

CHAPTER – 5

Organising

- ❖ Organising refers to the procedure of aligning various activities in an organisation in a certain specific order. It involves designing the roles of the personnel such that the efforts by the employees along with the resources are coordinated towards the accomplishment of the organisational goals.

- ❖ **Steps in the Organising Process**



The following steps are involved in the process of organising:

- 1) **Identifying and dividing the work:** As a first step, various activities in the organisation are identified and divided as per the pre-defined plans and objectives.
- 2) **Creating departments:** Next, the activities of a similar nature are grouped together in different departments. This is done to promote specialisation.
- 3) **Assigning duties:** Once, the departments are created, the next step is to assign the roles and responsibilities to the personnel as per their skills and abilities.
- 4) **Establishing relationships:** In this step, a clear hierarchical structure is established such that every individual clearly knows the various superior-subordinate relationships in the organisation.

- ❖ **Importance of Organising**

The following points highlight the importance of organising:

- 1) **Clear definition of working relationships:** Under organising, the hierarchical structure in the organisation is clearly established, thereby avoiding any ambiguity in the transfer of instructions.

Organising

- 2) ***Less duplication of work***: As various activities are properly assigned to different personnel, duplication of work is minimised.
- 3) ***Better coordination***: Under organising, activities of a similar nature are grouped together in different departments. This ensures better coordination and harmony.
- 4) ***Increased growth and expansion***: Through proper organising, an enterprise can expand its business operations and deviate from the traditional norms in a smooth and better manner.
- 5) ***Optimum utilisation of resources***: By ensuring that various activities in the organisation are properly aligned, overlapping of work is avoided. This in turn ensures that the resources are efficiently utilised and there is minimum wastage of effort.
- 6) ***Improved specialisation***: Under organising, activities of a similar nature are grouped together and tasks are assigned to various individuals as per their skills and capabilities. This allows the organisation to take advantage of specialisation.
- 7) ***Easy accommodation of change***: With proper organising of activities in the organisation in different departments and groups, the organisation can easily adapt to various changes in its business environment. This is because the changes can be accommodated in only that department that is directly affected by it, while the rest of the organisation can just be communicated about the change. In this way, organising provides stability to the enterprise.
- 8) ***Efficient development of employees***: The process of delegation and decentralisation under organising helps in the development of both the managers and the employees. While, on the one hand, organising allows the managers to focus on high priority areas and provides them the opportunity to explore new areas; on the other hand, it provides the subordinates a chance to prove their abilities and gain experience.

❖ Organisation Structure

- ***Meaning***: It refers to the broad framework within which the working relationships (in terms of positions, roles, responsibilities and authority) are defined in an organisation.
- ***Importance***: The following points highlight the importance of a proper organisational structure:
 - Clearly defines the working relationships (superior-subordinate relationships)
 - Enables coordination and integration of human efforts as well as physical resources
 - Enables effective control over various activities in the organisation

Organising

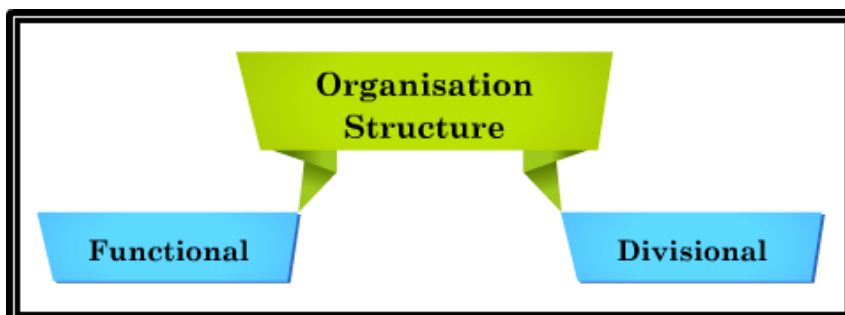
- Facilitates smooth flow of communication
- Aids the growth and development of the organisation

➤ *Points To Be Kept in Mind while Forming an Organisation Structure*

- **Job design:** The organisational structure should clearly state the job design in terms of division of tasks and activities. This design should clearly define the tasks to be performed for the completion of particular jobs.
- **Departmentalisation:** After the division of tasks and activities, activities of a similar nature must be carefully grouped together in different departments.
- **Span of management:** The type of organisation structure to be adopted depends on the span of management in the organisation. Span of management refers to the number of subordinates that a manager can efficiently handle. Span can be sub-divided into the following two categories:
 - i. **Narrow span of management:** A narrow span implies that a small number of subordinates report to a particular manager. It results in tall organisational structures having multiple levels of management.
 - ii. **Wide span of management:** A wide span implies that a large number of subordinates report to a manager. It results in flatter organisational structures with only a few levels of management.
- **Delegation:** The organisational structure should specify the level or degree of delegation to be followed. That is, it must specify the level of authority to be shared between the superiors and the subordinates.

