

Organisations

LEARNING OBJECTIVES

After studying this chapter you should understand:

- organisations: what they are for and how they are classified
- why organisations are designed in the way they are
- corporate strategy, policy and objectives
- SWOT and PESTLE (STEEPLE) analysis
- the flexible firm.

INTRODUCTION

The organisation provides the background within which the HR function works, so if you are studying HR for the first time, you need to develop a clear understanding of the context in which it is set. In other words, you need to have a sound understanding of organisations because the nature of the organisation impacts upon how we manage people. The purpose of this chapter, therefore, is to help you to develop that understanding so that you can operate efficiently and effectively.

USING THIS CHAPTER

This is a chapter that (we hope) you will find yourself dipping into from time to time for information about organisations. Different categories of organisation are explained as well as how their purposes vary from one to another. The explanations of corporate strategy, policy formulation and objective-setting will help you to understand how the organisation assesses and reviews its past performance, how it plans its long-term future and operates in the day-to-day context.

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by **Charles Leatherbarrow**, **Janet Fletcher** and **Donald Currie**
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ORGANISATIONS

WHY ORGANISATIONS EXIST

We live in a society that is dominated by organisations. All of the major factors of our lives – our birth, health, education, marriage, employment, even our death – are influenced or handled by one kind of organisation or another. So why do we create organisations? The fundamental answer is that we do so in order to survive. Unlike other living creatures, human beings are rational and are therefore able to reflect upon their past, assess their current situation and make plans for the future. Since we are aware of our survival needs of the future, we create organisations to ensure that those needs will be met. The interdependency of human life makes the need for an organisation an imperative.

Organisations allow us to manage a range of complex activities that result in the provision of a product or service to a customer.

There are therefore vast industries involved in producing our basic needs, such as those for food, drink, shelter, security and a host of essential services; and on the lighter side, there are travel and entertainment companies. In fact, organisations are set up to serve us, not solely in order to survive, but to survive for longer, in greater comfort, and so that we may lead an interesting and pleasurable life. Organisations are the infrastructure of modern civilised societies.

PUBLIC SECTOR ORGANISATIONS

The UK has a *mixed economy*, which means that some organisations are managed by central government. For example, government departments and local authorities provide us with essential services such as those for health, education, highways, policing, social services and dealing with emergencies. These organisations are said to be in the *public sector*. The provision of such services as drinking water, drainage, gas, electricity and public transport used to be in the public sector, but privatisation towards the end of the twentieth century transferred them to what we call the *private sector* (see below).

Ultimately, all public sector organisations are responsible to central government; and those who run them, the politicians, are accountable to the public. They derive their authority to make decisions and take actions on our behalf from what we call *public trust*. If the public is not satisfied with the way the politicians are managing, they can replace them at the next election through the voting system. Usually, politicians are amateurs in terms of the specific responsibilities they are given, and the policy decisions they make are based upon advice from employed experts, who also have the decisions implemented. These experts, who are senior civil servants, remain in their positions regardless of any political changes that the electorate makes, hence the term *permanent secretary*.

PRIVATE SECTOR ORGANISATIONS

The *private sector* is made up of industrial and commercial companies that have evolved to respond to the stable and changing demands of the market. Each company exists to make a profit and is owned by its *shareholders*, who are the prime beneficiaries. The members of the *board of directors*, who are responsible for managing the company, are elected to their positions by the shareholders. In the private sector, therefore, it is said that directors' authority to make decisions and take actions is derived from the *ownership* of the organisation.

The directors on the board are employed experts who formulate and implement policy. If the shareholders do not approve of the way the organisation is being managed, they can vote for changes in particular decisions, and when they think it is necessary, they may vote directors out of office. The shareholders' opportunity to vote arises at the organisation's *annual general meeting (AGM)*, where the directors report on the past year's performance, particularly the financial performance, and state their plans for the future. In reality, shareholding has become scattered widely among individuals and institutions, and many shareholders never attend AGMs.

DEFINITIONS OF ORGANISATIONS

There have been many definitions of organisations, mostly drafted by academics. How an academic defines an organisation is usually determined by why they are defining it in the first place. Economists, management scientists, social scientists and organisational psychologists have produced new and different ways of looking at organisations, while other definitions have been produced by working managers.



SHAREHOLDER POWER AT ROYAL DUTCH SHELL

CASE EXAMPLE

Reported in the *Financial Times* by Kate Burgess and Michael Steen on 20 May 2009, *Shell's executive pay plan voted down in shareholder rebellion*.

Shareholders voted down by a majority 'no' vote the proposal on executive pay. Shareholders were concerned because Royal Dutch Shell had not met its

performance targets for the year, yet the board still wished to pay its executives significant bonuses.

This was just one of several similar events where shareholders had rebelled against proposals for senior staff pay awards in other companies in the UK.

Theorists study organisations through the framework of their own particular science; each will study different aspects and, not surprisingly, they all define them differently. Academics and practising managers have been studying organisations and how they should be managed for more than 100 years, and some of them say that the study of organisations and the study of 'management as an organisational

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process' are inextricably linked. Indeed, E.F.L. Brech (1965), a management theorist, defines organisations as 'the framework of the management process'.

Schein (1980) defines the organisation as:

the planned coordination of the activities of a number of people for the achievement of some common, explicit purpose or goal, through division of labour and function, and through a hierarchy of authority and responsibility.



ACTIVITY 1.1

Using Edgar Schein's definition of an organisation, do you think it adequately describes the activities of:

- the Royal Society for the Prevention of Cruelty to Animals (RSPCA)
- a hiking club
- British Petroleum (BP).

