Your road to success

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# LEVEL 4 ENTERPRISING ORGANISATIONS

ABE • OFFICIAL STUDY GUIDE

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# Contents

# Using your study guide

Welcome to the study guide **Level 4 Enterprising Organisations**, designed to support those completing an ABE Level 4 Diploma.

Below is an overview of the elements of learning and related key capabilities (taken from the published syllabus).

| Element of learning | Key capabilities developed |
|---|---|
| Element 1: The basic principles of business | • Ability to understand the legal requirements of setting up a business<br>*Business acumen, analysis* |
| Element 2: Introduction to organisational structures | • Ability to draw the most appropriate organisational structure for your business and to demonstrate the links between different organisational factors<br>*Analysis, communication, constructing organisational charts, cross-functional working* |
| Element 3: The differences between strategic and operational management | • Demonstrable understanding of the difference between operational and strategic management<br>Ability to utilise relevant managerial tools such as SWOT analysis, gap analysis<br>*Analysis, knowledge of trends, globalisation* |
| Element 4: The role of organisational infrastructure | • Ability to identify the factors that are key to organisational performance within a range of organisations and ability to consider these in the light of the chosen careers<br>*Business acumen, analytical thinking, measurement techniques, business performance* |

This study guide follows the order of the syllabus, which is the basis for your studies. Each chapter starts by listing the syllabus learning outcome covered and the assessment criteria.

## L4 descriptor

| Knowledge descriptor (the holder…) | Skills descriptor (the holder can…) |
|---|---|
| • Has practical, theoretical or technical knowledge and understanding of a subject or field of work to address problems that are well defined but complex and non-routine.<br>• Can analyse, interpret and evaluate relevant information and ideas.<br>• Is aware of the nature of approximate scope of the area of study or work.<br>• Has an informed awareness of different perspectives or approaches within the area of study or work. | • Identify, adapt and use appropriate cognitive and practical skills to inform actions and address problems that are complex and non-routine while normally fairly well-defined.<br>• Review the effectiveness and appropriateness of methods, actions and results. |

Contained within the chapters of the study guide are a number of features which we hope will enhance your studies:

**'Over to you'**: activities for you to complete, using the space provided.

**Case studies**: realistic business scenarios to reinforce and test your understanding of what you have read.

**'Revision on the go'**: use your phone camera to capture these key pieces of learning, then save them on your phone to use as revision notes.

**'Need to know'**: key pieces of information that are highlighted in the text.

**Examples**: illustrating points made in the text to show how it works in practice.

**Tables, graphs and charts**: to bring data to life.

**Reading list**: identifying resources for further study, including Emerald articles (which will be available in your online student resources).

**Source/quotation** information to cast further light on the subject from industry sources.

**Highlighted words** throughout and **glossary terms** at the end of the book.

**Note**

Website addresses current as of June 2017.

# Chapter 1

# The Principles of Business

## Introduction

In a mixed economy, we see a variety of different types of organisations operating; these can be privately owned, public sector organisations or voluntary (not-for-profit) organisations. They will have different objectives that they want to achieve. For the majority this undoubtedly will be to make a **profit**, but for voluntary sector organisations this is likely to be focused on addressing a particular issue within the community or their client group.

Similarly, there are different types of legal formations of organisations, from sole traders to public limited companies (PLCs). The choice of legal formation is often one made to best suit the needs of the owner, the product or service offered, and the type of market in which they serve.

## Learning outcome

On completing this chapter, you will be able to:

1 **Explain the various legal formations and status of private, public and not-for-profit organisations**

## Assessment criteria

1 **Explain the various legal formations and status of private, public and not-for-profit organisations**

1.1 Identify the different types of organisational formations

1.2 Analyse the main reasons for operating a particular legal formation

# 1.1 Type of organisations

## Public sector organisations

These are generally funded by the government, although this may vary from country to country. That is to say some public sector organisations may benefit from some private sector funding. They tend to be run for the benefit of broader society. Examples of public sector organisations may include healthcare, education, civil service, public services such as police and the military, and state-owned enterprises such as postal services or broadcasting (e.g., in the UK, the BBC is state-owned and receives its funding by charging a licence fee to all households and organisations owning broadcast receiving equipment).

## Private sector organisations

These are generally run by individuals and companies for their benefit, which will include profit. Private sector organisations may vary in size, from small individually owned businesses or sole traders to large multinational organisations that operate in a number of countries producing goods or services for profit.

## Not-for-profit or voluntary sector organisations

These may provide a product or service that generates revenue but are unable to make a profit as a private sector organisation would do. Instead, any surplus revenue is retained by the organisation for its survival, expansion or future plans. Examples include the Red Cross and Oxfam.

OVER TO YOU

**Activity 1: Aims and objectives of different organisations**

**In the boxes below, identify what you think are the main aims of the different types of organisations. It may help you to think of a specific organisation with which you are familiar.**

| Public sector organisation | Private sector organisation | Not-for-profit organisation |
|---|---|---|
| | | |

## So, what did you think?

A public sector organisation's main objective is providing a public service. For example, the aim of a country's Department of Agriculture will be to support producers of agricultural, arable and marine produce. The government may also set specific targets relating to political policy on rural development and environmental production whilst also requiring statistical reporting.

A private sector organisation's overriding objective is to maximise profit, in order to generate money for the owners. Profit maximisation may be achieved in different ways, for example increasing profit by enhancing revenue and reducing business costs. On the other hand, a growing business may want to maximise sales and therefore increase its market share to enhance competitive advantage. However, depending on the size of company and geographical coverage, objectives may differ considerably.

## Forms of ownership

As mentioned above, the form of ownership or legal status may have a significant impact upon an organisation's objectives. The form of ownership also places some legal requirements upon a company; these may differ from country to country. The basic forms of ownership are explained below.

### Sole proprietorships or sole traders

These are owned and controlled by one person, although they may employ workers. An example would be a plumber or photographer. They are the simplest form of ownership and are very easy to set up. They do not have a separate legal existence from their owner and therefore if there are any debts the owner is personally responsible for those debts; this is known as unlimited liability.

### Partnerships

A partnership is where a business is owned by two or more people and is often found in professions, for example solicitors and accountants. In a general partnership, profits and losses are shared proportionally amongst the managing partners in accordance with a partnership agreement. In a limited partnership, there are general partners who own and manage the business along with limited partners who provide investment only. Limited partners are not involved in the management and do not have the same liabilities as the general partners.

General partners are personally liable for any losses or debts.

### Limited companies

A limited company has its own legal identity as it is incorporated, which means it can sue or own assets in its own right. The ownership of a limited company is divided into shares; whoever owns a share is called a **shareholder**.

Unlike a sole trader, owners are not personally liable for the company's debts. They have limited liability. Limited liability is a type of liability that does not exceed the original amount invested by an owner into a limited liability company.

There are two types of limited company.

- **Private limited companies (ltd)** – these are often small businesses, for example a small family-owned building firm. Shares are not traded on a stock exchange but are split amongst the owners. For example, two owners or company **directors** may have 50 shares each and therefore an equal split in the business.
- **Public limited companies (plc)** – are usually large companies and shares are traded on a stock exchange.

## Franchises

This is a popular form of business ownership and is widespread in the retail sector. A business franchise involves the franchisor (the owner of the business) selling a business format to a franchisee (the purchaser of the business name) in return for a fixed sum of money and percentage royalty on sales revenue. McDonald's restaurants operate as franchises.

For franchisors, the franchise is an alternative to building a number of sites to distribute goods; they can avoid the investments and liabilities of setting up all those locations themselves. A franchisor's success depends on the success of the franchisees. Franchisees are said to have a greater incentive than direct employees because they have a direct stake in the business.

The franchisee pays the franchisor fees, which include the following:

- a royalty for the trademark, usually paid at the start of the relationship;
- an annual fee for the training and advisory services given to the franchisee, which may include marketing, human resources (HR) support and so on;
- a percentage of the individual business unit's sales.

A franchise usually lasts for a fixed period and therefore needs renewing, and serves a specific territory or geographical area surrounding its location. One franchisee may manage several such locations. Agreements typically last from five to 30 years, with premature cancellations or terminations of most contracts bearing serious consequences for franchisees. A franchise is merely a temporary business investment involving renting or leasing an opportunity, not the purchase of a business for the purpose of ownership.

## Public sector organisations

These are funded directly by the government or state, providing services rather than generating a profit. Revenues or budget surpluses tend to be ploughed back into the service the following year. However, their funding is supplied by the government and this may be at risk on an annual basis as public spending is determined at a national level. Public sector organisations may range from healthcare to education and include services that benefit the local community, such as the emergency services (for example police and fire services), local councils and amenities.

## Not-for-profit organisations

Not-for-profit organisations tend to operate in the community and there are various types of ownership structure as follows.

- **Charities** – these tend to be registered with charitable status and have a board of trustees. The trustees are usually a mixture of employees of the charity and volunteers, and they govern the activities of the charity.
- **Social enterprises** – these tend to tackle social issues and, although they make revenues on the products or services they provide, the profits are reinvested into the business or local community. A social enterprise may be set up as a:
    - **Cooperative** – which is owned and democratically controlled by its members or employees;
    - **Limited company** – but, in the memorandum and articles of association, any profit is reinvested into the company to support its social purpose.

## Advantages and disadvantages of different forms of ownership

Table 1 shows the advantages and different forms of ownership.

| Form of ownership | Advantages | Disadvantages |
|---|---|---|
| **Sole proprietorships or sole traders** | Only require a small amount of capital to set up<br><br>Owner has overall control and can make decisions quickly with no requirement to consult others | No one to share the responsibility with and therefore may work long hours<br><br>Risk of unlimited liability, where the sole trader may have to sell personal assets to cover business debts |
| **Partnerships** | There is someone else to consult with in regard to business decisions | Disputes can arise over decisions and it can take time for decisions to be made if there are large numbers of partners<br><br>Like sole traders, partners have unlimited liability |
| **Limited companies** | Limited liability means that owners (**shareholders**) are not liable for company debts<br><br>For a large and growing private limited company that wishes to grow, there is an opportunity to sell shares on the stock market and become a public limited company in order to generate capital to fund expansion. However, the owners would be selling a stake in the company in order to achieve this additional funding | Both forms of limited companies require greater administration in how they manage the financial operations of the company, such as auditing or the appointment of company officers<br><br>As a plc, company share value is often affected by adverse publicity |
| **Franchising** | The franchisee is buying a business format that is tried and tested and is less risky and costly than setting up his/her own business<br><br>The franchisor has the advantage of being able to expand the business with reduced investment and gains local knowledge of the franchisee, resulting in reduced risk and cost | The franchisee may have strict restrictions on how the business is run in terms of the product and promotions offered<br><br>Royalties may be payable even if a loss is made |
| **Public sector ownership** | Provision of a standard service across a geographical area | Reliant on government funding, which may be affected after an election |

| Form of ownership | Advantages | Disadvantages |
|---|---|---|
| **Charity** | Focus on a particular issue or a community that they serve | Needs to adhere to certain charitable status regulations, including having trustees to make decisions both operationally and financially<br><br>Reliant on donations, fundraising and other funding opportunities such as grants |
| **Social enterprise** | Allows participation of a range of stakeholders, for example paid employees, volunteers and other groups<br><br>Has a high level of autonomy, and is created voluntarily | Decision-making may be slow as it is shared amongst all stakeholders<br><br>Profit is reinvested, which can lead to a lack of profit maximising behaviour<br><br>Can be a risk in terms of financial viability as it is dependent on the efforts of the members |

**Table 1:** Advantages and disadvantages of different forms of ownership

REVISION on the go

## Differences between public and private limited companies

| | Public company | Private company |
|---|---|---|
| **Name** | Must end with public limited company (plc) | Must end with limited (ltd) |
| **Memorandum of association** | Must state it is a plc | Not applicable |
| **Minimum membership** | Two shareholders | One shareholder |
| **Minimum authorised capital** | May be subject to a minimum authorised capital (authorised capital is the amount of shares that the company can issue) | None |
| **Share issue** | Public is invited to subscribe | Cannot advertise to invite public to subscribe |
| **Accounts** | Strict requirements about the form of accounts | Small companies may submit modified simplified accounts |
| **Company secretary** | Must be qualified | Does not need to be qualified |
| **Size** | Large | Usually small |

**Table 2:** Differences between public and private limited companies

REVISION on the go

## NEED TO KNOW

Note that there may be variances in business formations in different countries. Please ensure you know what applies in your region.

## Reasons to go from private company to public company and back again

| 'Going public' | 'Going private' |
|---|---|
| To raise finance in order to develop new products, acquire new capital equipment, modernise, expand | To regain control of the business<br><br>To eliminate threat of takeover<br><br>To avoid administrative burden and costs associated with stock exchange listing<br><br>To pursue an independent long-term strategy without worrying about short-term requirements of investors such as payment of dividends |

**Table 3:** Reasons to go from private company to public company and back again

## OVER TO YOU

### Activity 2: Objectives of private sector organisations

Below are some examples of private sector organisations. Briefly identify the objectives you think they would be trying to achieve. You may need to research this question by asking family and friends (if they work for similar organisations) or by searching online for examples of objectives.

Small family-owned building firm

National chain of hairdressers

National chain of hairdressers

International bank

Multinational car manufacturer

Below are some ideas that hopefully correlate to your own responses for Activity 2.

- A small family-owned building firm objective may be focused on becoming the local builder of choice by offering quality craftsmanship. There could be other personal objectives, which are to maintain a profitable business that can be passed from one generation to another.
- A national chain of hairdressers may aim to increase its market share by becoming known as an innovator within the hair industry.
- An international bank such as HSBC has the main objective of becoming the world's leading international bank by creating a network of businesses connecting the world and by developing wealth management and retail with local scale.
- A multinational car manufacturer such as Ford Motor Company has many objectives that focus on a range of stakeholders, including investors and local communities, as well as a range of issues such as sustainability and environmental issues.

As you can see from the examples above, objectives differ depending on the following characteristics:

- size of business – a small family-owned business may have some personal objectives, such as having a legacy for future generations;
- geographical location or locations;
- the markets in which they operate – small local to global;
- legal status or form of ownership – legal status of a company may require a company to publish specific information about its business activities;
- the contemporary issues affecting that organisation – organisations like Ford Motor Company may have more emphasis on developing vehicles that are more economical or employ environmentally friendly technology. (More about these issues later in the chapter.)

## CASE STUDY: FRANCHISING

### Why I became a franchisee

"My career up to now has been quite varied. I started in retail and then went to work for a blue-chip company in marketing as a product manager. I moved into journalism as a magazine editor in the consumer field. I progressed into an offshoot of the automotive industry demonstrating cars for Land Rover. I then started my own business distributing organic food boxes."

