and authority and to create accountability for results. It is an activity of the organizing function.

scalar principle (chain of command) a clear definition of authority in the organization. This authority flows down the chain of command from the top level to the first or lowest level in the organization.

centralization occurs in an organization when a limited amount of authority is delegated.

decentralization occurs when a significant amount of authority is delegated to lower levels in the organization.

contingency approach an approach to organizational structure that states that the most appropriate organizational structure depends on the situation, consisting of the particular technology, the environment, and many other dynamic forces.

When two or more people work together to achieve a group result, it is an organization. After the objectives of an organization are established, the functions that must be performed are determined. Personnel requirements are assessed and the physical resources needed to accomplish the objectives determined. These elements must then be coordinated into a structural design that will help achieve the objectives. Finally, appropriate responsibilities are assigned.

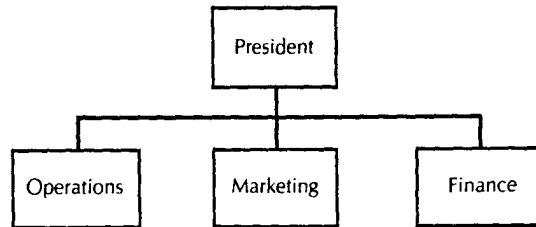
Determining the functions to be performed involves consideration of division of labor; this is usually accomplished by a process of departmentalization.

DEPARTMENTALIZATION

Grouping related functions into manageable units to achieve the objectives of the enterprise in the most efficient and effective manner is departmentalization. A variety of means can be utilized for this purpose. The primary forms of departmentalization are by function, process, product, market, customer, geographic area, and even matrix (also called project organization). In many organizations, a combination of these forms is used.

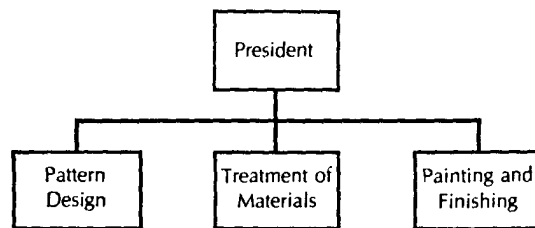
FUNCTION

Perhaps the oldest and most common method of grouping related functions is by specialized function, such as marketing, finance, and production (or operations). Sometimes this form of departmentalization may create problems if individuals with specialized functions become more concerned with their own specialized area than with the overall business. An example of departmentalization by function appears in Figure 11-1 below.



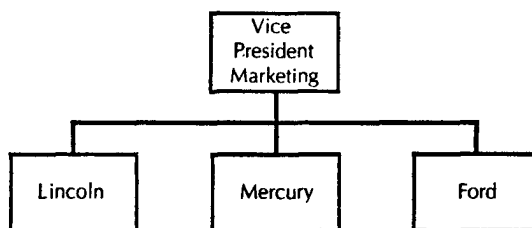
PROCESS

Departmentalization can also take place by process. This type of departmentalization, which often exists in manufacturing companies, is illustrated in Figure 11-2 below.



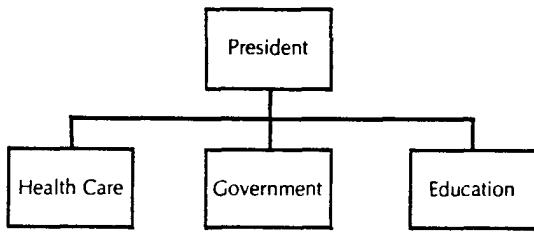
PRODUCT

Whenever specialized knowledge of certain products or services is needed, departmentalization by product may be best. This usually occurs in large diversified companies. This form of departmentalization is illustrated in Figure 11-3 below.



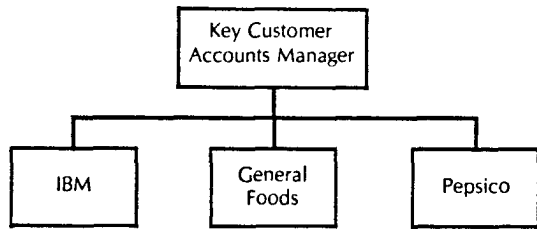
MARKET

When a need exists to provide better service to different types of markets, departmentalization by market may be the appropriate form. An example of a business serving nonprofit markets, which uses the market form of departmentalization, is shown in Figure 11-4 below.