❖ **Types of Organisational Structure**

There are mainly two types of organisational structure- Functional structure and Divisional structure.



❖ Functional Organisational Structure

- Activities or work of a similar nature are grouped together in different departments.
- Each department specialises in its own particular task.
- There is one coordinating head that controls the activities of each of the departments.

The following diagram depicts a functional structure:



➤ *Advantages of a Functional Structure*

- 1) **Specialisation:** Various departments formed under a functional structure specialise in their specific activities. This promotes efficiency and improves the overall performance in the organisation.
- 2) **Better coordination:** As activities of a similar nature are grouped together, there exists better coordination in the tasks performed.
- 3) **Reduced overlapping of work:** As work is clearly divided in different departments, the chances of overlapping or duplication of work is minimised.
- 4) **Better managerial efficiency:** A functional structure enables controlling and monitoring in a better manner, thereby enhancing managerial efficiency.
- 5) **Better training of employees:** The focus of the employees in each department is only on a limited set of skills and specialties. This makes their training process much easier.
- 6) **Appropriate attention to various functions:** Under a functional structure, various functions are grouped in different departments, and each of the departments specialises in its own specific functions. This ensures that every function gets adequate attention.

➤ *Disadvantages of a Functional Structure*

- 1) ***Less emphasis on organisational objectives:*** Under a functional structure, every department lays emphasis on its own specific objectives. As a result, the overall organisational objectives fail to receive due attention.
- 2) ***Problems in coordination:*** With the growth of the organisation, an increasing number of departments are formed. This makes coordination among them quite difficult, which in turn results in delay in decision making.
- 3) ***Conflict:*** Sometimes, it so happens that the interests of one department are not compatible with those of another. This might lead to conflict between the departments.
- 4) ***Inflexibility:*** The employees working in each of the departments specialise in only one particular function. This results in inflexibility as they develop only a narrow perspective and fail to gain experience in diverse activities.

➤ *Suitability of a Functional Structure*

A functional organisational structure proves suitable in the following conditions.

- 1) ***Large size:*** In a large organisation, departmentalisation helps in improving the overall managerial efficiency and the degree of control over various activities. This results in the smooth completion of various tasks in the organisation.
- 2) ***Varying functions:*** Organisations that deal with diverse functions simultaneously require a higher degree of coordination. This can be achieved in a better manner by a clear division of activities in various departments as done under a functional structure.
- 3) ***Requirement of specialisation:*** Diverse functions in an organisation can be performed better if specialisation is facilitated. This specialisation is promoted by a functional structure through departmentalisation.

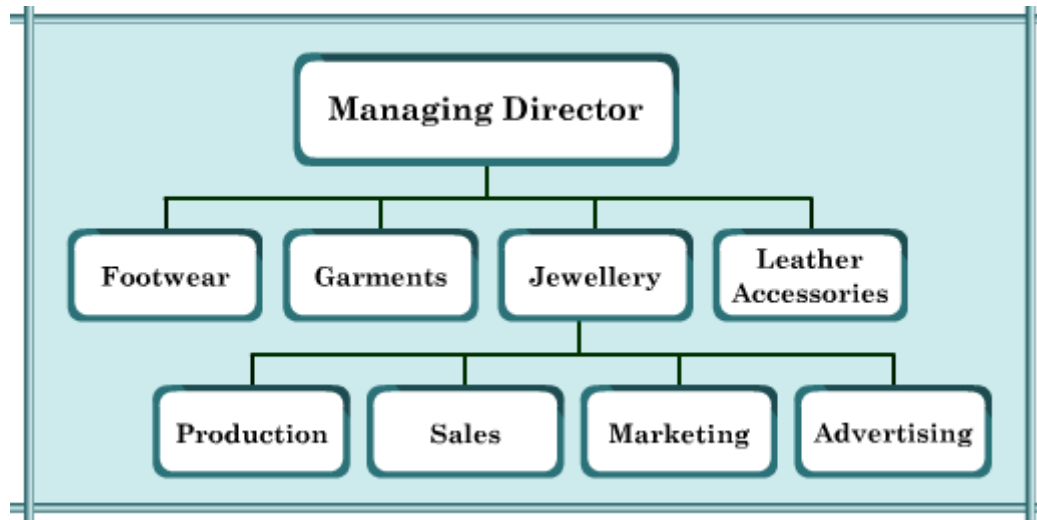
❖ **Divisional Organisation Structure**

- In a divisional organisation structure, different activities are grouped in various divisions on the basis of the product line. That is, all the activities pertaining to a particular product line are grouped in one division.