"Another regular job really didn't appeal to me again. I had a change in personal circumstances and moved away from where my previous business was based. My last business was a good opportunity at the time but not something I could replicate in a new area. As soon as I saw the advert for Mac Tools, I knew it was right for me – it didn't take a lot of research for me to know that it could work for me."

For Neil, Mac Tools provided everything he wanted out of a business.

"I didn't want to work for somebody else. I wanted to be in control of my own business so, for me, Mac Tools just ticked so many boxes. "

"It didn't require a huge amount of initial capital investment and it worked with my circumstances at the time. I was able to get into an established network with very little initial capital outlay. I didn't look at any other businesses because Mac Tools fitted exactly what I wanted. I liked the sound of the business and what it stands for."

Read Neil's full story at https://www.thebfa.org/members/mac-tools/neil-whitford

Neil's story is representative of a lot of franchisees. One of the main attractions for all franchisees is the intensive training and support provided to franchisees, enabling them to understand their business and get started right away. They are also supported with a regional management team so they are not on their own when they open their business. It is that support that perhaps makes franchising an attractive option: you are part of a successful brand but it is your activities that have a significant impact upon the success of the franchise.

## CASE STUDY: ENTREPRENEURS IN AFRICA OVERCOMING MAJOR CHALLENGES

Entrepreneurs always face challenges when setting up in business, but starting a business in a war-torn country will bring more challenges.

Entrepreneurs all over the world could take lessons from entrepreneurs in Africa who have identified the following ways to overcome challenges.

**1. Having multiple people depend on their success**

In the back of every entrepreneur's mind is the fact that these individuals' livelihoods depend on their company's success. Depending on where you live, this may be the difference between eating a meal and being unable to get food.

**2. Finding a market need**

Lack of a market need will result in start-up failure as there is no market for the product. Entrepreneurs must design solutions that are responsive to market realities.

**3. Building a viable product**

Developing a product or service must include testing it on a market and getting feedback to make improvements. It doesn't matter if the entrepreneur thinks their product is great; the market will decide. Therefore, it is essential to gain consumer insight to fine-tune your business model.

Read more at https://www.entrepreneur.com/article/290952

The article shows that entrepreneurs have great ideas in difficult circumstances to ensure their businesses thrive. It also shows that entrepreneurs are adaptable and flexible to meet the demands of their markets whilst successfully navigating the difficulties the external environment can bring. Perhaps one of the greatest skills an entrepreneur can have is tenacity to keep on pursuing their business idea no matter what is happening around them.

The article also offers the insight that many business owners are pushed into taking a chance on their idea by an unrelated event.

# 1.2 Reasons for operating a particular legal formation

OVER TO YOU

**Activity 3: Setting up in business**

**Assuming you were thinking about setting up your own business, what aspects of doing so might you consider beforehand?**

You might have considered the following aspects.

- **Need** – find a gap in the market place. What product or service could you offer to fill the gap?
- **Do what you love** – if you are enthusiastic about what you do, you will genuinely create enthusiasm and confidence in your customers to buy your product or service.
- **Finance** – have you the finance in place to set up in business and provide you with living expenses until you are able to take an income from your company?
- **Legal formation** – what legal formation is your business going to take?
- **Insurances and professional advice** – you will need insurances to cover liability and also might need professional advice from a lawyer and accountant about legal formation, business terms and your obligations for managing the financial aspects within your business.

OVER TO YOU

**Activity 4: Business opportunity**

**Identify a business opportunity that you could undertake in your local area, based on what you perceive to be a need or a gap in the market. Decide on the legal formation you would apply to your business, providing a rationale for your answer. List what you would need to set up your business.**

You might have identified a number of reasons for choosing a particular legal formation that is appropriate to your business opportunity. Reasons may include the following aspects.

- **Who is involved in the business** – if you are the sole person responsible for the business and you are the sole decision maker, you may become a sole trader. In those situations, you will need to prepare basic accounts and pay tax but there is less administration involved. However, you would be personally liable for any debts of the company and that may result in seizure of your personal assets to repay debts; this is known as unlimited liability. This is one of the reasons that individuals, even if they are the sole director, set up limited companies because, although there is the need for a set of accounts to be drawn up each year and more administration required to be legally compliant, limited companies have limited liability; this means the owners are legally responsible for a limited company's debts only to the amount of capital they invested. Similarly, if a number of you are involved in the business, you may choose to become a limited liability company so you can provide shares to each of the **directors** of the company, allowing them to be paid dividends from any profits. The more directors there are, the greater is the requirement to hold board meetings to decide on organisational strategy, agree final accounts and determine how retained profit should be spent. Needless to say, this can result in delays in decision-making.
- **The industry type** – depending on the industry, this may determine the type of legal formation. For example, a group of accountants, lawyers or doctors would tend to set up partnership agreements. Limited liability partnerships (LLPs) are seen more frequently, as partners pay tax on their share of the profits but are not liable for any debts the business cannot pay. Alternatively, you may want to provide a local community service and therefore a social enterprise may be more appropriate. On the other hand, you may want to provide a service or represent the needs of a select group of people, so charitable status might be appropriate.
- **The ability to raise capital** – sole traders and partnerships have limited ability to raise capital as they do not have shares and are restricted by the capital that the parties invest into the business. Shares allow an investor to invest into a business whilst taking a proportion of value or ownership. Sole traders, partnerships and even private limited companies may have to choose other methods to finance expansion and this might include business funding in the form of loans (some governments may offer low-cost business finance). There is also growth in other methods of business finance, including private investors who seek to invest in a company for shares or a better return than they would gain by investing through savings. Another popular way of raising finance is through crowdfunding websites and this can be a useful method to raise funds and awareness of charitable and social enterprises.
- **The risk to you personally** – or liability you want to take. Operating as a limited liability company means that your personal assets will be protected.
- **Taxation** – the type of legal formation of the business will affect the amount of taxation you pay, both personally as a director and as a business. Taxation will vary from country to country but, depending on the legal formation, may offer tax efficiencies.
- **Control** – perhaps one of the most important aspects is who will have control of the company, and this may affect your choice of legal formation. A sole trader has ultimate control but this

may be tempered by some of the other factors discussed above. Limited companies with more than one director will have shared decision-making and less personal control.

- **Transferability of ownership** – this involves the transfer of ownership in the event of a company director leaving or dying. It is often easier in limited companies as it involves a simple contractual transaction, or transfer of share ownership. In the case of a sole trader, the business may be wound up unless the owner has specified what will happen in the event of his/her death.

## OVER TO YOU

### Activity 5: Legal formations

**Look at the following four businesses and their legal formations. What are the benefits and drawbacks of their legal status, particularly in relation to what they are attempting to achieve?**

1. A small plumbing firm that is expanding and wants a loan to purchase another van – sole trader.

2. A firm of accountants who want to diversify into providing other business services – partnership.

3. A large private limited company with five sites manufacturing doors and windows wanting to build a large purpose-built factory and distribution centre – currently private limited with family as shareholders.

4. A social enterprise that wants to raise funds in order to employ a part-time administrator – social enterprise.

## READING LIST

https://www.entrepreneur.com

Which legal formation is best for your business? http://www.inc.com/articles/2000/06/19438.html

# Chapter 2

# Introduction to Organisational Structures

## Introduction

An organisational structure determines how activities such as supervision, duties or tasks and coordination of activities are undertaken to achieve the organisational objectives.

Organisational structures existed in tribal times to enable the division of labour amongst hunters and gatherers to ensure survival. As societies entered into an industrial era, organisational structures became formalised to bring efficiencies to production.

Organisational structures in large organisations tend to represent the shape of a pyramid: senior staff members are at the top while the broader base contains the vast majority of employees located at the bottom. The layers in the pyramid represent the different levels of management, such as supervisors and middle managers.

Organisations need structure in order to divide the work into meaningful chunks or packages, and they need clear reporting lines to ensure that the work is completed. Structures also provide meaning for those working in the organisation, along with an understanding of where their role fits in the organisation and their specific responsibilities and accountabilities.

**Specialisation** helps the business run smoothly (operational efficiency) as employees with particular tasks can perform them quickly and effectively with the resources provided.

**Job definition** establishes the task requirements of each job within an organisation. It seeks to organise jobs into a series of specified tasks, therefore enabling an individual's performance to be measured. Job definition may be more difficult in senior roles where there is an element of job holder discretion in making the job their own. However, in lower-level positions it is perhaps easier to have more defined job roles.

**Job descriptions** are the written documents that define a job and include such aspects as the job title, department, the position of the role in the hierarchy, the objectives or key performance indicators, and the tasks involved in the role.

## Learning outcome

On completing this chapter, you will be able to:

**2 Identify traditional and contemporary organisational structures**

## Assessment criteria

**2 Identify traditional and contemporary organisational structures**

2.1 Discuss the main types of traditional organisational structures

2.2 Analyse the external and internal factors that result in changing organisational structures

2.3 Construct simple organisational charts to explain the relationships between business functions

## 2.1 Types of structure

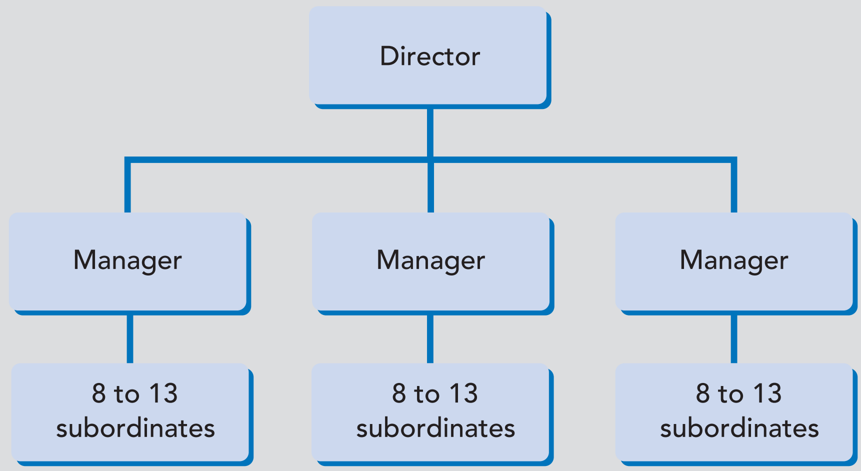



**Figure 1:** An example of a flat structure

The **organisational chart** above provides a pictorial explanation of the relationships within an organisation. In Figure 1, the **hierarchy** is flat as there are only three levels of authority within the organisation. A flatter structure tends to be found within modern organisations: it reduces salary costs and increases personal accountability and responsibility as individuals often have to use their own initiative in making decisions because they have less supervision.

The **span of control** refers to the number of subordinates who report to a single manager or supervisor. In the organisation chart in Figure 1, there are 8 to 13 subordinates reporting to the manager; therefore, there is a broad span of control. Span of control continues to be an issue for managers in larger organisations: a broad span of control creates difficulty in controlling what subordinates are doing on a day-to-day basis. On the other hand, subordinates need to be empowered to make decisions themselves, which supports the manager with a broad span of control. In this situation, a manager with a broad span of control will spend most of their time working with subordinates to organise the work activity; subordinates will report their progress, allowing the manager to coordinate further activity.

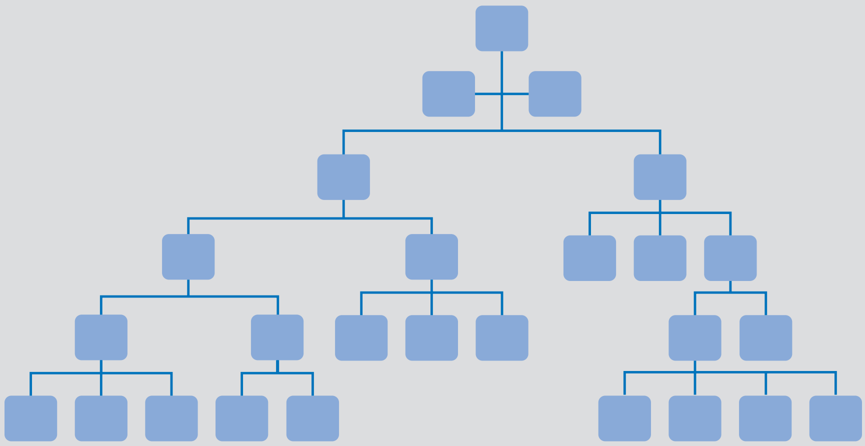


**Figure 2:** An example of a tall structure

Figure 2 demonstrates that there are narrower spans of control but more levels in the hierarchy. This is often found within public sector organisations and where there may be a requirement for compliance, such as in banking or financial institutions.

## OVER TO YOU

### Activity 1: The pros and cons of tall and flat organisations

**List the pros and cons of tall and flat organisations and think about some of the terms we have covered so far, for example specialisation, job definition, spans of control and hierarchy. Think about the impact upon managers and their role in either a tall or flat organisation.**

What did you establish from the exercise above? Perhaps that flatter organisations may have speedier decision-making and that jobs are less specialised than in taller organisations. In taller organisations, there will be greater job definition and, whilst this may help control activity and allow for coordination of effort, there may be challenges: for example, it might be harder to react speedily to external opportunities or threats.

For the manager in a flatter organisation, there may be greater difficulties in the management of a greater number of subordinates, supervision and coordination of effort.

However, we have seen that organisation charts represent a number of relationships. Firstly, **line structure** consists of the direct vertical relationships that connect the positions at each level with those above and below, for example a subordinate relationship with their manager. It is the channel through which **authority** flows from senior management downwards through each level. Authority is the right to guide the activities of others. For example, a manager will have authority over their subordinates, and a subordinate may have authority to carry out certain tasks.

Authority always flows from top to bottom. It explains how a superior gets work done by a subordinate, clearly explaining what is expected and how the subordinate should go about the task. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else does not imply escaping from accountability. Accountability still rests with the person having the utmost authority.

Similarly, decision-making becomes more complex from the bottom to the top. At the bottom of the structure, decisions may be limited within a job role. However, decision-making is more complex further up the line.

Managers will have **responsibility** to perform a task or duty. They will be required to be **accountable** for those responsibilities and report on how these have been carried out.

A **staff structure** exists to provide specialist support to line managers looking for advice and guidance, for example about marketing or human resource functions. These functions may be added as a business grows and merely act as a support to line managers; they do not have a level in the hierarchy. Alternatively, they may be organised into departments, still acting as advisor to line managers who have the authority to carry actions out.

## Functional structure

A **functional structure** is one where the organisation is arranged into business functions (namely areas of the business responsible for particular activities of the business, such as human resources, marketing, sales, production, quality control, research and development, and so on) and has authority over the line manager in decision-making. Functional structures are the most common of all organisational structures and are generally seen in a large range of organisations. Functional structures are frequently seen in manufacturing organisations as there is a need for more technical orientation.

