

# THE IMPACT OF THE BUSINESS ENVIRONMENT ON THE SHAPING OF AN ORGANIZATION CHART

Lecturer Ph.D. **Simona BUTA**  
Ștefan cel Mare University of Suceava, Romania  
[simonab@seap.usv.ro](mailto:simonab@seap.usv.ro)

Professor Ph.D. **Aurel BURCIU**  
Ștefan cel Mare University of Suceava, Romania  
[aurelb@usv.ro](mailto:aurelb@usv.ro)

## **Abstract:**

*Since Adam Smith, FW Taylor, H. Fayol and recently, whether we are referring to Peter Drucker, Harrington & Harrington, and other authors consecrated in the literature of management / economics, the organization issues in an organization have grown much in complexity. The manner in which the firm / company constitutes the organization chart induces subsequently, explicitly or not, multiple conditionings in the daily practice of the organization (both in the sense that it may favour certain efforts / strategies or on the contrary it may block such efforts. The size of the company, the market and the technology are the most popular factors that will influence an organization chart.. However, in the context of global crisis and chaotic business environment, new questions arise regarding the model of organization charts and associated management strategies. What are the predictable directions regarding the type of organization chart in the current business environment? How does social competition influence the shape of organization charts in different countries?*

**Key words:** organization, organizational chart, business environment

**JEL classification:** M20, M21

## **I. INTRODUCTION**

There is a large number of analysts who have examined in detail the issue of the structure of companies (including Harrington & Harrington, Peter Drucker, S. Certo and many others); the vast majority of them have come to the conclusion that in today's global society, where successful firms process and sell knowledge, where computer networks are compulsory for the daily management, *the companies need to decentralize their structures and democratize their daily management practices* (Drucker P.F. 1993; 1999; Burciu, A., 2008). So, in today's society we are living in a world made up of different types of organizations, says Drucker, each organization has a very clear mission and we can see in each a certain diversification; *this diversification means division* (Maciariello, J., 2005; Burciu, A., 2008). "Every few hundred years in Western history there is a profound transformation," a turning point, says Drucker, from Taylor further on productivity has increased more than 50 times in all advanced countries (Drucker, P.F., 1999; Burciu, A., 2008). Therefore, as the productivity and standard of living grew in Western countries, the theory / practice of business organizations discusses insistently about the "proximity" between the top of the organizational pyramids and various categories of performer employees in their structure. This is to meet some requirements relating to concepts such as participatory management, social democracy, self-control in the organization, equality of chances between social groups, social economy etc.

On the other hand, the emergence and manifestation of the global crisis in 2008 attests that the current business environment has become increasingly uncertain, unstable and sinuous and that even large corporations, if they fail to quickly adapt their organizational structures can easily reach bankruptcy. Some theoretical approaches discuss about a chaotic environment of the current business environment where change is omnipresent, this chaotic environment means major threats but also opportunities for the companies (Kotler P., Caslione, J. A., 2009). What are the main

principles that will change management strategies and associated to these strategies what type of organizational chart will it be in the immediate future?

In an uncertain, unstable environment (whether we call it chaotic or not) the flexibility of management strategies and rapid adaptation of organizational structures can provide, we believe, an extra chance for the survival of companies.

## II. HISTORY AND ACTUALITY OF CURRENT ORGANIZATIONAL STRUCTURES IN AFFAIRS

From the perspective of the management theory, as certain rules or principles of organization are required to be effective in the industrial company (still from the 30's when the scientific management was promoted by Taylor and the administrative management sustained by Fayol), the criteria / principles of creating the organization charts increased in complexity.

