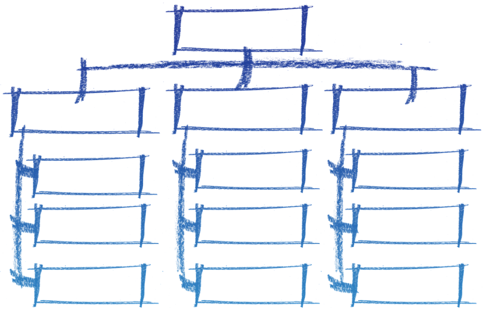
2.2 a) - Terminology for understanding organizational structures (AO2)



This section of the IB Business Management syllabus looks at terminology to facilitate understanding of different types of organizational structures (AO2).

The **organizational structure** of a business shows the interrelationships and hierarchical arrangements within the firm. In order for employees to achieve the organization's goals collectively, human resources need to be formally organized. The way in which people are organized determines who each employee reports to, and the breadth and depth of the authority each person has (if any).

The **organizational chart** is a diagrammatic representation of an organization's formal organizational structure. Hence, it shows the role(s) of each employee in the organization, responsibilities, and accountability (who each employee must formally report to).

The following terms feature in the IB Business Management syllabus to facilitate understanding of different types of organizational structures:

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1. Delegation (AO2)

Delegation occurs when a line manager entrusts and empowers a subordinate with authority to successfully complete a particular task, project or role. It involves passing on control and authority but holding subordinates accountable for their actions. A **line manager** is someone with direct authority over the employees they supervise and are responsible for as shown in an organizational chart. They are responsible for guiding and evaluating the performance of subordinates who are directly below them in the organizational chart so that the firm's objectives are met.

Although authority and decision making are passed on, the **responsibility** for the outcome remains with the line manager because they are ultimately in charge.

As an organization grows and evolves, delegation becomes more commonplace as managers do not have the capacity to do everything or make all decisions. Hence, they need to share the workload and pass on some of their roles. If delegation is successful, it frees up managers to deal with other important responsibilities, such as strategic planning.

Advantages of delegation

- Delegation can motivate employees, as they feel valued and empowered. As American psychologist Abraham Maslow argued, recognition (of workers' skills, talents and abilities) is a motivation factor as it helps to meet both the love/belonging and esteem needs to the employees.
- Delegation can improve the quality and speed of decision-making, especially in large organizations. Delegation means that decisions can be made by employees who have a better understanding of their roles and the specific needs of customers, without having to refer all issues and problems to senior managers.
- Effective delegation helps to reduce the workload of senior managers, especially if work is delegated to highly competent employees. This frees up valuable time for executives and directors to focus on the strategic direction of the business.
- Delegation helps to improves the skills and qualities of employees throughout the business, so helps to prepares them for more senior roles within the organization. This helps to boost employee morale as well as staff retention.

Limitations of delegation

- Delegation usually comes with additional pay or remuneration, but this is not always the case - it depends on the scale and scope of what is being delegated. If so, this will tend to increase the overall costs for the business.

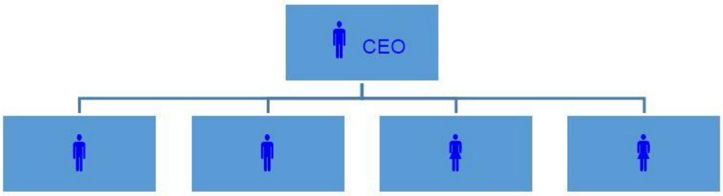
- Delegation often requires the business to invest in prior training and development of employees to ensure they have the necessary skills and qualifications to carry out the delegated tasks. This can be both time consuming and expensive for the business.
- It should also be noted that delegation does not motivate everyone - not all workers are willing and/or able to take on extra workload or accountability.
- Some workers might also feel disgruntled that they are doing the work of the manager especially if delegation takes place without additional pay and recognition.
- Delegation is not a suitable in numerous situations, such as in organizations with low-skilled, manual workers who require supervision and direction or during a major crisis. In such situations, decision making is best left to experienced senior executives and directors.

Top tip!

Make sure you can distinguish between authority and responsibility. **Authority** refers to the official rights of a line manager to give orders and instructions to his/her subordinates in the organization to get things done. **Responsibility** refers the duties and obligation assigned to a person in the organization. For example, managers are held responsible for the work and tasks they delegate, even though these are carried out by subordinates.

