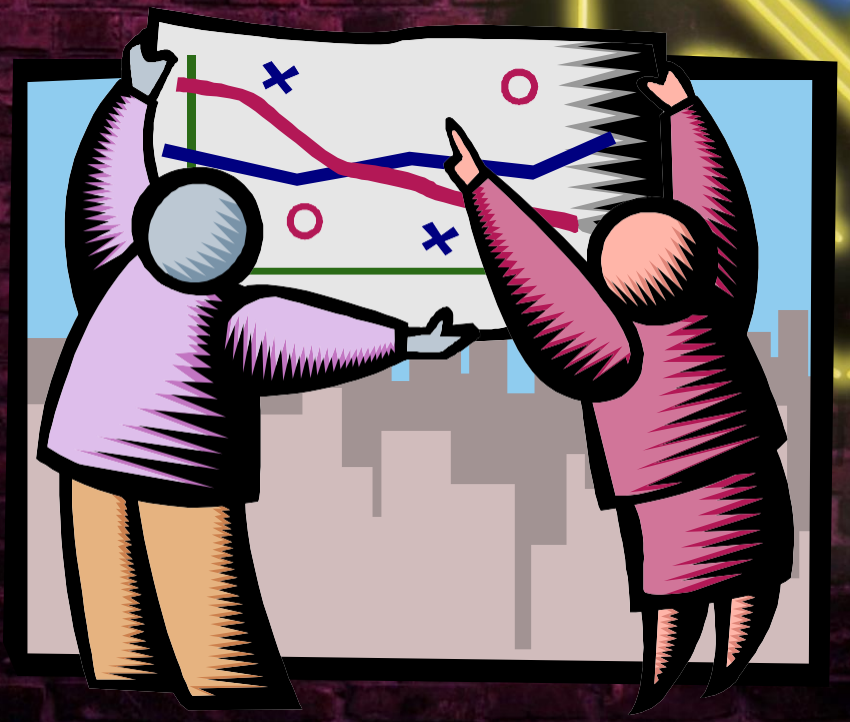
BMBM4010

The Changing Business Environment

Organisational Structure & Design

Today's objectives

- To review the concept of organisation structure and the key principles involved
- To identify levels of organisation and formal organisational relationships
- To explain why a good structure matters and the consequences of getting it wrong
- To consider new and emerging organisational structures



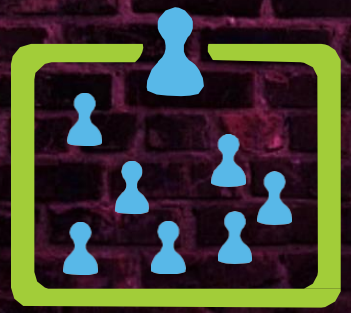
Organisations

Why do organisations exist?

*Organisations are **mechanisms** through which many **people** combine their efforts and **work together** to accomplish **more** than any one person could alone*

Organisation Structure

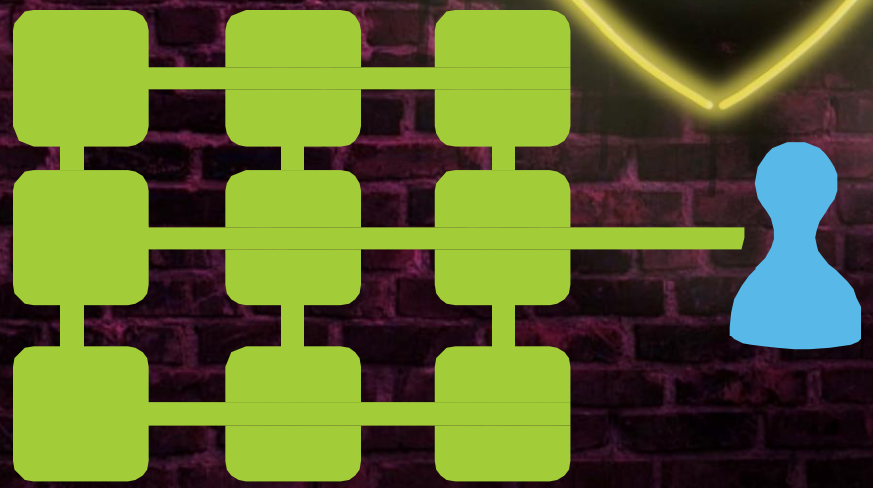
- Pattern of relationships between levels and members of the organisation
- Allows management to take place
- Creates a framework of order and command
- Activities can be planned, organised, directed and controlled



Objectives of structure

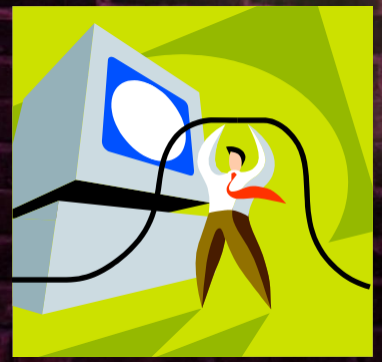
- The economic and efficient performance of the organisation
- Monitoring the activities of the organisation
- Accountability for areas of work undertaken by groups and individuals
- Co-ordination of different parts of the organisation
- Flexibility in order to respond to future demands and adapt to changing environmental influences
- The social satisfaction of members working in the organisation

Knight (1977)



Factors influencing organisational design

- Scale – bigger = more complex - more people, more rules
- Technology – what converts inputs to outputs
- Environment - micro and macro
- Strategy - must reflect goals & vision



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5 key structural design considerations (Child)

- Extent jobs will be **specialised** or broken down into narrow job descriptions (also known as differentiation)
- Number of **hierarchical levels** and the span of control (who reports to whom);
- **Departmentalisation -** how to group jobs together;
- **Co-ordinating** mechanisms ensuring people in the organisation work together towards common goals (also known as integration);
- The extent of management **control** (centralisation or decentralisation).

