

UNIT – 2

DESIGNING ORGANISATIONAL STRUCTURES

Organization:

- Organization is form of organizing which is a part of management process
- Organization defined as collectivity of people for achieving common objectives

“Organization means the determination and assignment of duties to people, and also the establishment and the maintenance of authority relationships among these grouped activities it is the structural frame work with in which the various efforts are coordinated and related to each other”.

Definitions: “Organization are collectivities of people that have been established for the pursuit of relatively specific objectives on a more or less continuous basis”.

___William Scott

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

___Mooney and Reilly

“Organization involves the grouping of activities necessary to accomplish goals and plans assignment and these activities to appropriate departments and positions to appropriate departments and positions for authority delegation and coordination”.

___Koontz and O'Donnell

Organization is used in the following ways with or without prefix or suffix

1. as entity
2. as group of people
3. as structure
4. as process

Process of Organization:

Determination of objectives, strategies, plans and policies: Objectives should be clear and precise, because the entire organization is to be built around the objectives of the enterprises.

Determination of activities: Determine activities needed to execute these plans and policies and accomplish the objectives. The work load is broken into component activities that are to be performed by all the employees. The activities are so split to determine the job which can be performed by an individual.

Separation and grouping of activities: To attain the benefits of specialization and division of labour, every company, will separate its activities on the basis of primary functions like finance, engineering, purchasing, production, sales and industrial relations. All the similar or directly related activities are grouped together in the form of departments.

Delegation of authority: Authority is necessary for the performance of the job and therefore authority is delegated to the subordinates for enabling them to carry out their work smoothly and efficiently.

Delegation of responsibility: Responsibility may be described as the obligation and accountability for the performance of delegated duties. A superior is always accountable for the acts of his subordinate. Therefore, responsibility always flows from subordinates to superiors.

Establish inter-relationships: The grouped activities are placed in the overall organization structure at appropriate level. It is necessary to integrate or the these groups of activities through.

- a) Authority relationship horizontally, vertically and diagonally
- b) Organized information or communication system i.e., with the help of effective coordination and communication.

Providing physical facilities and proper environment: Physical facilities means provide machinery, tools equipments, infrastructure etc, environment means provide proper lighting, ventilation, heating, cooling arrangement at the work place, reasonable hours of work, safety devices, job security etc

Principles of Organization:

Principle of unity of objectives: An organization structure is effective if it enables individuals to contribute to entire objectives.

Principle of co-ordination: The aim of the objective can be achieved if proper co-ordination exists for different activities.

Principles of organizational efficiency: An organization is efficient if it is structured to aid the accomplishment of enterprise objective with a minimum of unwanted consequences or costs.

Span of management principle: In each managerial position, there is a limit to the number of persons an individual can effectively manage but the exact number will depend on the impact of underlying variables.

Scalar principle: The clearer the line of authority from the ultimate management position in an enterprise to every subordinate position, the clearer will be the responsibility for decision making the more effective will be organization communication.

Principle of delegation by results expected: Authority delegated to all individual managers should be adequate enough to ensure their ability to accomplish the results expected.

Principle of responsibility: The responsibility of subordinates to their superiors for performance is absolute, and superiors can not escape responsibility for the organization activity of their subordinates.

Principle of parity of authority and responsibility: The responsibility for actions can not be greater than that implied by the authority delegated, nor should it be less.

Principle of unity command: The more complete an individual's reporting relationships to a single superior, the smaller the problem of conflicting instructions and the greater the feeling of personal responsibility for results.

Authority level principle: Maintenance of intended delegation requires that decisions within the authority of individual managers should be made by them and not be referred upward in the organization structure.

Principle of balance: The application of principles or technique must be balanced to ensure the over all effectiveness of the structure in meeting enterprise objectives.

Principle of flexibility: the more that provisions are made for building flexibility in to an organization structure can fulfill its purpose.

Principle of leadership facilitation: The more an organization structure and its delegations of authority enable managers to design and maintain an environment for performance, the more they will help the leadership abilities of those managers.

Design of Organization structure: The main objective of an organization structure is to ensure that efforts of all the people working in various sections are co-ordinate and integrated for achieving the task in the most efficient effective way with minimum consumption of resources i.e. economical ways

1) Formal organization structure 2) Informal organization structure

Formal organization structure: According to classical theorists the formal organization is built an four pillars

- 1) Division of labour
- 2) Scalar functional processes
- 3) Structure
- 4) Span of control

Definition: An organization is formal when the activities of two or more persons are consciously coordinated towards common objectives.

