

Meaning of Organisation

(10.1)

In common parlance, 'organisation' refers to 'institution'. An educational institution, private agency, Government department or a business firm are organisations. In the context of management, it refers to formal arrangement of work amongst members of the institution with clear identification of authority and responsibility to achieve organisational goals optimally. If duties of members and their relationship with peers, superiors and subordinates are well defined, the planning process will be effective.

Every institution should be based on sound principles of organisation to achieve its goals. The organisation should clearly define the tasks and duties of every member and relationship amongst them so that members co-ordinate their activities to achieve the goals. The term 'organisation' has emerged over a period of time from the traditional task-oriented to the modern people-oriented concept.

The evolution of 'organisation' as 'a mechanism that enables people to work most effectively' to attain organisational goals has emerged as follows :

1. *The "Herd" concept:* It views organisation as a group of people who direct efforts towards organisational goals through coercion, punishment and strict adherence to rules and

regulations. It empowers the superiors to decide for the subordinates and wants subordinates to obey their directions, orders and instructions.

2. *The "person-to-person" concept*: Subordinates are not viewed as a 'herd' by the superiors. Superiors delegate them responsibility and authority to make them contribute towards organisational goals.
3. *The "group" concept* : While 'person-to-person' concept emphasises on vertical relationships amongst superiors and subordinates, the 'group' concept recognises the lateral or horizontal relationships also amongst people working at the same level. Interaction amongst people at all levels is the 'group' concept of organisation. This view is prevalent today and empirically proves that efforts of all individuals, as a group, are oriented towards a unified direction, that is, achieve maximum returns at minimum costs.

Viewed as a group concept, 'organisation' is defined as follows.

Organisation 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."

— Louis A. Allen

"Organisation defines the part which each member of an enterprise is expected to perform and the relations between such members, to the end that their concerted endeavour shall be most effective for the purpose of the enterprise".

— Alvin Brown

Organising is a "process of defining the essential relationships among people, tasks and activities in such a way that all the organisation's resources are integrated and coordinated to accomplish its objectives efficiently and effectively".

— Pearce and Robinson

Organising is, thus, a (i) structure, and (ii) process.

As a structure : Organising is a set of relationships that defines vertical and horizontal relationships amongst people who perform various tasks and duties. The organisational task is divided into units, people in each unit (departments) are assigned specific tasks and their relationship is defined in a way that maximises organisational welfare and individual goals. The relationship amongst people is both vertical and horizontal. As vertical relationships, the authority-responsibility structure of people at different levels in the same department is defined and as horizontal relationships, authority-responsibility structure of people working in different departments at same levels is defined.

Organisation structure specifies division of work and shows how different functions or activities are linked; to some extent it also shows the level of specialisation of work activities. It also indicates the organisation's hierarchy and authority structure, and shows its reporting relationships.

— Robert H. Miles

Organising as a structure is a network of relationships (authority-responsibility structure) amongst all those who are part of the organisation, working at any level in any department. It defines relationships between jobs at various levels and people working at those jobs. It emphasises more on positions than people.

As a process : While the structure designs the system and its sub-systems, process defines the way this structure is designed. Structure is the static concept that establishes relationships amongst various components of the organisation. It first designs the component and then establishes relationships amongst these components. These relationships are by and large permanent. They do not change frequently unless disturbed by external environmental forces. Process is the dynamic concept that redefines the structure whenever required. It defines

change in the system over time. While the structure defines how the work of the organisation will be divided into various positions, groups and departments, process defines the sequence of which the structure is designed. It defines relationships amongst people in such a way that organisational goals are achieved efficiently.

As a process, organising consists of two processes : (1) Differentiation (2) Integration. Differentiation means division of work into smaller units and its assignment to individuals according to their skills and abilities. Integration refers to coordination of different activities towards a common goal. It provides unity of action towards organisational activities. It involves:

- (i) identification of work
- (ii) grouping of work into smaller groups
- (iii) assigning work to every individual at every level in every department
- (iv) defining its authority and responsibility, and
- (v) establishing relationships amongst people to make them contribute towards organisational goals in an integrated manner.

Organisation structure and process are not independent concepts. They are complementary to each other. Once the organisation process is defined, organisation structure is the end result or outcome of that process. Organisation structure is the result of organisation process. Organisation is, in fact, a structured, on-going process that defines how to achieve defined goals.

(10.2)

Nature of Organisation

The following points explain the nature of organisation :

1. **Structure of relationships** : Organisation is a system of well-defined tasks and duties assigned to people along with authority, responsibility and accountability. Delegation provides formal structure to the organisation. Constant interaction amongst people creates social relationships and a structure of informal organisation. This is independent of the formal relationships. Though organisation structure designs only the pattern of formal relationships, informal structure of relationships emerges spontaneously. It is not governed by formally prescribed structure but is an important part of the interactions that take place in the organisation.

2. **Managerial function** : It is a function of management which integrates human and non-human (physical) resources for achieving organisational goals. It is a function in itself and helps in performing other managerial functions. For planning, directing and staffing functions to be effectively performed, they are effectively organised.

3. **Ongoing process** : Organising is a process which involves a series of steps, from determination of objectives to accomplishment of objectives. It is a continuous process which requires management to introduce changes (re-organisation) in the way an organisation works. Organisations re-organise their structure to keep updates with environmental changes.

4. **Encourages teamwork** : Since the early times, people always lived in groups. With increase in size of these groups, it was not possible for one person to accomplish the organisational task alone. The work, therefore, got divided amongst people and each person co-ordinated his work with others. This required organising the group activities towards a common goal. According to *Louis A. Allen* : "Organisation has enabled men to increase their riches far beyond the dreams of the wealthiest potentates of old by making effective use of a potent multiplier — machine, power and mechanised tools". Organisation exists when there are a number of people in communication and relationship with each other willing to contribute towards a common endeavour.

5. Foundation of management : Success of an institution depends upon its sound organisation. Clear definition of jobs and their division amongst members with clear identification of authority and responsibility is the foundation of successful management. Unless there is clarity of who is responsible to whom, management can not function effectively.

6. Goal-oriented : Every organisation is formed for an objective; profit or service. All organisational activities are divided amongst members, departments are created, work is co-ordinated and continuous monitoring of activities is done to achieve the objective. The process of organisation is, thus, a goal-oriented process.

7. Adaptive to change : Though organisation structure provides stability to activities, it is open to change. Changes in the environment, internal or external, are incorporated in the organisation structure. This makes organisation an ongoing process.

8. Situational : No structure can be described as the best. The organisation structure varies according to the nature of activities, size of the organisation and nature of relationships amongst people. Contemporary business environment is constantly changing and organisation structure has to adapt to the changing situations through its process.

Process of Organising

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The process of organising involves the following steps :

1. Determination of objectives : Every organisation is established for some objective or goal. Various tasks are determined to achieve this goal. For example, if the organisation is established to export goods, it determines the nature and type of goods to be exported, sources from where raw material will be obtained, countries where goods will be exported, co-ordinate with foreign buyers etc. Determining the workload of the organisation is the first step in the process of organising.

2. Division of activities : Since one person cannot manage all the activities, total task is broken into smaller units and assigned to members. Work is assigned according to qualification and ability of every person. Division of work leads to specialisation which has the following benefits:

(a) **Greater output :** Adam Smith illustrated a study where one person could manufacture 20 pins a day if he worked alone. Production of pin was broken into sub-activities where each person carried out the following specialised tasks :

Drawing out the wire - straightening the wire - cutting the wire - grinding the point - polishing it - putting the pin head and so on. It was observed that as against 20 pins produced by one person in a day, division of work and its specialisation enabled 10 people to produce 48, 000 pins in a day — watch the wonders of specialisation !

(b) **Efficiency :** Performing the same task over and over again increases skill and efficiency of the workers.

(c) **Facilitates training of less-skilled workers :** Since the complex task is broken into smaller units, less-skilled workers can be trained to carry out those activities.

3. Grouping of activities : After the work is assigned to people, those performing similar activities are grouped in one department. Various departments like sales, finance, accounting etc. are filled with people having different skills and expertise but performing similar activities. Grouping of activities into departments is called departmentalisation and every department is governed by a set of rules, procedures and standards.

4. Define authority and responsibility : Every department is headed by a person responsible for its effective functioning. Departmental heads are appointed to carry out the activities of their respective departments. It is ensured that competence of departmental head matches

job requirements of the department. Every head has authority to get the work done from his departmental members.

He delegates responsibility and authority to members of his department. This creates a structure of relationships where every individual knows his superiors and subordinates and their reporting relationships.

5. Co-ordination of activities : When departments work for their objectives, there may develop inter-departmental conflicts which can obstruct the achievement of organisational goals. For example, finance department wants to cut the costs but the marketing department needs additional funds to market its products; this conflict can be resolved through co-ordination so that all departments share the common resources optimally. Work can be coordinated by defining relationships amongst various departments and people working at different positions.

6. Reviewing and re-organising : There is constant appraisal of the organising process so that changes in the structure can be made consequent to changes in the environmental factors. Constant appraisal and re-organisation is an integral part of the organising process.

