

**Economics, Management and Entrepreneurship**  
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**Lecture - 31**  
**Functions of Management (Contd.)**

Good morning. Welcome to the 31st lecture on economics, management and entrepreneurship. We shall continue our discussion on functions of management. In the last lecture, we had covered 2 functions, planning and controlling. In this lecture, we shall cover organizing and if time permits we shall also take up motivating, so first organizing.

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**Organizing** is concerned with

- **rational grouping** of enterprise activities for allocation to departments, sections or individuals,
- **Delegating authority** to individual managers,
- **Designing** organization structure
- **Coordinating** the divided activities for accomplishing the common goals and objectives of the enterprise.

**Organization** is the process of grouping jobs into departments.

**Organization** also refers to the structure of relationships between various positions or people.

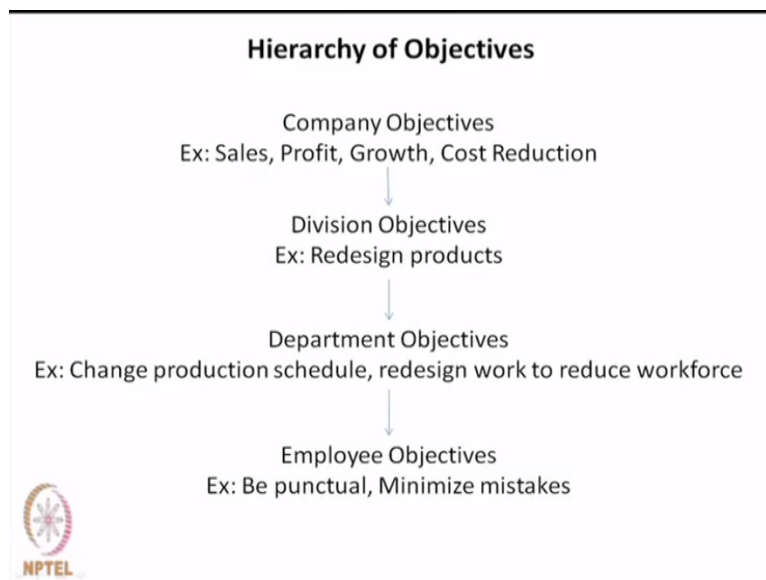
Organizing is concerned with basically 4 things. Rational grouping of an enterprise activities for allocation to departments, sections or individuals. Delegating authority to individual managers. Designing organization structure and coordinating the divided activities for accomplishing the common goals and objectives of the enterprise. Basically, once a plan is made, the plan has to be executed and executed with the help of a group of persons.

Now how is this plan to be executed, what is important is to group the activities rationally and divide the work into departments, sections or groups or even individuals. Assign them specific tasks, design the relationships among these departments, sections and individuals. Delegate enough authority to individual managers so that they can discharge their responsibilities.

And finally coordinate to see that the individual tasks assigned are done so as to accomplish the overall objectives set for the enterprise. Now this calls for designing the organization and the function of designing the organization is organizing. We shall discuss details about how such authority is delegated and how coordination is done. Organization is the process of grouping jobs into departments.

It also refers to the structure of relationships between various positions or people. We know that the word organization is also used to mean an enterprise but we shall use the word organization here to mean a structure that defines the relationship among groups of individuals in an enterprise. That is the way we shall define the word organization and we shall use the word organization in that sense only.

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Just as we had discussed about hierarchy of objectives, a similar thing we are trying to show here. There is a company objective, example, improved sales, improved profit, achieve a growth target of 5%, 10%, reduce cost of production and delivery by 5% etc. To achieve them a division of a company may set for itself such targets like we have to redesign the product.

So that the cost is reduced, profit is more or certain features are added to the product so that sales improve. Now in its division to achieve this target of redesigning the product it may call for changing the production schedule, changing the work process, and therefore redesign the work, reduce work force because cost reduction is there and then down to the employee level, it could mean be punctual, minimize mistakes, understand the procedure of doing the work etc.

