



# Organisational structure

*Neil Eastcote considers the importance of organisational structure to business performance*

**A**lmost 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 over-seeing 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

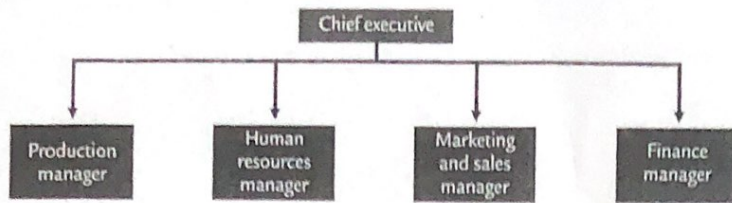
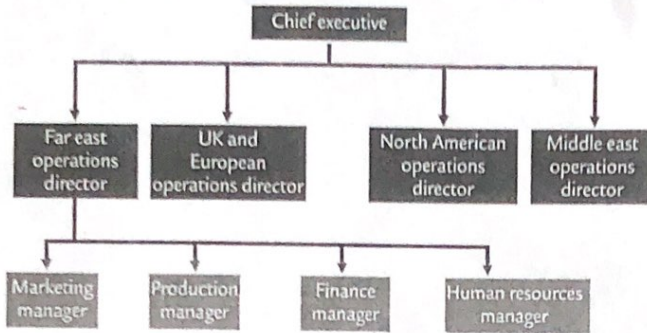


Figure 1 Traditional functional structure

(a) Based on geographical region



(b) Based on product brands

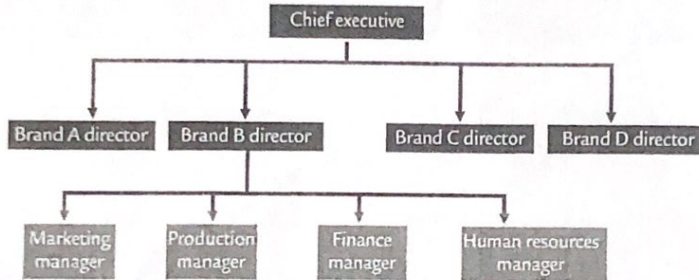


Figure 2 Functional structure based on geographical area or product brands

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 delayering or by adopting a more radical 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.

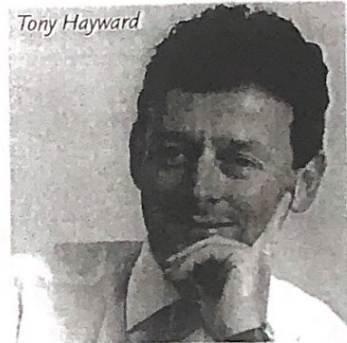
### Box 2 The BP shake-up

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.

Tony Hayward



### 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.

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# Is there a right span

*Simon Harrison assesses the relevance of the concept of span of control to modern businesses*

**S**pan of control refers to the number of subordinates controlled directly by a superior. In a traditional organisational structure (like those in Figures 1 and 2), the span of control is related to the number of levels of hierarchy. If the span of control is low, there will have to be more levels of hierarchy in the organisation. If the span of control is high, then a senior manager supervises more subordinates, and the number of levels in the hierarchy can fall, giving a flatter structure.

In both Figure 1 and Figure 2 there are 15 workers. In the organisation in Figure 1, the span of control is two workers, which requires four levels of hierarchy. In the organisation in Figure 2, the span of control is wider, with each manager controlling three or four subordinates. As a result, the number of levels of hierarchy falls from four to three. A movement from a tall to a flatter structure involves the removal of levels of hierarchy, and is consequently known as **delayering**.

In classical theory, the lower the level of skills required by workers, and the simpler the tasks carried out, the less supervision they will need. This allows a wider span of control. Classical theorists predicted that the lower down an organisation one looked, the wider the span

of control would be, although their golden rule was that the span of control in an organisation should not exceed five employees.

