



Class 12

Business Studies

Chapter - 5

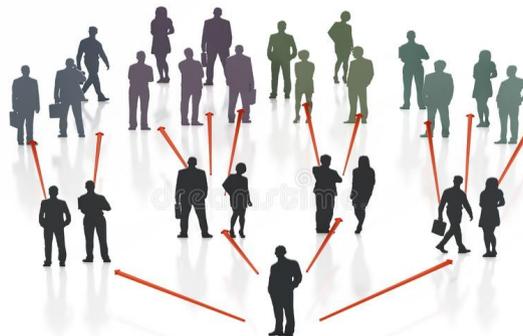
ORGANISING



Ajith Kanthi Wayanad
www.hssplustwo.blogspot.com

Organising

The process of identifying and grouping various activities and bringing together physical, financial and human resources and establishing productive relations among them for the achievement of specific goals.



Steps in the Process of Organising



Steps in the Process of Organising

1 Identification and Division of Work

It means dividing total work into specific activities, these activities are then grouped into jobs and assigned to different individuals or departments



This brings specialization and productivity

Steps in the Process of Organising

2 Departmentalization

In this 2nd step, combine similar or related jobs into larger units called departments

This grouping of activities called departmentalization



E.g. manufacturing department, marketing department etc.

Steps in the Process of Organising

3 Assignment of duties

After forming departments each employee should be placed in their respective positions under a manager and allocate them the duties based on their skill and knowledge



Steps in the Process of Organising

4 Establishing reporting relationship

Various positions in the organization are arranged in a hierarchy with a clear definition of authority and responsibility



Each employee should know from whom he has to take orders and to whom he is accountable

This will facilitate the smooth functioning of the enterprise

Steps in the Process of Organising

- 1. Identification and Division of Work**
- 2. Departmentalization**
- 3. Assignment of duties**
- 4. Establishing reporting relationship**



Importance of Organizing



Importance of Organising

1 Benefits of Specialization

Organizing helps to increase productivity and efficiency due to specialization because it involves division of labour

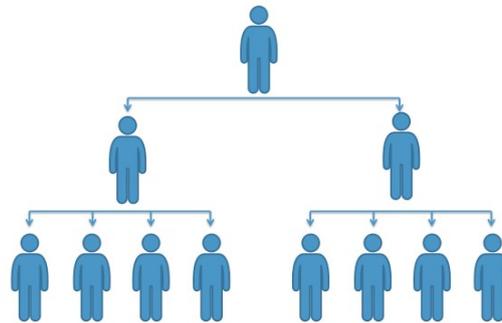


Importance of Organising

2 Clarity in working relation

Organization structure allocates authority and responsibility

It specifies who is to direct whom

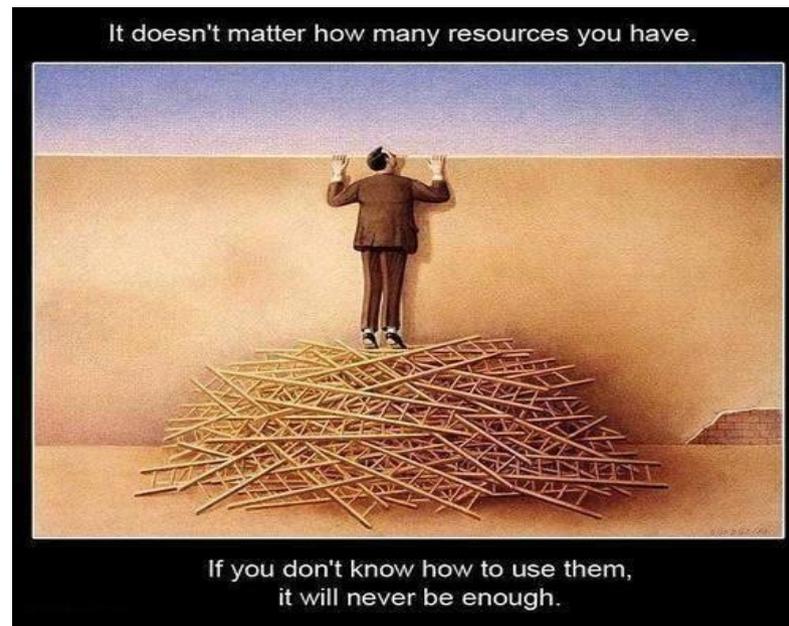


It minimizes conflicts and confusion about the respective powers and privileges of managers

Importance of Organising

3 Optimum utilization of resources

Organizing helps to avoid duplication of work because specific jobs are assigned to individuals and departments, which leads to optimum utilization of resources



Importance of Organising

4 Adaptation to change

A sound organization facilitates adjustments to changes due to changing conditions in the external environment with respect to technology, markets, products etc.



Importance of Organising

5 Effective administration

It implies clarity in authority

Responsibility relationships, assignment of duties etc. enables the management to effectively administer the activities in the organization



Importance of Organising

6 Development of Personnel

Organizing provides creativity among managers



Through delegation of authority, superiors can be engaged in exceptional matters and the lower level managers get an opportunity to develop

Importance of Organising

7 Expansion and growth

Organizing helps in the growth and expansion of an enterprise by bringing an order for everything instead of chaos, removes conflict among people over work and creates a suitable environment for team work



Importance of Organising

- 1. Benefits of Specialization**
- 2. Clarity in working relation**
- 3. Optimum utilization of resources**
- 4. Adaptation to change**
- 5. Effective administration**
- 6. Development of Personnel**
- 7. Expansion and growth**



Organisation Structure

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Organisation Structure

Organization structure is the established pattern of relationships among various parts of the enterprise

It states the relationship among various positions and activities

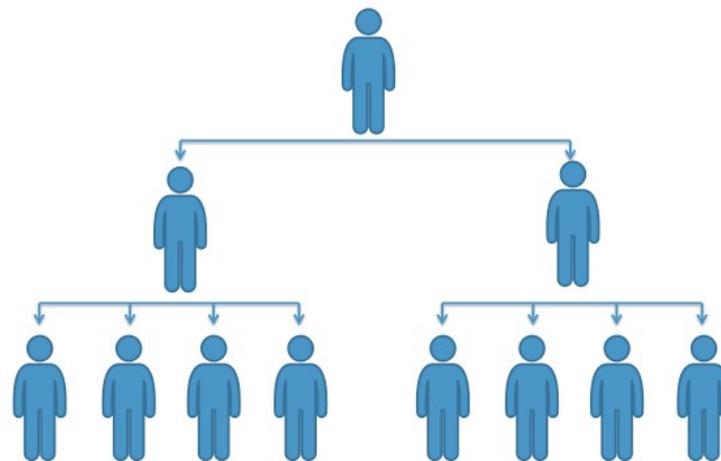


The structure provides a framework for managers and employees for performing their functions

Organisation Structure

The span of management, to a large extent gives shape to the organizational structure