Informal organization: Informal organization arises spontaneously based on friendship or some common interest and not based on rules, regulation and procedures. It is developed by the employees themselves and not by the formal authority.

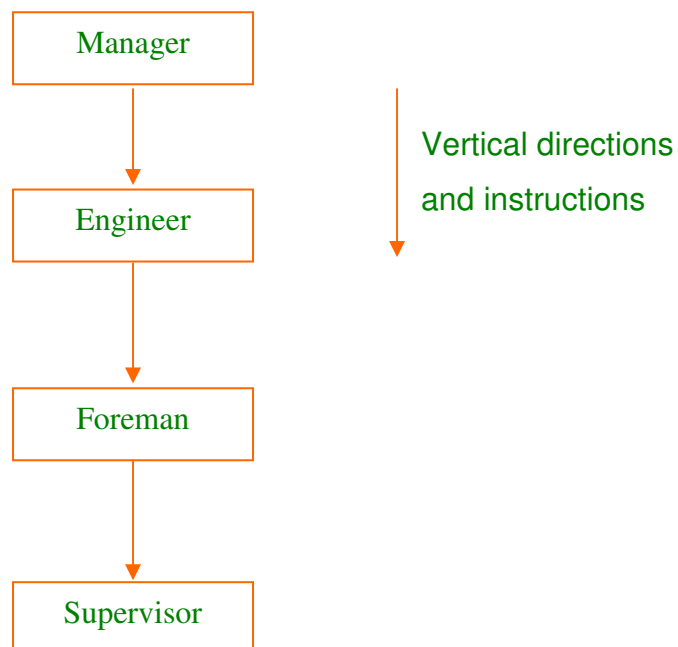
Definition: Informal organization brings cohesiveness to a formal organization, it brings to the members of formal organization a feeling of belonging of status, of self-respect and of gregarious satisfaction.

Comparison between formal and informal organization:

Basis of comparison	Formal	Informal
Formation	Planned & deliberated	Spontaneous
Purpose	Well-set goals	Social interaction
Structure	Well structured	Un structured
Focus	Positions	Persons
Nature	Official	Unofficial
Leadership	Superior	Any one
Source of power	Delegated	Given by group
Guidelines for behaviour	Rules procedures	Group norms
Source of control	Rewards/Punishment	Sanctions

Type of organization: On the basis of authority relationships organization classified as follows

1. Line organization or Military organization or Scalar organization
2. Functional organization
3. Line and Staff organization
4. Project organization
5. Committee organization
6. Matrix organization

Line organization:

Where efforts of large number of people have to be controlled and discipline is of prime importance line type organization structure will serve the purpose. This is also one of the oldest structures. However, in present conditions this type of structure has lost the applicability. In line structure ten lines of instruction, directing is vertical. This means in this type boss is always right and his orders are to be obeyed at any cost.

Merits:

Simplicity: Line organization is very simple to establish and can be easily understand by the employees

Discipline: Since each position is subject to control by its immediate superior position, often the maintenance of discipline is easy unity of command and unity of direction foster discipline among the people in the organization.

Co-ordination: The hierarchy in management helps in achieving effective coordination

Effective communication: There will be a direct link between superior and his subordinate; both can communicate properly among himself or herself.

Economical: Line organization is easy to operate and less expensive

Unity of command: In line organization every person is under the command of one boss only.

Prompt decision: Only one person is in charge of one division or department. This enables manager to take quick decisions.

Over all development of the managers: The departmental head has to look after all the activities of his department; therefore, it encourages the development of all round managers at the higher level of authority.

Demerits:

Undue reliance: The success of the enterprise depends upon the caliber and ability of few departmental heads, loss of one or two capable men may put the organization in difficulties.

Personnel limitations: In this type of organization an individual executive is suppose to discharge different types of duties. He cannot do justice to all different activities because he cannot be specialized in all the trades.

Overload of work: Departmental heads are overloaded with various routine jobs hence they can not spare time for important managerial functions like planning, development budgeting etc.

Dictatorial way: In line organization, too much authorities centre on line executive. Hence it encourages dictatorial way of working.

