Organisational Structure: Some Observations on the Importance of Informal Advice and Trust Networks

This is the Accepted version of the following publication


The publisher’s official version can be found at

Note that access to this version may require subscription.

Downloaded from VU Research Repository https://vuir.vu.edu.au/9026/
Organisational Structure: Some Observations on the Importance of Informal Advice and Trust Networks

Carmine Sellitto, Victoria University, Victoria, Australia

Abstract: Formal and informal organisational structures are inter-dependent entities that contribute to the firm’s working environment—an interdependence that reflects cross-employee relationships. The formal organisational structure is prescribed and understood, whilst informal networks are by definition difficult to identify. Indeed, the ability of workers in an organisation to share data, information and know-how can be enhanced through the existence of well-formed but undocumented informal networks. Informal networks are a potential conduit that allows workplace project initiatives to be streamlined, can inform and improve decision-making and provide support for individual-to-individual information or knowledge exchanges. This paper uses the theoretical literature to examine the notion of organisational structure and relates how informal networks are an important element in underpinning the firm’s cohesion and performance. The advice and trust networks are examined with some of the potential positive impacts of each informal entity on the firm being noted.

Keywords: Organisational Structure, Informal Networks, Advice Network, Trust Network, Social Network, Knowledge
Introduction

It was touted in the 1990s that business organisations were general evolving from hierarchical structures to ones that were interconnected, with hierarchies slowly disappearing (Drucker 1993; Stewart 1997; Evans and Wurster 2000)— an observation that appeared to be premised on the emergence of the Internet as the global communication system. Another viewpoint in the 1990s, was that firms needed to accommodate both hierarchical business structures as well as organisational networks— with the two structures coexisting and coevolving (Lipnack and Stamp 1998). In this latter scenario, even though the business world would be more widely networked, hierarchies would not disappear altogether, they would just decline to be the dominate organisational structure. If we fast forward to today— both business and society are more than ever interconnected. At the business level, supply chains, financing and inter-organisational activities are closely streamlined and reliant on technology for the organisation to function (Turban and Volonino 2010). At an individual level, the advent of influential social media sites such as Twitter and Facebook, potentially inter-links a large number of people across different levels of society (Huberman et al. 2009). However, from a business perspective, organisations still tend to be hierarchical, with command and control type functions that allows them to undertake day-to-day activities and plan for the future. Such firms are more geographically dispersed as a result of the networking technology that underpins their communication with customers, venders and partners (Turban and Volonino 2010). They are also typically reliant on their workforce exchanging and sharing appropriate business knowledge to be functional, efficient and competitive (Chow and Chan 2008). Indeed, Martin and Tian (2010) argue that an organisation’s workforce will embody important knowledge elements, sometimes referred to as knowledge-intensity, that allows the firm to be competitive and profitable. Moreover, the importance of informal groups is more significant than ever, although not apparent on any organisational chart, structure or departmental design.

In their research with informal networks, especially in the area of network analysis and mapping, Krackhardt and Hanson (1993) observed the political importance of such networks. These networks allow firms to cut through seemingly intractable organisational procedures— for instance facilitating a stalled initiative or project by giving it a new lease of life. Furthermore, informal networks can also potentially allow what are seemingly unrealistic deadlines to be met if the appropriate people in the organisation are approached. Arguably, organisational leaders are well aware of the potential of informal groups— not only their positive aspects, but also their propensity to sabotage organisational initiatives by opposing change and negating collaborative and teamwork practices (Schermherhorn 2008; Robbins et al. 2009). Notably, both formal and informal networks can be used to assist an organisation to access important strategic resources, identify opportunities and bring together innovative teams (Sparrowe and Liden 2005). Clearly, formal organisational structures and informal networks are inter-dependent within the working environment of the firm— an interdependence that reflects cross-employee relationships. The formal organisational structure is well documented and prescribed, whilst informal networks by their very nature are nebulous and potentially elusive. Given, the relative importance of these organisational networks, this paper explores to types of informal networks— the advice and the trust network to highlight the importance of these networks in the modern day organisation.

Literature review

The first part of the literature review highlights the corporate business environment and under the rubric of organisational structure notes the importance of tapping into organisational learning and tacit
knowledge through the informal networks that might exist. This is then followed with a section that documents the salient aspects of the advice and trust networks that have been shown to impact on the smooth operating of organisation functions and comments on the potential harnessing of these networks.

