

The organisation structure meaning business essay



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An organisation structure is a set of planned relationships between groups of related functions and between physical factors and personnel required for the performance of the functions. The organisation structure is generally shown on the organisation chart. It shows authority and responsibility between various positions in the enterprises by showing who reports to whom. Organisation structure lays down the pattern of communication and coordination in the enterprises.

Though organisation structure is very important, it is not an end in itself. According to Peter F. Drucker, “ Organisation is not an end itself, but a means to end of business performances and business results. Organisaion 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 the attainment of the objectives of the business for five, ten, fifteen years hence.”

STEPS IN ORGANISATION

Organisation is a process by which management coordinates the activities of the group of persons for the achievement of certain predetermined goals.

Through organising, the duties of various members of the group are determined and assigned and responsibilities fixed so that the necessary work is performed with speed, accuracy and economy. The process of organising involves the following steps:

Determination of Objective:- This is the first step in organising because organising without any purpose or objective has no meaning. The purpose of the organisation must be identified. This will help in answering the questions

like why the proposed organisation is to be set and what will be the nature of work to be accomplished.

Division of Activities:- If the member of the group are to pool their efforts effectively, there must be a rational division of total activities of the organisation. This will enable them to know what is expected of them as members of the group and moreover, it will avoid duplication of efforts.

Creating and Grouping of jobs:- After having divided work into small jobs, these jobs are grouped into work groups, divisions or departments. While grouping of jobs, their relationship and homogeneity are taken into account. For example, jobs related to particular product, process, customers and territory may be put in a specific group accordingly.

Assignment of Groups of Job. For performing different groups of jobs and activities, various departments or divisions are created and these groups are assigned to them accordingly. In the process of assignment, proper relationship of each job is established with the other jobs in the department.

Creation of Managerial Hierarchy. After having assigned the jobs, authority is distributed among the employees working in different departments. In this way authority structure is created giving definite position to each employee. In this hierarchy, the employee delegating part of his authority becomes superior and to whom authority is delegated is identified as subordinate.

Establishing Integration Mechanism. Proper arrangements must be made to establish coordination systems. Integration or coordination can be achieved through proper authority relationships-horizontally, and laterally-and through

properly organised information and communication system. Sound integration system guarantees unity of objectives, team work, team spirit, and high morale, and avoids lack of initiative, confusion, chaos, and inactivity.

IMPORTANCE OF ORGANISATION STRUCTURE

Sound organisation structure can contribute greatly to the survival, continuity and stability of the enterprise. The need and importance of organising and organisational structure can be understood more precisely on the basis of the following points :

Facilitates administration. Sound organisation helps in the performance of management functions like planning, staffing, directing and controlling. Inadequate organisation may result in duplication of work and efforts and some of the important operations may be left out. Sound organisation facilitates the performance of various managerial functions by division of labour, consistent delegation or job definition and clarity of authority and responsibility relationship.

Promotes Growth and Diversification. Sound organisation designed on scientific principles can create conditions conducive to planned expansion and diversification of the activities of the enterprise. It can help in keeping the various activities under control and increase the capacity of the enterprise to undertake more activities.

Co-ordination. Organisation is an important means of bringing co-ordination among the various departments of the enterprise. It creates clear-cut relationship between the departments and helps in laying down balanced

emphasis on various activities. It also provides for the channels of communication for the coordination of the activities of different departments.

Optimum Use of Technological Innovations. A sound organisational structure is flexible to give adequate scope for the improvement in technology. It facilitates introducing changes in the enterprise by modifying the authority and responsibility relationship in the wake of new developments.

Optimum Use of Human Resources. Sound organisation matches the jobs with the individuals and vice-versa. It ensures that every individual is placed on the job for which he is best suited. This helps in the better use of individuals working in the enterprise.

Stimulates Creative Thinking. An organisational structure based on clear-cut demarcation of authority, higher range of responsibility, discretionary freedom granted to personnel, incentives offered for specialised work, etc. will certainly foster the spirit of constructive and creative thinking. Such an atmosphere will give an opportunity for the staff to display their hidden creative talents which, in turn, will lift the enterprise to achieve higher goals of business.