So basically we are trying to say here that there is a hierarchical relationship among the objectives and as an organization is planned at the top-level of the organization we have the top-level objective, at the operating-level we have the low-level objectives.

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**Formal and Informal Organization**

**Formal Organization**

- Structure of authority relationship, responsibility, and accounting defined in the enterprise to get the work done.
- Formal organization is depicted in the organization chart of the enterprise.
- Offers relatively fixed areas within which people work in their own areas of responsibility.

**Informal Organization**

- It is not planned.
- It happens based on relationships and contacts both on and off the job.
- It is a set of personal and social relationships and has nothing to do with formal authority and responsibility relationship.



Now organizations could be thought of in 2 ways, one is a formal organization, which is planned for that defines who should report to whom, who is the superior and who is the subordinate, who should do what task and who should be accountable to whom. This is a hierarchical relationship that is defined in an organization chart that we shall discuss just now.

At the same time, the organization chart will also define whether there is an advisory relationship among the departments or individuals. No power to implement but only to advice. This is a formal relationship that is planned for or designed for in an enterprise but there is also informal organization that exists in any group of individuals. Informal organizations are not planned for.

People meet in the coffee shop, people meet in the buses, people meet in the meetings, in the lunch hours they talk about common things of interest. They develop likes and dislikes for one another. That is informal organization. It is very important as we shall see to recognize informal organization that cuts across the formal organization that is designed for that is what we are trying to say in this particular slide.


In a formal organization, there is a structure of authority relationship who is accountable to whom, who is having the power to discharge what task, the structure of responsibility and accounting defined in the enterprise to get the ultimate work done. The formal organization is depicted in the organization chart of the enterprise and it offers relatively fixed areas within which people work in their own areas of responsibilities is quite rigid structures, static structures.

That is the formal organization that an enterprise plans for but an informal organization is not planned. It just happens based on relationships and contacts both on and off the job. It is a set of personal and social relationships and has nothing to do with formal authority and responsibility relationship.

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### Organization Chart

- It is a pictorial representation of the formal relationships with regard to authority, responsibilities, and communication in a formal organization.
- It shows the superior-subordinate authority relationships and the functional interdependency of the units and the individual members of the organization.




Now we talk about organization chart. Organization chart is a pictorial form of showing the relationships among departments, sections and individual managers. It clearly defines the authority relationship, the way the authority flows and the accountability relationships and even relationships that exist horizontally, the functional relationships.

It is a pictorial representation of the formal relationships that is planned for by the organization with regard to authority, responsibilities and communication in a formal organization. It shows the superior-subordinate authority relationships and functional interdependency of the units and of the individual members of the organization. Superior-subordinate authority relationship is basically vertical relationship.

It is a hierarchy whereas the functional interdependency is not a hierarchy, it is a horizontal relationship. So an organization chart depicts both the vertical relationships, the superior subordinate relationship and the horizontal relationship that is relationship between different or among different departments.

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<b>Authority:</b>	The right to make decisions and command subordinates to conform to these decisions.
<b>Responsibility:</b>	A person's obligation to carry out assigned duties.
<b>Accountability:</b>	Holding a subordinate answerable for the assigned responsibility and delegated authority.
<b>Delegation:</b>	Giving a person the authority to act for another.
<b>Line:</b>	Positions and elements of the organization which have responsibility and authority and are accountable for accomplishment of primary objectives. They can take decisions and implement them.
 <b>Staff:</b>	Positions that have responsibility and authority for providing advice and service to the line in the attainment of objectives.

