

## 2.2 Organisational structure

# Types of organisation charts

An organisational chart is a graphical illustration of relationships between the departments and people in an organisation. The chart indicates the flow of communication, responsibility and reporting within an organisation. Organisational charts range from very simple ones for small businesses to very complex ones for corporations with global activities. Organisational charts provide stakeholders with a clear picture of the reporting structure.



**Figure 1.** An organisational chart is a graphical illustration of the organisation's structure.

Credit: lucadp, Getty Images

The most basic distinction between organisational charts is whether they show a flat (horizontal) organisational structure and or a tall (vertical) organisational structure. These two terms – flat and tall – refer to the levels of management in the organisational hierarchy and the distance between the top management and the entry-level employees.

## Theory of Knowledge

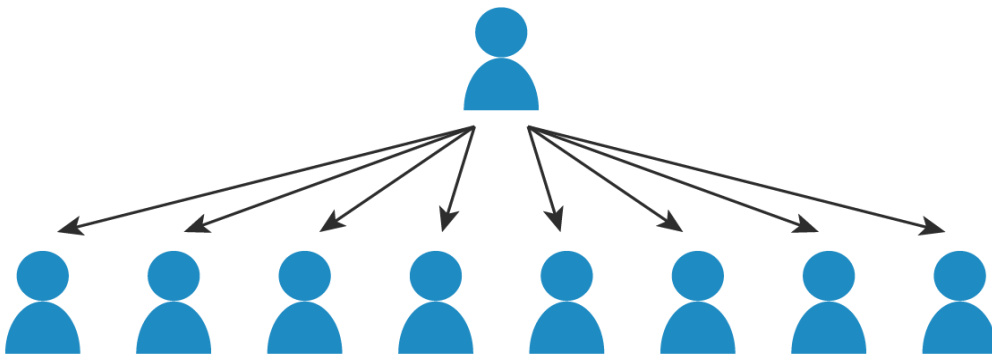
The structure of an organisation impacts the relationships between employees and the overall culture of the organisation ([Subtopic 2.5 \(:sectionlink:113399\)](#) HL), and vice versa. Culture refers to the set of values, attitudes, beliefs, expectations and assumptions of an organisation.

As you read about the different types of organisational structures, consider how they influence knowledge creation through their impact on relationships, the flow of information and the overall culture of a business.

## Flat (horizontal) organisational structure

A flat (horizontal) organisational structure has few layers of hierarchy, a short chain of command and wide span of control, as shown in **Figure 2**. This type of structure is often suitable for small companies or startups, but may also work in larger organisations in some situations.

In this type of organisational structure, employees have more authority to make decisions independently; they are empowered. The employees still have supervisors, but the sharing of decision-making power improves motivation ([Subtopic 2.4 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-39559\)\)](#) and accountability.



**Figure 2.** A flat (horizontal) organisational structure has few levels of hierarchy.

In organisations with a flat structure, there may be no job titles, seniority or managers. [The gaming company Valve \(https://www.valvesoftware.com/en/people\)](https://www.valvesoftware.com/en/people), which created the games Half-Life, Counter-Strike and Portal, is a good example of a business with a flat organisational structure. There are no job titles in the company and nobody tells employees what to work on. The employees can see what projects are ongoing and can join the project they want. If an employee wants to start their own project, they have to secure the funding and build their team. Many businesses may start with a flat structure but, with growth, move to taller organisations. Some businesses, however, have moved towards a flatter, self-organised structure known as a [holacracy](#), as they have grown. (HL students will learn more about this form of flat structure in [Section 2.2.4 \(:sectionlink:113386\).](#))

Although in flat organisations there is no formal hierarchy, an informal hierarchy often emerges based on seniority of employees. Accountability, which can be seen clearly in formal structures, may become an issue where the hierarchy is informal. **Video 1** outlines how a number of companies are using a flat organisational structure.

