

Organizations, Meaning, Definitions, Objectives, Process, Importance, Principles, Significance and Nature

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Organization is a structured group of people working together toward common objectives through coordinated efforts. It serves as a system where individuals perform assigned roles, responsibilities, and tasks to achieve shared goals efficiently. Organizations exist in various forms—businesses, schools, hospitals, government bodies, and non-profits—and are designed to bring order, efficiency, and purpose to human efforts.

Organizations are created to combine and utilize resources such as people, technology, materials, capital, and information in a systematic way. They provide a **framework of authority, communication, and roles** so that tasks can be executed smoothly and resources are used effectively. Every organization has a formal structure, such as departments or divisions, and often an informal structure that includes relationships, culture, and behaviors.

An organization functions through **division of labor, specialization, and coordination**. Individuals are grouped based on functions, products, geography, or customer needs. Clear rules, policies, and procedures guide actions, ensuring accountability and control.

The success of an organization depends on how well it achieves its objectives, adapts to changes, and satisfies stakeholders. It is not only a place of work but also a social and economic entity that influences individuals and society.

Chester I. Barnard

“An organization is a system of consciously coordinated activities or forces of two or more persons.”

Explanation: Barnard emphasizes cooperation among individuals working toward common objectives under a formal system.

Louis A. Allen

“Organization is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships to enable people to work most effectively together in accomplishing objectives.”

Explanation: Allen defines organization as both a structure and a dynamic process of coordination.

Koontz and O'Donnell

“Organization is the establishment of authority relationships with provision for coordination between them, both vertically and horizontally in the enterprise structure.”

Explanation: This definition highlights the importance of structure and coordination in achieving efficiency.

James D. Mooney and Alan C. Reiley

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

Explanation: Mooney and Reiley view organizations as universal in all human activities, from families to corporations.

Stephen P. Robbins

“An organization is a consciously coordinated social unit, composed of two or more people, that functions on a relatively continuous basis to achieve a common goal or set of goals.”

Explanation: Robbins focuses on the social and goal-oriented aspects of organizations.

| Objectives of Organizations:

Profit Maximization

For most business organizations, the primary objective is **profit maximization**. Profits are essential for survival, expansion, and reward to stakeholders. It allows the organization to reinvest in new projects, pay dividends, attract investors, and maintain liquidity. A profit-oriented organization aims to increase revenue, reduce costs, and improve productivity. Though profit isn't the sole focus in modern organizations, it remains a crucial indicator of financial performance and sustainability. A consistent profit margin also builds organizational credibility and financial stability.

Growth and Expansion

Another key objective of organizations is **growth and expansion**, which refers to increasing market share, customer base, revenue, and geographical presence. Organizations strive to scale operations through innovation, diversification, mergers, or entering new markets. Growth enables them to gain competitive advantage, improve economies of scale, and strengthen their industry position. This objective supports long-term survival and success. Whether measured in financial terms or through operational reach, organizational growth reflects strategic ambition and adaptability in a dynamic business environment.

Customer Satisfaction

Organizations aim to ensure **high levels of customer satisfaction**, as customers are the core of every business. Satisfying customer needs and expectations leads to loyalty, repeat business, and positive word-of-mouth. To achieve this, organizations focus on product quality, service delivery, responsiveness, and value creation. Customer

satisfaction helps retain a strong market presence and drives profitability. In modern competitive environments, building relationships and delivering consistent customer experience are not just objectives but essential pillars of an organization's mission and brand identity.

Employee Welfare and Development

A progressive organization prioritizes **employee welfare and development** as a major objective. This includes providing fair wages, safe working conditions, skill development opportunities, and a positive work culture. By investing in employee growth, organizations enhance productivity, reduce turnover, and build a motivated workforce. Happy and empowered employees contribute significantly to organizational success. Moreover, organizations that care for their employees build strong internal loyalty and employer branding, which helps in attracting and retaining top talent in a competitive labor market.

Social Responsibility

Modern organizations recognize **social responsibility** as an essential objective. Beyond profit, they strive to contribute to the welfare of society by promoting ethical practices, environmental sustainability, education, health, and community development. Through Corporate Social Responsibility (CSR) programs, companies align business practices with societal values. This helps build goodwill, trust, and a positive public image. In the long run, socially responsible organizations gain customer loyalty, regulatory support, and a sustainable ecosystem that benefits both business and society.

Innovation and Efficiency

Organizations pursue the objective of **innovation and operational efficiency** to remain competitive and relevant. Innovation includes developing new products, improving processes, or adopting modern technology to enhance performance. Efficiency refers to optimizing resources, minimizing waste, and achieving maximum output with minimum input. These objectives lead to cost-effectiveness, better customer service, and stronger market positioning. Embracing innovation and efficiency enables organizations to stay ahead in rapidly changing industries and to continually improve their value proposition to stakeholders.

Adaptability and Sustainability

Adaptability and long-term **sustainability** are vital organizational objectives, especially in a volatile global environment. Organizations must respond to changes in market trends, technology, regulations, and customer preferences. Being adaptable helps organizations remain resilient and competitive. Sustainability involves using resources responsibly and planning for environmental and economic longevity. Companies now focus on reducing carbon footprints, ethical sourcing, and long-term financial health. Together, adaptability and sustainability ensure that an organization thrives responsibly and maintains relevance in a fast-evolving world.

Quality Assurance

Delivering consistent **quality in products and services** is a core organizational objective. Quality assurance ensures that outputs meet or exceed customer expectations and regulatory standards. Organizations implement quality control systems, standard operating procedures, and continuous improvement strategies like Total Quality Management (TQM). Maintaining high-quality standards reduces rework, enhances customer trust, and builds brand reputation. It also contributes to cost savings and operational excellence. In competitive markets, quality is often the key differentiator and a strategic asset for long-term success.

| Process of Organizations:

Identifying Objectives

The first step in the process of organizing is to **identify the overall objectives** of the organization. These goals provide direction and purpose for all other activities. Objectives may include profit maximization, market expansion, social responsibility, or operational efficiency. Clearly defined goals guide decision-making, resource allocation, and employee roles. Without specific objectives, organizational efforts may become fragmented or misaligned. This step ensures that all departments and personnel work in unison toward a common purpose and lays the foundation for structure and coordination.

Determining Activities

Once goals are set, the next step is to **determine the specific activities** required to achieve them. Managers break down objectives into manageable tasks and functions. For example, marketing, finance, production, HR, and logistics activities are identified separately. Each major function is further subdivided into smaller tasks for clarity and delegation. This systematic identification helps in avoiding duplication of efforts, defining the scope of work, and ensuring operational efficiency. It also allows for smooth execution and accountability at every level of the organization.

Grouping of Activities

After determining the activities, the next step is **grouping similar or related tasks into departments or units**. This creates functional divisions like marketing, sales, production, finance, etc. Grouping tasks facilitates specialization, efficient supervision, and better coordination. It ensures that teams working on similar functions collaborate effectively. This step leads to departmentalization, which can be based on function, product, geography, or customer type. Proper grouping of activities streamlines workflow, promotes focus, and aligns resources with specific organizational needs.

Assigning Duties

Following the grouping of activities, the organization must **assign specific duties to individuals** based on their skills, experience, and roles. Each employee is given a defined job description with clearly outlined responsibilities and expected results. This step establishes who will do what and reduces confusion or overlap of tasks. Effective duty assignment promotes accountability, improves performance, and boosts employee confidence. Assigning duties also helps in optimizing human resource utilization and aligns individual roles with departmental and organizational goals.

Delegating Authority

With duties assigned, it is essential to **delegate authority appropriately** to ensure employees can perform their roles effectively. Authority is the power to make decisions and command resources. Managers must distribute authority according to responsibility levels to prevent delays and inefficiencies. This delegation helps decentralize decision-making and empowers subordinates. Proper authority delegation enhances employee autonomy, speeds up work processes, and reduces managerial burden. It also supports organizational discipline, responsibility, and accountability throughout the hierarchical structure.

Establishing Coordination

The next step is to **establish coordination** among various departments, units, and individuals. Coordination ensures all parts of the organization work harmoniously toward the common goal. Managers must align departmental efforts, resolve conflicts, and foster communication across levels. Coordination minimizes duplication of work, balances workloads, and ensures seamless operation. It also helps in synchronizing timelines, sharing resources, and adapting to changes. Without proper coordination, even well-structured organizations may face inefficiencies, internal friction, and missed opportunities.

Defining Relationships

A crucial step in organizing is to **define formal relationships** among employees, departments, and authority levels. This includes establishing the chain of command, lines of communication, and span of control. Clear reporting relationships ensure that everyone knows their superiors and subordinates, creating discipline and direction. Organizational charts and manuals are used to depict these relationships. When formal relationships are defined, it reduces ambiguity, prevents overlaps, and promotes accountability. This step builds a hierarchical framework that supports structure, control, and order.