As well as defining organisations, theorists also classify them. Above we described organisations as *public* and *private* sector undertakings. In 1966, Blau and Scott classified them in terms of who are the prime beneficiaries of the organisation. They proposed four types:

- **Mutual benefit organisations**, in which the members are the prime beneficiaries. A trade union is one obvious example. Others include sports and social clubs, some building societies and professional institutions, such as the Chartered Institute of Personnel and Development (CIPD).
- **Business concerns**, in which the shareholders are the prime beneficiaries. These are commercial and industrial profit-oriented organisations. Examples are motor car manufacturers and supermarkets.
- **Service organisations**, in which the prime beneficiaries are the users, such as customers and clients. Examples of such organisations are health and educational institutions.
- **Commonweal organisations**, in which the public are the prime beneficiaries. Examples are the armed services, central and local government and the United Nations Organization (Blau and Scott 1966).

Charitable organisations in the UK have grown considerably since Blau and Scott proposed their classification. It was claimed then that any organisation would fit into one of their four categories, but it is difficult to see how any of them could accommodate a charitable organisation; perhaps there is room for a fifth category.

Further work by Maltby (2003), cited in Kew and Stredwick (2008, p123) suggests that the typology defined by Blau and Scott (1966) is perhaps too simplistic and dated. It is suggested that a continuum of types, ranging from nationalised to private companies, is probably more realistic:

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- nationalised industries
- public PLCs, where a company operates as though it is in the private sector (the Post Office)
- public interest companies (Kew and Stredwick quote Network Rail as an example of this type of company)
- public–private partnerships, including privately funded institution (PFI) contracts
- regulated private companies – these are typically privatised institutions such as the water and gas boards
- private companies.



ACTIVITY 1.2

Think about the organisation for which you work or one with which you are familiar. Where does it fit into Blau and Scott's or Maltby's typology? What kind of organisation is it? Who are the prime beneficiaries?

MECHANISTIC AND ORGANIC ORGANISATIONS

Burns and Stalker (1966), after extensive research into organisations, defined them according to the degree to which they were mechanistic or organic. The research was related to the marketing function and market forces.

Mechanistic organisations

The researchers said that mechanistic organisations are those that have been serving a stable market for many years, that is to say that the demand for their products has consolidated, the assumption is made that things will not change significantly, and therefore the product demand, in terms of quantity and quality, can be predicted with a reasonable degree of accuracy. Internally, the result is a highly structured organisation with centralised policies, rigid hierarchical ranks, a strong emphasis on administration and tightly drawn boundaries between the departments and functions.

Organic organisations

Conversely, where customer demands are ever-changing, a mechanistic approach would seriously inhibit the organisation's ability to remain in the market. This kind of market situation, say the researchers, demands a flattened structure, *colleague*, rather than *command and control relationships* as the predominant mode, short-lived and flexible administrative systems and fuzzy departmental boundaries.

This is not to imply that industry is a dichotomy in which some organisations are totally mechanistic while others are totally organic. Organisations may be

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more or less mechanistic or more or less organic, which is best thought of as a dimension, ranging from mechanistic through to organic:

Mechanistic ←→ movement ←→ *Organic*

All organisations can be found somewhere on this dimension. Also, as market demands change and new products are developed, organisations are seen to shift to the left or right as they become more organic or more mechanistic.

SIZES OF ORGANISATION

Finally, organisations may be classified by their size. They may range from the sole proprietor type of business to vast international and multinational undertakings employing hundreds of thousands of people. Curran and Stanworth (1988) identify three categories of size:

- 1 Small to medium-sized enterprises (SMEs)**, which are subdivided by the European Commission into:
 - i. micro-enterprises, with fewer than 10 employees
 - ii. small enterprises, with between 10 and 99 employees
 - iii. medium-sized enterprises, with 100–499 employees.
- 2 Large commercial enterprises** with over 500 employees.
- 3 Public sector organisations**, such as those described earlier in this chapter.

Within this wide variety of sizes, the way in which HR is managed varies in style and sophistication. In micro-enterprises, for example, HR is dealt with by the owner(s), as are all of the management functions. Inevitably, in some cases, professional standards and legal requirements and compliance with employment legislation may be questionable, yet the employee relationship can be positive. The larger organisations, on the other hand, use systems and procedures that are based on sophisticated strategies and policies and they usually employ an HR professional to manage the complex personnel-related policies.

Small to medium-sized enterprises

There has been considerable growth in SMEs in recent years, and their importance to the economy has grown commensurately, employing collectively large numbers of people. The owners of such enterprises are usually busy people and are reluctant to allocate time to academics who wish to carry out research. Price (1997), however, says that smaller companies should be fruitful subjects for study because many conduct people management in the direct fashion advocated by HRM models.

Future growth

SMEs are a dynamic force in any country's economy; they are tomorrow's large organisations. They tend to start up on the basis of a single idea, and those that succeed go on to diversify and grow further. While it is clear that they do not

all succeed and grow, many do, which is when they introduce the professional element into their internal systems, such as marketing, management and HR.

THE PURPOSES OF ORGANISATIONS

The main purposes of all organisations are to provide: a service or financial return for those that they serve, to survive and to develop. To survive, the organisation must continue to provide the kinds of goods and services demanded by its customers and clients, bearing in mind, of course, that such demands change. Organisations also stimulate demand by creating and marketing new products and by modifying existing ones. The mobile telephone is an example of continuous modification.