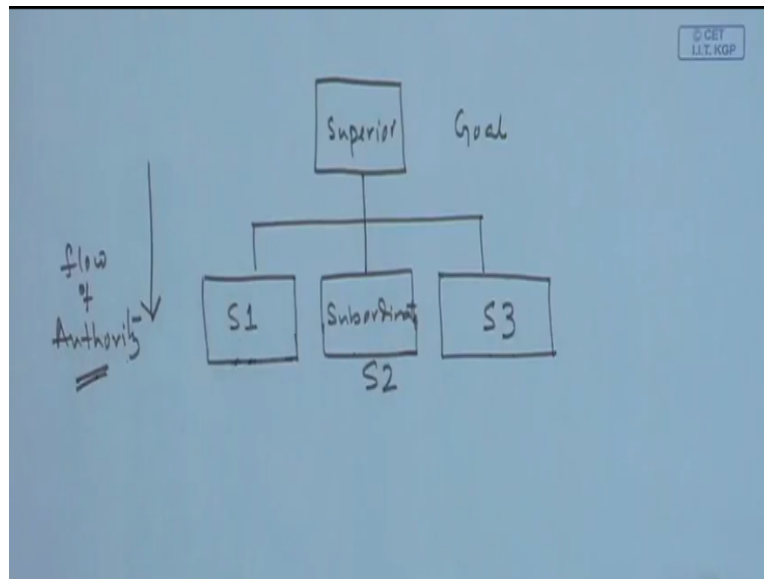
Let us first of all define these words that we had used. We had used such words like authority, responsibility, accounting, so let us now get a clear picture as to what these terms mean. Authority is the right to make decisions and command subordinates to conform to these decisions. So the right to decide and to ask subordinates to implement these decisions is called the authority.

What is responsibility? Responsibility is a person's obligation to carry out the assigned duties. So once the duties are assigned a person is obliged to carry them out then it becomes his responsibility. What is accountability? It is holding a subordinate answerable for the assigned responsibility and delegated authority. So a subordinate is accountable to the senior to the superior, accountable for what?

Accountable for the work that was assigned to him that was the responsibility which he could or which he was required to accomplish with the help of the delegated authority, to carry out a responsibility certain amount of authority has to be delegated to the person and then that person the subordinate is accountable to the senior to the superior. We have used a word delegated.

Delegation means giving a person basically a subordinate the authority to act for another. So here in these 4 terms one was the authority, responsibility, accountability and delegation.

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So basically we can say or we can explain this with the help of let us say this is a superior and this is a subordinate. The superior has taken a decision to do a work. So what he can do, he can divide this goal that he is supposed to achieve into 2 types or into 3 objectives and assign each objective to each of the subordinate, subordinate 1, subordinate 2 and subordinate 3. So goal is divided into 3 objectives O1, O2, O3.


O1 is assigned to subordinate 1, O2 to subordinate 2, O3 to subordinate 3. So now to achieve this enough authority, the requisite amount of authority has to be also delegated to the individual subordinates. If we ask a person to do a task, the person has to have enough authority to take decision, to take action, to see that that task is accomplished. So the superior has to give enough authority.

So there is a flow of authority from the superior to the individual subordinates, so that with the amount of authority they will be able to discharge their responsibilities and then they are accountable to the superior. We shall later talk about a principle that binds the superior to give a requisite amount of authority to carry out the task required to be done at the subordinate level.

So this authority has to be delegated that is the meaning of delegation. Authority of the superior has to be delegated to the subordinates. The amount of authority delegated should be

a requisite should commensurate with that require for discharging his responsibilities and then these subordinates are accountable to the senior for doing their work.

