

## **Organisation:[Types and Structure, Formal -Informal ,Line and Staff Relationship, Span of Management, Centralization -Decentralization]**

### **Introduction:**

Organising as a function of management involves division of work among people whose efforts must be co-ordinated to achieve specific objectives and to implement pre-determined strategies. Organisation is the foundation upon which the whole structure of management is built. It is the backbone of management. After the objectives of an enterprise are determined and the plan is prepared, the next step in the management process is to organise the activities of the enterprise to execute the plan and to attain the objectives of the enterprise. The term organisation is given a variety of interpretations. In any case, there are two broad ways in which the term is used. In the first sense, organisation is understood as a dynamic process and a managerial activity which is necessary for bringing people together and tying them together in the pursuit of common objectives. When used in the other sense, organisation refers to the structure of relationships among positions and jobs which is built up for the realisation of common objectives.

### **Organising – The Process:**

Organisation is the process of establishing relationship among the members of the enterprise. The relationships are created in terms of authority and responsibility. To organise is to harmonise, coordinate or arrange in a logical and orderly manner. Each member in the organisation is assigned a specific responsibility or duty to perform and is granted the corresponding authority to perform his duty. The managerial function of organising consists in making a rational division of work into groups of activities and tying together the positions representing grouping of activities so as to achieve a rational, well coordinated and orderly structure for the accomplishment of work. According to Louis A Allen, "Organising involves identification and grouping the activities to be performed and dividing them among the individuals and creating authority and responsibility relationships among them for the accomplishment of organisational objectives."

The various steps involved in this process are:

1. **Determination of Objectives:** It is the first step in building up an organisation. Organisation is always related to certain objectives. Therefore, it is essential for the management to identify the objectives

before starting any activity. Organisation structure is built on the basis of the objectives of the enterprise. That means, the structure of the organisation can be determined by the management only after knowing the objectives to be accomplished through the organisation. This step helps the management not only in framing the organisation structure but also in achieving the enterprise objectives with minimum cost and efforts. Determination of objectives will consist in deciding as to why the proposed organisation is to be set up and, therefore, what will be the nature of the work to be accomplished through the organisation.

2. Enumeration of Objectives: If the members of the group are to pool their efforts effectively, there must be proper division of the major activities. The first step in organising group effort is the division of the total job into essential activities. Each job should be properly classified and grouped. This will enable the people to know what is expected of them as members of the group and will help in avoiding duplication of efforts. For example, the work of an industrial concern may be divided into the following major functions – production, financing, personnel, sales, purchase, etc.

3. Classification of Activities: The next step will be to classify activities according to similarities and common purposes and functions and taking the human and material resources into account. Then, closely related and similar activities are grouped into divisions and departments and the departmental activities are further divided into sections.

4. Assignment of Duties: Here, specific job assignments are made to different subordinates for ensuring a certainty of work performance. Each individual should be given a specific job to do according to his ability and made responsible for that. He should also be given the adequate authority to do the job assigned to him. In the words of Kimball and Kimball, "Organisation embraces the duties of designating the departments and the personnel that are to carry on the work, defining their functions and specifying the relations that are to exist between department and individuals."

5. Delegation of Authority: Since so many individuals work in the same organisation, it is the responsibility of management to lay down structure of relationship in the organisation. Authority without responsibility is a dangerous thing and similarly responsibility without authority is an empty vessel. Everybody should clearly know to whom he

is accountable; corresponding to the responsibility authority is delegated to the subordinates for enabling them to show work performance. This will help in the smooth working of the enterprise by facilitating delegation of responsibility and authority.

### **Organisational Design :**

Organisation design may be defined as a formal, guided process for integrating the people, information and technology of an organisation. Organisation design involves the creation of roles, processes, and formal reporting relationships in an organisation. One can distinguish between two phases in an organisation design process: strategic grouping, which establishes the overall structure of the organisation, (its main sub-units and their relationships), and operational design, which defines the more detailed roles and processes. It is used to match the form of the organisation as closely as possible to the purpose(s) the organisation seeks to achieve. Through the design process, organisations act to improve the probability that the collective efforts of members will be successful. Thus it may be said to be a process for improving the probability that an organisation will be successful.

### **Organisation Structure:**

An organisation structure shows the authority and responsibility relationships between the various positions in the organisation by showing who reports to whom. Organisation involves establishing an appropriate structure for the goal seeking activities. It is an established pattern of relationship among the components of the organisation. March and Simon have stated that-

"Organisation structure consists simply of those aspects of pattern of behaviour in the organisation that are relatively stable and change only slowly."

The structure of an organisation is generally shown on an organisation chart. It shows the authority and responsibility relationships between various positions in the organisation while designing the organisation structure, due attention should be given to the principles of sound organisation.

### **Significance of Organisation Structure**

1. Properly designed organisation can help improve teamwork and productivity by providing a framework within which the people can work together most effectively.
2. Organisation structure determines the location of decision-making in the organisation.
3. Sound organisation structure stimulates creative thinking and initiative among organisational members by providing well defined patterns of authority.
4. A sound organisation structure facilitates growth of enterprise by increasing its capacity to handle increased level of authority.
5. Organisation structure provides the pattern of communication and coordination.
6. The organisation structure helps a member to know what his role is and how it relates to other roles.

### **Determining the Kind of Organisation Structure**

According to Peter F Drucker-"Organisation is not an end in itself, but a means to the end of business performance and business results. Organisation structure is an indispensable means; and the wrong structure will seriously impair business performance and may even destroy it.

Organisation structure must be designed so as to make possible to attainment of the objectives of the business for five, ten, fifteen years hence". Peter Drucker has pointed out **three** specific ways to find out what kind or structure is needed to attain the objectives of a specific business:

1. **Activities Analysis:** The purpose of 'activities analysis' is to discover the primary activity of the proposed organisation, for it is around this that other activities will be built. It may be pointed out that in every organisation; one or two functional areas of business dominate. For example, designing is an important activity of the readymade garments manufacturer. After the activities have been identified and classified into functional areas, they should be listed in the order of importance.

2. **Decision Analysis:** At this stage, the manager finds out what kinds of decisions will need to be made to carry on the work of the organisation. What is even more important, he has to see where or at what level these decisions will have to be made and how each manager should be involved in them. This type of analysis is particularly important for deciding upon the number of levels or layers in the organisation structure.