CORPORATE STRATEGY

Everyone wants the organisation to succeed and achieve its purposes of survival and development, and it is the responsibility of those at the very top, the board of directors, to ensure that this happens. Someone has to be at the steering wheel making decisions about the direction that the organisation should take; such decision-making is complex and sometimes involves considerable risk. The people at the wheel, making the decisions that shape the future direction of the organisation, are engaged in *strategy*. We discuss strategy in greater depth later in this chapter. Suffice to point out at this stage that strategy exists at corporate and operational/functional levels.



KEY CONCEPT: CORPORATE STRATEGY

Corporate strategy is a decision-making process by which the organisation attempts to meet its objectives. It is the way in which the organisation plans its long-term future.

OBJECTIVES AND POLICIES

For the organisation to reach its strategic goals, *objectives* are set, which are targets that need to be achieved by pre-specified dates. The achievement of objectives is a critically important factor in which appropriate timing is vital. The work that leads to the achievement of objectives has to be carried out within the limits of the organisation's *policies*. Policies are statements of intent about how the organisation proposes to conduct its business and achieve its strategic objectives. The organisation's specialists draft procedures that describe how policy decisions are to be carried out.



ACTIVITY 1.3

Find a copy of your organisation's policy on matters of health and safety at work. You should also find that there are procedures that describe how the policy is to be implemented.

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When the organisation knows where it is going (it has a *strategy*), what it has to do to get there (it has *objectives*) and how and when it is going to achieve those objectives (it has *policies and procedures*), attention may be turned to *resources*. The organisation needs resources in the form of money, materials, machinery and, of course, the human resource.

SURVIVAL AND DEVELOPMENT

As we have seen, the main purposes of any organisation are to survive and develop (and to give returns to its shareholders in the case of a company), and to do this it has to continue to supply the types of goods and services demanded by its customers and clients. It is vital for a business to keep a keen eye on the activities of its competitors, changing market demands and the nature of internal and external pressures. The senior managers and specialists, therefore, carry out an annual review of the organisation's performance, and at the review, questions are asked about the internal and external situations. In today's fiercely competitive markets and rapidly developing innovation, such monitoring is a continuous, day-to-day process, since the rate of change in today's businesses is greater than ever before. Annual reviews are still held, especially in public limited companies (PLCs), but what is discussed there now is the cumulative product of continuous monitoring. The organisation's current situation is discussed and strategic decisions are made about the future. In short, the process appraises the organisation's past performance and makes plans for the future.



CASE EXAMPLE

When the Corporate Strategy Section of J.K. Jones Ltd was conducting its annual review of the company's performance, it came to light that while the objectives it had set in the last period had been achieved in principle, there was room for improvement in certain areas. Productivity, for example, had experienced difficulty in keeping pace with sales, so the meeting decided to have

the problem investigated with a view to improving productivity for the forthcoming year. The investigative report, which took into account how their competitors had changed their business, showed that investment in new technology would facilitate increased productivity and thereby solve the problem.

STRATEGIC PLANNING TECHNIQUES

Two main techniques have been developed to provide a structure to the strategic planning process, and it is vital for the aspiring HR practitioner to understand and be able to use these techniques.

The first was developed by Ansoff (1987). It focuses on an organisation's *strengths*, *weaknesses*, *opportunities* and *threats* and is usually referred to by the acronym SWOT. The second technique focuses on the internal and external pressures that impinge upon an organisation and these include such factors as political,

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economic, social, technological, legal-related and environmental pressures. The acronym PESTLE is used to refer to this technique; this has been modified and extended and is sometimes called a STEEPLE analysis (see below).

SWOT analysis

Of the two techniques, this is the most well known. What follows is an analysis of the process that demonstrates the extent of the detail that goes into its application.

Strengths are the valuable and successful aspects of the organisation, such as having ample resources, highly skilled people and appropriate technology for achieving the objectives. Being good at product design, quality assurance and customer care are also examples of strengths, since they help to sustain and improve the organisation's position in the market. The organisation may also be doing well in some particular functions of the business, for example the engineering or finance function; it is a good idea to analyse this to see if lessons may be learned for other functions.

Weaknesses are the organisation's negative features, such as financial or skill deficiencies, out-of-date work systems or poor employee relations. The identification of weaknesses is essential since areas for improvement have to be addressed urgently.

Opportunities are events or openings that may arise from the market or other areas of the business environment. Perhaps the need for a new or modified product is identified, or it may be that the organisation's unique skills can be applied to a new venture or diversification.

Threats can arise from the business environment. For example, an aspiring competitor may be about to invade the market and endanger the business. Competitors are also a threat when they modify standard products to achieve a market advantage. In this analysis, threats are usually thought to be external, but of course, threats may also arise from poor internal relations; it could be that employees are dissatisfied with the terms and conditions of employment and are threatening to interrupt business progress by taking industrial action.



ACTIVITY 1.4

Examine your own organisation and assess how it would stand up to a SWOT analysis. Make a list of what you regard as:

- (i) its strengths and (ii) its weaknesses and think about how they might be capitalised upon and improved respectively.

PESTLE or STEEPLE analysis

Organisations have to keep abreast of, and respond to, the internal and external pressures that impinge upon them.

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Political interventions are pressures that appear in the form of new legislation, particularly on business practices, employment, health and safety, taxation and many other factors. In today's global market, however, pressures may also relate to overseas trading, for example, in the form of European policies on agriculture and regulations relating to commercial fishing. New employment legislation carries implications for the organisation, and these are discussed in Chapter 16, 'Understanding Employment Law'. In the wider overseas trading context, internationally agreed sanctions may curtail, or even outlaw, our trading with particular countries that, for example, may be involved in terrorism or human rights abuses.

