E1 Chapter 1 Organisations

Organisations

Organisations are formed when people are grouped together to pursue a goal.

Definitions

Organisation

A group of people, organised and managed in a way that aims to follow a corporate goal or need.

Not every business is an organisation, e.g. one person working alone on all aspects would be a sole trader.

Types of organisation

There are several different types of organisation.

All business can be separated into private sector or public sector businesses.

Private Sector Organisations	Public Sector Organisations
Owned by investors	Owned by the state
Responsible to shareholders/owners	Responsible to the government
May be run for profit or not for profit	Generally not run for profit

Not-for-profit organisations are one type of private sector organisation. Sometimes they are known as **NGOs**.

Definition

NGO

A Non Governmental Organisation (NGO) is a private sector organisation which is not run for profit, but focuses on other goals such as ethical standards, e.g. OXFAM.

Profit-seeking organisations

Profit seeking organisations have the primary objective of maximising returns for the owners (shareholders) and can be split into **incorporated** and **unincorporated organisations**.

Definition

Unincorporated organisation

When the business owners and the business itself hold the same legal identity.

The owners of an unincorporated business are held personally responsible for the debts i.e. they have unlimited liability for any debts.

The two types of unincorporated organisation are:

- Sole trader
- Partnership – A collection of owners working together who are jointly liable for debts

Definition

Incorporated organisation

When the business owners and the business have separate legal identities.

The owners of an incorporated business are not held personally responsible for the debts of the business i.e. they have limited liability for the business's debts.

There are two types of incorporated organisation:

- Private Limited Companies (Ltd)
- Public Limited Companies (PLC)

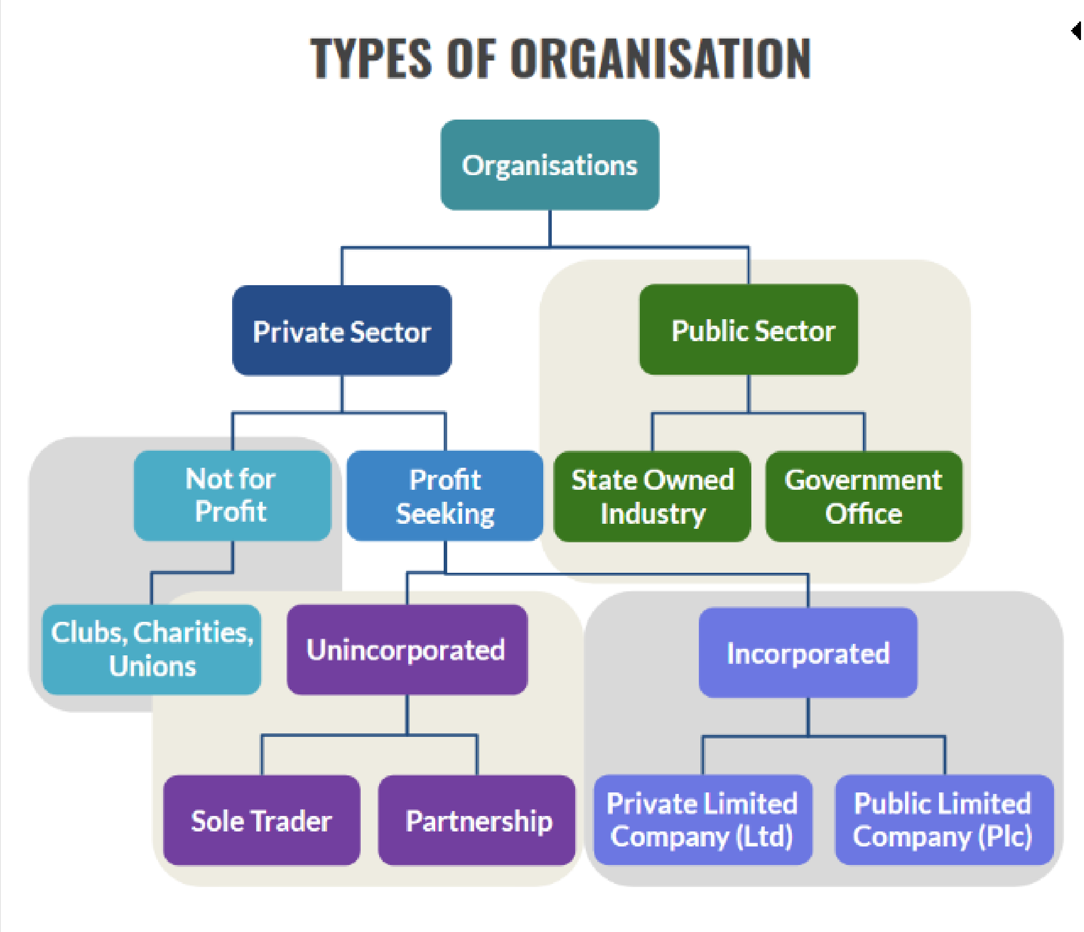
Features of PLCs and Ltd companies

Public limited companies (PLC)	**Private limited companies (Ltd)**
Shares can be issued to the public and traded on the stock exchange	Shares cannot be issued to the public
Owners risk losing control by selling stakes to the public	Owners retain a high degree of control of the business
Large number of shareholders to report and additional regulations to comply with	Small number of shareholders to report to
Tend to be large companies who have issued shares to fund business ventures	Tend to be smaller companies, e.g. market town retailers

Other organisations: co-operatives and mutual organisations

Co-operatives and mutual organisations are both owned and controlled by the members, rather than shareholders.

