

Chapter Eleven: Organisational Structure

Model answers

Mini case study 11(i) Xerox

Discussion points

Can organizational structure influence culture?

Organisational culture is discussed in some detail in Chapter Twelve. Part of that discussion is the link between structure and culture. Here it is useful to highlight the fact that the type of organisational structure implemented has an influence on the formation of a dominant culture, or that of a sub-culture within an organisation. An organisational structure is a formal arrangement of working practices that directly determines lines of authority, delegation of power, communications systems, span of control, working routines and so on. These factors play a key role in contributing to an organisational culture. For example, in hierarchical organizations the control function is usually well described and understood. The scope for innovation, creativity and experimentation in such a setting is likely to be limited as the emphasis is on process and output. This inevitably informs the type of culture and the relationships that exist within the organization. Contrast that with a liberal, free-flowing and network type of structure seen in many creative industries and the influence on culture will be quite marked. It is the role of managers to ensure that the appropriate structure is chosen and implemented that supports the formation of a strong and positive organisational culture that helps the achievement of aims and objectives.

Technology has been the main catalyst for structural change in the last ten years. Discuss.

Technology development has played a key role in determining changes to organisational structure in the last decade or so. In particular, information

and communications technologies (ICT's) have opened up possibilities for new forms of structure to emerge. Network and virtual organizations rely on ICT's to facilitate communications between workers who are dislocated from each other. They have also created opportunities for rearranging work design and schedules, such as teleworking and freelance work. ICT's have also changed the way communications operate internally, such as teleconferencing between different workers dislocated from each other. Mobile telephony has allowed much greater mobility of workers who may only visit the headquarters occasionally. Beyond communications, technologies have also contributed to the production process and the logistics involved in bringing in materials and shipping them out. This has involved structural change as the processes involved have become less labour-intensive. Other factors have contributed to the development of new forms of structure, such as globalization, new working relationships, types of products and services demanded and so on. However, technology has played a key role in the process of evolving structural types in recent times.

Mini case questions and tasks

What organizational type is most suited to what Xerox is trying to achieve?

A network type of organization that supports knowledge sharing is most suited to what the company is trying to achieve. Xerox rely on their engineers to problem solve a wide range of office equipment malfunctions on a global scale. It is, therefore, important to ensure that the problem solving techniques (knowledge) are shared among the community of workers so that good practice and high quality service can be delivered to customers. This leads to brand loyalty, increased market share and enhanced reputation, all of which contribute to creating and sustaining a competitive advantage. It is also conducive to enhancing staff morale and acts as motivating factors for engineers who aspire to the highest standard of recognition by disseminating

new ways of problem-solving that is recognized and rewarded by the company. Peer recognition is highly valued by the engineers and the network organizational structure facilitates the type of knowledge sharing that underpins this. Xerox created a staff grading system that recognized excellence and rewarded high performance.

What were the main challenges facing Xerox when implementing the new structure?

The main challenge facing Xerox was to transform the culture into one where knowledge sharing became the norm. The company had to demonstrate the benefits of the network structure for facilitating knowledge sharing in tangible ways that the workers could understand and engage with. Another main challenge was to set in place a suitable reward system that recognised excellence and linked it to knowledge sharing. Peer recognition was the preferred option rather than purely economic reward. Thirdly, the new structure had to be supported by all levels of management to ensure that the desired culture was one that everyone in the organisation understood and could 'buy-into'. It was important that the network organisation was one that all workers felt they could contribute to and be part of.

Does sophisticated information and communications technologies (ICT's) make traditional organisational structures less relevant in the modern business environment?

Traditional forms of structure such as functional and multi-divisional remain the most prevalent forms implemented. The majority of small and medium sized enterprises adopt a functional structure as it is easy to control and specialisation can be encouraged. ICT's have opened up opportunities for designing new forms of structure, such as virtual organisations, and have

contributed to advances in existing types of structure by offering new ways of communicating. However, traditional structures remain relevant in the modern business environment.

Mini case study 11(ii): BP

Discussion points

Do major oil companies such as BP, Shell and Exxon put profit before safety?

It would be highly controversial and contentious to state that oil companies put profit before safety. However, much of the evidence provided by investigations into successive disastrous incidents in the industry have pointed to lax safety measures put in place and operated and a culture of negligence on the part of management when ensuring that the highest standards of safety are observed continually. Oil companies make huge amounts of profit but such is the high level of investment required for exploration purposes that a great deal of that profit has to be reinvested in the business. The nature of competition in the industry means that firms cannot let up in their pursuit of returns on this investment and shareholders also pressurise managers to maximise returns. The oil industry is highly complex in terms of production and exploration involving activities that are undertaken in hostile environments that inevitably carries a certain risk. However, it is an overriding priority of management to ensure that the risks are minimised and that safety is paramount. Too often though, it appears that the balance between profit and safety has been skewed too much towards that of the former at the expense of the latter.

