Organizational Design Change and Transformation
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Module - 03

Lecture - 12

Organizational Structure

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[FL]. We will continue with our discussion on Organizational Structure which is module 3 this is lecture 2. In the previous lecture we have spoken about the basic challenges of Organizational Design and in today's lecture we will be speaking about designing organizational structure authority and control.
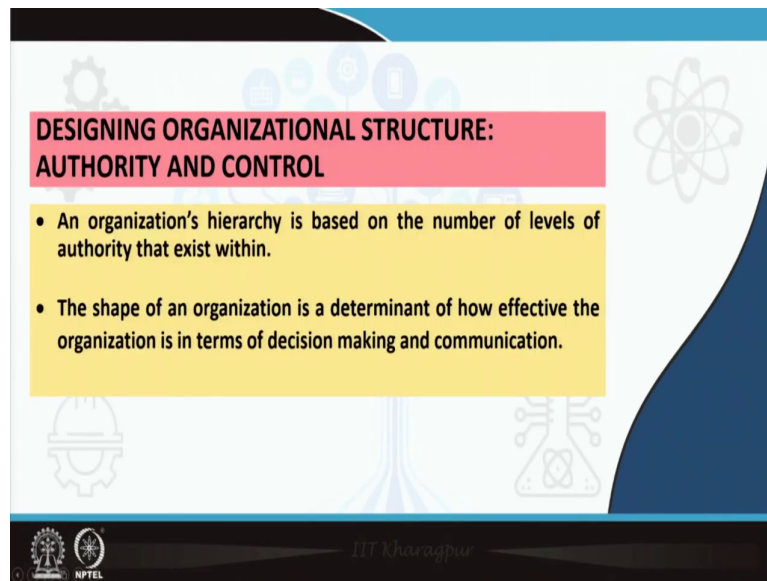
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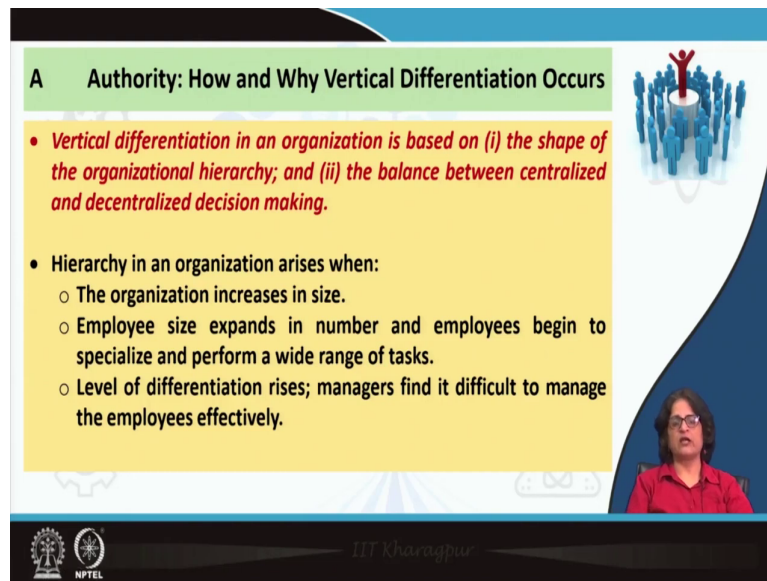
Now, an organization hierarchy as we discussed in the previous lecture is based on the number of levels that exist ok and the shape of an organization is a determinant of how effective the organization is in terms of its decision making, in terms of its communication.

So, when we talk about the hierarchy we are actually talking of the different levels which exist in the organization and the shape of the organization is actually a reflection of how effective the organization is in terms of decision making, in terms of communication and in terms of overall attainment of its objectives.

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So, we will start and discuss you know start with discussing what authority is and how and why a vertical differentiation occurs ok. So, we discussed vertical differentiation in the previous lecture as well, but now we will go a little more into detail about why you know hierarchy is exist and what and how vertical differentiation is and how it affects the functioning of the organization.

