Principles of Management

Block

III

ORGANIZING

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Block III

Organizing

The third block to the course on Introduction to Management deals with the managerial function of organizing. The block contains four units. The first unit explains the basics of the organizing function. The second unit focuses on authority and line and staff relationships. The third unit gives an overview of organization structure. The fourth unit deals with prerequisites for effective organizing and the concept of organizational culture.

The first unit, *Fundamentals of Organizing*, discusses organizing as an important managerial function and focuses on the benefits of organizing. The unit compares and contrasts formal and informal organizations. The unit also explains the process of organizing and the bases for departmentation.

The second unit, *Strategic Organization Design*, gives an idea about the authority relationships that exist in an organizational structure. The authority relationships revolve around line and staff functions. The unit also explains delegation of authority, decentralization, and factors affecting decentralization.

The third unit, *Strategic Organization Structure*, gives an overview of organization structures. The efficiency with which an organization accomplishes its goals and objectives is, to a great extent, dependent on its structure. The unit discusses various structural alternatives and techniques to design an organization structure.

The fourth unit, *Effective Organizing and Organizational Culture*, gives an idea about the prerequisites for effective organizing. Managers may commit some mistakes when organizing tasks and duties. Therefore, the unit gives an overview of avoiding mistakes in organizing. The unit also explains the significance of organizational culture.

Unit 8

Fundamentals of Organizing

Structure

1. Introduction

In the previous unit, the basic managerial function of planning was discussed in detail. In this unit, the managerial function of organizing is discussed.

Organizing is a very important managerial function. If planning focuses on deciding what to do, organizing focuses on how to do it. Thus, after a manager has set goals and worked out a plan to accomplish those goals, the next managerial function is to organize people and allocate resources to carry out the plan.

Organizing refers to important dynamic aspects such as what tasks are to be performed, who has to perform them, on what basis the tasks are to be grouped, who has to report to whom, and who should have the authority to take decisions.

In this unit, organizing, its benefits, and traditional perspectives on organizing are discussed. The unit then discusses the closed system view and open system view of organizations followed by a discussion on formal and informal organizations. The unit also explains the process of organizing, traditional bases for departmentation, and choosing the pattern of departmentation.

Organizing

2. Objectives

By the end of this unit, students should be able to:

- Determine the benefits of organizing

- Explain the different perspectives on organizing

- Differentiate between closed system and open system

- Compare and contrast formal and informal organizations

- Classify the bases for departmentation

3. Definitions of Organizing

According to L.A. Allen[1], 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." In short, organizing is a managerial function that deals with the allotment of duties, coordination of tasks, delegation of authority, sharing of responsibility, and allocation of resources.

4. Benefits of Organizing

Effective organizing provides numerous organizational benefits:

- The process of organizing helps an individual develop a clear picture of the tasks he or she is expected to accomplish.

- The process of organizing supports planning and control activities by establishing accountability and an appropriate line of authority.

- Organizing creates channels of communication and thus supports decision-making and control.

- The process of organizing helps maintain the logical flow of work activities. By so doing, it helps individuals and workgroups to easily accomplish their tasks.

- Organizing helps an organization make efficient use of its resources and avoid conflict and duplication of effort.

- Organizing coordinates activities that are diverse in nature and helps build harmonious relationships among members involved in those activities.

- The process of organizing helps managers to focus task efforts such that they are logically and efficiently related to a common goal.

5. Traditional Perspectives on Organizing

Many management theorists, for instance, Taylor (scientific management), Fayol (classical administrative), and Weber (bureaucracy), sought to establish universal principles for organizing work, allocating resources, and coordinating activities.

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[1] L.A. Allen, Management and Organization (Tokyo: McGraw-Hill, 1958) 57.

The organization theories proposed by Taylor, Fayol, and others emphasized the setting up of a network of functional assignments and establishing clearly defined authority relationships. They also felt that tasks should be specifically designated to individuals.

Fayol and Taylor considered „organizing" to be a part of management. Organizing was one of Fayol"s five universal functions of management. Taylor had a highly structured approach to organizational design. Fayol, and other pioneering management theorists who were influenced by Taylor, advocated a closely controlled, authoritarian organization, characterized by an unrestricted downward flow of authority in the form of orders and rules. Their theories of organizing gave rise to the following four principles:

i.   **Unity of command:** To ensure the smooth flow of authority in the organization, each individual has to report to a single superior. This approach helps managers to avoid the possibility of conflicting orders.

ii. **Well-defined hierarchy of authority:** The aim of this principle is to ensure the pursuit of organizational goals by the employees in a coordinated manner.

iii. **Authority at par with responsibility:** Authority is defined as the right to get work done through subordinates, whereas responsibility is the obligation of an individual to accomplish the assigned work. When a manager delegates authority, commensurate responsibility must also be expected in return.

iv. **Downward Delegation of Authority and not Responsibility:** A superior has the right to get tasks accomplished by his subordinates, but the responsibility for getting the task done still lies with the superior.

Max Weber, a classical management theorist and a German sociologist, believed that effective organizations (for which he coined the term "bureaucracy") had a formal structure and followed a predefined set of rules and regulations. These organizations had the following characteristics:

a.   Every individual in the organization specialized in doing a specific task (resulting in a division of labor).

b.   A set of rules and procedures that consistently apply throughout the organization.

c.   A hierarchy of authority is established to define a chain of command from upper level of the organization to the lower levels.

d.   Impersonality – Hiring and promoting of people in the organization is based on their competence and not on their contacts with influential people.

e.   Management"s relation with superiors and subordinates are of an impersonal nature and an appropriate social distance is maintained in all interactions.

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Weber"s theory projected bureaucracy as the epitome of efficiency. But in practice, it was found that organizations that adopted this approach were slow, insensitive to individual needs and highly inefficient. Today, the term "bureaucracy" has come to be associated with inefficiency, inflexibility, and red-tapism. However, it is not possible to eliminate bureaucracy altogether. Every well-managed organization, irrespective of its size or purpose, adopts a bureaucratic approach to some degree.

Challenges to the Traditional View of Organizations

The recommendations made by traditionalists on organizing and managing were quite rigid and could not be applied in all work situations. The universal principles and functions of management proposed by Fayol also did not guarantee success. It was also found that organizing was much more than mere obedience to authority as propounded by Taylor. Likewise, Weber"s ideally bureaucratic organizations, in practice, proved to be inefficient and slow. In addition to this, two other challenges to the traditional view of organizations were thrown up by the concepts of "bottom-up authority" and "environmental complexity and uncertainty".

Bottom-up authority

According to the traditionalists, authority is inextricably linked with the ownership of property and hence flows from the top level to the bottom level of an organization. Chester I. Barnard questioned the traditionalists" assumption about the downward flow of authority and came up with a more democratic *acceptance theory of authority.* According to Barnard"s acceptance theory, organizations are cooperative systems where the authority that a leader has over his subordinates is determined by the subordinates" willingness to comply with it. A subordinate may identify a communication from the superior as being authoritative and comply with it, only if he or she understands the message, believes that it is in agreement with the organization"s purpose, feels that it serves his or her interests, and is in a position to comply with it.

This theory paved the way for a host of ideas such as upward communication and the informal organization. Thus, Barnard made organizations appear more humane by defining a new role for subordinates as active controllers of authority rather than as passive recipients of authority.

Environmental complexity and uncertainty

According to the traditionalists, organizations must have a rigid structure and must practice rational management if they are to achieve organizational effectiveness and efficiency. However, they also realized that environmental complexity and uncertainty are capable of upsetting even the best laid plans. According to Charles Perrow, "The increasing complexity of markets, variability of products, increasing number of branch plants and changes in technology all required more adaptive organizations."[2] As plans are generally made on the basis

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[2] Charles Perrow, „The Short and Glorious History of Organizational Theory," *Organizational Dynamics, 2 (Summer, 1973) 4.*

of incomplete or imperfect information, allowances must be made for some deviation at the time of implementation of a plan.

The traditional theory is based on a closed-system approach, which assumes that the surrounding environment of an organization is fairly predictable, and that any uncertainty within the organization can be eliminated through proper planning and stringent control. But due to the shortcomings of this type of system (as mentioned above), modern management theorists proposed an open-system approach. The open-system approach to organizing is considered more rational than the closed-system approach because it provided a more realistic view of the interaction between an organization and its environment and emphasized the need for flexibility and adaptability in organization structure.

6. Closed System vs Open System

The various views on division and coordination of work activities and resource allocation can be divided into two theories: the classical closed system concept and the open system concept.

Closed System View of Organizations

The concept of closed system was developed by traditional theorists. In a closed system, organizations operate without any exchange with the external environment in which they exist. In reality, a totally closed system is only a theoretical concept as all organizations, to a relative degree, are dependent on the external environment.

Open System View of Organizations

The failure of the closed system led to the development of the open system by modern thinkers. The open system concept stressed on the need for flexibility and adaptability in organization structure, and the mutual interdependence between the organization and the external environment. The modern open-system model of organizing allows an organization to interact with its environment and evolve its organizational structure gradually over time.

Open-system characteristics

According to Daniel Katz and Robert Kahn, open-system organizations have several common characteristics as follows:

Cycle of events: Every organization receives inputs from its environment, processes them, and produces the output required by a system.

Negative entropy: The tendency of systems to break down, become disorganized, or to disintegrate is known as entropy. Systems can fight entropy by taking resources – energy, money, machinery, and human talent – from the environment and transforming them into outputs on a continuous basis. By so doing, the systems can mend themselves, survive and grow.

Feedback mechanisms: The information used by a system to monitor its performance is called feedback. Feedback helps the organization compare its results with its objectives and make the necessary adjustments.

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Dynamic homeostasis: The process by which a living being adjusts and maintains itself in an optimal state is called homeostasis. Instead of homeostasis, Robert Kreitner uses the term „dynamic equilibrium." According to Kreitner, "In an open system, dynamic equilibrium is the process of maintaining the internal balance necessary for survival by importing needed resources from the environment." Organizations must also show a tendency towards homeostasis, if they wish to survive and continue performing their tasks. In order to maintain a steady state during the cycle of events (input – processing – output), an organization has to adjust itself according to the situation. Thus, the organization must be dynamic in nature.

Differentiation: Differentiation refers to the tendency of a system to move towards the specialization of various tasks. Differentiation in an organization takes place in response to environmental factors and increases in complexity as the size of the organization increases.

Equifinality: The term equifinality refers to the achievement of a particular result by different means. Equifinality is based on a general principle that open systems can accomplish their tasks and meet their objectives by following different courses of action. This principle emphasizes that open systems do not need a single „best" method to achieve their objectives and accomplish their goals.

Developing an open system model

An open system model is based on organization-environment interaction. A business takes the inputs, transforms them, and produces the output. Generally, the inputs are in the form of capital, raw materials, labor, machinery, and market information; and the outputs are goods and services, (that are marketed), waste materials (recycled or sold as scrap), and profits or losses (that are realized). This model, which is a generalized model for a business organization, also suits all types of organizations.

A system can be considered as comprising a set of interactive subsystems. Three important subsystems can be identified. These are:

Technical: The technical subsystem is also known as the production function. This system processes and converts raw materials into finished goods and services.

Boundary-spanning: The boundary-spanning subsystem consists of jobs that require the interaction of personnel with the general environment. These jobs are also known as interface functions and can be easily recognized by their titles. Thus, the members of a boundary-spanning subsystem facilitate the organization"s interaction with the environment.

Managerial: Technical and boundary-spanning subsystems require a managerial subsystem to coordinate their activities. The managerial subsystem controls and directs the other subsystems in such a way that the total system works effectively and efficiently.

Check Your Progress

1. Which of the following Fayol"s principles of management aims at avoiding the possibility of conflicting orders?
a. Well-defined hierarchy of authority
b. Unity of command
c. Authority on par with responsibility
d. Downward delegation of authority, not responsibility.

2. Max Weber, a German sociologist, believed that effective organizations had a formal structure and followed a predefined set of rules and regulations. To identify such organizations, he used the term_____.
a. Autocracy
b. Autonomy
c. Formal
d. Bureaucracy

3. The _____concept stresses the need for flexibility and adaptability in the organizational structure, and the interdependence of the system and its external environment.
a. Open-system
b. Closed-system c.
   Stable-systems
d. Flexible-system

4. The tendency of a system to break down or degrade, become disorganized, or disintegrate is known as _____.
a. Entropy
b. Extropy
c. Autonomy
d. Distropy

5. Open systems use _____to identify deviation from objectives.
a. Feed forward mechanisms
b. Feedback mechanisms
c. Information mechanisms
d. System mechanisms

6. According to the principle of _____, the same result can be reached by different means.
a. Differentiation
b. Equifinality
c. Entropy
d. Homeostasis

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7. Formal vs Informal Organization

In the early 1930s, the famous Western Electric studies revealed that groups of people who shared an informal relationship formed an important part of the total work situation. The studies concluded that the network of personal and social relationships, not established by the formal organizations, gave rise to informal organization within the enterprise.

Formal organization: A formal organization is a group of people working together cooperatively, under authority, towards goals that mutually benefit the participants and the organization. According to L.A. Allen, a formal organization, "is a system of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability." In other words, it is a system of activities, processes, human relationships and roles, planned and structured for the accomplishment of the goals of the enterprise.

Informal organization: An informal organization is "a network of personal and social relations not established or required by the formal organization but arising spontaneously as people associate with one another." An informal organization lays emphasis on people and their relationships, whereas a formal organization lays emphasis on official positions in terms of authority, responsibility and accountability. Therefore, in an informal organization, „power" is associated with a person. But in a formal organization, „power" is associated with a position, since, a person has it only when he or she occupies that position.

To study the total organization, George Homans developed a model based on three concepts: activities, interactions, and sentiments. Activities include all that an individual actually does; interactions refers to an individual"s personal and social relationships with others; and sentiments refer to an individual"s emotional reaction to various organizational issues. In a formal organization, the manager establishes the relationships between his subordinates, asks them to follow orders, and directs them to perform the tasks in a specified manner and work as a team. The subordinates are expected to possess certain sentiments about the organization, the manager, and the work. But, informal relationships develop spontaneously, supplementing or modifying the formal relationships established by the management.

Check Your Progress

7. _____developed an organizational model which consists of interactions, activities and sentiments.

a. Katz and Kahn b.
   Robert Kreitner

c. George Homans

d. Andy Groove

8. A/an_____organization refers to a group of people working together cooperatively, under authority, toward goals that mutually benefit the participants and the organization.

a. Informal

b. Partly formal

c. Formal

d. Stable

9. In a formal organization, 'power' is associated with _____.

a. People

b. Position

c. Relationships

d. Public

10. George Homans' "formal vs. informal" organization model is based on three concepts. Which of the following is not one among the three concepts?

a. Interactions

b. Activities

c. Behavior

d. Sentiments

8. The Process of Organizing

Organizing is the process of determining, arranging, grouping, and assigning activities to be performed within the organization. Certain basic factors, relevant to the organisation, should be considered in order to describe the process of organizing. They are:

*   The structure must be in accordance with the organization"s objectives and plans.

