

## Organisational structures

Each business has its own ORGANISATIONAL STRUCTURE or BUSINESS STRUCTURE. The structure is the way in which positions within the business are arranged. It is often known as the **internal structure** or FORMAL ORGANISATION of the business.

The organisational structure of the business defines:

- the workforce roles of employees and their job titles;
- the route through which decisions are made;
- who is responsible and who is accountable to whom, and for what activities;
- the relationship between positions in a business;
- how employees communicate with each other and how information is passed on.

Different businesses tend to have different objectives, relationships and ways in which decisions are made. So they may have different structures. But there may also be some similarities. For example, small businesses are likely to have simple structures. Larger businesses are often divided into departments with managers.

Structure is important to all businesses. It helps them to divide work and co-ordinate activities to achieve objectives. But it may be more important for larger businesses. For example, a two person plumbing business is likely to have fewer problems deciding 'who does what' than a business operating in many countries.

One method of organising a business is where managers put people together to work effectively based on their skills and abilities. The structure is 'built up' or it 'develops' as a result of the employees of the business. In contrast a structure could be

created first, with all appropriate workforce roles outlined, and then people employed to fill them. It has been suggested that the entrepreneur Richard Branson worked out a complete organisation structure for his Virgin Atlantic airline before setting up the company and then recruited the 102 people needed to fill all the positions.

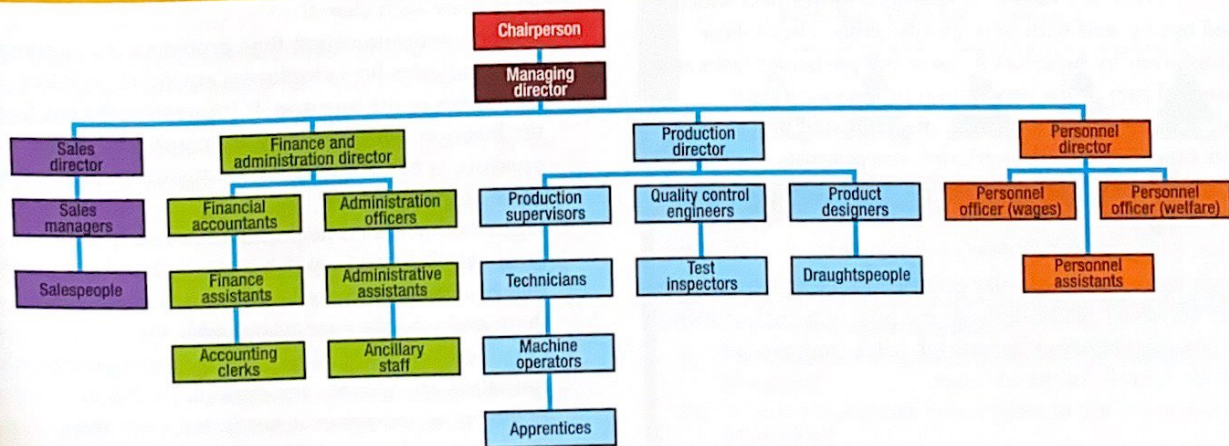
## Workforce roles

The positions in an organisation will have particular workloads and jobs allocated to them.

**Directors** Directors are appointed to run the business in the interest of its owners. In smaller businesses, owners may also be directors. But in larger businesses owned by shareholders, for example, they may be different. Directors are in overall charge of activities in an organisation. They meet, as the **Board of Directors**, to make major decisions that will affect the owners. Some directors, known as executive directors, will be involved in the running of a business. Non-executive directors may play little part in its running. The **managing director** (MD) will have overall responsibility for the organisation and have **AUTHORITY** over specific directors, such as the **finance** or **marketing director**.

**Managers** Managers are responsible for controlling or organising within the business. They often make day-to-day decisions about the running of the business. The sales manager, for example, would have responsibility for sales in the business and be responsible to the marketing director. Businesses often have **departmental** managers, such as the marketing, human

Figure 1: A formal organisation chart for Able Engineering, an engineering company





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resources, finance and production manager. There may also be **regional** managers, organising the business in areas of a country or **branch** managers, organising particular branches or stores.