So, vertical differentiation in an organization is based on the shape of the organizational hierarchy and the balanced and the balance between centralized and decentralized decision making. So, when we talk of vertical differentiation we are actually talking about you know we are talking about the shape of the organizational hierarchy, we are also talking about whether centralize whether decision making in the organization is centralized or decentralized.
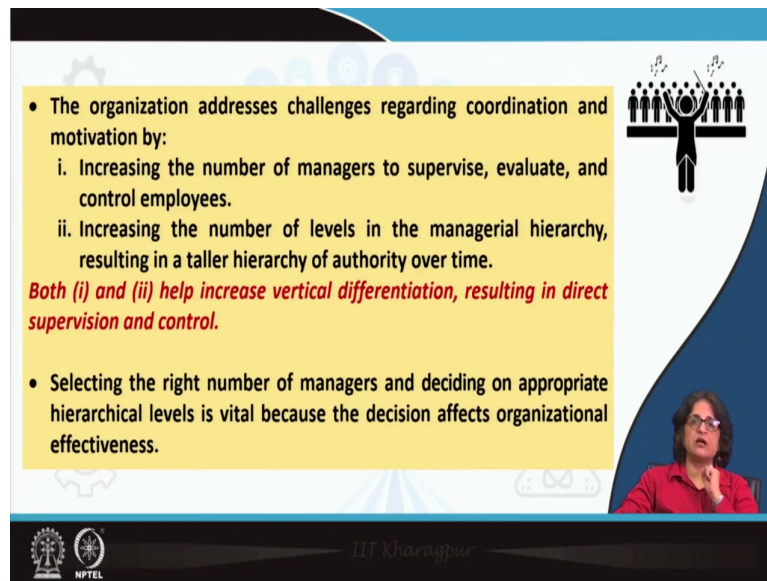
Now, hierarchy in an organization arises when the organization expands in size when the number of people increases the number the people begin to specialize they perform a wide range of tasks and again the hierarchy would increase when the level of differentiation rises when managers find it difficult to manage the employees effectively. So, you know hierarchy comes into being when one this the organization increases in size too.

The employee size expands in number and employees begin to specialize in different kinds of tasks and they perform a wide range of tasks and three the level of differentiation increases and managers find it difficult to manage their employees effectively. So, in such cases the hierarchy of an organization increases rises and begins to increase ok.

Now, as and when they the hierarchy increases ok there vertical differentiation occurs ok. So, that is where in we said that vertical differentiation is based on the shape of the organizational hierarchy and also of course, the whether the decision making is centralized or decentralized.

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But let us restrict first to the hierarchy itself. Now, the organization you know addresses challenges regarding coordination and motivation by increasing the number of managers to supervise people evaluate people, control people and in that way the number of levels in the management hierarchy increases resulting in taller hierarchy of authority over a period of time ok.

So, while you know as and when organizations expand in size as and when they increase their scale of operations as and when you know there is specialization people perform a wide range of tasks and as and when managers find it difficult to manage the employees effectively the hierarchy in the organization arises it begins to increase and you know this increase in hierarchy is.

So, that managers can effectively supervise evaluate and control their employees and you know the increase in the number of levels in the management hierarchy results ultimately in taller hierarchy of authority over time. So, both i and ii that is both increasing the number of managers to supervise evaluate and control employees as well as increasing the number of levels in the management hierarchy.
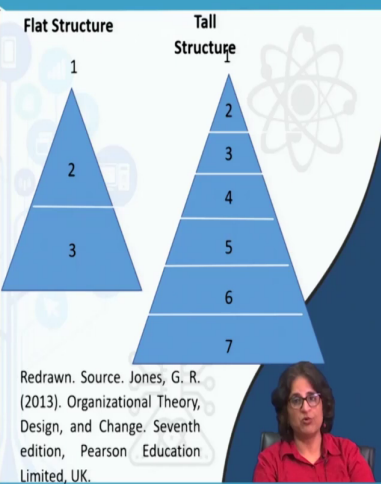
This increase vertical differentiation thereby leading to direct supervision and control and selecting the right number of managers and deciding on appropriate hierarchical levels is very essential because the decision also affects organizational effectiveness. So, as and when hierarchy arises as and when you know number of managers are increased.

So, that there is effective control as and when the number of levels in the management hierarchy you know start increasing resulting in taller hierarchy of authority what happens is what it results is into vertical differentiation? Vertical differentiation results in direct supervision and control. And selecting the right number of managers and deciding on appropriate hierarchical levels is very important because the decision also affects organizational effectiveness.

Now, let us see how this happens. Here we have two scenarios ok two organizations with equal number of employees; one organization has 3 levels which is or and another organization has 7 levels. So, the organization which has 3 levels is a flat structure and the organization which has 7 levels is a tall structure, please keep in mind that both organizations have an equal number of employees.

