

11 Organisational structure

This chapter covers syllabus section 2.2

On completing this chapter you should be able to:

SETTING THE SCENE

What is happening to organisational structures?

Traditionally, head offices housed all key personnel taking all important decisions. Now, more and more firms are using 'flatter' and more decentralised structures where decisions are taken anywhere else but head office! Instead of all power being focused at the top of an organisation there is now much more involvement and collaboration in decision-making. Why are these changes happening?

- Employees are becoming better qualified and more knowledgeable – they do not want to work in formal hierarchies.
- Multinational organisations find that taking decisions centrally means they are not taking local factors into account.
- Communication systems are becoming quicker and more mobile.
- The old world was one of rigid and formal hierarchies. Today's world needs organisations that encourage and promote leaders who can push, convince and lead people to work in collaborative teams.

Source: www.timesonline.co.uk

Points to think about:

- Has your school or college got an organisational structure? Describe its main features.
- Why would taking all decisions at head office be a 'safe' but inflexible type of organisation?
- Do you think that businesses might need to change the structure of their organisation due to business growth and the need to cut costs and be more flexible? Explain your answer.



Fewer decisions are taken at head office when an organisation is decentralised

- analyse the main features of an organisational chart including levels of hierarchy, chain of command, span of control, flat and tall organisations
- identify why firms need to organise employees and analyse ways in which this is done
- H** • analyse delegation and accountability
- H** • understand the meaning of bureaucracy
- H** • understand the difference between centralised and decentralised structures and the factors that influence the degree of centralisation/decentralisation
- H** • analyse the matrix form of organisation, flexible structures and the informal organisation
- H** • understand some of the organisational theories of Peters and Mintzberg
- H** • analyse outsourcing of HR functions and evaluate whether firms benefit from this.

Introduction

A sole trader with no employees needs no organisational structure. Even if this sole owner were to take on just one worker or one partner, a sense of formal structure would become necessary. Who is to do what job? Who is responsible to whom and for which decisions? If the business expanded further, with more workers, including supervisory staff, different departments or divisions, then the need for a structure would be even greater. This would allow the division of tasks and responsibilities to be made clear to all. So what is meant by organisational structure? What would happen if it was confused or misunderstood? How does the structure impact on workers and managers? What are the key principles of designing and analysing an organisation's structure? These are the issues that we will look at in this chapter.

KEY TERM

organisational structure the internal, formal framework of a business that shows the way in which management is organised and linked together and how authority is passed through the organisation

The formal structure

A typical business structure is one that is based on functional departmental lines. Structures can be illustrated by means of an organisation chart. A traditional one, showing functional structure, is shown in Figure 11.1 This chart displays a number of important points about the formal organisation of this business. It indicates:

- who has overall responsibility for decision-making
- the formal relationships between people and departments – workers can identify their position in the business and who is their immediate 'line' manager

- how accountability and authority are passed down the organisation – the chain of command
- the number of subordinates reporting to each more senior manager – the span of control
- formal channels of communication both vertical and horizontal
- identity of the supervisor or manager to whom each worker is answerable and should report is made clear.

THE HIERARCHICAL (OR BUREAUCRATIC) STRUCTURE

This is one where there are different layers of the organisation with fewer and fewer people on each higher level – Figure 11.1 demonstrates this. In general terms, it is often presented as a pyramid, as shown in Figure 11.2.

Advantages

Many businesses are still organised in this way as decision-making power starts at the top but may be passed down to lower levels. The vertical divisions do not have to be based on functional departments – they could be based on region or country or product category, for example consumer goods and industrial goods. The rungs on the career ladder for an ambitious employee are illustrated by the different levels of hierarchy. The role of each individual will be clear and well defined, and there is a clearly identifiable chain of command. This traditional hierarchy is most frequently used by organisations based on a 'role culture', where the importance of the role determines the position in the hierarchy.

