

## **Organisational Design**

### **Centralised versus Decentralised Structure**

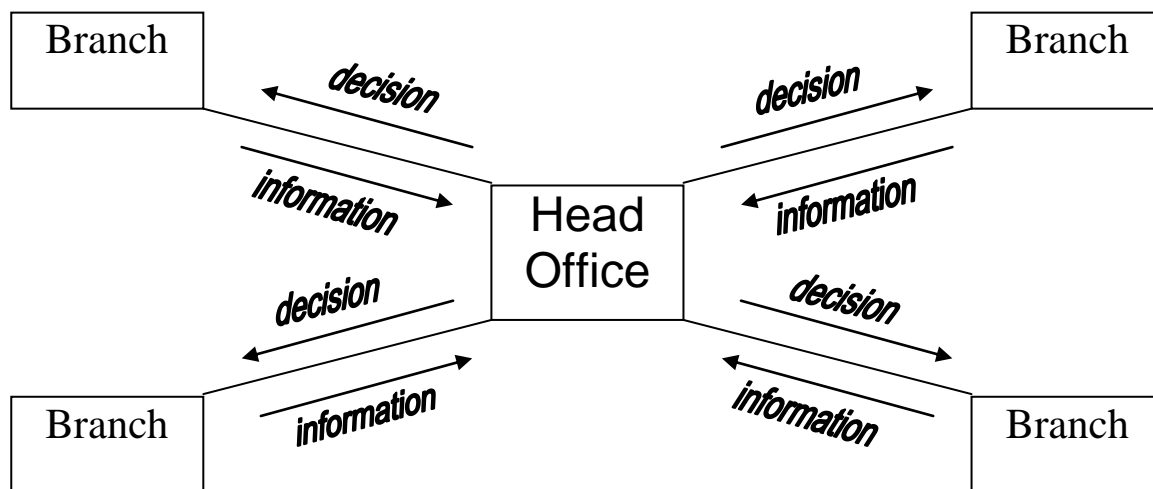
#### **Introduction and Definition**

Centralisation and decentralisation refer to:

*the extent to which the organisation as a whole, passes authority and responsibility for decision making down into its divisions, departments and sections.*

#### **Centralised:**

- power is concentrated in upper levels of management.
- key business decisions taken by most senior managers.



#### **Decentralised:**

- lower management - responsible for important decisions.
- delegation - a key feature.

No organisation is completely centralised -  
no one person could make all decisions.

No organisation is completely decentralised -  
would imply a total lack of control.

## **Centralisation – potential advantages/disadvantages**

### **Advantages**

- **Greater control.**
- **Uniformity of decision making.**
- **Economies of scale.**
- **Economies of staffing.**
- **Economies of specialisation.**

### **Disadvantages**

- **Overload / pressure on senior managers.**
- **Too much power given to too few individuals.**
- **Slower decision making.**
- **Poor motivation.**
- **Loss of initiative.**

## **Decentralisation – potential advantages/disadvantages**

### **Advantages**

- **Reduced workload / potential stress.**
- **Power is dispersed.**
- **Better quality decisions and managers.**

- **Speedier decisions / faster response to change.**
- **Improved morale and motivation.**
- **Increased respect from employees.**

### **Disadvantages**

- **Loss of direction and control.**
- **Lack of uniformity and consistency.**
- **Loss of economies of scale, staffing & specialisation.**
- **Inter-unit conflict.**
- **Managers unwilling to accept responsibility.**
- **Requires training.**

### **Factors affecting Choice**

- **Size and structure of the organisation.**
- **History, culture of the organisation.**
- **Environment in which the organisation operates.**
- **Ability of employees.**
- **Method of growth.**
- **Risk involved.**