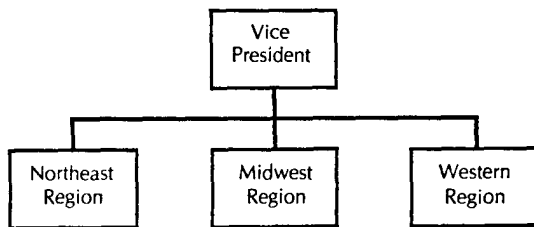
CUSTOMER

Sometimes key or major customers warrant departmentalization by customer. This is often the case in banks. See Figure 11-5 below.



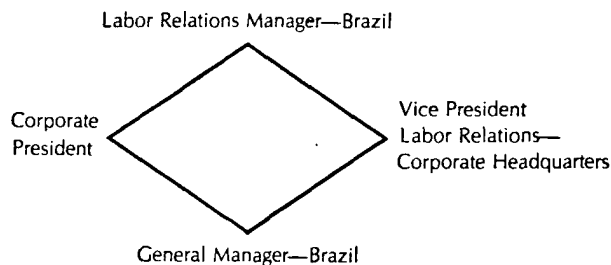
GEOGRAPHIC AREA

When organizations are spread throughout the world or have territories in many parts of a country, departmentalization by geographic area may provide better service to customers and be more cost effective. A typical example for this form of departmentalization. is shown in Figure 11-6 below.



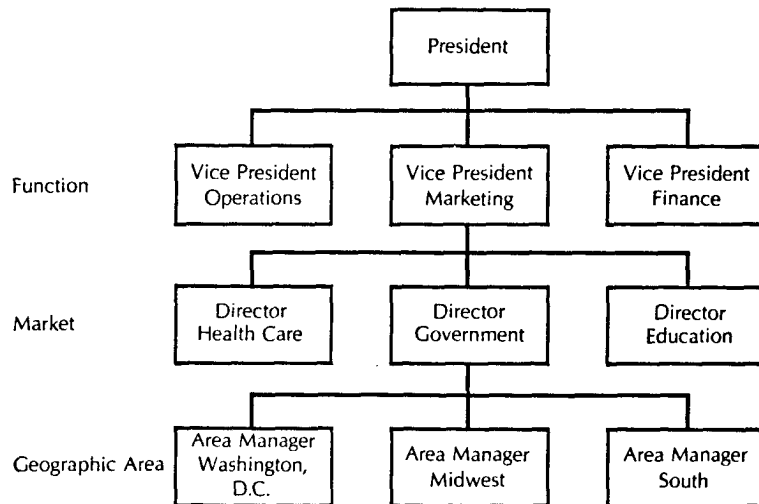
MATRIX (PROJECT ORGANIZATION)

Departmentalization by matrix, or project, has received considerable use in recent years, particularly in such industries as aerospace (e.g., NASA). In this method, personnel with different backgrounds and experiences that bear on the project are assembled and given the specific project to be accomplished within a certain time period. When the project is completed, these specialized personnel return to their regular work assignments. An example of this form is illustrated in Figure 11-7 below; it often takes the shape of a diamond.



COMBINATION APPROACH

Many organizations, particularly large, physically dispersed and diversified organizations, utilize several different forms of departmentalization. Figure 11-8 is an organizational chart showing the use of several forms of departmentalization.



YOU SHOULD REMEMBER

Determining the functions to be performed in an organization involves consideration of division of labor; this is usually accomplished by a process of **departmentalization**. The primary forms of departmentalization are by function, process, product, market, customer, geographical area, matrix (project) or some combination of these forms.

DELEGATION--THE ART OF MANAGING

As shown earlier, the process of managing begins with the establishment of objectives. Once the objectives have been established, the functions that must be accomplished are considered. Then the work to be performed or the responsibilities to be assigned are determined. This means it is necessary to know the personnel and physical resources needed to accomplish the objectives of the enterprise. Thus, when the functions, personnel, and other resources are grouped together by some means of departmentalization into a logical framework or organizational structure, the process of delegation begins.