**Team leaders** Team leaders are members of a team whose role is to resolve issues between team members and co-ordinate team efforts so that the team works effectively. A team leader may be part of a permanent cell production team or a team set up for a particular job, such as investigating staff morale. A team leader may also take responsibility for representing the views of a team to the next higher reporting level, for example to report the findings of a market research team.

**Supervisors** Supervisors monitor and regulate the work in their assigned or delegated area, for example stock supervisor or payroll supervisor. Supervisors may be given some of the roles of managers, but at a lower level. Their roles in this case may be to hire, discipline, promote, punish or reward.

**Professionals** These are positions for staff with high levels of qualifications and experience. The job roles are likely to involve a degree of decision making and responsibility for ensuring that tasks are carried out effectively to a high standard. Examples might include doctors, architects, stockbrokers, product designers, chefs and accountants.

**Operatives** These are positions for skilled workers who are involved in the production process or service provision. They carry out the instructions of managers or supervisors. In their own area of activity they may have to ensure targets are met and tasks are carried out effectively. Examples of operatives in business might include staff in:

- production, for example assembling a car or manufacturing furniture;
- warehousing, for example checking invoices against goods and ensuring effective deliveries;
- IT, for example giving technical support for machinery.

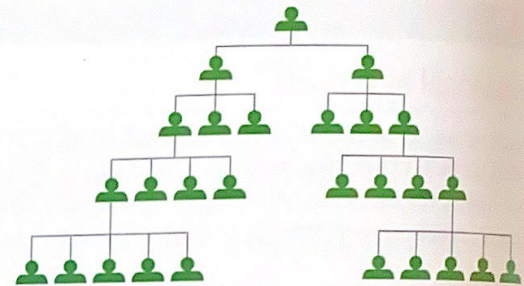
**General staff** There is a variety of positions in business which are carried out by staff with non-specific skills. They follow instructions given by superiors to carry out particular tasks and are an essential part of the production process or service provision. Examples might include checkout staff and shelf stackers in supermarkets, cleaners and receptionists in offices. They might also include general jobs on a farm or building site, such as cleaning out.

Although there may be similar generic job roles, there will be differences between organisations in the precise nature of these roles, relationships between various job roles, how they are managed and how decisions are made.

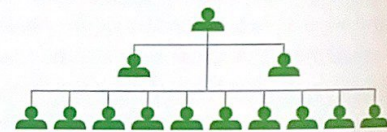
## Organisation charts

Businesses often produce ORGANISATION CHARTS. These

Figure 2: Different chains of command and spans of control



(a) A long chain of command and a narrow span of control. A production department may look like this. One manager is helped by a few assistant managers, each responsible for supervisors. These supervisors are responsible for skilled workers, who are in charge of a group of semi-skilled workers. Close supervision is needed to make sure quality is maintained. This is sometimes referred to as a tall organisational structure.



(b) A short chain of command and a wide span of control. A higher or further education department may look like this, with a 'head' of department, a few senior staff and many lecturing staff. Staff will want a degree of independence. This is sometimes referred to as a flat organisational structure.

illustrate the structure of the business and the workforce roles of people employed with the business. Figure 1 shows a 'traditional' type of chart. It is a chart for an engineering firm, Able Engineering. It illustrates the formal relationship between different workforce roles and people in the business. Why do businesses draw such charts?

- To spot communication flow problems. An organisation chart indicates how employees are linked to other employees in the business. If information is not received, the business can find where the communication breakdown has occurred by tracing the communication chain along the chart.
- Organisation charts help individuals see their position in a business. This can help them appreciate the responsibilities that have been delegated to them, who has authority over them and who they are accountable to.
- Organisation charts allow firms to pinpoint areas where specialists are needed. For example, in Figure 1 Able Engineering recognises it needs designers and draughtspeople as part of the production 'team'.
- Organisation charts show how different sections of the firm relate to each other. For example, the chart for Able



Engineering shows the relationship between salespeople and technicians. They are both at the same level in the hierarchy, but work in different departments and are responsible to different managers.

