

**Organizational Behaviour**  
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**Lecture – 56**  
**Organizational Structure**

Warm welcome to this lecture series on Organizational Behaviour, we are in this chapter on Organizational Structure and this is going to be our last lecture in this chapter.



**OVERVIEW**

- Definition
- Dimensions of structure
- Complexity
- Formalization
- Centralization
- Systems perspective
- The life-cycle perspective

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So, I will quickly summarize what happened in the earlier lectures in this chapter.




**ORGANIZATIONAL STRUCTURE**


- The formal system of task and authority relationships that control how people coordinate their actions and use resources to achieve organizational goals.
- It defines how task are to be allocated, who reports to whom, and the formal coordinating mechanisms and interaction patterns that will be followed.

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## DIMENSIONS OF STRUCTURE



1. **Administrative component** – no. of line supervisors, managers, and staff personnel relative to total number of employees
2. **Autonomy**
3. **Centralization** – concentration of power arrangements, locus of decision-making
4. **Complexity** – no. of occupational specialties, professional activity, professional training of employees
5. **Delegation of authority**
6. **Differentiation** – no. of specialty functions
7. **Formalization** – defining employees' roles through formal documentation
8. **Integration** – extent of collaboration among departments, feedback and coordination mechanisms
9. **Span of control** – no. of subordinates that an individual manager can and should supervise
10. **Standardization** – range of variation tolerated within rules defining the jobs
11. **Vertical span** – no. of levels in the authority hierarchy from the top to the bottom



So, we defined what is organizational structure, we looked at different dimensions of organizational structure; out of which we selected only three and discussed elaborately on those three dimensions; those are complexity, formalization and centralization.

## COMPLEXITY



- Refers to the degree of differentiation that exists within an organization.
- **Horizontal differentiation** – degree of differentiation between units based on orientation of members, nature of tasks, education and training
- **Vertical differentiation** – depth in structure, number in hierarchical levels
- **Spatial differentiation** – geographical dispersion of organization's offices, plants, personnel

**Greater the differentiation, greater the complexity within the organization.**

- **Greater need and difficulty of coordinating activities of diverse groups of employees**



When we discussed about complexity we looked at 3 kinds of complexity or 3 complexity arising from 3 different times of differentiation. So, complexity is or complexity denotes how many subgroups are in the organization.

So, the sub groups can be at horizontal levels, which was differentiating horizontally, subgroups can be at a vertical level, which is different hierarchies, different levels in the hierarchy. Spatial differentiation is differentiating or creating groups in terms of different

geographical locations or the manufacturing units or the offices of an organization at different places.

## HORIZONTAL COORDINATION



- Linking of activities across departments at similar levels
- Methods:
  - Common resources
  - Information systems
  - Lateral relations
    - Direct contact
    - Liaison roles
    - Task forces and teams
    - Managerial integrators



We also looked at what kind of mechanisms can be used to reduce the, you know the negative effects of differentiation on organization.

## VERTICAL DIFFERENTIATION

- **A response to an increase in horizontal differentiation**
- **Span of control:** *number of subordinates that a manager can effectively direct*
  - Smaller the span, taller the organization



Span	Level 1	Level 2	Level 3	Level 4	Level 5	Total
4	1	4	16	64	256	1024
8	1	8	64	512		4096




## VERTICAL COORDINATION

- The linking of activities at the top level to middle and lower levels
- Methods:
  - Formalization
  - Span of control
  - Centralization of power
  - Delegation
  - Line and staff positions




So, we looked at the Horizontal coordination mechanisms, we looked at Vertical differentiation and coordination mechanisms.



## FORMALIZATION

- Written policies, rules, procedures, job descriptions and other process documents



We also looked at Formalization as the next dimension of organizational structure, formalization denotes the written policies rules and procedures.

## FORMALIZATION

- Refers to the degree to which jobs within the organization are standardized.
- Individual discretion on job *inversely proportional* to extent of formalization.
- Formalization can be explicit (*written*), or implicit (*unwritten...perceived*)
- Degree of formalization can vary among and within organizations
- Greater the professionalization of the job, lesser the likelihood of it being highly formalized
- Formalization inversely related to level in hierarchy.
- Extent of formalization differs with type of job (e.g. *production jobs more formalized than research, in same organization*)



We looked at some of the important issues or important ideas pertaining to formalization.

## FORMALIZATION TECHNIQUES

- Selection
- Role requirements
- Rules, procedures, policies
- Training
- Rituals



We also looked at how organizations reinforce formalization or how organizations formalize structure.