Delegation is the process that makes management possible. Why? Because management is the process of getting results accomplished through others.

DELEGATION PROCESS, AUTHORITY, AND ACCOUNTABILITY

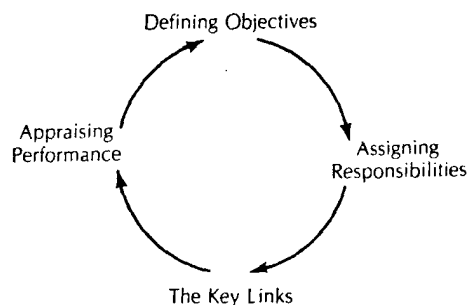
At the moment a job becomes too complex, too diverse, or too voluminous for one person, the need for delegation arises. In its simplest form, imagine the sole administrator with objectives and with no time to accomplish them. Means allowing, the manager can create a new job, hire an employee, and assign the accomplishment of the objectives to the new employee.

To meet these responsibilities, the new employee must also have the authority to achieve them. Thus, authority is delegated along with the responsibility. The manager, however, is still ultimately responsible. By assigning some of his or her responsibilities, the manager transfers or creates accountability. If the employee does not exercise the responsibility properly, the manager can always withdraw the authority. Delegation without control is abdication.

In practice, the process of management works in conjunction with the process of delegation. Since management is the process of getting results through others, delegation facilitates that process by assigning responsibilities, delegating authority, and exacting accountability by employees.

The delegation process works as follows. The manager has certain defined objectives (i.e., results) to accomplish at the end of the budget period. He or she assigns the responsibilities (i.e., duties to be performed) to key employees, along with the commensurate authority to go with those responsibilities. Thus, the accomplishment of the assigned responsibilities should equal the defined objectives.

The manager then develops standards of performance with each key employee (i.e., the conditions that should exist when a job is done well). These standards should be developed mutually to be effective. In essence, these standards of performance become the accountability of each employee for the budget period. The successful accomplishment of the standards of performance should equal the assigned responsibilities. The process continues with the appraisal of key subordinates rated against the agreed-upon standards of performance and closes with evaluation and feedback to the beginning of the next budget cycle, when the process begins all over again. See Figure 11-9 below.



RISKS IN DELEGATION

The sheer volume of management responsibilities necessitates delegation. There is somewhat of a paradox in this situation, however, because delegation involves taking risks. Among the risks of delegation are loss of control, reverse delegation, and even loss of a job.

- ***LOSS OF CONTROL***

In giving over authority to another, the manager loses some control over the proper completion of a project. The manager who has lived by the adage "If you want it done right, do it yourself" may find it difficult to delegate tasks for which he or she will ultimately be held accountable.

The key to successful delegation is assigning the right responsibilities to the right person. Of course, one never knows who the right persons are until one meets and works with them, but it must realistically be assumed that a given organization, department, or section employs at least some competent, willing, and responsible individuals. This assumption does not address itself to the fact that it is nearly impossible today for the manager to be technically superior to all employees. A staff that is not utilized effectively because of a manager's failure to delegate is a major loss to an organization, a waste of human resources.

- ***REVERSE DELEGATION***

An important consideration for the manager who tries to do everybody's job is that he or she does so at the expense of the job for which he was hired--managing. An interesting analogy that underscores the value of delegation for management's sake is the "monkey-on-the-back" analogy, which claims that managers spend far more time with their employees than they even faintly realize. This habit occurs especially when a problem is brought to the manager's attention. In encounters with employees, the manager's use of simple phrases, such as "send me a memo on that," or "let me think about that and I'll let you know," or "just let me know what I can do," causes the "monkey" (problem) to jump onto the manager's back.

The manager assumes the responsibility for handling the task that was delegated to the employee in the first place, and when the employee reaches an impasse, the manager takes the next step. This is reverse delegation, and many employees are adept at it. Naturally, there will be situations in which the next step is justified, but unless the manager wants endless lines at the office door, he or she should avoid the casual and repeated use of those phrases that permit employee problems to ride on the manager's back. In fact, this principle of delegation is that accountability to a superior cannot be delegated.