2. Span of control (AO2)

The **span of control** refers to how many workers are directly accountable to (or under the authority of) a particular line manager, i.e., the number of workers who report directly to a particular manager. In this example, the chief executive officer (CEO) of the company has a span of control of four people (such as the directors of marketing, finance, operations and human resources).



There is an inverse relationship between the span of control and the number of layers in the organizational hierarchy (or levels of the hierarchy). Managers have a **narrow span of control** in organizations that prefer to have a tighter (closer) control on decision-making. It enables managers to keep closer control over the activities and operations of the employees for whom they are directly responsible for. By contrast, delegation is inevitable when the span of control is wide.

A **wide span of control** means a line manager has responsibility for many subordinates. A wide span of control can present challenges for managers in terms of communication and control unless they are able to delegate effectively to members of their team. Naturally, workers have a greater degree of independence if there is a wide span of control as it is not possible for an individual line manager to monitor the work and progress of each and every subordinate in the team. However, a wide span of control can help to reduce costs (as there are fewer levels of management in the organizational hierarchy) but this requires strong leadership.

Whether a business decides to adopt a wide or narrow span of control depends on three main interralated factors:

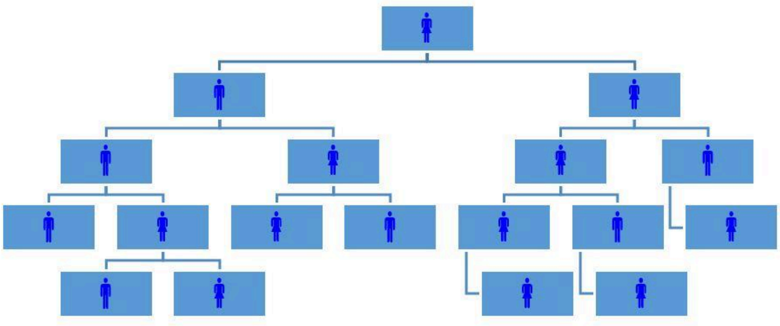
- **Employee competencies** - This refers to the skills, qualifications, training, and experience of employees. Workers who are highly competent are more likely to be given greater authority and flexibility to make decisions and to organize their own work. Hence, the employer is more able and willing to use wider spans of control and delegation.
- **Managerial competencies** - This refers to the attitudes and beliefs of of managers, and hence their management styles. Some managers believe that a workforce is most efficient if employees are given greater freedom to make decisions and they are more likely todelegate authority to junior employees, enabling the use of wide spans of control
- **The business context** - This refers to the nature of the organization and the market(s) in which it operates as well as the activities under consideration. Large, multinational companies (MNCs) will need to be structured differently from small sole traders or partnerships. MNCs will have wider spans of control as senior managers will be responsible for larger teams, possibly across multiple geographical locations. In the case

of sole traders and small partnerships, the business owners may maintain narrower spans of control.

However, there is no universally accepted number that determines what is a narrow or wide span of control, so this really depends on the context of the organization and the industry in which it operates.

3. Levels of the hierarchy (AO2)

The term **levels of hierarchy** refers to the number of layers of formal authority. It is represented in an organizational chart. Each horizontal level in the hierarchy shows the level of seniority in the organization. In the example below, there are five levels in the organizational hierarchy.



The hierarchical structures in an organization show where workers fit within the firm, showing their level of seniority. The organizational hierarchy also indicates lines of communication, decision-making authority, accountabilities and responsibilities.

A **tall structure** (or **vertical structure**) has a large number of levels of hierarchy, so the span of control is likely to be narrow. This means that there are many people between the person at the top of the organization (the CEO or Managing Director) and those at the bottom of the hierarchical structure. Hence, decision-making tends to be centralized and relatively quick. Tall structures can benefit from the advantages of delegation (see above) but can be costly due to the large number of managerial structures in the organization.

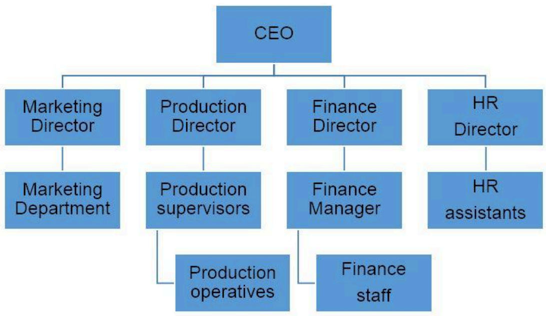
By contrast, a wider span of control means the organization has a **flat structure** (or **horizontal structure**). This means there are only a few levels or layers in the organizational hierarchy. Decision-making is therefore decentralized and therefore takes a relatively longer time. Flatter strucutures tend to benefit from improved and speedier communications as there are fewer layers in the hierarchy. However, they do not create many promotional opportunities for employees and can overburden those in managerial positions.