## The rule of five

The reason why classical theorists were so insistent that the span of control should not exceed four or five workers, was not that a sixth worker would create an insurmountable problem by him/herself, but, rather, that the problem would come from managing relationships *between* the six subordinates. In other words, the manager would have to manage not just his/her own relationship with each of the subordinates, but also the subordinates' interactions with one another.

While two subordinates have just two channels of communication (A talks to B and B to A), three subordinates have six channels (each one has two other people to communicate with), four have twelve and so on. V. A. Graicunas, one of the founding fathers of organisational theory, calculated that when all possible channels of communication were taken into account, the increase in span of control from five to six subordinates would cause the number of communication channels to be controlled to rise from 100 to 222 (in theory) — more than doubling the complexity of the manager's job. By the time 12 subordinates had been reached, this number had

spiralled to 24,564. Hence to allow effective control to be retained, Graicunas and other classical theorists were keen that the span of control at management levels should be four, or five at most.

## Recent trends

Graicunas, however, was writing in the 1930s, and much has changed since then. There has been increasing pressure, especially over the last two decades, for organisations to operate a much wider span of control, in spite of Graicunas's predictions about what would happen to the ability of managers to monitor communications effectively.

## Rapidly changing markets

One of the most important sources of pressure has come from rapidly changing markets which require a quick response from businesses. Organisations with small spans of control tend to be quite centralised (the small span of control allowing for fairly close control of employees); information and decisions have to pass through many layers of hierarchy, making the organisations slow to respond to changes.

Many organisations have therefore sought to delayer and decentralise, pushing authority and budgetary control further down the organisational hierarchy. This

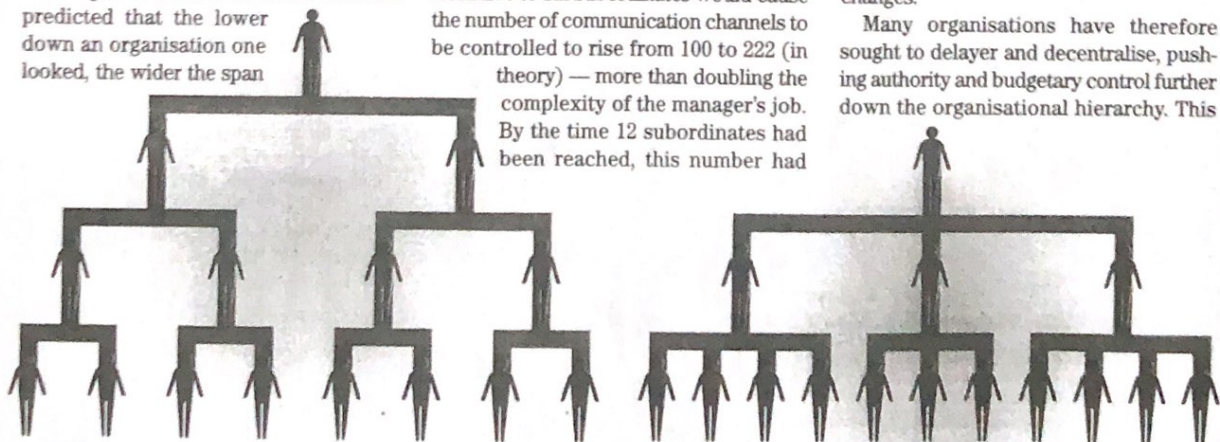


Figure 1 Tall organisational structure

Figure 2 Flat organisational structure

# of control?



allows lower-level employees to take key decisions quickly. It also implies that there is less need for close control (employees being trusted with more authority), meaning that the organisation flattens and the span of control increases.

#### **The drive to reduce costs**

A second source of pressure for wider spans of control has been the drive to reduce costs — the removal of an entire level of management (delaying) can boost profitability considerably in the short term. Given the falling average profitability of the UK manufacturing industry

for the last 4 years, and the simultaneous slide in share prices, the pressure has been on to deliver results for shareholders.

