

# Terminology for understanding organisational structures

Every organisation has a specific structure that determines the place and the role of the employees in the organisation, the levels of hierarchy, the authority in the organisation and the lines of communication. The organisational structure determines the way in which tasks are allocated and also determines the coordination and supervision between employees so that the organisational aims are achieved.



**Figure 1.** The structure of an organisation determines the role of employees.

Credit: Dimitri Otis, Getty Images

Structure will vary depending on the objectives of the organisation. The structure of the organisation will also determine how it operates. In an organisation, employees that are more skilled and experienced will have more responsibility and higher positions of authority. These employees are at managerial level and control and coordinate the work of other employees. They often have to delegate responsibility to other employees in order to contribute best to the organisational goals.

# Delegation

Delegation empowers employees to make decisions; it shifts the decision-making authority from one level to a lower one. However, the person who delegates the work is still accountable for the outcome of the work. For example, Leticia recently took the job of an accounting manager in a company. She had five people under her supervision, but found that she was staying later and later each day to complete the required work herself. After some time, she realised that she had to ask her subordinates to complete some of the tasks. The late work in the office was taking its toll on her and her time with her family.

Delegation can help in building skills and motivating people ([Subtopic 2.4 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-39559\)](#)). But it can also cause frustration and confusion if the person to whom responsibilities are delegated is not willing or able to take on the responsibility. Some managers also often find it difficult to delegate for a variety of reasons. They may be unwilling to delegate tasks to their subordinates, perhaps because the managers feel that their subordinates will not complete the work well. Generally, managers should delegate tasks that:

- fit another employee's skills better than their own
- are repetitive (so manager's time could be spent doing more complex work)
- require less expertise



**Figure 2.** A good manager knows when and how to delegate work to a subordinate to optimise work for them both.

Credit: Nitat Termmee, Getty Images

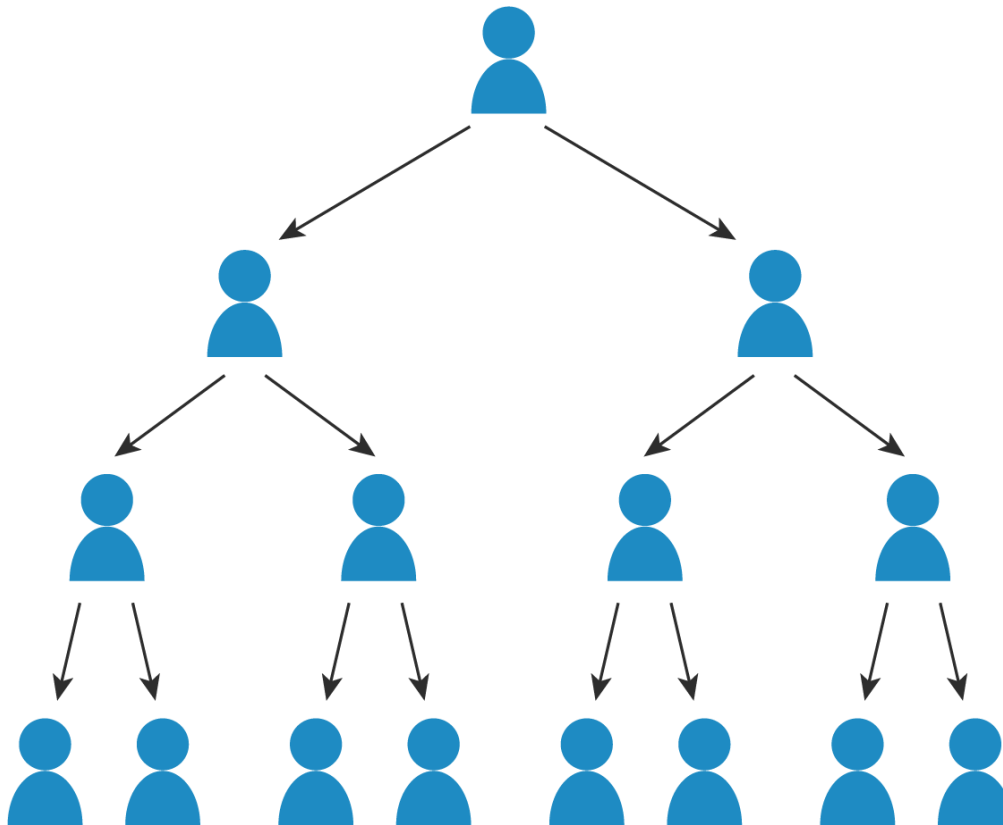
### Making connections

Delegation does not usually involve an increase in financial rewards. However, taking on more responsibility can be considered a non-financial reward because the challenge can lead to increased motivation. You will learn more about these kinds of rewards in [Subtopic 2.4 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-39559\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-39559).

