



Higher Still Notes

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Higher Business Management

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Internal Organisation

Organisations

What is an organisation?

“An organisation exists where a group of people co-ordinate their activities to achieve a common goal through division of labour and a hierarchy of authority.”

How can an Organisation Co-ordinate its different Activities?

The “division of labour” within an organisation can be coordinated through use of either one or a combination of the following.

- Functional grouping (e.g. marketing, finance, human resource management, operations, research and development)
- Product/service grouping
- Customer grouping
- Place/territory grouping
- Line/staff grouping.

Why is Effective Co-ordination of different Activities Important?

Effective coordination of activities is important to prevent the following.

- Breakdowns in communication
- Poor staff motivation
- Lack of guidance/leadership
- Weak decision-making
- Individuals feeling overworked
- Lack of promotional opportunities
- Staff division and a lack of co-operation
- Inflexibility
- Duplication of resources.

Forms of Internal Organisation Structure

The internal structure (or “hierarchy of authority”) of an organisation is concerned with the way the organisation manages and controls its activities through the establishment of:

- Interpersonal relationships
- Which people are in charge (at various levels)
- Who has decision-making authority (at various levels)
- Who carries out decisions (at various levels)
- How information is communicated.

This situation means that the internal structure of most businesses will be different (even in the case of organisations with similar external structures, i.e. similar size and financing) due to the following factors:

- The organisation’s type and purpose
- The size of the organisation
- The views/leadership styles of staff in the organisation

- The activities which the organisation undertakes
- The technology and ICT within an organisation
- The organisational culture
- The informal organisational structure (i.e. the “grapevine”)
- The external environment of the organisation.

Additionally, in order for an organisation to ensure that its internal structure is as efficient as possible, it should dynamically monitor and change the structure as is necessary to accommodate changes in these factors.

The most common internal structures which most organisations tend to use are:

Hierarchical (e.g. police, army, schools) [traditional UK]

Features

- Many distinct levels of authority
- (large) Pyramid staffing structure
- Centralised top-down decision-making
- Clearly defined (specialised) staff roles
- Functional groupings.

Strengths

- Strong top-down leadership
- Effective strategic decision-making
- Effective top-down activity coordination
- Standardisation – can provide economies of scale
- Skilled decision-makers (through experience).

Weaknesses

- Many layers – slow reaction time/not as dynamic as others
- Defined roles may suppress talents
- Lack of control may be demotivating.

Flat (e.g. doctors, lawyers) [modern UK]

Features

- Few distinct levels of authority
- Flat staffing structure
- Decentralised decision-making/authority.

Strengths

- Decentralised authority is motivating
- Quick communication and decision-making
- Decentralisation harnesses expertise.

Weaknesses

- Possibility of lack of strategic perspective
- Possibility of lack of coordination.

Matrix (e.g. project-based work) [modern UK]*Features*

- Non-hierarchical skill-based project teams
- Functional responsibilities for individuals.

Strengths

- Maximises the skills of all involved
- Quick communication and decision-making
- Authority and flexibility are motivating.

Weaknesses

- Support can be expensive
- Possibility of lack of team coordination
- Economies of scale may not be achieved.

Entrepreneurial (e.g. sole traders)*Features*

- Few levels of authority, usually only one level
- Centralised top-down decision-making.

Strengths

- Strong top-down leadership
- Effective top-down activity coordination
- Effective and quick decision-making.

Weaknesses

- “Information overload” for decision-makers.

Important Aspects of any Internal Organisation Structure

- Organisational charts
- Span of control (staff are managed based on ability/task/culture)
- Line relationships (between management and staff)
- Functional/lateral relationships (with similar-level staff)
- Staff relationships (overall support staff)
- Informal relationships (e.g. communication, advice, trust).

Organisational Culture within an Overall Organisational Structure

“Organisational culture is a set of behavioural and attitudinal norms which most or all members of an organisation subscribe to and are influenced by when resolving problems, making decisions and carrying out everyday tasks.”

Organisational culture is made up of:

- Artefacts (physical aspects)
- Values (principles which affect behaviour)
- Assumptions (sources of values adopted).

For it to exist and be effective there must be consensus in the following areas:

- Core mission
- Goals
- Method to use in the attainment of goals
- The nature of feedback and monitoring
- The nature of remedial or repair strategies.