Duplication of work: Conflicting policies of different departments result in duplication of work.

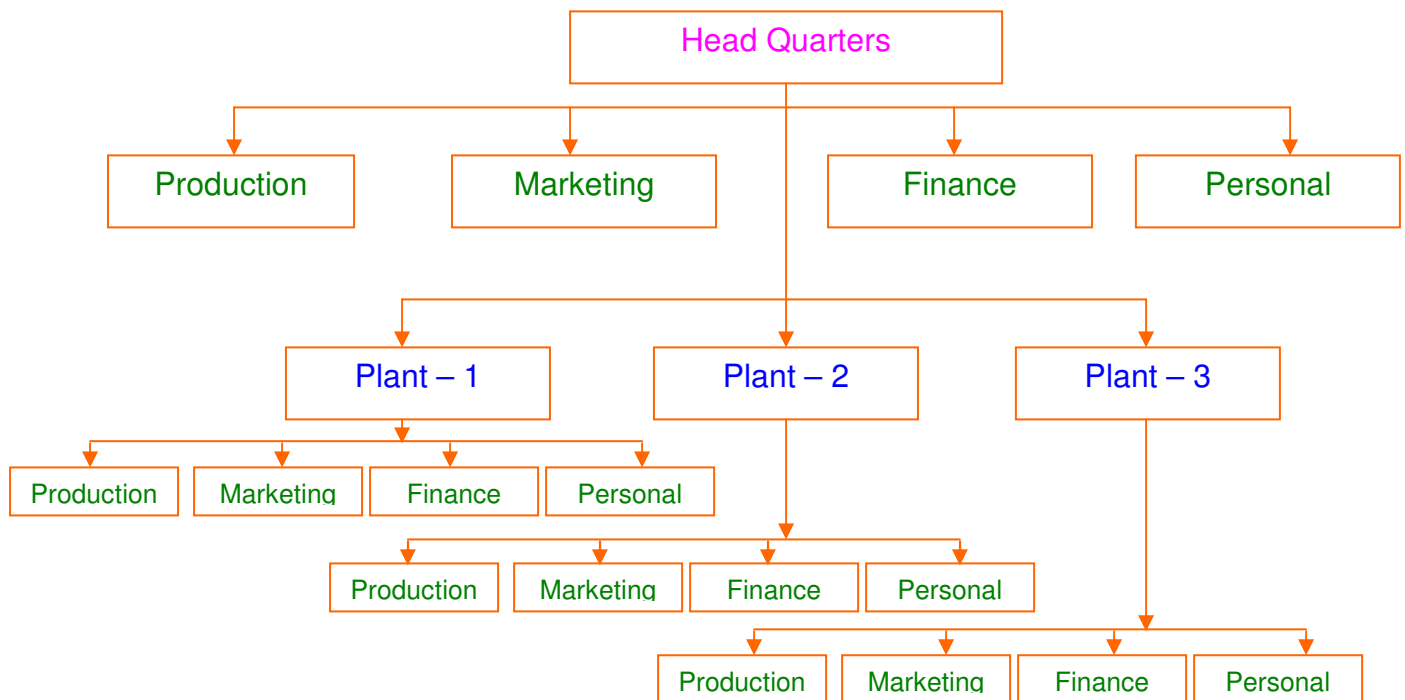
Unsuitable for large concerns: It is limited to small concerns

General interest of enterprise may be over looked: Departments may work for their self-interest and may sacrifice the general interest of the enterprise.

Scope of favourism: As the departmental heads has the supreme authority, there is chance of favourism.

Functional organization: This structure most widely used, in the medium and large organizations having limited number of products.

This was introduced by F.W.Taylor and is logical extension of the division of labour cover departments as well as men. In this authority is delegated to an individual or department to control specified processes, policies or other matter relating to activities under taken by persons in other departments.



In this system planning is separated from performance since the direction of work is divided by various function in the factory. It has been found that this type of structure becomes ineffective when the work of departments and individuals increases in variety and complexity.

Merits:

Separation of work: In functional organization, work has been separated from routine work. The specialist has been given the authority and responsibility for supervision and administration pertaining to their field of specialization unnecessary over loading of responsibilities is thus avoided.

Specialization: Specialization and skilled supervisory attention is given to workers the result is increase in rate of production and improved quality of work.