## Span of control

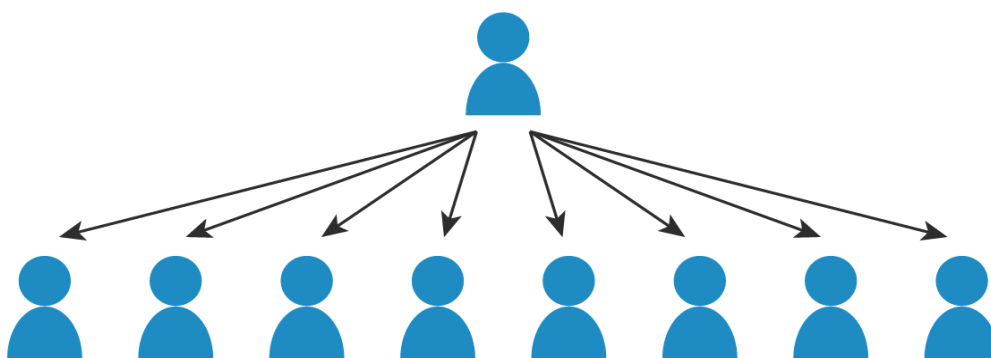
Span of control describes the number of subordinates that a manager or supervisor can directly supervise. The span of control will depend on the nature of the work.

A narrow span of control means that each manager has few people to supervise. This structure is often used when the work is highly complex and varied and where employees may need more ongoing support. This implies close supervision and direct control of the supervisor over the employees. A narrow span of control (**Figure 3**) also results in many levels of management, less independence and less decision authority for subordinates, and a large distance between top management and staff.



**Figure 3.** A narrow span of control.

A wide span of control (**Figure 4**) means that a manager will have many subordinates. Where the work is less complex and variable, a manager can supervise dozens of employees. In mass production for example, where tasks are clearly defined or repetitive and require little supervision, the span of control is much wider.



**Figure 4.** A wide span of control.

## Hierarchy and levels of hierarchy

Hierarchy is a term that refers to the ranking of people in an organisation according to their status or authority. When you see levels in an organisation, as in **Figure 3** and **Figure 4**, a hierarchy is present.



**Figure 5.** Hierarchy refers to the different levels of authority in an organisation.

Credit: Dimitri Otis, Getty Images

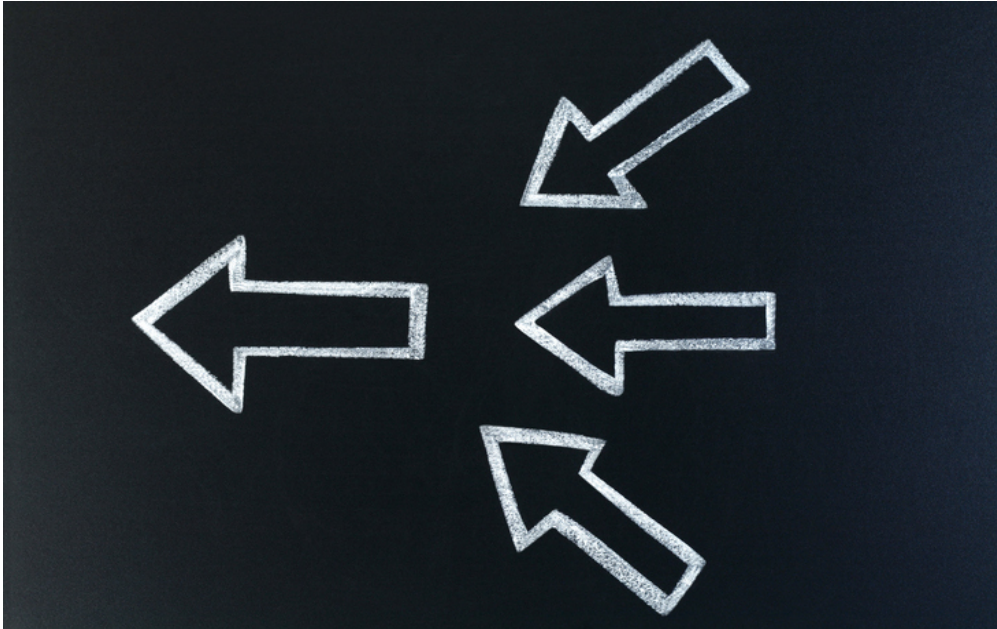
Some organisations have many levels of hierarchy; they have a tall (vertical) organisational structure. In tall organisational structures, the span of control is narrow and the communication flows mostly from the top down.

