DP IB Business Management: HL

2.2 Organisational Structure

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Organisational Design

Key Terms for Organisational Structure

- Organisational structure outlines the **reporting relationships, roles, and responsibilities of employees** in the organisation

- Businesses must determine what the best structure is for them to **effectively implement** their ideas and achieve their objectives

  - They should consider how the structure may affect the **management and effectiveness of operations** and **communications**

  - A well-designed organisational structure helps to promote **clarity**, **efficiency**, and **accountability**

Key terminology used in organisational design

1. Hierarchy

- A hierarchy refers to the levels of authority within an organisation

  - It describes the ranking of **positions from top to bottom**

  - The higher the position in the hierarchy, the more authority and power it holds

  - The hierarchy usually includes top-level management, **middle-level management**, and lower-level employees

2. Bureaucracy

- A bureaucracy is an organisation with **many levels of authority**

  - This makes decision-making and communication somewhat time-consuming
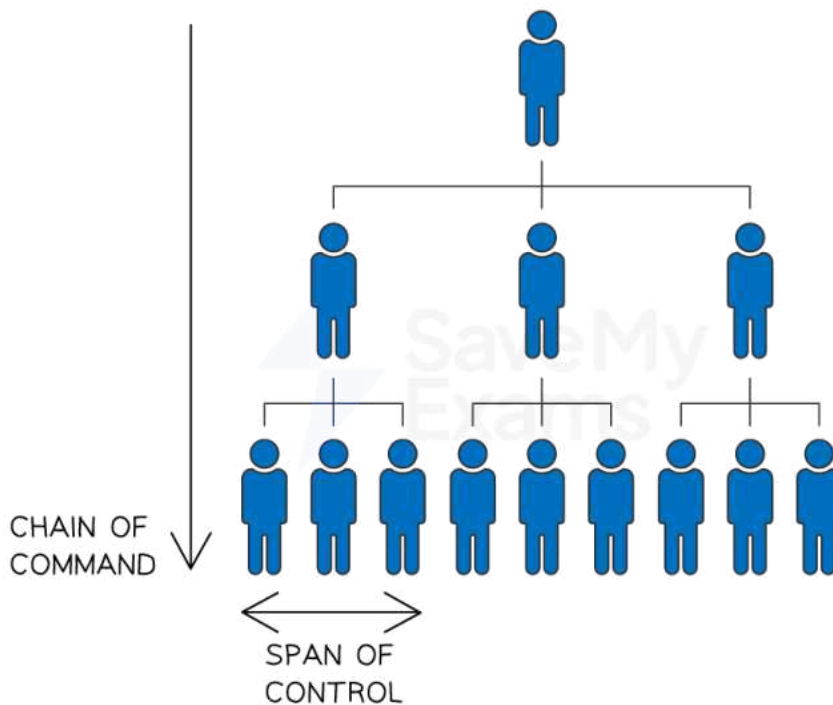
3. Chain of command

- The chain of command is the **formal line of authority** that flows down from the top management to lower-level employees

  - It **defines who reports to whom**

  - The chain of command helps to establish a clear **communication channel** and helps to maintain accountability within the organisation

4. Span of control

- Refers to the number of employees that a **manager or supervisor can effectively manage**

- It is based on the principle that a manager can only effectively manage a limited number of employees

- A **narrower span of control** means that there are **more layers of management**

- A **wider span of control** means that there are **fewer clayers of management**

Diagram: span of control and chain of command

The chain of command and span of control

5. Centralised and decentralised structures

- In a **centralised structure**, decision-making authority is **concentrated** at the top of the organisation with senior management making most of the decisions

- In a **decentralised structure**, decision-making authority is **distributed** throughout the organisation, with lower-level employees having more **delegated** decision-making power

  - Decentralisation can promote **flexibility and innovation,** while centralisation can **promote consistency and control**

6. Matrix Structures

- In this type of structure, employees are grouped based on both their **functional expertise (finance, marketing etc)** and the **specific projects** or products they are working on

- Employees typically have two reporting lines: a functional manager and a project or product manager

- The **functional manager oversees their work** in terms of their functional skills and expertise

- The project manager is responsible for the **specific project or product they are assigned to**

Your notes

Types of Organisational Charts

Different Types of Organisational Structure

- Businesses typically structure their organisation in one of three ways

  - **Tall** organisational structures

  - **Flat** organisational structure

  - Organisational structures based on **product**, **function** or **region**

1. Tall organisational structures

- Tall or vertical structures have multiple levels of management, a more centralised decision making process and a **long chain of command**