Reviewing and Reorganizing

The final step is to **review the organization structure regularly** and make necessary adjustments based on performance, growth, or changes in the external environment. This ensures the structure remains aligned with organizational goals and adaptable to evolving needs. Reorganization may involve restructuring departments, reallocating resources, or redefining roles. Regular reviews identify inefficiencies, redundancies, or communication

gaps. A dynamic organization structure promotes continuous improvement, innovation, and long-term success. This final step ensures sustainability and agility in a competitive business landscape.

| Importance of Organizations:

Facilitates Goal Achievement

Organizations play a crucial role in **achieving collective goals** by coordinating the efforts of individuals toward a shared purpose. Through structured processes, assigned roles, and proper management, organizations convert plans into outcomes. Individual efforts, when aligned within an organizational framework, become more focused and productive. Goals such as profitability, market share, customer service, or social welfare are systematically pursued. Without organizational structure, achieving complex or large-scale objectives would be inefficient, chaotic, and disjointed. Organizations channel diverse resources effectively to fulfill targeted aims efficiently.

Promotes Specialization and Efficiency

Organizations promote **division of labor and specialization**, which leads to increased efficiency and productivity. By assigning specific roles based on skills and expertise, employees can focus on what they do best. This specialization allows for quicker execution, better quality, and fewer errors. Departments are created to handle specific functions like marketing, finance, and production, making operations smoother and more effective. As each unit becomes an expert in its domain, the overall efficiency of the organization improves, supporting long-term growth and competitiveness.

Ensures Optimum Resource Utilization

An organization ensures the **effective and optimal use of available resources** such as human talent, capital, raw materials, and technology. Resources are allocated systematically based on planning and strategic needs. By minimizing wastage and avoiding duplication, organizations make the best use of inputs to maximize outputs. This efficient resource utilization leads to cost savings and improved performance. Organizations also help in identifying gaps and reallocating resources where needed, ensuring productivity is maintained and returns on investment are optimized.

Encourages Innovation and Adaptability

Organizations provide an environment that **encourages innovation, research, and adaptability**. Structured departments for R&D or innovation promote continuous improvement and creative problem-solving. The formal system allows quick implementation of new ideas and processes. As markets evolve, organizations can adapt their structure, policies, and strategies to stay competitive. They analyze environmental changes and adjust operations accordingly. This dynamic adaptability ensures that organizations remain relevant and resilient amid technological shifts, market changes, and global economic developments.

Provides Employment and Economic Growth

Organizations are key contributors to **employment generation and economic development**. They create job opportunities across various levels—skilled, semi-skilled, and unskilled—thereby improving the standard of living. Through consistent production and service delivery, organizations stimulate trade, demand, and consumption, contributing to GDP growth. Additionally, businesses pay taxes, contribute to infrastructure development, and promote entrepreneurship. In this way, organizations act as engines of economic progress and social upliftment, supporting both individual livelihoods and national development goals.

Enhances Coordination and Control

Organizations provide a **formal structure that ensures coordination and control** of activities across departments and personnel. Through predefined roles, reporting relationships, and authority lines, organizations maintain discipline and direction. This structure reduces confusion, eliminates duplication, and streamlines communication. Managers coordinate team efforts and monitor performance, ensuring activities align with organizational objectives. With proper control systems like budgets, audits, and KPIs, organizations can evaluate effectiveness and take corrective actions. Thus, coordination and control ensure that all parts of the organization work harmoniously.

Supports Decision-Making and Planning

Organizations provide a framework for **informed decision-making and strategic planning**. With access to structured data, specialized departments, and experienced personnel, management can make better choices for the company's growth. Decision-making becomes systematic, supported by inputs from finance, marketing, production, and HR. Formal channels and data systems enable analysis of performance, forecasting, and future planning. This improves accuracy, reduces risk, and enhances responsiveness to market dynamics. A well-structured organization helps leaders create and implement strategies effectively.

Promotes Social Responsibility and Ethics

Modern organizations play a vital role in **promoting social responsibility and ethical conduct**. Through CSR initiatives, businesses contribute to environmental sustainability, education, health care, and community development. Ethical policies and codes of conduct within organizations encourage transparency, fairness, and accountability. This builds trust among stakeholders including customers, investors, and employees. Organizations also influence social norms and set examples of responsible behavior. In fulfilling ethical and social responsibilities, they contribute to creating a more balanced and equitable society.

| Principles of Organizations:

Principle of Objective

The first and foremost principle is that every organization must be built around **clear and defined objectives**. All organizational activities, structures, and roles should support the achievement of these goals. Objectives guide decision-making, performance measurement, and resource allocation. When every member understands and aligns with the purpose, efforts become unified and meaningful. This principle ensures focus and clarity throughout the organization. Without well-defined objectives, operations become disjointed, leading to confusion and inefficiency. Goals act as the compass for organizational planning and success.

Principle of Division of Work

This principle emphasizes **dividing work into specialized tasks** assigned to individuals or departments. Division of labor enhances efficiency, encourages specialization, and increases productivity. When employees focus on specific duties that match their skills, they perform better and faster. It also simplifies training and supervision. Specialization leads to expertise and consistency in output. This principle is vital in complex organizations, where activities need to be broken down into manageable parts to ensure smooth functioning and improved overall organizational performance.

Principle of Authority and Responsibility

An effective organization maintains a balance between **authority and responsibility**. Authority is the right to give orders, while responsibility is the duty to perform tasks. This principle states that whenever authority is granted, corresponding responsibility must follow. Likewise, no responsibility should be assigned without sufficient authority. This balance ensures accountability and efficiency. Managers must be empowered to lead, and subordinates must be held accountable for their actions. Misalignment between authority and responsibility can result in inefficiency and confusion.

Principle of Unity of Command

According to this principle, **each employee should report to only one superior**. Unity of command avoids confusion, overlapping instructions, and conflicts in authority. It ensures clear reporting relationships and streamlined communication. When an employee receives commands from multiple sources, it may lead to misinterpretation, divided loyalty, or inefficiency. This principle promotes discipline, simplifies accountability, and reinforces the hierarchy. It helps maintain an orderly and focused work environment by clarifying who is responsible for directing and evaluating each employee's performance.

Principle of Span of Control

This principle relates to the **number of subordinates a manager can effectively supervise**. A narrow span allows for closer supervision but may increase layers of hierarchy. A wide span gives more autonomy but can limit managerial oversight. The ideal span of control depends on the complexity of tasks, competence of subordinates, and

nature of communication. Maintaining a suitable span ensures effective coordination, better control, and efficient use of managerial resources. It influences the structure and efficiency of the organization.

Principle of Coordination

Coordination is essential for ensuring that **all departments and individuals work in harmony** toward common goals. This principle promotes alignment between different functions like marketing, production, HR, and finance. Without coordination, efforts may become fragmented, resulting in duplication or missed deadlines. Effective coordination ensures smooth workflow, optimal resource use, and higher productivity. It is achieved through planning, communication, regular meetings, and shared objectives.

Organizations with strong coordination capabilities are more adaptable and responsive to challenges and opportunities.

Principle of Flexibility

An organization must be **flexible enough to adapt to changes** in its environment, such as market trends, customer needs, or technological advancements. The principle of flexibility ensures that structures, roles, and processes can be adjusted when necessary without causing major disruption. A rigid organization may resist innovation or delay action, risking inefficiency or failure. Flexibility supports growth, innovation, and responsiveness. Organizations should encourage dynamic policies and continuous improvement practices to stay competitive and resilient in changing business landscapes.

Principle of Efficiency

The principle of efficiency focuses on **achieving maximum output with minimum input**. This includes optimizing processes, reducing waste, and utilizing resources wisely. Efficiency in an organization means doing the right things in the right way, with minimal cost and time. It leads to higher profitability, customer satisfaction, and sustainable operations. This principle requires continuous monitoring and improvement of systems, workflows, and employee performance. Efficient organizations make better decisions, adapt quickly, and gain competitive advantage in both domestic and global markets.

| Significance of Organizations:

Achieving Collective Goals

Organizations are significant because they **unite individuals to achieve collective goals** that would be difficult to accomplish alone. By providing structure and coordination, organizations help align diverse skills and efforts toward shared objectives like profitability, innovation, or service. They allow systematic planning, execution, and evaluation of work. Whether in business, government, or social service, organizations enable goal realization through teamwork, role clarity, and direction. Without organizations, individual efforts remain scattered and inefficient, making it hard to scale, sustain, or manage large missions effectively.

Enhancing Efficiency through Specialization

Organizations promote **division of labor and specialization**, which boosts productivity and operational efficiency. By assigning specific tasks to individuals based on their skills and expertise, organizations reduce redundancy and increase output quality.

Specialization allows employees to focus on their strengths, master tasks, and contribute meaningfully. This leads to streamlined processes, better resource utilization, and faster decision-making. The structure of organizations supports continuous improvement, efficient workflow, and better service delivery. Ultimately, they provide the foundation for high-performance systems in complex environments.

Structured Decision-Making

One key significance of organizations is that they provide a **framework for structured decision-making**. Clear hierarchies and defined responsibilities ensure that decisions are made systematically and based on relevant data and authority levels. This prevents confusion, speeds up responses, and improves accountability. Organizations establish policies, procedures, and communication channels that support rational and timely decision-making. In complex operations, such structured processes reduce errors, align strategies, and guide coordinated actions. They also empower managers to make informed choices aligned with organizational goals.

Employment Generation and Livelihoods

Organizations play a critical role in **generating employment opportunities**, thereby supporting individual livelihoods and national development. They offer jobs at various levels—skilled, semi-skilled, and managerial—helping people earn income and improve their quality of life. Through hiring, training, and development, organizations contribute to workforce growth and human capital development. They also create indirect employment through vendors, suppliers, and support services. In developing economies, the presence of dynamic organizations significantly enhances socio-economic progress and reduces unemployment and poverty levels.