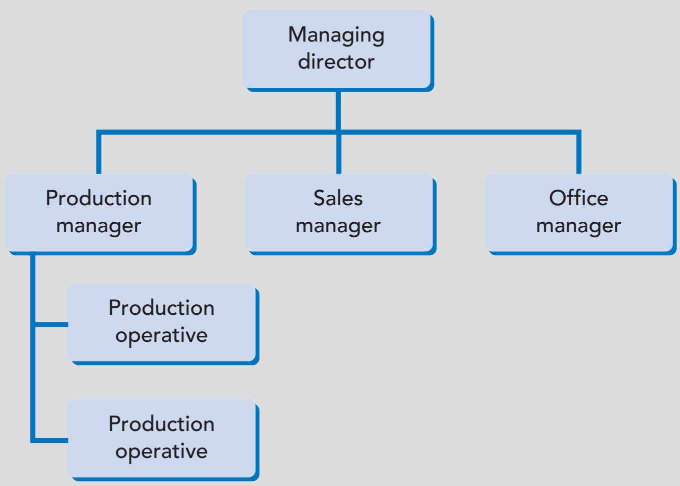



**Figure 3:** An example of a simple functional structure

### Authority and decision-making

Authority always flows from top to bottom. It explains how a superior gets work done by a subordinate, by clearly explaining what is expected and how the subordinate should go about the task. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else does not imply escaping from accountability. Accountability still rests with the person having the utmost authority.

Similarly, decision-making becomes more complex from the bottom to the top. At the bottom of the structure, decisions may be limited within a job role. However, decision-making is more complex further up the line.

REVISION on the go

## Matrix structures

**Matrix structures** operate around projects using employees from different departments. Companies may operate **divisional matrix structures** or only operate **matrix structures** for a specific project activity. Both are covered in this section.

### *Divisional matrix structures*

A simple method of organising very large organisations is to place them into divisions (teams that are managed separately to perform particular tasks for the company at large). These tend to be common in international companies where the organisation is operating in a national market. An example can be seen in Figure 4. In each division, there will be other organisational structures in operation. For example, construction (building) companies tend to use divisional matrix structures because their focus is on specific building projects, such as building a new motorway or housing development. These tend to be long-term and permanent.

**Advantages of divisional matrix structures**

- Each division will be structured to ensure it operates effectively and efficiently.
- In international organisations, a division may be set up to serve a specific market or type of customer.
- They can be set up fairly quickly to react to an opportunity or project.
- There is access to expertise and cross-functional involvement.
- They build creativity and innovation within an organisation.

**Disadvantages of divisional matrix structures**

- Each division will operate independently and may drift away from the objectives of the head office.
- Different divisions may end up running the same activities as each other, causing duplication of effort.
- Individuals may feel pulled in different directions in that they may be performing not only a technical role but also a project role.
- Organisations using a matrix structure need to ensure employees are able to handle change as they switch from project to project.
- Knowledge management practices need to be entrenched within the organisation to capture learning from different projects.

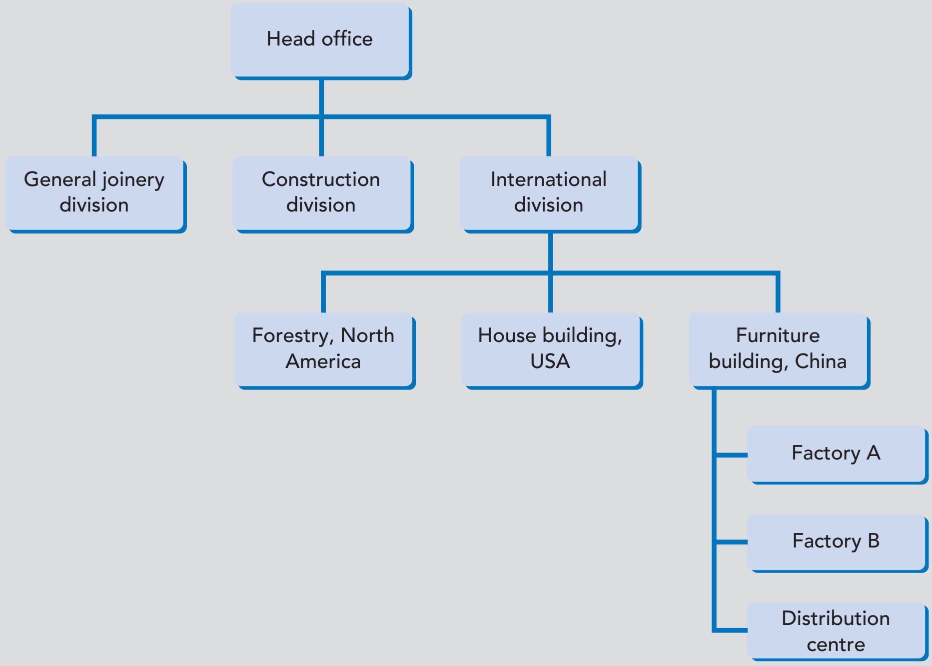



**Figure 4:** Divisional structure within an international construction company

## *Matrix structures*

In matrix structures, the traditional departments seen in functional structures are combined with project teams.

In a matrix structure, individuals work across teams and projects as well as in their own department or function. For example, a project team tasked with developing a new product will include engineers and design specialists as well as those with marketing, financial, personnel and production skills.

These teams may be temporary to complete a specific project. For example, a manufacturing company may set up a project team to gain quality standards such as ISO 9000. Each team member can have two managers: their normal functional manager as well as the team leader of the project.

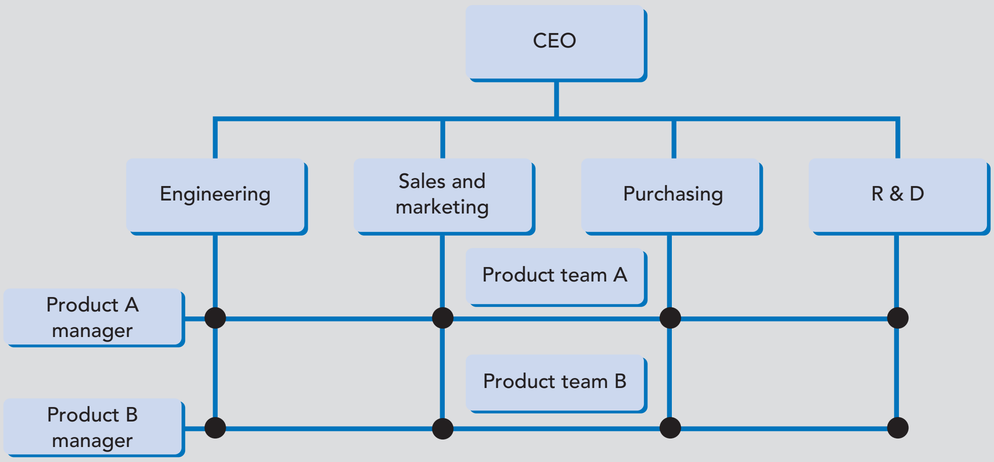



**Figure 5:** Example of a matrix structure

### Advantages of matrix structures

- Departments work together, improving communication across the entire organisation.
- Individuals develop skills and knowledge by working on many different projects.
- Employees are likely to be happier when their work is varied.
- They encourage the sharing of ideas and good practice.
- Projects become more cost-effective, thanks to shared resources.

### Disadvantages of matrix structures

- Members of project teams may have conflicting demands as they report to two line managers.
- There may not be a clear line of accountability for employees.
- They can be difficult to coordinate.
- It takes time for matrix team members to get used to working in this kind of structure, particularly if they have been used to a traditional structure. For example, how do they divide and manage their time to undertake their functional responsibilities and project activity?
- Team members may neglect their functional responsibilities as they focus their efforts on the project. The team member's line manager should meet with them to evaluate current workload and provide time to allow the team member to participate in the project successfully.

## CASE STUDY: MATRIX ORGANISATIONS

### Richard's dilemma

Read the following problem that an employee has with a construction company. (An activity based on this information follows.)

"I work for a large civil engineering company as a quantity surveyor. My job just seems to have got so much bigger and I now report to three different managers. One is my functional manager and the other two are the managers of two projects that I am involved with."

"I only have so many hours in the day and often cannot balance my workload. I have tried to explain this to each of my managers but they just don't seem to understand my problem of meeting all their expectations."

"I thought about arranging a meeting with the three of them to see if we could get this sorted out once and for all. I have my performance review coming up and I know my performance on one of the projects is going to be raised as an issue because of all this. Can you suggest anything?".

## OVER TO YOU

### Activity 2: Matrix structures – Richard's dilemma

| **Based on the case study information above:** |
|---|
| What advice would you give Richard in handling his dilemma? |

What should a matrix organisation put in place to prevent employees from suffering a similar dilemma?

## 2.2 Conflict and collaboration between functions

### CASE STUDY: FUNCTIONAL STRUCTURES AND REPORTING LINES

**ABC Stores**

Annie works as a human resources (HR) manager for a large chain of supermarkets in Malawi. She reports directly to the store manager for day-to-day activity and the regional HR manager for her HR priorities.

She has a difficult relationship with the store manager, who considers the service on the shop floor to be the main focus and does not value back-office functions because they do not contribute to sales figures.

Annie's job description requires her to perform the duties of a duty manager when required. Due to staff shortages, Annie has found that her time spent on HR duties is dwindling and this has had an impact upon HR statistics: sickness absence figures have increased; the time taken to recruit into post has doubled; performance issues within the store have increased; and a number of leavers have cited difficulties in dealing with the store manager as a factor in their decision to leave.

Annie has tried to explain to the store manager, who remains resolute that her priority should be on the shop floor and that, because she reports to him, he will determine how much HR activity is required in the store.

The case study above highlights the conflict between operational, retail and functional (HR in this case) activity. Conflict in terms of priorities will occur between line and function. Therefore, it is important that all parties are clear on their terms of reference concerning their purpose and how they need to work together to support each other.

### OVER TO YOU

**Activity 3: Conflict and collaboration between functions – advice to Annie**

Using the case study information, what advice would you give to Annie?

What issues might cause conflict between functions and line managers? Give examples of specific functions that might have significant conflicts.

What advice would you give to encourage collaboration between functions?

You might have considered some specific issues, such as production and sales functions, involving conflict. Sales people often promise quick delivery dates in order to obtain an order from a customer; this puts unnecessary pressure on the production department who may have a variety of production deadlines and challenging changeovers in production line set-up, particularly if they operate batch production.

Greater collaboration may come about as a result of sales or production meetings to identify key order requirements and schedule times. For example, if the production team understands that there are large orders in the pipeline, they can plan for the resource implications, including set-up and down time.

## Agile working

Modern organisations need to be quick to adapt and respond to changes in the market. They may introduce a range of **agile working** practices but will also need to have an agile organisational structure.

An organisation that is positioned to adapt to the changing needs of its customers needs a complementary organisational structure that is both efficient and highly functional. Instead of seeing the organisation as a pyramid shape with senior management at the top and shop floor staff at the bottom, you could instead think of it as a beehive: hundreds of cells, collaborating towards common goals, acting independently yet interconnected.

An agile organisation uses cross-functional, self-organising teams that are self-managing, semi-autonomous or empowered. A manager will be capable of supporting 10 to 20 cross-functional teams consisting of between 5 and 9 employees working towards a particular objective.

## Cross-functional teams

These contain all of the key skills required to deliver to the needs of their customers. Unlike traditional hierarchical or matrix management structures, **cross-functional teams** are responsible for the delivery of a product or service from design to completion; they should not need input from, or handover to, other teams at certain stages. This results in the following:

- speedier delivery times, because there are no delays as a result of handovers to different teams;
- consistent ownership of work and greater effort to meet objectives and deadlines;
- rapid response to new demands;
- improved information sharing across the organisation.

## Self-organising teams

Self-organising teams have the responsibility and authority to create a functional, internal team by moving, training or reorganising team members as and when required. This is often when the customer needs exceed the skills of the team. The team should then self-organise by transferring, or in some cases recruiting, staff with those skills into their team.

There are five factors that teams need to take into account to ensure a complementary team structure.

1. Individual team members will have specialisations and preferences; whilst they should be able to take on different roles, they are best placed and more effective playing to their strengths.
2. Team members should be able to take on multiple roles. However, they will not be able to take on all roles because this reduces the specialisation and strength of the team as members are not working to their preferred role and style.
3. Productivity will be affected if there is constant switching of roles; it is best that team members focus on a specific role, and switch only as required.
4. Staff who can take on multiple roles tend to be more creative in their work.
5. The customers' requirements drive the structure of the team.

## Self-managing, semi-autonomous or empowered teams

The biggest barrier to organisational agility is the bureaucracy and management needed to ensure that team objectives align to customer expectations and corporate strategy. In an agile organisation, this can be overcome by giving individual teams the accountability and authority to engage with, and deliver to, their customers without undue interference within the boundaries set by the customers' requirements.

### ! NEED TO KNOW

Trust is vital in developing **empowered** teams. Staff must trust management and management must trust staff. Customers must trust the organisation, and the organisation must trust their customers.

REVISION on the go

Other aspects of agility include flexible working practices, often seen as a benefit to employees in traditional organisations. Flexible working supports agile working practices by establishing the optimal workforce to support its objectives. Agile working allows for flexible working because teams determine the time when they work (part-time or variable hours, for example) as well as the location where they work (multiple sites, working from home and so on). Technology has enabled agile working and flexible working as employees are able to work remotely and have access to the same systems over the internet.

## Lean working

In today's organisation, greater emphasis is being placed on effectiveness and efficiency. Therefore, there has been a growth in a range of manufacturing quality management processes. Practices such as Just in Time (JIT), Kaizen, Total Quality Management (TQM) and world-class manufacturing emphasise the need to be able to respond quickly to external opportunities and threats whilst operating efficiently, leading to a growth in agile and **lean working**.

Lean working is about efficiency and the removal of waste in all aspects from the waste of raw materials in production to wasted movement. Taichi Ohno (1943) was the founder of the 7Ws, or the 7 wastes, which he identified within Toyota production.

