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Teacher view

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- Appropriateness of different organisational structures given changes in external factors
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Glossary

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The big picture

Rappi is a Colombian multinational company that provides on-demand delivery services. Providing an app for transactions, Rappi acts as an intermediary between consumers and shops, groceries, kiosks, restaurants, offices and other supply stores, and pharmacies. Rappi currently operates in nine markets (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru and Uruguay) and has 10 million active users per month.

Rappi's delivery workers, called *rappitenderos*, are considered freelancers, rather than full employees of the company. They work in the gig economy. Workers can disconnect from the app when they do not want to deliver. While this arrangement gives many vulnerable workers their first step into the labour market, it also means that workers have fewer benefits and protections than full employees. This organisational structure is common among on-demand delivery companies around the world and has caused a certain amount of controversy. Such workers have participated in strike action, and labour activists have been advocating for better conditions for them.

People work together towards achieving a common goal in an organisation. The work of each employee in the company is organised to support the goals of the organisation. The organisational structure determines how tasks are divided and coordinated, who employees report to, who has the authority to define tasks to employees, and what the role of each employee is within the organisation. As the example with Rappi and other businesses that use gig workers shows, the way in which a business organises its employees has consequences for its operations and for the employees themselves. This subtopic will explore different types of organisational structures that are used in the wide variety of businesses operating today.

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Figure 1. The delivery business Rappi offers a new type of business structure.

Source: "Rappi delivery" [\(https://www.flickr.com/photos/carlosfpardo/49788624533/in/album-72157707781638925/\)](https://www.flickr.com/photos/carlosfpardo/49788624533/in/album-72157707781638925/)" by Carlos Felipe Pardo is licensed under CC BY 2.0 [\(https://creativecommons.org/licenses/by/2.0/\)](https://creativecommons.org/licenses/by/2.0/).

Learning objectives from the IBDP Business Management guide with assessment objective level:

- **Explain** the following terminology: delegation, span of control, levels of hierarchy, chain of command, bureaucracy, centralisation, decentralisation, delayering, matrix structure (AO2)
- **Distinguish** between various types of organisational structure: flat/horizontal, tall/vertical, organisation by product, function or region (AO2)
- **Construct** different types of organisational charts (AO4)
- **Evaluate** the appropriateness of different organisational structures given a change in external factors (AO3)
- **Evaluate** the changes in organisational structures and, more specifically, project-based organisation and Handy's 'shamrock organisation' (AO3) (HL)

2. Human resource management / 2.2 Organisational structure

Terminology for understanding organisational structures



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Different types of organisational structures Different types of organisational structures



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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

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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.



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(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/)). 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.

Delegation can help in building skills and motivating people (Subtopic 2.4)

(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/)). 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/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/).



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Span of control

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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.

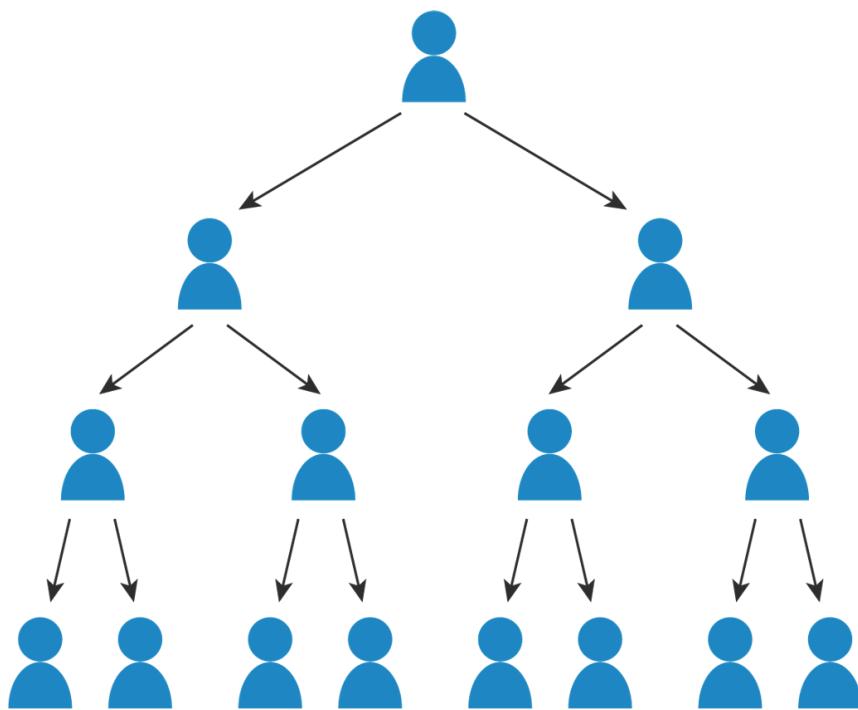


Figure 3. A narrow span of control.

More information for figure 3

The image depicts a hierarchical organization structure with multiple levels. At the top, there's a single individual who supervises two other individuals. Each of these individuals further supervises another two, making a total of four individuals in the next layer. The base layer shows eight individuals, each being supervised by the four in the above layer, two for each. This diagram visually illustrates a narrow span of control, where each manager has a limited number of direct reports, allowing close supervision and control. The structure is symmetric, emphasizing equal distribution of control across different branches within the organization hierarchy.

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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.

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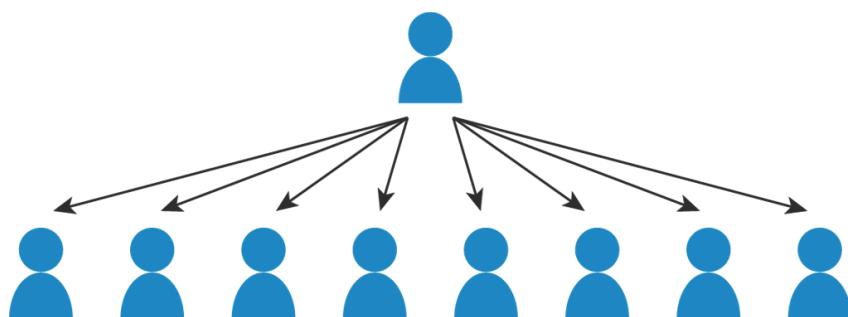


Figure 4. A wide span of control.

More information for figure 4

The image illustrates a management concept known as a "wide span of control." It shows a diagram with a figure at the top representing a manager. Below the manager are multiple figures lined up in a row representing subordinates. Arrows extend from the manager to each subordinate, showcasing the flow of supervision or communication. This visual representation is used to indicate a scenario where one manager is responsible for overseeing a large number of employees, suggesting that the tasks involved are less complex and require minimal direct supervision.