Other organisations have few levels of hierarchy, with a flat (horizontal) organisational structure. The decision-making is delegated to employees, and the span of control is wide. Communication may flow from top down and bottom up.

## Chain of command

The chain of command is the line of authority and responsibility along which orders are passed from one person to another. To ensure efficiency and effective decision-making, the chain of command in an organisation should be clear.





**Figure 6.** A clear chain of command supports efficient decision-making.

Credit: jayk7, Getty Images

An organisation with many levels of hierarchy will have a ‘long chain of command’. In such an organisation, communication takes a long time to reach the bottom layer of employees. This slows down the process of reacting to issues, and can cause customer dissatisfaction and other production issues.

Organisations with fewer levels of hierarchy have a ‘short chain of command’ and communication flow is faster. This allows faster reaction to issues with products and makes the organisation more efficient in dealing with problems.

## Bureaucracy

Bureaucracy is a system of administration with clear hierarchical structure in which people are expected to follow precisely defined rules and procedures. It is used to describe the formal rules in an organisation, as well as the communication and impersonal relationships.



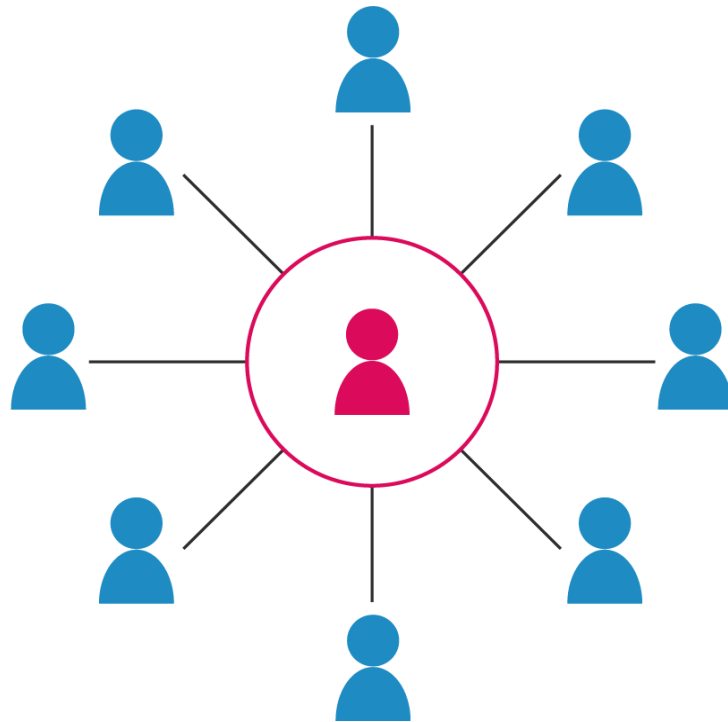
**Figure 7.** Bureaucracy is common in hierarchical structures such as public administration.

Credit: Wolfgang Filser / EyeEm, Getty Images

Bureaucracy can be found in public administration and in military organisations, which have hierarchical structures with many levels. Max Weber (1864–1920), a German sociologist and political economist, is considered to be the ‘father of modern bureaucratic management theory’. His theory of bureaucratic management discussed structuring an organisation into a hierarchy into which the members are governed by clearly defined decision-making rules. In Weber’s view, this was the way to achieve the organisational goals.

