

Professional Practices

“The Structure of Organizations”

Contents

- Legal Forms of Organizations
- Companies
- Organizing an Organization
- Management

Organization

“An organized group of people with a particular purpose, such as a business or government department”

Organization

- It is impossible to live in a civilized society without close contact with many large organizations such as
 - Schools
 - Universities
 - Government departments
 - Health service
 - Commercial and industrial companies

Legal Form of Organization

- Fundamentally the law recognizes individuals that is the individuals has a legal existence.
- They can
 - enter into the contracts which can be enforced by the courts
 - Sued for damages
 - Give evidences...

Legal Form of Organization

- Organizations should also be given legal existence separate from that of its proprietors....and that is done through a process known as *"Incorporation"*.
- After adopting any specific legal configuration, organizations take different legal forms.
- Four basic legal forms of organization are Sole Proprietorship; Partnerships; Corporations and Limited Liability Company.

Legal Form of Organization

- **Sole Proprietorship**

- The vast majority of small businesses start out as sole proprietorships.
- These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business.
- Sole proprietorships own all the assets of the business and the profits generated by it.
- They also assume complete responsibility for any of its liabilities or debts.
- In the eyes of the law and the public, you are one in the same with the business.

Legal Form of Organization

- **Partnerships**

- In a Partnership, two or more people share ownership of a single business.
- Like proprietorships, the law does not distinguish between the business and its owners.
- The Partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership or what steps will be taken to dissolve the partnership when needed.
- They also must decide up front how much time and capital each will contribute, etc.

Legal Form of Organization

- **Corporations**

- A Corporation, chartered by the state in which it is headquartered, is considered by law to be a unique entity, separate and apart from those who own it.
- A Corporation can be taxed; it can be sued; it can enter into contractual agreements.
- The owners of a corporation are its shareholders.
- The shareholders elect a board of directors to oversee the major policies and decisions.
- The corporation has a life of its own and does not dissolve when ownership changes.

Legal Form of Organization

- **Limited Liability Company (LLC)**
 - The LLC is a relatively new type of hybrid business structure.
 - It is designed to provide limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership.
 - Formation is more complex and formal than that of a general partnership.
 - Price water house coopers, Mars, Cox Enterprises, Toys 'R' Us, Aramark, trump Organization, Dollar General