Simply producing an organisation chart is of limited use to a business. The business will only achieve its objectives if it understands the relationships between employees and other parts of the business.

### Key elements of organisational structures

**Chain of command** The HIERARCHY in a business is the levels of management in a business, from the lowest to the highest rank. It shows the CHAIN OF COMMAND within the organisation - the way authority is organised. Orders pass down the levels and information passes up. Businesses must also consider the number of links or levels in the chain of command. R. Townsend, in his book *Up the Organisation*, estimated that each extra level of management in the hierarchy reduced the effectiveness of communication by about 25 per cent. No rules are laid down on the most effective number of links in the chain. However, businesses generally try to keep chains as short as possible.

**Span of control** The SPAN OF CONTROL refers to the number of subordinates working under a superior or manager. In other words, if one production manager has ten subordinates his span of control is ten. Henri Fayol argued that the span of control should be between three and six because:

- there should be tight managerial control from the top of the business;
- there are physical and mental limitations to any single manager's ability to control people and activities.

A narrow span of control has the advantage for a firm of tight control and close supervision. It also allows better co-ordination of subordinates' activities. In addition, it gives managers time to think and plan without having to be burdened with too many day-to-day problems. A narrow span also ensures better communication with subordinates, who are sufficiently small in number to allow this to occur.

A wide span of control, however, offers greater decision-making authority for subordinates and may improve job satisfaction. In addition, there are likely to be lower costs involved in supervision. Figure 2 shows two organisation charts. In the first (a), there is a long chain of command, but a narrow span of control. The second (b) shows a wide span, but a short chain.

**Authority and responsibility** Employees in the hierarchy will have RESPONSIBILITY and authority. However, these terms do not mean the same thing. Responsibility involves being accountable or being required to justify an action. So, for example, managers who are responsible for a department may be asked to justify poor performance to the board of directors. The personnel department may be responsible for employing workers. If a new worker was unable to do a particular job, they would be asked to explain why.

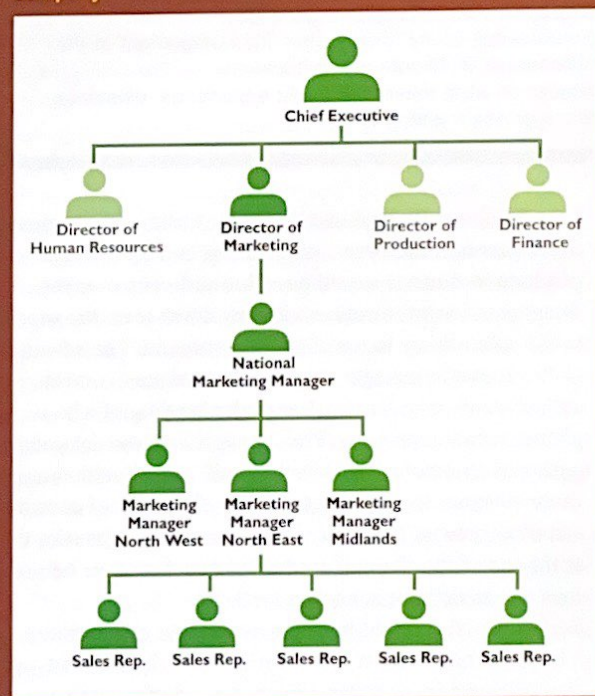
Authority, on the other hand, is the ability to carry out the task. For example, it would make no sense asking an office worker to pay company debts if she did not have the authority to sign cheques. Employees at lower levels of the hierarchy have less responsibility and authority than those further up. However, it may be possible for a superior to delegate (pass down) authority to a subordinate, eg a manager to an office worker, but retain responsibility. Increasingly, businesses are realising the benefits of delegating both authority and responsibility.

**Line, staff and functional authority** Line, staff and functional authority are terms used to describe the type of relationship that managers may have with others in the hierarchy.

### Question 1.

Figure 3 shows part of an organisation chart for a UK engineering company.

Figure 3: Part of an organisation chart of a UK engineering company



- The company sells into regional markets. How can this be seen from the chart?
- Describe the chain of command from Chief Executive to UK sales representative.
- How large is the span of control of the Marketing Manager?
- Who is immediately subordinate to the Director of Marketing?
- The Chief Executive is considering reducing the number of sales reps from five to three. How might this affect the Marketing Managers?