Organisational structure
Ideally an organisation should be structured so as to function effectively allowing its objectives and strategic intents to be achieved. Some authors have argued that organisational structure should be conducive to allowing business objectives to be readily achieved and that an organisation’s structure should only be assembled after guiding objectives are formulated (Bartol et al. 2008; Schermerhorn 2008; Williams and McWilliams 2010). Furthermore, organisational business structures are influenced by a series of design issues that will invariably impact on success, innovation, employee satisfaction and potential growth. The traditional organisation structure allows for different functional areas to be departmentalised—each area having specialised employee types, work-activities and speciality (Williams and McWilliams 2010). This type of structure has a hierarchical design with a control-and-command process implemented within each functional area and across the composite divisions and work units. Such a structure has various advantages such as facilitating the efficient use of resources, allowing economies of scales to be achieved, enabling the development of work-force expertise and a fashioning of clearly discernable career paths. Disadvantages associated with this type of organisational structures includes painfully slow decision-making processes, uncertain day-to-day performance measures and low responsiveness due to the sequential nature of operations (Bartol et al. 2008). Arguably, many large business and government organisations have this traditional functional design structure in place. Smaller organisations such as non-profits, community based or local businesses will not be as cumbersome in their structure although an ameliorated form of this classical organisation structure might be in place.

Variations to the traditional function-based organisational structure have been proposed. These variants can be applied to particular sections of an organisation or can be embraced holistically. A structure that is closely aligned with a firm’s product development is one that focuses on the notion of cross-functional teams—such teams are found to enhance project innovation and speed up client interaction (Bartol et al. 2008; Schermerhorn 2008). Another variant to the traditional organisational structure is one that is premised on knowledge management—where there is an attempt to capture and utilise organisational knowledge to further corporate learning, as well as gain competitive advantage. This capture of organisational knowledge can be a perpetual activity with corporate firms, especially forever attempting to harness the capacity and know-how of employees and business partners. Martin and Tian (2010) indicate that the focus on knowledge management has subsided in the last ten years or so, not because the topic is less relevant, but because the concepts have become a normal expectation of the knowledge-intense organisation. Drucker (1993: p.5) in the early 1960's, coined the term knowledge worker whereby such workers formed the foundations of what has been termed the post capitalist society. In such a society, we find that an individual’s tacit knowledge has become the resource that is changing the fundamentals of society, politics and business. Tacit knowledge is closely aligned to the observation that individuals appear to know more than they can explain, with knowledge acquisition gained through first-hand experience and learning—knowledge as such being intuitive and embodied in the individual (Bartol et al. 2008). Knowledge management is not about spawning new technological advancements, but about the cultural changes required in an organisation to harness the knowledge base of its employees (Davenport and Prusak 1998). Hence, an
organisation’s ability to capture and utilise organisational knowledge is desirable and one that appears to be reflected in the rise of organisational structures that are premised on knowledge management. Nonika and Takeuchi (1995) were the first to highlight how organisations had rapidly advanced to knowledge based entities. Martin and Tian (2010) suggest that pertinent characteristics of what they view as being knowledge-intense organisational are:

- Far flatter and less bureaucratic when compared to previous hierarchical ones.
- Not sedentary or static forms, but constantly changing.
- Able to empower peripheral individuals/employees.
- Important in recognising knowledge is an organisational asset.
- Able to levered organisational learning and knowledge to provide competitive advantage.

In the past, hierarchical organisational models had a formal network with structured appointments which in turn were able to address any identified problems, challenges or opportunities. For the 'flatter' organisation to function efficiently the operation of the informed workplace has required a more equitable distribution of authority and know how— allowing them to be more responsive to change. The advent of variants to the traditional function-based organisational structure has led to empowerment of individuals that are far removed from the upper hierarchical levels (Williams and McWilliams 2010). Indeed, the empowerment of employees at the organisation-to-customer boundary tends to allow them to deal with any potential or emergent problems at the point of entry to the organisation, thus providing immediate feedback and enhancing organisational responsiveness (Schermerhorn 2008). Furthermore, empowerment has bestowed an authority to lower-level employees to act and make decisions. Arguably, by being placed at the first interaction point with the organisation’s external constituency, these individuals are positioned in an information and knowledge accumulating environment— information and knowledge that might be potential useful to other organisational members. What is not commonly recorded in text books on organisational structure are the various informal networks that facilitate important organisational exchanges through individual-to-individual knowledge transfers— important networks of which are associated with the human attributes of advice and trust.

