

# ORGANISATIONAL STRUCTURE (2.4)

( Chapter 14 - A Level 2.4)

**Organisational structure refers to the levels of management and division of responsibilities within a business.** It shows the internal, formal framework of a business that shows the way in which management is organised and linked together and how authority is passed throughout the organisation.

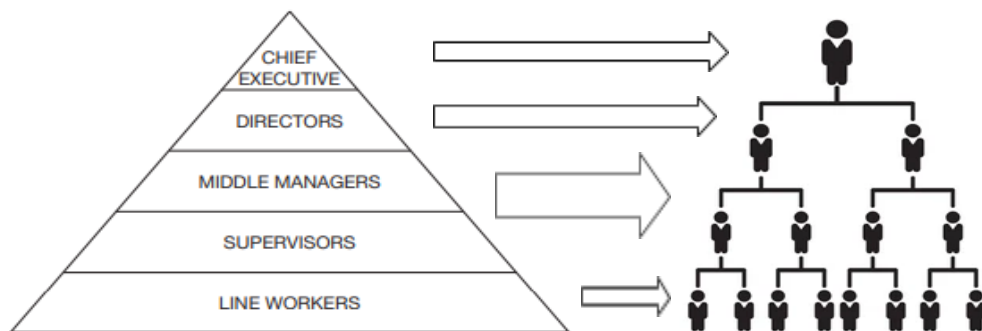
Organisational structure indicates :

- ❖ The **channel of communication** in a business
- ❖ Who has **overall responsibility** for decision-making (the top dog who has the final say)
- ❖ Who employees are responsible for and who they're responsible to
- ❖ The number of subordinates reporting to each senior manager – this is called the **span of control**
- ❖ The way in which accountability and authority may be passed down the organisation – this is called the **chain of command**

There are 2 commonly known types of organisational structures that the book mentions - The **hierarchical structure** and the **matrix structure**.

## Hierarchical structure

**This is a structure where there are different layers of the organisation with fewer and fewer people on each higher level.** A hierarchy can be *flat* (few levels of hierarchy and a wide span of control) or it can be *narrow* ( many levels of hierarchy and narrow span of control.)



### Advantages of hierarchical structures :

- ✓ There is a clear chain of command - everyone knows who to report to
- ✓ The role of each individual will be clear - the importance of the role determines your position

### Disadvantages of hierarchical structures :

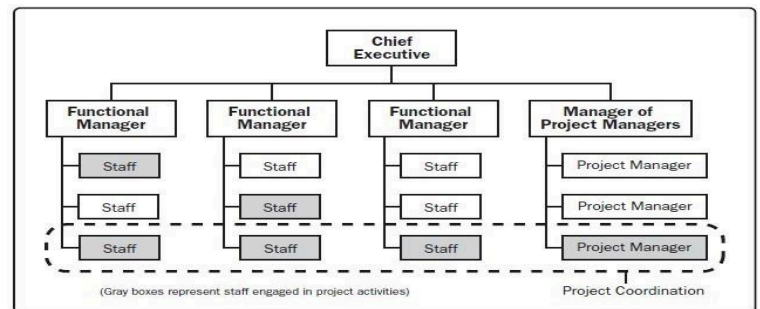
- ✗ This structure can imply one way communication (no horizontal – links between departments)
- ✗ Is a common form of business structure that is not very flexible and difficult to change/alter

## Matrix structure

This approach to organising businesses aims to eliminate many of the problems associated with the hierarchical structure - **it is an organisational structure that creates project teams with team members from different department areas.** ( team members from a regular hierarchy.)

Instead of focusing on the role or status of individuals it gathers together a team of specialists with the objective of completing a task or a project. This is done by getting rid of rigid rules and should lead to more innovative and creative ideas as staff will be more motivated to contribute.

	Finance Dept	Production Dept	Marketing Dept	Human Resources	Research & Development
Project Team 1			→		
Project Team 2					
Project Team 3	↓				



( ↑ from the book, idk what this means so i got a pic from google, where the grey boxes are the staff that do the projects ↑ )

### Advantages of matrix structures :

- ✓ Much more flexible than hierarchical structures, can easier respond to change
- ✓ Encourages innovative and creative ideas from employees
- ✓ Easier communication between different departments
- ✓ Better teamwork, this can be motivating