According to Harrington&Harrington, in the evolution of organizational structures at the level of the company occurred (from the '30s to the present) four major steps (Harrington, H.J., Harrington, J.S. 1995, 2001; Burciu A, 2008):

a. *Vertical organization*: this type of organization is derived from the military doctrine and it implies a centralization of power / skills; it was applied in business in the 50's in U.S. companies and it is equivalent to relatively bureaucratic organization charts, hard adaptable to the requirements of customers; currently this type of organization is rare, is recommended only in extreme situations, as it is considered non-effective;

b. *Bureaucratic organization* : in this case the company defines in detail its internal working procedures , the rules by which it will operate, resulting in various formed sections/*departments* to work after strict formal rules, this organization chart is relatively hard adaptable to the external environment, it does not motivate enough the employees, induces inflexible procedures, etc.;

c. *Decentralized organization*: in this case the big companies have parted in small profit units, each unit being subjected to a manager, therefore becoming more adaptable to the customer's requirements; in essence, this type of organization overcomes the drawbacks of excessive centralization of power and / or of a bureaucratic organization; decentralization has worked well until the increase of global competition, when the need for change emerged (Drucker, P.F., 1993, 1999);

d. *Network organization*: in this case, the focus is on the customer and not on the internal functions of the company, so the whole organization chart is focused on the customer's needs; in essence, this organization means to provide teams dealing with a process/client (Maciariello J., 2005). This type of organization was possible as the computer extended to management activities, as global communications and computer networks have become a practical reality for every company; today IT has become a basic catalyst of the network structure because (Harrington, H.J., Harrington, J.S. 1995, 2001):

- It eliminates the dependency of the company to expert managers;
- Employees can work in a team even at great distances.

From another point of view , whatever was the nature of the organization, historically speaking, various companies / firms (more autocratic and with more hierarchical levels, sometimes reaching 40-50 levels in large corporations; more democratic and with less hierarchical levels , for motivation , participation, adapting to market, etc.) the idea almost unanimously admitted is that *big companies must democratize its organizational structures*. This is because the resources/information are the most valuable "actives" for the companies and they will become the most sought resource in the foreseeable future. As computer networks expand explosively, wireless communications and other technical tools through which employees have access to resources/information, certain hierarchical levels from the mid of organizational charts are doomed to disappear in the future, as Drucker argues, some categories of executives in organizations are "doomed " to disappear as intermediaries between the top and bottom of the organizational pyramid

(Drucker, P., 2008). How can we explain more concrete/argued socio-economic trends of the invoked type regarding the organizational structures from the companies?

### III. CRITERIA AND INFLUENCING FACTORS ON THE ORGANIZATION CHARTS

For a correct interpretation of the invoked issues (type, shape, number of hierarchical levels in the organization, the autocratic or democratic character of daily rules from the organization, etc.) it is useful to start by defining the organizational structures; therefore, an organizational structure is a composition of compartments that groups the jobs and the activities of the company on specialties, therewith setting the work relationships and of subordination necessary for the operation of the organization (Militaru, G., 2010). Also, the organizational structure of a company can be characterized by *six major elements and relatively distinct from one another*: jobs, positions, scope of authority of managers, departments, hierarchical levels and organizational relationships (between people) (Burciu, A., 2008). The structure of the organization is a part of the overall organization of the company (along the internal regulations, behaviour codes, etc.). Overall organization involves in addition a series of processes / activities on decision making, communication processes, stimulation schemes etc..

There are various theoretical approaches to the criteria underlying the organizational charts and the main factors which leave their "print" on the shape of the organizational chart of the company; ultimately, the mission proposed for long-term and the strategies designed / developed by top - management will be the major "vectors" thereupon the organization chart of the company must be assigned.

For instance, some theoretical views suggest five different indicators (specialization of employees by function; the costs for executive employees; the difficulty of coordinating the whole organization, the speed of obtaining feedback, the ability to adapt to change) in relation to which it would be possible the recommendation / suggestion of a type of organization chart for different firms/companies of the national economy (Militaru, G., 2010). In our opinion, it is extremely difficult to formulate general recommendations regarding organization chart for any company; the actual situation, the time spent in business, the market, the technology, the mission and other dozens of „conditioning" are reflected upon on the pattern of an organization chart.

In table no. 1 we have six factors of diagnostics on some kind of organization chart that would be preferred (in theory) by some companies / firms, we say explicitly that the theory only makes some suggestions on this topic and that any generalizations made easily can be extremely misleading.