Disadvantages

Such a structure tends to suggest that one-way (top downwards) communication is the norm – this is rarely the most efficient form. There are few horizontal links

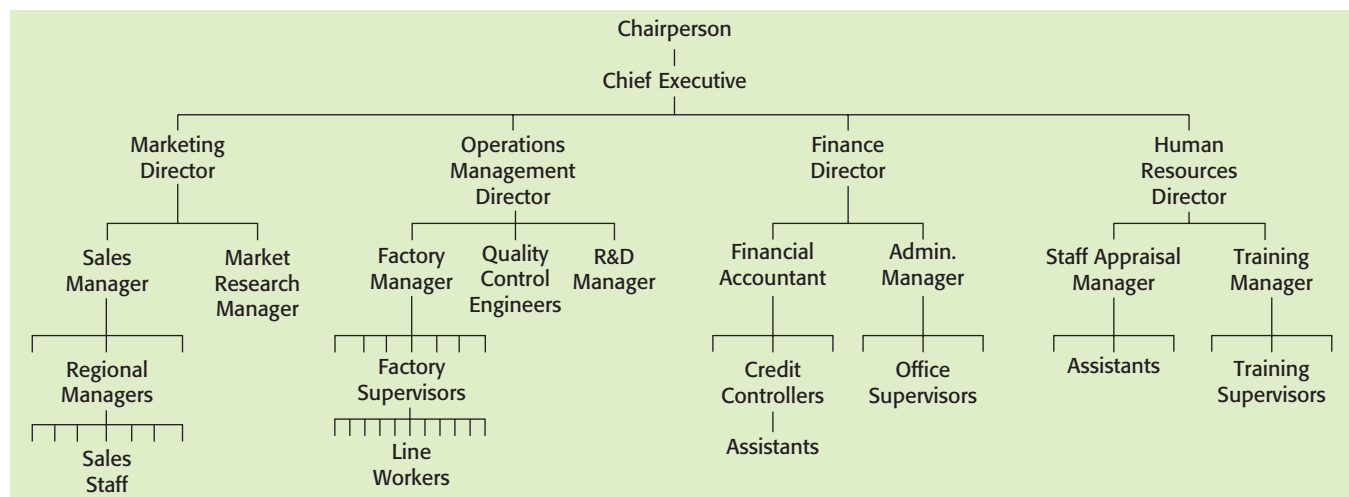


Figure 11.1 An example of an organisation structure

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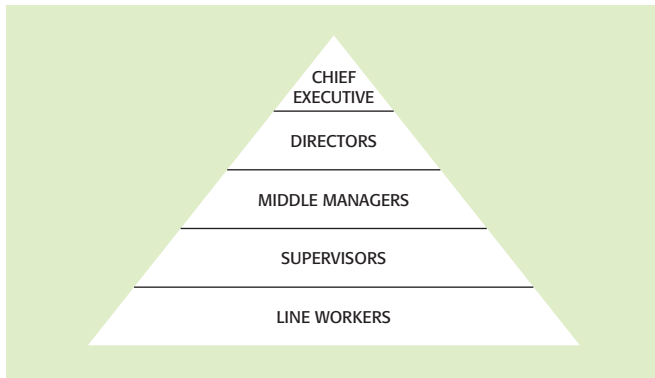


Figure 11.2 A typical hierarchical pyramid

between the departments or the separate divisions, and this can lead to lack of co-ordination between them. Managers are often accused of tunnel vision because they are not encouraged to look at problems in any way other than through the eyes of their own department. This type of structure is very inflexible and often leads to change resistance. This is because all managers tend to be defending both their own position in the hierarchy and the importance of their own department.

Key principles of organisational structure

LEVELS OF HIERARCHY

KEY TERM

level of hierarchy a stage of the organisational structure at which the personnel on it have equal status and authority

Each level in the hierarchy represents a grade or rank of staff. Lower ranks are subordinate to superiors of a higher rank. The more levels, the greater the number of different grades or ranks in the organisation. A tall organisational structure has a large number of levels of hierarchy and this creates three main problems:

- Communication through the organisation can become slow with messages becoming distorted or 'filtered' in some way.
- Spans of control are likely to be narrow – see below.
- There is likely to be a greater sense of remoteness, among those on lower levels, from the decision-making power at the top.

In contrast, a flat organisational structure will have few levels of hierarchy but will tend to have wider spans of control.

