

# **Organizational Structure of the Family Business**

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## **INTRODUCTION**

Organizing is establishing an internal framework for the business. An internal framework, called an organizational structure, is necessary if two or more people are involved in the business. In fact, businesses with only a few people involved can have confusing and misunderstood organizational structures.

## **ORGANIZATIONAL STRUCTURE**

Organizational structure defines the roles and activities required of people in order to meet the objectives of the business. The structure should also help people accomplish their own career and personal goals. Concern with motivation and communication should influence the organizational structure. In defining an organizational structure, the manager has four objectives in mind: (1)division of tasks, (2)coordination of efforts and tasks among people and enterprises, (3)control over the way in which tasks are performed and (4)flow of information.

To accomplish these four objectives, the manager must decide the positions to be filled and the duties, responsibilities and authority attached to each position. Written job descriptions which are reviewed and updated at least annually are as important to the organizing function as a written mission statement is to the planning function.

## **SIZE OF BUSINESS, FAMILIES AND ORGANIZING**

In organizing, small may not be simple. Even a husband and wife running a business can have trouble agreeing on who is management and who is labor. All businesses regardless of size should devote attention to organizing.

Who reports to whom in a business and why may not be apparent. The overlap of family and business often adds confusion to organizational structure. Each person in a family business is a member of both the business and family. Each person wears three hats: family, business and personal. Note the following example:

Larry is manager of a family farm business. He is son to his ill mother who owns the businesses' land and buildings and father to his son who has joined the business as a herdsman ( Larry's family hat).

Larry is also manager of the business who wants to negotiate a reasonable land rent with his mother and teach his son how to improve efficiency(Larry's business hat). Finally, Larry enjoys fishing with two of his employees who are unrelated to him (Larry's personal hat).

If mother, son and employees fail to understand Larry's different roles (son, renter, dad, supervisor, fishing buddy and employer) they are likely to get mixed and confusing signals from Larry and struggle to understand why he is inconsistent in the way he treats them.

## **PLANS VERSUS DEFAULTS**

Determining the organizational structure for a business is a decision making process. It should be approached as a problem to be solved. Hoping people will learn to fit in and get along is not enough. Careful attention should be given the goals for the organizing function (division of tasks, coordination, control and flow of information).

In the absence of careful attention to the organizing function, the structure may simply reflect the manager's natural tendencies. To illustrate, a manager may have a tendency to orderliness and neatness. She likes things to be tidy. Her way of organizing is the "Formal Way". A formal organizational chart with titles and slots for everyone appeals to this manager. Slots in the organization chart matter more than the people in those slots.

Another manager may have a strong "me" orientation. He needs to have his finger on the pulse of everything going on in the business. His way of organizing is "My Way". Everyone in the business reports to him, everyone gets instruction everyday from him, and everyone knows who is boss and who is bossed. The business is "me". Titles and slots are unimportant because the manager expects employees to be ready to do what he wants done when he wants it done.

The "Formal Way" and "My Way" organizers know their organizational structure. Each can explain their structure and give good reasons for it. They differ from a third kind of manager, the "No Way" manager. The "No Way" manager expects people to see what needs to be done and do it. People build their own relationships over time. A key employee may be so key that he knows more about certain parts of the business than even the manager. He may be like family to the manager often ranking above family members. A new employee gets little training from the "No Way" manager, no job description and maybe not even a name. He may simply be the "hired man." Failures are someone's else's fault and successes come from everyone working hard everyday.

Finally, there is the manager who sees his business as a team effort and his employees as co-managers and co-workers. He gets things done by doing them "our way". Of course, he accepts final responsibility but delegation, shared responsibility, group decision making and co-responsibility for successes and failures come naturally and easily. To join this business is to become part of a team; to leave is to part with good friends.

Formal Way, My Way, No Way and Our Way are just four examples of how a family horticultural business may be organized. Variations on these four themes are common in practice. No simple recipe exists for the organizational structure of a business. The best organizational structure for a particular business depends on the characteristics of its management and employees, nature of the business (production, processing and service), size,

and geographic spread of its operations.

## **PRINCIPLES AND CONCEPTS OF ORGANIZING**

Regardless of the specific characteristics of a horticultural business, some principles of organizing will be helpful. These principles have two uses. First, they are helpful in the actual design of the organizational structure. Second, they can serve as a check list for evaluating and improving the current organizational structure.

### **1. EXCEPTION PRINCIPLE**

Someone must be available to handle the exceptions to the usual, i.e., someone must be in charge. When an employee or worker has a problem he or she can not handle, the organizational structure should provide for someone higher in the organization to provide assistance.