A solution to this problem is to encourage initiative in employees. Employees should not have to wait until told to do something; nor should they have to ask. They should practice the completion of assigned tasks. By keeping the responsibility where it belongs, the manager will increase discretionary time to manage and can still handle system-imposed tasks. To develop initiative in employees early is one of the ways to develop a new generation of capable managers.

- ***LOSS OF JOB***

The foregoing discussion brings to mind another risk in delegation from management's viewpoint. Is it possible to delegate one's self right out of a job? Suppose a subordinate develops so much initiative that he or she becomes superior to the boss. This is a threatening problem for the manager. The employee would be very happy if his or her development resulted in promotion, but what if the promotion means the manager's job?

Consensus among theorists suggests that the employee should be given the opportunity to perform to as high a level of responsibility as possible if this improves the group's performance. The manager should then endeavor to reward that person accordingly, even if it means helping that person to land a better job outside the organization. To neglect and waste the talents of any individual is as criminal as the misuse of company funds or equipment.

In practice, we have all heard stories from individuals who feel more competent than their managers. Thus it would seem that the best safeguard a manager has in preserving his or her position is to be a good manager and to prepare for his or her own advancement.

TECHNIQUES OF DELEGATION

The art of delegation often depends on a given situation. Plans change and people differ, but this does not imply that the employee should have to be notified on a daily basis of what is needed. Nor does it imply that there are not some generally accepted techniques that can facilitate the process of delegation, as discussed below. More suggestions are detailed in the list of do's and don'ts.

- ***DEFINITION OF RESPONSIBILITIES AND AUTHORITY***

A clear definition of responsibilities and the authority to accomplish them constitute the foundation of the art of delegation. Whenever possible, these responsibilities should be stated in writing. The employee should also have a good idea of how the job fits into the total picture and why it is important. The manager should also encourage questions and be completely approachable. This practice, in combination with exhibiting confidence and trust by allowing subordinates to pursue goals without undue reporting, constant checking, and other exaggerated forms of control, will create a supportive climate and help to build an effective working relationship.

- ***PERFORMANCE RATING***

Once the employee understands the job, that person should be made aware of how performance will be measured. This step in the management process has already been mentioned.

By and large, and within reason, managers receive the type and level of job performance they expect or informally accept over a period of time. In fact, low expectations tend to breed low performance and the opposite is true of high expectations. The failure to confront lower than desired levels of performance is tantamount to acknowledging them as acceptable; high expectations mean setting challenging but achievable goals. The focus should be on results that are motivating and attainable.

The manager should establish a system for setting objectives and set up a procedure for periodically reporting progress toward these objectives. Consideration of less-experienced employees demands more frequent consultation and, possibly, reporting. The manager who is committed to delegating authority should avoid switching back and forth in delegation, thereby causing only confusion and stagnation among employees

- ***AWARENESS OF LIMITATIONS***

It may seem self-evident, but delegation cannot be used when the individual does not welcome additional responsibility. Knowing who wants greater responsibility or promotion is as important as knowing who is qualified for a job. It is often difficult for successful executives, who owe their success to a driving desire for greater responsibility and recognition, to understand others who seem to lack that motivation.

In essence, the manager-employee relationship is one of interdependence. A major goal of delegation is to reduce dependence on the manager, but the manager incurs a certain responsibility to the employee in delegation. The manager is responsible for helping the assistant discover how best to develop his or her abilities in order to meet future responsibilities.

Managers can develop employees through the art of delegation and should practice this art judiciously. With effective delegation, a manager can multiply his or her effectiveness and, through others, achieve the results expected.

PARITY OF AUTHORITY AND RESPONSIBILITY

An important principle of organization as well as management is that authority should equal responsibility. This principle is known as the parity of authority and responsibility and ensures that work will be performed with a minimum amount of frustration on the part of personnel. By not delegating authority equal to responsibility, a manager will create employee dissatisfaction and generally waste energies and resources.