KEY TERMS

chain of command this is the route through which authority is passed down an organisation – from the chief executive and the board of directors

span of control the number of subordinates reporting directly to a manager

Chain of command

Typically, instructions are passed down the hierarchy; information, for example about sales or output levels, is sent upwards. The taller the organisational structure, the longer will be the chain of command – slowing down communications.

Span of control

Spans of control can be wide – with a manager directly responsible for many subordinates – or narrow – a manager has direct responsibility for a few subordinates. This difference would be illustrated on an organisation chart, as shown in Figures 11.3 and 11.4.

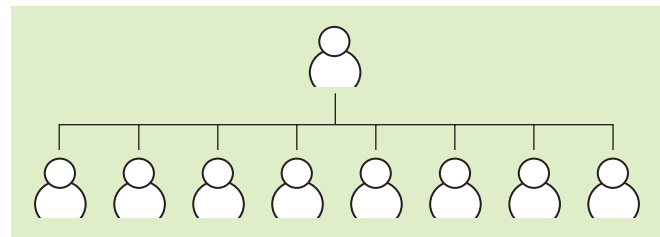


Figure 11.3 Flat structure with a wide span of control of eight

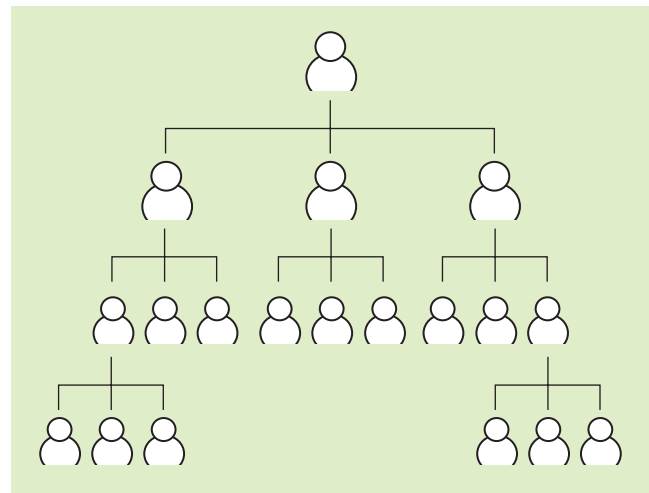


Figure 11.4 Tall structure with a narrow span of control of three

Factors influencing organisational structure

A range of factors will determine the internal structure of the organisation:

- 1 The size of the business and the number of employees.
- 2 The style of leadership and culture of management. If senior managers adopted an autocratic style, then narrow spans of control would be adopted in a hierarchical structure. A democratic leader would tend to adopt very few levels of hierarchy and delegate extensively. (See Chapter 13 on leadership styles.)
- 3 Retrenchment caused by economic recession or increased competition might lead to delayering to reduce overhead costs – this would reduce levels of hierarchy and shorten the chain of command.
- 4 Corporate objectives. For example, if one of the long-term objectives of the business is to expand in other countries, then the organisational structure must be adapted to allow for some decentralisation.
- 5 New technologies – especially IT – can lead to a reduced need for certain employee types, e.g. managers sending messages by email rather than by letters typed by secretaries. In addition, central control might be made easier by the flow of information through IT and this could make middle management layers less important.

The organisation of human resources

Firms organise their employees through the human resource (HR) function in different ways. An HR structure should match the business structure. A conglomerate, such as Sabanci Holding (Turkey) and Reliance Industries (India), with interests in many different industries, will have a decentralised and dispersed HR organisation. A single business company, such as a national water company, will have an HR department organised by function (staffing, training, rewards and incentives, organisation design and so on). A multinational business with widely dispersed operations, such as General Motors, will be likely to operate the HR function in geographical divisions. This will give the company a knowledge of local labour markets and employment laws when taking HR decisions.

H HIGHER LEVEL

Delegation and accountability

KEY TERMS

delegation passing authority down the organisational hierarchy
accountability the obligation of an individual to account for his or her activities and to disclose results in a transparent way

These are very important principles which can have far-reaching effects on both the organisational structure and the motivation levels of subordinate employees. As Herzberg and other researchers have pointed out, the process of delegation, requiring workers to be accountable for their work, can be very beneficial to motivation. Generally, the wider the span of control, the greater the degree of delegation. Figure 11.3, which shows a wide span of control of eight, is likely to encourage delegation, whereas Figure 11.4, which shows a narrow span of control of three, is likely to lead to close control of subordinates.

