

DP IB Business Management: SL



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

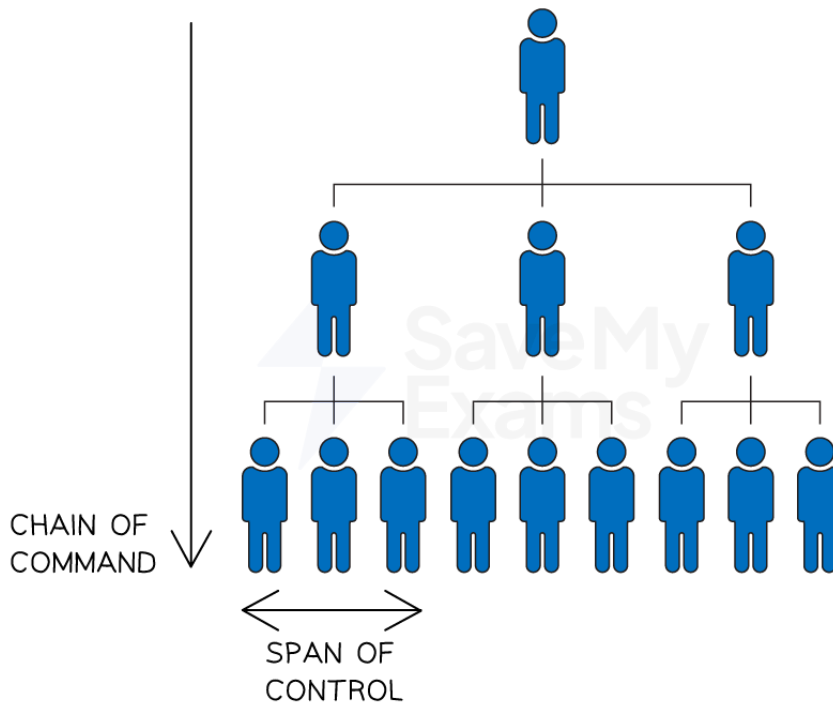
- Refers to the number of employees that a **manager or supervisor can effectively manage**
- It is based on the principle that a manager can only effectively manage a limited number of employees



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

Diagram: span of control and chain of command



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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



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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

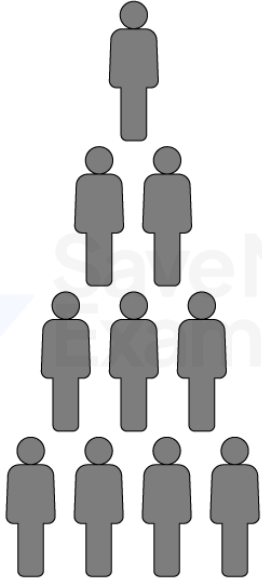
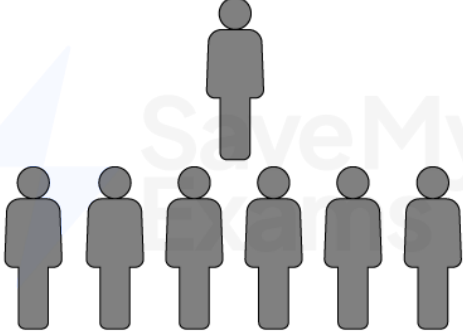
- Flat or horizontal structures have fewer levels of management, a **decentralised** decision-making process and a short **chain of command**
- **Spans of control are often wide** and employees have some level of **autonomy**
- Flat structures are common in small organisations or start-ups

A Comparison of Tall and Flat Organisational Structures

Tall Organisational Structure	Flat Organisational Structure
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 <p style="text-align: center;">HIERARCHICAL / TALL</p> <p style="text-align: center;"><small>Copyright © Save My Exams. All Rights Reserved</small></p>	 <p style="text-align: center;">FLAT</p> <p style="text-align: center;"><small>Copyright © Save My Exams. All Rights Reserved</small></p>
<p style="text-align: center;">Advantages</p>	<p style="text-align: center;">Advantages</p>
<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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
<p style="text-align: center;">Disadvantages</p>	<p style="text-align: center;">Disadvantages</p>
<ul style="list-style-type: none"> ▪ Can create communication barriers between the upper and lower levels of the hierarchy 	<ul style="list-style-type: none"> ▪ This can lead to role ambiguity and a lack of a clear hierarchy



