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CORNELL
AGRICULTURAL ECONOMICS
STAFF PAPER

**ORGANIZATIONAL STRUCTURE:
DOES IT HINDER OR PROMOTE
MANAGEMENT DECISIONS**

by
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Organizational Structure: Does it Hinder or Promote Management Decisions

As farm management specialists, we have frequently observed farm business failure following business expansion, intergenerational transfer, and/or alterations in management responsibilities. Many of these failures can be explained by financial stress; however, many cannot. These we often explain by saying "management was lacking." In this paper we draw from the modern management science literature to propose a structure farm management professionals and farm managers can utilize to manage changes in organizational structure.

In a selected paper presented two years ago at the AAEA Annual Meetings in Vancouver, Milligan and Hutt (1990) define management as:

"Determining what must be done and achieving results through the efforts of oneself and other people. Management is planning, organizing, staffing, directing, and controlling the business resources toward the accomplishment of established goals."

Successful management of the organizational structure of the business occurs where the established structure clearly defines the roles and activities required of people in order to meet the mission and objectives of the farm business. In establishing the internal framework for the farm business (organizing), management must decide the positions to be filled and the duties, responsibilities, and authority attached to each one. The objectives of this paper are to present key concepts required to effectively execute the organizing function and to provide suggestions for the use of these concepts in the farm business. In meeting these objectives we will discuss business development, organizational structure, and the organizational chart. Milligan and Hutt(199) define organizing as:

"Establishing an internal framework for the farm business. This structure clearly defines the goals and activities required of people in order to met the objectives of the farm business. The manager must decide the positions to be filled and the duties,

responsibilities, and authority attached to each one. Organizing also includes the coordination of efforts among people and enterprises."

Business Development

Like managers, organizations grow and develop over time and problems often arise when the organization and the manager are "out of sync" with one another. Farm managers often find it easier to think of changing something physical than to think of changing the very manner in which things are approached or the attitude that is expected or needed in order to affect positive change. An excellent example is seen in the case of the Apple Computer Company. The company was founded in a garage by an entrepreneur who was full of good ideas and technology. As the business expanded and more people were hired, it became apparent that the founder was not evolving into a corporation manager and had no desire to do so. As a result, he hired a business manager who knew a little about computing but a great deal about management and organizations. The founder of Apple Computer eventually left the company and has begun another new venture where his strengths are maximized (Gentile, 1987). In contrast, the founder of the world's largest abrasive firm, Bay State Abrasive, began with the entrepreneur hand mixing and kiln firing individual grinding stones in a small brick oven. As the company expanded, the owner continued to change management roles and develop new areas of management expertise while delegating the other spheres of activity to employees and eventually to partners.

Figure 1 divides the continuum of the evolution of a farm business into three stages for nine concepts of organizational and management evolution. This continuum is designed to enable the manager to better know him or herself and the characteristics of the business that is being managed. The user must understand that the differences found among these components are not meant to have a value judgement attached. One end of a continuum is not considered better or worse than the other, merely different. It is of greater importance that a business work

effectively than it be at a particular place on a continuum. One might better look at each continuum and ask if their business or management is struggling with problems or crises caused by moving too soon or too late from one phase to another. In addition, blocks to growth can be spotted if a particular component is lagging in its development in contrast to the rest of the farm. As farm businesses grow they will tend to evolve through these stages. The development of extension programs to assist farm managers in managing business development has great potential. The concepts are discussed below (organizational structure is discussed in the next section):

Top management style: This continuum begins with the doer or hands-on, individualistic/entrepreneurial type who is personally making everything happen (Greiner, 1972). Primarily, this individual uses business personnel as an extension of his/her own hands (Figure 1). In the second stage the manager is making decisions and carrying them out through the efforts of others. This manager is characterized as the director of an operation that is beyond his/her ability to carry out alone. Following this would be the executive using delegation as a primary tool for the narrowing of one's span of control. This stage can be further developed to an administrator as the director of management teams working under the managers strategic design (Jackson, et al., 1986).

Management focus: Another series of stages concerns the orientation of managers, beginning with an orientation to physical things like cows, equipment, and land. It then evolves into a more data oriented perspective, observing the business by the use of quantifiable results such as costs per unit of production, etc. The final stage is the people orientation with a concentration on the human resource in the organization, its recruitment, development, and motivation toward the goals of the organization (Jackson, et al., 1986).

