

MEANING AND DEFINITIONS OF ORGANIZATION

Organization is the foundation upon which the whole organization is built. Without efficient organization, no management can perform its function smoothly. Sound organization contributes greatly to the continuity and the success of organization. A poor organization structure makes good performance impossible, no matter how good the individuals are.

The term organization connotes different things to different people. For example to the sociologists, organization means a study of interactions of people, classes or hierarchy of an enterprise. To the psychologists organization means an attempt to explain, predict and influence the behaviour of individuals in an enterprise. The word 'organization' is also used widely to connote a group of people and the structure of relationships. In order to understand the meaning and characteristics of organization, we shall study it under the following heads:

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- (1) Organization as a group of persons.
 - (2) Organization as a structure of relationship.
 - (3) Organization as a function of management.
 - (4) Organization as a process.
- (1) **Organization as a group of persons:** Organization is viewed as a group of people contributing their efforts towards certain goal. The concept of organizing began at the early stages of human civilization when two or more persons began to cooperate and combine together for fulfilling their basic needs of food, clothing, shelter and protection of life. Organization begins when people combine efforts for some common purpose. Chester I Barnard defined organization “as an identifiable group of people contributing their efforts. An organization comes into existence when there are a number of persons in communication and relationship to each other and are willing to contribute towards a common Endeavour. The group of people lay down rules and regulations and the formal structure or relationship among themselves”.
 - (2) **Organization as a structure of relationships:** Some people view organization as a structure of relationship. Organization sets up the scope of activities of the enterprise by laying down the structure of relationships. If organization is merely recognized as ‘structure’, it will be viewed as a static thing used to explain formal relationships. But an organization is a ‘dynamic’ entity consisting of individuals, means, objectives and relationships among the individuals. However, the use of the term structure to denote organization is not used independently, but is combined with the term organization either in the form of organization structure or structure of organization.
 - (3) **Organization as a function of management:** Organization is one of the basic functions of management. It involves determination and provision of various resources for the achievement of predetermined goal. Thus, organization is defined as a process of integrating and coordinating the efforts of human, financial and other resources for the accomplishment of certain objectives. Like ‘planning’, organizing is also applied in every aspect of management, For example organization is necessary for planning, development, for formulation of plans and policies.
 - (4) **Organization as a process:** Organization is the process of establishing relationship among the members of the organization. Using this process organization structure is created. The relationships are created in terms of authority and responsibility. Each person in the organization is assigned specific responsibility or duty to perform and is granted the corresponding authority to perform his duty.

According to Louise A Allen, “Organization involves identification and grouping of activities to be performed and dividing them among the individuals and creating authority and responsibility relationship among them for the accomplishment of

organizational objectives. Organizing being process, consists of departmentalization, linking of departments, defining authority and responsibility and prescribing authority relationships. The organization structure is the result of this process.

STEPS IN ORGANIZING

While organizing, a manager differentiates and integrates the activities of his organization. By **differentiation** is meant the process of departmentalization or segmentation of activities on the basis of some homogeneity. Integration is the process of achieving unity of effort among various departments, segments or subsystems.

Organization involves the following interrelated steps:

- (1) **Consideration of objectives:** The first step in organizing is to know the objectives of the enterprise. Objectives determine resources and the various activities which need to be performed and the type of organization which needs to be built for this purpose. Objectives also serve as guidelines for the management and workers. They bring about unity of direction in the organization.
- (2) **Identification and grouping of activities:** If the members of the group are to pool their efforts effectively, there must be proper division of the major activities. Each job should be properly classified and grouped. This will enable the people to know what is expected of them as members of the group and will help in avoiding duplication of efforts. For example, the total activities of an enterprise may be divided into major functions like production, purchasing, marketing, finance etc., and such function is further subdivided into various jobs. For example, in production department separate sections may be created for research, industrial engineering etc. The jobs then can be classified and grouped to ensure the effective implementation of other steps.
- (3) **Assignment of duties:** After classifying and grouping the activities into various jobs, they should be allotted to the individuals for ensuring certainty of work performance. Each individual should be given a specific job to do according to his ability and made responsible for that.
- (4) **Delegation of authority:** Authority without responsibility is dangerous and responsibility without authority is an empty vessel. Hence, corresponding to the responsibility authority is delegated to the subordinates for enabling them to show work performance.

NATURE OF ORGANIZATION

The nature of organization can be highlighted by studying the following features:

- (1) Organization is always related to certain objectives: Whether it is organization of the entire enterprise or part of it, organization is influenced by objectives. The operations are divided; authority and responsibility are determined to achieve predetermined objectives.