## Reasons for/weaknesses of organisational hierarchy

### Introduction

### Hierarchy

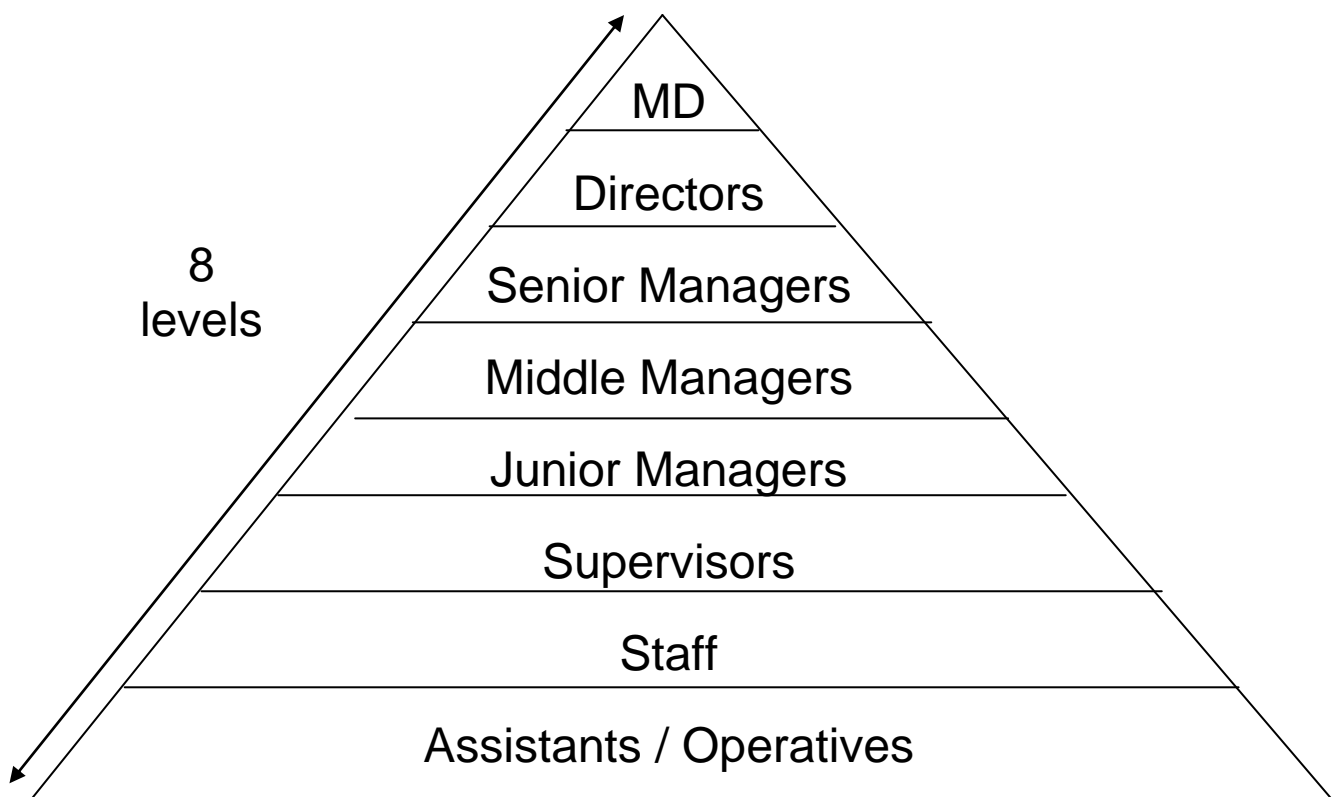
*Order of levels of management or supervisors within a business, from the lowest to the highest.*

The larger the business in terms of people employed, the more hierarchical.

Local fruit / vegetable store - consists of two levels:

1. Owner (manager).
2. Sales assistants / staff.

Large national company may have many hierarchical levels:



Up to 3 hierarchical levels: **flat structure.**

4 or more: **tall, hierarchical, or pyramid structure.**

The more hierarchical the organisation, the more **formal**.  
ie: more rules, regulations and official procedures such as:

- job descriptions, recruitment, health & safety policy, disciplinary / grievance procedures, codes of practice.

### **Reasons for organisational hierarchies**

Layers of supervisory / management levels develop to:

- **control use of resources.**
- **maximise productivity and efficiency.**

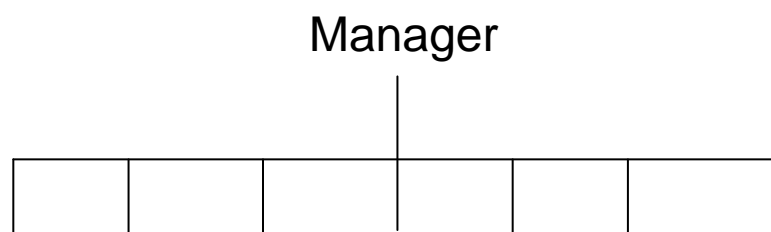
**Paths for promotion** – clearly defined.