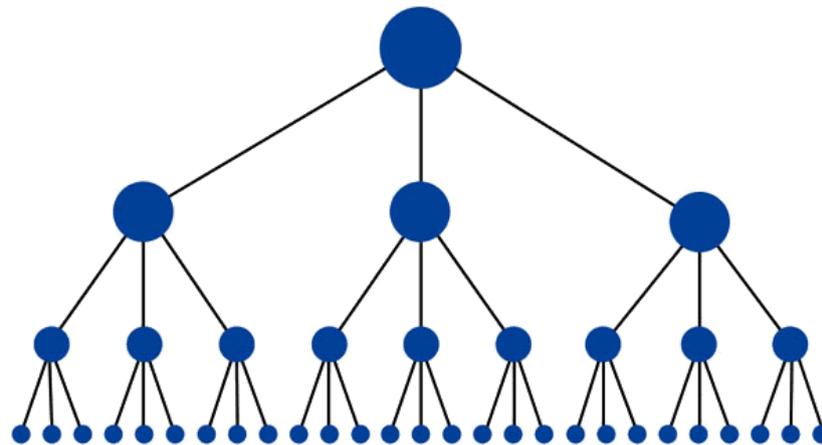
Span of management refers to the number of subordinates that can be effectively managed by a superior



This determines the levels of management in the structure

Organisation Structure

A proper organization structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise



Types of Organisation Structure



**Organisation
Structure**

**Functional
Structure**

**Divisional
Structure**

Functional Structure



Types of Organization Structure

Functional Structure

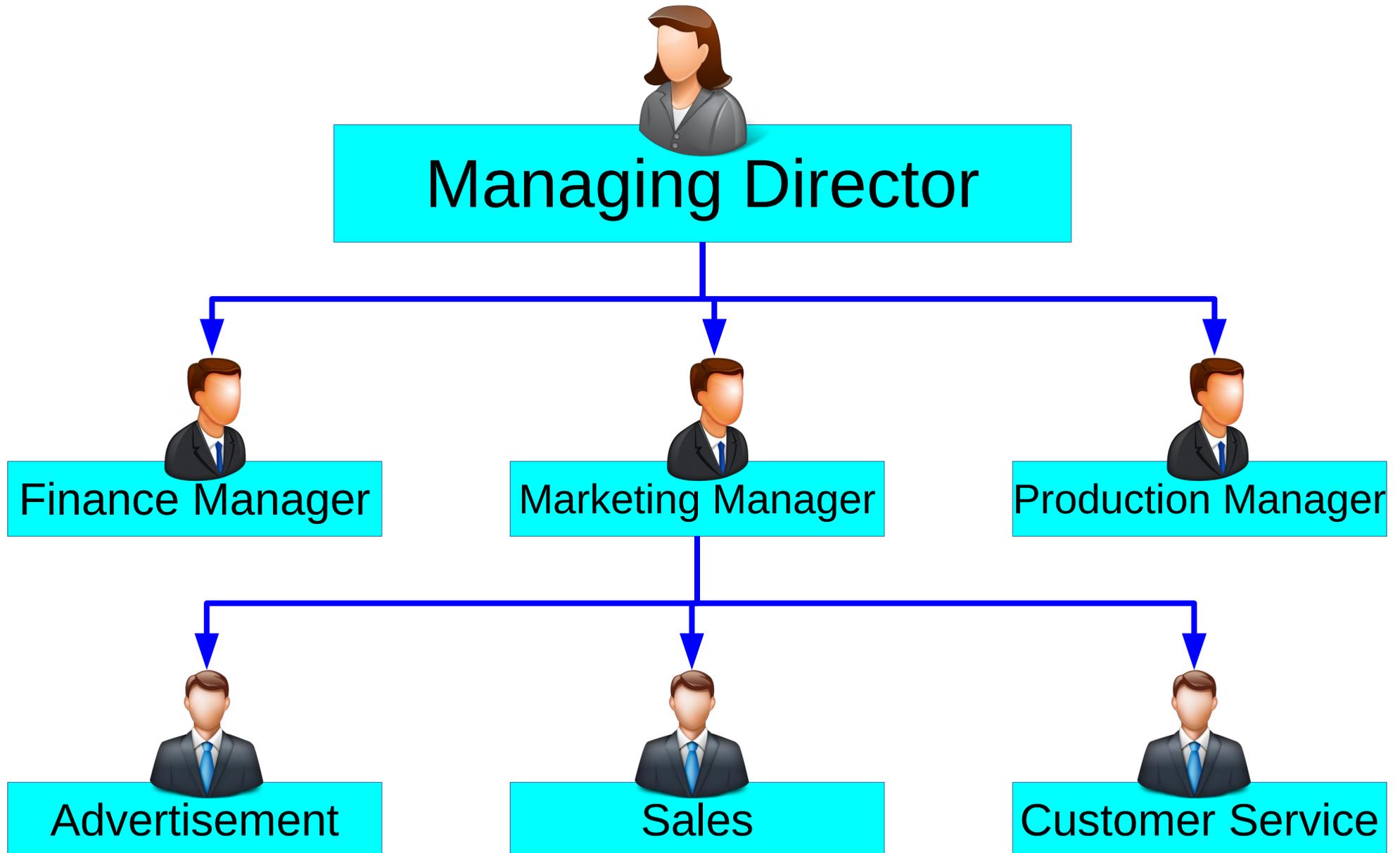
This organization structure is **formed on the basis of different functions** or work to be done in the enterprise



Eg: Production, Marketing, Finance, Human Resource etc.

Types of Organization Structure

Functional Structure



Advantages of Functional Structure



Advantages of Functional Structure

1 Specialization

In this structure, employees perform the same work repeatedly which will lead to specialization and high performance



Advantages of Functional Structure

2 Better control and coordination

Since the tasks in a department are similar, this kind of structure promotes better control



Advantages of Functional Structure

3 Increased profit

Increased managerial and operational efficiency leads to high profit



Advantages of Functional Structure

4 Cost reduction

This structure helps to minimize the duplication of work, so that cost of production can be reduced



Advantages of Functional Structure

5 Training becomes easier

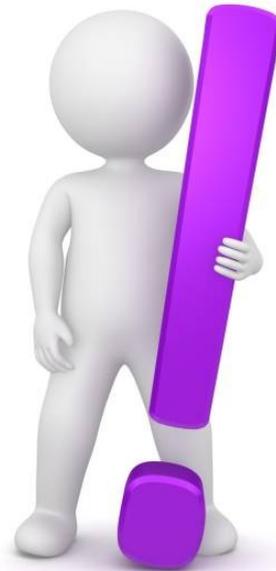
As focus is only on a specific function, it makes training of employees very easier



Advantages of Functional Structure

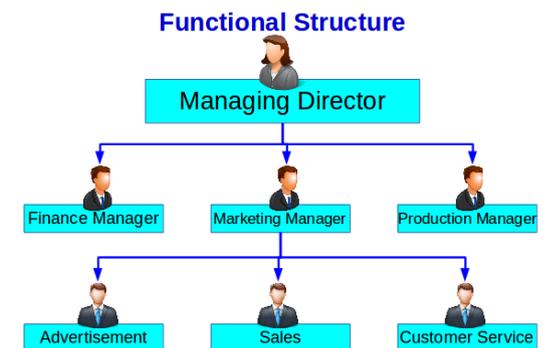
6 Due attention

It ensures due attention to different functions



Advantages of Functional Structure

1. Specialization
2. Better control and coordination
3. Increased profit
4. Cost reduction
5. Training becomes easier
6. Due attention