But in one organization the number of levels are 3 and the other organization the levels of the in one organization there are 3 levels and another organization there are 7 levels. So, in one organization x number of employees are divided into 3 levels in another organization same x number of employees are divided into 7 levels ok. So, the organization with 3 levels is a flat organization it is a flat structure.

The hierarchy has fewer levels compared to the size of the organization, few managers to direct and control employees. On the other hand in the tall structure and the tall organization the hierarchy has many levels as compared to the size of the organization and there are greater number of managers to direct and control the employees, is not it. You see here the two organizations equal number of employees x number of employees divided in 3 levels leading to a flat organization.

So, the hierarchy has fewer levels compared to the x size of the organization and few managers to direct and control the x employees, but in this the other case you have an organization with 7 levels x size the number of employees is x, but they the x level of x number of employees are actually divided into 7 levels ok.

So, the hierarchy has many levels as compared to the size of the organization and greater number of managers to direct and control the employees. So, in one case x number of employees and 3 levels leading to flat structure in another case x level of employees and 7 levels ok.

So, when you have 7 levels it actually leads to a tall structure and when you have 3 levels it leads to a flat structure the number of employees are x in both the organizations ok number of employees is x in one organization there are 3 levels. So, the number of people number of managers to supervise and control are less and the hierarchy has few levels compared to the size of the organization.

On the other hand when the same number of x employees the levels are 7 its a tall organization the hierarchy has many levels as compared to the size of the organization and number of managers to direct and control the employees is also more ok.

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So, if we go beyond and study the relationship between organization size and the height of the hierarchy ok. So, we will see that as an organization grows to a size of 1000 employees, it is likely to have four levels as the size at a size of 3000 probably it will have 7 levels.
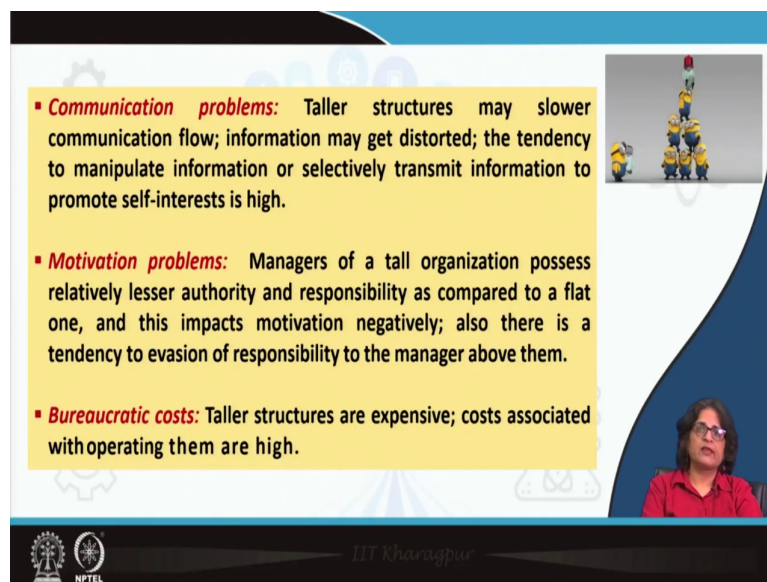
But if the size crosses 10,000 or say even you know more than that it would not have more than 9 or 10 levels no it would not have when it is 1000 employees there are 3 or 4 levels probably when it is 3000 employees it may increase to 7 levels, but it is size of 10,000 or a size of 3000 employees it would not have more than 9 or 10 levels. Why? Ok.

This see as the organizational hierarchy becomes taller managers face huge challenges to control to coordinate and the growth in size of the managerial component is less than the proportional to the organizational size in terms of employee strength. So, it is not that you

know as employees will increase and go on increasing levels will increase no as employees increase levels will increase they will increase to you know 2 7.

So, if it is say 1000 employees and there are 4 levels it or 3000 employees it may reach to 7 levels, but as it moves to 10,000 employees or 100000 employees it will not have more than 9 to 10 levels because the growth in size of the managerial component is less than proportional to the organization size in terms of the employee strength. Why? Because as the organizational hierarchy becomes taller managers begin to face huge challenges ok.