Imagine a manager with a span of control of 15 subordinates. It might be impossible to closely supervise the work of each of these every day – the manager would have no time for more important ‘strategic’ matters. Thus, the manager will delegate authority to his or her staff, and will trust them to perform well. Clearly, the staff are accountable to the manager for good performance; but he or she retains ultimate responsibility for the work done in the department whether it was delegated to others or not. Table 11.1 summarises the advantages and limitations of delegation.

Advantages of delegation	Limitations of delegation
• Gives senior managers more time to focus on important, strategic roles. • Shows trust in subordinates and this can motivate and challenge them. • Develops and trains staff for more senior positions. • Helps staff to achieve fulfilment through their work (self-actualisation). • Encourages staff to be accountable for their work-based activities.	• If the task is not well defined or if inadequate training is given, then delegation will be unlikely to succeed. • Delegation will be unsuccessful if insufficient authority (power) is also given to the subordinate who is performing the tasks. • Managers may only delegate the boring jobs that they do not want to do – this will not be motivating.

Table 11.1 The advantages and limitations of delegation

Delayering

KEY TERM

delayering removal of one or more of the levels of hierarchy from an organisational structure

Many businesses aim for a flatter organisational structure to reduce the costs of management salaries. This process is known as delayering (see Table 11.2). It leads to wider spans of control and increased delegation to subordinates. This development in organisational structures

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has been assisted by improvements in IT and communication technology, which better enable senior managers to communicate with and monitor the performance of junior staff and widely dispersed departments. This has had the effect of diminishing the importance of the role of middle managers.

Advantages of delayering	Disadvantages of delayering
● Reduces business costs. ● Shortens the chain of command and should improve communication through the organisation. ● Increases spans of control and opportunities for delegation. ● May increase workforce motivation due to less remoteness from top management and greater chance of having more responsible work to perform.	● Could be one-off costs of making managers redundant, e.g. redundancy payments. ● Increased workloads for managers who remain – this could lead to overwork and stress. ● Fear that redundancies might be used to cut costs could reduce the sense of security of the whole workforce – one of Maslow's needs (see chapter 14).

Table 11.2 The advantages and disadvantages of delayering

ACTIVITY 11.1

Read the case study below and then answer the questions that follow.

MAS must change strategy, says new boss

Loss-making Malaysia Airlines System (MAS) must raise labour productivity and double services in the region to become profitable, its new boss said in recent remarks. The national carrier's present hierarchical structure was unsuitable as operational costs were far too high, managing director Mohamad Nor Mohamad Yusoff said in an interview with the *Sun* newspaper. Productivity and customer service were also 'disappointing' and had contributed to a decline in overall performance, he said.

'I liken MAS to a house that is supposed to be double-storeyed but instead has five storeys. In such a situation, the position is untenable,' he said. 'We need to reduce the number of storeys. MAS's operational costs are higher than that of the industry and its competitors ... each department does not operate according to expectations.' He said MAS aircraft were stationary too long and were under-utilised. He also voiced concern over poor productivity in the catering division. The airline has now reported losses for four straight years and has borrowings totalling

Bureaucracy

KEY TERM

bureaucracy an organisational system with standardised procedures and rules

This system is most commonly found in government organisations. It discourages initiative and enterprise as decisions are taken centrally and then put into effect by staff following set procedures and protocols. Max Weber, the sociologist, identified the main attributes of bureaucracy as rationality and efficiency. However, he also recognised its impersonality and ineffectiveness when a decision needed to be adapted to suit an individual case.

Centralisation and decentralisation

KEY TERMS

centralisation keeping all of the important decision-making powers within head office or the centre of the organisation

decentralisation decision-making powers are passed down the organisation to empower subordinates and regional/product managers

10.34 billion ringgit. On a suggestion that the airline should decentralise and separate its international and domestic operations, Mohamad Nor said this was being studied, but the management found that 'separation is not the best choice'.