SCALAR PRINCIPLE

This concept is generally referred to as the *chain of command*. It means that there should be a clear definition of authority in the organization and that this authority flows, one link at a time, through the chain of command from the top to the bottom of the organization. Communication in the organization is through channels. Following this principle generally results in clarification of relationships, less confusion, and improved decision-making.

YOU SHOULD REMEMBER

Delegation is the process that makes management possible because management is the process of getting results accomplished through others. Understanding the process of delegation involves employing the principles of **responsibility, authority, and accountability**, as well as understanding the concept of the **chain of command (scalar principle)**.

DELEGATION DO'S AND DON'TS

Do's

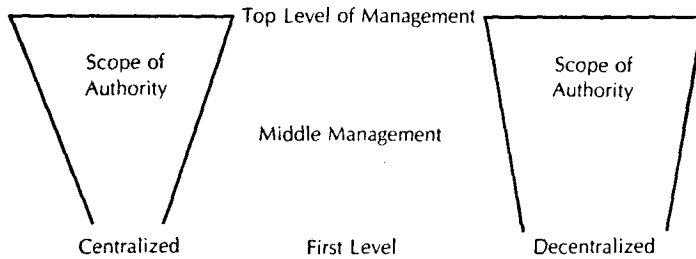
- Delegate as simply and directly as possible. Give precise instructions.
- Illustrate how each delegation applies to organizational goals.
- Mutually develop standards of performance.
- Clarify expected results.
- Anticipate the questions your employees may have, and answer them in order.
- Discuss recurring problems.
- Seek employee ideas about how to do the job.
- Accentuate the positive rather than the negative. Be supportive. Exhibit trust.
- Recognize superior performance.
- Keep your promises.

Don'ts

- Do not threaten your staff. Effective delegation depends more on leadership skills than on position power.
- Do not assume a condescending attitude.
- Do not merely give answers. Show an employee how to do something and why it is done that way.
- Do not overreact to problems. Refrain from criticizing an employee in front of others.
- Avoid excessive checks on progress.

CENTRALIZATION VERSUS DECENTRALIZATION

The issues of centralization and decentralization involve the principle of delegation of authority. When a limited amount of authority is delegated in an organization, it is usually characterized as *centralized*. When a significant amount of authority is delegated to lower levels in the organization, the business is characterized as *decentralized*. Centralization and decentralization are opposites, and there are different degrees of each. In a highly centralized organization, employees at lower levels have a limited range of decision-making authority. The scope of authority to make decisions in decentralized organizations, by way of contrast, is very broad for lower level employees (see Figure 11-10 below).



One cannot classify all forms of centralization as effective or ineffective. The same applies to decentralization. Each form has its advantages and disadvantages and is affected by a number of factors. For example, the size and complexity of the enterprise can affect the delegation of authority. If an organization is very large and diversified, the limitations of expertise will generally lead to decentralization of authority to the heads of these different businesses. If speed and adaptability to change are characteristic of the business, it tends toward decentralization. Geographic dispersion also favors decentralization of authority. On the other hand, some organizations have excellent and speedy communications systems that tend to favor the centralization of authority. In situations in which adequate personnel are unavailable, the organization tends to centralized authority.

ADVANTAGES OF CENTRALIZATION

1. Closer control of operations
2. Uniformity of policies, practices, and procedures
3. Better use of centralized, specialized experts

ADVANTAGES OF DECENTRALIZATION

1. Faster decision-making without resort to higher level consultation
2. Excellent training experience for promotion to higher level management
3. Decisions better adapted to local conditions

YOU SHOULD REMEMBER

The issues of centralization and decentralization involve the principle of delegation of authority. In **centralization**, a limited amount of authority is delegated; in **decentralization**, a significant amount of authority is delegated to lower levels. Each form has its advantages and disadvantages and is affected by a number of factors, such as size of organization and the amount of geographic dispersion.

ORGANIZATIONAL STRUCTURES

The primary formal relationships for organizing, as discussed earlier, are responsibility, authority, and accountability. They enable us to bring together functions, people, and other resources for the purpose of achieving objectives. The framework for organizing these formal relationships is known as the organizational structure. It provides the means for clarifying and communicating the lines of responsibility, authority, and accountability.

