

CBSE CLASS 12 BUSINESS STUDIES

CHAPTER – 5

ORGANISATION

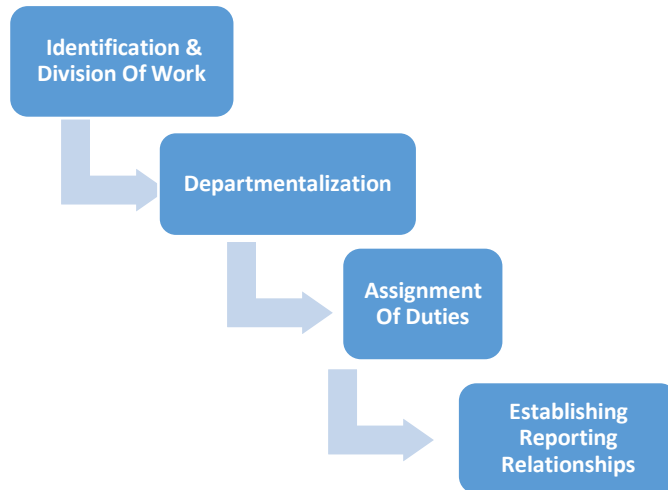
REVISION NOTES

Meaning of Organizing

The organising function leads to the creation of an organisational structure which includes the designing of roles to be filled by suitably skilled people and defining the inter relationship between these roles so that ambiguity in performance of duties can be eliminated. The aim of organizing is to enable people to work together for a common purpose.



STEPS IN THE PROCESS OF ORGANISING



1. Identification & Division Of Work:

The first step in the process of organizing involves identifying and dividing the work in accordance with the predetermined plans. The work is divided into manageable activities so that duplication of work can be avoided and the burden of work can be shared among the employees.

2. Departmentalization:

- Once work is divided into small activities, similar and related jobs are grouped together. This grouping is called departmentalization.
- E.g. departmentalization on the basis of territory, products etc.

3. Assignment Of Duties:

- It is important to state clearly the work of different job positions and allocate work accordingly to employees.
- Once departments are formed, individual department heads are appointed for each departments.
- The work must be assigned to those who are best fitted to perform it well.
- E.g. finance job should be assigned to persons having qualifications and experience in finance e.g. C.A's or MBA finance.

4. Establishing Reporting Relationships:

- Establishing authority and responsibility relationship helps to create a hierarchal structure and also helps in coordination amongst various departments.
- Superior subordinate relations between different people and job positions is to be created, so that everybody knows from whom he/she is to taking orders and to whom he/she can issue orders.

IMPORTANCE OF ORGANISING



1. Benefits of specialization:

- Organising leads to a systematic allocation of jobs amongst the work force.
- The division of work into smaller jobs reduces workload and enhance productivity and repetitive performance leads to specialization.

2. Clarity in working relationships:

- Organising helps in defining all the jobs and also clarifying the limits of authority and responsibility of each job.

- It helps in creating a hierarchical order thereby enabling the fixation of responsibility and specification of the extent of authority to be exercised by an employee.

3. Optimum utilization of resources:

- Organisation leads to usage of all natural resources, financial resources and human resources.
- The proper assignment of jobs avoids duplication of work and minimizes wastage of resources.

4. Effective Administration:

- It provides a clear description of jobs and related duties, which helps to avoid confusion and duplication of work.
- Clarity in working relationships enables proper execution of work, which results in effective administration.

5. Adaption to Change:

- The process of organising is flexible which allows a business enterprise to accommodate changes in the business environment.
- It also provides stability to an enterprise.

6. Development of Personnel:

- A well designed organization structure encourages initiative and creative thinking on part of the employees.
- When managers delegate their authority, it reduces their workload and thus can give time on important areas of growth and opportunity to innovate thereby.

7. Expansion and growth:

- Organising helps in growth & diversification of an enterprise.
- By adding more job positions, departments, product lines, new geographical territories etc. and thus will help to increase customer base, sales and profit.