Narrow range with high depth: The narrow range of activities enable the functional expert to developing in depth understanding in his particular area of activity

Ease in selection and training: Functional organization is based upon expert knowledge. The availability of guidance through experts makes it possible to train the workers properly in comparatively short span of time.

Reduction in prime cost: Since for every operation expert guidance is there, wastage of material is reduced and thus helps to reduce prime cost.

Scope of growth and development of business: This type of organization presents ample scope for the growth and development of business.

Demerits:

Indispline: Since the workers receive instructions from number of specialist it leads to confusion to whom they should follow. Therefore, it is difficult to maintain discipline

Shifting of responsibility: It is difficult for the top management to locate responsibility for the unsatisfactory work every body tries to shift responsibility on others for the faults and failure.

Kills the initiative of workers: As the specialized guidance is available to the workers the workers will not be using their talents and skills therefore their initiative cannot be utilized.

Overlapping of authority: The sphere of authority tends to overlap and gives rise to friction between the persons of equal rank.

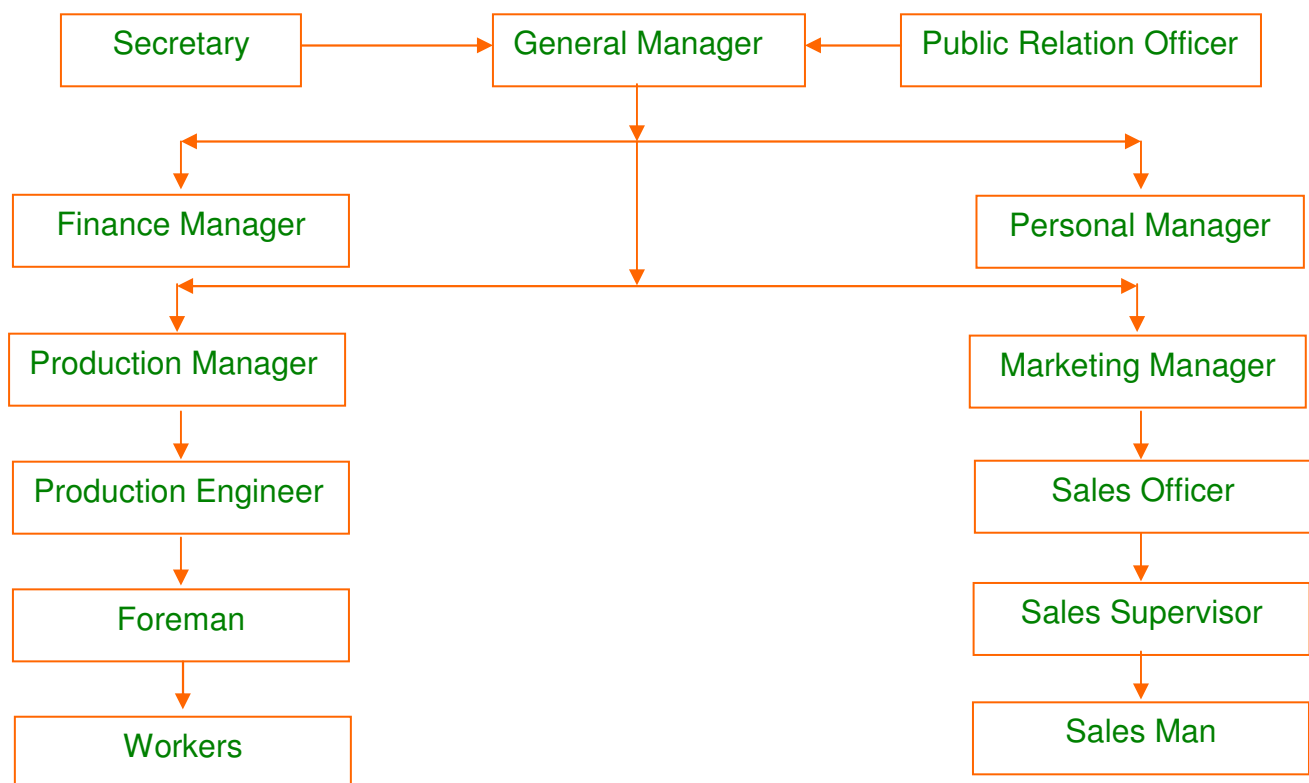
Lack of co-ordination between functions: except the function in which he is specialized he is absolutely indifferent to other functions. Therefore, there is a lack of coordination of function and efforts.

