

# ROLE OF THE ORGANIZATIONAL DESIGN IN THE COMPANY'S SUCCESS

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## Abstract

Organizational structure is necessary for the organizational activity of any business company. Expediently selected structure fully responding the existing challenges and meeting the requirements of the strategic view is the guarantee for the company's success. The goal of the article is to evaluate the role of the organizational structure, identify the problems associated with the organization structure of the companies and ways of development. The theoretical analysis used in the study is based on the works of the worldly famous scientists, and the practical analysis is based on the qualitative study of the selected companies working in the industrial branch of Georgia. Questionnaires, interviews and information sources of companies are used for this purpose. The study uses graphical methods and methods of grouping, comparison and analysis. The results of the study revealed the factors hampering a company to efficiently use the resources and give the recommendations helping the companies to improve their business and competitiveness and strengthen their positions on the market.

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**Keywords:** Management, organizational structure, authority

## Introduction

Business companies permanently strive to introduce themselves on the market and strengthen their positions there. However, not every company reaches the desired goal. There are a number of external and internal factors making some companies successful, others – not successful. In this respect, the company management and particularly, one of its principal functions, the organization, is extremely important. It is the function of an organizational structure determining how successful and efficiently the company will distribute or use its resources. A clear reflection of the function of the organizational structure is the organizational design, which is a set of formal tasks, authorities and responsibilities to be discharged by the individual employees and structural units of the company on the one hand and set and management standards of the hierarchy levels and efficient employee coordination systems on the other hand.

As the international practice suggests, one of the principal reasons for the failure of the companies in the developing countries is their failure to choose the right organizational structure. The companies failing to build their real organizational structures fail to establish the structural units in line with the existing strategy and efficiently distribute the authorities and responsibilities among their employees; as a result, they fail to swiftly react to the changes in the surrounding environment. In this way, they devastate the creativity of their employees, hamper their professional growth and finally, miss important opportunities and deteriorate their competitive positions on the market. Therefore, the study of the organizational structure is topical and has practical value for the companies.

The goal of the study can be formulated as the following question: what are the major principles of the organizational structure to be considered by the companies to use the

resources efficiently and rationally and to be successful. The following tasks were set to reach this goal:

- Identifying the major principles and steps to form the organizational structure.
- Evaluating the role of the organizational structure at the companies.
- Identifying the gaps hampering the organizations in efficient organization and setting the recommendations to reach progress.

The object of the study is the manufacturing industry of Georgia, in particular, the business companies operating in the manufacturing industry of Georgia.

The results of the study will be of great value for the business companies either starting, or running their business on the market. The recommendations will help the companies to evaluate the organizational processes, design better organizational structure and strengthen or improve their market positions.

### **Theoretical aspects of the organizational structure**

Establishing a company's organizational structure depends on a number of factors, including the size of the company, field of activity, consumers' demands, existing resource potential, etc. In addition to analyzing these factors, the major principles of the organization design should be observed, with the following ones being outstanding: division of labor (Khomeiriki, 2008), departmentalization, chain of command, centralization /decentralization, span of management, degree of formality (Robbins, 2014).

Work specialization (also called *work division*) must guarantee the division of the whole work into smaller portions by the company. It must be done in two directions: horizontal (sequence of works) and vertical (in hierarchical stages). Every employee must accomplish a certain portion of work.

In order to coordinate the assigned tasks of the organization, the jobs and employees must be united as sub-divisions, departments or sectors by means of departmentalization in management. The tasks assigned to the structural units must be grouped according to their concrete functions (marketing, manufacturing, etc.), or product or geographical area. Following its choice, the company chooses between the functional, divisional or matrix departmentalization.

In order to determine the associations, mutual subordination and sequence of the tasks and subsequently, of the employees at the organization, an authority line or chain of command is needed. As it is known, authority is associated with a post in the company; it is distributed vertically, from top down and is the formal and fair right of the company employees to issue decrees to achieve the organizational goals and make decisions. The highest-level authority is given to top-managers.

In managing the organizations, sometimes the top-managers delegate their authorities to the lower-level managers. Identifying the degree of delegation of organizational authorities is associated with the principle of centralization/decentralization. Small portions of authorities are delegated at the organizations with high degree of centralization, and vice versa, large portions of authorities are delegated at the organizations with high degree of decentralization. Decentralization is more acceptable for modern companies, as in this case decisions are made not only in the top-managers' offices, and employees' engagement is higher.