Training and Development. An effective organisation facilitates delegation of authority which is an important device for training and developing the personnel. Delegation of authority is also an important means of directing the subordinates. It prepares them to take more responsibilities whenever need arises.

DETERMINANTS OF ORGANISATION STRUCTURE

Organisation structure provides a basis or framework within which managers and non-managerial employees perform the jobs assigned to them. In order words, organisation structure may be considered as the core element around which various functions are performed and several processes operate. The structure of organisation is consciously designed by the management.

However, in designing the structure, the following factors are to be considered:

Objectives and Strategy. Design of structure begins with the identification of organisational objectives. There is no way of devising what the main structure of an organisation should be, without an understanding of what the organisation is for and what it is trying to achieve. Since an organisation is a goal-oriented system, it is quite legitimate that its goals have decisive role in designing its structure. The goals determine its tasks and strategies. Alfred Chandler's studies demonstrate that structure follows strategy. It management makes a significant change in its strategy, the structure will need to be modified to accommodate and support such change.

Environment. Organisation is a system and every system has its boundaries. Beyond the boundaries, there exists external environment which affects not only the formation and functioning of the organisation but also its structure. To cope with changing environment, among other things, organisational process, goals and structure are changed and made in line with changes. Environment includes all those economic, social, cultural, political, legal and technological factors which directly or indirectly affect the functioning of the organisation. Therefore, the structure of the organisation is to be

designed in view of changes likely to take place in environment. Added to it, organisation being a sub-system of environment interacts with the environment on regular basis for getting inputs and supplying output.

Technology. An organisation is a socio-technical system. Technological aspect which refers to the manner in which various activities will be performed, is an important part of organisational structure. As the activities are related to objectives, they are also related to technology. Because every activity to be performed requires some kind of technology, the type of technology being used in the organisation for performing different activities would also affect the structure of the organisation directly and indirectly.

People. Organisations are formed by and operated through people. Large number of people are employed for both managerial and non-managerial jobs and various activities are assigned to them and finally they are put in authority relationships. These people carry some goals, values, perceptions, beliefs and attitudes which have direct reflection on the structure of organisation. Therefore, these factors must be taken care of at the time of designing the organisational structure. Indeed, the tasks, activities, goals and technology will gain more meaning if they are built around the people.

Size. There are several criteria to determine size of an organisation such as number of persons employed, amount of capital invested, volume of turnover, and physical capacity. However, 'size' has generally been used to refer to the number of employees or members of an organisation. Thus organisations could be small or large depending upon the number of their employees. As an organisation grows in size, its structure naturally becomes

more complex or complicated. Jobs that could once be handled by a single person are split and split again; new layers of supervision are inserted between the top executive and the rank and file. An organisation is forced, as its size increases, to realign duties and responsibilities and more often than not, to add new integrating units.

FORMS OF STRUCTURAL DESIGN

FUNCTIONAL STRUCTURE

In a functional structure, activities are grouped and departments are created on the basis of specified functions to be performed. Activities related to a function are grouped in a single unit with a view to give a well defined direction to the whole group. For instance, in an industrial enterprise, the major functions like production, finance, marketing and personnel may be grouped into different departments. Functional departmentation is the most widely used basis for organising activities. It is found in almost every enterprise at some level in the organisation structure as it leads to better planning and control of the key functions on which the survival and growth of the enterprise depends. It facilitates specialised performance of various functions.

Advantages:- The advantages of functional structure are as under:

It is easier to organise departments based on functions and sub-functions.

It allows giving balanced weightage to the basic functions on which the survival of a firm depends.

It introduces specialisation leading to higher productivity and economical operations.

It ensures effective utilisation of personnel in different departments.

It helps in training of specialist managers rather than generalist managers.

It facilitates better coordination of activities within each department.

It allows delegation of authority by the chief executive to the various functional heads.

