

# Company structure

## 1 How are companies organized?

### 1 a Discussion

#### If you are still studying:

- what kind of organization do you want to work for?
- in which department? (e.g. production, finance, accounting, marketing, sales, human resources)
- do you think it will later be possible to change departments?
- what do you think your first position will be?
- do you expect to have one immediate boss, to work for more than one superior, or to be part of a team?

#### If you are already working:

- what is your function or job title?
- what are you responsible *for*?
- who are you responsible *to*? (who do you report to?)
- does anybody report to you?
- what other units, departments or divisions do you regularly have to work with?
- what other departments do you occasionally have conflicts with?

## 1 b Vocabulary

These are some basic words used in relation to company organization. Match them up with the definitions on the right.

- |                    |   |
|--------------------|---|
| 1 autonomous       | A a system of authority with different levels, one above the other                      |
| 2 decentralization | B a specific activity in a company, e.g. production, marketing, finance                 |
| 3 function         | C independent, able to take decisions without consulting a higher authority             |
| 4 hierarchy        | D people working under someone else in a hierarchy                                      |
| 5 line authority   | E dividing an organization into decision-making units that are not centrally controlled |
| 6 report to        | F the power to give instructions to people at the level below in the chain of command   |
| 7 subordinates     | G to be responsible to someone and to take instructions from him or her                 |

## COMPANY STRUCTURE

Most organizations have a hierarchical or pyramidal structure, with one person or a group of people at the top, and an increasing number of people below them at each successive level. There is a clear line or chain of command running down the pyramid. All the people in the organization know what decisions they are able to make, who their superior (or boss) is (to whom they report), and who their immediate subordinates are (to whom they can give instructions).

Some people in an organization have colleagues who help them: for example, there might be an Assistant to the Marketing Manager. This is known as a staff position: its holder has no line authority, and is not integrated into the chain of command, unlike, for example, the Assistant Marketing Manager, who is number two in the marketing department.

Yet the activities of most companies are too complicated to be organized in a single hierarchy. Shortly before the first world war, the French industrialist Henry Fayol organized his coal-mining business according to the functions that it had to carry out. He is generally credited with inventing functional organization. Today, most large manufacturing organizations have a functional structure, including (among others) production, finance, marketing, sales, and personnel or human resources departments. This means, for example, that the production and marketing departments cannot take financial decisions without consulting the finance department.

Functional organization is efficient, but there are two standard criticisms. Firstly, people are usually more concerned with the success of their department than that of the company, so there are permanent battles between, for example, finance and marketing, or marketing and production, which have incompatible goals. Secondly, separating functions is unlikely to encourage innovation.

Yet for a large organization manufacturing a range of products, having a single production department is generally inefficient. Consequently, most large companies are decentralized, following the model of Alfred Sloan, who divided General Motors into separate operating divisions in 1920. Each division had its own engineering, production and sales departments, made a different category of car (but with some overlap, to encourage internal competition), and was expected to make a profit.

Businesses that cannot be divided into autonomous divisions with their own markets can *simulate* decentralization, setting up divisions that deal with each other using internally determined transfer prices. Many banks, for example, have established commercial, corporate, private banking, international and investment divisions.

An inherent problem of hierarchies is that people at lower levels are unable to make important decisions, but have to pass on responsibility to their boss. One solution to this is matrix management, in which people report to more than one superior. For example, a product manager with an idea might be able to deal directly with managers responsible for a certain market segment and for a geographical region, as well as the managers responsible for the traditional functions of finance, sales and production. This is one way of keeping authority at lower levels, but it is not necessarily a very efficient one. Thomas Peters and Robert Waterman, in their well-known book *In Search of Excellence*, insist on the necessity of pushing authority and autonomy down the line, but they argue that one element - probably the product - must have priority; four-dimensional matrices are far too complex.

A further possibility is to have wholly autonomous, temporary groups or teams that are responsible for an entire project, and are split up as soon as it is successfully completed. Teams are often not very good for decision-making, and they run the risk of relational problems, unless they are small and have a lot of self-discipline. In fact they still require a definite leader, on whom their success probably depends.

## 1 d Comprehension

**Which of the following three paragraphs most accurately summarizes the text, and why?**

*First summary:*

Although most organizations are hierarchical, with a number of levels, and a line of command running from the top to the bottom, hierarchies should be avoided because they make decision-making slow and difficult. A solution to this problem is matrix management, which allows people from the traditional functional departments of production, finance, marketing, sales, etc. to work together in teams. Another solution is decentralization: the separation of the organization into competing autonomous divisions.