- **Co-operatives** – The welfare of members, who may be customers or staff, is a key goal, e.g. UK department store John Lewis
- **Mutual organisations** – Members are usually customers and they tend to focus on financial products, e.g. mutual building societies such as the UK's Nationwide



Stakeholders

Organisations don't operate in a vacuum. They affect others and others can affect them.

Definition

Stakeholders

Stakeholders are any parties that can affect or be affected by an organisation's strategy and policies.

We can classify stakeholders according to their position relative to the organisation:

Classifying stakeholders:	
Internal	Within the company, e.g. managers, employees and board members
Connected	Outside the business but closely connected to it, e.g. customers, shareholders, banks and suppliers
External	Outside the company, not closely connected, e.g. government, community and pressure groups.

Stakeholder objectives

- Organisational objectives should be considered in relation to the objectives of different stakeholders
- This ensures a wide range of needs are considered in the objective-setting process, and balanced objectives are produced

Stakeholder needs

The different internal, connected and external stakeholders have different needs:

Internal	
Directors	Pay, bonus, overall performance, job security
Employees	Pay, bonus, overall performance, job security
Connected	
Shareholders	Share price growth, dividend payments
Customers	Prices, quality, delivery times, assured supply
Suppliers	Assured custom, high prices
Financiers	Interest payments, ability to pay back loans
External	
Government	Tax, law, wealth of nation
Pressure groups	Environment or other ethical issues, pricing etc.
Local community	Employment, nice place to live
Wider community	Environment, local jobs etc.

Stakeholder power

The degree to which stakeholder needs are considered as part of the objective-setting process depends on their level of **stakeholder power**.

Definition

Stakeholder power

A stakeholder's ability to influence and affect an organisation.

The needs of powerful stakeholders tend to be prioritised, e.g. customers who can buy in large quantities will have more power over products and prices than customers who buy in small quantities.

Stakeholder mapping (Mendelow's matrix)

An organisation should weigh up to what extent it needs to meet a stakeholder's needs by mapping its stakeholders.

Definition

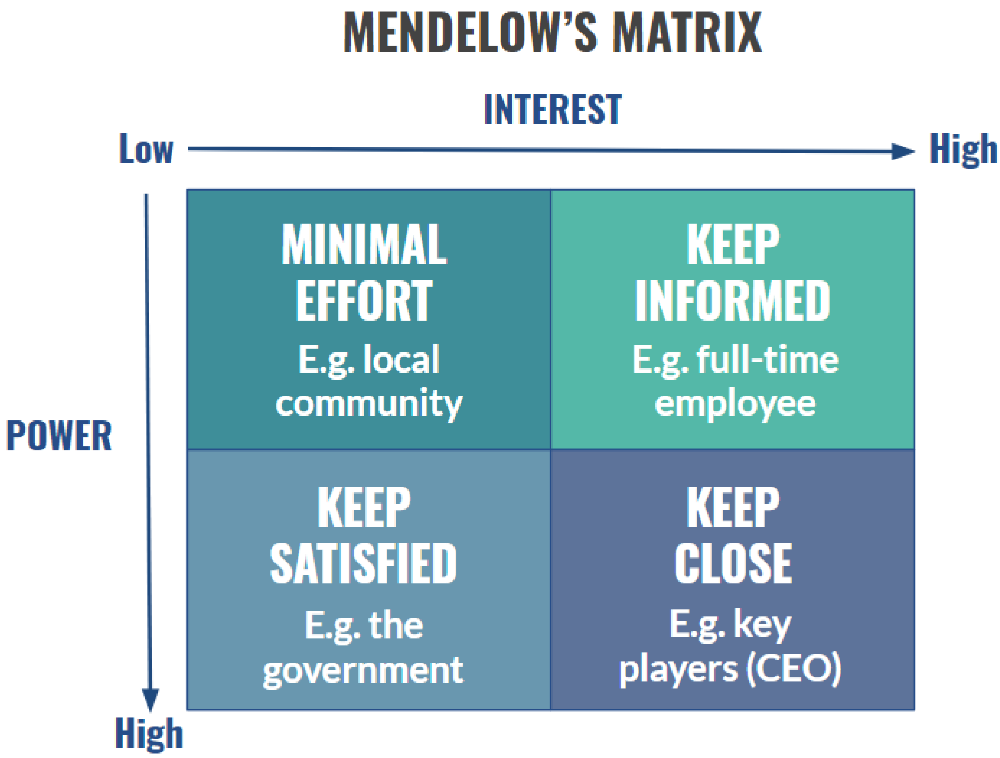
Stakeholder mapping

The mapping of stakeholders onto a visual matrix to enable the organisation to determine the nature of the relationship required.