3. **Relations Analysis:** Relations Analysis will include an examination of the various types of relationships that develop within the organisation. These relationships are vertical, lateral and diagonal. Where a superior-subordinate relationship is envisaged, it will be a vertical relationship. In case of an expert or specialist advising a manager at the same level, the relationship will be lateral. Where a specialist exercises authority over a person in subordinate position in another department in the same organisation it will be an instance of diagonal relationship.

### **Principles of Organisational Structure :**

The following are the main principles that a manager has to keep in mind while formulating an organisational structure.

1. **Consideration of unity of objectives:** The objective of the undertaking influences the organisation structure. There must be unity of objective so that all efforts can be concentrated on the set goals.
2. **Specialisation:** Effective organisation must include specialisation. Precise division of work facilitates specialisation.
3. **Co-ordination:** Organisation involves division of work among people whose efforts must be co-ordinated to achieve common goals. Co-ordination is the orderly arrangement of group effort to provide unity of action in the pursuit of common purpose.
4. **Clear unbroken line of Authority:** It points out the scalar principle or the chain of command. The line of authority flows from the highest executive to the lowest managerial level and the chain of command should not be broken.
5. **Responsibility:** Authority should be equal to responsibility i.e., each manager should have enough authority to accomplish the task.
6. **Efficiency:** The organisation structure should enable the enterprise to attain objectives with the lowest possible cost.

7. Delegation: Decisions should be made at the lowest competent level. Authority and responsibility should be delegated as far down in the organisation as possible.
8. Unity of Command: Each person should be accountable to a single superior. If an individual has to report to only one supervisor there is a sense of personal responsibility to one person for results.
9. Span of Management: No superior at a higher level should have more than six immediate subordinates. The average human brain can effectively direct three to six brains (i.e.,subordinates).
10. Communication: A good communication sub-system is essential for smooth flow of information and understanding and for effective business performance.
11. Flexibility: The organisation is expected to provide built in devices to facilitate growth and expansion without dislocation. It should not be rigid or inelastic.

### **Formal and Informal Organisation:**

The formal organisation refers to the structure of jobs and positions with clearly defined functions and relationships as prescribed by the top management. This type of organisation is built by the management to realise objectives of an enterprise and is bound by rules, systems and procedures. Everybody is assigned a certain responsibility for the performance of the given task and given the required amount of authority for carrying it out. Informal organisation, which does not appear on the organisation chart, supplements the formal organisation in achieving organisational goals effectively and efficiently. The working of informal groups and leaders is not as simple as it may appear to be. Therefore, it is obligatory for every manager to study thoroughly the working pattern of informal relationships in the organisation and to use them for achieving organisational objectives.

**1. Formal Organisation:** Chester I Bernard defines formal organisation as -"a system of consciously coordinated activities or forces of two or more persons. It refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability." The essence of formal organisation is conscious common purpose and comes into being when persons:

- (a) Are able to communicate with each other

- (b) Are willing to act, and
- (c) Share a purpose.

The formal organisation is built around four key pillars. They are:

- (a) Division of labour
- (b) Scalar and functional processes
- (c) Structure
- (d) Span of control

Thus, a formal organisation is one resulting from planning where the pattern of structure has already been determined by the top management.

### **Characteristic of Formal Organisation**

- (a) Formal organisation structure is laid down by the top management to achieve organisational goals.
- (b) Formal organisation prescribes the relationships amongst the people working in the organisation.
- (c) The organisation structure is consciously designed to enable the people of the organisation to work together for accomplishing the common objectives of the enterprise.
- (d) Organisation structure concentrates on the jobs to be performed and not the individuals who are to perform jobs.
- (e) In a formal organisation, individuals are fitted into jobs and positions and work as per the managerial decisions. Thus, the formal relations in the organisation arise from the pattern of responsibilities that are created by the management.
- (f) A formal organisation is bound by rules, regulations and procedures.
- (g) In a formal organisation, the position, authority, responsibility and accountability of each level are clearly defined.
- (h) Organisation structure is based on division of labour and specialisation to achieve efficiency in operations.
- (i) A formal organisation is deliberately impersonal. The organisation does not take into consideration the sentiments of organisational members.
- (j) The authority and responsibility relationships created by the organisation structure are to be honoured by everyone.
- (k) In a formal organisation, coordination proceeds according to the prescribed pattern.

### **Advantages of Formal Organisation**

(a) The formal organisation structure concentrates on the jobs to be performed. It, therefore, makes everybody responsible for a given task.

(b) A formal organisation is bound by rules, regulations and procedures. It thus ensures law and order in the organisation.

(c) The organisation structure enables the people of the organisation to work together for accomplishing the common objectives of the enterprise.

**Disadvantages or Criticisms of Formal Organisation**

(a) The formal organisation does not take into consideration the sentiments of organisational members. (b) The formal organisation does not consider the goals of the individuals. It is designed to achieve the goals of the organisation only. (c) The formal organisation is bound by rigid rules, regulations and procedures. This makes the achievement of goals difficult.

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2. **Informal Organisation:** Informal organisation refers to the relationship between people in the organisation based on personal attitudes, emotions, prejudices, likes, dislikes etc. an informal organisation is an organisation which is not established by any formal authority, but arises from the personal and social relations of the people.

These relations are not developed according to procedures and regulations laid down in the formal organisation structure; generally large formal groups give rise to small informal or social groups. These groups may be based on same taste, language, culture or some other factor. These groups are not pre-planned, but they develop automatically within the organisation according to its environment.

### **Characteristics of Informal Organisation**

(a) Informal organisation is not established by any formal authority. It is unplanned and arises spontaneously.



(b) Informal organisations reflect human relationships. It arises from the personal and social relations amongst the people working in the organisation.

(c) Formation of informal organisations is a natural process. It is not based on rules, regulations and procedures.

(d) The inter-relationships amongst the people in an informal organisation cannot be shown in an organisation chart.

(e) In the case of informal organisation, the people cut across formal channels of communications and communicate amongst themselves.

(f) The membership of informal organisations is voluntary. It arises spontaneously and not by deliberate or conscious efforts.

(g) Membership of informal groups can be overlapping as a person may be member of a number of informal groups.

(h) Informal organisations are based on common taste, problem, language, religion, culture, etc. It is influenced by the personal attitudes, emotions, whims, likes and dislikes etc. of the people in the organisation.

### **Benefits of Informal Organisation**

(a) It blends with the formal organisation to make it more effective.

(b) Many things which cannot be achieved through formal organisation can be achieved through informal organisation.

