

Organization structure changes at Body Shop

Case duration (Min): **45-60**

Organizational Behaviour (OB)

Organization structure and design**Worldwide****Case summary:**

There are many work tasks to be done in a large organization and consequently the work must be divided up and allocated. In this case we consider what is meant by organization structure and design; consider why it is necessary to structure human resources, discuss how we should set about this enormous challenge and ask how we can make efficient and effective use of human resources in order to attain goals and derive a sustainable competitive advantage. In particular we consider issues associated with bureaucracy and hierarchy. Body Shop grew and with it came particular design challenges.

Learning objectives:

Define and discuss the nature of organization design.

Outline the main structural choices available to organizations.

Explain the limitations of the organizational chart in describing activity within an organization.

Case problem:

What is organizational structure and why do large organizations need continually to consider the designs of their organization? What may be the consequences of a good or bad design for a specific organization?

Personal Products

Company**Body Shop**www.thebodyshop.com

Founded in 1976 by Anita Roddick, The Body Shop International plc, known as The Body Shop, has 2,400 stores in 61 countries, and is the second largest cosmetic franchise in the world. The Body Shop is headquartered in England and is now part of the L'Oréal corporate group. The Body Shop International plc is a global manufacturer and retailer of naturally-inspired, ethically-produced beauty and cosmetics products.

Body Shop went public in 1985. Leading up to its takeover by L'Oréal (In March 2006, L'Oréal acquired The Body Shop International a U.K. based retail cosmetic brand revered for its ethical values for \$ 1.1 billion), the Body Shop International plc was a high quality skin and body care retailer operating in 52 markets with 2,045 stores, spanning 25 languages and 12 time zones. They had one of the most recognisable brands in the world and established a reputation as a socially and environmentally responsible company. The Body Shop is listed on the London Stock Exchange. Total retail sales in 2004/2005 across all The Body Shop outlets amounted to £708.7 million (2003: £672.5 million). Group turnover was £419 million, up 10 % from the previous year, and profit before tax increased by 21% to £34.5. The business consisted of a combination of company-owned and franchised markets, and a developing multi-channel service with a direct selling organization –The Body Shop at Home and online retail in the US. At that time the company employed 6,788 people directly, with approximately 14,000 additional employees working within the franchise network and as consultants in The Body Shop at Home and online retail in the US.

Pre class activities...

- 1 Read about the body shop
http://en.wikipedia.org/wiki/The_Body_Shop

20-30

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/
Media type

URL/ Media description

Anita Roddick: "Beware management consultants"

<http://link.brightcove.com/services/player/bcpid25560343001?bclid=18719861001&bctid=19053310001>

Film

The female entrepreneur Anita Roddick discusses the problems of growth - company structure and how consultants were of little help...

NOTES:

Case study questions...

Action	Pre/During/After class
<p>1 CONCEPTS - ELEMENTS OF STRUCTURE :</p> <p>What is meant by the terms “Organization”, “formal organization”, “Informal Organisation?”</p>	During
<p>2 ORGANIZATIONAL DESIGN :</p> <p>What is ORGANIZATIONAL DESIGN and what is its purpose?</p>	During
<p>3 ORGANIZATIONAL STRUCTURE :</p> <p>Anita Roddick (in the video clip 00:50) stated that ‘for nearly twenty years we never had an organizational chart’ (she also stated that they had no systems or procedures, job descriptions or functional departments like marketing – despite this the company won plenty of awards – these ceased when the company restructured and formalised aspects of work); she also described the proposed organizational chart as ‘a Lego set from hell’ (03:10);Duncan (1979) suggested that ORGANIZATIONAL STRUCTURE is more than boxes on a chart – discuss the statements of Roddick and Duncan and consider what organization structure/ design really includes (what are the tools typically used to structure organizations?).</p>	During
<p>5 CHALLENGES ASSOCIATED WITH DESIGNING AN ORGANIZATION :</p> <p>As a result of growth, Anita Roddick (the Body Shop) turned to management consultants for help with REORGANIZATION but claims it resulted in DISASTER (02:00) – critically evaluate why this might be so. Discuss the main CHALLENGES ASSOCIATED WITH DESIGNING AN ORGANIZATION.</p>	During
<p>6 HIERARCHY AND ITS IMPACTS :</p> <p>Anita Roddick suggests that consultancies have their way of doing things and try to force companies to fit their mould (02:35). They fail to appreciate the company culture (“fluidity”, “unhierarchical management” – 02:45). The Body Shop found they could not work with the consultants who were too hierarchical (02:55). Discuss what is meant by organizational HIERARCHY and its IMPACTS upon the organization.</p>	During
<p>7 CONTINGENCY THEORY :</p> <p>Later in the video (03:15) Anita Roddick states that the organizational chart, “had been changed so many times since then and is still changing”. With reference to CONTINGENCY THEORY discuss (1) whether constant changes in organization design are to be expected and (2) if so, why? Later still (at the end of the film clip) Anita Roddick states that the company downsized.</p>	During
<p>8 INTERNAL ENVIRONMENT AND DESIGN</p> <p>Anita Roddick stated that she learnt that the bigger you get, hierarchy sneaks up on you (03:30). It creates more rules and regulations (formalization – bureaucracy). As a consequence, creativity is stifled (03:40). Discuss the changing internal environment at the Body Shop (associated with growth) and the consequences and challenges for organization design; in particular, comment on the dual challenge of, on the one hand making an organization more efficient (integrated) and on the other making it more creative (different).</p>	During
<p>9 BEWARE MANAGEMENT CONSULTANTS</p> <p>On reflection, do you believe Anita Roddick was right to say, ‘BEWARE MANAGEMENT CONSULTANTS’ and that employing management consultants can be one of the worst mistakes you can make? Critically discuss this comment. Also, consider the lessons you may take from this case as a customer or supplier of consultancy services.</p>	During