1. **Defects** – products that do not meet the specification. In Japanese manufacturing, this involves getting the process right first time rather than having quality control inspecting the results.
2. **Over-production** – a key element of JIT was making only the quantity required. Set-up times, from making one product to another, also needed to be reduced as this had an impact on costs: long set-up times increase costs because heating, lighting and wages are still being paid without any production of items.
3. **Waiting time** – staff who are not involved in production but are waiting around for components, machines or tools are effectively a waste. It is therefore worth reviewing the workflow through the factory (to reduce waiting time) and taking preventative measures (to reduce the risk of machine breakdown).
4. **Transporting items** – again, factory planning can reduce the time taken to transport items; reviewing the process and when items are required also means less waste in transportation.
5. **Movement** – improving housekeeping and having tool-stations available mean that workers are not wandering around looking for items.
6. **Inappropriate processing** – there might be a process within manufacturing that serves no purpose. Closely analysing and evaluating each step of the manufacturing process establishes which steps are essential and add value over those that have no value and can be eliminated.
7. **Inventory** – holding stock costs money, in terms of storage, tied-up finance, security risk and cost, and risk of spoilage.

### OVER TO YOU

**Activity 4: Lean and agile**

**What skills and competencies do you think you need to develop in order to be prepared to manage in an organisation operating lean and agile working practices?**

# **2.3** External and internal influences on organisational structures

## External influences

External factors may influence an organisation in changing its structure. For example, a downturn in the economy is more than likely going to result in some form of rationalisation, such as redundancy or delayering (removing a layer of management).

**PESTLE** is the tool for an organisation to use to examine the impact of the external (or macro) environment on itself.

- **P**olitical – political changes on the global, regional, national and local level may have an impact on organisational activity; for example, war within the Middle East may affect global oil prices and therefore would affect cost of goods and services. Local political factors such as planning regulations may affect a local organisation's ability to extend its factory.
- **E**conomic – factors such as measures of economic growth, for example gross domestic product (GDP), indicate how well an economy is doing. Other factors indicate living standards, such as current levels of interest, inflation and unemployment rates.
- **S**ocial – factors such as trends or cultural factors may affect organisations; for example, demographics within society may influence the types of products you would market.
- **T**echnological – changes are likely to occur that might affect the organisation.
- **L**egal – current and impending legislation might affect the industry and how an organisation might be able to operate.
- **E**nvironmental – factors such as climate change could affect our products or service.

### OVER TO YOU: EXTERNAL INFLUENCES ON ORGANISATIONAL STRUCTURES

**Activity 5: PESTLE**

**Using the PESTLE framework, provide examples and explain how these might influence organisational structures. You might find it useful to consider different types of organisations to help illustrate your answer.**

Political

Economic

Social

Technological

Legal

Environmental

## Internal influences

Internal influences may vary depending on the organisation and the industry sector in which it might operate. For example, smaller organisations may be influenced by the changing ideas of its owner who may change the structure quickly to achieve strategic aims or operational demands.

Internal influences may be very specific for the organisation but, in general terms, the following aspects may be relevant.

- **Organisational culture** – does the organisational culture support or hinder what the organisation is trying to achieve?
- **Leadership** – do we have the right leaders in place for what the organisation is trying to achieve? Is their leadership style appropriate for the current situation and can they lead the business into the future?
- **Staff** – do we have the right number of staff with the right skills in order to achieve our goals?
- **Finance** – do we have access to the finance required to enable us to do what is necessary to remain competitive?
- **Fixed assets** – are we in the right location with the right plant and machinery to ensure we can meet our objectives and remain competitive?

Senior managers may undertake an analysis to enable them to question the internal features of the organisation in the light of the external influences identified through the PESTLE. This is called a **SWOT** analysis.

- **S**trengths – what are the strengths of our business or the unique capabilities that we are known for and can capitalise on?
- **W**eaknesses – what are the things that let us down or we could improve?
- **O**pportunities – what are the external factors that we can use as an opportunity?
- **T**hreats – what are the external factors that might threaten what we do, and how can we overcome them?

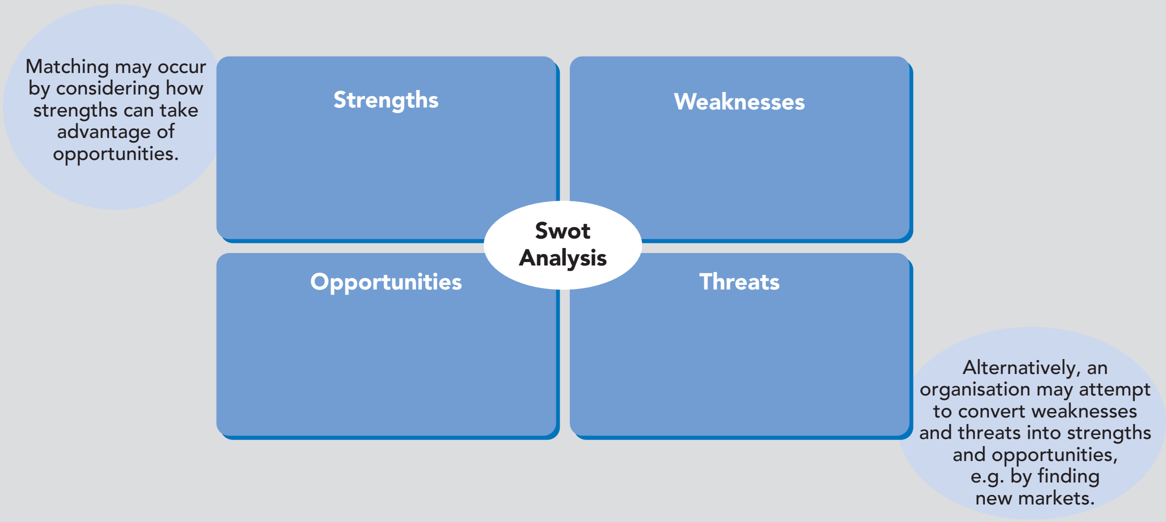



**Figure 6:** SWOT analysis in practice

## Competition

Competitive pressures (an external micro-environmental factor) will affect an organisation significantly and a company may restructure to respond quickly to opportunities or threats from competitors.

Porter's Five Forces is a framework used to analyse the level of competition within an industry. This analysis allows managers to evaluate the organisation's strategic position. See Figure 7.


**Figure 7:** Porter's Five Forces (1979)

According to Porter, the Five Forces model should be used at the line-of-business industry level. Line-of-business refers to one business activity or a set of highly related business activities; for example, Ford concentrates its business activities on the production of cars and commercial vehicles (vans and lorries). Therefore, Ford would have to undertake a different Porter's Five Forces for each of its lines of business as the industry competition for each one will be different.

Porter's framework has two disadvantages. Firstly, buyers, competitors and suppliers operate individually: they have little interaction with each other. Secondly, it is difficult to evaluate the attractiveness of an industry without taking into account the value of resources a company operating in that industry brings.

### *Threat of new entrants to an industry*

If new entrants move into an industry and gain market share, rivalry in the market will increase as they fight for customers. If there are barriers to entry, the position of existing firms will be stronger. Barriers to entry may include:

- high capital costs, which might mean that only large businesses can compete;
- regulation and legal restrictions, including patents or trade barriers such as government restrictions on the foreign ownership of domestic companies;
- difficulties in accessing distribution channels (the methods a company uses to get its products to the consumer), which may be affected, for example, by the location of production in relation to the market served.

OVER TO YOU

**Activity 6: Barriers to entry**

**Working with a study partner if possible, think of an industry where there are barriers to entry. Make a note of why that is the case and how it affects the market and customers.**

### *Bargaining power of suppliers*

If a firm's suppliers have high bargaining power, they will use it to:

- sell their products at a higher price;
- apply pressure to industry profits.

If the supplier forces up the price paid for inputs or raw materials, profits will be reduced. Suppliers find themselves in a powerful position when:

- the resource they supply is scarce;
- there are only a few large suppliers;

- the cost of switching to an alternative supplier is high;
- there is competition for the input or raw material from other industries.

For example, suppliers of oil can rely on the last three bullet points above, as the number of firms supplying the resource is relatively small and the cost of raw material is regulated.

## *Bargaining power of customers*

Powerful customers are able to exert pressure to drive down prices, or increase the required quality for the same price, and therefore reduce profits in an industry. An example might be large grocery supermarket chains, which can exert great power over supply firms.

Factors that can determine the bargaining power of customers include:

- small number of customers = more power per customer;
- large volume of orders from a customer = increased bargaining power of that customer to negotiate the price or a bulk buying discount;
- small number of alternative suppliers = fewer alternative suppliers for customers to go to.

## *Threat of substitute products*

A substitute product can be regarded as something that meets the same or a similar need as the original product.

Substitute products may be produced in the same or a different industry but, crucially, satisfy the same customer need. If there are many credible substitutes for a firm's product, they will limit the price that can be charged and will reduce industry profits.

An example of the substitutes available in the same media industry is in the purchase of a newspaper. The substitutes available vary – from television, online newspapers, alternative media such as the internet and social media sites. The extent of the threat depends upon:

- the extent to which the price and performance of the substitute can match the industry's product; for example, the price of newspapers is often nil and performance of online services often exceeds a printed newspaper;
- the willingness of customers to switch;
- customer loyalty and the cost of switching to the alternative.

## *Degree of competitive rivalry*

If there is intense rivalry in an industry, it will encourage businesses to engage in:

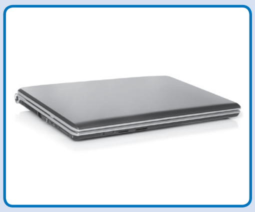
- price wars (competitive price reductions);
- investment in innovation and new products;
- intensive promotion (sales promotion and higher spending on advertising).

All these activities are likely to increase costs and lower profits. The factors that determine the degree of competitive rivalry are:

- number of competitors in the market – the higher the number, the greater the degree of rivalry;
- market size and growth opportunities – a mature market will often have a higher degree of competition as there is less opportunity to grow;
- strong buyers and availability of close substitutes – meaning competitive rivalry will be high.

## CASE STUDY: RESTRUCTURING ORGANISATIONS – INTERNAL PRESSURES

### Top management restructure



Access the YouTube clip below to hear Michael Dell tell Mark C. Thompson about a time when Dell had an unwieldy organisational structure. About 20 people reported to the chief executive officer (CEO), which left decisions unmade and mission statements unclear. Managers had to go through a painful process of telling some individuals they were no longer to report to the CEO, but it helped the company run more smoothly.

https://www.youtube.com/watch?v=Sls0SPNcwzs

## OVER TO YOU

### Activity 7: The reasons for organisational restructures

**Having watched that YouTube clip, think about the learning points you gained about:**

1 The reasons why organisations restructure.

2 The issues involved in restructuring organisations.

You would have identified that there are many reasons for organisational restructure. Michael Dell discussed inefficiencies in decision-making that influenced the need for a restructure. However, it is perhaps those inefficiencies that may have had an impact on the organisation's competitiveness in reacting quickly enough to changes in market demands.

The skills of a workforce and its ability to change will be huge influences on how to approach a restructure. Employees who are used to change and have a high level of skill tend to be less resistant to organisational restructure.

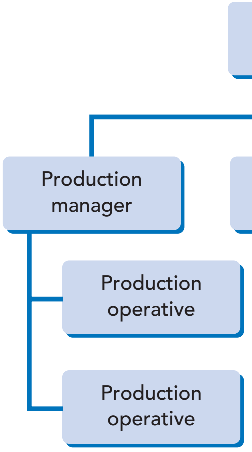
## OVER TO YOU

### Activity 8: Organogram

**Look at the following organisational chart. Think about what might happen to a company's organisational chart as the business grows and the following staff are recruited:**

- **two sales engineers (each covering a geographical region)**
- **a designer trained to use computer-aided design (CAD) software**
- **a part time receptionist.**

**Now amend the organisational chart.**




You will have examined where these roles can fit and who they report to. In doing so, you may have identified that whatever structure you have chosen will have an impact upon the culture of the organisation and how human interactions occur and are influenced by the organisational structure.

## Hybrid structures

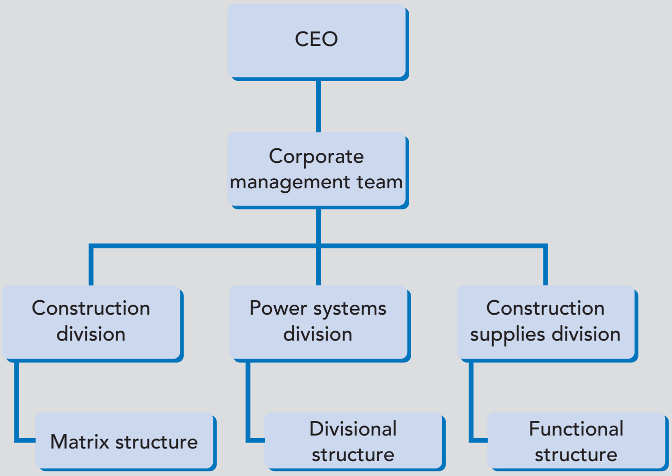



**Figure 8:** Representation of a hybrid structure

REVISION on the go

**Hybrid structures** are large organisations that have many divisions and use different types of organisational structures within those divisions to achieve their objectives.

Hybrid structures are often found in large multinational companies and may have various holdings, namely a parent company that owns other companies operating within different industries and sectors.

The advantages of hybrid structures include:

- clear alignment of corporate and divisional goals; if we look at the diagram in Figure 8, the construction division will have corporate goals, which may include financial goals such as net profit targets, but they will also have divisional goals, which may be related to specific construction targets;
- ensured functional expertise and efficiency;
- opportunity for adaptability and flexibility in the division to serve their own markets.

However, there are disadvantages as follows:

- conflict can arise between corporate departments and divisions, as one size of processes and procedures may not fit all;
- if divisions undertake their own administration and these are replicated by the corporate departments too, administration may be excessive;
- responses to exceptional circumstances can be slow, as decision-making may be delayed when the corporate level needs to be involved.

## The influence of the informal organisation on organisational structures

An informal organisation is the set of evolving relationships and patterns of human interaction within an organisation that are not officially presented in an organogram. Alongside the formal organisation, an informal organisation structure exists, which consists of informal relationships created by organisational members at every level. This adds a level of complexity to the formal organisational structure; managers may have to navigate their way around this complexity.

The informal organisation tends to have members of the organisation joining together to satisfy their personal needs; for example, the need for affiliation means members may set up friendships based on personal values and interests.

The informal organisation is constantly changing; it is dynamic because relationships will evolve as external and internal factors affect them. Informal structures will have a pecking order and a chain of command.

There are benefits of an informal organisation:

- work can be completed faster, particularly if you can align organisational goals with individuals' personal needs;
- it can remove weaknesses in the formal structure as individuals will use their personal networks;
- the span of control is strengthened as informal relationships can support managers in ensuring tasks are completed;
- it provides an additional communication channel, although this can be through "the rumour mill" (an informal and often unreliable source of information, which can be disruptive);
- it provides emotional support for employees;
- there may be opportunities to innovate and collaborate.