#### **Change in management style**

A change in management style, towards a more democratic, 'Theory Y' style, approach in organisations keen to retain and motivate well-trained staff, has led to a tendency to empower employees throughout an organisation, again reducing the perceived need for narrow spans of control. The emphasis has consequently shifted from control to monitoring, with organisations equipping employees with

tools to measure and control their own performance. This trend has become so noticeable that some theorists are now referring to 'span of support' (rather than span of control), in recognition of the changing nature of management.

#### **Is the span of control now too wide?**

The key question now, however, is whether the pendulum has swung too far. There is a fear that the problems which enmeshed Enron stemmed at least partly from lack of control. Other companies in the news for alleged financial wrongdoing have included ABB (the Swiss-Swedish engineering group), which has fired managers for trying to cover up losses, and Johnson & Johnson, which is under a criminal investigation by the US government for alleged record-keeping irregularities at one of its factories in Puerto Rico. Medco, a subsidiary of the US pharmaceuticals giant, Merck, has disclosed that it recorded over \$12m revenue in its accounts that it never collected.

While these issues are not solely related to span of control, many organisations are nevertheless beginning to question whether control over employees is tight enough. Are there enough checks to ensure that essentials such as profit declarations are accurate? Or has the span of control been widened too far?

#### **Is there an optimal span of control?**

Given the tensions pulling firms towards both wide and narrow spans of control simultaneously, what factors indicate whether a wide or narrow span is appropriate in a given case?

#### **The nature of the task or job**

Even classical theorists believed that in the case of non-managerial relationships, the span of control could be increased substantially because the subordinates would be carrying out simpler tasks. In the case of complex tasks that have real bearing on an organisation's future, however, traditionally a much narrower span was considered appropriate. For example, where the consequences of mistakes are serious, such as control staff in the nuclear

power industry, the subordinates' reports and actions need a greater degree of scrutiny.

#### The culture of the organisation

The greater the extent to which an organisation has a clear, well-defined set of values which are shared by all, the wider the span of control can be. This is because managers know that subordinates have a set of guiding principles which they will apply when they make decisions, reducing the likelihood of poor decisions being made.

#### The extent to which managers and subordinates have common goals

An important reason for a narrow span of control is to reduce shirking by subordinates. Where the manager and subordinates have similar goals, spans of control can be greater without the risk of employees slacking off. When everyone is striving to achieve the same ultimate end subordinates won't want to shirk, because they would be undermining something

they themselves want to achieve. A number of organisations are reinforcing this overlap of goals by giving team-based performance awards.

#### The management style in the organisation

The greater the extent to which a 'Theory Y' management style is adopted, the more appropriate a wide span of control is likely to be.

#### The abilities of the employees themselves

The more independent and better trained the employees are, the wider the possible span of control.

#### Conclusion

The relevance of the concept of span of control itself must be questioned. With more organisations moving over to matrix-based organisational structures, it is no longer clear what 'span of control' might mean. What is the span of control if an

individual has four or five people reporting directly to him/her, but also an occasional team of 20 more individuals? In such circumstances it may be impossible even to *measure* the span of control of a manager in the organisation, seriously undermining the value of the concept.

The original 'span of control' belongs to a school of management thought rooted in classical traditions from the 1930s, in which employees had to be controlled because they couldn't be trusted — a very 'Theory X' approach. Today, spans of control are generally wider than in the past, reflecting the changing nature of management.

Is modern management about control, or is it about influence and organisation? It would probably be a good sign if the phrase 'span of control' disappeared from the language of business.

