Organizational Behaviour
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Lecture – 55
Organizational Structure – Part 2

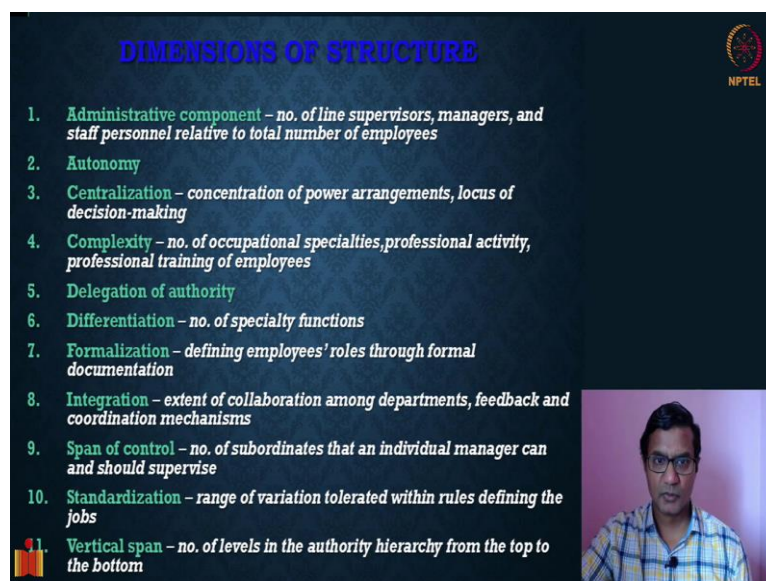Warm welcome to this lecture series on Organizational Behaviour, we are in this chapter on Organizational Structure.

I will quickly summarize what happened in the previous lecture. So, we defined what is organizational structure.

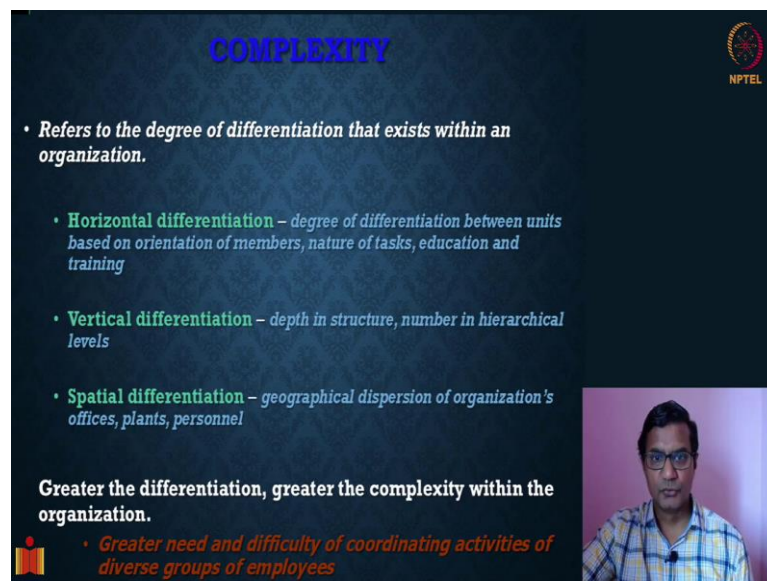We also looked at the dimensions of organization structure. So, these are some of the dimensions which reflect structure of an organization.

Out of which we are going to focus on three important dimensions: centralization, complexity and formalization. So, in the previous lecture we spoke about complexity; when we say complexity it means number of groups within the organization. So, the number of groups within the organization can be of different kinds. It means they can be groups vertically, they can be groups horizontally, they can be also groups spatially. So, spatial groups are different units of the same organization in different spaces.

We looked at each of these differentiations and try to see how problems associated with differentiation of horizontal, vertical or spatial can be handled.

So, this is where we stopped in the previous lecture. Now, we are going to talk about formalization; formalization is the existence of policies, rules, procedures, job descriptions and other process documents. So, if you remember in the previous lecture we spoke about how formalization can help us coordinate between different hierarchical levels.

Because if rules are clearly written down, you do not need to wait or you do not need to seek permission or you know clarification from your top management. So, information flow between levels becomes easier when all these possible combinations of situations and what has to be done in those situations are clearly written down. So, these are nothing, but rules or policies.

