

Class 12 Business Studies

Notes

CHAPTER – 5

ORGANISING

Meaning of Organizing

•nce the objectives and plans are laid down, management has to identify and establish productive relationships between various activities and resources for implementing plans. In general words organising refers to arranging everything in orderly form and making the most efficient use of resources. The aim of organizing is to enable people to work together for a common purpose.

‘Organizing is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.’

Steps Involved in the Process of Organizing

1. Identification & Division Of Work: -

The total work to be done should be divided into specific jobs as according to predetermined plans. -

Job = a set of related tasks that can be performed by an individual. It should have specific and definite tasks to be performed. As far as possible, it should define expected results along with the job.

- Division of work → specialization of efforts and skills + avoids duplication of work.
- Management must ensure that all the activities required to achieve organizational objectives are identified.

2. Departmentalization:

- Grouping similar and related jobs into larger units called departments, divisions or sections and placing them under a department head. It facilitates specialization.

- The departments are linked together and are interdependent.

- Aims at achieving co-ordination and facilitate unity of action. Departmentation can be done on the basis of:

- Functions: marketing, personnel, finance etc.
- Products: Textiles, chemical, power division etc.
- Territories: Western, northern, central, eastern etc.

3. Assignment Of Duties:

- Define the work of different job positions and allocate work accordingly.

- Once departments are formed, the dept is placed under the charge of an individual.

- Jobs are assigned to an individual best suited to perform it.

- Qualifications, experience, ability and aptitudes of people should be matched with duties.

- E.g. activities of finance should be assigned to persons having qualifications and experience in finance e.g. C.A's.

4. Establishing Reporting Relationships:

- Granting requisite authority to enable employees to perform the job satisfactorily.
- Superior subordinate relations between different people and job positions created, so that everybody knows from whom he is to take orders and to whom he can issue orders.
- Creates management hierarchy = a chain of command from the top manager to the individual at the lowest level.
- This helps in coordination.

Importance of Organizing

1. Benefits of specialization: In organizing every individual is assigned apart of total work and not the whole task. This division of work into smaller units and repetitive performance leads to specialization. Thus organizing promotes specialization which in turn leads to efficient & speedy performance of tasks.

2. Clarity in working relationship: It helps in creating well defined jobs and also clarifying the limits of authority and responsibility of each job. The superior-subordinate relationship is clearly defined in organizing.

3. Effective Administration: It provides a clear description of jobs and related duties which helps to avoid confusion and duplication. Clarity in working relationships enables proper execution of work which results ineffective administration.

4. Optimum utilization of resources: The proper assignment of jobs avoids overlapping/duplication of work. This helps in preventing confusion and minimizing the wastage of resources and efforts.

5. Adoption to Change: A properly designed organizational structure is flexible which facilitates adjustment to changes in workload caused by change in external environment related to technology, products, resources and markets.

6. Development of Personnel: Sound organization encourages initiative and relative thinking on part of the employees. When managers delegate their authority, it reduces their workload so they can focus on more important issues related to growth & innovation. This also develops the subordinates' ability and helps him to realize his full potential.

7. Expansion and growth: It helps in growth & diversification of an enterprise by adding more job positions, departments, products lines, new geographical territories etc.

Meaning of Organizational Structure

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 employees for performing their functions. The organization structure can be defined as the framework within which managerial and operating tasks are performed.

Relation between Span of Management and Organization structure:

Span of management refers to the number of subordinates that can be effectively managed by a superior. The Span of management to a large extent gives shape to the organization structure. This determines the levels of management in the structure. A narrow span of management results in tall structure whereas wider span of management results in flat structure.



(A) 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.



Suitability

- (1) Large organizations producing one line of product.
- (2) Organizations which require high degree of functional specialization with diversified activities.

Advantage

- 1. Specialization:** Better decision of labour takes place which results in specialization of functions and its consequent benefits.
- 2. Coordination is established:** All the persons working within a departmental are specialists of their respective jobs. It makes the co-ordination easier at departmental level.
- 3. Helps in increasing managerial efficiency:** Managers of one department are performing same type of function again and again which makes them specialized and improves their efficiency.

4. Minimizes cost: It leads to minimum duplication of effort which results in economies of scale and thus lowers cost.

Disadvantages

1. Ignorance of organizational objectives: Each departmental head works according to his own wishes. They always give more weight to their departmental objectives. Hence overall organizational objectives suffer.

2. Difficulty in Inter-departmental Coordination: All departmental heads work as per their own wishes which leads to coordination within the department easier but it makes inter-departmental coordination difficult.

3. Hurdle in complete development – because each employee specializes only in a small part of the whole job.

(B) 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.



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

Advantages

1. Quick decision-making: Divisional manager can take any decision regarding his division independently which makes decisions quick and effective.

2. Divisional results can be assessed: Division results (profit/loss) can be assessed easily. On this basis any unprofitable division can be closed.

3. Growth and Expansion: It facilitates growth and expansion as new divisions can be added without disturbing existing departments.

Disadvantages

1. Conflicts among different divisions on allocation of resources.

2. Duplicity of Functions: Entire set of functions is required for all divisions. It gives rise to duplicity of efforts among divisions & increases cost.

3. Selfish Attitude: Every division tries to display better performance and sometimes even at the cost of other divisions. This shows their selfish attitude.

FORMAL ORGANISATION

- Refers to the org. structure that is designed by the management to accomplish organizational objectives..

- It specifies clearly the boundaries of authority & responsibility and there is a systematic coordination among the various activities to achieve organizational goals.

- 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. The main purpose of this organization, structure is getting psychological satisfaction. For example, employees with similar interest in sports, films, religion etc. may form their own informal groups.