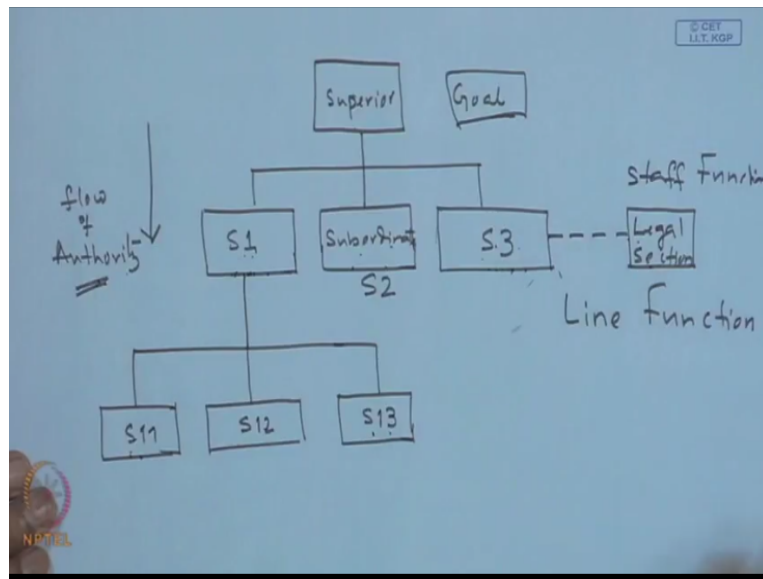
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<b>Authority:</b>	The right to make decisions and command subordinates to conform to these decisions.
<b>Responsibility:</b>	A person's obligation to carry out assigned duties.
<b>Accountability:</b>	Holding a subordinate answerable for the assigned responsibility and delegated authority.
<b>Delegation:</b>	Giving a person the authority to act for another.
<b>Line:</b>	Positions and elements of the organization which have responsibility and authority and are accountable for accomplishment of primary objectives. They can take decisions and implement them.
 <b>Staff:</b>	Positions that have responsibility and authority for providing advice and service to the line in the attainment of objectives.

Next, we shall talk about 2 things, line and staff relationship. Line relationships or line positions are positions and elements of the organization, which have responsibility and authority and are accountable for accomplishment of primary objectives. They can take decisions and can implement them. This example that I was drawing here is basically an organization chart.

And these are all line functions. Each one of them can decide on their own because the authority has been delegated to them and each one of them can implement them. That is the line function.

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Now if this objective is to be subdivided into sub-objectives then it is possible that there will be another level of the organization. So this could be subordinate 11, subordinate 12, subordinate 13. Then this person has to delegate enough authority to each one of these subordinates and give them responsibility, so that with the help of the authority delegated they can discharge their responsibilities.

All of them are line functions because they can decide and they can implement the decision taken by themselves so that the overall objective here or overall goal here is achieved. So each one of them is a line function. Compare that to a staff position. A staff position, positions that have responsibility and authority for providing advice and service to the line in the attainment of objectives.

So they can only provide advice and service, so this is the staff position. Basically, it means that suppose that to carry out each function let us say that this particular subordinate requires the advice of some other department. Now this is a staff function, this could be a legal function, legal section. So legal section provides advice but legal section cannot implement that.

Implementation will depend on this particular manager. Therefore, this becomes a staff function. This is the meaning of the word staff that they can take they can advise but they cannot implement their advice. Implementation will lie with the line function. So this is the major division of positions, one a line function, it is a position in which a manager can

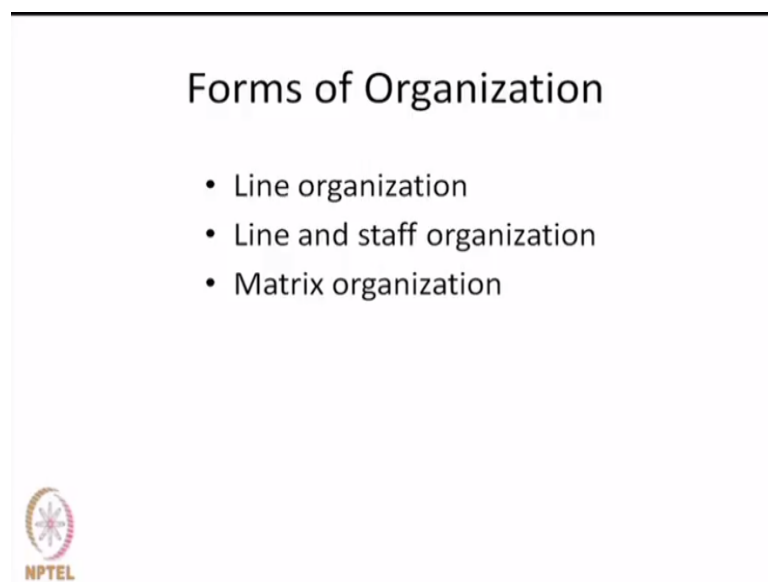


actually decide and can implement to achieve the overall objective or goal of the organization.