**Advice Networks**

The organisational advice network reflects a system that identifies who people turn to for advice when confronted with a problem or challenge. This advice might centre on gaining a solution for a particular problem, requiring a particular piece of information, needing to share or attain resources or just needing direction on how to manage a particular situation (Klein et al. 2004). Indeed, individuals that might encounter a practical problem in the workplace are likely to ask a nearby colleague for help rather than refer to manuals or online assistance (Schriver 1997; Cross and Israeliit 2000). Invariably, the advice that a person might receive from an organisational source is informal, being based on the perceived experience, knowledge and leadership role of the source. Individuals that occupy a central leadership post amongst the organisation’s informal advice network tend to be more influential on others, than those that are on the periphery of the network (Sparrowe and Liden 2005). Various studies have examined advice networks amongst organisations. Klein and colleagues (2004) used social exchange theory to highlight the personal attributes of people when engaging in organisational teamwork through social interaction. The authors found that a high level of educational attainment and a low propensity for individual neuroticism were attributes that tended to determine the position a person might have in a team’s advice and friendship network. Sparrowe and Liden (2005) examined the relationship between leadership and firm’s informal advice network. Using a model to test leader-
member exchanges and social networking, they were able to shed light on the interplay between organisational individuals that share links or ties that might influence relationships in either a positive or negative manner. Advice networks have been noted as an important mechanism associated with the organisational learning process—indeed, they could be viewed as an important proxy for learning networks allowing organisations to engage innovation and enhance decision-making (Škerlavaj and Dimovski 2007). Busch (2008) proposed that the organisation’s Chief Information Officer (CIO) had a prominent role in potentially facilitating the transfer of tacit knowledge throughout an organisation, thus enhancing organisational learning. Some advocates of informal advice networks identify the need to map or identity these networks so as to identify the important and informal sources of political power. Moreover, we find that the position of influence of an individual is clearly associated with the political standing of that individual within the organisation (Krackhart 1990).

The mapping of these informal advice networks can arguably indicate an important repository of tacit knowledge and influence within the organisation. By their informal nature, advice networks potentially embody knowledge characteristics that are not overtly recorded or documented—it can be argued that recording the workings such networks allow knowledge nodes and exchanges to be identified. Seminal work by Krackhardt and Hanson (1993) focussed on the mapping of informal networks of an organisation so as to reveal the important workforce relationships and interactions. They concluded that there were several different types of informal networks that potentially allowed an organisation to examine and document the myriad of existing associations or ties between people so as to show how these networks might function. The advice network was one of these noted and they proposed a basic vector diagram as the best way to highlight the interaction between colleagues who seek advice from colleagues within the organisation. Figure 1 is an example of what might be a typical advice network interaction diagram. This diagram is based on asking the question—*who do you go to for advice on a workplace issue or problem?* As such, the diagram might represent the dynamics of collegial advice in an organisational unit, functional area or department—arguably a schematic representation of the interactions that occur in the typical workplace environment.

![Figure 1 Mapping the informal advice network within an organisational unit](image)

The diagram’s vectors are implicitly pointing to individuals either in a uni-or bi-directional manner to reflect the standing of particular people with respect to how much they might know about a workplace issue, be it advice on a problem, sourcing resources or accessing information. These are the central individuals in the advice network as they are recognised as the ‘go-to’ people because of their knowledge, experience, political positioning or understanding of the organisation. Clearly, the more
vectors that might point to an individual will reveal how integral and central they are in the advice network and to the dissemination of their own knowledge to others that might be seeking assistance. It can be argued that the use of this diagram approach to mapping the informal intra-organisational advice networks will identify the knowledge links amongst the workforce—reflecting the individuals who are in-the-know and can be turned to for help by colleagues. These individuals will invariably not be apparent in any formal organisational structure or chart. Indeed, by using this diagrammatic approach, leaders in management can potentially identify the individuals that might be appreciated and valued for their tacit knowledge capacity. A firm might consider tapping into the activities of these individuals that hold a central position in the advice network allowing them to harness the benefits of such networks.