Despite the danger of some staff not adopting the organisational culture and therefore becoming isolated within the organisation, many believe an organisational culture is beneficial for the following reasons:

- It creates a sense of belonging and purpose in staff
- It improves motivation and commitment of staff
- It develops positive customer perception.

Examples of cultures may include:

- Hierarchical – bureaucratic and centralised culture
- Flat – culture of empowerment and development.

The Changing Nature of Organisational Structure

As we have already stated, organisational structure should be dynamic, and developed so that over time it can account for changes in the factors which affect organisations.

Examples of the dynamic nature of organisational structures can be seen in the following examples.

- Flat to hierarchical over time to account for growth (1960s)
- Flat to hierarchical due to diversification (1960s)
- Hierarchical to flat/matrix to improve decision-making (1990s)
- Hierarchical to flat/matrix to improve dynamism (1990s)
- Hierarchical to flat/matrix to improve efficiency (1990s)
- Hierarchical to flat/matrix to improve competitiveness (1990s).

However, despite the need for the structural dynamism shown above, the following constraints may limit the amount of structural change that is possible.

- Resistance of workforce – job losses (internal)
- Management resistance – changing roles (internal)
- Owner resistance – investment versus profits (internal)
- Lack of resources – e.g. finance, trained staff, facilities (internal)
- Market structure (external)
- Economic climate (external)
- Competitors' activities (external).

Additionally, when structural change is required, the organisation must decide on the most suitable strategies to use to bring about such changes. These strategies will differ depending on the direction of structural change, e.g. takeovers and mergers during the growth of the 1960s, but the following strategies are seen to be very important to modern business management and structure in light of the decline of hierarchical structure in many progressive UK organisations.

Delaying

Definition

Decreasing the number of managerial layers within an organisation.

Benefits

- Speed of communication is improved
- More efficient decision-making
- More responsive organisation – flexible towards the market
- More motivation and delegation opportunities
- Motivating empowerment of staff
- Lowered costs (from managerial redundancies).

Drawbacks

- Staff resistance and industrial action
- Wider spans of control (decreased efficiency?)
- Increased pressure on surviving managers
- Demotivating – lack of promotional opportunities
- Demotivating – concerns over job security.

Downsizing

Definition

The removal of non-core activities within an organisation.

Benefits

- Speed of communication is improved
- More efficient decision-making
- More responsive organisation which is flexible towards the market
- Motivating empowerment of staff
- Lowered costs (loss of unnecessary resources).

Drawbacks

- Staff resistance and industrial action
- Wider spans of control (decreased efficiency?)
- Increased pressure on surviving managers
- Demotivating – lack of promotional opportunities
- Demotivating – concerns over job security.

Outsourcing

Definition

Issuing some work to outside parties, e.g. cleaning/catering.

Suitable when

- The organisation is running at full capacity
- Lack of necessary expertise
- Lack of specialist equipment
- One-off specialist job
- Lower costs through using a subcontractor.

Benefits

- Cheap expansion of capability
- Expert ability without training costs
- More responsive and flexible to market.

Drawbacks

- Staff resistance and industrial action
- Costs in the long-run may be uneconomical
- Dependence on the outside party.

Empowerment*Definition*

Delegating power to employees.

Strategies

- Involving staff in decision-making
- Recognising and praising achievement.

Benefits

- Responsibility motivates staff
- Responsibility breeds commitment
- Motivated staff are more productive
- Harness employees “expert” views.

Drawbacks

- May be difficult to implement
- Limited by employee motivation/ability.

Monitoring the Impact of Changes in Organisational Structure

Like every other efficient decision, the decision to change organisational structure should be evaluated to ensure that it is productive.

This evaluation can be conducted through dynamic monitoring of the following:

- Production output – identifies staff motivation
- Production quality – identifies staff motivation
- Absenteeism/attendance – identifies staff morale
- Staff turnover – identifies staff morale
- Industrial action – identifies staff morale
- Sales data – identifies market share
- Financial data – identifies profitability
- Share price – identifies organisational worth
- Lower costs – identifies profitability
- Better communication – for improved decision-making.

This evaluation of the success of changing organisational structure is important to ensure the following:

- The new structure has had a positive effect
- The decision to change was therefore a “good” one
- Any problems from the new structure are identified
- Any structural problems are stopped
- Action is taken to correct structural problems.