

Appropriateness of different organisational structures given changes in external factors

The organisational structures of businesses change in response to the dynamic global business environment. Factors such as economic recession, changes in the marketplace, and changes in technology can impact businesses, causing them to rethink how they organise themselves. [Section 1.1.5 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834\)](#) on the SWOT/STEEPLE tool covered the external factors impacting businesses. A number of those factors are highlighted below, along with their implications for business structure.



Figure 1. Changes in the external environment can impact the organisational structure of a business.

Credit: Onay Jakobov / EyeEm, Getty Images

Economic changes

Changes in economic growth, particularly recession, can impact business organisations. When sales revenue decreases, businesses may reduce staffing. Entire layers of hierarchy may be cut, called delayering, and roles may be eliminated. The business may decide to decentralise decision-making in order to be more responsive to markets and customers, or it may decide to centralise in order to increase control over the business.

In periods of economic growth, when business sales revenues and profits are increasing, a business may add specialists to improve efficiency. This would support managerial economies of scale, which you learned about in Section 1.5.1 (</study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/reasons-for-growing-id-36865>).



Figure 2. As the economy and a business grows, the business may need more specialists to achieve managerial economies of scale.

Credit: anandaBGD, Getty Images

Globalisation can also impact business organisational structures. As multinational companies (Subtopic 1.6 (</study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36876>)) grow beyond their national borders in search of higher revenues and lower costs, they need to establish new organisational units. Offshoring, when a business moves some or all of its operations to another country, also requires reorganisation of people and production.

The growth of specialist businesses in an economy may also cause more outsourcing of work. Some businesses may find it more efficient to have other companies perform non-core activities, such as preparing taxes, running the canteen, or maintaining the building.

Finally, competition can cause a business to change its organisational structure. For example, a consumer products business may need to give more autonomy to innovative teams in order to better meet consumer needs as competition increases.

Technological changes

The introduction of new technology in a business can lead to changes in its structure. For instance, a new manufacturing system or new machinery may remove the need for a quality control department in the business. The implementation of a new accounting system may also reduce the need for some administrative tasks that were previously done manually, resulting in a reorganisation or even the elimination of the administration department.

However, new technologies can also create new positions for skilled workers, and the need for new departments such as IT. These new roles and departments may require changes to the entire organisational structure of the business. Technology can also enable businesses and workers who are a long way from each other geographically to work together, which can also require changes to organisational structures.



Figure 3. An increase in remote working may cause changes to the organisational structure of a business.

Credit: Westend61, Getty Images

Sociocultural changes

Globalisation also increases the number of workers who decide to work in other countries. These workers are looking for new professional opportunities. Some are skilled; others are not. Some of these employees may also be willing to work freelance or part-time. Whatever the situation, the increased availability of labour enables businesses to adopt more flexible organisational structures. These employees can often also bring new ways of thinking and new practices, which may influence business organisations.

As understanding of human motivation improves, businesses are changing their organisational structures to be more in tune with human needs. Unresponsive, rigid hierarchical structures are no longer considered optimal for the business or for employees. The social norm is to build more distributed leadership, autonomy, collaboration and flexibility into business organisation. This enables businesses to respond more quickly to external changes, while improving job satisfaction among employees.

Concept

Change

Change is an act or process through which something becomes different. Businesses operate in a world that is constantly changing. To survive, thrive and be successful in this environment with continuous changes, businesses may have to modify and adapt their organisational structures.

Case study

Since 2013, the online shoe and clothing store Zappos has been committed to a corporate trend that is absent of hierarchical structure. Zappos promotes the entrepreneurial spirit of its employees and facilitates the flow of ideas, collaboration and innovation. The structure is decentralised into teams that have a high level of autonomy. Research shows that more autonomy at work increases worker motivation.

The business began testing the new network structure with a small group of employees in 2013 and, shortly afterwards, the company decided to eliminate management positions and delegate authority to 1500 workers.

To provide better customer service and respond quickly to customers' needs, Zappos has introduced a customised customer service system, where employees respond to requests and offer their own solutions without further queries or bureaucratic processes.

Questions

1. **Define** hierarchical structure. [2 marks]
2. **Explain** two reasons why Zappos has adopted a decentralised structure for its business. [4 marks]