

ORGANIZATION

Definition

Organizations are social arrangements for the controlled performance of collective goals (Buchanan and Huczynski).

Why do we need organisations?

Organisations enable people to:

- **Share skills and knowledge:** this can enable people to perform tasks that they would be unable to achieve on their own. Knowledge can also be shared between all the people within the organisation.
- **Specialise:** individual workers can concentrate on a limited type of activity. This allows them to build up a greater level of skill and knowledge than they would have if they attempted to be good at everything.
- **Pool resources:** whether money or time.

This results in synergy where organisations can achieve more than the individuals could on their own.

Different types of organisation

As we have discussed, different organisations have different goals. We can therefore classify them into several different categories.

1. Commercial organisations

Commercial (or profit seeking) organisations see their main objective as maximising the wealth of their owners.

There are three common forms that a commercial company can take:

- **Sole traders:** The organisation is owned and run by one person.
- **Partnerships:** The organisation is owned and run by two or more individuals.

Note that in both of these organisations, the owner of the business is not legally separate from the business itself. If a partnership is sued by a customer, the customer is actually suing the owner of the business.

- **Limited liability companies:** a company has a separate legal identity to its owners (who are known as shareholders). The owner's liability is limited to the amount they have invested into the company.

2. Not for profit organisations

Not for profit organisations (NFPs or NPOs) do not see profitability as their main objective. Instead, they seek to satisfy the particular needs of their members or the sectors of society that they have been set up to benefit.

The objectives of different NFPs will vary significantly:

- Hospitals exist to treat patients.
- Councils may see their mission as caring for their communities.

- Government organisations usually exist to implement government policy.
- A charity may have ‘provision of relief to victims of disasters’ as its main objective.

3. Public sector organisations

The public sector is the part of the economy that is concerned with providing basic government services and is controlled by government organisations.

- Police
- Military
- Public Transport

4. Private sector organisations

The private sector consists of organisations that are run by private individuals and groups rather than the government.

- Businesses
- Charities
- Clubs

5. Nongovernmental organisations (NGOs)

A nongovernmental organisation is one which does not have profit as its primary goal and is not directly linked to the national government.

NGOs often promote political, social or environmental change within the countries they operate.

Sectors in which organisations operate

A further difference between organisations is the market in which they operate. There are a large number of different sectors, which include:

- **Agriculture:** production, processing and packaging of foodstuffs.
- **Mining:** extraction and processing of minerals.
- **Finance:** this includes banks and other companies that profit through investments and the lending of money to others.
- **Retailers:** sale of goods produced by manufacturers to consumers.
- **Service:** production of intangible goods and services.
- **Transportation:** movement of goods between locations.

ORGANISATIONAL STRUCTURE

Organisational structure is concerned with the way in which work is divided up and allocated.

It outlines the roles and responsibilities of individuals and groups within the organisation.

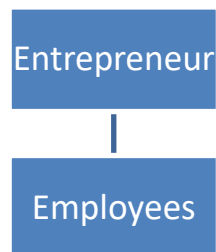
There are several possible ways in which an organisation can be structured. For this exam you need to be familiar with each of them, as well as being able to weigh up their advantages and disadvantages.

The structure of most organisations will change over time as the company grows. A typical pattern of structural change would be as follows:

1. Entrepreneurial

This structure is built around the owner manager and is **typical of small businesses in the early stages** of their development.

It is also often found where the entrepreneur has specialist knowledge of the product or service that the organisation offers.



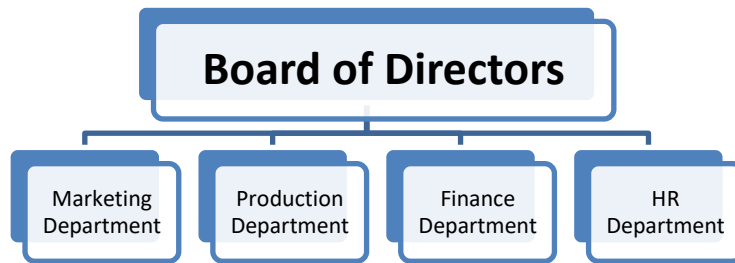
Advantages	Disadvantages
Fast decision making.	Lack of career structure.
More responsive to market.	Dependent on the capabilities of the manager/owner.
Goal congruence.	Cannot cope with diversification/growth.
Good control.	
Close bond to workforce.	

2. Functional/departmental structure

Functional organisations group together employees that undertake similar tasks into departments.

This type of structure is often found in organisations that have outgrown the entrepreneurial structure.