The importance of good structure

‘Good organisational structure does not by itself produce good performance.

But a poor organisational structure makes good performance impossible, no matter how good the individual managers may be.

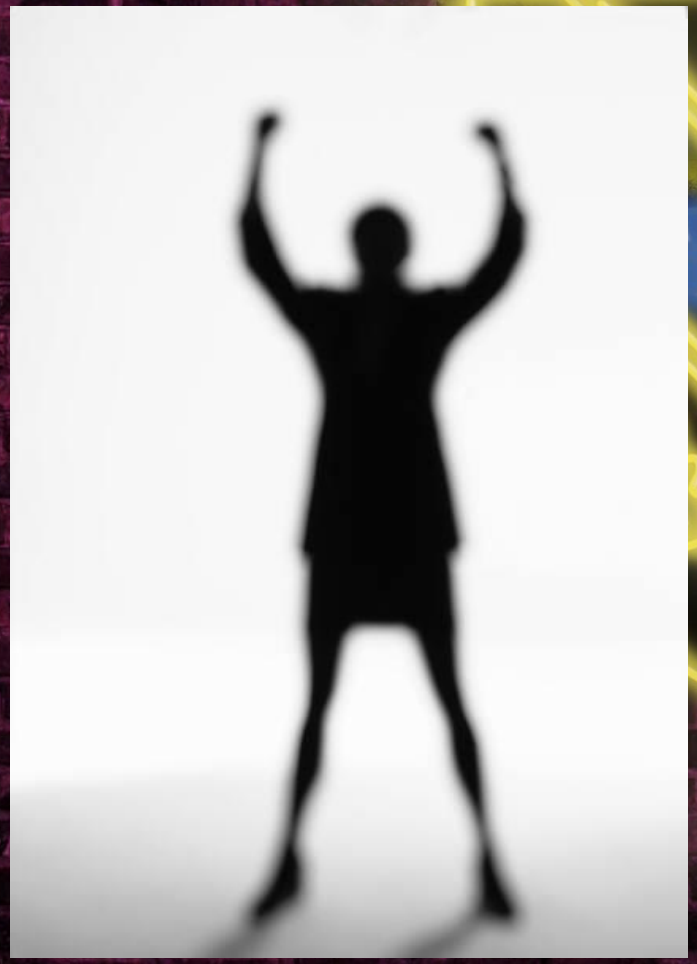
To improve organisation structure… will therefore always improve performance.’

Drucker

The human element

- The actual operation of the organisation and success in meeting the business objectives will depend on the **behaviour of people** who work within the structure and who give shape and personality to it.

- Managers need to consider how structural design and methods of work organisation **influence the behaviour** and performance of members of the organisation.



