BUSINESS BASICS
ORGANISATIONAL STRUCTURES

Every organisation will be structured in a way which allows it to be effective and efficient in its operations. The organisational structure lays out the relationships between people, groups and functions in the business. The structure defines the reporting structure and chain of responsibility and authority, which in turn enables the co-ordination of tasks to ensure that the organisation's overall objectives are achieved.

The organisational structure will usually be communicated to staff in three ways. An **organisation chart** provides a high-level overview of reporting lines (the chain of command, or scalar chain), the span of control, groupings and formal relationships. The **organisational manual** will give further details on these relationships and generally include standard policies and working practices. The specifics of the job, including levels of authority, gradings, duties and reporting chains will be set out in the **job description**.
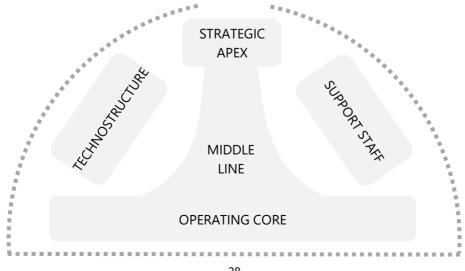
Classical theories of organisational structure are based on the principle of **hierarchy** (a 'top-down' approach), where a manager's span of control is restricted to help maintain consistent control of their team.

Modern approaches to the organisational structure focus on:

1)	MULTI-SKILLING	Workers can perform a number of tasks, thereby increasing efficiency.
2)	FLEXIBILITY	Small, temporary structures – project teams for specific activities. **Matrix structures** – multi-functional units which co-ordinate across departments; and **Part time or flexi-working** – to fit the needs of the business and its employees.

MINTZBERG'S BUILDING BLOCKS

All business will have a different focus based on the principles described above. However, **Mintzberg** suggested that all businesses are made up of six '**building blocks**' as shown below:

Mintzberg's building blocks key:

IDEOLOGY	The overall business culture
STRATEGIC APEX	Top-level management ensures that the business achieves its mission.
MIDDLE LINE	Middle management are responsible for controlling the work of the operating core and communicating the goals set by the strategic apex.
OPERATING CORE	Operational staff are responsible for processing the raw inputs into the final product.
TECHNOSTRUCTURE	Analysts and planners are responsible for standardising processes, outputs and techniques.
SUPPORT STAFF	Independent from the operational staff, providing auxiliary services (e.g. HR, security etc.).

Mintzberg suggested that there were five **mechanisms** which bring these six building blocks together:

Standardisation of skills		Standardisation of work		Standardisation of outputs
	Mutual adjustment		Direct supervision	

Mintzberg's building blocks and mechanisms can be combined in different ways to create **five common organisational structures**. Each common organisational structure is defined by its:

EXTERNAL ENVIRONMENTAL FACTORS	INTERNAL FACTORS
Is the environment simple or complex? Is the environment static or dynamic?	What type of business is it? How old is the business? What size is the business?

Organisational structures depend on their complexity and pace of change:

		PACE OF CHANGE	
		STATIC (STABLE)	DYNAMIC
COMPLEXITY	SIMPLE	Machine Bureaucracy / Divisional	Entrepreneurial Structure
	COMPLEX	Professional Bureaucracy	Adhocracy / Innovative

ACCOUNTANCY ANSWERED

NAME *Typical Structure*	INTERNAL FACTORS	EXTERNAL FACTORS	KEY BUILDING BLOCK	KEY MECHANISM
SIMPLE Entrepreneurial Structure	A young, small organisation carrying out simple tasks	Simple and dynamic environment	Strategic Apex	Direct supervision
DIVISIONAL Divisional Structure	An old, very large organisation where tasks are divisible	Simple and static environment, often diverse	Middle Line	Standard outputs
ADHOCRACY / INNOVATIVE *Matrix Structure*	A young organisation with complex tasks	Complex and dynamic environment	Operating Core	Mutual adjustment
MACHINE BUREAUCRACY *Functional Structure*	An old, large organisation, which is well regulated	Simple and static environment	Techno-structure	Standard work
PROFESSIONAL BUREAUCRACY	A simple organisation, often service based / professional	Complex and static environment	Operating Core	Standard skills