Economic Development

Organizations significantly contribute to **national economic growth and development**. By producing goods, offering services, paying taxes, and investing in infrastructure, they boost GDP and foster industrialization. They enhance trade, create wealth, and stimulate innovation. Successful organizations attract foreign investments, improve exports, and strengthen the country's competitive position globally. Moreover, they promote financial stability, technological advancement, and sustainable practices. In both public and private sectors, organizations are engines of economic progress, enabling wealth distribution and accelerating long-term societal transformation.

Social and Ethical Responsibility

Organizations carry the responsibility of **promoting ethical practices and contributing to social well-being**. They support environmental conservation, education, healthcare, and community development through CSR initiatives. Ethical organizations foster trust among stakeholders—employees, customers, investors, and society. They influence norms, uphold human rights, and advocate for inclusive growth. Their role extends beyond profit-making to becoming responsible corporate citizens. By addressing social issues and practicing fairness, transparency, and accountability, organizations enhance their legitimacy and build sustainable, positive relationships with the communities they serve.

Innovation and Technological Advancement

Organizations are vital for **driving innovation and advancing technology**. With structured R&D departments, funding, and a collaborative environment, they develop new products, services, and processes. Innovation leads to competitive advantage, market leadership, and customer satisfaction. Organizations help commercialize ideas, scale inventions, and bring scientific progress into practical use. Their commitment to innovation benefits not only the business but society at large, improving living standards and solving real-world problems. Thus, organizations act as platforms for creativity and continuous improvement.

Stability and Long-Term Sustainability

Organizations provide **stability, continuity, and sustainability** to economic and social systems. They institutionalize processes, roles, and responsibilities, making operations predictable and manageable over time. Stable organizations withstand uncertainties, plan for the future, and maintain consistent service delivery. They also ensure succession, resource management, and risk mitigation. In times of crisis or change, well-structured organizations offer resilience and adaptability. Their long-term vision, strategic planning, and focus on sustainability help in building trust and creating enduring value for all stakeholders.

| Nature of Organizations:

Goal-Oriented Structure

Organizations are **inherently goal-oriented**, meaning they are established with a specific purpose or set of objectives. Whether it's maximizing profit, delivering services, or creating social impact, every organization functions to achieve its defined aims. All resources—human, financial, and physical—are coordinated and directed toward fulfilling these goals. This characteristic drives decision-making, operational planning, and performance measurement. The goal-oriented nature ensures that efforts are focused and progress is measurable, making the organization more structured, accountable, and result-driven in its overall functioning.

Social System

An organization is a **social system** composed of people interacting and working together in structured roles and relationships. It brings together individuals with different backgrounds, skills, and motivations who cooperate to achieve shared goals. These human interactions shape the culture, behavior, and effectiveness of the organization. The success of any organization depends on harmonious interpersonal relationships, team dynamics, and a positive work environment. As a social system, the organization must manage conflict, motivation, and communication to maintain coordination and collective productivity.

Deliberate Structure and Coordination

Organizations operate through a **deliberate structural framework**, where tasks, authority, and responsibilities are formally assigned and coordinated. This structure could be functional, divisional, matrix, or hybrid, depending on size and objectives. A defined structure enables systematic workflow, efficient resource use, and proper control. Coordination across departments and roles ensures that everyone works in alignment, reducing duplication and confusion. The formal structure supports clear hierarchy, streamlined communication, and accountability, making the organization efficient, disciplined, and capable of scaling operations smoothly.

Division of Labor and Specialization

The **division of labor** is a fundamental nature of organizations where complex tasks are broken into smaller, manageable units assigned to individuals based on their expertise. Specialization enhances productivity, allows for efficiency, and improves quality through repetition and mastery. It fosters competence within departments and helps streamline training, supervision, and evaluation. Each individual contributes as a specialist in their role, making the whole organization function like an integrated system. This characteristic also supports innovation and operational excellence across various functions.

Hierarchical Authority

Organizations follow a **hierarchical structure of authority**, where power and decision-making rights flow from the top level to lower levels. This chain of command clarifies who reports to whom and who is responsible for what. The hierarchy establishes discipline, facilitates control, and ensures that directives are implemented. It defines levels of responsibility and enables efficient supervision and accountability. A well-established authority structure avoids confusion, promotes order, and enables smooth functioning. It also helps manage large teams and complex processes effectively.

Dynamic and Adaptive Entity

Organizations are **dynamic systems** that must adapt continuously to changes in the external and internal environment. Market trends, customer preferences, technological advancements, and regulatory shifts require organizations to be flexible and responsive. A successful organization embraces change, encourages innovation, and revises strategies and processes accordingly. The ability to adapt determines long-term survival

and competitiveness. Being dynamic means evolving goals, structures, and cultures to stay relevant and effective in an ever-changing business landscape, ensuring sustained growth and relevance.

Continuous Process

Organizing is not a one-time act; it is a **continuous and evolving process**. As organizations grow or face new challenges, structures, policies, and strategies must be updated. New departments may be created, roles redefined, and workflows redesigned. The process of organizing must regularly align with changing objectives, technologies, and human resource capabilities. Continuous organizing ensures efficiency, relevance, and effectiveness. It reflects the organization's ability to respond to change, improve performance, and innovate while maintaining operational consistency and goal alignment.

Legal and Formal Entity

An organization functions as a **legal and formal entity** recognized by laws and regulations. It can enter into contracts, own assets, sue or be sued, and operate independently of the individuals working within it. This legal recognition provides credibility, accountability, and protection to stakeholders. The formal nature also includes policies, procedures, and governance mechanisms that guide behavior and decisions. Being a legal entity helps organizations establish trust, attract investments, and ensure continuity even when leadership or employees change.

Organization Structure, Meaning and Types

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Organizational structure is a systematic arrangement that defines how tasks, responsibilities, authority, and communication are distributed within an organization. It outlines **who reports to whom**, how decisions are made, and how information flows across different levels and departments. The purpose of an organizational structure is to ensure clarity, efficiency, accountability, and coordination in achieving the organization's goals.

Organizational structure provides a **formal framework** that guides the behavior of employees and helps manage large, complex operations effectively. It determines roles, allocates duties, and establishes control mechanisms to streamline operations. The structure directly influences organizational performance, culture, and adaptability to changes. It ensures that every member of the organization understands their responsibilities and how their work contributes to overall success.

There are various types of organizational structures such as **functional, divisional, matrix, project-based, and flat structures**, each with its advantages and limitations. The choice of structure depends on factors like organizational size, goals, industry, and the need for flexibility or specialization.

A well-designed organizational structure promotes **effective communication, quick decision-making, smooth workflow, and optimal use of resources**. In contrast, a poorly structured organization may face confusion, inefficiencies, and internal conflicts.

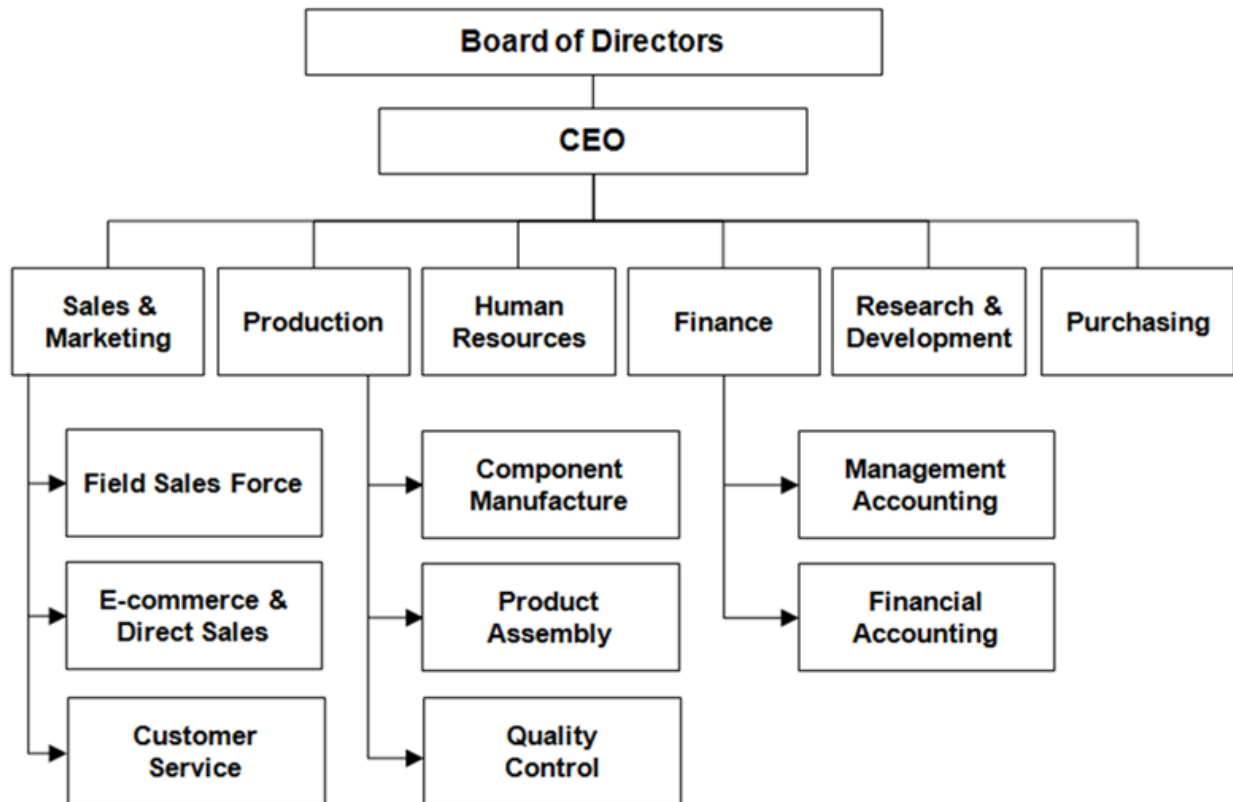
In essence, an organizational structure serves as the backbone of management, helping align people, processes, and strategies in a coherent and productive manner.

| Types of Organizational Structures:

There are many types of organizational structures. There's the more traditional functional structure, the divisional structure, the matrix structure and the flatarchy structure. Each organizational structure comes with different advantages and disadvantages and may only work for companies or organizations in certain situations or at certain points in their life cycles.