## CENTRALIZATION




- Refers to the degree to which the formal authority to make discretionary choices is concentrated in an individual, unit, or level (usually at the higher level)
- Factors affecting centralization
  - Size
  - Geographical dispersion
  - Technological complexity
  - Environmental uncertainty




The 3rd dimension is centralization, in which we looked at the advantages and disadvantages of centralization and when the centralization happens. Centralization is nothing but, concentration of power in one place or on one person in the organization.


## IMPORTANCE OF THE CENTRALIZATION- DECENTRALIZATION ISSUE



- Decentralization helps counter information overload
- Decentralization facilitates speedy action and response
- Decentralization can provide more input into decision-making
- Decentralization motivates employees
- Decentralization provides training opportunities for lower level managers
- Centralization benefits whole organization, not any special-interest group
- Some activities are done more efficiently when centralized.
- Situational factors will determine the "right" amount of centralization required




We looked at the advantages disadvantages of centralization.



## SYSTEMS PERSPECTIVE

- A system is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. (e.g. societies, automobiles, plants, human bodies).
- Subsystems within larger systems.
- Interrelationship of parts within the system.
- Differentiation Vs Integration .
- Closed systems and open systems.



So, this is where we stopped in the previous lecture, we are going to look at in this last lecture of this chapter, two perspectives on organizational structure. So, if we need to understand organizations we need to understand few perspectives or few ideas about organizations. Why? Because, if you want to understand how people behave in organizations, you need to understand what are organizations and how do we conceptualize an organization.

So, our understanding about how we are conceptualizing an organization will help us come up with theories or principles to understand human behaviour in workplace or human behaviour in organizations. So, we should understand our understanding of organizations, so that we will know how to interpret human behaviour in organizations.

So, this is the connection and there are many perspectives which are which is, which are used to understand organizations. But, I am going to talk about two important perspectives the first one is Systems Perspective. Systems theory is in fact a very popular way of approaching any phenomena or any organism.

So, the idea here in systems perspective is, systems perspective looks at organizations as systems we would have heard of this term system in our day to day language. So, what is the system? System is a collection of interdependent and interrelated parts arranged in a way that it looks like a unified whole, for example a computer.

So, a computer from a user's point of view it is a computer it is 1 unit, but if we dismantle the computer there will be different parts and each of these parts will have it is own way of working

and each of it is each of the parts, if you dismantle them further you will find even further smaller parts in those sub parts, so this is what is a system..

A system is a collection of different parts when they come together they become a holistic entity. A system also takes an input involves certain processes and then give some output. For example, this computer we are it takes an information, there is a user who has a certain kind of a need, depending on the need that information is processed and then we get an output.

There are many forms or many kinds of systems, for example our human body is a biological system in which, we have many subsystems like respiratory system, you know circulatory system, nervous system and things like that. If you look at circulatory system within it there will be different types of systems. For example, in nervous system you have autonomous nervous system and sympathetic parasympathetic nervous systems and there are different units.

Even within autonomous nervous system there will be like each neuron will is a entity by itself, within the neuron there will be cells, nerve cells and the subunits of nerve cells. So, if you take humans as a unit, if you go below you will find subsystems. Similarly, humans are part of the larger society.

So, humans are subsystems of society, and society is a subsystem of a country a political entity country is a subsystem of you know a continent, continent is a subsystem of the globe, the globe is a subsystem of solar system solar systems is a subsystem of milky-way.

You know, at every level any unit will be a subsystem of a larger unit and also that particular unit will have different subsystems. So, this way of understanding organizations helps us see the interconnectedness and help us understand what is our unit of analysis. So, let us say if you want to understand people's behaviour in organization, the person's behaviour in an organization belongs to different subsystems.

Different layers of subsystem and also different subsystems, different layers of subsystem because he or she belongs to an organization, and also belongs to a department, and also he or she belongs to a certain profession there are different layers.

Similarly, there are different systems he or she is part of different systems subsystems, the employee is part of the organization it is the system, the employee is part of society which is a



system, employee is part of a family which is a system. So, there are multiple systems in which the employee is part of.

So, understanding these complexities will help us understand the interconnectedness and that will help us predict or understand behaviour in a better way, because we know what are the influencing factors. So, one thing we need to understand or one important knowledge systems perspective helps us to acknowledge is interrelationship of parts within the system.