4. Chain of command (AO2)

The **chain of command** refers to the formal lines of authority in an organization. It can be seen via an organizational chart, which shows the formal path through which commands and decisions are communicated from senior managers to subordinates and operatives lower down in the organizational hierarchy.

The chain of command is typically represented by vertical lines of authority, from top to bottom. This shows that commands (instructions or directions) and decisions are passed down the organizational hierarchy. It also reveals how communications flow throughout the organization.

In the example below, the marketing team would receive communications (commands and decisions) from the director of marketing. If the chief executive officer (CEO)* wanted to communicate with the finance staff about a particular issue, the message would pass through the chain of command, via the finance director to the marketing manager, and finally to the finance staff.



Larger businesses and those with tall (vertical) hierarchical structures tend to have longer chains of command, and vice versa. However, long chains of command can create challenges for operational efficiency and miscommunications. In any case, having clear and formal chains of command help to improve communications within an organization, ensuring that directions and decisions are more likely to be understood and acted by subordinates. Businesses with flatter structures (fewer levels in the organizational hierarchy) have shorter chains of command. However, it is not always practical or beneficial for businesses to reduce the number of layers in its organizational structure.

5. Bureaucracy (AO2)

Bureaucracy refers to administrative systems within an organization. This includes the formal policies and procedures of the business. A bureaucratic organization is one that has a lot of formal rules, regulations and procedures. There is a lack of flexibility as the organization is set in the way it does things.

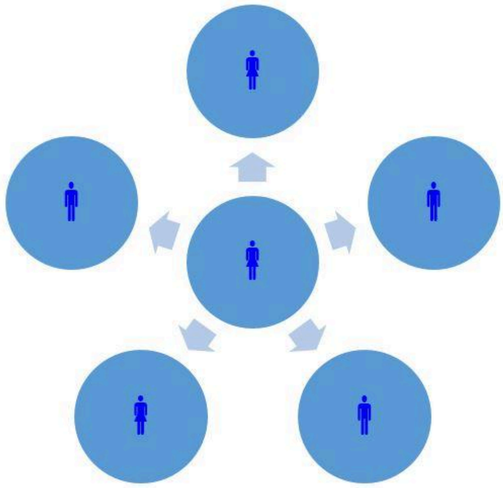
Typically, bureaucratic organizations involve a lot of paperwork to get tasks approved and accomplished. Auditing is also commonplace in order to show that rules, policies and procedures have been correctly followed. It is associated with clear hierarchical structures with employees fulfilling specific roles and being held accountable for their areas of responsibility. Hence, bureaucracy helps managers to ensure they have control of their business and its operations.

Bureaucracy is associated with organizations that are large and well-established, i.e. ones which have been in operation for many years. They are also more likely to have tall hierarchical structures, with a many layers of management. Hence, authority and decision-making tend to be centralized.

However, there are disadvantages. Bureaucratic organizations are inflexible, so are slow in responding to changes in the external business environment. Also, as people have to adhere to fixed rules, regulations and policies, creativity and innovation are essentially discouraged. Nevertheless, the main limitation or criticism is that bureaucracy (with all its detailed and complex rules and procedures) slows down decision making and causes operational inefficiencies.

6. Centralization (AO2)

Centralization refers to the situation in organizations where decision-making is predominantly made by a small group of senior managers at the top of the organizational hierarchy. For example, in a tall organizational structure, with many levels in the organizational hierarchy, decision-making tends to be centralized.



Centralized organization and decision-making

Centralization is typically associated with organizations that have narrow spans of control. Leadership and management are likely to be autocratic or paternalistic. For example, the emergency services (ambulance, fire, and police services) uses a centralized organizational structure and tight chains of command to ensure that their services safeguard the general public.

Centralized decision-making ensures decision-making is swift and that the group of senior managers can maintain better command and control. In particular, centralization should ensure that everyone in the organization pursues the business objectives set by senior executives and directors.