Kuala Lumpur International Airport, Malaysia

26 marks, 50 minutes

- 1 Explain what you understand by:
 - a hierarchical structure
 - b productivity. [4]
- 2 Analyse two possible reasons why labour productivity is lower in MAS than other airlines. [6]
- 3 Evaluate the impact on:
 - MAS staff
 - business efficiency

of adapting the organisational structure by reducing the number of 'storeys' from five to two (delaying). [8]

- 4 Assess the likely impact on:
 - the performance of MAS
 - staff motivation
 of a decision to split and operate separately the domestic and international divisions of the airline. [8]

Examples of decentralised businesses are those multinationals that allow regional and cultural differences to be reflected in the products and services they provide. Clothing retailers with operations in several countries often allow local managers to decide on the exact range of clothing to be sold in each country – it could be disastrous for a business to sell European winter clothes in Singapore, for example. Centralised businesses will want to maintain exactly the same image and product range in all areas – perhaps because of cost savings or to retain a carefully created business identity in all markets. See Table 11.3 for the advantages of centralisation and decentralisation.

ACTIVITY 11.2

Read the case study below and then answer the questions that follow.

Tata Steel reorganises structure

India's Tata Steel has reorganised its management structure to realise its corporate goal of becoming a leading player in the global steel industry. The company has formed a centralised body to create common strategies across the whole group, which has steelworks in the UK, Thailand and the Netherlands as well as India. The functions that will be centralised will be technology, finance, corporate strategy and corporate communications.

Source: <http://uk.biz.yahoo.com>

Carry out research into Tata's business. Find out what different industries and markets it operates in. Write a report recommending whether Tata should be organised with a centralised structure or a decentralised one.

Advantages of centralisation	Advantages of decentralisation
● A fixed set of rules and procedures in all areas of the firm should lead to rapid decision-making – there is little scope for discussion. ● The business has consistent policies throughout the organisation. This prevents any conflicts between the divisions and avoids confusion in the minds of consumers. ● Senior managers take decisions in the interest of the whole business – not just one division of it. ● Central buying should allow for greater economies of scale. ● Senior managers at central office will be experienced decision-makers.	● More local decisions can be made which reflect different conditions – the managers who take the decisions will have local knowledge and are likely to have closer contact with consumers. ● More junior managers can develop skills and this prepares them for more challenging roles. ● Delegation and empowerment are made easier and these will have positive effects on motivation. ● Decision-making in response to changes, e.g. in local market conditions, should be quicker and more flexible as head office will not have to be involved every time.

Table 11.3 The advantages and disadvantages of centralisation

The matrix structure**KEY TERM**

matrix structure an organisational structure that creates project teams that cut across traditional functional departments

This approach to organising businesses aims to eliminate many of the problems associated with the hierarchical structure. This type of structure cuts across the

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	Finance Dept	Production Dept	Marketing Dept	Human Resources	Research & Development
Project Team 1			→		
Project Team 2					
Project Team 3	↓				

Figure 11.5 A matrix organisational structure

departmental lines of a hierarchical chart and creates project teams made up of people from all departments or divisions. The basic idea is shown in Figure 11.5.

This method of organising a business is task- or project-focused. Instead of highlighting the role or status of individuals it gathers together a team of specialists with the objective of completing a task or a project successfully. Emphasis is placed on an individual's ability to contribute to the team rather than their position in the hierarchy. The use of matrix project teams has been championed by Tom Peters, one of the best-known writers on organisational structure. In his book *In Search of Excellence* (1982) he suggested that:

- organisations need flexible structures that remove as much bureaucracy as possible by getting rid of as many rigid rules and regulations as possible
- the use of project teams should lead to more innovative and creative ideas as staff will be more motivated to contribute.

Advantages

It allows total communication between all members of the team, cutting across traditional boundaries between departments in a hierarchy where only senior managers are designed to link with and talk to each other. There is less chance of people focusing on just what is good for their department. This is replaced with a feeling of what is good for the project and the business as a whole. The cross-over of ideas between people with specialist knowledge in different areas tends to create more successful solutions. As new project teams can be created quickly, this system is well designed to respond to changing markets or technological conditions.