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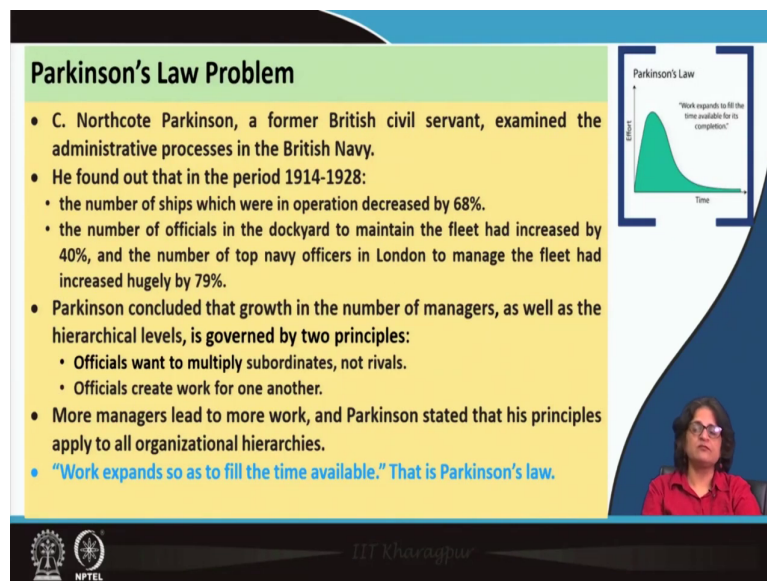
Challenges pertaining to communication, motivation and bureaucratic costs. So, taller structures means slower communication flow information will get distorted, there will be tendency to manipulate information, selectively transmit information and so this will lead to problems.

Motivation problems managers of a tall organization have lesser authority and responsibility as compared to a flat organization and this will impact like motivation in a negative way also there will always be a tendency to evade responsibility to the manager above ok. And with taller structures there is also huge bureaucratic cos, so taller structures are very expensive and operating them is very very high.

(Refer Slide Time: 10:58)

We also would like to discuss here the Parkinson's law problem ok. C. Northcote Parkinson was a British servant civil servant he examined the administrative processes in the British Navy. He found that in the period between 1914 to 1928, the number of ships which were in operation decreased by 68 percent, the number of officials in the dockyard whose responsibility was to maintain the fleet had actually increased by 40 and the number of top naval officers in London to manage the fleet had also increased by 79 percent.
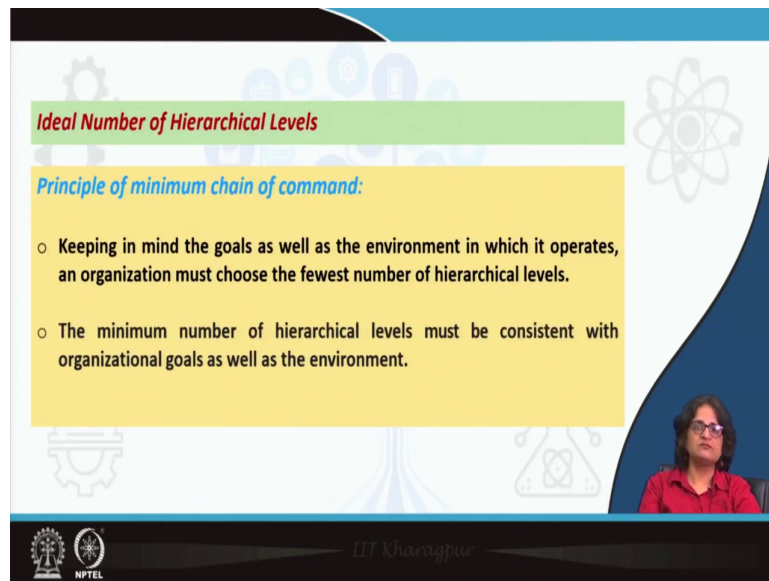
So, Parkinson concluded that the growth in the number of managers as well as in the hierarchical levels is actually governed by two principles; one officials want to multiply subordinates not rivals, two officials create work for one another more managers will lead to more work and Parkinson stated this in his principle and it applies to all organizational hierarchies that work expands, so as to fill the time available ok.

So, surprising that the ships were increasing, but the number of officials had increased and the number of top naval officers had increased so high. And so he concluded that the growth in the number of managers as well as in as well as hierarchical levels actually is governed by two principles; one that officials want to multiply subordinates not rivals and two officials create more work for others.

And so more managers lead to more work and this principle applies to all organizations and all organizational hierarchies where work expands so as to fill the time available ok. So, this is the famous Parkinson law.

