

Chapter 10: Organisational Structure

What is organisational structure?

Organisational structure refers to the levels of management and division of responsibilities within a business, which could be presented in an **organisational chart**.

For simpler businesses in which the owner **employs only himself**, there is no need for an organisational structure. However, if the business expands and employs other people, an organisational structure is needed. When **employing** people, everybody needs a **job description**. These are its main **advantages**:

- People who apply can see what they are expected to do.
- People who are already employed will know exactly what to do.

Here is an example of a Job Description taken from the book:

<p>Job Description</p> <p>Shop Assistant</p> <p><u>Main tasks</u></p> <ul style="list-style-type: none">● To open the shop in the morning● To be responsible for ordering all goods from suppliers● To arrange all shelf displays● To help serve customers● To assist the manager in other ways directed by him <p><u>Working conditions</u></p> <ul style="list-style-type: none">● Five days a week● Eight hours a day● Four weeks' holiday – by negotiation, but not at same time as the manager

When there are more than one person in a small business and they all do different things, it means that they are **specialising** in different jobs.

Delegation

Delegation refers to giving a subordinate the **responsibility** and **authority** to do a given task. However, the **final responsibility** still lies with the person who delegated the job to the subordinate. Here are the advantages of delegation for managers and employees, as well as why some managers choose not to delegate.

Pros for the manager:

- By letting subordinate do smaller tasks, managers have **more time** to do more important tasks.

- Managers are less likely to make **mistakes** if tasks are done by **specialist** employees.
- Managers can **measure** the **success** of their task more easily.

Pros for the subordinates:

- Work becomes more **interesting** and **rewarding**.
- Employees feel **important** and **trusted**.
- Helps **train** workers, giving them better **career opportunities**.

Why some managers don't want to delegate:

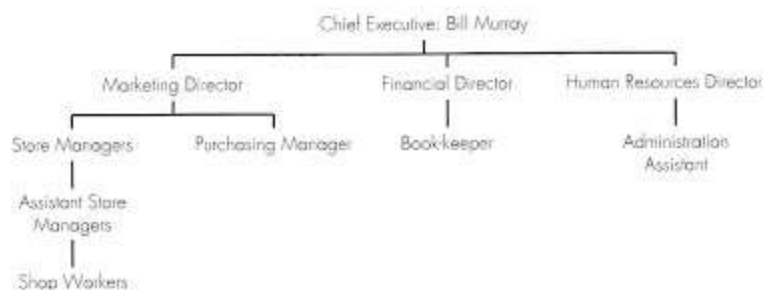
- Managers are afraid that their employees will **fail**.
- Managers want total **control**.
- Managers are scared that the subordinate will do tasks **better** than them, making them feel **insecure**.

Delegation must mean:

- A **reduction** in **direct control** by managers or supervisors.
- An **increase** in **trust** of workers by managers or supervisors.

Organisational charts

Eventually, when a business grows larger and employs many people, they will have to create an **organisational chart** to work out a **clear structure** for their company. Here is another example of an organisational chart from the book:



Here are the most **important features** of the chart:

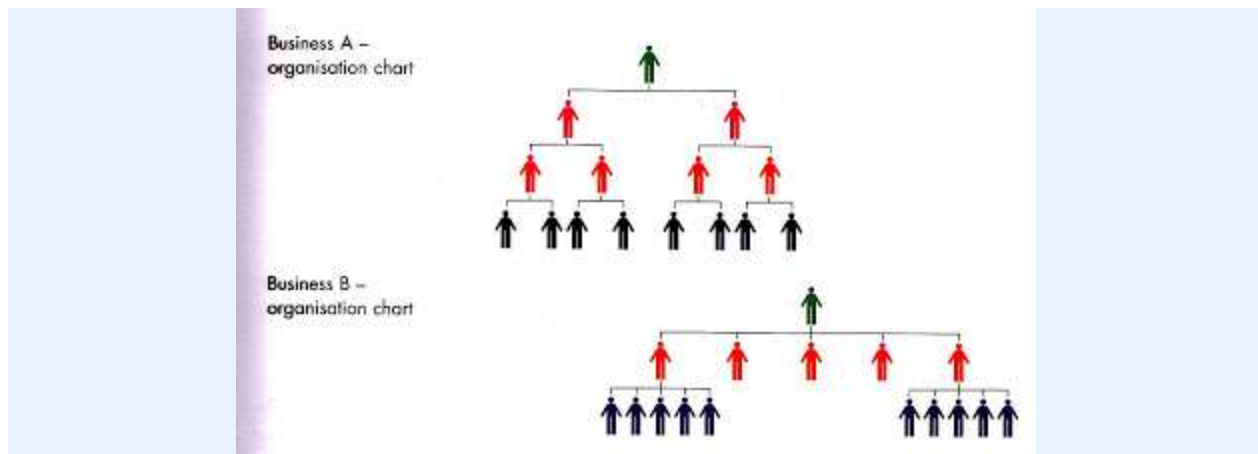
- It is a **hierarchy**. There are different **levels** in the business which has different **degrees of authority**. People on the same level have the same degree of authority.
- It is organised into **departments**, which has their own **function**.
- It shows the **chain of command**, which is how power and authority is passed down from the top of the hierarchy, and **span of control**, meaning how many subordinates one person controls, of the business.

Advantages of an organisational chart:

- The chart shows how everybody is **linked together**. Makes employees aware of the **communication channel** that will be used for messages to reach them.
- Employees can see their **position** and **power**, and who they take orders from.
- It shows the **relationship** between departments.