Economic changes – the influence of regional, national and international economic conditions plays a large part in the fortunes of organisations. Sometimes the economy is buoyant and in a state of boom and plenty, unemployment is low, industrial and high-street spending is high and property values soar. At other times the economy dips and the 'highs' that are mentioned above go into reverse. These are exactly the 'bust' conditions of an economic recession as caused by the banking crisis that occurred from 2008 and into 2009 in the UK. Organisations have to adjust to the alternate peaking and dipping of the economy and, internally, they must prepare themselves accordingly; sometimes though it is difficult to prepare, especially if the downturn has been caused by an unforeseen crisis, as mentioned. In a global economy, competition is very fierce, and organisations take steps to ensure that they remain competitive. HR specialists keep an eye on the changing economy, since in a good economy when the organisation is expanding, there are usually staff shortages, especially of rare technical skills, but when it is bad and the organisation has to contract, redundancies may have to be made.

Social trends, in which market demands change according to changes in cultures, values, fashion, and even mere whim. The rate at which social preferences change can limit or extend product lifecycles and, internally, the need to keep pace will create the need for more frequent changes to be made. For example the concern for climate change has caused people to think about ecology and ecological issues, which has caused large and small organisations alike to consider how they should respond to reduce their 'carbon footprint' and so become more environmentally friendly.

Technological innovation occurs on two broad fronts. The first is in terms of process innovation, which includes modifying or replacing machinery and the production and administrative systems, because new and better systems have been developed, giving greater productivity, cost-efficiency and effectiveness. The second is in terms of product innovation, in which new products and services are developed and/or modifications to existing ones made. Organisations tend to develop their own product innovation. So far as process innovation is concerned, organisations are largely 'users' of technology that has been developed by manufacturers of capital equipment and computer software.

Legal-related pressures derive from competition law, government and EU policy, and, in a broader sense, safety issues such as the recent law on corporate

manslaughter. Employment legislation is continually being added to, which makes the life of the HR professional that much more complex, yet interesting. Over the past several years much legislation has been associated with welfare at work, for example the Working Time Directive and the Work and Families Act (2006), which provides rights for a parent of a child under 16 (18 if disabled) to *apply* for a change in working arrangements. Rights extended in 2007 to employees caring for adults.

Environmental factors – people are now extremely concerned about the effect that industrial activity is having on the environment, and pressure groups monitor and frequently demonstrate against particular business and scientific activities. Pressure groups such as Greenpeace monitor oil spills, deforestation and a host of other effects upon nature. Animal rights activists apply considerable pressure to organisations that carry out biological and cosmetic tests on living creatures, and sometimes even make physically violent attacks on the premises of such organisations and on the people who work within them.

A more recent approach is to turn the anagram around, add an ‘E’ and call it STEEPLE. The extra ‘E’ stands for ethical considerations (Kew and Stredwick 2005, p3).

USING SWOT AND PESTLE (STEEPLE) ANALYSES

The information that is derived from carrying out SWOT and PESTLE (STEEPLE) analyses, including the facts that have accumulated as a result of continuous monitoring, provides a basis for the decisions that are made about the organisation’s future. Where problems have come to light, the strategists look for causes with a view to resolving the problems, and where strengths are identified, they examine the possibilities of improving on those strengths in the future. This results in organisations formulating new policies to respond to the influences of legislation and other pressures.



ACTIVITY 1.5

It has been noticed that some students confuse these two analytical techniques. Consider your own organisation in the light of both, and note the different answers that emerge from your analysis. While both are used to assist the strategic planning process, they should be kept apart conceptually because they serve different purposes. SWOT analysis is a reality check on the organisation’s internal and external situations and its past performance, while PESTLE analysis focuses on the internal and external pressures that impinge upon the organisation. Looking at your own organisation in this way will enable you to remember which is which.

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ORGANISATIONAL STRUCTURES

Most of us are familiar with the conventional shape of an organisation's structure. It has a hierarchical design with descending levels of authority. Viewed vertically, we can see how the various departments and specialisms are separated, while laterally, we can see the layers that indicate levels of authority and responsibility.



KEY CONCEPT: CORPORATE STRUCTURE

Commonly referred to as the 'organisational chart', the corporate structure is a hierarchical design (like a family tree), which may be 'tall', meaning that there are many layers of authority and responsibility, or 'flat', meaning that there are fewer layers. Tall structures are generally bureaucratically managed, while with flatter structures managers and employees usually work together in a 'colleague' type of relationship, in which communication is eased and more direct.

The structure shows the relationships that exist between the employees at *vertical* and *horizontal* levels, which are referred to as *vertical* and *horizontal integration*. The structure also outlines what we call *vertical* and *horizontal differentiation*. Vertical differentiation can be seen in the different roles of people within a department or function, such as in the role of the HR director who has reporting to them the resourcing manager, who has, in turn, administrative staff reporting to them. The structure not only shows the chain of command but also, in a similar way, the vertical hierarchy of how roles are differentiated. On the other hand, horizontal differentiation can be seen in the way that functional managers take responsibility for separate departments, such as the roles of the marketing manager, finance manager, the production manager and so on. (You will find that some writers use the word *lateral* instead of *horizontal*.)