1	ENTREPRENEURIAL STRUCTURE

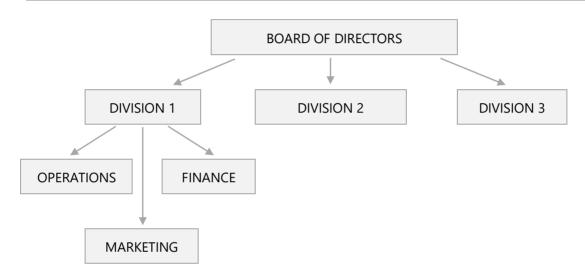| FEATURES	ADVANTAGES	DISADVANTAGES
Suited to simple structures Entrepreneur has specialist knowledge and total control	Quick decision making Flexible in fast-moving environments Goal congruence	Difficult to expand Lack of career structure Too centralised Difficult to diversify

ENTREPRENEUR

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EMPLOYEES

ACCOUNTANCY ANSWERED

2	DIVISIONAL STRUCTURE

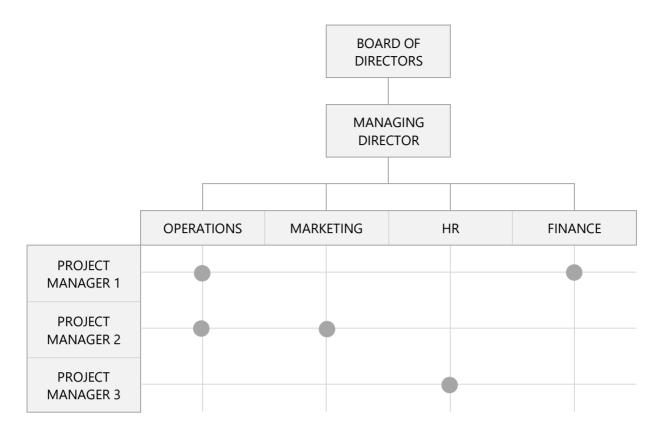| FEATURES	ADVANTAGES	DISADVANTAGES
Split into divisions (e.g. products or location) Often parent company with subsidiaries Divisions carry responsibility for performance	Flexible Greater efficiency Lower costs, higher margins Management has good knowledge of business Staff opportunities	Disputes over central costs Problems over value of transfer pricing Products may not sit comfortably in one division

BOARD OF DIRECTORS

DIVISION 1   DIVISION 2   DIVISION 3

OPERATIONS   FINANCE

MARKETING

3	MATRIX STRUCTURE

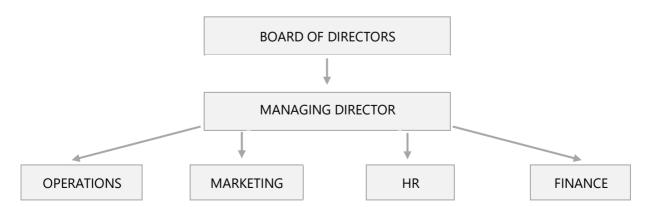| FEATURES	ADVANTAGES	DISADVANTAGES
Formalises complex reporting systems Allows project managers to liaise with functional managers (staff have multiple managers) Allows temporary roles	Co-ordinates technology and information Improves relationships between the business Allows employee's skills to be fully utilised	Conflicting demands on employee's time / focus Conflict of resource allocation

Diagram overleaf.

BOARD OF DIRECTORS			
MANAGING DIRECTOR			
OPERATIONS	MARKETING	HR	FINANCE

PROJECT MANAGER 1

PROJECT MANAGER 2

PROJECT MANAGER 3

| 4 | FUNCTIONAL STRUCTURE |

FEATURES	ADVANTAGES	DISADVANTAGES
Formal procedures Jobs grouped by common feature Clear reporting lines	Good career opportunities Utilises specialist knowledge Tasks clearly defined	Slow decision making Rigid structure unsuitable for growth Disputes between functional areas

BOARD OF DIRECTORS

MANAGING DIRECTOR

| OPERATIONS | MARKETING | HR | FINANCE |

CENTRALISATION

When decision making is primarily carried out at the strategic apex, the organisation will be **centralised.** Although centralisation sometimes refers to the geographic location of the business, it more generally refers to the extent to which decisions are pushed upwards to senior management.

Authority for decision making will remain in the upper levels of management in a centralised structure, whereas **decentralised** structures will pass the authority for decision making down the hierarchical chain.