Importance of Organising

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Organising is important for the following reasons :

1. Facilitates administration : Top managers cannot perform all the organisational tasks as they will be overburdened to concentrate on strategic matters. It is essential that part of the workload is shared by middle and lower level managers. Top executives will be relieved of managing routine affairs and concentrate on effective administration. The basic elements of organising (division of work, grouping of activities, distribution of authority and co-ordination) facilitate better administration by the top management.

2. Growth and diversification : A well-organised institution is adaptive to change and responsive to growth and diversification. It can multiply its operations.

3. Creates synergies : Division of work provides the benefits of synergies, that is, total task achieved by a group of people is more than the sum total of their individual achievements. People coordinate their tasks in the same and different departments. This gives the benefit of 'one plus one makes eleven.'

4. Establishes accountability : When every person knows his superiors and subordinates, the organisation can function efficiently. Establishing limitations in the area of operations defines people's accountability to their immediate boss which gears the organisation towards its broader goals.

5. Optimum use of technology : It is the age of technological developments. Organisations not having well-developed technology will not be able to compete in the market. Well-organised structures enable the organisations to optimally use and update their technology and remain competitive in the dynamic market conditions.

6. Facilitates communication : Communication is the essence of organisation. Efficiency of organisation depends upon how well organisational members communicate with each other. A well-designed system of communication (vertical and horizontal) is facilitated through effective organising efforts of top executives.

7. Facilitates creativity : Creativity means creating something new. It develops new ways of doing the things. A sound organisation enables the top management to improve the ways of doing things by delegating routine affairs to people down the scalar chain. It creates a sense of achievement amongst managers that provides moral boost for further creative thinking.

- 8. Improves inter-personal relationships :** A sound organisation structure ensures that workload is divided into well-defined jobs and assigned to people according to their abilities and skills. Placing the right person at the right job ensures job satisfaction and morale boost of employees. This improves inter-personal relationships amongst people working in the organisation.
- 9. Facilitates coordination :** Well-defined objectives and plans can fail if organisational activities are not coordinated in a unified direction. A well designed organisation structure promotes order and system in its activities. It coordinates work of people at different levels in different departments. People work along pre-defined dimensions and harmonise individual goals with organisational goals, internal organisational environment with the external environment and financial resources with non-financial resources.
- 10. Facilitates teamwork :** Though people are responsible for specific tasks assigned to them, they work collectively as a team and optimise the use of scarce organisational resources to achieve the organisational goals. Organisation thus, facilitates teamwork. Rather than viewing organisational goals from personal perspectives, they view them from group perspectives. Organisational goals satisfy individual goals.
- 11. Facilitates control :** Organisation provides sound direction to activities and ensures that people work according to plans. This facilitates control and promotes organisational goals. Objectives are determined and regular feedback ensures conformance of actual performance to targeted performance.
- 12. Increase in output :** Sound organisation divides activities into various departments (production, marketing etc.). These departments specialise in their tasks and increase organisational output. Specialisation is an important contribution of organisation that promotes higher output.
- 13. Optimum allocation of resources :** Organising promotes optimum allocation of resources. Resources are allocated over different departments (production, marketing, personnel etc.) in the order of priority. People are assigned jobs they are best suited for. All activities are assigned to all people in the organisation. There is no duplication of work. Organising thus, avoids overlapping of activities to ensure that collectively, people working in different departments perform activities that contribute to organisational goals.

Span of Management

(10.12)

Meaning

(10.12.1)

Depending upon the complexity of organisational activities and relationships amongst superiors and subordinates, it becomes important the superiors manage an optimum number of subordinates that result in optimum organisational output. All the subordinates cannot be managed by one superior. There has to be a limit on the number of subordinates who can be effectively managed by one superior.

The number of subordinates that a superior can effectively supervise is known as span of management or span of control. In the 19th and middle of 20th century, management writers determined 5 or 6 as the optimum number that a manager could effectively manage at the upper level. Beyond this number, managers faced problems like :

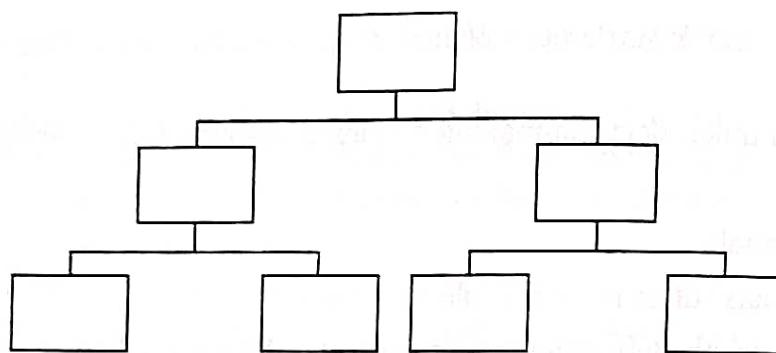
1. overburdened with work.
2. difficulty in co-ordinating the activities of large number of people.
3. difficulty in controlling.

Thus, optimum number of subordinates that a manager could supervise was determinable but today, it is not so. Exact number of employees that managers can effectively supervise cannot be defined. Span of management is situational in nature. Depending on the number of employees that can be supervised or controlled by managers, there can be two kinds of structures in the organisation :

- I. Tall structures
- II. Flat structures

I. Tall structures

Meaning : These structures are found in classical bureaucratic organisations. In this structure a manager can supervise less number of subordinates. He can, therefore, exercise tight control over their activities. This creates large number of levels in the organisation. This is also known as narrow span of control. A tall structure or a narrow span of control appears like this.



Merits of a Tall Structure

1. Managers can closely supervise activities of the subordinates.
2. There can be better communication amongst superiors and subordinates.
3. It promotes personal relationships amongst superiors and subordinates.
4. Control on subordinates can be tightened in a narrow span.

Limitations of a Tall Structure

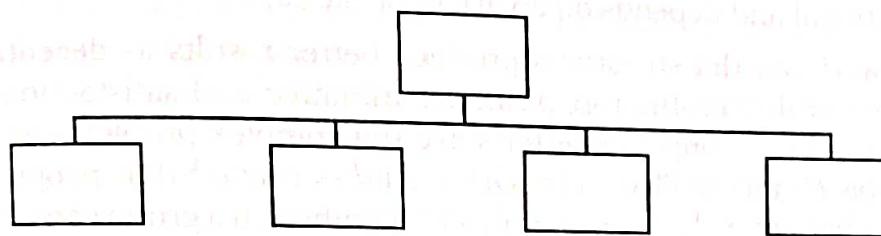
1. It creates many levels in the organisation structure which complicates co-ordination amongst levels.
2. More managers are needed to supervise the subordinates. This increases the overhead expenditure (salary etc.). It is, thus, a costly form of structure.
3. Increasing gap between top managers and workers slows the communication process.
4. Decision-making becomes difficult because of too many levels.
5. Superiors perform routine jobs of supervising the subordinates and have less time for strategic matters.
6. Employees work under strict control of superiors. Decision-making is primarily centralised. This restricts employees' creative and innovative abilities.
7. Strict control leads to low morale and job satisfaction. This can affect productivity in the long-run.

To overcome the limitations of a tall structure, many organisations reduce the number of levels in the hierarchy by downsizing the organisation. Downsizing is "the process of significantly reducing the layers of middle management, expanding spans of control and shrinking the size of the work force." Many companies downsize their work force through the process of restructuring. Restructuring is "the process of making a major change in organisation structure that often involves reducing management levels and also possibly changing some major components of the organisations through divestiture and/or acquisition." The most common and most serious symptom of malorganisation is multiplication of the number of management levels. A basic rule of organisation is to build the least possible number of management levels and forge the shortest possible chains of command."

— Peter F. Drucker

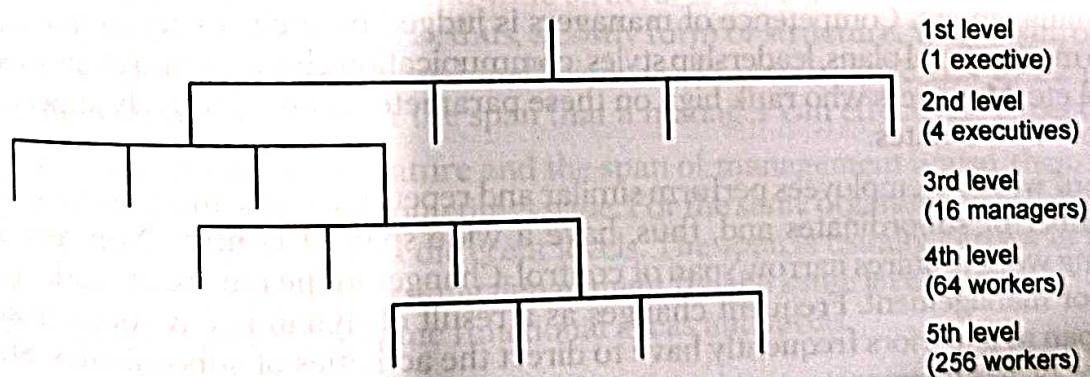
II. Flat Structures

Meaning: These structures have a wide span of control. When superior supervises a larger number of subordinates, flat structure is created with lesser number of hierarchical levels. A departure was made from tall structures to flat structures by James C. Worthy who was a consultant in the L. Sears, Roebuck and company. A structure where span of control for each managerial position is 4 appears as follows :



To illustrate, if organisations A and B, both have 256 workers and the span of control for each managerial position is 2 for company A and 4 for company B, there will be 9 levels in company A (requiring 128 supervisors at the lowest level, 64 at the next higher level and so on) and 5 levels in company B. A narrow span of control creates more levels in the organisational hierarchy than the wide span of control.