It is most appropriate for small organisations which have relatively few products or locations and which exist in a relatively stable environment.



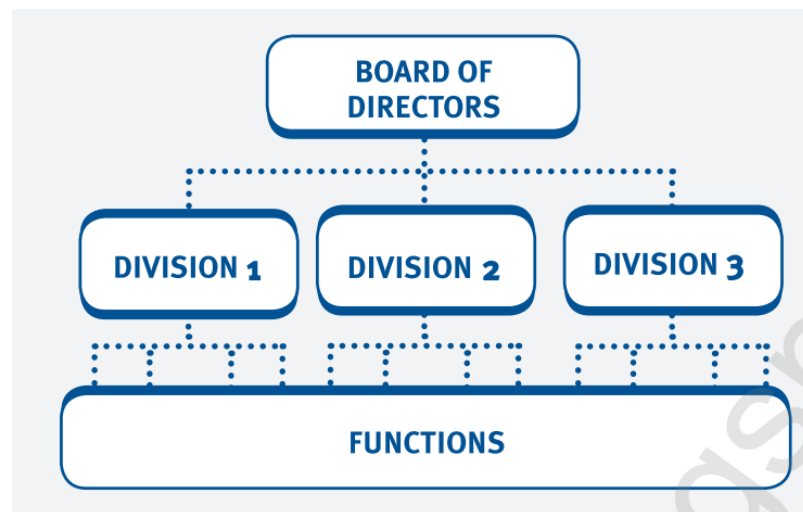
Advantages	Disadvantages
Economies of scale.	Empire building.
Standardisation.	Slow.
Specialists more	Conflicts between functions.
Comfortable.	Cannot cope with diversification.
Career opportunities.	

3. Divisional structure

This structure occurs where an organisation is split into several divisions – each one autonomously overseeing a product (i.e. separate divisions for cars and motor bikes), a geographic section (i.e. separate divisions for US and Europe) or even by customer (i.e. separate divisions that look after corporate clients and private clients).

Each division is likely to have a functional structure, with all the departments it needs in order to operate in its particular market segment.

Divisions are likely to be run as profit centres, with their own revenues, expenditure and capital investments. Each division is a separately identifiable part of the overall organisation, which is often referred to as a strategic business unit (SBU).

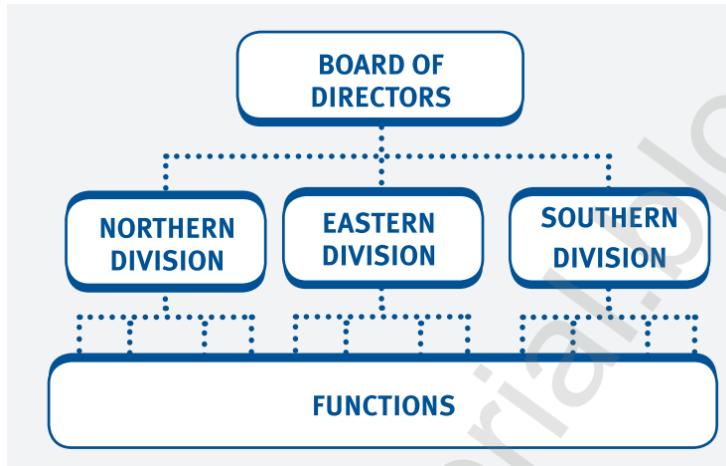


Advantages	Disadvantages
Enables growth.	Potential loss of control.
Clear responsibility for products/divisions.	Lack of goal congruence.
Training of general managers.	Duplication.
Easily adapted for further diversification.	Specialists may feel isolated.
Top management free to concentrate on strategic matters.	Allocation of central costs can be a problem.

4. Geographically structured

This is similar to the divisional structure, but involves each division covering a specific location.

For example, a global company may be split into different divisions based on geographic areas. There may be a division that looks after the organisation's Asian operations, one that covers Europe and another division for America.