**Table no.1**  
**Relations between types of organization charts and factors of influence upon them**

Diagnosis factors	Types of organization chart		
	Functional organization chart	Matrix organization chart	Organization chart on divisions/centres of profit/on products
<b>Internal factors</b> 1. The size of the company 2. The diversity of the provided products and services	Little Limited	Medium Medium	Big Big
<b>External factors (PESTLE)</b> 3. Nature of technologies 4. The uncertainty of the market	Standard technologies Low	New technologies High	New technologies High
<b>The interrelation</b> 5. in the subsystem 6. between subsystems	Low High	Medium Medium	High Low

Source: adapted by Militaru G., *Managementul serviciilor*, Editura C. H. Beck, București, 2010

From the same theoretical perspective, the most common types of organization charts encountered in the business practice are (it is known that these names were imposed in the literature after the main criteria behind the design of such organizational structures ): functional organization chart, geographical organization chart , organizational chart on profit/ products centres, matrix organization chart, network organization chart. Therefore, in table 1 we have only three types that are known in the organization chart (functional, matrix and on profit centres) and it is inferred that we can automatically/implicitly identify advantages and disadvantages of choosing a particular type of structure reported to the environment in which the company works ( internal factors and external factors ) and by reference to the generated interdependences.

In terms of **internal factors**, if we considered first (most important) as being **the size of the company**, it is inferred that *the functional structure is relatively more suitable for small companies with up to 500 employees*; in such situations we can discuss theoretically about some advantages for the company that aims a functional structure:

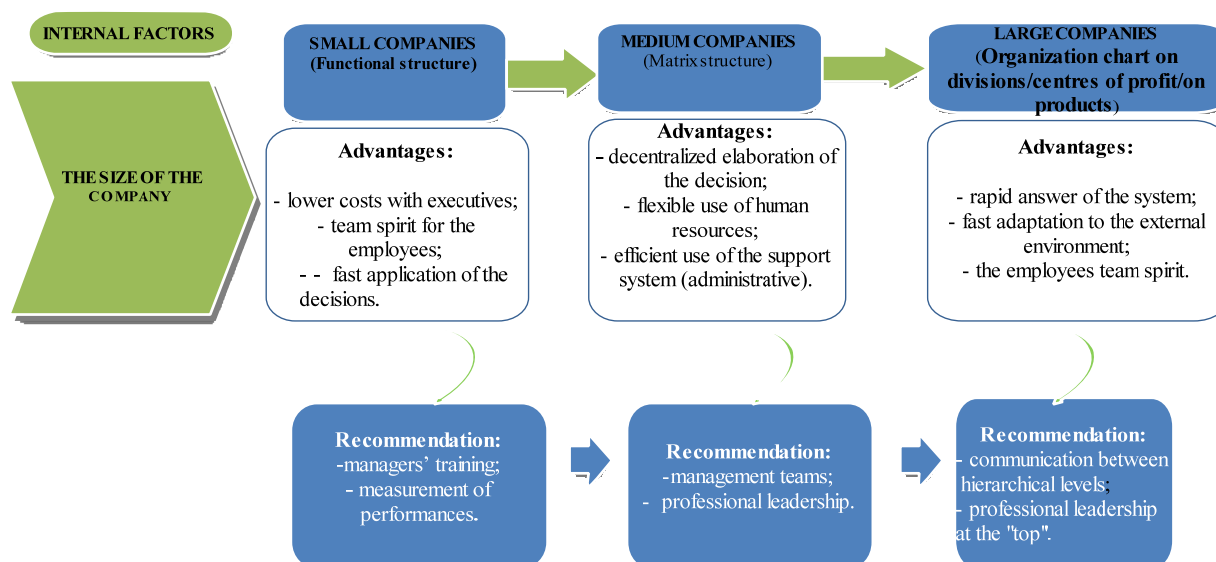
- There are usually induced lower costs with the managerial staff (including a small number of hierarchical levels with a certain democratization of management etc.);
- It provides the satisfaction of the employees working in departments grouped by specialty, with great possibilities of communication between the specialties favoured by the small size of the companies;
- This pattern of organization chart for small companies allow/provides a relatively rapid elaboration and implementation of decisions in daily operation (Pearce J., Robinson R. Jr., 2007).

*Midsized companies* often prefer in many cases the hybrid structures, such as matrix or on divisions/centres of profit, although in such cases the principle of unity of command ("an employee-a manager") is violated. Theoretically, these charts are recommended for companies that have highly competent executives on their professional field and with an adequate training on HRM issues (they may apply a leadership to prevent conflicts and provide management teams with double subordination).