*   The structure must clearly define the extent of authority available to the management. The structure should be dynamic, responsive to the environmental changes and lead to the coordination of various activities.

*   Finally, the grouping of activities and the authority relationships must consider the constraints and customs that bind individuals in the organization.

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Figure 8.1: Organizing Process

The diagram shows the Organizing Process with the following boxes and relationships:

- 1. Enterprise objectives
- 2. Supporting objectives, policies and plans
- 3. Identification and classification of required activities
- 4. Grouping of activities in light of resources and situations
- 5. Delegation of authority
- 6. Horizontal and vertical coordination of authority and information relationships
- 7. Staffing
- 8. Leading
- 9. Controlling
- (Other Functions)
- Feasibility Studies and Feedback
- (Organizing)
- (Planning)

Source: Heinz Weihrich and Harold Koontz, Management: A Global Perspective (Singapore: McGraw-Hill, Tenth edition,1994) 258.

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The Logic of Organizing

The process of organizing follows a logical sequence as shown in Figure 8.1). In the process of organizing objectives of the organization should be established. The supporting objectives, policies, and plans should be formulated. The activities required to achieve the objectives should be identified and classified. The best way of grouping the activities and utilizing the available human and material resources should be chosen and the authority should be delegated to the head of each group so that they can perform their activities. Finally, the various groups should be connected to each other, both horizontally as well as vertically, by means of authority relationships and information flows.

Some Misconceptions

The term „organizing" does not mean extreme occupational specialization because, in many cases, extreme occupational specialization may result in making the task seem uninteresting, unduly restrictive, and tedious. Keeping in view the results desired, the manager responsible for organizing must decide whether the task should be broken down into smaller, more specific parts (as in an assembly line) or whether it should be broadly defined to include all aspects of manufacturing from the design stage to production and sale of the final product.

9. Bases for Departmentation

Departmentation involves grouping of work activities into departments, divisions, and other similar units. It is the process of classifying jobs into effective work groups and integrating them into departments or segments. Departmentation divides the organization into manageable units and secures the benefits of specialization.

Departments vary in different organizations as specific patterns are used depending on the environment in which a firm operates. Departmentation can be carried out through various processes, as described below:

Departmentation by Simple Numbers

In this method, a certain number of persons who have to perform the same duties are kept in one department under the supervision of one person. Departmentation by numbers is most suitable in situations where group efforts are more important than individual efforts. The usefulness of this form of departmentation has diminished with each passing century for three reasons. First, technology has become more sophisticated and demands for more specialized and diverse skills have increased. Second, the groups comprising of specialized personnel are generally much more efficient than those groups which have been formed on the basis of numbers. The most prominent cause for decline of departmentation by simple numbers is that it is useful only at the lowest level of the organization structure.

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Departmentation by Time

Departmentation by time is mostly used in organizations that function round the clock -- hospitals, public utilities, etc. In such organizations, departmentation ensures operations throughout the day by segregating workers into various shifts. The benefit of this system is that the organization can make its services available to customers round-the-clock. However, there may be a lack of supervision in the night shifts. But inefficient coordination and control may arise due to this system.

Departmentation by Process or Equipment

This type of departmentation is common in manufacturing organizations where people handle different equipment to carry out various activities. In this type, the activities are grouped on the basis of process or equipment, which draw people together to carry out a particular function. It provides the benefit of specialization and facilitates the optimum use of resources. However, there is the possibility of conflict among managers at different levels. Process departmentation also hinders the coordination of various functions due to the limitations that arise from specialization.

Check Your Progress

11. Which of the following is not an advantage of departmentation by time?

a. Round-the-clock customer service

b. Efficient utilization of manpower

c. Efficient utilization of resources

d. Reduced supervision in the night shifts

12. Which of the following is not an advantage of departmentation by process or equipment?

a. Simplifies training

b. Uses specialized technology

c. Hinders the coordination of various functions

d. Utilizes special skills

13. Which type of departmentation is useful only at the lowest level of organizations?

a. Departmentation by simple numbers

b. Departmentation by time

c. Departmentation by process or equipment

d. Departmentation by strategic numbers

> **Example: Organization Structure of HLL**
>
> Hindustan Lever Ltd., (HLL) has separated its businesses by creating two broad divisions, home and personal care (HPC), and foods. Each of these divisions is headed by a managing director.
>
> The HPC division has integrated the soaps and detergents businesses and personal products businesses. Similarly, the foods division has integrated the beverages, foods, ice cream and confectionery businesses.

Source: "HLL goes for business rejig, installs new management team," 16/04/2004 <www.thehindubusinessline.com>

10. Choosing the Pattern of Departmentation

There is no universal basis for departmentation that can be applied to all organizations and all situations. Also, as every organization is different from the other, it has to select the pattern of departmentation, depending on the situations it faces – the tasks to be performed and the manner in which they should be performed, the technology being used in the department, the individuals and their personalities, the customers or consumers being catered to, and other internal and external environmental factors. The managers should take into consideration the relative advantages and disadvantages of each pattern of the organization structure and choose the one that best suits the organization.

A basic consideration to be kept in mind while selecting a basis for departmentation is that the organizational structure should help a manager achieve organizational goals efficiently and effectively. Departmentation is not an end in itself; rather, it is a means of grouping activities that facilitates the achievement of organizational goals and objectives. Another important aspect relating to departmentation pertains to combining types of departmentation within a functional area.

Management specialists stress the need to maintain a uniform pattern of organization structure below a specific hierarchy level in organizations. They insist that by doing so the organization chart can be understood easily and control within the organization becomes simpler. But the objective of departmentation is not to build a rigid structure, characterized by consistency with other units of the organization. Instead, the activities are to be grouped in such a manner that they contribute to the accomplishment of organizational goals.

11. Summary

- Organizing is a significant managerial function. It is a 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 to accomplish defined objectives.

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- The process of organizing helps an individual develop a clear picture of the tasks he or she is expected to accomplish and supports planning and control activities by establishing accountability and an appropriate line of authority.

- Management theorists like Taylor (scientific management), Fayol (classical administrative), and Weber (bureaucracy), sought to establish universal principles for organizing work, allocating resources, and coordinating activities.

- There are two different theories regarding the type of organisation system, namely the closed system and the open system. A closed system is an independent system without any exchange with the external environment. Open system is dependent on the external environment for the execution of its activities.

- Within an organisation, there exist formal and informal networks. A formal organisation structure is intentionally created by management for achieving the organization"s objectives. An informal organization is a network of personal and social relations not required by the formal organization.

- The process of organizing requires the structure to be compatible with the objectives and plans of the organization, the structure must indicate the extent of authority available to the management of the organization, and must also take into account the external environment.

- Departmentation is the process of grouping of work activities into departments, divisions, and other homogenous units. Departmentation takes place in various patterns like departmentation by time, numbers, functions, process or equipment.

- A basic consideration to be kept in mind while selecting a basis for departmentation is that the organizational structure should help a manager achieve organizational goals efficiently and effectively.

12. Glossary

Chain of Command: The unbroken line of authority that ultimately links each individual with the top organizational position through a managerial position at each successive layer in between.

Closed System: A set of interacting elements operating without any exchange with the environment in which it exists.

Cycle of Events: A process by which an open system receives inputs from its environment, transforms them, and generates output.

Departmentalization: The subdivision of activities and responsibility areas into units within an organization.

Differentiation: The extent to which organizational units differ from one another in terms of their formal structures and the behaviors and orientations of the organizational members. It is also used to refer to the tendency of open systems to become more complex.

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Division: Large organization department that resembles a separate business, may be devoted to making and selling specific products or serving a specific market.

Duties: Obligations to take specific steps or obey the law.

Dynamic Homeostasis: A process by which the open system maintains equilibrium over a period of time.

Environmental Complexity: A factor affecting the level of environmental uncertainty that involves the rate and predictability of change in the elements of an organization‟s environment.

Equifinality: The principle that open systems can achieve their objectives through several different courses of action.

General Environment: Environmental factors that indirectly affect managerial decision-making.

13. Self-Assessment Test

1) Define „organizing‟ and the benefits of organizing.

2) Describe the traditional perspectives on organizing.

3) There are two types of organisation systems, namely, closed system and open system. Describe the two systems and mention which system is more suitable to the present environment.

4) Briefly describe the formal and informal organizations.

5) Describe the various steps in the organizing process.

6) The patterns of departmentation vary from organization to organization, depending on the situations. What are the bases for departmentation that can be followed by organizations?

7) Briefly explain how organizations choose their pattern of departmentation.

14. Suggested Readings/Reference Material

- Chapter 7: The Nature and Purpose of Organizing, Harold Koontz and Heinz Weihrich. *Essentials of Management*. Fifth edition. Singapore: McGraw-Hill, 1990.

- "Types of Organization" <http://www.rocw.raifoundation.org/computing/BCA/principleofmanageme nts/lecture-notes/lecture-21.pdf>

- "Formal and Informal Organizations" <http://esnie.u-paris10.fr/pdf/textes_2006/Laz_FormalInformalESNIE.ppt#1>

- "Management Function of Organizing: Overview of Methods" <http://www.mapnp.org/library/orgnzing/orgnzing.htm>

- "Organizing Process" <http://www.ollie.dcccd.edu/mgmt1374/book_contents/3organizing/org_pro cess/org_process.htm>

Organizing

15. Model Answers

15.1 Model Answers to Check Your Progress Questions

Following are the model answers to the Check Your Progress questions given in the Unit.

1. **(b) Unity of command**

    Unity of command focuses on ensuring the smooth flow of authority in an organization by making each individual report to a single superior.

2. **(d) Bureaucracy**

    A bureaucratic organization is characterized by a set of rules and procedures applied consistently throughout the organization, a well-defined hierarchy, the specialization of labor, and merit-based career advancement. Every organization adopts bureaucracy to a certain extent.

3. **(a) Open-system**

    Open systems continuously interact with the environment in which they operate in and assume that no system is completely predictable due to uncertainties in the external environment.

4. **(a) Entropy**

    A system can fight entropy by taking resources from the environment and transforming them into outputs continuously. Systems that exhibit negative entropy remain healthy for long periods of time.

5. **(b) Feedback mechanisms**

    Open systems adopt feedback mechanisms to identify deviations from objectives and take the necessary corrective action. Thus, feedback mechanisms help organizations monitor their performance.

6. **(b) Equifinality**

    According to the principle of equifinality, there is no need to search for a single best alternative. Instead, one can opt for a variety of satisfactory alternatives to achieve an objective.

7. **(c) George Homans**

    To study the total organization, including both formal and informal organizations, George Homans developed a model based on interactions, activities and sentiments. Activities refer to what an individual actually does, interactions refer to a person"s social and personal relationships with others, and sentiments refer to a person"s emotional reactions to organizational issues.

8. **(c) Formal**

    A formal organization is a system of well-defined jobs, each having a definite measure of authority, responsibility and accountability. Rules form the guidelines for behavior, and rewards and penalties are the sources of control in a formal organization.

9. **(b) Position**

    A formal organization is a system of well-defined jobs and lays emphasis on the official positions in terms of authority, responsibility, and accountability.

10. **(c) Behavior**

    To study the total organization, including both formal and informal organizations, George Homans developed a model based on interactions, activities and sentiments. It does not include behavior.

11. **(d) Reduced supervision in the night shifts**

    Departmentation by time requires employees to work in shifts throughout the day. This type of departmentalization is advantageous as it offers round-the-clock customer service and efficient utilization of manpower and resources. However, in this type of structure, there may be a lack of supervision in the night shifts.

12. **(c) Hinders the coordination of various functions**

    Departmentation by process or equipment is a type of departmentalization which is widely used in manufacturing organizations where people and material are brought together to carry out a particular operation. Departmentation by process or equipment simplifies training, utilizes specialized technology, and utilizes special skills. Process departmentation is a disadvantage as it hinders the coordination of various functions due to the limitations that arise from specialization.

13. **(a) Departmentation by simple numbers**

    The process of identifying and grouping activities is known as departmentation. Organizations can departmentalize on the bases of simple numbers, on the bases of time, and on the basis of process or equipment used. Departmentation by simple numbers is based only on the number of people involved in it. However, this type of departmentation is not used by organizations in today's world. One of the important reasons for the decline of departmentation by simple numbers is that it is useful only at the lowest level of the organization structure.

Unit 9

Strategic Organization Design

Structure

1. Introduction

In the previous unit, the basics of organizing, the process of organizing, and bases for departmentation were discussed. In this unit, span of management and the authority relationships that exist in an organizational structure are discussed.

The span of management refers to the number of subordinates who report directly to a specific manager. Authority is defined as the power to make decisions which guide the actions of others. Power, on the other hand, is the ability of individuals to influence the beliefs and actions of others. Delegation of authority refers to a manager granting the right to a subordinate to make decisions or use his discretion in judging certain issues.

Various authority relationships exist in an organization, many of which are related to line and staff functions. Although line managers and staff personnel are expected to work together for accomplishment of organizational goals, there are many factors which contribute to the conflicts between line and staff personnel.

Organizations differ from each other in the amount of authority given to the lower-level employees regarding decision-making. Centralization is the retention of decision-making authority with the top management, whereas decentralization is granting of decision-making powers to the lower-level employees. An

organization can either follow a centralized or decentralized approach depending upon the manner in which it has grown over time, its size, the technical complexity of its tasks, and the geographical dispersion of its business operations.

In this unit, span of management, authority, and power is discussed. The unit also explains line and staff relationships, centralization and decentralization, and delegation of authority.

2. Objectives

By the end of this unit, students should be able to:

• Explain the concept of span of management

• Classify types of power

• Determine the relationship between line and staff functions

• Compare and contrast centralization and decentralization of authority

• Recognize the importance of delegation of authority

• Conclude that organizations should strike a balance between centralization and decentralization

3. Span of Management

According to Kathryn M. Bartol and David C. Martin, "The span of management or span of control is the number of subordinates who report directly to a specific manager." The span should be neither too large nor too small. Spans vary widely and there is no best or ideal number that can be applied in all situations. V.A Graicunas, a French management consultant, suggested that as the number of people increases, there is an exponential increase in the number of possible relationships.

Tall Versus Flat Structure

The span of management has a direct effect on the number of hierarchical levels in an organization.