A staff function is one in which advises are given but the actual implementation will not lie with them, it will lie with the line managers. Examples of staff functions are many, for example accounting department. They provide cost control information. They say this has to be done but they cannot actually implement them. Industrial engineering division, they can suggest the process would be changed in this manner.

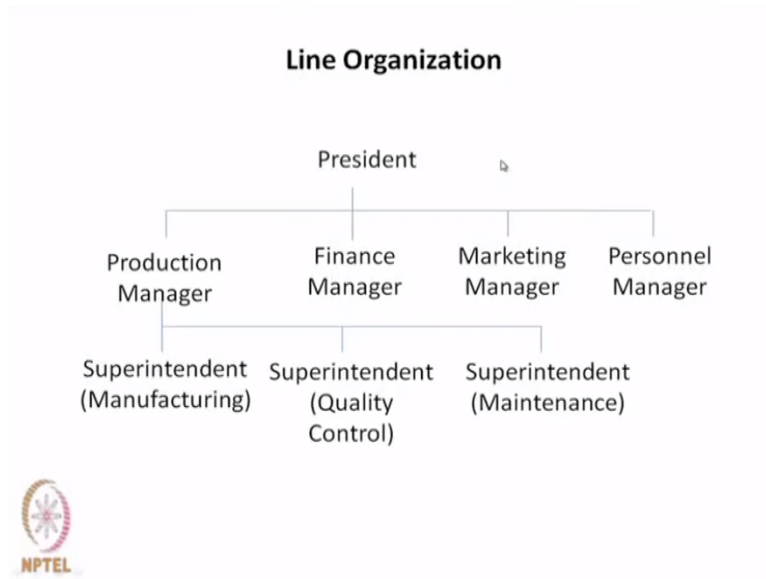
But the actual implementation will lie with the line manager. Legal section is still another example. Quality control department is also advisory in nature. So these are all staff functions.

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Next, we take the case of different forms of organization. We have listed here 3 types of organization, line, line and staff and matrix organization. Let us study each one separately.

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Already, I have given examples of line organization and this is another example. Let us say that there is a president. Then to carry out different functions of production, finance, marketing and personnel. This is the rational grouping that I was talking about. The departments are formed in this manner.

The grouping of activities, these are production and operations activities, these are money matters, these are marketing and sales and these are human resource oriented. So this is the rational grouping of activities. This is the functional division of work, Adam Smith's idea of division of labour similarly division of activities, grouping and dividing them. So that each is the function, a broad function to be looked after by a manager of a very high rank.

And each one of them corresponds to a department. Now under production there can be various types of superintendent. Manufacturing the actual production, factory subfloor, quality control and maintenance, so there could be 3 superintendents. Similarly, under finance there could be different designations. One could be for budgeting, one could be for accounting, one could be for projects and similar manner.

For marketing one may keep for east, west, north, south or there could be different types of things like sales, forecasting, market research. Under personnel one can have salary, one can have training, and so on and so forth so various further subdivisions could also be possible. For manufacturing there could be a further subdivision here, one could have a foreman foundry, foreman machining so on and so forth.

So you can see that line organization is basically each individual is empowered to take a decision and to implement it. So they each are given enough authority to discharge their responsibilities. Responsibilities are known to them and they must have enough authority to discharge that responsibility and they are accountable to their higher boss, senior or superior for doing the work.