Has BP become so large and complex that it is almost impossible to manage effectively?

The short answer to this question is yes. The sheer size and complexity of an organisation such as BP makes it impossible for one or a few individuals to manage the whole entity. In fact, the official BP inquiry into the *Deepwater Horizon* disaster recommended clear definitions of leadership in offshore, deep water drilling programmes. This is partly in recognition that it is not possible for a relatively small team of executive managers to fully understand what is going on in the many hundreds of operations being carried out simultaneously across the world as part of the operations portfolio of BP. That is not to excuse the ultimate responsibility of top management but rather a recognition of the practicalities of managing such a large organisation. The other option is to streamline the business to make it more manageable. This has been almost imposed upon the company as they seek to divest many parts of the business to fund the \$8 billion compensation package agreed to the hundreds of businesses who suffered as a direct consequence of the *Deepwater Horizon* incident. The problem of trying to manage such a huge organisation is one that has featured in many different industry settings. For example, at the inquiry into phone hacking at newspapers, News International chairman cited as his defence the impossible nature of the task of knowing everything that is going on in such a huge business empire.

Mini case questions and task

Apart from the *Deepwater Horizon* incident, identify and describe two major disasters in the oil industry in the last thirty years.

The most high profile disaster in the oil industry in the last thirty years was the Piper Alpha disaster in the North Sea in 1988 that claimed the lives of 167 men. Poor communications between successive shifts of workers was

identified as the main reason for the build-up of gas and a subsequent explosion. However, the inquiry pointed to a lax level of safety on the rig and a culture that compromised safety as the underlying reasons for the disaster. Another disaster was that of the Exxon Valdez supertanker that ran aground off the coast of Alaska in March 1989. In all some 1300 miles of coastline was affected by the spill. Wildlife experts estimated that 2800 sea otters, 900 bald eagles, 300 seals and a quarter of a million seabirds died as a result of the oil spill. Some ten thousand workers were involved in the clean-up operation (four workers died in the process). The disaster caused an estimated \$300 million of economic harm to the region. Fish populations in the sea around the affected area declined significantly in the years that followed and even now, over twenty years later, pools of oil can still be found on some parts of the coastline.

What type of organisational structure is in place at BP?

A multi-divisional structure is operated by BP. This is designed to ensure that management teams are put in place to oversee operations in many different activities in many different countries. The multi-divisional structure allows the company to identify activities either through types of activities (retailing, exploration, research & development etc), or by region (North America, Middle East, Africa etc), or by service provision (engineering, logistics, transport, chemical analysis etc). Even so, it is clear that even narrowing down the scope of the organisational structure, it is an immense challenge to coordinate, control and manage all the activities effectively. For example, engineering support in the refineries in the USA would entail a huge scale of management in all its forms. Nevertheless, the multi-divisional structure helps to categorise activities in a way that allows the company to match resources, including management teams, to the requirements of each part of their portfolio of business interests.

What organisational structural factors contributed to the *Deepwater Horizon* disaster?

The organisational structure was ineffective in ensuring that communications from operational level managers were able to reach those of the key decision-makers at the top of the organisation. The structure did not account for the need to communicate effectively with sub-contractors and did not align properly with the communications channels and management processes of those third parties that played key roles in the operations of the deep water oil drilling programme.

Mini case study 11(iii) Restructuring at Gazprom

Discussion point

Can a company be considered privatised if the government owns over 50% of the shares?

Technically if a company has a majority shareholding from government then it is in public rather than private ownership. The Russian government plays a central role in managing Gazprom as it is a strategically important company. Although much of the structure of the company resembles a private joint stock company and people are free to invest in the business, the overarching strategic control remains with the majority shareholder, the Russian government.

Questions and tasks

Define a wholly owned subsidiary.

A wholly owned subsidiary is a company whose common stock is 100% owned by another company, usually the parent company. A company can

become a wholly owned subsidiary through acquisition by the parent company or spin off from the parent company. A parent company may establish a wholly subsidiary company as a means of entering and competing in a foreign market.

Is there a direct link between organisational structure and good corporate governance at Gazprom?

One of the reasons put forward for the restructuring of Gazprom was as a means of promoting better corporate governance. The decentralisation of management was designed to increase transparency and accountability as a means of enhancing shareholder confidence and improving the company's reputation at home and abroad. The organisational structure put in place contributes towards this as it provides a mechanism for better communications, clearer lines of authority and control and less bureaucracy. However, it is people who are responsible for ensuring high standards of corporate governance through their actions. Organisational structure has to work in tandem with organisational culture as means of improving corporate governance.

Explain the rationale for the implementation of the new structure at Gazprom in relation to the strategic aim of expansion of activities.