Disadvantages of Functional Structure

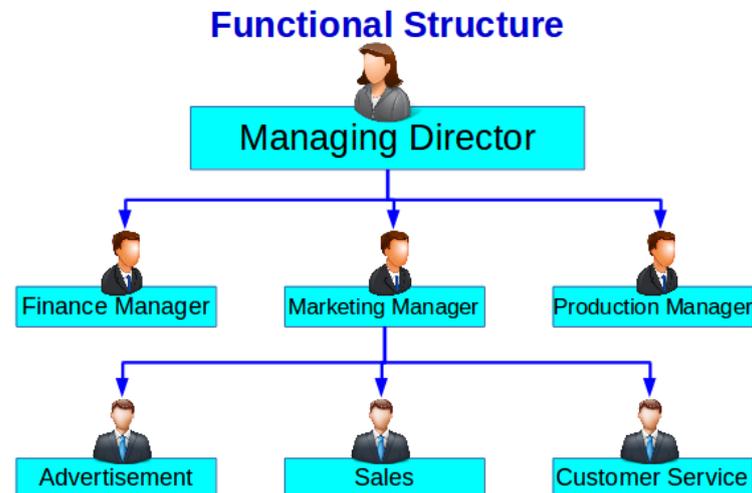


Disadvantages of Functional Structure

1 Less importance to organizational interest

This structure gives more emphasis to functional heads or departments

So that only a least importance may be given to the overall objectives of the organization



Disadvantages of Functional Structure

2 Coordination problem

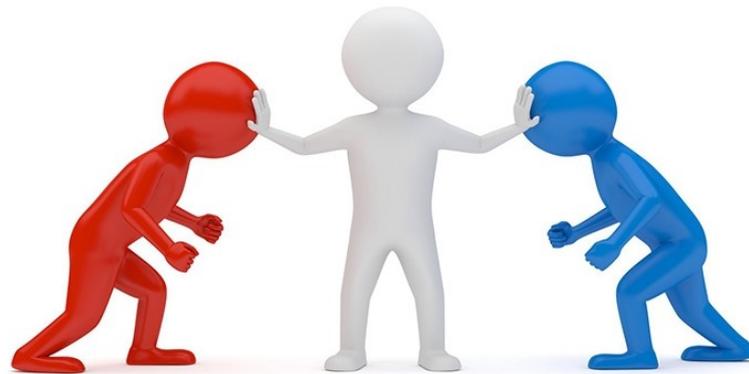
Coordination is quite difficult in this structure, as the information may be passed among various departments



Disadvantages of Functional Structure

3 Interdepartmental conflicts

There may be conflict between two or more departments



E.g: Production department insisting on increase in production may cause difficulties for purchase department to procure materials in time

Disadvantages of Functional Structure

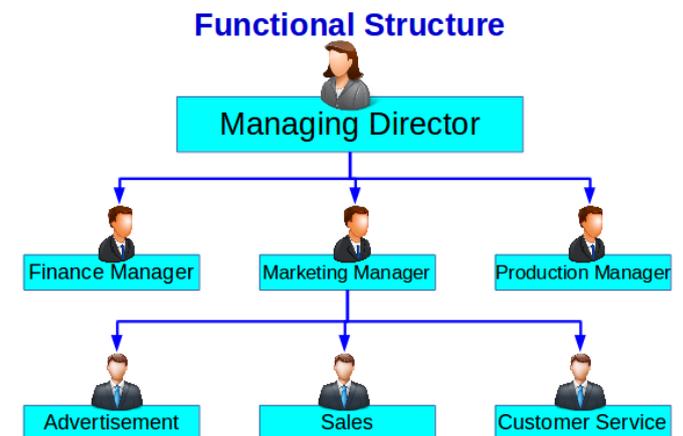
4 Inflexibility in promotion

Functional heads may not get training for top management positions, hence they may not be promoted



Disadvantages of Functional Structure

1. Less importance to organizational interest
2. Coordination problem
3. Interdepartmental conflicts
4. Inflexibility in promotion



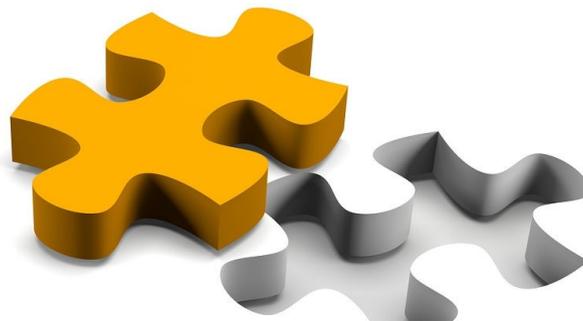
Suitability of Functional Structure



Suitability of Functional Structure

Functional Structure is suitable to:

- a. When the size of organization is large.
- b. Where there are diversified activities.
- c. Where a high degree of specialization is required.