Disadvantages:- The demerits of functional structure are as under:

Each department concentrates on a narrow range of activities relating to its function only.

It may be difficult to achieve coordination between different departments because of their different orientations.

There may be lack of understanding between different departments. The atmosphere of mistrust may lead to inter-departmental conflicts.

Decisions are delayed where decision-making involves two or more departments.

Excessive specialisation may destroy teamwork in the organisation.

Functional organisation may prove unsatisfactory in handling diversified product lines and specialized projects.

Functional specialisation restricts development of generalists or managers with all-round capabilities.

DIVISIONAL STRUCTURE

Divisional structure is formed by creation a set of autonomous units or division which are coordinated by the central headquarters. For examples, a company may have three divisions to manage textiles, cement and shipping. But to coordinate their functioning, certain essential services such as corporate planning, Finance, legal and research & development are organised at the headquarters as shown in fig. 29. 2. This structure is popular with giant firms dealing in multiple products and operating in different geographical regions. The products are often unrelated and require different emphasis on different function. And the territories served by the firm have their unique problems.

In a divisional structure, each division is semi-autonomous and has its own resources and facilities. Thus, there is duplication or triplication of activities, personnel and equipment. For instance, two divisions may have their separate marketing research wings or public relations departments. Let us assume that a typical company has two divisions for metal products and cement respectively. Each division may have further organization based on functional departmentation.

In India, several companies like DCM, Gwalior Rayons, Century Mills and Voltas Follow divisional structure to organize their operations. The divisional structure may be based on product or geographical territory.

PRODUCT BASED STRUCTURE

Product based structure is followed by giant organizations having multiple product lines. Under this, each major product or product line is organised as a separate division. It is employed where the unique characteristics of the product are of great significance and they require specialized machines and equipment and trained personnel. It is appropriate when each product is relatively complex and a great deal of capital is required for each product. For instance. Cement and shipping.

ADVANTAGES:- The advantages of product based structure are as follows:-

Product departmentation can reduce the coordination problems which are created under functional departmentation. There is integration of activities relating to a particular line of product. It facilitates product expansion and diversification.

It focuses individual attention on each product line.

It leads to specialization of physical facilities on the basis of products which results in economy.

It is easier to evaluate and compare the performance of various product divisions.

It keeps problems of production isolated from those of others.

Since each product manager is required to supervise the diverse functions of production, sale and finance with respect to a particular product line, there is a wide scope for the training and development of allround executives.

DISADVANTAGES:- The Disadvantages of product based structure are as under:-

It results in the duplication of personnel and physical facilities. Each product division maintains its separate facilities and personnel. It may become of each department. High cost of operations and large investment make it unsuitable for small firms.

It may be difficult for an enterprise to adapt itself to changes in technology, demand, etc. though product lines can be added and dropped easily without dislocation the existing operations.

Product departmentation may sometimes lead to difficulties in coordination of certain specialized activities like marketing, financing and accounting.

GEOGRAPHICAL OR TERRITORY BASED STRUCTURE

Geographical structure is followed in case of service organizations which have offices in different regions or geographical areas. Each regional office has independent functional departments to realize its objectives. For instance. Life insurance Corporation of india (LIC) has semi-autonomous divisions indifferent regions of the country.

Advantages:- Territorial departmentation has the following advantages:

It leads to the benefits of local operations. The local managers are more conversant with their needs and those of their customers. They can adapt and respond to the local situations with speed and accuracy.

The company can meet the demands of various regions more effectively.

Better attention can be paid to local customer groups thereby raising the image and goodwill of the company. It ensures quick delivery of products to customers in different areas, and intensive exploitation of local markets. I

A regional division can achieve better coordination and supervision of activities in a particular area, It also help in reducing transportation and distribution costs.

Disadvantages:- Territorial dedpartmentation may suffer from the following difficulties:-

There is multiplication of physical facilities. It leads to uneconomical operations.

There may be problems of integration between various regional offices. They may compete with each other in certain areas.

There may be lack of talented personnel to take charge of regional departments.