Disadvantages

There is less direct control from the 'top' as the teams may be empowered to undertake and complete a project. This passing down of authority to more junior staff could be difficult for some managers to come to terms with. The benefit of faster reaction to new situations is, therefore, at the expense of reduced bureaucratic control, and this trend may be resisted by some senior managers. Team members may have, in effect, two leaders if the business retains levels of hierarchy for departments but allows cross-departmental teams to be created. This could cause a conflict of interests.

The flexible future

Over the last 20 years, many large businesses, including most multinationals, have been forced to retrench, rationalise and downsize their organisations. At the same time, the increasing pace of globalisation and technological change means that huge organisational structures with many levels of hierarchy and slow bureaucratic systems have had to change. For example, if communication takes a long time to go up and down the hierarchy, then business is lost and the organisation gets a bad reputation for being unresponsive to customer needs.

So, in the current environment, businesses need a flexible and fluid organisational structure. More businesses are moving away from a traditional 'command' structure to one based around team-based problem-solving. This involves removing horizontal boundaries between departments altogether and reducing middle management layers to the absolute minimum. Future success will depend greatly on being able to respond rapidly to the changing business environment and this almost certainly means that the days of the traditional pyramid hierarchy are numbered.

ACTIVITY 11.3

Read the case study below and then answer the questions that follow.

Penang Valley Cars Ltd

Jim Mah founded the Penang Valley car-hire business six years ago. He started out as a sole trader with just three vehicles. His business now employs 33 people and it has a fleet of 2000 vehicles. Jim is chief executive. He has four fellow directors. They are in charge of finance, vehicle repairs, marketing and administration. The latter role includes dealing with all staffing matters. The finance director has three accounting assistants. The director in charge of vehicle repairs has two supervisors who report to him – one for the day and one for the night shift. They each have six mechanics working under them. The marketing department contains four people – one sales manager and three junior sales assistants. Administration has six office staff who take all the bookings and are responsible to an office supervisor who is under the direct control of the director.

This type of structure has served the business well, but Jim is concerned about the impact of further expansion on the organisation. In particular, he is planning two developments – one would involve renting trucks to other businesses and the other would be setting up a new office in another country.

22 marks, 35 minutes

- 1 Sketch the current organisational structure of Penang Valley Cars Ltd. Include all staff on your chart. [4]
- 2 Do you think the current structure is appropriate for the business? Give reasons for your answer. [6]
- 3 Explain how a matrix structure of project teams could be used by this business for its new developments. [4]
- 4 Evaluate Penang's decision to use project teams to manage the new developments. [8]

HENRY MINTZBERG

According to this renowned management theorist, an organisation's structure emerges from the interplay of the organisation's strategy and the environmental forces it experiences. When these fit together well with the organisational structure, then the business can perform well. When they fail to fit, the organisation is likely to experience severe problems. Different structures result from the different 'pull factors' operating on them. Mintzberg defined several organisational types that can result from the operation of these forces:

- 1 Entrepreneurial organisation – this has a flat structure, is relatively informal and there is a lack of standardised procedures, which allows for flexibility.
- 2 Bureaucracy (or machine organisation) – this is defined by standardisation and formalised work. It will have a tight, inflexible and vertical structure.
- 3 Professional organisation – this has a high degree of specialisation by experts who demand control of their own work. Decision-making is decentralised. This structure is typical when the organisation contains a high proportion of knowledge workers, such as an IT business.

- 4 Divisional organisation – this has many different product lines and business units. A central headquarters supports a number of autonomous divisions that make their own decisions and have their own structures.
- 5 Innovative organisation – in new industries, companies tend to innovate and function on an ad hoc basis. Film-making, consulting and pharmaceutical research are project-based industries that often use this structure. Companies use a team of experts from a variety of areas to form a creative, flexible, fast moving, functional team.