## Question 2.

During 2007 BP aimed to cut overheads and re-energise the oil and gas company. Tony Hayward, the chief executive, insisted the overall strategy was not about 'cost reduction and cull', but about a radical change in culture. There were no specific numbers for how many staff would be cut, but Mr Hayward said it 'could be thousands over several years'.

The BP boss sent a message to his 100,000 staff outlining other plans to streamline the business into two basic units. This would be exploration and production on one side and refining and marketing on the other, similar to the type of structure at Exxon. The third segment, gas, power and renewables, is to be incorporated mainly into the other two.

A city analysts said, 'I think it is really good. This is copying the Exxon model of keeping things simple and ensuring unit managers are given responsibility but held accountable too.'

Mr Hayward promised that in future, corporate infrastructure would be 'rigorously' reviewed and up to four layers of management would be shed. 'Managers will be listening more acutely, particularly to frontline staff. We will make sure individuals are fully accountable for things they control,' he said.

Source: adapted from [www.guardian.co.uk](http://www.guardian.co.uk), 12.10.2007.

- Explain how the changes might affect:
  - employees at the businesses;
  - management at the businesses;
  - clients of the business.
- Discuss to what extent BP might experience resistance from managers and employees.

- Line authority** is usual in a hierarchy. It shows the authority that a manager has over a subordinate. In Figure 1, the production director would have line authority over the designers. Communication will flow down from the superior to the subordinate in the chain of command. The advantage of this is that a manager can allocate work and control subordinates, who have a clear understanding of who is giving them instructions. The manager can also delegate authority to others if they feel this will make decision making more effective. In large organisations, the chain of command can be very long. This means that instructions given by those at the top of the chain of command may take time before they are carried out at a lower level.
- Staff authority** might be when a manager or department in a business has a function within another department, for example, giving specialist advice. A marketing manager may give advice to the production department based on market research into a new product. Personnel managers have responsibilities for personnel matters in all departments. Although the specialist can give advice, they have no authority to make decisions in the other department.
- Functional authority** is when a specialist has the authority to make a line manager accept his or her advice. It is different from staff authority, where the specialist can only advise. For example, the finance manager may have overall authority over the budget holder in the marketing department.

Problems may occur in a business if people do not understand where authority and responsibility rest. This means that managers must know whether their authority is line, staff or functional. Unfortunately, this can lead to friction. Line managers are sometimes thought of as 'first class citizens' and staff managers are thought of as costly 'overheads' who are not contributing anything of worth to the organisation. Also, the authority of functional managers is not accepted by line managers at times.

**Delegation** Managers are increasingly being asked to carry out strategic activities that affect the whole business. This has resulted in the need to DELEGATE activities for certain tasks to employees further down the hierarchy. Delegation can provide benefits to a business, as explained in the next section. When is delegation likely to be effective?

- Researchers such as Spetzer (1992) have suggested that employees need to be empowered in order to make effective decisions. They need to be given self-confidence and control of what they do.
  - If managers only delegate when they are overloaded, subordinates may be resentful.
  - Delegation requires planning. Managers must be clear about what needs to be done. Instead of freeing time, poor delegation may take up managers' time as they try to correct problems.
  - Managers must take time to explain delegated tasks clearly. Employees may waste time or make mistakes because of lack of information. Telling subordinates why the work is important helps to create shared values.
  - Allow participation. It is useful to discuss the task with those to whom it has been delegated. Subordinates will then know from the start what the task will include. It also helps managers to decide if delegation is appropriate. A person may feel they do not have the skills to carry out the task.
  - The employee given a delegated task should also be given the authority and responsibility to carry it out. Managers must tell others in the business that the delegated person is acting on his or her behalf. This will avoid difficulties, such as the questioning of authority.
  - Managers must avoid interfering with delegated tasks.
  - Delegated tasks should be given to suitable employees. It would be inappropriate to delegate a marketing task to an employee in personnel. Employees must also have the training to carry out the task.
  - Provide support and resources. If an employee is delegated a task without suitable support and resources this could lead to anxiety, frustration and the task being badly done.
- Research has shown that when factors like these are taken into account, delegation was four times as likely to be successful.