Answers...

ORGANISATIONAL STRUCTURE

Structure is the pattern of relationships among positions in the organisation and among members of the organisation. It defines tasks and responsibilities, work roles and relationships and channels of communication.

HIERARCHY

the number of levels of authority to be found in an organization.

HIERARCHY

Pattern of responsibility and authority, usually represented by a tree-and-branch organization chart.

ORGANIZATIONAL DESIGN

The design of an organization patterns its formal structure and culture. It allocates purpose and power to departments and individuals. It lays down guidelines for authoritarian or participative management by its rigidity or flexibility, its hierarchical or non-hierarchical structure.

STRUCTURE CHART

System documentation showing each level of design, the relationship among the levels, and the overall place in the design structure; can document one program, one system, or part of one program.

ORGANIZATION CHART

a pictorial record which shows the formal relations which the company intends should prevail within it.

CREATIVITY

The application of imaginative thought which may lead to new ways of seeing things and result in innovative solutions to a problem or the initiation of change.

Question/ Answer

1 CONCEPTS - ELEMENTS OF STRUCTURE :

What is meant by the terms "Organization", "formal organization", "Informal Organisation?"

Organisations - A consciously co-ordinated social unit created by groups in society to achieve specific purposes, common aims and objectives by means of planned and co-ordinated activities.
Formal organization - a collection of work groups that have been consciously designed by senior management to maximize efficiency and achieve organizational goals.

Informal organisation - An organisation arising from the interaction of people, their psychological and social needs, and the development of groups with their own relationships and norms of behaviour, irrespective of those defined within the formal structure.

An organization is a group of people who work together. The group share a unifying purpose i.e. They have common goals.

2 ORGANIZATIONAL DESIGN :

What is ORGANIZATIONAL DESIGN and what is its purpose?

In organizing its human resources, the organization must identify who will do what and where; in some cases they may also specify the how, why and when. Within any organization there is a need to divide, allocate, coordinate and control activities so that goals and organizational aims are achieved. In addressing such challenges we may pose three related questions: What is the organization trying to do? How is it trying to do it? And why do it in that way? The first question is concerned with strategy and the second with structure. The overall pattern of structural components and configurations used to manage the total organization is termed the Organization design. A number of fundamental questions for design may be proposed for managers of organizations: Should jobs be broken down into narrow areas of work (Specialization) or do we, for flexibility, require generalists? Should there be a tall or flat hierarchy (Spans of control) i.e. how many levels of management do we need? How should jobs and therefore people be grouped together (by function/ geography etc)? How should employee groups be differentiated and integrated? And how should the organization be controlled?

An appropriate design might yield benefits such as efficiency and scale, the ability to access specialized and location-embedded resources, enhanced innovation through operations across markets, and the creation of operational flexibility with which to respond to factors outside a firm's control. The design can impact upon performance through employee motivation, commitment and loyalty and has the ability to link interdependent activities. The design may also impact upon the sharing of resources, including information and knowledge. There is a need to ensure the structure 'fits' the strategy therefore an appropriate design might enable the achievement of strategies such as cost leadership, differentiation and focus. The purpose of design is to divide up organizational activities, allocate resources, tasks and goals and to coordinate and control activities so that goals can be achieved.

