### Chapter 4

# Organization

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- Definitions
- Importance of Organization
- Principles of Organizing
- Process of Organizing
- Organization Structure
- Types of Organization Structures
- Span of Control
- Centralization and Decentralization of Authority

### What is organization



An organization is a collection of people working together in a coordinated and structured fashion to achieve one or more goal.

### Definitions

"Organization is a system of cooperative activities of two or more persons."

By- Chester Bernard

"Organizations may be defined as a group of individuals large or small that are cooperating under the direction of executive leadership in accomplishment of goal."

By- Keith Davis

"Organization is the form of every human association for the attainment of a common purpose."

By- Mooney and Reily

### Need or Importance of Organization

- A tool for achieving objective
- Facilitates administration and management
- Ensures optimum use of human resource
- Enhance creativity
- Prevent corruption
- Fosters growth of enterprise
- Eliminates overlapping and duplication of effort
- Coordination

### Principles of Organizing

- Principle of Objective
- Principle of Specialization
- Scalar Principle
- Principle of Authority
- Principle of Span of Control
- Principle of Unity of Command
- Principle of Definition
- Principle of Unity of Direction
- Principle of Parity of Authority and Responsibility
- Principle of Supremacy of Organizational Objectives

### The Process of Organizing

Fixing the organizational objectives

Finding activities which are must for achieving the set objectives

Grouping the similar activities

Defining responsibilities of each employee

Delegating authority to employees

Providing employees the required resources

Coordinating efforts of all to achieve goals

### The Process of Organizing

#### Fixing the Objectives of the Organization

The top-level management holds responsibility of fixing the overall objectives of the organization, middle-level management fixes the departmental objectives and lower-level management fixes the day-to-day objectives.

#### ■ Finding Activities Must for Achieving Objectives

The strategic level management determines different activities that are required to be performed in order to accomplish the set objectives.

#### Grouping the Similar Activities

All the activities which are similar in nature are grouped together to form departments. This leads to specialization.

#### Defining Responsibilities of Each Employee

In this step, the responsibilities of all the individuals working in the organization are clearly defined. This would lead to selection of the right candidate for the right job.

### The Process of Organizing

#### **□** Delegating Authority to Employees

Each subordinate should know whom he has to report. Also, each superior should be aware of the authority he has over his subordinates.

#### Providing Employees with Required Resources

After defining authority relationships, the employees must be provided with all the resources required for achieving the objectives of the organization.

#### ☐ Coordinating Efforts of All to Achieve Goals

This is the last and most important step in the process of organizing. Here, the efforts of all individual employees, groups, and departments are fetched together and coordinated towards the mutual objective of the organization.

### Organization Structure

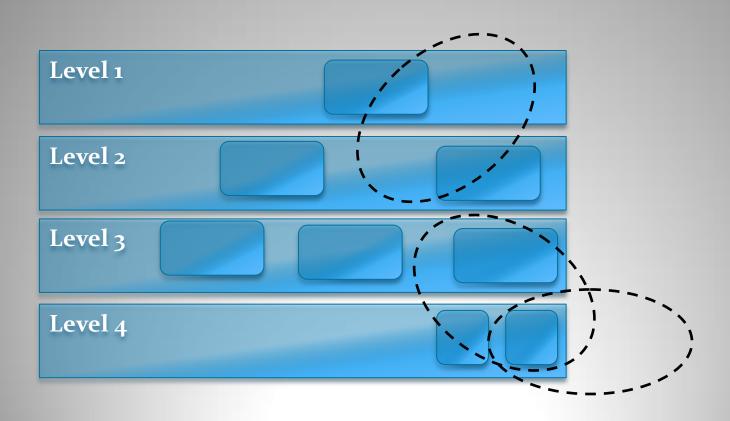
Organization Structure Affects Organizational Action in Two Major Ways

- First, it provides a basis on which the standard operating procedures and routines rest.
- Second, it determines which individuals get to participate in which decision-making process and thus to what degree their views shape the organization's actions.

Reasons designing Organization Structure

- Deal with contingencies
- Achieve a competitive advantage
- Effectively manage Diversity
- Increase efficiency and ability to innovate new goods and services

## Organization Structure



### PURPOSE

- Divides work to be done in specific jobs & dept.
- Assigns tasks and responsibilities associated with individual jobs.
- Coordinates diverse organizational tasks.
- Establishes relationship b/w individuals, groups and departments.
- Establishes formal lines of authority.
- Allocates organizational resources.