The levels in case of organisation B(5) where span of control is 4 appears as follows:



(The span of 4 prevails for each functional area at each level). For the sake of simplicity, the figure represents the span for only one functional area and one level.

Merits of a Flat Structure

1. There is low cost as less number of managers can supervise organisational activities.

2. The decision-making process is effective as superiors delegate authority to subordinates. They are relieved of routine matters and concentrate on strategic matters. The decision-making is decentralised.
3. Subordinates perform the work efficiently since they are considered worthy of doing so by the superiors.
4. There is effective communication as the number of levels is less.
5. It promotes innovative abilities of the top management.

Limitations of a Flat Structure

1. Superiors cannot closely supervise the activities of employees.
2. Managers may find it difficult to co-ordinate the activities of subordinates.
3. Subordinates have to be trained so that dilution of control does not affect organisational productivity.

Both tall and flat structures have positive and negative features and it is difficult to find the exact number of subordinates that a manager can effectively manage. Some *management theorists like David D. Van Fleet and Arthur G. Bedeian* assert that span of control and organisational efficiency are not related and many empirical studies have proved that span of control is situational and depends on a variety of factors.

Some studies proved that flat structures produce better results as decentralised decision-making has less control from the top, promotes initiative and satisfaction at work. Large number of members in a group can better solve the complex problems as group decision-making is based on greater skill variety. Other studies proved that people working in tall structures produce better results as less number of members in a group can come to consensus of opinion and evaluate their decisions more thoroughly. Group cohesiveness is high and thus, commitment to decisions is also high. Members feel satisfied with their decisions and conflicts are reduced.

Organisation structure is not simply about creating an organisational design. It is also about how the organisation is aligned with other aspects, functions, processes and strategies within the business. When looking at organisation structure, the context within which the business exists must be taken into consideration.

Organisation Structure

(12.1)

Organisation is “establishing effective behavioural relationships among persons so that they may work together efficiently and gain personal satisfaction in doing selected tasks under given environmental conditions for the purpose of achieving some goal or objective”

— *Terry and Franklin*

Organising refers to a whole divided into parts, each part assigned to organisational members, assigning authority and establishing relationships amongst them for collective contribution towards organisational goals. Division of work into smaller units, assigning people to those jobs and defining relationships creates the organisation structure. It defines the power that people enjoy by virtue of their official positions.

“An organisation’s structure specifies its division of work activities and shows how different functions or activities are linked; to some extent it also shows the level of specialisation of work activities. It also indicates the organisation’s hierarchy and authority structure, and shows its reporting relationships.”

— *Robert H. Miles*

“Organisation structure is the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups in achieving organisational goals.”

— *Kathryn M. Bartol and David C. Martin*

Elements of Organisation Structure

Organisation structure has the following elements :

- 1. Objectives and plans :** Organisation structure is designed to meet plans and objectives of the organisation. It gives formal shape to organisational activities that help to achieve its objectives.
- 2. Specialisation of activities :** All organisational activities are divided into sub-units and grouped on the basis of similarity of characteristics. This forms departments which is the foundation of the organisation structure.
- 3. Standardisation :** Standardisation means uniformity and consistency. To enable the members of different departments work in a co-ordinated manner, management lays down the policies, procedures and programmes which help in carrying out the decision-making processes. Standardisation provides stability to the organisation structure.
- 4. Co-ordination :** With specialisation of activities, workers may deviate from organisational goals and promote their individual goals. There is, thus, need to integrate the tasks of different units to make them contribute towards the common goal. Coordination ensures that organisation structure is respected by everyone and individual goals are also seen as contributors to organisational goals.
- 5. Centralisation and decentralisation :** Organisation structure where decision-making power vests with top managers is a centralised structure and a structure where decisions are made by middle and lower-level managers is a decentralised structure.
- 6. Environment :** No organisation structure can be the best structure. It is subject to change depending upon changes in the environmental factors—economic, social, technological, political etc. Organisation structure is, thus, situational in nature.
- 7. Staffing :** Organisation structure is designed to achieve goals which are accomplished by human beings. The jobs and departments are, therefore, staffed with people and authority-responsibility relationships are established.

"Departmentation is a means of dividing a large organisation into smaller, flexible units."

Meaning

(15.1)

Departmentation is the foundation of organisation structure, that is, organisation structure depends upon departmentation. Departmentation means division of work into smaller units and their re-grouping into bigger units (departments) on the basis of similarity of features.

As the organisation grows in size, the work is divided into units and sub-units. Departments are created and activities of similar nature are grouped in one unit. Each department is headed by a person known as departmental manager. Departmentation, thus, helps in expanding an organisation and also promotes efficiency by dividing the work on the basis of specialisation of activities and appointing people in various departments **on the basis of their specialised knowledge.**

Departmentation as is defined follows :

Louis A. Allen : "Divisionalisation is a means of dividing the large and monolithic functional organisation into smaller, flexible administrative units".

Pearce and Robinson : "Departmentalisation is the grouping of jobs, processes and resources into logical units to perform some organisational task."

Terry and Franklin : "Departmentalisation is the clustering of individuals into units and of units into departments and larger units in order to facilitate achieving organisational goals."

Importance of Departmentation

(15.2)

The following points highlight the importance of departmentation :

1. Organisation structure : Division of work into units and sub-units creates departments. Supervisors and managers are appointed to manage these departments. People are placed in different departments according to their specialised skills. The departmental heads ensure efficient functioning of their departments within the broad principles of organisation (scalar chain, unity of command, unity of direction etc.). Thus, organisation structure is facilitated through departmentation. If there are no departments, it will be difficult to keep track of who is doing what and who is accountable to whom. Departmentation creates departments, assigns tasks to people, fixes their responsibility and accountability to their departmental heads, creates a span of management so that work can be easily supervised. This network of authority-responsibility relationships is the basis of designing a sound organisation structure.

2. Flexibility : In large organisations, one person cannot look after all the managerial functions (planning, organising etc.) for all the departments. He cannot adapt the organisation to its internal and external environment. Such an organisation would become an inflexible organisation. Creating departments and departmental heads makes an organisation flexible and adaptive to environment. Environmental changes can be incorporated which strengthen the organisation's competitiveness in the market.

3. Specialisation : Division of work into departments leads to specialisation as people of one department perform activities related to that department only. They focus on a narrow set of activities and repeatedly performing the same task increases their ability to perform more speedily and efficiently. Specialisation promotes efficiency, lowers the cost of production and makes the products competitive.

4. Sharing of resources : If there are no departments, organisational resources; physical, financial and human, will be commonly shared by different work units. Departmentation helps in sharing resources according to departmental needs. Priorities are set and resources are allocated according to the need, importance and urgency regarding their use by different departments.

5. Co-ordination : "The organisation is a system of integrated parts, and to give undue emphasis to any functional part at the expense of the entire organisation creates organisational islands, thus, resulting in inefficiency and significant behavioural problems". Creating departments focuses on departmental activities and facilitates co-ordination.

6. Control : Managers cannot control organisational activities if they have to be collectively supervised. Departmentation facilitates control by departmental manager over the activities of his department only. Activities are divided into smaller segments, standards of performance can be framed, factors affecting performance can be identified and control can be more objective in nature.

7. Efficiency : Flow of work from one level to another and for every department, i.e., vertical and horizontal flow of work in the organisation increases organisational efficiency.

8. Scope for growth and diversification : In the absence of departmentation, managers can supervise a limited number of activities, depending upon their skills and abilities. Departmentation enables them to expand their area of operation into new product lines and geographical divisions. Departmentation provides scope for organisational growth (along the same product lines) and expansion (adding new product lines).

9. Responsibility : Since similar activities are grouped in one department headed by departmental managers, it becomes easy for top managers to fix responsibility of respective

managers for achieving the desired results. If planned performance is not achieved, the department responsible becomes answerable. When responsibility is clear, authority can also be delegated to managers. Clear identification of responsibility and authority increases efficiency of the departmental activities.

10. Development of managers : Departmentation enables departmental heads to be creative in making decisions with respect to their departmental activities. Training needs can also be identified because manager's task is clear and specific. There are opportunities to improve performance in their area of specialisation. This develops their potential to be promoted to higher managerial positions in the organisation. It also facilitates recruitment and selection of top managers from within the organisation rather than depending on outside sources.

Basis of Departmentation

(15.3)

The form of organisation structure depends upon the basis of departmentation. Creating departments and sub-dividing the work of departments into smaller units creates organisation structure. With growing size of organisations, departments are created for activities of similar nature.