The emergency services use centralized organizational structures

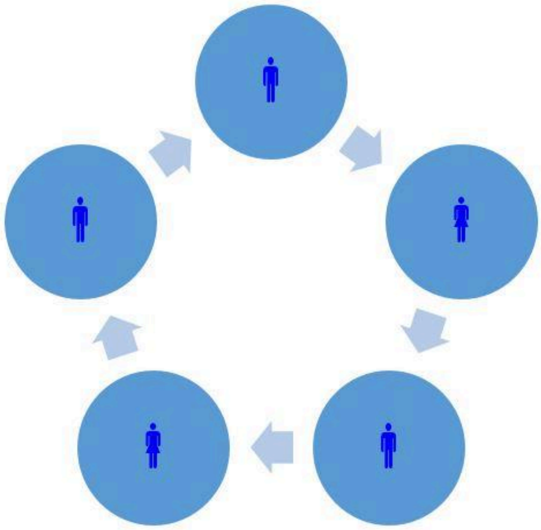
However, as delegation rarely happens in centralized organizations, morale and productivity may be lower than otherwise. In addition, such structures are very rigid (inflexible), which can be demotivating for employees, who cannot express their opinions or suggestions. It also means that centralization is unsuitable for industries that rely on creativity and autonomous decision-making, e.g., the high-tech industry.

Whether an organization is centralized or decentralized (see below) partly depends on the dominant leadership style and the organizational culture. The decision to adopt a centralized organization may reflect the preferred style of leadership style of the business as senior executives and directors wish to retain authority and control of all business activities and operations. This can be beneficial in numerous circumstance, such as:

- Situations when rapid decision making is required, such as during a major crisis than threatens the survival of the business.
- In organizations where low-skilled workers form the vast majority of the workforce, so employees require direction and supervision to meet **organizational objectives**.
- When centralization can lead to cost savings, such as fewer managerial positions throughout the organization or when buying decisions are made centrally (creating opportunities to benefit from **purchasing economies of scale**).

7. Decentralization (AO2)

Decentralization refers to the situation in organizations where decision-making authority is delegated throughout, rather from a central authoritative group. It is, essentially, the opposite of centralization. In a decentralized organization, decision-making authority is delegated to middle and junior level managers, although (as with all organizations) strategic decision-making is made by the group of senior managers.



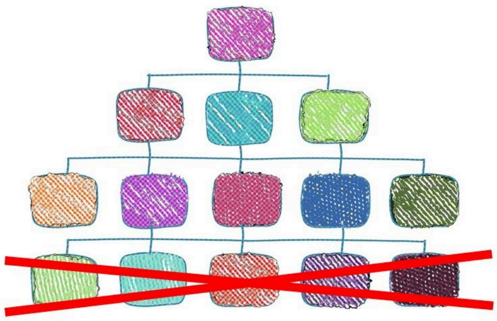
Decentralized organization and decision-making

A decentralized organization tends to have a flatter hierarchical structure, with fewer levels in the organizational hierarchy. Managers tend to have wider spans of control, meaning that subordinates have greater autonomy as decision-making is delegated. Unlike centralized structures which tend to have a 'top-down' approach (autocratic or paternalistic management and leadership styles), a decentralized organization is usually more democratic.

Decentralization can help to improve morale and productivity as workers feel valued and empowered. Decision-making is more flexible, and can usually be made a lot quicker. It also reduces the workload on senior executives and directors, freeing up their time to focus on strategic (rather than operational or tactical) matters.

However, decentralization means it is more difficult for senior managers to know about all of the decisions that are made, especially in large organizations with multiple locations. This makes it more challenging for them to maintain overall control of the organization and to ensure employees maintain clear focus on business objectives.

8. Delayering (AO2)



Delayering occurs when an organization removes one or more layers in its hierarchical structure, i.e. it reduces the number of layers of management to make the organization flatter.

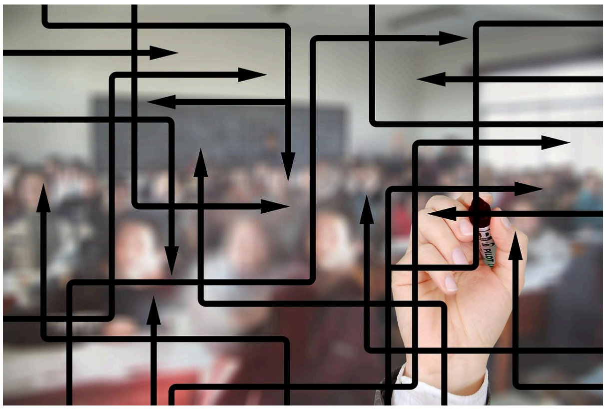
The intention is twofold: (i) to cut costs, and (ii) to remove or reduce bureaucratic inefficiencies in the organization. Delayering removes levels in the organizational hierarchy so can result in substantial reductions in wage costs for the business. Delayering also widens spans of control, and can help to improve communications in the workplace as there are shorter chains of command. For many firms, delayering has been attractive due to the growth in flexible working practices, which has meant less of a need to have traditional, hierarchical organizational structures.

