

## The choice of organisational structure

When deciding upon an organisational structure a business will take into account a number of factors.

### The size of the business

This is arguably the key factor. As the scale of the business increases an entrepreneurial structure, for example, becomes unsuitable. As the business grows further the chain of command is likely to be lengthened, encouraging the removal of some layers of hierarchy and broader spans of control as a consequence.

In Figure 17.2 we saw the organisational structure for the BBC. It is a very large organisation, generating revenues of nearly £4,741 million in 2010 from its broadcasting activities and from selling programmes, books and music worldwide. With over 23,000 employees it is necessary to break it into smaller units

in order to manage it. The BBC organises itself into seven divisions covering its broadcasting activities and managing its physical assets and finances. The sheer size of the organisation makes (a complex) hierarchical structure inevitable.

### The nature of the product supplied by the firm

If the firm supplies a diverse range of products it may organise itself traditionally – perhaps in the form of divisions reporting to the board of directors. Hard Rock Café operates in this way. It was originally started as a restaurant business, by Peter Morton and Isaac Tigrett, but later expanded into hotels and casinos. Its current CEO is Hamish Dodds. Key areas of the business, such as casinos, have some degree of independence. Such circumstances may allow a more entrepreneurial structure, at least to some extent, if a large business is subdivided into a number of much smaller entities.

the sale of a number of business areas which do not fit in with the new strategy.

'We believe that the future of our industry is in mobile broadband and services – and we aim to be an undisputed leader in these areas', said Rajeev Suri, CEO of Nokia Siemens Networks. 'At the same time, we need to take the necessary steps to maintain long-term competitiveness and improve profitability in a challenging telecommunications market.'

'Our goal is to provide the world's most efficient mobile networks, the intelligence to maximise the value of those networks, and the services capability to make it all work seamlessly,' Suri said. 'Despite the need to restructure parts of our company, our commitment to research and development remains unchanged, with investment in mobile broadband expected to increase over the coming years.'

(Source: Adapted from Nathan Eddy in *E-Week Europe*, 23 November 2011 [www.eeweekurope.co.uk](http://www.eeweekurope.co.uk))

### Question:

To what extent do you think the Nokia Siemens decision to abandon its matrix structure might prove to be a handicap in the long term? (18 marks)

## The skills of the workforce

The higher the level of skill the typical employee has, the more likely it is that businesses will organise along matrix or informal lines. Groups of professionals, such as management consultants or surgeons, may simply carry out their professional duties with administrative support from the organisation. This may mean that the business is more likely to operate with an informal structure or a matrix structure, depending on the type of business and the products it supplies.

However, in the case of less-skilled employees a hierarchical structure may be preferred. It could be argued that a large organisation employing relatively unskilled workers will perform better with a more formal structure and more authority retained further up the hierarchy.

## The culture of the organisation

This can be a major influence on the structure a business adopts. If it has a highly innovative culture whereby it wishes to be a market leader selling advanced products, then it may adopt a matrix structure to minimise bureaucracy and to allow teams to carry out the necessary research and development and market research. On the other hand, an organisation which places importance on tradition (and derives its commercial success from appearing conventional) may be best suited to a formal hierarchical structure. This structure places emphasis on positions rather than people and this factor encourages the continuance of existing policies and practices. Some high-class hotels may fall into this category.

## The business's strategic objectives

An innovative and highly competitive organisation may opt for a matrix structure in order to complete tasks effectively. The matrix structure is task orientated and set goals and can permit employees to be rewarded for achieving such goals. This can increase the performance of the business's workforce and the competitiveness of the whole organisation. On the other hand, a business focusing on quality of design and production (as opposed to growth) may suit an entrepreneurial structure. This could operate with the intention of encouraging creativity and innovation.

## The environment in which the business is operating

Fierce competitive pressures may encourage delayering in an effort to reduce costs. The process of delayering, if successful, will allow reductions in costs and increased price competitiveness. This can be an attractive strategy for a business supplying services where labour costs are frequently a high proportion of total costs. Firms that operate in markets subject to rapid change (such as technology) may opt for a matrix structure (in at least a division of the business) to ensure that the organisation can complete the necessary tasks to ensure it remains competitive in terms of product development. The matrix structure would also help to eliminate the possibility of inflexible hierarchies getting in the way of rapid decision-making.