The level of decentralisation in a business will be affected by a number of factors:

- Geographical spread between locations tends to increase decentralisation
- Effective communication channels enable successful decentralisation
- The larger the business, often the greater the push for decentralisation
- Local knowledge requirements will also increase decentralisation
- A well-skilled workforce will enable successful decentralisation
- Technological advancements will tend to increase decentralisation due to the requirement for specialised knowledge

WHY CENTRALISE?	WHY DECENTRALISE?
Easier to co-ordinate decisions	Reduces pressure on management
Big picture is taken into account in decision making	Decisions are made by those with full knowledge of the area / region
Consistency in decision making	Supports skills growth
Senior management retain control and knowledge of problems	Faster decision making
Cheaper – fewer managers are required	Makes employees feel involved

The number of staff reporting into a manager is known as their **span of control.** Traditionally, it was believed that managers should have tight control of their subordinates and be responsible for three to six employees. Nowadays, there a number of influences on a manager's span of control. A capable manager leading a team of subordinates who support each other and carry out similar tasks will be able to successfully manage a larger team than a manager who has a set of complex tasks to complete.
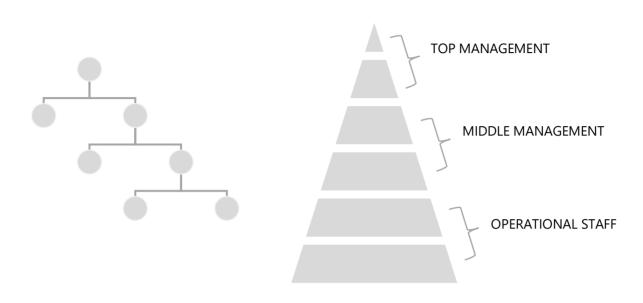
TALL VS FLAT

A '**tall**' business will have many management levels, each with a **narrow** span of control. If the span of control is **too narrow,** the manager will not have enough work to delegate, leading to micromanagement of the team and the demotivation of junior staff as they will miss out on opportunities to take on new responsibility.

Conversely, a '**flat**' business has a smaller number of management levels, as each manager will be responsible for a larger number of subordinates. If the span of controls is **too wide,** the manager will spend too much time supervising staff and will not be able to complete their non-supervisory work.
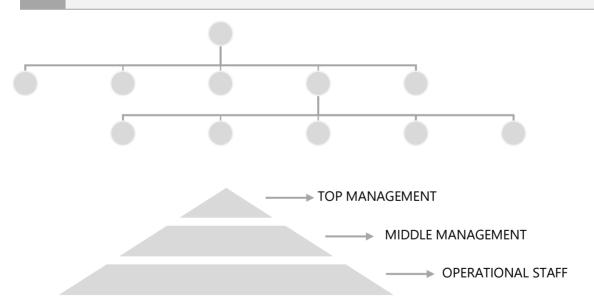
The breadth of the span of control will depend on a number of factors including geographical disbursement of the team, the type of work being carried out, how technology is embraced to facilitate effective working and the working culture of the organisation.

1	TALL STRUCTURES

TOP MANAGEMENT

MIDDLE MANAGEMENT

OPERATIONAL STAFF

2	FLAT STRUCTURES

TOP MANAGEMENT

MIDDLE MANAGEMENT

OPERATIONAL STAFF

TALL?	FLAT?
Smaller groups, so team members can be more involved in decision making (regular face time) Large number of steps on the career ladder – regular promotions leading to motivated staff	More opportunity and requirement to delegate Cheaper administration costs and overheads Faster decision making

34

MECHANISTIC VS ORGANIC

'**Mechanistic**' organisations (or bureaucracies) suit **slow moving, stable environments**. In a mechanistic organisation, activities are broken down into small defined tasks, with an emphasis placed on consistency and efficiency. A hierarchical structure of controls is in place, with managers coordinating tasks, and senior management leading the decision making. Policies and rules are defined, and the working environment is stable and standardised. This allows the organisation to be 'continuous', meaning that the business will continue to run smoothly if employees leave. Whilst mechanistic organisations suit stable environments, they can suppress innovation, which can lead to the underdevelopment of staff and missed opportunities.

Organic organisations work well in **dynamic, unstable environments**, where flexibility is necessary. In organic organisations, roles are less precise, and focus is on the overall effectiveness of the business. Individuals will adjust their tasks based on their skills and expertise. Decisions will be made by the most appropriately qualified members of the team, and shared values will shape the culture of the organisation.

Chapter 3: Organisational and business structures Questions: 1 – 9, 11, 12, 19, 20	QUESTION BANK