(c) The presence of informal organisation in an enterprise makes the managers plan and act more carefully.

(d) Informal organisation acts as a means by which the workers achieve a sense of security and belonging. It provides social satisfaction to group members.

(e) An informal organisation has a powerful influence on productivity and job satisfaction.

(f) The informal leader lightens the burden of the formal manager and tries to fill in the gaps in the manager's ability.

(g) Informal organisation helps the group members to attain specific personal objectives.

(h) Informal organisation is the best means of employee communication. It is very fast.

(i) Informal organisation gives psychological satisfaction to the members. It acts as a safety valve for the emotional problems and frustrations of

the workers of the organisation because they get a platform to express their feelings.

(j) It serves as an agency for social control of human behaviour.

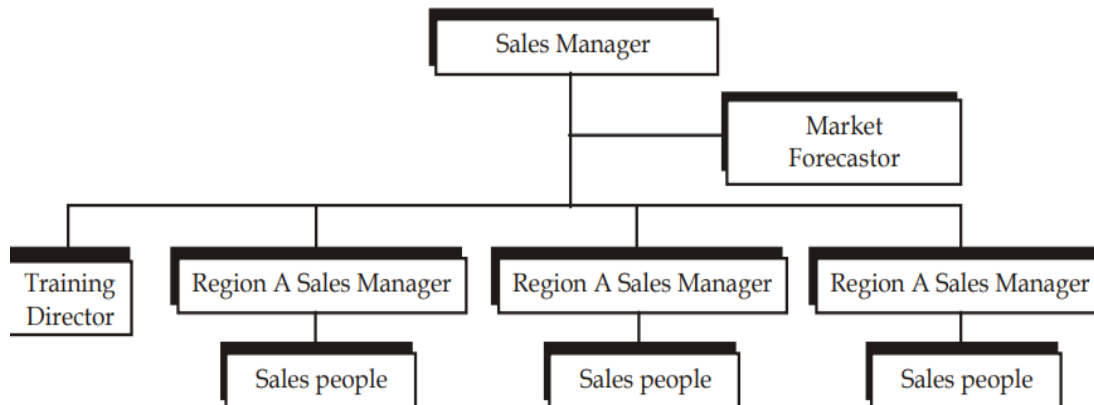
### **Management's Attitude towards Informal Organisation:**

Formal organisation, no doubt is an important part of the organisation but it alone is not capable of accomplishing the organisational objectives. Informal organisation supplements the formal organisation in achieving the organisational objectives. If handled properly, informal organisation will help in performing the activities of the organisation very efficiently and effectively. In the words of Keith Davis, "An informal organisation is a powerful influence upon productivity and job satisfaction. Both formal and informal systems are necessary for group activity just as two blades are essential to make a pair of scissors workable". As both formal and informal organisations are quite essential for the success of any organisation, a manager should not ignore the informal organisation. He should study thoroughly the working pattern of informal relationship in the organisation and use the informal organisation for achieving the organisational objectives.

### **Line and Staff**

Organisation In line and staff organisation, the line authority remains the same as it does in the line organisation. Authority flows from top to bottom. The main difference is that specialists are attached to line managers to advise them on important matters. These specialists stand ready with their speciality to serve line managers as and when their services are called for, to collect information and to give help which will enable the line officials to carry out their activities better. The staff officers do not have any power of command in the organisation as they are employed to provide expert advice to the line officers. The combination of line organisation with this expert staff constitutes the type of organisation known as line and staff organisation. The 'line' maintains discipline and stability; the 'staff' provides expert information. The line gets out the production, the staffs carries on the research, planning, scheduling, establishing of standards and recording of

performance. The authority by which the staff performs these functions is delegated by the line and the performance must be acceptable to the line before action is taken. The following Figure depicts the line and staff organisation:



### **Types of Staff:**

The staff position established as a measure of support for the line managers may take the following forms:

1. **Personal Staff:** Here the staff official is attached as a personal assistant or adviser to the line manager. For example, Assistant to managing director.
2. **Specialised Staff:** Such staff acts as the fountainhead of expertise in specialised areas like R&D, personnel, accounting etc. For example, R&D Staff.
3. **General Staff:** This category of staff consists of a set of experts in different areas who are meant to advise and assist the top management on matters called for expertise. For example: Financial advisor, technical advisor etc.

### **Features of Line and Staff Organisation**

1. Under this system, there are line officers who have authority and command over the subordinates and are accountable for the tasks entrusted to them. The staff officers are specialists who offer expert advice to the line officers to perform their tasks efficiently.
2. Under this system, the staff officers prepare the plans and give advise to the line officers and the line officers execute the plan with the help of workers.
3. The line and staff organisation is based on the principle of specialisation.

### **Advantages or Merits of Line and Staff Organisation**

1. It brings expert knowledge to bear upon management and operating problems. Thus, the line managers get the benefit of specialised knowledge of staff specialists at various levels.
2. The expert advice and guidance given by the staff officers to the line officers benefit the entire organisation.
3. As the staff officers look after the detailed analysis of each important managerial activity, it relieves the line managers of the botheration of concentrating on specialised functions.
4. Staff specialists help the line managers in taking better decisions by providing expert advice. Therefore, there will be sound managerial decisions under this system.
5. It makes possible the principle of undivided responsibility and authority, and at the same time permits staff specialisation. Thus, the organisation takes advantage of functional organisation while maintaining the unity of command.
6. It is based upon planned specialisation.
7. Line and staff organisation has greater flexibility, in the sense that new specialised activities can be added to the line activities without disturbing the line procedure.

### **Disadvantages or Demerits of Line and Staff Organisation**

1. Unless the duties and responsibilities of the staff members are clearly indicated by charts and manuals, there may be considerable confusion throughout the organisation as to the functions and positions of staff members with relation to the line supervisors.
2. There is generally a conflict between the line and staff executives. The line managers feel that staff specialists do not always give right type of advice, and staff officials generally complain that their advice is not properly attended to.
3. Line managers sometimes may resent the activities of staff members, feeling that prestige and influence of line managers suffer from the presence of the specialists.
4. The staff experts may be ineffective because they do not get the authority to implement their recommendations.
5. This type of organisation requires the appointment of large number of staff officers or experts in addition to the line officers. As a result, this system becomes quite expensive.

6. Although expert information and advice are available, they reach the workers through the officers and thus run the risk of misunderstanding and misinterpretation.