# IMPORTANCE OF ORGANIZATIONAL STRUCTURE

- It enables members to know what their responsibilities.
- It freeze the manager and the individual workers to concentrate on their respective roles and responsibilities.
- It coordinates all organization activities so there is minimal duplication of effort or conflict.
- Avoids overlapping of function because it pinpoints responsibilities.
- Shows to whom and for whom they are responsible.

#### **ORGANIZATIONAL RELATIONSHIP**

- FORMAL RELATIONS
- INFORMAL RELATIONS



# ORGANIZATIONAL RELATIONSHIP

#### 1. FORMAL RELATIONS:

• Formal structure, through departmentalization and work division, provides a framework for defining managerial authority, responsibility and accountability.



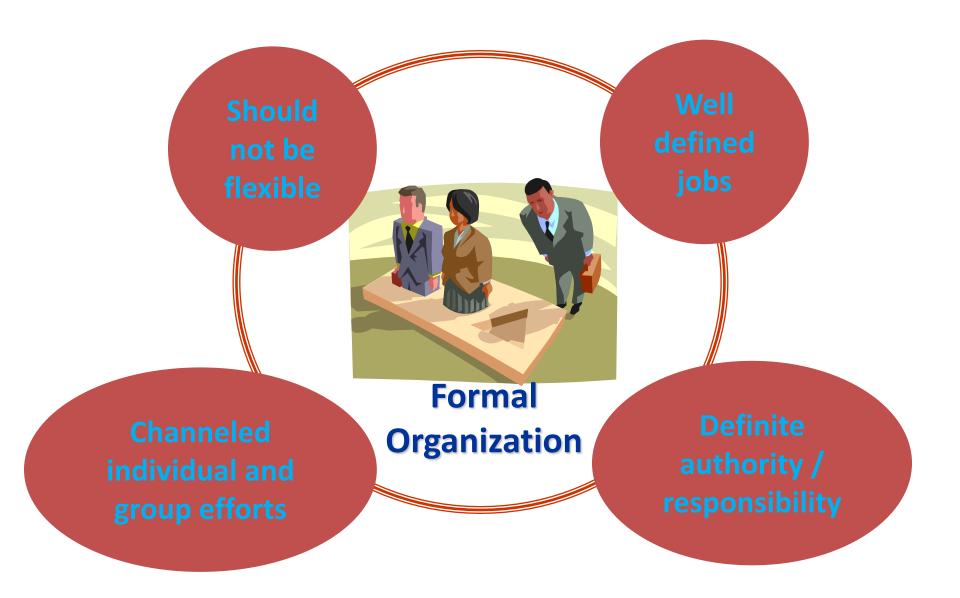
### Formal Organization

The management designed official structure of the business. The formal organization is displayed in the organization chart, the graphical representation of the formal structure of the business.

#### **Features of Formal Organization**

Authorities and responsibilities are very clear
It does not consider the emotional aspect
It is predetermined and purposefully created
It is based on delegation of authority
It provides for division of labour
Organizational charts are follow

#### Formal Structure



### Formal Organization

#### **Advantages**

- Promotes discipline
- Division of work and responsibility
- Clear-cut idea about the authority and responsibility
- Not dependent upon single person
- Decreases the possibilities of conflict
- Operating despites the changes
- Eliminates duplication of work

#### **Disadvantages**

- Causes reduction in initiatives of the person working in an organization
- Not consider the emotional aspect
- It may cause delay in work

### **Informal Organization**

The network of personal and social relationships that emerges when people work together. The informal structure has its presence in all formal structure.

#### Features of Informal organization

- Not depicted in the organizational Chart
- Do not have any particular structure
- It denotes human relationship
- They are outcome of voluntary association
- Develop out of personal preference, beliefs, habit and understanding

#### Informal Structure

A network of personal / social relationships, not established, required by FORMAL organization but arising spontaneously



**Loosely** organized

Informal organization

Structure (membership),
communication networks
("grapevine"), and
relationships behaviors and
norms do not necessarily follow
those of the formal
organization.