Tall structure: A tall structure comprises many hierarchical levels with narrow spans of control (Refer to Figure 9.1 for organization structure with narrow span/tall structure). It facilitates effective supervision due to centralized or close control. It has certain demerits like managing so many levels is an expensive affair. There are delays in decision-making and communication is less effective due to frequent blockages and distortions.

Flat structure: A flat structure has a wide span of control and fewer hierarchical levels (Refer to Figure 9.2 for organization structure with wide span/flat structure). In a flat structure, tasks are highly inter-related. As a result, control and coordination are negatively affected. However, it is cost effective due to fewer levels. Employees have autonomy and more variety of work.

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Communication tends to be more effective as the message has to pass through fewer levels.

Figure 9.1: Organization Structure with Narrow Span/Tall Structure
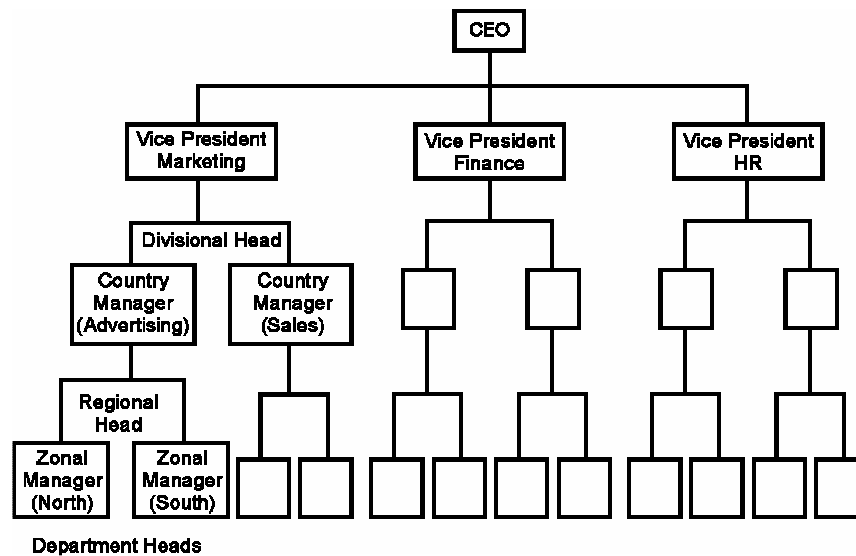
Figure 9.2: Organization Structure with Wide Span/Flat Structure
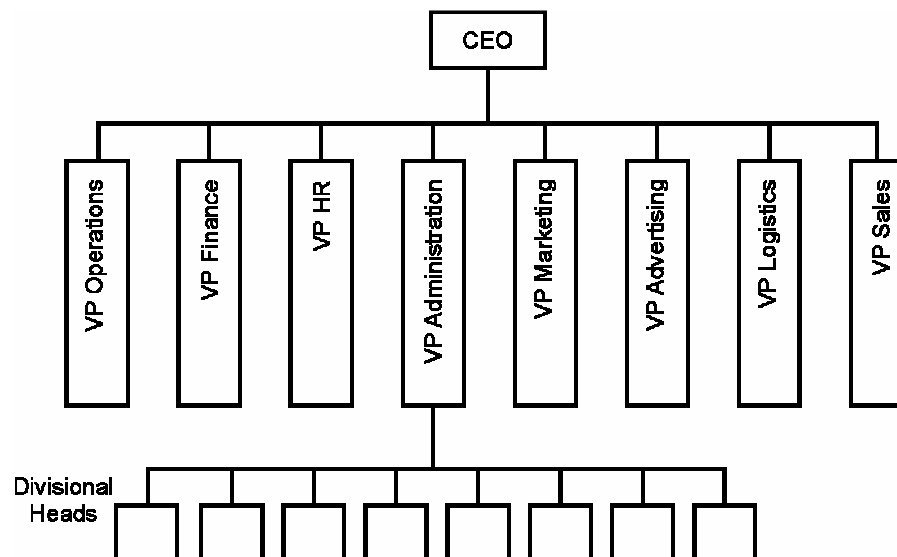
Factors Determining an Effective Span

The principle of the span of management states that there is a limit to the number of subordinates a manager can effectively supervise, but the exact number will depend on the impact of underlying factors. Personal capabilities like quick comprehension, ability to command loyalty and respect from subordinates and good interpersonal skills are important to determine the span of management.

However, the most important factor for determining an effective span of management is the manager's ability to reduce the time he or she spends with subordinates. This depends on the competence of the manager and nature of the task to be completed. The frequency of superior-subordinate contacts, and therefore, the span of management is also affected by other factors which are described below.

Trained subordinates

Well-trained subordinates perform their tasks efficiently without requiring much guidance from their superior. Thus, well-trained subordinates reduce the number of contacts needed and save the manager's time.

Clarity of delegation of authority

The main reason why a manager is overburdened with time-consuming contacts with subordinates is because tasks have not been organized properly and delegation of authority is not clear.

Clarity of plans

Much of what a subordinate is expected to do depends on the plans that are to be implemented. Therefore, plans should be well-defined, workable, and the authority required to implement them should be appropriately delegated. This will enable the subordinate to clearly understand what is expected of him or her.

Use of objective standards

Managers should get adequate feedback from their subordinates to find out if the subordinates have understood the plans and are following them. This feedback may be obtained either by personal observation or through objective standards.

Rate of change

Changes occur more rapidly in certain organizations than in others. The rate at which change takes place in an organization determines the degree to which policies can be formulated as well as the stability that can be achieved in the policies of the concerned organization. This factor (rate of change) explains the organization structure present in companies having a wide span of management (e.g., railroad, banking and public utility companies) in contrast to those that have a narrow span of management.

Communication techniques

The span of management is also influenced by the effectiveness of the communication techniques used. If managers had to convey every plan, instruction and order personally to subordinates, they would have no time to do their own work. Therefore, some managers use administrative staff or assistants to communicate with key subordinates. To speed up the decision-making process, a superior may also ask for written recommendations from subordinates. Some top managers manage a wide span of control by asking for a summarized presentation of all recommendations.

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Amount of personal contact needed

In many situations, face-to-face meetings are essential. This is because such situations cannot be handled only through written reports, planning documents, memoranda, policy statements, and the like. Delicate situations can be properly handled only through face-to-face meetings. This type of contact helps clarify the doubts of subordinates, encourages them to share their ideas with their superiors, and boosts their morale. Personal interaction between the manager and subordinates is essential when a subordinate's performance has to be appraised, when a problem has to be communicated, or when the opinion of subordinates about a particular issue is sought.

Organizational levels

Research has revealed that the size of an effective span varies with the organization level. In a major study, researchers developed and tested a model taking organization level as one of the variables. They concluded that the degree of specialization of individuals (i.e., a person's level of specialization) was the most prominent factor affecting the span of control.

Use of staff assistance

Managers can manage a larger number of subordinates by delegating a certain amount of work to staff assistants, who gather information and communicate orders and instructions to the subordinates. This process enables managers to save time and allows them to widen their span of control.

Supervision by others

Subordinates are often supervised by people other than their immediate superior. This trend is increasingly gaining importance as it reduces the burden on the immediate superior and helps increase the superior's span of control.

Other factors

There are many other factors that influence the span of management. The more competent a manager, the larger the number of subordinates that he can manage. Complex tasks comprise a variety of activities and require close supervision while simple tasks need lesser supervision, and hence, allow a wider span of management. The willingness of subordinates to shoulder responsibility and take reasonable risks facilitates a wide span of control. If the manager has mature subordinates, he may delegate more authority and thus widen the span of management.

An analysis of the various factors that influence the span of management highlights the fact that there are several variables that determine the number of subordinates that can be managed by a superior.

Despite the benefits of flat organizational structures, the span of management in such organizational structures is subject to certain limitations. In some cases, managers may have more subordinates than they can manage effectively, despite proper delegation of authority to subordinates, organization of training programs for subordinates, the clear formulation of plans and policies, and the adoption of

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efficient control and communication techniques. Thus, when organizations that have a flat organizational structure grow in size, the organization is forced to increase the number of levels to eliminate the problems caused by a large span of management.

A balance has to be reached by considering all the relevant factors. Widening the span and reducing the levels may be a solution in some cases. However, this decision should be made after analyzing all the costs involved – financial costs, as well as costs in terms of morale, personal development of employees, and attainment of organizational objectives.

Check Your Progress

1. Organizations with _____ structures usually have many hierarchical levels and narrow spans of control.

a. Flat

b. Broad

c. Wide

d. Tall

2. Which of the following is not a disadvantage of a tall organization structure?

a. High overheads

b. Communication gets unduly complicated

c. Close control

d. Complicated planning

3. Which of the following is not an advantage of a flat organizational structure?

a. Superiors are forced to delegate authority

b. Clear policies must be made

c. Requires exceptional quality of managers

d. Careful selection of subordinates

4. Which of the following is **not** a result of poor span of control in organizations?

a. Over-supervision

b. Timely decisions

c. High costs

d. Communication problems

5. Which of the following factors does **not** indicate an effective span of management?

a. Trained subordinates

b. Clarity of delegation of authority

c. Physical appearance of manager

d. Communication techniques

6. The span of management _____ at different levels of the same organization.

a. Matches

b. Varies

c. Is parallel

d. Is similar

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4. Authority Defined

It is essential for managers to have authority if they are to get tasks accomplished by their subordinates. Authority relationships ensure cooperative action and facilitate the achievement of organizational goals by stating each employee's responsibility. According to Heinz Weihrich and Harold Koontz, "authority in an organization is the right in a position to exercise discretion in making decisions affecting others."

On the basis of this definition, the following features of authority can be identified:

- Authority is the power to make decisions and see that they are carried out in the right way at the right time, providing necessary guidance, as and when required.

- Authority is the relationship between two individuals – the superior and the subordinate.

- A person with authority can regulate the behavior of his or her subordinates so that they behave in a desired manner.

- Authority is exercised to achieve organizational goals.

5. Power: Bases of Power

Power is the ability of individuals or groups to induce or influence the beliefs or actions of other persons and groups. Formal authority is the power derived from the formal position defined by the organization. Employees can use the power only within prescribed limits. Unlike authority, power requires no formal position. Power can be derived from not only the job position, but also from expertise, technical competence, and seniority in the organization.

Legitimate Power

Legitimate power is similar to authority, and exists when a subordinate acknowledges the right of a superior to exert influence within certain limits. The rights, obligations, and duties associated with a certain position in an organization provide legitimate power to the individual holding that position.

Power works both ways – downward and upward. For example, a plant manager has the right to establish reasonable work schedules. In this case, he is exercising 'downward legitimate power.' A guard asking the company's president to present an identification card before being allowed onto the premises is exercising 'upward legitimate power.'

Expert Power

Power may also be derived from the expertise of a person or a group. This is known as expert power. Expert power is based on the belief that the influencer has some relevant expertise, special knowledge or skill which the influencee lacks. For example, doctors, lawyers, engineers and university professors are able to influence others because they are very knowledgeable in their specialized field.

Referent Power

Referent power refers to the desire of the influencee to identify with or imitate the influencer. It may be held by a person or a group. In other words, it is the influence which certain persons or groups are able to exert on others, and arises due to the latter's belief in them and their ideas. Referent power functions at superior and peer levels. The strength of referent power depends upon the respect and admiration the superior or peer commands from the subordinates and colleagues respectively.

Reward Power

The basis for reward power is the ability of the influencer to reward the influencee for performing a job well or meeting other organizational requirements.

Coercive Power

Coercive power is the negative dimension of reward power. It is based on the influencer's ability to punish the influencee for failing to perform a job well. Punishment may involve pulling up a subordinate or withholding a hike in pay, the loss of a minor privilege, or even the loss of the job. Generally, coercive power is used in organizations to ensure a minimum standard of performance.

Check Your Progress

7. Which of the following is not a feature of authority?
a. Right to do something
b. Legitimate power given by organization
c. Derived from position
d. Requires no formal position

8. Which of the following powers stems from a position's place in the managerial hierarchy and the authority vested in the position?
a. Legitimate power
b. Reward power

c. Expert power

d. Coercive power

9. Which of the following is not one of the bases of power that managers rely on?

a. Coercive

b. Reward c.
   Expert

d. Illegitimate

10. Which of the following powers is based on the perception or belief that the influencer has relevant expertise, special knowledge or skill that the influencee lacks?

a. Referent

b. Legitimate

c. Expert

d. Reward

11. A security guard at Company C asks a top executive to produce his identity card before entering the premises. What type of legitimate power is the guard practicing?

a. Upward legitimate power

b. Vertical legitimate power

c. Downward legitimate power

d. Horizontal legitimate power

12. A lawyer specialized in criminal law is said to have which type of power?

a. Coercive

b. Referent

c. Legitimate

d. Expert

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6. Line and Staff Relationships

Managers at different levels require different types and amounts of authority for decision making. Different authority relationships revolve around the concept of line and staff functions.

Concept of Line and Staff

Managers who are directly responsible for the achievement of organizational goals have line authority. It is a direct authority which a superior exercise over his subordinates, to get orders and instructions carried out properly. Line authority is based on legitimate power. The activities considered as line differ with different organizations since line activities are identified in accordance with the company's objectives. In a manufacturing firm, production and sales (and

sometimes finance) are considered as line functions, while purchasing, accounting, personnel, plant maintenance and quality control are considered staff functions.

Managers with staff authority provide services and advice to line managers. Another important feature of staff authority is that it is devoid of the right to command. Staff authority is based on expert power. Staff can provide line members with planning advice, can assist in policy implementation, monitoring, control, financial matters, etc. Table 9.1 lists the principle distinctions between line and staff authority.

Functional Authority

The right to control the activities of other departments as they relate to specific staff responsibilities is called functional authority. It is based on legitimate as well as expert power. Functional authority allows a staff manager to issue certain instructions to line managers directly, instead of making recommendations to his superior. It contravenes the principle of unity of command. Managing functional authority relationships is similar to managing dual-boss relationships in organizations.

Table 9.1: Basic Differences between Line and Staff Authority

Line Manager	Staff Manager
Is a generalist	Is a specialist
Directs others	Assists others
Delegates authority	Serves authority
Trains his subordinates	Investigates problems in his field
Exerts control over his subordinates	Makes plans
Uses sanctions	Solves special problems
Has veto power	Supports line effort
Makes operating decisions	Provides ideas to line managers
Bears final responsibility	Has expertise in a specialized field

Adapted from D. McFarland, Management (New York: Macmillan, 1979) 364.

Line and Staff Conflicts

The nature of line and staff relationships leads to conflicts between line managers and staff personnel. Conflicts arise due to the following factors:

Viewpoint of line managers

Line managers are held responsible for the achievement of organizational objectives. They tend to view staff personnel as people who create more problems than they solve. They feel that the staff personnel work against them in the following ways:

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Lack of accountability: The general perception of line managers is that the staff personnel are not accountable for their actions. Line managers feel that this prompts staff personnel to ignore the overall objectives of the organization.