However, there are disadvantages of an informal organisation, as follows:

- it can be a strong coalition acting against the formal organisation, particularly when change is managed badly;
- it can reduce predictability and control as the informal organisation becomes more effective in getting things done, and this could indicate that the current organisational structure is not working.

### Flatarchies

Somewhere in between hierarchies and flat organisations lie **flatarchies**. These types of companies are a little bit of both structures. They can be more hierarchical and then have ad-hoc teams for flat structures, or they can have flat structures and form ad-hoc teams that are more structured in nature. Organisations with this type of structure are very dynamic.

The most common type of example with this structure is a company with an internal "incubator" (or innovation programme). In this type of an environment, the company operates within an existing structure but usually allows employees to suggest and then run with new ideas. Examples include Google, 3M and LinkedIn.

### Holacracies

**Holacracies** are also known as "boss-less" organisations and are still emerging as a possible organisational structure. The basic goal with this structure is to allow for decision-making to be shared while giving everyone the opportunity to work on what they do best. There is still some form of structure and hierarchy but it is not based on people as much as it is based on circles or what most people would think of as departments. Information is openly accessible and issues are processed within the organisation during special and ongoing meetings.

## OVER TO YOU: CONTEMPORARY ORGANISATIONAL STRUCTURES

### Activity 9: Flatarchies and holacracies

**Visit the following website and read the two articles. What have you learned about these structures and the impact upon organisational culture, leadership and human relationships?**

**What impact do you think these structures will have on the type of people to recruit?**

**https://www.forbes.com/sites/jacobmorgan/2015/07/15/the-5-types-of-organizational-structures-part-4-flatarchies/#476ce24b6707**

**https://www.forbes.com/sites/jacobmorgan/2015/07/20/the-5-types-of-organizational-structures-part-5-holacratic-organizations/#40c33a1e48a2**

## READING LIST

*Is Flatter Better? Delayering the management hierarchy*: http://www.employment-studies.co.uk/system/files/resources/files/290.pdf

https://www.forbes.com/sites/jacobmorgan/2015/07/20/the-5-types-of-organizational-structures-part-5-holacratic-organizations/#23a6295048a2

# Chapter 3

# The Difference between Strategic and Operational Management

## Introduction

Operational management is often said to be about "doing things right" whilst strategic management is about "doing the right thing".

This is a rather trite phrase but perhaps this generic definition has some merit in that strategic management is concerned with why the organisation exists, the objectives it wants to achieve and the market it intends to serve. Operational management is about translating that strategy into meaningful policies, procedures, processes and activities that ensure the organisation meets its objectives.

## Learning outcome

On completing this chapter, you will be able to:

**3 Explain methods by which organisations are managed strategically and operationally**

## Assessment criteria

**3 Explain methods by which organisations are managed strategically and operationally**

- 3.1 Explain the concept of operational management
- 3.2 Summarise the differences between strategic and operational management
- 3.3 Explain the concept of strategic management and its interaction with operational management

OVER TO YOU

**Activity 1: Efficiency and effectiveness**

| What do you understand by the terms "efficiency" and "effectiveness"? |
| --- |
| |

# 3.1 Operational management

## Managers, effectiveness and efficiency

**Efficient** managers use resources to achieve objectives whilst minimising waste. An efficient manager will be clear about their objectives and plans in order to plan and control effort without wasting resources.

**Effectiveness** is achieved by doing the right things to achieve objectives and outputs. An effective manager will review the outputs and seek to get the best performance from resources to achieve them. This might include managing the performance of staff and a focus on the things that an organisation values such as quality, increased profitability, customer satisfaction and cost effectiveness.

Effectiveness has to come first as a manager must do the right thing then focus on how they can do it better or more efficiently.

## CASE STUDY: THE EFFECTIVE MANAGER

The text below is based on an article by Devika Arora is called "How to be an effective manager in 7 simple steps".

Being a good manager is all about running the show while producing effective results. You are not only seen as a leader but are also expected to be fair and approachable. For many managers, their duties are limited to getting the work done. However, how you get the work done is equally important and one cannot learn to do so overnight.

So unless you hail from a management background or are trained to do so, you may find yourself in a tight spot.

### Tips for being a good manager

**1) Delegate work wisely:**

The key to effective management is to delegate the work – you should assign responsibilities and tasks to your employees. When you delegate work to your employees, you are multiplying the quantity of work that can be accomplished. Also, you are helping develop your employees' capabilities, leadership skills and confidence.

**2) Set achievable goals:**

Every employee must have something to work for and therefore it is the duty of a manager to set goals that subordinates will strive for. Not only will these goals give the employees a new purpose and direction, they will also ensure that all employees are marching towards the larger organisational goals. So fix measurable goals and regularly monitor the progress towards their accomplishment.

**3) Communication is essential:**

Whether you have news related to work or whether it is an informal interaction, a good manager always makes an effort to keep subordinates in the loop. Employees must remain updated as to what has to be done, and how it should be done, in order to do their job efficiently and on time.

**4) Make time for your subordinates:**

When employees need to talk to you, you must make sure that you make time to see them and step aside for a discussion.

**5) Recognise achievements:**

Every individual is hungry for appreciation. The day you begin appreciating your team for their efforts, your subordinates will be a happier lot. Start behaving as you would want your subordinates to behave at work. However, do not forget in the process that your role and position are different from the other employees.

**6) Come up with lasting solutions:**

Managers must be effective problem solvers. No matter how huge a problem is, there is always a solution to it. A good manager believes in dealing with the root cause of the problem, rather than just superficially fixing it.

**7) Stop playing the blame game:**

It will always be someone's fault. Fingers can be pointed towards you. However, you can't go on blaming everyone in the team for one person's failure to perform or your own failure to lead.

### Bonus: build on people's strengths

A lot of managers target the weaknesses of employees and talk about how to improve them. You should distinguish yourself by paying special attention to core areas that represent the strength of your subordinates. This will encourage them and this is how you will receive your biggest return on investment.

http://theundercoverrecruiter.com/effective-successful-manager/

## OVER TO YOU

### Activity 2: "How to be an effective manager in 7 simple steps"

**Referring to the case study above, identify three personal development recommendations that you would take forward to improve your own effectiveness as a manager, identifying the results you would hope to achieve.**

## Evolution of management

Management theory has evolved over time to where we are today, as summarised below.

**Scientific management theory** (1890–1940)

Frederick Taylor (1911) developed the "scientific management theory", which espoused the careful specification and measurement of all organisational tasks. Tasks were standardised as much as possible, workers often being assigned routine, repeated and mechanistic tasks. Workers were rewarded with production bonuses for hitting targets and punished for not completing tasks to set quality standards. This approach appeared to work well for organisations with assembly lines, such as Ford Motor Company and the Model T Ford.

**Bureaucratic management theory** (1930–1950)

Max Weber (1930) further developed the scientific management theory with his bureaucratic theory. Weber focused on dividing organisations into hierarchies, establishing strong lines of authority and control as discussed in the last chapter. He considered the use of comprehensive and detailed standard operating procedures for all routinised tasks, which ensured greater efficiency as managers and employees would follow a standard procedure for a given task.

**Human relations movement** (1930–today)

Eventually, employees and trade unions reacted to the mechanistic nature of the theories above and their negative impact upon welfare at work. Therefore, the human relations movement concentrates on individuals and the unique talents that they bring to an organisation. A key belief was that an organisation would benefit if its workers were rewarded, and this led to the growth of human resource departments. McGregor's Theory X and Y (1960) identified the needs of workers and how these could be managed in organisations to have a positive impact upon human behaviour.

The growth of the human relations movement led to training programmes to develop supervisors and managers. Effective training programmes included personal development to enhance self-awareness and personal impact as the behavioural sciences started to recognise the effect a manager has upon subordinates.

## *Contemporary theories of management*

### Contingency theory

Contingency theory asserts that when managers make a decision, they must take into account all aspects of the current situation and act on those aspects that are key to the situation at hand. For example, a manager may take a more autocratic style if business survival is an issue, whereas a more participative style might be used if a change management programme is being implemented.

### Systems theory

Systems theory has had a significant effect on management science and understanding organisations. A system is a number of activities or inputs linked together, which results in an output; if one of these activities fails, this will result in a flawed output or no output at all. An output will have an outcome such as improved revenue for the organisation, an enhanced quality of life, or better performance for the customer or client. A system receives feedback that it acts upon; this may be from clients or customers but also the wider environment in terms of changes in society, economic influences or governmental interference.

Systems theory has helped managers to look at their organisation through a broader perspective and how different factors influence the organisation including the interrelationships between inputs, outputs and outcomes. Previously managers would have looked at their department in isolation and through the eyes of a technical manager (for example, a production manager just looking at production), which created a silo mentality.

Systems theory has influenced techniques such as Kaizen, Total Quality Management (TQM) and lean manufacturing, which consider the wide range of inputs, outputs and outcomes and how these can be improved to be more efficient and effective.

### Chaos theory

Previous management theories assumed predictability about events within organisations. However, the reality is somewhat different and chaos theory recognises that events are rarely controlled and subject to upheaval. Systems theorists also refer to biological systems and consider how ecological systems evolve as a result of significant events; the same applies within organisations.

## How management theory has evolved

The diagram below summarises the evolution of management theory from 1890 to the present day.

**Scientific management (1890–1940)**

- F. W. Taylor (Taylorism)
- Specification of roles
- Measurement of tasks (early work study)
- Reward and punishment of workers
- Managers supervise and control

**Bureaucratic management theory (1930–1950)**

- Max Weber
- Organisation structures into hierarchies
- Authority and control
- Standard operating procedures
- Managers manage using authority, and follow rules and regulations

**Human relations movement (1930–today)**

- McGregor *et al*
- Individual employees and their capabilities
- Growth of human resource function
- Understanding of needs of employees and organisations
- Managers required to support and develop employees

**Current trends**

- Contingency theory
- Systems theory
- Chaos theory

**Figure 1:** Evolution of management theory from 1890 to the present day

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**Activity 3: Management theory and current trends**

**Read this shared paper, which will provide you with a brief outline of management theory and current trends: http://unpan1.un.org/intradoc/groups/public/documents/AAPAM/UNPAN025765.pdf**

Make some notes on what this means for operational management before reviewing the following section.

## Trends in operational management

Operational management is influenced by a range of trends, which may have been as a result of external factors such as changes in employee expectations and internal drivers within organisations to enhance competitiveness.

### *Quality management*

A significant trend over the last 30 years has been the growth in quality management, which has been influenced by Japanese management practices of continuous improvement.

**Kaizen** is Japanese for change (*kai*) for the good (*zen*). It is based on a strong philosophy that everything can be improved. Kaizen continually seeks improvement even by the smallest changes over time. These incremental changes add up to substantial change over a long period. It therefore becomes a cultural practice in that employees seek improvement and therefore make the changes themselves rather than having change forced upon them through radical innovation.

Due to its philosophical nature, its approach is found in other improvement methods such as **Total Quality Management (TQM)**.

Kaizen has many benefits due in part to its holistic approach to continuous improvement in that it reviews productivity, effectiveness, safety, and waste reduction. Benefits include:

- less waste – organised stock is often ordered just in time;
- greater employee engagement – they participate in the way things are done;
- improved retention – greater employee engagement means people are more likely to stay;
- improved competitiveness – increased efficiency leads to lower costs, greater productivity and improved quality;

- improved customer satisfaction – there are fewer complaints, due to higher-quality products;
- improved problem solving – continuous incremental improvement means employees look to solve problems;
- improved teams – because they work together to solve problems.

Kaizen has been seen by Western companies as being significant in improving manufacturing processes, due in part to the visible success of Japanese manufacturing of high quality and low costs. Much of the focus in Kaizen is on reducing "waste". Waste can be seen in the following forms:

- movement – unnecessary movement is reduced by having materials ready when needed;
- time – no waiting around;
- defects – zero defects to avoid waste or rework;
- over-processing – doing more to the product than is necessary.

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### Activity 4: Kaizen at Nissan Sunderland (UK) plant

**Watch the following video and identify the ways in which the manufacturing process reduces waste:**
**https://youtube/vsNDcKCzZgY**

You may have seen the production line moving at the right speed to ensure workers do not have to move unnecessarily. Firstly, this reduces the wasted movement that does not add any value to the bottom line. Secondly, it reduces the likelihood of worker fatigue, which in turn reduces sickness absence. Since the production line is moving and parts are arriving just in time for each vehicle, there is no time wasted waiting around.

I am sure you saw workers checking the work as it was being completed; the use of robots to weld chassis together means that there is a reduced risk of human error, therefore reducing waste or rework.

The vast majority of vehicles would be standard models for stock. However, there were some that were customer orders and therefore may have extra specifications. The production line operates just in time and with a complex computer system, which means parts are ordered and delivered by robot specifically for each vehicle. Therefore, the product is not over-processed but meets the customer order specifically.

As mentioned above, **Total Quality Management (TQM)** is a method that has been derived from Kaizen, focusing on continuous improvement of quality of products or service through feedback and research. TQM uses a four-stage cycle (see Figure 2) as a means to review work culture, processes, services, and systems.

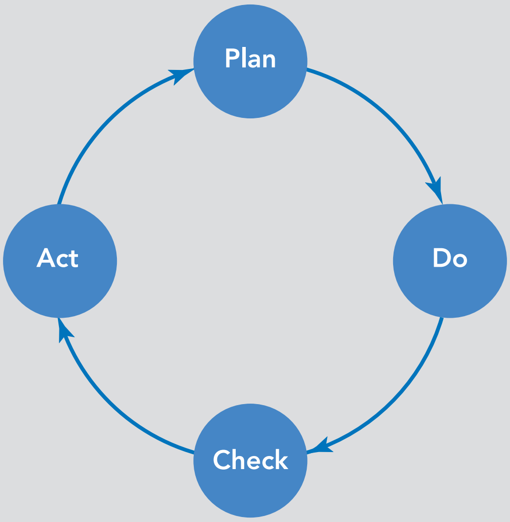


**Figure 2:** The TQM cycle

The activity undertaken at each stage can be summarised as follows.

1 The Plan stage is where employees come up with problems, questions or challenges that they face in their day-to-day operations and analyse the root causes.

2 The Do stage is where employees develop solutions to the problems they identified in the previous stage.

3 The Check stage is where people perform a comparison before and after to establish the effectiveness of the processes and measure results.

4 The Act stage is where people document results and put in place the means to address their problems.

**Six Sigma** is a business management strategy that aims to improve the quality of processes by the reduction and eventual removal of errors and variations. Six Sigma was founded by a senior executive at Motorola as a result of a complaint about the quality of the company's products.

Six Sigma seeks to improve overall processes and systems by identifying and eventually removing the hurdles that prevent perfection. Six Sigma creates levels for employees within the organisation, such as green belts and black belts. Individuals with any of these belts are often experts in the Six Sigma process, therefore creating greater involvement at all levels of the organisation.