TOM PETERS

The Seven-S model, developed by the business theorist Tom Peters, is based on the theory that an organisation is not just a 'Structure' but is made up of seven elements distinguished by the 'hard S's' and the 'soft S's'. The hard elements are practical and easily identifiable from company documents and plans: Structure, Strategy, Systems. The four soft S's are less tangible and easy to identify: Skills, Staff, Style, Shared values. Continuously evolving and changing, the soft S's are determined by the people at work in the organisation and are therefore

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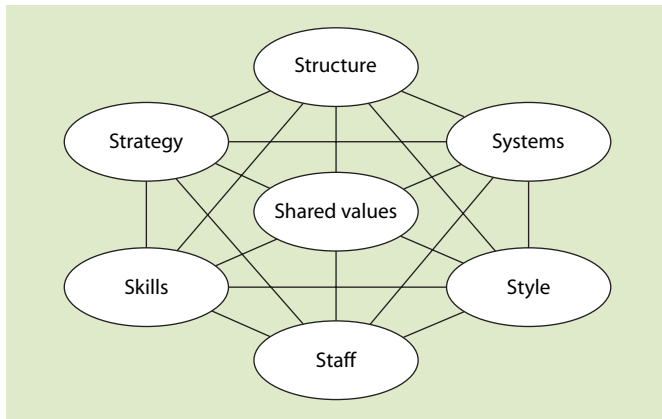


Figure 11.6 Peters's Seven-S model

difficult to anticipate or influence. The Seven-S diagram shows how each of the elements influences and is influenced by all of the other elements (see Figure 11.6).

Peters's Seven-S model helps to increase managers' awareness of the less tangible but critically important factors required for an organisation to be successful.

Informal organisations

Within any business there are two types of organisation – the formal structure and the informal structure. So far, this chapter has focused on the formal structure, but informal structures can also have a considerable impact on the success of a business.

KEY TERM

informal organisation the network of personal and social relations that develop between people within an organisation

The main focus of the informal organisation is the employee as an individual person. Power and influence are obtained from membership of informal groups within the business – and these groups may cross over departmental lines. The conduct of individuals within these groups is governed by 'norms' or normal standards of behaviour. If an individual breaks these norms, then the rest of the group imposes sanctions on them. Informal structures can either be beneficial or harmful to the business.

An individual's effectiveness at work can be greatly affected by the employees around them. A clever manager

will try to use informal groups to the benefit of the business, for example by avoiding personality clashes between people in different groups or by basing team-working on informal groups. The problem may arise, however, that the informal group leader has more power and influence over the team than the formal leader – so managers need to choose supervisors carefully.



THEORY OF KNOWLEDGE

The senior management's decision to change working practices at Giant Electronics' Indian plant in Mumbai led to a mass walk-out of production line staff. Everyone knew changes had to be made; poor organisation on the production line meant a low level of productivity and poor-quality finished products. The senior management hadn't, however, understood the power and influence of three long-standing production line supervisors who saw the change in working practices as a threat, not least because they would have to report to a newly appointed senior manager who would reduce their influence. This was the seventh walk-out in three weeks and the disruption to production was causing concern to two of Giant's major customers.

Discuss the view that the informal organisation in a business has more influence over the success of a decision than the formal organisation.

Outsourcing HR functions

Many businesses do not perform all HR functions internally – they outsource some tasks to specialist organisations within the same country or overseas. The functions being outsourced may include:

- payroll management, calculating pay, income tax, other deductions and transfers into workers' bank accounts
- fringe benefits administration
- legal issues relating to employees, e.g. contracts and redundancy
- recruitment
- keeping HR records on training, appraisal and qualifications.

Outsourcing of HR functions is an increasing trend. Table 11.4 outlines the reasons for and benefits and limitations of outsourcing.

Reasons and benefits	Limitations
● Reduces costs. ● Increases efficiency by using specialist HR companies. ● Provides greater expertise, e.g. in the complex area of employment law. ● Aids corporate growth by removing HR resources as a constraining factor. ● Remaining internal HR staff able to focus on strategic policy and decisions. ● In small businesses, allows owner(s) to focus on gaining new markets and increasing profit.	● Local knowledge, e.g. of the local labour market, and 'ownership' of HR processes may be lost. ● The cost savings may not be significant as much new HR management software, payroll and record keeping could be employed, after appropriate training, in-house. ● The process of outsourcing may give employees a sense of being controlled, recruited and paid by outside agencies. ● Even extensive outsourcing of HR functions can never remove the internal management responsibility of forming good working relationships with employees – this cannot be delegated to other organisations.