- **Spans of control are usually narrow** and managers exert significant control

- Tall structures are common in large organisations with complex operations e.g. government agencies and universities

2. Flat organisational structures
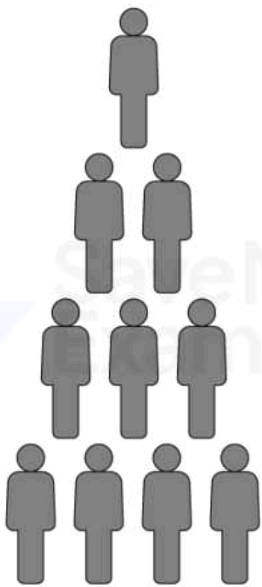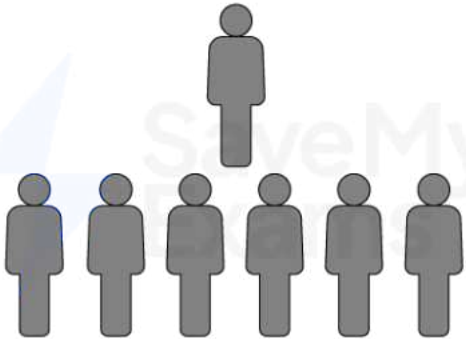
- Flat or horizontal structures have fewer levels of management, a **decentralised** decision-making process and a short **chain of command**

- **Spans of control are often wide** and employees have some level of **autonomy**

- Flat structures are common in small organisations or start-ups

A Comparison of Tall and Flat Organisational Structures

Tall Organisational Structure	Flat Organisational Structure

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HIERARCHICAL / TALL

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FLAT

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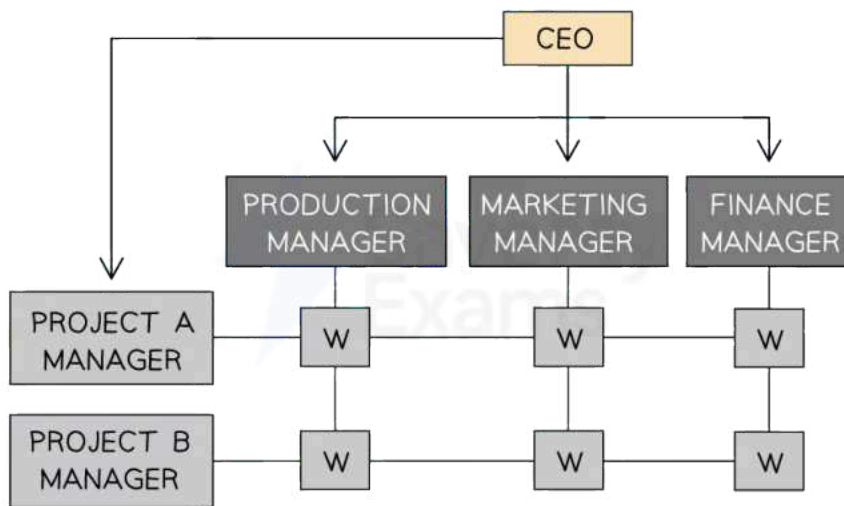| Advantages	Advantages
- Provides a **clear hierarchy** of authority and defined roles and responsibilities - **Promotes specialisation** and expertise within each department or function - Offers **opportunities for career advancement** and promotion within the organization - All of the above increases efficiency and motivation	- Promotes a **culture of collaboration** and open communication - Decision-making can be **faster and more efficient** - Encourages **creativity and innovation**, as employees have more autonomy and flexibility - All of the above increases efficiency and motivation
Disadvantages	**Disadvantages**
- Can create **communication barriers** between the upper and lower levels of the hierarchy	- This can lead to **role ambiguity** and a lack of a clear hierarchy

• **Decision-making can be slow** as information must pass through multiple layers of management	• May not provide clear opportunities for **career advancement** or promotion
• This can lead to **bureaucracy** and excessive levels of management	• This may require employees to take on **multiple roles** and responsibilities l**eading to burnout** and overwhelm
• All of the above reduce efficiency and motivation	• All of the above reduce efficiency and motivation

3. Organisation by product

- This type of structure is usually built around **specific products or projects (matrix structure)**

  - E.g. KitKat has its own team within Nestlé

- It combines the **functional areas of a business** (HR, finance, marketing, sales) with a specialist team that operates inside the business