There will also be problems in providing centralized services to various departments which are located in different regions.

CUSTOMER BASED STRUCTURE

Departmentation by customer may be followed in enterprises engaged in providing specialised services to different classes of customers. Under this, customers are the guide for grouping the activities. The management groups the activities on this basis to cater to the requirements of clearly defined

customer groups. For instance, a big automobile servicing enterprise may organize its departments as follows: heavy vehicle servicing division, car servicing division, and scooter servicing division.

Advantages:- The benefits of structure based on customers are as follows:

Customer departmentation can focus on the special needs of different kinds of customers.

It employ's personnel with special abilities for meeting different customer requirements.

It leads to greater satisfaction of customers which enhances the reputation of the enterprise among the public.

Disadvantages:- Customer based structure is also not free from drawbacks. For instance, it creates the difficulty of co-ordination between the departments organised on this basis and those organised on other bases. Greater emphasis to the need of the customers may lead to less than optimum use of space, equipment and specialised personnel.

PROJECT ORGANISATION

The term ' project' may defined as a complex set of activities which are diverse, specialised and technical to be performed within the given time frame and cost structure. The project structure is designed to handle such set of activities alongwith the larady existing organizational structure.

Advantages:- The merits of project structure are as under:

Project organization concentrates on completion of a complex project or assignment. It can be tailored to meet the requirements of the particular project.

Project organization provides greater flexibility in organization; greater check over the project work, provision of determining exact responsibility and better co-ordination of organizational resources.

Project organization requires specialists in various fields. Specialists get higher satisfaction while working on complex projects.

It facilitates the timely completion of a project without disturbing the normal activities of the organization.

Limitation:- The limitations of project organization are as under:

Uncertainty in project structure arises because the project Manager has to deal with specialists from a number of diverse fields. The specialists often have different types of approaches and perspectives.

Lack of prescribed organizational processes, lack of clearly defined responsibility, lack of communication lines and measurement yardsticks make the job of a project manager often more challenging.

The project manager has to face a very unusual decision pressure that results from the severe penalties to be imposed because of the delay in completion of the project.

Motivation of specialists may pose another problem for the project manager. Moreover, there may be conflicts among the specialists quite often because of their different orientations.

MATRIX STRUCTURE

Matrix organization, also called grid organization, is a hybrid structure combining two complementary structures namely, functional departmentation with pure project structure. Matrix organization is a two dimensional structure, a combination of pure project structure and the traditional functional departments. Members of particular project team are drawn from the functional departments and are placed under the direction of the project manager. The project manager has overall responsibility for the success of the particular project.

Advantages :- The merits of matrix organization are as under:

The matrix structure is an efficient means for bringing together the diverse specialised skills required to complete a complex assignment or execute a project.

It is flexible in nature. It can be applied more usefully to an organization involved in project ranging from small to large.

It motivates personnel engaged in the project. They can utilize their competence and make maximum contribution for the execution of the project.

It helps in improving flow of communication around the organization as required information is communicated both vertically as well as horizontally.

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Disadvantages:- The disadvantages of matrix structure are as follows:

The matrix organization violates the classical principle of unity command.

The personnel from functional department have to face the situation of two bosses, project manager and functional manager.

In matrix organization, the problem of coordination is more complicated because neither functional head has an authority over project unit in a direct manner nor the project manager has full authority over project activities.

Matrix organization is not a homogeneous and compact group. The multiplicity of vertical and horizontal relationships may impair organizational efficiency.

Dual reporting relationship in matrix organization can contribute to indiscipline, ambiguity and role conflict.

VIRTUAL OR NETWORK ORGANISATION

A virtual organization is a temporary network between a number of companies that come together to accomplish a specific venture. It is also network structure. It is created to exploit fast changing opportunities and share skills and even facilitates access to global markets. Each participating company contributes what it does best.

Virtual organization have been created by large companies such as IBM, Apple, Ford, etc. though there is no bar on small companies to create such organizations. Network organization is suitable for all endeavours which requires high flexibility to respond quickly to changing environment.