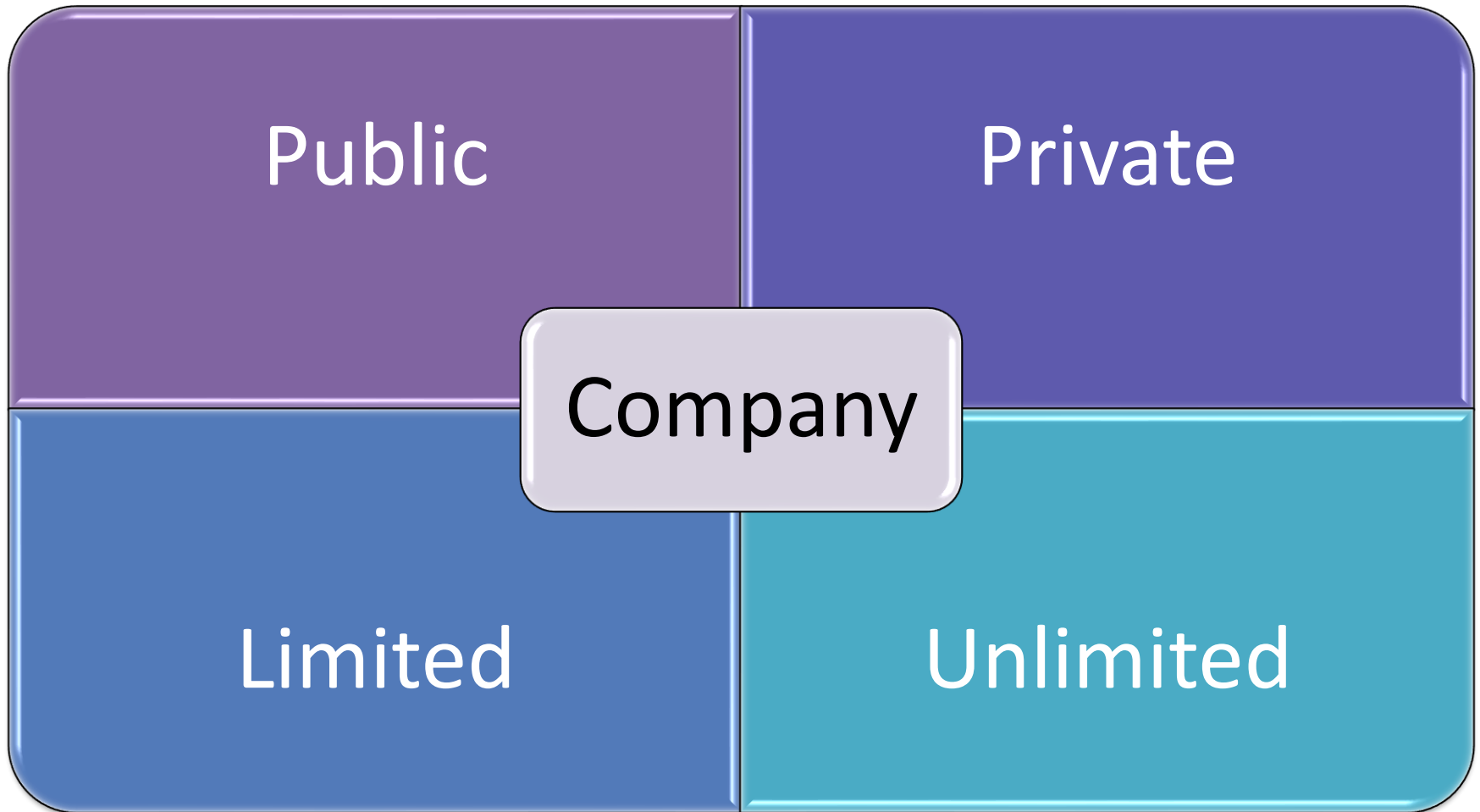
Companies

- A company is a legal entity made up of an association of people.
- Company members share a common purpose, and unite in order to focus their various talents and organize their collectively available skills or resources to achieve specific, declared goals.

Companies

- The essence of a company is that it enjoys an independent existence as a legal person.
- Ownership of the company is divided into a number of shares.
- An individual or another company may own one or more shares.
- Individuals who own shares in a company are known as the shareholders or members of the company.

Companies



Companies

- **Public** companies are allowed to offer their share to the public and their names must end with the word “Public limited company”.
- A public company has a minimum paid up capital of Rs. 5 lacs.
- There is no limit for the number of members.
- **Examples of public companies** include Google Inc., F5 Networks Inc., Chevron Corporation, and Procter & Gamble Co