Figure 1. Stages in Business Development of the Farm Business

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>
Top Management Style	Entrepreneur Doer	Directive Manager	Participative Executive/
Management Focus	Things Production	Inputs/Outputs Expansion	Human Resources Problem Solving
Employee Function	Extra Hand Unskilled	Operational Management Tightly Supervised	General Management Skilled
Management Delegation	None	Specific Responsibilities	Authority Participation
Goals	Simple Undeveloped	Informal Tactical	Formal (Written) Strategic
Communication	Casual Top Down Commands	Informal Top Down Requests	Often Formal May Be Written Two Way
Decision Making Process	Intuitive	Qualitative Informal	Quantitative Written Participative
Frame of View	Narrow Milk/Cows	Limited Scope Farm	Broad Develop Human Resources
Organizational Structure	Simple Informal	Centralized	Decentralized

Employee functions: The role of the business personnel changes as the one person operation develops to a network of teams comprised of specialists and middle manager working toward the objectives set by top management (Kotter, et al., 1986). Many farm businesses are struggling with this transition as middle managers are brought into the business.

Management delegation: Delegation begins when you ask someone to hand you a wrench and it matures into the sharing of responsibilities and finally results in giving the subordinate the authority to carry out those responsibilities fully.

Goals: Most farms indicate that they do not have any written goals. This, however, is not the case in a few farms where written goals serve to inform employees at all levels of the important priorities of the farm organization. The more output and production are stressed, the more likely goals are to be found. Clear goals are also more abundant where planning and analysis are done with pen in hand.

Communications: How and what is communicated between employees and management goes through a metamorphosis beginning with informal occasional talks on general topics to formal written reports on specific deviations from clearly laid plans (Killen, 1977). Clearly established controls permit clear communication and may also improve the motivation of an employee because the individual knows exactly how he or she will be evaluated. This permits employees to work with less direct supervision, which in turn creates a feeling of autonomy and self direction.

Decision making process: The process of selecting the best course of action in a given situation emerges in isolation at first and is usually very intuitive and qualitative. The fully matured process may involve many people and quantitative data processed with an eye toward employee acceptance and implementation criteria (Killen, 1977).

Frame of view: The frame, or perspective, that is used to conceptualize the farm business tends to be an important factor as the farm business matures. A manager initially views the business

as that of growing crops or caring for animals. This evolves to viewing the business as converting inputs into outputs and then as an enterprise using a collection of resources to their greatest economic advantage. Employees may be seen initially as a necessary evil to be used sparingly and later as a potentially limitless resource to make the greatest contribution to the success of a business (Russo & Shoemaker, 1987).

Organizational Structure :

Organizational structure is how the business is organized to perform the functions of the business. The type of structure employed on a farm is a function of management philosophy, the ability and availability of middle management, and the size of the organization (Killen, 1977). Structure in its highest form becomes a tool in the hands of the manager to influence all other aspects of the business, employee performance, and productivity. In this section we consider several principles key to developing an effective organizational structure, we delineate the conditions necessary for effective business operation, and we consider alternative organizational structures.

While no two farm organizations are exactly alike, there are certain fundamental characteristics common to all and, therefore, some basic procedures which, when adhered to, can help insure organizational effectiveness. The following list of principles is not complete, but it does represent the more important factors which must be considered when structuring the farm organization:

Principle of Objectives: Prerequisite to the starting of any organization or to carrying on any activity is a clear and complete statement of the business mission and objectives. Only after this can the operation be built and molded to foster the attainment of those objectives with the least effort and greatest satisfaction by business personnel.

Principle of Coordination: The organizational framework must provide for the integration and blending of both human and technical resources. Coordination results when the systems and procedures which are established facilitate the accomplishment of results and when each unit of the organization thoroughly understands the role and the function of every other unit.

Principle of Parity of Authority, Responsibility, and Accountability: When an individual is held responsible for a task, the authority necessary to perform the task must also be provided.. If the assigned responsibility is greater than the authority, responsibility will tend to shrink to the limits of the authority. If the opposite is true, there will be a tendency for responsibility to expand. In any case, accountability can only be expected within the limits of the authority extended.

Principle of Unity of Command: Each employee should be held accountable and answerable to only one supervisor. If an employee is receiving directions from more than one supervisor, there is a strong possibility that confusion and productivity loss will arise.