7. Since staff managers are not accountable for the results, they may not be performing their duties well. 8. Line managers deal with problems in a more practical manner. But staff officials who are specialists in their fields tend to be more theoretical. This may hamper coordination in the organisation.

### **Functional Organisation :**

The difficulty of the line organisation in securing suitable chief executive was overcome by F.W. Taylor who formulated the Functional type of organisation. As the name implies, the whole task of management and direction of subordinates should be divided according to the type of work involved. As far as the workman was concerned, instead of coming in contact with the management at one point only, he was to receive his daily orders and help directly from eight different bosses; four of these were located in the planning room and four in the shop.

The four specialists or bosses in the planning room are:

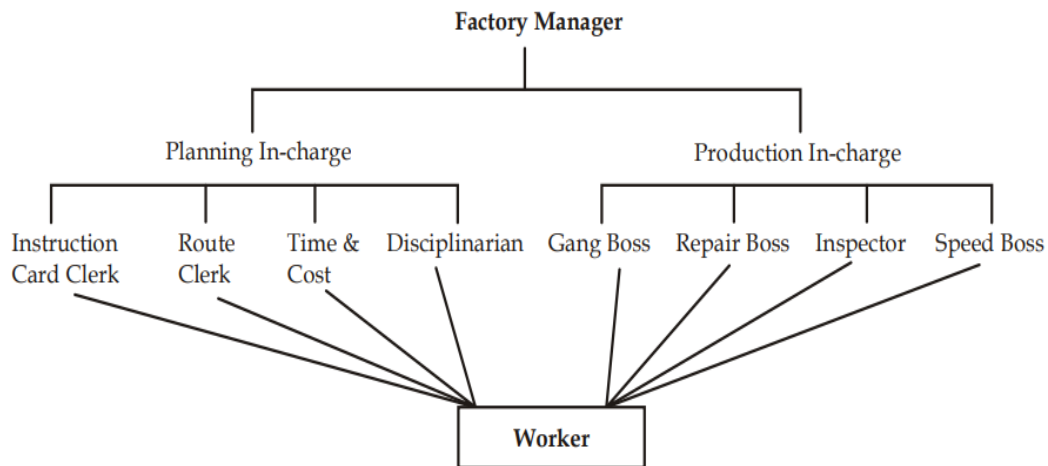
1. Route Clerk: To lay down the sequence of operations and instruct the workers concerned about it.
2. Instruction Card Clerk: To prepare detailed instructions regarding different aspects of work.
3. Time and Cost Clerk: To send all information relating to their pay to the workers and to secure proper returns of work from them.
4. Shop Disciplinarian: To deal with cases of breach of discipline and absenteeism.

The four specialists or bosses at the shop level are:

1. Gang Boss: To assemble and set up tools and machines and to teach the workers to make all their personal motions in the quickest and best way.
2. Speed Boss: To ensure that machines are run at their best speeds and proper tools are used by the workers.
3. Repair Boss: To ensure that each worker keeps his machine in good order and maintains cleanliness around him and his machines.
4. Inspector: To show to the worker how to do the work .

It was F.W. Taylor who evolved functional organisation for planning and controlling manufacturing operations on the basis of specialisation. But in practice, functionalisation is restricted to the top of the organisation as recommended by Taylor.

The following Figure depicts the functional foremanship:



### **Features of Functional Organisation :**

1. The work of the enterprise is divided into different functional departments and the different functional departments are placed under different specialists.
2. The functional specialist has the authority or right to give orders regarding his function whosoever that function is performed in the enterprise.
3. Under this system, the workers have to receive instructions from different specialists.
4. If anybody in the enterprise has to take any decision relating to a particular function, it has to be in consultation with the functional specialist.
5. Under this system, the workers have to perform a limited number of functions.

### **Advantages of Functional Organisation**

1. Functional organisation is based on expert knowledge. Every functionary in charge is an expert in his area and can help the subordinates in better performance in his area.
2. Division of labour is planned not incidental.

3. As there is not scope for one-man control in this form of organisation, this system ensure co-operation and teamwork among the workers.
4. This system ensures the separation of mental functions from manual functions.
5. It helps mass production by standardization and specialization.
6. This system ensures maximum use of he principle of specialisation at every work point.
7. As there is joint supervision in the organisation, functional organisation reduces the burden on the top executives.
8. Functional organisation offers a greater scope for expansion as compared to line organisation. It does not face the problem of limited capabilities of a few line managers.
9. The expert knowledge of the functional mangers facilitates better control and supervision in the organisation.

#### **Disadvantages or Demerits of Functional Organisation**

1. It is unstable because it weakens the disciplinary controls, by making the workers work under several different bosses. Thus, functional organisation violates the principle of unity of command.
2. Under this type of organisation, there are many foremen of equal rank. This may lead to conflicts among them.
3. The co-ordinating influence needed to ensure a smoothly functioning organisation may involve heavy overhead expenses.
4. The inability to locate and fix responsibility may seriously affect the discipline and morale of the workers through apparent or actual contradiction of the orders.
5. This system is very costly as a large number of specialists are required to be appointed.
6. A functional manager tends to create boundaries around himself and think only in term of his own department rather than of the whole enterprise. This results in loss of overall perspective in dealing with business problems.

7. It is difficult for the management to fix responsibility for unsatisfactory results.

### **Span of Management:**

The term 'span of management' is also known as 'span of control', 'span of supervision' and 'span of authority'. It represents a numerical limit of 'subordinates to be supervised and controlled by a manager. It is an important principle of sound organisation. This principle is based on the theory of relationships propounded by V.A. Graicunas, a French management consultant. Graicunas analyzed superior-subordinate relationship and developed a mathematical formula based on the geometric increase in complexities of managing as the number of subordinates increases.

### **Graicunas' Theory**

Graicunas showed mathematically that a number of direct, group and cross relationships exist between a manager and his subordinates. The number of these relationships increase with the increase in the number of the subordinates. He said that an executive having four subordinates under him is required to deal with

(i) 4 direct single relationships,

(ii) 12 cross relationships and

(iii) 28 group relationships, i.e., in all forty-four relationships. He derived these on the basis of the following formula:

No. of direct relationships =  $n$  No. of cross relationships =  $n [n - 1]$

No. of group relationships =  $n [2n-1- 1]$

Total No. of relationships =  $n [2n/2 + (n - 1)]$  or  $n [2n- + n - 1]$

Where  $n$  represents the number of subordinates.