**Trust Networks**

The trust network is a reflection of how employees might share delicate or sensitive work information in confidence (Krackhardt and Hanson 1993). Some authors indicate that organisational trust networks can potentially be indirect or transitive, where a trust-related interaction between some people might be assumed to extend to other workplace acquaintances (Jøsang et al. 2006). This is an observation that might not hold. Indeed, trust networks are intrinsically important to the machinations of a workplace and can impinge on information or knowledge flows throughout an organisation. Furthermore, workplace trust has been related to personal well being and it has been suggested that firms undervalue or neglect this important aspect of the organisational milieu—an aspect that should be viewed from an investment prospective (Helliwell et al. 2009). Seemingly, the value of workplace trust networks being informal and under-the-radar, will also be an aspect of organisation dynamics that is under rated in importance.

Kuipers (2009) indicates that workplace trust networks are commonly encountered in the organisational setting and have a clearly identifiable form that is associated with both information content and structural relationships. Moreover, informal trust networks are noted to have some direct coupling to formally-recognised organisational authorities allowing individuals to experience both organisation identification and internalisation. Notably, when trust networks were tightly coupled to formal authority networks they led to highly discernable identification of individuals. Mizrachi and colleagues (2007) examined the notion of trust as practiced between Israeli and Jordanian managers employed by a multinational organization. Using trust repertoires to map interactions, the authors were able to show that the certain managers (actors) were noted to be the knowledgeable agents within the workplace—a feature that allowed them to balance the delicate political and power structures that existed on the work site (this seemingly also has features similar to the advice network). Trust networks are noted as important organisational entities and attempts have been made to formalise and map these types of networks in the workplace (Jøsang et al. 2006). Some researchers have proposed their own metrics in identifying informal trust networks citing successes in numerous client organisations (Lipnack and Stamp 1998; Jøsang et al. 2006). Notably, management has the potential to utilise the mapping of trust networks to facilitate improved organisational learning and performance. As previously indicated, organisations can be mapped for their informal network structures, relationships and interactions (Krackhardt and Hanson 1993). This mapping process potentially allows an organisation to become aware of the important links or ties between people—links that gives management insight into how such informal networks might function. The advice network (Figure 1) was previous noted as a basic vector diagram that highlighted the collegial interaction in the workplace when it came to seeking advice. Using a similar approach, Figure 2 can
be viewed an example of what might be a typical interaction diagram reflecting the organisation informal trust network. The drawing of this diagram is based on asking questions such as—*Who might you approach to discuss a topic that might be unpopular with your boss or even other people that you work with?* or, *Who might you approach when you wish to discuss a workplace problem?* As such, the diagram represents the dynamics of collegial interaction premised on the notion of trust in the workplace reflecting the discussion of sensitive or quasi-sensitive topics. Note that the vectors have no direction, indicating an implicit equality in the association (equi-trust link) between individuals. Figure 2 is a schematic representation of the interactions that occur in the typical workplace environment based on worker-to-worker trust.

![Figure 2 Mapping the informal trust network within an organisational unit](image)