### **Weaknesses of hierarchical organisations**

- **Poor communication.**
- **Slower decision making.**
- **Slower response to change.**

### **Relationship between hierarchy and span**

**Span of control:** *the number of people directly responsible to and reporting to a particular supervisor or manager.*



Span of control = 7

In **hierarchical** structures - span usually **narrow**.

In **flat** - span generally **wide**.

## Implications of Narrow versus Wide Span

### Implications of wide span

*Advantages:*

- **Enhanced motivation of subordinates.**
- **Lower supervision / labour costs.**

*Too wide - can lead to:*

- **Overload on manager.**
- **Reduction in personal contact with subordinates.**

### Implications of narrow span

*May provide the following benefits:*

- **Better quality work / organisational effectiveness.**
- **Increased efficiency.**
- **Better worker/manager relationship/improved morale.**

*Too narrow - can lead to:*

- **High administration / supervision costs.**
- **Worker resentment / low morale.**

## **The Ideal Span?**

*Early theorists:*

6 workers reporting to one manager.

*Later theorists:*

in upper levels of management - 4 to 8 ideal.

in lower levels - 8 to 15 acceptable.

No 'magic' figure. *Depends on:*

- **Nature of work.**
- **Geographical spread.**
- **Variability of work.**
- **Competence of workforce.**
- **Amount of planning / organising** in allocating tasks.
- **Task supervisor is expected to perform.**
- **Quality and competence of supervisor.**

*Example.* If:

- nature of work is simple, repetitive.
- workers are in same general location.
- work is not varied (in terms of unexpected occurrences).
- task of allocating work is reasonably straightforward.

then:

- 16 staff - not too large a span of control.

## **Delaying**

*Removal of one or more management or supervisory layers.*

Leads to **wider span** of control.

Advantages / disadvantages associated with wide span:

*Advantages:*

- improved motivation, morale of workforce - due to increased responsibility.
- reduced supervision costs.

*Disadvantages:*

- Over burdening of senior managers - inefficiency.
- Often involves redundancies which:
  - increase costs (redundancy pay).
  - have negative affect on morale of remaining staff.
  - negatively affect public image.

The more **flatter, leaner** the organisation, the **fitter, better** able it is to cope with a rapidly changing environment.

Delaying often used when firm faces difficulties, such as:

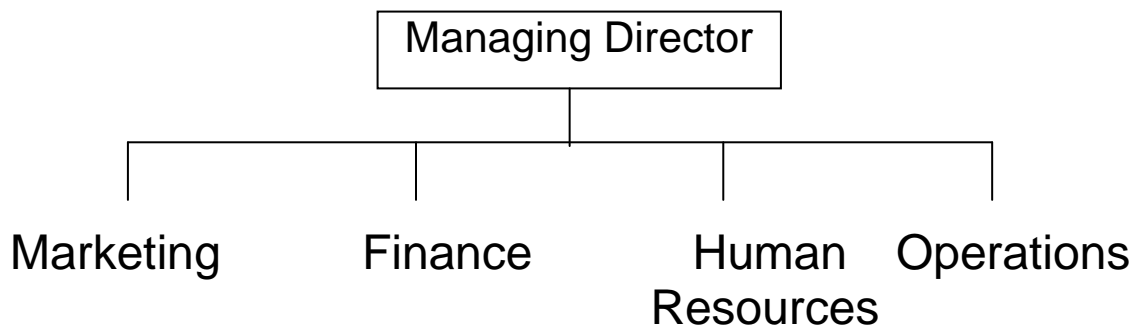
- needing to cut costs in order to survive.
- increased competition, market saturation or recession.



## Functional versus Matrix Management

### Functional

*Where the organisation is divided up into major functional areas of management which usually include Marketing, Accounting & Finance and Human Resources, Operations.*



### Matrix

*Where an organisation combines both functional and product departmentalisation in their organisational structure.*

NB Organisation by product:

*organisation is divided into departments that unite people involved in producing a particular product or product range.*

	Marketing	Finance	HR
Operations Product Manager A			
Product Manager B			

NB may include: Admin, R & D, Purchasing, etc.

In matrix organisation workers have 2 or more superiors.