*Second summary:*

Most business organizations have a hierarchy consisting of several levels and a clear line of command. There may also be staff positions that are not integrated into the hierarchy. The organization might also be divided into functional departments, such as production, finance, marketing, sales and personnel. Larger organizations are often further divided into autonomous divisions, each with its own functional sections. More recent organizational systems include matrix management and teams, both of which combine people from different functions and keep decision-making at lower levels.

*Third summary:*

Most businesses are organized as hierarchies, with a clear chain of command: a boss who has subordinates, who in turn have their own subordinates, and so on. The hierarchy might be internally divided into functional departments. A company offering a large number of products or services might also be subdivided into autonomous divisions. Communication among divisions can be improved by the introduction of matrix management or teams.

## 1 e Discussion

The text mentions the often incompatible goals of the finance, marketing and production (or operations) departments. Classify the following strategies according to which departments would probably favour them.

- 1 a factory working at full capacity
- 2 a large advertising budget
- 3 a large sales force earning high commission
- 4 a standard product without optional features
- 5 a strong cash balance
- 6 a strong market share for new products
- 7 generous credit facilities for customers
- 8 high profit margins
- 9 large inventories to make sure that products are available
- 10 low research and development spending
- 11 machines that give the possibility of making various different products
- 12 self-financing (using retained earnings rather than borrowing)

The most common verbs for describing structure are:

<i>consists of</i>	<i>contains</i>	<i>includes</i>
<i>is composed of</i>	<i>is made up of</i>	<i>is divided into</i>

- e.g. The company consists of five main departments.  
The marketing department is made up of three units.  
The sales department is divided into two sections.

**Other verbs frequently used to describe company organization include:**

*to be in charge of*

*to support or to be supported by*

*to be accountable to*

*to be responsible for*

*to assist or to be assisted by*

e.g. The marketing department is in charge of the sales force.

The marketing department is responsible for advertising, sales promotions and market research. The five department heads are accountable to the Managing Director.

### **3 Big and small companies**

#### **3a Discussion**

**Do you, or would you, prefer to work for a big or a small company or organization? Why? What are the advantages of each?**

**Read the following statements, and decide whether they are about the advantages of working in a big or small company.**

- 1** If you have problems with your colleagues you can always change departments.
- 2** The atmosphere is friendlier and you know everyone.
- 3** You are often responsible for a variety of different tasks.
- 4** You can actually see the result of your contribution to the company.
- 5** You can be proud of working for a company with a national or international reputation.
- 6** You can become more specialized in your work.
- 7** You can deal with problems face-to-face.
- 8** You have a better possibility of realizing your potential.
- 9** You have more independence, and you don't always have to wait for permission from a superior.
- 10** You may be able to go and work in a foreign subsidiary.
- 11** You often get greater freedom, flexibility and openness to change.
- 12** You'll probably get a slightly higher salary.
- 13** You're unlikely to be fired in a sudden reorganization or downsizing.
- 14** Your company will be in a better position in an economic downturn or recession.

### 3 b Writing

You are probably familiar with many or most of these conjunctions and connectors. The words or phrases in each line have similar meanings.

**To give an illustration or example of something just mentioned:**

e.g. (for example)      for instance      [*e.g.* comes from the Latin *exempli gratia*]

**To give another argument or example:**

furthermore\*      moreover\*

**To clarify (to express the same thing in different words):**

in other words      i.e. (that is)      [*i.e.* comes from the Latin *id est*]

**To express reasons, and cause and effect:**

as                      because                      since  
because of              due to                      owing to  
consequently\*              therefore\*                      thus\*

**To express contrast:**

though                      although                      even though\*  
however\*                      yet\*                      nevertheless\*  
on the contrary\*              on the other hand\*              conversely\*

\* These words are usually used at the beginning of a sentence, or at the beginning of a clause; after a comma.

**Now write a short summary of your opinions regarding big and small companies, explaining which you prefer to work for (or would prefer to work for in the future).**

**Give several reasons - either your own, or from the list in 3a - but also mention various counter-arguments.**

*For example:*

In a big company you can ... . **Furthermore**, big companies allow you to ... , **because of** .... **Consequently**, you can ... . **On the other hand**, it is true that if you work for a small company, you can ... . **Nevertheless**, I prefer big companies because ... , **even though** ... can be a disadvantage.