ORGANISING
BUSINESS MANAGEMENT

UNIT – 3 Syllabus

Organising – Meaning – Definition – characteristics – Importance – Types – Authority and Responsibility – Centralisation and Decentralisation and Departmentation

KEY WORDS:

- Organisational structure
- Departmentation
- Authority
- Span of management
- Centralisation Vs Decentralisation

Organising – Meaning

- Organising is that managerial process which seeks to define the role of each individual (manager and operator) towards the attainment of enterprise objectives.

- with due regard to establishing authority-responsibility relationships among all; and providing for co-ordination in the enterprise-as an in-built device for obtaining harmonious groups action.

- Organization involves division of work among people whose efforts must be co-ordinated to achieve specific objectives and to implement pre-determined strategies.

Organising - Definition

Koontz and O 'Donnell,

- "Organising is the establishment of authority relationships with provisions for co-ordination between them, both vertically and horizontally in the enterprise structure".

According to Koontz and O'Donnell,

- "Organization involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the provision of authority, delegation and co-ordination."

 Louis A. Allen.

- "Organising is the process of identifying and grouping the work to be performed, defining and delegating the responsibility and authority and establishing a pattern of relationship for the purpose of enabling people work most effectively to accomplish the objective".

Tasks of Organising

✓ Organizing essentially consists of establishing a division of labor. The managers divide the work among individuals and group of individuals. And then they coordinate the activities of such individuals and groups to extract the best outcome.

✓ Organizing also involves delegating responsibility to the employees along with the authority to successfully accomplish these tasks and responsibilities. One major aspect of organizing is delegating the correct amounts of responsibilities and authority.

(i) Identification and division of work
(ii) Departmentalisation
(iii) Assignment of duties
(iv) Establishing reporting relationships

Importance of Organising

Organizing is integral to management as it facilitates the smooth functioning of the enterprise.

The importance of organizing is as under:

1. Benefits of specialisation
2. Clarity in working relationships
3. Optimum utilisation of resources
4. Adaptation to change
5. Effective administration
6. Development of personnel
7. Expansion and growth

Characteristics of Organising

- **Division of Labour**: Work is assigned to the employee who is specialised in that work.

- **Coordination**: Different members of the organisation are given different tasks to perform when all the tasks are put together logically and sequentially, it results in the objectives, so coordination is required.

- **Objectives**: Objectives need to be specifically defined.

- **Authority-Responsibility Structure**: For an effective authority responsibility structure, the position of each manager and executive is specified, as per the degree of the authority and responsibility assigned to them, while performing the duties.

- **Communication**: The techniques, flow and importance of communication must be known to all the members.

Process of Organizing

1. **Identification and division of work**: Organizing process begins with identifying the work and dividing them as per the plans.

2. **Departmentalization**: After classifying the work into different activities, the activities having a similar nature are grouped together.

3. **Assignment of the task**: For the effectiveness of the performance, the manager must ensure that there is a proper match between the job and the incumbent, i.e. the right person has to be placed at the right job.

4. **Establishment of organizational hierarchy**: Deployment of work is not all, the employees must be aware of whom they have to report and who can give them orders.

5. **Provision of resources to the members**: Arrangement and deployment of resources such as money, materials, supplies, and machine, etc.

6. **Coordination of efforts and scheduling of activities**: The final step to this process is the coordination of efforts and scheduling the activities in a logical and systematic manner so that the common objectives can be achieved effectively.

Principles of organising

1. Unity of Objectives - So that all efforts can be concerned on the set goals.

2. Specialization - Every person is confined to a single job

3. Span of Control - Limit of subordinates to be supervised or controlled by a manager

4. Exception - Each manager should make all decisions within the limitation of delegated authority.

5. Scalar Principle - This principle sometimes known as the ''chain of command''.

6. Unity of Command - An employee should have one and only one boss.

7. Delegation of Authority - Proper authority should be delegated at all levels of management.

8. Responsibility -The responsibility of all employees should be made clear.

9. Authority - Tool by which a manager is able to accomplish the desired goals.

10. Efficiency - Ability of achieving the predetermined goals at minimum cost.

11. Simplicity - simple with minimum numbers of levels so that each member can understand his duties and authority relationships.