Flexible

Ill defined

**Spontaneous** 

### Informal Organization

#### Advantage

- Effective channel of communication
- Develops a sense of belongingness in individuals
- Gap and deficiencies of formal
   Org. can be filled up by the informal
- Members helps each other in case of foreseen or emergencies
- Forces the manager to plan and act carefully

#### Disadvantage

- It operates based on the group psychology
- Conflict between group making the job of manager difficult
- Informal org. may fall prey to rumours
- It may cause problems by resisting changing at certain occasions.

### Learning Outcomes

- Formal and Informal Organization structure
- Difference between formal and informal
- Departmentation
- Types of Organization Structure
- Centralization and Decentralization
- Span of Control

# Difference b/w formal and informal organization

Basis for Comparison	Formal Organization	Informal Organization
Meaning	whose authority, responsibility and	_
Creation	Deliberately by top management.	Spontaneously by members.
Purpose	To fulfill, the ultimate objective of the organization.	To satisfy their social and psychological needs.
Communication	Official communication	Grapevine
Focus on	Work performance	Interpersonal relationship
Authority	Members are bound by hierarchical structure.	All members are equal.

### **DEPARTMENTATION**

- The process of grouping the activities is commonly known as "Departmentation"
- Departmentation is useful for specialisation and fixation of responsibility.
- Departmentation concept is arise based on the organisation functions.

### **DEPARTMENTATION**

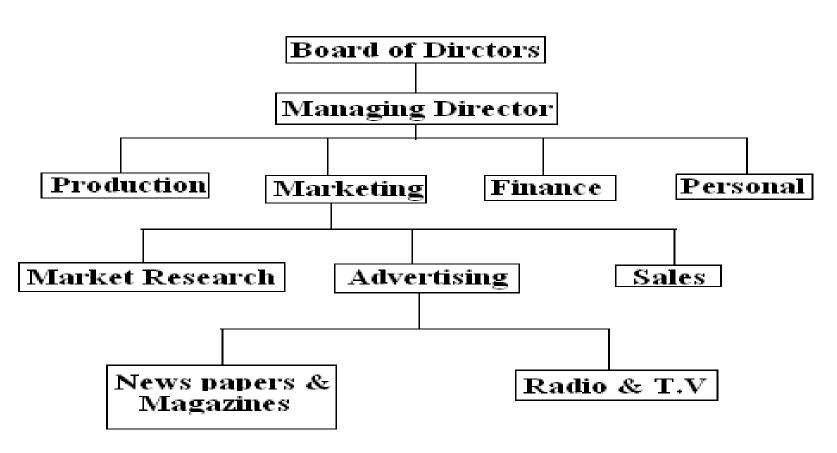
#### Patterns used in Departmentation:

- Departmentation By Function
- \*Departmentation by Product or services
- \* Departmentation by location or Territories
- Matrix organization
- Network organization

### **DEPARTMENTATION**

#### Patterns used in Departmentation:

Departmentation By Function



A company may have separate departments to serve the southern region, northern region etc. It has the advantage of the intimate knowledge of local conditions.

#### Merits

- It motivates each regional head to achieve high performance.
- Provides each regional head an opportunity to adapt to his local situation and customer need with speed and accuracy.
- It affords valuable top management training and experience to middle level executives, enables the organization to take advantage of location factors, such as availability of raw materials, labor, market, etc.
- Enables the Organization to compare regional performances and invest more resources in profitable regions and withdraw resources from unprofitable ones.

#### Demerits

- May give rise to duplication of various activities. Many routine and service functions performed by all the regional units can be performed centrally be the head office very economically.
- Various regional units may become so engrossed in short run competition among themselves that they may forget the overall interest of the total organization.

### Types of Organization Structures

#### **Functional Structure**

- In functional structures, individuals having identical skills and performing similar tasks are grouped together into formal work units, generally called departments.
- Members of functional departments share technical know-how, interests, and responsibilities. Employees within the functional division of an organization tend to perform in areas of their expertise



### Example

**Functional Structure**. The functional structure feature of Starbucks Coffee's organizational structure refers to grouping based on business function. For example, the company has an HR department, a finance department and a marketing department. These departments are most pronounced at the top levels of Starbucks Coffee's organizational structure, such as at the corporate headquarters. This feature relates with hierarchy in the organizational structure of Starbucks. For instance, the corporate HR department implements policies applicable to all Starbucks cafés. The functional structure feature of the firm's organizational structure facilitates topdown monitoring and control, with the CEO at the top.