Mendelow's Matrix

Mendelow's matrix identifies four levels of relationship that should be built with different stakeholders based on:

- **Power** – The power to influence the organisation and affect its decision-making
- **Interest** – **T**he interest which the stakeholder has in the organisation



- **Minimal effort** – Stakeholders have low interest in the business and low power. The company will provide stakeholders with basic information to meet their needs, but do little else, e.g.. a member of the local community with no interest in the business.
- **Keep informed** – Stakeholders have high interest but low power, e.g. a full-time employee. The company should regularly communicate with these stakeholders, particularly in areas they are interested in.
- **Keep satisfied** – Stakeholders have high power but low interest., e.g. tax authorities They should be kept satisfied to avoid these stakeholders from exercising their power.
- **Key players (keep close)** – Stakeholders have a high interest and high power. Regular communication should be maintained, and their goals and objectives included as part of the strategy-setting process and business approach, e.g.the CEO of a business.

Stakeholder conflicts

Stakeholders have different sets of needs and expectations, which may result in conflict. It is critical to understand the needs of varying stakeholders to resolve conflicts wherever possible.

Cyert and March

Cyert and March proposed four ways in which a company can look to resolve stakeholder conflict.

Cyert and March's four methods for resolving stakeholder conflict:	
Satisficing	A mash-up of "satisfying" and "sacrificing". It means holding negotiations between key stakeholder groups and arriving at an accepted compromise.
Sequential attention	Taking turns focusing on the needs of different stakeholder groups.
Side payments	The stakeholder is compensated for their unmet needs.
Exercise of power	The conflict is resolved by a senior figure who exercises their power to force through a decision.

Stakeholders and not-for-profit organisations

Stakeholders in not-for-profit companies exercise influence in the following ways:

- **Objectives and goals** – Without the need for profit, goals and objectives may vary depending on stakeholder influence
- **Strategies** – There may be a focus on efficiency and effectiveness of service and also compliance with ethical standards
- **Management style and practice** – Volunteer environment may encourage open and democratic style with few levels of hierarchy

Change in organisations

The rate in which change occurs in the world is accelerating as technology is becoming more integrated into everyday life. As a result, organisations are having to adapt the way they do business.

Key factors of change that are forcing organisations to adapt:	
Changing technology	Organisations must adapt to emerging technologies, which have capabilities to take over routine tasks and perform new tasks.
Changing levels of competition	Organisations are having to deal with rapid changes in the levels of competition, e.g. new entrants to the market or rapid disruption to industries.
Growing collaborative consumption	Refers to the growing popularity of sharing goods and service, which can disrupt their respective industries by creating new business models, e.g. ride-sharing disrupting the taxi industry.
Changes to customer experiences	What the customer expects from a business and its products is changing, and businesses have to adapt to meet the customers' needs, e.g. faster customer service.
Less customer loyalty	With greater access to information and a more competitive market, customers tend to be less loyal to a particular brand and more likely to research different products before purchasing.
Globalisation	Economies and cultures are becoming more integrated with one another through interconnected networks, and the spread of technology and media. It is easier for a business to source products and materials in other countries, and sell products to overseas markets.

Changes to roles in the finance function

As wider changes happen to the organisation, the **finance function** has to change too. This means the roles of those working in the finance function are evolving.

Definition

Finance function

Controls and manages anything related to finance in an organisation.

And finally...

Stop!

By this stage you should know:

- What is an organisation?
- The different types of organisations
- What is the difference between private-sector and public-sector organisations?
- What an NGO is
- The two types of profit-seeking organisations
- What is the difference between unincorporated and incorporated organisations?
- What the two types of unincorporated organisations are
- About the two types of incorporated organisations
- What are co-operatives and mutual organisations?
- What stakeholders are
- How can stakeholders be classified?
- Why do stakeholder objectives need to be considered?
- The different stakeholder needs
- What is stakeholder power?
- What stakeholder mapping is
- How to use Mendelow's matrix to map stakeholders
- About the four methods proposed by Cyert and March to resolve stakeholder conflict
- How to stakeholders of not-for-profit organisations exercise influence?
- About the key factors of change occurring in organisations
- How are changes to organisations affecting the finance function?

Got it?

If not, go back and re-read the study text before moving on.

Question Time

It's now time to practise questions.

If **you've signed up** for our practice questions or are on our fully inclusive course, here's a direct link to questions for this chapter:

Go to Practice Questions

If **you want to sign up** for our practise questions here's where you will find more details:

Sign Up for Questions