## Adapting structure to improve competitiveness

Organisational structures are subject to constant change. Changes in technology, changes in competitors' behaviour, changes in government policies and changes in tastes and fashions can all act as a catalyst for a change in an organisation's structure. For example, a new competitor entering a market might result in an increase in price competitiveness, necessitating existing firms to cut costs. Reducing the size of the workforce and adapting its structure may be one way to achieve this.

There is a range of methods a business may use to alter its organisational structure as it attempts to achieve its corporate objectives.

### Delayering

As already mentioned, delayering is the reduction of the number of layers of hierarchy within an organisation's structure. A number of businesses have implemented large-scale delayering programmes over recent years. Many such businesses have opted to remove middle managers from their organisational structures.

The increasing level of competition in international markets, and particularly from businesses in the Far East, has forced UK firms to reduce their costs. This trend of cost reduction has been given further impetus by slow rates of economic growth in many western economies creating a greater need to reduce



### BUSINESS IN FOCUS

#### Nokia Siemens abandons matrix structure

Nokia Siemens Networks is abandoning its matrix organisational structure and drastically cutting its workforce as part of its strategy to streamline operations and cut costs. The company announced plans to reduce its global workforce of 74,000 by approximately 17,000 by the end of 2013.

It is not alone in the industry in announcing large-scale job cuts. French rival Alcatel Lucent cut 12,500 jobs in 2007 while Ericsson cut 5,000 jobs in 2009 and a further 1,500 in 2010. Nokia Siemens has made financial losses for most of 2010 and 2011. However, in the three months to September 2011, the company reported an operating profit of £5.4 million, as sales rose 16 per cent.

The job losses and the change of structure have been driven by the company's new corporate strategy requiring it to develop an associated workforce plan. The company plans to slim down its range of operations and to cut its operating costs by £835 million by the end of 2013 (compared with December 2011). The changes are expected to result in the closure of a number of the company's sites and



costs to survive a period in which sales are likely to stagnate at best. The need to delayer has not been limited to organisations entirely in the private sector. In 2011, the Lloyds Banking Group, which is 65 per cent publicly owned, announced plans to shed 15,000 jobs, a number of which would be as a result of delayering.

Delayering has been encouraged further by the widespread acceptance of management theories

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>It reduces costs by removing a number of expensive middle managers.</li> <li>It can improve responsiveness by bringing senior managers and customers closer together, speeding up decision-making.</li> <li>It can motivate employees lower down in the organisation by giving them greater authority and control over their working lives.</li> <li>Communication may improve as there are fewer levels of hierarchy for a message to pass through.</li> <li>It can produce good ideas from a new perspective as shop-floor employees take some decisions.</li> </ul>	<ul style="list-style-type: none"> <li>It can lessen organisational performance as valuable knowledge and experience may be lost.</li> <li>Morale and motivation may suffer because employees feel insecure.</li> <li>Some businesses may merely use the excuse of delayering for making a large number of employees redundant.</li> <li>Because delayering means employees have to take on new roles within the organisation, extensive (and expensive) retraining may be required.</li> <li>It can lead to intolerable workloads and high levels of stress among employees.</li> </ul>

**Table 17.3** The advantages and disadvantages of delayering

Delayering on its own is unlikely to achieve very much. Components of HRM strategy that typically accompany the process of delayering include:

- a greater emphasis upon teamworking
- cross-functional working, possibly through the use of a matrix structure
- increased employee involvement in decision-making through a process of empowerment.

It is essential that managers implementing a policy of delayering incorporate one or more of the above factors to achieve an effective outcome. These factors will function as replacements for the coordination and controlling role of the organisation's missing levels of hierarchy.

### Centralisation and decentralisation

Centralisation and decentralisation are opposites. A centralised organisation is one in which the majority of decisions are taken by senior managers at the top (or centre) of the business. Centralisation can provide rapid decision-making as few people are likely to be consulted. It should also ensure that the business pursues the objectives set by senior managers.

decisions. The decision to centralise may reflect the preferred style of management of the business's senior managers and their desire to retain authority. This may occur when employees are relatively low skilled and the organisation is likely to perform more effectively if power remains at the centre of the organisation.

