



Organisational structure

Neil Eastcote considers the importance of organisational structure to business performance

Almost every day, you will see a story in the news about a business restructuring. This is because the conditions under which businesses operate are constantly changing, and structures need to change accordingly. In January 2008, for example, the record label EMI (home of Robbie Williams, Coldplay and Gorillaz) announced up to 2,000 job losses. Downloading as a means of distributing music has had a major impact on EMI's profits, forcing the company to reorganise its structure.

Your own school or college may have grown, joined with another school, or started to offer new courses. As a result, there will have been changes to its structure. New departments, new job positions, new faculties as well as some closures and

redundancies are all likely to have happened. Almost no organisation is safe from restructuring at various points in its development, but why does organisational structure matter so much?

The importance of structure

The structure of an organisation refers to the way in which tasks are put together to create different jobs, and the way in which jobs themselves are grouped together (e.g. who reports to whom). Getting the structure right is important to effective organisational performance. It can affect the costs of a business, its ability to make decisions quickly and effectively, and its flexibility towards changes in its environment. If an organisation's structure is inappropriate, the following may happen:

- Making decisions may take longer as individuals have to consult with many other individuals or, if it is not clear who is responsible for what, individuals may avoid taking decisions, which wastes even more time.
- Managers may suffer overload because they have too much to do to concentrate on anything effectively. They may be overseeing too many people (i.e. their span of control is too wide) and may not have time to focus on decisions properly.
- Decisions may not be made effectively because jobs are grouped together in an illogical way, so the people or information you need are never in the right place at the right time and/or the priorities you have are not the right ones.
- Costs may be higher than they should be. Jobs may be duplicated and there may

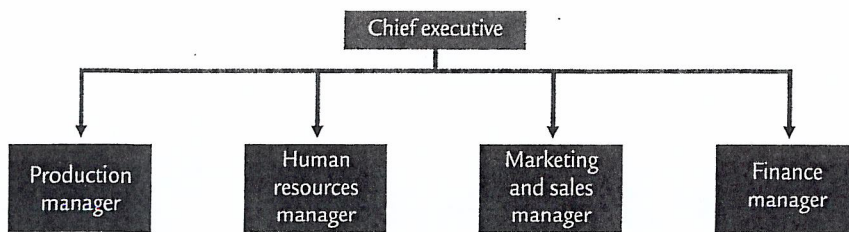
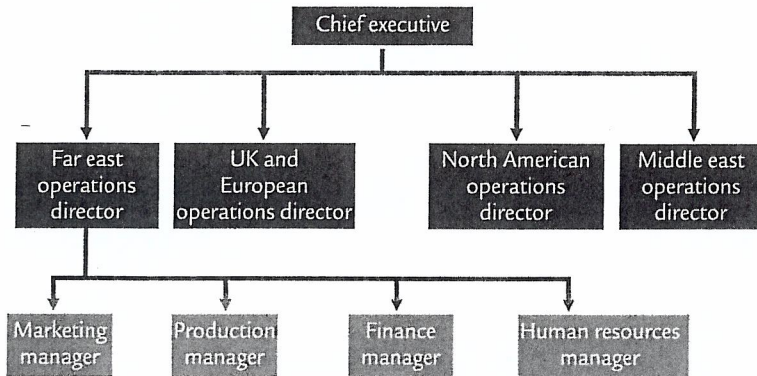


Figure 1 Traditional functional structure

(a) Based on geographical region



(b) Based on product brands

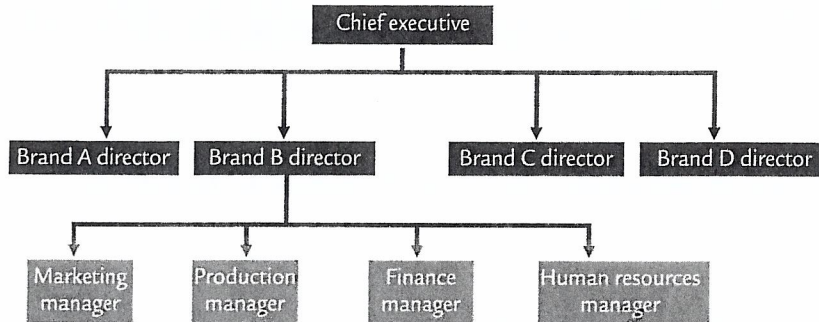


Figure 2 Functional structure based on geographical area or product brands

be unnecessary layers of supervision. All of this can reduce a firm's profits.