Interrelated levels of organisation

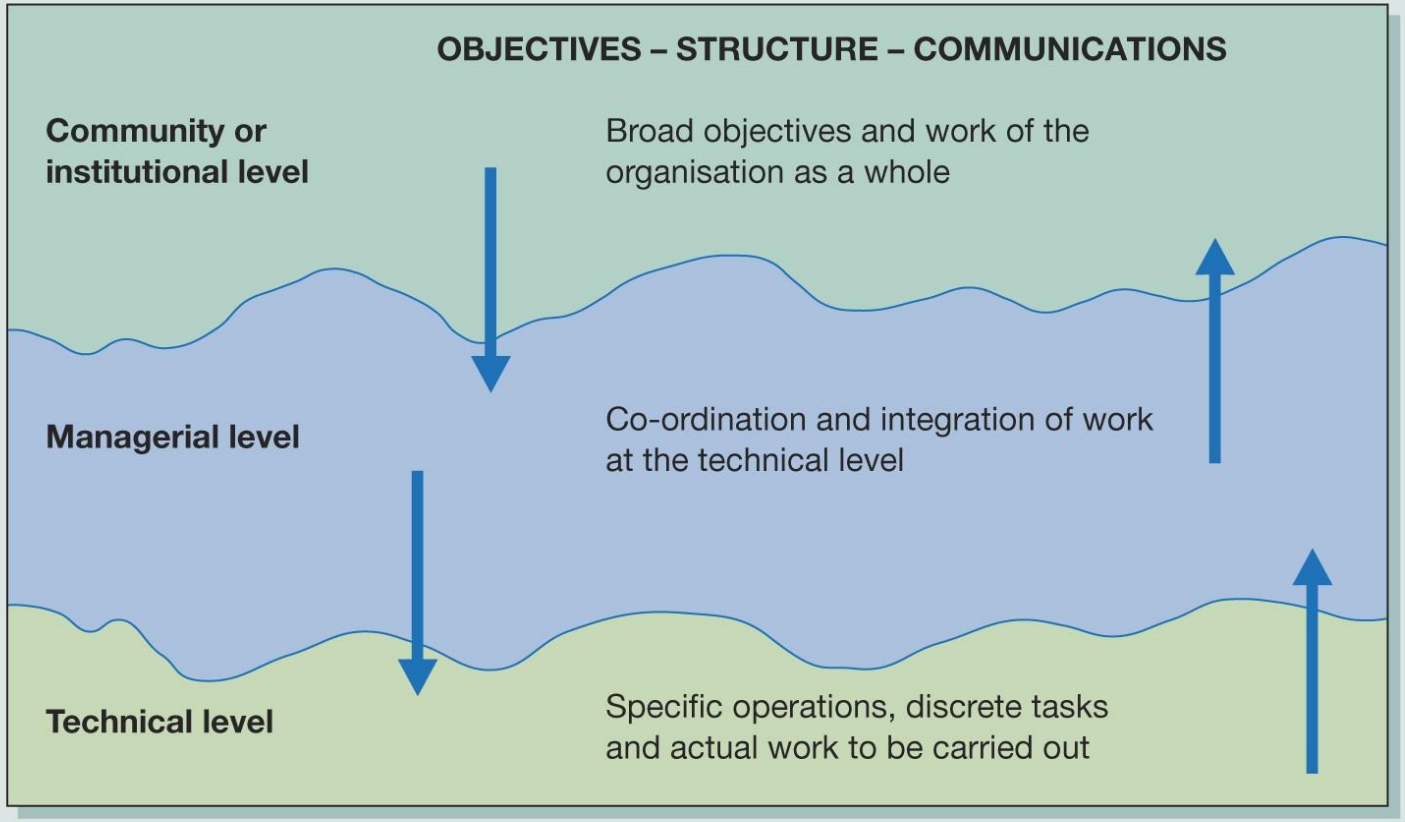


Figure 1 Interrelated levels of organisation

The importance of hierarchy: 2 views

‘Authority is, and is likely to continue to be, less acceptable than in the past. Better educated & more independent people expect to be consulted rather than told what to do.’

Stewart

‘The hierarchy is not dead, it has just changed its form. The trappings of power in the modern workplace may have been toned down, but the boss is still the boss.’

Jebb

Organisational Tasks

- **To function an organisation must:**
  - Develop goods or services
  - Create value (make/do something)
  - Distribute the product or service
  - Finance the organisation

Woodward
(1980)

Organisational Support/Element functions

- Activities supportive of the task functions
- Part of the management process:
  - Human resource management (HRM)
  - Planning
  - Public relations
  - Quality control
  - Maintenance

Division of work by function

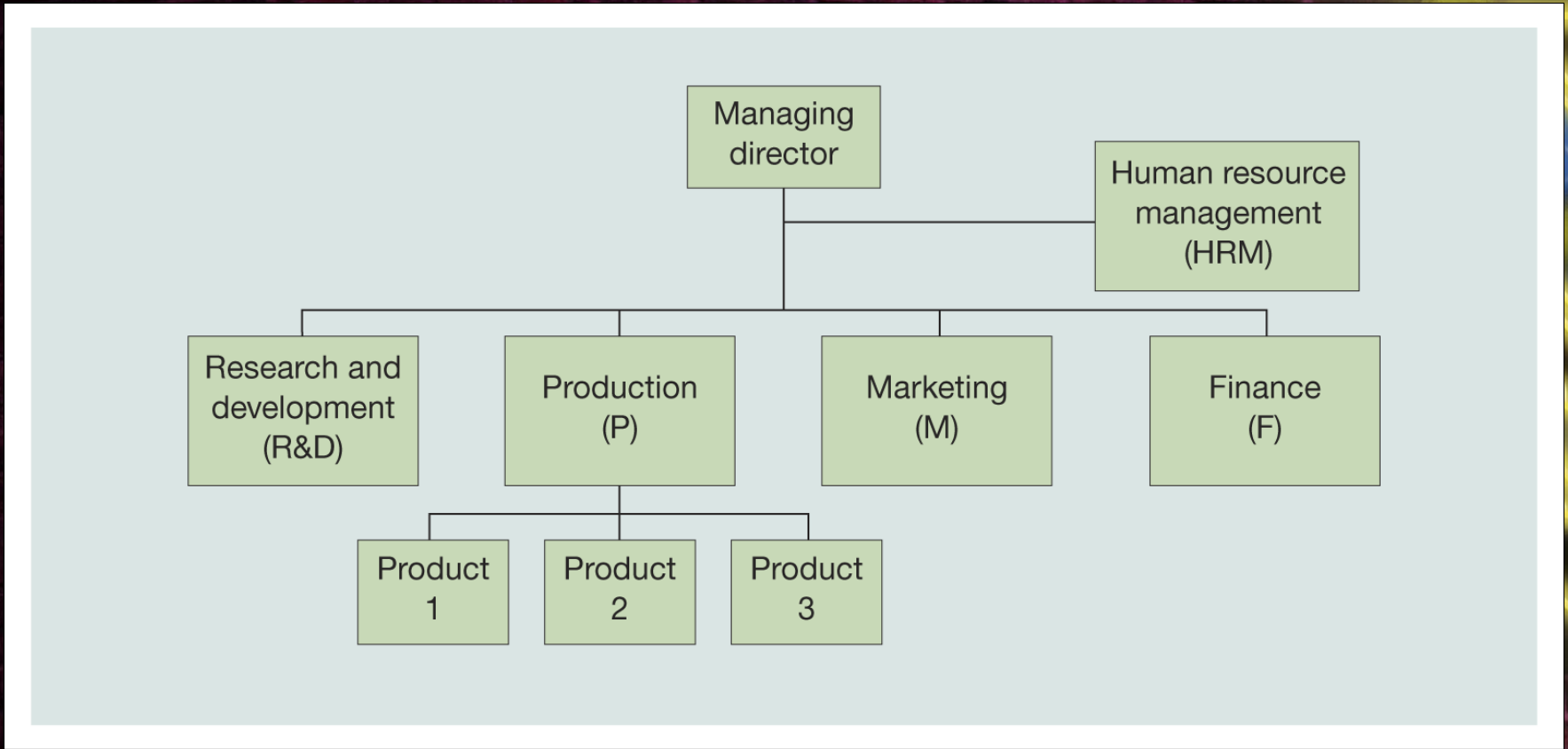


Figure 15.3 Division of work by major purpose or function

Functional structure (division of work by function)