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- (2) ***An organization connotes a group of people:*** Mc Farland has defined organization as “an identifiable group of people contributing their efforts towards the attainment of goals. People form groups or organizations to accomplish common objectives and pool their efforts by defining and dividing various activities, responsibility and authority”.
 - (3) ***Communication is the nervous system of organization:*** The organizational members are able to communicate with each other and may coordinate their activities. No organization can survive without an efficient system of communication.
 - (4) ***Organizing is a basic function of management:*** Organizing is done in relation to all other functions of management, namely planning, staffing, directing and controlling and in all the areas of business namely production, marketing, purchasing, personnel. The organizing function is performed by all managers.
 - (5) ***Organization is a continuous process:*** It is not a one step function. Managers are continuously engaged in organizing and reorganizing.
 - (6) ***Organization connotes a structure of relationship:*** The structure of relationship deliberately created by the management is referred to as formal organization. An organization may also have a network of social relationships that arise between people working together. Such relationships are known as informal organization. In formal organization people are able to communicate with each other, are willing to act and share a purpose. In informal organization, people work together because of their likes and dislikes.
 - (7) ***Organization involves a network of authority and responsibility relationship:*** Various positions are created; specific tasks are assigned to them. To perform the task, each position is delegated adequate authority. Authority and responsibility relationships throughout the organization must be clearly defined to achieve coordination and to avoid conflicts between individuals and departments.

ORGANIZATION STRUCTURE

An organization structure shows the authority and responsibility relationship between the various positions of the organization by showing who reports to whom. It is a set of planned relationships between groups of related functions and between physical factors and personnel required for the achievement of organizational goal. The structure of an organization is generally shown on the organization chart or a job task pyramid. It shows the authority and responsibility relationship between various positions in the organization. A good organization structure should not be static but dynamic. It should be subject to change from time to time in the light of changes in the business environment.

PURPOSE OF ORGANIZATION

Organization means a form of human association for the attainment of common objectives. An industrial organization denotes a type of associationship of persons in relationship to some economic activities. Obviously, the better the organization the fuller would be the achievement of common objectives. Similarly, a loose organization implies an unhappy and dangerous state of affairs. Organization is essential for the following purposes:

- (1) **To facilitate pattern of communication:** Organization structure provide pattern of communication and coordination. By grouping activities and people, structure facilitates communication between people centered on their job activities. People who have joint problem often need to share information to solve the problem.
- (2) **To allocate authority and responsibility:** Organization structure allocates authority and responsibility. It specifies who is to direct whom and who is accountable for what results. The structure helps the organization members to know what his role is and how it relates to others role.
- (3) **To locate decision centers:** Organization structure determines the location of decision making in the organization. For example, a departmental store may leave pricing decision to the lower level manager while in oil refinery pricing decision is at top level.
- (4) **To create proper balance:** Organization structure creates the proper balance and emphasis of activities. Those more critical to the enterprises success might be placed higher in the organization. For example R&D in pharmaceutical company might be singled out for reporting to the managing director. Activity of comparable importance might be placed at the lower level.
- (5) **To stimulate creativity:** Sound organization stimulates independent, creative thinking and initiative by providing well-defined areas of work with broad attitude of the development of new and improved ways of doing things.
- (6) **To encourage growth:** The organization structure provide framework within which an enterprise functions. If the organization structure is flexible, it will help in meeting challenges and creating opportunities for growth.
- (7) **To make use of technological improvements:** A sound organization structure which is adoptable to changes can make the best possible use of latest technology. It can modify the existing pattern of authority-responsibility relationships in the wake of technological improvements.

PRINCIPLES OF ORGANIZATION

In order to facilitate the achievement of objectives, management thinkers have laid down certain principles of organization. The principles are guidelines for planning organization

structure. Therefore, thorough understanding of the principles of organization is essential for good organization. The principles of organization are discussed below:

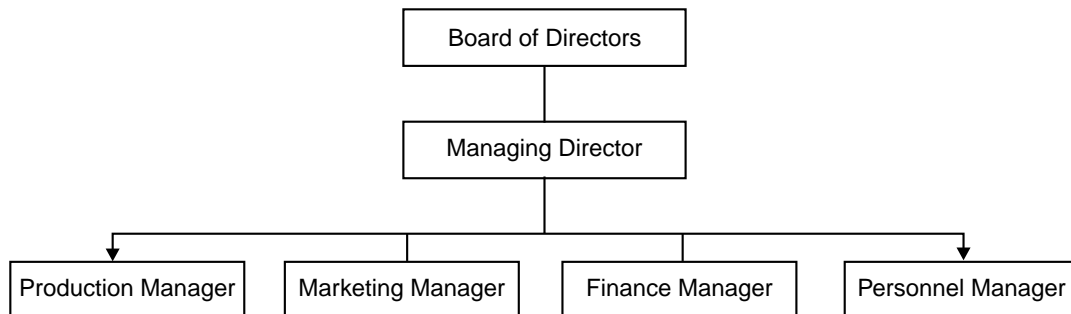
- (1) **Objectives:** The objectives of the enterprise influence the organization structure. Every part of the organization and organization as a whole should be geared to the basic objective determined by the enterprise.
- (2) **Specialization:** Effective organization must promote specialization. The activities of the enterprise should be divided according to functions and assigned to persons according to their specialization.
- (3) **Span of control:** A manager can directly supervise only a limited number of executives. Hence, it is necessary to have a proper number of subordinates answerable to a manager. A maximum of six may be prescribed for this purpose.
- (4) **Exception:** This principle requires that organization structure should be so designed that managers are required to go through the exceptional matters only. All the routine decisions should be taken by subordinates, where as problems involving unusual matters and policy decision should be referred to higher levels.
- (5) **Scalar principle:** This is also known as chain of command. There must be clear lines of authority running from the top to the bottom. Authority is the right to decide, direct and coordinate. Every subordinate must know who his superior is and to whom policy matters beyond his own authority must be referred for decision.
- (6) **Unity of command:** Each subordinate should have only one supervisor whose command he has to obey. Dual subordination must be avoided, for it causes uneasiness, disorder, and indiscipline and undermine of authority.
- (7) **Delegation:** Proper authority should be delegated at the lower levels of the organization also. The authority delegated must be equal to responsibility i.e., the manager should have enough authority to accomplish the task assigned to him.
- (8) **Responsibility:** A superior should be held responsible for the acts of his subordinates. No superior should be allowed to avoid responsibility by delegating authority to his subordinates.
- (9) **Authority:** The authority is the tool by which a manager is able to accomplish the desired objective. Hence, the authority of each manager must be clearly defined. The authority and responsibility must be co-extensive in the organization.
- (10) **Efficiency:** The organization should be able to attain the mission and objectives at the minimum cost.
- (11) **Simplicity:** The organization structure should be as simple as possible with minimum number of levels. A large number of levels of organization means difficulty of effective communication and coordination.

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- (12) **Flexibility:** The organization should be flexible, should be adaptable to changing circumstances. It should permit expansion and replacement without dislocation and disruption of the basic design. A sound organization must avoid complicated procedures, red-tape and excessive complication of control so that it may adapt itself easily and economically to business and technical changes.
 - (13) **Balance:** There should be reasonable balance in the size of various departments, between centralization and decentralization. There must be balance in the formal structure as regards to factors having conflicting claims.
 - (14) **Unity of direction:** There must be one objective and one plan for a group of activities having the same objective. Unity of direction facilitates unification and coordination of activities at various levels.
 - (15) **Personal abilities:** As organization is a formal group of people there is need for proper selection, placement and training. Organization structure must ensure optimum use of human resources.

DEPARTMENTATION OF ORGANIZATION

The horizontal differentiation of tasks or activities into discrete segments is called as departmentalization or departmentation. Departmentation involves grouping of operating tasks into jobs, combining of jobs into effective work group and combining of groups into divisions often termed as 'departments'. The aim is to take advantages of division of labour and specialization up to a certain limit. There are several ways of Departmentation, each of which is suitable for particular corporate sizes, strategies and purposes. The important methods of grouping activities may be summarized as below:

Departmentation by functions: This is the simplest and most commonly used base for Departmentation. Each major function of the enterprise is grouped into a department. For example there may be production, finance, marketing and personnel department in an organization as shown in fig.3.1. All functions related to production are grouped together to form production department, similarly other departments are formed on the basis of function.



Departmentation by functions

Advantages

- (1) It is simple and suitable for small organization which manufactures limited number of products.
- (2) It promotes specialization.
- (3) It leads to improve planning and control.
- (4) Manpower and other resources of the company are effectively used.

