



# *Business Studies Notes PDF*

*On*

*Organising*

*(Class - 12 / Chapter- 5)*

Identifying and grouping different activities in the organisation and bringing together the physical, financial and human resources to establish most productive relations for the achievement of specific goals of the organisation.

**According to Henry Fayol**, "To organise a business is to provide it with everything useful to its functioning; raw materials, machines and tools, capital and personnel."

### **Process of Organising:**

- (i) Identification and division of work
- (ii) Departmentalisation
- (iii) Assignment of duties
- (iv) Establishing reporting relationships

### **Importance of Organising:**

- **Benefits of specialization:** Work is divided into smaller tasks and each task is performed by those employees who possess the required skills. Performing similar tasks leads to specialization.
- **Clarity in working relationships:** It removes ambiguity and miscommunication as working relationships are clearly stated.
- **Optimum utilization of resources:** It avoids duplication and overlapping of work which leads to minimum wastage of resources.
- **Adaptation to change:** It tries to incorporate the changes in the business environment by modifying organizational structures and revising interrelationship at managerial levels as and when required.
- **Effective administration:** Clarity in working relationships and proper execution of work brings effective administration.
- **Development of personnel:** Proper delegation reduces employer's burden, stimulates creativity and motivates them to complete tasks efficiently.
- **Expansion and growth:** It helps in growth and expansion by incorporating changes in the business environment.

### **ORGANISATION STRUCTURE**

It can be defined as "Network of job positions, responsibilities and authority at different levels." The considerations to be kept in mind while forming the organisational structure are:

- Job design
- Departmentation
- Span of management
- Delegation of authority

### **Types of Organisation Structure:**

**1. Functional Structure:** When the activities or jobs are grouped keeping in mind the functions or the job then it is called functional structure.

#### **Advantages:**

- Specialisation
- Easy supervision
- Easy co-ordination
- It helps in increasing managerial efficiency
- Effective training

**Disadvantages:**

- The departments become specialised in their own way only.
- When departments become too large then the co-ordination decrease.
- When the organisational goals are not achieved then it becomes very difficult to make any one department accountable.
- Employees get training in one function only i.e., the department to which they belong so they can not be shifted to another department.

**2. Divisional Structure:** When the organisation is large in size and is producing more than one type of product then activities related to one product are grouped under one department.

**Advantages:**

- Product specialisation
- Fast decision making
- Accountability
- Flexibility
- Expansion and growth

**Disadvantages:**

- Each department will require all the resources as every division will be working as an independent unit.
- Conflict on allocation of resources.
- Each department focuses on their product only and they fail to keep themselves as a part of one common organisation.

**Difference between Functional Structure and Divisional Structure:**

Basis of Difference	Functional Structure	Divisional Structure
Creation	These are created based on functions.	These are built on the basis of product lines as well as functions.
Cost	It is cost-effective because duplication of effort is avoided.	It is expensive because there is a higher rate of duplication of work and resources between departments.
Duplication of work	Work overlapping is reduced as a result of functional specialization.	Because each product department performs the same functions, work overlapping is increased.
Suitability	More appropriate for businesses that focus on 'operational specialisation.'	More appropriate for multiproduct companies with a focus on 'differentiated products.'
Functional Hierarchy	The departments are divided into horizontal functional hierarchies based on key operations.	When departments are created on the basis of product-line categories, a vertical functional hierarchy is formed.

<b>Decision making</b>	Decisions for various departments are made by the coordinating head, which centralized decision making.	Decisions are decentralized because each division of the product line has its own decision-making authority.
<b>Management</b>	Management is difficult because each task must report to a coordinating head at the highest level of management.	Management is simplified because each product has its own department.

### **FORMAL ORGANISATION**

When the managers are carrying on the organising process then as a result of the organisation process an organisational structure is created to achieve systematic- working and efficient utilisation of resources. This type of structure is known as formal organisational structure.