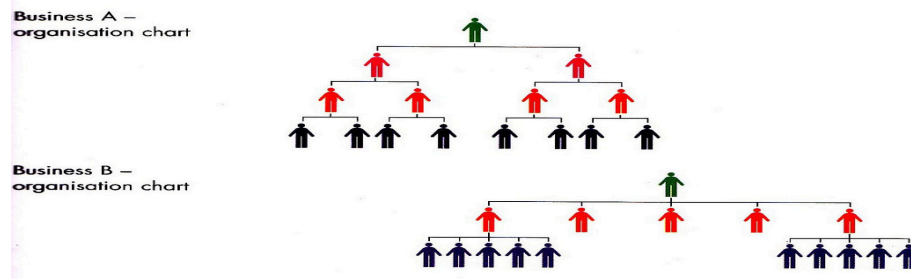
### Disadvantages of matrix structures :

- ✗ The top has less control as employees make most decisions (some managers may not like this)
- ✗ Authority roles not always clear, this can lead to possible conflict

*Additional structure : (don't really understand why it's different from H.Structure but its included in syllabus so)*

**Functional structure :** Similar to a hierarchical organisational structure, a functional org structure starts with positions with the highest levels of responsibility at the top and goes down from there. Although employees are organised according to their specific skills and their corresponding function in the company. It's inflexible, with little interaction between departments. Roles are clearly defined and there is a simple chain of command.

## Features of organisational structures



### Level of hierarchy

**Level of hierarchy** refers to each stage of the organisational structure where the employees on it have equal status and authority. In business A, there are 4 levels of hierarchy. In business B, there are 3 levels of hierarchy.

### Chain of command

**Chain of command** is the structure of an organisation that allows instructions to be passed on from senior managers to lower levels of management. Business A has a longer chain of command than business B, as there are fewer levels of hierarchy in business B.

*Long chain of command* can mean slow decisions, due to the fact information has to pass through many layers of management. It also means more opportunities for promotion, and the owners of the business maintain ultimate control as they make all the decisions.

*Short chain of command* means communication will be quicker, employees are closer to those in management positions so may be involved in decision making, although there may be some loss of control compared to a longer chain of command. ( not ideal for autocratic businesses.)

### Span of control

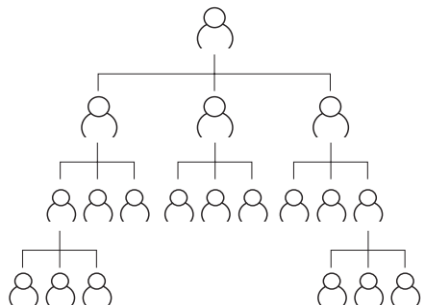
**Span of control** refers to the number of subordinates working directly under a manager in the organisational structure. In business A, each figure has a span of control of 2, meaning business A has a narrow span of control. In business B, the top person has a span of control of 5, and two of those 5 have their own respective span of control of 5 workers they are directly in charge of. Therefore we say business B has a wide span of control.

*Narrow span of control* allows for the closer supervision of employees, as there are many more managers to keep track of workers. This will however mean more levels of hierarchy are needed, increasing costs.

*Wide span of control* tends to be less expensive as there are less manager positions to be paid, it encourages managers to delegate to workers, this can be motivating and job enriching. However not all employees want more responsibility - some just want to show up and get paid.

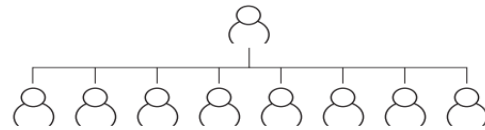
## Relationship between span of control and chain of command

If you look closely, there is a link between the span of control and chain of command. **The wider the span of control the shorter the chain of command** since more people will appear horizontally aligned on the chart than vertically. A short span of control often leads to a long chain of command. (it helps to draw it out to visualise it.)



### **Tall organisation :**

- Long chain of command + narrow span of control + multiple layers of hierarchy
- Autocratic leadership businesses
- Lots of manager positions, so increased costs but also more chance for promotion
- Greater supervision for employees
- Communication and employee motivation problems
- Beneficial for new or unskilled employees who need guidance and direction



### **Flat organisation :**

- Short chain of command + wide span of control
- Democratic/laissez faire businesses
- Managers encouraged to delegate more work
- Less supervision, workers may make mistakes
- Works best with skilled employees

## Factors influencing organisational structure

- **Size** - Large businesses tend to have a tall organisational structure as more managers are needed to supervise their many employees. A smaller business can work well with a flatter structure as they have less employees to manage
- **Style of management** - Business with an autocratic leadership will want full control and for employees to simply do as they're told, so they will most likely have a tall organisational structure with one way communication (narrow span + long chain)
- **Skill of employees** - employees whom are skilled can be trusted with delegated work would work in a flat organisational structure, while unskilled employees who need supervision and help should work in a tall organisation
- **Technological changes** - increased technology/automation may make certain employees redundant, shortening the structure
- **Recession** - in which employees will need to be made redundant to cut costs, therefore the organisational structure will become shorter/smaller
- **Growth/globalisation** - will require the hiring of more employees to be able to keep up with new projects/production, this will make the organisational structure longer

## **Delaying**

Delaying is the process of **removing a layer of management**. Delaying may occur if businesses need to cut costs, if there is a change in management approach or if there is a takeover.