- Gives people a sense of **belonging** since they are always in one particular department.

Chain of command and span of control:



Here are two organisations, one having a long chain of command and the other a wide span of control. Therefore, the longer the chain of command, the taller the business hierarchy and the narrower the span of control. When it is short, the business will have a wider span of control.

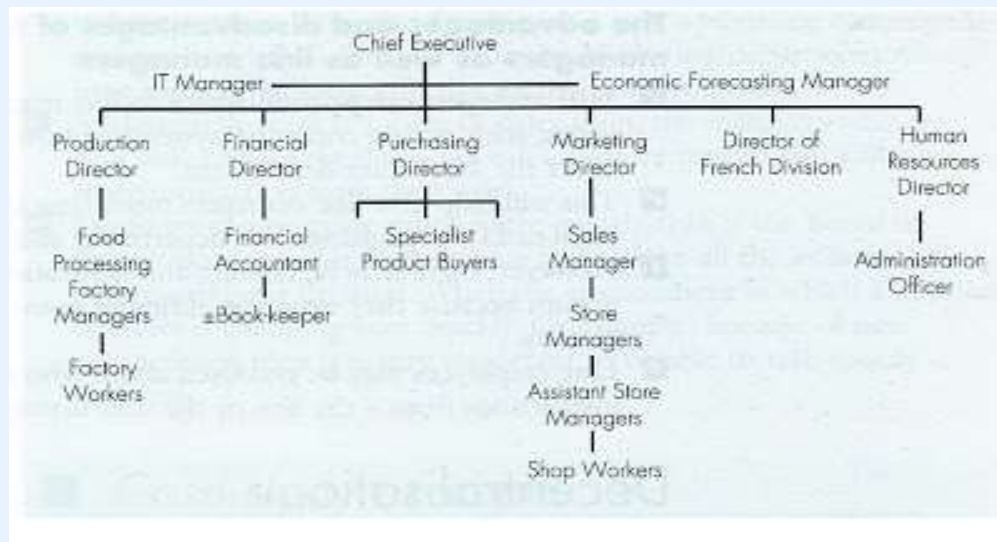
In recent years, people have begun to prefer to have their business have a wider span of control and shorter chain of command. In some cases, whole levels of management were removed. This is called **de-layering**. This is because short chains of commands have these advantages:

- **Communication** is **faster** and more **accurate**. The message has to pass through less people.
- **Managers** are **closer** to all employees so that they can understand the business better.
- **Spans of control** will be wider, meaning that the manager would have to take care of more subordinates, this makes:
 - The manager **delegate** more, and we already know the advantages of delegation.
 - Workers gain more **job satisfaction** and **feel trusted** because of delegation.

However, if the span of control is too wide, managers could **lose control**. If the subordinates are poorly trained, many mistakes would be made.

Functional departments

Here is an example of an organisational chart from a larger business from the book:



Here are the key features of this graph:

- The business is divided into **functional departments**. They use **specialists** for each job and this creates more **efficiency**. However, workers are more **loyal** to their department than to the organisation as a whole. Therefore, **conflict** can occur between different departments. Managers working in these departments are called **line managers**, who have direct authority and the power to put their decisions into effect over their department.
- Not only are there departments, there are also other **regional divisions** that take care of outlets that are situated in other countries. They use the local knowledge to their advantage.
- There are some departments which do not have a distinctive function but still employ **specialists** and report directly to the **CEO/Board of Directors**. These departments are the **IT department**, and the **Economic Forecasting department**. Some say the **HR** department fits in this category. These departments give **specialist advice** and **support** to the board of Directors and **line managers**, and the managers of these departments are called **staff managers**. They are often very highly qualified personnel who specialise in only their area.

Here are the pros and cons of employing **staff managers**:

Pros:

- Staff managers **help** and **provide advice** for line managers on things such as computer systems.
- Helps line managers **concentrate** on their **main tasks**.

Cons:

- There may be **conflict** between the two groups on important decisions and views.
- Line employees may be **confused** and do not know who to take orders from, line or staff managers.

Decentralisation

Decentralisation refers to a business **delegating** important decisions to lower divisions in the business. In a **centralised** structure important decisions are taken at the **centre**, or higher levels of management.

Advantages of a decentralised structure:

- Decisions are made by managers who are "**closer to the action**".
- Managers feel more trusted and get more job satisfaction due to **delegation**.
- **Decisions** can be made much more quickly.
- The business can **adapt to change** much more quickly.

Decentralisation means that:

- Less **central control**.
- More **delegation**.
- Decisions taken "**lower down**" in the organisation.
- **Authority** given to departments/regions

Different forms of decentralisation:

- **Functional decentralisation: Specialist** departments are given the authority to make **decisions**. The most common of these are:
 - Human Resources.
 - Marketing.
 - Finance.
 - Production.
- **Federal decentralisation:** Authority is **divided** between different **product lines**. e.g separate truck/car/bus divisions.
- **Regional decentralisation:** In **multinationals**, each **base** in each country has authority to make its own decisions.
- **Decentralisation by project means:** For a certain **project**, decision-making authority is given to a **team** chosen from all functional departments.

Is complete decentralisation a good idea?

It is dangerous to let the lower-level management make all the decisions. Therefore, it is wise for the **central management** to decide on **major issues, long-term decisions, growth** and **business objectives**. If these issues are not **centralised** then there would be a **lack of purpose** or **direction** in the business.