DP IB Business Management: SL

Your notes

2.2 Organisational Structure

Contents

Organisational Design

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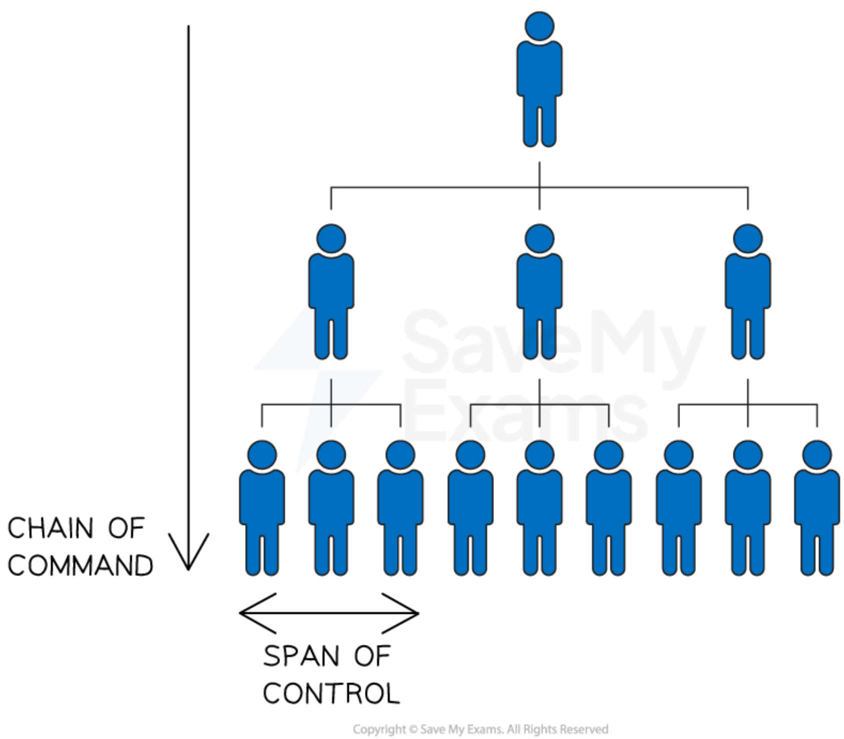
- A **narrower span of control** means that there are **more layers of management**
- A **wider span of control** means that there are **fewer clayers of management**

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**

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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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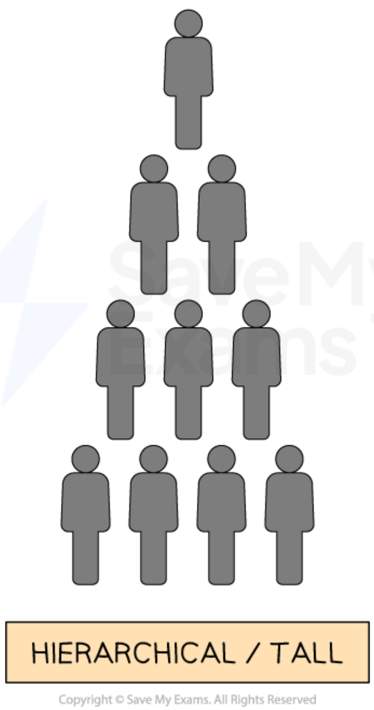
<td>
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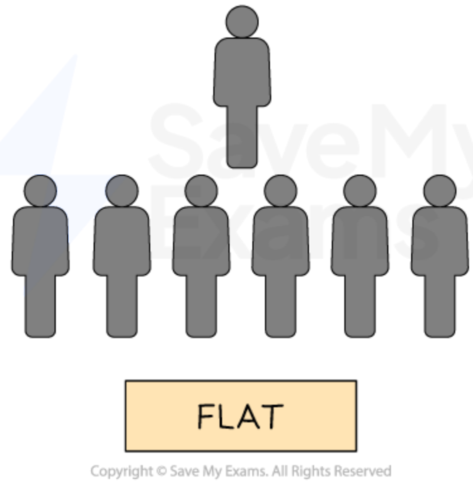
<td>
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<th>Advantages</th>
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Provides a clear hierarchy of authority and defined roles and responsibilities
Promotes specialisation and expertise within each department or function
Offers opportunities for career advancement and promotion within the organization
All of the above increases efficiency and motivation