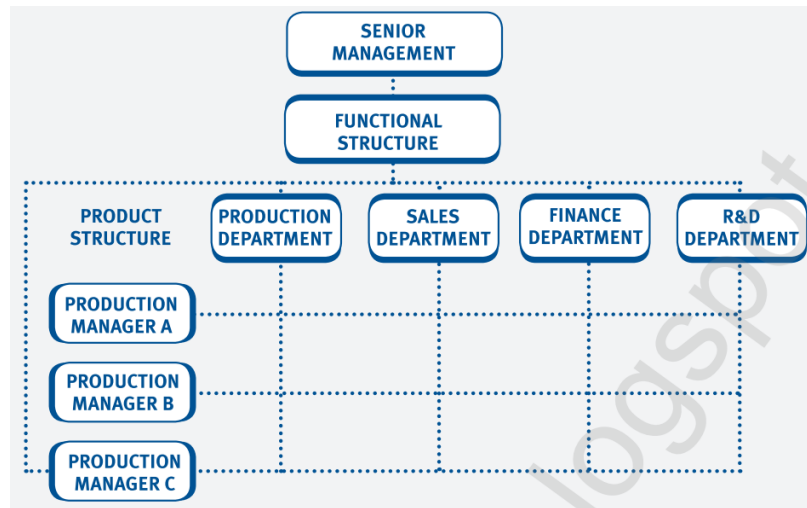
Advantages	Disadvantages
Enables geographic growth.	As for divisional structure above.
Allows local decision making.	
Clear responsibility for areas.	
Training of general managers.	
Top management free to concentrate on strategic matters.	

5. Matrix structure

Matrix structures are a combination of the functional and divisional structures.

The matrix requires dual reporting to two different managers. For example, looking at the diagram above, an employee manufacturing product A would have to report to the manager of the production department and the manager in charge of product A.

The aim of the matrix structure is to combine the benefits of both the divisional and functional structures.



Advantages	Disadvantages
Advantages of both functional and divisional structures.	Dual command and conflict.
Flexibility.	Dilution of functional authority.
Customer orientation.	Time consuming meetings.
Encourage teamwork and the exchange of opinions and expertise	Higher admin costs.

OTHER BASIC ORGANISATIONAL CONCEPTS

As well as the different types of organisation structure, you need to be aware of four other key structural concepts.

1. Separation of direction and management

Ownership and management of larger organisations are often separated. This is especially common in larger companies, where the owners (shareholders) elect directors to run the company on their behalf.

In order to ensure that directors are running the business in the best interests of the owners, many safeguards and controls are put in place.

Separation of ownership and control

Separation of ownership and control refers to the situation in a company where the people who own the company (the shareholders) are not the same people as those who run the company (the Board of Directors).

This situation tends to occur in larger companies, where there may be many external shareholders who play no role in the day-to-day running of the company.

This separation can bring benefits for both parties.

- Specialist managers can often run the business more efficiently than those who own the company.
- Managers cannot personally contribute all the capital needed to run the business, so they have to bring in external capital from investors who often have no interest in the day-to-day operations of the company.

However, there is a risk that the directors may run the business in their own interests, rather than

those of the shareholders and other stakeholders. This is referred to as the ‘**Agency Problem**’.

Note that smaller companies often do not have this issue, as in these organisations the directors are also likely to own all of the shares in the company, meaning that there is no separation of ownership and control.

Corporate governance

Corporate governance is the set of processes and policies by which a company is directed, administered and controlled. It includes the appropriate role of the Board of Directors and of the auditors of a company.

The main recommendations of best practice in effective corporate governance tend to include the following areas:

- The membership of the Board of Directors both executive and nonexecutive directors (NEDs)

- How directors' remuneration is decided and disclosed.
- The role of both internal and external audit.
- How the public, as a legitimate stakeholder in a large company, has a right to know how the company is being governed.

Executive Directors

Whilst company law refers only to 'directors' in general, two types of director have emerged. Those who are involved in the day-to-day running of the company are known as executive directors.

Non-Executive Directors (NEDs)

NEDs are not employees of the company and have no managerial responsibilities, meaning that they do not participate in the day-to-day running of the organisation.

However, NEDs do attend board meetings and therefore have a say in the strategic decision making of the company.

2. Scalar Chain

This is the line of authority which can be traced up or down the chain of command, from the most senior member of staff to the most junior. It therefore relates to the number of levels of management within an organisation.

3. Span of Control

A manager's span of control is the number of people for whom he or she is directly responsible.

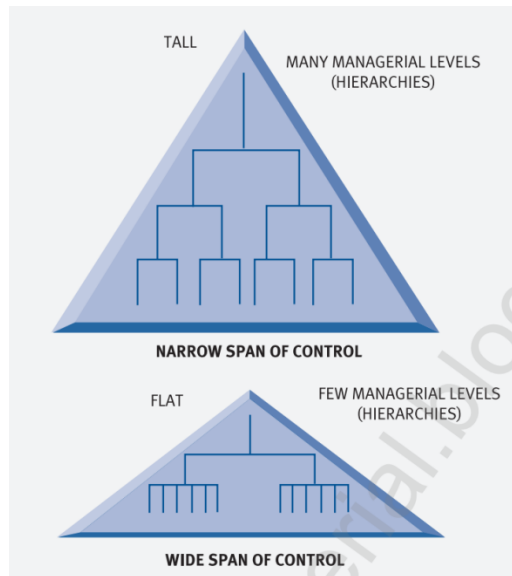
The factors that influence the span of control include:

- **The Nature of the Work** – the more repetitive or simple the work, the wider the span of control can be.
- **The Type of Personnel** – the more skilled and motivated the managers and other staff members are, the wider the span of control can be.
- **The Location of Personnel** – if personnel are all located locally, it takes relatively little time and effort to supervise them. This allows the span of control to become wider.