ORGANISATIONAL STRUCTURE

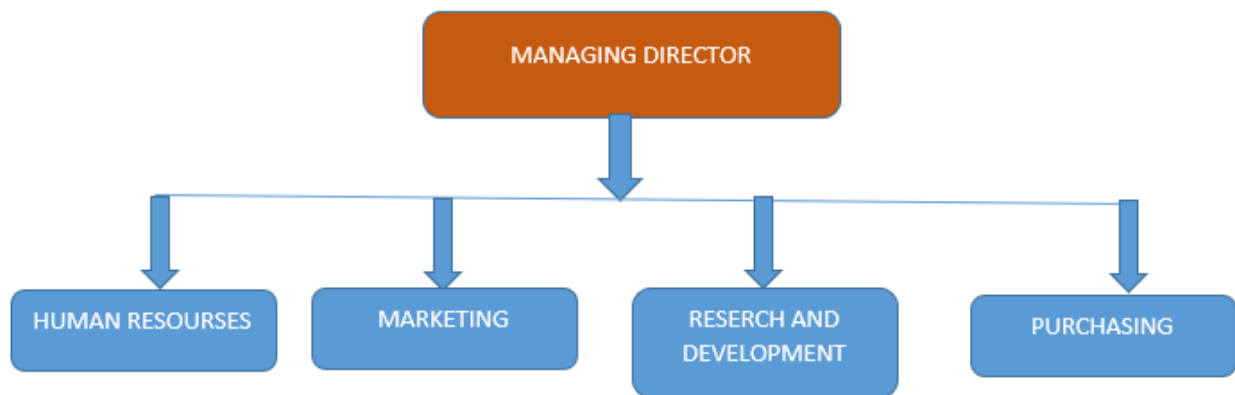
The **organisation structure** can be defined as the framework within which managerial and operating tasks are performed. It specifies the relationships between people, work and resources in an organisation.

Under the organizational structure, various posts are created to perform different activities for the attainment of the predetermined objectives of the enterprise. The structure provides a basis or framework for managers and other employees to perform their functions.

Span of management refers to the number of subordinates that can be effectively managed by a superior. The Span of management largely gives shape to the organization structure. This determines the levels of management in the structure.

1. FUNCTIONAL STRUCTURE:

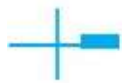
In functional structure activities are grouped and departments are created on the basis of specific functions to be performed. For example, all the jobs related to production are grouped under production department, sales departments etc.



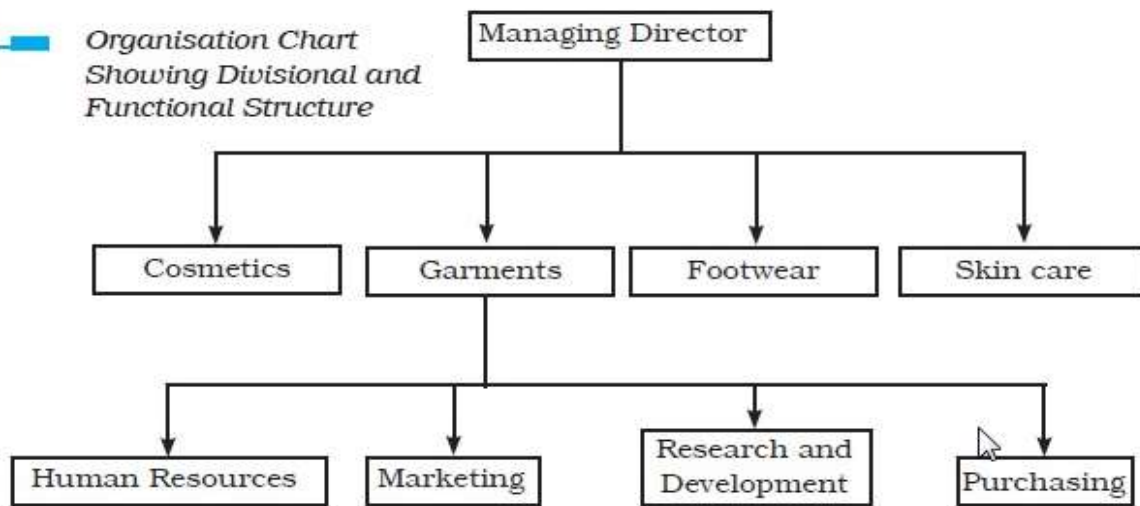
ADVANTAGES	DISADVANTAGES	SUITABILITY
<ul style="list-style-type: none"> • Functional structure leads to occupational specialisation since emphasis is placed on specific functions. • Promotes efficiency in the utilisation of man power. • Promotes control and coordination within a department. • It helps in increasing managerial and operational efficiency. • it reduces duplication of work. • It helps in training employees easily. • It ensures that different functions get due attention. 	<ul style="list-style-type: none"> • A Functional structure gives more importance to the objectives of functional head than the objectives of organisation • Lack of coordination among different departments. • A conflict of interests will arise within different departments. • It may lead to inflexibility due to narrow perspective of employees. 	<ul style="list-style-type: none"> • Organizations which require high degree of functional specialization with diversified activities. • Large organizations producing one line of product.