The last formula reveals that possible relationships with variable number of subordinates rise very rapidly as shown in the following table:



**: Possible Relationships with Variable Number of Subordinates**

No. of Subordinates	No. of Relationships
1	1
2	6
3	18
4	44
5	100
6	222
7	490
8	1,080
9	2,376
10	5,210
12	24,708
18	23,59,602

Though, Graicunas gave mathematical formulae for finding out the number of relationships, his approach suffers from various shortcomings, such as ignoring the importance of relationships, frequency of relationships and the factors which determine the span. Moreover, he left out certain possible relationships, particularly in cross relationships. However, his theory gives an important indication that an executive must think twice before increasing his span because increase of one subordinate will increase relationships manifold. Graicunas suggested that an executive can effectively manage 222 relationships which arise out of six subordinates. However, he failed to list factors which govern the span of supervision in practice.

Span of control refers to the number of subordinates an executive can supervise. The concept is central to the classical theory of organisation. Proper span of control is considered a necessity for effective coordination. The view in the traditional theory has been that a small span is better than a large one because an executive must have intimate and direct contact with his subordinates. The ideal ratio was considered to be 15 to 25 subordinates for first level supervision and 5 to 8 subordinates in executive spans.

**Impact of Span of Management :**

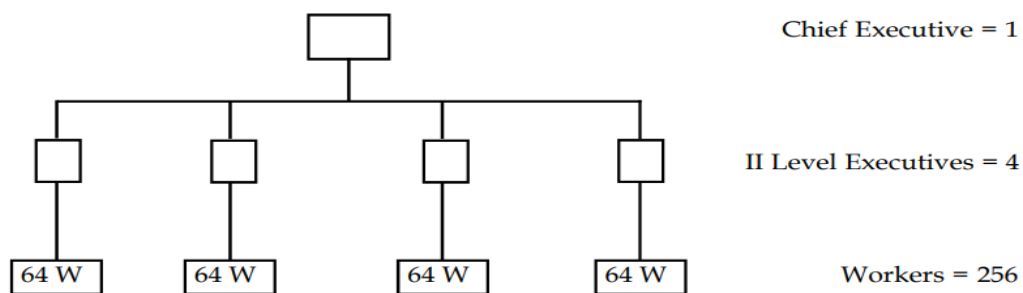
The number of persons an executive supervises has an important influence on the nature of organisation structure. If the span is large, it means that fewer levels are needed in the organisation. The structure would tend to be flat and wide. Presumably the possibility of communication blockages would be minimized because more people report directly to the top executive. If the

span is small, the structure would be narrow and deep. There would be more levels in the organisation. More people will have to communicate to the top manager through intervening layer of executives. The possibility of communication blockages and distortions would increase.

**Wide Span of supervision:** When the span of supervision is wider, the number of executives needed to supervise the workers will be less. This will make the organisation structure wide. Such a structure would be less expensive because of less overhead costs of supervision. Since the number of levels is less, there will be better communication between the worker and the management and better coordination. However, the quality of performance is likely to deteriorate because one executive cannot effectively supervise a large number of subordinates. He will not be able to devote sufficient time in directing each and every subordinate.

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### **Flat Structure (Span of Control = 64 Workers)**



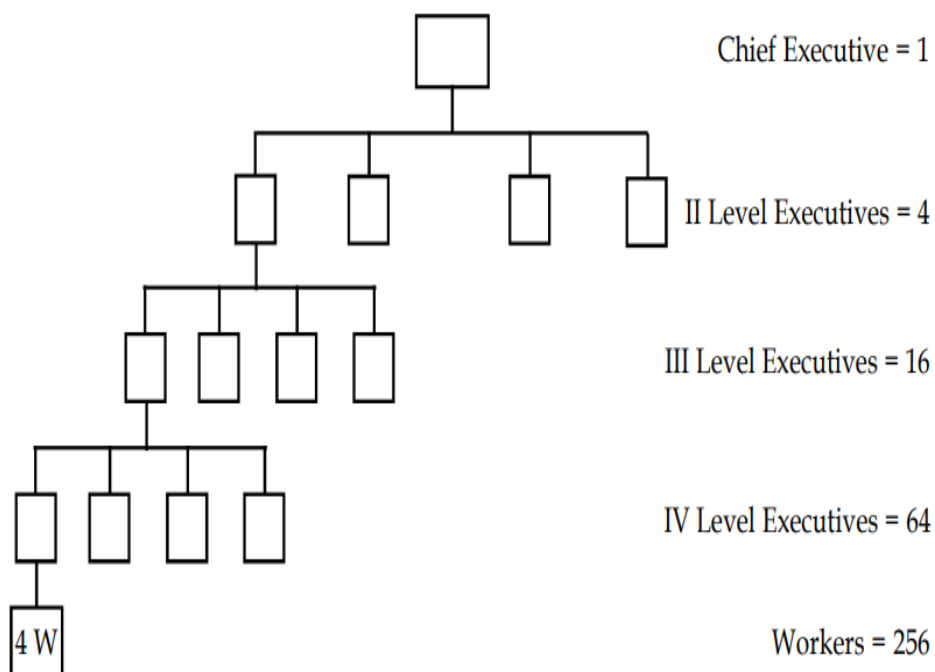
**Narrow Span of Supervision:** The narrow span of supervision will lead to a tall structure and to an increase in the executive payroll as compared to the flat structure. Another drawback is that the additional layers of supervision will complicate communication from the chief executive down to operative employees and back up the line. There will also be a problem of effective coordination of the activities of different persons in the organisation because of more levels of executives. However, the narrow span of supervision has the benefit of better personal contacts between the supervisors and the subordinates. It facilitates tight control and close supervision. Tall organisation

structure gives sufficient time to an executive for developing relations with the subordinates.

In recent years, there has been a controversy about the significance of the concept of span of control. The transformation in the style of decision making has had an inevitable bearing on question relating to the number of people an executive can supervise. Moreover, the use of delegation and decentralization is highly advocated these days. It is realized that narrow span of control is an effective means of forcing the executives to delegate.

It is also argued that if an executive has enough number of subordinates to supervise. Moreover, the use of delegation and decentralization is highly advocated these days. It is realized that narrow span of control is an effective means of forcing the executives to delegate. It is also argued that if an executive has enough number of subordinates to supervise, there is a point beyond which intimate control becomes very difficult. But how this point should be determined is the main question.

**Tall Structure (Span of Control = 4 Workers)**



## **Centralisation and Decentralisation :**

Centralisation, or centralization (see spelling differences), is the process by which the activities of an organisation, particularly those regarding decision-making, become concentrated within a particular location and/or group.