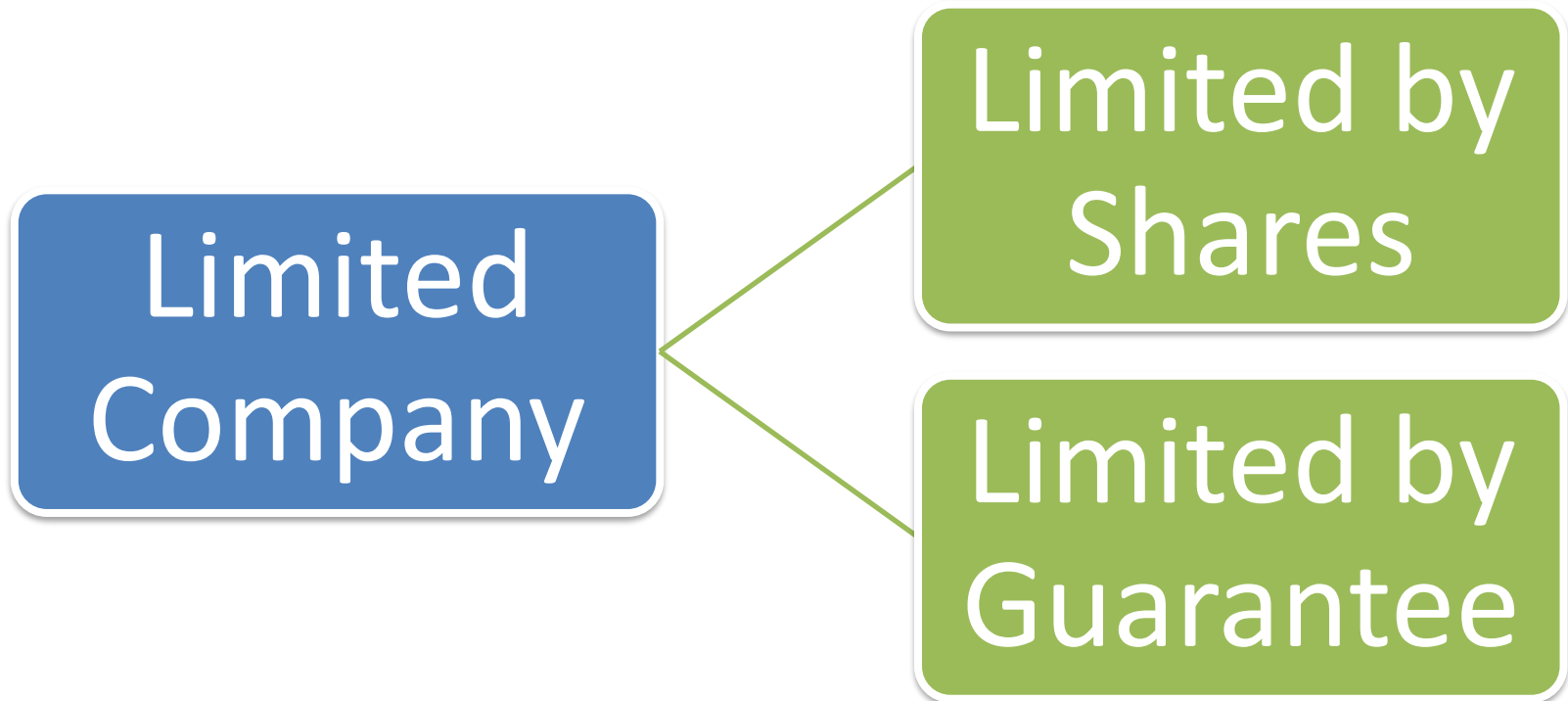
Companies

- A ***private*** company cannot offer its shares to the public and its name must end with the word “limited”.
- It has a minimum paid up capital of Rs. 1 lac.
- It has limited members up to 200.
- It prohibits any invitation from public for subscription to shares and any acceptance of deposits from persons other than members or directors.

Companies

- In an ***unlimited company***, the shareholders are personally liable for all the company's debts.
- The shareholders (or members) of this type of company have unlimited liability.
- This means each member is jointly and severally liable for the debts of the company in the event of its winding-up.

Companies



Companies

- **Company limited by Guarantee:**
 - Commonly used where companies are formed for non-commercial purposes, such as professional bodies or charities.
 - The members guarantee the payment of certain fixed, usually small amount towards the company's debts if the company wound up
 - otherwise they have no economic rights in relation to the company.

Companies

- **Company limited by Shares**
 - It is the most common form of company used for business ventures.
 - Specifically, a limited company is a company in which the liability of each shareholder is limited to the amount individually invested
 - Corporations are the most common example of a limited company."

Companies

Companies

Constitution
of a Company

Directors and
the Company
Secretary

Disclosure
Requirements

Corporate
Governance

Constitution of a Company

- All companies must have a written constitution, which consists of two documents
 - ***Memorandum of association***....which controls its external relations
 - ***Articles of association***.... which states how internal affairs are to be run.

The Memorandum of Association

- This document covers the following matters
 - The name of the company
 - The country in which its registered office will be located
 - The objects of the company
 - A liability clause
 - The company's authorised share capital and the number and nominal value of its shares.

The Articles of Association

- This document usually addresses the following topics
 - The rules to be applied in allocating new shares
 - The rules governing the transfer of shares
 - The rules regarding meeting of shareholders or members
 - Appointment and removal of directors
 - Powers of directors
 - Dividends and reserves

Directors and the Company Secretary

- Directors are elected by shareholders to run the company on their behalf.
- They have considerable powers and in a large company with many shareholders, the effective democratic control is very weak.

Directors and the Company Secretary

- This situation is balanced by a series of obligations
 - directors must act in good faith and for the benefit of company.
 - Directors must exercise the skill and care in carrying out their duties that might be expected from someone of their qualifications and experience.
 - A director who has an interest in a contract made with the company must disclose this interest to the board of directors.

Directors and the Company Secretary

- Most companies have both executive and non-executive directors.
 - ***Executive directors*** are normally also employees of the company, with specific responsibility.
 - ***Non-executive directors*** act in advisory capacity only. Typically they attend monthly board meetings to offer the benefit of their advice and are paid a fee for their services.

Directors and the Company Secretary

- A company is required to have a ***company secretary*** whose duty is to keep various records that a company is obliged to maintain.
- Because of the technical expertise required, small companies often appoint an outside professional advisor as a company secretary.