#### **Functional Structure**

#### Advantage

- Specialization
- Reduced Workload
- Flexibility
- Improved control
- Mass production

#### Disadvantage

- Complex relationship
- Inefficient administration
- Expensive
- Ineffective coordination
- Delay in decision making

#### Divisional Structure

In the divisional structure, the organization is organized into various divisions based on four criteria product, market, process, and location.

Each of the divisions is self-contained and has its own set of functional units like marketing, manufacturing, finance, HR, and so on.

Туре	Emphasis	Example
Product	Goods Provided / Services Catered	GM Beverages Glassware
Market	Target Customers / Clients	Sr. Manager Personal Institutional
Location	Location at which activities are carried out	President  North South  Zone Zone
Process	Activities of same process	VP Recruitment Training

### Example

- McDonald's has a divisional organizational structure. Each division handles a specific operational area. The aim of this organizational structure is to support autonomy and organizational flexibility. McDonald's organizational structure has the following characteristics, arranged according to significance:
- Global hierarchy
- Performance-based divisions
- Function-based groups

#### Divisional Structure

#### Advantage

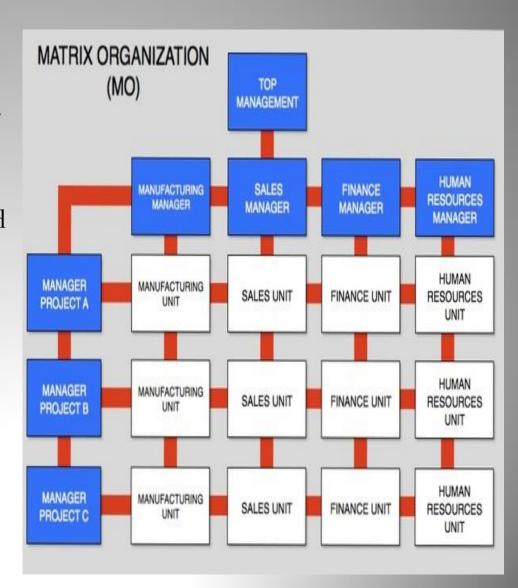
- Highly flexible
- Specific
- Coordination
- Clear accountability
- Ease of Operation

#### Disadvantage

- Reduced economies of scale
- Rivalry
- Divisional Affiliations
- Supremacy of divisional goals

#### **Matrix Structure**

The matrix structure comes into existence when one organizational structure is superimposed on the other. In this structure, an employee is answerable to two immediate supervisors: a functional supervisor and a divisional supervisor. The functional supervisor is in charge of overseeing employees in a functional area, such as marketing or engineering. Divisional supervisor manages specific projects. They absorb employees from various functional areas to complete their project teams.



### Example

Boeing uses the global matrix organizational structure. A global matrix is an organizational structure often used to alleviate the disadvantages associated with both geographic area and global product division structures (Peng, 2014). The matrix structure is a combination of the functional and divisional structures (Johnson, n.d.). The matrix organization structure was introduced in the aerospace industry in the 1950s to deal with complex projects (Hall, 2008). Since the 1950s many organizations have adopted the matrix organization to deal with internal and external complexity. The matrix organization structure reflects the external complexity in the internal structure(Hall, 2008). In a matrix organization structure normally requires multiple reporting lines.

#### Matrix Structure

#### **Advantage**

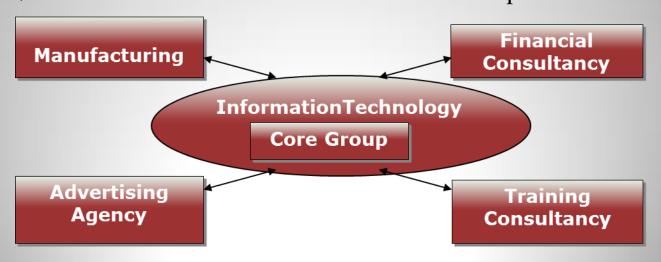
- Flexibility
- Motivation
- Development of Skills
- Better services
- Improved strategic management

#### Disadvantage

- Power Struggle
- Slow decision
- Increased confusion
- Increased administrative and managerial overhead
- Professional development side-lined

#### Network Structure

- A network structure is a cluster of various organizations that coordinate its actions through agreements and contracts instead of hierarchy of authority.
- The organizations using a network structure own only the core or essential components of the business and outsource the rest. It may, for instance, hire an outside advertiser to advertise its products.