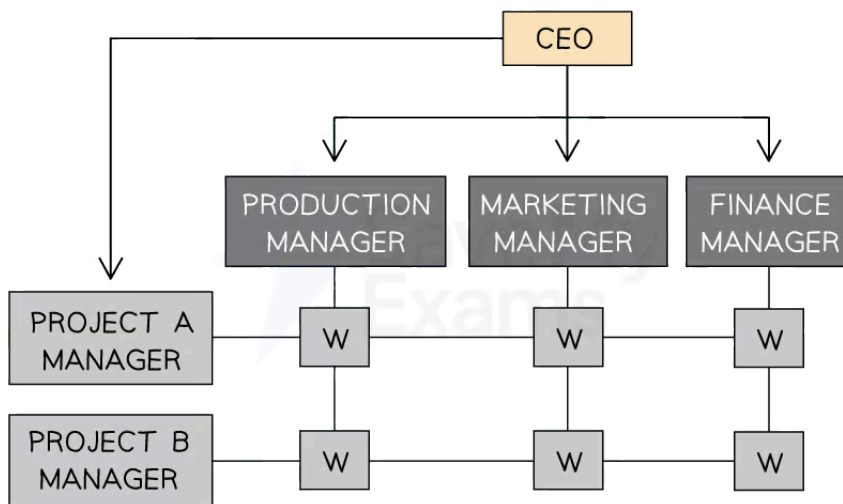
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- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Decision-making can be slow as information must pass through multiple layers of management ▪ This can lead to bureaucracy and excessive levels of management ▪ All of the above reduce efficiency and motivation | <ul style="list-style-type: none"> ▪ May not provide clear opportunities for career advancement or promotion ▪ This may require employees to take on multiple roles and responsibilities leading to burnout and overwhelm ▪ 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



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An example of a product or project-based structure

Evaluating a Matrix Structure

Advantages	Disadvantages



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<ul style="list-style-type: none">▪ Promotes cross-functional collaboration and communication▪ Allows for specialisation and expertise within each functional area▪ Enables efficient allocation of resources and coordination of multiple projects▪ All of the above increases efficiency and motivation	<ul style="list-style-type: none">▪ This can lead to conflicts over priorities and resources▪ This can create confusion over roles and responsibilities particularly when multiple managers are involved▪ Requires a high degree of communication and coordination, which can be challenging▪ All of the above reduce efficiency and motivation
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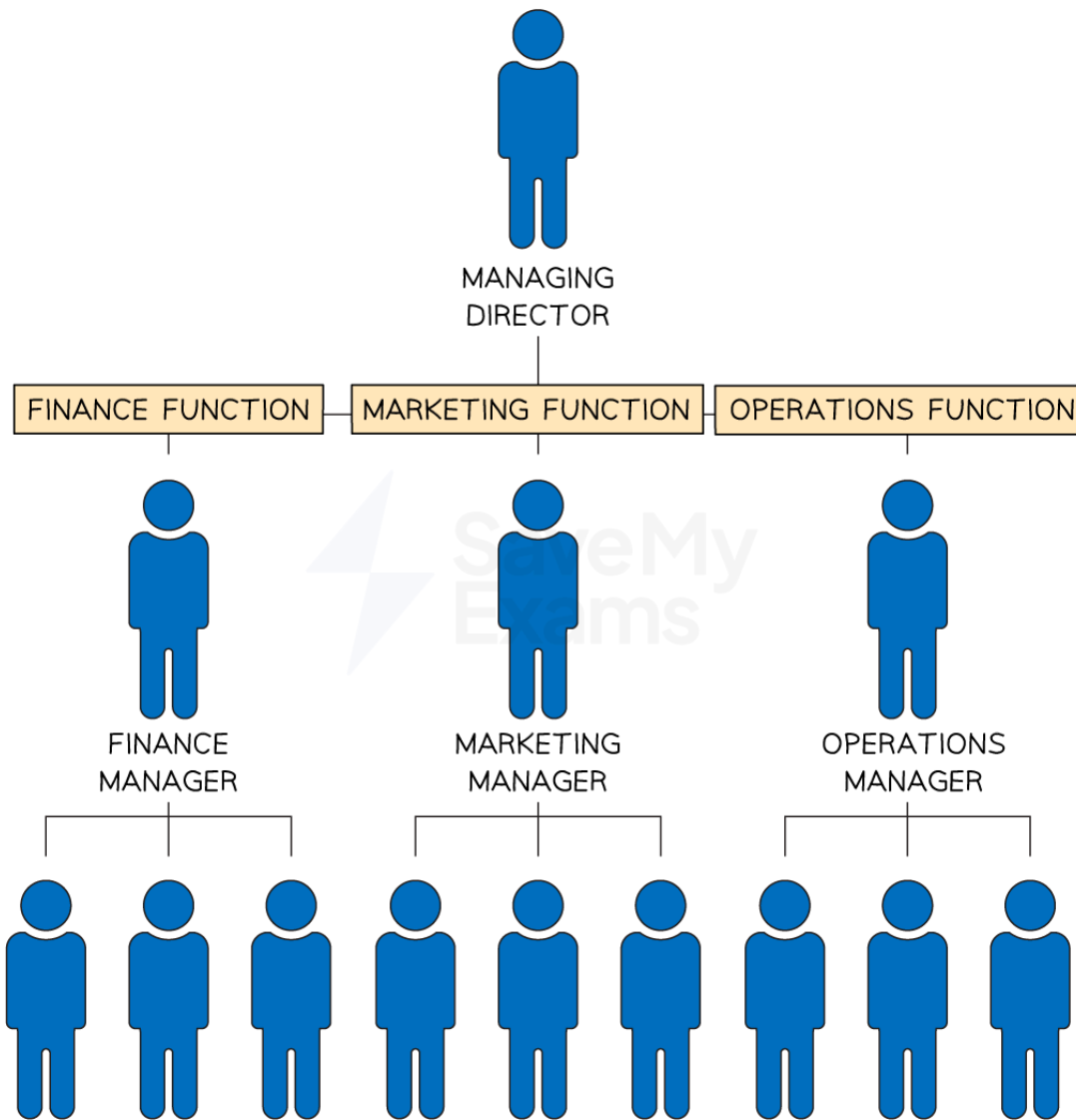
4. Organisation by function