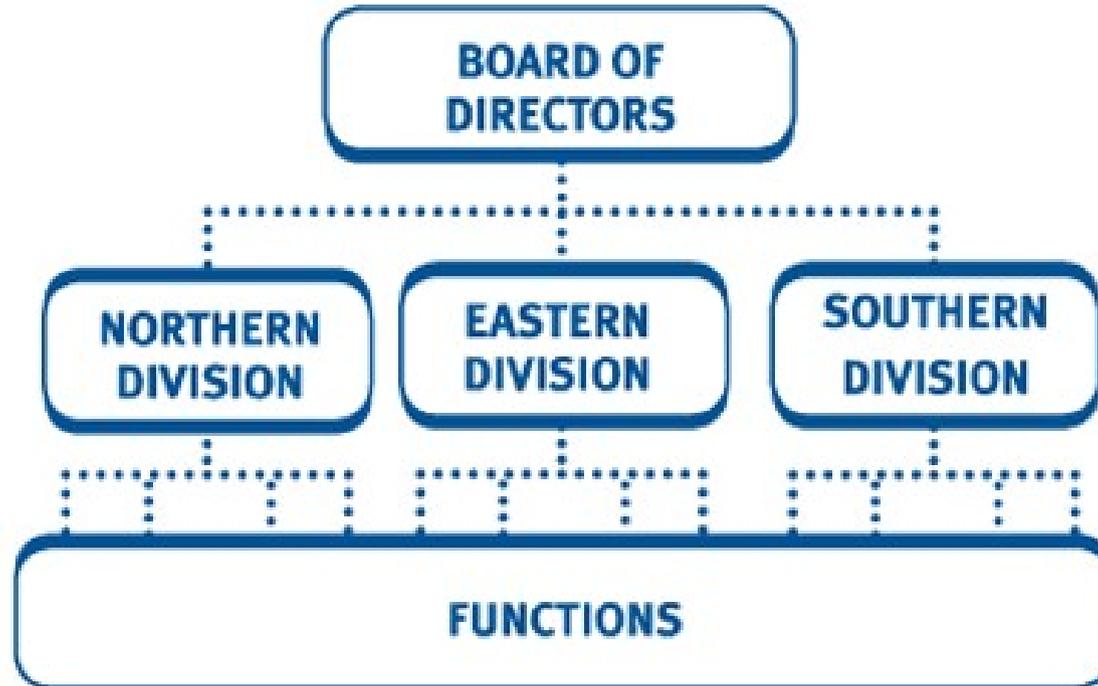
Divisional Structure



Types of Organization Structure

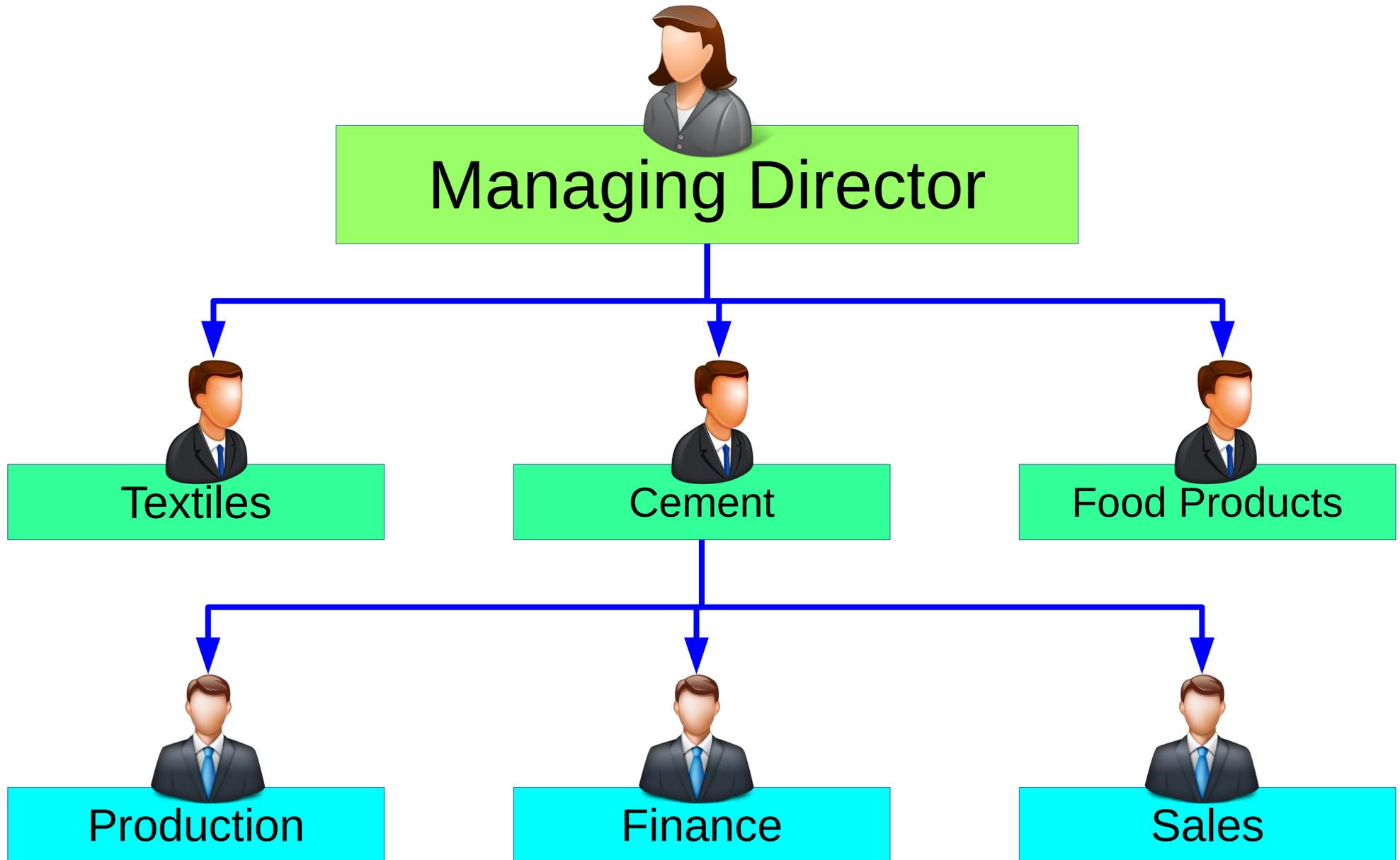
Divisional Structure

It is suitable for large organizations having different products or having business in different areas



Types of Organization Structure

Divisional Structure



Advantages of Divisional Structure



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Advantages of Divisional Structure

1 Skill development

Product specialization helps in the development of various skills of the divisional head which makes him suitable for higher positions



Advantages of Divisional Structure

2 Fixation of responsibility

Divisional head can be made responsible for profit from his product or area



Advantages of Divisional Structure

3 Quick decisions

Each division functions as an autonomous body, therefore quick decisions can be taken



Advantages of Divisional Structure

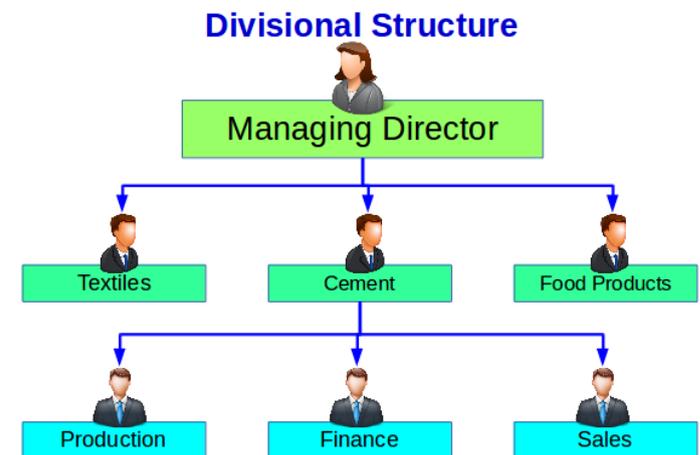
4 Expansion and growth

New divisions can be added without any disturbance to the existing ones



Advantages of Divisional Structure

1. Skill development
2. Fixation of responsibility
3. Quick decisions
4. Expansion and growth



Disadvantages of Divisional Structure



Disadvantages of Divisional Structure

1 Conflicts among divisions

Allocation of funds to various divisions is a problem



Disadvantages of Divisional Structure

2 Increased cost

Each division is having similar functions, e.g., production, finance, marketing etc.