Table 11.4 Reasons for and benefits and limitations of outsourcing HR functions

H

OVER TO YOU

REVISION CHECKLIST

- 1 Why do organisations need a formal structure?
- 2 Identify **three** benefits of a typical hierarchical structure.
- 3 Explain **two** drawbacks of a typical hierarchical structure.
- 4 What is meant by a 'long chain of command'?
- 5 What is meant by a 'wide span of control'?
- 6 Outline **two** problems associated with a 'long chain of command'.
- 7 Explain how the organisational structure of a business might change as it expands.
- 8 State **two** factors that could influence how a business organises its HR function.
-  9 Explain the benefits of a matrix structure.
-  10 Explain why some businesses have a centralised structure.
-  11 Outline the importance of delegation to a business.
-  12 Distinguish between accountability, responsibility and authority.
-  13 Would you advise a multinational furniture retailer to adopt a centralised management structure? Explain your answer.
-  14 Explain the Seven-S model.

REVISION ACTIVITY

Read the case study below and then answer the questions that follow.

HR outsourcing offers real benefits

'Today my company has 47 employees and enjoys a great relationship with CBR, our HR outsourcing firm. They have

offered us increasing specialisation in HR functions as the business has grown. I don't worry about HR details; I just focus on targeting new markets and segments. Employee administration is truly the least of my worries each day. New job applicants think we are a much bigger company than we are because of the professional recruitment services CBR offers. They also look after all legal compliance issues.'

– Roger, landscape garden contractor, Phoenix, USA

'Since we have used Aussiepay specialists, our payroll problems are a thing of the past. Our HR staff costs are lower and the ICT function of payroll is now the burden of the outsourcing company, not us. Aussiepay facilitates different taxes and pay regulations for my company's five centres in different Australian states and creates individual management reports for each. It quickly and accurately calculates what deductions are needed for each employee and the company's total deductible amount. This used to be one of our biggest headaches.'

– Amanda Brennan, corporate services manager, Langdon Ingredients, Australia.

Source: www.outsourcing-hr.com and www.cbri.com (adapted)

16 marks, 28 minutes

- 1 Explain the following terms from the text:
 - a outsourcing
 - b HR function.[6]
- 2 Evaluate the advantages and disadvantages of outsourcing HR functions. [10]

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EXAM PRACTICE QUESTION

Read the case study below and then answer the questions that follow.

MITSUBISHI MOTORS REJIG STRUCTURE

Mitsubishi Motors (MMC), the Japanese car maker that is 37 per cent owned by DaimlerChrysler, revealed significant changes to its senior and middle management structure at a shareholders' meeting. The changes reflected underlying tensions between the company's incoming German managers and established Japanese executives who found it difficult adjusting to the new culture. The restructuring aimed to weed out managers whose more traditional mentality could delay the sweeping reforms under way under the new management. Other managers were to be offered early retirement. MMC's chief operating officer and president wanted to dispense with managers at any level who remain locked into the 'length of service' mentality and acted ahead of the shareholders' meeting to weed them out.

Takashi Sonobe, president, demonstrated his commitment to reform when he announced 60 senior staff advisers – who were of an advanced age and made a marginal contribution to the company despite generous remuneration – would be removed.

Soon after he was made chief operating officer Rolf Eckrodt appointed a 'COO Team' comprising about 25 mainly non-Japanese executives from DaimlerChrysler. This team, drawn from different departments, was responsible for overseeing the implementation of the company's restructuring plan. Some long-standing members of MMC's middle and upper management resented the presence and power of the COO Team, all of whom were under 40 years old and who were controlling the strategic direction of the company. The tension between the COO Team and some of MMC's managers was described as stemming from Japanese managers with a 'job for life' attitude. This is not part of German management culture.

25 marks, 45 minutes

- 1 Explain what is meant by
 - a layering
 - b culture conflict.[4]
- 2 Outline why 'culture conflict' seems to exist in this business. [5]
- 3 Analyse the possible benefits to MMC of reducing the chain of command through layering. [7]
- 4 Discuss the possible consequences for the efficiency of the business of the new management structure described in the case study. [9]