BUREAUCRACY

A form of structure found in many large-scale organisations.

Bureaucracy is based on specialisation of tasks, hierarchy of authority and decision-making, systems of rules and regulations and an impersonal orientation from officials.

BUREAUCRATIC CONTROL

An approach to control which is based on the specification of how members should behave and carry out their work in an effort to predict the behaviour through formal procedures and job descriptions.

CENTRALIZATION

The degree to which the authority to make certain decisions is located at the top of the management hierarchy.

FORMALIZATION

the degree to which formal procedures and rules exist and are used within an organization.

SPAN OF CONTROL

A measure of the number of employees who report to one supervisor or manager.

DIVISION OF LABOUR

The way that people divide up different tasks or jobs between one another to achieve greater levels of efficiency and productive output. Emile Durkheim (1947) argued that the division of labour was not only economically efficient but also socially effective in that it made clear how we are all dependent upon one another and this knowledge would help to generate social solidarity – a necessary condition of social survival.

RED TAPE

A term of abuse applied to bureaucracies that enforce rules more elaborate and inflexible than is considered necessary. See bureaucracy.

3 ORGANIZATIONAL STRUCTURE :

Anita Roddick (in the video clip 00:50) stated that 'for nearly twenty years we never had an organizational chart' (she also stated that they had no systems or procedures, job descriptions or functional departments like marketing – despite this the company won plenty of awards – these ceased when the company restructured and formalised aspects of work); she also described the proposed organizational chart as 'a Lego set from hell' (03:10); Duncan (1979) suggested that ORGANIZATIONAL STRUCTURE is more than boxes on a chart – discuss the statements of Roddick and Duncan and consider what organization structure/ design really includes (what are the tools typically used to structure organizations?).

Duncan (1979) suggested that organizational structure is more than boxes on a chart. It is a pattern of interactions and co-ordination linking technology, tasks and human components of the organization to ensure the organization accomplishes its purpose.

The tools used to add structure include:

Organizational chart - a diagram of formal relations which the company intends should prevail within it.

Job definitions - the task requirements of a particular job in the organization.

Span of control - the number of subordinates who report directly to a single manager or supervisor. The principle of span of control states that administrative efficiency is increased by limiting the span of control of a leader to no more than five or six subordinates whose work interlocks.

Authority - the right to guide or direct the actions of others.

Responsibility - an obligation placed on a person, who occupies a certain position in the organization structure, to perform a task, function or assignment.

Accountability - responsibility for some activity.

When establishing the structure, designers typically start by defining larger groups and then decompose them into smaller units. Departmentalization is a process of grouping together employees who share a common supervisor and resources, who are jointly responsible for performance and who tend to identify and collaborate with each other. The organizational chart usually shows the departments within an organization. The chart also shows relationships between departmental staff in the organization which can be Line (direct relationship between superior and subordinate); Lateral (relationship between different departments on the same hierarchical level), Staff and functional. At a high level, designers distinguish between different categories of employee. For example Staff employees are workers who are in advisory positions and who use their specialized expertise to support the efforts of line employees. Employees may be related to one another in a variety of ways. A Line relationship is a formal relationship between individual positions within an organisation where authority flows vertically down through the structure; a Functional relationship is where staff department specialists have the authority to insist that line managers implement their instructions concerning a particular issue and Lateral relationships are formal relationships which exist between individuals in different departments or sections, especially between individuals on the same level. In many large companies the organization chart can be large and incredibly complicated and is therefore sometimes broken down into smaller charts for each individual department within the organization. There are several limitations with organizational charts. Firstly, they only show 'formal relationships'. Secondly they do not show anything about the managerial style adopted (e.g. Autocratic or democratic).

5 CHALLENGES ASSOCIATED WITH DESIGNING AN ORGANIZATION :

As a result of growth, Anita Roddick (the Body Shop) turned to management consultants for help with REORGANIZATION but claims it resulted in DISASTER (02:00) – critically evaluate why this might be so. Discuss the main CHALLENGES ASSOCIATED WITH DESIGNING AN ORGANIZATION.