4. Tall and Flat Organisations

A 'Tall' organisation has many levels of management (a long scalar chain) and a narrow span of control.

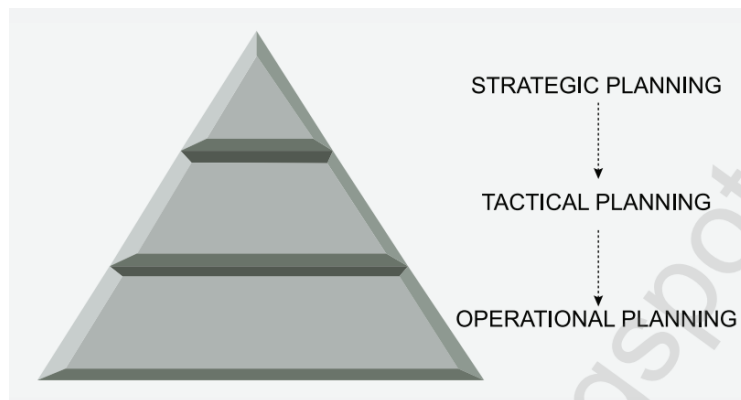
A 'Flat' organisation has few levels of management (a short scalar chain) and a wide span of control.



5. Levels of strategy

Within an organisation, each level of management will have different roles and responsibilities. This is especially the case when it comes to developing a strategy, or plan for the future, for the organisation.

The Anthony Triangle is a model that can be used to illustrate the types of strategic planning that will be made at each level of the organisation's hierarchy.



Different levels of planning

- **Strategic Planning** is undertaken by senior managers. It involves making long-term decisions for the entire organisation.
- **Tactical Planning** is undertaken by middle management. It tends to look at plans for specific divisions or departments and specifies how to use resources.
- **Operational Planning** is undertaken by junior managers and supervisors. It is short-term, detailed and practical.

STAKEHOLDERS

A stakeholder is an individual or group who has an interest in what the organisation does, or who affects, or can be affected by, the organisation's actions.

It is vital for managers to understand the varying needs of the different stakeholders in their organisation. Failure to do so could mean that important stakeholders do not have their needs met, which could be disastrous for the company.

Stakeholders can be broadly categorised into three groups: internal, external and connected.

Types of stakeholder

1. Internal stakeholders

Internal stakeholders include:

Stakeholder	Need/expectation	Example
Employees	Pay, working conditions and job security	If workers are to be given more responsibility, they will expect increased pay.
Managers/directors	Status, pay, bonus, job security	If growth is going to occur, the managers will want increased profits, leading to increased bonuses.

2. Connected stakeholders

They tend to have varied objectives.

Stakeholder	Need/expectation	Example
Shareholders	Steady flow of income, possible capital growth and the continuation of the business	If capital is required for growth, the shareholders will expect a rise in the dividend stream.
Customers	Satisfaction of customers' needs will be achieved through providing value for money products and services	Any attempt to, for example, increase the quality and the price, may lead to customer dissatisfaction.
Suppliers	Paid promptly	If a decision is made to delay payment to suppliers to ease cash flow, existing suppliers may cease supplying goods.
Finance providers	Ability to repay the finance including interest, security of investment	The firm's ability to generate cash.

3. External stakeholders

As with connected stakeholders, they will have very diverse objectives for the organisation to take account of.

Stakeholder	Need/expectation	Example
Community at large	The general public can be a stakeholder, especially if their lives are affected by an organisation's decisions.	E.g. local residents' attitude towards out of town shopping centers.
Environmental pressure groups	The organisation does not harm the external environment.	If an airport wants to build a new runway, the pressure groups may stage a 'sit in'.
Government	Company activities are central to the success of the economy (providing jobs and paying taxes). Legislation (e.g. health and safety) must be met by the company.	Actions by companies could break the law, or damage the environment, and governments therefore control what organisations can do.
Trade unions	Taking an active part in the decision making process.	If a department is to be closed the union will want to be consulted, and there should be a scheme in place to help employees find alternative employment.