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## A-Z of people and operations management

- A \_\_\_\_\_ leaders establish control and impose it from the top.
- B \_\_\_\_\_ often builds up when a firm expands its scale of operations.
- C \_\_\_\_\_ production splits a production line into more manageable groups.
- D \_\_\_\_\_ : a result of gross misconduct at work.
- E \_\_\_\_\_ of \_\_\_\_\_ cause unit costs to fall when a business increases its size.
- F \_\_\_\_\_ production is a type of mass production.
- G \_\_\_\_\_ n \_\_\_\_\_ encourage staff to work at the pace of their fellow workers.
- H \_\_\_\_\_ effect: morale boosted by interest shown by managers.
- I \_\_\_\_\_ recruitment avoids increasing the overall pay bill.
- J \_\_\_\_\_ requires a flexible production system that responds to customer orders.
- K \_\_\_\_\_ is the ordering system that pulls production through in a JIT factory.
- L \_\_\_\_\_ organisations capture knowledge within the business.
- M \_\_\_\_\_ can cause movement, but not motivation, according to Herzberg.
- N \_\_\_\_\_ wastage means that workforce levels can be reduced without redundancies.
- O \_\_\_\_\_ cost is the cost of missing out on the next best alternative.
- P \_\_\_\_\_ means getting paid per item produced.
- Q \_\_\_\_\_ c \_\_\_\_\_ involves checks by inspectors looking for production faults.
- R \_\_\_\_\_ levels ensure that suppliers have enough time to deliver new stock.
- S \_\_\_\_\_ of \_\_\_\_\_ is likely to be narrow in an autocratic organisation.
- T \_\_\_\_\_ should mean the end of commuting.
- U \_\_\_\_\_ dismissal could lead to a successful claim for compensation.
- V \_\_\_\_\_ communication goes from the top to the bottom of an organisation, or vice versa.
- W \_\_\_\_\_ councils are forums for consultation between managers and staff.
- X \_\_\_\_\_ accounts are a type of fringe benefit.
- Y \_\_\_\_\_ : the frequency of obtaining an annual bonus.
- Z \_\_\_\_\_ d \_\_\_\_\_ would ensure that production is right first time.

*For answers see p. 35.*



Mark Hurd, the former CEO of Hewlett Packard, believes that delayering an organisation makes it 'simpler, nimbler and quicker'. Benefits such as these are often quoted, but what about the problems? This article looks at the Lloyds Banking Group.

# ● Why might delayering go wrong?

In the 1950s a typical large business in the UK had an organisational structure comprising approximately twelve levels of hierarchy. Since that time,

however, the number has steadily declined as a result of delayering. Nowadays most companies operate with five to seven levels, believing this to be the most efficient way to organise a large business.

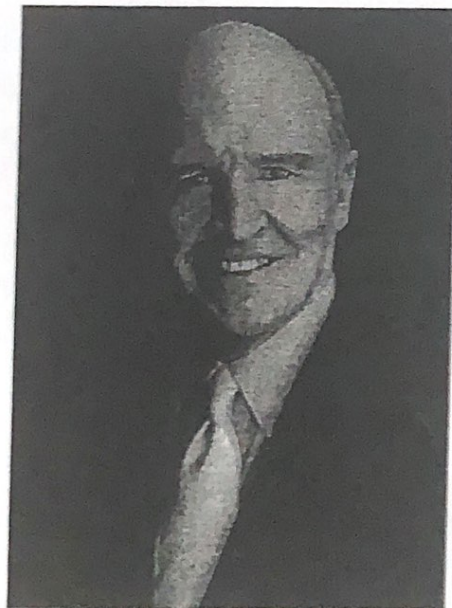


Figure 1 Jack Welch, a strong supporter of delayering

Jack Welch, the former Chief Executive of the American manufacturer, General Electric, was a strong supporter of reducing the number of levels of hierarchy through delayering (Figure 1). He restructured the business to make it more efficient and responsive to the needs of its customers, reducing the number of levels of hierarchy from 9 to 5 and shrinking the workforce by 200,000 people. He lowered the company's costs and forced employees to take greater responsibility for their own work, believing that they needed to feel like they were an essential part of the business.