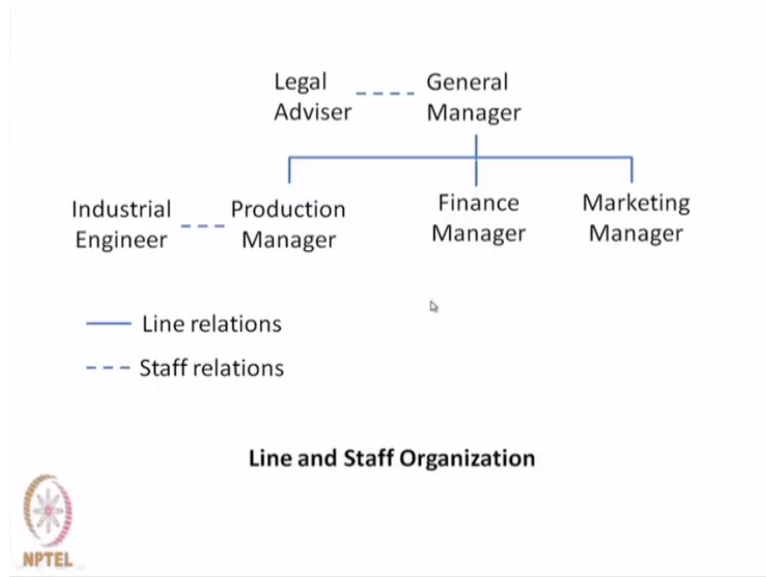
So this is the line organization, as you can see there is a vertical flow and there is a horizontal interdependency. The vertical flow is basically flow of authority, flow of communication. The highest order goal is let known to each one, expected values are let known to every person downwards and there is also a vertical flow upwards of the performance for the purpose of control.

How much has been achieved, what quality has been achieved, when it was achieved or at what cost it has been achieved, these information, the cost information, schedule information, quality information are passed on to the immediate supervisor, immediate senior and then through him to even here in a summarized form. So there is a vertical downward flow of authority and upward flow of communication.

Also at the same time, there is a horizontal or a functional dependency here. Only production is not enough, it has to be supported with financial assistants about cost control, budgetary control, payments of salaries, payments to the suppliers, payment of dividends, to the owners and once they are produced they have to be sold so there is a dependency among them. This dependency is not one of superior and subordinate relationship.

This is a one-to-one egalitarian relationship. That is the organization chart. By the way this thing is an organization chart. It depicts only the line functions.

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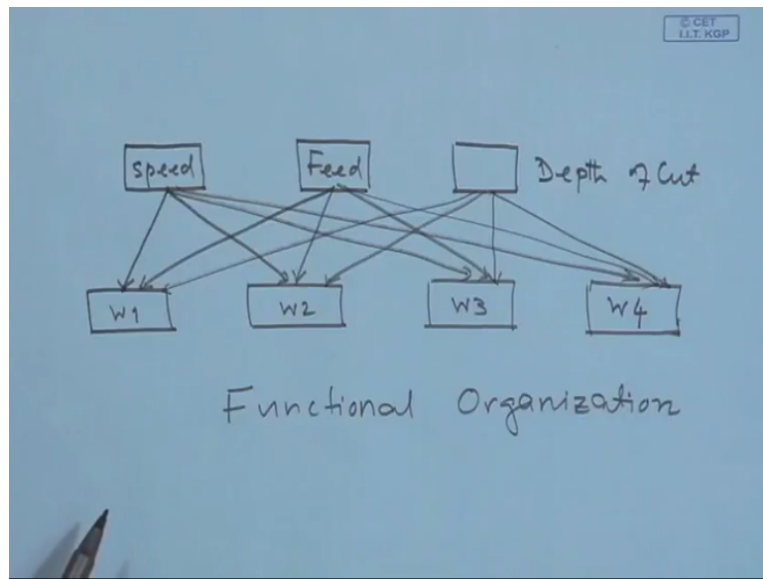


Now here we are talking about line and staff. So here I have given 2 examples of staff positions. General manager gets legal advice from its legal staff headed by the legal advisor. This is given in this manner, this is a staff function, they can advise. Production manager is advised by the industrial engineering department by the industrial engineer. So this is a staff function.