## Example

An organization that has been using network structure is H&M (Hennes & Mauritz), a very popular brand that has followers world over. H&M has outsourced the production and processing of their goods to different countries majorly Asian and South East Asian countries.

-HENNES & MAURITZ

- H&M is the core company in its case. As it can be seen, the core company distributes its functions to different companies which, in this case, are present in different countries: product development company in Australia, Call center company in New Zealand, the Accounting company in Australia, Distribution company in Singapore and Manufacturing company in Malaysia.
- However, it is not at all binding to outsource work in different countries; companies do this usually to reduce costs. For example, to benefit from the cheap labor in China, companies move their production there.

## Network Structure

#### Advantage

- Clear focus
- Lower cost
- Flexibility

#### Disadvantage

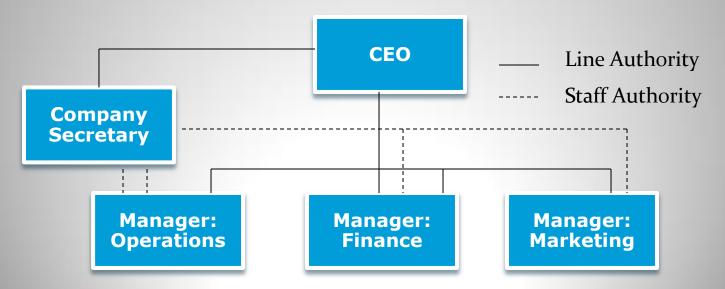
- Control and Reliability
- Lack of secrecy
- Loss of control
- Sacrificing of profit

## Line- and Staff- Organization Structure

Line functions have direct responsibility of achieving the objective of the venture.

In this form of organization, a supervisor exercises direct control over a subordinate, authority flows from top to bottom of the organization. Here the chief executive heads the organization.

This type of organization is also called as scalar organization.



## Virtual Organization

Virtual organization is a network of independent enterprises, suppliers, and customers linked by Information Technology.

For example, Livewire Projects is a virtual IT platform that is used by IT companies and professionals to develop their business applications and products on cloud.

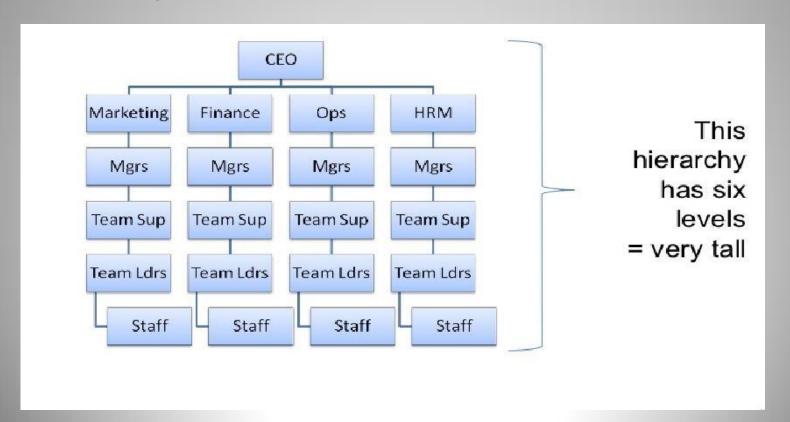
The virtual organization networks are usually temporary in nature



## Tall Organizational Structure

Organizations that require close monitoring of all its business activities opt for tall organizational structure. In such structure, the decision-making authority is the top-level management.