Line and Staff Organization: Line and Staff organization is the in which the line heads are assisted by specialist staff.

If the firm is of large size, manager cannot give careful attention to every aspect of management. They are busy with ordinary task of production and selling. Hence staff is deputed to do the work of investigation, research, recording, and advising to managers. Thus the staff brings advising to managers. Thus the staff brings specialization by assisting the line officers.

“Line” means - Operating

“Staff” means - Service



Merits:

Planned specialization: The line and staff structure is based upon the principle of specialization. The line managers are responsible for operations contributing directly to the achievement of organizational objectives where as staff people are there to provide expert advice on the matters of their concerns.

Quality decisions: Decisions come after careful consideration and thought each expert gives his advise in the area of his specialization which is reflected in the decisions.

Prospect for personal growth: Prospect for efficient personal to grow in the organization not only that, it also offers opportunity for concentrating in a particular area, there by increasing personal efficiency

Less wastage: There will be less wastage of material.

Training ground for personnel: It provides training ground to the personnel in two ways. First, since everybody is expected to concentrate on one field, one's training needs can easily be identified. Second, the staff with expert knowledge provides opportunities to the line managers for adopting rational multi-dimensional approach towards a problem.

Demerits:

Chances of Misinterpretation: Although the expert advice is available, yet it reaches the workers through line supervisors. The line officers may fail to understand the meaning of advice and there is always a risk of misunderstanding and misinterpretation.

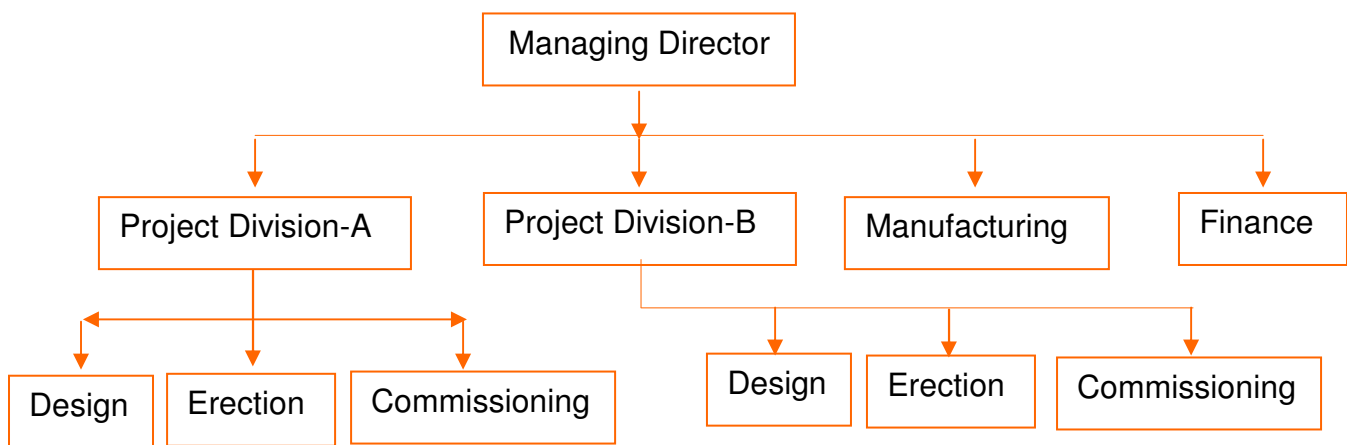
Chances of friction: There are bound to be occasions when the line and staff may differ in opinion may resent in conflict of interests and prevents harmonious relations between the two.

Ineffective Staff in the absence of authority: The staff has no authority to execute their own advice. Their advice is not a binding on the line officers. Therefore the advice given by specialist may be ignored by line heads.

Expensive: The overhead cost of the product increases because of high salaried specialized staff.

Loss of initiative by line executives: If is they start depending too much on staff may loose their initiative drive and ingenuity.

Project Organization: A project organization is a special case where common service like finance, purchase etc. are organized at the functional level. But project resources are allocated to the project manager. Since the business responsibility rests with the project manager, necessary authority is given to him with the requisite resources. This type of organization structure helps in making decisions for project control in terms of cost, resource and time. In a project organization some of the functions are corporate responsibility and some of them are project manager's responsibility.