There are two broad forms of departmentation:

15.3.1. Functional departmentation

15.3.2. Divisional departmentation

Functional Departmentation

(15.3.1)

Meaning

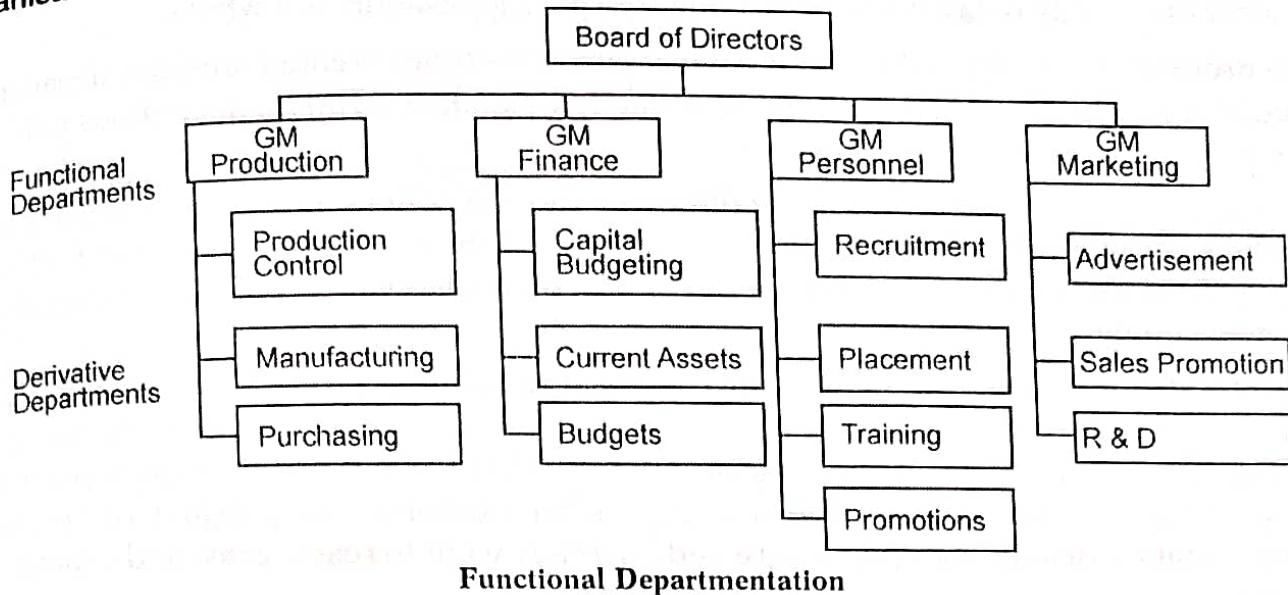
Functional organisation creates departments along activities or functions of the undertaking (functions do not refer to managerial functions of planning, organising , staffing, directing and controlling).

It is grouping of activities on the basis of similarities of functions. The nature of activities performed by different organisations is different. For example, activities carried by a manufacturing organisation are production, finance, personnel and sales. For a trader, the major activities are buying and selling, a bank performs borrowing and lending functions. *Functional departmentation is, "the grouping of jobs and resources within the company in such a way that employees who perform the same or similar activities are in the same department".*

It is the simplest, logical and most widely accepted form of creating departments. It is suitable for organisations where limited number of products are produced.

The major *functional departments* further have *derivative departments*. Production department, for example, has sub-departments to manage purchase, production planning and control, manufacturing etc. Finance department creates departments to look into capital budgeting (fixed assets) and current assets, cash management and budgets. Personnel department has sub-departments to take care of appointments, training, placement and promotion of employees. These sub-departments can be further sub-divided if needed. Advertising department (sub-department of marketing department), for example, can further have sub-departments like advertising in Newspapers, Radio, TV etc.

Organisation Chart showing Functional Departmentation



Merits of Functional Departmentation

It has the following merits :

- Simple and logical basis of creating departments** : Production, marketing, finance and personnel are widely accepted and recognised functions of a manufacturing organisation and, therefore, it is a simple basis of departmentation.
- Specialisation** : Since workers in one functional area focus on that area only, they acquire expertise and specialised skills in performing their duties. This offers the benefits of specialisation; efficiency and speed.
- Co-ordination** : People working in one department are closely knitted and work collectively towards achievement of departmental goals. The departmental manager can co-ordinate various derivative activities.
- Training and control** : The departmental manager is accountable for functions performed by his department. He ensures that activities are performed strictly according to rules and procedures laid down for the department. He can, thus, exercise control over his departmental activities. If workers are not able to carry out the activities efficiently, managers can train them to do so.
- Supervision** : It is easy for managers to supervise the departmental activities as they have to supervise a narrow set of functional skills.
- Suitable for stable organisations** : Organisations which do not frequently change their work units and work force are suitable for creating departments on the basis of functional activities.
- Suitable for small organisations** : This basis of departmentation is suitable for small sized organisations which produce a limited line of products. Even for large organisations, it is suitable only for top levels. Thereafter, some other basis of departmentation has to be used. Marketing department, for instance, can be further branched out on the basis of territorial or geographical departmentation.

Limitations of Functional Departmentation

This form of departmentation suffers from the following limitations :

- Overall organisational goals** : The employees become so focused on departmental goals that they lose sight of the overall organisational goals.

- 2. Delayed decisions :** Since decisions are made by departmental heads for their respective departments, it may delay decision-making for the organisation as a whole.
- 3. Co-ordination :** Water-tight compartments are sometimes created amongst departments as people show loyalty towards their departmental managers. Top manager finds it difficult to co-ordinate various functional activities.
- 4. Accountability :** Top managers find it difficult to hold accountability of any one department for failure of the product in the market. For example, if the product does not earn profits, top managers cannot say with assertion whether the problem lies with production department or sales department.
- 5. Unsuitable for dynamic organisations :** As this is a suitable form of departmentation for stable organisations, organisations operating in the dynamic environment do not accept functional activities as the basis of departmentation. They use other basis of departmentation also to remain competitive in the market; either customer or product or territorial departmentation depending upon where and how they want to reach, grow and expand their business.
- 6. Complexity :** As organisations grow complex in terms of size and operations, they add more products to their line of products and expand into new geographical areas for marketing the existing products. Functional departmentation is not suitable in such cases.

Divisional Departmentation

(15.3.2)

Divisional structures are created on the basis of smaller divisions where each division has its own functional activities (production, finance, personnel and marketing). Major divisions that determine the organisation structure are as follows:

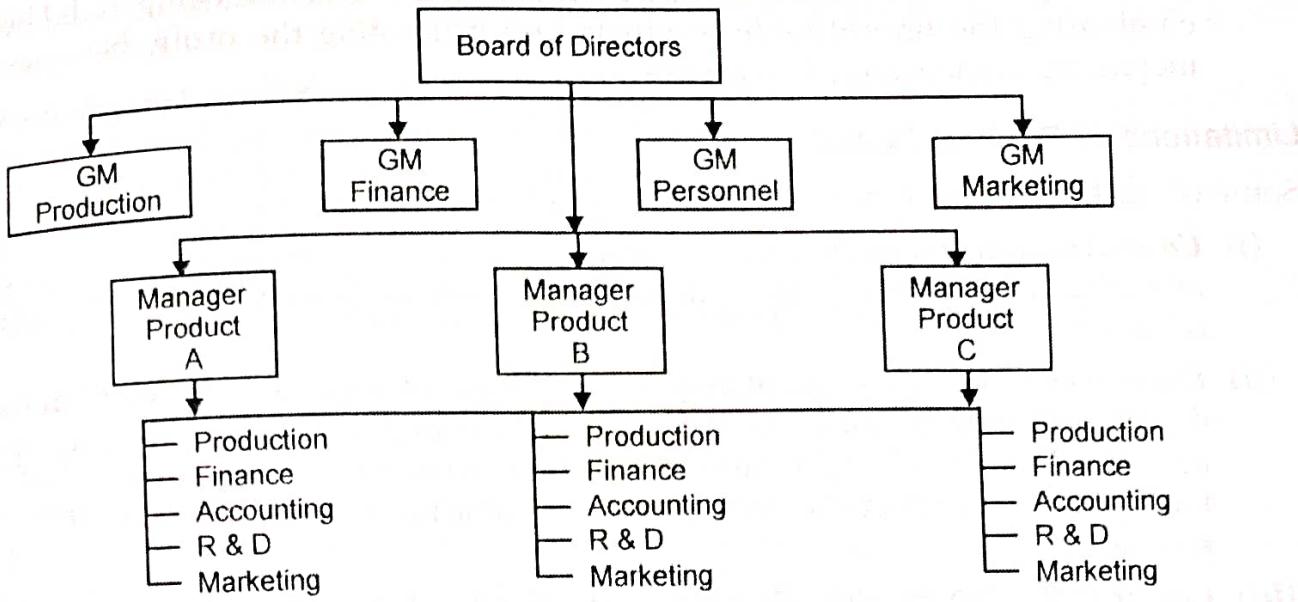
1. Product Departmentation

Meaning

This form of departmentation is suitable for companies that produce multiple products. Product departmentation is grouping of jobs and resources around the products or product lines that a company sells. With increase in operations of a company, it adds more products to its line of products which require various functional activities (production, marketing etc.). Product departmentation is suitable for product diversification where marketing characteristics of each product are different from others. An organisation selling stationery, for example, also starts selling cosmetics and pharmaceuticals. While marketing strategies for cosmetics need to be intensive, it is not so in case of stationery or pharmaceuticals. Similarly, funds required for each product line are different. The focus is on the product line and all functional activities associated with the product line. Departments are created on the basis of products and product manager has the authority to carry out functional activities for his department. Each product manager is in charge of his product line though general managers of various functional areas provide them the necessary support. It helps in coordinating the activities of different products.