Principle of Delegation: Delegation is the process by which a manager assigns responsibility, grants authority, and creates accountability. Without delegation, the manager will defeat his/her own purpose of bringing others into the operation and will end up doing all the work .

The attainment of these conditions is an important objective of the organizing function of management. Management must develop an organizational structure based on these principles.

Farms can be categorized into one of five organizational structures: informal (family) (Molnar, 1979); centralized with a broad span of control at the top; mixed, usually in transition; decentralized and tall with a broad base; and an integrated management team (Kilmann, 1984).

In farm businesses with an informal structure, the family structure provides definition to the farm organization rather than a formal business structure. In these cases, decision making revolves around a patriarch or can be described as a participative process where each

member gives input and decisions are made by consensus or deferred to the family member with the most knowledge in that particular area (Molnar, 1979).

The second structure, centralized management, is much more prevalent. Power and authority are retained at the top of the organization, requiring that almost all decisions be made or approved by the general manager. Managers of this type of organization tend to be authoritative, indicate they are extremely vital to the daily operation of their businesses, and their business would not stay intact long without their presence (Jackson, et al., 1986) (Figure 3a).

The third structure is mixed, having elements of more than one classical structure. Often, an organization has evolved as bits and pieces rather than as a structure designed with plan and purpose (Molnar, 1979). This is often the situation when a new, progressive management idea cannot be actualized in the confines of an old organizational structure. Similarly, the employees on farms seem to demand that the organization conform to their level rather than the organization determining the clear expectations of its employees. This mixed configuration is often observed in farms under transition and often is found during rapid expansion (Figure 3c).

The fourth structure is decentralized, with authority and responsibility delegated to middle management. Decisions in these organizations are pushed to the lowest level possible, and everyone in the organization is well aware of the goals they are corporately trying to achieve (Kotter, et al, 1986) (Figure 3b).

A fifth structure is the integrated team matrix. In this configuration participative management is pervasive and organizational commitment is very high. This structure requires a highly committed and empowering general manager (Figure 3d).