Advantages

- ✓ Specialisation – each department focuses on its own work
- ✓ Accountability /control - someone is responsible
- ✓ Clarity – know your and others' roles
- ✓ Less duplication

Disadvantages

- ✗ Insular – micro not macro picture
- ✗ Departments can become resistant to change
- ✗ Coordination may take too long
- ✗ Gap between top and bottom

Division of work by product or service

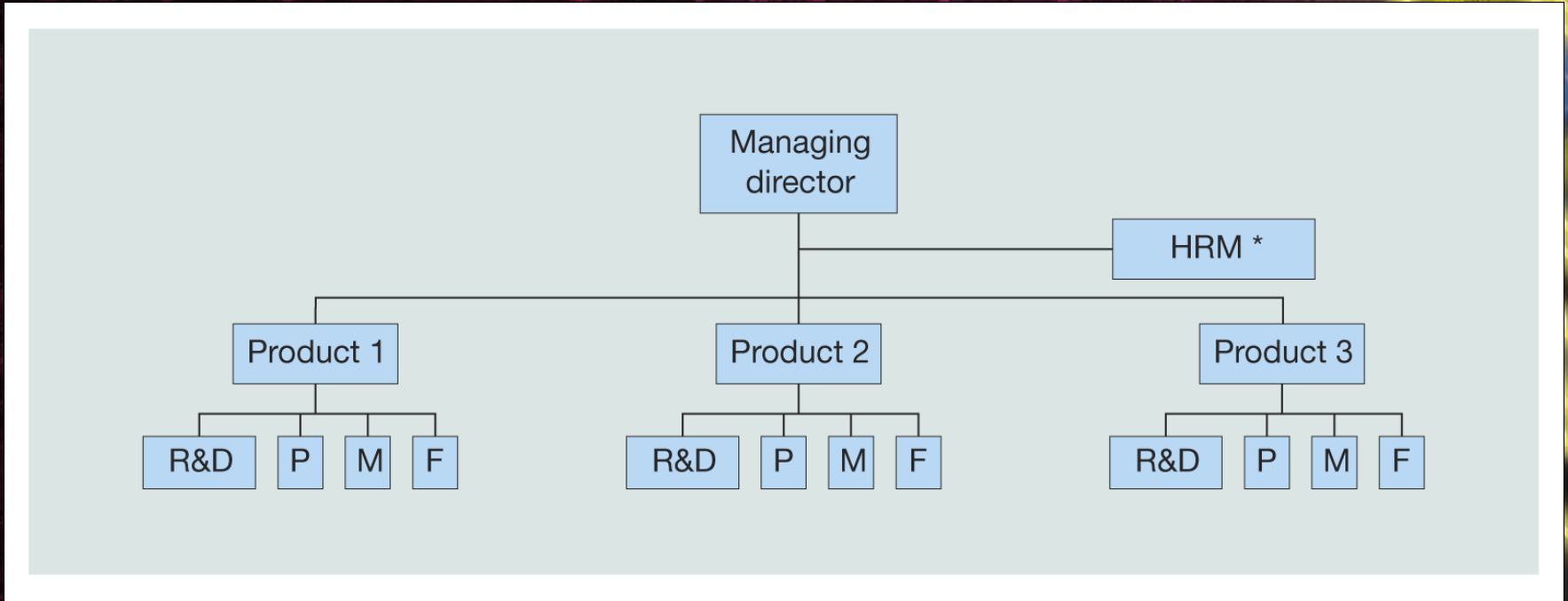


Figure 15.4 Division of work by product or service

Division of work by product / service

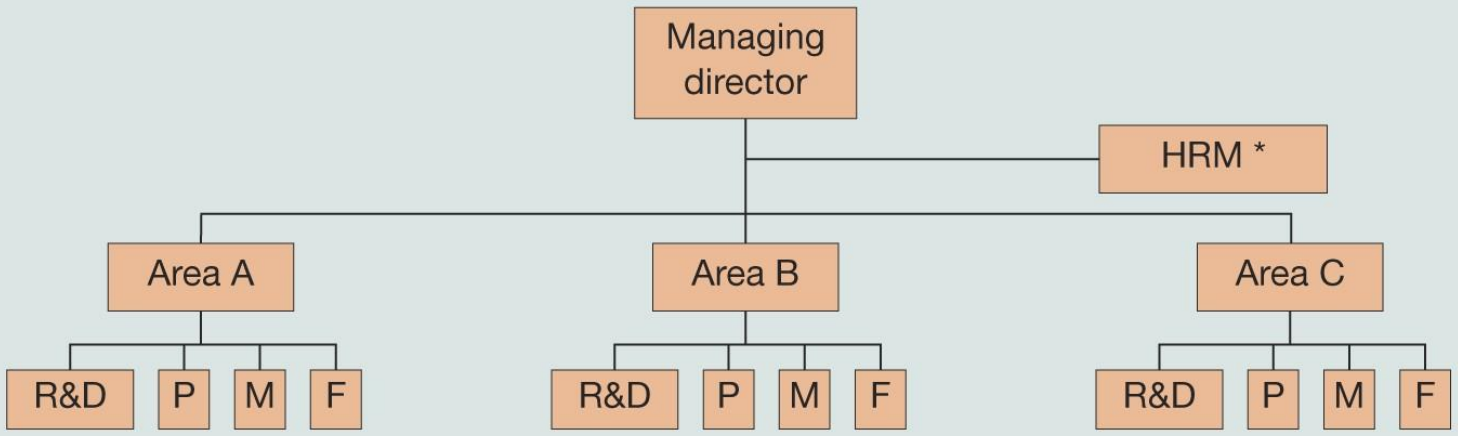
Advantages

- ✓ Clear focus on market segment helps meet customers' needs
- ✓ Positive competition between divisions
- ✓ Better control as each division can act as separate profit centre

Disadvantages

- ✗ Duplication of functions (e.g. different sales force for each division)
- ✗ Negative effects of competition
- ✗ Lack of central control over each separate division

Division of work by location