Other quality systems arising from Kaizen and TQM are standards such as **ISO 9001**. This is an international standards certification on the quality systems that will provide the foundation for improved customer satisfaction and continual improvement.

**European Foundation of Quality Management (EFQM)** is an accreditation model for reviewing an organisation to develop sustainable excellence.

The EFQM was formed to recognise and promote sustainable success and to provide guidance to those seeking to achieve it. It is achieved through a set of three integrated aspects, which comprise the EFQM Excellence Model.

1 **The fundamental concepts of excellence:**

- adding value for customers by identifying and fulfilling needs and expectations;
- creating a sustainable future by having a positive impact on the community;

- developing organisational capability;
- harnessing creativity and innovation;
- leading with vision, inspiration and integrity;
- managing with agility;
- succeeding through the talent of people;
- sustaining outstanding results.

### 2 The model criteria

The EFQM Excellence Model is based on nine criteria. Five of these are "enablers" and four are "results". The enabler criteria cover what an organisation does and how it does it. The results criteria cover what an organisation achieves.

- Enablers include leadership, people, strategy, partnerships and resources, processes, products and services.
- Results include people results, customer results, society results and business results.

### 3 The RADAR logic

RADAR logic is the basic model of plan–do–review expanded to consider the following.

- What are we trying to achieve?
- Plan and develop an integrated set of sound approaches to deliver the required results, both now and in the future.
- Deploy the approaches in a systematic way to ensure implementation.
- Assess and refine the deployed approaches based on monitoring and analysis of the results achieved and ongoing learning activities.

## *Globalisation*

A global market brings challenges to organisations in a number of ways; it opens up new markets and allows opportunities to reduce costs by **offshoring** discrete tasks of the organisation. For example, the growth of call centres within India provides many organisations with a well-trained workforce and an opportunity to reduce some of the transactional activity with an **outsourced** provider.

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### Activity 5: Globalisation

**Investigate globalisation online and list its pros and cons for consumers, large multinational organisations and those organisations' staff.**

### Outsourcing

Outsourcing is where an organisation contracts out a particular function or part of its business. It could be contracting out a business process (such as payroll) or a non-core function (such as aspects of manufacturing or facilities management).

Outsourcing includes both foreign and domestic contracting, and sometimes includes offshoring (relocating a business function to a distant country) or **nearshoring** (transferring a business process to a nearby country).

The main reason for companies to outsource is to reduce certain costs, which may include labour costs, high energy costs involved in running a location, and other business costs. The reasons to offshore are often related to high corporation taxes and the higher labour costs experienced by corporations. For example, American companies often offshore due to high levels of regulation in their home country, and employee benefits such as social security and medical insurance.

### Logistics

Logistics is the management of the flow of items between the point of origin or manufacture and the point of consumption or purchase. The resources managed in logistics can include physical items (such as food, materials and equipment) as well as abstract items (such as time and information). The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, warehousing and often security.

There are a number of key trends involved in logistics.

- **Oil prices and carbon footprint** – logistics organisations are considering the cost of distributing goods as oil prices increase; they are also reviewing how these costs can be reduced by using newer vehicles (which have greater fuel economy) and transportation in non-peak hours to avoid traffic delays (which impact upon fuel costs).
- **Security risks** – piracy and migrant populations have caused logistics organisations to consider the risks to employee safety, and think of alternative methods to avoid such risks.
- **E-commerce** – this has changed the way retail delivers products to consumers; for example, the use of click-and-collect services, reducing the need to maintain large property stock on the high street, along with greater investment in distribution centres and online platforms.
- **Greater regulation** – this applies to the movement of goods around the world and customs restrictions. Some of these regulations are concerned with homeland security.

## *Procurement and logistics*

**Procurement (or purchasing)** is what the organisation does to get the resources it needs to operate. This includes finding suppliers and negotiating best prices on a range of business costs and raw materials.

> *“A supply chain is a network between a company and its suppliers to produce and distribute a specific product, and the supply chain represents the steps it takes to get the product or service to the customer. Supply chain management is a crucial process, because an optimized supply chain results in lower costs and a faster production cycle.”*

Supply Chain http://www.investopedia.com/terms/s/supplychain.asp#ixzz4elK1RVZP

Supply chains have become more significant within a global economy where a large multinational may source raw materials in one country, ship it to another for manufacturing components, which are then shipped to another country for construction into the final product.

Supply chain management considers many of the political, economic, social, environmental and ethical issues involved in the network of suppliers and processing from a wide cost perspective in manufacturing.

In some industries, supply chain mapping or analysis is now commonplace. A supply chain map is a visual representation, using lines, words and symbols, of an existing business process or a strategy to develop a process. The process being mapped involves how a company's product ultimately reaches its customers. Supply chain mapping has become increasingly important as companies outsource much of the manufacturing process. The goal of any map is to help a company evaluate and monitor the efficiency of its processes. Its uses therefore include:

- identification of risks (namely risk minimisation)
- cost build-up (or cost reduction)
- value-adding (using techniques such as process re-engineering to improve value)

## OVER TO YOU

### Activity 6: Supply chain management

**Using the diagram below, consider the issues involved in managing a global supply chain. For example, you may want to consider changes in the value of currency and its impact upon the supply chain.**


## *Value chain*

The value chain is the full range of activities that a business goes through to bring a product or service to market. Figure 3 shows this in simple terms.

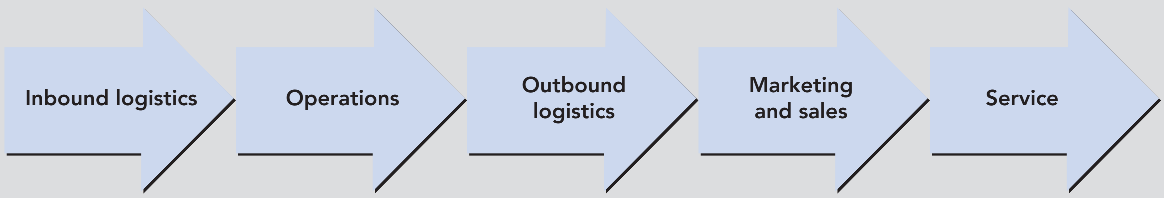


**Figure 3:** A simple value chain

The principle behind value chains is that products pass through a chain of activities, and at each activity the product gains some value. The chain of activities gives the products more added value than the sum of added values of all activities. Figure 4 shows Porter's Value Chain and is followed by an explanation of the various components.

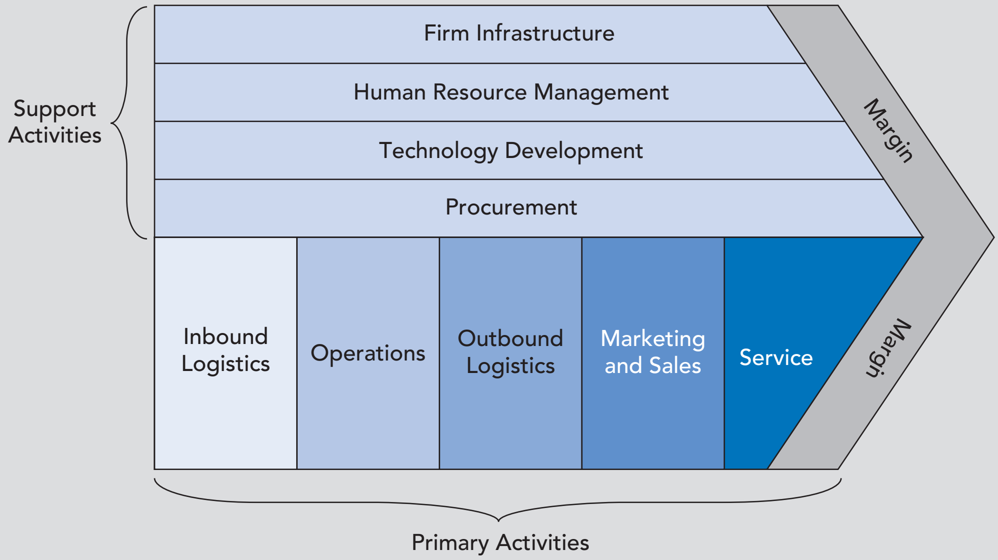


**Figure 4:** Porter's Value Chain (1985)

You will see that Porter's Value Chain shows primary activities and support activities. Let's consider each in turn.

**Primary activities**

Primary activities relate directly to the physical creation, sale and support of a product or service. They consist of the following.

- **Inbound logistics** – these are all the processes related to receiving, storing and distributing inputs internally. Creating effective supplier relationships is a key factor in maximising value and this could be achieved by ordering goods from a preferred supplier to gain discounts and efficient just-in-time delivery.
- **Operations** – these are the transformation activities that change inputs into outputs, which are sold to customers. Efficient and operational systems create value.
- **Outbound logistics** – these activities deliver a product or service to the customer. These are things like collection, storage and distribution systems, and they may be internal or external to the organisation.
- **Marketing and sales** – these are the processes the organisation uses to attract customers to purchase from it instead of a competitor. The benefits that the organisation offers, and how well it communicates them, are sources of value.
- **Services** – these are the activities related to maintaining the value of an organisation's product or service to its customers, once they have bought it.

### Support activities

These support the primary activities and can be defined as follows.

- **Procurement (purchasing)** – as stated above, this is what the organisation does to get the resources it needs to operate. This includes finding suppliers and negotiating best prices on a range of business costs and raw materials.
- **Human resource management** – this is how well a company recruits, hires, trains, motivates, rewards and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good human resources practices to engage staff in achieving organisational objectives.
- **Technological development** – these activities relate to managing and processing information, as well as protecting a company's intellectual property. Minimising information technology costs, staying current with technological advances and maintaining technical excellence are sources of value creation.
- **Infrastructure** – these are a company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative and general management are examples of necessary infrastructure that businesses can use to their advantage.

Companies use these primary and support activities as "building blocks" to create a valuable product or service. At the end of the process are the margins that a product or service contributes to overall profit. The aim is to increase value to maximise profit and this may be considering how costs can be "pared back" to create greater margin.

OVER TO YOU

**Activity 7: Porter's Value Chain**

**Using what you've read about Porter's Value Chain, think of an example of an organisation you are familiar with and identify the value at each part of the process.**

# 3.2 Operational management and its interaction with strategic management

**Operational management** is concerned with planning, organising and supervising in the contexts of production, manufacturing and provision of services. It is focused on delivery, ensuring that the organisation turns its inputs (such as raw materials and labour supply) into outputs (such as a product) in the most efficient way possible.

**Strategic management** is concerned with the leadership of the organisation. It helps to determine the strategic direction of the organisation based on the resources, capabilities and competence that it currently possesses and an appraisal of the external and competitive environment in which it operates.

The table below summarises the key features of operational and strategic management.

| Operational management | Strategic management |
|---|---|
| Activities carried out by middle managers and supervisor | Activities carried out by senior managers and directors with the involvement of functional managers |
| Focused on ensuring efficiency within the organisation to achieve organisational objectives | Focused on effectiveness and agility in preparing the organisation to compete and how it operates within its markets |
| Focused on organising, control and monitoring activities | Focused on planning activity |
| Identifies when problems arise and adjusts accordingly to get back on track | Watches for trends, both externally and internally, and plans for the future |
| Tends to be internally focused | Internally and externally focused |

**Table 1:** Key features of operational and strategic management

REVISION on the go

## OVER TO YOU

### Activity 8: Preparing to be promoted from operational management to senior (strategic) management

**Having seen the differences between operational and senior management, what professional advice would you give an operational manager who is being promoted into a senior management role?**

## Strategic management

### *Corporate governance*

> *Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.*

http://www.investopedia.com/terms/c/corporategovernance.asp

As we saw in Chapter 1, the legal forms of organisations will determine the amount of corporate governance required within an organisation. From the types identified, public limited companies (PLCs) have the most requirements placed on them as they are answerable to a vast majority of shareholders.

It is the board of directors that influences corporate governance; directors are elected by shareholders or appointed by other board members. The board makes important decisions such as corporate officer appointments, executive remuneration and dividend policies.

Boards comprise internal (executive directors) and external (non-executive directors) members. Executive directors are senior executives of the company, and may even be the founders of the organisation. Independent non-executive directors are often chosen for their experience within the industry or in directing other large companies, and should help corporate governance by providing an independent eye over the activities of the company.

If a company has been found to have bad corporate governance, it casts doubt on its reliability and, in most cases, will have a negative impact on share price. For example, when Volkswagen AG used a glitch in software to reduce emissions during testing (so vehicles appeared more economical than they were), the share price dropped, car sales decreased, and a potentially large-scale compensation and recall scheme was needed to put right the defect.

Corporate governance became more significant following the introduction of Sarbanes–Oxley Act 2002 in the USA. The Act was brought in to improve governance following a range of fraudulent exposés in large companies such as Enron.

Good corporate governance creates a range of rules and controls in which shareholders, directors and officers have aligned incentives. Good corporate governance is not just about ensuring financial regularity but is also focused on corporate social responsibility to the environment and the community in which it operates. There is also a requirement to have strong ethical behaviour within its senior management team.

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### Activity 9: Demise of Enron

**Read the article by Petrick and Scherer (2003). Identify the problems at senior management level, which contributed to the demise of Enron: "The Enron Scandal and the Neglect of Management Integrity Capacity", American Journal of Business, Vol. 18 Issue: 1, pp.37–50. (This article will be available in your online student resources.)**

You might have viewed the lack of integrity shown by senior executives to be the main reason for Enron's problems. However, all managers operate within **bounded rationality**, which means their actions are governed by their experience and what they know about the organisations they operate within. In the case of Enron, senior executives came up with business plans that might work in a less regulated industry but would have serious ramifications for Enron.

Perhaps an interesting facet of the Enron scandal is the impact upon stakeholders, and this indicates the need for senior managers to engage with stakeholders to ensure moral and ethical compliance.

## 3.3 The interface between strategic management and operational management

As we have seen from the definitions, there are differences in outlook as operational management tends to be focused on what is happening internally within the organisation. So, when strategic management foresees external influences that may have a significant impact upon the organisation, they may have to change the way the business operates or change the direction of current strategic objectives; the interface between the two needs to be strong.

In this situation, strategic management teams must be able to communicate the reason for the changes to operational managers to enable them to effect the change at an operational level; this is the challenge for strategic managers. Strategic managers can often develop well thought-out strategies but it is the translation of those strategies into action by effective leadership and collaboration with operational management that will ensure the success of those strategies.