Disclosure Requirements

- The limited companies are required to disclose information about their operations.
- All limited companies must submit an annual return and copies of their accounts to the registrar of companies.

Corporate governance

“Relationship between stakeholders in companies and its most senior management is known as corporate governance”

Organizing an Organization

Organizing an Organization

Functional Units
of an
Organization

Geographical
Organization

Organization by
Product

Centralization
vs
Decentralization

The position of
Quality
Management

Functional Units of an Organization

- Tasks carried out in an organization are grouped into five major functions
 - ***Production:*** activities that directly contribute to creating the products or services that the company sells.
 - ***Quality Management:*** quality activities necessary to ensure that quality of product and services produced is maintained at the agreed level.

Functional Units of an Organization

- ***Sales and Marketing:*** sales is concerned directly with selling the product while marketing is concerned with establishing the environment in which product is sold.
- ***Finance and Administration:*** every company needs to pay its bills, to look after its funds, to pay its employees and so on....data processing and legal department are also generally included in this function.

Functional Units of an Organization

- ***Research and Development:*** how can company do better the things that it is already doing and what other things can be done to raise profits.

Geographical Organization

- Organization operating over a large geographical area, there are tasks that should be best organized on a geographical basis.
- Because of cultural differences, an effective selling approach in one country can completely fail in another.
- Even the products that are most demanded in one country are almost unsaleable in another one.

Organization by Product

- When an organization produces several different products and services, it is desirable to use a top-level structure based on its products.
- It is the most common structure found in really large corporations today.
- Each division can either be headed by a director or can be itself a separate company with its own board of directors (subsidiaries).
- **Examples** include holding **companies** such as Berkshire Hathaway, Jefferies financial group, warner media, or Citi group; as well as more focused **companies** such as IBM or xerox.

Centralization vs Decentralization

- Organizations can be centralised, decentralised and both.
- In a ***centralised organization***, many of the detailed operational decisions are taken at the center.
- In a ***decentralised organization***, as many details as possible are settled at local level.

Position of Quality Management

- Whatever be the structure of an organization, the factor of ***“Quality”*** should be kept at the center.
- Pressures on production and sales create temptation to skimp on quality procedures.
- It can only be avoided by developing a ***“Quality Culture”*** within the organization.

Position of Quality Management

- Some national and international standards are set, which lay down in detail the requirements which a quality plan must meet.
- Examples are ***British Standard 5750*** and ***ISO 9000***.

Management

Management

Motivation

Performance
Appraisal

Sub-
Optimization

Management

- Different management roles are classified on the basis of their particular concerns and methods for addressing those concerns. Some are
 - Project management
 - Production management
 - Corporation management

Management

- The goal of *project managers* is to produce systems which meet the user's needs, are in time and within budget.
- Their main concerns are planning, progress monitoring, acquisition and allocation of resources and quality control.
- The project manager horizon is the successful completion of a project.

Management

- ***Production management*** is concerned with the management of activities which continue indefinitely and change comparatively slowly.
- It is concerned with productivity, efficiency and maintenance of quality.
- Production manager horizons are both longer and shorter than project managers.

Management

- ***Corporate management*** deals with the management of organization as a whole.
- Corporate managers monitors the overall performance of the organization and handle serious problems that arise anywhere in the organization.

Motivation

- How well individuals carry out their jobs depends on several factors
 - How well they understand what is required of them.
 - Their ability
 - The quality of facilities provided for doing the job.
 - Their motivation
 - The attitude of their colleagues.

Motivation

- People are generally motivated by
 - Self esteem
 - The esteem of others
 - Satisfaction of social needs
 - A sense of security
 - Financial rewards

Performance Appraisal

- Central idea of performance appraisal is that managers decide with each of their subordinate, what should be the subordinate's objectives in his next time period of job.
- At the end of that time period, the subordinate performance is assessed against these objectives and new objectives are agreed for the next time period.

Performance Appraisal

- There are several important points in order to make such a scheme work
 - Both manager and subordinate must participate in setting the subordinate's objectives.
 - Attainment of the objectives should be verifiable.
 - Subordinate's job must be sufficiently homogenous.

Performance Appraisal

- Continuing commitment from all levels of management is required.
- Staff reviews should be diagnostic rather than purely evaluative.
- Review procedure should not be closely linked with the salary review procedure.

Sub-optimization

“Optimizing the performance of individual units within an organization maynot optimize the performance of the whole organization”