Jack Welch recognised the benefits arising from flattening an organisation through delayering and has been praised for his efforts. Delayering can speed up decision making, improve communication throughout the organisation and increase accountability and motivation. It can also improve financial performance: a holding of General Electric's shares worth \$5,000 when Jack

Item	2012	2011	2010	2009
Revenue (£ million)	20,510	20,800	21,808	22,528
Profit before tax (£ million)	(1/0)	(9,542)	(281)	1,042
Number of employees	104,000	121,000	N/A	145,000

**Table 1** Key data for the Lloyds Banking Group, 2009–12

Welch was appointed CEO had increased in value to \$320,000 by the time of his retirement.

In view of these benefits, what might go wrong when a business introduces a policy of delayering? The recent experiences of the Lloyds Banking Group (LBG) illustrate some of the difficulties associated with reducing the number of levels of hierarchy within the organisation. LBG has faced a number of problems since the crisis of 2008 and its financial position has been relatively weak.

The bank currently employs 104,000 people and therefore wages are a major expense for the business. Since 2009 it has reduced its workforce by over 40,000 people (Table 1) in order to make itself more competitive and improve its long-term profitability. António Horta-Osório, LBG's CEO, outlined the company's plans to delayer its organisational structure. These centred on the removal of senior and middle managers with the aim of creating what he described as a '7 x 10 structure'. This means that the bank's new structure would have no more than seven layers of hierarchy between the CEO and a cashier in a branch and that managers would operate with an average span of control of 10 people. António Horta-Osório confirmed that this delayering would reduce labour costs substantially.

## The problems of delayering

### 1 Increased short-term costs

Although the financial performance of LBG improved to some extent in 2012, there can be substantial short-term costs associated with delayering. If the reduction in employees is achieved in part through making employees redundant, the business may be liable for redundancy pay.

In 2011 LBG announced reductions in its workforce by 15,000 people as part of its aim of having a leaner, more competitive structure. The cost of removing this number of employees alone amounted to £2,300 million. This cost would have contributed to the bank's weak financial performance in 2011 (Table 1).

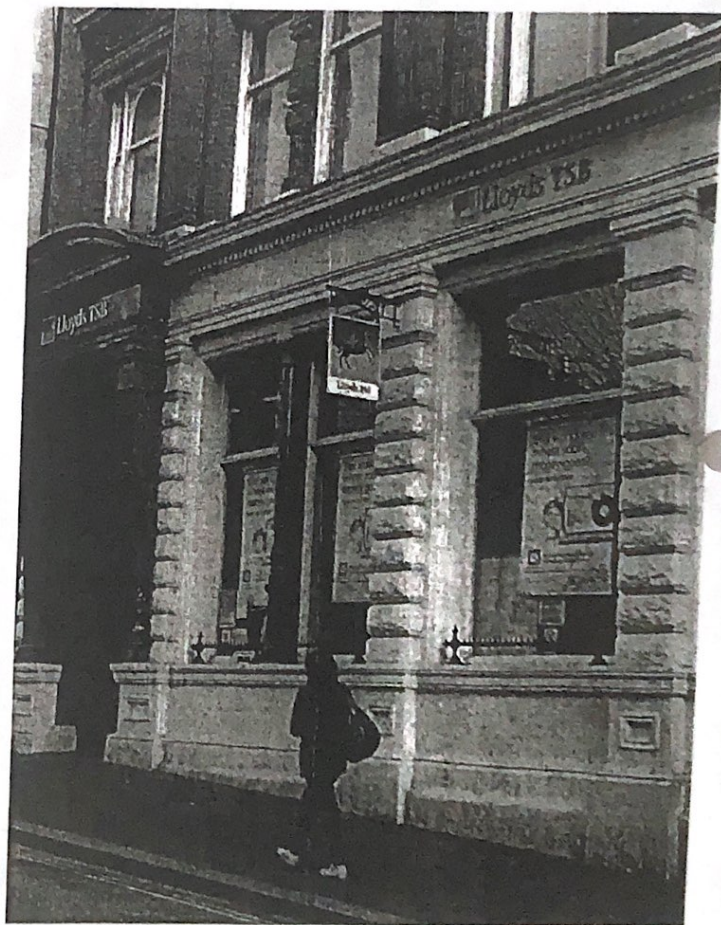
### 2 Quality issues

The implementation of a policy of delayering, especially one that involves a high proportion of