### Flexible workforces

In recent years a number of trends have emerged in the UK's workforce.

- **Rising numbers of temporary workers.** The number (and proportion) of workers on temporary contracts (for a fixed time period) within the UK rose steadily from the early 1980s until 2000, since when it does appear to have levelled out. However, since the recent recession the proportion of temporary workers in the UK workforce has started to rise once again. In September 2011 1.51 million employees were recorded as being on temporary contracts.

• **Part-time working.** The number of employees within the UK who work part time rose for many years, but appears to have shown a slight decline recently. This may be explained by some large organisations hiring workers on a self-employed basis. In 2011 about 7.8 million people in the UK worked part-time.

- **Self-employment.** This form of employment has generally been increasing over recent years, and particularly since 2000. The Labour Force Survey in 2011 showed that approximately 4.1 million people in the UK can be classified as self-employed.
- **Contractors and consultants.** Many businesses have replaced full-time employees with consultants or have contracted out duties to other organisations. For example, it is common for firms to employ contract staff to design and manage IT systems rather than use permanent full-time employees in these roles.

- **Full-time permanent employees.** Firms use fewer full-time employees than was the case in the 1990s. Such employees are relatively expensive as the firm incurs all the costs of employment, such as making pension contributions and providing training. Using consultants and contractors avoids these costs and ensures employees are only hired when needed. Full-time employees tend to be highly skilled and perform central roles within an organisation.

### BUSINESS IN FOCUS

**Royal Mail receives 110,000 applications for 18,000 Christmas jobs**



**Figure 17.5** Royal Mail seasonal jobs

The Royal Mail has received a record 110,000 applications across the UK for 18,000 seasonal workers, it was announced today. Last year, the total number of applications for the seasonal jobs was 70,000.

The temporary employees have already started working in Royal Mail locations across the country to help the 130,000 permanent postmen and postwomen deal with an expected 2 billion Christmas items.

More than six people have so far applied for every Christmas job since the recruitment campaign was launched in September.

Royal Mail's managing director of operations and modernisation, Mark Higson, said: 'We are delighted at the response from people keen to help us sort the Christmas mailbag. More seasonal recruits are required in Bristol, Peterborough, Portsmouth and Northampton. We look forward to receiving applications from people who want to work in those areas and earn some extra money over the festive season.'

The seasonal staff will work in mail and distribution centres across the UK, helping to sort Christmas cards and packets before they go to around 1,400 delivery offices for postmen and postwomen to take out on their rounds.

(Source: Daily Telegraph, 16 November 2011)



	Total employment (millions)	Full-time employees (% of total)	Part-time employees (% of total)	Temporary employees (% of total)	Self-employed (% of total)
1995	26.25	64.56	24.43	7.1	10.38
2000	27.98	65.75	25.05	7.0	8.8
2004	28.38	63.91	26.00	5.25	9.8
2008	29.41	64.47	24.99	5.4	12.90
2011	29.07	62.85	22.42	6.11	14.05

**Table 17.4** Trends in employment in the UK, 1995–2011

Source: National Statistics website [www.statistics.gov.uk](http://www.statistics.gov.uk)

UK businesses have opted for workforces containing increasing numbers of part-time and temporary employees. Labour forces with high proportions of these types of employees are called flexible workforces.

### Core and peripheral workers

One way in which a flexible workforce can be organised is part of a 'flexible firm'. This idea was developed by John Atkinson and the Institute of Manpower Studies. They explained that flexible workforces comprise a core workforce and a peripheral workforce, as illustrated in Figure 17.6.

The business's core workers would be highly qualified and trained, would be motivated and would be in permanent full-time employment with security of employment. In contrast the peripheral workers would only be hired when necessary. They may be low skilled or have highly specialised skills that are not required all the time. An example of the latter category could be experts on environmental pollution. This would allow the business to respond to fluctuations in demand without incurring the ongoing costs of employing all its workers on a permanent basis. The peripheral workers could be employed part time or by using temporary contracts.