1. Functional

The functional structure is based on an organization being divided up into smaller groups with specific tasks or roles. For example, a company could have a group working in information technology, another in marketing and another in finance.



Each department has a manager or director who answers to an executive a level up in the hierarchy who may oversee multiple departments. One such example is a director of marketing who supervises the marketing department and answers to a vice president who is in charge of the marketing, finance and IT divisions.

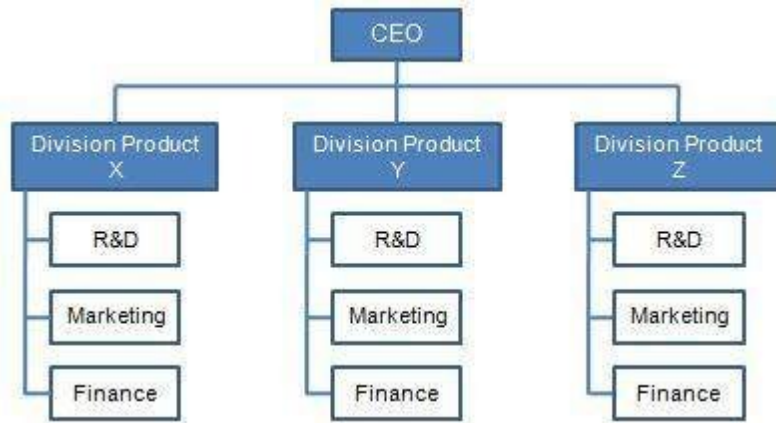
An advantage of this structure is employees are grouped by skill set and function, allowing them to focus their collective energies on executing their roles as a department.

One of the challenges this structure presents is a lack of inter-departmental communication, with most issues and discussions taking place at the managerial level among individual departments. For example, one department working with another on a project may have different expectations or details for its specific job, which could lead to issues down the road.

2. Divisional

Larger companies that operate across several horizontal objectives sometimes use a divisional organizational structure.

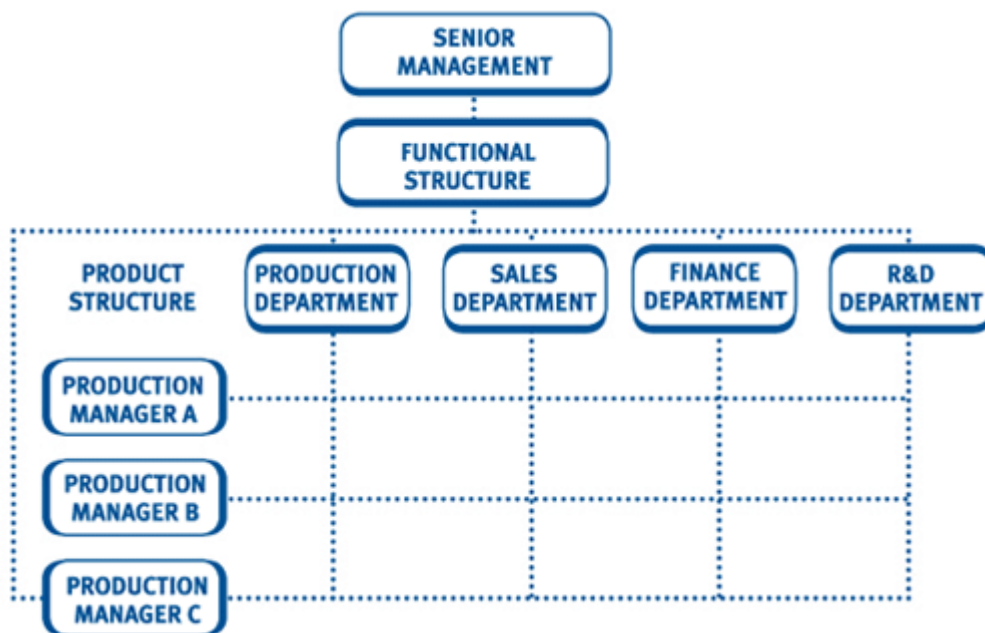
This structure allows for much more autonomy among groups within the organization. One example of this is a company like General Electric. GE has many different divisions including aviation, transportation, currents, digital and renewable energy, among others.



Under this structure, each division essentially operates as its own company, controlling its own resources and how much money it spends on certain projects or aspects of the division.

3. Matrix

A hybrid organizational structure, the matrix structure is a blend of the functional organizational structure and the projectized organizational structure.



In the matrix structure, employees may report to two or more bosses depending on the situation or project. For example, under normal functional circumstances, an engineer at a large engineering firm could work for one boss, but a new project may arise where that engineer's expertise is needed. For the duration of that project, the employee would also report to that project's manager, as well as his or her boss for all other daily tasks.

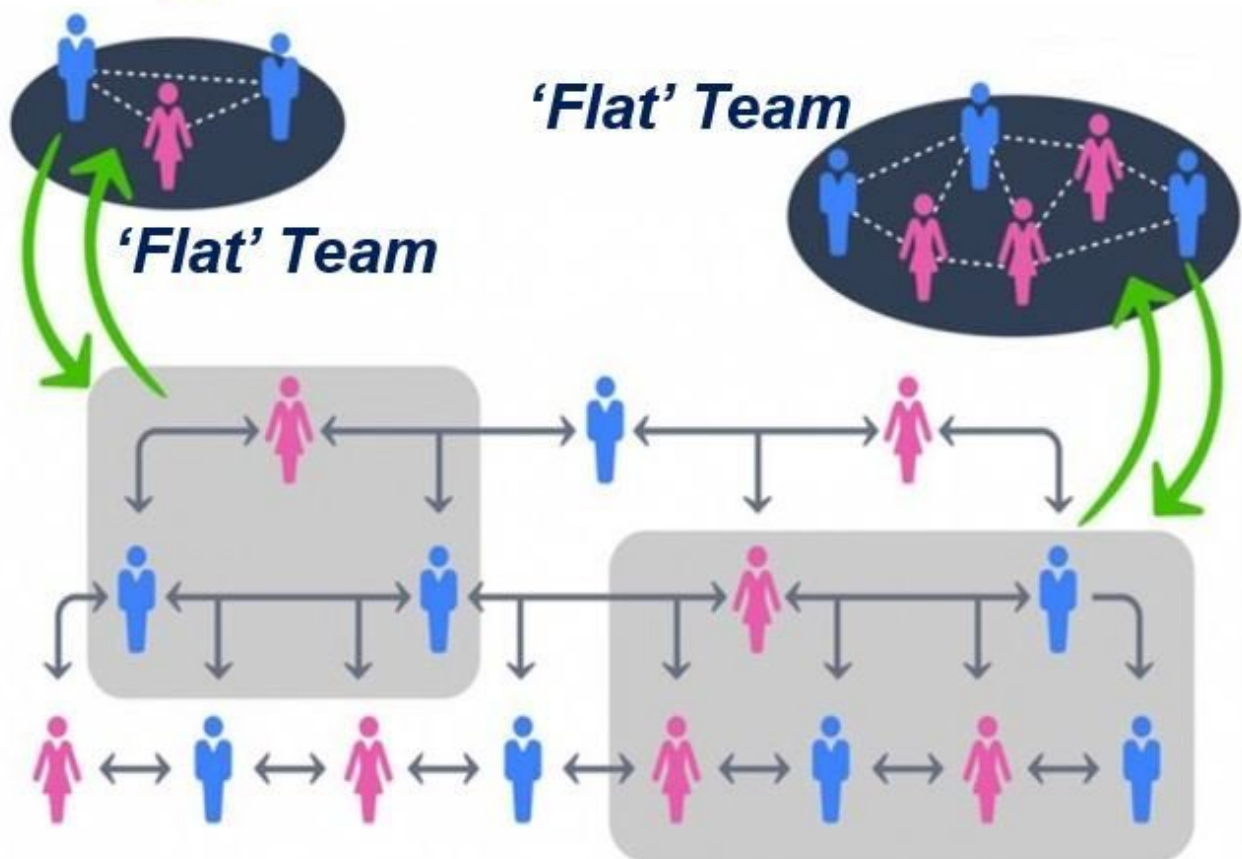
The matrix structure is challenging because it can be tough reporting to multiple bosses and knowing what to communicate to them. That's why it's very important for the employees to know their roles, responsibilities and work priorities.