a business's employees, can cause a number of operational difficulties for a business. If sufficient skills and knowledge within the organisation are not retained, it may result in a decline in the quality of good or service supplied to customers (Figure 2). Employees who leave may take knowledge or skills that are essential to the business's successful operation. Those remaining in the restructured organisation may be moved into roles for which they are not adequately prepared. Such changes are likely to result in adverse publicity, which may weaken the company's competitive position and threaten its market share.

There has been a significant level of customer

**Figure 2** LBG faced high levels of customer dissatisfaction in 2012





dissatisfaction with LBG, resulting in nearly 1.6 million customer complaints in 2012. Although the majority of these complaints related to the incorrect selling of payment protection insurance, the bank's customers were unhappy about a wider range of issues. This highlights the difficulties facing a business when it tries to maintain the quality of its products while undertaking a major restructuring of its workforce.

### 3 Employee motivation and performance

Abraham Maslow identified security needs as an important element in the motivation of an employee at work. If a business engages in delayering, it is likely to result in significant job losses which employees may find threatening. It is common for delayering to remove senior and middle managers and thus the demotivational effect can be experienced at all levels within the organisation. This may reduce employee performance.

Motivated and productive employees are essential if LBG is to trade competitively and successfully. The job losses accompanying the delayering have provoked much opposition from trade unions such as Unite, which represents many of the bank's employees. Employees themselves have expressed dissatisfaction as a consequence of the changes that are taking place. Figure 3 shows that the motivation levels of the bank's employees declined between 2011 and 2012. Importantly, they are significantly below the UK banking industry average, which has considerable implications for LBG's competitiveness in a market where employee motivation and performance are vital.

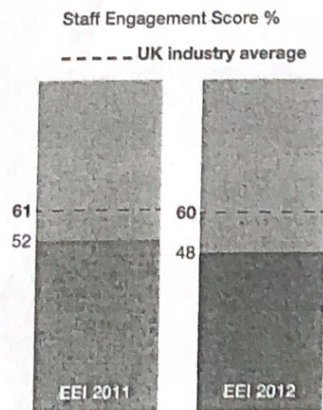


Figure 3 The Employee Engagement Index (EEI) measures the individual motivation of colleagues at LBG

Source: LBG's Annual Report and Accounts 2012

### 4 The effects on senior managers

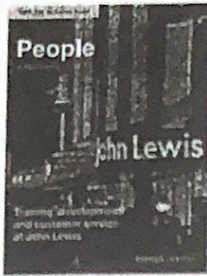
A number of writers on organisational structure have identified the increased workload of senior managers as a potential problem arising from delayering. Delayering 'flattens' the organisational structure with the intention of moving decision making to lower levels within the hierarchy. However, research undertaken by Professor Julie Wulf at Harvard Business School has suggested that delayering results in the concentration of power and decision making at the top of the organisational structure. Simultaneously, fewer decisions may be taken lower down the organisation. The concentration of power at the top of the hierarchy may result in increased pay differentials between senior and other employees. Such developments can create dissatisfaction amongst junior employees and other stakeholders.

LBG infuriated some of its stakeholders by paying 25 staff salaries in excess of £1 million while continuing to delayer, thereby creating further redundancies. CEO António Horta-Osório received a reported £3.5 million in shares through a long-term incentive plan to pay out in 2016; he was one of 10 senior employees sharing an allocation of shares valued at an estimated £18 million. He also took two months off work in 2011 suffering from 'extreme fatigue'.