12. Flexibility - Adaptable to changing environment and needs of the organization

13. Balance -The principle of balance should be followed while organizing structure.

14. Unity of Direction - There should be one objectives and one plan for a group of activities having the same objectives.

Organizational Structure

Meaning

- It seeks to establish relations among all the persons working in the organization.

- Under the organizational structure, various posts are created to perform different activities for the attainment of the objectives of the enterprise. Relations among persons working on different posts are determined.

- The structure provides a basis or framework for managers and other employers for performing their functions.

- **The organization structure can be defined as the frame work within which managerial and operating tasks are performed.**

Types of organizational structures

- Hierarchical org structure

- Functional org structure

- Horizontal or flat org structure

- Divisional org structures (market-based, product-based, geographic)

- Matrix org structure

- Team-based org structure

- Network org structure

1. Hierarchical org structure

It's the most common type of organizational structure—the chain of command goes from the top (e.g., the CEO or manager) down (e.g., entry-level and low-level employees) and each employee has a supervisor.

Pros

✓ Better defines levels of authority and responsibility

✓ Shows who each person reports to or who to talk to about specific projects

✓ Motivates employees with clear career paths and chances for promotion

✓ Gives each employee a specialty

✓ Creates camaraderie between employees within the same department

Cons

o   Can slow down innovation or important changes due to increased bureaucracy

o   Can cause employees to act in interest of the department instead of the company as a whole

o   Can make lower-level employees feel like they have less ownership and can't express their ideas for the company

o

2. Functional org structure

Primarily, though, employees are organized according to their specific skills and their corresponding function in the company. Each separate department is managed independently.

Pros

- ✓ Allows employees to focus on their role
- ✓ Encourages specialization
- ✓ Help teams and departments feel self-determined
- ✓ Is easily scalable in any sized company

Cons

- o Can create silos within an organization
- o Hampers interdepartmental communication
- o Obscures processes and strategies for different markets or products in a company

3. Horizontal or flat org structure

- **Pros**
- Gives employees more responsibility
- Fosters more open communication
- Improves coordination and speed of implementing new ideas
- **Cons**
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- Can create confusion since employees do not have a clear supervisor to report to
- Can produce employees with more generalized skills and knowledge
- Can be difficult to maintain once the company grows beyond start-up status

4. Divisional org structure

In divisional organizational structures, a company's divisions have control over their own resources, essentially operating like their own company within the larger organization. Each division can have its own marketing team, sales team, IT team, etc.

Pros

✓ Helps large companies stay flexible

✓ Allows for a quicker response to industry changes or customer needs

✓ Promotes independence, autonomy, and a customized approach

Cons

o   Can easily lead to duplicate resources

o   Can mean muddled or insufficient communication between the headquarters and its divisions

o   Can result in a company competing with itself

5. Matrix org structure

A matrix organizational chart looks like a grid, and it shows cross-functional teams that form for special projects.

Pros

- Allows supervisors to easily choose individuals by the needs of a project

- Gives a more dynamic view of the organization

- Encourages employees to use their skills in various capacities aside from their original roles

Cons

- Presents a conflict between department managers and project managers

- Can change more frequently than other organizational chart types

6. Team-based org structure

A team organizational structure is focusing more on problem solving, cooperation, and giving employees more control.

Pros

- ✓ Increases productivity, performance, and transparency by breaking down silos
- ✓ Promotes a growth mindset
- ✓ Changes the traditional career models by getting people to move laterally
- ✓ Values experience rather than seniority
- ✓ Requires minimal management
- ✓ Fits well with agile companies with scrum or tiger teams

Cons

- o Goes against many companies' natural inclination of a purely hierarchical structure
- o Might make promotional paths less clear for employees

7. Network org structure

These days, few businesses have all their services under one roof, and juggling the multitudes of vendors, subcontractors, freelancers, offsite locations, and satellite offices can get confusing. A network organizational structure makes sense of the spread of resources.

Pros

- ✓ Visualizes the complex web of onsite and offsite relationships in companies
- ✓ Allows companies to be more flexible and agile
- ✓ Give more power to all employees to collaborate, take initiative, and make decisions
- ✓ Helps employees and stakeholders understand workflows and processes

Cons

- o Can quickly become overly complex when dealing with lots of offsite processes
- o Can make it more difficult for employees to know who has final say
- o Consider the needs of your organization, including the company culture that you want to develop, and choose one of these organizational structures.
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FORMAL ORGANISATION

Louis Allen – System of well defined jobs, each bearing a definite measure of authority, responsibility & accountability. .

