Introduction to business
Third/Fourth meeting

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Internal organisation of the firm

Structure of the company

- In any organization, the allocation of jobs is necessary to ensure that the business operates as efficiently as possible.
- The structure of an organization refers to the way in which its activities are grouped or arranged. It is a hierarchical concept of subordination of entities (employees).
- It depend on:
    - Number and skills of employees
    - Whether it is in the manufacturing or service sector
    - Whether it is a local, national or international organization
    - The type of work with which it is involved
    - The culture of organisation – reflects creativity, history etc.

Organisational chart

- The structure of the firm is usually shown on an organisation chart. It usually provides us with the job titles of employees (or sections) and their relationship with each other.
- Major issues in chart:
  - Where is the responsibilty and authority for decision making
  - Job titles and roles
  - Lines of authority (who employee is accountable to and who they are responsible for)
  - The lines of communication

Structure

- Various forms in practice. There is no right or wrong structure, provided that it reflect the needs of company and allows to communicate and work effectively and achieve business objectives.
- Businesses that are growing quickly are likely to change the organisational structure regularly.
- Levels of hierachy – number of layers within an organisation, with each layer representing a level of authority. The more layers, the longer the chain of command. It may lead to communication problems as lines of communication are streched.

Span of control vs. work load

- Span of control: the number of subordinates, one job/post holder is responsible for.
- Work load: how much work one employee, department or team have to complete in a given period of time.
- Delegation: passing the authority to make specific decisions to somebody further down the organisational hierarchy.

Adjustment of the structure

- Major reasons:
  - The growth of the business
  - Market conditions
  - Ownership
  - Customer’s needs
  - The entrepreneurial culture within company

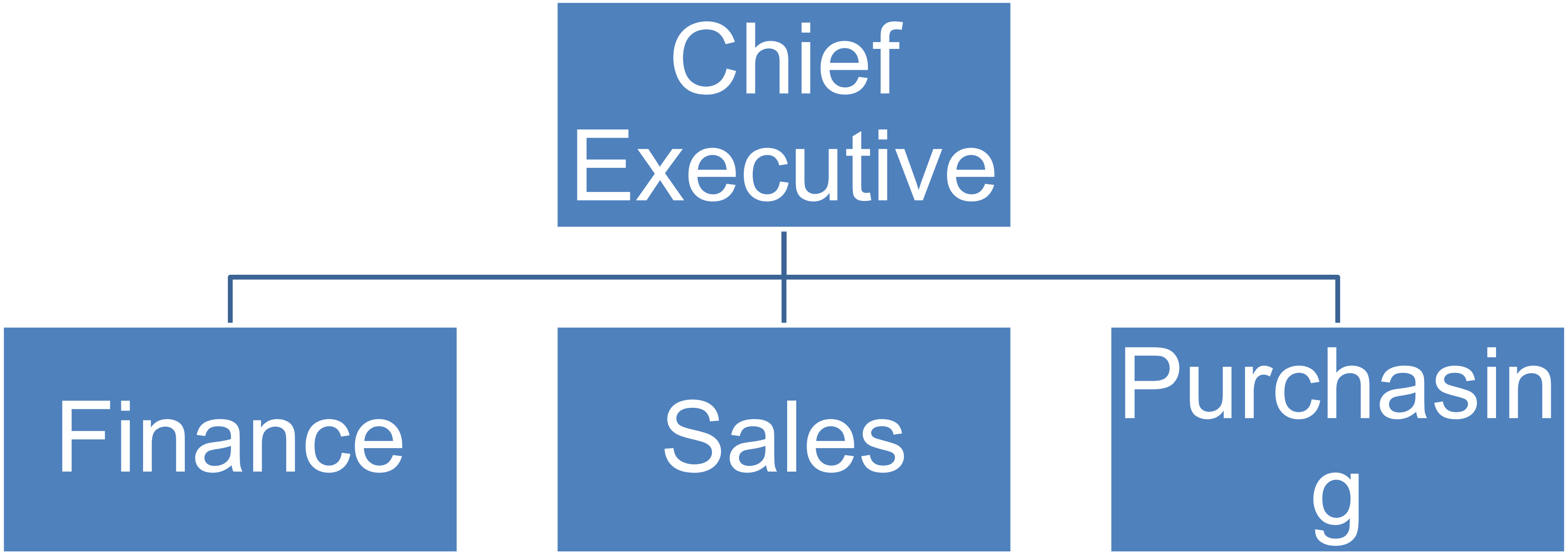
Managerial structure

- Chairman of the Board – most responsible for firm's strategic policies
- Compensation Committee – nonemployee directors setting the remuneration package for management
- Chief Executive Officer (CEO) – head of management team
- Chief Financial Officer (CFO) – responsible for: accounting, raising capital, evaluation of effectiveness of operation and investment.
- Chief Operating Officer (COO) – production and often sales.

