EVOLUTION OF THE ORGANIZATIONAL STRUCTURE

By Alan S. Gutterman[1]

Abstract

When an organization has just been launched and only a small number of persons are involved there is generally ample opportunity for face-to-face communication among the members of the group and the need for a formal organizational structure is generally low provided that sufficient attention is paid to strategic planning and setting mutually agreed goals and objectives. As organizations grow from very small (i.e., less than 20 employees) to relatively large (i.e., 80 or more employees), one notes significant changes in the management of workflow and structure becomes an important managerial challenge. At some point the range of activities and tasks that need to be performed within the organization expands to the point where the founders no longer have the time and skill to personally oversee all of them and a key challenge for the firm is the manner in which the founder delegate responsibilities and decision making authority to lower-level managers and new executives who join the founders as organizational leaders.

When an organization has just been launched and only a small number of persons are involved there is generally ample opportunity for face-to-face communication among the members of the group and the need for a formal organizational structure is generally low provided that sufficient attention is paid to strategic planning and setting mutually agreed goals and objectives. At that point the founders and other members of the organization can generally allocate and organize work activities based on their skills, experience and preferences and the organizational structure, to the extent one exists, will generally be organic with a flat hierarchy and strong reliance on informal norms and values to control the activities and interactions of all of the members of the organization. The founders are generally involved in most of the decisions relating to the activities of the organization and other members of the organization can usually count on easy access to the founders to discuss ideas and concerns. In fact, the most popular method for passing along role assignments within top performing smaller organizations is informal conversation. Much less popular, although used with some frequency, is written job descriptions and meetings. The founders are also more directly involved in designing and monitoring role assignments in top performing organizations. If input is needed from other members it can be obtained quickly and efficiently and news of significant events, such as the outcome of a meeting with a new vendor or customer, can be conveyed in real time without the trouble and expense of creating and maintaining formal information and communications processes.

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As organizations grow from very small (i.e., less than 20 employees) to relatively large (i.e., 80 or more employees), one notes significant changes in the management of workflow and structure becomes an important managerial challenge. At some point the range of activities and tasks that need to be performed within the organization expands to the point where the founders no longer have the time and skill to personally oversee all of them. The founders are forced to delegate responsibilities and decision making authority to new executives who join the founders as the leaders of the organization, generally focusing on specific functional areas (i.e., an increase in specialization). As new employees join the organization more managers must also be brought in to provide the direct supervision that the founders and other senior executives can no longer offer and the result is the creation of a traditional chain in command structure accompanied by an inevitable increase in the number of hierarchical levels within the organization structure.

With regard to assignment of work and coordination of workflow the CEO begins to abandon reliance on informal conversations and turns to alternative methods such as formal meetings, written guidelines and pre-established roles and definitions and descriptions of jobs. Policies must become more formal as the organization grows in order to protect the organization against potential legal and regulatory liabilities. However, organizations must walk a fine line in this area and exercise caution against excessive reliance on written guidelines to coordinate workflow. Care should also be taken when developing and using job descriptions since they may be used as excuses for some employees for not doing necessary work based on the fact that it was not part of their job description. In order to compensate for the inability of the CEO to directly supervise all activities as the organization grows, larger organizations also begin to rely more heavily on formal monitoring of quality, production and costs and regular comparison of performance in those areas against budgeted targets and goals. This is not necessarily a negative development and it is generally recommended that even the smallest organizations establish objective work standards and targets and then invest in monitoring systems to compare actual performance against the goals that have been set. When selecting and implementing monitoring systems, organizations should seek out standardized software programs that are already customized to the specific market or industry.

In order for delegation to be executed effectively the organization must create a formal structure that provides employees with guidance on what they can and cannot do and who they are responsible to and managers with a definition of the scope of their authority including which employees they are responsible for and will be reporting to them. This means tying responsibilities and authority to positions defined by the designers of the organizational structure that will then need to be filled by current or new employees thought to be best suited to effectively discharge the responsibilities associated with the position. Changes will also be needed with respect to the processes used by the organization for communication and sharing of information and organizations typically adopt and attempt to enforce more rules and standard operating procedures as further support for the efforts of management to control and supervise.

The end result of all of the changes that occur as the organization grows is a slow and often invisible and unintended transformation to a mechanistic organizational structure that can creates significant operational issues for the senior executives of the organization including slower decision making processes, poor information flow and problems with coordination. At that point affirmative steps will need to taken in order to try and reverse the evolutionary movement of the organizational structure to retain the spirit of innovation that prevailed when the firm was first launched and everyone knew one another and could communicate and collaborate easily and quickly. The first thing to remember is that while the CEO can, and ultimately must, delegate decisions regarding daily operations to subordinates he or she must nonetheless retain authority and responsibility for performance standards and setting the overall direction of the organization. Second, as the size of the organization grows and activities become more complex there should be greater reliance on group problem-solving techniques as opposed to creating stifling and cumbersome bureaucratic structures. The CEO should use meetings and teams while maintaining control over the most important strategic and operational aspects of the organization. Meetings can and should be used to review actual performance against work standards and targets and as group problem-solving sessions to address issues ranging from productivity to morale. The CEO should also use meeting as an opportunity to reinforce work standards and cultural values. Finally, a concerted effort must be made to identify and remove unnecessary levels of management, decentralize authority, standardize routine tasks and activities to free managers and employees to concentrative on more creative projects and improve automated information processing capabilities so that reporting channels can be eliminated or streamlined. Obviously these changes will not be easy to implement and rarely can be done within substantial disruption to day-to-day operations. Personnel changes, including elimination managerial positions and alterations to reporting channels, can cause stress among workers and endanger morale and increased reliance on automated information processing may require large investments in equipment and training. Nonetheless, the organization may have little choice if it wishes to remain competitive in its chosen domain.

Additional changes in the structure will be needed as the organization continues to grow and/or modifications are made to the organizational strategy. Organizational design is a dynamic process and the structure of the organization should continuously evolve over time in order to adapt to changes in the environment in which the organization operates. However, changing the structure of an organization can be a difficult task, particularly when the members of the organizations have been operating in a certain way for an extended period of time. Implementing changes in organizational structure requires the investment of substantial human and financial resources and it is often impossible to accurately predict in advance how long it will take for the change to take effect and whether the change will produce the desired results. These challenges explain why organizations change their structures infrequently and also underscore the importance of carefully considering structural issues before the organization embarks on new growth or shifts existing resources toward a different strategic objective.