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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.



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

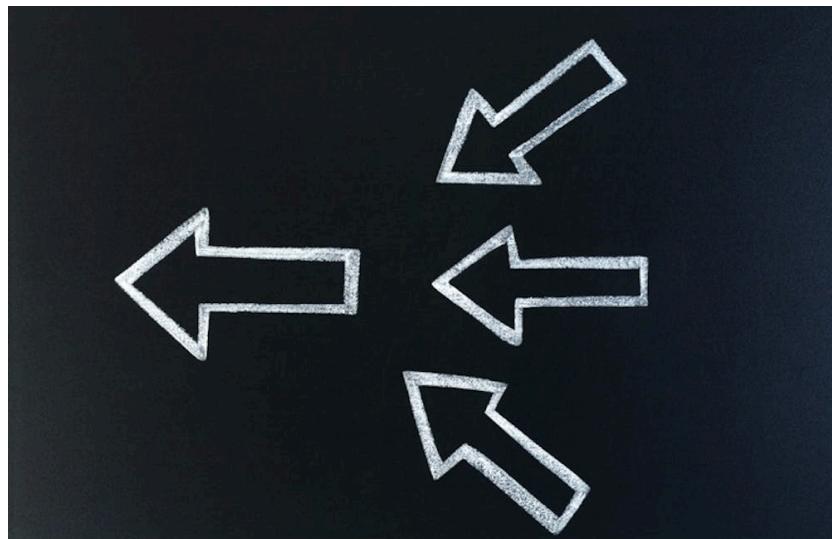
Credit: Dimitri Otis, Getty Images

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.



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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’.



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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.

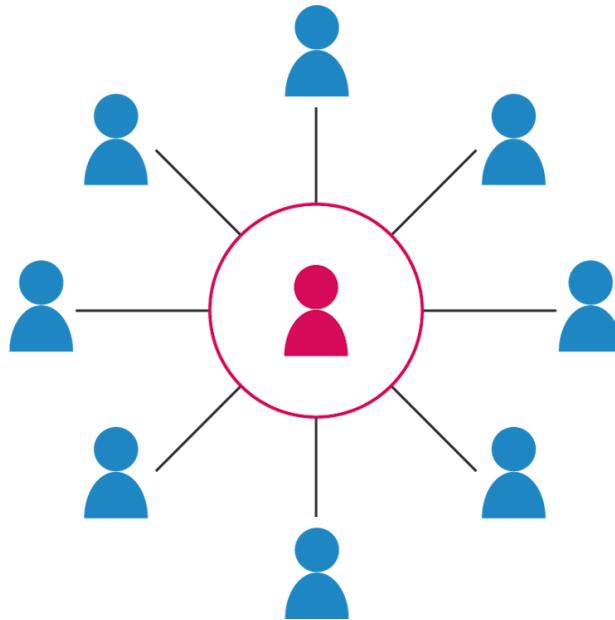


Figure 8. A centralised organisation.

 More information for figure 8

The image is a diagram representing a centralised organisation. In the center, there is a red figure symbolizing the top manager or decision-maker, surrounded by a circle. Radiating outward, there are six lines connecting to blue figures, indicating the members of the organization. This visual setup illustrates a structure where decision-making is concentrated at the center with the central figure having direct connections to each member, emphasizing a top-down control approach.

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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.

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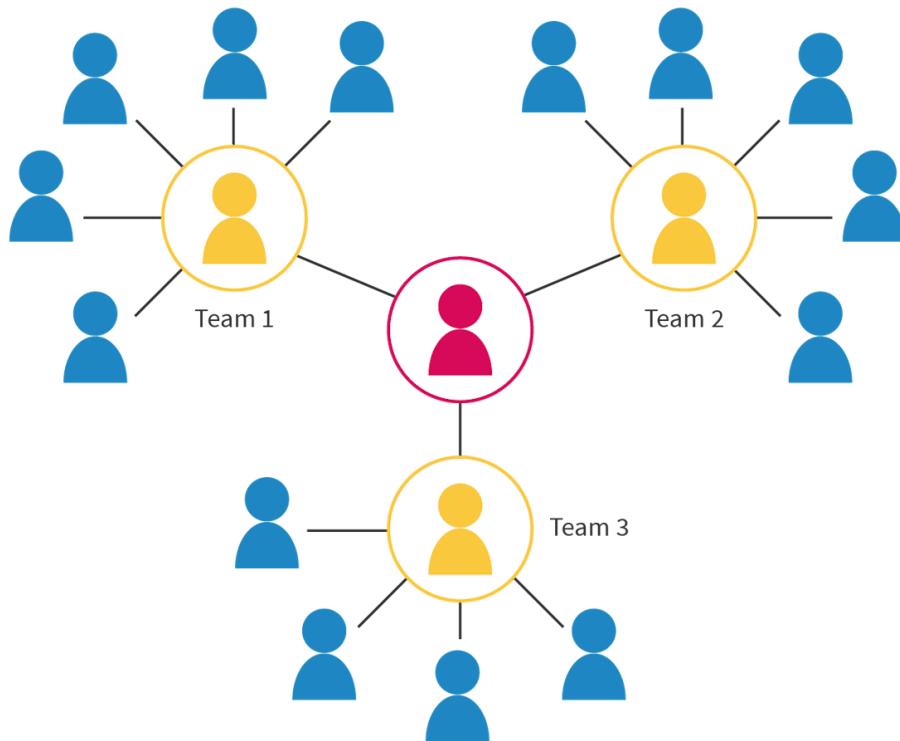


Figure 9. A decentralised organisation.

More information for figure 9

The diagram illustrates a decentralized organizational structure. At the center, there's a main circle representing a higher management position, connected to three other circles labeled as Team 1, Team 2, and Team 3. Each team circle has multiple lines extending outwards, each connected to a smaller icon representing team members. Team 1 and Team 3 have five team members, while Team 2 has six. The structure shows that decision-making is distributed across teams rather than centralized.

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🔗 Making connections

Whether an organisation has a centralised or decentralised business structure can be influenced by the type of leadership style ([Subtopic 2.3 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39392/\)](#)). Those organisations with more autocratic leadership tend to be more centralised. In contrast, organisations with more democratic leadership tend to be more decentralised.



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Delayering

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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**).