Perhaps the first major design challenge concerns the manner in which employees are grouped together (by area, function/ specialism, product or process worked on). Arguments for the alternative grouping approaches typically consider the type of knowledge that is most important when adding value and undertaking the organization's primary activities - is it more important to know about the area worked in or the product created? Arguments may also be made in relation to organizational strategy and the source of sustainable competitive advantage. Once the grouping problem has been addressed the next challenge is to determine where to locate organizational groups. Having decomposed and dispersed the organization's human resources (differentiation) the organizational designers must confront several consequential challenges. With differentiation is the associated problem of integration. Groups are typically given goals and their behaviour may work against the attainment of the organization's goals (necessitating control) and parts of the organization may depend upon each other. They will therefore need to be coordinated and will rely on communication and information to unify the parts. Furthermore there is a need to ensure resources are shared (see synergy) to capitalise upon benefits of scale. Thus there are problems necessitating coordination, communication and control. Others may use management systems, policies, procedures, practices, informal systems and the organizational structure itself. Like the space shuttle, the way the parts are connected will impact significantly upon performance.

REORGANIZATION

A move from one form of organization to another. For example, a business may change from a divisional to a network structure.

FORMAL ORGANIZATION

a collection of work groups that have been consciously designed by senior management to maximize efficiency and achieve organizational goals.

INFORMAL ORGANISATION

An organisation arising from the interaction of people, their psychological and social needs, and the development of groups with their own relationships and norms of behaviour, irrespective of those defined within the formal structure.

ORGANISATIONS

A consciously co-ordinated social unit created by groups in society to achieve specific purposes, common aims and objectives by means of planned and co-ordinated activities.

ORGANIZATION

A group of people who work together to achieve shared goals

6 HIERARCHY and its IMPACTS :

Anita Roddick suggests that consultancies have their way of doing things and try to force companies to fit their mould (02:35). They fail to appreciate the company culture ("fluidity", "unhierarchical management" – 02:45). The Body Shop found they could not work with the consultants who were too hierarchical (02:55). Discuss what is meant by organizational HIERARCHY and its IMPACTS upon the organization.

Traditionally, designs were shown in a pyramid form, depicting vertical and horizontal dimensions. A broad base indicates that the majority of employees are at the bottom. The number of people occupying the bottom, middle and top layers will vary from organization to organization as will the levels of management. Tall structures have more levels of management than flatter structures. Hierarchy refers to the number of levels of authority.

A tall hierarchy is associated with bureaucratic organizations, specialisation and centralisation. Bureaucracy - a form of organization structure (found more in larger organizations) which is characterized by a specialization of labour, hierarchy of authority, and a formal set of rules – decision making may be centralised or decentralised though the former was more typical. The bureaucratic organization arose from ideas typical of the early 20th century where there was a focus on productivity (mass production) and efficiency – a best machine and a best working method for each task (see scientific management). However, the external environment changed considerably in the last quarter of the twentieth century. Boundaries were removed and markets opened, driving competition and change. As a consequence, bureaucracy acquired negative meaning in the 1980's and 90s when associated with 'red-tape' and 'obstructive' organizations. Later others argued it to have dysfunctional properties in dynamic environments. Pugh (1997) argues that 'traditional authoritarian bureaucracies respond too slowly to survive and Schein (1999) argues 'the traditional bureaucratic norms of command and control systems are believed to discourage individual creativity. A number of scholars have presented arguments for and against two key structural dimensions of bureaucracy in particular: centralization might give the decision maker the ability to plan, coordinate, and control all activities but can slow down decision-making time; formalization is thought to lead to greater efficiency because the predefined rules and procedures serve to routinize repetitive activities and transactions but can stifle creativity and risk taking. Additionally, bureaucracy (centralisation in particular) through the loss of individual autonomy has been shown to decrease the satisfaction and motivation of employees resulting in less commitment to the implementation of corporate strategies. More fundamentally, when lower level employees are removed from organizational planning and control processes, they have less knowledge of the details and purposes of organizational strategies. If organizational members do not understand corporate goals and strategies, they may be unwilling or unable to take actions to implement them. Bureaucracy is now therefore characterized as slow to adapt when change is necessary. It is important to recognise that organizations may be bureaucratic in any number of ways and there is no dichotomy i.e. bureaucratic or not. Bureaucracy should be treated as a continuum within organizations. Child (2001) argues that Bureaucracies have been with humanity since ancient times... And they continue to represent the dominant form for major institutions.