*The largest companies*, with thousands and tens of thousands of employees, prefer *structures on profit/products centres because they allow decentralization*, in this way forming divisions of independent products/services. This option gives the organizations a number of theoretical advantages, among which we mention:

- It minimizes the time of the response of the system;
- It creates flexibility in adapting to environmental conditions (for example, this advantage may be crucial in the context of the chaotic business environment, recorded from 2008 to date);
- It provides employee satisfaction (they work in these independent divisions as employees from small functional structured companies).

In summary, we present graphically the impact of the company size, as internal factor, on the choice of a type of organizational structure:



**Figure 1 The impact of the company size, as internal factor, on the choice of a type of organizational structure**

In relation to *the diversification of the range of provided products/services* we can also identify certain advantages and disadvantages associated with the three types of organization charts mentioned in the table no.1. It is worth mentioning again, the idea that the theory of organizations failed to propose a certain model of organization chart as generally valid for companies / firms in different economic sectors, which have a different number of employees etc. However, the theory recommends certain advantages/ disadvantages depending on the extent of the range of products/services and certain types of organization chart:

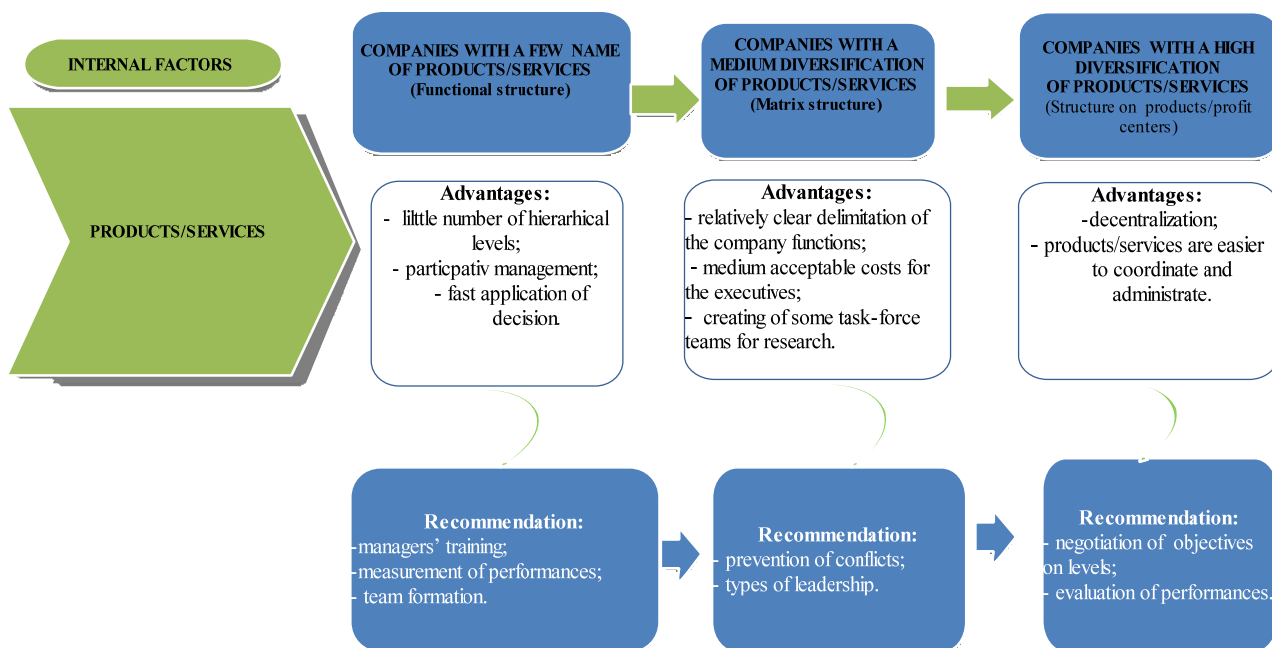
a. For companies with a low classification of products / services a functional organization may be appropriate as it will provide a limited number of hierarchical levels, participatory management and rapid implementation of decisions;

b. When the company has an average diversification of the nomenclature (6-10 products) a matrix -type organization can be used, that will induce certain advantages for a subsequent operation (relatively clear delineation on company functions regarding the requirements of a particular sector / product; acceptable average costs for the management; the establishment of task-force teams for research etc.)

c. For large companies with a large diversification as nomenclature among other theoretical advantages they include:

- There is the possibility of decentralization and bringing to the form of small divisions with a smaller range of products or services;
- These products or services are easier to coordinate and manage, in this case, the structure on profit centres is recommended.