This leads to duplication of activities



Disadvantages of Divisional Structure

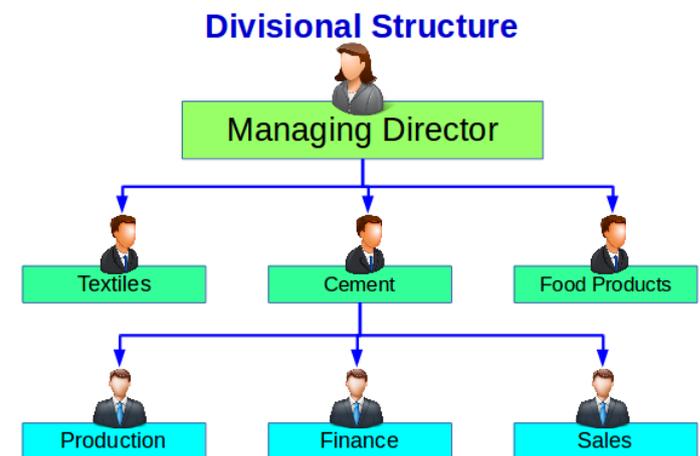
3 Independent authority is harmful

The divisional manager is independent, so that he can do as he likes



Disadvantages of Divisional Structure

1. Conflicts among divisions
2. Increased cost
3. Independent authority is harmful



Suitability of Divisional Structure



Suitability of Divisional Structure

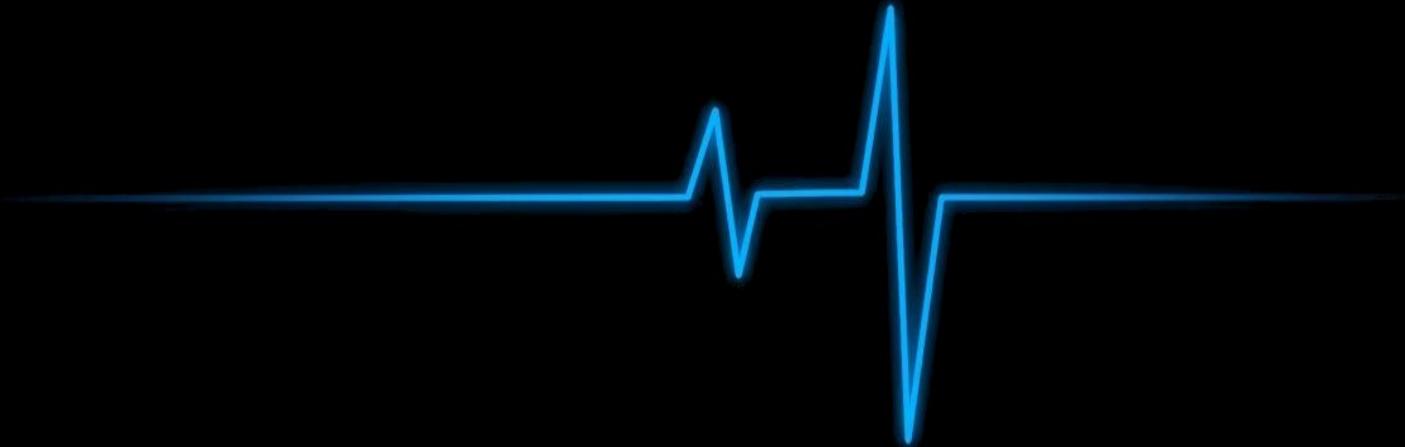
Divisional structure is suitable to:

1. Where a large variety of products are manufactured.
2. Where an organization works in various parts of the country.
3. Where an organization grows and requires more departments.



Comparison – Functional and Divisional Structure

Basis	Functional	Divisional
Formation	Based on functions	Based on product lines
Specialization	Based on functions	Based on products
Responsibility	Difficult to fix on department	Easy to fix on a department
Managerial development	Difficult	Easy
Cost	Economical	Increase in cost
Coordination	Difficult for a multi product organisation	Easy for a multi product organisation



Formal Organisation

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Formal Organisation

It refers to the structure of relationships deliberately designed by the top management to attain the objectives

Here the responsibility, authority etc. will be specified



Every subordinate is expected to obey his superior in the formal chain of command.

Formal Organisation

“An organization is formal when the activities of two or more persons are consciously coordinated towards a common objective.”

– Chester Bernard



Chester Bernard: American Business Executive and the author of **Functions of Executive**

Features of Formal Organisation



Features of Formal Organisation

1 Superior Subordinate relationship

It is well defined in a formal organization and it clarifies as to who has to report to whom



Features of Formal Organisation

2 Rules and procedures

It lays down rules and procedures to attain the objectives



Features of Formal Organisation

3 Deliberately created

Created by the top management to facilitate smooth functioning of the organization



Features of Formal Organisation

4 Coordination is possible

Efforts of different departments are coordinated



Features of Formal Organisation

5 Emphasis on work

It gives priority to the work rather than the individuals



Features of Formal Organisation

- 1. Superior Subordinate relationship**
- 2. Rules and procedures**
- 3. Deliberately created**
- 4. Coordination is possible**
- 5. Emphasis on work**



Advantages of Formal Organisation



Advantages of Formal Organisation

a Easy to fix responsibility

Superior subordinate relationship is clearly defined, therefore the responsibility can be fixed very easily

RESPONSIBILITY



Advantages of Formal Organisation

b Avoidance of duplication of work

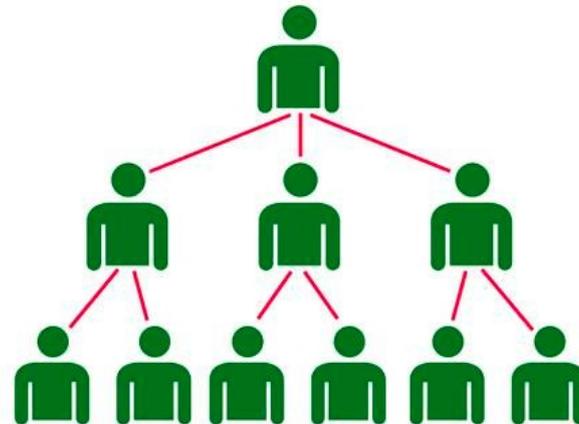
Since the role of each individual is clearly specified, there is no chance for duplication of work



Advantages of Formal Organisation

C Unity of command

Communication through the chain of command ensures unity of command



Advantages of Formal Organisation

d Accomplishment of goals

In a formal organization, there is a framework for the job to be performed by each employee and it ensures the attainment of goals



Advantages of Formal Organisation

e Stability

Specific rules, behaviour of employees etc., provides stability to the organization



Advantages of Formal Organisation

- a. Easy to fix responsibility**
- b. Avoidance of duplication of work**
- c. Unity of command**
- d. Accomplishment of goals**
- e. Stability**



Disadvantages of Formal Organisation



Disadvantages of Formal Organisation

a Procedural delays

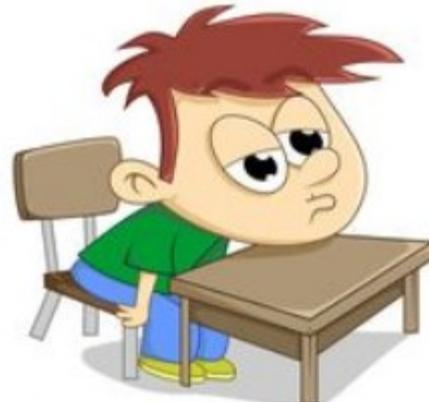
It is because the communication is passed through the official chain of command



Disadvantages of Formal Organisation

b No creativity

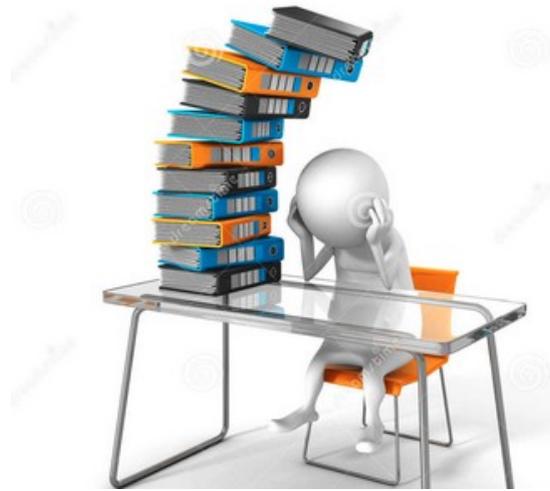
Employees cannot deviate from the rules and procedures laid down by the top management, hence there no chance for creativity



