Unit 3 Organisational structure

An organizational structure is a system that outlines how certain activities are directed in order to achieve the goals of an organization. These activities can include rules, roles, and responsibilities.

The organizational structure also determines how information flows between levels within the company. For example, in a centralized structure, decisions flow from the top down, while in a decentralized structure, decision-making power is distributed among various levels of the organization. Having an organizational structure in place allows companies to remain efficient and focused.

**Understanding an Organizational Structure**

Businesses of all shapes and sizes use organizational structures heavily. They define a specific [hierarchy](https://www.investopedia.com/terms/c/corporate-hierarchy.asp) within an organization. A successful organizational structure defines each employee's job and how it fits within the overall system. Put simply, the organizational structure lays out who does what so the company can meet its objectives.

This structuring provides a company with a visual representation of how it is shaped and how it can best move forward in achieving its goals. Organizational structures are normally illustrated in some sort of chart or diagram like a pyramid, where the most powerful members of the organization sit at the top, while those with the least amount of power are at the bottom.

Not having a formal structure in place may prove difficult for certain organizations. For instance, employees may have difficulty knowing to whom they should report. That can lead to uncertainty as to who is responsible for what in the organization. Having a structure in place can help with [efficiency](https://www.investopedia.com/terms/e/efficiency.asp) and provide clarity for everyone at every level. That also means each and every department can be more productive, as they are likely to be more focused on energy and time.

## Types of Organizational Structures

### Functional Structure

Four types of common organizational structures are implemented in the real world. The first and most common is a functional structure. This is also referred to as a [bureaucratic organizational structure](https://www.investopedia.com/terms/b/bureaucracy.asp) and breaks up a company based on the specialization of its workforce. Most small-to-medium-sized businesses implement a functional structure. Dividing the firm into departments consisting of marketing, sales, and operations is the act of using a bureaucratic organizational structure.

### Divisional or Multidivisional Structure

The second type is common among large companies with many business units. Called the divisional or multidivisional (M-Form) structure, a company that uses this method structures its leadership team based on the products, projects, or subsidiaries they operate. A good example of this structure is Johnson & Johnson. With thousands of products and lines of business, the company structures itself so each business unit operates as its own company with its own president.

## Benefits of Organizational Structures

Putting an organizational structure in place can be very beneficial to a company. The structure not only defines a company's hierarchy but also allows the firm to lay out the pay structure for its employees. By putting the organizational structure in place, the firm can decide salary grades and ranges for each position.

The structure also makes operations more efficient and much more effective. By separating employees and functions into different departments, the company can perform different operations at once seamlessly.

Objectives of a business:

1. Economic objectives:

a. Profit earning: It cannot be denied that business is started for earning profits. Profit is the basic incentive to business pursuits. Profits are needed to face various uncertainties like trade cycle, change in demand pattern, fluctuations in money markets. The businessmen should charge a reasonable profit and it will be beneficial both to the business and society.

b. Production of goods: The profit can be earned only when exchange of goods and services takes place. So, the next objective is to produce more goods and sell them to the consumers. The tastes, preferences and paying capacity of the consumers must be taken into account. A businessman creates form, place and time utilities and meets the requirements of the society.

c. Creating markets:

The aim of businessman is to sell products. Marketing consists of those efforts which effect transfers in ownership of goods and care for their physical distribution. Marketing covers all those activities which relate to the creation of time, place and possession utility. An effort is made to retain old consumers by supplying them better quality of goods at reasonable prices.

d. Technological improvement: A businessman should always strive to use latest methods of production. In the world of competition, everybody tries to sell its products by offering good quality products at lower prices. This is possible when latest technology is used for producing goods. There should always be an endeavour to increase production and reduce costs

. 2. Human objectives:

a. Welfare of employees: The employees should be looked upon as human beings. The employees of an enterprise help in increasing the profitability and they should also be given a due share in profits. It may be in the form of bonus, increased allowances or spending money on their welfare.

b. Satisfaction of consumers: The consumers should be provided quality goods at reasonable prices. The tastes, likings and requirements of the consumers should be given due weightage. The business meant for consumers and their satisfaction should be the main objective of the business.

c. Satisfaction of shareholders: In the present world ownership and management are in two different hands. The shareholders are spread all over the country and they have no hand in the day to-day working of the business. The management should give reasonable return on the money invested by the shareholders. The money is not misused by the management.

# ****Sole Proprietorship****

Sole Proprietorship in simple words is a one-man business organization. It is the type of entity that is fully owned and managed by one natural person (not a legal person/entity) known as the sole proprietor. The business and the man are the same, it does not have a separate legal entity.

A sole proprietorship usually does not have to be incorporated or registered. It is the simplest form of business organizations and the ideal choice to run a small or medium scale business. Let us look at some important features of a proprietorship.