Merits:

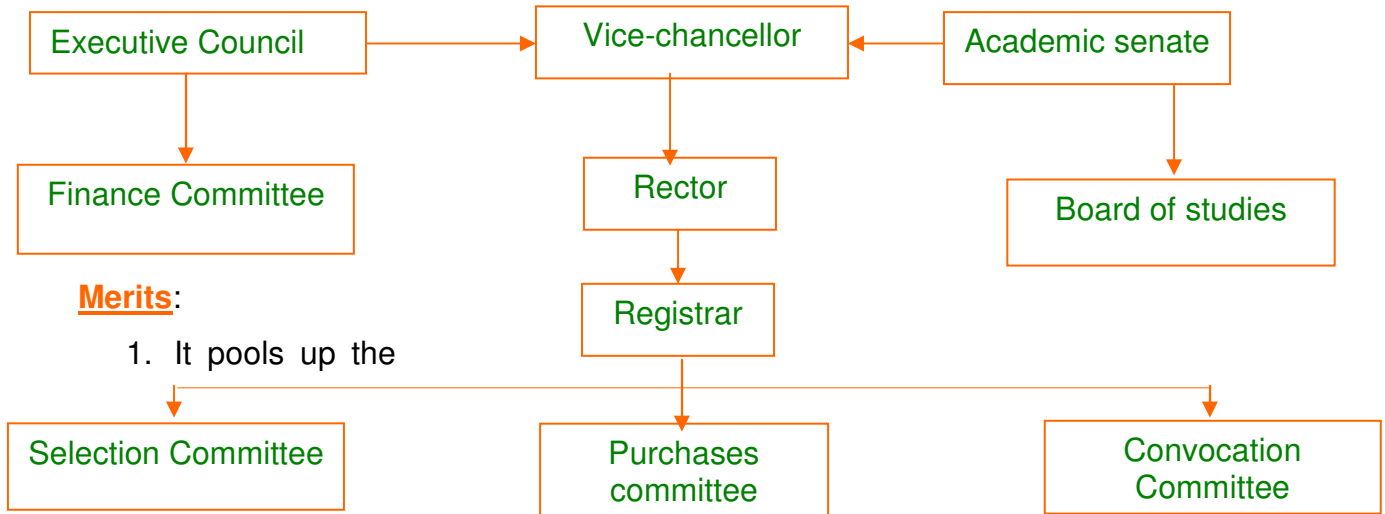
1. This calls for quick divisions
2. Organizing all functional
3. Proper coordination of work of different departments

Demerits:

1. It tends to increase the problems of control for top management
2. It is special case of product organization
3. The organization may get disintegrated with increasing focus on departments

Committee Organization: A committee is formed when two or more persons are appointed to work as a team to arrive at a decision on the matters referred to it. It is intended to utilize the knowledge, skills, and experiences of all the

concerned parties. Particularly, in large organizations, problems are too big to be handled by one single expert.