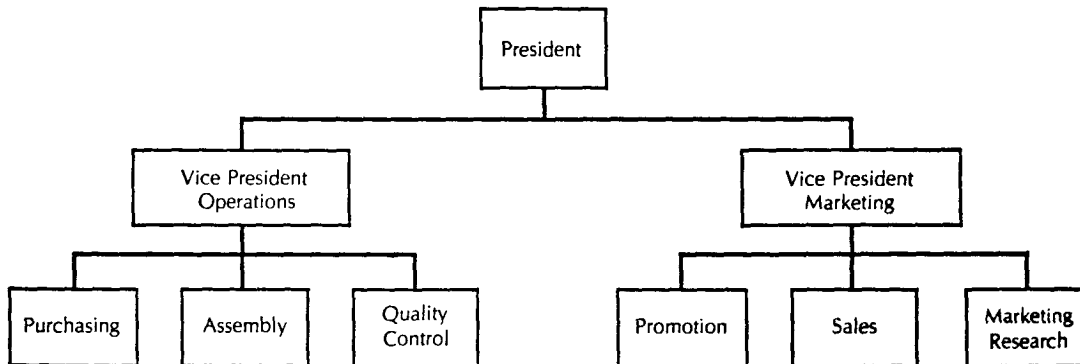
MAJOR TYPES OF ORGANIZATIONAL STRUCTURE

Although there are a number of variations of organizational structure, we shall discuss line and staff organizations and committee organization here.

- **LINE ORGANIZATION**

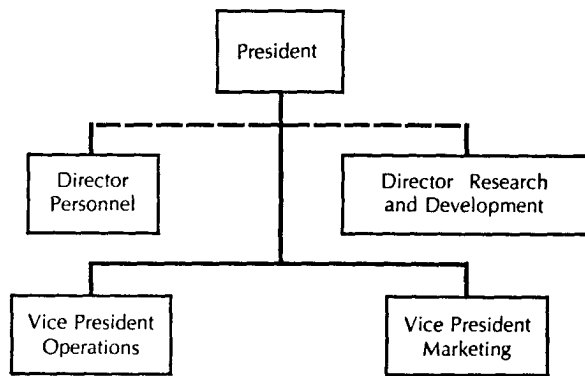
The line organization is the simplest organizational structure. It is the "doing" organization, in that the work of all organizational units is directly involved in producing and marketing the organization's goods and services. There are direct vertical links between the different levels of the scalar chain. Since there is a clear authority structure, this form of organization promotes greater decisionmaking and is simple in form to understand.

On the other hand, managers may be overburdened when they have too many duties. Figure 11-11 below illustrates a simple line organization.



- **LINE AND STAFF ORGANIZATION**

When staff specialists are added to a line organization to "advise; "serve;" or "support" the line in some manner, we have a line and staff organization. These specialists contribute to the effectiveness and efficiency of the organization. Their authority is generally limited to making recommendation to the line organization. Sometimes this creates conflict. However, such conflict can be reduced by having staff specialists obtain some line experience, which will tend to make them better understand the problems facing the line managers they support. Such functions as human resources management and research and development are typical staff functions. Figure 11-12 below provides an example of such a structure.



- **COMMITTEE ORGANIZATION**

When a group of people is formally appointed to consider or decide certain matters, this type of structure is a committee. Committees can be permanent (standing) or temporary and usually supplement line and staff functions. Sometimes ad hoc or temporary committees are set up to deal with a specific problem. Once this committee makes its recommendations, it is dissolved. On the other hand, permanent committees usually act in an advisory capacity to certain organizational units or managers. For example, committees are used to a large extent in universities. They may report to a dean or department chair. Certain committees, called plural committees, have the authority to order, not only to recommend. These committees are usually reserved for a very high level, such as the board of directors. An example is an executive committee of the board for compensation or for succession planning.

Although committees have a number of advantages, they also have a number of disadvantages, particularly being excessively time consuming. Hence they should be managed effectively.