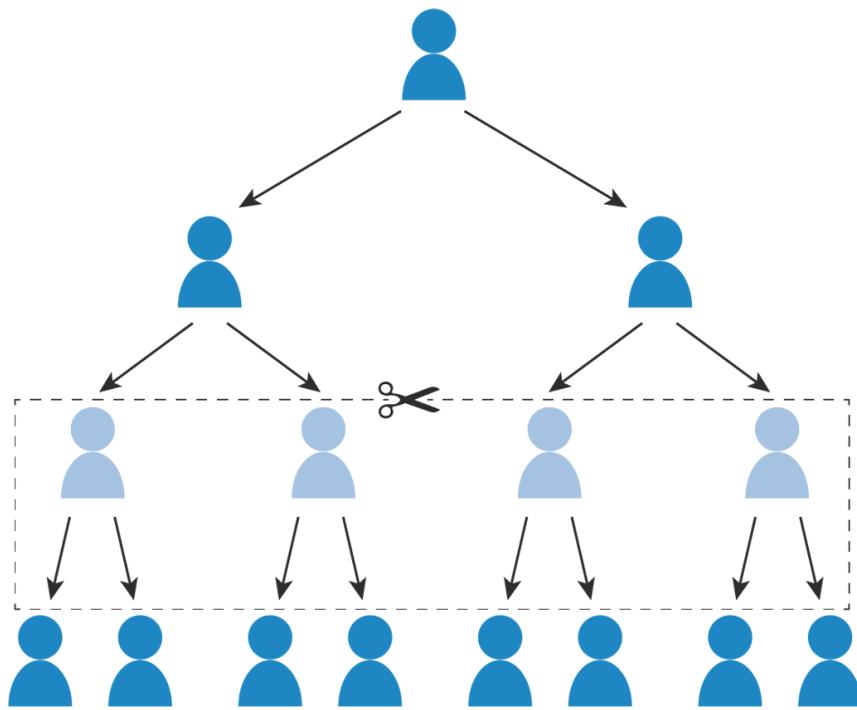


Figure 10. Delayering removes layers of hierarchy, widening the span of control and shortening the chain of command.

More information for figure 10

The image is a diagram representing an organizational hierarchy and the process of delayering. At the top is a single figure that represents the highest level in the hierarchy. Below this, two figures are connected to the top figure by arrows, indicating they report directly to the top figure.

Next, two additional, central figures are shown on the next hierarchical level below, each connected by arrows to the two middle figures above them, denoting their direct reporting line. These two central figures are enclosed within a dashed box, which is paired with scissor cuts indicating that this layer is meant to be removed as part of delayering.

Below this removed layer, there are eight figures at the bottom level, four on each side, who are connected with arrows to the figures above them in the removed layer. These figures represent the employees who will have a broader span of control and shorter chain of command once the middle layer is eliminated.

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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**.

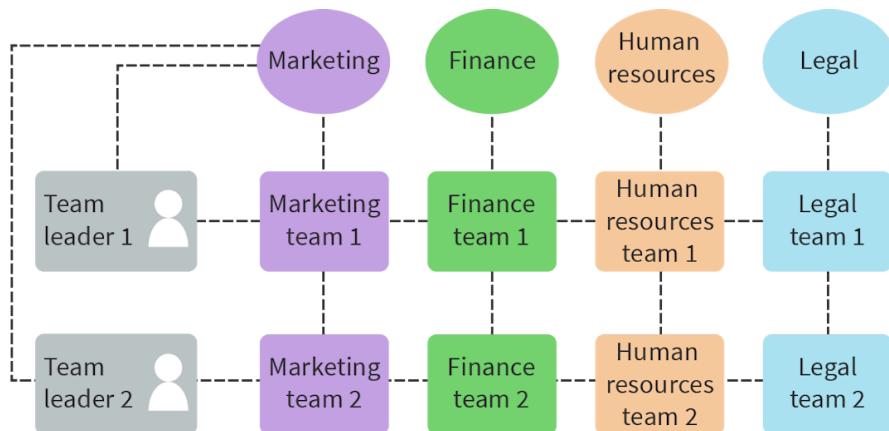


Figure 11. In a project-based (matrix) organisation, there are employees from each functional department in each project.

More information for figure 11

The diagram illustrates a matrix organizational structure with two team leaders on the left side, each coordinating with multiple functional teams. The top of the diagram has four functional areas: Marketing, Finance, Human Resources, and Legal, each represented by a colored circle. Below each function, there are corresponding teams labeled "Marketing team 1," "Finance team 1," "Human resources team 1," and "Legal team 1" on the first row; and "Marketing team 2," "Finance team 2," "Human resources team 2," and "Legal team 2" on the second row. Dotted lines connect the team leaders to the respective teams, indicating dual-reporting lines typical of a matrix organization. There is no direct hierarchy, emphasizing the collaborative approach of team members reporting to both their functional manager and project leader.

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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.

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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 (/study/app/business-hl/sid-351-cid-762729/book/changes-in-organisational-structures-hl-id-39389/)).

① 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**.

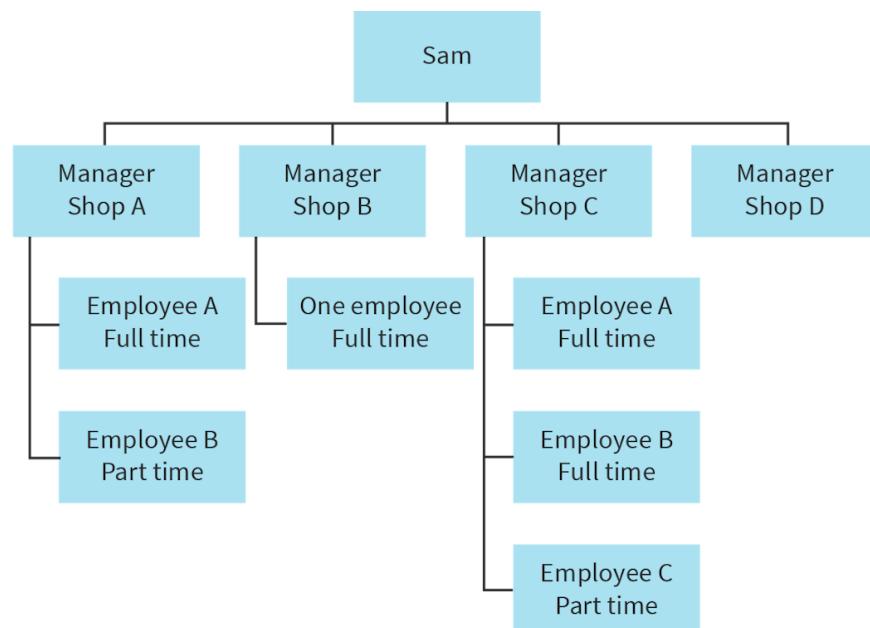


Figure 12. Organisation chart for Sam's business.