Features

1. It is deliberately created by the top management.

2. It is based on rules and procedures which are in written form.

3. It is impersonal i.e. does not takes into consideration emotional aspect.

4. It clearly defines the authority and responsibility of every individual.

5. It is created to achieve organizational objectives.

Advantages

1. Easier to fix responsibility since mutual relationships are clearly defined.

2. No overlapping of work – because things move according to a definite plan.

3. Unity of command through an established chain of command.

4. Easy to achieve objectives – because coordination and optimum use of human and material resources.

5. Stability in the organization – because behavior of employees can be fairly predicted since there are specific rules to guide them.

Disadvantages

1. The Work is based on rules which causes unnecessary delays.

2. Lack of initiative: The employees have to do what they are told to do and they have no opportunity of thinking.

3. Limited in scope: It is difficult to understand all human relationships in an enterprise as it places more emphasis on structure and work.

INFORMAL ORGANISATION

An informal organization is that organization which is not established deliberately but comes into existence because of common interests, tastes and religious and communal relations.

Features

1. It originates from within the formal organization as a result of personal interaction among employees.
2. It has no written rules and procedures.
3. It does not have fixed lines of communication.
4. It is not deliberately created by the management.
5. It is personal means the feelings of individuals are kept in mind.

Advantages

1. Speed
2. Fulfillment of social needs
3. Quick solution of the problems

Disadvantages

1. It creates rumors
2. It resists change and lays stress on adopting the old techniques.
3. Priority to group interests

Authority and Responsibility

Authority means a formal, institutional or legal power in a particular job, function or position that empowers the holder of that job, function or position to successfully perform his task.

As **Simon puts** it, authority is the power to make decisions which guide the action of another. It is a relationship between two individuals—one of them superior, and the other a subordinate.

Responsibility is the obligation of a subordinate to perform a duty, which has been assigned to him by his superior.

According to Koontz and O'Donnell "the obligation of a subordinate to whom a duty has been assigned to perform the duty".

Characteristics of Authority:

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(1) Exercise of authority drives staff of the organization to perform the tasks and responsibility assigned to them:

(2) Only person holding authority can make decisions:

(3) Exercise of authority may sometimes have element of subjectivity:

Theories of 'Sources of Authority':

1. Fountainhead of Authority - Authority is a formal or institutionalized form of power vested in a position or office.

2. 'Formal', 'Traditional' or 'Top-Down' theory - Formal authority flows from law, rules, and regulations that are framed by, or with the consent of all stakeholders.

3. Acceptance theory - According to acceptance theory, authority of a manager will be in direct proportion to the acceptance given to his authority by his subordinates.

4. Competence Theory' of Authority - A person can influence the behavior of others even if he does not command any formal, legal or traditional authority. At the root of his authority are his competence, charisma and leader-like qualities.

5. 'Tradition-Centric' Authority - tradition-conferred authority

Main characteristics of the responsibility

1. The essence of responsibility is obligation to perform the assigned duty or task.
2. Responsibility arises from superior subordinate relationships.
3. Responsibility has no meaning except as applied to a promotion.
4. Responsibility may be a continuing obligation or specific obligation.
5. Responsibility is a personal attribute and it cannot be deleted.
6. Responsibility is a concomitant of authority, therefore authority and responsibility should be equal.

Authority – Responsibility Relationship:

1. Authority and responsibility of a manager should be co-equal i.e. authority should be commensurate with responsibility.

2. According to George R. Terry, responsibility is inseparable, there is every danger that it may be misused by the possessor. Similarly, if responsibility is greater than authority, the tendency of the management becomes difficult and even ineffective. In order to ensure that authority and responsibility are co-equal, a correlative action may be resorted to.

3. A manager is responsible ultimately for the performance of his duties

Centralization

- Centralization of authority refers to the concentration of decision making power at the top level of management. All important decisions are taken at the top level. Everything which goes to reduce the importance of subordinate is called centralization.