Diagram: a project- or product-based structure

An example of a product or project-based structure

Evaluating a Matrix Structure

Advantages	Disadvantages

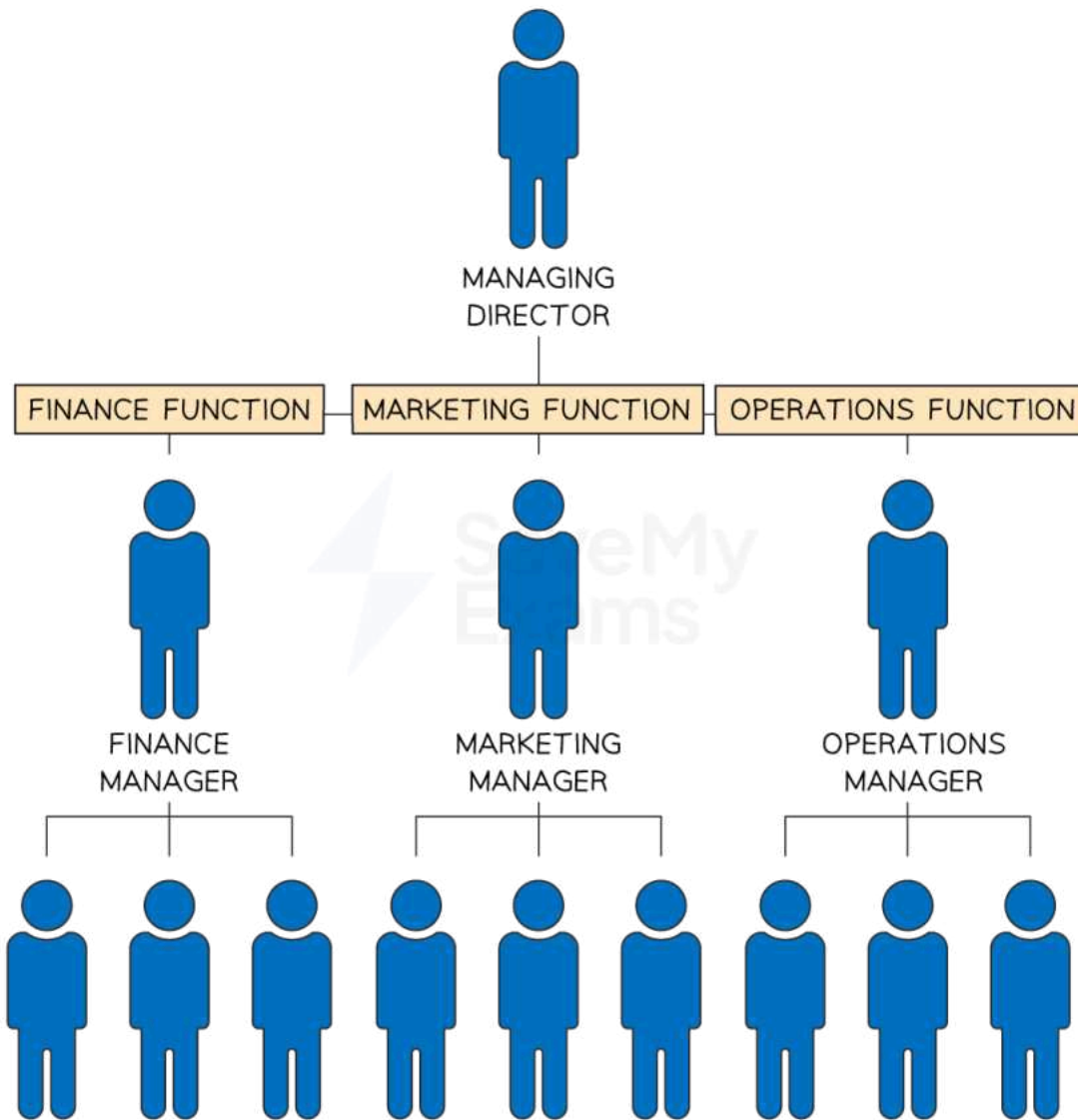|	
• Promotes **cross-functional collaboration** and communication	• This can lead to **conflicts over priorities and resources**
• Allows for **specialisation and expertise** within each functional area	• This can create **confusion over roles** and responsibilities particularly when multiple managers are involved
• Enables efficient allocation of resources and **coordination of multiple projects**	• **Requires a high degree of communication** and coordination, which can be challenging
• All of the above increases efficiency and motivation	• All of the above reduce efficiency and motivation

4. Organisation by function

- This is the most common form of organisational structure

- Employees are arranged into different functions that complete specific functions, such as finance, human resources or marketing