SOMETHING AFOOT

CASE EXAMPLE

Jane Firmstone is a regional sales manager for Something Afoot, a company providing tough footwear for agricultural workers, climbers, and so on. Jane has divided the region into three districts and John Glass, Jim Ford and Masha Veretov are her district representatives. Before leaving home, John telephoned Jane to say that he would be calling in to the regional sales office on his way home to let her have a detailed breakdown of his sales figures for last month. This pleased Jane because she is about to compile the regional sales report for that month and she is anxious that her figures stand up well in the light of those from other regions with which her

figures will be compared. The sales figures and current profit and loss accounts are provided by the senior accountant, Jatinder Sandhu, who reports directly to Jane.

In terms of the organisation's structure Jatinder is on a similar level as the three district sales representatives.

Just before ringing off, Jane wished John luck with Grays, an awkward client that she knew he was seeing that day, 'and don't go giving them discounts above the company norm, you know it annoys them at head office'. John is worried about his call on Grays. It is his district's largest shoe store and at one time was Something Afoot's biggest retail outlet. Over the past year,

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however, Grays has stocked fewer and fewer of Something Afoot's products and replaced them with imports from Poland. John believes that the problem lay in his company's introduction of a standard discount policy a year ago. Previously, the sales staff had been free to determine the discounts they offered, and major clients were able to obtain larger discounts than are possible under the company's new standard discounts policy.

John cheered up as he thought of lunch. He had arranged to eat with Masha Veretov. She had promised to bring samples of some of the company's latest designs that John thought would be of particular interest to Grays, whose customers are particularly fashion-conscious. John reflected that working with the sales team was not so bad. They really are a team and their monthly meetings are one of the best parts of the job.



ACTIVITY 1.6

Read the above case example and list all of the examples you can find of:

- horizontal differentiation
- vertical differentiation
- horizontal integration
- vertical integration.

DESIGNING THE STRUCTURE

Designing a structure is not a simple task. Before embarking upon such a project, the needs of the organisation have to be identified. Child (1988) says that most of the information one needs can be found in the answers to five key questions:

- 1 Should jobs be broken down into narrow areas of work and responsibility so as to secure the benefits of specialisation, or should the degree of specialisation be kept to a minimum to simplify communication and to offer members of the organisation greater scope and responsibility in their work?
- 2 Should the overall structure of an organisation be 'tall' rather than 'flat' in terms of its levels and spans of control? What are the implications for communication, motivation and overhead costs of moving towards one of these alternatives rather than the other?
- 3 Should jobs and departments be grouped together in a 'functional' way according to the specialist expertise and interests that they share? Or should they be grouped according to the different services and products that are being offered, or the different geographical areas being served, or according to yet another criterion?
- 4 Is it appropriate to aim for an intensive form of integration between the different segments of the organisation, or not? What kind of integrative mechanisms are there to choose from?
- 5 What approach should management take towards maintaining adequate control over work done? Should it centralise or delegate decisions? Should

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a policy of extensive formalisation be adopted in which standing orders and written records are used for control purposes? Should work be subject to close supervision?

If we examine these questions, we see that Child presents us with alternatives, implying that each organisation has its own specific structural needs. The questions have very strong human resource implications in terms of 'greater scope and responsibility' (question 1), 'communication and motivation' (question 2) and 'sharing specialist expertise and interests' (question 3). According to the principles of HRM, these advantages are best achieved by introducing a flattened rather than a tall structure, so that managers and employees can work closely together, and the integrity of formal, vertical communication is improved, since it passes through fewer hierarchical levels.

Organisational structures are designed to reflect the roles and relationships of the various positions and employees. The structure should show the logic underlying the division of the organisation's expertise and how functions are placed to work in a co-ordinated way.

Brooks (2009, p191) writes of the traditional view of organisational structure: 'It describes the way an organisation is configured into work groups and the reporting and authority relationships that connect individuals and groups together.'

Restructuring may be seen as a reflection of the need to make internal changes to continue to complement external changes. In the early twentieth century, academics and practising managers produced theories that have come to be known as classical approaches to management, which were succeeded by the human relations approach, management by objectives, system and contingency theories and, more recently, human resource management.

While some of these ideas remain relevant for particular organisations, the adoption of the principles and techniques of human resource management (HRM) has significant implications for structures.

SPAN OF CONTROL

This term relates to the number of employees that fall directly under the control of one manager. Given that the organisation has a particular number of employees, the number of layers in the overall structure will be determined by the sizes of the spans of control within it. Organisations with tall spans of control will have many layers (as in Figure 1.1), and those with flattened ones will have fewer layers. Structures are referred to as 'tall' or 'flat' and the advent of HRM in the 1980s brought with it a tendency for organisations to flatten their structures (see Figure 1.2).

One of the effects of the trend towards flattened structures was to reduce the number of managers and increase the number of employees reporting to each manager. This changed employees' working situations in that in addition to

Figure 1.1 A conventional organisational structure (tall structure showing 55 jobs on 5 levels)