Encroachment of line authority: Line managers perceive staff personnel as invading their territory by giving recommendations and advice on matters that come within the purview of line managers. Thus, the encroachment of his authority by a staff functionary affects the proper functioning of the line manager's department.

Dilution of authority: The creation of the staff function dilutes the line manager's authority and influence. There is a feeling of insecurity among line managers that their responsibilities may be reduced and their jobs may become less challenging due to the induction of staff personnel.

Theoretical bias: Staff personnel tend to be specialists in areas like industrial and labor relations, engineering, etc. They generally limit their thinking to their own specialty and depend upon the guidelines prescribed in their own discipline. They fail to relate their recommendations to the overall needs and goals of the organization. Moreover, as staff personnel do not have a first-hand experience of operations, they are unable to appreciate the actual dimensions of the problem.

Viewpoint of staff managers

Staff personnel also have their own grievances against line managers. Some of these are:

Lack of proper use of staff: Quite often, decisions are made by line managers without seeking any input from the staff personnel. Staff personnel are informed or notified only after the decision has been taken, making them feel that line managers do not make proper and efficient use of their services. Moreover, when the management finds fault with the line manager's decisions, or if something goes wrong, it is the staff personnel responsible for these decisions who get the blame.

Resistance to new ideas: New ideas are often rejected by line managers as they feel that these ideas have resulted because of there being something wrong with the existing way of functioning.

Lack of proper authority: Staff members often feel that though they have the best solutions to the problems in their area of specialty, they do not have enough authority to implement them. They contribute to the realization of organizational objectives without enjoying any 'real authority.' In the absence of such authority, line managers often withhold information and resources from the staff personnel, in order to retain their control over their departmental activities.

Nature of Line and Staff Relationship

Different backgrounds: Both have different technical backgrounds. Staff personnel are generally young, academically better qualified, and display greater poise in social interactions. They tend to look down on line members who are

not as highly educated and have reached their positions by gradually working their way up the corporate ladder.

Lack of demarcation between the line and staff authority: Practically, there is no clear demarcation between the line and staff functions. This leads to duplication of effort and gaps in authority and responsibility.

Lack of proper understanding of authority: Failure to understand the exact nature of the line, staff and functional authority can cause misunderstandings between line and staff personnel.

Avoidance of Line and Staff Conflict

Line and staff functions are needed for the smooth functioning of any organization. Therefore, they should work in coordination with each other to achieve organizational goals and objectives in an efficient way. Some of the steps that can be undertaken to avoid conflicts between the two are:

Clarity in relationship

The relationships between line and staff personnel should be clearly defined in order to avoid conflicts from arising between these two functions. Line managers are generally held accountable for the achievement of the goals of the organization and they should have sufficient authority to make operational decisions. Staff personnel, on the other hand, contribute to the organization's progress by making recommendations and offering expert advice on matters pertaining to their specialized fields.

Proper use of staff

Line managers must be taught how to make optimum use of the expertise and capabilities of staff personnel. This will help him achieve organizational goals efficiently. Staff personnel should let line personnel know exactly how they can help the latter perform their activities in a better manner.

Completed staff work

A good arrangement of staff activities generally culminates in completed staff work. Completed staff work refers to the careful analysis of a problem by a staff specialist and presentation of the solution in a detailed and systematic manner to the line manager. This helps the line manager concentrate on just accepting or rejecting the completed action. In a completed staff work, a problem is carefully studied, the possible solutions are identified and listed, and clear recommendations are made based on the facts compiled.

Hold staff accountable for the result

Holding the staff personnel accountable for the outcome of their suggestions encourages them to make their suggestions more carefully. Moreover, line managers might be more ready to accept staff suggestions, when they know that the failure of an idea could be blamed on the staff personnel.

7.   Centralization Versus Decentralization

Centralization refers to the top management retaining the control in areas of decision making. In a centralized organization, only the top management makes the decisions. On the other hand, in decentralization, employees are allowed to participate in the decision making process.

According to Louis A. Allen, "Centralization is the systematic and consistent reservation of authority at central points within an organization. Decentralization applies to the systematic delegation of authority in an organization-wide context."

According to Robert Kreitner, "centralization is the relative retention of decision making authority by top management. Decentralization is the granting of decision making authority by management to lower level employees."

No organization can be either completely centralized or decentralized. Organizations fall along the continuum that shows the possible degrees of delegation of authority and power.

The factors responsible for the relative centralization and decentralization in an organization include (Refer to Figure 9.3 for factors in relative centralization/decentralization):

History of an Organization: An organization that has been primarily built by an individual's efforts tends to have a highly centralized structure. Therefore, in many industrial houses, the power to make important decisions is vested with a few top-level managers. In contrast, organizations that have grown through a number of mergers, amalgamations and consolidations tend to stay decentralized.

Availability of Competent Managers: The degree of decentralization in an organization is influenced by the availability of competent managers. Decentralization of authority may not be possible if the managers of the organization are not talented enough, and if they cannot handle the problems of decentralized units.

Size of the Organization: The size of the organization is another factor that affects decentralization. As an organization grows in size, there is an increasing tendency to decentralize its operations. In a large organization, numerous decisions have to be taken at different places. Therefore, it becomes difficult to coordinate the functions of different departments.

Figure 9.3: Factors in Relative Centralization/Decentralization

Organization	Highly centralized	Highly decentralized
How many decisions are made at lower levels in the hierarchy?	Very few, if any	Many or most
How important are the decisions that are made at lower levels (i.e., do they impact organizational success)?	Not very important	Very important
How many different functions (e.g., production, marketing, finance, personnel) rely on lower-level decision making?	Very few, if any	All or most
How much does top management monitor or check up on lower-level decision making?	A great deal	Very little or none

Adapted from Robert Kreitner, Management(Delhi, AITBS Publishers & Distributors, First Indian edition, 1999) 298.

Geographical Dispersion: Decentralization is effective for organizations which have operations in different locations. Geographically diverse units can be decentralized and managers from these units made responsible for their operations and profits.

Complexity of Tasks: The top-level management keeps track of all technological advances and handles technology-related issues. Hence, it becomes necessary to delegate authority for carrying out technical projects to experts in the concerned fields.

Time Frame of Decisions: In order to survive in a highly competitive environment, every organization has to capitalize on the available opportunities. In a decentralized organization, the authority to make decisions lies with the head of that particular unit. Therefore, decisions can be made faster. The decisions are made closer to the scene of action, and are therefore, timely and accurate.

Importance of a Decision: The importance of a decision to an organization is also a crucial factor that influences the decentralization of authority. Generally, decisions which involve high risks and costs are made by the top management, while the decisions involving routine and low-risk activities are delegated to the subordinates.

Planning and Control Procedures: The assigning of functions such as organizing, staffing, directing and controlling to managers at different levels depends on the manner in which they have been allocated at the time of designing the organizational plans and also on the extent to which these plans have been implemented. Allocation of planning activities may be subject-wise or plan-wise. Subject-wise allocation depends on the subjects assigned to a particular level of management, whereas plan-wise allocation depends upon the

type of plans formulated for a particular level of management. To be effective, decentralization should be supported by a well-defined system of control procedures in order to ensure that the performance at different levels in the organization is in accordance with its plans.

View of Subordinates: The willingness of subordinates to take on additional responsibilities is another factor that affects the degree of decentralization. If the subordinates are dynamic and well-trained, they will accept any authority delegated to them and take on the responsibility of achieving stated goals.

Environmental Influences: Government regulation of private business is the most important factor which affects the extent of decentralization. Decentralization is suitable for firms that operate in uncertain conditions, as decentralized firms tend to be flexible and adaptive. Thus, organizations characterized by fast growth in a dynamic environment need greater decentralization.

8. Delegation of Authority

Delegation is the process by which managers allocate some of their workload to subordinates. This helps establish a pattern of authority between the superior and the subordinates which is essential for the efficient functioning of an organization. An effective manager is one who delegates as many routine tasks.

Factors Affecting Delegation of Authority

The factors that affect the delegation of authority can be studied from three aspects. These are the delegator's (superior's) aspect, the delegant's (subordinate's) aspect, and the organizational aspect.

The delegator's aspect

A manager may not delegate authority effectively when he has a love for authority, fear of subordinates' advancement, fear of his shortcomings being exposed and a negative attitude towards employees. In addition, the personality traits of a manager and his experiences may also affect the delegation of authority.

Love for authority: An autocratic manager is not very likely to delegate authority to his subordinates. Such a manager likes to make his importance felt by forcing subordinates to approach him often to get their decisions approved. Since such managers do not wish to share their workload with their subordinates, they generally do not delegate their authority.

Fear of subordinates' advancement: A manager may not delegate authority effectively due to two reasons. Firstly, the superior may fear that the competence and the good performance of the subordinate might earn him a promotion as a result of which, he would lose a good subordinate. Secondly, the superior may also fear that the subordinate may excel in his job to such an extent that he may become a contender for the manager's position, status, and title.

Fear of exposure: A superior may not delegate adequate authority fearing that his managerial shortcomings would be exposed if he does. This generally is the case when the procedures and practices followed by the superior are not very good. Thus, the fear of exposure of their shortcomings may make managers ineffective in delegating authority.

Attitude towards subordinates: Delegation of authority requires a certain amount of trust between the superior and his subordinates. Therefore, the superior's attitude toward his subordinates, and the subordinate's attitudes towards the superior are important for delegation. Lack of confidence in subordinates is a major factor that affects delegation of authority.

Personality traits and experiences of the superior: The personality traits and experiences of a superior affect the way in which he delegates authority to his subordinates. For instance, a superior who has been delegated adequate authority in his or her own career or who has worked his way up from the ranks, is likely to delegate authority. On the other hand, autocratic managers are less likely to delegate authority.

The delegant's aspect

Delegation of authority is not only affected by various factors pertaining to the delegator, but also by factors pertaining to the delegants. These factors are discussed below:

Fear of criticism: The subordinate may not accept delegated tasks if he suspects that the credit for success will be taken by the boss, and criticism for failure will be directed toward him. The fear of criticism also makes a subordinate reluctant to accept authority.

Lack of information and resources: Subordinates are reluctant to accept delegation when they do not have adequate information and resources. When tasks are not clearly defined, when adequate authority is not delegated, when instructions are vague, and resources are scarce, subordinates are unlikely to do a good job and their enthusiasm for delegated work dwindles.

Lack of self-confidence: Sometimes, subordinates may refuse to take up delegated tasks as they may lack confidence in themselves. Fear of criticism and/or dismissal from service for committing mistakes prevents them from accepting additional responsibilities.

Absence of rewards and incentives: Many subordinates may be unwilling to take up additional responsibilities and pressure unless they receive some rewards and incentives for satisfactory performance. Therefore, all companies should develop a system of rewards and incentives.

The organizational aspect

Apart from the personal factors of the delegator and delegants, delegation of authority also depends on certain organizational aspects. The various organizational factors that affect the delegation of authority include the organization's policy towards centralization or decentralization, availability of managerial personnel, the type of control mechanisms adopted by the organization, the management philosophy etc. Unfavorable organizational factors may adversely affect the delegation of authority.

Check Your Progress

13. The authority to control the functions of other departments, related to specific tasks is known as _____.

a. Functional authority

b. Formal authority

c. Informal authority

d. Managerial authority

14. In a manufacturing company, which of the following functions is not a staff function?

a. Plant maintenance

b. Accounting

c. Sales

d. Quality control

15. According to Louis Allen, _____ is the systematic and consistent reservation of authority at central points within an organization.

a. Administration b.
    Decentralization

c. Centralization

d. Authorization

16. The willingness of subordinates to take on additional responsibilities is a factor that affects the degree of _____.

a. Centralization

b. Decision-making

c. Decentralization

d. Controlling

17. Which of the following is **not** a reason why some managers are not ready to delegate authority to their subordinates?

a. Love of authority

b. Fear of exposure of shortcomings

c. Fear of subordinate's progress

d. Absence of rewards

Example: Delegating Authority

Surana Industries Ltd., manufactures tools and machineries. The last three months, showed drop in the company sales. On enquiry, the CEO realized that clients were dissatisfied due to delays in the delivery of goods. The delay occured because the company followed a centralized system of authority under which the CEO had to approve every small decision. The CEO quickly realized the problem and delegated tasks to different managers to ensure the timely delivery of goods. This helped Surana Industries regain its position of strength.

9.   Balance: The Key to Decentralization

There is no simple answer to the question whether centralization or decentralization is the preferable option for an organization. Decentralization is not a panacea for all problems, and centralization is not necessarily bad. Although decentralization is strongly favored these days, extensive decentralization should not be undertaken without understanding its implications fully. The major problem caused by decentralizing an organization is loss of control. It is not advisable for an organization to decentralize to such an extent that organizational goals are forgotten and the existence of the organization as a unified entity is threatened. Therefore, an organization should strike a balance between centralization and decentralization. It should opt for centralization in certain major policy areas at the top level. The organization can also decide to decentralize routine and monotonous tasks that subordinates at the lower level can carry out without much guidance from superiors. This would enable managers to focus their attention on strategic and important issues. Decentralization results in high costs for the organization and therefore, an organization should ensure that the benefits of decentralization outweigh the costs.

10.   Summary

- Span of management refers to the number of subordinates who report directly to a single manager or superior. Tall structure consists of more number of hierarchical levels whereas flat structure has fewer levels.

- Heinz Weihrich and Harold Koontz define authority as "the right in a position to exercise discretion in making decisions affecting others."

- Power is the ability of individuals or groups to induce or influence the beliefs or actions of other persons and groups.

- Line functions are those which are directly responsible for the achievement of organizational goals. Staff functions relate to providing services and advice to line managers. Functional authority involves conferring rights upon individuals or departments to control the processes and practices pertaining to personnel in other departments.

- In centralization, the control is retained by the top management in areas of decision making whereas in decentralization, employees are allowed to participate in the decision making process.

- Delegation of authority depends on whether the organization follows a centralized or decentralized approach. Delegation of authority refers to a manager granting a subordinate the right to make decisions. The amount of delegation depends on the delegator, the delegant, and the organization.

- An organization should strike a balance between centralization and decentralization. It should opt for centralization in certain major policy areas at the top level and decentralize routine and monotonous tasks that subordinates at the lower level can carry out without much guidance from superiors.

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11. Glossary

Authority: The right to make decisions, carry out actions, and direct others in matters related to the duties and goals of a position.

Coercive Power: The negative side of reward power, based on the influencer's ability to punish the influencee.

Decentralization: A vertical coordination method that addresses the extent to which power and authority are delegated to lower levels.