*In the case of division of work by product or service, or by geographical location, it is possible that certain aspects of support services, such as human resource management, may also be assigned to individual units of the organisation. However, the main responsibility of the HRM manager, as a separate entity, is to provide a specialist advisory service to all unit managers and to ensure implementation of HRM policy throughout the organisation as a whole. Responsibility for the main aspects of the HRM function is likely to remain, therefore, in a direct line of authority from top management.

Figure 15.5 Division of work by location

Division by location

Advantages

- ✓ Serve local needs better e.g. ethnic foods, etc.
- ✓ Positive competition
- ✓ More effective communication between firm and local customers

Disadvantages

- ✗ Conflict between local and central management
- ✗ Duplication of resources and functions

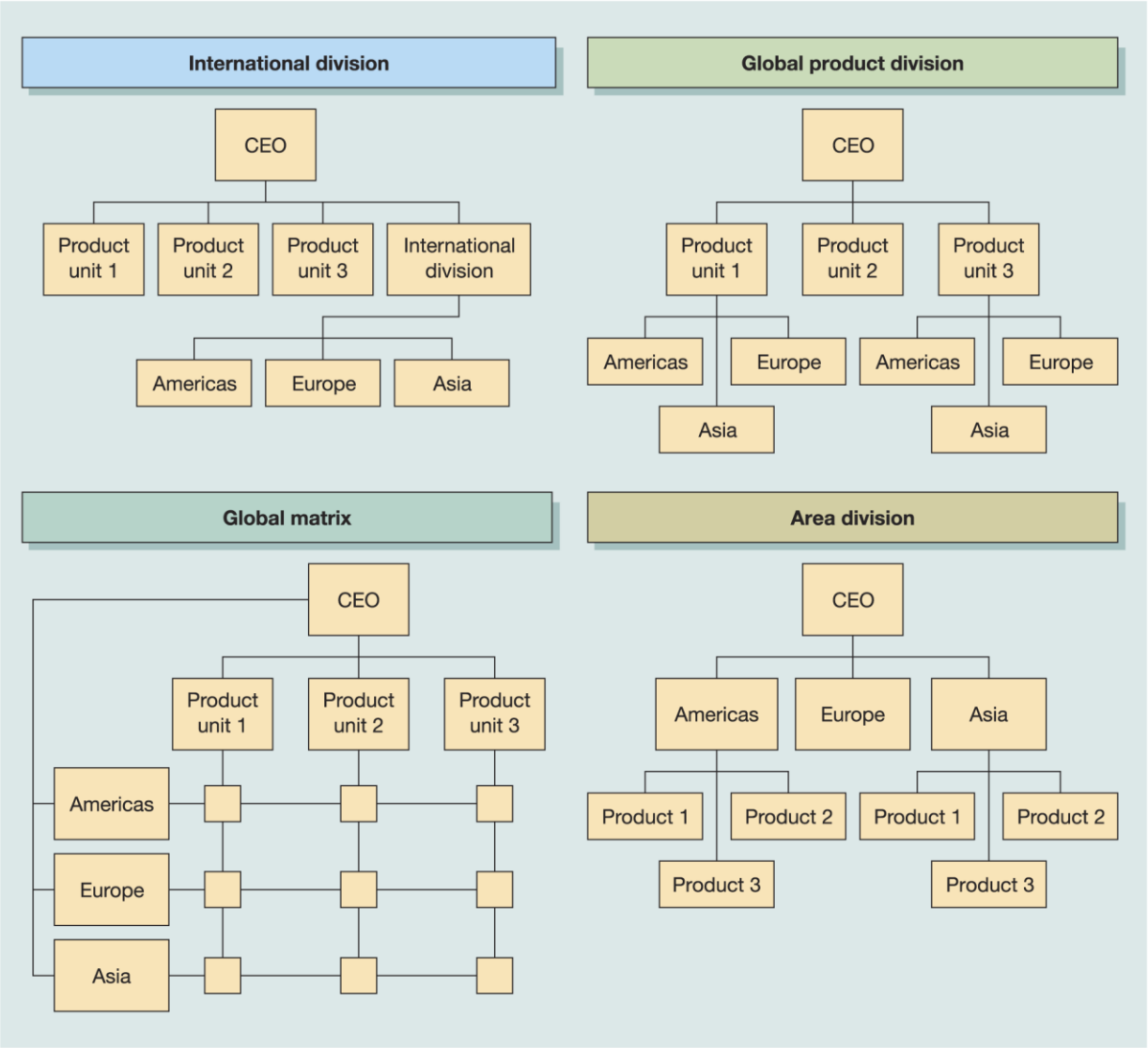


Figure 15.4 Four models for global company structure

Source: From Birkinshaw, J. 'The Structures behind Global Companies', in Pickford, J. (ed.) Mastering Management 2.0, Financial Times Prentice Hall (2001), p. 76. Reproduced with permission from Julian Birkinshaw