- Employees may be demotivated because their jobs are badly structured and unsatisfying. There may be no logic to the areas they control or don't control, and they may not have control over the people they need to get the job done properly.

Why structures change

When organisations first form they are generally small and have an informal organisational structure. Individuals often have no clearly defined job — they all do a bit of everything and help each other to get the tasks done. However, as the organisation grows, jobs and tasks need to be more clearly defined to avoid overlap and confusion, and relying on people to communicate by the coffee machine will not be enough.

The organisation will need job descriptions that set out what each job entails, who the jobholders report to and the particular responsibilities of each position. Communication will need to be more formal so that you know exactly who you need to tell, how to get the message to them and how to check they have received it.

Typically, at this stage, jobs are grouped by their function. All the marketing jobs are in one division, the finance jobs in another and the operations in another. This is a traditional functional structure (see Figure 1).

The functional approach

The benefits of the functional approach are that specialists in one function work together and can share their expertise and skills. Individuals within marketing can

coordinate their activities and share their findings. Similarly, operations employees are grouped together and can work as a team to solve operational problems and improve their performance in this area.

The human resources function is often the last to be added. Most smaller companies do not see the need for specialist human resource managers, but as the enterprise grows, the number and complexity of people issues to deal with tends to increase, creating a need for a human resources department.

Increased formality

Becoming more formal in terms of the structure they adopt can present a challenge to organisations that have thrived on their informality, spontaneity and the ability to make decisions quickly. For the employees involved, it can mean their own jobs become more specialised and the buzz of a small business may no longer be present — it has clearly become a company and a business rather than an 'enterprise'. However, many organisations do make the transition effectively and successfully adopt a more formal functional structure. Without it, growth is difficult to manage and riskier because there is less clarity in terms of who is responsible for what.

Refining the functional approach

As a business continues to grow, it may be necessary to reconsider the functional approach. The business is likely to be offering a greater range of products and operating in more markets. It may become more difficult for the marketing department, for example, to cope with such variety and focus effectively on all the different customer needs and product requirements. Similarly, human resource requirements, labour markets and employment legislation may vary enormously from one country to another. If you are operating globally, having one central human resource department may not make sense.

In this situation, the business may have reached such a size and complexity that it may be better to adopt a structure based on geographical area or product brands (see Figure 2). The different functions then operate within each of these divisions. Information and decisions can relate to a given area of the business

rather than employees having to make decisions for many different products or regions. This approach enables the functions to focus on their specific part of the business and is appropriate when there are clear differences in the requirements of the divisions.

Which structure to adopt?

There is no perfect structure that all organisations should adopt. It depends on many factors, including how many products the company offers, how many markets it operates in, how different these products and markets are and the number of staff involved. Organisations are continually trying to get the right structure because the conditions in which they operate continually change. By restructuring, they may hope to cut costs, perhaps by layering or by adopting a more logical approach and providing a better service for customers.

Restructuring is not necessarily an easy option. It will inevitably involve change, which is the reason you are doing it in the first place. Some people will need to learn new skills, transfer to new jobs or even lose their jobs. Some divisions may shut, some positions will be redefined, the relative importance of jobs may change and workloads may change (and usually increase). Not surprisingly, employees and their representatives, such as trade unions, may resist such changes.