Dominic Hook, an official for the trade union Unite, compared these payments to the 1.75% pay rise agreed recently for junior staff. He explained that some employees did not receive a pay increase and that many had endured several years of pay freezes. These widening pay differentials may have contributed to the decreasing levels of motivation revealed in Figure 3.

### Conclusions

It is apparent that delayering offers a number of benefits to businesses and this is why it has been used so widely. However, the process can go wrong, especially if it is not planned and managed well. It is worth distinguishing between the process and the outcome. Negative outcomes commonly occur during the process of delayering as the business faces short-term costs and increased levels of dissatisfaction from employees as unfamiliar working practices are established. These disadvantages can reduce over time and the benefits of lower costs and flexibility should become apparent. The management team at LBG is no doubt awaiting this stage of the company's delayering programme with great eagerness. <sup>11</sup>



# Why might delayering go wrong?

In the 'People' issue of TOPIC EYE, we considered whether, and to what extent, Lloyds Banking Group had benefited from its policy of delayering. One year on, is it possible to gain a better perspective on this question?

We saw in the original article that Lloyds Banking Group has operated a policy of delayering its workforce since 2009 with the intention of creating a '10 x 7' structure with no more than seven layers of hierarchy and a maximum span of control of ten. The Group aims to improve its competitiveness and long-term profitability as a result.

Since the article was written in 2013, the Group has continued its policy of delayering and has reduced its workforce to 91,000 people. Table 1 shows some key performance data for Lloyds Banking Group for 2012 and 2013.

Table 1 Lloyds Banking Group, selected performance data, 2012 and 2013

Performance indicator	2013	2012
Number of employees	91,000	104,000
Profit/(loss) before tax (£ million)	415	(606)
Customer satisfaction (%)	55	49
Customer complaints per 1000 accounts	1.0	1.0
Staff motivation score (UK average in brackets)	64 (61)	48 (60)
Ratio of cost to income (%) (target = 42-44%)	51.2	55.1

Source: Lloyds Banking Group, Annual Review, 2013

[http://www.lloydsbankinggroup.com/globalassets/documents/investors/2014/2013\\_lbg\\_interactive\\_annual\\_report.pdf](http://www.lloydsbankinggroup.com/globalassets/documents/investors/2014/2013_lbg_interactive_annual_report.pdf)

The data in Table 1 show that the performance of the Lloyds Banking Group has improved on nearly every measure. It might be expected that employees would be unhappy at the loss of jobs associated with delayering, not least because job security is threatened. However, the Group's employees have exhibited a significant rise in motivation levels, suggesting that the benefits of delayering in terms of empowerment and improved job design may be becoming apparent and possibly that the rate of job losses is slowing. In the light of this, it is perhaps

not surprising, given that the Group operates in a service industry, that customer satisfaction levels have risen noticeably. It may also be true that the reorganisation has permitted a tighter focus on customer needs.

The Group's financial performance over the two years has improved. A loss-making situation before tax has been turned around, and there is some evidence in terms of a falling cost-to-income ratio that this has been achieved by reducing costs. The rapid decline in the size of the Group's workforce would have made a major contribution to the fall in operating costs as wages and salaries are a major element of total costs for a bank.

## Conclusion

To what extent has the Group's improving performance been due to its policy of delayering? It will have made a major contribution to the Group's ability to cut its operating costs and to improve its financial performance. However, the improvement in other aspects of the Group's performance, such as higher levels of employee motivation and customer satisfaction, could also be affected by a range of other factors such as training, reducing the product range to provide a tighter customer focus, and effective use of information technology. Nevertheless, the use of delayering has had an increasingly positive effect as time has passed and will have been one reason why the Group's share price has risen from 62 pence to 75 pence over the last year.