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So, what should be the ideal number of hierarchical levels? So, we talk of here as the principle of minimum chain of command ok. So, keeping in mind the goals of the organization as well as the environment in which the organization operates an organization must choose the fewest number of hierarchical levels. Minimum number of hierarchical levels consistent with the organizational goals as well as with the environment.

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And so this leads us to the span of control. Now, what is the span of control? I have mentioned to you about the span of control in previous lectures today we will deal with them a little more. So, span of control is the number of subordinates that a manager can effectively and efficiently manage. The number of direct reports managed by a manager that is the number of subordinates each manager directly manages and controls is it defines the span.

Now, there is a limit to the number of people a person can actually manage, there is a limit to how broad a manager span of control can be ok. And a critical factor which affects the span of control is the ability or the inability of the manager to adequately supervise people under his supervision ok.

So, and the critical factor which inhibits the span of control you know is the inability on the part of a manager to adequately supervise an increasing number of subordinates ok. So, here

you have one case where the number of subordinates you know the CEO is supervising is 5 and another case you have 2. So, you see here that the number of direct reports in the first case is 5; 5 people directly reporting to the CEO in the other case it is 2 ok.

This happens because there is a limit to how broad a manager span of control can be and the critical factor which inhibits the span of control is the inability of the part of the manager to effectively supervise an increasingly a large number of subordinates.

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Now, what are the factors which affect the span of control? One is task complexity the other is task relatedness. So, when the tasks are complex and dissimilar that you know a manager will not be able to supervise too many people at the same time. So, it is a small span of control or a narrow span of control on the other hand when tasks are routine and similar in

that case a manager would be able to supervise many at a point of time. So, the span would be wide or broad.

Second thing is task inter relatedness, if the class are closely interrelated a narrow span of control ok on the other hand tasks which are not closely interrelated then there is a wide span of control ok. So, an organization can prevent itself from becoming too tall by increasing the span of control of its managers if the span of control is low, is small, then the organization will become very tall ok.

So, an organization can prevent an organization can prevent itself from being tall by increasing the span of control of its managers. When the span of control is broad there is more horizontal authority dispersion which will result in flatter structures on the other hand when the span of control is less the structure will become too tall.

So, an organization can prevent from becoming tall by increasing the span of control of its managers. Today, organizations are developing very flat structures with broad spans of control in recent years that is what we see as a increasing trend.

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So, here you have you know a manager has two subordinates and must manage three relationships, he has to manage a you know on the other hand you know if the complexity increases ok with the addition of just one more subordinate the manager has six relationships to handle ok.

So, in the first case he the manager has two subordinates and he has to manage three relationships, but in the second case with an addition of just one more he has to manage more relationships. So, in this first case the manager has two subordinates he manages relationship X, Y and Z, but with an addition of another subordinate the manager has to manage X Y Z and as well as U V W as relationship. So, complexity increases as the span of control increases.
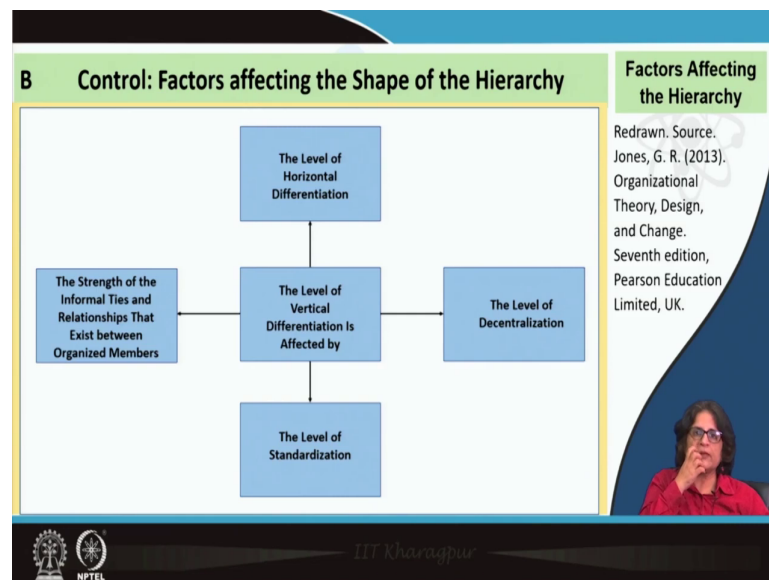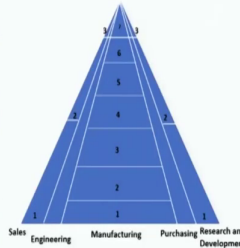
The second factor which we will discuss now is control; factors which affect the shape of the hierarchy. Now, now you know when we talk of the level of decentralization or the level of standardization or the level of horizontal differentiation or the strength and informal ties and relationship that exist amongst organized member the this core point or the central point is the level of vertical differentiation.