### BUSINESS IN FOCUS

#### Park Cakes workers may strike over 'zero-hour' contracts

Workers at Oldham-based bakery manufacturer Park Cakes Bakeries Ltd will walk out on strike for four days this month, following a branch meeting with union members. Ian Hodson, national president of the Bakers Food and Allied Workers Union (BFAWU), confirmed that around 70 staff voted in favour of a strike.

firm was planning to introduce new contracts without consultation and without agreement.

A spokesperson for Park Cakes said that the company had introduced the new contracts for new employees in order to control costs and remain competitive following the effects of the recession, and in order to safeguard existing jobs at its Bolton and Oldham sites.

(Source: Adapted from British Baker Magazine, September 2011, [www.bakeryinfo.co.uk](http://www.bakeryinfo.co.uk))

### Question:

Analyse the disadvantages to Park Cake Bakeries Ltd of employing a flexible workforce. (10 marks)

## Homeworking

Homeworking refers to anyone who works from home for a significant part of their working week. Homeworking is also sometimes referred to as teleworking. Homeworking is an increasingly important feature of the operation of many businesses in the UK and throughout the world. Over 25 per cent of the UK workforce 'sometimes' works at home. The number of people working 'mainly' at home is 2.5 per cent of the workforce (727,000) people, and this is more than twice the number who did so in 1981 (346,000). British Telecom advocates homeworking and it alone has 11,000 people working from home. The Labour Force Survey shows that between the two census years of 2001 and 2011, the number of self-employed homeworkers in the UK rose by 24 per cent to over 2.3 million. In total the number of people working from home in 2011 was nearly 3.75 million.

This group is the fastest growing part of the workforce. In comparison the number of commuting employees rose by only 1.9 per cent in the same period. Why have businesses advocated homeworking?

- Many managers have argued that homeworking has a positive effect on the motivation of employees. Homeworking naturally allows employees greater responsibility for their own work. Interestingly, some studies suggest that homeworking can reduce stress levels, especially those associated with commuting.
- Employment costs incurred by businesses can be substantially reduced as a consequence of homeworking. Firms can reduce their capacity, avoiding the need to pay expensive office rents in city centres. Other savings to businesses can take the form of reducing travelling expenses and the need for social facilities at work. A survey by the Henley Centre has suggested that for each employee converted to homeworking a business saves £6,000 per year.

- Employees can actually spend more time working as travelling time is eliminated and time spent talking informally with colleagues is reduced. Thus, there is the potential for increasing productivity and employee performance.

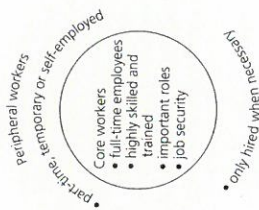
The UK government has expressed support for homeworking on environmental grounds, as any significant reduction in commuting offers society substantial benefits in terms of reduced pollution. In view of the apparent benefits of homeworking and governmental approval, it seems surprising that homeworking has not been adopted on a larger scale. However, a number of factors have influenced firms, as well as individual employees, in their decisions not to adopt homeworking.

At times during the 1990s office rents were relatively low and this eliminated a major incentive for businesses to encourage homeworking. The same is true now as the economy slowly recovers from a deep recession. At the same time many companies have 'downsized', creating vacant space within their offices which is almost impossible to sell or lease. Once the main financial inducements have been removed the attractiveness of homeworking to businesses is sharply diminished.

Many companies have operated trials into the costs and benefits of homeworking. Inevitably, these have attracted much media attention. However, the outcomes of such experiments have often been to retain the status quo and keep the majority of employees at the office. Many businesses, especially those in the financial sector, have drawn back from the move to have significant numbers of employees working at home.

As long ago as the 1930s, Elton Mayo wrote that the social dimension was an important aspect of employment. Homeworking eliminates much contact with fellow workers and certainly removes the opportunity to indulge in workplace gossip and banter. Failing to fulfil the social needs of employees at work could damage motivation and performance. Furthermore, there is some evidence that it is the

**Figure 17.6** The organisation of a firm with a flexible workforce



### Other methods of flexible working

Businesses can also employ people flexibly using:

- **annualised hours contracts** – employees working in this way are expected to work, say, an average of 38 hours each week, but can be employed to work longer hours during busy weeks, with an equivalent reduction in working hours during quieter periods
- **zero-hour contracts** – these are given to people who are employed by the business but only work and receive pay when both the business and employee agree to do so.