For example:

*Production supervisor responsible to:*

Operations Manager & Product Manager.

*Marketing Assistant responsible to:*

Marketing Manager & Product Manager.

Matrix structure - **less common** than **functional**.

Common with: specialist 'one-off' products or projects.

*Eg: Civil engineering firm:*

Bids for variety of different contracts such as:

motorway construction, bridges, high rise apartments.

Team of expert people, with project leader, seek regular support from functional areas of Finance, HR, Operations.

Heads of building projects will be in regular contact with functional heads, regarding costings, staffing, design.

## Relative advantages and disadvantages

<b>Functional</b>	
<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>• Simple, widely understood.</li> <li>• Clear chain of command.</li> <li>• Clear responsibilities.</li> <li>• Minimises duplication of personnel &amp; equipment.</li> <li>• Specialisation.</li> <li>• Simplifies training.</li> <li>• Facilitates control from top.</li> <li>• Rapid decisions, actions.</li> <li>• Co-ordination <i>within</i> units easy.</li> <li>• Good working atmosphere.</li> </ul>	<ul style="list-style-type: none"> <li>• Decisions made at top.</li> <li>• Overloads key people.</li> <li>• Narrow perspective.</li> <li>• Fails to develop top management generalists.</li> <li>• Co-ordination <i>across</i> units difficult.</li> <li>• Slower to respond to change.</li> </ul>
<b>Matrix</b>	
<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>• More flexible.</li> <li>• Develops managerial skills.</li> <li>• Encourages creativity.</li> <li>• Frees top managers for planning.</li> <li>• Motivates, challenges.</li> </ul>	<ul style="list-style-type: none"> <li>• Overlapping authority.</li> <li>• No clear line of accountability.</li> <li>• Power struggles.</li> <li>• Split allegiances.</li> <li>• Discussions rather than action.</li> <li>• More costly to implement.</li> </ul>

*Functional organisation and management is:*

More suited to larger organisations.

Most useful when firms:

- deal in single product/service.
- are poorly equipped to handle multi-products / markets.

The reverse is true for matrix management.

## Accountability and Responsibility

### Introduction

People at different levels within a firm:  
receive instructions, action requests from senior staff.

Either they carry out the work themselves, or manage the task through staff reporting to them.

Managers / supervisors are **responsible** for staff who report to them. These staff are **accountable** to those managers or supervisors for their actions.

### Responsibility

*In accepting tasks a subordinate:*

- assumes responsibility for it to be done.
- is obliged to ensure it is performed to standard required.

### Accountability

*Subordinates are accountable to:*

- superior - for performing work agreed, results achieved.

*Managers are accountable for:*

- duties which have been assigned to them.
- actions of subordinates.

*Chief executive is accountable to:*

- shareholders for all events within the organisation.

May be required to resign when things go wrong.

## **Management by Objectives (MBO)**

### **Definition**

*A method of co-ordinating and motivating the workforce by dividing the business's overall goals into specific targets for each division, department, section within a department, manager or even individual employee.*

MBO involves **every** employee having targets to achieve, derived from the aims and objectives of the business.

### **Purpose**

As organisations grow:

- co-ordination and control becomes more difficult, as it is..
- hard to keep check on what people are doing.

Peter Drucker ('The Practice of Management' 1955), believed MBO was the only way to effectively **delegate authority** in a large firm.

Ensures people concentrate on business rather than individual targets such as increasing personal power.

Helps co-ordinate activities of employees - ensures everyone works towards achieving a common goal.

*Key benefits:*

- **Provides unity and direction.**
- **Provides motivation.**
- **Aids control.**
- **Aids efficiency.**

## **Method and Implications**

### **Method**

Business objective set:  
next level of managers decide how it can be achieved.

If everyone achieves targets then firm achieves overall aim.

To be effective, objectives should be S.M.A.R.T:

- **Specific**
- **Measurable**
- **Agreed**
- **Realistic**
- **Timescaled**

### **Implications**

*MBO will only work if there is:*

- **Clear vision from top.**
- **Willingness of managers to be tied to objectives and delegate responsibility.**
- **Time to discuss and agree targets.**
- **Regular briefings / meetings.**

## Distinction between Aims (or mission) / Objectives

### Aims

- overall long-term targets firms set themselves to achieve.
- broad statements of intent, in vague terms, with no time-scale, or precise target that can easily be measured.