## Advantages of Sole Proprietorship

* A proprietor will have complete control of the entire business, this will facilitate quick decisions and freedom to do business according to their wishes
* Law does not require a proprietorship to publish its financial accounts or any other such documents to any members of the public. This allows the business a great deal of confidentiality which is sometimes important in the business world
* The owner derives the maximum incentive from the business. He does not have to share any of his profits. So the work he puts into the business is completely reciprocated in incentives
* Being your own boss is a great sense of satisfaction and achievement. You are answerable only to yourself and it is a great boost to your self-worth as well

## Disadvantages of Sole Proprietorship

* One of the biggest limitations of a sole proprietorship is the unlimited liability of the owner. If the business fails it can wipe out the personal wealth of the owner as well and affect his future business prospects too
* Another problem is the limited capital a sole proprietor has access to. His own personal savings and money he can borrow may not be enough to expand the business. Banks and financial institutions are also wary of lendings to proprietorships
* The life cycle of a sole proprietorship is undecided and attached to its owner. If the owner is incapacitated in any way it has a negative effect on the business, and it may even lead to the closure of the business. A sole proprietorship cannot carry on without its proprietor.
* A sole proprietor also has a limited managerial ability. He cannot be an expert in all the fields of the business. And limited resources may mean that he cannot even hire competent people to help him out. This may lead to the business suffering from mismanagement and poor decisions.

# ****Partnership****

In India, we have a definite law that covers all aspects and functioning of a partnership, The Indian Partnership Act 1932. The act also defines a partnership as “the relation between two or more persons who have agreed to share the profits from a business carried on by either all of them or any of them on behalf of/acting for all”

So in such a case two or more (maximum numbers will differ according to the business being carried) persons come together as a unit to achieve some common objective. And the profits earned in pursuit of this objective will be shared amongst themselves.

The entity is collectively called a “Partnership Firm” and all the individual members are the “Partners”. So let us look at some important features.

**Types of Partners**

Not all partners of a firm have the same responsibilities and functions. There can be various types of partners in a partnership. Let us study the types of partners and their rights and duties.

* **Active Partner**: As the name suggests he takes active participation in the business of the firm. He contributes to the capital, has a share in the profit and also participates in the daily activities of the firm. His liability in the firm will be unlimited. And he often will act as an agent for the other partners.
* **Dormant Partner**: Also known as a sleeping partner, he will not participate in the daily functioning of the business. But he will still have to make his share of contribution to the capital. In return, he will have a share of the profits. His liability will also be unlimited.
* **Secret Partner**: Here the partner’s association with the firm is not public knowledge. He will not represent the firm to outside agents or parties. Other than this his participation with respect to capital, profits, management, and liability will be the same as all the other partners.
* **Nominal Partner**: This partner is only a partner in the name. He allows the firm to use the name of his firm, and the attached goodwill. But he in no way contributes to the capital and hence has no share in the profits. He does not involve himself in the firm’s business. But his liability too will be unlimited.
* **Partner by Estoppel**: If a person makes it out to be, through their conduct or behavior, that they are partners in a firm and he does not correct them, then he becomes a partner by estoppel. However, this partner too will have unlimited liability.

Joint stock company –

A joint stock company is an organisation which is owned jointly by all its shareholders. Here, all the stakeholders have a specific portion of stock owned, usually displayed as a share.

Each joint stock company share is transferable, and if the company is public, then its shares are marketed on registered stock exchanges. Private joint stock company shares can be transferred from one party to another party. However, the transfer is limited by agreement and family members.

**Features of Joint Stock Company**

1. **Separate Legal Entity –**A joint stock company is an individual legal entity, apart from the persons involved. It can own assets and can because it is an entity it can sue or can be sued. Whereas a partnership or a sole proprietor, it has no such legal existence apart from the person involved in it. So the members of the joint stock company are not liable to the company and are not dependent on each other for business activities.
2. **Perpetual –** Once a firm is born, it can only be dissolved by the functioning of law. So, company life is not affected even if its member keeps changing.
3. **Number of Members –** For a public limited company, there can be an unlimited number of members but minimum being seven. For a private limited company, only two members. In general, a partnership firm cannot have more than 10 members in one business.
4. **Limited Liability –** In this type of company, the liability of the company’s shareholders is limited. However, no member can liquidate the personal assets to pay the debts of a firm.
5. **Transferable share –**A company’s shareholder without consulting can transfer his shares to others. Whereas, in a partnership firm without any approval of other partners, a partner cannot move his share.
6. **Incorporation –** For a firm to be accepted as an individual legal entity, it has to be incorporated. So, it is compulsory to register a firm under a joint stock company.