Advantages of this structure is that employees can share their knowledge across the different functional divisions, allowing for better communication and understanding of each function's role. And by working across functions, employees can broaden their skills and knowledge, leading to professional growth within the company.

4. Flatarchy

While the previous three types of organizational structures may work for some organizations, another hybrid organizational structure may be better for startups or small companies.

Flatarchy Organizational Structure



Blending a functional structure and a flat structure results in a flatarchy organizational structure, which allows for more decision making among the levels of an organization and, overall, flattens out the vertical appearance of a hierarchy.

The best example of this structure within a company is if the organization has an internal incubator or innovation program. Within this system, the company can operate in an existing structure, but employees at any level are encouraged to suggest ideas and run with them, potentially creating new flat teams. Lockheed Martin, according to Forbes, was famous for its skunkworks project, which helped develop the design of a spy plane.

A benefit of this system is it allows for more innovation company-wide, as well as eliminating red tape that could stall innovation in a functional structure. As for the negatives, the structure could be confusing and inconvenient if everyone involved doesn't agree on how the structure should be organized.

Centralization in Organization/Management

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Centralization refers to the process in which activities involving planning and decision-making within an organization are concentrated to a specific leader or location. In a centralized organization, the decision-making powers are retained in the head office, and all other offices receive commands from the main office. The executives and specialists who make critical decisions are based in the head office.

Centralization is a method of organizing and management where management and decision-making powers are concentrated in the hands of the top management of the organization. Centralization allows on the one hand an unified decision “from the centre” on the other hand, limits the autonomy of organizational units and may reduce flexibility of the decision.

Centralization is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. According to Allen, “Centralization” is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be:

- Reservation of decision-making power at top level.
- Reservation of operating authority with the middle level managers.
- Reservation of operation at lower level at the directions of the top level.

Advantages of Centralization

Focused vision

When an organization follows a centralized management structure, it can focus on the fulfillment of its vision with ease. There are clear lines of communication and the senior executive can communicate the organization’s vision to employees and guide them toward the achievement of the vision. In the absence of centralized management, there will be inconsistencies in relaying the message to employees because there are no clear lines of authority. Directing the organization’s vision from the top allows for a smooth implementation of its visions and strategies. The organization’s stakeholders such as customers, suppliers, and communities also receive a uniform message.

A clear chain of command

A centralized organization benefits from a clear chain of command because every person within the organization knows who to report to. Junior employees know who to approach whenever they have concerns about the organization. On the other hand, senior executives follow a clear plan of delegating authority to employees who excel in specific functions. The executives also gain the confidence that when they delegate

responsibilities to mid-level managers and other employees, there will be no overlap. A clear chain of command is beneficial when the organization needs to execute decisions quickly and in a unified manner.

Reduced costs

A centralized organization adheres to standard procedures and methods that guide the organization, which helps reduce office and administrative costs. The main decision-makers are housed at the company's head office or headquarters, and therefore, there is no need for deploying more departments and equipment to other branches. Also, the organization does not need to incur extra costs to hire specialists for its branches since critical decisions are made at the head office and then communicated to the branches. The clear chain of command reduces duplication of responsibilities that may result in additional costs to the organization.

Quick implementation of decisions

In a centralized organization, decisions are made by a small group of people and then communicated to the lower-level managers. The involvement of only a few people makes the decision-making process more efficient since they can discuss the details of each decision in one meeting. The decisions are then communicated to the lower levels of the organization for implementation. If lower-level managers are involved in the decision-making process, the process will take longer and conflicts will arise. That will make the implementation process lengthy and complicated because some managers may object to the decisions if their input is ignored.

Improved quality of work

The standardized procedures and better supervision in a centralized organization result in improved quality of work. There are supervisors in each department who ensure that the outputs are uniform and of high quality. The use of advanced equipment reduces potential wastage from manual work and also helps guarantee high-quality work. Standardization of work also reduces the replication of tasks that may result in high labor costs.

Disadvantages of Centralization

Remote control

The organization's executives are under tremendous pressure to formulate decisions for the organization, and they lack control over the implementation process. The failure of executives to decentralize the decision-making process adds a lot of work to their desks. The executives suffer from a lack of time to supervise the implementation of the decisions. This leads to reluctance on the part of employees. Therefore, the executives may end up making too many decisions that are either poorly implemented or ignored by the employees.

Bureaucratic leadership

Centralized management resembles a dictatorial form of leadership where employees are only expected to deliver results according to what the top executives assign them. Employees are unable to contribute to the decision-making process of the organization, and they are merely implementers of decisions made at a higher level. When the employees face difficulties in implementing some of the decisions, the executives will not understand because they are only decision-makers and not implementers of the decisions. The result of such actions is a decline in performance because the employees lack the motivation to implement decisions taken by top-level managers without the input of lower-level employees.

Lack of employee loyalty

Employees become loyal to an organization when they are allowed personal initiatives in the work they do. They can introduce their creativity and suggest ways of performing certain tasks. However, in centralization, there is no initiative in work because employees perform tasks conceptualized by top executives. This limits their creativity and loyalty to the organization due to the rigidity of the work.

Delays in work

Centralization results in delays in work as records are sent to and from the head office. Employees rely on the information communicated to them from the top, and there will be a loss in man-hours if there are delays in relaying the records. This means that the employees will be less productive if they need to wait long periods to get guidance on their next projects.

Decentralization organization/Management

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Decentralization marks an extension of the process of delegation. Under decentralization, the central unit of an organization distributes functions, responsibility, accountability and matching authority to regional and local units situated away from it.

E.F.L. Brech: Decentralization is the pattern of responsibility arising from delegation.

Allen: Decentralization is the systematic effort to delegate to the lowest levels all authority, except that which can only be exercised at central points.

Koontz and O Donnel: "Decentralization of authority is a fundamental phase of delegation."

Decentralization is the very opposite of centralization. In a centralized organization, decision-making authority is vested in a few hands at the top. As against this, in a decentralized organization, there is dispersal of decision-making authority, which means greater powers to persons and places away from the centre. It also means that a greater number of important decisions will be made at the lower levels without awaiting approval from the superiors at the central unit.

In the context of a business organization, decentralization may take the form of

- (a) Departmentalization or divisionalisation of activities
- (b) Arrangement of activities in terms of places where these are performed
- (c) Dispersal of decision-making powers among executives at various levels
- (d) Sometimes, separate annual financial statements in case of each decentralized unit.

The term decentralization refers to dispersal of decision making authority down to the level where work is to be performed. Allen observes that decentralization is a systematic effort to delegate, to the lowest levels, all authority except that which can be exercised only at central points.

Sometimes important decisions also must have to be made at the lower level. There must be no interference in such decisions made. Only if delegation of authority is company wise, we can say that there is decentralization of authority.

Principles of decentralisation of authority:

- (1) The power to take the decisions regarding the decentralisation must be vested with the top management.
- (2) Subordinates must be competent and capable enough to take the decisions.

- (3) Responsibilities should also be assigned along with authorities to the subordinates.
- (4) Mutual understanding is essential for decentralisation. The main function of staff must be to advise and counsel with the line staff so that the line staff may take independent decisions and may improve themselves if required.
- (5) Authorities must be delegated in order to execute the arrangement of decentralisation.
- (6) Top officers must delegate their authority to their subordinates in the real and true sense.
- (7) Decentralisation depends on the assumptions that the collective decisions are better than the decisions taken by one person.
- (8) Personnel policies be decided on standard basis and must be changed from time to time according to the need. There must be a provision of reward to the efficient workers and inefficient workers be punished.
- (9) Efforts be made that the decisions should be taken at the right time with the right intention and after careful thought, otherwise the arrangement of decentralisation will not be successful.
- (10) The arrangement of decentralisation depends on the need of organisation objectives, organisational structure and the policies of enterprise.

Essential Characteristics of Decentralization:

(i) Decentralization Not the Same Thing as Delegation:

It is something more than delegation. Delegation means demi-transfer of responsibility and authority from one individual to another. But decentralization means scattering of authority throughout the organization. It is the diffusion of authority within the entire enterprise. Delegation can take place from one person to another and be a complete process. But decentralization is completed only when the fullest possible delegation is made to all or most of the people.

Under delegation control rests entirely with the diligent, but under decentralization, the top management may exercise minimum control and delegate the authority of controlling to the departmental managers. It should be noted that complete decentralization may not be possible or desirable, but it certainly involves more than one level in the organization.

(ii) Decentralization is Distinct from Dispersion:

Decentralizing is often confused with the separation of physical facilities which is not correct. Dispersion occurs when plants and offices are located at different places with physical distance between them. Performance of work in dispersed plants and offices does not necessarily lead to decentralization.

Decentralization can proceed without separation of facilities and facilities can be separated without decentralization. A company may be highly decentralized even though all physical facilities and employees are located in a single building. Thus, decentralization can take place even without dispersion.

(iii) Decentralization is not a Type of Organization:

Some people believe that a company can decentralize by changing its organizational structure. This is not true. Decentralization may be achieved even without changing the organizational structure as it refers primarily to the systematic delegation authority throughout the organization industries in which markets are less uncertain, production processes technologically less dynamic and competitive relationships more stable, tend to become more centralized.

The extent of decentralization is determined by:

1. What kind of authority is delegated?
2. How far down in the organization it is delegated?
3. How consistently it is delegated?

Since decentralization refers to the delegation of authority at the lowest levels, subordinate managers must be allowed to exercise authority and to make decisions of their own.

