IB Business Management HL

2.2 Organisational Structure

CONTENTS

Organisational Design

Types of Organisational Charts

Adaptive Organisational Structures

YOUR NOTES
↓

Key Terms for Organisational Structure

- An **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 layers of management**
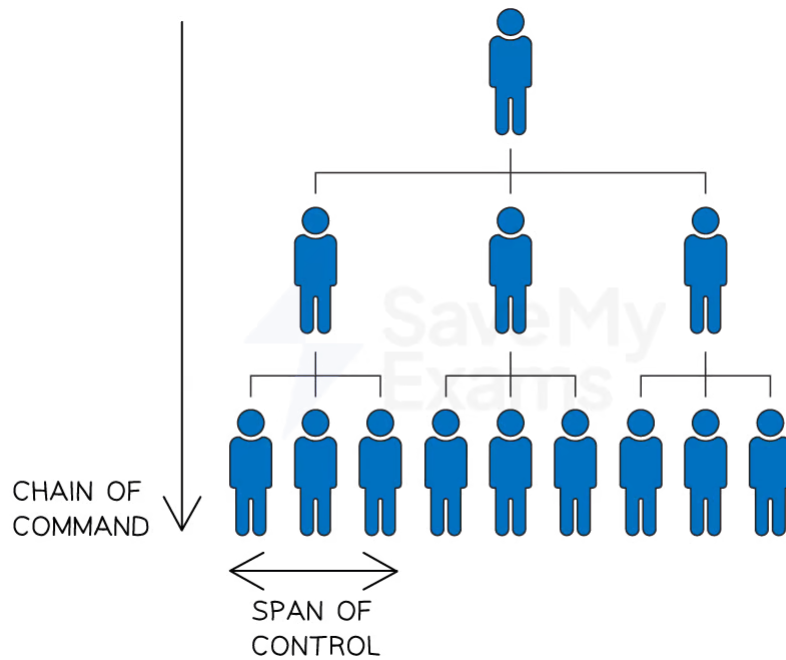
The chain of command and span of control

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**

Different Types of Organisational Structure

- Businesses typically structure their organisation in one of three ways
  - **Tall** organisational structure
  - **Flat** organisational structure
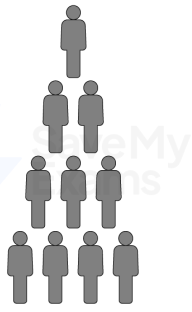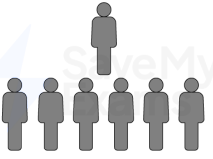 - Organisational structure based on **product**, **function** or **region**

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
HIERARCHICAL / TALL	FLAT
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 • **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	• This can lead to **role ambiguity** and a lack of a clear hierarchy • 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
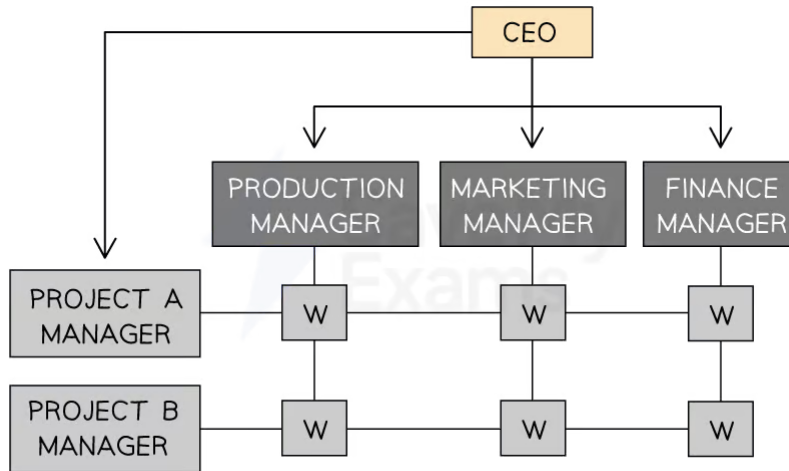
An example of a product or project-based structure

