



[Academic Script]

Organizational Culture & Structure - 1

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1. Introduction

Hello friends!

As part of the session on introduction to Organizational Behavior, you heard the discussion on what organizations are and what organizational behavior is. You would be able to see that structure of the organization is one of the determinants of behavior at work. In today's session, we will focus on the organization from a structural point of view.

Objectives:

This chapter will help you:

- Understand the concepts of Organizational Structure and Culture
- Understand the principles that guide the process of creating organization structure
- Recognize major bases of creating departments within organizational structure and their relative merits as well as limitations

2. Organization and Organization Structure

Let us consider definitions of the word 'Organization' and 'Organization Structure.'

Theodor Leavitt defined an organization as a particular pattern of structure, people, task and techniques. What do you think an organization is? Consider some more definitions:

- "...organization is a particular pattern of structure, people, tasks and techniques..."

(Source: Leavitt, H.J. 1962. Applied organization and readings. Changes in industry: structural, technical and

human approach, in: Cooper, W.W., et al. New Perspectives in Organization Research. New York, NY: Wiley.)

- "... A system which is composed of a set of subsystems..."

(Source: Katz, D., and Kahn, R.L. 1978. The Social Psychology of Organizations. New York, NY: Wiley)

If you look around for more definitions, you will find that authors and managers use the term 'organization' as a process as well as the outcome of the process. In other words, there is a process of organizing or creating an organization, and there is the result of the process of organizing, which is an organization.

The purpose why organizations are created is, in the words of Koontz and associates is the grouping of activities which are necessary to attain chosen goals, assignment of responsibility for each grouping to someone, and coordinating different activities so that the chosen goals are achieved. In other words, creation of an organization helps clarify who will do what, who is responsible for what outcomes remove confusion in role relationships and provide support for organizational processes such as decision-making and communication.

Some classical definitions of 'organization' as a structure are as follows:

1. John Pfeiffer: Organization is essentially a matter of relationship of man to man, job to job, and department to department.
2. Chester Bernard: Organization is a system of cooperative activities of two or more persons.
3. Mooney and Reiley: Organization is the form of every human association for attainment of a common purpose.

On the other hand, the following definitions describe the process of Organization:

1. G. R. Terry: Organizing is the establishing of effective behavioral relationships among selected persons and work places so that the groups can work together efficiently.
2. L. Urwick: Organization is the process of dividing up the activities which are necessary to any purpose and arranging them in groups which are assigned to individuals.

3. Characteristics of an organization

You might be wondering if all the Organizations are same if they have the same definitions. But that is not the case. You would know from observation and experience that Organizations are unique and often one organization is so different from another that you would wonder how they are the same. Well, we can see the following characteristics present in any organization:

1. Organizations are cooperative: although the degree of cooperation within Organizations may be different, we acknowledge that people within them do work cooperatively to achieve shared goals.
2. Close links with planning: Organizations are created for a purpose, which is achievement of the business goals. It doesn't matter whether the goal is to make profit or not, but what matters is that the goals and objectives as identified by the plans and strategy of achievement of those objectives, the work is divided and assigned to groups and individuals.
3. Stability and control: It is not enough to simply assign the goals and responsibilities for achieving those goals. It is important to exercise control so that when faced with

uncertainty and challenges, organizations do not become unstable. Dividing, assigning and coordinating work, provision of line of authority, reporting relationships... all of these create a sense of stability and control, to whatever extent possible, over operations and events.

4. Webs of relationships: Organizations can also be seen as networks of formal and informal relationships. Formally, work is grouped and assigned to people, who are then made a responsibility of higher level supervision, support and control. These connections that flow upward, downward and laterally create networks of relationships among people, who formally and informally relate to one another.
5. Distribution of responsibility and authority: Organizations are repositories of resources. Many organizations are larger in terms of their revenue than some smaller nations of our world. These resources are distributed for use by people in various positions depending on the authority given to them. The authority that a position is assigned is proportionate to the responsibility attached to it. This responsibility is for performing given tasks and achieving expected outcomes.

If you are wondering how then one begins to create Organizations, then let me assure you that it is a complex, difficult process. The following principles are helpful in building new Organizations:

1. Objectives: It is possible to create effective organizations if clear, specific goals are available to guide the organizing process. The goals and objectives of the organization should then also flow downward to different divisions or departments, as well as groups and individuals within those.