So, policies are the general guidelines about how a certain situation should be approached. For example, let us say as an employee you wanted to apply for a leave because you fell ill. So, you need to first know what are the policies with regard to leave application. So, let us say is this particular illness entitled for leave in your organization.

If it is allowed will it be paid leave or unpaid leave or how many paid leaves or how many days you can avail this leave. So, all those details are policies. Procedures are how to go about executing certain things for example, the same example of you need to apply for leave; you should know what is the procedure. Some organizations you may have to give a written letter which will be authorized by your immediate supervisor and also by the human resource department.

In some cases, you do not need you know authorization of HR, even the immediate supervisor is sufficient. So, these are procedures. Rules are what is allowed and what is not allowed in a particular situation. For example, certain leave applications or for leave applications you need to you know you need to inform the organization in advance.

For some of them you do not need to inform them in advance; even after the leave you can inform the organization. So, these are rules what should be done, what should not be done. Job descriptions are prescription in terms of what is your job entitled of in terms of your responsibilities, in terms of the task you have to do, in terms of how much authority you have, things like that.

Process documents are manuals which mentioned how certain processes are to be executed which are similar to procedures. But, process documents are very elaborate and they are very specific in terms of certain situations. So, if all these dimensions of formalization are high in an organization, then we call the organization to be highly formal.

Some organizations may have just the procedures and policies in place, rules may not be specifically written; because it gives freedom for the employees to you know act within those broader frameworks of policies and procedures.

Some organizations they may not even have job description, they will have only job title and employees need to figure out what they should do. But some organization everything will be clearly written down. So, organizations vary from one another in terms of the level of formalization within them.

So, formalization refers to the degree to which jobs within the organization are standardized. So, it means every job to what extent the job is standardized. When I say standardized, how clearly what has to be done, what has not to be done, what are the responsibilities; all these details are written down. So, when you say standardized, it means rigidly or very narrowly defined jobs which means beyond that particular description you cannot, you cannot cross those boundaries of your job description.

So, when job descriptions are highly standardized or highly formal, it becomes very difficult for the employee in terms of going out of those descriptions or in other words the employee may not have enough freedom to function beyond what is said to him or her in the job description ok. So, when there is high level of standardization, it reduces individual discretion or it reduces individual's power on making decisions.

Because everything is like already prescribed; so, we you have to take decisions within those boundaries of those standard prescriptions. Formalization can be explicit or implicit. In fact, when you say formalization usually we refer to written down rules, but sometimes rules can also be unwritten which is also known as norms. So, norms are part of culture of an organization. So, written down rules help in mentioning clear cut what is right and wrong.

But, unwritten rules like norms help the employees have some certain broad guidelines which help them to navigate through situations, where they have to when they are confused. For example, let us say can you are you entitle for a how many days of holidays you are entitled in a year?

So, the rule might say you are entitled for 10 days of paid leave. But, the social norm within the organization is unless and until it is very important you cannot miss your work or people will look down upon you if you unnecessarily avail holidays. It is a norm is like the social norm is like workaholic kind of a norm belongs to workaholic kind of a culture.

Even though there are enough holidays which are prescribed or which is which you are entitled by the rule, you may not you know take those avail those holiday leaves unless and until it is very important for you ok. So, sometimes organizations even though they have rules, they will also create a certain kind of a culture where the employees behaviour can be controlled or employees behaviour can be directed towards the directed towards the organizational goals.

Formalization can vary from organization to organization. So, some organization will have more rules, some organization will have less rules. Some organizations will insist upon job description, but some organizations will insist upon procedures and policies.

So, between organizations there will be differences and also within organizations also there can be differences. If you remember in the culture chapter we spoke about subculture, similarly there can be sub rules which are relevant for certain departments of the organization on for certain levels of the organization.

So, some departments may have more rules and some department will have less rules; especially departments which interact with the external environment like marketing department, sales department or supplies, supplier management department. So, those departments interact with people outside the organization. So, for them they will be lesser rules, less rigid rules; because they need freedom to perform their task.

Because, the rules which they fallow may not necessarily be applied to people outside the organization; so, you need to be flexible. But, for departments which involve precision and quality, you need to have very clear cut rules.

Because, if you deviate in those internal processes you will get into trouble; you know they will be errors, there will be uncertainty which is not good for the organization. So, departments usually the rule of thumb is departments which focus on core functions and focus on functions within the department, they have more rules.