- 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



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Organisation by function

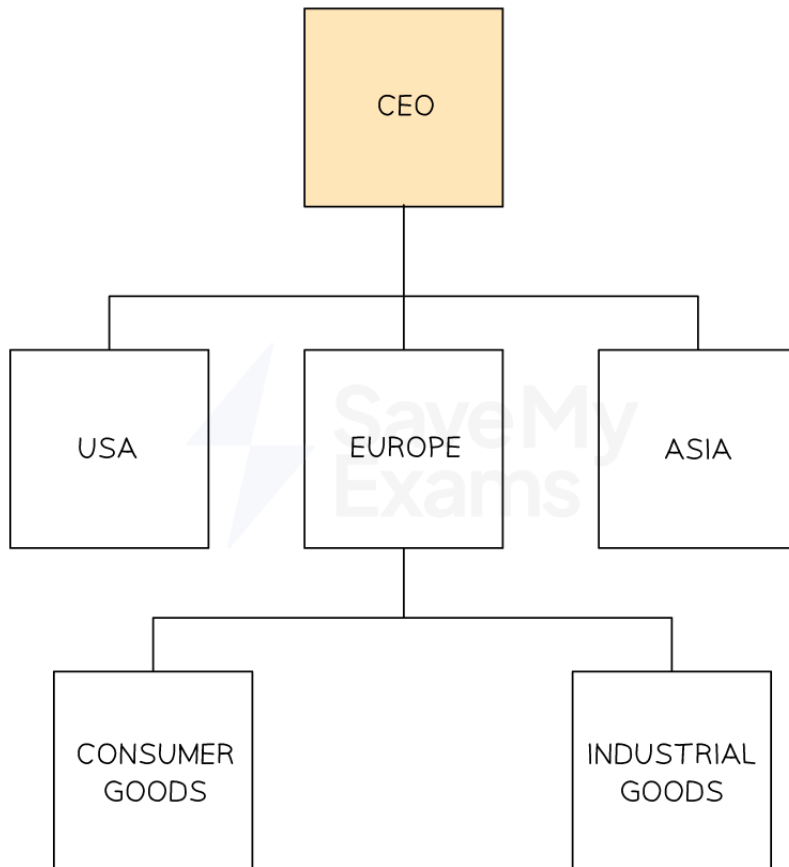
5. Organisation by region

- 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



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Adaptive Organisational Structures

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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> For businesses expanding into international markets, a regional organisational structure may be appropriate <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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**



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- 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**