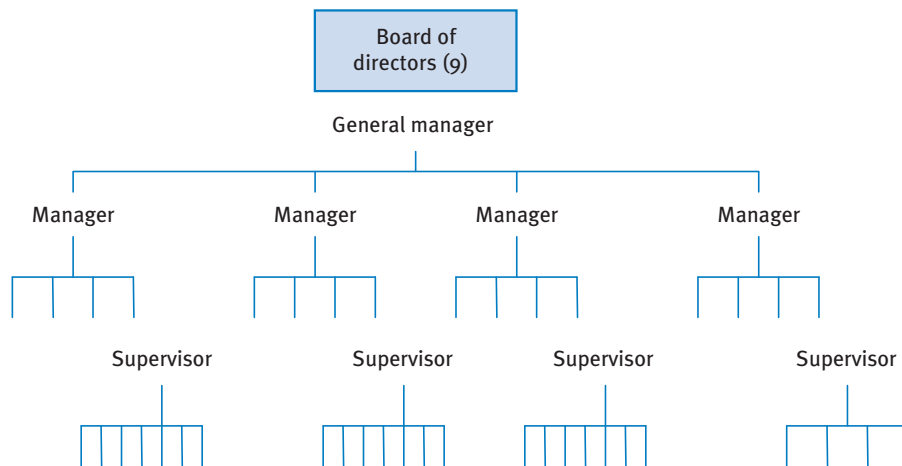
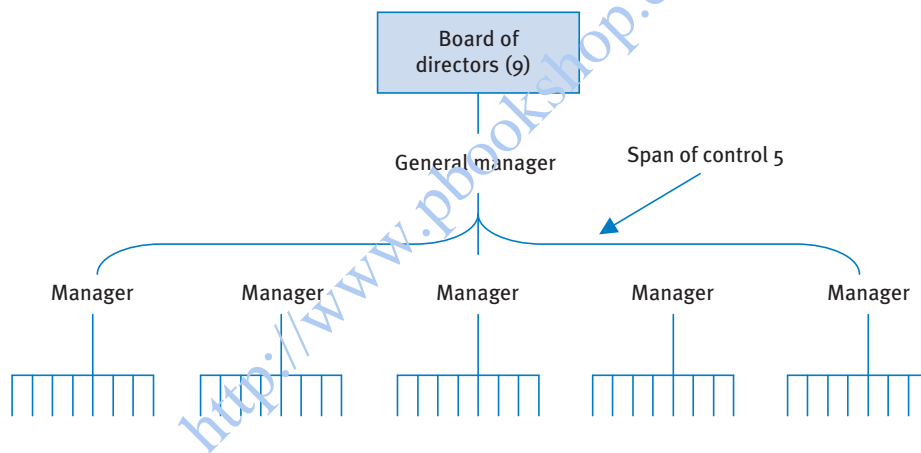


Figure 1.2 Span of control influencing structure (flat structure showing 54 jobs on 4 levels)



having to adapt to changes in the work itself, they found themselves reporting to different managers and working with different colleagues.

MATRIX ORGANISATIONS

This form of structure may be introduced in organisations in which there is a need for teams to work on projects, such as those in the construction industry, civil engineering and other types of commissioning firms. Matrix structures may also be found in an enterprise in which there is a need to set up a temporary unit to carry out a specific project. Managers and specialists are seconded from different parts of the organisation for the duration of the project. On completion,

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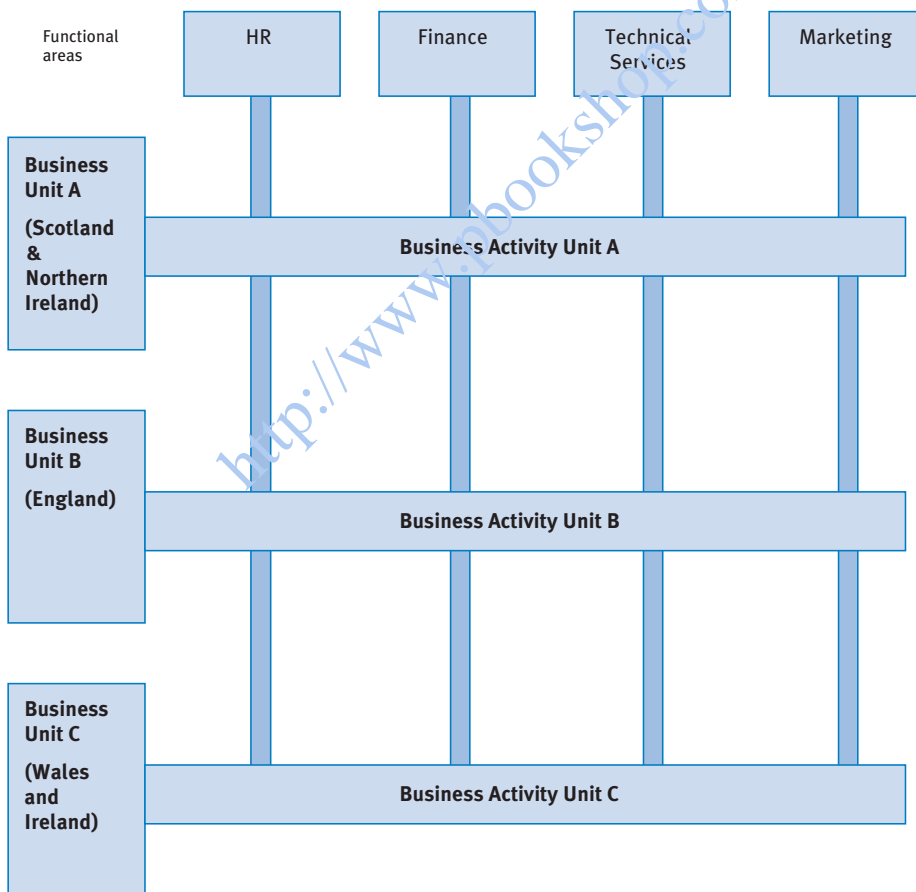
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the team may be disbanded and reintegrated into the main structure, or may move on to another new project; an organisation may have several projects running concurrently. A civil engineering concern, for example, may, *inter alia*, be carrying out such projects as building a bridge in the Midlands, a tunnel in Scotland, a high-rise building in Belfast and a road in East Anglia.