By creating subsidiary companies Gazprom became a much more agile and flexible organisation that allowed them to become proactive in pursuing opportunities in regions such as Kazakhstan and Turkmenistan as well as further afield in Venezuela. The previous structure was hierarchical and too bureaucratic to change quickly enough to exploit opportunities. The new structure underpinned by decentralisation has all the hallmarks of a modern organisation whereby a series of independent subsidiaries can specialise in key areas of operations and devise strategies to compete vigorously on behalf of shareholders.

Case study: Ministry of Health in Oman

Discussion points

In large-scale, complex organisations such as a healthcare provider, is a hierarchical structure inevitable.

As seen in the case of Gazprom, large-scale organisations do not necessarily have to maintain a hierarchical structure. Some can be broken down into smaller, more agile and flexible organisations that are better able to exploit opportunities in the marketplace. Strategic Business Units are a good example of this. However, in the case of a public sector healthcare provider, such as run by the Ministry of Health in Oman, the strategic aims and objectives are different from commercial organisations. Healthcare providers in the public sector have a duty to provide a minimum standard of service to citizens and to do so within budget constraints and practices set by other agencies, namely government departments. This makes the structure of the organisation very often resemble that of a hierarchy as management ultimately have to report upwards to departments that govern their activities. Nevertheless, in many modern public sector settings, governments have been active in dismantling hierarchical structures to accommodate some of the benefits associated with private sector organisations. Public private initiatives and partnerships have been a feature of modern attempts to reform the structure of public institutions such as the National Health Service in the UK. So, hierarchies are not an inevitable consequence of large-scale, complex organisations. Even though many of the attributes associated with them remain relevant the current trend is for flatter organisational structures.

Is healthcare service provision easier to manage in the public sector or the private sector?

The scale of the management task is the key difference between public and private sector. Typically the public healthcare sector is between five and ten

times bigger than private sector provision making the administration and coordination of activities that much more difficult in the public sector. The scale of budgets and resourcing is similarly on a different level. The public sector has a different set of criteria underpinning its mission and aims compared to private sector. Whereas public healthcare is about delivering a service to the whole of the community and encompasses issues of transparency, accountability and best value, the private sector has a commercial aspect to their activities that inevitably influences their choices and decision-making regarding resource allocation and the types of services they provide. Each sector has its own management challenges but the public sector provision also has to contend with the political dimension to their activities. That is, their budgets are set by government, their activities monitored by bodies set up to ensure standards and their stakeholders are wide ranging, demanding and varied. The private sector has more choice when determining who to deliver the service to and have free reign to determine how to utilise their resources. On the other hand, commercial pressures ensure that their performance standards have to be consistently of the highest order.

Case study questions and tasks

Identify the type of organisational structure at the Ministry of Health in Oman.

The structure can be described as a functional hierarchy with the Ministry of Health at the apex and three supporting Undersecretaries covering planning, health and administration and finance. Subordinate to the Undersecretaries are a series of director generals and directors who oversee a wide range of functions ranging from patient care to the rational use of drugs. Non-clinical bodies act as consultants and advisors to the Minister for Health and include departments covering legal affairs, public relations, international relations and audits.

What is the purpose of the new structure? What is it designed to achieve?

The organisational structure is designed to decentralise control of health provision to regions rather than concentration of power and authority at ministerial level. This has to be undertaken against a backdrop of the need for delivering a wide range of different services across a diverse geographical region. The structure has to accommodate types of activities that are not necessarily process driven and therefore require some flexibility.

The structure is designed to achieve a number of aims. Firstly, it demarcates key functional activities (clinical and non-clinical) so that resources can be managed in each according to need. Secondly, the structure also helps the reporting system that is an important feature of healthcare and helps to inform policymaking in future. Here, the structure is conducive to letting personnel know exactly who they have to report to and their place within the hierarchy of management in the organisation. Finally, the functional aspect of the structure allows specialisation. This is important in a healthcare context as the quality of provision relies on the distinctive skills and expertise of health professionals. The functional structure also makes monitoring and evaluation of activities easier as it is possible to pinpoint the location of where activities are undertaken and to put in place appropriate standards and procedures that can be measured for outcomes and then evaluated against set targets.

Identify and discuss some of the main challenges when implementing the new structure at the Ministry of Health in Oman.

The main challenge surrounding the implementation of the new structure is to ensure that the new working arrangements and reporting system is well understood by all those in the healthcare sector in Oman. There is a high level of compliance by workers so no real resistance to change is evident. Nevertheless, it is a major challenge to ensure that every worker understands and work within the new structure. In particular, the decentralisation aspect

of the restructuring requires a new culture to emerge, one that underscores the delegation of power, authority and control to the regions. It may take some time before the switch from centralised control to decentralised works 'on the ground' as those in newly formed decision-making positions adjust to the new reality.