Diagrammatic Representation of Organizational Structures

Figure 3a

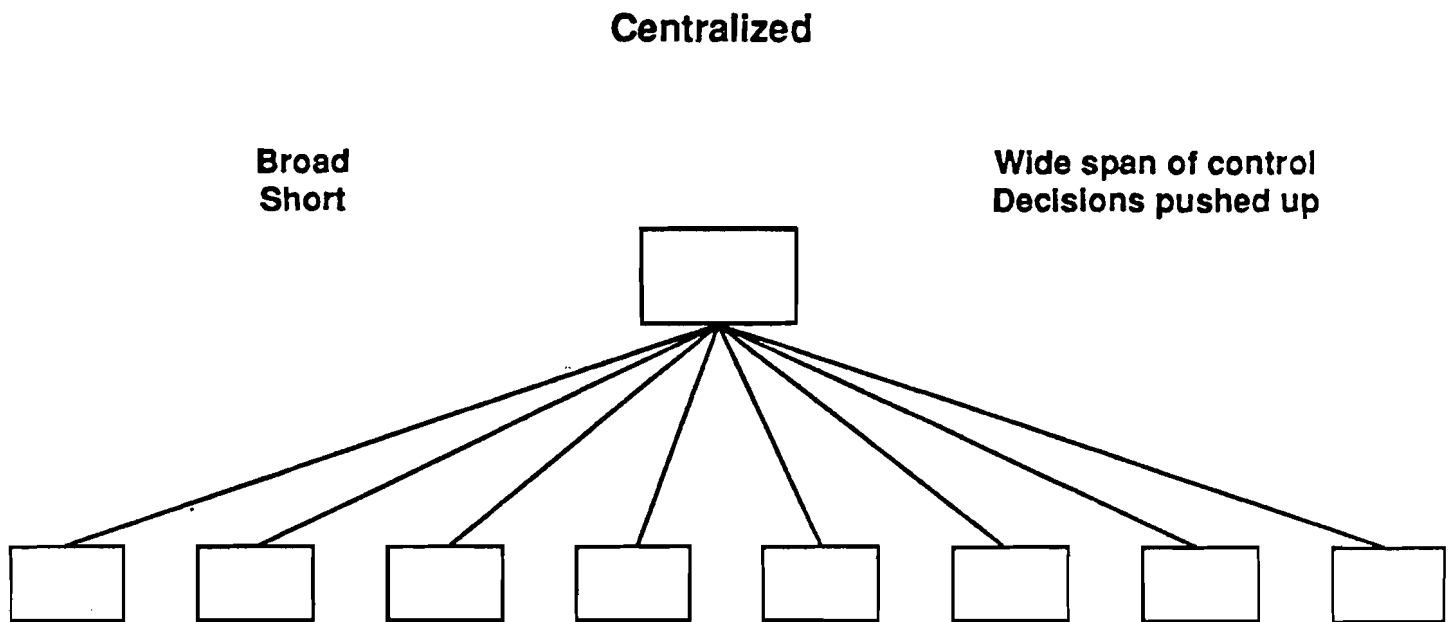
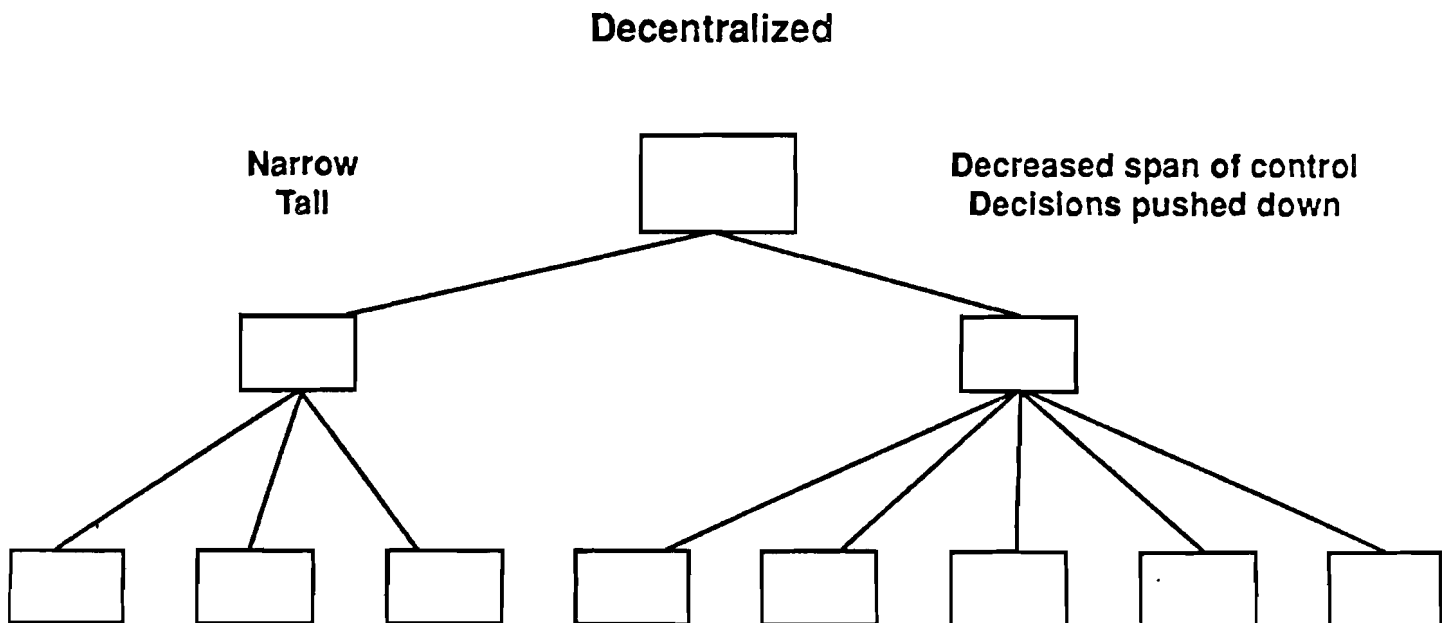