## Different forms of business structure

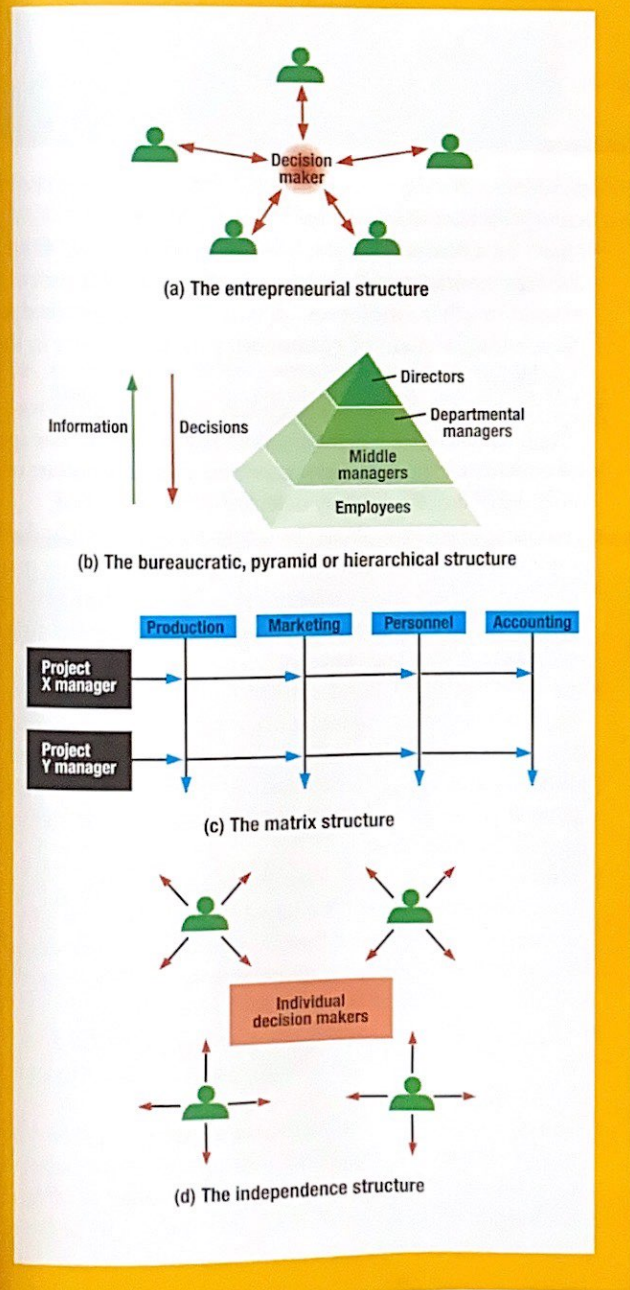
Despite the variety of formal business organisation that exists, there are four main types of structure most often found.



**The entrepreneurial structure** In this type of business structure, all decisions are made centrally. There are few collective decisions and a great reliance on 'key' workers. It is often found in businesses where decisions have to be made quickly, such as newspaper editing. Most small businesses also have this type of structure, as illustrated in Figure 4(a). These businesses rely on the expertise of one or two people to make decisions. Decision making is efficient up to a point because:

- decisions can be made quickly;
- subordinates understand to whom they are accountable;
- little consultation is required.

Figure 4: Alternative forms of organisation structure



However, as the business grows, this structure can cause inefficiency as too much of a load is placed on those making decisions.

**The bureaucratic, pyramid or hierachical structure** This is the traditional hierachical structure for most medium-sized and large businesses and perhaps the most well known. It is illustrated in Figure 4(b). Decision making is shared throughout the business. Employees are each given a role and procedures are laid down which determine their behaviour at work. Specialisation of tasks is possible. This means that a departmental structure, with finance, personnel, production and marketing employees, can be set up. Specialisation may allow the business to enjoy economies of scale. Recently, this type of structure has been criticised for its inability to change and meet new demands.