So, every subsystem in a larger system interact with the other sub system. So for example, circulatory system interacts with respiratory system, respiratory system and circulatory system interact with nervous system. Similarly, you know digestive system has an influence on circulatory system and respiratory system. So, every system is like connected with each other, even though they are units in their own sense, they connect, they have connections with other entities.

So, why this knowledge is important, because the connections between different systems, one, they influence each other, two, they depend on each other, so for a system to function properly it depends on the other sub system in that particular unit. And also if something happens to one system, it influences the other system as well. So, this is the interconnectedness; which says these subsystems should co-operate.

So for example, in an organization there are different departments. So, each of those departments are subsystems on their own and within departments, if there are large organizations there are many subsystems underneath a department or let us say, if it is a huge conglomerate of an organization like you know a company like Tata, there are many you know businesses Tata has involved or Unilever.

So, there are many sub organizations within the larger umbrella of Unilever. So, these subunits we can consider those sub units are a system by themselves. But, these subunits also are connected by they are also interdependent on each other, they also need to cooperate with each other, so this is one important understanding.

On the other hand, the opposite of cooperation is competition even within the system the subsystems need to compete with each other or there is a need for them to compete with each other, because they need to take the fair share of resources which is available for the larger system. So, let us say an organization every year there is a budgeting.

So, every department will seek its share they will say no we need a better share. For example, in a country like India we have different states we belong to one system, which is India, but even then each of these states they share some resources, and you know they share some they depend on each other for certain things.

So, this dependency also creates competition, where for example different states have conflicts in terms of water resources or electricity or people moving from one state to another. So, there is always this conflict which exists between different subsystems. So, every subsystem should learn to manage this paradox of conflict and cooperation. So, what will happen if an, if a subsystem cooperates too much with the other subsystems?

It will lose its identity and if it loses its identity and you know it loses its existence, let us say if respiratory system says, I am not going to take energy because other systems need energy other subsystems, like you know circulatory system and nervous system. So, if respiratory system says that it will stop to exist. So, if stops to exist the larger system the human body will also collapse, on the other hand if the sub system tries to compete too much.

You know they try to damage other system, so that it survives that conflict is so high it can also affect the larger system, because conflict can harm each other extreme conflicts can harm each other in the system subsystems get they fight with each other and it leads to harm and the larger sub system or larger system also collapses. So but there should be a only when there is a balance, the larger system can function and also subsystem can function.

So, the role is on the larger system as well as on the sub system to ensure to manage this paradox conflict versus cooperation in in the right balance. So, organization is also should ensure that there is enough conflict and competitiveness to make people motivated and there is enough interdependency and co-operation to make them work together and not affect the larger goals. So this is one important paradox.

The second paradox or the second you know challenge for any organization or any system is, every subsystem has its own need to be differentiated, which means the subsystem has its own identity. You know they want to establish their own identity or it wants to assert itself as a system of its own.

And also it has since it belongs to another subsystem sorry another system, it also need to identify itself with a larger system. So, for example, a country like India, every state has it is own identity, in terms of language, in terms of cultural practices, in terms of history.

So, the state it is quite normal for any state or any region of a country to feel proud about their regional identity. But the same time they should also identify themselves with the larger identity, which is the country. So, if you take larger globe as a system every country has it is own identity. So, every country should have it is you know pride, at the same time we all should understand we are all humans.

So, our larger identity is humans. So, at any given point in time a subsystem will have this paradox of whether to differentiate or distinguish itself as a separate unit or whether to identify itself with the larger unit. So, if it differentiates too much, then it will lose it is connection with the larger system, if it identifies too much with the larger system it will lose it is identity of sub system, which is not good. Because if every system loses it is identity it will affect the larger system also.

So, this is; these are some of the challenges systems perspective describes us challenges for organizations. And also another important knowledge which systems perspective gives us to understand organizations is every organization or every system can be looked at from the perspective of closed system versus open system.

So, closed systems are the ones, which differentiate too much from the larger system, which means they have their own identity, they do not interact with other entities in the neighboring system or within the larger system. Open systems are the ones which interact a lot with other systems in the larger system, ok. So, every organization again there is a dilemma whether to close yourself as a separate entity or to open your boundaries, so that you can interact a lot with the other entities.

But the problem is if you interact or if you open your boundaries too much you will lose your identity as the subsystem. Because, for example, you know if there are too many collaborations an organization makes with other entities, there will be lot of influence of those collaborations on this organization, so it will affect the internal processes of the organization.