To illustrate, a tractor driver on a grain farm hearing an unexpected noise in an engine should be able and trained to discuss the noise with his supervisor. This discussion should either reassure the driver that the problem is not serious or lead to repair work to solve the mechanical problem. If the noise appears to the supervisor to be an early indication of a major engine problem, he may want to discuss the problem with the owner/operator of the business. The discussion may lead either to a decision to wait until the problem becomes more serious or repair the engine now.

Note that both the driver and supervisor had a person higher in the organization to help with the unusual engine noise problem. Hoping that the driver would solve the problem himself does not substitute for application of the exception principle.

### **2. DECENTRALIZATION**

Decisions should be pushed down to the lowest level possible in the organization. The more routine a decision, the lower the level in the organization where it should be handled. To illustrate, workers waiting each morning to be told what to do and where to do it can be a great waste of manager and worker time. Workers having a routine not requiring daily instruction, and workers being trained to handle with confidence decisions within their job descriptions illustrate decentralization.

The objective is to overcome the waste of time stemming from too much centralization of decision making. Working managers rather than managed workers should be the goal.

### **3. PARITY PRINCIPLE**

Decentralization requires delegation. With delegation comes responsibility. Authority should be delegated along with responsibility.

To illustrate, assume the 18 year old son of the owner of a landscape firm has

been given the responsibility of taking a crew of 3 people, each over 25 years old, to a landscaping site to plant 5 trees and 30 bushes. Further assume that the son has no authority to decide how hard it has to be raining before the crew stops working, no authority to correct a person who is digging the holes for the trees and bushes too deep and no authority to reward the crew member who is doing by far the best job. It is easy for the 3 workers to ignore the son if they have been accustomed to taking orders only from the owner and the owner has given the workers no indication of what authority the son does and does not have.

#### 4. SPAN OF CONTROL

The span of control is the number of people a manager supervises. The organizational decision to be made is the number of subordinates a manager can effectively lead. The typical guideline is a span of control of no more than 5-6 people. However, a larger span of control is possible depending on the complexity, variety and proximity of jobs. The ability, experience and style of the manager also affects the desirable span of control. Finally, worker characteristics should affect the span of control. Well trained, motivated, experienced and satisfied workers require relatively little supervision. Owner/operators of family businesses often have span of control problems because of a "me" attitude. As a family business grows and people are added, the manager still may want everyone reporting to her rather than delegate responsibility and authority to a middle manager.

#### 5. UNITY PRINCIPLE

Ideally, no one in an organization reports to more than one supervisor. Having more than one supervisor causes an employee relatively few problems if the supervisors have good coordination and frequent communication. However, supervisors typically lack the time for the necessary coordination and communication. Too often, employees get conflicting instructions and assignments.

To illustrate, imagine a cashier in a roadside fruit market being told by the market manager to read a new bulletin titled, "A Baker's Guide to Apple Varieties." The manager suggests that the cashier read the bulletin during slack times in customer traffic. The market manager wants the cashier to take initiative in helping customers select apples. The same afternoon, the owner of the market stops by for the first time in four days and catches the cashier wasting time reading. The owner quickly orders the cashier to find a broom and get busy cleaning.

Employees should not have to decide which of their supervisors to make unhappy because of the impossibility of following all the instructions given them.

### **LINE AND STAFF**

Farm businesses may have both line and staff positions. Line positions are primarily management and are organized in a vertical manner. General manager, herdsman and feeding

crew supervisor are examples of line positions. The feeding crew supervisor reports to the herdsman and the herdsman reports to the general manager. Each has specific management responsibilities.

People in staff positions provide assistance to managers, for example, a bookkeeper. People in staff positions report to a person in a line position. Staff people do not supervise other employees.

## **THE ORGANIZATION CHART**

The organizational structure of a business is most easily summarized in an organization chart. The chart shows several important details about the organization:

1. **THE DIVISION AND SPECIALIZATION OF LABOR** - The organization chart typically has boxes designating jobs and/or tasks in the organization.
2. **LEVELS OF AUTHORITY** - Moving to a higher job in the organization typically increases authority.
3. **SPAN OF CONTROL** - To whom a person is responsible is shown for all jobs in the organization. Problems of more than one supervisor per person become apparent in the organization chart.
4. **FORMAL COMMUNICATION CHANNELS** - The formal vertical flow of information is shown. Horizontal flow of information and informal communication are not shown.

Organization charts have several weaknesses as a means of explaining organizational structure. Most importantly, they may not be consistent with reality. They may not be current. They may imply a formality that does not exist in practice. Often, they are drawn from a top down perspective. The organization may look quite different from the bottom than from the top. They often imply that a pyramid structure is the best or only way to organize a business. A circular organizational approach or team approach may in fact be better in some cases. The organization chart may fail to come to grips with the power and authority of a popular and charismatic person relatively low in the organization or a person who has a substantial financial investment in the business without being a formal part of the management team, e.g., grandma.