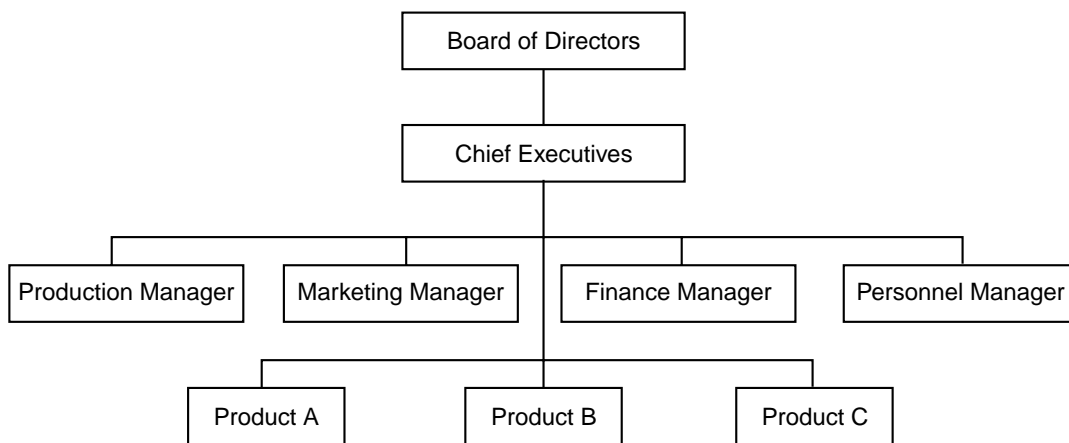
Drawbacks

- (1) It fosters sub-goal loyalty. Department goal becomes important than organizational goal resulting into interdepartmental conflicts.
- (2) Difficult to set up specific accountability and profit centers within functional departments with the result that performance cannot be accurately measured.

Departmentation by product: The grouping of activity on the basis of product or product lines is followed in multi-lines large scale organizations. All activities related to a particular product line may be grouped together under the direction of a semi-autonomous division manager as shown in fig 3.2.

Advantages

- (1) It focuses individual attention on each product line.
- (2) It leads to specialization of physical facilities on the basis of product which results in economy.
- (3) It is easier to evaluate and compare the performance of various product division.
- (4) It keeps problems of production isolated from others.

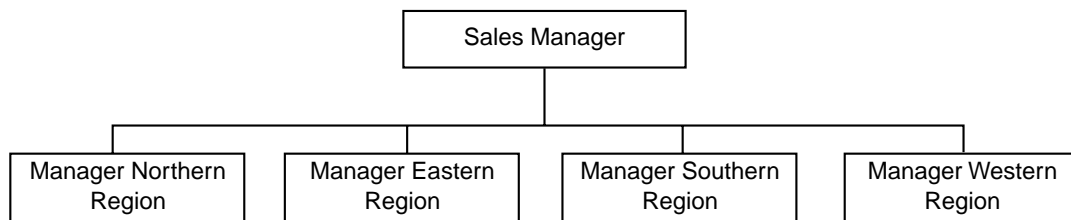


Departmentation by product

Departmentation by customers: This is used in the enterprises engaged in providing specialized services to different classes of customers. Management groups the activities

on the basis of customers to cater to the requirements of clearly defined customer groups. For example, an automobile service company may organize its departments as heavy vehicles servicing division, car servicing division and scooter servicing division. Similarly an educational institute may have departments for regular courses, evening and corresponding courses etc.

Departmentation by territory: Under this classification, the market area is broken up into sales territories and a responsible executive is put in-charge of each territory. The territory may be known as district, division or region. The field salesmen under respective regions report to their corresponding sales supervisors, if any, who are reporting to their respective regional managers. The fig. 3.3 is quite illuminating in this connection.



Departmentation by territory

Departmentation by Process: Departmentation here, is done on the basis of several discrete process or technologies involved in the manufacture of a product. For example, a vegetable oil company may have separate departments for crushing, refining and finishing. A textile mill may have departments for ginning, spinning, weaving and dyeing. A work that would otherwise be done in several different locations in an enterprise is done in one place because of special equipments used.

TYPES OF ORGANIZATION

According to Kimball and Kimball “The problem of an organization is to select and combine the efforts of men of proper characteristics so as to produce the desired results”. Nature, scale and size of the business are the normal factors which determine forms of internal organization. The following common types of organization find a place in the structure of internal organization.

Line, Military or Scaler Organization

Line organization is the simple and oldest type of organization and is also known of scalar or military organization. The line organization represents the structure in a direct

vertical relationship through which authority flows. The line of authority (see fig 3.4) flows vertically downward from top to bottom throughout the organization. The quantum of authority is highest at the top and reduces at each successive level. Under line organization, each department is generally a complete self-contained unit. A separate person will look after the activity of the department and has full control over the department. The superior communicates his decision and orders to his subordinates. The subordinates, in turn, can communicate them to those who are immediately under them. This type of organization is followed in military.