- 'Centralization is the systematic and consistent reservation of authority at central points within the organization.' – Louis A. Allen

Advantages of Centralization

1. Top management may prefer to reserve maximum authority with itself because of the following advantages
2. It facilitates greater uniformity of action throughout the organization
3. It provides better opportunities for development of personal leadership
4. It facilitates integration of efforts and unites total operations of an enterprise
5. It helps in quick decision making which in turn facilitates effective handling of emergency situations
6. It reduces wastages of efforts by avoiding duplication of work
7. It makes control easier
8. It allows flexibility and rapidity of adjustments to changing conditions

Disadvantages of Centralization

1. It increases the burden of the top executives with routine functions and hamper their development

2. It affects the initiative of the lower level management people

3. It does not provide scope for employee participation in decision making

4. There is no scope for specialization because an individual will have to look after many functions at a time.

Decentralization:

- It refers to the dispersal of decision making power to the lower level of the organization.

- If the organization encourages lower level personnel to participate in the decision making process and allows a greater amount of discretion, the organization is called a decentralized organization.

- 'Decentralization refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points'. – Louis A. Allen

Advantages of Decentralization

1. It is a good philosophy to motivate the mangers so that it results in better job satisfaction.
2. It increases the morale of lower level managers by satisfying their need for participation and independence.
3. It helps to meet the challenges and complexities of big enterprises and provides scope for growth and development.
4. It promotes quick decision making and avoids confusion
5. It provides training for future managers by giving them an opportunity to develop their skills.
6. It facilitates effective communication
7. It ensures effective control and supervision. 8. It gives a relief to the top management from concentrating on day-to-day affairs and permits them to concentrate on developmental activities.

Disadvantages of Decentralization

1. It is costly because it requires competent people to be employed to accept authority. The success of a unit depends on the ability and capability of the head.

2. It may lead to inconsistencies, when every department or division does not adopt procedures uniformly.

3. It creates a problem of among various units or departments.

4. Differences of opinions of top management and unit head often lead to conflicts.

5. Among the departments hostility may be developed due to severe competition. This will hamper the sharing of knowledge and resources.

6. Economies of scale may not be realized as each unit becomes small and independent.

Factors Determining the Degree of Decentralization:

1. Size and Complexity of the organization
2. History of the organization
3. Availability of competent managers
4. Top management outlook
5. Control techniques
6. Planning pattern
7. Rate of change in the organization

Delegation of Authority

- **Meaning**: It means the granting of authority to subordinates to operate within the prescribed limits.

- The manager who delegates authority holds his subordinates responsible for proper performance of the assigned tasks.

- To make sure that his subordinates perform all the works effectively and efficiently in expected manner the manager creates accountability.

- Delegation is essential because:
  (i) Business growth
  (ii) Healthy relations
  (iii) Tool of training

Importance of the Delegation of Authority

1. **Reduction of Executives' work load**: It reduces the work load of officers. They can thus utilize their time in more important and creative works instead of works of daily routine.

2. **Employee development**: Employees get more opportunities to utilize their talent which allows them to develop those skills which will enable them to perform complex tasks.

3. **Quick and better decision are possible**: The subordinate are granted sufficient authority so they need not to go to their superiors for taking decisions concerning the routine matters.

4. **High Morale of subordinates**: Because of delegation of authority to the subordinates they get an opportunity to display their efficiency and capacity.

5. **Better coordination**: The elements of delegation – authority, responsibility and accountability help to define the powers, duties and answer ability related to various job positions which results in developing and maintaining effective coordination.

How to Implement Effective Delegation Process?

The process of delegation of authority comprises of four steps which are as follows:

Step 1: **Sort the tasks that can be delegated**

Step 2: Determine who will be in charge

Step 3: Define the task that will be delegated.