Types of structures

- Hierarchical (follow)
- Matrix – based around tasks or projects and involve creation of team that include required specialists
- Entrepreneurial structures – for small business – core team of decision makers is supported by a number of general employees with little or no decision-making power.
- Informal

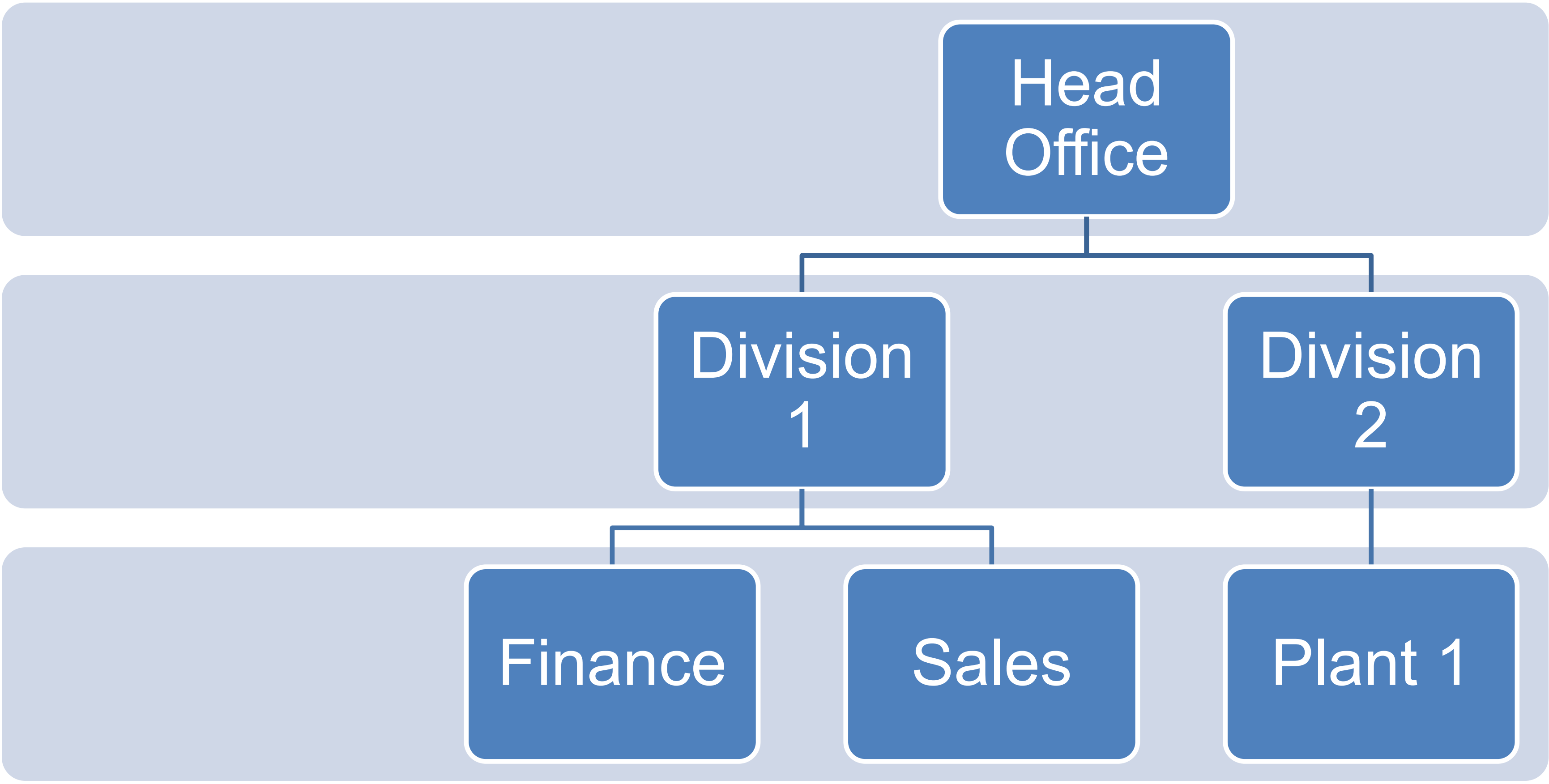
U (unitary)-form



U-form

- One in which the central organization of the firm (CEO or management board) is responsible both for the firm's day-to-day operations and for formulating its business strategy.
- Communication relies on the central part.
- Often inefficient as problems with bounded rationality – limits in ability to absorb and process information by management.