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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

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<th>Disadvantages</th>
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Can create communication barriers between the upper and lower levels of the hierarchy

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This can lead to role ambiguity and a lack of a clear hierarchy

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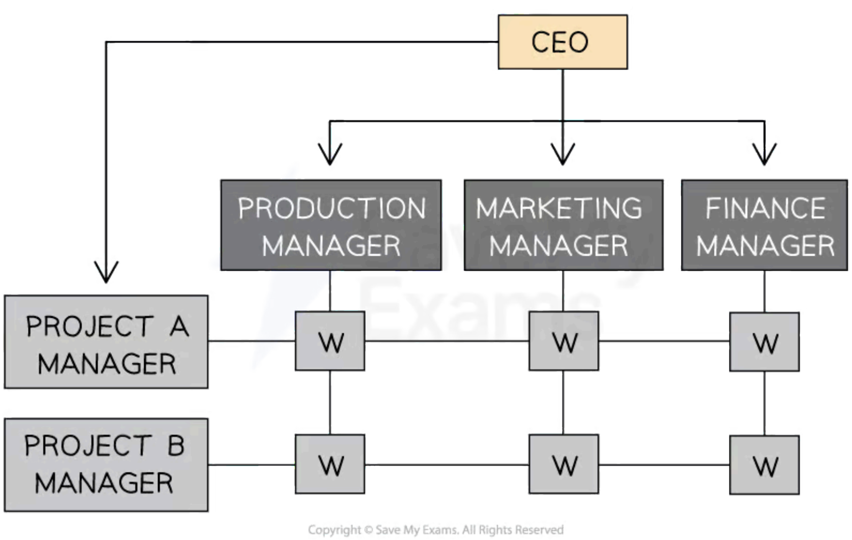
▪ **Decision-making can be slow** as information must pass through multiple layers of management ▪ This can lead to **bureaucracy** and excessive levels of management ▪ All of the above reduce efficiency and motivation	▪ May not provide clear opportunities for **career advancement** or promotion ▪ This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

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 ▪ 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	▪ 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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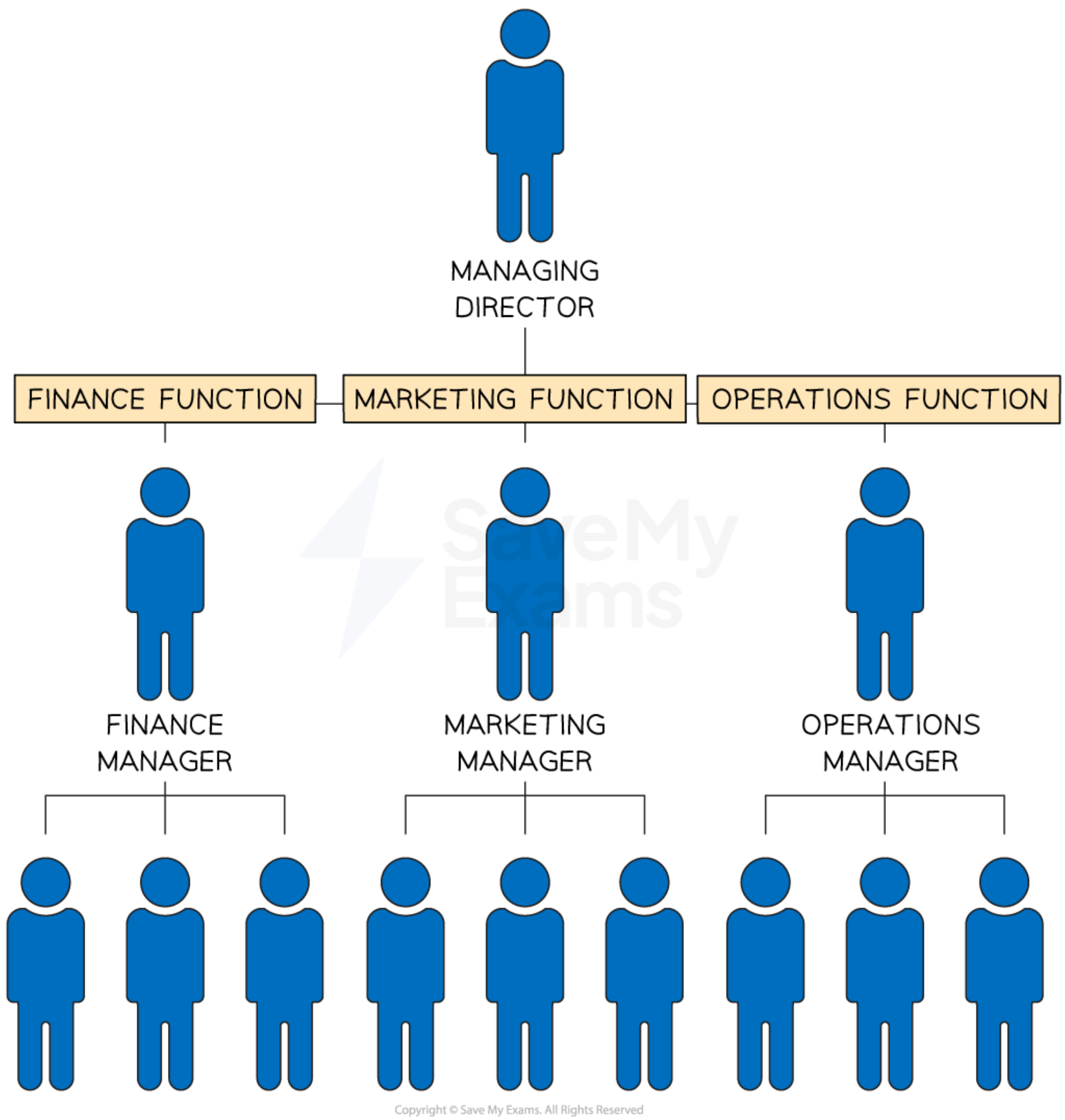