  - Employees are **arranged according to their expertise**, bringing appropriate skills, experience and qualifications to a particular area of the business

  - There is a danger that functional areas **focus only on their own area** of responsibility and lose touch with the objectives of the business as a whole

Diagram: organisation by function

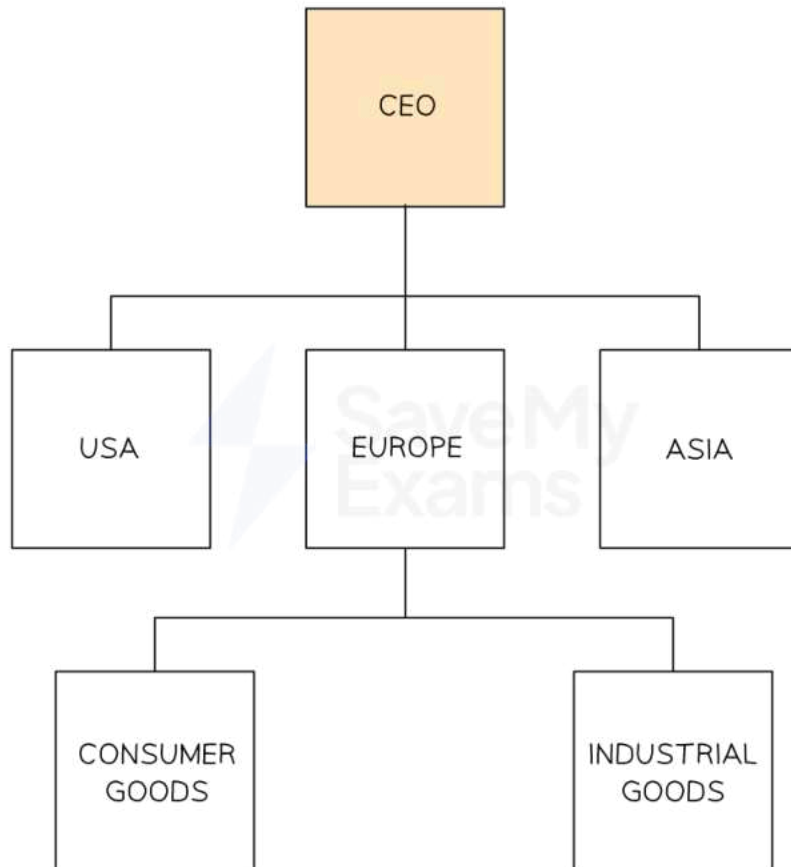*Organisation by function*

5. Organisation by region

- This structure is commonly found in businesses that are **located in several different geographical locations**

  - Regional management and structures allow a business to **respond effectively to the needs of customers** in diverse locations

Diagram: organisation by region

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Organisation by region

Adaptive Organisational Structures

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The Impact of Changing External Factors on Structure

- When there is a change in external factors (market conditions, technology advancements, or changes in legislation), businesses may need to **reassess their current structure**

- An **adaptive organisation** will be able to **change their structure** in response to external factors, or build an organisational structure which is **easily able to handle external changes**

Evaluating Organisational Structures in the face of Uncertainty

External Factor	Explanation
Market Uncertainty	- If the external market becomes highly volatile or uncertain, a business may benefit from a more **flexible structure** - **Project-based structures** can help a business to respond quickly to changing market conditions than highly-structured hierarchies as they allow for **collaboration across functional areas** and **resources can be shared**
Rapid Technological Advancements	- When technological change significantly impact an industry a business may require a structure that allows for **innovation, agility and quick decision-making** - **Flat structures** can be suitable as they encourage information sharing, collaboration and empowerment of employees at all levels

Global Expansion	- For businesses expanding into international markets, a **regional organisational structure** may be appropriate
	
	    - It enables coordination and control of operations across different countries, **taking into account local market dynamics**, laws and cultural differences
	
	    - It supports **centralised decision-making** while allowing subsidiaries to adapt to specific regional needs

Competitive Pressures	- Intense competition may call for a structure that enables **speed, efficiency** and **customer responsiveness** - **Decentralised structures** empower teams to make **faster decisions** and respond directly to customer demands

	▪ This promotes speed and encourages a **customer-focused approach** that may provide a much-needed **competitive edge**

- The appropriateness of an organisational structure **depends on the context and unique characteristics of each business**

- Factors such as organisational culture, leadership style and employee capabilities should also be taken into account when selecting and **implementing a new organisational structure**

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