CASE STUDY:

**Marks and Spencer**

In mid-2004 Stuart Rose became executive of UK food and retail brand Marks and Spencer, and was the second chief executive to be appointed to turn around the company's performance since 2000. In 1998 Marks and Spencer made pre-tax profits of £1.2 billion and by 2004 they were £763 million when Luc Van de Velde left. On taking up his new job, Stuart Rose identified the following causes of failure: high costs, lack of leadership, a complicated business, neglect of the core area of clothing, cluttered stores and a failure to compete effectively, particularly in womenswear.

*"Changes in store to counter catalogue of weaknesses", Daily Telegraph, 13 July 2004*

*Sourced from Capon, C. (2008) Understanding Strategic Management, FT Prentice Hall, p. 377*

In the case study above, there were a number of causes of failure but some of these were significant in managing the interface between strategic and operational management:

- poor management and leadership – due to poor or dominant strategic leadership;
- neglecting the core business – due to management focusing on exciting non-core ventures;
- inefficient operations – poor management of resources resulting in costs escalating.

Poor strategic leadership may result in failure to understand the marketplace. In Marks and Spencer, the leadership pre-2004 had a good understanding of the food business and this resulted in ongoing profits. However, it failed to understand the changing marketplace of fashion retail and this led to a decline.

Poor implementation of strategy and a less than strong senior leadership team is likely to result in significant losses. That is why it is important for strategic management to have a good relationship with operational management, as feedback is vitally important for strategies to be successful.

There is a balance to be achieved in ensuring strategic managers are strong and committed to following through with their actions whilst allowing operational managers to implement strategies their way. If senior managers are too *laissez faire* (letting staff do their own thing, without much direction) in allowing operational managers to follow various initiatives, there will be a lack of focus and the core business may suffer as a result, which it did in this case.

Inefficient operations arose at Marks and Spencer because of poor management of resources and activities. This is a core activity for operational managers. Perhaps the other issues above caused operational managers to lack focus on key objectives and fail to monitor efficiencies in achieving those objectives.

## Strategic management and organisational culture

According to Needle (2004), organisational culture:

> *"represents the collective values, beliefs and principles of organizational members and is a product of such factors as history, product, market, technology, strategy, type of employees, management style, and national culture; culture includes the organization's vision, values, norms, systems, symbols, language, assumptions, beliefs, and habits."*

Culture has a huge impact on the organisation in a number of ways. In particular, leadership of the organisation will impact upon the organisational culture and vice versa. A new leader may want to change the culture of the organisation in order to deliver future objectives; this will present some challenges because employees feel comfortable in the current organisational culture and people's behaviour is influenced by the culture. It is therefore hardly surprising that culture is often referred to as "the way things are done around here". For an organisational strategy to be successful, it must be aligned to the organisation culture and therefore it is important for senior managers to evaluate organisational culture and consider what and how it can be amended.

### *Risk*

The organisational culture dictates how much risk an organisation is willing to take when it comes to research and development, client interaction, investing in equipment and any other activity that involves risk. For example, risk-taking behaviour was seen as a contributory factor to the failure of the banks and subsequent recession in 2008. Therefore, changing that cultural norm as a result of public distrust requires clear alignment of strategy and culture.

### *Employee retention*

Changing the culture can result in weakening the bonds between the employer and employee, which subsequently has an impact on employee retention. Employees may consider that the organisation is not the same as when they first came to work there and decide to leave. It is therefore important that strategic managers build trust with employees and communicate regularly to ensure they understand what the company is trying to achieve.

### Focus

A corporate culture that each employee subscribes to helps to create focus among the staff. When employees abide by the company's beliefs and values, it gives a unified impression to consumers, suppliers and partners. The company can then create a business strategy knowing that the entire organisation will apply the guidelines in a uniform manner and improve the chances that a strategy will succeed.

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**Activity 10: Influencing culture and change**

**Revisit the Marks and Spencer case study above and consider how strategic management influences its organisational culture.**

Strategic management has a significant influence on organisational culture; you may have considered the longstanding culture of a company like Marks and Spencer and how a strategic leadership team may have to change the current culture radically to ensure that the company survives.

Strategic management influences culture in the following ways:

- provides role models or heroes – personifying the organisational values and culture;
- identifies external threats – recognising a threat externally and understanding the mismatch between external environment and culture but, more importantly, identifying what needs to be done to close the gap;
- identifies external support – maybe using external consultants to support managers to span the gap between existing and proposed new culture;
- building tangible symbols – enabling people in an organisation affected by change to see the benefits and move forward.

## The internationalisation of strategic management

Internationalisation has been driven by a number of factors:

- growth of large multinationals, which have expanded to enter new markets;
- political frameworks on an international scale (for example, the G8 summit to focus on global issues was initially set up following the oil crisis in the 1970s, and the G8 leaders now meet to discuss international trade barriers such as economic factors and to advance prosperity across the world);
- the need to find new suppliers or supply chains perhaps in previously inaccessible markets due to trade barriers or physical barriers;
- improved technology allowing improved communication to enable trade;
- better transportation and growth of infrastructure to support transportation;
- global standards such as ISO, which has enabled a level playing field in terms of quality and has presented organisations with an opportunity to purchase components from a wider range of international suppliers.

**Globalisation** has meant that strategic management has become more internationalised. Senior managers, therefore, have to make choices not only on domestic markets and operations but also on an international scale. This may include making decisions concerning overseas operations and activities.

## OVER TO YOU

### Activity 11: Globalisation and strategic management

**What do you consider to be the challenges in strategic management of operating internationally?**

You may have considered a range of challenges from senior management experience to managing in turbulent times and dealing with complexity.

Globalisation has caused some significant challenges for strategic management, including:

- cost pressures – growth of a global market means that organisations need to make decisions about purchase of raw materials and also cost of manufacture and its impact upon profit margins;
- local responsiveness – we often hear the phrase "think global act local"; strategic managers need to think about the benefits that internationalisation can bring in terms of market opportunities and providing goods or services for local markets, such as adapting products to meet domestic needs.
- Internationalisation of strategy – developing a strategy that might be one of the following:
  - international
  - multidomestic
  - global
  - transnational.

## READING LIST

- Needle, D. (2004) *Business in Context*, Cengage Learning EMEA, 4th Revised edition
- Petrick, J. A., Scherer, R. F. (2003) "The Enron Scandal and the Neglect of Management Integrity Capacity", *American Journal of Business*, Vol. 18 Issue: 1, pp. 37–50. (This article will be available in your online student resources.)

# Chapter 4

# The Role of Organisational Infrastructure

## Introduction

Organisational infrastructure is the collection of the business procedures and policies of a company based on the defined responsibilities and duties of its employees. In other words, it's how companies arrange and organise the "people" part of their operation. As discussed in Chapter 3, organisational structures provide some sense to employees as to where their role fits within the organisation and the reporting lines in which they operate. However, the organisational infrastructure provides employees with the procedures and policies to enable them to enact their roles within specific guidelines. It helps to define the way in which the business of the company gets done and the extent to which the business is creative, innovative, responsive or proactive.

As we have established, there are a range of external and internal influences at play upon organisations. Therefore, there needs to be a well-organised organisational infrastructure to cope with these influences and provide both management and staff with clear rules, procedures and regulations to guide them in situations of uncertainty.

## Learning outcome

After studying this chapter, you will be able to:

**4 Assess the role of organisational behaviour, infrastructure and its impact upon organisational performance**

## Assessment criteria

**4 Assess the role of organisational behaviour, infrastructure and its impact upon organisational performance**

- 4.1 Identify the components of effective organisational infrastructure
- 4.2 Identify factors affecting organisational infrastructure and its impact upon organisational performance
- 4.3 Explain the concept of organisational performance
- 4.4 Outline the role of organisational infrastructure in ensuring high performance within a range of organisations

# 4.1 The concept of organisational infrastructure

Figure 1 represents the components of organisational infrastructure.

Start with the middle column: it shows that the organisational goals are achieved through people, processes and structure. The columns either side show two different approaches that can be taken to achieve this.

The column on the right considers that this could be achieved by doing things "right first time" (namely being efficient). In this approach, people tend to be specialised and approach processes as a set of rules to be followed with a tight structure (or clearly defined job roles). Bureaucracy tends to rule in this type of organisation.

On the other hand, the column on the left suggests that the organisation's goals can be achieved by being effective (namely "doing the right things"); this tends to be achieved through people with generalised skills operating processes along guidelines, rather than rigid rules. The structure tends to be loose with wider job roles and greater empowerment for job holders, relying on individuals and groups to use their judgement in pursuit of the organisational goals.

| | | |
|---|---|---|
| Doing the right things | • Effectiveness<br>• Process focus<br>• Adhocracy | **Loose – based on guidelines** |
| Organisational goals | • People<br>• Process<br>• Structure | **Results** |
| Doing things right first time | • Efficiency<br>• Task focus<br>• Bureaucracy | **Tight – based on rules** |

**Figure 1:** Components of organisational infrastructure

## Resources that make up organisational infrastructure

These include people, physical resources and intellectual capital. We will consider each of these in turn.

## People

We often hear that "people are our greatest asset" but what does that actually mean? People apply their knowledge, skills and attitude during their employment both individually and collectively towards achieving organisational objectives. In the past, management theorists such as F. W. Taylor viewed individuals as a mere unit of production. However, the human relations movement started to dismiss this notion as individuals and groups of people could be seen as social entities that could apply their motivations to achieving both the organisational objectives and their own personal objectives.

OVER TO YOU

### Activity 1: People as a resource

**Take a moment to consider what benefits you bring to your employer or to a prospective employer.**

**If you are already employed, why did they hire you?**

You might have identified a range of aspects that you bring to your employer, such as:

- experience – previous experience that the employer can utilise in their organisation;
- motivation – you demonstrated motivation to be part of the organisation but also are supportive of the organisations goals;
- skills – you may have technical or specialist skills that the employer uses in delivering their product or service;
- knowledge – you possess knowledge, which can be put to good use within an organisation.

However, the employer has to use a range of methods to encourage you to employ the aspects mentioned above. These methods might range from reward to more punitive measures to control your behaviour towards achieving organisational objectives.

## Physical resources

Physical resources are the tangible aspects that an organisation possesses to achieve its organisational objectives and may differentiate it from its competitors. This could include the following.

- Plant and machinery – specific technology might be used to gain some competitive advantage.
- Premises – these could be state-of-the-art to ensure efficiencies or environmental credentials.

- Finances – a business may be "cash rich", meaning it has a lot of money available to purchase assets or carry out research and development. Alternatively, a business may have assets that it can use to leverage finance (which means they can be offered to secure a loan) in order to undertake new projects.
- Products – the products or services the organisation provides may be unique or so efficiently delivered that it is very difficult for a competitor to replicate. For example, Apple's iPhones were unique in the market for swipe screen technology. However, they have revolutionised mobile phone technology, which has now been replicated across the market. Samsung has incorporated that technology into an Android platform and has benefitted from efficient production systems to enable the company to take a lead in that market.
- Location – the location of a particular organisation may be significant in achieving organisational performance. In some cases, such as raw material extraction, the location is determined by the location of the raw material. It will be other activities, such as effective and efficient supply chain logistics, that will have a positive impact upon performance. However, location of retail outlets will be determined by footfall or passing trade and the demographics of the market segment that the retailer serves.
- Service to their particular market – for certain industries, location is key to serve their particular market; for instance, distribution centres may want to be close to major road networks to make use of transport systems. Alternatively, the location of a car parts manufacturer may be determined by the location of car manufacturers and the potential distribution networks to get their products to market.

OVER TO YOU

**Activity 2: The use of physical resources to generate value**

**Look at an organisation with which you are familiar. What are the physical resources that they use to generate value?**

You may have included such aspects as location. For example, a shop located in a prime position within a town benefits from a high degree of passing trade; a motor vehicle manufacturer's location near a port gives them quick and easy access to distribution channels.

## Intellectual capital

The final set of resources an organisation might have are those that are intangible but can have a huge value in terms of the final product or service it delivers in gaining competitive advantage. **Intellectual capital** may include things such as:

- trademarks and copyright
- innovation and creativity
- knowledge management

- explicit – written down in policies, procedures, manuals and so on
- tacit – held by individuals
- training and education – investment in people to create explicit and tacit knowledge

Organisations may use a combination of its resources to achieve competitive advantage. For example, computing firm Intel will introduce a new manufacturing process (a combination of intellectual property and physical resource) to improve its existing technology whilst innovating new technologies.

OVER TO YOU

**Activity 3: Factors affecting organisational infrastructure**

**What factors do you think may enhance organisational performance? Give examples of how this might improve or slow down performance.**

You may have included a range of factors and these may be linked to the previous discussion about the types of resources organisations use to gain competitive advantage.

# **4.2** Factors affecting organisational infrastructure

## Organisational competence

Does the organisation know what it is good at? **Organisational competence** is a combination of all those aspects identified above: its physical resources, people, and intellectual capital and how it is employed to deliver its product or service to gain competitive advantage.

Organisational competence is what the whole organisation must perform and not just its human resources. Therefore, the organisation must evaluate what it does on a regular basis in order to identify what it does well and what it must do to improve. Organisational competencies involve coordinating work internally and externally as well as optimising available resources to achieve organisational goals. Evaluation of organisational competence may include reviews of:

- development of corporate vision and mission statements
- strategy analysis and formulation
- business model generation
- strategy maps and balanced scorecard
- marketing plans
- budgeting and planning
- research and development
- innovation
- talent management
- project management

## Workforce skills

Whilst organisational competence encompasses talent management, the aspect of workforce skills deserves a special mention. Organisations may locate themselves where there are other similar companies and where the local labour market has the skills it requires. For example, Silicon Valley in California is home to many major IT and dot.com organisations.

Organisations will not only need to recruit for certain skills but also maintain and enhance skills for existing employees. Perhaps, the greatest challenge is not to continually develop employees but enable employees to unlock their discretionary effort to improve competitive advantage.

### CASE STUDY

**Unlocking the black box – Work and Employment Research Centre at the University of Bath, UK**


It has been difficult to establish the link between business performance and human effort, in particular discretionary behaviour. It was considered difficult to establish the link between business outputs such as profits, customer satisfaction and employee wellbeing with people performance including the human resources policies and procedures that support people performance. This was considered to be the "black box problem".

The research studied 12 organisations and reached three main conclusions.

1. An organisation needs a clear direction and purpose, beyond the bland mission statement or generic goal of financial returns, which engages, enthuses and unites people. This is also known as the "big idea".
2. High performing organisations employ some form of balanced performance scorecard or similar methodology. For example, Jaguar uses a Six Sigma model and the Court Service uses the EFQM framework to link individual and corporate goals.
3. The research confirms that there is no universal best practice in human resources. It is all about having a broad and integrated bundle, tailored to the needs of the organisation. For example, the practices employed at technology company AIT would be unlikely to go down well on the production line at Jaguar.