## Centralisation and decentralisation

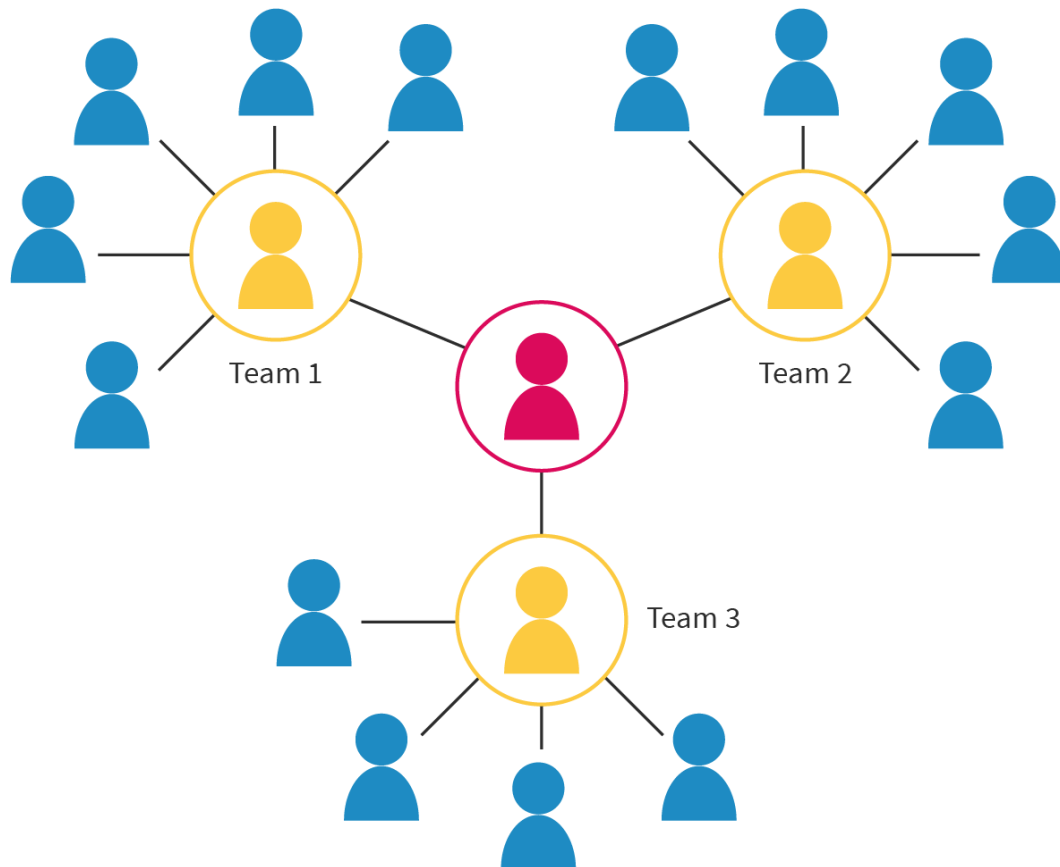
Centralisation (**Figure 8**) is a situation where only one individual or small group of top managers makes decisions about the company’s direction. This structure is often used by small companies where the owner is responsible for all business activities.



**Figure 8.** A centralised organisation.

A decentralised organisational structure (**Figure 9**) relies on a team environment at different levels to achieve the company's goals. This means that many decisions are not taken at the centre of the business; instead they are delegated to a lower level of management.