### Advantages :

- ✓ reduces business costs
- ✓ shortens the chain of command and should improve communication
- ✓ increases spans of control and opportunities for delegation - motivating employees

### Disadvantages :

- ✗ increased workloads for managers who remain – this could lead to overwork and stress
- ✗ redundancies throughout the business can be demotivating for remaining employees

## **Formal vs informal structure**

Within any business there are two types of organisation – the formal structure and the informal structure. So far we've been discussing **formal businesses**, businesses with a clear organisational chart that has levels of hierarchy, chain of command and span of control - where each role is clearly defined and authority is based on position. ( *Companies and banks etc.* )

**Informal business structures means a business doesn't operate under the guidelines of a written document that spells out the rules, regulations and chain-of-command.** There is no organisational chart, authority tends to develop based on the characteristics of those involved. ( *Street vendors etc.* )

An informal business is generally a small one, with low costs involved so not as much risk, they can start out as a hobby or the testing of a business idea. Due to this, there isn't much potential to grow and they don't have as much credibility as a formal business.

## **Delegation and accountability**

**Delegation is when managers give a portion of their work to their subordinates.**

Delegation transfers the authority to undertake tasks, but at the end of the day the managers who delegate are accountable for what happens.

Delegation gives subordinates the authority to perform certain tasks – this means that they have the power to undertake jobs and make decisions necessary for these jobs to be completed. If this job is done poorly, then the worker is accountable to their manager.

However, the overall responsibility for the work of the department or section rests with the manager. **The manager delegates authority, but not responsibility.**

#### Advantages of delegation :

- ✓ Gives senior managers more time to focus their attention on more important matters
- ✓ Employees feel trusted when given more responsibility and this can be motivating
- ✓ Can help employees develop further skills as they are given challenging work
- ✓ Can help managers assess the capabilities of workers

#### Disadvantages of delegation :

- ✗ Not all employees will be up to the task, work may be delegated to someone underskilled or someone who doesn't want additional work. Task is done poorly = negatively impact profits
- ✗ Managers may be hesitant to delegate - maybe they don't want to give up control or they're worried the worker may do a poor job and it reflects badly on them
- ✗ May be favouritism - managers delegate boring tasks to employees they dislike

### **Centralisation and decentralisation ( two principles linked to delegation )**

**Centralisation is the act of a business keeping all of the important decision making powers within head office or the centre of the organisation.** With centralisation there will be minimum delegation to the lower managers.

#### Advantages of centralisation :

- ✓ Senior managers make decisions in the interest of the whole business, not just one division
- ✓ Senior managers in the central office will be experienced decision makers
- ✓ Usually quicker decision making due to fixed rules and procedures leaving no room to discuss
- ✓ Business has consistent policies throughout the organisation - this helps reduce conflict

#### Disadvantages of centralisation :

- ✗ Centralised businesses tend to have many layers of hierarchy (extra costs etc.)
- ✗ Local managers will probably know more about local consumer needs ( they're closer to customers.)
- ✗ Workers + lower management may feel demotivated as not involved in decision making - especially if they feel they have information of value to share

**Decentralisation is the act of a business allowing decision making powers to be passed down by the top management to the middle and lower levels of management in an organisation.** This will lead to lots of delegation.

#### Advantages of decentralisation :

- ✓ Junior managers will be more aware of what customers want as they are closer to the consumers themselves - this will lead to more accurate decision making
- ✓ Makes delegation easier which will have positive effects on motivation
- ✓ Good way of training and developing junior management

✓ Local managers better able to respond to local circumstances, faster than central management would be able to

Disadvantages of decentralisation :

- ✗ There is a lot of dependence on the ability of the employees - employees must be skilled to be able to make good decisions
- ✗ Lower/middle managers may make decisions in the interest of their particular department, rather than the whole company
- ✗ Can be difficult to control and coordinate ( for poor managers)

## Line and staff management

**Line managers** are managers who have authority over people directly below them in the organisational structure.

Traditional marketing/operations/sales managers are good examples.

**Staff managers** are specialists who provide support, information and assistance to line managers.

They perform a supporting role to the line managers, but do not make decisions. Due to their professional status and experience, they can be very well paid and they are often accused of having less loyalty to the business. (leave business for another job since they're heavily sought after.) An example would be IT managers.

## Conflict between the two?

Line managers might resent 'experts' coming into the organisation and, as they see it, telling them how to do their jobs. Basically some line managers believe staff managers overstep their authority. As a result, staff managers may feel they are not respected or appreciated.