Disadvantages of Formal Organisation

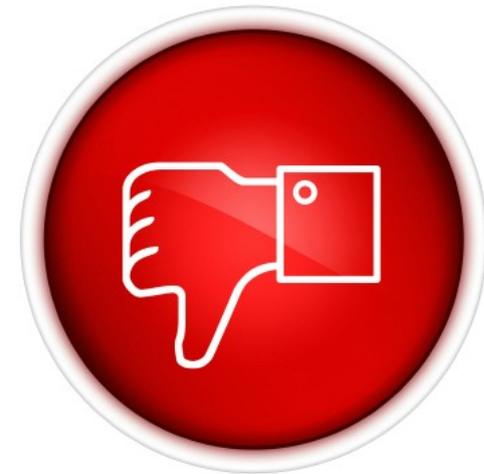
C More emphasis on structure and work

It gives importance only to the job but not for human relations



Disadvantages of Formal Organisation

- a. Procedural delays**
- b. No creativity**
- c. More emphasis on structure and work**



Informal Organisation

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Informal Organisation

Informal organization structure is developed within the formal organization spontaneously



The network of personal and social relationships on the basis of friendship and common interest is called informal organization

Features of Informal Organisation



Features of Informal Organisation

a Personal interaction

It originates from within the formal organization as a result of personal interaction among employees



Features of Informal Organisation

b Rules and regulations

There are no official rules and regulations



Features of Informal Organisation

C Independent channel of communication

Independent channel of communication without specified direction



Features of Informal Organisation

d Emerging Spontaneously

It emerges voluntarily



Features of Informal Organisation

e No definite structure

An informal organisation has no definite structure



Features of Informal Organisation

- a. Personal interaction
- b. Rules and regulations
- c. Independent channel of communication
- d. Emerging Spontaneously
- e. No definite structure



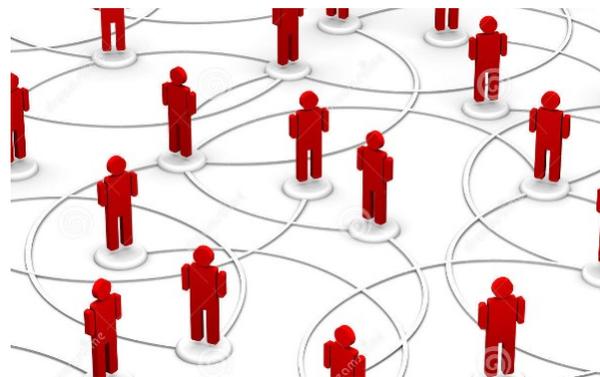
Advantages of Informal Organisation



Advantages of Informal Organisation

a **Speedy communication**

Speedy communication is possible as there is no official chain of command



Advantages of Informal Organisation

b Social needs and job satisfaction

It fulfils social needs and provides job satisfaction for employees



Advantages of Informal Organisation

C Supports formal organization

The reaction of employees towards plans and policies can be tested through informal organization



Advantages of Informal Organisation

- a. Speedy communication
- b. Social needs and job satisfaction
- c. Supports formal organization



Disadvantages of Informal Organisation



Disadvantages of Informal Organisation

a False news may be spread

Since there is no prescribed line of communication, false news may be spread and its responsibility cannot be fixed on a particular person



Disadvantages of Informal Organisation

b Delay in growth of the business

If the informal group is strong, they may oppose the plans of top management, which will lead to delay in growth of the business



Disadvantages of Informal Organisation

C Harmful to the organization

It gives priority to personal interest rather than organizational interest, which will be harmful to the organization



Disadvantages of Informal Organisation

- a. False news may be spread
- b. Delay in growth of the business
- c. Harmful to the organization



Differences:

Formal Organisation

Vs.

Informal Organisation



Formal Vs. Informal Organisation

1 Formation

Formal Organisation

Relationship is well planned and created deliberately

Informal Organisation

Originates spontaneously as a result of social interaction

Formal Vs. Informal Organisation

2 Purpose

Formal Organisation

Created to achieve predetermined objectives

Informal Organisation

To satisfy social and cultural needs of the employees

Formal Vs. Informal Organisation

3 Structure

Formal Organisation

Well defined
authority and
responsibility

Informal Organisation

Based on human
emotions and
sentiments

Formal Vs. Informal Organisation

4 Behaviour of members

Formal Organisation

Prescribed pattern
for behaviour of
members

Informal Organisation

Social norms are
developed through
mutual consent of
members

Formal Vs. Informal Organisation

5 Communication

Formal Organisation

Through official
lines

Informal Organisation

Based on
convenience

Formal Vs. Informal Organisation

6 Leadership

Formal Organisation

Managers are the leaders by their position in the organization

Informal Organisation

Leaders are chosen by the group of members

Formal Vs. Informal Organisation

7

Stability

Formal Organisation

Usually stable

Informal Organisation

Life of informal group is generally short

It may be dissolved if some members leave it

Formal Vs. Informal Organisation

8 Flexibility

Formal Organisation

It follows a rigid structure of relationship

Informal Organisation

Loosely structured and highly flexible in nature

Formal Vs. Informal Organisation

9 Adherence to rules

Formal Organisation

Strict adherence to
rules

Informal Organisation

No formal rules
exist

Formal Vs. Informal Organisation

10 Interdependence

Formal Organisation

It exists independently

Informal Organisation

Exists within the framework of formal organization

Formal Vs. Informal Organisation

Basis	Formal Organization	Informal Organization
Formation	Relationship is well planned and created deliberately	Originates spontaneously as a result of social interaction
Purpose	Created to achieve predetermined objectives	To satisfy social and cultural needs of the employees
Structure	Well defined authority and responsibility	Based on human emotions and sentiments
Behavior of members	Prescribed pattern for behavior of members	Social norms are developed through mutual consent of members
Communication	Through official lines	Based on convenience

Formal Vs. Informal Organisation

Leadership	Managers are the leaders by their position in the organization	Leaders are chosen by the group of members
Stability	Usually stable	Life of informal group is generally short. It may be dissolved if some members leave
Flexibility	It follows a rigid structure of relationship	Loosely structured and highly flexible in nature
Adherence to rules	Strict adherence to rules	No formal rules exist
Interdependence	It exists independently	Exists within the framework of formal organization

Delegation of Authority

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Delegation of Authority

Delegation means assigning work to others and giving them authority to do

It is the downward transfer of authority from a superior to the subordinate



It enables the managers to distribute their workload to others

Elements of Delegation



Elements of Delegation

1 Authority

It is the right of an individual to command his subordinates and to take action within the limits of his position



Elements of Delegation

2 Responsibility

It is the obligation of a subordinate to perform the duties assigned

It always moves upwards and it cannot be delegated



The authority granted must be in parity with the responsibility otherwise delegation of authority will become ineffective