🔗 More information for figure 12



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The organizational chart illustrates Sam's business structure. At the top level is Sam, the owner. Under Sam, there are four shop managers, each responsible for one shop labeled as Shop A, Shop B, Shop C, and Shop D. Each manager has employees working under them. Manager Shop A oversees Employee A (full-time) and Employee B (part-time). Manager Shop B supervises one full-time employee. Manager Shop C leads Employee A (full-time), Employee B (full-time), and Employee C (part-time). Manager Shop D does not show any listed employees. The chart is hierarchical, indicating the chain of command from Sam to the managers and then to the employees.

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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

3 section questions ▾

2. Human resource management / 2.2 Organisational structure

Types of organisational charts

Types of organisation charts 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.



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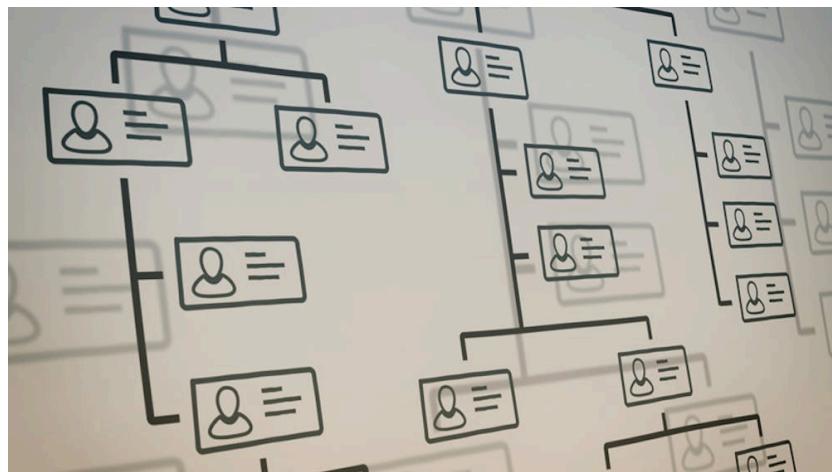


Figure 1. An organisational chart is a graphical illustration of the organisation's structure.

Credit: lucadp, Getty Images

More information for figure 1

The image is an organisational chart that visually represents the hierarchy and relationships within an organisation. It displays several connected boxes that contain icons symbolizing individuals or roles within the organisation. These boxes are arranged in a structured format to illustrate the flow of communication and reporting. The chart highlights the connections and reporting lines between different departments or individuals, showing a systematic representation of an organisation's structure. This type of chart helps clarify the levels of authority and responsibility, as well as the communication pathways within an organisation.

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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 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39398/\)](#) 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.

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Flat (horizontal) organisational structure

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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 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/\)](#)) and accountability.

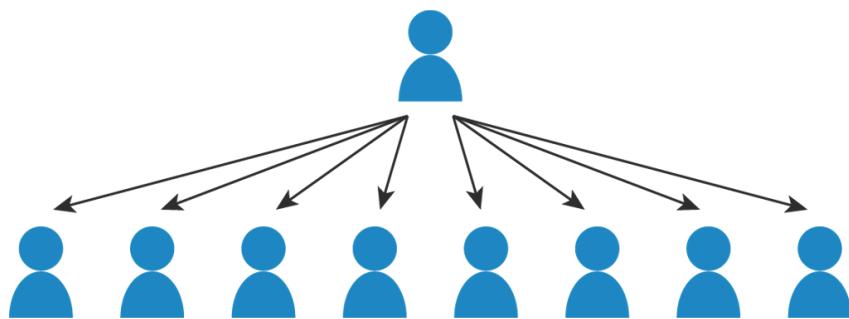


Figure 2. A flat (horizontal) organisational structure has few levels of hierarchy.

More information for figure 2

This diagram illustrates a flat organizational structure, depicting one leader figure at the top with lines extending down to represent direct communication and access to multiple subordinates. Each subordinate is represented by a person-like icon organized in a horizontal line beneath the leader. The arrows indicate direct supervision, symbolizing fewer hierarchical levels and more equality in decision-making power across the organization.

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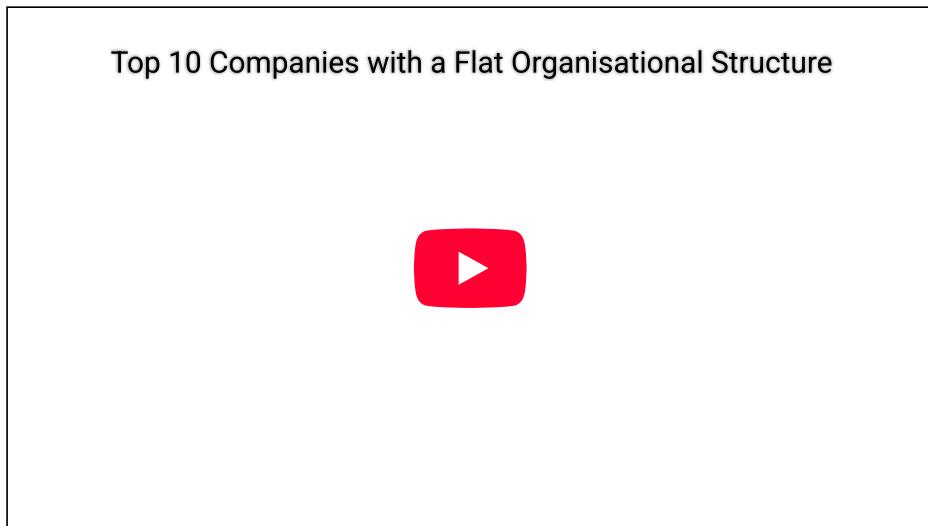
In organisations with a flat structure, there may be no job titles, seniority or managers. [The gaming company Valve](#) (https://www.valvesoftware.com/en/people), which created the games Half-Life, Counter-Strike and Portal, is a good example of a business with a flat organisational structure. There 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



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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 \(/study/app/business-hl/sid-351-cid-762729/book/changes-in-organisational-structures-hl-id-39389/\).](#))

- 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.



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.