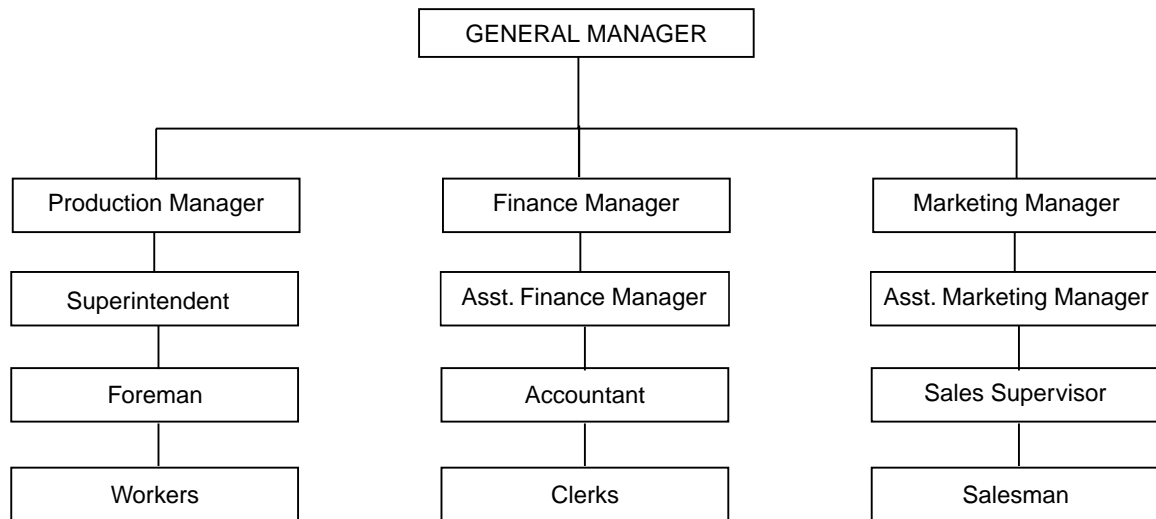
The advantages of line organization are

- (1) Simplicity
- (2) Quick decision and speed of action.
- (3) Unity of control.
- (4) Clear division of authority and responsibility.
- (5) Discipline and better coordination
- (6) Direct communication.

Disadvantages

- (1) The organization is rigid and inflexible
- (2) Being an autocratic system, managers may become dictators and not leaders.
- (3) There is scope of favor-ism and nepotism.
- (4) Red-tape and bureaucracy.
- (5) Lack of specialization.

General Manager

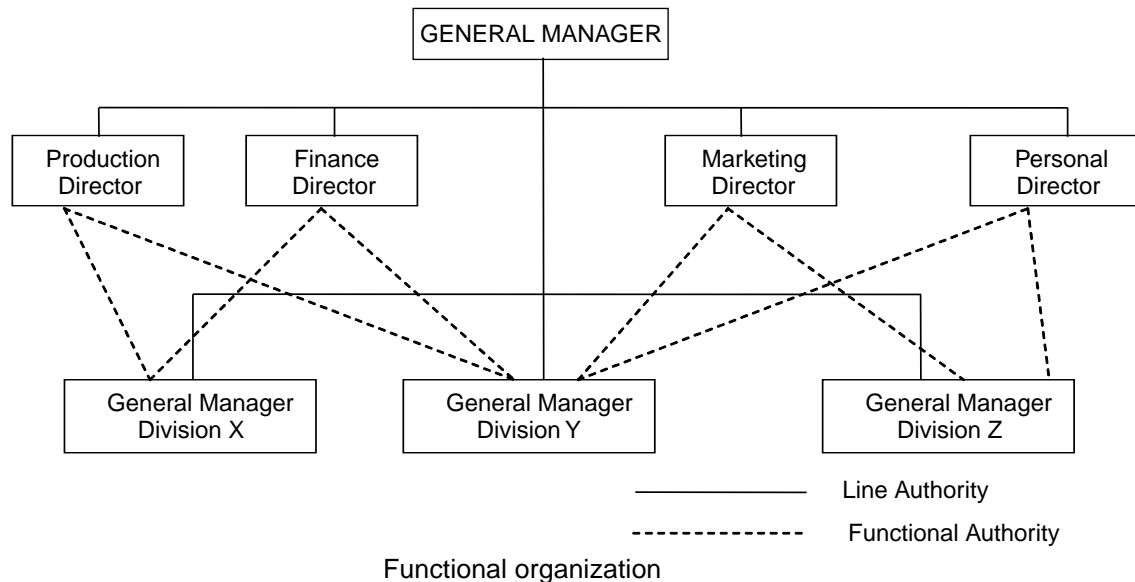


Line organization

Functional Organization

The line organization does not provide specialists in the structure. Many jobs require specialized knowledge to perform them. In functional organization the specialists are made available in the top positions throughout the enterprise. It confers upon the holder of a functional position, a limited power of command over the people of various departments concerning their function. Functional authority remains confined to functional guidance of different department.