Figure 3b



Diagrammatic Representation of Organizational Structures

Figure 3c

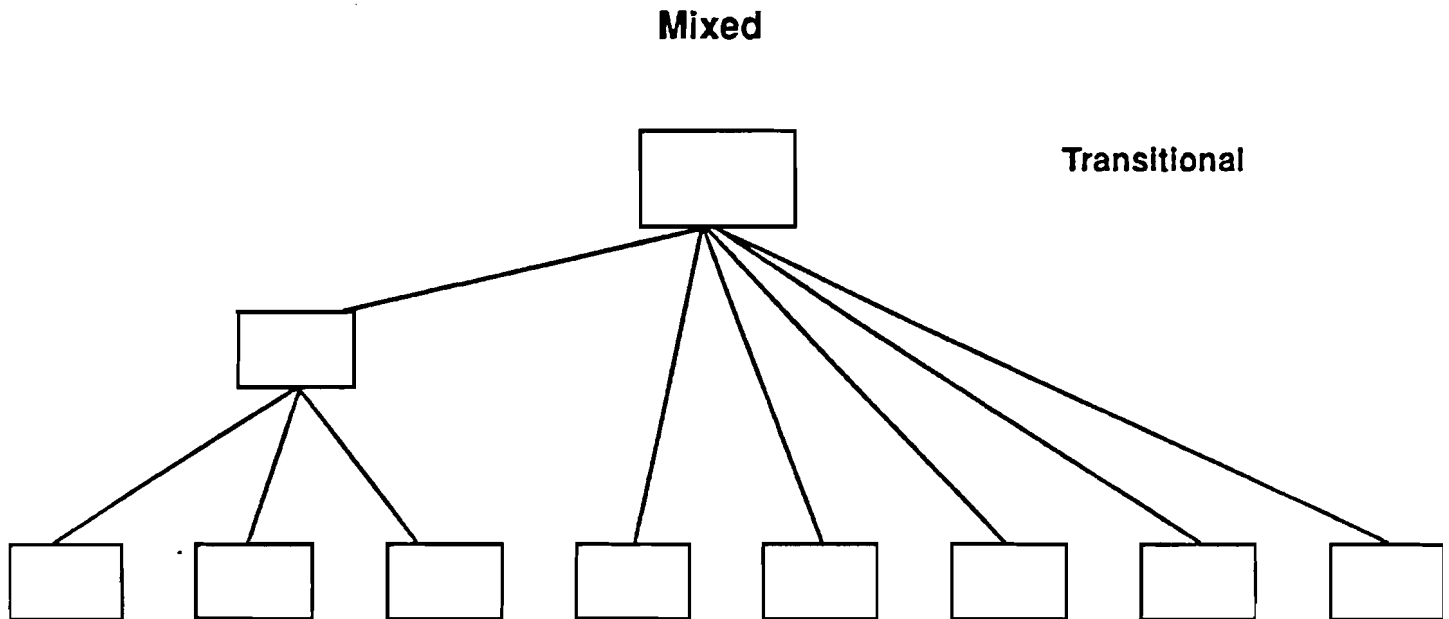
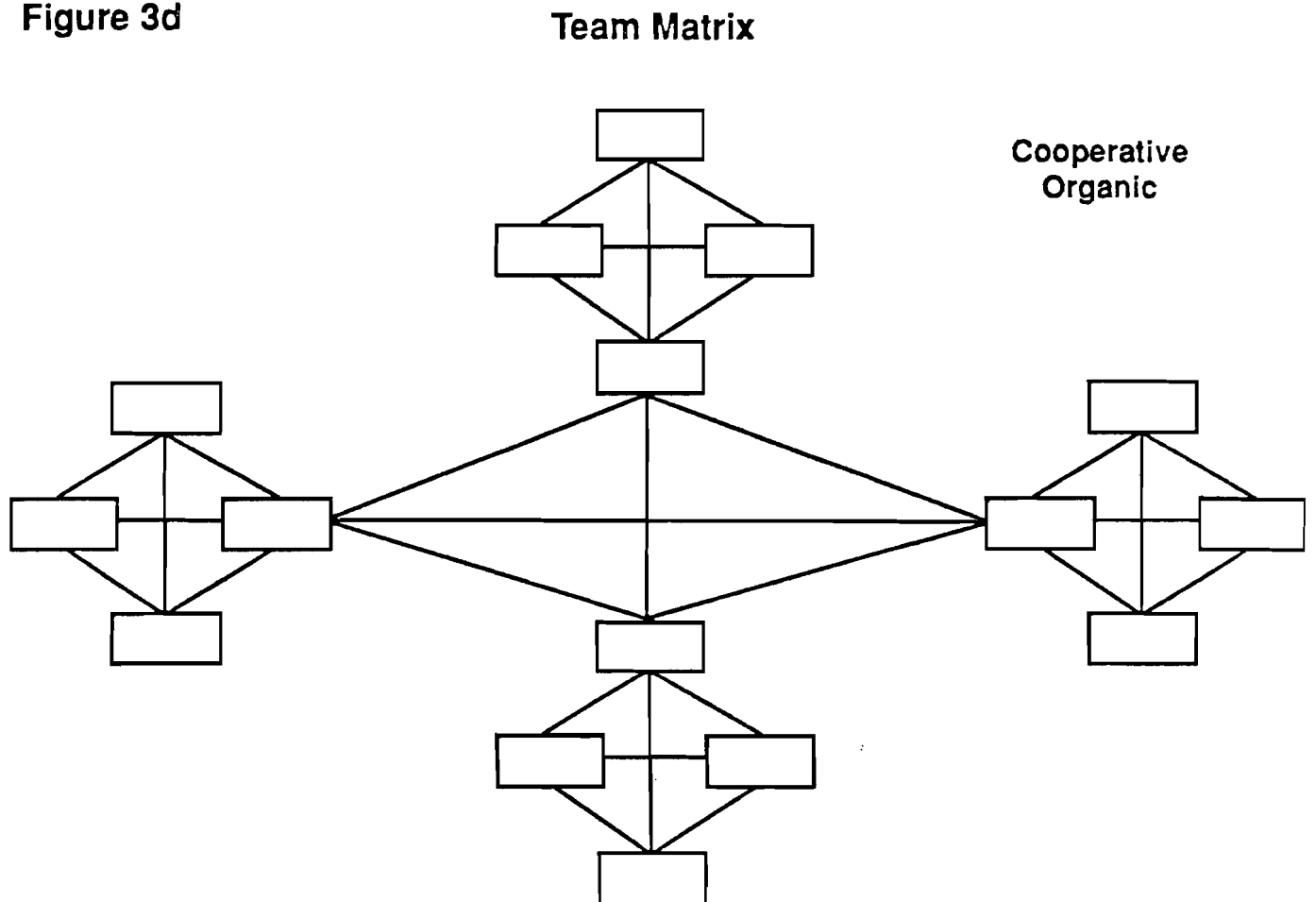


