Chapter 4
Organisational Structure in Small and Medium Enterprises

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ABSTRACT

Extant studies conducted in regard to organisational structures have produced unclear and descriptive knowledge, applicable only in theory. As a result, a confusing mixture of hypotheses, recommendations, and decision-making rules has been created, without actually contributing to the practical application of designing an organisational structure. This chapter considers contrasting scholarly and practitioners’ perspectives and offers a new prism on the role of organisational structure in small and medium enterprises.

INTRODUCTION AND THEORETICAL FRAMEWORK

A number of studies have focused on organisational structures (see, for example, Mintzberg, 1979; Williamson, 1975; Robbins, 1990; Docherty et al., 2010; Hao et al., 2012; Martinez-Leon and Martinez-Garcia, 2011), and these studies agree that as soon as a company, regardless of the industry it operates, hires one or more employees, a certain type of structure emerges. The design of that structure is a mixture of intended, planned choices and operationally emerging needs, and it plays a vital role in the establishment of a future strategy because of its direct effect on the company’s capabilities and its ability to develop a competitive advantage (Burton and Obel, 1998). An organisational structure consists not only of hard components, such as departments, teams, and groups, but also of soft components representing the relationships between these hard components (Bunge, 1985). Drawing on Bunge’s (1985) study, Checkland (1999) argues that the organisational structure is a reflection of systems thinking. Such is composed of elements and relationships between those elements, shaping the total image of the organisation. The structure of an organisation could be considered as a superior form of those relationships, leading to the next step of collaboration.

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Theoretical Framework

The theoretical concept of organisational structure (henceforth OS) and design has gone through several stages of development. As a first understanding of how an organisation should be designed, the normative universalistic approach is taken, promoting the best structural form and forming a generalized view of this, regardless of any specific conditions. Evolving into the normative contingency approach, the notion of OS changes, and the best theoretical structure design is aligned with a specific set of economic, business, and industry conditions. This conceptual evolution culminates in the emergence of the equinity view, which considers that OS design is related to a specific set of multiple conditions with several best options available (Moreno-Luzon and Peris, 1998). That last stage of the theoretical framework development is the modern understanding of OS and how it should be approached, especially when speaking of small and medium enterprises (SMEs) (Blackburn et al., 2013).

Kerlinger (1964) identifies five organisational dimensions, namely, specialisation, standardisation, formalisation, centralisation, and configuration. His view is based on the work of Max Weber (Parsons, 1947), and he argues that those dimensions distinguish the traditional, bureaucratic OS from the charismatic structure. The author considers that the latter is highly flexible.

Pugh et al. (1968), in their investigation of organisational dimensions and their attempt to track those dimensions across companies operating in different industries, conclude that the theoretical and statistical frameworks of an organisation’s dimensions could be created. As a primary limitation, they outline the inability of applying their conclusions in practice, rendering their deductive approach somewhat unreliable (Jabnoun, 2005). By contrast, in their previous study, Pugh et al. (1963) demonstrated the positive application of these dimensions in more than 168 organisations operating in different industries. Thus, their second study could be reviewed as a confirmation using statistical and mathematical models to prove their thesis. Meanwhile, Waterman et al. (1980) provide a 7-S framework of OS, stating that an organisation is not simply a structure but consists of much more complex processes. Their framework strengthens earlier ideas advanced by Weber (Parsons, 1947) and Pugh et al. (1963, 1968), regarding organisational structural dimensions. They provide more detailed research into the components that were originally part of Weber’s delineation of organisational dimensions.

Waterman et al. (1980) focus on elements such as strategy, structure, skills, staff, systems (in terms of use of technology), and managerial styles, and (for the first time) they introduce the element of shared values, which has come to be accepted as a milestone for most corporations when creating their corporate culture as a tool of competitiveness (Hax and Majluf, 1983). Schein (1971, 1988) offers a different dimensional notion of OS, suggesting that an organisation could be viewed in the context of three dimensions, specifically:

1. The hierarchical dimension, which relatively demonstrates certain rank division;
2. The functional dimension, which divides the labour functions within the organisation; and
3. The dimension of centrality and inclusion, representing a map of the current position of an employee regarding the core of the organisation.

Schein has been criticised (see, for example, Powell, 1990; Davidow and Malone, 1992) for duplicating elements of Weber’s thesis and for not taking into consideration new types of organisational forms, which do not fit within this framework. Examples for this are the knowledge-based organisations and the emergence of network and virtual organisations, where the informal structure plays the central role. Those organisations drastically differ from the dimensional generalisation earlier provided by Pugh et al. (1968) (Perez-Bustamante, 1999). There are criticisms of the mechanistic structure supported by Weber’s