*Most common commercial business aims concern:*

- Return on investment, profit.
- Sales, growth, expansion.
- market share, market leadership.
- customer satisfaction, customer loyalty.
- quality, value for money.

### Missions Statements

*Mission statements should clarify and clearly communicate:*

- what the company does and what it hopes to achieve.
- core values
- distinctive features - what makes it stand out.
- any action required to achieve its aims.

### Objectives

Objectives should be specific, clearly state what needs to be done in order to achieve the organisation's aims / mission.

*Example: Game of football: **Aim** is to win.*

In order to win, team needs to: train well, field best players, take ball past opposition, stop goals from opposition.

These are **objectives** of the game.

NB To be fully effective in helping to achieve aims, objectives should be S.M.A.R.T.

## **Delegation and Consultation**

### **Delegation**

#### **Definition**

*The act of assigning duties and / or the responsibility and authority for decision making to subordinates.*

#### **Purpose**

To enable top management to concentrate on major issues, it is necessary to delegate decision making / other tasks to subordinates, especially as an organisation grows.

#### **Principles of good delegation**

- **Nature of task should be clear.**
- **Delegate should be capable.**
- **Results expected, timing, should be clear.**
- **Delegate must have sufficient authority.**
- **Those who need to know should be informed.**
- **Limitations should be made clear.**
- **Managers ultimate responsibility should be clear.**



## **Consultation**

### **Definition**

*Where employees who will be affected by a particular decision are asked their views, but the ultimate decision remains with the superior.*

### **Purpose**

*Commonly used where:*

- decision makers don't have all the necessary information.
- employees have sufficient expertise to make a meaningful contribution.

*Can be beneficial, as follows:*

- allows conflicts to arise, be resolved at early stage.
- can improve decision making by providing first hand information/expertise on the organisation and its work.
- improves motivation - staff feel valued, more committed to decisions.

*Problems associated with consultation.*

- limited understanding of objectives, proposals, solutions.
- process may create conflicts - large and time consuming.

*Despite the potential problems:*

- Decisions which affect individuals should involve some degree of consultation.
- Feeling of shared involvement will help create greater willingness to see decisions through.

## Difference between delegation and consultation

**Consultation:** power remains at top hierarchical levels.

**Delegation:** power for decision making dispersed down, throughout lower hierarchical levels.

## Relationship with leadership styles and structures such as quality circles and kaizen groups

### Relationship with democratic leadership styles

High degrees of delegation / consultation are:  
key feature of democratic / participative leadership styles.

*Democratic leaders tend to:*

- **Consult** – ask staff opinions, listen to ideas, act upon advice, explain reasons behind decisions.
- **Delegate** - give members freedom to work with whomever they choose, decide how tasks should be divided.

### Relationship with laissez-faire leadership styles

Delegation is also an essential feature of a **laissez-faire** management style. Laissez-faire managers provide:

- minimal input / leave running of business to staff.
- information if asked but take little part in discussion.
- infrequent comments on member activities, rarely intervenes.

## **Relationship with quality circles**

*A group of workers, between 3 to 12 who meet regularly to discuss work related problems, consider alternative solutions and make recommendations for management.*

Members drawn from same work area but may include staff from other areas, such as an engineer, quality inspector, member of sales team, to provide customer angle.

*Members:*

- think up ideas for improving work they do.
- select best alternative solution.
- present this to management.

If management approve solution, members of circle will often make the changes required themselves.

Provide a structure through which **consultation** takes place.

**Two main principles:**

1. Management cannot understand production / work related problems as much as 'shop floor workers'.
2. Workers may:
  - appreciate opportunity to demonstrate knowledge/skills.
  - feel valued, gain sense of achievement if ideas are acted upon / implemented.

The above can enhance motivation and productivity.

## **Relationship with kaizen groups**

Kaizen - Japanese - means *continuous improvement*.

Kaizen groups operate autonomously in teams or 'cells'.

*Groups have complete responsibility for their work including:*

- quality.
- levels of stock.
- health & safety.
- job rotation.
- improvements.

*More closely related to **delegation** than consultation:*

Individuals are allowed to make changes / improvements **without checking and agreeing these first** with management.

*Implications:*

- Training.
- High degree of trust required.