In tall organization structure, the span of control is narrow



## Example

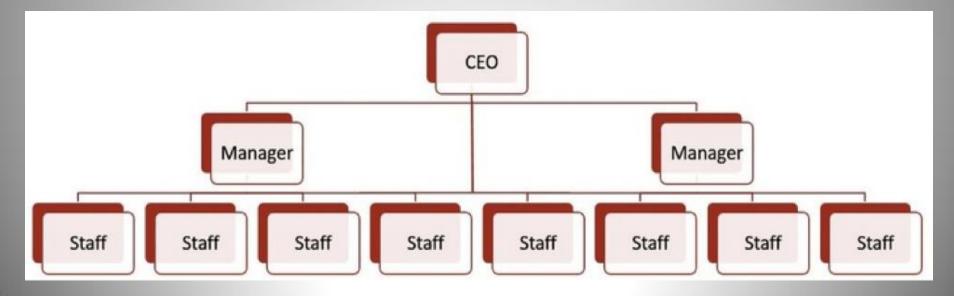
Tall organization: is an organization that has many levels of hierarchy. Government organizations were the first to introduce tall organization structures and is still followed. For example, the defense. All the unicorns in manufacturing industry followed tall organization structure like HUL, Tata, IBM, Boeing, Walmart, Volkswagen, Toyota Motors

## Flat Organizational Structure

Organizations that require more autonomy and self-control have flat organizational structure. In this structure, there are fewer levels of management.

The flat organizational structure is usually adopted by small business firms.

In this organizational structure, the span of control is wide.



## Example

For example W.L. Gore & Associates which now has over 9,000 employees scaled their flat structure over many years since the company started. This wasn't a sudden decision they made after they grew to 9,000 people. Even at Gore, as the company began to grew, some structure had to be put in place.

## Span of Control

"Span of control refers to the number of people that a manager can supervise." By-Louis Allen

"The span of control is the number and range of direct, habitual communication contacts between the Chief Executive of an enterprise and his principal fellow officers."

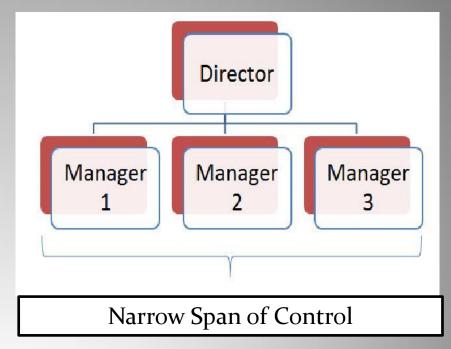
#### By-Professor Dimockz

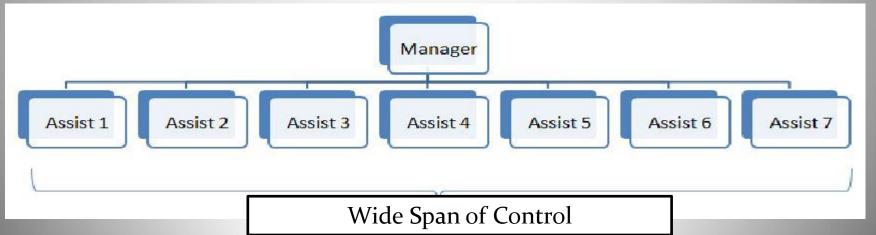
- Span of control refers to the number of subordinates a superior has.
- The more the number of people reporting to manager, the broader is the span of control and vice versa
- As per expert the span of control should not exceed 1:6 at the top level and 1:20 at the lower level.

## **Span of Control**

The span of control depends upon various factors

- Capability of the superior
- Capability of the worker
- Nature of the task to be performed
- Geographical dispersion
- Other tasks to be handled





#### Centralization & Decentralization

#### **Definitions**

"Centralization is systematic and consistent reservation of authority at central points within an organization.

Decentralization applies to systematic delegation of authority in an organizational context."

By-Allen

"Everything which goes to increase the importance of subordinate's role is decentralization and everything which goes to reduce is decentralization."

By-Fayol

### Centralization

- Centralization is the process where the concentration of decision-making is in a few hands.
- All decision and actions at the lower level are dependent on approval by the top management.
- Example: Suppose 1, 2, 3, 4, and 5 are subordinates of A and X,Y, and Z are subordinates of 4. Here X,Y and Z depend on 4 for the decisions to be made and 4 in turn depend on A. Neither of X,Y, and Z nor 1, 2, 3, 4, and 5 can make decisions without consulting A. This is called centralization of authority.