Organisation Chart Showing Product Departmentation

Product departmentation, along with various functional areas appear on the organisation chart as follows :



Product Departmentation

There could be further extension of this basis of departmentation. For instance, if product C is a car, the department can be branched out for commercial car, luxury car, special utility vehicle etc.

Merits of Product Departmentation

Departmentation on the basis of product has the following merits :

- Better performance** : One manager may not have skills to carry out all operations for different product lines. By creating departments where each product department looks after one product or product line only, decision-making, fixing responsibilities and assessment of performance can be done efficiently. Sales people for one product will concentrate on sales promotion of that product only. This ensures better performance of employees of each department.
- Flexibility** : Firms operating in the dynamic environment are well suited for this form of departmentation as it helps them respond to environmental changes, analyse competitors' products and change their product line, if necessary. The focus is completely on one product and all functional activities related to that product rather than one functional activity related to all products. This promotes product specialisation which helps in product growth.
- Fast decisions** : Since all decisions related to a product are taken by product manager (under the guidance of General Managers of different functional areas), decisions are taken quickly.
- Co-ordination** : All the primary and auxiliary activities are managed by one manager. He can co-ordinate the efforts of people working under him.
- Control** : Every product manager wants to maximise profits of his product, for which he delegates authority to people of his department and establishes authority-responsibility relationships amongst them. Subordinates are trained to carry out functions related to each product. He, thus, controls activities of his department to ensure that the product contributes to the organisational goals.
- Responsibility** : Product managers are accountable for results of their product departments. This promotes performance and profitability of different product departments.

(vii) **Efficiency**: The costs and revenues of all the products can be compared. This helps in eliminating the unprofitable products and promoting the profitable ones thereby increasing organisational efficiency.

Limitations of Product Departmentation

Some of the limitations of product departmentation are as follows :

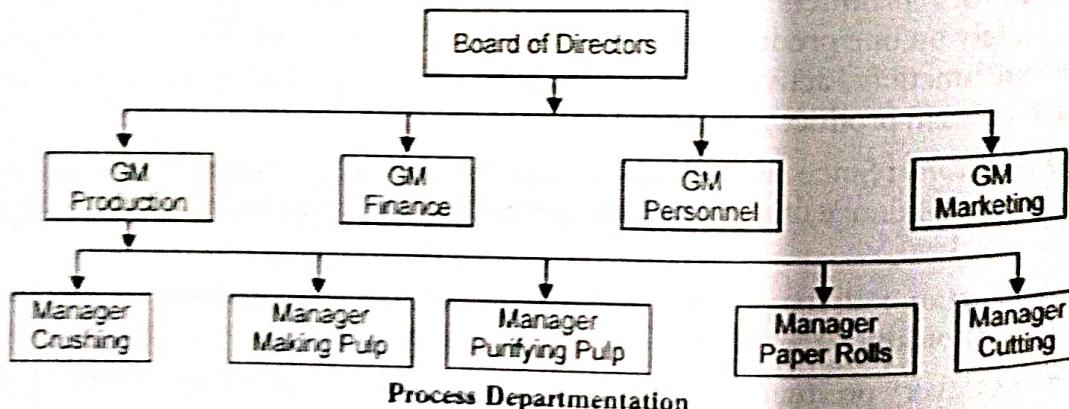
- (i) **Co-ordination** : Coordination becomes difficult when departments focus excessive attention on activities of their departments without linking their performance with other departments.
- (ii) **Expensive** : This is comparatively a costly basis of departmentation than functional departmentation because every department appoints people to look after specialised activities, like accounting, finance, marketing, personnel etc. It results in duplication or multiplication of efforts because same functional activities are performed for different products.
- (iii) **Control** : If every product division works as an autonomous unit, tries to maximise its goals / profits without linking them with overall organisational needs, it will be difficult for top management to control the overall organisational activities.

2. Process or Equipment Departmentation

Meaning

In manufacturing organisations where the product passes through different stages of production, each stage is designated as a process and department is created for each process. It is called process departmentation. Manufacturing paper, for example, requires processes like crushing the bamboo, making pulp, purifying the pulp, making paper rolls, and cutting it into rims. For each process, departments are created and headed by people skilled and competent to carry that process. Since finished product goes through different processes, each process is assigned to a different department. This form of departmentation is suitable for medium and large-sized organisations where goods are produced through a series of operations.

Organisation Chart Showing Process Departmentation



Merits of Process Departmentation

The merits of process departmentation are as follows :

- (i) **Specialisation** : As work is divided into different processes, the process manager and his team specialise in that process by constantly carrying out activities related to that process only.

Departmentation

- (ii) **Economic considerations** : Specialisation results in economy of time, money and managerial skills.
- (iii) **Technological consideration** : Large organisations, where each process requires different technology, operate most suitably under process departmentation. It also helps in maintenance of the equipments related to a process because specialised technology requires specialised skills to maintain that process.
- (iv) **Facilitates training** : Since employees carry out only one operation or process on the work activity, managers can train people to efficiently carry out that process.

Limitations of Process Departmentation

Process departmentation suffers from the following limitations :

- (i) **Co-ordination** : Output of one process department is input of the other. If different departments work at different speed, co-ordination amongst different processes becomes difficult. This can also result in conflict amongst process managers.
- (ii) **Boredom** : Repeated handling of the same job with a very short cycle (time required to complete that process) leads to boredom. This can affect efficiency of the process.

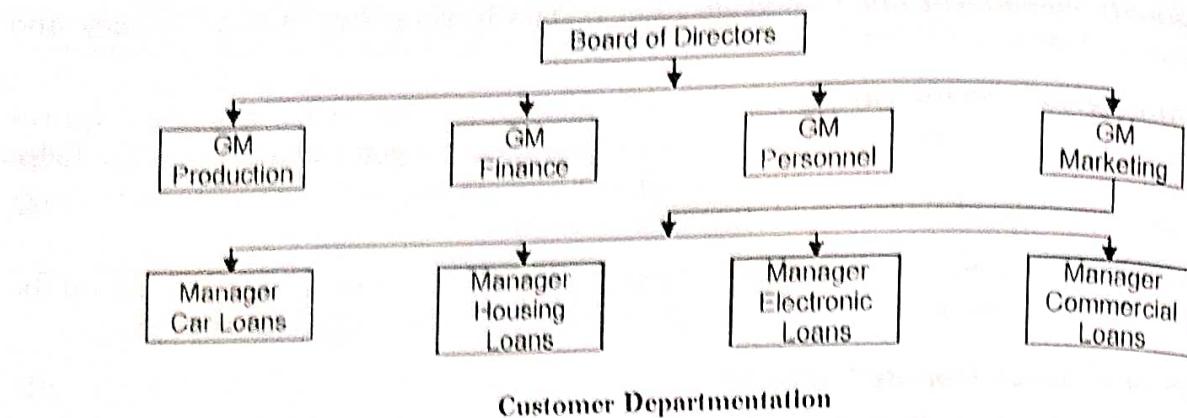
An alternative to this is *parallel pattern* of process departmentation against the *serial pattern* (work moves in a series of steps) as described above. In the parallel process of departmentation, the number of steps to accomplish the task is the same. For example, a job requires three steps for its completion. Step 1, Step 2, and Step 3. Rather than A (a worker) handling step 1, B handling step 2 and C handling step 3, A may carry out all the steps on product X, B carries out the same set of steps for product Y and C for product Z. Though this reduces boredom on the work process, it requires trained workers who can carry out all the processes. This form of departmentation is suitable for small organisations where limited number of products with limited processes are produced.

3. Customer Departmentation**Meaning**

When organisations sell to customers with different needs, departments are created on the basis of customers. Customer departmentation is "the organising of jobs and resources in such a way that each department can carefully understand and respond to different needs of specific customer groups". A lending institution, for example, gives loan to meet different customer requirements like housing loan, car loan, commercial loan etc. An educational institution which provides academic and non-academic subjects (vocational subjects), full-time or part-time courses, morning or evening shifts is a typical case of customer departmentation. Clear identification of customers and their needs is the basis of customer departmentation. This method of departmentation can be followed only in marketing division.

Organisation Chart Showing Customer Departmentation

The organisation chart for customer departmentation (for a lending company) appears as follows :



Merits of Customer Departmentation

Customer departmentation has the following merits :

- Competitive advantage** : Contemporary marketing world revolves around customers. 'Consumer is the king.' By catering to varied customer needs, companies have an edge over competitors and, therefore, better chances of survival and growth.
- Customer orientation** : The goal of an organisation is to earn profits by customer satisfaction. An organisation where the basis of departmentation is to sell goods according to customer needs justifies its existence.
- Specialisation** : A department created for satisfying customer requirements becomes specialised in that area resulting in cost efficiency. Sales people understand consumer behaviour and provide them the desired services. They develop understanding with the consumers and build clientele for the organisation.