On the other hand, if the organization does not interact with other entities, if they do not collaborate with other entities they will lose their survival skills, because only when you interact with others in the environment you will be able to adapt to the changes.

So, this is again an important challenge when you talk about. So, organization should have an ideal level of open openness. So, this is like a continue you can be very close or very open. So, the ideal thing is somewhere in between and organization should also know when to be very open and when to be closed.

Another important concept I would like to talk about with regard to this idea is boundary spanning. Boundary spanning means, organizations have their own boundaries if you remember when I spoke about the definition of organization I spoke about boundaries. So, every organization has a boundary, physical boundary, boundary in terms of scope, boundary in terms of identity things like that.

So, every organizational boundary the organization should ensure there are enough ways in which this organization can span boundary, which means cross the boundary so that they can interact with people from outside and then back to the organization.

It is like jobs like marketing sales jobs or supplier management, these jobs are boundary management jobs, where these people interact with people from outside of stakeholders from outside and understand their needs the challenges, which they can post and then use that information within the organization, so that they can organization can adapt better to challenges.

So in fact, this idea of boundary spanning is like a very large area of very large discipline of study, but in a very simple sense boundary spanning means ensuring that the organizational boundaries are kept open at an ideal level and assign people, so that they can cross the boundaries and interact with others outside the boundary and use that information for the effectiveness of the organization.



# THE LIFE-CYCLE PERSPECTIVE

**Life cycle stages:**

- **Entrepreneurial stage:**
  - Formation, ambiguous goals, high creativity, requires steady supply of resources
  - Population ecology theory - "liability of newness"
- **Collectivity stage:**
  - Mission clarified, communication & structure informal, high member commitment
  - Institutional theory - "Organizational Isomorphism"
- **Formalization-and-control stage:**
  - Structure stabilizes, rules, procedures imposed, innovation de-emphasized, conservative decision making, role clarity, organization exists beyond individuals
- **Elaboration-of-structure stage:**
  - Product diversification, growth opportunities sought, structure more complex, decentralization
- **Decline stage**
  - Shrinking market, increased competition, employee turnover, increased conflicts, centralized decision making under new leadership




The next perspective I am going to talk about is life cycle perspective. So, this perspective looks at organization as an organism. So, when you say organism any organism, the characteristics of any organism is there will be birth and there will be death and there will be different stages in between. For example, if there is a plant, the plant undergoes different stages and becomes a tree and maybe after a certain number of years, it dies.

Similarly, an organism like a cell, biological cell it undergoes different changes at some point it dies, so it holds true for any organism. Similarly, organizations are also organisms according to this perspective, when we say organisms there are different stages or different life cycle you know it undergoes a certain life cycle and each life cycle there are different stages.

So, there are many theories, which use life cycle perspective to understand organization. But this one classifies 4 stages of the organizational life cycle, the first stage is entrepreneurial stage, where the organization is formed there are very few people in the organization this is like a startup kind of an organization and the goals are very ambiguous, people are not very sure what are their long term plans.

Many a times startups are created by some passion of an entrepreneur. So, that is why it is called entrepreneurial stage you know the entrepreneur drives the organization. So there is no clarity, but there is lot of creativity. In fact, ambiguity or uncertainty can lead to better creativity. So, uncertainty encourages people to take risk encourage people to think out of the box.

So, organizations at this stage are highly creative, but the high levels of uncertainty. Another important challenge for these kind of organization is or organizations at this level is they need lot of support, because they are at a very young stage. So, they need lot of resources in terms of expertise in terms of mentor, mentoring in terms of incubation in terms of funding, space and things like that.

And this is the stage where many organizations die, we call them or significant number of organizations die, we call them infant mortality you know liability of newness. Where since you are new entity there are lot of chances that you may cease to exist ok. And the second stage is collectivity stage, where the organization starts growing crosses the entrepreneurial stage, where the number of people in the organization also increases, there is some clarity in terms of which direction they are going to move.

To some level communicational structure becomes crystallized, but again there is lot of informative at least people understand the need for certain kind of an organizational structure. And communication also is informal, but there are some ways in which this communication between the organization is formalized. And again people are like highly committed, because there are few number of people young organization lot of commitment from the members of the organization.

So, according to institutional theory we can use this institution isomorphism theory, which means there is lot of pressure on these organizations to adapt or to become like existing organizations. So, you know since there is less clarity for them the clarity is from other organizations, who are well established in this area, all these benchmarking happens.