Organising

- Each of the divisions specialises in its respective product lines.
- Further, within each division there exists a functional structure. That is, each division has various departments under it.

The following diagram depicts a divisional structure.



➤ *Advantages of a Divisional Structure*

- 1) **Managerial efficiency:** A divisional structure provides numerous opportunities for the development of skills and knowledge of the managers. The head of each division gains experience as he or she deals with a variety of functions simultaneously. This enables the division head to grow professionally and improve proficiency.
- 2) **Measurement of performance:** In a divisional structure, the performance of each of the divisions is judged on the basis of its profit and loss during a particular period. This type of assessment of performance is easier and helps in taking appropriate and timely corrective action in case of poor performance.
- 3) **Flexibility and initiative:** As the heads of the divisions have the authority to make their own decisions, a divisional structure promotes initiative and flexibility in decision making.
- 4) **Growth:** An organisation following a divisional structure can easily add new divisions under it, without disturbing the functioning of other divisions. This makes the process of growth and expansion easy for the organisation.

➤ *Disadvantages of a Divisional Structure*

- 1) **Departmental conflicts:** Sometimes conflicts may arise among different divisions with regard to various decisions and actions of the organisation such as those relating to allocation of funds and resources.
- 2) **Increase in cost:** As there exists a similar functional structure under each division, the same set of functions are performed under each department. Thus, there is high probability of overlapping of activities, which results in a rise in cost for the organisation.
- 3) **Ignorance of overall objectives:** Each of the divisions may function as a separate unit with its own set of goals and objectives. As a result, the organisational goals may be ignored.

➤ *Suitability of a Divisional Structure*

A divisional structure proves suitable for organisations that introduce, or plan to introduce, different product lines.

❖ **Differences between a Functional Structure and a Divisional Structure**

| <i>Basis of difference</i> | <i>Functional structure</i> | <i>Divisional structure</i> |
|----------------------------|---|---|
| Creation | Created on the basis of varying functions | Created on the basis of varying product lines along with functions |
| Costs | Less costly/economical as duplication of work is minimised | Costly, as there is a higher rate of duplication of work and use of resources for the same functions in various departments |
| Decision making | Centralised decision making, as decisions are taken by a single coordinating head for various departments | Decentralised decision making, as each division has its own decision-making authority |

| <i>Basis of difference</i> | <i>Functional structure</i> | <i>Divisional structure</i> |
|----------------------------|--|--|
| Duplication of work | Minimum overlapping and duplication of work | High degree of overlapping of work, as each division has the same set of functions |
| Suitability | More suitable for organisations that focus on 'operational specialisation' | More suitable for organisations that focus on 'multiple products' |
| Functional hierarchy | Horizontal functional hierarchy | Vertical functional hierarchy |

❖ **Formal Organisation Structure**

A formal organisation structure is a well-defined structure of authority and hierarchy that clearly specifies the boundaries of authority and responsibility in an organisation. The rules and policies to be followed are clearly stated. A formal organisation structure is deliberately created by the managers of an organisation to ensure its smooth and systematic functioning.

➤ **Features of a Formal Organisation**

The following are the important features of a formal organisation.

- 1) **Specification of authority:** In a formal organisation, the boundaries of authorities and responsibilities are clearly defined. That is, it is clearly specified who is to report to whom.
- 2) **Achievement of organisational objectives:** By clearly stating the procedures and rules to be followed, a formal organisation enables the achievement of organisational objectives in a far better manner.
- 3) **Deliberate creation:** A formal organisation is deliberately created by the managers in order to achieve the systematic and efficient functioning of the organisation.
- 4) **Coordination:** A formal organisation facilitates the coordination of the efforts of various departments and individuals in the pursuit of the common goals of the organisation.
- 5) **Emphasis on work:** A formal organisational system lays more emphasis on the work to be done rather than on interpersonal relationships.