When creating any structure, it is important to choose an optimal span of Control (Daft, 2012). This means fixing the number of employees under a single management. The choice of the span of management depends on the peculiarities of the assigned tasks. The less the span of management, the less the number of the employees under a single management and consequently, the more the number of tiers and hierarchy levels, and vice versa, the more the span of management, the more the number of the employees under a single management

and consequently, the less the number of tiers and hierarchy levels. At the company where the manager wishes to establish close relation with his subordinates the managerial standard must not be high. As the traditional view suggests, the standard is 7 to 10 employees being subordinate to one manager.

When establishing an organizational structure, it is important for the company to identify the degree of formalization or the number of procedures, rules and regulations (Robbins, 2014). The more formalized the company is, the less the misunderstandings and ambiguities are; however, on the other hand, a homogenous behavior of the company employees in concrete cases reduces the motivation and job satisfaction. In addition, high degree of formalization reduces innovations and prevents the companies from acting in response to the consumers' demands.

Creating a flexible and transformable organizational structure adapted to the external changes needs consecutive steps, which can be simply formulated as follows:

Step one. This step means identification of jobs following the kind of the company activity and its classification depending on different signs, such as priority, functional homogeneity, etc (Chokheli, 2013).

Step two. This step shows the unification of tasks and their grouping into structural units (departments, sub-divisions, etc.).

Step three. This step covers the distribution of authorities, identification of responsibilities and development of detailed documentation. At this stage, each individual has a clear understanding of whom he receives the tasks from, to whom he is accountable and kind of actions he may be made responsible for. After taking all three steps, the organizational structure must be formulated and all employees must be informed about their functions in the structural units of the company (Boddy, 2012).

**Methodology**

At present, the number of business companies in Georgia increases year after year. However, most of them are not viable and stop operating within 3 years. During the study, the analysis with the selective method was carried out with the companies working in the branch of industry. As per the data of 2014, there are approximately 588 782 companies registered in Georgia, 113 017 being active, including 28 216 companies in manufacturing industry, with 8 904 companies, i.e. 4,8% being active (See Figure 1.). Of them, 60 companies operating in different sub-branches were selected and given the questionnaires. The answers were received from 48 companies; the staff of up to 20 companies was interviewed and the relevant information was gained.

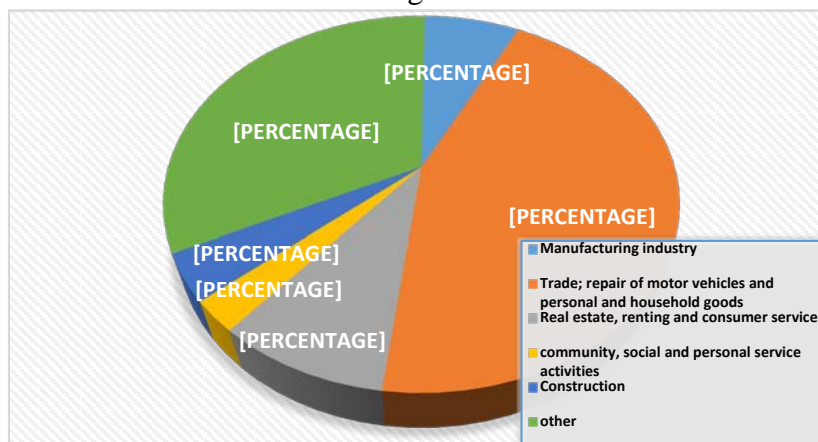


Figure 1. Number of entities by kind of economic activity  
 Source: <http://www.geostat.ge/index.php?action>

The study included three questionnaires:

The first questionnaire inquired about the companies’ view of the major reasons hampering the companies to reach success and improve their viability.

The second questionnaire asked the companies to name three important factors affecting the efficiency of their business out of the following elements: strategic view and goals, strategy, personnel, organizational structure, style of management, organizational culture, etc.

The interview method was used for the third research and it was about the aspects, such as: Authorities, the tasks to be performed, the number of subordinates, delegating level, degree of centralization, frequency of changes in the organizational structure, the horizontal and vertical communications.

The study also used such methods, as analysis, synthesis, comparison and statistical analysis.

**Results**

The conclusions made on the basis of the received answers are as follows:

As the results of the first study suggest, the analysis of the answers demonstrated that 41 % of the companies think of poor management in terms of the factor to improve the chances for success and viability, 18% of them think of instable environment, 12% think it is taxes, 13% think it is variation of currency exchange rates, 7% think it is legal barriers and 9% of the companies think of some different factors.