# Advantage and Disadvantage of Centralization

#### **Advantage**

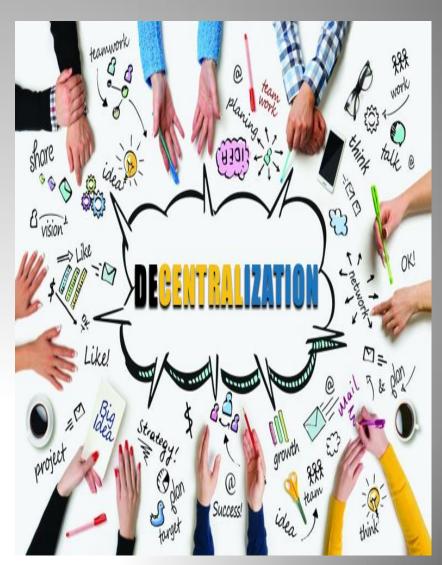
- Reduced cost
- Flexibility
- Avoids replication of work
- Better coordination

#### **Disadvantage**

- Delays in work
- Dictatorship
- High level of dependency

#### Decentralization

- Decentralization, is the systematic delegation of the authority at all the levels of management. In decentralization authority is retained by the top management for taking major decisions.
- Example: Suppose 1, 2, 3, 4, and 5 are subordinates of A and X, Y, and Z are subordinates of 4. Though X, Y, and Z are supervised by 4, they can take decisions on routine matters and depend on decisions to be taken by 4 only in case of important issues. This denotes distributed authority. This is called as decentralization of authority



# Advantage and Disadvantage of Decentralization

#### **Advantage**

- Reduced burden on top executives
- Quick and better decisions
- Growth and diversification
- Better communication
- Development of executives
- Motivation and improved morale
- Effective supervision and control
- Democratic management

#### <u>Disadvantage</u>

- Suitability issues
- Not desirable for small enterprises
- Problematic in case of emergency
- Lack of uniformity
- Coordination problem

## Question answer session

- 1) Informal organization focus on
- a) Work Performance

b) Interpersonal Relation

c) Emotion

- d) No emotion
- 2) Which is not reason for designing Organization Structure
- a) Deal with contingencies

- b) competitive advantage
- c) Effectively manage Diversity d) Planning process
- 3) What sort of groups is defined by the organization's structure?
- (a) informal

(b) task

(c) friendship

(d) formal

- 4) Which of the following organizational structures reduce redundancy and enable free flow of idea and information among the employees?
- (a) Tall organizational structure

- (b) Flat organizational
- (c) Project organizational (d) Matrix organizational structure
- 5) Which of the following is not a result of poor span of control in organisations?
- (a) Over supervision. (b) Timely decision.
- (c) High costs. (d) Communication problems.

- 6) ...... refers to the number of subordinates a superior can supervise efficiently and effectively.
- (a) Span of authority (b) Span of control
- (c) Span of direction (d) Span of power.
- 7) Decreasing the role of subordinates in decisionmaking is knows as:
- (a) Centralization (b) Stabilization
- (c)Decentralization (d) Delegation of authority
- 8) Which management principle does matrix organization violate?
- (a) Unity of command (b) Unity of Direction
- (c) Espirit de corps (d) Centralization

### **NEWS DOSE**

## Nestle seals a \$7.15-billion deal to market products of Starbucks

Under the deal, some 500 Starbucks employees in the United States and Europe will join Nestle



Nespresso maker Nestle today said it has sealed a deal to market the products of US coffee giant Starbucks around the world. outside of its cafes.

Swiss food giant Nestle, which also produces Nescafe instant

coffee, had announced in May it would pay \$7.15 billion (6.13 billion euros) for the rights to market



**Any Queries** 



## Govt panel recommends cap on remuneration of independent directors

This was part of the recommendations to de-clog NCLT by the committee on reviewing penal provisions of the Companies Act



A panel

Photo: Shutterstock

recommended capping the remuneration of an independent director from a company to one-fifth of his gross annual income to ensure his independence.

The committee, headed by Corporate Affairs Secretary Injeti Srinivas, suggested a ceiling on independent director's remuneration in terms of percentage of income in order to prevent any material pecuniary relationship, which could impair his independence on the board of the company.

The committee submitted its report to Finance Minister Arun Jaitley on Monday.