Delegation: The act of assigning formal authority and responsibility for completion of specific activities to a subordinate.

Expert Power: Power that is based on the possession of expertise that is valued by others.

Flat Structure: A structure that has few hierarchical levels and wide spans of control.

Functional Authority: The authority of members of staff departments to control the activities of other departments as they relate to specific staff responsibilities.

Legitimate Power: Power that stems from a position in the managerial hierarchy and the authority vested in that position.

Line Authority: The authority of those managers directly responsible throughout the organization's chain of command for achieving organizational goals.

Organization Design: The process of developing an organization structure.

Personal Power: A need for power in which individuals want to dominate others for the sake of demonstrating their ability to wield power.

Referent Power: Power that results from being admired, personally identified with, or liked by others.

Reward Power: Power based on the capacity to control and provide valued rewards to others.

Span of Management: An organizational concept referring to the optimum number of subordinates a person can effectively manage; also called span of control.

Staff Authority: The power to conduct investigations and advise line managers, but not to implement these recommendations.

Tall Structure: A structure that has many hierarchical levels and narrow spans of control.

12. Self-Assessment Test

1) Span of management influences the decision making and affects the number of hierarchical levels. Explain the significance of span of management in organization structure.

2) Define authority and explain its features in brief.

3) Define Power and explain different types of power.

4) Explain the difference between line and staff functions. Which type of position would you prefer to hold? Why?

5) Discuss the merits and demerits of the decentralization of authority. Explain in detail the variables which determine the extent of centralization and decentralization in an organization.

6) What is delegation? What are the factors that affect delegation of authority?

7) Explain the concept of balance: the key to decentralization.

13. Suggested Readings/Reference Material

- Chapter 13: Power and Distribution of Authority, James A. F Stoner, Edward R. Freeman, and Daniel R. Gilbert, Jr. *Management.* Seventeenth Indian Reprint. New Delhi: Prentice-Hall of India Private Limited, 1998.

- Chapter 14: Line and Staff Relationships, L. M. Prasad. *Principles & Practice of Management.* Fifth Edition. New Delhi: Sultan Chand & Sons Educational Publishers, 1999.

14. Model Answers

14.1 Model Answers to Check Your Progress Questions

Following are the model answers to the Check Your Progress questions given in the Unit.

1. **(d) Tall**

   Tall organizational structures allow close supervision and control and facilitate easy and fast communication between subordinates and superiors.

2. **(c) Close control**

   A tall organization structure includes many hierarchical levels with narrow spans of control. Huge overheads, complicated planning and lack of clarity in communicating objectives, policies, etc. are disadvantages of tall structural organizations. However, due to the many levels in tall structural organizations, close control is possible.

3. **(c) Requires exceptional quality of managers**

   A flat organizational structure has few hierarchical levels and a wide span of control. Such a structure enables the formulation of clear policies and leads to the delegation of authority and the careful selection of subordinates. A major disadvantage of this structure is that it requires exceptional quality of managers.

4. (b) Timely decisions

The span of management is primarily decided by the environment in which the subordinates are being supervised. A poor span creates problems like over-supervision, high costs, communication problems and delays in decision making. A poor span will not lead to timely decisions.

5. (c) Physical appearance of manager

The principle of the span of management states that there is a limit to the number of subordinates a manager can effectively supervise, but the exact number will depend on the impact of underlying factors. Factors like trained subordinates, clarity of delegation of authority, and clarity in plans affect the span of management. The physical appearance of a manager does not indicate the effectiveness of the span of management.

6. (b) Varies

As an organization grows, its workforce increases, necessitating an increase in the number of hierarchical levels (because more personnel have to be supervised). Thus, the span of management varies at different levels and in different functions in the organization.

7. (d) Requires no formal position

Authority is defined as the power to make decisions. It is the right to do something, and is a form of legitimate power given by the organization, and derived from position. 'Requires no formal position' is a characteristic of power, and not authority.

8. (a) Legitimate power

Legitimate power exists when a subordinate acknowledges the rights of a superior to exert influence within certain limits.

9. (d) Illegitimate

Power is the capacity to affect the behavior of others. The five bases of power are coercive, reward, legitimate, expert and referent power. There is no illegitimate power.

10. (c) Expert

Power derived from the expertise of a person or group is known as expert power. Lawyers, doctors, and engineers possess expert power.

11. (a) Upward legitimate power

Legitimate power is power that originates from a person's position in the managerial hierarchy and the authority vested in that position. Legitimate power is important in organizations and it can work both ways - upward or downward. When an employee at lower levels like a security guard exerts power over the top executive, the security guard is said to be using upward legitimate power.

12. (d) Expert

Power is the capability of individuals or groups to influence the beliefs or actions of other persons or groups. Power can be coercive, referent, reward, legitimate, or expert, depending on the situation. Power derived from the expertise of a person or group is known as expert power.

13. (a) Functional authority

Functional authority is the authority of members of staff departments to control the activities of other departments as they relate to specific staff responsibilities.

14. (c) Sales

The sales department is directly responsible for achieving organizational marketing objectives and is therefore considered a line function.

15. (c) Centralization

Centralization is also defined as the retention of decision making authority by top management.

16. (c) Decentralization

Decentralization allows employee participation in the decision-making process. The willingness of subordinates to take on additional responsibilities is a factor that affects the degree of decentralization. Subordinates who are dynamic and well trained will accept any authority delegated to them and take on the responsibility of achieving stated goals. Subordinates who are not willing to take responsibility may perceive decentralization as a threat.

17. (d) Absence of rewards

Proper delegation helps in managing effectively. Managers often resist delegating due to fear of exposing their own shortcomings, love for authority and fear of subordinate's progress. Absence of rewards is one reason why subordinates are sometimes not willing to perform the delegated tasks.

Unit 10

Strategic Organization Structure

Structure

1. Introduction

In the previous unit, various theories of organizing, formal versus informal organizations, the span of supervision and its determinants, and finally the process of organizing were discussed. In this unit, organization structure is discussed.

Every organization has certain goals and objectives, and one of the important factors affecting their achievement is the structure of the organization. The efficiency with which an organization accomplishes its goals and objectives is, to a great extent, dependent on its structure.

Organization structure refers to the defined relationships between the elements of the organization – people, tasks, information, and control processes.

This unit provides an overview of an organization structure and the techniques of designing an organization structure is discussed. The unit identifies various structural alternatives, and explains the purpose of a strategic business unit.

2. Objectives

By the end of this unit, students should be able to:

- Explain the significance of understanding an organization structure
- Determine the necessary factors for designing an organization structure
- Classify various structural alternatives
- Define strategic business units

3. Ensuring Understanding of Organizational Structure

An organization structure can be implemented effectively only if the members of the organization understand it thoroughly. As an organization consists of formal and informal relationships, all the members must have an adequate understanding of the working of both these relationships.

Teaching the Nature of the Organization's Structure

Many organizational structures that are carefully worked out fail because members do not understand them. A well-written organization manual must contain a statement of the organization's philosophy, charts, programs as well as an outline of job descriptions. Such manuals facilitate easy understanding of the organizing function. But such forms of communication may convey different meanings to different people. So, managers should explain to their subordinates the organization's structure, their position in it, and the different relationships involved. If the subordinates are not willing to make decisions and tend to pass important issues up the hierarchy, the superiors can tell the subordinates what is expected of them and can clarify authority relationships. Managers should also observe the communication among organization members during meetings. If the communication seems to be inadequate, it might indicate a poorly designed organization structure or a poor understanding of the organization structure. Managers should then try to find out why it is so.

Recognizing the Importance of the Informal Organization and the Grapevine

To ensure that a formal organization structure works effectively, managers must identify the informal relationships operating within it and take full advantage of them. Informal relationships refer to those interrelationships that are not shown on the organization chart. One of the best examples of an informal organization, which exists in almost every department and organization, is the grapevine.

The grapevine

An informal organization comes into existence when the members of the formal organization strike up friendships and pass on information that is related in some way or the other to the organization. The grapevine refers to the informal communication network present throughout the organization. An informal organization is not bound by the authority relationships defined by the organization. In an informal organization, employees across different levels come to know each other and pass on information related to the organization. At times, the information shared may only be gossip. In many typical organizations, many employees derive security, status and social satisfaction from the grapevine. Such employees may feel a strong impulse to exchange information on a variety of topics with people whom they know and trust. Since all forms of informal organization serve the fundamental human need to communicate, the grapevine is inevitable and valuable.

Organizing

Benefits

One of the important benefits of an informal organization is that it enhances the cohesiveness of a formal organization. It gives the members a sense of satisfaction, self-respect and status, and makes them feel that they belong to a group.

4. Designing Organizational Structures: An Overview

Organizational design is defined as the process of developing an organizational structure. Managers take into consideration a number of factors when designing organizational structure. One of the important factors is strategy.

Which Comes First: Strategy or Structure?

A noted business historian, Alfred D. Chandler, in his book *Strategy and Structure*, traced the genesis of some of the largest American companies. He tried to determine if strategies were developed before or after designing the structure of organizations. He concluded that in major companies like Sears, General Motors, DuPont and Standard Oil, strategy development came first and structural change followed. Chandler was of the opinion that organizations frequently change their strategy in order to utilize their resources in an efficient manner and develop over a period of time. These changes may cause difficulties because the organization structure and the new strategies may not be compatible. Unless the organizations make modifications in their existing structures, the new strategies cannot be implemented effectively and efficiently.

However, many other researchers considered Chandler's thesis too simplistic. According to them, particular structures are likely to influence the strategies that organizations are liable to adopt.

Factors Influencing Organization Design

Though there exists an important relationship between structure and strategy, there are other contingency factors, such as the size of an organization and the technology used that determine the effectiveness of a particular structure. Further, structural methods that promote innovation, help in implementing strategies and achieving organizational goals.

Check Your Progress

1. Which of the following is not a benefit of informal organization to employees?
a. Security
b. Status
c. Self actualization
d. Social satisfaction

2. Which of the following is **not** a part of well-written organization manual?

a. Organization's philosophy

b. Organization charts

c. Outline of job descriptions

d. Organization culture

3. Which of the following is not a contingency factor that influences the design of an effective organization structure?

a. Technology used

b. Size of the organization

c. Transfer process

d. Environmental factors

4. The process of developing an organization structure is also referred to as _____.

a. Organizational design

b. System design

c. Structure design

d. Process design

5. Major Structural Alternatives

The first real task in designing an organization structure is to identify all the activities of the organization and group them properly. This process of grouping the activities is commonly known as departmentation. Thus, departmentation divides a large and complex organization into smaller and more flexible administrative units.

The design of the organizational structure is influenced by many factors like strategy, size of the organization, technology, structural methods, and environment. Some of the major structural alternatives followed by organizations include functional structure, divisional structure, hybrid structure, and matrix structure.

Functional Structure

A functional structure is a type of departmentalization in which positions are grouped according to their main functional (or specialized) area. In other words, positions are combined into units on the basis of similarity of expertise, skills and work activities. Grouping activities on the basis of the functions of an organization is called 'functional departmentation.' Organizing by functions is the most widely used method of grouping activities, and this structure can be seen in almost every organization. This kind of departmentation follows the pattern of what the organization does (its functions) and groups all the work to be performed into departments on the basis of the functions.

Organizing

An organization which adopts a functional structure must consider the relevant specialized areas that are crucial for its performance. Thus, the functional designations that appear in one organization's functional structure may be different from those in the functional structure of another organization. This happens for the following reasons:

There is no widely accepted terminology for these functions. For example, a manufacturing enterprise may use designations like "production", "engineering", "marketing", "sales", and "finance"; a wholesaler may define his functional structure in terms of "buying", "selling", and "finance", while an airline uses the terms "operations", "air traffic and control", and "finance."

The basic activities may differ from one organization to the other and the importance of such activities may also vary. For example, religious organizations (churches, temples, etc.) have no production departments; and the armed forces have no sales departments. This does not mean that organizations do not undertake these activities but these are of less importance, and are often associated or combined with other functions.

Advantages of a functional structure

Clarity about career paths: Every employee has clear career paths within his or her specialized function and is encouraged to develop his or her expertise. Thus, the employees of an organization can understand how they can shape their careers.

Economies of scale within function: A functional structure provides economies of scale within functions. This is because employees who specialize in particular areas can handle large amounts of work efficiently. Also, the organization can invest in equipment if the volume of work is very large. This helps to reduce duplication and waste.

Specialization: A functional structure encourages employees to become specialized in a particular area and develops their expertise. A functional structure also helps in developing specialists within a particular function.

Coordination: A functional structure allows easy coordination within departments in a particular specialized area, as the activities are inter-related. This facilitates the smooth functioning of an organization.

In-depth skill development: A functional structure helps employees develop in-depth expertise. Employees get exposure to a range of skills in their functional departments thereby developing specialized skills in a particular functional area.

Power and prestige: A functional structure ensures that the top-level managers have the power to control the various activities of the organization. In the functional structure, each person in the organization is specialized in the work activity being performed.

Other benefits: A functional structure makes training programs simple. Also, the top-level managers maintain a strict control over the activities of the organization as they are responsible for the final outcome.

Disadvantages of a functional structure

Boredom and monotony: Functional specialization may result in extremely narrow, dull, boring, and monotonous tasks. Moreover, every functional manager perceives his function to be the most important one. In other words, he or she overestimates the importance of his own function to the extent that he or she forgets the overall goals and objectives of the organization.

Poor decision-making: In a functional structure, only the top-level manager can see the entire picture. So, the decisions tend to be misunderstood, thereby, leading to poor implementation.

Sub-unit conflicts: As the organization grows in size, boundaries are erected between departments and coordination between departments becomes difficult to achieve. It becomes difficult for the management of an organization to measure the performance of a particular unit because various functions contribute to the end result. As a result, people tend to pass the buck or sidetrack issues. Overlapping authority, divided responsibility, and ambiguity of accountability add to the confusion. Thus, if the functional structure is adopted, important projects may suffer due to lack of coordination across functions.

Managerial vacuum: A functional structure provides a fairly narrow training base for managers because they tend to move up within one function. This limits their knowledge to their area of specialization. These managers have very limited knowledge of other functions.

Uses of functional structure

A functional structure can be adopted by organizations that are small or medium-sized, but require a formal structure to coordinate their activities. This structure cannot be used by organizations that are too large and where coordination across functions is difficult to achieve.