A matrix design is typified by a grid that depicts a two-dimensional track of authority and responsibility. Authority and responsibility in the functional departments track downwards, while from the project manager, authority and responsibility track laterally across the main structure. In this way, project managers may look across the organisation to access its resources, a concept that produces economic as well as practical advantages (see Figure 1.3).

Matrix structures have drawn criticism from employees. They say they become frustrated as a result of working for two bosses: first, the functional heads to whom they report, and second, the project managers who make demands on their services. Such frustrations usually arise from conflicting time constraints and priorities.

Figure 1.3 How a matrix organisation works



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In the example in Figure 1.3, the company is split into three business units based on a geographical split of responsibilities. Each business can call on the services of HR, Finance, Technical and Marketing as they require. The advantage for the business unit is that they can control their costs and create a sense of competition because it is clear, in the matrix organisation, that HR, Finance, Technical and Marketing are service functions. One could imagine the scenario if it was considered that the finance function, for example, were deemed not to be providing an efficient service to Business Unit A, then that business unit could go outside the larger organisation and 'buy in' financial services.

THE FLEXIBLE ORGANISATION

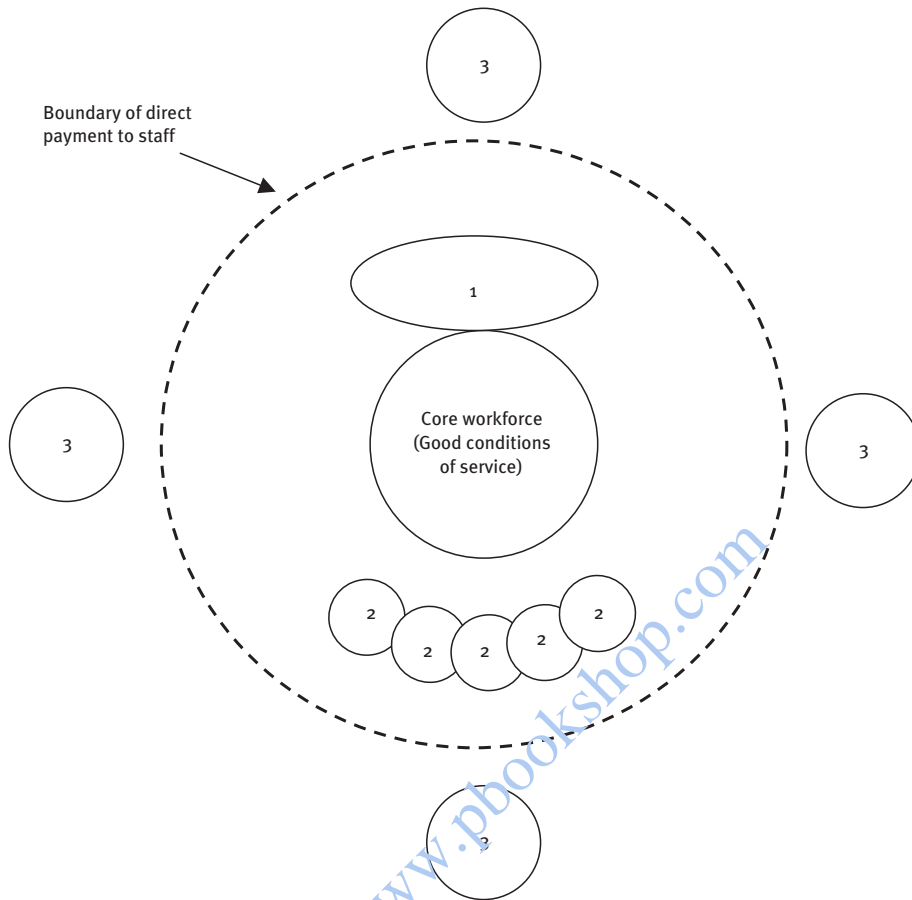
The need for senior managers to focus on survival and development while remaining competitive in a fierce global market has caused them to review their attitudes towards employment, and *flexible working* (not to be confused with 'flexi-time') is one of the ideas that has emerged. Flexible working was first introduced in the early 1970s, when it was referred to as *core staff theory*, but did not become widespread until the 1980s and popularised through the work of Atkinson (1984). Within this concept, the notion that the organisation needs to access particular skills no longer implies that it has to offer a conventional full-time contract of employment. The nature of the contract offered to the person is determined by the rarity and availability of their skills and the amount of time for which those skills are needed. For these reasons, the terms and conditions of employment vary from one category of employee to another. Organisations distinguish between *core* and *peripheral* workers (see Figure 1.4).

CORE AND PERIPHERAL WORKERS

Referring to Figure 1.4, the core workers are those who are regarded as critically important to the organisation and who are, therefore, encouraged to stay by virtue of attractive prospects, rewards and usually good terms and conditions of service. Core staff are recognised as highly skilled and motivated technical, scientific or professional people without whom the organisation cannot optimise performance. They also tend to have a range of skills (functional flexibility) and significant discretion as to how they go about their work. Positive retention planning, therefore, has become an integral part of HR strategy.

Peripheral workers, on the other hand, are not treated so generously and have little scope for discretion as to how they can do their work. In some cases they would not be discouraged in seeking employment elsewhere; they are more expendable. In a similar manner, if extra staff are required in this group then they can be readily recruited. Peripheral groups 1 and 2 sit within the confines of the organisation and members of these groups would be paid directly from the payroll. Specifically, peripheral group 1, in Figure 1.4, would be those types of worker who would be doing repetitive jobs such as accounts payable or production work. In the context of Atkinson's model, this group would be

Figure 1.4 Flexibility in organisations (adapted from Atkinson 1984)



ascribed as 'numerical flexibility'. Their contracts of work, in respect to working hours and types of hourly contract, can be varied.