Briefly, we present graphically the impact of classification of products / services, as internal factor, on the choice of a type of organization chart:



**Figure 2 The impact of classification of products / services, as internal factor, on the choice of a type of organization chart**

External factors (PESTLE : political, economic , social, technological, legal, environmental) influence the choice of the type of organizational structure mainly by the characteristics of the field in which the company fits in; we will find in the real economy different models of organization charts in the industry (production) compared to the service. Likewise, for the standard technologies the theory recommends the functional structure; for complex technologies (IT, medicine, chemical industry etc.), theoretically, the decision-maker can choose between a matrix structure or a structure on products to design the organization chart.

**The interrelation** as a diagnosis factor (analysis, design, orientation etc.) of the organizational structures manifests both within the subsystems (departments) as well as between subsystems. For example, in the companies that by their nature have a low degree of interrelation (between employees from different levels, between teams, between working groups etc.) in theory they can apply a functional organization chart; as the interrelation between employees, compartments and/or teams grows, theoretically the superior decision-maker can turn to a matrix organization chart (we say explicitly that such recommendations do not exclude other "mixed" types or forms to design the organization charts; it was and it still important, we believe, every case in the real economy i.e. the situation of the company and the moment it deploys on the market where it activates).

**IV. THE TYPES OF ORGANIZATION CHARTS VERSUS THE SOCIAL COMPETITION**

As a result of the issues invoked regarding the relationship between the company environment and the outline/pattern of its organization chart we deduce that it is difficult to formulate uniform assessments on this subject. This is because the real economy in any country of the world includes hundreds of thousands of different economic "actors", each having the freedom to apply a certain type of organization chart (whether that model takes into account or not the recommendations proposed by the theory of organizations). In addition, the period covered in business of any organization (boom, recession, crisis etc.), along with the proposed mission and strategies, will contribute significantly to the type and form of the organization chart used by top-

management. Also in the invoked sense, the general socio – economic context (from the economic sector, from the national economy, at global level etc.) obliges, to a large extent, the superior decision-maker from companies to reconceptualise the management strategies and, consequently, to redesign its organizational structures.

Amid the global crisis of 2008 and so far, most of the companies/firms around the world are facing new dilemmas / questions , especially due to the fact that the business environment has become totally unstable and survival in such a context requires a completely different strategic vision. Where there is major turbulence in the external environment of the company is likely for the managers to react improperly (for example, to reduce research budgets, to have immediately massive layoffs, to exclude any opportunity that comes in a chaotic environment etc.). From the theoretical perspective, Kotler/Caslione recommends certain courses of action for managers working in chaotic environments (understanding chaos as an essential feature of the business environment from 2008 so far) (Kotler P., Caslione, J. A., 2009):

□ Leaders/decision makers at different hierarchical levels must be involved directly and observe immediately the changes from the markets and from the society (trying to anticipate both opportunities and threats that can be glimpsed).

□ Top- management of all organizations must eliminate "filters" of communication and to be in daily contact with the market, the customers and the new technologies (i.e. to eliminate the intermediate levels of management that can obstruct understanding of the real situation). Furthermore, it is recommended to establish some boards and committees of counselling/information (those task-force to which we referred earlier) that would operate in parallel with the organization chart of the company;