Workers at the meeting claimed that changes to employment contracts could result in them losing up to £4,000 a year in pay. The changes mean that workers that previously earned wages above minimum rates will have new 'zero-hour' contracts where no fixed hours are guaranteed.

In September, BFAWU claimed that Park Cake Bakeries was attempting to bypass new legislation covering agency workers. It also claimed that the



social isolation inherent in homeworking that has resulted in numerous employees opting to return to more traditional patterns of employment.

Some employers are reluctant to encourage homeworking as they feel that employees may not work as hard if they were not closely supervised. It may be that a more democratic style of leadership is likely to promote and encourage homeworking among employees.

Many forms of employment are not suited to homeworking. If a job involves significant communication with colleagues on a regular basis, or if it requires the skills of a number of people simultaneously, homeworking is unlikely to be an effective method of organising the workforce.

### Outsourcing

Outsourcing means finding a person or business outside the organisation to complete part of the

production process. Businesses may decide to outsource to reduce their labour costs and this can be an attractive option if the type of employee required is highly skilled and/or the business does not require their services all of the time. Sometimes work may be outsourced because the business does not have employees with the skills necessary to complete the work. Examples of the type of work that is outsourced can include cleaning, the provision of IT services and management consultancy services.

Outsourcing brings obvious advantages in terms of reducing labour costs. The business does not have to contribute to pension funds or the government's national insurance scheme on behalf of the employee, provide training or paid holidays. However, communication between outsourced workers and permanent employees can be more difficult and the level of motivation of such workers can be low.

The case for ...	... and the case against
Flexible employees are cheaper because firms avoid many of the costs of full-time employment (such as pension contributions). Wages are also generally lower. This makes the firm more price competitive, which may be important in an increasingly global market.	Communication is tricky with flexible workforces. More employees, unfamiliar with one another and with different patterns of attendance, make it difficult to pass on information. Formal and informal communication is poorer, causing lower-quality customer service and damaging the firm's image.
Flexible workforces assist businesses in dealing with fluctuations in demand. Being able to call on part-time or self-employed workers at a busy time avoids the problems associated with unfilled orders. At quiet times firms do not have expensive workers with little to do, and do not have to pay to make employees redundant.	The turnover of staff is higher with flexible workforces. Lack of job security leads people to move to permanent employment when possible. High rates of labour turnover mean workers are unfamiliar with their duties and firms incur greater recruitment costs.
Firms can reduce training costs by subcontracting work to other organisations or by hiring self-employed workers. Businesses acquire staff with up-to-date skills without having to pay for their training. This is particularly useful in industries subject to rapid change, such as the microelectronics industry.	Morale can be lower with flexible workforces. Security needs may not be met through these forms of employment and employee performance may be hampered by this factor. The failure to form groups at work – or the regular breaking up of these groups – may mean that social needs also remain unfulfilled, leading to lower levels of motivation.
Flexible patterns of employment allow businesses to have access to highly specialised skills without bearing the costs of permanently employing what can be hugely expensive workers. Thus, even relatively small businesses may hire self-employed systems analysts to carry out highly technical work with their computer systems.	

**Table 17.5** The case for and against flexible workforces

The balance between advantages and disadvantages of employing flexible workforces depends upon the circumstances. Flexible workforces arguably offer the greatest potential to businesses when the employees

in question are either highly skilled or have few skills. Highly skilled employees are expensive to hire and may require constant retraining to ensure their skills remain up to date. Employing such people through

temporary contracts, or as self-employed workers, may provide benefits without incurring heavy long-term expenditure.

Equally, employees with few skills may be hired on a part-time, flexible-hours or temporary basis. This allows firms to have the appropriate amount of labour available to meet varying levels of demand. High levels of turnover of staff may not be a problem in such circumstances, as training is likely to be minimal.

### One step further: global delayering

The Boston Consulting Group (perhaps best known for developing the Boston Matrix) has spent some time researching delayering and has produced a number of articles on this topic. A recent article considers a more complex type of delayering: global delayering. The group argues that advantages of delayering (lower costs, quicker decision-making and improved communication) can be achieved in a global context. It argues that the benefits of global delayering may be greater than can be achieved through the domestic variety. The authors of the article argue that it is easier to ignore inefficiency

at a global level and therefore easier to do nothing about it. The implementation of a strategy of global delayering will have to stretch across several, and perhaps many, countries. However, the group believes that delayering forces senior managers to look closely at and address many other issues in an organisation that may reduce its international competitiveness.