Check Your Progress

5. The first real task in designing an organization structure is to identify all the activities of the organization and group them properly. This process of grouping the activities is commonly known as _____.

a. Departmentation

b. Centralization

c. Decentralization

d. Organization

6. In the _____ organization structure, positions are combined into units on the basis of similarity of expertise, skills and work activities.

a. Matrix

b. Divisional

c. Functional

d. Hybrid

7. Which of the following is not an advantage of functional departmentation in organizations?

a. In-depth skill development

b. Simplified training

c. Reduced coordination between functions

d. Clarity about career paths

8. Functional specialization results in dull, boring and _____tasks.

a. Fascinating

b. Stimulating

c. Varying

d. Monotonous

9. A _____ is a type of departmentation in which positions are grouped according to their main functional (or specialized) areas.

a. Matrix structure

b. Divisional structure

c. Functional structure

d. Hybrid structure

10. Which of the following is not a major type of structural alternative used for departmentation?

a. Functional

b. Divisional

c. Vertical

d. Matrix

Divisional Structure

The process of dividing large functional pyramids into smaller and more flexible administrative units is called divisionalization. In a divisional structure, positions are grouped according to the similarity of products, services, or markets. There are three major forms of divisional structure. They are product division, geographic division, and customer division.

Product divisions: In product division, divisions are created based on a single product or service or at least, a comparatively homogeneous set of products and services. Product or commodity divisions are particularly suitable for extremely large, complex and multi-product organizations, where large differences in the product or services lines make coordination within a functional design extremely slow and inefficient. In this form, every product segment has its own functional departments such as marketing, production, and sales. Special attention can be paid to each product line, and this leads to product expansion. But duplication of physical facilities may occur in this structure.

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Advantages of product divisions

Organizing by product or product lines is an important basis of departmentation. These are the advantages of an organization having product divisions:

- Product divisions facilitate the use of specialized equipment (e.g. a press for molding car bodies), promote coordination, and allow optimum utilization of personal skills and specialized knowledge.

- This form of organizational structure facilitates the growth and diversity of products and services offered by the organization.

- The performance of each product line can be compared and analyzed. This would facilitate the dropping of unprofitable product lines and the expansion of profitable product lines.

- Product divisions allow the organization to come up with additional product lines without dislocating the existing product lines.

- Product divisions provide an excellent training ground for managerial personnel.

- Product division managers supervise the engineering, product, sales and services, and cost functions of their department and they are responsible for achieving certain product goals and producing a profit. This enables top managers to measure and analyze the contribution of each product line to total profit.

- As the basic functions (manufacturing, and sales) are performed by the department itself, the problem of coordination at higher levels is reduced.

Disadvantages of product divisions

Product divisions allow greater degree of autonomy and help managers learn about various aspects of managing an organization. However, they have certain disadvantages, such as:

- Product divisions require people with general managerial abilities.

- Managerial costs are higher because of the decentralization of various activities such as personnel, production, sales, and accounts. The costs increase due to duplication of central service and staff activities.

- Product divisions may increase the problem of control at the top management level. This is so because the management of an organization may find it difficult to monitor the activities of different product departments.

- This method of grouping poses certain problems in coordination, decision-making, and control.

Uses of product divisions

Organizations that require specialized knowledge for selling and marketing different products adopt this structure. As the cost of decentralization on account of product divisions is high, organizations nullify this cost by improving

efficiency. Some organizations combine the two types of organizational structures i.e. functional and product, to facilitate better control.

Geographic divisions: In this method, the division is designed to serve various geographic areas. Usually, this structure is popular in organizations whose operations are widely scattered over different areas. In this structure, the activities are organized into zones, divisions, branches, etc. This helps organizations to provide products and services that are customized as per the requirements of regional markets. However, the drawback of this method is that it is difficult to control and coordinate the various divisions.

Advantages of geographic divisions

These are the advantages which accrue to an organization having geographic divisions:

- Geographic divisions allow a manager to pay special attention to the needs and problems of the local markets since knowledge of the local environment is important for effective management.

- Geographic divisions provide opportunities for local talent to be utilized. Local people, who posses a good knowledge of customer likes and dislikes of that area, can be recruited as salespersons. Since such salespeople know the area well and are given a limited territory to cover, they are more successful in selling.

- Organizations can follow a geographic or territorial basis for setting up manufacturing facilities at specific locations in a country. The primary motive of organizations in doing so may be to reduce the cost of transporting the finished product to the market or to minimize the delivery time

- Geographic divisions improve an organization's relationship with customers and the organization can avoid delays in sorting out customer problems.

- Geographic divisions help managers gain extensive knowledge of diverse activities. Thus, this organizational structure provides a good training ground for developing general managers as they take an integrated view of the organization and look after all the operations of the unit.

Disadvantages of geographic divisions

The following are the disadvantages of geographic divisions:

- Geographic divisions require more people with managerial capabilities. Often, the growth of an organization is hampered if there is a shortage of managers.

- Communication poses a problem in geographic divisions. This is so mainly due to the geographical distance between the departments.

- In this form of organizational structure, costs of operations are high because of duplication of activities in different geographic regions.

- In geographic divisions, the top managers at the headquarters may find it difficult to control and supervise the activities at the department level, as the departments may be located in different locations.

- In geographic divisions, the actual activities are carried out at branches spread throughout the country, and reports are sent to the zonal office, and then to the headquarters. In the same way, major policy decisions are taken at the headquarters and communicated to the branches through the zonal offices. Thus, a gap always exists between the branches and the headquarters. This gap may hinder the growth and operations of an organization in a rapidly changing environment.

When geographic divisions can be used

Geographic divisions are most often used in sales and production, while the finance function is usually carried out at the headquarters. This structure is adopted to avoid congestion in large urban centers and the problem of hiring and utilizing labor.

Customer divisions: Customer divisions are divisions set up to service particular types of clients or customers. In this type of structure, departmentation takes place depending on the type of customers the organization serves. Customer structure is common in organizations that serve different types of customers with diverse needs and preferences.

Advantages of customer divisions

- Customer divisions can address the differing needs of customers for clearly defined services. In this way, an organization can encourage different types of customers to carry out business transactions with it.

- Customer divisions are more specialized as they have specialists who can understand the situation and needs of a particular segment of customers.

- This form of organizational structure is useful for organizations that serve different types of customers.

Disadvantages of customer divisions

- Coordination between sales and other functions becomes difficult, as the customer division is a part of the marketing function.

- Various customer departments may put pressure on the management for special treatment, or for certain facilities and services for their customers from time to time, which may cause rivalry among the departments.

- Special facilities and manpower for certain customer groups may be underemployed.

Uses of customer divisions

Customer divisions are useful when the organization's primary interest is to meet the needs of different customer groups. These divisions can be used to group the sales function and cater to the different needs of different segments of customers.

Organizing

Advantages of a divisional structure

- Each unit or division can respond or react quickly, when required, because it can make independent decisions and generally does not need to coordinate with other divisions before taking an action.

- Coordination is simplified as each division is similar to an organization, containing the various functions within it. These functions can help achieve the goals of the division.

- Organizing by divisions help organizations focus on serving their customer well. This is because the organization's focus is on a limited number of customer groups or on a limited number of products or services.

- A divisional structure helps top-level management fix responsibility and accountability for performance.

- Unlike the managers in a functional division, who specialize in a particular area, managers in a divisional structure are exposed to various other functional activities in their divisions.

Disadvantages of a divisional structure

- Duplication of resources and activities is one of the important disadvantages of a divisional structure.

- Individuals in a divisional structure are unable to develop in-depth expertise in areas of specialization to the same extent as in a functional structure.

- The individuals in a divisional structure tend to concentrate on divisional goals and not on the organization goals.

- In a divisional structure, divisions may become preoccupied with their own issues and concerns. There may be unnecessary rivalry over sharing the organization's resources.

Uses of divisional structure

A divisional structure can be adopted by organizations that are fairly large and have substantially different products or services, operate in different geographic areas or cater to different customer segments. A divisional structure with self-contained units is not advisable if the nature of organization makes it necessary to share common resources, such as expensive machinery.

Check Your Progress

11. _____ divisions are set up to serve particular types of clients or customers.
a. Customer
b. Product
c. Service
d. Geographic

12. Which of the following is **not** a major form of the divisional structure of departmentalization?

a. Product division

b. Geographic division

c. Sales division

d. Customer division

13. Which of the following is **not** an advantage of product division?

a. Improves coordination of functional activities

b. Requires more people with general managerial abilities

c. Permits the growth of products and services

d. Places attention and efforts on product line

14. A _____ is a type of departmentation in which positions are grouped according to similarity of products, services, or markets.

a   Hybrid structure

b   Divisional structure

c   Matrix structure

d   Functional structure

15. Geographic division is also known as _____.

a. Torrential

b. Tonsorial

c. Terrestrial

d. Territorial

Hybrid Structure

Hybrid structure is a combination of both the functional and divisional structures at the same level of management. Organizations adopt this structure to reap the benefits of all structures. This type of structure is practiced by organizations with diversified fields, serving different types of customers whose operations are widely scattered.

The functional departments of a hybrid structure have greater staff authority when compared to the divisional departments. Since this authority originates from the top level of the organization, functional departments are also referred to as 'corporate departments.'

Advantages of a hybrid structure

• By using a hybrid structure, the organization can achieve a specific competency and economies of scale in prime functional areas along with focus on products, services, and markets.

• This design also facilitates adaptability and flexibility in handling diverse product or service lines, territories, or differing needs of customers, through a partially divisional structure.

- This structure helps to strike balance between divisional and corporate goals.

Disadvantages of a hybrid structure

- Organizations with hybrid structure are inclined to develop large staffs in the corporate-level functional departments over a period of time. As these departments grow larger, they may try to exercise greater control over the divisions, which may lead to a discord.

- In exceptional situations that require coordination between a division and a corporate functional department, a hybrid structure may be slow to respond, as compared to a functional or divisional structure.

Uses of hybrid structure

A hybrid structure is well suited for organizations operating in considerable environmental uncertainty. The uncertainty can be best handled by a divisional structure, whereas the functional structure allows development of expertise. A hybrid structure also suits medium or large organizations that have enough resources to justify divisions as well as some functional departmentalization.

Matrix Structure

A matrix structure is a type of departmentalization that superimposes a horizontal set of divisional reporting relationships onto a hierarchical functional structure. A matrix organization is also known as grid organization or project management organization. The main characteristic of this structure is that functional, product, or project patterns are integrated into the same organizational structure. A matrix structure has two chains of command – vertical and horizontal. It facilitates decentralization of decisions, teamwork, and effective utilization of human resources. However, this structure violates the principle of unity of command and makes the structure more complicated.

Matrix stages

Organizations that adopt a matrix structure generally pass through the following structural stages:

Stage 1 is a traditional structure, generally a functional one. This structure follows the unity-of-command principle.

Stage 2 is a temporary overlay. In this stage, managerial integrator positions are established. These are developed so that individuals can take responsibility for particular projects (e.g. project managers), oversee product launches (e.g. product managers), or deal with some other issues for a limited duration where coordination across functional departments is necessary.

Stage 3 is a permanent overlay. At this stage, the managerial integrators operate on a permanent basis (e.g. a brand manager takes care of issues pertinent to a brand regularly). They frequently interact with permanent interdepartmental teams to get the work done.

Stage 4 is a mature matrix. In this stage, matrix bosses have equal power.

Stages 2 and 3 that involve managerial integrators are frequently referred to as matrix structures, even though an actual matrix provides equal power for functional and divisional managers.

As all the major decisions must get the nod from both the functional manager and the divisional manager, there is dual authority in the mature matrix. A mature matrix is adopted when the functional and divisional dimensions are equally important.

Advantages of a matrix structure

- A matrix structure facilitates decentralization of decisions, so that the decisions are taken by the functional manager or division project manager level. This enables top-level management to focus on the strategic issues.

- A matrix design brings about horizontal coordination to projects (brands or products), which may not be possible with a functional organization structure. Thereby, the chances of success of the projects are higher.

- This structural form allows the organization to keep a check on the environmental conditions with respect to both the projects and the functional areas. As many decisions are taken at the lower levels, this structure can react quickly to changes in the environment.

- Another advantage of the matrix structure is that it allows effective use of human resources.

- Cost can be brought down by allocating support systems such as computers, software and special equipment among the different projects, according to their requirements.

Disadvantages of a matrix structure

- Administration costs are higher because of the additional hierarchy of project managers and their immediate support staff.

- As the individuals working within the matrix structure report to two bosses, they are unclear about who has the authority and responsibility for decision-making.

- Due to the dual authority system and the need for greater communication, the possibility of conflicts is greater, particularly between functional managers and project managers.

- In this form of structure, individuals are too engrossed with maintaining good relations with their peers, and tend to neglect the project goals and clients.

- Matrix organizations encourage group decision-making. However, group effort may sometimes be carried out to such an extent that even minor decisions are made in groups which bring down productivity levels.

- Though a matrix organization is adaptable to change, it is sometimes extremely slow in responding to changes.

Organizing

When to consider a matrix structure

It is not desirable for every organization to adopt a matrix structure. The additional administrative complexity that arises at the lower levels should be balanced by sufficient horizontal coordination. Matrix structures can be adopted if the following three conditions exist:

a. There is a very high pressure from the environment that makes it essential to have a strong focus on both the functional and divisional aspects of the organization.

b. The external environment of the organizations is changing and uncertain, and they have to process large amounts of information and coordinate activities to develop newer and better products.

c. There is a need for the company to share its resources. Organizations may need to be flexible in using the functional resources across various products or projects.

A matrix structure requires a change in the organization's culture to support and facilitate collaborative decision-making. To function effectively and efficiently, managers and other employees may need special training, especially for improving their interpersonal skills. While a mature matrix structure is not very necessary for many organizations, temporary and permanent overlay stages are being used to a greater extent.

Check Your Progress

16. Which of the following structures is a type of departmentalization that superimposes a horizontal set of divisional reporting relationships on a hierarchical functional structure?

a. Matrix
b. Hybrid
c. Divisional
d. Horizontal

17. Which of the following is not a disadvantage of the matrix structure of organizations?

a. High administrative costs
b. Adaptable to changes in the environment
c. Excessive focus on internal relations
d. Over concentration on group decision making

18. The functional departments of a hybrid structure have greater staff authority which originates from the top level of the organization. Therefore, functional departments in a hybrid structure are also referred to as '_____departments.'

a. Top-level

b. Operational

c. Corporate

d. Matrix

19. Which of the following is a form of departmentation that adopts aspects of both functional and divisional structures at the same level of management?

a. Matrix b.

   Flexible

c. Hybrid

d. Partly functional

20. Which of the following is a disadvantage of the hybrid structure of organizations?

a. Improves competency in prime functional areas

b. Facilitates adaptability

c. Requires greater control over the workforce

d. Increases flexibility in serving different customer segments

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Activity: Jasmine Fabrics Ltd., is a company that manufactures garments and markets them all over the country. At present, it has a production, sales and other basic functional departments. Recently, it decided to include accessories in its product line in both the male and female segments. It also wants to extend its distribution to the U.S. and to European countries. Assume you have been appointed managing director of the company and have been asked to suggest the most suitable organizational structure for the organization. Which structure would you suggest? Justify your answer.