Under functional organization, various activities of the enterprise are classified according to certain functions like production, marketing, finance, personnel etc., and are put under the charge of functional specialists as show in fig.3.5. A functional incharge directs the subordinates throughout the organization in his particular area of business operation. That means that subordinates receives orders and instructions not from one superior but from several functional specialists.



The advantages of functional organization

- (1) Specialization.
- (2) Reduces the burden on the top executives.
- (3) Offers greater scope for expansion.
- (4) A functional manager is required to have expertise in one function only. This makes it easy for executive development.

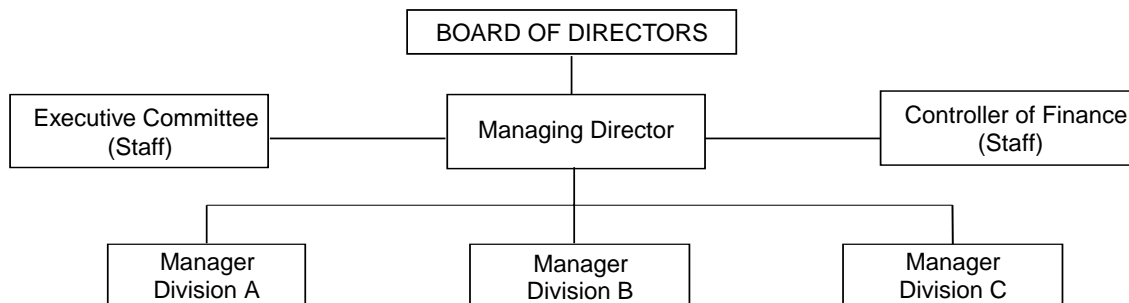
Disadvantages

- (1) Violates principles of unity of command.
- (2) The operation of functional organization is too complicated.

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- (3) It develops specialists rather than generalists.
 - (4) Lack of coordination among functional executives which delays decision making.

Line and Staff Organization

In order to reap the advantages of both line organization and functional organization, a new type of organization is developed i.e., line and staff organization. In line and staff organization, the line authority remains the same as it does in the line organization. Authority flows from top to bottom. In addition, the specialists are attached to line managers to advise them on important matters. These specialists stand ready with their speciality to serve line men as and when their services are called for to collect information and to give help which will enable the line officials to carryout their activity better. The staff officials do not have any power of command in the organization as they are employed to provide expert advice to the line manager. In most of the organization, staff investigates and supplies information and recommendations to managers who takes decision. Specialized staff positions are created to give counsel and assistance in each specialized field of effort as show in fig 3.6.



Line and staff organization

Advantages

- (1) Specialized knowledge
- (2) Reduction of burden on line managers.
- (3) Better decisions, as staff specialists help the line managers
- (4) Unity of command
- (5) Flexible when compared to functional organization.

Disadvantages

- (1) Allocation of duties between line and staff is not clear.
- (2) There is generally conflict between line and staff executives.

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- (3) Since staff is not accountable, they may not be performing well.
 - (4) Difference between orientations of line and staff. Line executive's deals with in problem in a more practical manner while staff, tend to be more theoretical.

Committee Organization

A committee is a body of persons appointed or elected to meet on an organized basis for the consideration of matters brought before it. "A committee is a group of persons performing a group task with the object of solving certain problems". The area of operation of a committee is determined by its constitution. A committee may formulate plans, review the performance of certain units or may only have the power to make recommendation. Committees help in taking corrective decision, coordinating the affairs of different departments and meeting communication requirements in the organization. Committees can be broadly classified into advisory committees and executive committees. **Advisory committees** have only a recommender's role and cannot enforce implementation of their **advice or recommendation**. The examples of advisory committees are works committees, finance committees etc., Whenever committees are vested with line authority, they are called as executive committees. Unlike advisory committee, **executive committees** not only take decisions but also enforce decisions and thus perform a double role of taking decision and ordering its executive. **The board of directors of a company is an example of an executive committee.**