#### **Advantages:**

- Systematic working
- Achievement of organisational objectives
- No overlapping of work
- Co-ordination
- Creation of chain of command
- More emphasis on work

#### **Disadvantages:**

- Delay in action
- Ignores social needs of employees
- Emphasis on work only

### **INFORMAL ORGANISATION**

It is a network of personal and social relations not established or required by the formal organisation but arising spontaneously as people associate with one another.

#### **Advantages:**

- Fast communication
- Fulfills social needs
- Correct feedback

#### **Disadvantages:**

- Spread rumors
- No systematic working
- May bring negative results
- More emphasis to individual interest

**Difference between Formal and Informal Organisation:**

Basis	Formal Organisation	Informal Organisation
<b>Meaning</b>	Formal organisation lays down job descriptions, rules and procedures for each task to be performed in an organisation.	Informal organisation is a structure formed as a result of a network of social relationships among employees.
<b>Relationships</b>	Formal	Informal
<b>Flexibility</b>	No, Rigid.	Flexible in nature
<b>Authority</b>	Originates through formal structure	Originates through interpersonal relationships
<b>Communication</b>	In the form of a Scalar chain, that is a formal route followed.	No formal route followed. It can flow in any direction.

**DELEGATION OF AUTHORITY**

“A process of entrusting responsibility and authority to the subordinates and creating accountability on those employees who are entrusted responsibility and authority.”

**Importance of Delegation:**

- (i) Effective management
- (ii) Employee development
- (iii) Motivation of employees
- (iv) Facilitation of growth
- (v) Basis of management hierarchy
- (vi) Better co-ordination

**Elements of Delegation:**

- **Responsibility:** It means the work assigned to an individual. It includes all the physical and mental activities to be performed by the employees at a particular job position.
- **Authority:** It means power to make decisions. To carry on the responsibility every employee needs to have some authority. Authority flows in a downward direction that is top to bottom, as the superior has authority over his subordinate. Also the level of authority increases as one moves higher in the management hierarchy.
- **Accountability:** It means subordinates will be answerable for the non-completion of the task. It flows from bottom to top in upward direction, as a subordinate is accountable for his work and performance to his superior.

**Difference between Authority, Responsibility and Accountability:**

BASIS	AUTHORITY	RESPONSIBILITY	ACCOUNTABILITY
<b>Concept</b>	It is the right to command.	It is an obligation to perform assigned work.	It is the answerability for the performance.
<b>Delegation</b>	It can be delegated.	It cannot be delegated.	It arises from responsibility.
<b>Origin</b>	It originates from formal positions.	It arises from authority delegated.	It arises from the responsibility.
<b>Flow</b>	Downward flow, from superior to subordinate.	Upward flow, from subordinate to superior.	Upward flow, from subordinate to superior.

**CENTRALISATION**

- All powers and authority of decision-making is retained with the top level management in this concept.
- All the decisions are taken by the higher level management in a centralised firm.
- Though an organisation cannot be completely centralised, as it may disrupt the production efficiency as well as discourage departments and employees to perform to the best of their abilities. Hence for this a balance between centralisation and decentralization is needed.

**DECENTRALISATION**

Decentralisation explains the manner in which decision-making responsibilities are divided among hierarchical levels.

**Importance of Decentralisation:**

- Develops initiative among subordinate
- Develops managerial talent for the future
- Quick decision making
- Relief to top management
- Facilitates growth
- Better control

**Difference between Delegation and Decentralisation:**

Basis	Delegation	Decentralisation
<b>Nature</b>	Delegation is a must as it is impossible for an individual to perform all the work.	It is the top management's option or discretion to share the powers of decision making with lower level management.
<b>Freedom of action</b>	Lesser freedom with the subordinate to take own decisions.	Greater freedom to make decisions.

<b>Status</b>	Aims to share burden of superiors	Aims to involve lower level management in decision making.
<b>Scope</b>	Narrow scope, limited to superior and to his/her immediate subordinate.	Wide scope, extension of decision making authority from top to lower level management.
<b>Purpose</b>	To allow superior to focus on high priority.	To increase the role of subordinates in decision making.

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