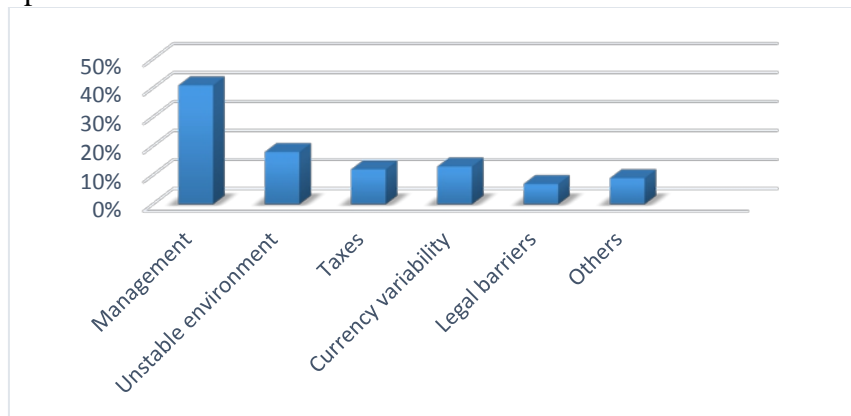


Figure 2. Factors affecting the success of the companies

The results of second study showed that 23% of the companies think of incorrect strategic view and goals as the management element hampering the companies to improve their efficiency, 15% think in terms of strategy, 22% think in terms of the organizational structure and 18% think of the staff qualification, 5% think in terms of leadership style, 7% think in terms of technology, 8% think in terms of organizational culture.

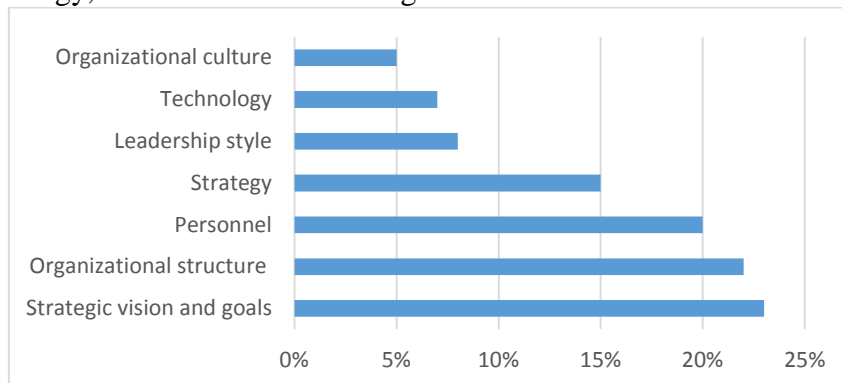


Figure 3. Elements of management determining the effectiveness of the companies

The results of third study revealed the following factors: authority duplication (91% of the companies), ambiguous tasks and responsibilities (78%), inflexible structure (57%), high span of management (62%), low level of delegation (60%), lack of horizontal associations (52 %).

### **Conclusion and Recommendations**

The accomplished study once again demonstrated the importance of the organizational structure for the company's activities. We also identified the gaps hampering the organizational activities of the companies. After analyzing the organizational structure of the companies, we set recommendations to help the companies to remedy the existing gaps:

- The organizational structure must be reviewed on a frequent basis and changed by using the principles of the organizational design.
- The degree of delegation of authorities to the medium- and low-level managers must be maximum at the company. This will support their engagement in the decision-making process and will improve the employees' creativity.
- Span of management must not be high, and every manager must have at most 10 subordinate employees.
- Representatives of a concrete structural unit of an organization must not be focused on their own goals only, but must share the common goals of the organization and make concrete decisions following the general interests of the organization.
- The authorities and responsibilities of the organization employees must be clearly defined. This will help avoid duplication of functions or lack of functionality.
- The structure must be flexible and adaptive, retaining coordination in terms of the organizational growth.
- The objectives must be clearly set, analyzed and the priorities must be agreed upon among the top management members.
- The processes at the company must be determined and principal processes must be identified. No structure is capable of creating ideal conditions for all processes. Therefore, it is necessary to choose 5 to 7 processes, which are most important for the organization. Development and review of the processes by the management, their correction and agreement are a good precondition to immediately start working on the company's structural design.
- The structure is to be described and detailed documentation is to be drafted. At the final stage of the structure formation, as the principal design is ready, the detailed description of the structure and all necessary documents must be drafted. Providing the description of all goals, objectives, responsibilities, functions, rights and obligations, as well as internal structure and positions within the structure is a necessary precondition to use the full potential of a new structure.

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