**The matrix structure** This emphasises getting people with particular specialist skills together into project teams, as illustrated in Figure 4(c). Individuals within the team have their own responsibility. The matrix structure was developed to overcome some of the problems with the entrepreneurial and bureaucratic structures. Matrix management involves the co-ordinating and support of specialist teams within a matrix structure.

Managers often argue that this is the best way of organising people, because it is based on the expertise and skills of employees and gives scope for people lower down the organisation to use their talents effectively. For example, a project manager looking into the possibility of developing a new product may draw on the expertise of employees with skills in design, research and development, marketing, costing etc. A college running a course for unemployed people may draw on the skills of a number of lecturers in different departments. In this way, a matrix structure can also operate within a business that has a bureaucratic structure. The matrix model fits in with managers who have a Theory Y view of employees. It is suggested that this structure improves flexibility and motivation of employees. It has recently lost favour because it often needs expensive support systems, such as extra secretarial and office staff. There may also be problems with co-ordinating a team drawn from different departments and the speed of decision making.

**The independence structure** This emphasises the individual and is almost a 'non-organisation'. The other three methods put together the contributions of a number of people so that the sum of their efforts is greater than the parts. All efforts are co-ordinated so that the business benefits. The independence structure is a method of providing a support system. Barristers' chambers and doctors' clinics have worked in this way. It is attractive to independent people who are confident of their ability to be successful. This form of organisation tends to be unsuitable for most types of business because of the lack of control and co-ordination.

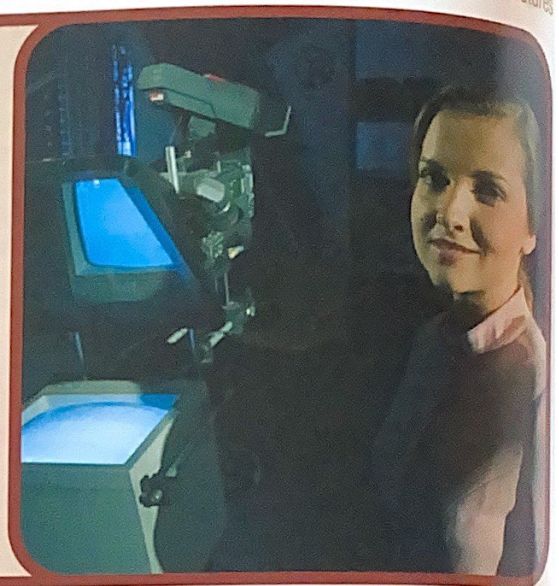


### Question 3.

The Manchester Film Association is an SME in the centre of the city's 'cultural quarter'. Its main activities are video, film and multimedia production. It employs nine full-time staff. Mike joined the company six months ago. He recently graduated, but has little work experience. However, he has proven so far in the work that he has done for clients to be innovative. He often has ideas that no-one else has considered. Shoaib has worked for the business for 15 years. He has built up considerable production and post-production skills. Lisa had previously set up her own website design and consultancy operation. She has experience in managing projects, working to deadlines and taking responsibility for clients' requests. The managing director of the business, Paula, has been approached by a fast growing leisure company to produce an innovative multimedia training programme on CD Rom for newly recruited employees. The company wants the programme to be interactive, but it must be ready within two months. Paula decided to ask Mike to look after the project.

Source: adapted from company information.

- (a) Explain what type of organisational structure do you think might best reflect the business needs of Manchester Film Association.



### Informal business structure

Organisation charts show the formal organisation of a business. However many relationships between employees in business are informal. The INFORMAL BUSINESS STRUCTURE is the network of relationships that develops between members on the basis of their common interests and friendships. These relationships can affect the way a business operates. A study of informal networks in the banking industry, for example, found three types of relationship.

- Advice networks – who depends on who to solve problems and provide information.
- Trust networks – which employees share potential information and back each other up in times of crisis.
- Communication networks – which employees regularly talk to each other on work related matters.