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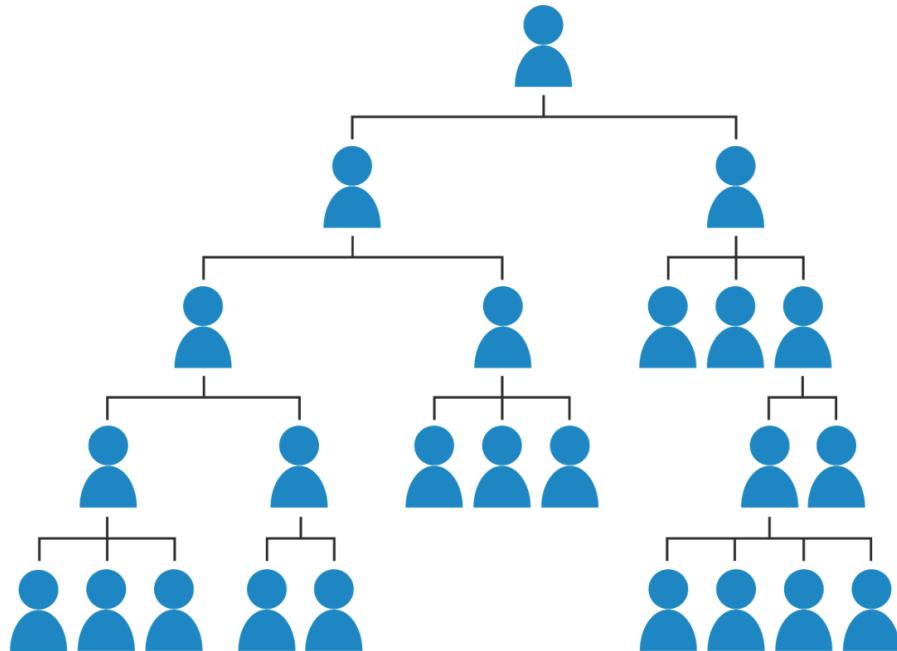


Figure 3. A tall organisational structure has many layers of hierarchy.

 More information for figure 3

The image illustrates a tall organizational structure in a hierarchical diagram format. At the top of the diagram is a single figure representing the top management. Below this, there are branching lines that lead to several levels of hierarchy, each with a group of figures representing mid-level and entry-level employees. There are multiple tiers, indicating several layers of hierarchy, each progressively increasing the number of figures until reaching the widest bottom level. The structure exemplifies a long chain of command with communication and authority flowing from the topmost figure down to the multiple figures at the lowest level. This type of structure is characterized by minimal delegation of authority and a narrow span of control.

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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.

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	Flat organisational structure	Tall organisational structure
Levels of hierarchy		
Span of control		
Decision process		
Chain of command		
Delegation		

	Flat organisational structure	Tall organisational structure
Levels of hierarchy	Few	Many
Span of control	Wide	Narrow
Decision process	Decentralised	Centralised
Chain of command	Short	Long
Delegation	More delegation of authority	Less delegation of authority

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.



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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.

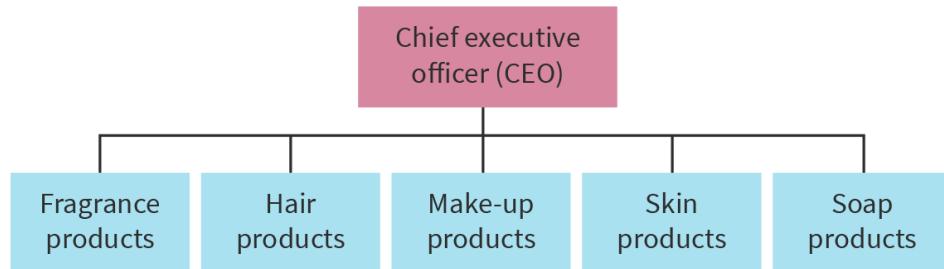


Figure 4. Organisational structure by product.

More information for figure 4

The image is a diagram depicting the organizational structure of a cosmetics company by product. At the top of the hierarchy is the "Chief executive officer (CEO)", highlighted in a pink box. Below the CEO, there are five distinct blue boxes representing different product categories: "Fragrance products," "Hair products," "Make-up products," "Skin products," and "Soap products." Lines connect each product category to the CEO, indicating a direct reporting structure. This layout illustrates the company's departmentalization based on product lines, facilitating specialized knowledge and skill use.

[Generated by AI]

Another example of a business that is organised by product is Marubeni, 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

Student view



Organisational structure by function

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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.

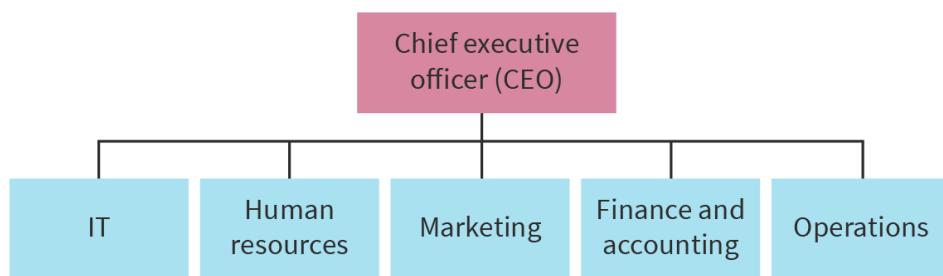


Figure 5. Organisational structure by function.

More information for figure 5

The diagram illustrates an organizational structure based on functional areas. At the top is a box labeled "Chief executive officer (CEO)" in a distinct color. Below the CEO box, there are lines connecting to five boxes arranged horizontally, each representing a different function within the organization. These are labeled, from left to right, as "IT", "Human resources", "Marketing", "Finance and accounting", and "Operations". Each box signifies a specialized department managed under the CEO in this functional organizational structure.

[Generated by AI]

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,



Student view

hospitality, and transportation may use this type of organisational structure.

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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.

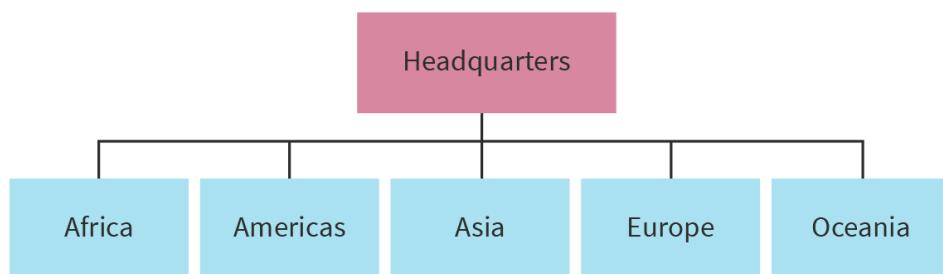


Figure 6. Organisational structure by region.