Decentralization reflects attitude and philosophy of the management. It has to select what types of decisions must be delegated to lower levels of management and what to be reserved at the top.

Decentralization, to be effective and fruitful, requires development of managerial talents to shoulder the responsibilities entrusted to them. Hence, people must be selected and trained.

Adequate controls must be established to ensure performance of the work delegated. Decentralization does not mean abdication of responsibility.

Centralization, on the other hand, is reservation to withholding of authority at central points in the organization. "Everything that goes to increase the importance of the subordinates' role is decentralization, and everything which goes to reduce it is centralization". According to Koontz O' Donnel, "decentralization is a fundamental concept of delegation; to the extent that authority is delegated, it is decentralized".

The factors affecting decentralisation can be:

1. External factors and
2. Internal factors.

External Factors:

The factors external to the organisation are:

1. Environment:

If customers and suppliers are dispersed, competition is not intense, markets provide wide scope for company to sell (by adding new products), the organisation can prefer to decentralise.

2. Regulation of the Government:

If Government has strict policies and procedures for business firms, managers cannot take the risk of delegating decision-making powers to people at lower levels. They have to strictly observe the rules. The tendency to decentralise in such cases is low.

3. Market features:

If firms operate in a market where homogeneous products are produced by all the firms, the power to make decisions can be decentralised to lower level managers.

4. Bargain with trade unions:

If trade unions agree to bargain with lower level managers, decision-making power can be decentralised but if trade unions bargain only with top management, the organisation tends to be more centralised.

Internal Factors:

The factors internal to the organisation which affect decentralisation are as follows:

1. Size of the organisation:

As size of the organisation increases, it becomes difficult for managers to take decisions single handedly. Decision-making will be time consuming. Large organisations have geographically dispersed units with large number of levels in each unit. Coordinating with every level of every unit is complex and time consuming.

This results in delayed decision-making which can be costly for the firms. Therefore, with increase in size of the firms, decision-making power should be delegated to functional managers and lower level managers. This increases efficiency of the organisation since top executives can concentrate on strategic matters and routine matters can be managed at the lower levels. Managers will be close to strategic decision-making points and coordination is facilitated through dispersal of decision-making authority at the point where it is required.

2. Cost control:

Costly decisions where financial outlay is large, for example, the decision to buy a plant or machine, are normally taken by top executives and decisions where financial outlay is not too large can be taken at lower levels. Thus, if firms want to maintain strict cost

control, the degree of decentralisation will be less. To maintain financial control, organisations can frame a policy that spending some amount on petty items is the discretion of lower level managers but expenditure beyond this amount has to be sanctioned by top managers.

3. Philosophy of management:

Management philosophy refers to management's desire to centralize or decentralise. Some managers prefer to retain power and authority to make decisions and, therefore, believe in centralisation of authority. Others, who want the decisions to be taken at lower levels, to improve their creative skills, decentralise the decision-making authority.

4. History of the enterprise:

Enterprises which have always worked as centralized organisations continue to do so in future also. Past precedents are followed in future and are not easily changed unless a strong desire or outside influence is created within or outside the organisation.

Self-made business empires show higher tendency towards centralisation. Organisations which expand through external mergers, acquisitions and amalgamations report higher tendency towards decentralisation. Different managements join together and retain their decision-making authority as they enjoyed prior to external growth measures (mergers, amalgamations etc.). Autonomy to make decisions shows tendency towards decentralisation.

5. Functional areas:

Some degree of centralisation or decentralisation is essential in every functional area. However, some areas like finance and personnel tend to be more centralised while others such as production and sales tend to be more decentralised.

6. Ability of subordinates:

If lower level managers are inspiring and innovative, decision-making power can be given to them. There is greater tendency for decentralisation. Decisions can be effectively made at lower levels and managers also enjoy the power of autonomous decision-making.

This is a strong motivational force that promotes commitment and loyalty towards the organisation. Though organisation tends to be decentralised when lower-level managers are competent to make decisions, decentralisation also increases the competence of managers to make sound management decisions.

7. Growth of enterprise:

Top managers of a growing enterprise in terms of financial and physical parameters spend more time on important and strategic organisational matters. Thus, there is greater tendency for decentralisation. Growing organisations adapt to the dynamic environment and most of the decisions may be non-programmed in nature.

Since all these decisions cannot be taken by the managers at central locations, they require participation of managers at different levels. Decentralisation facilitates faster decision-making in case of growing organisations.

In case of stable organisations, most of the decisions are programmed in nature and can be taken without much involvement of people at larger scale at larger levels. There is, thus, tendency to centralize the organisation.

8. Communication system:

An effective communication system helps to coordinate diverse organisational activities. An organisation whose communication system is based on modern management information systems can decentralise its operations.

9. Control system:

An effective system of control where regular appraisal of performance against planned performance is done facilitates decentralisation. Performance of units at different levels can be regularly monitored so that organisational activities remain coordinated. Contemporary management is facilitated through advanced control techniques based on computer system which promotes decentralisation.

Process of Decentralisation of Authority:

The following steps make the decentralization process:

1. Centralisation:

Initially, the organisation starts as a centralised structure. The power and authority to make decisions vests with the top management. As it grows, the need for delegating operating authority arises while strategic decisions related to planning, organising motivation etc. are exercised by the top management. This ensures uniformity in the working of organisation.

Following are the strategic areas where decision-making should remain centralised:

(a) Centralisation of Planning:

To ensure consistency and uniformity in the operations, the framework of planning consisting of policies, procedures, programmes, schedules, etc. is developed by top managers, whatever the degree of decentralisation in the enterprise. It is within the overall planning that different units make sub-plans to synthesize with the broader plans.

(b) Centralisation of Organising:

The organisation structure: creating departments, defining authority-responsibility relationships, the levels to be created (span of control) are decided by top management and the task of actually working within that structure is delegated to lower levels by dividing the work into sub-units and assigning each task to different individuals.

(c) Centralisation of Coordination:

More the degree of decentralisation, more the problem of coordinating the business activities. Chief executive should retain power to coordinate the activities of different divisions and departments. This avoids duplication of efforts exercised by different divisions.

(d) Centralisation of Motivation:

People are motivated by different factors. While financial rewards are important for some, non-financial rewards of acceptance and recognition are important for others. Various motivational factors should be thoroughly analysed and policy for motivating employees of different nature should be made. Motivational plans are, thus, centralised.

(e) Centralisation of Control:

Authority to make overall plans is reserved with top management. Managers also ensure that plans are achieved optimally. Setting measures of control to ensure that actual performance conforms to planned performance is centralised with the top management.

Committee system in Management

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Committee is not a separate organization as such. It is just an extended idea of line and staff system. Under this system, instead of a single officer acting in advisory capacity, there is a committee of experts for advice and guidance in business planning and execution. These committees play a wider role in the management of plant organization and are found at all levels of management hierarchy. But in medium sized undertakings, they are found only at top level.

These committees are basically set up for the following purposes:

- With the exchange of these ideas, some suggestions and recommendations can be generated that may prove useful for the organization.
- The committees are good for a where organizational members freely exchange ideas.
- The existing problems in the organization can be discussed within the committee forum and some new ideas for solving these problems can be introduced.
- Some committees are formed to assist in the development and establishment of organizational policies.

Principle characteristics of a committee

Important characteristics of Committees are that they are delegated definite responsibility and authority for doing a specific job, such as reviewing budgets, formulating plans for new products, making policy decisions on wages and salary and compensation plans. Others may only have the power to make recommendations and suggestions to a designated official.

1. A committee is a gathering of people representing different functions or spheres of knowledge, who come together to promote a common purpose or fulfill a common task or solve a problem, by interchanging of views.
2. The character and composition of a committee is often spelled out in the bylaws or administrative procedures of the company.
3. A committee usually has a fixed membership. In most cases, members are appointed, although sometimes, as with the board of directors, they may be elected.
4. In its deliberations, a committee usually follows certain definite written rules and procedures. Some committees can function if a quorum is complete; others only if all the members are present.
5. A committee may be granted authority to make or recommend decisions, or it may serve merely in an advisory capacity.

Advantages of Committee Organization

In all types of social institutions whether business or non-business, committees are found to exist in different areas and at different fields of the organization. The reasons for constituting such committees can be outlined as follows:

1. Fear of Authority

If too much functional authority is delegated to a single person, there is always a fear that the authority may be misused. Committees avoid undue concentration of authority in the hands of an individual or a few.

2. Group Deliberation and Judgement

It is the general rule that “two heads are better than one“. Since the committees comprise of various people with wide experience and diverse training, they can think the impact of the problems from various angles and can find out appropriate solutions. Such decisions are bound to be more appropriate than individual decisions.

3. Representation of interested Group

A policy decision may affect the interests of different sections. The committees provide an opportunity to represent their interest to the top management for consideration. This will facilitate the management to make a balanced decision.

4. Transmission of Information

Committees serve as a best medium to transmit information since they generally comprise of the representatives of various sections. Misinterpretation is almost avoided.

5. Coordination of Functions

They are highly useful in bringing co-ordination between different managerial functions.

6. Consolidation of Authority

Many special problems arising in individual departments cannot be solved by the departmental managers. The committees, on the other hand, permits the management to consolidate authority which is spread over several departments.

7. Avoidance of Action

The committee system also helps the manager who wants to postpone or avoid action. By referring the complicated matters to the committees, the managers can delay the action.