2. DIVISIONAL ORGANIZATION STRUCTURE

Dividing the whole enterprise according to the major products to be manufactured (like metal, plastic, cosmetics etc.) is known as divisional organization structure.



*Organisation Chart
Showing Divisional and
Functional Structure*



ADVANTAGES

- Product specialisation helps in the overall development of the skills of departmental heads.
- It helps in the fixation of responsibility and accountability of departmental heads
- provides a proper basis for assessing performance and results of each division.
- It facilitates expansion and growth, as new divisions can be added without interrupting existing divisions

DISADVANTAGES

- Conflicts may arise among different divisions on allocation of resources.
- It may lead to increase in costs since there may be a duplication of activities in different product divisions.
- It provides managers with the authority to supervise all activities related to a particular division.

SUITABILITY

- This structure is suitable in organizations producing multi product or different lines of products requiring product specialization.
- Growing companies which intend to add more lines of products in future adopt this structure.

Comparative view: Functional and Divisional Structure

Basis	Functional Structure	Divisional Structure
Formation	Formation Is based on functions	Formation is based on product lines and is supported by functions
Specialisation	Functional specialisation	Product specialization
Responsibility	Difficult to fix on a department	Easy to fix responsibility for performance
Managerial Development	Difficult, as each functional manager has to report to the top management	Duplication of resources in various departments, hence costly
Cost	Functions are not duplicated hence economical	Duplication of resources in various departments, hence costly.
Coordination	Difficult for a multiproduct company.	Easy, because all functions related to a particular product are integrated in one department.

3. FORMAL ORGANISATION

Formal organisation refers to the organisation structure that is designed by the management to accomplish organizational goals. In a formal organisation the boundaries of authority & responsibility is clearly defined and there is a systematic coordination among the various activities to achieve organizational objectives.

Features	Advantages	Disadvantages
<ul style="list-style-type: none"> • It clearly defines the lines of authority and responsibility for every individual in an organisation. • It is a means to achieve the objectives specified in the plans. • It is impersonal and doesn't take into consideration emotional aspect of the employees. • it is designed by the top management. • It is created with the motive of achieving organizational objectives. 	<ul style="list-style-type: none"> • Easier to fix responsibility since mutual relationships are clearly defined • It helps in avoiding duplication of work • Unity of command is maintained • Effective accomplishment of goals. • Provides stability in organisation. 	<ul style="list-style-type: none"> • May lead to procedural delays as chain of command has to be followed. • Rigid policies reduces creativity. • More emphasis is on structure and work than on human relationships.

4. INFORMAL ORGANISATION

Interaction among people at work gives rise to a 'network of social relationships among employees' called the informal organisation. The main purpose of this organization structure is the psychological satisfaction of the employees with common interests. For example, employees with similar interest in books, films, religion etc. may form their own informal groups.

FEATURES	ADVANTAGES	LIMITATIONS
<ul style="list-style-type: none"> • It originates from the personal interaction of employees within a organisation. • The standards of behaviour evolve from group norms. • It doesnt have fixed channels of communication. • It emerges spontaneously and not created by management. • It is a complex network of social relationships among members. 	<ul style="list-style-type: none"> • It leads to faster spread of information and feedback as formal channels of communication is not followed. • It enhances job satisfaction and a sense of belongingness in the organisation. • It provide quick solutions to the problems. 	<ul style="list-style-type: none"> • Informal organisation spread rumours, sometimes it goes against the interests of the organisation. • It resists change and lays stress on adopting the old techniques. • members of the group may give more priority to group interests over the organisational objectives.