Step 4: Delegate tasks
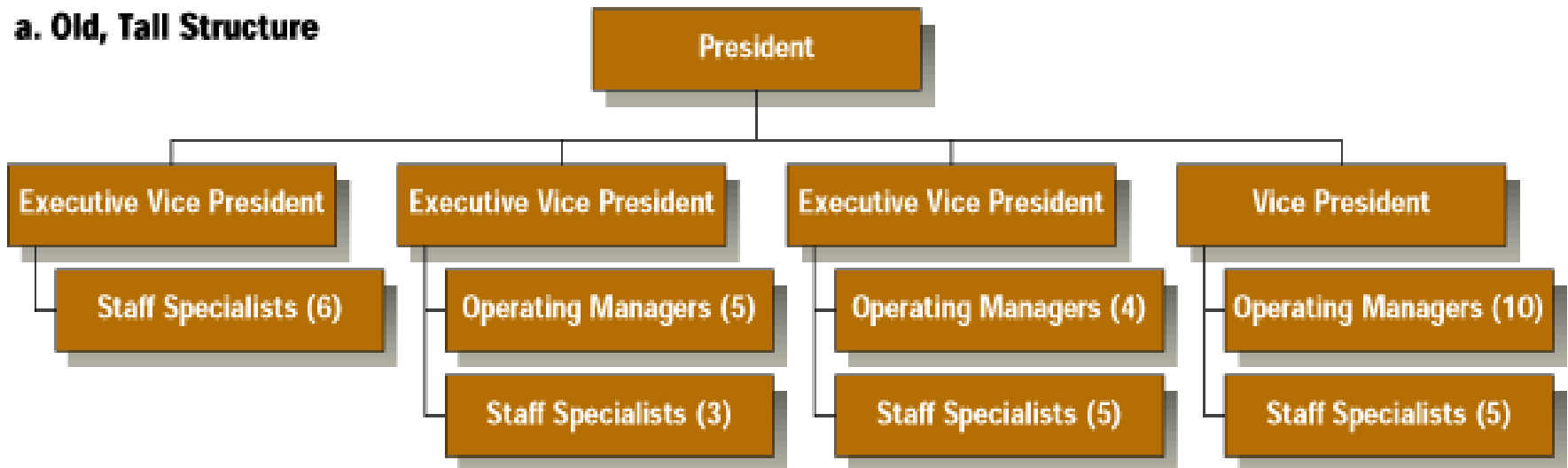
Step 5: Monitor and encourage

Step 6: Evaluation

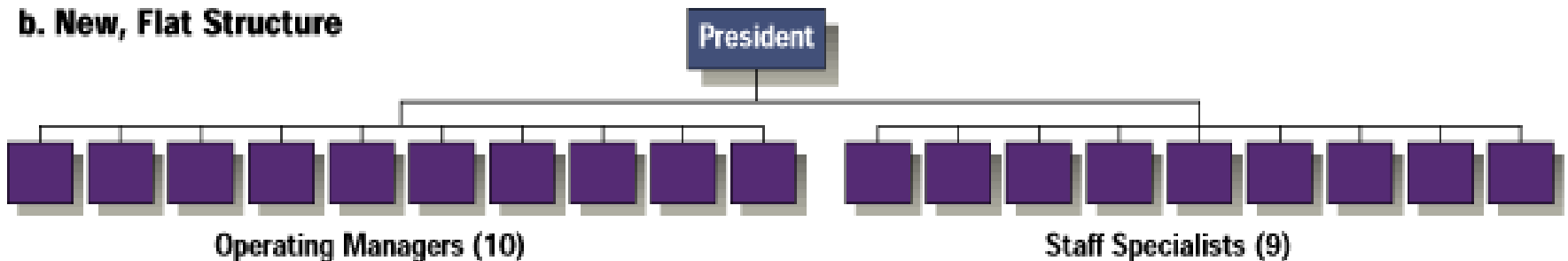# Keith Davis mentions 5 distinctly different degrees of delegation:

- Authority to which no prior notice, no approval, and no reporting required;
- ii. Authority to act, with reporting required, but no prior notice or approval;
- iii. Authority to act only with prior notice;
- iv. Authority to act only after consulting an appropriate staff adviser;
- v. Authority to act only with prior approval.

Ex. 7.2 Reorganization to Increase Span of Management for President of an International Metals Company

a. Old, Tall Structure

- President
  - Executive Vice President
    - Staff Specialists (6)
  - Executive Vice President
    - Operating Managers (5)
    - Staff Specialists (3)
  - Executive Vice President
    - Operating Managers (4)
    - Staff Specialists (5)
  - Vice President
    - Operating Managers (10)
    - Staff Specialists (5)

b. New, Flat Structure

- President
  - Operating Managers (10)
  - Staff Specialists (9)

Centralization versus Decentralization

Centralization – decision authority is located near the top of the organization.

Decentralization – authority is pushed downward to lower organizational levels.