Decentralisation is an extension of the concept of delegation and cannot exist unless authority is delegated. In decentralisation, a great deal of authority is delegated and more decisions are made at lower levels. It gives added responsibility to managers at all levels below the top.

According to Fayol 'everything which goes to increase the subordinate's role is decentralisation, everything which goes to reduce it is centralisation'.

**Centralisation:** By centralisation, we mean the concentration of a formal authority at the top levels of a business organisation. It is a tendency aimed at centralised performance. Hence, it is the opposite of dispersal and delegation of authority. It has an important bearing on the processes of policy formulation and decision-making.

The two major areas of management or administration are reserved with the top management in a centralized organisation. Hence, the lower levels of the organisational hierarchy have to look upwards for direction, advice, clarification, interpretation, etc.

Under centralization, even the agencies of the parent organisation do not enjoy any authority of decision-making and hence are fully dependent on the central authority. The agencies are required to implement the decisions in accordance with the pre-determined guidelines as handed down to them by the headquarters operating as the central authority. Centralisation acquires its acute form when an organisation operates from a single location i.e., when it does not have any field agencies.

In the words of Harold Koontz, Centralisation has been used to describe tendencies other than the dispersal of authority. It often refers to the departmental activities; service divisions, centralised similar or specialised activities in a single department. But when centralisation is discussed as an aspect of management, it refers to delegating or withholding authority and the authority dispersal or, concentration in decision making. Therefore, centralisation can be regarded as concentration of physical facilities and/or decision making authority.

**Decentralisation** :The term decentralisation is understood differently by different individuals or groups. Louis A. Allen refers to it as one of the most confused and confusing of the administrative techniques that characterises the art and science of professional management.

To quote Pfeiffer and Sherwood, "In some respects decentralisation has come to be a 'gospel' of management."

Firstly, it is regarded as a way of life to be adopted as least partially on faith;

Secondly, it is an idealistic concept, with ethical roots in democracy,

Thirdly, it is in the beginning a more difficult way of life because it involves a change in behaviour running counter to historically-rooted culture patterns of mankind.

That is why the new literature of decentralisation dwells on how to bring about change in organisation behaviour. Men find it difficult to delegate, to think in terms of the abstractions required by long-term planning, to listen rather than to give orders, to evaluate other men and their work in terms of overall results instead of irritations and tensions of the moment. Yet this is the very key to the behaviour required of leaders in a decentralised organisation".

It is amply clear that decentralization is not only a device for the delegation or dispersal of administrative authority, but it is also a democratic method of devolution of political authority. Further, in a decentralised organisation it is also essential to adopt the democratic norms. Such norms help the various levels of the administrative organisation to develop a reasonable capability for the exercise of authority to reach the most desired decisions. Moreover, they help to assimilate in them the virtues of greater interactions not only among the various organisational levels but also between the organisation and the clientele among the general public.

It has been opined that decentralisation refers to the physical location of facilities and the extent of dispersal of authority throughout an organisation. Hence, it is an arrangement by which the ultimate authority to command and the ultimate responsibility for results is localized in units located in different parts of the country. It is argued that assigning of functions and responsibility, for their efficient and effective performance, to the subordinates or sub-divisions is the essence of decentralisation.

It is said that in a decentralised organisation at lower levels are allowed to decide most of the matters and a few cases involving major policies or interpretations are referred to the higher levels of the organisation. Decentralisation covers the political, legal and administrative spheres of authority.

### **Centralised and Decentralised Organisations:**

Centralisation and Decentralisation of Organisations need to be viewed as complementary to each other as a fair combination of the two results in stability, accountability, efficiency and effectiveness. It has been said that in order to ensure its existence, an organisation has to perform certain functions which are basically centralising in nature and effect. Moreover, their performance has to be from a central point of authority. Two such major functions are initiation and decisionmaking in relation to basic management functions like planning, organising, motivating, coordinating and controlling the work of the subordinates as also of the field units. Thus, the higher levels by performing the functions of initiation and decision making tend to reserve the real authority at the central points of the organisation. On the other hand, Earnest Dale points out that the degree of decentralisation greater in the following situations:

1. The greater the number of decisions made at lower level of management hierarchy, the greater the degree of decentralisation.
2. The more important the decisions made at lower level of management, the greater the degree of decentralisation.
3. In a decentralised authority structure, more decisions are taken at lower levels which affect most of the functions of the organisation as a whole. Thus, the organisations which permit only operational decisions to be made at separate branch units are less decentralised than those which also permit financial and personnel decisions at branch units.
4. When less checking is required on the decision. Decentralisation is greater when no check at all is made; it is less when superiors have to be informed of the decision after it has been made; still less if superiors have to be consulted before the decision is made. When fewer are consulted and if they are at a lower level in the organisation's hierarchy, the degree of decentralisation is more.

It is, therefore, clear that the application of the two concepts is greatly influenced by factors more than one. In modern times when we have a multiplicity of administrative and political organisations, there is a need to use the centralised and decentralized patterns of authority for the maximum benefit of the people.

### **Types of Organizational Structure :**

Organizational structure aligns and relates parts of an organization, so it can achieve its maximum performance. The structure chosen affects an organization's success in carrying out its strategy and objectives.

Organizational structure is the method by which work flows through an organization. It allows groups to work together within their individual functions to manage tasks. Traditional organizational structures tend to be more formalized—with employees grouped by function (such as finance or operations), region or product line. Less traditional structures are more loosely woven and flexible, with the ability to respond quickly to changing business environments.

Organizational structures have evolved from rigid, vertically integrated, hierarchical, autocratic structures to relatively boundary-less, empowered, networked organizations designed to respond quickly to customer needs with customized products and services.

Today, organizations are usually structured vertically, vertically and horizontally, or with open boundaries. Specific types of structures within each of these categories are the following:

- Vertical—functional and divisional.
- Vertical and horizontal—matrix.
- Boundary-less (also referred to as "open boundary")—modular, virtual and cellular.

