Lecture 6: Organizing the Agribusiness

61.100 Introduction to Agribusiness Management
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Today

- organizational structure
  - the “formal organization”
- specialization & departmentalization
- responsibility & authority
- centralized & decentralized organizations
- types of organizational structures
- the informal organization

Organizational Structure

- the specification of tasks within an agribusiness
  - and how those tasks relate to one another!
- different forms of agribusinesses will need unique organizational structures
- the organizational structure is often referred to as the “formal” organization
Determinants of Organizational Structure

- why are agribusinesses organized in specific ways?
- several factors affect choice of structure:
  - mission
  - strategy
  - size
  - technology
  - competitive environment

Organizational Chart

- depicts the agribusiness’ structure
- and shows where everyone “fits in”

- also shows the chain of command
- who reports to whom within the agribusiness

Specialization

- focusing on one task or a small set of tasks by an individual
  - this is a natural result of organizational growth
  - Adam Smith first wrote about specialization

- specialization allows a person to develop exceptional skills in a particular area
  - but can limit opportunities to build other skills
Departmentalization

- grouping specialized tasks into logical units
  - makes control & coordination easier
  - allows firms to develop profit centers
- can occur along several lines:
  - customer
  - product
  - process
  - geographic
  - functional

Responsibility

- the duty to perform an assigned task
  - requires a clear delineation of who is responsible for doing which jobs
- managers may delegate tasks to employees
  - both are responsible for the task
  - the employee is accountable to the manager, who is also accountable to a senior manager

Authority

- the power to make decisions necessary to complete the tasks required
  - authority is centralized when top management reserves the right to make most decisions
    - leads to "flat" organizational structures
  - authority is decentralized when top managers delegate decision-making to other managers
    - leads to "tall" organizational structures
- the number of employees falling under one supervisor is the span of control
Three Forms of Authority

- it is always necessary to specify who has authority over whom

- three common forms of authority:
  - line
  - line & staff
  - committee & team

Line Authority

- clear line of authority leads from top mgt. down to each employee
  - shows who reports to whom
- ideal for smaller businesses that require a less complex structure
  - i.e. firm carries out one major activity
- not as effective as firms become larger
- does not easily accommodate specialists
  - since they’re not directly part of production

Line & Staff Authority

- similar to line organization, but includes a place for specialists (staff)
  - staff are accountable to key line managers
  - staff are responsible for carrying out tasks relating to their specialization
  - staff typically have little authority; advice is related to line managers who take responsibility
- potential for conflicts with line managers
  - staff have the expertise; managers the authority
Committee & Team Authority

- committees of top managers from major areas often play important roles in the firm
  - often granted authority to make decisions outside of their usual scopes
- many firms use *work teams* that organize their own tasks & supervise themselves
  - can be an effective form of organization!

Types of Organizational Structures

- there are a large number of alternative structures available to organizations
- however, four basic forms exist:
  - functional structure
  - divisional structure
  - project organization
  - international organization

Functional Structure

- organizational units are formed based on the tasks they perform toward firm goals
  - makes use of departmentalization by function
  - oldest and most common structure
  - focuses attention on key activities
  - allows special expertise to be developed
  - conflict between functional areas can arise
  - decision making can be slow
Divisional Structure
- divides the agribusiness into several semi-autonomous units and/or profit centres
  - can base divisions on products, customers, geographical areas, etc.
  - accommodates change & expansion
  - can result in duplication of activities across divisions
  - conglomerates are organizations where each division operates as a separate firm

Project Organization
- forming a team of functional specialists in the firm to complete a specific project
  - can be permanent or temporary
  - construction of a large capital investment is an example of using a project organization
  - matrix organization: project manager shares authority with regular line managers
    - brings in team members from regular functional jobs to work on the project temporarily
    - can result in the “two bosses” problem for employees

International Organization
- firms that operate in multiple countries require a structure that accommodates this
  - often have an “international division” to handle the special concerns/tasks that arise
    - managed by a particular person, same as any other division
  - the international division would then be a part of the larger organizational structure
New Types of Organizational Structures

- new types of structures are evolving to accommodate a changing business world:
  - boundaryless organizational structure
  - team organization
  - virtual organization
  - learning organization
- over time, these new types of organizations will start to "catch on"!

The Informal Organization

- concerned with interpersonal relationships among people
  - as opposed to the "formal" organization as represented by the organizational chart
- emotions, feelings, communications, and values are part of the informal organization

Importance of the Informal Organization

- relationships within the business go beyond those defined by the formal organization
  - people who are happy & satisfied will do a better job
  - communication improves with an effective informal organization
  - span of control can be lengthened because people work together more effectively
- an organization that ignores its informal organization will suffer as a result!!
Facets of the Informal Organization

- *status* is the social rank or position of a person in his/her work group
- *symbols* of status include title, experience, age, authority, privileges, etc.
- *power* is the ability to control another’s actions
  - the source of power can be formal or informal
- *politics* is how power & status are used
  - manipulation of people/circumstances

Next Class

- topic: Human Resource Management in Agribusiness
- reading: Chapter 8
- staffing, recruiting, selection
- evaluating employee performance
- compensation & benefits
- legal issues in HRM
- discussion question: define and discuss four training & development techniques/methods