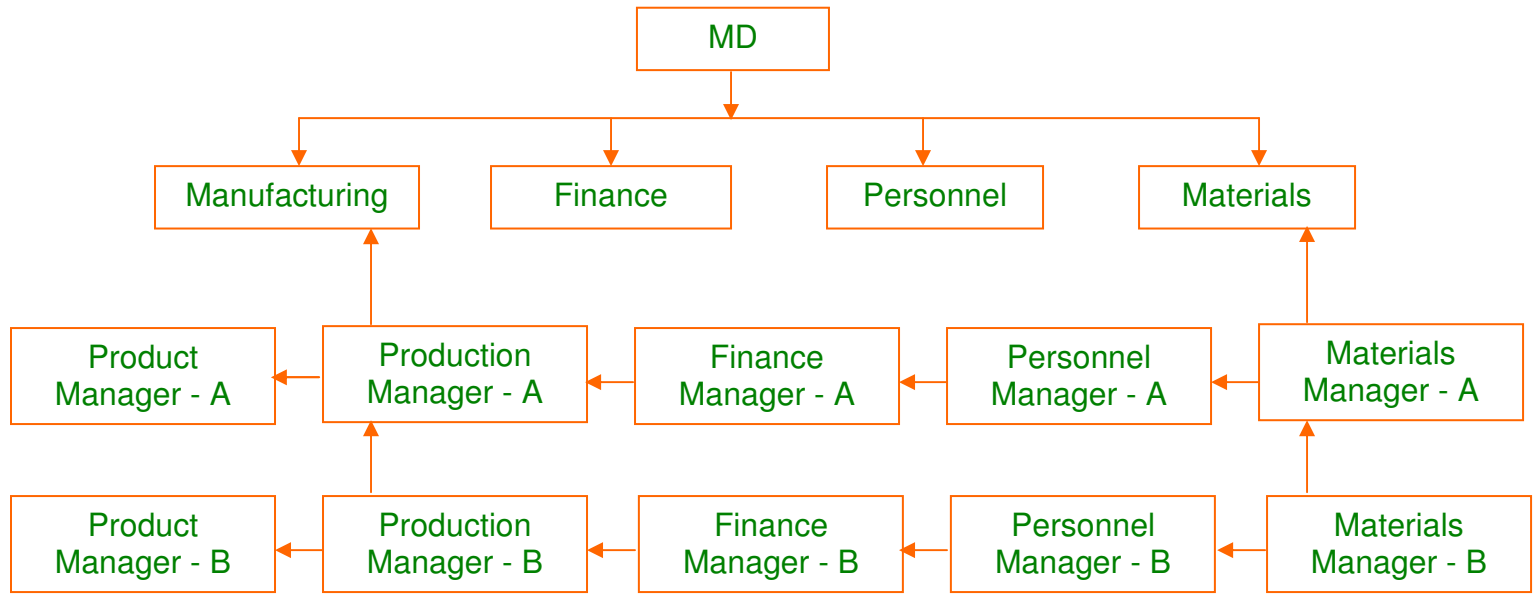
organizational resources in terms of knowledge skills and experiences.

2. It represents all interested groups and thus, facilitates group decision.
3. It yields good results if the committee are headed by taskmaster like chairman and time bound in terms of decision-making.
4. It minimizes the fear of too much authority vested in one person
5. It motivates all the concerned or effected groups to participate.

Demerits:

1. Responsibility of decisions cannot be fixed on a particular person.
2. It calls for high degree of coordination.
3. It involved high cost in terms of time and money.

Matrix Organization: This is also called as project organisation it is a combination of all relationships in the organization in vertical, horizontal and diagonal. It is mostly used in complex projects. It provides a high degree of operational freedom, flexibility and adoptability for both the line and staff managers in performing their respective roles. The main objective of matrix organization is to secure a higher degree of coordination than what is possible from the conventional organizational structure as the line and staff.



Merits:

1. It offers operational freedom and flexibility
2. It seeks to optimize the utilization of resources
3. It focuses on results
4. It maintains professional identity
5. It holds employees responsible for management of resources

Demerits:

1. It calls for greater degree of coordination
2. It violates unity of command principle
3. It may be difficult to define authority and responsibility precisely
4. Employees may find it frustrating to work with two bosses

MODERN TRENDS IN ORGANISATIONAL STRUCTURE DESIGNS:

Organizations in the recent times have been gearing themselves to suit to the growing demands from their stakeholders in terms of responsiveness, flexibility, agility, adaptability etc. In this process, they are following organic structure, which are more agile, flexible and adaptable to the changing circumstances. Virtual organizations, cellular organizations, team structure, boundaryless organization and inverted pyramid and different forms of organic structure that are widely seen among most of the sun-rise sectors such as financial services, Information Technology (IT) and IT enabled services. These structures have been contributing to the organic growth of the organization.

The focus of organic structures is to do away with those activities which do not directly contribute to the growth of the organization and focus only on those activities which directly lead the organization for the achievement of the given goals.

These are discussed below:

Virtual Organisation:

Virtual organizations facilitate competitiveness particularly when these organizations are part of the global economy. Here, there can be alliances and partnerships with other organizations almost all over world. It is a flexible organization structure that removes the traditional boundaries. It allows easy reassignment and reallocation of resources to take quick advantage of shifting opportunities in global markets. To avoid disintegration and to attain the effective needed focus, the lead virtual organizations must have a shared vision,, strong brand and high trust culture.