**Types of Joint Stock Company**

The joint stock company is divided into three different types.

* **Chartered Company –** A firm incorporated by the king or the head of the state is known as a chartered company.
* **Statutory Company –**A company which is formed by a particular act of parliament is known as a statutory company. Here, all the power, object, right, and responsibility are all defined by the act.
* **Registered Company –**An organisation that is formed by registering under the law of the company comes under a registered company.

Public undertakings –

Public Sector Undertakings are a major part of the Indian economy that comprises public services and enterprises and it provides services that benefit the entire society. This article gives details on the objectives of setting up PSU’s, their role in the upliftment of society, problems, and reforms undertaken by them.

**Public Sector – 3 Major Classifications**

The public sector can be classified into:-

1. Departmental Undertaking – Directly managed by concerned ministry or department. (e.g. Railways, Posts, etc.)
2. Non-Departmental Undertaking – PSU (e.g. HPCL, IOCL, etc.)
3. Financial Institution (e.g. SBI, UTI, LIC, etc.)

The rationale behind the establishment of PSU’s was Industrialisation and the establishment of Capital Goods Industries and Basic Industries. The organizations that are not a part of the public sector are termed as private sector that works to raise profit for the organization.

Private sector undertakings- These undertakings are owned, controlled and financed by private businessmen. There is no government participation in them. The main motive of private sector undertakings is to earn profits. Their main characteristics are as under:

***(a)* Private Ownership and Control:**

A private sector undertaking is fully owned and controlled by the private entrepreneurs. It may be owned by one individual or by a group of individuals jointly. When owned by one person, it is called Sole Proprietor­ship. A group of persons may jointly own the firm in the form of joint Hindu family business, partnership, Joint Stock Company or cooperative society.

**(b) Profit Motive:**

The main objective of private sector undertakings is earning profits. Profits provide the reward for the risk assumed and the required return on capital.

***(c)* No State Participation:**

There is no participation by the Central or State Governments in the ownership and control of a private sector undertaking.

***(d)* Private Finance:**

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***(d)* Private Finance:**

The capital of a private sector undertaking is arranged by its owners. The sole trader contributes the capital of a sole proprietorship. In case of partnership, capital is invested by the partners. A joint stock company raises capital by the issue of shares and debentures. A private sector undertaking can also raise loans to meet its long-term and short-term needs for funds.

***(e)* Independent Management:**

A private sector undertaking is managed by its owners. In case of sole proprietorship and partnership, the owners directly manage the firm. The management of a joint stock company lies in the hands of directors who are the elected representatives of the shareholders.

Cooperative organisation –

A cooperative organisation is an association of persons, usually of limited means, who have vol­untarily joined together to achieve a common eco­nomic end through the formation of a democrati­cally controlled organisation, making equitable dis­tributions to the capital required, and accepting a fair share of risk and benefits of the undertaking.

### Characteristics of Cooperative Organisation:

**The following are the characteristic features of a cooperative organisation as a form of business organisation:**

#### 1. Voluntary Association:

A cooperative so­ciety is a voluntary association of persons and not of capital. Any person can join a cooperative soci­ety of his free will and can leave it at any time. When he leaves, he can withdraw his capital from the so­ciety. He cannot transfer his share to another person.

**The voluntary character of the cooperative as­sociation has two implications:**

(i) None will be denied the right to become a member and

(ii) The cooperative society will not compete anybody to become a member.

#### 2. Spirit of Cooperation:

The spirit of coop­eration works under the motto, ‘each for all and all for each.’ This means that every member of a co­operative organisation shall work in the general interest of the organisation as a whole and not for his self-interest. Under cooperation, service is of supreme importance and self-interest is of second­ary importance.

#### 3. Democratic Management:

An individual member is considered not as a capitalist but as a human being and under cooperation, economic equality is fully ensured by a general rule—one man one vote. Whether one contributes 50 rupees or 100 rupees as share capital, all enjoy equal rights and equal duties. A person having only one share can even become the president of cooperative society.

#### 4. Capital:

Capital of a cooperative society is raised from members through share capital. Coop­eratives are formed by relatively poorer sections of society; share capital is usually very limited. Since it is a part of govt. policy to encourage coopera­tives, a cooperative society can increase its capital by taking loans from the State and Central Coop­erative Banks.

#### 5. Fixed Return on Capital:

In a cooperative organisation, we do not have the dividend hunting element. In a consumers’ cooperative store, return on capital is fixed and it is usually not more than 12 p.c. per annum. The surplus profits are distrib­uted in the form of bonus but it is directly connected with the amount of purchases by the member in one year..

Sources of finance

At the same time, there are several sources of finance available to a business enterprise, which source of finance should be resorted for raising funds shall be decided by the type of requirements for which fund is needed by the business enterprise.