More information for figure 6

The image is a diagram depicting the organisational structure of a company by region. At the top of the hierarchy is a box labeled "Headquarters" which connects directly below to five branches representing different regions: "Africa," "Americas," "Asia," "Europe," and "Oceania." Each of these regions is presented in a box aligned horizontally beneath the "Headquarters" box, indicating that they are on the same level of organizational hierarchy. This layout visually communicates a top-down structure, illustrating how the headquarters leads various regional divisions. No other lines or connections are shown between the regions, emphasizing their parallel roles under the central leadership of the headquarters.

[Generated by AI]

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

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- 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.

3 section questions ▾

2. Human resource management / 2.2 Organisational structure

Appropriateness of different organisational structures given changes in external factors

Organisational structures and external factors Organisational structures and external factors

The organisational structures of businesses change in response to the dynamic global business environment. Factors such as economic recession, changes in the marketplace, and changes in technology can impact businesses, causing them to rethink how they organise themselves.

[Section 1.1.5 \(/study/app/business-hl/sid-351-cid-762729/book/tool-swotsteeple-analysis-id-36504/\)](#) on the SWOT/STEEPLE tool covered the external factors impacting businesses. A number of those factors are highlighted below, along with their implications for business structure.



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Figure 1. Changes in the external environment can impact the organisational structure of a business.

Credit: Onay Jakobov / EyeEm, Getty Images

Economic changes

Changes in economic growth, particularly recession, can impact business organisations. When sales revenue decreases, businesses may reduce staffing. Entire layers of hierarchy may be cut, called delayering, and roles may be eliminated. The business may decide to decentralise decision-making in order to be more responsive to markets and customers, or it may decide to centralise in order to increase control over the business.

In periods of economic growth, when business sales revenues and profits are increasing, a business may add specialists to improve efficiency. This would support managerial economies of scale, which you learned about in Section 1.5.1 (/study/app/business-hl/sid-351-cid-762729/book/reasons-for-growing-id-36533/).



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Figure 2. As the economy and a business grows, the business may need more specialists to achieve managerial economies of scale.

Credit: anandaBGD, Getty Images

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Globalisation can also impact business organisational structures. As multinational companies ([Subtopic 1.6 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36543/\)](#)) grow beyond their national borders in search of higher revenues and lower costs, they need to establish new organisational units. Offshoring, when a business moves some or all of its operations to another country, also requires reorganisation of people and production.

The growth of specialist businesses in an economy may also cause more outsourcing of work. Some businesses may find it more efficient to have other companies perform non-core activities, such as preparing taxes, running the canteen, or maintaining the building.

Finally, competition can cause a business to change its organisational structure. For example, a consumer products business may need to give more autonomy to innovative teams in order to better meet consumer needs as competition increases.

Technological changes

The introduction of new technology in a business can lead to changes in its structure. For instance, a new manufacturing system or new machinery may remove the need for a quality control department in the business. The implementation of a new accounting system may also reduce the need for some administrative tasks that were previously done manually, resulting in a reorganisation or even the elimination of the administration department.



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However, new technologies can also create new positions for skilled workers, and the need for new departments such as IT. These new roles and departments may require changes to the entire organisational structure of the business. Technology can also enable businesses and workers who are a long way from each other geographically to work together, which can also require changes to organisational structures.



Figure 3. An increase in remote working may cause changes to the organisational structure of a business.

Credit: Westend61, Getty Images

Sociocultural changes

Globalisation also increases the number of workers who decide to work in other countries. These workers are looking for new professional opportunities. Some are skilled; others are not. Some of these employees may also be willing to work freelance or part-time. Whatever the situation, the increased availability of labour enables businesses to adopt more flexible organisational structures. These employees can often also bring new ways of thinking and new practices, which may influence business organisations.

As understanding of human motivation improves, businesses are changing their organisational structures to be more in tune with human needs. Unresponsive, rigid hierarchical structures are no longer considered optimal for the business or for employees. The social norm is to build more distributed leadership, autonomy, collaboration and flexibility into business organisation. This enables businesses to respond more quickly to external changes, while improving job satisfaction among employees.



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Concept

Change

Change is an act or process through which something becomes different. Businesses operate in a world that is constantly changing. To survive, thrive and be successful in this environment with continuous changes, businesses may have to modify and adapt their organisational structures.



Case study

Since 2013, the online shoe and clothing store Zappos has been committed to a corporate trend that is absent of hierarchical structure. Zappos promotes the entrepreneurial spirit of its employees and facilitates the flow of ideas, collaboration and innovation. The structure is decentralised into teams that have a high level of autonomy. Research shows that more autonomy at work increases worker motivation.

The business began testing the new network structure with a small group of employees in 2013 and, shortly afterwards, the company decided to eliminate management positions and delegate authority to 1500 workers.

To provide better customer service and respond quickly to customers' needs, Zappos has introduced a customised customer service system, where employees respond to requests and offer their own solutions without further queries or bureaucratic processes.

Questions

1. Define hierarchical structure. [2 marks]
2. Explain two reasons why Zappos has adopted a decentralised structure for its business. [4 marks]

Question 1

A hierarchical organisational structure is a tall organisational structure with many levels of hierarchy. The organisational chart looks like a pyramid with many layers.

Define is an AO1 level command term requiring the precise meaning of a term.

- One mark is given for a vague definition.
- Two marks are given for a complete definition.
- No application to the stimulus material is required for definitions.



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Question 2



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A decentralised organisational structure means that decision-making authority is distributed through the business organisation, rather than being concentrated in one or a few managers.

One reason why a business may adopt a decentralised organisational structure is to improve employee motivation. The text says that 'research shows that more autonomy at work increases worker motivation'. For Zappos, this could mean that workers are more productive, leading to lower average costs of production and higher profits.

Another reason why a business may adopt a decentralised organisational structure is to improve customer service. When employees who are closer to the customer can make decisions independently, customer needs can be met more quickly with greater flexibility in solutions. The text says that 'Zappos has introduced a customised customer service system, where employees respond to requests and offer their own solutions without further queries or bureaucratic processes'. This can increase customer satisfaction, loyalty and sales revenues.

Explain is an AO2 level command term requiring a detailed account including reasons or causes. Explain *how*, explain *why*.

- Other responses may be possible and, if appropriately explained and applied in context, may achieve full marks.
- To achieve full marks, you must always include theory and application to the case study in your responses.

2 section questions ▾

2. Human resource management / 2.2 Organisational structure

Changes in organisational structures (HL)

Changes in organisational structures (HL)

As understanding of how people work effectively together in organisations improves, many businesses have decided to move away from the traditional hierarchical systems and structures outlined in this subtopic.



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Figure 1. New understandings of business and human motivation are leading to changes in organisational structure.