So, what the level of vertical differentiation is affected by the level of decentralization, the level of horizontal differentiation, the level of standardization and the strength and informal ties and relationship that exist between or among organized members. So, when we talk of the level of vertical differentiation the determinant are level of central decentralization, level of standardization level of horizontal differentiation and the strength of the informal ties and relationship that exist between different organized members.

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Coming to horizontal differentiation. So, in we spoke about vertical differentiation now we come to horizontal differentiation. So, it you know in horizontal differentiation an organization is divided into units as subunits as we spoke a few minutes few minutes ago and we have also spoke in yesterdays lecture. So, there are functions or divisions each of which has multiple hierarchies other than just one.
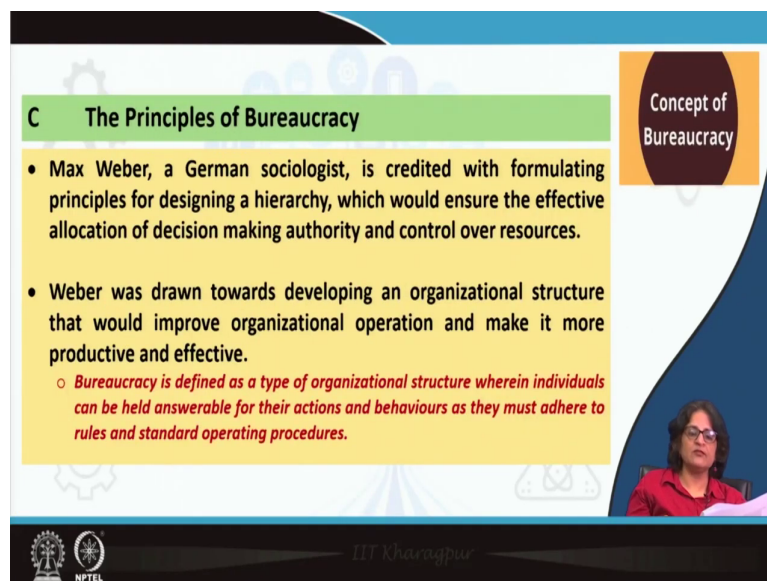
So, each department or each function or each division inside a function has its hierarchy and follows the principle of minimum chain of command and this increases vertical differentiation. So, while horizontal differentiation avoids the pitfalls of tall hierarchies, it can also lead to coordination and motivation problems as you can see here. In this case in the sales domain there are three levels in the engineering domain there is no level, but in manufacturing domain there are 7 different levels in the hierarchy right.

Similarly, in R and D there are three different levels. So, in horizontal differentiation the organization is divided into these 5 divisions or these 5 departments, sales, engineering, manufacturing, purchasing and R and D and each of these has multiple hierarchies. Like for example, sales has 3 hierarchs, engineering has none, manufacturing has 7 hierarchies, purchasing has 2 and see the R and D also has 2 ok 7 engineering has 2.

So, these are the different hierarchies these are the different multiple hierarchies. So, each division function or department has its own hierarchy it follows its own principle of minimum chain of command. So, while horizontal differentiation avoids the problems of tall hierarchies, it leads to problems of motivation and coordination and such challenges actually can be dealt with through centralization through standardization and through influence of informal organizations or informal teams and work groups.

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Then we come to the principle of bureaucracy. Now, Max Weber, a German sociologist is credited with formulating the principles of bureaucracy and he was drawn towards developing an organizational structure that would improve organizational operation and make it more productive and effective.

And he and if we define bureaucracy we say it is a type of organizational structure where individuals can be held accountable for their actions and behaviors as they must actually follow or adhere to certain rules and standardized operating procedures.

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So, Weber proposed 6 principles of the bureaucratic structure rationality, hierarchy, expertise, rule based decision making, formalization and specialization and according to him these are principles which underlie effective organizational structure. So, in a bureaucratic structure the features are centralized authority narrow span of control, formalized rules and regulations,

decision making that follows the chain of command, tasks a grouped into different functional departments and highly routine operating tasks achieved through specialization.