Other ways of dividing work

- By the nature of the work performed
  - e.g. particularly noisy or dirty work
- According to common timescales
  - e.g. a restaurant kitchen
- According to the staff employed
  - e.g. in a barrister's chambers
- To deal with different customer or client groups
  - e.g. Departments in a clothes store

Combining groupings

Decisions on how to group will be based on:

- The culture of the organisation
- The need for co-ordination
- The identification of clearly defined divisions of work
- Economy
- The process of managing the activities Avoiding conflict
- The design of work organisation taking into account the nature of staff employed, their interests and job satisfaction.

Control and decision-making

Centralisation:

The concentration of authority for making most decisions at the top levels of the organisation

Decentralisation:

The dispersion of authority to make decisions throughout all levels of the organisation

Activity

Think of an organisation you know/work for.

1. Is the decision making centralised or decentralised?
2. Can your boss decide things/do they have to refer up to head office?
3. What are the advantages of each approach?

Advantages of centralisation

Advantages of centralisation

- the easier implementation of a common policy for the organisation as a whole;
- providing a consistent strategy across the organisation;
- preventing sub-units becoming too independent;
- making for easier co-ordination and management control;
- improved economies of scale and a reduction in overhead costs;
- greater use of specialisation, including better facilities and equipment;
- improved decision-making which might otherwise be slower and a result of compromise because of diffused authority.

Advantages of decentralisation

Advantage of decentralisation

- enables decisions to be made closer to the operational level of work;
- increased responsiveness to local circumstances;
- improved level of personal customer service;
- more in keeping with developments in flatter and more flexible structures;
- support services, such as adminstration, are more likely to be effective if provided as close as possible to the activities they are intended to serve;
- provides opportunities for training and development in management;
- usually, it has an encouraging effect on the motivation and morale of staff.

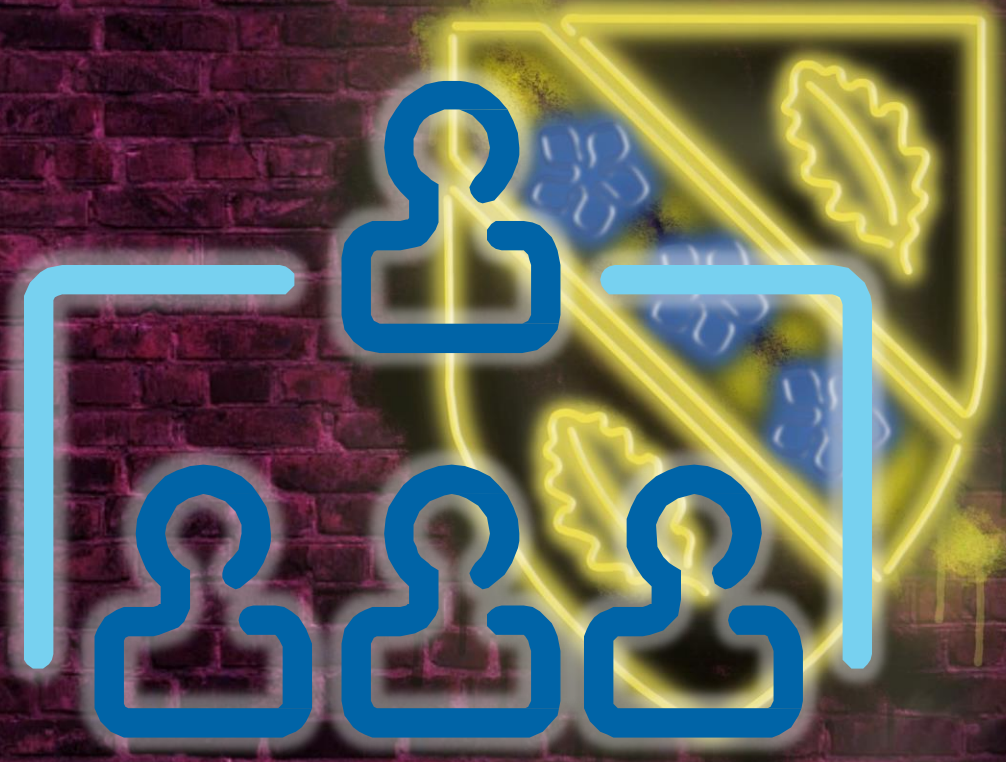
Source: Advantages of centralisation and decentralisation (continued)

Two specific design principles

- The **span of control**
  - The number of subordinates who report directly to a given manager or superior.
- The **chain of command**
  - The number of different levels in the structure of the organisation, or 'scalar chain'.

