

A Complete Guide to Organizational Structures

[C cleverism.com/complete-guide-to-organizational-structures](https://cleverism.com/complete-guide-to-organizational-structures) (adapted from)



by Anastasia Belyh. Last updated on September 19, 2019



Hierarchy of company



AN INTRODUCTION TO ORGANIZATIONAL STRUCTURES

An *organizational structure* is the framework around which an organization's operations are based on. In most cases, it is referred to as the "manual of operations" of an organization or a company, showing how it is formed and how it works or functions. This encompasses various processes including, but not limited to, recruitment, settlement of disputes, and other decision-making actions. It details how work is performed, who does what, and who is accountable for what, while keeping in view the organizational goals.

Importance of an Organizational Structure

An organization cannot exist or even come about without any structure or order. It requires a framework, regardless of the type of the organization or the purpose of its existence. Its development could be on the onset of the organization, when it is still in the process of being formed, or during the life of the organization, when it is already in operation. In most cases, development of a structure within an organization is a continuous or ongoing process, with changes implemented to adapt to various circumstances directly (or even indirectly) affecting the members, or the organization, as a whole.

Why is it important to have an organizational structure? Here's why:

- An organizational structure lends “organizational” identity to the members. Members will instinctively feel that they are part of something solid or of a cohesive unit. It displays the working relationships that are in effect in the flow of work within the organization, so they will know exactly where they are supposed to be or what their roles are. In effect, this also clears up issues regarding responsibilities and accountabilities.
- An organizational structure provides clear guidelines. Essentially, it sets out the scope of acceptable behavior of members within an organization. Members refer to the structure to get an idea how things work, or what rules should prevail in certain situations. This ensures an improvement of the operational efficiency of the members and the company or organization.
- An organizational structure aids in decision-making. After all, it is considered as an operations manual or guidebook. Decisions can be made more easily if they have something solid – the structure – to base on.
- An organizational structure facilitates growth of the organization. For the precise reason that it serves as the guide for the company, it provides direction on how certain matters or issues must be resolved.

Elements of an Organizational Structure

With more than one or two types of organizational structures currently prevailing, there are bound to be several elements that comprise them. The basic ones, however, are enumerated below:

1. **Leadership or governance.** The persons or individuals who have the power to make decisions or steer the organization towards its common goal are clearly identified.
2. **Implementing rules.** These are the rules – both the explicitly stated rules and those that are implicit by nature – that must be followed in the organization’s normal operations or functioning.
3. **Division of labor.** Within the organization, the division and subsequent distribution of work among the members must also be laid out, with their roles and responsibilities clearly defined.

EVOLUTION OF ORGANIZATIONAL STRUCTURES

Ever since man started getting into trade or business, setting up enterprises of different sizes, they have unconsciously set up structures, even if they weren’t aware of it yet. In fact, even during the ancient times, when hunters went out in groups, there was a certain order to how they carried out their hunting tasks. There is, unbeknownst to them, already an “organizational structure” in place.

It was during the 1900s, when the concept of mass production started to take root, that thinkers and industry leaders at the time looked into ways to increase productivity while maintaining efficiency throughout the production process. Henri Fayol of France likened the process to resemble that of a machine – well-oiled, it will operate smoothly and yield better results. The oil, in this case, would be a structure that will keep operations going smoothly.

Fayol introduced the concepts of having a chain of command, specialization of tasks, and separation of jobs, power and authority. This lent support to the idea of another thinker, Max Weber, who introduced the application of the concept of bureaucracy. This time around, it is the positions or roles that are assigned with specific powers or authority, regardless of the identity of the person or individual in those positions.

Main Features of the Traditional Bureaucratic Structures

- Presence of a certain degree of standardization.

- Multiple levels of management and decision-making stages. In the spirit of delegation, many levels of management are created. For example, in a large retail chain setting:

Store or branch managers – management of specific stores or branches

Area managers – management of all stores in one city

Regional managers – management of all stores in one state or region

Senior executive managers – top management level

- Presence of defined policies and procedures.
- Authority lies with top management.

Advantages (+) and Disadvantages (-) of Traditional Bureaucratic Structures

+ **Well-defined roles and responsibilities**. Everyone is clear on who makes the decisions or who has the final say, and they are also fully aware of their responsibilities.

+ **Systematic decision-making process**. The clear line of responsibilities results in a more organized manner of making management and other business decisions. Since the authority lies with the top management, making decisions is also faster.

+ **More control for top management**. Top level managers have all the power to decide on all matters regarding the organization, so they have full command and control of everything that goes on.

– **Restrictive environment**. Rules, procedures and policies in this form of structure tend to be too limiting and strict. All movements should adhere to the rules, leaving no room for innovation and hampering members of the organization to display their creativity.

– **Resistance to change**. What rules were in effect at the beginning tend to prevail for a long time. They tend to stick to what they have “already started with”. This inflexibility is likely to cause problems when the organization is faced with unusual setbacks.

Basis of Grouping for Organizational Structures

If you notice the bureaucratic structures, as represented in most hierarchical organizational charts, there are specific groupings or, in some cases, departments. This is to simplify the process of creating a solid structure for the organization.

The grouping or departmentalization will depend on several factors, mainly on the type of the organization and its size or scale. Currently, this process is done through several bases.

Departmentalization by Functions

Departmentalization under this category is done depending on the specific functions performed by members or employees within an organization.

Example: A company engaged in the manufacture of electronics will have departments based on functions, such as Research and Development, Sales and Marketing, Manufacturing, Accounting and Finance, and Logistics.

Pros:

- It promotes efficiency, such as in utilization of resources.
- It promotes sharing of knowledge and expertise within the department.
- It encourages personal and professional growth and development of members within one department.

Cons:

It prohibits members from interacting and coordinating with other departments, as they tend to focus inwards, only to their own respective departments.

Departmentalization by Products

Often applicable to companies engaged in diversified businesses or activities, this basis provides that all activities that contribute to the development, production and marketing of a specific product are classified as belonging to one group or department. The more products or group of similar products there are, the more departments or groupings there will be. This concept also applies to product lines.

Example: A company has several products or product lines, such as men's footwear, women's footwear, men's sportswear, women's sportswear, and sports accessories. All activities related to each of the product line, from development all the way to sales and distribution, will fall under its own department.

Pros:

- It aids in personnel development, increasing their expertise and specialization with respect to the products or product lines they are assigned to.
- Product quality is monitored since all the focus of the members or personnel will be devoted to the products falling under the department.

Cons:

Redundancy of some functions, particularly support functions. Some of the functions, such as accounting, marketing, and production, to name a few, will be duplicated, since all the departments will also have each of them.