Elements of Delegation

3 Accountability

Accountability means answerability for the final outcome of the assigned task

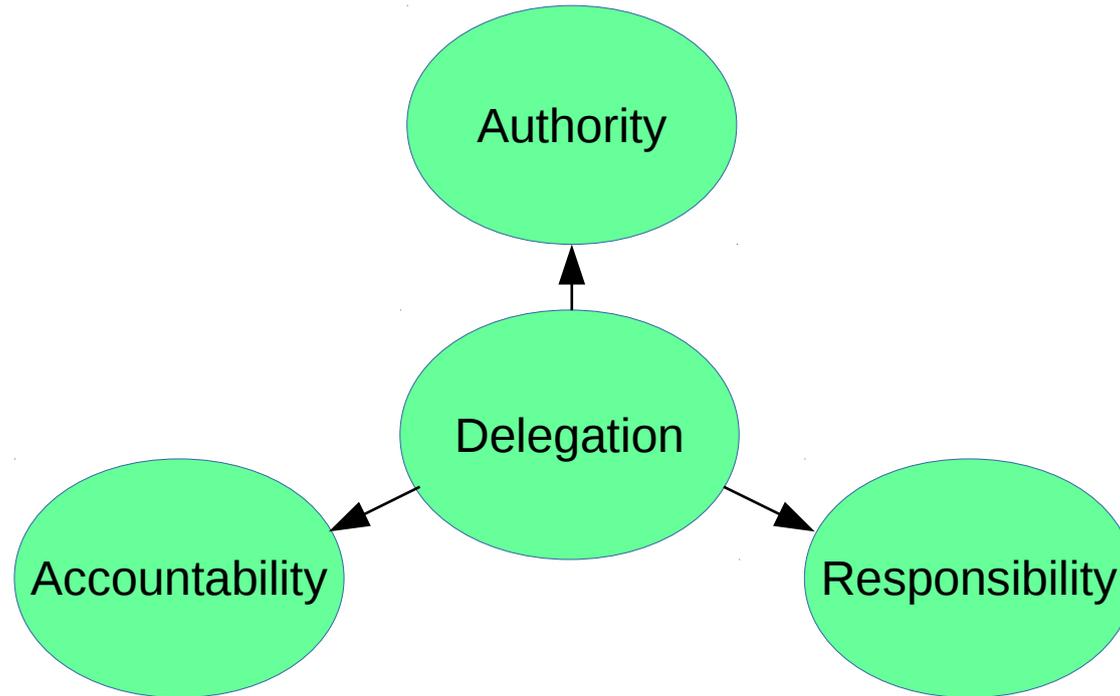
It cannot be delegated and flows upwards



Here a subordinate is accountable to his superior for his performance and at the same time the superior would still be accountable for the outcome

Delegation of Authority

- Authority is delegated
- Responsibility is assumed or accepted
- Accountability is imposed



Responsibility derived from authority while
accountability derived from responsibility

Delegation of Authority

A comparative study on the elements of delegation:

Basis	Authority	Responsibility	Accountability
Meaning	Right to command	Obligation to perform assigned duty	Answerability for outcome of the assigned task
Delegation	Can be delegated	Cannot be delegated	Cannot be delegated
Comes from	Formal position	Delegated authority	Responsibility
Flow	Downward	Upward	Upward

Importance of Delegation



Importance of Delegation

1 Effective Management

By entrusting the tasks with subordinates, top executives are able to concentrate on important matters



Importance of Delegation

2 Employee development

Through delegation, subordinates get tremendous opportunities to utilize their talents, which will lead to their ultimate development



Elements of Delegation

3 Motivation of employees

Delegation motivates the subordinates to improve their performance



Importance of Delegation

4 Facilitates growth

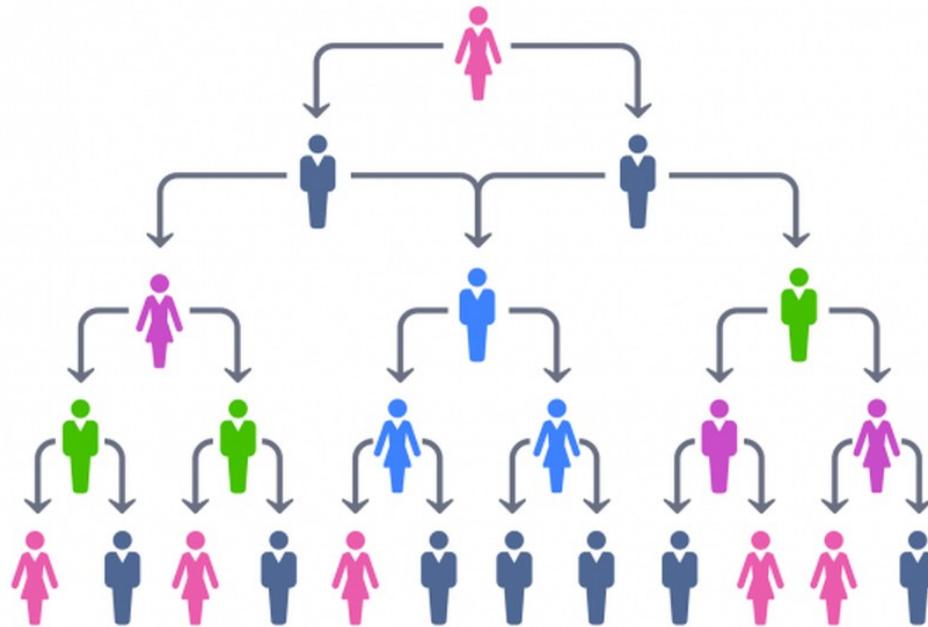
Delegation enables workforce to assume more responsibilities and take up leading positions, thus it helps the growth and expansion of the organization



Importance of Delegation

5 Managerial Hierarchy

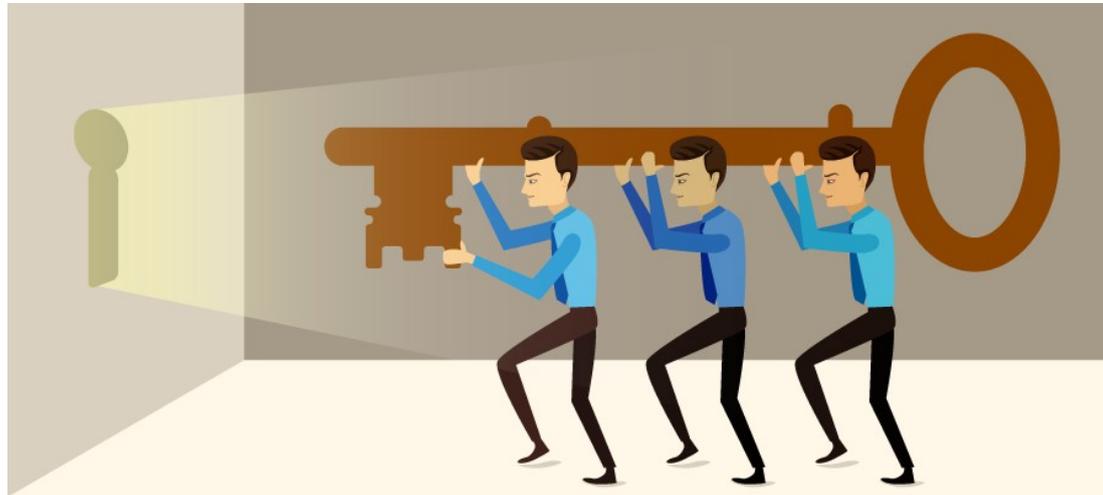
Delegation strictly follows the
Managerial Hierarchy