Factors influencing the span of control

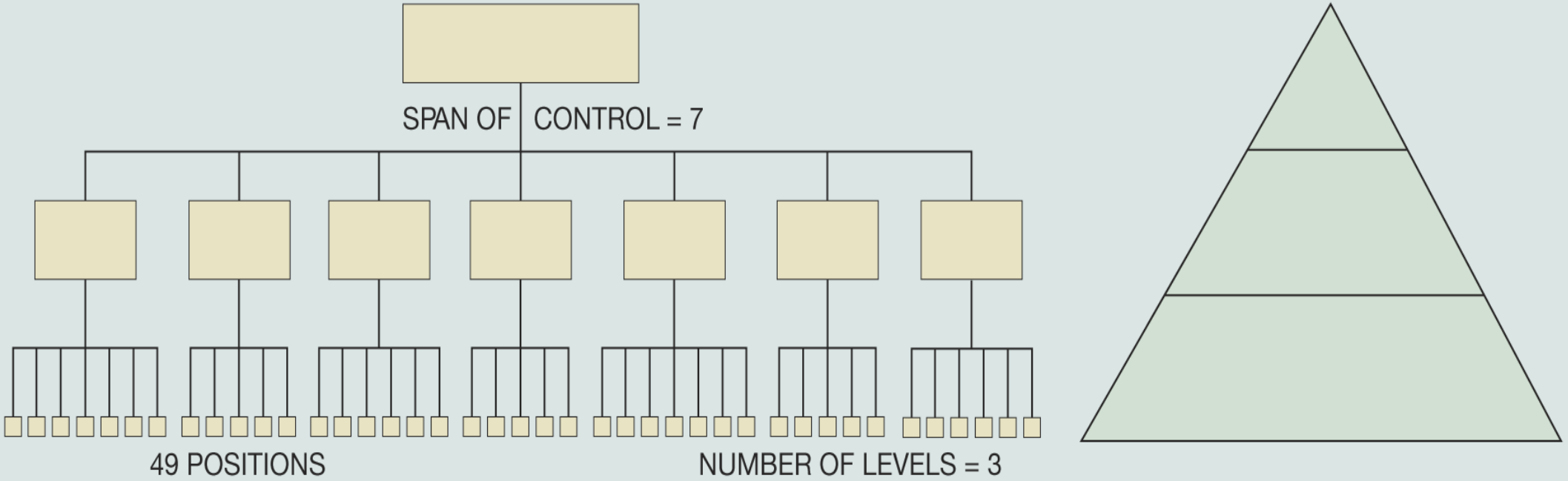
- Nature of the organisation, complexity of work, range of responsibilities, and similarity of function
- Ability and personal qualities of the manager
- Amount of time manager is available to spend on subordinates
- Ability and training of subordinates
- Effectiveness of co-ordination and nature of communication
- Physical location
- Length of scalar chain



Chain of command/Scalar chain

- Establishes the vertical graduation of authority and responsibility
- Provides the framework for superior – subordinate relationships
- Often represented through organisation charts
- Shows a clear line of authority and responsibility

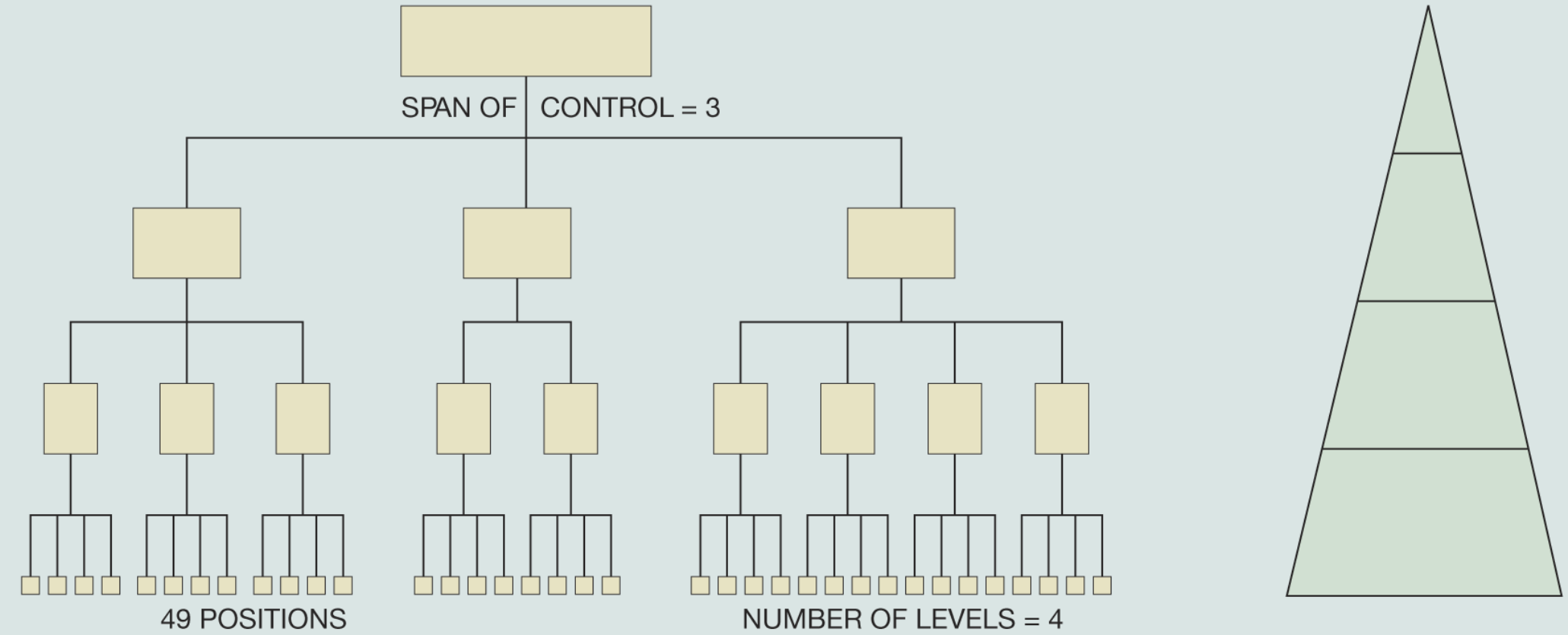
The span of control: effect on structure