Answer:

_____

_____

_____

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_____

_____

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6. Strategic Business Units

The strategic business unit (SBU) is a more recent form of organization structure adopted by several companies. SBUs are separate businesses set up as units within a larger company. They handle and promote specific products and product lines as if they were an independent business and ensure that they receive adequate attention. In other words, an SBU is a distinct business entity, which can be managed independently with respect to other businesses within an organization. An SBU has a distinct mission, strategies, objectives, and a defined set of competitors.

Organizing

Usually, a 'business manager' is appointed for each SBU and he is held responsible for guiding, promoting, and making business profitable. In short, an SBU operates like an individual organization.

Check Your Progress

21. _____ are distinct businesses set up within a company to ensure that a certain product or product line is promoted and handled as though it were an independent business.
a. Strategic planning units
b. Strategic business units
c. Strategic functional units
d. Specific business units

22. Which of the following is a disadvantage of the divisional structure of departmentalization?
a. Simplifies coordination
b. Focuses on customer service
c. Duplication of resources and activities
d. Equips personnel with variety of skills

23. A large manufacturing company producing multiple products found that larger differences in the product or services lines make coordination within a functional design extremely slow and inefficient. In this situation, which of the following organizational structures is suitable for the company to solve this problem?
a. Territorial division structure b.
   Geographic division structure
c. Product division structure
d. Customer division structure

7.Summary

- An organization consisting of formal and informal relationships must have an adequate understanding of the working of both these relationships.

- Organizational design is defined as the process of developing an organizational structure. Managers take into consideration a number of factors when designing organizational structure.

- Different types of organizational structures are practiced by different organizations, depending on the situation. The most common types are functional structure, territorial structure, product structure, customer structure, hybrid structure, and matrix structure.

- Strategic business units are independent businesses with distinct missions operating within a company.

8. Glossary

Centralization of Authority: The tendency to restrict delegation of decision-making authority in an organization structure, usually by holding the authority at or near the top of the organization structure.

Customer Division: A form of divisional structure involving divisions set up to service particular types of clients or customers.

Divisional Structure: A type of departmentalization in which positions are grouped according to similarity of products, services, or markets.

Environmental Uncertainty: A condition in which future environmental circumstances affecting an organization cannot be accurately assessed and predicted.

Formal Communication: Vertical and horizontal communication that follows paths specified by the official hierarchical organization structure and related task requirements.

Functional Structure: A type of departmentalization in which positions are grouped according to their main functional (or specialized) areas.

Geographic Divisions: A form of divisional structure involving divisions designed to serve different geographic areas.**Grapevine:** An informal communication channel.

Horizontal Coordination: An aspect of organization structure involving the linking of activities across departments at similar levels.

Hybrid Structure: A type of departmentalization that adopts parts of both functional and divisional structures at the same level of management.

Informal Communication: Communication that takes place without regard to hierarchical or task requirements; also referred to as the grapevine.

Matrix Structure: A type of departmentalization that superimposes a horizontal set of divisional reporting relationships onto a hierarchical functional structure; typically used simultaneously with a line and staff organization structure.

Strategic Business Unit (SBU): Division composed of key business units within multiproduct companies with specific managers, resources, objectives, and competitors; SBUs may encompass a division, a product line, or a single product.

9. Self-Assessment Test

1) Describe briefly the importance of grapevine.

2) Strategy is a factor considered by managers for organizational design. Describe.

3) Assume you are the manager of GTK Steel Corporation, which serves different types of customers. Which organizational structure best suits the situation?

Organizing

4) Explain the advantages and disadvantages of functional structure.

5) Describe the matrix structure briefly.

6) The strategic business unit (SBU) is a more recent form of organization structure adopted by several companies. Explain.

10. Suggested Readings/Reference Material

- Chapter 8: Basic Departmentation, Harold Koontz and Heinz Weihrich. *Essentials of Management.* Fifth edition. Singapore: McGraw-Hill, 1990.

- C.B. Gupta, *Management and Organization.*

- "Planning for Your Organization"
  <http://erc.msh.org/mainpage.cfm?file=1.0.htm&module=planning&language=English>

- "Informal Organizational Structure: The Hawthorne Studies"
  <http://www.analytictech.com/mb119/Hawthorne.html>

- "Are You Effectively Managing your Informal Organization Structure?"
  <http://www.mcdonaldconsultinggroup.com/pdf/E-0402-InformalStructure.pdf>

- "Organizational Theory: Determinants of Structure"
  <http://www.analytictech.com/mb021/orgtheory.htm>

11. Model Answers

11.1 Model Answers to Check Your Progress Questions
Following are the model answers to the Check Your Progress questions given in the Unit.

1. **(c) Self actualization**

    Grapevine is the informal communication network that exists throughout the organization. Employees derive security, status, and social satisfaction from grapevine but not self actualization.

2. **(d) Organization culture**

    An organization manual consists of statements regarding organization's philosophy, charts, and an outline of job descriptions. However, it does not contain information about the culture of the organization. Organization manuals describe an organization's structure and facilitate easy understanding of how an organization functions.

3. **(c) Transfer process**

    The effectiveness of a particular organization structure is determined by contingency factors like the size of the organization, the technology used, and the environment. Further, structural methods that promote innovation, help in implementing strategies and achieving organizational goals. Transfer process is a structural method that promotes innovation.

4. **(a) Organizational design**

   Designing an organizational structure involves defining relationships between the elements of the organization, namely; people, tasks, information and control processes.

5. **(a) Departmentation**

   Departmentation aims at dividing a large and complex organization into smaller and more flexible administrative units.

6. **(c) Functional**

   A functional structure is a type of departmentalization in which positions are grouped according to their main functional areas. In other words, positions are combined into units on the basis of similarity of expertise, skills and work activities.

7. **(c) Reduced coordination between functions**

   A functional structure is a type of departmentalization in which positions are grouped according to their main functional area. A functional structure is logical and helps the organization to employ a great variety of skills and utilize them efficiently. It makes training programs simple.

8. **(d) Monotonous**

   Functional specialization may result in extremely narrow, dull, boring, and monotonous tasks.

9. **(c) Functional structure**

   In functional departmentation, positions are combined into units on the basis of the similarity of expertise, skills and work activities. Organizations adopting the functional structure should consider the relevant specialized areas that are crucial for its performance.

10. **(c) Vertical**

    The process of identifying and grouping activities is known as departmentation. The four major structural alternatives available for departmentation are functional structure, divisional structure, hybrid structure, and matrix structure.

11. **(a) Customer**

    Customer divisions are set up to serve the varying needs of customers from different segments. In this type of division, activities are grouped according to the customers served by an organization.

12. **(c) Sales division**

    A divisional structure is a type of departmentalization in which positions are grouped according to the similarity of markets, products or services. The major forms of the divisional structure are product division, geographic

division, and customer division. Sales division is a sub division but not a major form of the divisional structure.

13. (b) Requires more people with general managerial abilities

A divisional structure is a type of departmentalization in which positions are grouped according to the similarity of markets, products or services. Product divisions are created to focus on a single product or service or a relatively homogenous set of products or services. Such a structure improves coordination of functional activities, permits the growth of products and services, and places attention and efforts on the product line. A major disadvantage of this structure is that it requires people with general managerial abilities.

14. (b) Divisional structure

A divisional structure divides large functional pyramids into smaller and more flexible administrative units. The three major forms of divisional structure are product division, geographic division, and customer division.

15. (d) Territorial

A divisional structure is a type of departmentalization in which positions are grouped according to the similarity of markets, products or services. The major forms of the divisional structure are product division, geographic division and customer division. Geographic divisions are designed to serve different geographic areas. Such divisions are also known as territorial divisions.

16. (a) Matrix

An matrix organization combines functional and project or product patterns in the same structure. Matrix organizational structure decentralizes decision making authority and uses support systems efficiently.

17. (b) Adaptable to changes in the environment

A matrix structure is a type of departmentalization that superimposes a horizontal set of divisional reporting relationships onto a hierarchical functional structure. High administrative costs and excessive focus on internal relations and group decision making are disadvantages of the matrix structure of departmentalization. However, the matrix structure improves environmental monitoring and thus helps organizations adapt to changes in the environment.

18. (c) Corporate

The hybrid structure of departmentalization combines both functional and divisional structures at the same level of management. These functional departments possess greater staff authority than their divisional counterparts. Since this authority originates from the top level of the organization, functional departments are also referred to as 'corporate departments.'

19. (c) Hybrid

A hybrid structure is adopted to derive the advantages of both the functional and divisional structures. The functional structure helps an organizations derive the benefits of economies of scale, improve the competence of managers, and increase efficiency in the utilization of resources. The divisional structure helps the organization to focus either on products, services, or markets.

20. (c) Requires greater control over the workforce

The four major structural alternatives available for departmentation are the functional structure, the divisional structure, the hybrid structure, and the matrix structure. The hybrid structure of departmentalization adopts both functional and divisional structures at the same level of management. It offers flexibility in serving various customer segments and increases competency in prime functional areas. In addition, it can be easily adapted to suit the needs of different product lines. Such a structure however, requires greater managerial control over the workforce as departments grow larger.

21. (b) Strategic business units

A strategic business unit (SBU) is a division composed of key business units within multiproduct companies with specific managers, resources, objectives, and competitors; SBUs may encompass a division, a product line, or a single product.

22. (c) Duplication of resources and activities

Simplified coordination, increased focus on customer service and more effective and efficient employees are a few advantages of the divisional structure. The duplication of resources and activities is a major disadvantage of this structure as it increases costs for the organization.

23. (c) Product division structure

A divisional structure is a type of departmentalization in which positions are grouped according to the similarity of markets, products or services. Product divisions are created to focus on a single product or service or a relatively homogenous set of products or services. The product division structure improves the coordination of functional activities, permits the growth of products and services, and places attention and efforts on product line.

Unit 11

Effective Organizing and Organizational Culture

Structure

1. Introduction
2. Objectives
3. Prerequisites for Effective Organizing
4. Avoiding Mistakes in Organizing by Planning
5. Avoiding Organizational Inflexibility
6. Avoiding Conflict by Clarification
7. Organizational Culture
8. Organizational Environment for Entrepreneuring and Intrapreneuring
9. Summary
10. Glossary
11. Self-Assessment Test
12. Suggested Readings/Reference Material
13. Model Answers

1. Introduction

In the previous unit, understanding and designing an organization structure were discussed. In this unit, the main aim of organizing and organizational culture will be discussed.

Organizing aims at developing a definite structure of roles to achieve efficient organizational performance. Organizing requires linking various communication and decision centers for coordinating and controlling efforts towards group and organizational goals. An effective organization remains flexible and adapts to changes in the environment. By reorganizing, an organization can stay flexible and be responsive to the environment.

Managers may commit some mistakes when organizing tasks and duties. These mistakes include the failure to plan properly; the failure to clarify relationships between various employees; the failure to delegate authority; etc.

Effective enterprises develop and nurture an organizational culture that helps influence the behavior of its members. Manager must also build an environment that facilitates the achievement of group goals.

In this unit, the requirement for effective organizing and ways to avoid mistakes in organizing are discussed. The unit also explains how organizations foster a culture to influence employee behavior at the workplace.

3. Objectives

By the end of this unit, students should be able to:

- Explain the prerequisites for effective organizing

- Find how planning helps in avoiding mistakes in organizing

- Determine the ways to avoid organizational inflexibility

- Evaluate how organization charts help in avoiding conflict in organizations

- Analyze the significance of fostering an organizational culture

- Contrast organizational environment for entrepreneuring and intrapreneuring

4. Prerequisites for Effective Organizing

Broadly speaking, there is no 'best way' to organize because the process of organizing depends to a great extent on the organizational situation. The managerial function of organizing can be made more effective if the following prerequisites are satisfied:

- The span of management and the levels of organization are clearly defined

- The factors determining the basic framework of departmentation, along with their strengths and weaknesses, are taken into consideration

- The different kinds of authority and responsibility relationships that exist in an organization are understood

- The way authority is delegated throughout the organization structure, along with the degree of delegation, is taken into consideration

- The way the manager implements organization theory is considered.

5. Avoiding Mistakes in Organizing by Planning

Effective organizing depends on setting realistic objectives and to achieve those objectives, systematic planning is required.

Planning for the Ideal

If an ideal organization is to be created, the organization structure should be designed in accordance with the organizational philosophy, and by defining the various authority relationships in the organization. The organization structure should be flexible in order to adapt to changes in the environment like competition in the market, changing technology, etc. Therefore, there is a need for the continuous remolding of the ideal organizational plan. Though continuous remolding is necessary, it is still essential to have an ideal organization plan, as it provides a standard against which managers can evaluate their new plans and make necessary changes whenever it is necessary.

Modification for Human Factor

Sometimes, it becomes inevitable for managers to modify the structure of the organization to suit individual abilities and limitations. Therefore, proper human resource planning is required to minimize the need for such changes.

Organizing

Advantages of Organization Planning

Planning organization structure helps the managers to estimate future personnel needs and to determine the training required by employees. It also helps to have a clear idea of the kind of employees the organization requires and their experience. Further, organizational planning helps to identify the weaknesses in an organization like obsolete practices, excessive bureaucracy, unclear authority relationships, etc.

6. Avoiding Organizational Inflexibility

An organization should avoid being inflexible in the face of a changing environment. A properly planned organization structure will help it to enhance its ability to meet new contingencies.

Signs of Inflexibility

Usually, organizations that have been operating for many years show signs of inflexibility. Some symptoms of inflexibility are:

i. An organizational design that is unsuited to existing conditions.

ii. Using old machinery instead of sophisticated equipment.

iii. Existence of a district or regional unit, which is no longer required due to the availability of sophisticated methods of communication that can lead to direct interaction between the head office and the customers.

iv. Using old marketing and product strategies that do not meet the changing needs of customers.

Avoiding Inflexibility through Reorganization

Reorganization is generally done in response to changes in an organization's environment. Some of the other factors that force a firm to reorganize are: merger, acquisition or sale of major organizational assets, influence of competitors in the market, development of new production techniques, changes in a firm's product line or marketing methods, government policies, new personnel policies, development of new management principles and techniques, or new ideas or approaches brought in by new CEOs or departmental heads based on their past experience.

The deficiencies in an existing organization structure may necessitate reorganization. Deficiencies may arise from organizational weaknesses like:

(i) a slow decision-making process; (ii) failure to accomplish organizational objectives; (iii) lack of financial control; (iv) excessive costs; (v) very large spans of management; (vi) inability to meet deadlines; (vii) lack of a uniform policy; (viii) and the ineffectiveness of a manager, who for some reason or other may not be replaced even though he or she lacks the required skill and knowledge. These deficiencies can be overcome by reorganization of the firm's structure.