7 CONTINGENCY THEORY :

Later in the video (03:15) Anita Roddick states that the organizational chart, "had been changed so many times since then and is still changing". With reference to CONTINGENCY THEORY discuss (1) whether constant changes in organization design are to be expected and (2) if so, why? Later still (at the end of the film clip) Anita Roddick states that the company downsized.

The search for a good design is continual. Nadler and others point out that 'often changes in the environment necessitate organizational change. For example, factors related to competition, technology, or regulation, shift and thus necessitate changes in organizational strategy'. It is now widely accepted that there is no single best way to organize, structure or manage the firm. Contingency theory, in the context of organization structure, argues that an organization, to be effective, must adjust its design/structure in a manner consistent with its environment, technology and other contextual factors. Environmental determinism theory states that 'internal organizational responses are wholly or mainly shaped, influenced or determined by external environmental factors. Externally, the contemporary turbulent environment calls for flexible, adaptable and responsive structures; historically, a more predictable environment favoured the bureaucratic approach.

8 INTERNAL ENVIRONMENT AND DESIGN

Anita Roddick stated that she learnt that the bigger you get, hierarchy sneaks up on you (03:30). It creates more rules and regulations (formalization – bureaucracy). As a consequence, creativity is stifled (03:40). Discuss the changing internal environment at the Body Shop (associated with growth) and the consequences and challenges for organization design; in particular, comment on the dual challenge of, on the one hand making an organization more efficient (integrated) and on the other making it more creative (different).

Pugh (1973) concluded that internal context (size, ownership, location and technology) was the overall determining factor of organizational structure (degree of specialization, centralization, standardization, formalization and configuration) along with the attitudes of the senior management. Further scholars, following Pugh have concluded that there are many internal factors influencing the firm's design. Factors include: size, strategy, technology, environment, culture, degree of internationalization, product knowledge dependency, area knowledge dependency, need for efficiency (production, cost, coordination, control), need for autonomy, need for cross group learning, local needs, customer needs, need for agility, corporate goal versus local goal achievement. A business may start small but as the business grows, the amount and type of work performed increases, and more people are needed to perform various tasks. In order to avoid duplication and ensure all necessary work is undertaken, companies typically allocate work to individuals and group the individuals who perform similar work. Through this division of work, individuals can become specialists at a particular job (and therefore more efficient). However, no one person will typically transform all of the raw materials into the finished product or create and deliver the complete service to the customer. Consequently, the outputs of one persons' work may form the inputs of other i.e. different individuals and parts of the organization become dependent upon each other. Because there are many people—often in different locations—working towards a common objective, there must be a plan showing how the work will be organized. Work must also be coordinated and controlled if efficiency gains are to be made and goals attained. Structure should fit strategy and vice versa yet Anita Roddick claimed that for nearly twenty years we never had formal company plans.

9 BEWARE MANAGEMENT CONSULTANTS

On reflection, do you believe Anita Roddick was right to say, 'BEWARE MANAGEMENT CONSULTANTS' and that employing management consultants can be one of the worst mistakes you can make? Critically discuss this comment. Also, consider the lessons you may take from this case as a customer or supplier of consultancy services.

On the one hand, reorganising a fast growing company from entrepreneurial/ informal to a more organised, structured and hierarchical company was always going to be a great challenge. Some scholars believe it takes one type of leader for one type of organization e.g. creative start-up and another to administer a large company that must focus on efficiency and coordination. We do not know whether the proposed structure was wrong for the Body Shop or simply wrong for its founders. On the other hand, the congruent relationship of strategy, structure and culture, necessitates that the problem solver (consultants) have a good understanding of each element before attempting change. Anita Roddick suggests the consultancy did not have this understanding, nor were they flexible enough to adapt tools, techniques and solutions to their client's organization (02:35).

Anita Roddick discusses a need to thoroughly understand the consultancy company before engaging their services (02:25); whilst good advice, this can be difficult to achieve. Sometimes organizations use consultancies for small assignments first to build up trust and understanding. In other cases, formalised requirements are used to assure you get what you are paying for. Decomposing consultancy assignments into phases such as analysis and diagnosis (problem structuring) followed by evaluation of alternative solutions can help build in discussion and decision points at key times. During the sales process, consultancies need to take careful steps to manage client expectations.

Case study references

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- Kelly, P P. (2009) 'International Business and Management', Cengage Learning EMEA.
- Knights, D. and Willmott, H. (2007) 'Introducing Organisational Behaviour and Management', Cengage Learning EMEA.
- Martin, J. (2005) 'Organizational Behaviour and Management', Ed. 3. Thomson Learning.