(a) 'Flat' hierarchical structure

Figure 15.7a How the span of control affects organisational structure

The span of control: effect on structure

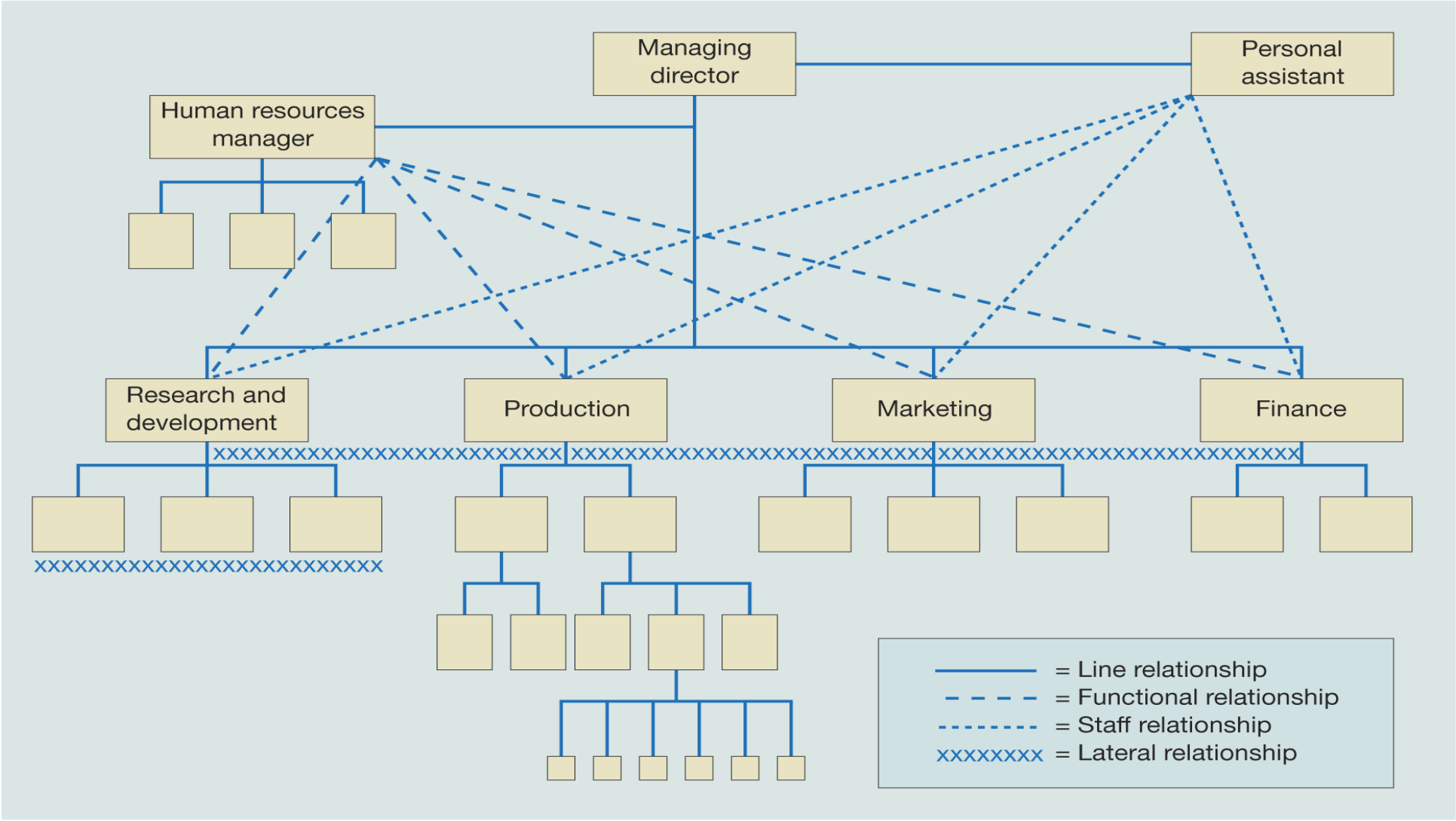


(b) 'Tall' hierarchical structure

Formal organisational relationships

- Line
  - flows vertically directly down through the structure
- Functional
  - relationship between people in specialist or advisory positions
- Staff
  - arise from the appointment of personal assistants to senior managers who act as gatekeepers
- Lateral
  - exist between individuals in different departments or sections especially those on the same levels

Formal organisational relationships



Consequences of badly designed structure

- Low motivation and morale
- Late and inappropriate decisions
- Conflict and lack of co-ordination
- Poor response to new opportunities and external change
- Rising costs

Child

https://youtu.be/32WjO7liHpI