Limitations of Customer Departmentation

Customer departmentation has the following limitations :

- Co-ordination** : Excessive involvement of employees in their respective departments makes it difficult for top managers to co-ordinate the functions of different departments.
- Identification of consumer groups** : It is not easy to identify various consumer groups. A large industrial buyer for one product, for example, may be a small buyer for another product. The same product may be of industrial use for one buyer and personal use for another. Identifying buyers as industrial and non-industrial is not very easy.
- Change in consumer behaviour** : Consumer department managers cannot easily frame policies for their departments because of changing consumer behaviour. Demand for the same product for same set of consumers differs during different times. Marketing managers have to balance the time and money spent in framing policies so that organisation can adapt to the changing customer environment.
- Specialised staff** : Change in consumer behaviour, their demand for different goods at different times cannot be easily predicted. The departmental managers, therefore, must have specialised skills to determine the consumer needs.

4. Territory or Geographic Departmentation

Meaning

In territorial departmentation, organisation creates departments

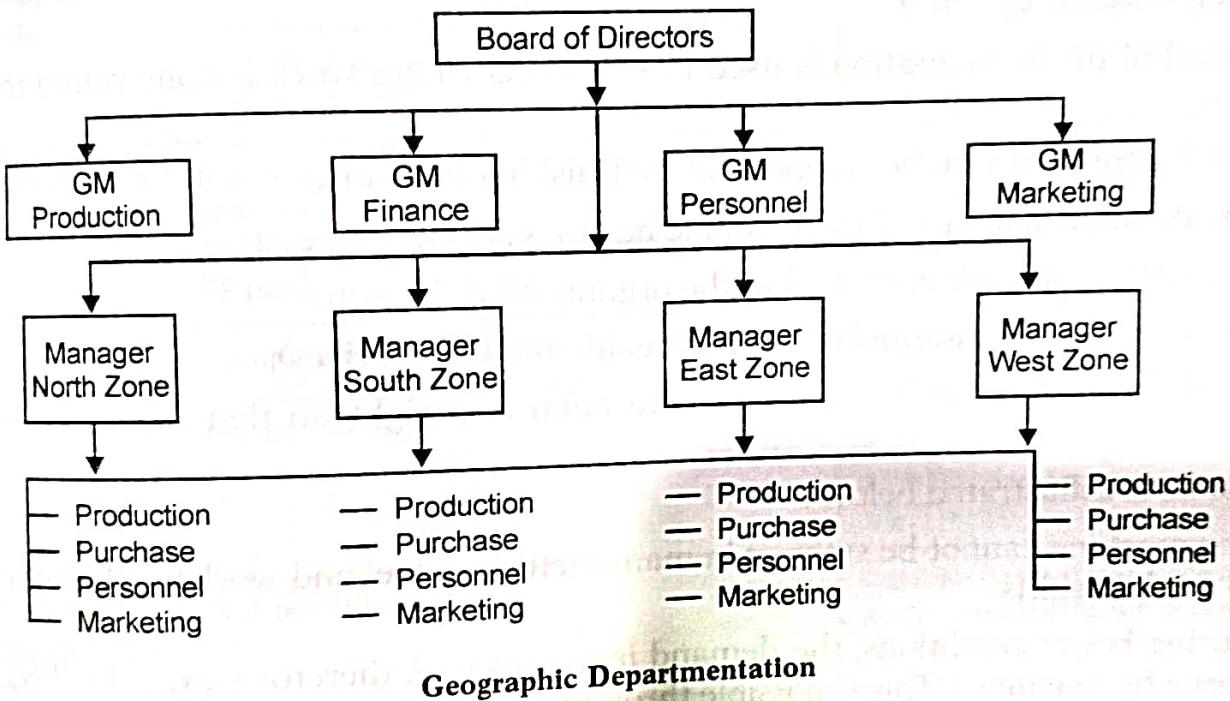
Departmentation

- (i) close to its customers because they are geographically dispersed over different areas, or
- (ii) near the sources of deposits.

Each geographic unit has resources to cater to the needs of consumers of that area. The production, purchase, personnel and marketing activities are looked after by departmental managers but finance is vested at the headquarters. General Manager of every department looks after functional activities of his geographical area but overall functional managers provide supporting services to the managers of different areas. Thus, customers of different regions with different tastes and preferences for the same product are looked after by geographical departments set up in their territories. The product or customer differentiation, both can be the basis of geographic or territorial departmentation. This basis is suitable for large-sized organisations which have activities dispersed over different geographical areas.

Organisation Chart Showing Geographic Departmentation

Division of organisation on the basis of geographic dispersal of activities appears on the organisation chart as follows :



Merits of Geographic Departmentation

It has the following merits :

- (i) **Training and development** : Employees are trained to sell goods in specific areas according to customer needs.
- (ii) **Customer orientation** : The emphasis is on selling in different regions according to customer needs. 'Consumer is the king' is duly recognised by departmental managers as they develop their skills to know the customs, styles and preferences of customers of different regions. Managers are able to promote sales as they are aware of the local conditions of the area where they are operating.
- (iii) **Low cost of production** : If firms establish their areas of operation near the sources of raw material, they will be able to produce at low cost and take advantage of economies of operation.
- (iv) **Communication** : The sales people belong to local areas of operation. They can directly communicate with the consumers and frame policies to satisfy their needs.

Limitations of Geographic Departmentation

Territorial departmentation has the following limitations :

- (i) **Co-ordination and control** : Since departments are widely dispersed, top managers find it difficult to control and co-ordinate their activities. While some of the functional activities are decentralised, others are centralised. Policy framers are at the head quarters and policy executors are at the regional offices. Different local conditions can create problems of understanding.
- (ii) **Expensive** : Since each department has auxiliary departments like personnel, accounting etc. to offer specialised services to managers, this is a costly method of departmentation. Before adopting this basis of departmentation, therefore, benefits must be weighed against costs. This method is suitable for large-scale organisations who can afford its cost.
- (iii) **Managerial skills** : Managers should be competent to perform functional activities (production, marketing etc.) related to their departments. They may not specialise in all the functional activities.

5. Departmentation by Time

This method of departmentation is used in situations where work is done round the clock because —

1. The machine cannot be stopped before finishing the work.
2. The demand is high and the machine has to work overtime.
3. The nature of work entrusted to the organisations is such.
4. The services are essential in nature (health and fire services).
5. Workers work in shifts; morning, afternoon and night, so that work can progress continuously.

These points are illustrated below :

1. The machine cannot be stopped in manufacturing steel and workers, therefore, have to work in shifts.
2. During boom conditions, the demand increases and, therefore, extra load has to be borne by machines. This is possible through shift duties.
3. Airlines, where flights arrive and depart, work throughout the day.
4. Essential services like hospitals and fire stations deal with emergencies and, thus, people work in shifts.

Departments are created for each shift though the objectives and nature of work carried in all the departments is the same.

This method of departmentation results in optimum utilisation of machines as they work continuously which otherwise may remain idle. It is also good for workers who cannot work during day time. They can be gainfully employed during evening or night shifts.

There are *problems* of co-ordination and supervision of employees who work in shifts. Employees have to explain to the workers joining the next shift about the stage of completion at which they are leaving the work which may not always be possible.

It is also a costly form of departmentation as each shift has separate functional departments.

6. Departmentation by Size

This method is followed in army where number of workers in the unit is important. The company's performance is judged by the number of people working with it, and therefore, it adopts departmentation by size. Departments are created on the basis of number of people who form the department. Soldiers in army are grouped in numbers to form departments.

7. Departmentation by Task Force

When organisation has a number of projects, it forms task forces which consist of people from different units having different skills to complete those projects. These groups are formed temporarily till completion of the project. They are similar to project organisations.

in future.

8. Clarity of tasks : The responsibilities or the tasks delegated must be clearly defined in terms of results expected out of those tasks. Knowing what is exactly expected of them will enable the subordinates perform the delegated tasks better. Delegation is not done without purpose. It has to be properly planned to the objectives desired to be achieved through delegation. Delegation should be done to achieve specific results.

9. Match job with the abilities of subordinates : 'Round pegs in the round holes' makes delegation effective as the right job will be given to the right person. The task assigned should match the ability and the capacity of subordinates.

10. Open communication : Though delegatees are given the authority to solve problems related to the assigned tasks, yet, they should be allowed to freely discuss the problems with their delegators. Open communication promotes delegation as both delegator and delegatees can trust each other, explain their reservations, develop confidence and security and make the need for delegation felt important for both. Work is delegated and also performed well to the best of subordinate's ability.

11. Monitor the critical deviations : Subordinates may make mistakes, however efficient they are at work. The superiors should overlook minor deviations and monitor only major deviations in the tasks assigned. This promotes a sense of responsibility amongst the employees.