However, delayering adds to the workload of the existing workforce, especially those who have responsibility for a larger team (due to the wider span of control associated with delayering). This can cause anxiety, stress, resentment and conflict, so must be handled carefully by the management team. The management team also need to be sensitive to those who lose out from delayering as their security needs may be threatened, causing demotivation and lower labour productivity. In addition, delegation can cause a loss of institutional knowledge and internal expertise as employees in former managerial positions no longer contribute to the decision making process in the same ways as before.

Top tip!

Do not confuse *delayering* is not the same as *redundancies*, although they can be linked to one another. Delayering does not necessarily cause job losses as people can simply be redeployed to other positions or roles in the organization. Essentially, delayering is a reduction in the number of layers in the hierarchical organizational structure. By contrast, redundancies means job losses as there is no longer demand for certain roles in the organization.

9. Matrix structure (AO2)



Organizational structures are not static due to the dynamic nature of the global business environment and changes in the **external environment**. In reality, organizational structures are often more flexible and adaptable to change. A **matrix structure** is a flexible organizational structure based on the specific needs of a particular business to meet the changing needs of the organization.

A matrix structure involves organizing or assigning individuals to multiple roles, so they are placed in multiple reporting lines. This type of organizational structure is typically used to promote cross-functional collaboration. Individuals may report to multiple managers, and be part of multiple teams. For example, a teacher of IB DP Business Management might also be on the TOK team, a pastoral leader, or even on the Senior Leadership Team. This type of structure allows for more efficient decision-making and faster response times due to improved communications. However, it can also lead to confusion and conflict due to the complex reporting lines and people holding multiple roles.

Matrix structures are a type of task-oriented organizational structure is designed to allow firms to be responsive to changes in market demand for goods and services as well as changing needs of a business. As a flexible organizational structure, it can be used by any type of business in many different situations. Using experts from across the organization in a matrix structure can help to generate new and creative ideas, as well as improve productivity. The flexibility enables organizations to overcome limitations associated with traditional or hierarchical organizational structures.

However, matrix structures can isolate team members who work outside of their departments and ‘comfort zone’. Sub-cultures are formed which might unsettle some employees. There might also be conflicting interests, as employees report to two or more managers (their designated line manager and project managers in the matrix structure), so have to deal with uncertainties about prioritising different tasks. Conflict can result between managers and employees if there are divided loyalties, resulting in lower morale and productivity. Furthermore, matrix structures are complex so can be expensive to execute.

Similarly, some employees may feel demoralized due to the increased workload and pressures, especially if they are involved in numerous assignments happening at the same time. Finally, additional resources and finance are required to fund the different teams in a matrix structure.

Key terms

Authority refers to the official rights of a line manager to give orders and instructions to his/her subordinates in the organization to get things done.

Bureaucracy refers to administrative systems within an organization. This includes the formal policies and procedures of the business.

Centralization refers to the situation in organizations where decision-making is predominantly made by a small group of senior managers at the top of the organizational hierarchy.

The **chain of command** refers to the formal lines of authority in an organization.

Decentralization refers to the situation in organizations where decision-making authority is delegated throughout, rather from a central authoritative group.

Delayering occurs when an organization removes one or more layers in its hierarchical structure, i.e. it reduces the number of layers of management to make it flatter.

Delegation occurs when a line manager entrusts and empowers a subordinate with **authority** to successfully complete a particular task, project or role.

A **flat structure** has few levels in the organizational hierarchy.

Hierarchical structures in an organization show where each worker fits within the firm, showing his/her level of seniority.
Levels of hierarchy refers to the number of layers of formal authority. It is represented in an organizational chart.
A **line manager** is someone with direct authority over the employees they supervise and are responsible for as shown in an organizational chart.
A **matrix structure** is a form of flexible organizational structure that uses teams of employees with suitable skills and qualifications drawn from different departments or divisions of the business.
The **organizational chart** is a diagrammatic representation of an organization's formal organizational structure.
The **organizational structure** of a business shows the interrelationships and hierarchical arrangements within the firm.
Responsibility refers the duties and obligation assigned to a person in the organization.
The **span of control** refers to how many workers are directly accountable to (or under the authority of) a particular line manager. It is the number of subordinates for whom a manager is directly responsible.
A **tall structure** has many levels of hierarchy, so the span of control is likely to be narrow.