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

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
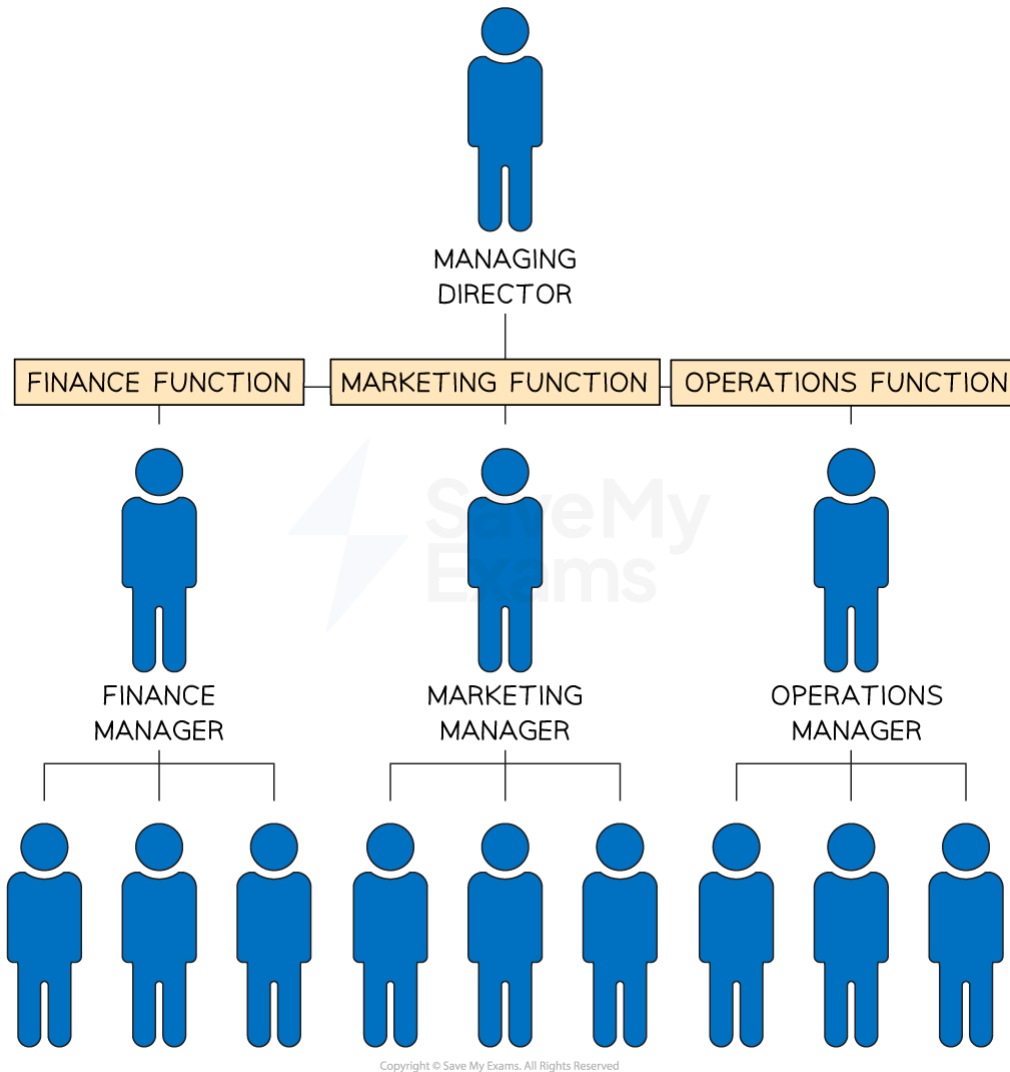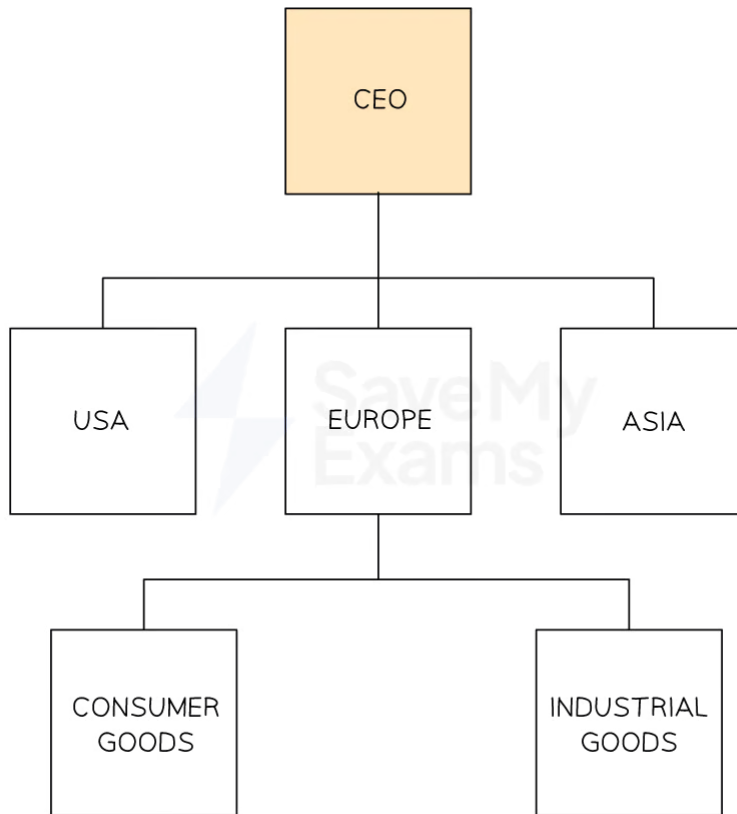
Organisation by function