So, the 1st principle is that bureaucracy is founded on a notion of rational legal authority ok. Rational legal authority stems from a person's position in the organization. Obedience to a person or to a superior is not a function of his personal qualities, but a function of the position he occupies, it is a function of the power authority vested in the position that he occupies ok.

So, the principle implies that choices regarding the organizational choices regarding the design of the organizational hierarchy must depend on the task requirement and not on individual needs and people are appointed to positions and there is a clear difference or a clear demarcation between a position and a person.

The 2nd principle is organization roles are held on the basis of technical competence. People should possess and you know people should occupy roles not because of kinship or hereditary or social status, but because of their technical competence.

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The 3rd is the third principle of bureaucracy is that the task responsibility of a role and decision making authority and its responsibility to other roles must be stated clearly. Weber was of the view that the basis of organizational effectiveness lies in vertical differentiation and horizontal differentiation.

He said that clarity of and pattern consistency of decision making authority that is vertical differentiation and task responsibility which is horizontal differentiation together determine

organizational effectiveness. So, they have to be clarity regarding limits of authority and control for a role.

Because this will help a person understand the extent of power that his position holds and there has to be clarity regarding tasks associated with the role. So, that the person knows what is expected of him this would reduce role conflict and role ambiguity and whenever there is clarity the outcome would be a stable system.

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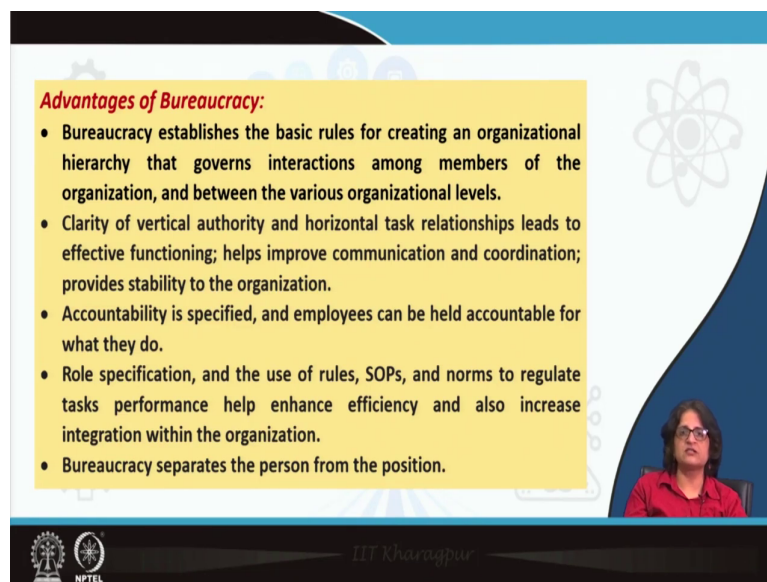

The 4th principle of Weber was that organization of roles in a bureaucracy is such that each lower office in the hierarchy is under the control of the higher office and organization is arranged hierarchically with a well defined chain of command. The 5th principle was that rules standardized operating procedures and norms should be used to control the behaviour

and the relationship amongst roles in the organizations because such guidelines will help enhance the efficiency they will also help enhance the integration and coordination of roles.

And the 6th principle of Weber was that administrative acts decisions and rule should be formulated and put in writing which means that anything which is in writing becomes an official guide and this would also ensure continuity. So, if you look at the first and 2nd principle they pertain to the organizational role as the basic component of the bureaucratic structure and principle 3, 4 and 5 relate to the control of the process of differentiation.

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Now, coming to the advantages and disadvantages of bureaucracy. So, you know bureaucracy establishes the basic rules for creating an organizational hierarchy and it governs better interactions amongst members in the organization and between the various organizational levels. Accountability is specified employees can be held accountable there is clarity of

vertical authority and horizontal task relationships which leads to effective functioning of the organization.

A role specification and use of rules, standardized operating procedures and norms to regulate task performance also increase efficiency of people lead to better integration and the organization and most importantly bureaucracy separates the person from the position.

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However there are also problems with bureaucracy which emerge over time, but one has to note that bureaucracy is not bad slip up lies with the people who run the bureaucracy ok. Because the fail you know it huge reliance on rules and standardized operating procedures can slow down decision making make the organization non responsive or to stakeholder needs and the failure to control the development of organizational hierarchy will result in tall centralized and inflexible structures and will slow down decision making.

But nonetheless one has to know the bureaucracy is something which has proven the test of time and it is still continues to be practiced world over in some form or the other.