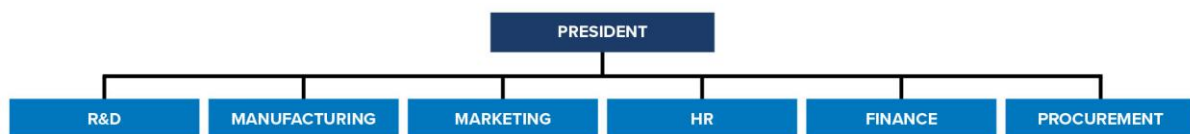
### **VERTICAL STRUCTURES (FUNCTIONAL AND DIVISIONAL)**

Two main types of vertical structure exist, functional and divisional. The functional structure divides work and employees by specialization. It is a hierarchical, usually vertically integrated, structure. It emphasizes standardization in organization and processes for specialized employees in relatively narrow jobs.

This traditional type of organization forms departments such as production, sales, research and development, accounting, HR, and marketing. Each department has a separate function and specializes in that area. For example, all HR professionals are part of the same function and report to a senior leader of HR. The same reporting process would be true for other functions, such as finance or operations.

In functional structures, employees report directly to managers within their functional areas who in turn report to a chief officer of the organization. Management from above must centrally coordinate the specialized departments.

A functional organizational chart might look something like this:



Advantages of a functional structure include the following:

- The organization develops experts in its respective areas.
- Individuals perform only tasks in which they are most proficient.
- This form is logical and easy to understand.

Disadvantages center on coordination or lack thereof:

- People are in specialized "silos" and often fail to coordinate or communicate with other departments.
- Cross-functional activity is more difficult to promote.
- The structure tends to be resistant to change.

This structure works best for organizations that remain centralized (i.e., a majority of the decision-making occurs at higher levels of the organization) because there are few shared concerns or objectives between functional areas (e.g., marketing, production, purchasing, IT). Given the centralized decision-making, the organization can take advantage of economies of scale in that there are likely centralized purchasing functions.

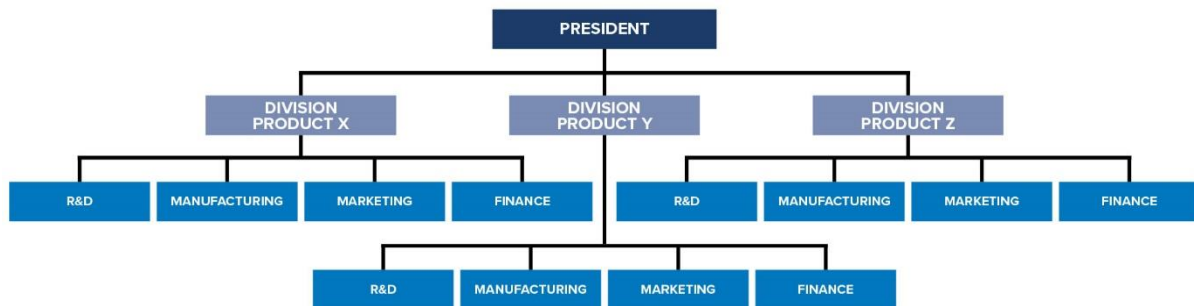
An appropriate management system to coordinate the departments is essential. The management system may be a special leader, like a vice president, a computer system or some other format.



Also a vertical arrangement, a divisional structure most often divides work and employees by output, although a divisional structure could be divided by another variable such as market or region. For example, a business that sells men's, women's and children's clothing through retail, e-commerce and catalog sales in the Northeast, Southeast and Southwest could be using a divisional structure in one of three ways:

- Product—men's wear, women's wear and children's clothing.
- Market—retail store, e-commerce and catalog.
- Region—Northeast, Southeast and Southwest.

A divisional organizational structure might look like this:



The advantages of this type of structure are the following:

- It provides more focus and flexibility on each division's core competency.
- It allows the divisions to focus on producing specialized products while also using knowledge gained from related divisions.
- It allows for more coordination than the functional structure.
- Decision-making authority pushed to lower levels of the organization enables faster, customized decisions.

The disadvantages of this structure include the following:

- It can result in a loss of efficiency and a duplication of effort because each division needs to acquire the same resources.
- Each division often has its own research and development, marketing, and other units that could otherwise be helping each other.
- Employees with similar technical career paths have less interaction.

- Divisions may be competing for the same customers.
- Each division often buys similar supplies in smaller quantities and may pay more per item.

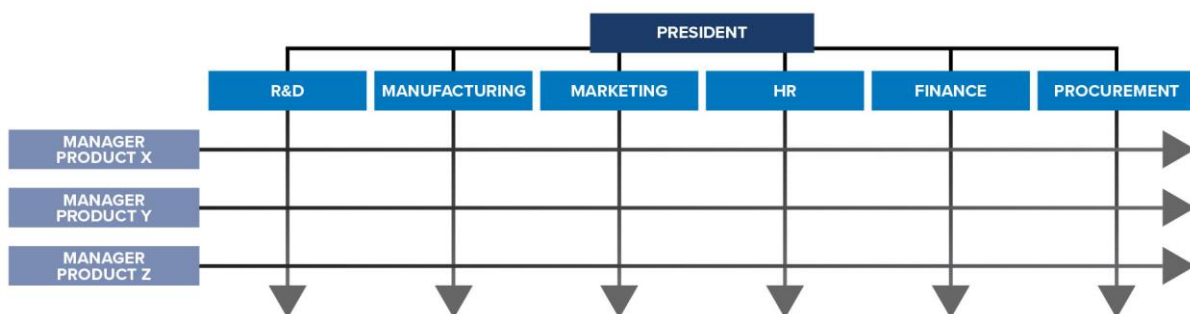
This type of structure is helpful when the product base expands in quantity or complexity. But when competition among divisions becomes significant, the organization is not adapting quickly enough, or when economies of scale are lacking, the organization may require a more sophisticated matrix structure.

## MATRIX ORGANIZATIONAL STRUCTURES

A matrix structure combines the functional and divisional structures to create a dual-command situation. In a matrix structure, an employee reports to two managers who are jointly responsible for the employee's performance.

Typically, one manager works in an administrative function, such as finance, HR, information technology, sales or marketing, and the other works in a business unit related to a product, service, customer or geography.

A typical matrix organizational structure might look like this:



Advantages of the matrix structure include the following:

- It creates a functional and divisional partnership and focuses on the work more than on the people.
- It minimizes costs by sharing key people.
- It creates a better balance between time of completion and cost.
- It provides a better overview of a product that is manufactured in several areas or sold by various subsidiaries in different markets.

Disadvantages of matrix organizations include the following:

- Responsibilities may be unclear, thus complicating governance and control.