**Mapping and using advice and trust network**

Organisations are potentially able to obtain powerful insights into the workings and dynamics of how its workforce interacts if it is able to determine how various aspects of its informal networks function. One such example in the use of informal network analysis is in corporate restructuring. Arguably, management needs to take care when they re-engineer the organisation in that they do not destroy the informal networks that might exist. Informal networks may adjust to the new corporate structure but, this will not happen quickly or readily if the people that have central advice or trusting roles in these networks are removed. In effect, the informal networks will take time to re-coup the dynamic nature they tend to embody. If we use the two networks mapped in Figure 1 and Figure 2 as an example, we can see that management is able to identify the people central to these networks to plan future projects, team-formation and organisational change. For instance, of special interest to the outsider is how John, a central individual that everyone consults for advice and a knowledge rich node in the mapping, is no longer the dominant parameter in the trust network. We find that John is the person that people will approach for advice however, not many people see to share their trust in him. Management can also gauge that Mike is an important person that people will go to when they want to discuss sensitive issues— he is an important and central node of the trust network. Mike also appears to have some ability to interact with John (the advice chart) and management may decide to include these employees on the same team when undertaking a project. John being the embodiment of project know-how, whilst Mike brings trust values to the project where he might be able to deal with any sensitive issues that team-members may have. Issues they would not overtly convey to John. This approach should be viewed as a starting point for application of such a solution—with the analysis of informal networks being considered in context with other workplace dynamics.
Notably, both formal and informal networks are an important phenomenon that potentially allows an organisation to leverage its human capital for strategic value, to identify opportunities and bring together innovative teams (Sparrowe and Liden 2005). Formal organisational structures are typically documented and feature individual work units, departments or operational areas. They can be easily identified, altered, downsized or expanded to reflect organisation direction and evolution. On the other hand, informal networks are relatively difficult to pin-point and identify, even though they potentially underpin a firm’s culture and constitution. Arguably, the formal organisational structure is very inter-dependent with the firm’s informal networks allowing the firm to function— be it in either a positive and negative manner. Figure 3 summarises the various features noted in the informal advice and trust networks.

<table>
<thead>
<tr>
<th><strong>Advice network</strong></th>
<th><strong>Trust network</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Used when individuals need a problem to be solved, when requiring a particular piece of information, the sharing of resources or attaining direction on how to manage a particular situation (Klein et al. 2004)</td>
<td>Reflection of how employees may share delicate or sensitive work information in confidence (Krackhardt and Hanson 1993).</td>
</tr>
<tr>
<td>Individuals ask a nearby colleague for help rather than refer to manuals or online assistance (Schriver 1997; Cross and Israelit 2000).</td>
<td>Can be indirect or transitive (Jøsang et al. 2006).</td>
</tr>
<tr>
<td>Source selection based on perceived experience, knowledge and leadership role (Sparrowe and Liden 2005).</td>
<td>Interaction between some people, might be assumed to extend to other work-place acquaintance (Jøsang et al. 2006).</td>
</tr>
<tr>
<td>Leader exchanges with individuals that share links or ties might influence relationships (Sparrowe and Liden 2005).</td>
<td>Organisations undervalue or neglect this important aspect of the organisational milieu—an aspect that they should view from an investment prospective (Hellwell et al. 2009).</td>
</tr>
<tr>
<td>Central leadership post and political standing are relatively influential than those that are peripheral (Krackhardt 1990; Sparrowe and Liden 2005)</td>
<td>Common and noted in the organisational setting (Kuipers 2009).</td>
</tr>
<tr>
<td>Personal attributes influenced their position and social interaction in organisational advice network (Klein et al. 2004)</td>
<td>Have clearly identifiable form that is associated content and structure (Kuipers 2009).</td>
</tr>
<tr>
<td>Facilitating organisational learning allowing fostering innovation and enhance decision-making (Škerlavaj and Dimovski 2007).</td>
<td>Directly direct coupling to formal organisational authorities (Kuipers 2009).</td>
</tr>
<tr>
<td>Can be mapped or documented using a basic vector diagram to reflect colleague-to-colleague advice seeking relationships (Krackhardt and Hanson 1993).</td>
<td>Can identify knowledgeable agents within firm (Mizrachi et al. 2007).</td>
</tr>
</tbody>
</table>

**Figure 3** Summary of the pertinent features of the informal advice and trust network.

**Conclusion**

Informal networks are a potential conduit that allows workplace initiatives to be streamlined, decision-making processes to be improved and individual-to-individual information or knowledge exchanges to be supported. Arguably, both formal organisational structures and informal networks are inter-dependent entities that feature as an important element of a firm’s working environment—an interdependence that reflects cross-employee relationships. As organisational structures have altered over the last two decades, the ability of workers in an organisation to share data, information and know how in solving problems can be facilitated by the undocumented but important existence of the informal network. The challenge for management is to harness the benefits of such networks by learning how they function, mapping people interactions and dynamics—hopefully to identify potential positive uses. This paper examined the notion of the evolving organisational structure and the importance of informal networks in underpinning an important element of the firm’s workplace...
cohesion and performance. The advice and trust networks were examined and some of the potential impact of each informal entity on the firm was noted.

**Bibliography**