2. **Division of work and Specialization:** Principle of division of work suggests that the work required in order to accomplish goals should be divided into different tasks. After dividing work, different tasks within such divisions should be assigned to different people or groups. That leads to work arrangement where everyone involved performs a small number of tasks repeatedly. Known as specialization, this repetition builds skills and improves the speed and quality of work.
3. **Departmentation:** When principle of division of work is applied, total work required to be performed in order to achieve organizational goals is sub-divided. The principle of departmentation says that the sub-groups or clusters of tasks should be grouped together by applying some logic, so that departments or divisions are created.
4. **Coordination:** once the work is divided and assigned for specialization, the need for coordination arises.
5. **Authority:** Traditionally, it has been believed that there should be one source of authority at the top and respectively each lower level should receive its own share of authority from it. That means that lower positions may be many, but the sources of their authority are fewer. Within one department, two subordinates receive their share of authority from their superior. If the line of authority is clear, it will support clear responsibility of decisions, jurisdictions and communication. This is known as scalar principle. These lines that clarify the reporting relations between positions of higher responsibility with their subordinates are also known as chain of command.
6. **Responsibility:** The principle of responsibility suggests that the authority assigned to a position in an organization should be in proportion to the responsibility attached to it. Organizations

being created with a purpose should have a clear sense of responsibility which is distributed across its divisions and levels.

7. Efficiency: The organization should be created to maximize its outcomes given its consumption of inputs or resources. Alternatively, for a given level of desired outcomes, it should consume minimum resources.
8. Delegation: By definition, organization is created by dividing the tasks and assigning a supervisor to each cluster of tasks and responsibility. That means that organizations are like pyramids, with larger number of people at each successively lower level. It doesn't mean, however, that people at the higher levels have lesser work to do. The responsibility of performance at lower level remains with the senior managers. However, if they concentrate all authority and assign only work to the subordinates, it may not be desirable in the long run. The principle of delegation suggests that managers should delegate authority to lower positions so that people to whom tasks are assigned can carry out their responsibilities effectively.
9. Unity of Command: This principle suggests that a given lower position should have a single superior position to which reporting will take place. That means one will have a single supervisor. In modern designs, this principle is not always maintained, but it can be understood that having multiple superiors can result into confusion and conflict.
10. Span of Control: Earlier we discussed supervisors for given lower positions. You might have wondered how many direct subordinates may be enough for one person or how many subordinates can one person directly and effectively

supervise. If you did, then you are thinking about the Span of Control. Often expressed in terms of a number (say, 20 in the age of information and communication technology), it is the number of direct subordinates a supervisory position may be allotted. While a wider span of control implies decentralization, narrower span implies tall hierarchy and slower decision-making process.

11. **Balance:** This principle suggests that for a given position, the authority and responsibilities should be in balance. Also, at the organizational level, the authority and responsibility given to different departments should be balanced; otherwise some departments may emerge as more important than some others, which is perhaps not desirable from the viewpoint of morale and harmony.
12. **Flexibility:** Organization represents a structure, and every structure, while it helps achieve stability, also gives rise to rigidity. The principle of flexibility says that the procedures should not hinder the smooth and effective flow of processes and achievement of efficiency. Also, the structure should not prevent or hinder adaptation to unforeseen circumstances and flexible approach to various issues.
13. **Continuity:** This principle refers to what is known in recent times as succession. Organizations are complex webs of relationships among various positions, and people come to occupy these positions and leave. When one person leaves due to whatever reason, the activities of the organization should not suffer or come to a standstill. Therefore, organizations should provide for development and training of staff members in such a way that when a person leaves, his responsibility can be carried on by replacement. Especially in

key or senior positions, there should be continuity of performance even if a position-holder leaves.

4. Steps in organizing

Having seen the guiding principles in organizing, you are now ready to consider the steps of the process of organizing. In an ongoing organization, this process may not be that obvious, but continual reorganization and restructuring keeps occurring. Occasionally, it is fairly drastic or abrupt, and draws widespread attention, especially if such measures reduce jobs and leads to retrenchment. Sometimes in an ongoing organization, restructuring and reorganization requires employees to learn new tasks and develop new skills, which may cause stress and anxiety.

In a new organization, where the structure is being created for the first time, the logical sequence in which steps are followed is as follows:

1. Division of work and departmentation: The guiding principle of division and specialization is put to work in this step. Given the nature of the work required in order to achieve the chosen organizational goals, for example, 'sell books online', this 'business' of online sale of books would need to be divided into individual tasks, which are – such as setting up a website that allows online sale, arranging for delivery of the books, and managing the business with back-office operations. In a manufacturing business, there would be production and related activities, marketing and related activities, and more. If you are thinking along these lines,

then you are creating departments on functional basis, which we will discuss later.