Departments which interact with outside the organization, they will have relatively more flexible rules. And, also when there is when the employees are professionals, when they when you say professionals, employees who undergo long years of training; there are professional ethics associated with their job. For example: doctors, professors, engineers; so, they undergo lot of years of training, they also have their own professional bodies which prescribe professional ethics.

And, they also have exposure in varied fields other than their core area. For example, if somebody is a doctor, physician apart from medicine and you know other related disciplines, they will also learn psychology or to some extent social sciences and all those things. So, these people are professionals.

So, if you have professionals in the organization, you cannot bind them, you cannot control them with more rules. So, because they are internally controlled, you do not need to observe them or you know monitor them whether they are following the rules are not. Because, since they have long years of training and they have imbibed professional values; there are more chances they will be self-disciplined.

So, you do not need high levels of formalization to control them. And, also at higher levels of organizations there will be less rules because people at higher levels one they are the one who makes rules. So, they do not want to be bound by rules and, also to some extent they interact with uncertain conditions.

When there are uncertain conditions in terms of decision making, in terms of stakeholder management, in terms of handling external stakeholders like government and all; you cannot have very strict rules. You can have procedures and guidelines, but you cannot have clear cut prescription of what has to be done, what has not to be done.

So, in those situations those people at higher levels, they will be bound by lesser rules, but they will be bound by more code of conduct or you know broader procedures and policies. And also depending on the job, the level of formalization will vary; like I said earlier jobs like production jobs which are highly formalized. But, marketing jobs or sales jobs or advertisement jobs in the same organization will be less formalized.

So, how do organization or what are the techniques organizations use for formalization? The first technique is selection. So, once the organization is clear about its broad cultural values or

mission, vision; it uses those cultural values or belief systems and its vision mission statements to recruit people; especially at the higher levels of the organization. So, if middle level and above you need to recruit people who align to the culture and rules of the or the belief systems of the organization.

So, you need to select people according to that criteria and also prescribing role requirements. To what extent people are made aware that these are the expectations out of them, also helps bring in high levels of formalization. Some organizations even though they are written rules, they are not reinforced or they are not you know made popular within the organization. Employees are not made sensitized about those rules.

Those rules may be there for namesake and also like I said earlier rules, procedures and policies; depending on to what extent rules, procedures and policies are clearly written down and they are reinforced; it will denote the level of formalization. Training, especially incubation when people join the organization; especially induction, when employees join the organization during induction training, the initial training programs; they are trained in terms of what are the rules, what are the dos and don'ts in the organization; what are the core values of the organization and things like that. They can also be rituals; rituals mean symbolic events. For example, sometimes meetings can also be symbolic or celebration, certain days are celebrated.

Like founder's day or quality day or you know bring your family to work day something like that. So, bring your children to work is a kind of a you know ritual which also says we are less formal, you know we are concerned about your family members also; we the boundaries of family and work are vague in that particular organization. So, sometimes rituals can also give symbolic meaning to certain rules and regulations. And, it is easy to use rituals to imbibe values or certain rules among employees.

So, the third dimension of organizational structure which we are going to see is centralization. Centralization means to what extent the authority is or the formal authority to make decisions is concentrated in one individual, unit or level. So, we discussed about it earlier also.

So, where is power concentrated; when I say power, power to make decisions and power in terms of formal power, power in terms of legitimate power; if you remember the power and leadership chapter; we spoke about legitimate power. So, legitimate power where is it concentrated? It can be individual one individual; it can be a unit, unit in the sense department or a head office or level.

So, level means which level top level, medium level, middle level or you know topmost level. So, which level it is concentrated? An organization is considered to be highly centralized when the concentration of power is very high in a position or a person or a unit or a level. So, what effects centralization or on what basis or what are the factors which decide whether power should be centralized or not in the organization?

First the size, again it depends you know when the size is large not necessarily power should be centralized; I mean not necessarily it should be decentralized. But, usually when the organization is large, when it grows you need to give more power to the unit, subunits. So, that decision making is done at the ground level; otherwise every time the decision making will come to the top level and the top level will find it very difficult to make smaller decisions.

So, only important decisions can come to the top, otherwise other decisions or power to make other decisions should be decentralized; especially when a size is very large. But, sometimes

when the size is large also some decisions, important decisions they are highly centralized; depending on the nature of the decision.