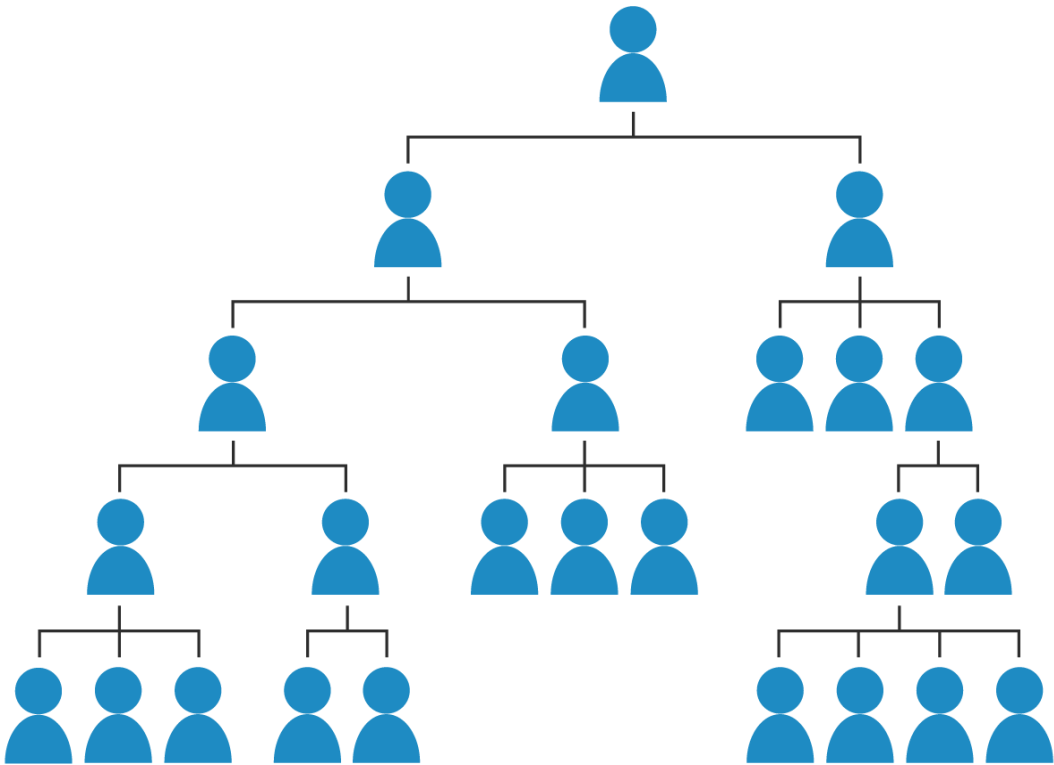
### Top 10 Companies with a Flat Organisational Structure



**Video 1.** Ten businesses with flat organisational structures.

## Tall (vertical) organisational structure

In a tall organisational structure, there are many levels of authority between the top manager and the entry-level employees, as shown in **Figure 3**. There is a long chain of command as communication usually flows from top to bottom. There is little to no delegation of authority and a narrow span of control. Organisations that have many layers of hierarchy like this are more formal and bureaucratic, with many levels of control. In such organisations, the division of labour is more specialised.



**Figure 3.** A tall organisational structure has many layers of hierarchy.

Other types of organisational structure are hierarchical organisational structures, or organisational structures by product, by function and by region. These organisational structures can be either flat or tall.

**Activity**

**Learner profile:** Knowledgeable  
**Approaches to learning:** Thinking skills (transfer)

Compare flat and tall organisational structures by copying and completing this table.

	Flat organisational structure	Tall organisational structure
Levels of hierarchy		
Span of control		

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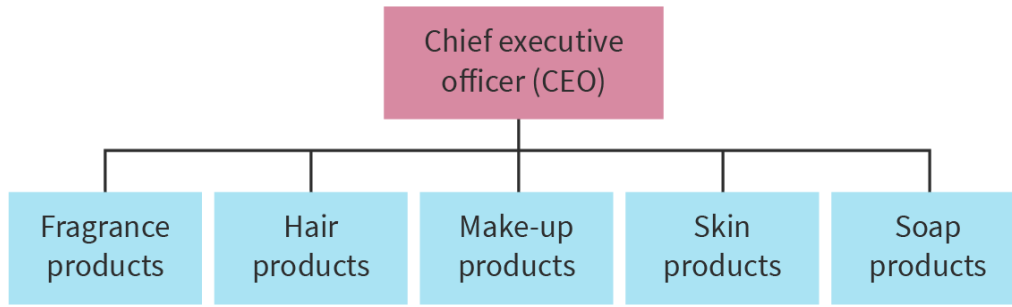
	Flat organisational structure	Tall organisational structure
Decision process		
Chain of command		
Delegation		

# Organisational structure by product

With an organisational structure by product, the business is organised into departments or divisions. Each department focuses on a different product. Employees are assigned to the product or customer to which their work relates. Employees are focused on the specific market segment related to their product and, as a result, meet the customer needs more effectively.

Such a structure can encourage competition between departments to produce a more viable product. However there can be drawbacks; functions may be duplicated (for example there may be a different sales force in each department) and there is no central control over each separate division.

After World War II, companies such as General Motors (<https://www.gm.com>) expanded their sales and grew and implemented a business structure by product. Organising a business by product or product line allows easier departmentalisation and best use of personal skills and specialised knowledge. This type of structure is ideal for organisations with multiple products. **Figure 4** shows organisation by product for a cosmetics company.