Centralisation and Decentralisation

Centralisation and decentralisation help to coordinate organisational activities. While delegation assigns responsibility and authority to people from one level in the organisational hierarchy to the other, centralisation and decentralisation refer to the extent to which authority and responsibility are passed to people at lower levels. If authority to make decisions is retained at top levels, the organisation is said to be centralised; if the decision-making authority is distributed widely throughout the organisation and lower level managers have the authority to use resources at their discretion, the organisation is said to be decentralised.

To begin with, authority is retained at the top. As the organisation size increases, the scope of authority gets narrow at top levels and gets distributed to lower-level managers. To what extent it flows down the level depends on the degree to which the organisation is decentralised.

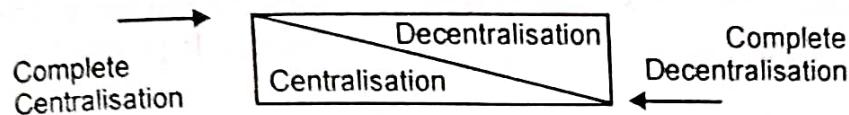
Centralisation is "the extent to which power and authority are retained at the top organisational levels" and decentralisation is "the extent to which power and authority are delegated to lower levels."

No organisation can be completely centralised or decentralised. In a completely centralised organisation, all decisions will be taken by top managers and there will be no subordinate managers. In a completely decentralised organisation, authority to make decisions is delegated to lower-level managers and, therefore there will be no top managers. Both the structures cannot exist absolutely.

Complete centralisation or decentralisation, thus, does not exist. Overall planning and organising are initiated by top managers and some authority is decentralised to operating units to carry out the work within the overall policy framework.

All successful companies delegate authority to lower level managers though the extent to which it is delegated depends upon different factors. Centralisation and decentralisation are the two extreme points with more or less authority delegated in between.

The centralisation-decentralisation continuum appears as follows :



As we move from left to right, the degree of centralisation decreases and decentralisation increases.

Decentralisation

(16.12)

Decentralisation is passing of authority to make decisions to the lowest possible level in the organisational hierarchy. Decentralisation is delegation of authority to the maximum possible extent. "Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points." Decentralisation is essential but how much to decentralise depends on various factors like size of the company (decentralised decision-making authority increases with increase in size of organisations), cost control (when companies want to maintain strict cost control, decision-making authority is centralised), desire of managers (if managers desire to take decisions themselves, the organisation tends to be centralised), functional areas (decisions related to finance and personnel are generally centralised and those related to production and marketing are decentralised), ability of subordinates (if subordinates are inspiring and hard-working, decision-making authority can be decentralised).

Importance of Decentralisation

(16.13)

Decentralisation is important for the following reasons :

1. **Reduces the burden of top managers** : Managers who look after both strategic and routine matters often become so involved in routine activities that the time they should spend on strategic planning is often not spent. Through decentralisation, routine decisions can be delegated down the scalar chain and important decision can be retained at the top. Managers can, thus, focus more on strategic management.
2. **Develops subordinates** : One learns through mistakes. If top executives do not delegate for the fear that subordinates will make mistakes, they will not be able to develop potential managers. The subordinates should be allowed to make mistakes and also rectify them so that they learn not to repeat them in future. This is possible only in a decentralised organisation. It also develops lower-level managers to accept more responsibility and become competent in decision-making processes.
3. **Fast decisions** : In a decentralised organisation, people do not have to approach the higher authorities every time they make a decision. As they are closer to the problem area, they can make decisions related to that problem. The decisions are, thus, faster and better.
4. **Promotes diversification** : If top managers retain authority to make every decision, they will be able to look after limited lines of products only. Decentralisation enables them to search new markets. They can diversify into new markets and add new products. This helps in diversification in terms of dealing in multiple products and operate in multiple geographical locations.

It also promotes organisational growth by reducing the number of levels in the organisational hierarchy. Wide span of management generally denotes committed employees, teamwork and adaptability to dynamic environment.

5. Promotes motivation : Rather than motivating subordinates through financial rewards, allowing them to make decisions serves as a better motivational force. Thus, decentralisation promotes efficiency of workers resulting in higher results. It promotes self-motivation and self-control.

6. Flexibility : A decentralised organisation is more flexible as managers at different levels can change their policies according to changes in environment.

7. Better communication : A decentralised organisation has less levels in the scalar chain. Communication amongst people at different levels is faster and efficient. Chances of information distortions (due to increased levels) are reduced.

8. Control : Managers at different levels frame standards of performance for their respective units. This facilitates the process of control. People are result-oriented as units are autonomous and frame their sub-goals that contribute to larger goals of the organisations.

Limitations of Decentralisation

(16.14)

Decentralisation suffers from the following limitations :

1. Coordination : Managers find it difficult to coordinate the organisational activities when there is high degree of decentralisation.

2. Control : Difficulty in coordination makes it difficult for managers to control the organisational activities.

3. Costly : Though useful, it is expensive since each department manages activities in its own way. There is duplication of efforts and physical facilities in the organisation.

4. Adaptability : In the fast changing environment, unless strategic decisions are centralised, different units will react to changes differently and organisational operations will be difficult to coordinate.

5. Lack of uniformity : A highly decentralised organisation may not have uniform policies for all the organisational units. Every unit formulates its own policies. The policies are more uniformly followed in a centralised organisation (as control is centralised at a single point).

6. Ability of lower level managers : In a decentralised organisation, decisions are taken by managers of different units at their respective levels. If lower level managers are not competent and skilled to make decisions, efficiency of decentralised organisation will get reduced.

These limitations are only conceptual in nature. Before making an organisation decentralised, managers ensure that these problems should not arise. Even if they arise, they are only theoretical as they are not inherent in decentralisation. They emerge only if decentralisation is not effectively planned and followed. Planned efforts to make an organisation decentralised will always bear sound results.

Selection Process

The process of selection involves the following steps :

1. Job specification
2. Application form
3. Preliminary interview
4. Work-related tests
5. Cross checking
6. Interview
7. Medical Examination
8. Employment decision
9. Job offer

1. Job specification : It describes the job in terms of knowledge, experience and specialisation required of individuals who will be considered for the job. It helps in screening applications found suitable in meeting the job standards. Since it is a negative process of screening applications, job specification sets standards of applications which will be considered for further selection process.

2. Application form : Candidates fill the application form which contains information about candidate's age, qualification, achievements, experience, skills etc. Personal details like nationality, family size are generally not asked in the application form.

This form provides a written record of the candidate's profile. It also indicates his desire to work at the post for which he has applied. It helps to screen the candidates and ask them questions related to their professional profile.

Malthis and Jackson describe three functions of application form :

- (a) It represents the applicant's desire to work at the job.

- (b) It helps to ask questions related to his professional profile.
- (c) If the employee is selected, the application form acts as a record of his profile which can be used by management for future reference.

3. Preliminary interview : After screening the application forms, manager calls the selected candidates for preliminary interview. It is a brief interaction between manager and candidates where manager (interviewer) asks simple questions like candidates' expectations from the job, expected salary, willingness to accept frequent touring etc. and also tells them about positive and negative aspects of the job. It gives an overview about the candidate's physical and mental desire to work on the job and whether he will fit into the culture of the organisation. It helps the candidate make his mind about whether or not he wants to accept the job and the interviewer decide whether or not the candidate is suitable for the job. If he is found suitable, further steps in the selection process are taken.

4. Work-related tests : After screening the candidates through preliminary interview, they go through a written test. These tests help in screening candidates by testing their skills and aptitude on the job. The tests supplement the information given in the application forms as information not given in the forms can be traced through selection tests. Individuals differ with respect to their intelligence, aptitude, personality and performance. These can be judged through employment tests so that managers find the most suitable candidate for the job. The tests, thus, help in screening the applications further by predicting future job performance of the candidates. (*For details on selection tests, see para 20.7.*)

5. Cross checking : After clearing pre-employment tests, managers verify candidates' professional background by cross references or cross checking. They ask the candidate to provide a list of referees who can be contacted to obtain information about his/her character. It also helps in knowing whether the information given by the candidate is true or not. The referees can be people who know the candidate, for example, his previous employers, or people from his educational institutes who can be asked about his nature, way of working, professional ethics etc.

References are, thus, important if they provide informative data about the candidate's past record. This also helps in verifying the contents given in the application form. Unless the cross references had bad experience with the candidate being considered for the job, they present positive picture about his professional background

References may also have the following limitations :

- The applicant shall give names of referees who will give positive assessment about him. He is unlikely to provide names who will provide negative assessment.
- Opinion of references is generally biased about the candidate. They are often hesitant to put negative views on record.

In extreme situations, references agree to present a fair picture if their identities remain confidential.

6. Interview : After receiving positive response from cross references about suitability for the job, interview is held with the candidates. Interview is face-to-face interaction between the selection committee and candidates where the committee gets to know the candidates' personality, knowledge, skills and competence on the job. They give complete picture about the organisation and job structure to the candidates and expect the candidates to give them complete picture of their professional profile. Interview helps in deciding whether the candidate can relate himself to the organisation and his colleagues positively. (*For details on interview, see para 20.8.*)

7. Medical Examination : Candidates found suitable after interview undergo medical examination to ensure that they are physically and mentally fit to perform the job for which they are selected. It also avoids selecting candidates suffering from any contagious disease as the disease can spread in the organisation.