## ****Sources of Finance****

**If financial requirements are expressed in terms of time/period, then requirements/needs for fund may be grouped into three categories:**

* 1. Long-term financial requirements, which are for a period exceeding five to ten years. All funds to be invested in various types of fixed assets plus in hard core working capital are to be considered as long-term financial needs.

(ii) Medium-term financial requirements which are required for a period exceeding one year but not exceeding five years. All funds needed for meeting the defined revenue expenditures like expenses on heavy publicity and advertisement campaigns shall be considered as medium-term financial needs.

(iii) Short-term financial requirements which arise for a short period of time often not exceeding one year (i.e., accounting period). All funds needed for financing current assets/for meeting working capital requirements shall be considered as short-term financial needs.

**Savings Account**

As the name suggests, the savings accounts can be opened by an individual or jointly by two people with an aim to save money.

The main benefit of opening a savings bank account is that the bank pays you interest for opening this type of account with them.

Given below are a few features of the Savings account:

* There is no limit to the number of times the account holder can deposit money in this account but there is a restriction on the number of times money can be withdrawn from this account.
* The rate of interest that an account holder get varies from 4% to 6% per annum
* There is no minimum balance that needs to be maintained for this type of an account
* The savings account holders can get an ATM/Debit/Rupay Card if they want to
* Savings bank account is further divided into two types: Basic Savings Bank Deposit Account (BSBDA) and the other one is Basic Saving Bank Deposit Accounts Small Scheme(BSBDS)
* The savings bank account is mostly eligible for students, pensioners and working professionals

**Current Account**

The second type of bank account is the current bank account. These accounts are not used for the purpose of savings.

Some important pointers related to the current bank account have been discussed below:

* This type of bank account is mostly opened by businessmen. Associations, Institutions, Companies, Religious Institutions and other business-related works, the current account can be opened
* There is no fixed number of times that money can either be deposited or withdrawn from such accounts
* Internet banking is available
* This type of bank account does not have any fixed maturity
* Overdraft facility is available for current bank accounts
* There is no interest that is paid on such accounts

**Recurring Deposit Account**

Recurring Deposit account or RD account is a form of account wherein the account holder needs to deposit a fixed amount every month until it reaches the fixed maturity date.

The features of the Recurring deposit account have been discussed below:

* Any individual or an Institution can open a recurring deposit account either separately or jointly
* Periodic or monthly instalments that need to be added can be as low as Rs.50/- or may vary from bank to bank
* The range of months for which an RD account can be opened varies from 6 months to 120 months
* The interest rate varies depending upon the bank you choose to open an account with
* Nomination facility is also available for RC accounts
* Passbook is issued for this type of bank account
* Premature withdrawal of the amount is permitted, provided a sum of amount is deducted as penalty

**Fixed Deposit Account**

FD or a fixed deposit account is another type of bank account that can be opened in any Public or Private sector bank.

The list of important things that need to be known with respect to the fixed deposit account has been mentioned below:

* It is a one time deposit and one time take away account. Under this type of account, the account holder needs to deposit a fixed amount of sum (as per their wish) for a fixed time period
* The amount deposited in FD account can only be withdrawn all at once and not in instalments
* Banks pay interest on the fixed deposit account
* The rate of interest depends upon the amount you deposit and for the time duration of the FD
* Full repayment of the amount is available before the maturity date of FD

**DEMAT Account**

Shares and securities which can be held in electronic format constitute the DEMAT account. The DEMAT account also stands for Dematerialized Account.

Given below the points that need to be known by a candidate regarding the DEMAT Account:

* There are only two depository organisations which manage this type of bank account in India. This includes: National Securities Depository Limited and Central Depository Services Limited
* This helps facilitate easy trade of bonds and shares
* Helps in conducting stress-free transaction of shares
* KYC is required for opening the DEMAT Account
* Transaction cost is reduced
* Traders can work from anywhere
* The transfer of securities can be done with reduced paperwork

**NRI Account**

To fulfil the bank requirements of a Non-Residential Indian or a Person of India Origin, the option of NRI account is available.

The NRI Accounts are further divided into three types:

1. **NRO( Non-Resident Ordinary Rupees) Account –** This shall allow you to transfer your foreign earnings easily to India. It can be opened in the form of an FD/RD/Current/Savings account. These accounts can be opened by an individual or jointly opened
2. **NRE (Non-Resident External Rupees) Account –** When an Indian citizen moves abroad to work there, his/her account needs to be converted into an NRE account. This account can be jointly opened with an Indian resident
3. **FCNR( Foreign Currency Non-Resident ) Account –**This type of account can be opened to manage an international currency. It can only be in the form of Term deposit and can be withdrawn after the maturity period only.