ORGANIZATIONAL STRUCTURE AND ENVIRONMENT AND TECHNOLOGY

Most studies that have been conducted on the relationship between organizational structure and the environment have concluded that the best organizational structure is contingent to some degree on the conditions in the environment. Several studies have also shown a relationship between technology and structure. In fact, these researchers even suggest that technology itself determines structure. These studies and others have lead to a contingency approach to organizational structure.

CONTINGENCY APPROACH

This approach indicates that the most appropriate organizational structure depends not only on the organizational objectives but also on the situation, which includes the environment, the technology employed, the rate and pace of change, the managerial style, the size of the organization, and other dynamic forces.

YOU SHOULD REMEMBER

The framework for organizing the formal relationships of responsibility, authority, and accountability is known as the **organizational structure**. There are a number of variations of organizational structure, including line, line and staff, and committee.

Most studies of organizational structure indicate a relationship to the environment as well as to the technology employed. Consequently, a **contingency approach** to organizational structure has developed, which indicates that a number of dynamic forces can and do affect structure.

KNOW THE CONCEPTS

DO YOU KNOW THE BASICS?

1. What is departmentalization?
2. What are the primary forms of departmentalization?
3. Describe a matrix form of departmentalization.
4. Why is delegation the art of managing?
5. Describe how the process of delegation works.
6. What is meant by the parity of authority and responsibility?
7. What is the scalar principle?
8. In the organizational context, what is meant by centralization versus decentralization?
9. How do you differ between line and staff in organizational terms?
10. What is the committee organization, and what forms can it take?

TERMS FOR STUDY

centralization
committee organization
contingency approach
decentralization
delegation
departmentalization
environment
line organization
matrix organization
parity of responsibility and authority
project organization
reverse delegation
scalar principle (chain of command)
staff organization
technology

ANSWERS

KNOW THE BASICS

1. Departmentalization is the process in which related functions are grouped into manageable units to achieve the objective of the enterprise in the most efficient and effective manner.
2. The primary forms of departmentalization are by function, process, product, market, customer, geographic area, and matrix (also called project organization). In many organizations, a combination of these forms is used.
3. Departmentalization by matrix (or project) involves bringing together personnel with different backgrounds and experience that bear on a project and giving them a certain time period to complete it. Once the project is completed, these specialized personnel return to their regular work assignments.
4. Delegation is the art of managing because it makes management possible, and management is the process as well as the art and skill of getting results accomplished through other people.
5. The delegation process works as follows. The manager has certain defined objectives (i.e., results) to accomplish at the end of a budget period. He or she assigns the responsibilities (i.e., duties to be performed) to key employees, along with the commensurate authority to go with those responsibilities. The accomplishment of the assigned responsibilities should equal the defined objectives. The manager then develops standards of performance with each key employee (i.e., the conditions that should exist when a job is done well). These standards should be mutually developed to be effective. In essence, these standards of performance become the accountability of each employee for the budget period. The successful accomplishment of the standards of performance should equal the assigned responsibilities. The process continues with the appraisal of the key subordinates against the agreed-upon standards of performance and closes with evaluation and feedback to the beginning of the next budget cycle, when the process begins all over again.
6. It means that authority should equal responsibility
7. The scalar principle means that there should be a clear definition of authority in the organization and that this authority flows, one link at a time, through the chain of command.
8. The issues of centralization and decentralization involve the principle of delegation of authority. When a limited amount of authority is delegated in an organization, it is usually characterized as centralized. When a significant amount of authority is delegated to lower levels in the organization, the business is characterized as decentralized.
9. The line is the simplest organizational structure. It is the "doing" function, in that the work of all organizational units is directly involved in producing and marketing the organization's goods and services. When staff specialists are added to a line organization to "advise," "serve," or "support" the line in some manner, we have a line and staff organization. Staff authority is generally limited to making recommendations to the line and contributing to the effectiveness and efficiency of the organization.

10. When a group of people is formally appointed to consider or decide certain matters, this type of structure is a committee. Committees can be permanent (standing) or temporary and usually supplement the line and staff functions.