

# [Higher efficiency and economy business essay](https://assignbuster.com/higher-efficiency-and-economy-business-essay/)

Entrepreneur as an organiser and his organising function is a function whereby the entrepreneur brings together various factors of production, ensures continuing management and renders risk-bearing functions as well. An entrepreneur function is coordination, organisation and supervision. An entrepreneur is one who combines the land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his/her profit. In this way, an entrepreneur as an organiser who alone determines the lines of business to expand and capital to employ more judiciously. He is the ultimate judge in the conduct of the business.

Once is business begins to grow the entrepreneur then needs to employ other specialist, like a bookkeeper fulltime, someone to run the factory as well as someone to be in charge of marketing and sales. Organising is one of the management functions which involve developing a framework or organisational structure to indicate how people and other resources should be deployed to achieve the goals. Without it, there cannot be successful implementation of plans because there will be an absence of a systematic allocation of resources to execute the plans. This involves the assignment of tasks, grouping of these tasks and the allocation of resources and people inside the organization. An organized company is an entity which its elements (people, systems, policies, information, properties, etc.,) are rearranged and placed in order. It is important for a company to achieve effectiveness and efficiency in its business operation. A simple capability to find things in the fastest possible time saves money. The importance of organizing people in an organization is very crucial to achieve every company’s goal. Big or small, entities should place their people in order. This includes putting them in the right position where they are most efficient, effective, happy, motivated and productive

When the business reaches the stage of being a large business, the organisational structure changes into a more specialised department within the organisation. The related tasks are grouped into departments for example finance, production, marketing and human resource. Organizing small and large businesses are somehow similar. The only main difference is that there are fewer resources, people, tasks and processes that are to be organized in small entities than large entities. But the importance of this organization process shows one major essence – getting the right positioning of people and resources for a better, more efficient and more effective organization.

## 1. 2 List and explain the five reasons for specialization.

Work specialization (also called division of labour or job specialization) is the degree to which organizational tasks are sub-divided into individual jobs. It may increase the efficiency of workers, but with too much specialization, employees may feel isolated and bored. Many organizations enlarge jobs or rotate assigned tasks to provide greater challenges. Each employee is trained explicitly on how to best perform one small, specific task. Over time, that employee becomes extremely proficient and effective at performing that task. This allows every employee in the organization to be an expert to some degree which lowers the costs of production

Individual ability. Workers will become proficient at their task because it is small and simple. When an individual focus on one task they acquire a certain degree of skill in the area, and can do it quicker and faster than anybody else. Efficiency is perhaps the greatest advantage of organizational skills. An organized professional will spend less time correcting mistakes, searching for information and fixing any clutter. More time saved means more time for doing productive things. Aside from a positive impact on time management, organizational skills will make it more convenient for employees to share any information with each other, thus working better as a team.

Reduced transfer time. Transfer time between tasks may decrease. Workers who do several jobs lose time when they switch from one job to another.

Specialised equipment. The more narrowly defined the job is, the easier it is to develop specialized equipment to assist with the job. When performing a particular job, specialized equipment tends to be used to get that particular job done efficiently.

Reduced training. Training costs should be relatively low. Specialization reduces the cost of training because workers are trained in a particular part of the total task.

Co-ordination. Coordination is required whenever and wherever a group of persons work together to achieve common objectives. It is the basic cementing force in an organisation.

## Coordination provides the following benefits:

## 1. Higher Efficiency and Economy:

Coordination helps to improve the efficiency of operations by avoiding overlapping efforts and duplication of work. Integration and balancing of individual efforts provide a smooth and harmonious team work. Coordination is a creative force which makes possible a total result which is greater than the sum of individual achievements. This is the synergetic effect coordination. Coordination enables an organisation to rake optimum use of its resources.

The success of organized Endeavour depends upon the quality of coordination. In fact, coordination is the first principle of organisation as it expresses the principle of organisation in to. The quality of coordination is the crucial factor in the survival of an organisation.

## 2. Good Human Relations:

Besides promoting the efficiency of operations, coordination improves the morale and job satisfaction of employees. Composite and orderly effort established through team spirit and executive leadership enables employees to derive a sense of security and personal contentment from their job. A well-coordinated organisation can attract, retain and utilize better personnel. Coordination improves human relations by reconciling individual and organizational objectives.