2. Hierarchy: once the groupings are created, next is the time to consider reporting relationships. As discussed earlier, the groups of activities are assigned to individuals and groups are assigned to a supervisor. That is how the hierarchy is created from the bottom of the organization to the top.
3. Coordination: Again, as discussed under the principles, different groups and departments are coordinated so that specialized work performances and divisional or departmental activities are harmonized in order to fulfill the shared organizational goals.
4. Creation of supporting departments: In the example of online book store or a manufacturing concern, website operations and book distribution, and manufacturing and selling in the second example are the activities that directly contribute to the organization's goal-attainment. However, administration, legal, or human resource management departments are examples of supporting activities that facilitate the activities of the directly business-related departments.
5. Allocation of responsibility and distribution of authority: Finally, once the structure is created, assignment of specific responsibility, and distribution and delegation of required authority are required.

5. Bases of departmentation

We discussed the process of organizing and its guiding principles. You would have noticed that among the steps of organizing process is the one where activities are grouped into departments. In how many ways can departments be created? If

you see different examples, you may find more than one way to do it. In previous examples, we have seen how departments can be created on the basis of the functions. Do you think there can be other bases of creating departments? Consider the following:

1. Departmentation by numbers or task-force: This basis of departmentation has been around for thousands of years. Here, the tasks are such that their completion would require a large number of 'hands' or people. Correspondingly, after estimation of effort required, the number of people is estimated, and the required numbers of people are deployed in small groups, constituting one large group. For example, an army consisting of regiments, shifts of workers in large construction projects such as erection of pyramids or temples, or harvesting large plantations of cotton or other crops.

The merit of this basis is that it is simple to use and follow. Task allocation is fast, and specialized knowledge can be used on both the sides – supervision as well as work. On the other hand, it is equally suitable for deployment of people with lower skills and education.

Limitations of this basis are obvious in a developed economy with advanced technology and high awareness. Clearly, in such a case, sheer muscle force may not accomplish the goals. This method focuses on effort or quantity, and underplays skills and quality. If at all, this basis may be helpful in dividing work only at the lower level of the organization.

2. Departmentation by time: Have you considered how departments should operate if the work is continuous in nature? Examples are chemical processing, drug and pharmaceutical industry, and so on. Over there, and in many

other cases, it may not be advisable to stop work in the night. Rather, the work should continue day and night. When time is of essence, departmentation is by time. Here, same facility and machines are operated by different workers in shift of eight hours each.

Major advantage of this basis is round the clock operation, continuous manufacturing and uninterrupted service. Some processes simply fail if the work stops in between. Departmentation on this basis makes it possible to carry out such processes and operations.

Limitations of this basis include the employee side as well. Working in the night shifts at odd hours may be socially disrupting and may have long term health implications for the employees. If the handling of machines, equipment and procedure is not uniform across the shifts, then the quality suffers. And finally, the change-over between shifts may be difficult and confusing, and unless the workers are not trained well, there may be errors and confusion involving the continuous process.

3. Departmentation by functions: This basis of departmentation is one of the most frequently used. The term 'function' refers to the nature of the operation, or type of activity. As discussed earlier, if departments are created on the basis of sales, manufacturing, and finance, then that is the departmentation by function.

Merits of this basis are its simplicity and appeal to reasonably clear understanding. People find this type of structure easily. Even if not across the entire organization, this basis is put to use at least at some level. Training and development related efforts are especially facilitated by this basis. It also allows

good utilization of specialized skills in specific functional areas.

Limitations of this basis may become apparent when the organization grows and spreads across vast geographical territory. Coordination becomes difficult, and often, people from one department fail to understand 'the language' of other due to task-specialization. Communication slows down and teamwork may suffer.

4. Departmentation by area: Large organizations such as multinational and global firms often use this basis for departmentation. Typically, the departments in this case are known as 'zonal office' or 'regional office' or 'Asia-pacific operations' and so on. It becomes important to use this basis when the way the organization works and serves its customers or complies with the local government is different in each region/territory or area.

Correspondingly, the merits of this basis include better customer satisfaction, taking care of legal compliance issues, adapting to the local context effectively, quicker decision-making and better competitive position in the region.

Limitations of this basis become apparent when one considers the headquarters or corporate office where the regional offices report. It is possible that the corporate headquarters do not appreciate all of the local challenges. Conflict between these two levels or political maneuvering among regional units is possible in this case. Activities particular to a single or few territories may be undermined.