They recommended that businesses use informal structures to solve problems. For example, a study showed that a bank's task force group was unable to find ways of improving the bank's performance. The leader of the task force held a central position in the 'advice network'. Employees relied on her for technical advice. However, she only had one 'trust link' with a colleague. Management did not want to label the group as a failure or embarrass a valued employee by dismissing her as team leader. Instead, it redesigned the task force in line with the informal organisation of the business by adding a person in the trust network to share responsibility for group leadership.

### Influences on organisational structures

Many businesses have traditional, hierarchical structures, with layers of management and employees. They face issues such as organising the span of control, chain of command, authority and responsibility. However, there are other organisational structures, including entrepreneurial and matrix and

independence structures. A number of factors can influence the particular structure that a business might choose.

- **Size.** As a business grows, it is likely to move away from an entrepreneurial structure towards one where authority is passed to other employees. A large firm will also tend to have a longer chain of command, with more levels in the hierarchy.
- **Views of the owners or leadership styles.** If owners wish to retain control in the business, they will want a narrow span of control. Owners or managers who wish to motivate or encourage employees may delegate decision making.
- **Business objectives.** If the business decides to expand rapidly, perhaps by merger, it is likely to find that its span of control gets wider. An example might be a business setting up an operation in a foreign country or deciding to sell into a foreign market.
- **External factors.** Changes in external factors can often influence business organisation. In periods of recession or rising costs, a business may be forced to reduce its chain of command to cut costs. Similarly, in a period of economic growth, a firm may employ extra managers as specialists to gain economies of scale.
- **Changes in technology.** The introduction of new technology can change the structure of a business. For example, a new system of production may remove the need for quality controllers, or an information technology system could reduce the role of administration.
- **The informal structure.** If the informal structure does not complement and support the formal structure, this may lead to problems.
- **Corporate culture.** The norms of behaviour in a business might influence its organisational structure. For example, a business that has developed with a team based approach to decision making, a casual dress code and a management that are very approachable might find it difficult to change suddenly to a structure with layers of hierarchy and formal



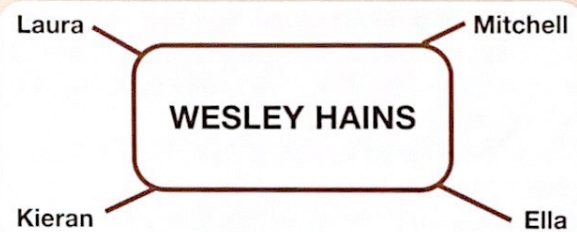
decision making processes. Charles Handy in *Understanding Organisations* (1976) identified four cultures. The power culture is a structure with one powerful decision maker. The role culture is a structure

where everyone in the hierarchy has a clear role. The task culture is a structure based on a team approach. The person culture is a structure with an emphasis on individuals.

### Question 4.

Wesley Hains runs a card design business in Cardiff. He employs four staff - Laura, Mitchell, Kieran and Ella. Laura manages the office in Cardiff dealing with telephone and email enquiries, visitors, administration and a small amount of marketing. Mitchell, Kieran and Ella are card designers and all work from home in various parts of the country. Mitchell lives and works in a small croft in Glen Cona in North West Scotland. The designers are all linked by computer to the main Cardiff office. This ensures good communications. For example, design briefs are sent direct by Wesley using email and design copy is transmitted direct to Wesley's terminal when designs are completed. Some specialisation takes place amongst the designers. Mitchell designs birthday cards, Kieran designs postcards and Ella works on specialist projects. Wesley is occupied with customers, ensuring that design briefs are satisfied by his designers and looking for new business. He spends three days a week out of the office.

- (a) In September, Wesley secured a contract with an American card manufacturer. Wesley had to recruit four more designers as a result. He decided to employ a full-time salesperson to sell designs in the US. He also bought a small printing business in Newport to print and supply cards as well as designing them. Explain why



Wesley might decide to change the organisational structure of his business.

## KEYTERMS

**Authority** – the right to command a situation, a task or an activity.

**Chain of command** – the way authority and power are passed down in a business.

**Delegation** – authority (and sometimes responsibility) to pass down from superior to subordinate.

**Formal organisation** – the relationships between employees and the organisational structure determined by the business, as shown in an organisation chart.