Credit: krisanapong detraphiphat, Getty Images

It is now more widely understood that businesses need to be flexible in order to be resilient. It is also understood that workers usually appreciate greater flexibility in business organisation, because flexibility can mean more varied and interesting work, greater autonomy and a higher level of motivation ([Subtopic 2.4 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/\)](#)). As a result, several alternative organisational systems and structures have emerged, including:

- project-based (matrix) structure
- shamrock structure
- holacracy

Project-based (matrix) structure

Some businesses need to carry out multiple projects. In a construction business, for example, the employees need to carry out separate building projects. Or employees in an IT company might be working on a number of innovative products. These kinds of organisations benefit from a different type of organisational structure.

A project-based organisational structure (matrix structure) usually has two or more reporting structures. The employees working on a project report to both a project manager and to a functional manager, such as finance manager, human resources manager or legal team manager. A construction project, for example, may need to have a team member who is responsible for managing the finances of that project. This employee will report to both the

project manager and the head of finance in the business. You saw an illustration of a project-based (matrix) organisational structure in [Section 2.2.1 \(/study/app/business-hl/sid-351-cid-762729/book/terminology-org-structures-id-39386/\)](#).

- 762729/o A business carrying out projects will be changing frequently, as projects come and go. Project-based organisational structures are flexible. Team members can assemble and reassemble as needed to complete new projects. A project manager also has flexibility to choose the team members that are best suited for the project.

A disadvantage of the project-based structure is that the project teams can be relatively isolated from other teams; the project team is usually fairly self-sufficient and is focused on getting the project completed. Some employees may also be uncomfortable in such a dynamic environment, where teams can be changing frequently and new work relationships need to be established regularly.

Shamrock structure

Often businesses will need different numbers of employees with different skills at different times. Having a static set of employees can prevent a business from reacting to changes in the external environment. Hiring more permanent employees can add to costs that cannot be reduced easily when the business needs to downsize again, due to strict labour laws in some countries.

The shamrock structure, first advanced by the social philosopher Charles Handy in his book *The Age of Unreason* (1989), provides businesses with greater flexibility in their workforce. A shamrock is a small, three-leaved plant (clover), shown in **Figure 2**. In Handy's shamrock structure, each leaf represents a different category of employee in the structure:

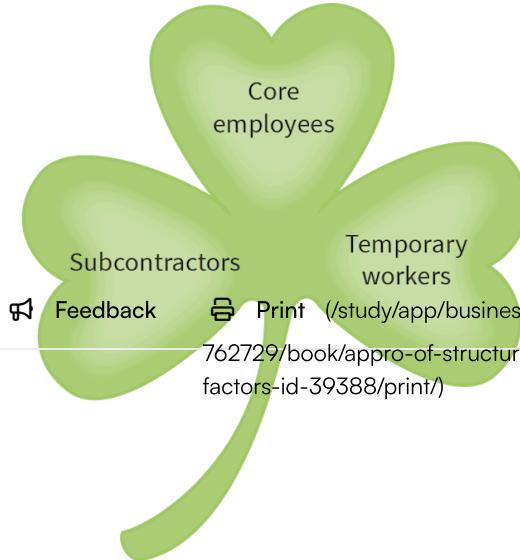
- Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-39387/print/) Assign
- **Core employees.** These are permanent employees who fulfil the core mission of the business.
 - **Contract employees.** These are workers who are subcontracted to complete specialised tasks. Many businesses will subcontract payroll or tax work to third parties, for example.
 - **Temporary workers.** These are workers who are hired only as needed as the business expands or contracts. They constitute a flexible workforce composed of part-time, temporary and seasonal workers.



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Figure 2. The shamrock structure has three groups of workers and provides greater flexibility.

More information for figure 2

The image is a diagram illustrating a shamrock structure. The shamrock has three leaves, each labeled to represent different groups of workers within a business. The top leaf is labeled "Core employees." The left leaf is labeled "Subcontractors," and the right leaf is labeled "Temporary workers." This diagram visually represents how a business can organize its workforce to include core, permanent employees, as well as flexible, temporary, and subcontracted workers to adapt as needed.

[Generated by AI]

The benefit of the shamrock structure is that a business can add or change its workforce as needed. In this structure, businesses should outsource supporting, non-central functions to contract and temporary workers whenever possible.

There are a number of downsides to this structure, however. There are fewer employees that are closely connected to the business. Workers may feel less engaged in the business when they are not permanent employees. For temporary workers especially, the flexible nature of the work can make them vulnerable to income fluctuations. This has been a key concern for many workers in the gig economy, such as the delivery workers for Rappi mentioned in Section 2.2.0 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39353/).



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🌐 International Mindedness

Although the flexible organisational structure around which the shamrock organisation is built is attractive, it is not applicable in many regional contexts. In some countries, legal regulations mean that it is not possible to have different types of workers as this structure suggests.

Holacracy

Holacracy is a particular form of flat (horizontal) organisational structure. Zappos, the company you learned about in the case study in [Section 2.2.3 \(/study/app/business-hl/sid-351-cid-762729/book/appro-of-structures-changes-in-ext-factors-id-39388/\)](#), has experimented with holacracy for many years. In a holacracy, teams of people self-organise as needed to complete the necessary work for the organisation. Authority is distributed, and there are few managers. The system has a number of key elements:

Roles

In a holacracy, there are roles rather than job descriptions. People can hold multiple roles in a holacracy. Roles tend to have a name attached, a purpose, and domains of influence and accountability.

Circle structure

Roles in a holacracy self-organise into circles, or teams of people. These may be organised differently from traditional departments (such as marketing, finance or IT departments), although most circles will have their roots in a particular function of the business. There can be smaller groups of sub-circles and larger groups of super-circles as shown in **Figure 3**.

Organic development

Circles come and go as needed when employees sense changes in the business and its needs. People's work may evolve in several circles. There is more integration of people in the business than in traditional hierarchies with separate departments that do not often work together.



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Self-organisation/self-governance

Overview

(/study/app/hl/sid-351-cid-762729/ Circles are not told how to do their work by managers. They are guided by a general set of principles of organisation, but within that they can determine how to do their work. Employees also have more authority to adapt their roles or to switch roles if they find they are not well-suited to the role they have.

Flexible leadership

Leadership positions are not defined in holacracy, but leadership roles emerge and then disappear in teams as needed and depending on the context. There are also roles in a circle that are responsible for connecting to other circles and supporting the team in defining roles.