8. Employment decision : Managers express their intention to offer jobs to candidates found suitable after medical examination. Candidates also express their intention to join or not join the job.

9. Job offer : After the candidate accepts the job, he is offered the appointment letter. The letter contains information about salary, working hours, leave benefits, retirement benefits etc. The candidate is assumed to have accepted the offer according to organisation's rules. The job is initially offered on probation (generally one year). If the candidate is found suitable during probation period, his job is made permanent after the probation period.

The sequence of steps in the selection process may not necessarily be followed in this order for all selections. Medical examination may follow job offer in some cases and preliminary interview may precede the application form.

Physical examination may be carried in the end of the selection process where intensive physical fitness is not the demand of the job. For example, physical fitness is very important for jobs like driving, flying etc. but it may be comparatively delayed in teaching professions. In facts, some jobs are reserved for physically handicapped candidates in which case intensive medical examination is not conducted.

Preliminary interview usually precedes the application form where mass-scale applications are received. To avoid processing huge applications, preliminary interview is conducted to short list the candidates who are eligible for further processing.

Selection Tests

(20.7)

Tests help in measuring qualities, aptitude and skills of candidates to perform the job. Repeated tests can check the consistency of their behaviour, that is, whether they give the same response to a set of questions (asked in a different way) or not. They help in predicting the behaviour of candidates close to the job conditions, though there may not be perfect resemblance between the test results and actual behaviour.

Types of tests : The following tests are generally conducted to test the aptitude and intelligence of candidates:

- (a) *Ability or Intelligence tests :* These tests are conducted to judge the mental capacity (intelligence), sensory capacity (vision and hearing), mechanical and clerical abilities of the candidates. "Tests of verbal and numerical ability, with questions on vocabulary, similarities, opposites, arithmetical calculations, etc. are referred to as intelligence tests." A questionnaire is prepared with objective type questions evaluated through computers. Knowledge and proficiency in language (English or Hindi) can also be tested through ability tests. People who score high on these tests have the ability to absorb, interpret and analyse business information quickly and perform well at work. Intelligence tests usually represent the candidate's Intelligence Quotient (IQ) which can be numerically expressed as follows :

$$\text{Intelligence Quotient (IQ)} = \frac{\text{Mental age of the candidate}}{\text{Actual age of the candidate}} \times 100$$

IQ represents the mental ability of a person, with reference to his age. Higher the IQ, higher is the ability of the person to perform well on the job. If the organisation has employees with high IQ, it facilitates the training and learning process.

These tests are conducted individually for each job activity as a particular test may be valid for a particular job activity only.

(b) *Aptitude tests* : These tests judge the aptitude of a person to accept future jobs. They explore a person's potential to perform present and potential organisational tasks. People differ in their ability to do certain tasks and aptitude tests measure this ability to explore their potential to work.

"Aptitude tests can measure specific abilities or aptitudes (for example, spatial ability, manual dexterity, numerical ability, verbal ability) and are used to gauge the person's potential." Every individual differs in his ability to perform organisational tasks and, therefore, these tests enable the manager to know the skills and competence of the candidates to work on the job.

(c) *Personality tests* : Personality reflects emotional stability and competence to perform effectively at work. Personality tests judge personal traits of a person (their feelings, thought about work, risk taking, confidence etc.) and test his ability to perform the job. Personality tests assume direct relationship between one or more of the personality factors and ability of a person to do certain jobs. After assessing personality, his personality profile is compared with standard profile relevant for the job. The person who best fits the standard profile is selected for the job.

Though personality and intelligence are closely related and even tend to overlap each other (intelligence is one of the personality traits), personality is different from intelligence.

"Personality is that part of us that is distinctive and concerned more with our emotional side and how it is reflected in our behaviour. By contrast, intelligence is concerned with the cognitive or thinking side of us."

(d) *Performance tests* : These are on-the-job tests. The candidates perform the job for which they are being considered. They are also known as "in-tray" tests as candidates work on a representative sample of the work. The data entry operator, for example, may be asked to type a page to judge his proficiency in typing. Though these tests are costly, they help in selecting the most suitable candidate for the job. They measure the candidate's competence in terms of accuracy and efficiency to carry out the specific tasks. However, since these tests are based on simulation (created work environment), certain factors and information that would be actually present on the job but are missing in the simulation models, may negatively affect the performance of the candidates.

Merits of tests : Employment tests have the following merits :

- (a) They help to find candidates suitable for the job. Various types of tests judge the present and potential ability of people to work. While performance tests judge the ability of people to perform present tasks, aptitude tests judge their ability to perform potential tasks.
- (b) They judge ability to perform the job through practical and objective means. They are not based on personal judgment and bias. They are standardised and selection is totally unbiased. A person gets selected purely on the basis of performance in the tests.

- (c) They match requirements of the job with practical knowledge of the candidates. This helps in discriminating amongst people purely on the basis of job-related factors.
- (d) They save time and money in interviewing only those candidates who pass the test. In the absence of tests, all candidates have to be interviewed which is costly and time-consuming. These tests screen the candidates on the basis of cut-off marks and proceed with the selection process with the short-listed candidates.

Limitations of tests : Employment tests suffer from the following limitations :

- (a) Some tests like lie detection tests are not advisable as they demoralise the candidates.
- (b) Tests are not always suitable measures of selection. A candidate may spoil his test but may still be suitable for the job.
- (c) Tests cannot fully understand a candidate's personality. At best, they can only differentiate between those who have scored above and below the cut off point. This limitation is, however, overcome by the proceedings of the further selection process.

Interviews

(20.8)

Interview is an important selection technique where there is two-way exchange of information either on one-to-one basis or by an interview panel. The interview gets important information from the candidates and can also judge whether or not they can fit into the organisation culture.

Interview is a two-way conversation. It is a personal form of communication between two people. It is a beneficial process for both the interviewer and the interviewee. The interviewer tells the applicant about the job preview and helps the interviewee make his mind about whether or not he wants to take that job. Though conducting interviews is not based on fixed rules, certain guidelines for the interviewer and interviewee can make interview an effective process.

Features of Interview

1. It is face-to-face interaction between interviewer and the interviewee.
2. It has a definite purpose known to both the parties.
3. It is generally based on pre-structured questions to be asked in a defined manner.

Importance of Interview

Interview serves the following purposes :

1. Interview helps in selecting the candidate most suitable for the job.
2. It provides the candidate information about the organisation and the job for which he applied.
3. Interview helps in knowing details about candidate's personality.
4. It is a method of direct contact between the employer and the candidate. Employer can observe physical characteristics of the candidates. It helps managers to check authenticity of details in the application form.
5. It helps interviewer and the interviewee know each other in detail. Complete information about the company can be given to the candidate and negotiations on salary and other terms can be made.

Recruitment and Selection

Forms of Interview

There are generally three forms of interview :

1. Structured Interview : The interviewer prepares a set of purely job related questions asked in the same sequence. Some of these questions are : (1) Where were you working last? (2) Why do you want to change your job? (3) What are your expectations from this job?

Structured interview does not give flexibility to the interviewer to ask questions about the candidate's personality.

2. Semi-structured interview : In a semi-structured interview, the interviewer asks the structured, pre-determined questions along with questions about the candidate's personality, strengths and weaknesses, his experience at other jobs, etc. This interview is more conversational and interesting and gets better response about the candidate's personality than a structured interview.

3. Un-structured interview : An unstructured interview is not planned or based on systematic, predetermined list of questions. It is a spontaneous interaction between the interviewer and interviewee. The information that interviewer collects about the candidate may not be relevant or truly job related which can assess the candidate's suitability for the particular job. It may contain an element of bias or subjectivity on the part of the interviewer to select a candidate.

Weaknesses of an Interview

Though interview is the most commonly adopted method of selection, it may not always prove to be effective because of the following weaknesses :

1. Imbalanced positions : While interviewing, the interviewer is confident of his position. He can, therefore, ask any question to the interviewee but interviewees are normally tensed during the interview. Even knowledgeable and competent candidates may not perform well in the interview. Rejection of candidates purely on the basis of interview is, thus, not desirable. Interviewer may also be biased against interviewee. Selection on the basis of biased interview is not correct. Interviews based on biases towards candidates does not give good results. It is the assumption of the interviewer that a person good in one activity is good in all and a person bad in one activity is bad in all other activities also.

It, thus, evaluates a person on the basis of a single or few qualities and not all the qualities on the basis of which he should be ranked. It takes partial view of the person and evaluates him totally on that ground. It is like evaluating the whole on the basis of a sample. Though it may work in case of objects, it is not always true in evaluating people.

2. Wrong presentation : Sometimes, the candidate answers to please the interviewer. This does not reflect true picture of his candidature. A wrong candidate can, thus, be selected.

3. Unstructured interviews : When the interviewer does not plan an interview, he may ask questions not relevant to the job. This does not fully explore the potential of the candidate.

4. Theoretical details : Interview only extracts theoretical details about the candidate's personality. Job related practical skills cannot be determined through interviews.