Organisation by function

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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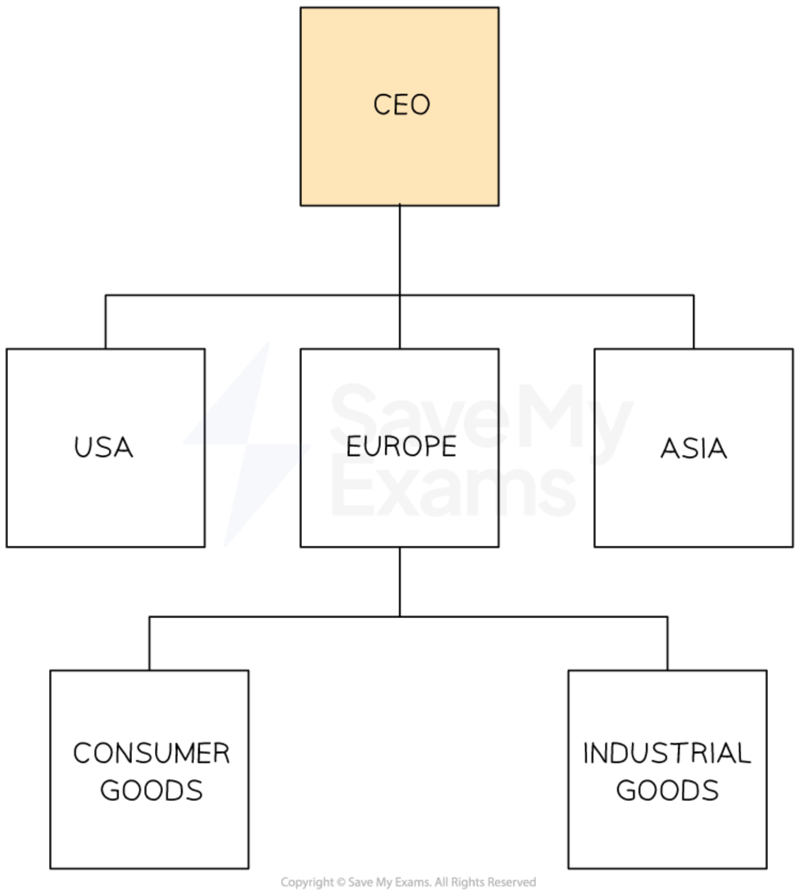

Organisation by region

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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	▪ 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**

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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**