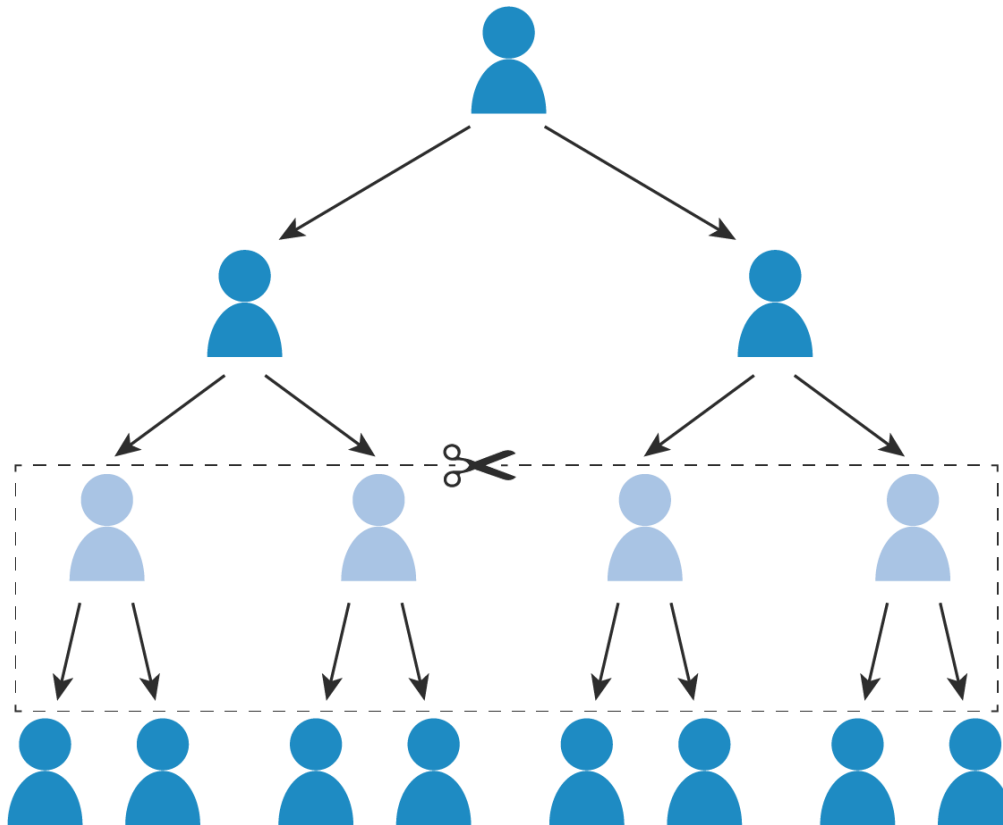
**Figure 9.** A decentralised organisation.

### Making connections

Whether an organisation has a centralised or decentralised business structure can be influenced by the type of leadership style ([Subtopic 2.3 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-39554\)\)](#). Those organisations with more autocratic leadership tend to be more centralised. In contrast, organisations with more democratic leadership tend to be more decentralised.

## Delayering

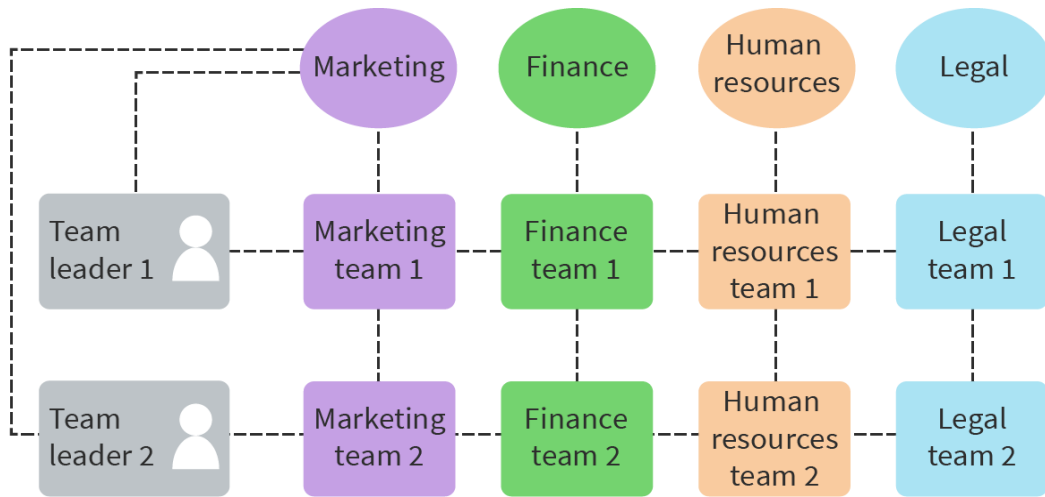
Delayering involves reducing the number of levels in the organisational hierarchy. Delayering can help improve efficiency by improving communication. It can lead to more delegation and empowered employees, increasing motivation. Delayering an organisation does not necessarily involve job cuts. But delayering can involve a wider span of control (see **Figure 10**).