**Hierarchy** – the order or levels of management of a business, from the lowest to the highest.

**Informal business structure** – the relationships between employees that are based on the common interests of employees.

**Organisation chart** – a diagram which illustrates the structure of an organisation.

**Organisational or business structure** – the way in which a business is organised.

**Responsibility** – being accountable and required to justify an action.

**Span of control** – the number of subordinates working under a superior.

## KNOWLEDGE

1. What are the features of the internal structure of a business?
2. How might an organisation chart be used in a firm's induction programme?
3. Draw a simple organisation chart showing:
  - (a) a partnership with two partners and six employees;
  - (b) a large company with a board of directors, six departments, and two more levels in the hierarchy.
4. What is meant by a 'wide span of control'?
5. What problems might a 'wide span of control' have for a business?
6. Explain the difference between line, staff and functional authority.
7. What factors influence effective delegation?
8. Why is empowerment important when tasks are delegated?
9. What problems might a matrix structure cause for a business?
10. What type of business might be organised with:
  - (a) an entrepreneurial structure;
  - (b) an independence structure?
11. Why is it important for businesses to understand their informal business structures?
12. Identify six factors that could affect the choice of organisational structure.



## Case Study: Avalanche

**A**valanche control operations at the Lake Louise Ski Area have a history spanning nearly 30 years. Lake Louise is in the Banff National Park in Canada. The area currently receives half a million guests per year for skiing, snowboarding and related activities. Safety is a key aspect and part of that relates to the danger of avalanches of snow burying skiers in their wake. The ski resort covers over 17 square kilometres and there are over 100 places where avalanches can occur. In addition, some skiers deliberately go outside the resort area for the thrill of skiing in uncrowded, uncontrolled areas. But this increases the number of potential avalanche areas.

In the 1980s, there were effectively three separate departments working on the mountain. The main responsibility of the Ski Patrol was pre-hospital care for skiers who had accidents. For the Warden/Ski Patrol Avalanche Crew, it was monitoring and controlling avalanches. For the Trail Crew, it was managing the slopes, including putting up fencing. However, there was overlap between the three departments. Members of the Trail Crew, for example, would organise help if they were first on the scene at an accident.

These three departments were then reorganised into one Snow Safety Department. This was partly prompted by budget costs. The previous three departments had over 40 staff in total. The new single department now consisted of just 25 staff. Efficiency gains were possible because staff were used more intensively. In particular, on the mountain, patrollers were expected to perform any of the functions which before had been the main responsibility of just one of the departments.

Under the new structure, shown in Figure 5, a Snow Safety Manager was put in charge of the whole department, answerable to the Area Manager for the ski resort. Beneath the Snow Safety Manager in the hierarchy are three Snow Safety Supervisors. Two of these are Avalanche Forecasters and one is a Patrol Leader. Working under the the Snow Safety Supervisors are four Senior Avalanche Patrollers. Their main duties are as Team Leaders in snow research and avalanche control. In addition, they have become involved in other facets of the department, such as training and acting as roving 'troubleshooters'. They are not scheduled into the daily routine of run checks and accident coverage or to patrol specific areas. In addition, there are five Senior Patrollers and 13 Patrollers who have as their primary responsibilities pre-hospital care and risk management (in the form of run checks and trail work). These 18 people also act as Avalanche Team Members on a rotating basis wherever needed. Generally, between two and five teams are used daily for research and control, depending on conditions.

Adapted from a paper by Mark Klassen, Skiing Louise Ltd, Alberta, Canada.

- Explain what is meant by the terms: (i) 'hierarchy' and (3 marks)  
(ii) 'department' (3 marks).
- (i) Explain what is the span of control of the Snow Safety Manager shown in Figure 5. (3 marks). (ii) Explain to whom the Patrol Leader, who is one of the three Snow Safety Supervisors, might delegate a task. (3 marks)
- Analyse how the change in structure between the 1980s and the 1990s described in the data has affected job roles, responsibilities and communication. (8 marks)
- Discuss the possible costs and benefits of delegating greater authority and responsibility further down the hierarchy. (10 marks)

Figure 5: Organisation chart: Snow Safety Department