**Figure 4.** Organisational structure by product.

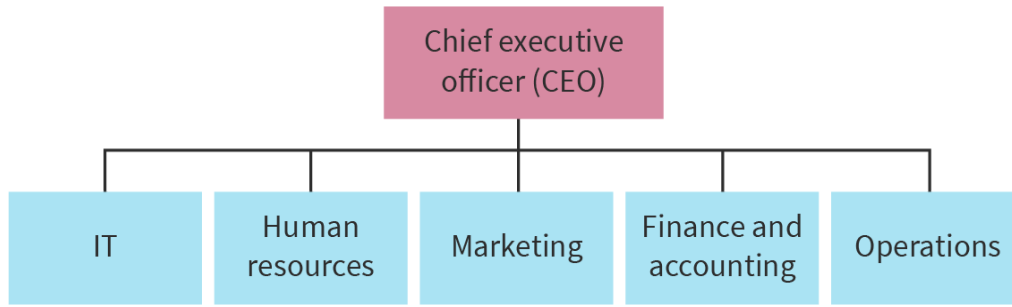
Another example of a business that is organised by product is Marubeni (<https://www.marubeni.com/en/company/organization>), a major Japanese conglomerate that handles products and provides services in a broad range of countries. This business has organised its activities into the following groups according to the different products that it offers:

- The Consumer Products Group, including lifestyle and food divisions
- The Materials Group, including metal and mineral resources division and chemicals division
- The Energy and Infrastructure Solution Group, including power and infrastructure project divisions
- The Transportation and Industrial Machinery, Financial Business Group, including the aerospace and ship division and financing, leasing and real estate division
- Digital Innovation, including the next generation business development division

## Organisational structure by function

An organisational structure by function is a common type of organisational structure in which the organisation is divided into smaller groups based on specialised functional areas, such as marketing, production, finance and IT.

In such organisations, employees are grouped according to a specialised set of roles or tasks. Businesses that are structured in this way operate well in stable environments where changes to business strategies do not happen often. The level of bureaucracy in this organisational structure makes it difficult for organisations to respond to changes in the market quickly. **Figure 5** shows an example of a business organised by function.



**Figure 5.** Organisational structure by function.

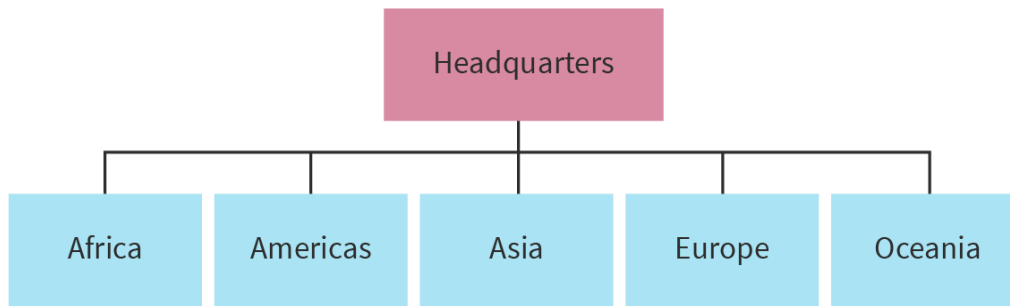
An example of a business that is organised by function is the Australian company Telstra (<https://www.organimi.com/organizational-structures/telstra>), a business in the telecommunication industry.

## Organisational structure by region

Organisational structure by region is a type of organisational structure used by organisations with operations in different geographical locations. It is also called a 'geographical organisational structure'. Multinational companies in industries such as retail, manufacturing, hospitality, and transportation may use this type of organisational structure.

The organisation's offices in each region can operate individually while following company policies and values. Offices can be found in local, national or international locations. Each location is overseen and directed by one or several managers. They take responsibility for the operation and its finances, and often work to tailor the business strategy to the local conditions. Each regional location may report to an executive responsible for overseeing the operations of several locations, or it may report directly to the top management in the headquarters of the organisation.

The drawback of such organisational structure is that decision-making can become decentralised easily as the regional units have greater autonomy. This can affect the commitment to the overall organisational strategy. **Figure 6** shows the organisational chart for a business organised by region.



**Figure 6.** Organisational structure by region.

A good example of a business that is structured by region is the International Baccalaureate, which divides its operations according to the following regions:

- America
- Asia Pacific
- Africa, Europe and the Middle East

### Activity

**Learner profile:** Thinkers

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

Produce an organisational chart of your school. Using this organisational chart, provide examples of delegation, span of control, hierarchy and chain of command.

- Would you describe your school's structure as tall or flat? Justify your answer.