Geographical dispersion, when the organization is in different places like different countries, different regions; it is important to decentralize power because each of those geographical locations will have a certain unique demand or some certain unique characteristics. For example: the marketing strategy or the HR policy which is applicable in the same company in US cannot be used in the same company which has its unit in Middle East or in Asia or in Europe.

So, depending on the geographical situation, geographical place where they operate; different units should be allowed to make decisions on their own. But, again certain core decisions will be centralized; certain important value related you know core values will not be diluted. But, other decisions should be delegated to geographical units because, like I said each geographical location will have its own situation, they are unique.

We call it 'glocal', global and local; so, global values, but local practices. Technology complexity; so, if the technology or the processes which are used in the organization are very complicated or very complex then centralization can work or can be other way around also. The technology has many units, different technology is used, you need to delegate responsibility or power, because there will be specialist will be able to handle those technologies.

So, that people at the top or certain departments, they may not know all the technologies available. At the same time if the technology facilitates centralization like IT which centralizes all the decision making processes, then one person can make decisions with the help of these centralized information system. With some you know algorithms and you know some AI assistance or data mining technologies; it is easy for them to make decisions.

Environmental uncertainty, if the environment is uncertain which means the environment or the circumstances under which the organization operates; if the environment is very uncertain. There are many stakeholders, each of this stakeholders are difficult to predict and the power dynamics between the stakeholders change; so, very dynamic situation.

So, under these dynamic situation, we need to delegate power; because people who are at the boundaries of the organization, when I say boundaries people who interact with outsiders; they

are the ones who are going to take the brunt of these uncertainty, external uncertainty. So, these people cannot every time go to the top or go to the centralize power or the person who has power for decisions.

So, these people should be allowed to make decisions on their own. So, you need to delegate power. So, environmental uncertainty will decrease centralization ok. So, there are arguments for decentralization and centralization.

So, what is good, you need to decentralize or you need to centralize? So, many of us believe decentralization is good, not necessarily certain situations we need to centralized decision, certain situations you need to decentralize. So, it depends, you cannot very blindly say centralization is good or decentralization is good, it depends on lot of situations.

So, the first argument for decentralization, delegating power is it avoids or it reduces information overload. Because, if one person takes all the decision that person should have all the information and you know it becomes difficult for that person. So, instead when you are decentralized, the burden on these people to process heavy amounts of huge amounts of information is not there.

Decentralization facilitates speedy action and response, if you decentralize decision making people who are at those positions they have to immediately make decisions. They can make the decisions depending on the situation the encounter; they do not need to wait for instruction from the person who has more power.

Decentralization can provide more input because, when you decentralized people who are at the ground level they have more inputs, they know what is the ground reality; so, they can make decisions. Decentralization also motivates people, when you delegate power; if you remember we spoke about motivation.

You know when you delegate power to employees, they feel happy, you know they feel they are trusted. And, they feel you know they can they have power to make decisions; you know they are also recognized for their capacity. So, that motivates people.

Decentralization also provides training opportunity for lower level managers. So, this is also kind of you know succession planning, instead of one person making all the decisions; the disadvantage is if that person leaves, it becomes difficult for the organization to find the next person who is capable.

So, instead delegating power makes the lower level management people to get prepared for these kinds of situations in future; where they can also make decisions without any fear or uncertainty or self-doubt; when they are when they go to the top level. So, it is a kind of a training opportunity. On the other hand, centralization benefits the whole organization not any special interest group.

When you decentralize, the problem with decentralization is people may seek more power. And, also they will try to withhold power or they will try to filter the information. So, but centralization if you do it properly especially with help of IT systems, decision making support systems; we call them decision making support systems, centralization was good.

Because, the person who is handing all that information and making decisions, if that person is aligned towards organizational goals; it is easy to make organizational decisions. And, some activities are better to be centralized especially very crucial decisions, decisions which are related to core values of the organization. So, those decisions should be centralized.

And, also we should understand it is not like centralization good or decentralization is good and, what level of centralization or decentralization one should do? It depends on the situation; you know same organization when situations change you need to decentralize or when the situations demand centralization one should centralize. So, it depends on the adaptability of the organization, the environment in which they operate.

So, I will stop here. In the next section, we will talk about some of the approaches towards organizational structure or ways to understand organizations. We will talk about life cycle approach and systems approach.

Till then take care, we will meet in the next lecture.