## 3. Unity of direction:

Coordination helps to ensure unity of action in the face of disruptive forces. By welding together different departments and sections into one entity, coordination ensures the stability and growth of an organisation. It enables the executives to see the enterprise as a whole instead of narrow sectional goals. Individual interests are subordinated to the common interest more easily and effectively.

## 4. Quintessence of management:

Coordination is an all-inclusive concepts or the end result of the management process

## 5. Organizational Effectiveness:

Coordination fosters loyalty and commitment among employees. This enhances the effectiveness and stability of the organisation.

## Discuss the five factors that determine the best span of management.

Also known as span of control, is a very important concept of organizing function of management. It refers to the number of subordinates that can be handled effectively by a superior in an organization. It signifies how the relations are planned between superior and subordinates in an organization.

Span of management is generally categorized under two heads- Narrow span and Wide span. Narrow Span of management means a single manager or supervisor oversees few subordinates. This gives rise to a tall organizational structure. While, a wide span of management means a single manager or supervisor oversees a large number of subordinates. This gives rise to a flat organizational structure. There is an inverse relation between the span of management and the number of hierarchical levels in an organization, i. e., narrow the span of management, greater the number of levels in an organization.

Narrow span of management is more costly compared to wide span of management as there are larger number of superiors/ managers and thus there is greater communication issues too between various management levels.

## The competence of the manager and the employees.

If manager/employees are new to the task, they obviously require more supervision than the experienced staff. The less capable, motivated and confident the employees are, the better it is to have a narrow span of management so that the managers can spend time with them and supervise them well. If the superiors and subordinates are well-qualified, trained, experienced, and if they are experts in their jobs then the span of control will be wide

## The similarity or dissimilarity of tasks being supervised.

A product focus means more standardization, whereas a process focus means widely varying products. The more standardized is the nature of tasks , i. e., if same task can be performed using same inputs, the better it is to have a wide span of management as more number of subordinates can be supervised by a single superior.

## The incidence of new problems in the managers department.

The more the manager knows about the operations of the department, to understand precisely the various problems that can occur, the broader the span of control can be. There is more flexibility, quick decision making, effective communication between top level and low level management, and improved customer interaction in case of wide span of management. Technological advancement such as mobile phones, mails, etc. makes it feasible for superiors to widen their span of management as there is more effective communication.

## The complexity of the subordinate’s job.

The more complex the job, the fewer subordinates that the manager should supervise. Subordinate jobs that are complex, ambiguous, dynamic or otherwise complicated will likely require more management involvement and a narrower span of management.

## The extent of clear operating standards and rules.

Clear rules and standards leave little to chance. The greater the reliance on rules, the broader the span of control may be. If the plans are clear and if the responsibilities are well-defined, then the span of control will be wide. This is because the subordinates will not have to go and consult their superior repeatedly for getting orders and guidance.

## Question 2

## Fully explain the advantages and disadvantages for each of the following organisational structure.

## Functional Structures

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In a functional structure, all of the decision-making occurs at the top levels of management. This ensures that upper management has complete control over the organization. It also provides a clear career trajectory for employees, from junior-level positions, up to the top decision-making positions. A functional structure provides stability and efficiency, especially in large and complex organizations, because everyone uses similar processes. This also allows large businesses to take advantage of economies of scale. However, this type of structure can also lead to poor communication between departments, situations where departments do not work together and inter-departmental conflict. Customers may also become frustrated by lack of cooperation if they have to work with more than one department. In an functional organization, where the company is divided into separate units based on role, such as accounting, marketing, research and development or distribution. The functional structure offers a number of potential advantages as well as disadvantages.

## Specialization

An advantage of a functional organizational structure is that it offers a high level of specialization. Each unit operates as a type of self-contained mini-company, charged with carrying out its specific role. Employees typically start their careers in an entry-level position within the function and develop specialized knowledge as they move up within the hierarchy. They become experts within their functional area, and the unit and company benefit from their expertise and experience over time.