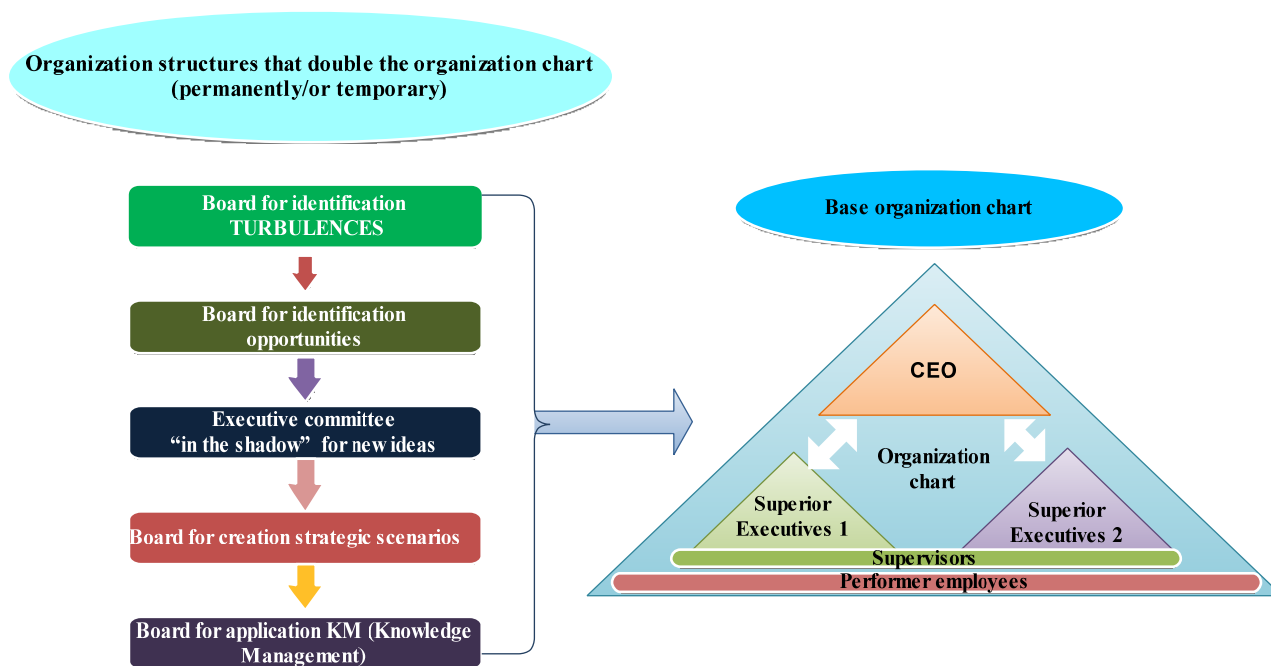
□ Decision-makers from different organizations have to accept the idea that *"built" strategies degrade very fast* in turbulent and marked environments, in turn, by unpredictable changes. To survive in this chaotic, turbulent and changing environment it is necessary to build/operate a "a chaotic management system"; such a system means basically, sequential building of scenarios regarding the vulnerabilities and opportunities for the entire business organization;

□ The so-called "chaotic management system" should cover both all departments and/or functions of the company (finance and IT , purchasing , marketing, sales, production , human resources etc.) which involves structural changes on the outline of the organization chart and the number of the proposed hierarchical levels (Kotler P., Caslione, J. A., 2009);

From our research perspective, it is useful to remind that the large polarization of incomes between executives and performers from various types of organizations (primarily in companies/firms but also in various public organizations, investment funds, etc.) contributed directly to the global crisis in 2008 (Stiglitz J. E., 2010). In other words, the inequalities occurred in the income distribution in the U.S., Europe and other capitalist countries (from the 90s to 2007) were gradually reflected in the speculative/ selfish nature of competition on various markets. Theoretically, it takes a minimum of moral / ethical principles, we believe, both at macroeconomic level and also at company level to confer sustainability to the capitalist system. Otherwise, any major difference between the "few" and excessively rich compared to the "many" and at the limit of material subsistence may prove disastrous even for Western economies; the downward phase of the economic cycle can feed and can reach, as Roubini argues, a "vicious circle" difficult to manage (Roubini N., Mihm S., 2010). So, among other effects induced by the current global crisis occurred dilemmas / new questions about the rules by which social competition of democratic systems must unroll. This point is clearly valid, we believe, both from a macroeconomic perspective and from a microeconomic perspective (understanding that the national economy, simplified, is a "sum" of realities current encountered in markets and business organizations). Since 2008 and so far, more and more analysts suggest that the social pyramid (both in industrialized countries and countries in transition, with an emerging economy, etc.) *should be deliberately "flattened" by introducing new rules on which to base social competition*. Including, in the EU states, argues Daianu, social gap may prove dangerous for social cohesion and economic growth in the EU market; achieving social

cohesion requires a "flattening" of social structures and therefore the actual capitalism can not ignore a minimum of ethical / moral restrictions (Dăianu D., 2009).