In the case study above, you can see that workforce performance is supported by other aspects of organisational infrastructure such as having a clear mission and vision, clear organisational objectives, and organisational policies and procedures that support employee performance and thereby organisational performance. Therefore, we understand firstly that, to achieve competitive advantage, organisations need to take a step back and evaluate the big picture to establish what it needs to do to improve the organisational infrastructure. Secondly, a one size approach does not fit all.

# 4.3 Measuring organisational performance

In this section, we will look at marginal gains and the performance management cycle.

## Marginal gains

CASE STUDY

### Marginal gains – Team Sky improving every tiny thing by 1%

In 2010, Dave Brailsford was appointed the new general manager and performance director for Team Sky (Great Britain's professional cycling team). Brailsford was given the challenge of leading the team to ensure victory at the Tour de France.

Brailsford believed in a concept that he referred to as the "aggregation of marginal gains". He explained it as "the 1 per cent margin for improvement in everything you do". His belief was that if you improved every area related to cycling by just 1%, those small gains would add up to remarkable improvement.

They started by optimising the things you might expect: the nutrition of riders, their weekly training programme, the ergonomics of the bike seat and the weight of the tyres.

But Brailsford and his team did not stop there. They searched for 1% improvements in tiny areas that were overlooked by almost everyone else: discovering the pillow that offered the best sleep and taking it with them to hotels, testing for the most effective type of massage gel, and teaching riders the best way to wash their hands to avoid infection. They searched for 1% improvements everywhere.

Brailsford believed that if they could successfully execute this strategy, then Team Sky would be in a position to win the Tour de France in five years' time. He was wrong. They won it in three years.

In 2012, Team Sky rider Sir Bradley Wiggins became the first British cyclist to win the Tour de France. That same year, Brailsford coached the British cycling team at the 2012 Olympic Games and dominated the competition by winning 70% of the gold medals available. Team Sky went on to repeat that victory in 2013 with Chris Froome.

OVER TO YOU

### Activity 4: Marginal gains – the Dave Brailsford approach

**What can we learn from the case study above? Note down your key learning points. Think about your own studies as an activity. What series of small improvements would you make to achieve the aggregation of marginal gains?**

Perhaps one of the key learning points is the term "marginal". Dave Brailsford did not try to change everything at once but took a systematic approach to delivering gains one step at a time. Initially this was based on his knowledge as a coach in terms of nutrition and training. Later, attention to detail became even more significant; for example, the bedding used by the athletes was a contributing factor to them achieving a good night's rest.

## The performance management cycle

Another means of evaluating and managing organisational performance is the performance management cycle, as shown in Figure 2.

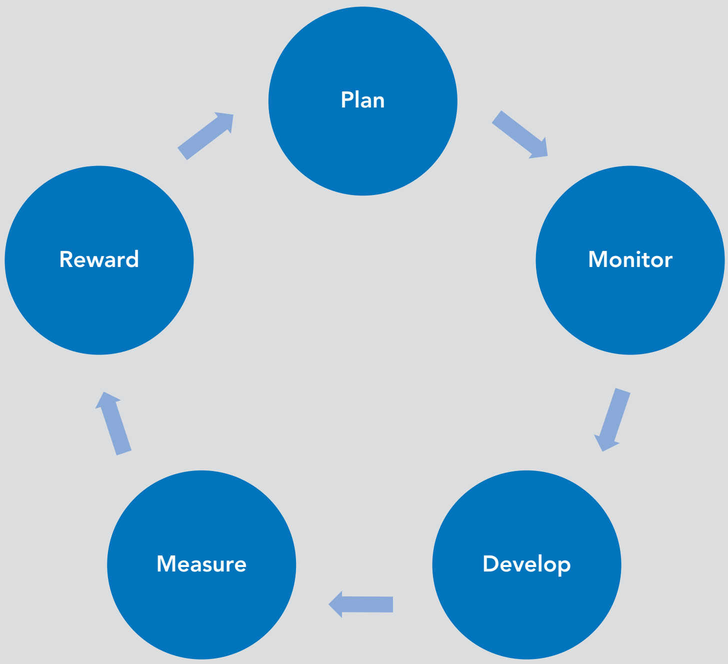


**Figure 2:** The performance management cycle

The performance management cycle follows a number of steps to improve the overall performance of individuals and organisations. The stages are as follows.

- **Plan** – identify and set objectives. Ideally, an individual's objectives should be linked to those of the organisation.
- **Monitor** – review how the individual is progressing. Are there any interventions we need to take to ensure the individual's success?
- **Develop** – support performance by the provision of learning and development.
- **Measure** – have quantitative (hard) and qualitative (soft) measures in place to provide evidence-based analysis of an individual's performance.
- **Reward** – reward individuals based on their achievement of their targets.

## Measuring organisational performance

Organisational performance measures may vary depending on the sector, the type of business and other aspects such as industry standards or compliance. Broadly speaking, measures will fall into one of two categories.

- Quantitative (hard) measures may include aspects such as profitability, revenue or sales, scores such as customer service scores or service levels.
- Qualitative (soft) measures may include opinion-based information such as customer feedback, staff engagement surveys, feedback from peers and managers, and examples of behaviour that may be linked to competency-based assessments.

## OVER TO YOU

### Activity 5: Measuring organisational performance in different sectors

| How do you think performance is generally measured in the following sectors? Give one example of a qualitative (soft) measure and quantitative (hard) measure for each. |
|---|
| Public sector, for example a government department or local council |
| Private sector, for example a limited company or PLC |
| Charities |
| Sole trader |

Public sector organisations may measure in terms of value for money rather than profitability. Since they are answerable to government and to a degree the local community, transparency in how they contract and deliver services will be significant. They may therefore want to measure customer opinion in terms of usage rates and feedback, which will inform the provision of services.

Private sector organisations will be more focused on revenue generation and will be looking at profitability of the company overall but also of the specific products or services it provides. Public limited companies (PLCs) will also closely monitor share price as this will have an impact upon the confidence of the investment market.

Charitable organisations will consider donations and funding in terms of revenue and will also be interested in donor feedback in regards to perception of the charity.

A sole trader may be entirely focused on profitability and customer feedback in regards to repeat business.

# Balanced scorecard

The **balanced scorecard** (BSC) is a management system developed by Kaplan and Norton (1992) to manage organisational performance. It enables organisations to:

- communicate what they are trying to achieve;
- align the day-to-day work that everyone is doing with corporate or organisational strategy;
- prioritise projects, products, and services that achieve organisational objectives;
- measure and monitor progress towards strategic targets.

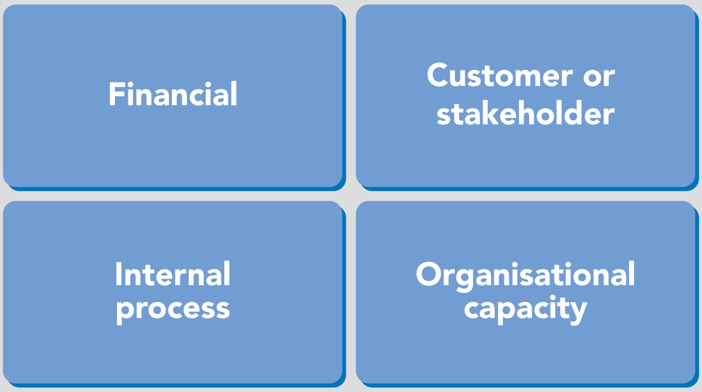


**Figure 3:** Balanced scorecard

REVISION on the go

We will work through the quadrants in turn.

- **Financial**: often renamed "stewardship" (relating to the responsible planning and coordination of the organisation in the public sector), this reviews organisational financial performance such as net profit, share price in PLCs and the use of financial resources (namely the administration of money, or how long it takes the organisation to pay its suppliers and collects its debts).
- **Customer or stakeholder**: this segment views organisational performance from the point of view of the customer and might include customer retention figures and feedback scores or other key stakeholders that the organisation is designed to serve, and this may include stakeholder engagement scores.
- **Internal process**: views organisational performance through the lenses of quality and efficiency related to the company's products or services or other key business processes. In a manufacturing environment, measures might include defects and rework time, productivity values and time taken to process orders. Other internal process measures might include service level achievement, error rates and so on.
- **Organisational capacity** (originally called "learning and growth"): considers the measures of human capital, infrastructure, technology, culture and other capacities that are key to organisational performance. Examples might include productivity or sales per employee, employee engagement scores, retention figures and absence rates.

As you can see, the balanced scorecard looks to lift all four quadrants up equally. If an organisation focuses too much on one quadrant, it will be at the detriment of the others.

OVER TO YOU

### Activity 6: Balanced scorecard in the Ethiopian health sector

**Read this balanced scorecard case study:**
**http://www.theinstitutepress.com/uploads/7/0/0/1/7001740/ethiopia_health_sector_case_study_-_cr11-august_2013.pdf**

**Note down the key learning points about how the balanced scorecard works for this organisation and what you have learned in terms of the role of the organisational infrastructure.**

## 4.4 Role of organisational infrastructure in ensuring high performance

There are various ways in which organisations use organisational infrastructure to create high performance, including roles, responsibilities, authority, policies and procedures.

We have already considered the role of organisational structures in ensuring organisational performance and this might include defined roles, job descriptions, clearly stated responsibilities and levels of authority linked to management and effective decision-making.

As you saw in the balanced scorecard case study in the last section, there is a requirement to improve certain aspects, such as communication strategies, to enhance performance.

Perhaps one of the key ways an organisation can provide guidelines or rules as to how employees should operate is through policies and procedures. The use of policies and procedures will also enhance the explicit knowledge within the organisation. Examples include standard operating procedures and human resources (HR) policies and procedures.

- **Standard operating procedures**: these provide clear guidance on how certain activities should be performed, for example cashing-up procedures in a bank, accounting processes or operation of a machine. They may be used for compliance reasons (auditing and accounting processes, for example) but they do enhance efficiency, which means there is less wasted effort in terms of time so individuals can spend more time on the activities that add value or create revenue.
- **HR policies and procedures**: these are designed to provide rules for employees to follow to reduce the risk of legal challenge to the organisation. However, they are also designed to reduce

potential individual and inter- and intra-group conflict, which would have a negative impact upon productivity or performance.

## OVER TO YOU

### Activity 7: Performance and HR policies and procedures

**What do you think are the HR policies and procedures that are designed to reduce conflict and/or improve individual and organisational performance? Make your notes here.**

## READING LIST


- Purcell, J. (2003) *Understanding the People and Performance Link: Unlocking the Black Box*, CIPD Publishing
- Moore, R. (2013) *Mastermind: How Dave Brailsford Reinvented the Wheel (90 Minutes Shorts Book 3)*, Backpage Press

# Glossary

**Accountable** Being accountable not only means being responsible for something but also ultimately being answerable for your actions.

**Agile working** A range of practices to ensure greater speed and responsiveness to the market and customer demands.

**Authority** Authority is the right to guide the activities of others.

**Balanced scorecard** A management system developed by Kaplan and Norton (1992) to manage organisational performance.

**Bounded rationality** Peoples' actions are governed by the experience and knowledge they have about the organisations they operate within.

**Cross-functional teams** Key skilled people drawn from different functions to operate as a team to contribute to organisational objectives.

**Directors** Appointed or elected members of the board of directors of a company who, with other directors, are responsible for determining and implementing the company's policies. Company directors may or may not hold shares.

**Effectiveness** Doing the right things to achieve objectives and outputs.

**Efficient** Doing things right first time to avoid waste.

**EFQM** European Foundation of Quality Management. An accreditation model to review an organisation to develop sustainable excellence.

**Empowered, empowerment** Self-management, or the ability to influence and make decisions within given parameters.

**Flatarchies** A structure that is between a hierarchical and a flat structure.

**Functional structure** A common organisational structure that is organised into functions like production, marketing and so on.

**Globalisation** The Organisation for Economic Co-operation and Development (OECD) defines globalisation as: the geographic dispersion of industrial and service activities, for example research and development, sourcing of inputs, production and distribution, and the cross-border networking of companies, for example through joint ventures and the sharing of assets.

**Holacracies** A structure that is not "boss-led" but more "boss-less". The basic goal with this structure is to allow for decision-making to be shared while giving everyone the opportunity to work on what they do best.

**Hybrid structures** A range of different organisational structures in evidence within an organisation.

**Intellectual capital or property** Intangible aspects that can have a huge value in terms of the final product or service; examples are trademarks and copyright.

**ISO 9001** An international standards certification on the quality systems that provide the foundation for improved customer satisfaction and continual improvement.

**Job definition** Establishes the task requirements of each job within an organisation.

**Job descriptions** The written documents that define a job, and which include such aspects as the job title, department, position of the role in the hierarchy, objectives or key performance indicators, and the tasks involved in the role.

**Kaizen** Japanese for change (*kai*) for the good (*zen*). It is based on a strong philosophy that everything can be improved.

**Lean working** Working efficiently to incorporate a range of practices to reduce unnecessary waste.

**Line structure** The direct vertical relationships that connect the positions at each level with those above and below.

**Matrix structures** An organisational structure that is focused on project-based activity and has representatives from various functions in the organisation.

**Nearshoring** Transferring a business process to a nearby country.

**Offshoring** A means of locating specific business activity overseas; the activity may be undertaken by a third party.

**Operational management** Translating strategy into meaningful policies, procedures, processes and activities that ensure the organisation meets its objectives.

**Organisational competence** A combination of aspects such as the organisation's physical resources, people and intellectual capital, and how it is employed to deliver its product or service to gain competitive advantage.

**Outsourcing** A means of contracting out a specific business activity to a third party.

**PESTLE** A framework to examine external pressures on an organisation. It stands for **p**olitical, **e**conomic, **s**ocial, **t**echnological, **l**egal and **e**nvironmental.

**Profit** A financial benefit that is realised when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity.

**Responsibility** This may refer to being in charge, or being the owner of a task or event.

**Shareholders** People who own shares in a private limited or public limited company.

**Six Sigma** A business management strategy that aims to improve the quality of processes by the reduction and eventual removal of errors and variations.

**Specialisation** Also called a division of labour, this allows a manager to take complex tasks and break them down into smaller more precise tasks which individual workers can complete.

**Staff structure** Provides specialist support to line managers looking for technical advice and guidance.

**Strategic management** Concerned with leadership of the organisation, and involved in determining the strategic direction of the organisation.

**SWOT** A framework to examine internal features of an organisation. It stands for **s**trengths, **w**eaknesses, **o**pportunities and **t**hreats.

**Total quality management (TQM)** A method derived from Kaizen, focusing on continuous improvement in the quality of products or services through feedback and research.