## Efficiency and Productivity

A worker who is an expert in his functional area can perform tasks with a high level of speed and efficiency, which enhances productivity. Workers who know their jobs well can proceed with confidence and with a minimum amount of mistakes. Because the career paths within the functional unit are clear, the employees may be highly motivated to advance their careers by reaching the next rung on the ladder, which may also make them more productive.

## Lack of Teamwork

While specialized units within the functional structure often perform with a high level of efficiency, they may have difficulty working well with other units. If a project calls for several units to work together, units may become territorial and unwilling to cooperate with each other. In essence, each unit may act in what it perceives to be its own best interests instead of those of the organization as a whole. Infighting may cause projects to fall behind schedule.

## Difficult Management Control

Another potential disadvantage of the functional organization structure is that it can pose a challenge for top management to maintain control as the organization expands. As organizations get larger and top management needs to delegate more decision-making responsibilities to each functional area, the degree of autonomy may also increase, making coordination of activities more difficult. If the company expands into new geographic areas, maintaining control of and managing the separate functions can be even more of a challenge.

## Geographic Organisational Structures

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Geographic organizational structure is used mainly in industries like retail and hotel chains, transportation and other large national and international organizations. Manufacturing organizations with several plants in different geographical locations may choose to operate using a geographic structure. Geographic organizational structure allows for each business unit or office to operate as its own entity based on where it’s located. Many organizations may experience more or less business opportunity in different places. This can increase or decrease financial budgets, revenues, the number of employees at the location and their salaries. An area’s cost of living may also play a factor in the overall operations at each location.

## Geographical Focus

Some advantages include hiring local personnel that are of the same culture of many of the customers you may be serving. Local personnel can offer insight on local customs, business practices and behaviours as well as applicable laws and regulations. This can help with management and making decisions that will have a direct impact on the business. Having a geographical structure allows a group to be located within the region and fosters the building of relationships between personnel, employees and their local customers. Customers feel more comfortable speaking with their neighbours when seeking a service from a business as opposed to the other option of placing a call and potentially getting a customer service representative on the other side of the world that you might not be able to verbally understand due to language barriers and accents. Focusing all functions on one geographical area allows each department to operate with precision: product attributes can be altered to suit local tastes; workplace policies can be altered to fit local workers; marketing can be tailored to the specific market; sales practices can stay within culturally acceptable boundaries.

## Performance Measurement and Strategy

Aside from operational advantages, a geographical structure offers strategic advantages as well. Tracking the performance of individual markets and work groups is simplified under this structure, as metrics such as revenues, profit margins, costs, and performance improvements can be tagged to specific regions. Home office executives have an invaluable strategic resource in their pool of local management talent; local managers from various departments can be consulted when making decisions, such as which new products to introduce, where to concentrate research efforts, and on which products or services to focus in different regions.

## Disadvantage of Geographic Departmentalization.

Some disadvantages of the divisional structure may include the duplication of personnel between head office and regional offices. There may be conflict and unhealthy competition between different areas. Also, it makes it more difficult to be consistent in core company beliefs from one area to the next. More flexibility is needed and if unable to have it might lead to frustration and a feeling of division within the company. This may be alleviated with using metrics for tracking the performance and profits of each region. If local managers are consulted in regard to decisions affecting the local region, cohesiveness is achieved.

## Product Structures

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Another common structure is to be organized by specific product type. Each product group falls within the reporting structure of a senior leadership person and that person oversees everything related to that particular product line. This form of departmentalization is used when there are a huge variety of products within a company; each department is based on the product that it deals with.

Advantages: There are many different advantages to this system, the main being that it provides a higher level of customer service. It also ensures that products that are not very profitable to the company can be easily detected, and that new products can be added to the range easily. Another benefit of having this department is that it can take control of stock so that customers will never be disappointed with out of stock items, and less popular items can be discontinued quickly with incurring great losses.

Disadvantage: Sometimes the managers and employees do not meet the requirement of other department which is somewhere related to their particular department because they are working in their department and there is no more communication between the other departments. It limits career mobility for personnel outside the product line and it does not foster co-ordination of activities across the product lines.