8. Motivation through Participation

Managerial decisions cannot be put into action without the co-operation of the operating personnel. Since the committees provide an opportunity for them to participate in the decision-making, the management can gain their confidence and co-operation.

9. Educational Value

Participation in committee meetings provides a beautiful ground for development of young executives. Through observation, exchange of information and cross examination, the young executives can broaden their knowledge and sharpen their understanding.

Disadvantages of Committees

The committees also have their own defects. Considering the dangers involved in the use of committees, a few authorities went to the extent of giving a sarcastic definition to the committee as “group of unfits engaged by unwilling to do unnecessary”. In particular, the committees suffer from the following demerits

1. Indecisive Action

In many cases, committees are unable to take any constructive decision because of the differences of opinions among their members.

2. High Cost in Time and Money

Committees take a lot of time to take a decision. The prolonged sessions of the committee results in a high expenditure. Generally speaking, committees are constituted only to avoid or postpone decisions. Hence, delay in decision has become an inherent feature of committees.

3. Compromising Attitude

In reality, many decisions taken by a committee are not the result of joint thinking and collective judgements. But they are only compromises reached between the various members Hence, the decisions of the committees are not real decisions in the strict sense.

4. Suppression of Ideas

Many smart members who can contribute new ideas, deliberately keep their mouth shut in order to avoid hard feelings.

5. Dominance of a Few

Collective thinking and group judgement are only in theory but not in practice. The decisions of the committees are generally the decisions of the chairman or any strong dominant members.

6. Splitting of Responsibilities

The greatest disadvantage of this system is the splitting of authority among the committee members. When authority is split up, no one in particular can be held responsible for the outcome of the committee.

7. Political Decisions

Since the committee decisions are influenced by the dominant members, the decisions of the committee cannot be taken as meritorious one with broader outlook.

Departmentation

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Departmentation' or '**Departmentalisation**' is the process of grouping the activities of an enterprise into several units for the purpose of administration at all levels.

Koontz and O'Donnell define a department as designating "a distinct area, division, or branch of an enterprise over which a manager has authority for the performance of specified activities". Most enterprises are involved in producing a product or a service for the benefit of others. The latter aspect requires marketing or distribution so that the persons for whom the product or service is intended will accept it if it satisfies his needs. These activities require money or sufficient capital or finance.

Departmentation means the grouping of similar activities and employees of organisation into various departments for the purpose of facilitating administration is called departmentation. It implies the division of total work of an organisation into individual functions and sub functions. It is the process of division of organisation into different parts known as departments.

The administrative units so created may be designated as departments, divisions, units, branches, sections, etc.

The process of organising consists of dividing and grouping of the works to be done in an enterprise and assigning different duties and responsibilities to different people.

Dividing the work naturally means the identification of individual activities which have to be undertaken for the attainment of the organisational objectives. But once the various activities have been identified, it is necessary to group them together on some logical basis so that a team can be organised.

Departmentation can provide a necessary degree of specialisation of executive activity for efficient performance. It can simplify the tasks of management within a workable span. It also provides a basis on which the top managers can co-ordinate and control the activities of the departmental units.

Departmentation is done through the following process:

1. Identification of work.
2. Analysis of details of each work.
3. Description of the function of the organisation.
4. Entrusting the functions to a separate person who has specialised in the respective field and providing him with suitable staff.
5. Fixing the scope of authority and responsibility of the departmental heads.

Need for and Importance of Departmentation:

The basic need for departmentation is to make the size of each departmental unit manageable and secure the advantages of specialisation. Grouping of activities and, consequently, of personnel, into departments makes it possible to expand an enterprise to any extent.

Departmentation is necessary on account of the following reasons:

1. Advantages of Specialisation:

Departmentation enables an enterprise to avail of the benefits of specialisation. When every department looks after one major function, the enterprise is developed and efficiency of operations is increased.

2. Feeling of Autonomy:

Normally departments are created in the enterprise with certain degree of autonomy and freedom. The manager in charge of a department can take independent decisions within the overall framework of the organisation. The feeling of autonomy provides job satisfaction and motivation which lead to higher efficiency of operations.

3. Expansion:

One manager can supervise and direct only a few subordinates. Grouping of activities and personnel into departmentation makes it possible for the enterprise to expand and grow.

4. Fixation of Responsibility:

Departmentation enables each person to know the specific role he is to play in the total organisation. The responsibility for results can be defined more clearly, precisely and accurately and an individual can be held accountable for the performance of his responsibility.

5. Upliftment of Managerial Skill:

Departmentation helps in the development of managerial skill. Development is possible due to two factors. Firstly, the managers focus their attention on some specific problems which provide them effective on-the-job training. Secondly, managerial need for further training can be identified easily because the managers' role is prescribed and training can provide them opportunity to work better in their area of specialisation.

6. Facility in Appraisal:

Appraisal of managerial performance becomes easier when specific tasks are assigned to departmental personnel. Managerial performance can be measured when the areas of activities are specified and the standards of performance are fixed. Departmentation provides help in both these areas.

When a broader function is divided into small segments and a particular segment is assigned to each manager, the area to be appraised is clearly known; and the factors affecting the performance can be pointed out more easily. Similarly, the standards for performance can be fixed easily because the factors influencing the work performance can be known clearly. Thus, performance appraisal becomes more effective.

7. Administrative Control:

Departmentation is a means of dividing the large and complex organisation into small administrative units. Grouping of activities and personnel into manageable units facilitates administrative control. Standards of performance for each and every department can be precisely determined.

6 Main Factors that are Basic to Divide an Organization into Departments

The following factors are basic to divide an organization into departments:

1. Specialization:

Department should yield the advantages of specialization. Specialization may be functional such as in marketing, we have advertising, sales promotion etc. or byproducts such as cosmetics, condiments etc.

2. Control:

Departmentation should serve to make control as effective as possible. One activity intended to serve, as a check on another should be under specific executive. Territorial departments (zonal or districts) may be established in such a way that the performance of one can be checked by comparison with the other. A clean break made between two departments will help in fixing responsibility clear and squarely.

3. Co-Ordination:

Quite different activities may be grouped together under one executive, because they need to be co-coordinated. In case of orphan activities like filing, or other service function, the most-use criterion may be applied. That is such activities may be clubbed together with the function that relies on it the most.

4. Attention:

An activity that is considered to be basic to the success of an enterprise may be given greater attention than others and may, for this purpose, be placed in separate division.

5. Local Conditions:

While forming departments, attention must be given to local conditions, at the places concerned, for example, the personalities of individuals who will man the organization, or the pattern of informal relationships among people, or the need to combine activities into full-time jobs.

6. Economy:

The expenses involved in creating a separate division for an activity or activities should also be considered though this should not become the all- important factor.

There are certain basic methods of dividing the duties and responsibilities within an organisational structure.

They are given below:

1. Departmentation by functions.
2. Departmentation by regions (area or location) or territory.
3. Departmentation by customers.
4. Departmentation by product or service.
5. Departmentation by process.
6. Matrix organisation
7. Strategic Business Units.

Departmentation by Enterprise Function:

Grouping activities in accordance with the functions of an enterprise-functional departmentation-embodies what enterprises typically do. Since all enterprises undertake the creation of something useful and desired by others, the basic enterprise functions are production (treating utility or adding utility to a good or service), selling (finding customers, patients, clients, students, or members who will agree to accept the good or service at a price or for a cost), and financing (raising and collecting, safe guarding, and expending the funds of the enterprise).

It has been logical to group these activities into such departments as engineering, production, sales or marketing, and finance.

The most commonly followed basis of departmentation is by functions. Under this departmentation, the activities are grouped on the basis of functions which are to be performed. Each department is headed by one responsible person, who is directly responsible to the General Manager.

Advantages:

1. It is a scientific and time tested method.
2. It follows the principles of occupational specialisation and division of labour.
3. It ensures proper performance control.
4. Due weightage and prestige are given to the departmental managers and they are respected by top management people.
5. It facilitates co-ordination activity within the department itself and the organisation as a whole.
6. It is economical, simple and easy to understand.
7. It helps the utilisation of manpower and other natural resources of the organisation.

8. It is logical reflection of functions.
9. It maintains power and prestige of major functions.
10. It simplifies training.
11. It furnishes means of tight control at top.

Disadvantages:

1. It makes the management control work more difficult.
2. The department heads consider themselves to be autonomous sections of the organisation. The managers will not look upon the undertaking as a unit.
3. It increases the work load and responsibility of departmental managers.
4. It doesn't offer any scope for training for the overall development of managers.
5. The departmental managers are experts in handling the problems in their departments alone. They may not be able to understand the problems of other departments.
6. It reduces coordination between functions.
7. Responsibility for profits is at the top only.
8. Slow adaptation to changes in the environment.

Departmentation by Territory or Geography (or) Region (or) Area:

Departmentation based on territory is rather common in enterprises that operate over wide geographic areas. In this case, it may be important that activities in a given area or territory be grouped and assigned to a manager.

Business firms resort to this method when similar operations are undertaken in different geographic areas, as in automobile assembling, chain retailing and wholesaling and oil refining. Many government agencies-Bank and the Postal Service, and so on, adopt this basis of organisation in their efforts to provide similar services simultaneously across the nation.

Territorial departmentation is most often used in sales and in production; it is not used in finance, which is usually concentrated at the headquarters. This method of departmentation may be suitable for a business unit which is wholly dispersed.