Advantages of Committees

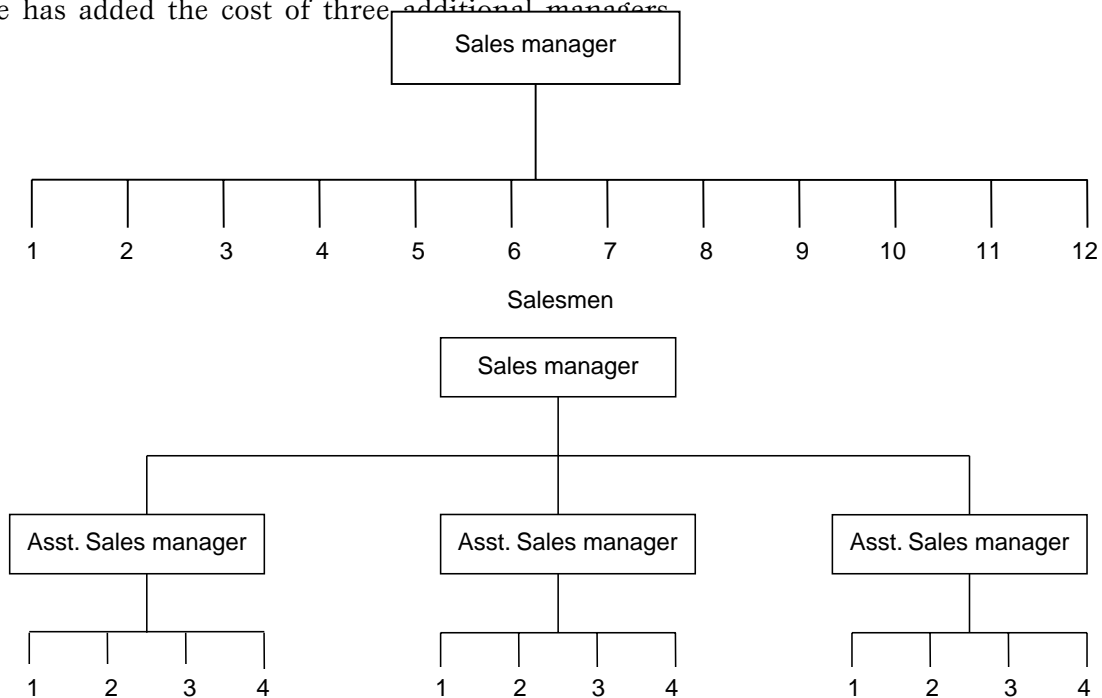
- (1) Committees provide a forum for the pooling of knowledge and experience of many persons of different skills, ages and backgrounds.
- (2) Committees are excellent means of transmitting information and ideas both upward and downward.
- (3) Committees are impersonal in action and hence their decisions are generally unbiased and are based on facts.
- (4) When departmental heads are members of committee, people get an opportunity to understand each others problems and hence improve coordination.

Weaknesses of Committees

- (1) In case a wrong decision is taken by committee, no one is held responsible which may results in irresponsibility among members.
- (2) Committees delay action
- (3) Committees are expensive form of organization.
- (4) Decisions are generally arrived at on the basis of compromise and hence they are not best decision.
- (5) As committee consists of large number of persons, it is difficult to maintain secrecy.

SPAN OF MANAGEMENT

The span of management/control indicates the number of subordinates who can be successfully directed by a supervisor. It is often referred to as span of management, span of supervision, span of authority. Span of management is important because of two reasons. First is span of management affects the efficient utilization of managers and the effective performance of the subordinates. If the span is too wide, managers are overburdened and subordinates receive little guidance. If the span of management is too narrow, the managers are under utilized and subordinates are over controlled. The second reason is there is relationship between span of management and organization structure. A narrow span results in tall organization with many levels of supervision between top management and lowest organizational levels which creates more communication and cost problems. On the other hand, a wide span for the same number of employees results in flat organization with fewer management levels between top and bottom. Suppose a sales manager has 12 salesmen reporting to him, his span of management is 12. If he feels that he is not able to work closely enough with each salesman and decides to reduce the span by adding three assistant managers – each to supervise four salesmen then his span of management is three as shown in fig 3.7. In doing so, he has added a level of management through which communication between him and salesmen must pass and he has added the cost of three additional managers.



Decrease in span of control increases the number of levels

Management experts suggest that the ideal number of subordinates is four in case of higher level management and eight to twelve in case of lower level management.