The third stage is formalization and control stage. This is like you know 30 years or 40 years of adult life 30s, 40s of adult life. So, structure is stabilized you know the organization settles rules are clearly prescribed and they are imposed and innovation is de-emphasized, because there is already a structure there is already some level of certainty there is no need for disruption or there is no need for risk taking.

So, innovation is de-emphasized, decision making has become more conservative because formalization is high everything is like clearly written down, people tend to use those guidelines to make decisions. So, decisions become very conservative and role clarity becomes very high everybody knows what they have to do, and organization exists beyond the individual.

If you consider earlier two stages the leader or the founder it is a major driving force, the founders value system and the founder's belief system drive the organization. And, everybody knows the leader very well, the founder very well and then founder also has a lot of control over the organization.

But at the third stage the founder slowly loses his or her power, because the organization grows into a very large organization. And, rules are like clearly written down you do not need the leader as an inspiration or the guiding force.

Even if you need the leader or the founder as a guiding force it is just you know symbolic in nature, you do not actually go and have to seek guidance in all situations. Maybe in few situations the founder member advice is required or the founder member intervenes. The fourth stage is elaboration of structures stage, so the organization diversifies into different products.

So, they have grown beyond the specific product, which a service they have started. So now they diversify, because they have to grow. The only way to grow is either inorganic growth you acquire similar companies or you grow organically which means you diversify into related businesses.

For example, if you are a you know, if you are IT company probably you can get it to other technology based businesses or if you are a food company, food based organization food manufacturing organization, you can get into probably you know other agriculture related business, dairy business or you know paper business things like that.

So, diversification happens in terms of related products and growth opportunities are sought, this is like the organization becomes lot of competitive in terms of seeking growth opportunities.

So, when they grow bigger the structure becomes more complex, because the organization has to manage different products product ranges different kind of customer's different suppliers, so there will be different departments. So, the structure becomes very complex and slowly that leads to decentralization. So, each of these sub products become different entities.

So, the large organization each of the product lines at some point will become a different brand itself ok. So for example, a company like Nestle, there are different products in them. So, beyond a certain point even like for example, Maggie which is part of Nestle, now looks like

it is a separate brand and Nestlé's chocolate is treated as a separate brand. So, the decentralization becomes a necessity of high levels of product diversification.

The last stage is decline stage, so beyond a certain point you cannot grow as an organization and there will be competitors and beyond a certain point managing such a huge business becomes difficult. So, decentralization can lead to these individual entities becoming separate entities on their own.

So, they will lose their connection with the larger organization and probably the organization also becomes very complacent, because they are there in the market for very long, they have made so much profits they lose track of the competition. And, also in the market there will be increased competition or change in the technology.

So, since the organization is pretty big they have not able to adapt to the technological changes or competition in terms of new competition and innovations. So, that may lead to decline and also employee may leave because the organization is there for very long it becomes complacent, people may think or the newer generation employees may leave because the culture may not suit.

There might be conflicts also, conflicts between different product ranges between departments between people, because there is always this pressure in terms of you know if you remember systems theory differentiation versus integration.

So, it can lead to conflict and after certain point maybe in the organization will try to take centralized decision or they try to centralize all the important decision under new leadership. So, this is where this is the stage where turn around happens, turn around means there is a decline. But if the organization understands they are declining and they you know they are adaptive and they are open they bring in a new leadership.

So, this is like rebirth you know they are again going to entrepreneurial stage where we call it turnaround management, you know they everything has to be rearranged most of the things will be started fresh after declining stage. So, again it will become a kind of a new cycle from entrepreneurial connectivity formalization elaboration. So, but if organizations failed to do that if they fail to do turnaround, turnaround in during the stage they may die or they may cease to exist.



So, the life cycle perspective helps us understand organizations based on their which stage are there in and what kind of ethical, what kind of values drive the organization and how it has an impact on employees. And, what kind of culture emerges at this particular stage and what kind of leadership exist.

So, this in fact you know gives a very deep knowledge of organizations. If you understand which stage they are in which stage the organization is in. So in fact there are multiple theories like I said perspectives to understand organization.

So I will stop here, in fact this is also the end of the you know the OB course and I thank a lot; I thank you all for being patient and listening to my lectures and I hope the lectures were useful. And I also thank the NPTEL; NPTEL organizers and Swayam organizers for giving me this opportunity. And, we will try to meet again maybe through another course or maybe some other forum.

So, till then take care, have a nice time. All the best.