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

Organisation by region

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 laws) businesses may need to **reassess their current structure**

- An **adaptive organisation** is able to change its structure in response to external factors

Evaluating Organisational Structures in the face of Uncertainty

External Factor	Explanation

Market Uncertainty	- If the 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
	  ○ They allow for **collaboration across functional areas**
	  ○ Resources can be **shared**

Rapid Technological Advancements	- Technological change can significantly impact an industry
	  ○ Businesses may require a structure that allows for **innovation, agility and quick decision-making**
	  ○ **Flat structures** encourage information sharing, collaboration and empowerment of employees

Global Expansion	- Businesses expanding into international markets may benefit from a **regional organisational structure**
	  ○ Coordination/control of operations across different countries **taking into account local market conditions**, laws and cultural differences
	  ○ Supports **centralised decision-making**
	  ○ Subsidiaries can 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 **fast decisions** and respond directly to customer demands
	  ○ Promotes speed and a **customer-focused approach** that may provide a competitive edge

YOUR NOTES
↓

- 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**

Changes in Organisational Structures

- Some businesses choose to adapt their organisation structure to allow them to **respond flexibly to changes** in the external environment

- Two examples of this are
  - Project-based organisation structures
  - Shamrock organisation structures

Project-based Organisation Structures

- In a project-based structure **employees are assigned to projects** full-time
- Project teams are **led by project managers** who have authority and decision-making power