Factors Affecting the Span of Management

The following are some of the factors which influence the span of management:

- (1) ***Ability of the manager:*** Some managers are more capable than others and hence can handle a large number of subordinates.
- (2) ***Ability of the employees:*** If employees are more competent, less attention from the managers is required and a larger span of management can be used.
- (3) ***Type of work:*** If employees are doing similar jobs, the span of management can be large. If their jobs are quite different, a small span may be necessary.
- (4) ***Geographic location:*** If all subordinates are located at the same place span of management can be large. If subordinates are geographically distributed, a lower span is essential.
- (5) ***Well-defined authority and responsibility:*** Clear-cut authority and responsibility helps a manager to supervise large number of subordinates.
- (6) ***Level of management:*** The span of management is narrow at higher level of management, and span can be wider at lower levels.
- (7) ***Economic considerations:*** Narrow the span, taller is the structure is more is the cost. On the other hand, wider span reduces the number of levels and cost.

MANAGEMENT BY OBJECTIVES [MBO]

Management by objectives or results is an important practice for accomplishing the objectives of an enterprise in an effective way. The concept of MBO was introduced by Peter Drucker and later developed by various experts like John Humble, Dale and George Ordione. In recent years MBO has become philosophy of managing in many enterprises and is recognized as most dynamic and exciting in the area of management.

John Humble defined managing by objectives as a dynamic system which integrates the company's need to achieve its goals for profit and growth with manager's need to contribute and develop himself. In the words of George S. Ordione the system of MBO can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members. He also stressed that MBO is not a set of rules, a series of procedures or methods, but it is a way of thinking about management.

Management by objectives calls for regulating the process of managing in terms of meaningful, specific and variable objectives at different levels of management hierarchy. MBO moulds planning, directing and controlling in a number of ways. It stimulates meaningful action of better performance and higher accomplishment. It is closely associated with the concept of decentralization because decentralization cannot work without the support of management by objectives.

Features of MBO

- (1) An attempt is made by the management to integrate the goals of an organization and individuals. This will lead to effective management.

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- (2) MBO emphasize not only on goals but also on effective performance.
 - (3) It pays constant attention to refining, modifying and improving the goals and changing the approaches to achieve the goals on the basis of experience.
 - (4) It increases organizational capability of achieving goals at all levels.
 - (5) A high degree of motivation and satisfaction is available to employees through MBO.
 - (6) Recognizes the participation of employees in goal setting process.
 - (7) Aims at replacing the exercise of authority with consultation.
 - (8) Encourages a climate of trust, goodwill and a will to perform.

Steps in Management by Objectives

The following steps are involved in MBO—

- (1) ***Setting of organizational objectives:*** The first step in MBO is defining organizational objectives. The definition of organizational objectives states why the business is started and exists. Long-term objectives followed by short-term objectives are framed taking into account the feasibility of achieving them. The objectives are framed on the basis of availability of resources.
- (2) ***Setting departmental objectives:*** Objectives for each department, division and section are framed on the basis of overall objectives of the organization. Period within which these objectives should be achieved is also fixed. Goals or objectives are expressed in a meaningful manner.
- (3) ***Fixing key result areas:*** Key result areas are fixed on the basis of organizational objectives premises. Key result areas are arranged on the basis of priority. Key result areas indicate the strength of an organization. The examples of key result areas are profitability, market standing, innovation etc.
- (4) ***Setting subordinate objectives or targets:*** Departmental objectives are then set by departmental managers, and get them approved by the top management. This process of setting the objectives is repeated at the lower levels of management. At each level, objectives are set in verifiable unit so that performance of every department and individual may be reviewed after the end of a particular period.
- (5) ***Appraisal of activities:*** In this step, superiors periodically review the progress and the subordinate's performance is evaluated against the specified standards and initiates corrective action. The superior should identify the reasons for failure of achieving objectives and should tackle such problems.
- (6) ***Reappraisal of objectives:*** An organization has to operate in a dynamic world. So the top management should review the organizations objectives to frame the objectives according to the changing condition.

Benefits of MBO

The following are the benefits of MBO—

- (1) Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.
- (2) MBO process helps the managers to understand their role in the total organization.
- (3) MBO provides a foundation for participative management. Subordinates are also involved in goal setting.
- (4) A department does not work at cross purpose with another department. In other words, each department's objectives are consistent with the objectives of the whole organization.
- (5) Systematic evaluation of performance is made with the help of MBO.
- (6) MBO gives the criteria of performance. It helps to take corrective action.
- (7) MBO motivates the workers by job enrichment and makes the jobs meaningful.
- (8) The responsibility of a worker is fixed through MBO.