➤ *Advantages of a Formal Organisation*

- 1) **Reduced confusion:** A formal organisation clearly defines the working relationships and the hierarchy. That is, it clearly specifies who should report to whom. In this way, it facilitates unity of command, thereby reducing confusion in the working operations.
- 2) **High stability:** By defining the procedures and rules clearly, a formal organisation makes the behavior of the employees more predictable, bringing stability to the organisation.
- 3) **Reduced duplication of work:** Since the responsibilities are clearly defined, there is no room for ambiguity in the roles of various employees. This helps in avoiding duplication of work and efforts.
- 4) **Better coordination:** A systematic division of activities in various departments results in better coordination in the organisation.
- 5) **Accomplishment of organisational objectives:** A formal organisational structure lays more stress on work, thereby assisting in achieving organisational objectives in a better manner.

➤ *Disadvantages of a Formal Organisation*

- 1) **Delay in decision making:** Each member in a formal organisation has to follow the established chain of working relationships for each and every task. Sometimes (particularly in exigencies), such a system may result in delay in decision making.
- 2) **Limited creativity:** A formal organisational structure restricts creativity as it does not allow for new practices and ways of doing the tasks. The tasks have to be performed as per the pre-defined procedures and rules.
- 3) **Portrays an incomplete picture:** As a formal organisation lays emphasis on the working relationships only, it fails to bring out the interpersonal relationships existing in the organisation, thereby giving an incomplete picture of the organisation.

❖ **Informal Structure**

An informal structure is a network of social relationships that arises out of personal interactions among the employees of an organisation beyond their officially defined roles. In this regard, it can be said that an informal structure originates from within a formal organisation.

➤ *Features of an Informal Organisation*

The following are the features of an informal organisation:

- 1) ***Originates from a formal organisation***: An informal organisation arises from within a formal organisation through personal interaction among the employees beyond their officially defined roles.
- 2) ***Moulds behaviour***: The behaviour of the employees in an informal organisation is moulded by the norms of the groups, rather than by the officially defined rules.
- 3) ***Facilitates independent communication channels***: In an informal organisation, information flows freely without following any specified path or channel.
- 4) ***Forms spontaneously***: An informal organisation structure emerges spontaneously out of personal interactions among the employees and is not deliberately created either by the employees or by the managers.
- 5) ***Remains complex***: As informal organisations do not have a definite structure, they are quite complex.

➤ *Advantages of an Informal Organisation*

The following are the advantages of an informal organisation:

- 1) ***Faster flow of communication***: As no definite path or channel of communication is followed in an informal organisation, information spreads faster.
- 2) ***Fulfilment of social needs***: An informal organisation allows for personal communication beyond the officially defined roles. This enables the employees to interact with like-minded colleagues. This unofficial interaction provides a sense of belongingness among the employees towards one another and towards the organisation.
- 3) ***Fulfilment of organisational objectives***: An informal organisation supports the working of a formal organisation and thereby helps in the fulfilment of the organisational objectives in a better manner. For instance, the managers can interact with the workers informally and assess their views on various matters.

➤ *Disadvantages of an Informal Organisation*

The following are the disadvantages of an informal organisation:

- 1) ***Spread of rumours***: An informal organisation often leads to the spread of rumours that may mislead the employees.

- 2) **Emphasis on personal interest over organisational interest:** An informal organisation tends to lay undue emphasis on individual interests over the organisational interests. This may obstruct the achievement of the organisational goals.
- 3) **Negative results:** An informal structure may lead to negative results if the norms and interest of the various departments are not in conformity with the interest of the organisation.
- 4) **Resistance to change:** The members of an informal organisation may resist and oppose in unison the policies and changes of the managers, making their implementation difficult.

➤ ***Strategic Importance of the Informal Sector***

OR

➤ ***How an Informal Organisation Structure Supports the Formal Organisation***

The following points highlight the strategic importance of an informal organisation structure for a formal organisation:

- 1) **Free flow of communication:** An informal organisation structure allows the employees to interact freely outside boundaries of the organisation. This facilitates faster spread of information, thereby assisting the formal organisation.
- 2) **Coordination:** Through informal relations, people develop mutual trust and understanding among them. This promotes coordination between them.
- 3) **Organisational objectives:** Along with the personal goals, informal relations help in strategically fulfilling the organisational objectives as well. For instance, the managers can interact with the workers informally and assess their views on various matters as well as ask for their suggestions and ideas.
- 4) **Harmonious environment:** By developing healthy relationships, an informal structure builds a harmonious working environment.
- 5) **Efficiency and productivity:** An informal organisation structure supports the fulfilment of the social and psychological needs of the employees. This in turn helps them to improve their productivity and efficiency.