Figure 3d



The structure employed by a farm business is a function of management philosophy, the management skill of the owner/manager, the ability and availability of middle management, and the size of the organization (Killen, 1977). An analysis of the advantages and disadvantages of each structure is required to determine the best structure. The truly astute farm manager uses the advantages of all structures

where necessary and appropriate and is able to clearly choose through reason rather than be dictated by the past or by personal preference (Killen, 1977). Structure in its highest form becomes a tool in the hands of the strategic manager to influence all other aspects of the business which influence employee performance and productivity .

The Organization Chart

Organizational charts come in various sizes, colors and even textures. Some are affixed to barn walls and made of materials that are easily changed. Some charts are highly detailed; some are very sketchy. Some are in desks and others are broadly distributed and easily available. Mostly, however, they do not exist either on paper or explicitly in the mind of the manager. The organizational chart for farm businesses should explicitly show:

1. Separation of work into components. These components may be enterprises or operations. Boxes on the conventional chart represent these work components.
2. Who is (supposed to be) whose superior. The lines on the chart represent this employer-employee or family business relationship with its implied flow of delegated responsibility, authority, and attendant accountability.

Implicit in these two points are several other things.

- The chart is designed to show the nature of the work performed by each person. Depending on the descriptive title placed in the box, what this shows may be specific and technical (forage crops), or management (planning), or special projects (barn building).

- Levels of management in terms of successive layers of supervisors and workers. All persons or units that report to the same supervisor are on one level. The fact that they may be charted on different horizontal planes does not, of course, change the level.

What the chart does not show is very often as interesting as what it does show.

Organizational charts have at least one thing in common; they do not always show how the organization works. Even the most current chart is somewhat inadequate as a diagram of an organization and as an explanation of how an organization works. In other words, the chart shows the formal structure but does not reveal the informal aspects of the business including its culture.

Conclusion

As the title of this paper implies, we in agriculture tend to view organizational structure as bureaucracy, unwanted and unnecessary. This view emanates from our emphasis on managing animals and crops while ignoring the human resource. This view is also very narrow and limiting.

A far more powerful view is to consider people as the most important resource of the business. With this view the development of structure that facilitates the maximization of business and personal objectives become paramount. We challenge you to use the material in this paper to become aware of the formal organizational structure of farm businesses and to view organizational structure as a critical component of farm management.

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