Another key challenge is to determine how well the wide range of different departments and areas of specialism integrate together in the new structure. Under the centralised structure much of the communications and decision-making was 'top-down' with departments receiving direction and reacting to it. Under the new structure workers have to communicate vertically and laterally in a way they have not done before. Much greater delegation of power means that dialogue between workers and management is closer and more likely to result in quicker decisions. Finally, managers must maintain minimum standards of healthcare provision to citizens during the transition phase from the old structure to the new one. Oman is comprised of one large urban area around the capital Muscat, a number of small towns hugging the coast and a scattered population in the interior which is characterised by rugged terrain and a sometimes hostile climate. Managers need to ensure that patient care is not neglected during a restructuring which is likely to last some time.

Chapter questions and tasks

What are the disadvantages of tall, hierarchical organisational structures?

The main advantage of a hierarchical and bureaucratic structure is the clear chain of command (scalar chain) that ensures maximum efficiency in coordination of activities. Each worker knows where they fit within the structure and what they have to do. The span of control is small to ensure that work is supervised and carried out according to set procedures and

targets. The structure offers certainty, order, discipline and stability that underpins efficiency of output. In a more modern context, it can also be argued that this type of structure offers workers a clear career progression pathway through the hierarchy.

Define a virtual organisation. What are the advantages associated with a virtual organisation?

A virtual organisation is an organisation that uses information and communications technologies (ICT's) to coordinate activities without physical boundaries between different functions. Virtual organisations can access resources, skills, experience and expertise from a large pool to collaborate on meeting customer demand and filling an identified gap in the market quickly and efficiently.

The main advantage of virtual organisations is the ability of managers to meet or exceed customer expectations. The changing nature of demand has played a role in the emergence of virtual organisations. Customers are more knowledgeable and demanding than in the past. Access to market information that was once the preserve of the supplier is readily available to customers now via the internet. This has raised expectations and ensured that companies need to provide added value in products and service in order to compete effectively. Customisation and personalisation are key features of demand that are more readily serviced by the collaboration of partners with a range of skills and expertise that can deliver quality to specification, on time and at cost. There is also added value for clients or customers to deal with a one-stop-shop and to have end-to-end service. Virtual organisations deliver on this through the coordination expertise of the hub organisation. On the supply side, there is a distinct cost advantage of participating in a virtual organisational structure as the cost of merger or acquisition is prohibitive and risk bearing. The risk factor prevents companies from acquiring other

companies to fulfil customer needs. Finally, in an era marked by shrinking profit margins, many firms view participation of in virtual organisations as a means of protecting against economic pressures brought about by a downturn in global demand for products and services.

Highlight four key factors that managers should consider when choosing type of organisational structure.

Much revolves around the type of environment the organisation operates in and the type of products and services produced. Key factors that inform the decision as to what type of structure is appropriate include technology, human resources; culture, size and control; stakeholders and strategy. Different factors will have different levels of influence on the choice of organisational structure depending on stated aims and objectives.

Find an example of a company that has implemented a matrix structure. Explain why the company has chosen this type of structure.

There are many examples of matrix structures in operation in many different industry sectors. They are most prevalent in large-scale corporations in industries such as car manufacturing, electronics, engineering, clothing and media. One example of a matrix structure is that implemented by American airline manufacturer Boeing. The company is an amalgam of different types of structures designed to deliver the outputs in the most optimally efficient manner. Together they form a matrix structure to aid collaboration and coordination. For example, it facilitates the coordination of many different divisions by allowing them to operate independently within the matrix. This is due to the sheer diversity of Boeing's products. The matrix also aids collaboration between different working groups. The company has constant changes in technology that requires a high level of collaboration amongst the divisions that comprise the company. It also allows the formation of a network organisation that facilitates collaboration with many independent,

single-function firms working on delivery of a good or service. Finally, the matrix structure helps resource allocation to be efficient because key resources are shared across several important programmes or products at the same time.

Discuss the risks and benefits associated with strategic alliances

There are a number of advantages that have seen a rise in strategic alliances since the late 1990's. These include:

- each participant organisation can concentrate on their core business whilst taking advantage of the expertise, skills and assets of the other participants;
- organisations may access increased capital for research and development, but without the high level of risk associated with individual organisational efforts;
- participating firms may benefit from technology transfer through the acquisition of knowledge and expertise beyond organisational boundaries;
- organisations may achieve economies of scale and/or critical mass that allows them to compete more vigorously in industry sectors characterised by large-scale powerful entities;
- increased credibility among consumers and raising brand awareness.

Key risks associated with strategic alliances include:

- the uncertainty of entering into a long-term agreement with a partner or partners;
- the need for a high level of trust ;
- the need to reveal some strategic information;
- the need to manage expectations;
- the fact that the alliance is only as strong as the weakest link.