The virtual organization is a temporary network of companies that come together quickly to exploit fast changing opportunities. Virtual organizations appear to be bigger than traditional organizations. As virtual organizing required a strong information technology

(IT) platform, The boundaries that traditionally separate a firm from its suppliers, customers and even competitors are largely eliminated, temporarily and in respect to a given transaction or business purpose. Virtual organizations

come into being 'as needed' when alliances are called into action to meet specific operating needs and objectives. When the task is complete, the alliances rests until next called into action. Each partner in the alliance contributes to the virtual organization what it is best as-its core competence.

Cellular Organization:

Organizations structured around the units/cells that complete the entire assembly process are called cellular organizations. In the modern organizations, cellular organizations have been replacing the continuous line or linear production process system. In cellular organizations, workers manufacture total product or sub-assemblies in teams (cells). Every team (cell) of workers has the responsibility to improve or maintain the quality and quantity of its products. Each team is free to recognize itself to improve performance and product quality. These cells comprise self-managed teams. They monitor themselves and also correct where necessary on their own. Cellular organizations are characterized by much smaller staff all over the organization with middle management positions reduced and lean management members at the top. It is both a lean and flat structure.

Team Structure:

A structure in which the entire organization is made up of work groups or teams is known as team structure. Team structures are both permanent and temporary in nature as situation demands. Traditional organizations are characterized by vertical structures and modern organizations are identified by the horizontal i.e., team structures. 'We report to each other' is the main feature of team structure. It leads to boundary less organsiation in a borderless world. In team structures, we find cross-functional teams meant for improving lateral relations, solving problem, completing special projects and accomplishing routine tasks. A cross-functional team comprises members from different functional departments such as marketing, finance, HR, production etc. Project teams are convened for a particular task or project and these get dissolved once task is completed. The intention here is to quickly bring together the people with the needed talents and focus their efforts intensely to solve a problem or take advantage of a special

opportunity. Here employees are more involved and empowered because of reduced barriers among functional areas. Sometimes, when there is pressure on teams to perform and there is no clear chain of command, team structure fails to deliver results.

Boundaryless Organization:

At the name indicates, a boundary less organization eliminates internal boundaries among subsystems and external boundaries with external environment. It is a combination of team and network structures with the addition of temporariness. Such type of organization structure is characterized by spontaneous teamwork and communication. This replaces formal chain of command. It is a dynamic organization structure wherein organizational needs are met through a judicious mix of outsourcing contracts and alliances as and when needed. The key features of boundary less organization include knowledge-sharing, absence of hierarchy and bureaucracy, empowerment voluntary participation of expert members, technology utilization and temporariness. The focus is on mustering necessary talent and competencies required for the achievement of a task without any bureaucratic restrictions. Creativity, quality, timeliness, increase in speed and flexibility are the benefits the boundary less organization yields. It also reduces inefficiencies. The boundary less organization is highly flexible and responsive. These draw on talent wherever it is found. Sometimes, they are ineffective due to problems in communication.

Inverted Pyramid:

This is an alternative to the traditional chain of command. This is a structure, which is narrow at the top and wide at the base. It includes a few levels of management. For instance, sales people and sales support staff sit on the top as the key decision makers for all the issues related to sales and dealing with the customers. Since the sales staffs are in touch with the customer and aware of the requirements of the customers, they are given all the freedom to follow their own best judgment at all levels.

Departmentation: On the basis activity or departmentation

Industrialisation has created problems, which are complex in nature. It created a necessity of large-scale industries to meet the increased demand. In large scale, industries there are large number of employees. For the sake of efficient supervision and control, the factory/enterprise is divided into different

departments. Each department is entrusted with a particular function for carrying out particular activity each departmental head is expected to control and supervise the work in his department.

Definition: The process of dividing the work and then grouping them into units and submits or departments for the purpose of administration.

Method of Departmentation:

By function: It is divided into primary function to be performed such as, finance, marketing, production, personnel etc. each function separate departments

By product: All activities related to a particular product line may be grouped together. This basis of departmentation has become increasingly important, especially for complex organizations producing different types of products.

By process: In this method, the manufacturing activity are sub divided on the basis of their process of production, similar machines such as all laths, milling machines, grinding machines, milling machine etc. are grouped into separate section, such as lathe department, milling department, drilling department.

By geographical region: This method may be adopted when the enterprise produces and sells in the wide market, often in international markets.