M-form



M-form

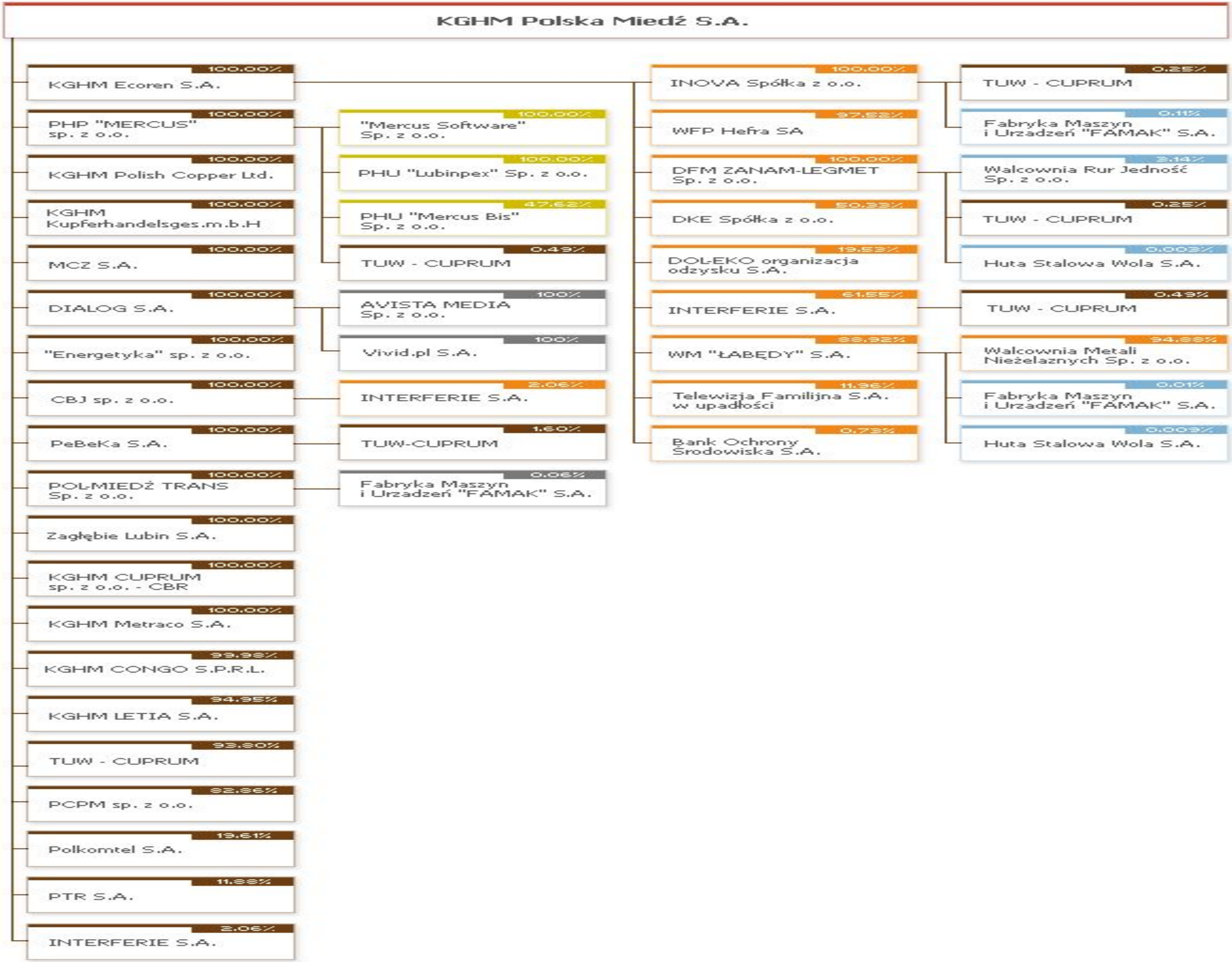
- One in which the business is organized into separate departments, such that responsibility for the day-to-day management is separated from the formulation of business's strategic plan.
- Medium to large firms
- Advantages:
    - Reduced length of information flows
    - CEO can concentrate on overall planning
    - Enhanced level of control – each division may become „mini-firm" competing with other – when introducing properly designed budgeting and controlling procedures

Flat organisation

- One in which technology enables senior managers to communicate directly with those lower in the organizational structure. Middle managers are bypassed.
- Problems similar as with U-form:
    - Communication cost (now lower)
    - Misinterpretation of information or decisions
    - Managers may focus on their own departmental goals rather than overall goals of the company.

Mutlinationals

- H-form (or holding company) – variation of M-structure. Parent company holds interest in a number of other companies or subsidiaries. These subsidiaries can in turn control other companies.
- Integrated international enterprise – international company pursues a single business strategy – coordinates activities of various other subsidiaries accross different countries.



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Transnational associations

- A form of business in which the subsidiaries (often with little investment from the parent company) are contractually bound to the parent company to provide output to or receive inputs from other subsidiaries.
- Global sourcing – company uses production sites in different part of the world to provide particular component for a final product.