Organising

❖ Difference between a Formal Organisation and an Informal Organisation

| <i>Basis of difference</i> | <i>Formal organisation</i> | <i>Informal organisation</i> |
|----------------------------|--|---|
| Origin | Arises from formal rules and policies of the organisation | Arises from social interactions among the employees beyond the official boundaries of authority |
| Communication flow | Communication flows through the scalar chain, i.e., formal channels of communication are followed. | Communication does not follow any fixed path and flows freely. |
| Purpose | The purpose is to achieve systematic working. | The purpose is to derive psychological satisfaction. |
| Stability | More stable, as it is based on a predefined structure of relationships | Less stable, as it is based on the personal preferences of the employees, which may change |
| Interdependence | It is independent of the existence of the informal organisation. | It arises out of the formal organisation, so is dependent on it. |

❖ Delegation

Delegation refers to the transfer of authority and responsibility by the superior to his or her subordinates.

➤ *Elements of Delegation*

Delegation consists of the following three elements:

1. **Authority:** Authority refers to the power given to an individual to command and direct the subordinates and take various decisions.
 - In a formal organisation, the scalar chain gives rise to authority.
 - It is a downward flowing channel, i.e., the superior commands authority over the subordinates.
 - Scope of authority delegated depends on the rules and regulations of the organisation.

2. **Responsibility:** Responsibility refers to the adherence of the subordinate to complete a given task and his or her answerability.
 - Once a duty has been assigned to a subordinate, it is his or her responsibility to perform and complete the task.
 - Responsibility arises out of the superior-subordinate relationships.
 - It is a channel that runs upward, i.e., the subordinate is responsible to his or her superior.
 - Responsibility must be accompanied by a fair degree of authority.
3. **Accountability:** Accountability refers to the answerability of the superior for the final outcome of the work he or she has been assigned.
 - Though the superior delegates the work to a subordinate, he or she will continue to be responsible for the final outcome.
 - As the superior is accountable for the final outcome of a task, he or she undertakes regular supervision and collects feedback to ensure that the subordinate performs the tasks properly.
 - Accountability arises out of responsibility

➤ ***Relationship between Authority and Responsibility***

Responsibility and authority must each be accompanied by the other. While responsibility is assigned to a subordinate, he or she must also be given a certain degree of authority. On the other hand, an individual who is given authority must also have some responsibility.

Authority \Leftrightarrow Responsibility

Authority without responsibility \Rightarrow Misapplication of power

Responsibility without authority \Rightarrow Inefficiency

➤ ***Relationship between Accountability, Authority and Responsibility***

| <i>Basis of difference</i> | <i>Accountability</i> | <i>Responsibility</i> | <i>Authority</i> |
|-----------------------------------|--|---|---|
| Emergence | Responsibility gives rise to accountability. | The superior-subordinate relationship gives rise to responsibility. | Formal relations in an organisation give rise to authority. |
| Delegation | Cannot be delegated | Can be delegated but only to some extent | Can be delegated. |
| Flow | Runs upward, i.e., from the subordinate to the superior. | Runs upward, i.e., the subordinate is responsible to his or her superior. | Flows downwards, i.e., the superior commands authority over the subordinates. |

➤ ***Importance of Delegation***

The following points highlight the importance of delegation in effective organising.

- 1) ***Managerial efficiency***: By delegating work to the subordinates, the managers can concentrate on priority areas and also venture into new areas. This freedom from the routine tasks enhances the efficiency of the managers.
- 2) ***Employee proficiency***: As the subordinates are entrusted with the responsibility of completing a task, they get an opportunity to prove their abilities and apply their skills. This helps them to gain experience and improve their proficiency.
- 3) ***Motivation***: Delegation provides the employees with psychological benefits, which motivate and encourage them to give their best to the organisation.
- 4) ***Growth***: Delegation helps in the preparation of efficient and experienced managers who can take up leading positions during the growth phase of the organisation. This facilitates easy growth and expansion of the organisation.
- 5) ***Hierarchical structure***: Delegation forms the basis of the hierarchical structure of an organisation. It decides the reporting relationships and determines who has to report to whom.
- 6) ***Coordination***: By clearly defining the working relationships, delegation minimises overlapping of work, thereby improving coordination and efficiency in the organisation.

❖ Decentralisation

Decentralisation refers to the dispersal of the decision-making power among the middle-level and lower level managers. The extent of decentralisation varies from one organisation to another.