For example, the concept of global delayering may be very necessary in global businesses that have grown through takeovers. Takeovers can result in the bringing together of businesses with different organisational structures and may result in too many layers of hierarchy. The buying business may be more interested in thinking about the new customers and products this purchase may give. Thoughts as to rationalising functions such as finance may not be at the front of executives' minds, although it offers potential for significant cost savings. You can find out more about global delayering by reading the Boston Consulting Group's article at the web address given below.

Source: Boston Consulting Group, adapted from [www.bcg.com](http://www.bcg.com)

### Key terms

An **organisational structure** is the way in which a business is arranged to carry out its activities.

**Levels of hierarchy** refer to the number of layers of authority that exist within an organisation.

A **span of control** is the number of subordinates directly responsible to a manager.

The **culture** of a business refers to the attitudes, ideas and beliefs that are shared by the employees in a particular business.

**Delayering** is the reduction of the number of layers of hierarchy within an organisation's structure.

**Delegation** is the passing of authority (but not responsibility) down the organisation structure.

**Centralisation** exists when the majority of decisions are taken by senior managers at the top (or centre) of the business.

**Decentralisation** is the passing of authority from those working at the centre of the organisation to those working elsewhere in it.

**Flexible workforces** exist when businesses place less reliance upon permanent full-time employees and make greater use of part-time and temporary workers.

**Temporary workers** have contracts of employment that only exist for a specific period of time – perhaps six months.

**Annualised hours** operate when an employer states the number of hours employees must work over a year. Weekly working hours can be varied to suit their circumstances.

**Homeworking** refers to anyone who works from home for a significant part of their working week.

**Teleworking** has a similar meaning to homeworking, but implies that this style of employment is dependent upon technological forms of communication.

**Outsourcing** means finding people or a business outside the organisation to complete part of the production process.



## Examiner's advice



The A2 specification looks at large businesses and so the size of the business is an important influence. This makes entrepreneurial structures and informal structures less relevant to the types of businesses on which examination questions may be asked. However, these two structures should not be ignored.

You should be aware of the advantages and disadvantages of each of the methods that businesses may use to adapt their organisational structures to become more competitive. You should also judge these against the specific circumstances of the particular business.

Delayering is a 'live' topic at the moment. Many firms are using this approach as a means of improving

their performance, principally through cutting costs. However, delayering has important links with motivation through providing junior employees with enhanced roles. However, an important evaluative line is to consider why firms delayer: is it simply to cut labour costs or because of a genuine belief in the benefits of employees having greater control over their working lives?

You must think about the advantages and disadvantages of flexible workforces in relation to the type of business under consideration. Factors such as the stability of patterns of demand and the degree of price elasticity may shape your opinion on its value.

## Progress questions



- 1 Explain the key distinctions between a hierarchical organisational structure and a matrix structure. (6 marks)
- 2 Outline **two** factors that may determine the effectiveness of an entrepreneurial organisational structure. (6 marks)
- 3 Explain why a large, multinational business might be expected to choose a hierarchical organisational structure. (8 marks)
- 4 Outline the ways in which the skills levels of its workforce might affect the choice of organisational structure chosen by a design company. (6 marks)
- 5 Explain why the drawbacks of delayering might be felt in the short term, whereas the benefits might only arise in the long run. (8 marks)
- 6 Explain possible reasons why a policy of delayering on its own may be unlikely to achieve much in terms of improving the performance of the workforce. (6 marks)
- 7 Explain, with the aid of examples, the term 'flexible workforce'. (3 marks)
- 8 Outline **two** ways in which a major ice cream manufacturer might increase the flexibility of its workforce. (8 marks)
- 9 Outline **two** reasons why some firms make little attempt to make more use of homeworking to increase the flexibility of their workforces. (6 marks)
- 10 Explain the possible ways in which a UK high-street bank might make use of outsourcing. (8 marks)