- Reporting to more than one manager at a time can be confusing for the employee and supervisors.
- The dual chain of command requires cooperation between two direct supervisors to determine an employee's work priorities, work assignments and performance standards.
- When the function leader and the product leader make conflicting demands on the employee, the employee's stress level increases, and performance may decrease.
- Employees spend more time in meetings and coordinating with other employees.

These disadvantages can be exacerbated if the matrix goes beyond two-dimensional (e.g., employees report to two managers) to multidimensional (e.g., employees report to three or more managers).

Matrix structures are common in heavily project-driven organizations, such as construction companies. These structures have grown out of project structures in which employees from different functions formed teams until completing a project, and then reverted to their own functions. In a matrix organization, each project manager reports directly to the vice president and the general manager. Each project is, in essence, a mini profit center, and therefore, general managers usually make business decisions.

The matrix-structured organization also provides greater visibility, stronger governance and more control in large, complex companies. It is also well suited for development of business areas and coordination of complex processes with strong dependencies.

Matrix structures pose difficult challenges for professionals charged with ensuring equity and fairness across the organization. Managers working in matrix structures should be prepared to intervene via communication and training if the structure compromises these objectives. Furthermore, leadership should monitor relationships between managers who share direct reports. These relationships between an employee's managers are crucial to the success of a matrix structure.

## **OPEN BOUNDARY STRUCTURES (HOLLOW, MODULAR VIRTUAL AND LEARNING)**

More recent trends in structural forms remove the traditional boundaries of an organization. Typical internal and external barriers and organizational boxes are eliminated, and all organizational units are effectively and flexibly connected. Teams replace departments, and the organization and suppliers work as closely together as parts of one company. The hierarchy is flat; status and rank are minimal. Everyone—including top management, managers and employees—participates in the decision-making process. The use of 360-degree feedback performance appraisals is common as well.

Advantages of boundary-less organizations include the following:

- Ability to leverage all employees' talents.
- Faster response to market changes.
- Enhanced cooperation and information sharing among functions, divisions and staff.

Disadvantages include the following:

- Difficulty in overcoming silos inside the organization.
- Lack of strong leadership and common vision.
- Time-consuming processes.
- The possibility of employees being adversely affected by efficiency efforts.
- The possibility of organizations abandoning change if restructuring does not improve effectiveness quickly.

Boundary-less organizational structures can be created in varied forms, including hollow, modular and virtual organizations.

**Hollow organizations.** Hollow structures divide work and employees by core and noncore competencies. Hollow structures are an outsourcing model in which the organization maintains its core processes internally but outsources noncore processes. Hollow structures are most effective when the industry is price competitive and choices for outsourcing exist. An example of a hollow structure is a sports organization that has its HR functions (e.g., payroll and benefits) handled by outside organizations.

Advantages of this type of structure include the following:

- Minimizing overhead.
- Enabling the organization to focus on its core product and eliminating the need to develop expertise in noncore functions.

Disadvantages include:

- Loss of control over functions that affect employees regularly.
- Restriction by certain industries (e.g., health care) on the extent of outsourcing.
- Lack of competitive outsourcing options.

**Modular organizations.** Modular structures differ from hollow organizations in that components of a product are outsourced. Modular structures may keep a core part of the product in-house and outsource noncore portions of the product. Networks are added or subtracted as needs change. For a modular structure to be an option, the product must be able to be broken into chunks. For example, computer manufacturer Dell buys parts from various suppliers and assembles them at one central location. Suppliers at one end and customers at the other become part of the organization; the organization shares information and innovations with all. Customization of products and services results from flexibility, creativity, teamwork and responsiveness. Business decisions are made at corporate, divisional, project and individual team member levels.

Advantages include the following:

- Minimizing the specialization and specialists needed.
- Minimizing overhead.
- Enabling the company to outsource parts supply and coordinate the assembly of quality products.

Disadvantages include concerns about the actions of suppliers outside the control of the core management company. Risk occurs if the partner organization removes itself from the quality check on the end product or if the outsourced organization uses a second outsourced organization. Examples of supplier concerns include the following:

- Suppliers, or subcontractors, must have access to—and safeguard—most, if not all, of the core company's data and trade secrets.

- Suppliers could suddenly raise prices on or cease production of key parts.
- Knowing where one organization ends and another begins may become difficult.

**Virtual organizations.** A virtual organization (sometimes called a network structure) is cooperation among companies, institutions or individuals delivering a product or service under a common business understanding. Organizations form partnerships with others—often competitors—that complement each other. The collaborating units present themselves as a unified organization.

The advantages of virtual structures include the following:

- Contributions from each part of the unit.
- Elimination of physical boundaries.
- Responsiveness to a rapidly changing environment.
- Lower or nonexistent organizational overhead.
- Allows companies to be more flexible and agile.
- Give more power to all employees to collaborate, take initiative, and make decisions.
- Helps employees and stakeholders understand workflows and processes.

The disadvantages of virtual organizations include the following:

- Potential lack of trust between organizations.
- Potential lack of organizational identification among employees.
- Need for increased communication.
- Can quickly become overly complex when dealing with lots of offsite processes.
- Can make it more difficult for employees to know who has final say.

Virtual structures are collaborative and created to respond to an exceptional and often temporary marketing opportunity. An example of a virtual structure is an environmental conservancy in which multiple organizations supply a

virtual organization with employees to save, for example, a historic site, possibly with the intent of economic gain for the partners.

Understanding the organizational environment is crucial in open boundary models. For example, some industries cannot outsource noncore processes due to government regulation. (For example, health insurance organizations may be unable to outsource Medicare processes). Or, in some cases, outsourcing may have to be negotiated with a union.

The key to effective boundary-less organizations is placing adaptable employees at all levels. Management must give up traditional autocratic control to coach employees toward creativity and the achievement of organizational goals. Employees must apply initiative and creativity to benefit the organization, and reward systems should recognize such employees.

**Learning organizations.** A learning organization is one whose design actively seeks to acquire knowledge and change behavior as a result of the newly acquired knowledge. In learning organizations, experimenting, learning new things, and reflecting on new knowledge are the norms. At the same time, there are many procedures and systems in place that facilitate learning at all organization levels.

The advantages of learning organizations include the following:

- Open communication and information sharing.
- Innovativeness
- Ability to adapt to rapid change.
- Strong organizational performance.
- Competitive advantage.

The disadvantages of learning organizations include the following:

- Power difference is ignored.
- Process of implementing will be complicated and take longer.
- Fear of employee participation in organizational decisions.
- Breaking of existing organizational rules.

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