The business activities are grouped in area-wise and each area is incharge of a single person. The local persons are appointed as salesmen in each area. It will help the business unit to increase the sales. The reason is that the local person is familiar with the local language, the culture and preferences of the customers.

Advantages:

1. It makes possible an effective span of control.
2. It reduces the cost of operation and gains saving in time.
3. The sales may be increased with the help of intimate knowledge about the tastes and preferences of the customers in the local market.

4. Regional managers could win the confidence of customers and remove the competitors from the market.
5. Accounts are prepared area-wise. So, the profitability of each area is known to the management.
6. It provides opportunities to managers to improve their skill in various fields.
7. This type of departmentation is more suitable for a large scale business unit.
8. Control process is very easy to manage.
9. It places responsibility at a lower level.
10. It places emphasis on local markets and problems.
11. It improves coordination in a region.
12. It takes advantage of economies of local operations.
13. It has better face-to-face communication with local interests.
14. It furnishes measurable training ground for general managers.

Disadvantages:

1. It increases the number of personnel with general manager abilities and involves high cost of operation.
2. The control of head office is less effective one.
3. It may also involve duplication of work.
4. A small business concern cannot manage the high cost of operation.
5. It tends to make maintenance of economical central services difficult and may require services such as personnel or purchasing at the regional level.
6. It increases problem of top management control.

Customer Departmentation:

Grouping activities so that they reflect a primary interest in customers is common in a variety of enterprises.

This type of departmentation is preferred when the various needs of customers are different in nature. For example, a bank or a financial institution may divide its loan section into number of heads and assign them to various departments, such as loans to businessmen, farmers, professionals and so on. Similarly, the sales department of a business concern could be divided into industrial goods and consumer goods. The consumable goods could again be sub-divided into perishable and non-perishable in nature.

Advantages:

1. It fulfills the expectations and needs of customers.
2. It encourages concentration on customer needs.
3. It gives customers feeling that they have an understanding supplier.
4. It develops expertness in customer area.
5. It develops specialisation among the organisation staff.

6. The out of fashion products can be dispensed with through the departmentation by customers. The reason is that the business unit has intimate knowledge of the customer's tastes and preferences.
7. Each section of the customer is able to get better service from the company and helps the company to win the goodwill, of its customers.

Disadvantages:

1. There may be duplication of activities.
2. The achievement of co-ordination is very difficult.
3. There is a wastage of available resources and facilities.
4. The production activities cannot be organized under this methods of departmentation. If it is so, the cost of operation will be high.
5. It may be difficult to coordinate operations between competing customer demands.
6. It requires managers and staff expert in customers problems.
7. Customer groups may not always be clearly defined (for example, large corporate firms vs. other corporate businesses).

Departmentation by Product:

Grouping activities on the basis of products or product lines has been growing in importance in multi-line, large-scale enterprises.

This structure permits top management to delegate to a division executive extensive authority over the manufacturing, sales, service and engineering functions that relate to a given product or product line and fix a target of profit responsibility for each of these managers.

This type of departmentation is made by the large-scale business unit. A single business unit may manufacture and sell different types of products. Then, each type of product or services is allocated to a separate department. Functionalised units for each product are created within the general structure of the organisation. Manufacturing, sales, finance and personnel functions are arranged separately for each type of product.

Each department is responsible for manufacturing a product and selling it to customers. Grouping of all activities are planned in advance within each product section. The co-ordination function is performed by the top management.

Advantages:

1. Product departmentation helps in the maximum utilisation of personal efficiency of workers in the area of manufacturing and marketing of product.
2. It places attention and effort on product line.
3. There is a possibility of gaining economy in manufacturing and marketing of products on account of large scale operation.
4. Better services may be provided to the customer.

5. The profitability of each product is known to the management. So, it is easy to fix the responsibility on the departmental heads.
6. Proper attention may be devoted to the manufacture of a product.
7. All the functions pertaining to the manufacture of a particular product are performed by managers. Then, there is the possibility of an effective co-ordination and control.
8. A new line of product can be introduced without any difficulty.
9. It facilitates use of specialized capital, facilities, skills, and knowledge.
10. It permits growth and diversity of products and services.
11. It improves coordination of functional activities.
12. It places responsibility for profits at the division level.
13. It furnishes measurable training ground for general managers.

Disadvantages:

1. There is a danger of duplication of work.
2. It increases the number of personnel with general manager abilities which in turn increases the cost of operation.
3. It requires additional cost for maintaining a sales force for each type of product.
4. In proportion to the increase in the number of employees, the problem of control at the executive levels become more difficult.
5. Machines and equipments in each product department may not be used fully
6. It tends to make maintenance of economical central services difficult.
7. It increases problem of top management control.

Departmentation by Process:

This type of Departmentation is followed when the production activities are carried on in many places. For example, a textile mill has many departments such as Ginning, Spinning, Weaving, Dyeing and Printing, Packing and Sales. Each section will be in charge of separate specialised persons.

Advantages:

1. The costlier machines can be used effectively.
2. There is no interruption of the departments or process in other production processes. The requirements and renewals of any process cannot affect the production of other processes.
3. There may be economy in operation.
4. There is no duplication of activities.
5. The principle of specialisation and division of labour is followed under this method of departmentation.
6. This departmentation helps the top management to have effective performance control.
7. This type of departmentation is more suitable to any business unit which manufactures a product passing through a number of processes.

Disadvantages:

1. Separate rooms for operation and other facilities should be given to all the process. This results in heavy cost of operation.
2. More specialties are essential to each process.
3. It does not give good training to staff members and there is a lack to overall development of the managerial talents.

Matrix Organisation:

Another kind of departmentation is matrix or grid organisation or project or product management. However, pure project management need not imply a grid or matrix. The essence of matrix organisation normally is the combining of functional and project or product patterns of departmentation in the same organisation structure.

And an overlay of project managers is responsible for the end product. This kind of organisation occurs frequently in construction (for example, building a bridge), in aerospace (for example, designing and launching a weather satellite), in marketing (for example, an advertising campaign for a major new product), in the installation of an electronic data processing system, or in management consulting firms in which professional experts work together on a project.

Advantages:

1. It is oriented toward end results
2. Professional identification is maintained
3. It pinpoints product-profit responsibility

Disadvantages:

1. Conflict in organisation authority exists
2. Possibility of disunity of command exists
3. It requires manager effective in human relations

Strategic Business Units (SBUs):

Companies have been using an organisational device generally referred to as a Strategic Business Unit (SBU). SBUs are distinct little businesses set up as units in a larger company to ensure that a certain product or product line is promoted and handled as though it were an independent business.

This special organisation unit was introduced to ensure that each product offered by the company would receive the same attention as if it were developed, produced, and marketed by an independent company.

An SBU, must have 1. have its own mission, distinct from the mission of other SBUs, 2. have definable groups of competitors, 3. prepare its own integrative plans, fairly distinct from those of other SBUs, 4. manage its resources in key areas, and 5. have a proper size neither too large nor too small.

For each SBU, a manager (usually a “business manager”) is appointed with responsibility for guiding and promoting the product from the research laboratory through product engineering, market research, production, packaging, and marketing and with bottom-line responsibility for its profitability. Thus, an SBU is given its own mission and goals.

Obviously, the major benefit of utilizing an SBU organisation is to provide assurance that a product will not get “lost” among other products (usually those with larger sales and profits) in a large company. It preserves the attention and energies of a manager and staff whose job is to guide and promote a product or product line. It is thus an organisational technique for preserving the entrepreneurial attention and drive the characteristic of the small company. In fact, it is an excellent means of promoting entrepreneurship.

Delegation of Authority

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A manager alone cannot perform all the tasks assigned to him. In order to meet the targets, the manager should delegate authority. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

Elements of Delegation

1. Authority

In context of a business organization, authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve the organizational objectives. Authority must be well- defined. All people who have the authority should know what is the scope of their authority is and they shouldn't misutilize it. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority.

Authority always flows from top to bottom. It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else doesn't imply escaping from accountability. Accountability still rest with the person having the utmost authority.

2. Responsibility

It is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for praises. While if he doesn't accomplish tasks assigned as expected, then also he is answerable for that.

3. Accountability

It means giving explanations for any variance in the actual performance from the expectations set. Accountability can not be delegated. For example, if 'A' is given a task with sufficient authority, and 'A' delegates this task to B and asks him to ensure that task is done well, responsibility rest with 'B', but accountability still rest with 'A'. The top level management is most accountable. Being accountable means being innovative as the

person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can't be escaped. It arises from responsibility.

For achieving delegation, a manager has to work in a system and has to perform following steps:

- Assignment of tasks and duties
- Granting of authority
- Creating responsibility and accountability

Delegation of authority is the base of superior-subordinate relationship, it involves following steps:

(i) Assignment of Duties:

The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.

(ii) Granting of authority:

Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.

(iii) Creating Responsibility and Accountability:

The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them.

Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important.

Therefore, it is that which gives effectiveness to authority. At the same time, responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed.

Accountability arises out of responsibility and responsibility arises out of authority.

Therefore, it becomes important that with every authority position an equal and opposite responsibility should be attached.

Therefore every manager, i.e., the delegator has to follow a system to finish up the delegation process. Equally important is the delegatee's role which means his responsibility and accountability is attached with the authority over to here.