## Customer based structures

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Are the grouping activities on the basis of common customers or types of customers. Jobs may be grouped according to the type of customer served by the organization. The assumption is that customers in each department have a common set of problems and needs that can best be met by specialists. The sales activities in an office supply firm can be broken down into three departments that serve retail, wholesale and international accounts.

## Advantages

It encourages concentration on customer needs and the focus is on customer satisfaction. The staff develops expertise in the customer area. It also clearly identifies the key customers

## Disadvantages

Like product departmentalization, customer departmentalization leads to departmental duplication of efforts and redundant and underutilized resources, which negatively affect the company’s performance. Customer departmentalization also results in a lack of coordination between departments, which may lead to optimized department revenues but decreased company revenues. Employees feel pressure from customers to give them privileges. It restricts problem solving to a single type of customer.

## 3. 1 Write an explanatory essay on capital. Your essay should not exceed two typed pages. Be sure to follow an essay format and cover all the relevant topics with regards to capital in an organisation.

Capital is the money needed to produce goods and services. In plain terms, it is money. All businesses must have capital in order to purchase assets such as land, buildings, machinery, raw materials and maintain their operations. Business capital comes in two main forms: debt and equity. Debt refers to loans and other types of credit that must be repaid in the future, usually with interest. Equity, on the other hand, generally does not involve a direct obligation to repay the funds. Instead, equity investors receive an ownership position in the company which usually takes the form of stock, and thus the term “ stock equity.”

One of the factors of capital is the factor of production, debt capital; the cost is the interest rate that the company must pay in order to borrow funds. For equity capital, the cost is the returns that must be paid to investors in the form of dividends and capital gains. Since the amount of capital available is often limited, it is allocated among various businesses on the basis of price. Companies with the most profitable investment opportunities are willing and able to pay the most for capital, so they tend to attract it away from unproductive companies or from those whose products are not in demand.

The amount of business capital reported on a company’s financial statements is based on the total amount of funds in the equity account. When the company is first established, all the funds invested in the start-up are allocated to owner or shareholder’s equity. As more money is invested, this value increases. At the end of every year, the total net profit or loss is allocated to this account, either increasing or decreasing the value of the company.

A company can also increase their capital by selling shares of stock in the company. Each stock purchase increases the cash available to the business while providing a small ownership share. The more shares that are owned by one particular institution or person, the greater influence they have over operations.

Once the funds are received, business capital can be used to purchase new equipment, pay for space, hire staff or met any other operational needs. It is important to note that all investors require a return on their investment in cash payment terms.

Some organisations that are profitable on paper are forced to stop trading due to their failure to meet short-term debts. In order for organisations to remain in business it is very important that an organisation successfully manages its working capital. An organisation working capital is used to pay short-term obligations that include accounts payable and buying inventory. If an organisation working capital gets low, then the company is at risk running out of cash. An organisation can be profitable businesses but they can run into trouble if they lose the ability to meet their short-term obligations.

## Types of Capital

Fixed capital – Fixed capital consists those elements that a business uses over a long term. These elements stay in the business permanently and are essential for the business to operate smoothly. Examples are land, buildings, machinery and resources.

Working capital – working capital is also sometimes called operating capital. This covers short term needs and can vary according to productivity and output. These often monthly expenses. Examples are wages, salaries, water, electricity, telephones, raw material and packaging.

Own capital – own capital is money provided by owners of the business and could come from savings or from the sale of an asset or an investor who want a share in the business. Examples are personnel capital or venture capital.

Borrowed capital – Borrowed capital is money that is borrowed from a financial or investment institution or person. The money has to be repaid with interest. The institution as no ownership in the business. Examples are bank loans and overdraft.

## 3. 2. 1 Differentiate between present value (PV) and future value (FV).

Present value (PV) and Future value (FV) are based on the time value of money. The time value of money is the idea that, quite simply, money received today is worth more than the money received one year from today (or at any other future date), because it can be used to earn interest. For an example if you place an amount of money in an account or an investment that earns compounding interest (earns interest on interest paid), future value is the amount to which the original deposit or investment will grow, based on the compounding rate and interval (daily compounding, monthly compounding, etc.), and on the number of months or years.