Organizational Considerations: Structures and Hierarchies

by Sophia

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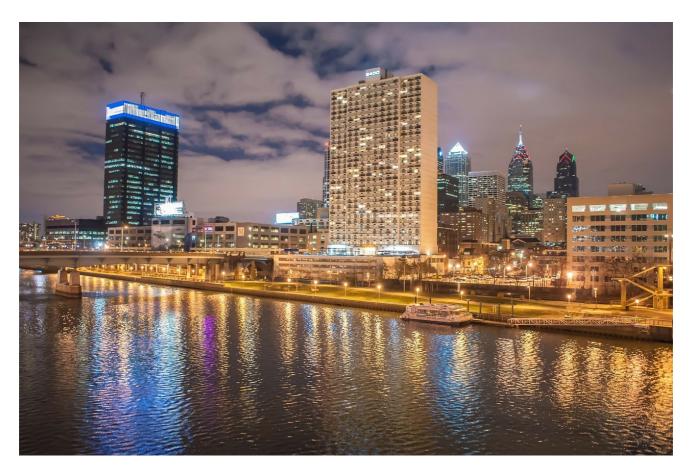<tr><td>≔</td><td>WHAT'S COVERED</td></tr>
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Do you think that the way we organize affects the way we perform? What does it say about a company that organizes in a particular way, if anything at all? This tutorial will cover organizational considerations within a company, also known as structures and hierarchies. Our discussion breaks down as follows:

1. Organizational Considerations

Companies have a number of organizational choices, and there's no "one size fits all" when it comes to the organization for a company. Companies can be tall and wide and reaching for the sky like some of the buildings in the image below, or they can be flat and wide and meandering like the river that flows in front of it.

There are two initial choices that a company must make about the larger structure of the company. They must decide if they want one of the two following organizations:

- **Centralized organization**: An organization that is arranged by a rigid architecture of employee command where the top of the organization makes the decisions. This type of organization relies on one individual to make decisions and provide direction for the company. It can be extremely efficient regarding business decisions, however, it may suffer from the negative effects of multiple bureaucracy layers.

     ↗ EXAMPLE Consider McDonald's. Every item that goes on the menu at McDonald's is controlled and dictated by the central authority at the top of the centralized organization that is McDonald's. Big Macs are on the menu no matter where you go in the country.

- **Decentralized organization**: An organization that is arranged by a flexible architecture of employee command where different managers throughout the organization make the decisions. Several individuals are responsible for running the business and making decisions. This type of organization utilizes individuals with a wide variety of expertise and knowledge to make business decisions. Multiple people have different opinions about the business decisions.

     ↗ EXAMPLE Consider Arthur Andersen, the accounting firm that was working with Enron Corporation. This type of organization didn't work out very well for Arthur Anderson, as it suffered from the Enron scandal. However, companies like Johnson & Johnson Corporation are moving toward this model.

📄 TERMS TO KNOW

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2. Organizational Structures

An organization must decide what management structure will work best for their business:

- Flat Organizational Structure
- Tall Organizational Structure

2a. Flat Organizational Structure

Flat organizational structures are unique in that they have very few or no levels of management. They're trying to keep it as flat as possible, so there's not a lot of structure between the people at the very top and the people at the very bottom of the chain of command, or the organizational chart.

Flat organizations have much more in common with small businesses. In fact, you'll see a flat organizational structure a lot in small businesses, if for no other reason than there are not that many people to go around. With a flat organizational structure, especially in a small business, people at different levels of that structure will have many different jobs. They'll be wearing lots of different hats as they go about their day.

Flat organizational structures are generally going to be decentralized. There isn't a lot of central command; it's up to the individuals within that chain to be responsible for a lot of the organization's process. Each individual has a fairly wide span of control, meaning that they will have a lot of people reporting to them because there's not a tall structure within a chain of command.

This type also provides a structure to utilize reduced management costs and helps with employee empowerment. Because there's not a lot of managers, you're not spending a lot of money on management. In addition, because the employees at those different levels of management--even among the lowest level--are going to be making many of the decisions in this decentralized or flat organizational structure, there is a high degree of employee empowerment. You have to trust your employees to do the right thing as far as the company is concerned.

The downsides of this type of structure are a potential for confusion and a lack of specialization. As you may recall from earlier, people will be wearing a lot of different hats at different levels, focusing on many different things at once. Therefore, there exists a lack of specialization as regards to one specific job. You may not be doing that one specific function quite as well as you could have if you had a few more people in the chain.

The potential for confusion occurs because you have a lot of different voices, instead of that one voice at the top dictating down, regarding operations decisions. For instance, McDonald's hamburgers may look a little different in different cities around the country.

2b. Tall Organizational Structure

Tall organizational structures have a lot of different layers, management, and reporting. They have much more in common with large businesses. In fact, you'll find that the larger a business gets, the more they have a need for an increased number of spots within this organizational structure. It will build and grow like the building in

the image from earlier in the lesson.

Because it's more centralized, each individual in this chain will have a clear chain of command. It will also have a very narrow span of control--only a few people, or even one--that is actually going be reporting to somebody else. The span of control is quite narrow for that one person overseeing those few individuals within the chain.

People within this tall structure are able to utilize the chain of command a lot better, which is a positive. The commands on the top are going to be very clear; there's not a lot of confusion as far as listening to all the different voices within the organization. However, this can also create problems, because information has to get through each of those levels along the way to the top. The taller the organizational structure gets, the longer that delay can be.

⚙ **THINK ABOUT IT**

Have you ever played a game called "telephone" where you whisper something in one person's ear, and then they try to whisper it to the next person, and so on down the line of people until the message reaches the person at the very end? Undoubtedly, by the time it reaches the last person, that message has changed. The same thing can happen in a tall organizational structure where there's not only the delay in information getting to the top, there's also bias along the way that impacts and modifies the message. By the time it reaches the top, the message might look very different than the information that came in at the bottom.

↗ EXAMPLE Consider the military, or any government agency or body. The U.S. government, for instance, has an extremely tall structure. You can see a clear chain of command within those organizations, and also the delay back and forth along the chain of command.

📋 **SUMMARY**

Today we learned about the **organizational considerations** a business has to take into account when it imposes an organizational structure. We learned about the different **organization types**, such as centralized or decentralized, to determine which one might work better for your particular organization.

Lastly, we learned about **flat and tall organizational structures**, discussing some of the pros and cons of both of those types of structures as far as business is concerned.

Good luck!

Source: adapted from sophia instructor james howard

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