5. Departmentation by product: This is among the more recent development in the field of an industry getting divided into several segments on the basis of product variation. Examples

of such industries are pharma and healthcare and automobile. Also, very large conglomerates with diversified operations have activities in multiple industries. Managing such businesses effectively is possible by creating product-specific divisions, such as 'personal care', 'three wheelers' and so on.

Merits of this basis include closer attention to the needs of consumers, and ability to compete effectively in the market due to close attention to product-related matters. Here, since departments are created on the basis of products, experts and resources with specialized skills and uses can be deployed, and the focus of all activities and processes is singularly one or few products of a kind. Costing and revenue attributions become more specific, and so does determination of financial viability of a product.

Limitations include duplication of resources and high costs. Especially, if the volume of production is low, this type of departmentation is costly to maintain. Highly specialized people and resources may cost heavily, and they are not shared and fully utilized since every product division has its own pool.

6. Departmentation based on customers: under this basis, the departments are created keeping the differences among the needs of different customers. Products are also designed accordingly, for example retail finance, merchant banking, home loans and such. This basis comes very close to departmentation by product. However, more than the product or technology, the need of the customer is at the root of this design.

Merits of this basis include the customer focus. In competitive and dynamic markets, adaptation to customer needs and anticipating how they would evolve is the key to

success, and departmentation by customer needs allows the same. The organization can hire experts and procure resources that can be applied to serve specific customer needs. Desired levels of quality of customer service and their satisfaction may be maintained. Legal compliance for every customer-focused product can be ensured.

Limitations of this basis also include costly replication of specialized resources. Strategies that involve coordination of several divisions may be challenging to implement. Customers with multiple needs that are served by different divisions may find it difficult to satisfy their needs. Some segments may disappear and new ones may emerge in a dynamic environment. For small volumes of activity, specialized skills and resources may not be utilized fully.

7. Departmentation by markets: This type is similar to departmentation by territory or customers. However, at the heart of this basis is the distribution and service of a specific market segment. Same product may be distributed differently in different markets, where markets are not necessarily located in different regions. Example is physical vs. online markets. Customers for both can be found in the same city or region, and they may use the same product, but the customers' preference of how they wish to procure products may be different. Regulations related to each market may also be different, and so would be the specialized skills of people responsible for operations.

Advantages again include closer attention to customer needs and preferences and ability to compete effectively.

Limitations, on the other hand, include duplication of service and resources required for the same, expensive handling of

smaller volumes, and lack of coordination with different shared functions including manufacturing and finance.

8. Process-based departmentation: Similar to continuous manufacturing activity, here more than continuity, specialized nature of different processes of manufacturing activity is the key. Each process may be specialized with its own technology, and demand for knowledge and resources. Examples are textile facilities where spinning, weaving, dyeing are examples of processes which are highly specialized.

Merits of this basis include attention to technology and maintenance of product quality due to focus on specific process. Each process can be managed by an expert, who can closely supervise production, operations, maintenance and repairs over and above quality and issues such as training. These processes can be fine-tuned based on the requirement of the customer for maintaining the desired specifications and quality.

Correspondingly, the merits of this basis include flexibility, precision and quality. These merits further make this basis particularly suitable for small volume of production in different batches. These batches may be non-standardized, and therefore are not mass-produced. This non-standardization and small size allows variation in product specifications and quality. Thus, customer needs can be satisfied.

Limitations of this basis primarily are the expensive nature. Setting up specialized process shops may require heavy investment and may be expensive to maintain as well. The expert supervisors would also add to costs, and for small volumes, unless the margins of profit are high, the costs of production would be very high.

6. Summary

In this session, we discussed the organization structure and related topics. It is important to understand the structure of the organization, because it is one of the important determinants of behavior at work. In the domain of organizational Behavior, the term 'organization' and 'Organization structure' has been defined from various perspectives. Organization is seen as a pattern or a system, which is the result of a process of organizing. This makes 'organization' a process as well as its outcome.

As the outcome of the process of organizing, the organization or organization structures share several features, although the relative strength of every feature or characteristics may be different in different organizations.

How are the organizations actually created? Two elements can be of help here: the guiding principles of organizing and the process of organizing. While guiding principles are more like recommendations in nature, the process of organizing is more like the steps that organizations follow in creating their structures.

Even when the principles are followed and process is adopted, different organizations can have very different forms from each other. This difference is partly created because of different bases of separating departments within a structure, known as departmentation. This chapter discussed different bases of departmentation, and the relative merits and limitations of each.