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:** Prescribed lines of communication are not followed which leads to faster spread of information.
2. **Fulfillment of social needs** – enhances job satisfaction which gives them a sense of belongingness in the organization.
3. **Quick solution of the problems** – because the subordinates can speak without hesitation before the officers, it helps the officers to understand the problems of their subordinates.

Disadvantages

1. **It creates rumours:** All the persons in an informal organization talk careless and sometimes a wrong thing is conveyed to the other persons.
2. It resists change and lays stress on adopting the old techniques.

3. Priority to group interests: Pressurizes members to conform to group expectations.

Difference between Formal Informal Organisation

Basis	Formal Organisation	Informal Organisation
1. Meaning	It refers to the structure of well defined authority and responsibility.	It refers to the network of social relationships which develops automatically.
2. Nature	Rigid and stable	Flexible and unstable
3. Authority	Arises by virtues of positions in management.	Arises out of personal qualities.
4. Adherence to rules	Violations of rules may lead to penalties and punishments.	No such penalties and punishments.
5. Flow to Communication	Takes place through the scalar Chain.	Not through a planned route, it can take plane in any direction.
6. Purpose	To achieve planned organizational objectives.	To satisfy social and cultural needs and fulfill common interests.
7. Formation/ origin	Deliberately planned and created by management.	Emerges spontaneously as a result of social interaction among employees.
8. Structure	Well defined structure of tasks and relationships.	No clear cut structure because of complex network of relationships.
9. Flow of Authority	Authority flows from top to bottom i.e. downwards.	Authority flows vertically as well as horizontally.
10. Interdependence	Independent.	Depends on formal structure.

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.

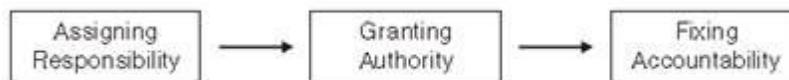
Process/Elements of Delegation

1. Authority: The power of taking decisions in order to guide the activities of others. Authority is that power which influences the conduct of others.

2. Responsibility: It is the obligation of a subordinate to properly perform the assigned duty. When a superior issues orders, it becomes the responsibility of the subordinate to carry it out.

3. Accountability: When a superior assigns some work to a subordinate, he is answerable to his superior for its success or failure.

Principle of Absoluteness of Accountability: Authority can be delegated but responsibility/accountability cannot be delegated by a manager. The authority granted to a subordinate can be taken back and re-delegated to another person. The manager cannot escape from the responsibility for any default or mistake on the part of his subordinates. For example, If the chief executive asks marketing manager to achieve a sales target of sale of 100 units/day. The marketing manager delegates this task to deputy sales manager, who fails to achieve the target. Then marketing manager will be answerable for the work performance of his subordinates. Thus, accountability is always of the person who delegates authority.



Process of Delegation of Authority

Difference between Authority, Responsibility and Accountability

Basis	Authority	Responsibility	Accountability
1. Meaning	Right to command	Obligation to perform an assigned task.	Accountability for the outcome of the assigned task.
2. Origin	Arises from formal position.	Arises from delegated authority.	Arises from responsibility.
3. Flow	Downward- from superior to subordinate.	Upward- from subordinate to superior.	Upward- from subordinate to superior.
4. Withdrawal	Can be withdrawn anytime by giving notice.	Cannot be withdrawn once created.	Cannot be withdrawn once created.

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.

Decentralization

- Decentralisation of authority means dispersal of authority to take decisions throughout the organization, upto the lower levels.
- It implies reservation of some authority with the top level management and transferring rest of the authority to the lower levels of the organization. This empowers lower levels to take decisions regarding problems faced by them without having to go to the upper levels.

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

Centralization = authority retained at top level and **Decentralization** = Systematic delegation of authority at all levels and in all departments of a firm. Firm needs to balance the two.

- In case of a decentralized firm, Top level retains authority for:
 - o Policies and decisions w.r.t the whole firm
 - o Overall control and coordination
- Middle and lower levels have authority to take decisions w.r.t tasks allocated to them

Centralization and Decentralization: represents the pattern of authority among managers at different levels. Centralization of authority means concentration of power of decision making in a few hands. In such an organization very little authority is delegated to managers at middle and lower levels. No organization can be completely centralized or decentralized. They exist together and there is a need for a balance between the two. As the organization grows in size, there is tendency to move towards decentralization. Thus, every organization is characterized by both.

Importance of Decentralization

- 1. Develops initiative amongst subordinates:** It helps to promote confidence because the subordinates are given freedom to take their own decisions.
- 2. Quick and better decisions:** The burden of managerial decisions does not lie in the hands of few individuals but gets divided among various persons which helps them to take better and quick decisions.
- 3. Relieves the top executives from excess workload:** The daily managerial works are assigned to the subordinates which leaves enough time with the superiors which they can utilize in developing new strategies.

4. Managerial Development: It means giving authority to the subordinates up to the lower level to take decisions regarding their work. In this way the opportunity to take decisions helps in the development of the organization.

5. Better Control: It makes it possible to evaluate performance at each level which results in complete control over all the activities.

Difference between – Delegation and Decentralization

Basis	Delegation	Decentralization
1. Nature	It is a compulsory act.	It is an optional policy.
2. Freedom of action	Less freedom to take decisions due to more control by the superiors.	More freedom of action due to less control by the top management.
3. Status	It is a process of sharing tasks and authority.	It is the result of policy decisions taken by top management.
4. Scope	Narrow- as it is confined to a superior and his immediate and subordinate.	Wide- It includes extension of delegation to all the levels of management.
5. Purpose	To reduce the burden of manager.	To increase the role and the autonomy of lower level of management.