Importance of Delegation

6 Better coordination

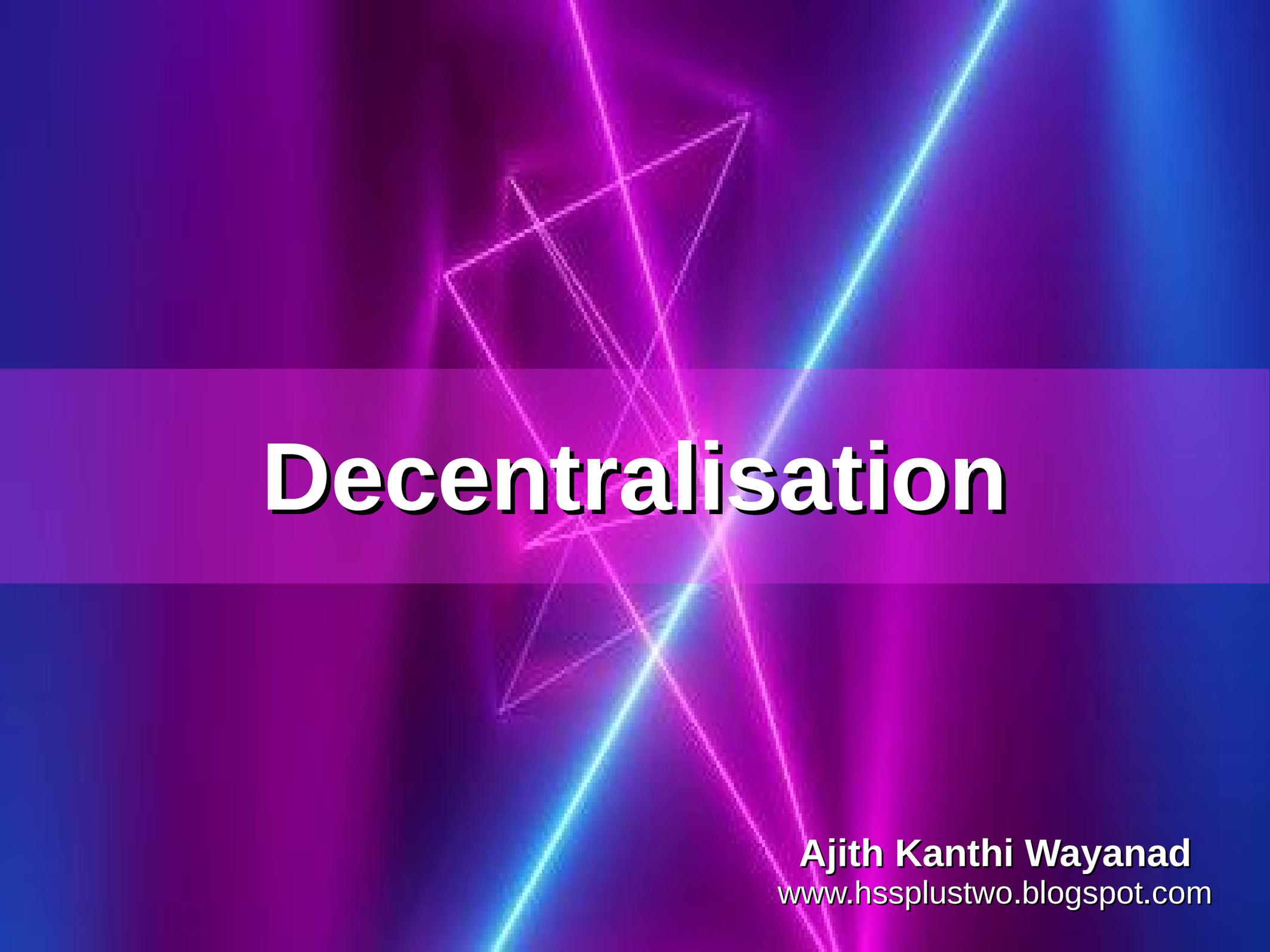
Delegation ensures proper reporting, which will help to coordinate the activities of different employees and departments



Importance of Delegation

1. Effective management
2. Employee development
3. Motivation of employees
4. Facilitates growth
5. Managerial Hierarchy
6. Better coordination



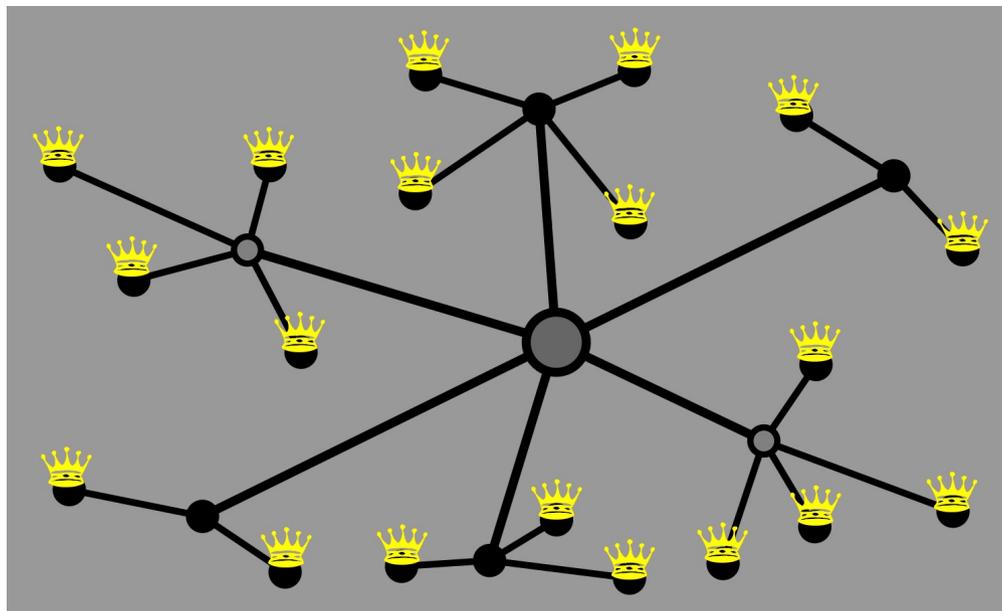


Decentralisation

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Decentralisation

It refers to the systematic dispersal of authority to the lower levels of organization



An organization is said to be decentralized when managers at middle and lower levels are given the requisite authority to take decisions and appropriate actions on matters relating to their respective areas of work

Importance of Decentralisation



Importance of Decentralisation

- a. Reduction of work load of top executives.
- b. Development of personnel
- c. Subordinates will be motivated
- d. Quick decision making
- e. Promote initiative and creativity
- f. Better coordination of activities
- g. Better control



Delegation Vs. Decentralisation

Basis	Delegation	Decentralization
Meaning	Entrusting authority and responsibility from one individual to another	Systematic delegation of authority in the organization
Nature	Individualistic	Totalistic under organizational set up
Scope	Limited as it is individualistic	Wide as it is organizational

Delegation Vs. Decentralisation

Basis	Delegation	Decentralization
Responsibility	Responsibility remains with the superior	Executive is relieved from the responsibility up to a certain extent
Effectiveness	Possible and effective in all organizations	Effective in large organizations
Relationship	Establishes superior – subordinate relationship	Creation of semi autonomous units in the organization

Prepared by: **Ajith Kanthi @ Ajith P P**

SKMJ HSS Kalpetta Wayanad Kerala

Ph: 9446162771, 7907712665

HssVoice Blog: www.hssplustwo.blogspot.com