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Finally we come to the influence of informal organizations that while a formal structure of interconnected roles is created in any and every organization and an informal social structure also comes into being which influences the behaviour of people who function either as individuals or as groups and the informal network can always be used to enhance organizational performance and achieve goals.

So, while you know lot of while decision making and coordination generally is prescribed through formal channels people also interact informally and a lot of decision making coordination happens because of informal communication and based on you know norms you

know that for people follow and practice and so the importance of informal organizations cannot be undermined.

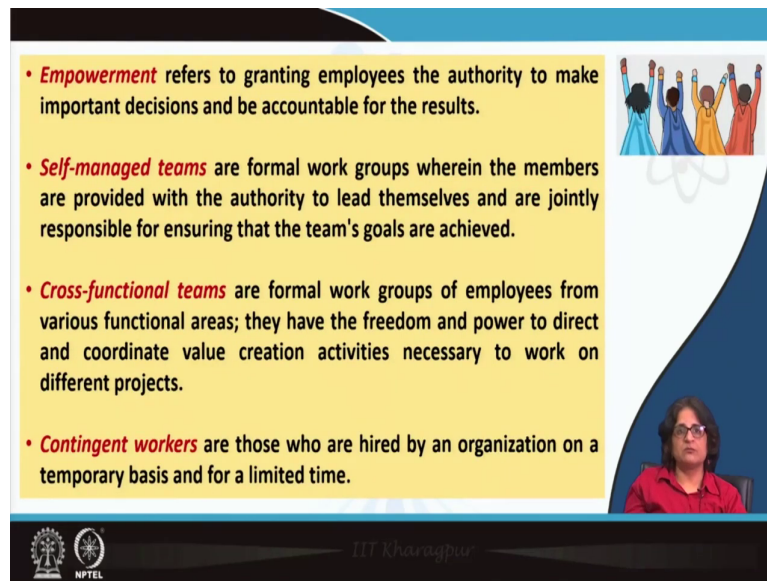We have IT, Empowerment and Self-managed teams which we see you know as you know as structures which have been on the rise in today's day and age of IT. So, with technological advancement there has been a rise in the use of empowered, workers self, managed teams, cross functional teams and temporary workers and contingent workers and IT has or Information Technology has enabled the design of cost effective structures coordinating mechanisms.

And control systems all of which have led to better you know information sharing, effective communication and control across the organization.
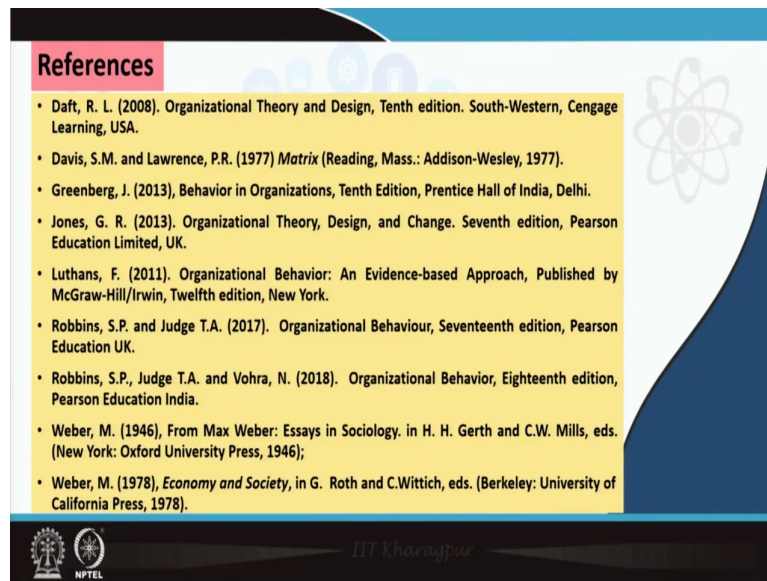
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So, empowerment is when you grant employees the authority to make important decisions and to be accountable for their results. Self managed teams are work groups wherein the members are provided with authority to lead themselves and they are jointly responsible for ensuring that the goals of the team are achieved.

Cross functional teams are formal work groups where people are drawn from different functional areas they have the freedom and power to direct and coordinate value creating activities necessary to complete the different projects. And contingent workers are those who are temporary workers they are hired by an organization on a temporary basis and for a limited period of time.

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So, with this I come to an end of this lecture these are the references and we shall continue with the topic in the next lecture.

Thank you.