Diagram of a Project-based Organisation Chart
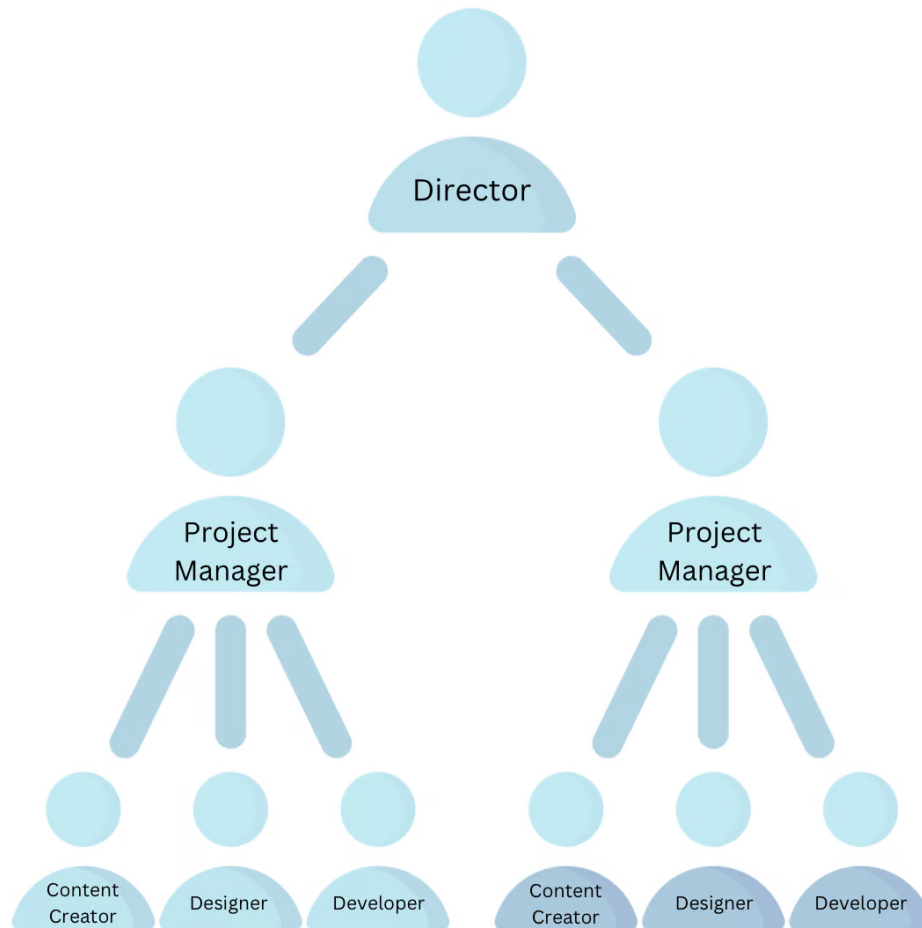
A Project-based Organisation Chart Showing Human Resources Organized Around two Projects

YOUR NOTES
↓

- Project-based structures are said to improve **collaboration**, **communication** and make use of **specialised skills** across different projects
- Employees often **report to both a functional manager and a project manager** or team leader
- These structures are commonly found in industries such as engineering, software development and construction

The Advantages and Disadvantages of Project-based Organisation Structures

Advantages	Disadvantages

- Project-based structures allow businesses to **allocate resources** based on project requirements
 	
  - **Specialised skills** are effectively utilised
 	
- Project-based structures **promote communication and collaboration** between different functions/project teams which can improve problem-solving
 	
- Resources can be reallocated and businesses can **respond quickly** to changing business needs and market demands
	- There are two reporting lines which potentially generates conflicting priorities for employees
	
	- There is a need for **constant communication** and coordination across different functional and project teams
	
	  - Can result in **additional administrative work** and **potential inefficiencies**
	
	- **Conflicts** may occur between functional managers and project managers

Shamrock Organisational Structures

- Charles Handy's "Shamrock organisation" is based on the belief that **workers are the most important business resource**

  - Shamrock organisation structures provide **flexibility and adaptability**

  - They allow businesses to **concentrate on their core functions**

  - They can **respond to changing market conditions** and **vary workloads** without a large permanent workforce

- Handy believes that:
  - Businesses should focus on meeting employees' needs for **enrichment** and **flexibility**
  - The organisational structures should be **dynamic**
  - Businesses should **move away from the traditional employment hierarchy where they offer 'jobs for life'**

Diagram Showing the Three Parts of a Shamrock Structure in a School

The Shamrock Organisation consists of core, peripheral and flexible employees

- **Core Staff** are the small group of individuals who are **directly employed** by the business
  - They typically hold **key positions**
  - They are responsible for **strategic decision-making** and managing the businesses overall direction
  - They are **well-paid** and have **job security**

- **Flexible Workers** are individuals who work for the business on a **part-time, temporary, contractual or ad-hoc** basis
  - They provide flexibility to the business and can be **scaled up or down** based on the workload

- They tend to be **lower-paid** for **short periods of employment**

- **Outsourced Services** involves giving control over certain functions or services to **external third-party providers** that handle specific tasks
    - Example include IT support, human resources or facilities management
    - These are **specialist functions** and these services may therefore be **expensive**
    - By outsourcing these services the business can focus on its core competencies