To maintain the direction of analysis of our research, we conclude that the "flattening" of the social pyramid from a national economy itself requires a "flattening" of the organizational pyramids from companies / firms. In fact, the idea itself as a necessity in the business world was stated by Drucker about five decades ago; the necessity of "democratization" of the organization charts in business has become more evident in the context of the information revolution and the explosion of computer networks (Drucker, P., 2008). As mentioned before, as the access to different types of knowledge / information is becoming more accessible to all (knowledge can not be monopolized by definition) the existence of certain intermediate hierarchical levels in the organization becomes manifestly counterproductive. In this new context (the computer revolution, global crisis, etc.), *organization charts will continue to follow, we believe, the general strategic line proposed by the top management of a company.* Therefore, we can say that the organization charts of the future corporations will be by definition more flattened and in addition will be "doubled" by temporary structures such as task-force to solve distinct but essential tasks. Theoretically, given the arguments raised by us, the type and shape of a company organization chart in the current context can be suggested as we sketch it in figure number 3:



**Figure 3 The type and shape of a company organization chart in the current context**

As we suggested in the figure above, we conclude that in the future the tendency will be towards more flat organization chart, namely organization charts where the executive management at the top is as close as possible to the performer employees. It implies that those firms / companies that tend to project these organization charts will apply a predominantly participative management, will decentralize the executive power and support each department/employee to exploit the knowledge as a different resource. Predictably, it can be said that even in case of large corporations this trend will occur in the near future, regardless of the chosen theoretical model of organization (functional, geographic, on profit centres and so on; it can be expected that for corporations with hundreds of thousands of employees will tend to 4-6 hierarchy levels, which will lead to the increase of the scope of responsibility for a decision-maker). In a certain sense, one can say that flatter and more democratic organizational charts should mitigate / prevent, by their very internal



nature and the mechanism induced in daily practice, the occurrence of excessive differences (unethical, immoral etc.) between the incomes of top executives and the incomes of other groups/classes. Also, in a completely uncertain, chaotic and highly tortuous environment the companies are operating today, it may prove desirable if they decentralize power and set up a rapid response even for each department from the organization chart and / or for each geographical location; according to the arguments of Kotler/Caslione, today major vulnerabilities may arise that can affect directly only certain departments or geographic areas / regions (Kotler P., Caslione, J. A., 2009). Therefore, certain analysis, advice and alert boards suggested by us as different structures from the basic chart (figure number 1) may prove to have pragmatic utility in the company trying to mitigate the turbulences and exploit the opportunities of the competitive environment today. In addition, the major strategies built by the senior manager of the company (which we previously called "chaotic management system of the company") should have as direct correspondent certain changes in the organizational structure of the entity. More exactly, as we suggested, those boards with different specific tasks (of warning, of counselling etc.) may have a longer or shorter life; the market, the technology, the demography and other social changes should be reflected in the strategic line followed by a company and its organizational model.

## V. CONCLUSION

As it is known, the current global crisis has influenced, albeit with a different intensity from one case to another, most countries of the world, business organizations, families and individuals. However we call the current business environment (chaotic, uncertain etc.), it is obvious that the survival of companies in the new context became more difficult. Even if in a reasonable timeframe the global crisis will end, the interrelations between countries, companies and individuals will likely continue to increase. To survive / thrive in the future, companies must essentially change their management strategies and, consequently, bring significant changes in the organization charts on which they base their daily functioning. Our research focused only identifying the main factors (size, environment, market, technology etc.) that will influence the type of organization chart and the number of hierarchical levels; we understand that such a synthesis is only composed by theoretical recommendations for the decision-makers in the economy. It is exclusively the task of the senior management to identify, select and design the most appropriate organization chart for a company from a particular market and in the context of severe competition.

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