Cost factors

In most cases, a restructuring will be prompted by an organisation's relatively poor performance. It will see its profitability falling, its market share slipping or its innovative lead over its competitors shrinking and this will prompt the need for change. In such situations, investors often appoint a new chief executive or manager to bring about such changes. It is often easier for an outsider to make radical adjustments than those who have been operating successfully under the old system.

The process of restructuring itself is likely to involve costs. These will include redundancy payments if people are losing their jobs, relocation allowances if people are moving sites and the costs of changing facilities if offices and departments are being moved. Simply letting people know who will do what in the new structure will involve a cost.

Box 1 New structure at PepsiCo

In November 2007, the food and beverage company PepsiCo announced it was breaking down the divisions between its North America business and Latin America, reflecting the growing importance of its international business.

Under a new structure, the North America business has created a new PepsiCo Americas Beverages division, which includes Gatorade and Tropicana. The company has also created a new Americas Food division which includes both the Quaker foods and Frito-Lay snacks units, as well as PepsiCo's Mexican Sabritas snacks and Gamesa divisions. A third division, PepsiCo International, will cover the rest of the world.

PepsiCo is one of the first major US consumer products companies to bring together its operations in the USA and Canada with its Latin America business. Coca-Cola, its larger rival, still operates a separate North America business unit. The changes reflect the growing globalisation of PepsiCo's operations, with more than 37% of its \$35 billion revenues last year coming from outside the USA.



Recipe for success?

Restructuring doesn't guarantee success. The effectiveness of a restructuring programme depends on a variety of factors, including:

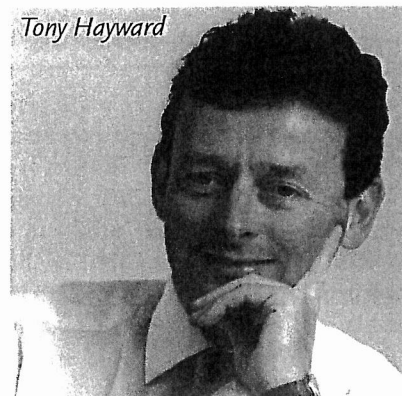
- How well planned it is and whether the new structure is more suited to the demands of the new environment and conditions than the old one.
- Whether employees understand the changes and are involved in them or whether they feel overwhelmed by the process of change and resist it.
- Whether the speed of change is appropriate: too slow and you may fall too far behind; too fast and it may not be possible to manage it effectively.

Box 2 The BP shake-up

In October 2007, Tony Hayward, the new chief executive of BP, announced a major shake-up in the way the company organises its operations. He sent a message to the 100,000 staff outlining plans to streamline the business into two key business units: exploration and production on one side, and refining and marketing on the other. A separate division, alternative energy, would handle BP's low-carbon business and future growth options outside oil and gas. Mr Hayward also promised that in the future some previously centralised functions would be redeployed into the two business segments. In parts of BP, up to four layers of management would be removed.

The aim was to cut overheads and refocus the oil and gas company. The move was prompted by a 20% fall in its third quarter profits, despite increasing crude oil prices. The company said that there were no definite targets on the number of staff that would be redeployed or made redundant, although it is likely to be thousands over several years.

Source: adapted from the *Guardian*, 11 October 2007.



Summary

The structure of a business affects how easily and how effectively employees can get their jobs done. It affects the costs of operating and the quality of service provided. Restructuring is needed for reasons of efficiency and in response to changes in the business environment. For example, the BBC has recently reorganised its activities to ensure it is responding to the opportunities of the digital age and is paying enough attention to online and mobile viewers and listeners. It is also trying to cut costs to generate the funds it need to finance its digital changes.

Neil Eastcote teaches A-level business studies.

How does re-structuring affect the performance of a business?

Read the article, Organisational structure and answer the following questions:

1. Explain why a business decides to restructure.
2. Describe the positive effects of restructuring a business.
3. Why does it cost so much to restructure?
4. Describe the factors which a good restructuring depends on.