However, virtual organization may suffer from two problems. Firstly, there may be lack of close control over manufacturing operations. Secondly, there may be doubt over the reliability of the partners.

MECHANIST AND ORGANIC STRUCTURE

Mechanist Structure

According to Burns and Stalker, “ Mechanistic structure is one that is highly centralized and has common elements of bureaucracy.” It lays emphasis on formal authority and communication patterns. In a mechanistic organization structure, there are rigid authority responsibility relationship, formal chain of command and fixed pattern of communication. Thus, the members cannot communicate across all levels of the organization to obtain information.

Organic Structure

According to Burns and Stalker, “ Organic structure is one that is characterized by high degree of decentralisation and flexibility and under which individual are more likely to work in a group setting rather than alone.” In an organic structure, the organizational members communicate across all levels of the organization to obtain information.

CASE STUDY-Asea Brown Boveri

CASE STUDY

INTRODUCTION

Asea Brown Boveri Limited (ABB) was formed as a result of merger between Sweden based engineering group Asea AB and Switzerland based Brown Boveri limited. Mr Barnevic took over as the CEO of ABB after the new entity

ABB was formed. Poor strategic decisions and other HR related problems ultimately resulted in poor performance of ABB. Then Barnevic introduced the matrix based structure to integrate worldwide activities of ABB. The dual reporting ensured that both product specific interests as well as geographical interests were taken care of. ABB reaped many benefits by implementing the matrix based structure. By doing this ABB achieved subsequent growth in business results.

We have to analyse how matrix structure is efficient in running a business successfully and is it that matrix structure always leads to success.

1-After reading the case, do you think matrix organization structure can always bring success?

After reading the case, I think matrix organization structure cannot always bring the success. Matrix organization structure has some disadvantages as well as some advantages.

Despite having a lot of advantages, matrix organization structures have been criticized as having a number of drawbacks. They are in many cases become costly to maintain, partially because of more multifarious reporting requirements. In addition, many managers become concerned by the lack of a chain of command and the incapacity to perceive who is in charge. The most common criticisms of matrix organization structure is that it results in role ambiguity and disagreement. For instance, a functional manager may ask a subordinate one thing, and then a product/project manager will tell him or her something different. As a result, companies that change to matrix

structure of management often experience high turnover and worker displeasure.

So it is not necessary that matrix organization structure always bring success.

2-Identify some companies, which have failed subsequent to introduction of matrix structure. List the reasons for failure and suggest what could be the appropriate structure for them?

In the past, companies such as Unilever and ABB have shown that matrix organizations may not always be successful. It was the matrix structure that nearly ruined ABB, and Unilever has also experienced difficulty in managing the organization by implementing the matrix structure.

The reasons for failure are as follows

Matrix organizations normally do not mention clear cut accountability for everyone. Managers need to take decisions and accept responsibility. Matrix organizations, on the other hand, often suffer from panic of making mistakes in the face of the growing size of a business.

The prime responsibility of an organization is to serve its customers first. By having matrix structure the organizations are not able to serve the customers properly because of slow decision making process.

In matrix organizations one can find high degree of uncertainty, lack of clarity about the task and slow decision making processes.

CONCLUSION:

We found out that matrix structure does not necessarily ensure the success of an organization. The success depends on the nature and extent of its implementation.

One advantage of matrix structure is that dual reporting ensures both geographical interests as well as product specific interests are taken care of. It also ensures the proper information flow through the organization.

SCENARIO PLANNING

Vision:

We will be a globally respected manufacturer of readymade garments.

Mission:

Delivering the best designer products, to match the latest trends and fine quality at an outstanding value for money.

Goals:

To be among the top 10 producers of readymade garments in the world by 2020.

Objectives:

To produce high quality garments at low cost.

Strategies:

To go for large scale production to achieve economies of scale and thus to maintain low cost.

Action plans:

To be the lowest cost producer of readymade garments in the world by continuously cutting costs and improving processes.

To implement sophisticated technologies to maintain quality and reduce cost.