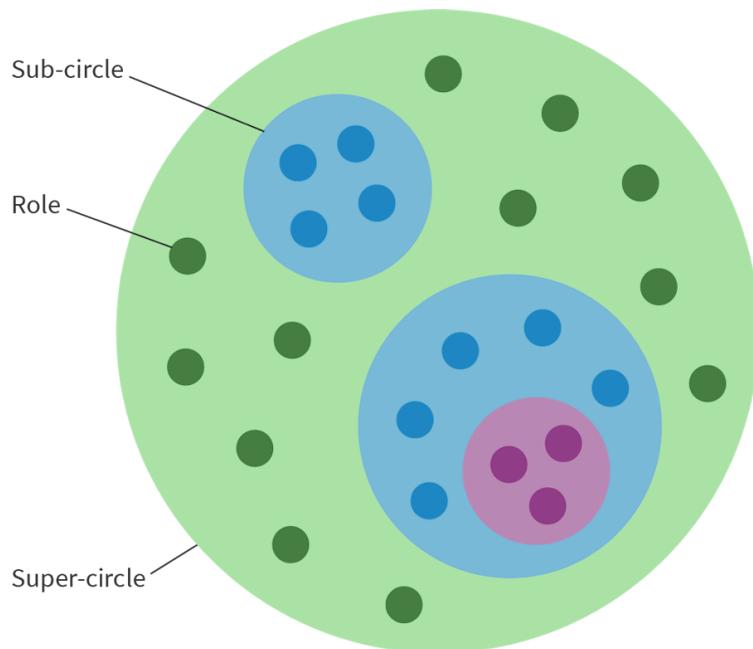


Figure 3. Roles in a holacracy self-organise into circles.

More information for figure 3

The image is a diagram illustrating the concept of roles within a holacracy as circles. The largest circle is labeled 'Super-circle' and contains multiple smaller circles labeled 'Sub-circle' and 'Role'. Each sub-circle contains several roles, and these sub-circles are nested within larger circles, indicating the structure and hierarchy of roles in a holacracy. The circles are shown in different colors to differentiate between roles and levels.

[Generated by AI]



Student view

Supporters of holacracy claim that the organisational system is more responsive to the requirements of the work. The flexibility of the roles and circles enables a business to respond to changes in the internal and external environment. Distributed authority increases motivation ([Subtopic 2.4 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/\)](#)) and fluid roles allow for more professional development of employees, which also improves worker wellbeing.

Critics of holacracy claim that large numbers of self-governing circles may still become disconnected from the larger strategic vision of the business. For such a system to function well, there needs to be very clear communication and understanding about the direction and priorities of the business. Holacracy can complicate compensation and hiring decisions because roles are more flexible and change more often. Critics also claim that holacracy may not be appropriate for businesses that already have well-established, traditional hierarchies. The transition is too difficult.

So, holacracy may be most appropriate for new businesses, or social enterprises where there is already an emphasis on generative and distributive business practices.

Why Holacracy?



Video 1. An explanation of holacracy.

3 section questions ▾

2. Human resource management / 2.2 Organisational structure

Terminology exercise

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Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

Every business needs to define its structure to enable it to achieve its business objectives.

The organisational structure of a business may be described as 'tall' when it has a large number of levels. In contrast, when a business has only a very few levels, its organisational structure may be described as flat. In this type of business structure, flexibility is key for the business to be flexible enough to adapt to changes in the context.

Depending on its business objectives, an organisation can adopt a functional organisational structure, where the business is organised into departments focused on different products. Other organisations may adopt a more traditional structure by product-based, where the business is organised according to the tasks of each department, such as marketing, human resources, finance and accounts.

In addition, businesses can consider the changes in the context of their own objectives and may decide to implement a project-based organisational structure, where a team is set up to meet the specific needs of each project, allowing several projects to be handled simultaneously.

Finally, economic situations such as recession may bring changes in the business structure and, in order to reduce costs, the company's hierarchy may be changed.

- function
- delayed
- product-based
- changes
- hierarchy levels
- flat
- project-based
- organisational
- delegation

Check

Interactive 1. Understanding Organisational Structures.

2. Human resource management / 2.2 Organisational structure

Checklist

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What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
 - organisational structure
 - delegation
 - span of control
 - levels of hierarchy
 - chain of command
 - bureaucracy
 - centralisation
 - decentralisation
 - delayering
 - matrix structure
 - project-based organisational structure
 - flat organisation
 - tall organisation
 - hierarchical organisational structure
 - organisational structure by product
 - organisational structure by function
 - organisational structure by region
- explain: (AO2)
 - delegation
 - span of control
 - levels of hierarchy
 - chain of command
 - bureaucracy
 - centralisation
 - decentralisation
 - delayering
 - matrix structure
- distinguish between: (AO2)
 - flat and tall organisational structures
 - tall and vertical organisational structures
 - ‘by product’, ‘by function’ and ‘by region’ organisational structures
- construct different types of organisational charts (AO4)
- evaluate the appropriateness of different organisational structures given a change in external factors (AO3)



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- evaluate the changes in organisational structures and, more specifically, project-based organisation and Handy's 'shamrock organisation' (AO3) HL

2. Human resource management / 2.2 Organisational structure

Reflection	Section Student (0/0)	Feedback	Print (/study/app/business-hl/sid-351-cid-762729/book/changes-in-organisational-structures-hl-id-39389/print/)	Assign
Section	Student... (0/0)	Feedback	Print (/study/app/business-hl/sid-351-cid-762729/book/reflection-id-48313/print/)	Assign

Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.

The following table shows you how each prompt aligns to the DP *Business management guide*:

Prompt #	Syllabus alignment
1	Learner profile: Inquirers
2	Concept: Creativity
3	Learner profile: Balanced
4	Learner profile: Reflective
5	Concept: Change (HL only)

Students can submit their reflections to you by clicking on 'Submit'. You will then see their answers in the 'Insights' part of the Kognity platform.



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Reflection

In this subtopic you learned about different ways of structuring how individuals work in a business.

Take a moment to reflect on your learning so far. You can use the following questions to guide your reflection. If you click 'Submit', your answers will be shared with your teacher.

1. Do you think that hierarchy is a necessary element in most businesses?
2. To what extent does a highly hierarchical structure intervene with or foster creativity?
3. To what extent is it possible to consider the perspectives of all stakeholders when making human resource management decisions?
4. Which organisational structure do you think you would thrive in?
5. Based on your experience or your research, to what extent is it necessary for organisations to change their structures over time? (HL)

Once you submit your response, you won't be able to edit it.

0/2000

Submit

Rate subtopic 2.2 Organisational structure

Help us improve the content and user experience.



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