Difference between Formal Informal Organisation

Basis	Formal organisation	Informal Organsiation
Meaning	It refers to the structure of well defined authority and	It refers to the network of social relationships arising out of interaction among employees
Origin	As a result of company rules and policies	Arises as a result of social interaction
Authority	Arises by virtues of positions in management	Arises out of personal qualities.
Adherence to rules	Violations of rules may lead to penalties and punishments.	No such penalties and punishments.
Flow to Communication	Communication takes place through the scalar chain	Not through a planned route, it can take place in any direction.
Purpose	To achieve planned organizational objectives.	To satisfy social and cultural needs and fulfill common interests
Nature	Rigid	Flexible

Structure	Well defined structure of tasks and relationships.	No clear cut structure because of complex network of relationships.
Flow of Authority	Authority flows from top to bottom i.e. downwards.	Authority flows vertically as well as horizontally.
Leadership	Managers are leaders	Leaders may or may not be managers. They are chosen by the group.

DELEGATION

“Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits.”

Theo Haimman

Delegation refers to the downward transfer of authority from a superior to a subordinate employees. It is a pre-requisite to the efficient functioning of an organisation because it enables a manager to use his/ her time on high priority activities. Importance of delegation is that it helps in effective management, employee development, motivation, growth and coordination.

ELEMENTS OF DELEGATION

1. Authority: Authority refers to the right to take decisions in order to guide the activities of others. Authority determines the superior subordinate relationship. Laws and the rules and regulations of the organisation restrict authority. Authority flows downward.

2. Responsibility: Responsibility is the obligation of a subordinate to perform properly the assigned duty. If the subordinate has the responsibility for a job, he/ she must be given necessary authority to carry out that task.

3. Accountability: Accountability implies being accountable for the final outcome. When a superior assigns a work to a subordinate, he/she is answerable to the superior for its outcome.

Difference between Authority, Responsibility and Accountability

Basis	Authority	Responsibility	Accountability
Meaning	Right to command	Obligation to perform an assigned task.	Answerable for the outcome of the assigned task.
Origin	Arises from formal position	Arises from delegated authority	Arises from responsibility
Delegation	Can be delegated	Cannot be entirely delegated	Cannot be delegated at all
Flow	Downward flow from superior to subordinate.	Upward flow from subordinate to superior.	Upward flow from subordinate to superior.

IMPORTANCE OF DELEGATION

- 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.

DECENTRALISATION

“Decentralisation refers to systematic efforts to delegate to the lowest level, all authority except the one which can be exercised at central points”.

Decentralisation means delegation of authority throughout all the levels of the organisation. This empowers lower levels to take decisions regarding problems faced by them without having to go to the upper levels. In other words decision making authority is given to all the employees at all levels depending on the job each one of them are handling

An organisation is centralized when the decision making authority is retained by the top level management.

IMPORTANCE OF DECENTRALISATION

1. Develops initiative among subordinates: It helps to promote confidence and self reliance in the subordinates as they are given freedom to take their own decisions.

2. Develops managerial talent for future: Training given by the organisation and the experience gained from handling the projects increases the talent of the managers and employees.

3. Quick decision making: Since the managerial decisions are taken at all levels nearest to the point of action helps them to take better and quick decisions.

4. Relieves the top management: By the delegation of work, the daily managerial jobs are assigned to the subordinates, which leaves enough time with the superiors to look into priority areas.

5. Facilitates growth: It allows the departmental heads and employees to perform in the best possible manner considering all the aspects of their department, which in turn increases productivity, efficiency and facilitates growth.

6. Better Control: Evaluation of performance is possible at each level, which results in complete control over all the other activities.

Difference between Delegation and Decentralization

Basis	Delegation	Decentralisation
Nature	It is a compulsory act.	Decentralisation is an optional policy decision.

Freedom of action	Less freedom to take decisions due to more control by the superiors.	Less control over executives hence greater freedom of action.
Status	It is a process followed to share tasks.	It is the result of the policy decision of the top management.
Scope	It has narrow scope, as it is limited to superior and his immediate subordinate.	It has wide scope as it implies extension of delegation to the lowest level of management.
Purpose	Narrow as it is confined to a superior and his immediate and subordinate.	To increase the role of the subordinates in the organisation by giving them more autonomy.