➤ *Decentralisation - An Extension of Delegation*

Both decentralisation and delegation relate to downward delegation of authority and responsibility. While authority is shared just between the superior and the immediate subordinate, under delegation, this concept is extended further under decentralisation, and the authority is distributed to multiple levels. In other words, while delegation involves just two persons, i.e., the superior and the subordinate, decentralisation is a wider concept of delegation where power is transferred to numerous levels.

➤ *Delegation v/s Decentralisation*

| <i>Basis of differences</i> | <i>Delegation</i> | <i>Decentralisation</i> |
|------------------------------------|--|--|
| Compulsory v/s optional | Delegation is compulsory because no individual can handle all the tasks by himself or herself. | Decentralisation is optional; the top-level management may or may not opt for this policy decision. |
| Levels of transfer of power | Power is transferred within one level of hierarchy, i.e., from a superior to his or her immediate subordinate. | Power can be transferred to multiple levels, i.e., from the top-level to middle-level to lower level management. |
| Aim | The main objective is to reduce the burden of the superior. | The main objective is to empower all the levels of management by giving them greater autonomy. |
| Policy matter v/s routine function | Delegation is a routine function to delegate the work and the authority by the managers to the subordinates. | Decentralisation is a policy matter of the organisation; it can decide whether to opt for decentralisation or not. |

Organising

➤ *Decentralisation v/s Centralisation*

| <i>Basis of difference</i> | <i>Centralisation</i> | <i>Decentralisation</i> |
|----------------------------|---|---|
| Authority | Authority remains concentrated only in the higher level of management. | Authority is delegated to lower levels of management. |
| Creativity | Restricts creativity of middle-level and lower level managers | Promotes creativity and innovation at all the levels |
| Workload | Higher workload on the top-level managers | Less workload, as authority and responsibility are shared |
| Scope of delegation | Scope of delegation is limited as power is concentrated in a few hands. | Wider scope of delegation as authority can be transferred. |
| Subordinate Initiative | Limits the scope of initiatives by subordinates as the workers have to work as per the pre-decided path | Encourages the subordinates to come forward and take initiative as they are given the freedom required for functioning |
| Decision making | Decision making is slowed down as power lies only with the top-level management. A problem has to pass through different levels before action is taken. | Decision making is quick as the authority to take action lies with the official who actually takes the action required. |

➤ *An Organisation Can Neither Be Completely Centralised Nor Completely Decentralised*

As an organisation grows in size, it cannot maintain complete centralisation. Rather, a need arises to move towards decentralisation. The employees must be given some authority and responsibility to ensure the smooth and efficient functioning of the organisation. Moreover, as the organisation grows in size, decentralisation would facilitate quick decision making, thereby avoiding delays.

However, an organisation cannot adopt extreme decentralisation. Delegation of all the decision-making power to the lower level managers may harm the harmony of the

organisation. This is because it is possible that lower level managers in each department would mould the rules and policies according to their own convenience, thereby diverging from the overall organisational goals. Thus, a certain degree of authority and control must be retained at the top-level management to maintain the integrity of the organisation.

Thus, we can say that an organisation cannot function smoothly either with extreme centralisation or with extreme decentralisation.

➤ ***Importance of Decentralisation***

- 1) ***Initiative***: Decentralisation gives some freedom to the lower level managers and imparts them a higher degree of autonomy to take initiatives. In the process, the lower level managers learn to face new challenges and find solutions for problems themselves.
- 2) ***Managerial competence***: Delegation of authority to lower level managers provides them the opportunity to gain experience and thereby develop the skills and knowledge to face new challenges. This improves their competence and level of maturity, which in turn helps them to get ready for higher positions.
- 3) ***Control***: Decentralisation assists in analysing and evaluating the performances of each department separately. The extent of achievement of each department and its contribution to the overall objectives of the organisation can be easily evaluated in a decentralised system.
- 4) ***Active decision making***: Since the authority to make decisions is passed on to the lower levels of management through decentralisation, decisions are taken quickly and in a timely manner. This is useful in finding solutions to problems easily.
- 5) ***Growth***: Decentralisation calls for greater authority to the lower level managers. This helps them develop their competence and gain experience. Decentralisation enables an organisation to prepare future managers, which is useful during the growth and expansion process.
- 6) ***Reduced workload of top managers***: Through delegation, the top-level managers shift their workload to their subordinates, allowing them to concentrate on higher priority areas.