**Figure 10.** Delayering removes layers of hierarchy, widening the span of control and shortening the chain of command.

## Matrix structure

A matrix organisation (or project-based organisation) has a structure in which team members report to multiple managers. In this type of organisation, team members (whether external or internal) report to a project manager as well as to the department manager (such as the IT manager, the finance manager or the human resource manager). You can see how a matrix organisation is structured in **Figure 11**.



**Figure 11.** In a project-based (matrix) organisation, there are employees from each functional department in each project.

You can see in **Figure 11** that there are teams that are working on a specific project. In each team are representatives of the marketing team, finance team, human resources team and legal team. All of these specialists are needed to work on a project. This means that they report to the project leader as well as to the manager of their own department. As a result, the organisational structure looks like a matrix.

The matrix structure allows greater autonomy, stimulates cooperation between areas of specialisation and between departments, establishes a new relationship in the chain of command, and gives employees the opportunity to acquire functional or general management skills. (HL students will learn more about project-based (matrix) structures in [Section 2.2.4 \(:sectionlink:113386\).](#))

### Exam tip

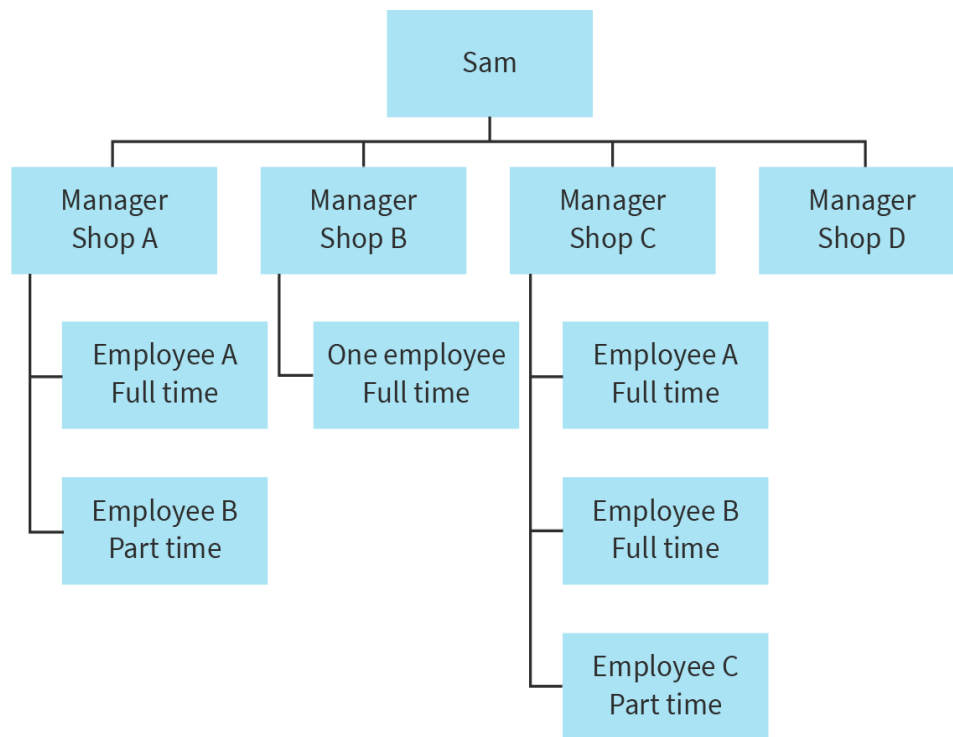
When studying organisational structures for the exam, it is helpful for you to draw pictures of organisational charts to aid your memory. Memory is strengthened by using pictures.

### Activity

**Learner profile:** Knowledgeable

**Approaches to learning:** Thinking skills (transfer)

Sam is the owner of four shops in different cities. Each shop has its own manager and each shop has a different number of employees according to its level of sales. The organisational structure of Sam's business is shown in **Figure 12**.



**Figure 12.** Organisation chart for Sam's business.

The manager of each shop can have meetings with the shop's suppliers. The managers can also recruit their own employees. However, all supply and final hiring decisions are made by Sam. Sam visits one shop every day, so he has frequent contact with managers and customers.

Based on the information in **Figure 12** and the scenario given, describe the organisational structure of Sam's business using the following terminology:

- hierarchy/levels of hierarchy
- span of control
- chain of command
- centralised/decentralised