The Need for Readjustment and Changes

Since change is a continuous process, organizations need to be ready to reorganize when required to do so. Further, reorganizations discourage empire building by managers. Empire building is the process of managers building an empire for themselves in the organization. However, frequent reorganizations make employees apprehensive about their future in the organization and demoralize them.

Activity: Assume you are working for an industrial goods manufacturing firm. You were given the responsibility to find out if there is any organizational inflexibility in the firm. Discuss the symptoms you would look out for to determine whether organizational inflexibility exists.

Answer:

_____

_____

_____

_____

_____

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7. Avoiding Conflict by Clarification

It is not enough if the organizational structure is well-planned and flexible. It has to be clearly defined by the organization if the employees are to understand it well. Most often, conflicts arise in organizations because people do not understand their roles and those of their colleagues. Therefore, to ensure that people understand their roles, organizations have to use organization charts. Organization charts provide job description, line of authority, information flow, and identification of goals.

Organization Charts

An organization chart is a vital tool for providing information about organizational relationships. It is a diagrammatic representation of the major functions and their respective relationships, the channels of formal authority, and the relative authority of each manager who is in charge of a specific function. The chart indicates the various positions or departments in the organization, identifies reporting relationships from lower to higher levels, and the formal channels of communication that facilitate flow of information. No informal relationships are depicted on the chart.

Advantages

i.   Help in identifying the relationship between subordinates and superiors.

ii. Provide a visual map of the chain of command.

iii. Help to identify inconsistencies in the line of authority.

iv. Help managers and new personnel to find out how and where they fit into the organization structure.

Organizing

Limitations

i. Fail to indicate informal authority relationships that exist in an organization.

ii. Do not show the amount of authority present at different points in the structure.

iii. Show ideal structures, rather than the real ones since managers neglect to redraft the charts.

iv. Employees sometimes confuse authority relationships with status.

Position Descriptions

It is essential that an organization clearly defines every managerial position in the organization. A clear description of the position makes the new employee's responsibilities clear to everyone. An effective position description clarifies the basic function of the position, the reporting relationships at that level, the authority vested in a position, and the major end-result areas for which the incumbent is responsible. It also states the verifiable objectives for the end-result areas.

Check Your Progress

1. Which of the following is not an organizational weakness?
a. Slow decision-making process
b. Excessive costs
c. Lack of financial control
d. Uniform policy

2. Which of the following is/are factor/s that forces a firm to reorganize?
a. Merger, acquisition or sale of organizational assets
b. Development of new production techniques
c. Government regulations
d. All the above

3. A/an_____is a vital tool for providing information about organizational relationships.
a. Organizational chart
b. Functional chart
c. Organizational model
d. Functional model

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8. Organizational Culture

In recent years, research has proved that culture has a tremendous impact on management practices. Some researchers examined the impact of the internal culture (corporate culture) of organizations, while others examined the impact of external culture (social culture) on managerial practices.

Meaning of Culture

Culture has a huge impact on management practices. According to Linda Smircich, "organizational culture is a system of shared values, assumptions, beliefs and norms that unite the members of an organization." Culture is derived from different sources such as strong founders, critical incidents, and major changes in the environment that force organizations to reassess norms.

Example: Organizational Culture at Southwest Airlines Southwest Airlines operates 2500 flights daily in 55 U.S. cities and has a fleet of 300 Boeing 737s. It is the most inexpensive short distance, point-to-point, and high frequency airline in the U.S. Southwest's advantage over competitors is due to its highly motivated and productive employees. The company does not follow any binding rules and regulations, which may lead to decrease in productivity. The ground crew of six people at each city is very efficient. They carry out the ground procedures in just fifteen minutes, which reduces the gate turnaround time (the time in between the planes' arrival and their next departure). The CEO, Herb Kelleher, believes that employees can take good care of customers only if they themselves are happy, dedicated, and energetic. According to him, every individual should be treated with dignity. There is an informal corporate culture, apparent in the employee uniforms, which consist of shorts, polo shirts, and sports shoes. The company takes up various activities to reinforce its values like training of employees, compensation schemes, company-sponsored contests, parties, and celebrations. The airline has vibrant, energetic, enthusiastic and warm employees on board, which makes flying a different and memorable experience for passengers.

Source: "Fun Works", Clark & Company,
<http://www.corpstory.com/articles/southwest.htm>

The Significance of Corporate Culture

Studies reveal that organizations that have a strong culture are more successful than those that do not.

- Corporate culture provides the guidelines for the organization's policies and practices.

- It helps in understanding the organization dynamics better.

- It provides the basis on which the organization establishes rules that specify the behavior of the people it employs.

Characteristics of Organizational Culture

Six common characteristics of organizational culture are:

It is distinctive: Each organization is unique in its management philosophy, style of communication, objective, policies, and procedures. All these variables, in their totality constitute the organization's distinctive culture.

Organizing

It is based on certain norms: Norms are the general standards of behavior. They provide guidelines on how much work needs to be done, code of behavior to be followed, etc.

It promotes dominant and stable values: Organizations expect all participants to share some major values like production of high quality products, low absenteeism, and high efficiency. Usually, these values are stable in nature and change very slowly over time.

It leads to common behavioral aspects: When members of an organization interact with one another, they use a common language, and use the same jargon and rituals.

It shapes philosophy and rules: The culture of the organization shapes the philosophy that expresses its beliefs regarding the treatment of employees and customers.

Its strength varies: Based on the extent of impact on the behavior of employees and depending on how widely this impact is visible in the organization, culture can be differentiated as 'strong' or 'weak'.

The organizational socialization process

The organizational socialization process refers to the process that helps new employees adapt themselves to the organization's culture. Newsletters, manuals, handbooks, orientation and training, and citation of role models can be used to help new employees adapt.

Steps in the socialization process

  i. Entry-level employee are selected using standardized procedures and with some specific traits in mind. Those candidates whose values are compatible with the organizational culture are selected.

 ii. The newcomers are subjected to many experiences to determine whether they accept the culture or question it.

iii. The new employees are provided with practical training so that they can gain expertise in one of the core disciplines of the business.

 iv. At this step, operational results are measured and rewards given for individual performance.

  v. Employees are expected to understand the most important values of the organization and adhere to them.

 vi. The organization culture is imparted to new employees through stories and organizational folklore.

vii. In the last step, the work of the employees is acknowledged by promoting them to higher levels.

Activity: Does your college have a culture? If so, how would you describe the various cultural aspects of your college to a fresher at your college?

Answer: _____

_____

_____

_____

_____

Check Your Progress

4. The _____ of an organization provides guidelines for its policies and practices.

a. Corporate culture

b. Corporate philosophy

c. Corporate rules

d. Corporate program

5. A collection of values, norms, beliefs, attitudes, and habits which directs the behavior of a group of people is known as _____.

a. Culture

b. Programs

c. Rules

d. Philosophy

6. Which of the following guide the general standards of behavior in an organization?

a. Habits

b. Programs

c. Attitudes

d. Norms

7. Which of the following is synonymous with the external culture of an organization?

a. Corporate culture

b. Social culture

c. Corporate philosophy

d. Social programs

8. Which of the following is not a resource used by organizations to bring a new employee into their cultural fold?

a. Newsletters

b. Manuals

c. Circulars

d. Handbooks

9. Which of the following is not a common characteristic of corporate culture?

a. It is based on certain norms

b. It shapes philosophy and rules

c. The strength of culture varies from organization to organization

d. Leads to diverse behavioral aspects

10. _____ refers to the process through which employees adapt to an organization's culture.

a. Workforce socialization

b. Socialization

c. Organizational socialization

d. Personnel socialization

8. Organizational Environment for Entrepreneuring and Intrapreneuring

'Entrepreneurship' generally refers to managing small, independent businesses. Recently, some management theorists have applied this term to large organizations and also to managers performing entrepreneurial functions through which they bring about innovative changes in the organization. Peter F. Drucker suggested that instead of seeking entrepreneurial persons, organizations should show commitment to continuous innovation, which is a specific activity of entrepreneurs. Managers who function as entrepreneurs try to bring about change to make the most of an enterprise's potential. As entrepreneurs, managers must try to capitalize on the available opportunities and improve the organization's position in the industry.

Gifford Pinchot, who coined the term 'intrapreneur,' differentiates between the 'intrapreneur' and the 'entrepreneur.' According to Pinchot, "An intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture by operating within the organizational environment. In contrast, the entrepreneur is a person who does the same, but outside the organizational setting."[17]

Since it is the manager's responsibility to build an environment that facilitates the achievement of group goals, he or she must encourage entrepreneurial employees to make the most of any particular opportunity. Entrepreneurial employees sometimes take personal risks to bring about change and hence expect recognition and reward. At times, a reasonable risk taken by entrepreneurial employees may result in failure, and the losses incurred will have to be borne by the organization. Moreover, a certain amount of freedom and sufficient authority should also be necessarily delegated to entrepreneurial employees to enable them to implement their ideas.

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[17] Gifford Pinchot III, *Intrapreneuring* (New York: Harper & Row, 1985).

Check Your Progress

11. _____ is the crux of entrepreneurship.
a. Management
b. Doing business
c. Innovation
d. Goals

12. A/ an _____ is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture by operating within organization environment.
a. Entrepreneur
b. Intrapreneur
c. Innovator
d. Manager

13. The term 'intrapreneur' was coined by _____.
a. Robert Kreitner
b. George Homans
c. Gifford Pinchot
d. David C. Martin

9. Summary

- The main aim of organizing is to develop a definite structure of roles to achieve efficient organizational performance.

- Managers can avoid mistakes in organizing through planning, like identifying future needs of the employees and also by developing the required lines of communication. An effective organization remains flexible and adapts to changes in the environment. An organization can reorganize itself in order to be flexible and responsive to the environment.

- In an attempt to avoid organizational inflexibility, organizations should have a well-planned organization structure that will enable the organization to adapt quickly to the changes in the business environment as well as enhance its ability to meet new contingencies.
- Firms should develop organization charts and position descriptions to avoid conflict.

- Effective organizations develop and nurture an organizational culture. Organizational culture refers to a system of shared values, assumptions, beliefs, and norms that unite the members of an organization.

- The organizational socialization process is the process by which new employees are absorbed into the culture of the organization.

Organizing

- An intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture by operating within the organizational environment. In contrast, the entrepreneur is a person who does the same, but outside the organizational setting.

10. Glossary

Corporate Culture: Behavior patterns within an organization that are adopted by each new generation of employees.

Culture: The complex mixture of assumptions, behaviors, stories, myths, metaphors, and other ideas that fit together to define what it means to be a member of a particular society.

Entrepreneurship: The seemingly discontinuous process of combining resources to produce new goods or services.

Intrapreneurs: Individuals who engage in entrepreneurial roles within organizations.

Norms: Standards set by a group that regulate and foster uniformity in member behaviors.

Organization Chart: A blueprint of the formal organization, indicating lines of authority within it.

Organizational Culture: A system of shared values, assumptions, beliefs and norms that unite the members of an organization; sometimes called corporate culture.

11. Self-Assessment Test

1) What are the prerequisites for effective organizing?

2) Explain how planning helps avoid mistakes in organization.

3) What is organizational inflexibility? What are the measures that need to be taken to reduce organizational inflexibility? Explain in detail.

4) Define organization charts. Describe the advantages and disadvantages of organization charts.

5) What do you understand by organizational culture? Why is it so important?

6) Briefly describe organizational environment for entrepreneuring and intrapreneuring.

12. Suggested Readings/Reference Material

- Chapter 2: The Environment of Management, Griffin, *Fundamentals of Management: Core Concepts and Applications.* First Indian edition. Chennai: All India Publishers & Distributors Regd, 2000.

- Chapter 12: Effective Organizing and Organizational Culture, *Management: A Global Perspective.* Tenth edition. Singapore: McGraw-Hill, 1994.

- "Organization Charts as a Management Tool" <http://management.about.com/cs/generalmanagement/a/OrgCharts.htmCHAPTER-12>

- "Corporate Culture" <www.1000ventures.com/business_guide/crosscuttings/culture_corporate.html>

13. Model Answers

13.1 Model Answers to Check Your Progress Questions

Following are the model answers to the Check Your Progress questions given in the Unit.

1. **(d) Uniform policy**

    Deficiencies in organization structure may necessitate reorganization. The causes for deficiencies are due to organizational weaknesses like slow decision-making processes, excessive costs and lack of financial control. However, uniform policy is not an organizational weakness.

2. **(d) All the above**

    Though reorganization is primarily undertaken to respond to changes in an organization's environment, there may be other factors that force a firm to reorganize. Some of these factors are mergers, acquisition or sale of major organizational assets, influence of competitors in the market, government regulations, development of new production techniques, etc.

3. **(a) Organizational chart**

    An organization chart presents the broad outline of an organization's structure in the form of a line diagram. This chart shows the major positions or departments in organizations and also the formal relationships among them.

4. **(a) Corporate culture**

    An organization culture is based on the beliefs, attitudes, and priorities of its members. It provides guidelines for the company's policies and practices.

5. **(a) Culture**

    Culture provides guidelines for a company's policies and practices. An organization's culture helps in understanding the dynamics of an organization. Culture can be external or internal. External culture is known as social culture and internal culture is known as corporate culture. Companies with strong corporate culture are likely to succeed.

6. (d) Norms

Organization culture is based on certain norms. Norms are the general standards of behavior which provide guidelines on how much work should be done, the code of behavior to be followed, etc.

7. (b) Social culture

External culture is also known as social culture. Even this culture has an impact on managerial practices.

8. (c) Circulars

Organizations take the help of manuals, newsletters, handbooks, orientation and training to bring a new comer into their cultural fold.

9. (d) Leads to diverse behavioral aspects

Corporate culture leads to common behavioral aspects and not diverse behavioral aspects. Members of an organization use the same jargon, rituals and a common language when interacting with each other.

10. (c) Organizational socialization

Through company newsletters, manuals, handbooks, and orientation and training programs, organizations help new employees adapt to their culture. This process is called as organizational socialization.

11. (c) Innovation

Continuous innovation is an important characteristic of entrepreneurship. Entrepreneurial organizations always try to innovate and discover the best ways of doing things.

12. (b) Intrapreneur

Intrapreneurs are also called 'in-house entrepreneurs.' Intrapreneurship increases an organization's competitive advantage.

13. (c) Gifford Pinchot

Gifford Pinchot coined the term 'intrapreneur.' An intrapreneur is an entrepreneur working within an organization.

Principles of Management

Course Components

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