The second peripheral group would not be a homogeneous group, *per se*, but the grouping is associated with how work is managed. For example, this group could be job-share people, part-time workers; it could even include delayed recruitment or short-term contracts to cover absences or peaks in workload, or work that is of a repetitive nature. This secondary group could also include apprentices, some of whom could, at some time later depending upon individual competence, transfer to the core group of employees and so be part of the 'talent pipeline'.

Finally the flexible firm includes those who are not directly employed by the organisation, the third or tertiary peripheral group. This group would include the self-employed, contractors, temporary workers and of course outsourced activities.

The idea of having workers who are in receipt of different terms and conditions of service can, of course, create issues between those who have the better conditions of service and those who have not. Interestingly the Government intends to

introduce a bill that will harmonise the pay and some conditions of agency workers, called the 'Agency Workers' Directive'; this was initially proposed for introduction in 2009 but has been postponed until 2011.

The organisation's attitude towards different categories of worker is reflected in the *reward management* structure. The development of the ideas behind the flexible firm has grown in popularity for several reasons:

- operation of new technology that demands higher skills
- need for greater economic efficiency
- need to improve upon and sustain the quality of the organisation's product
- need for a more flexible and speedy response to external demands
- need for a greater degree of involvement and, thereby, satisfaction on the part of valued employees.

THE VIRTUAL ORGANISATION

A futuristic example of the flexible organisation is summarised by Robbins and Judge (2009, p564), in which they describe the 'virtual organisation' as 'a small, core organization that outsources major business functions'. They describe the American 'motion picture' (film) industry as a prime example of this type of organisation. Many hundreds of specialists, ranging from electrical technicians to camera operatives to catering companies, all come together to create a picture then disperse before being called together once again to make another picture at a different location under a different production company.

SUMMARY

In this chapter we learned why organisations exist: to provide goods or services to a consumer. We also learned how to classify organisations, whether they are public or private sector and also how they are structured. Organisations can be classified as:

- mutual benefit
- business concerns
- service organisations
- commonweal organisations.

This classification was later modified by Maltby (2003):

- nationalised industries
- public PLCs
- public interest companies
- public-private partnerships, including privately funded institution (PFI) contracts

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- regulated private companies
- private companies.

As well as classifying organisations by the type of service they offer we also saw that they can be classified as to whether they are mechanistic or organic, and also in terms of their size, ranging from micro to small, medium and large, rather like clothes.

As well as being able to describe organisations, as above, we also considered how to, in a systematic way, consider the internal weaknesses and strengths of an organisation using the SWOT analysis technique and to identify, looking outwards from the organisation, the immediate issues that the business environment offered or threatened using a PESTLE (STEEPLE) analysis.

Work was discussed in the context of horizontal and vertical integration, and terminology such as 'span of control' was introduced to further extend our understanding of how business is discussed.

Finally, the chapter addressed how organisations can structure themselves, from a strategic perspective, in the form of the 'flexible firm', a concept that was first attributed to Atkinson in 1984.

REVIEW QUESTIONS

- 1 What are the main purposes of all organisations?
- 2 Name the four categories into which Blau and Scott classified organisations.
- 3 From where do those who manage public and private sector organisations derive their authority to make decisions and take actions?
- 4 What are the main differences between the two main techniques (SWOT and PESTLE [STEEPLE]) that senior managers use to assist the strategic planning process?
- 5 What HR implications arise from the five questions posed by Child (1988) when considering the design of an organisation's structure?
- 6 What do you understand by the following organisation forms:
 - nationalised industries
 - public PLCs
 - public interest companies
 - public-private partnerships, including privately funded institution (PFI) contracts
- 7 In the above example, where would a charity and a university be placed?
- 8 What do we mean by 'flexible working'?
- 9 Has your organisation adopted any flexible working practices? Do you see any real advantages in what management have done? Do you think there are opportunities to introduce flexible working practices?
- 10 What do you understand by the term the 'flexible firm'?
- 11 In the context of the flexible firm, in terms of the peripheral groups, where would those working annualised hours fit?
- 12 What is outsourcing?
- 13 Why does the first peripheral group in the flexible firm have poorer conditions of service than the 'core' group? Is this unfair? How does HR manage the tensions generated?

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BOOKS

KEW, J. and STREDWICK, J. (2008) *Business environment: managing in a strategic context*. (2nd ed.) London: CIPD.

Although Kew and Stredwick's book is written for a postgraduate CIPD course, it is very accessible and opens up a broader understanding of the business context, including discussion of the role of government, the European Union and the impact of demographic change.

MULLINS, L.J. (2009) *Management and organisational behaviour*. (8th ed). Harlow: Pearson Education.

A good all-round text on organisational behaviour (OB) and management, Mullins is suitable for both undergraduate and postgraduate students who are studying organisations for the first time. In the context of this chapter on the organisation, the Mullins text offers further insight into organisational setting, the structures of organisations, the nature of management and organisation management.

WEB LINKS

SWOT analysis (giving an explanation of what SWOT covers):

Institute for Manufacturing, University of Cambridge: www.ifm.eng.cam.ac.uk/dstools/paradigm/swot.html

CIPD factsheet on SWOT analysis: www.cipd.co.uk/subjects/corpstrtgy/general/swot-analysis.htm?lsSrchRes=1

PESTLE analysis:

CIPD factsheet on PESTLE analysis: www.cipd.co.uk/subjects/corpstrtgy/general/pestle-analysis.htm

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