The relationship between them is advisory but here it is line. This is called line and staff organization. If you recall the story of Frederick Taylor, Frederick Taylor had suggested even another type of organization; he called it the functional organization. He said that if it is a line organization, a production superintendent maybe having large number of people under him and he is supposed to provide guidance on every matter to his subordinates.

And therefore he will be completely loaded with lot of work. He instead suggested that there should be different types of experts on different requirements of the subordinates and he called them bosses or functional managers.

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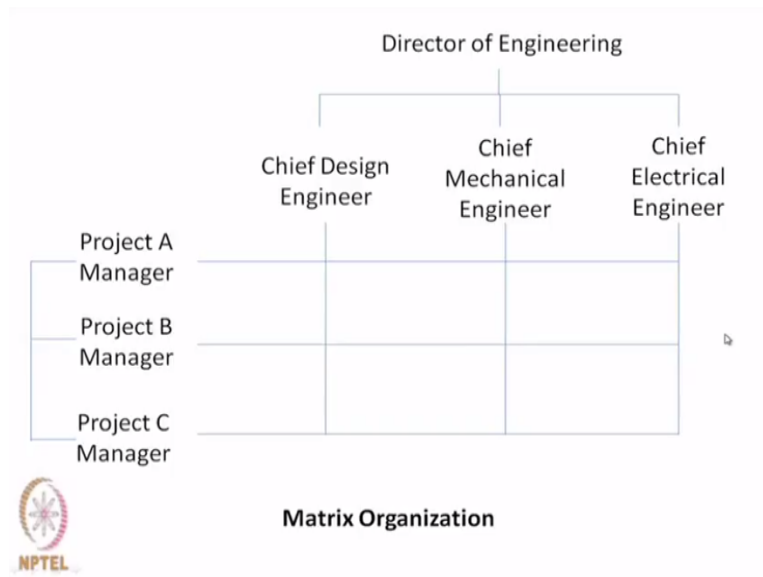
They are experts in particular areas and he suggested that there could be a functional chart or functional organization in this manner. Suppose that these are 4 workers working on lathe, they require expert advice on speed, feed and depth of cut of the turning tool and each is an employee working on the lathe. Now on the speed, the speed manager will give advice to each one of the workers.

Feed manager or feed expert will give advice to every worker and depth of cut expert will give advice to each of the worker, so worker 1, 2, 3 and 4. This he said is a functional organization. So theoretically it sounds good but at the same time it violates one of the very basic principles of organization which we shall discuss very soon that principle is called unity of command.

It means that every person should know to whom to report. Now if a person knows that he has to report to Mr. X then it is fine but if he is asked to report to Mr. X and to Mr. Y, then there is a possibility that he will not do his task well. Now here is the situation where every worker is required to report 3 experts. So there is a confusion and this leads to the violation of the principle of what I am calling unity of command.

We shall discuss that so I did not discuss functional organization in great detail in my slides.

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Now there is yet another type of organization called the matrix organization. Matrix organization is useful in projects, in carrying out projects. Let us assume that an enterprise has got 3 projects A, B and C. Each headed by a project manager. It is possible that here is a line function. The director of engineering has got chief design engineer, chief mechanical engineer and chief electrical engineer.

Now they may be inducted into each of these projects, so chief design engineer is just not an advisory function, chief mechanical and chief electrical engineers they are just not holding only advisory position in this respect, they are also holding a line function and each is there under working with 3 projects with 3 project managers, this is called a matrix organization which is also quite useful in implementing projects.

We shall later talk about project management in great detail and then you will know what I am trying to say.

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## Principles of Organization

- **Logical division of activities.** Enterprise activities are logically and rationally divided horizontally into the main functional areas and then vertically in each area down to the lowest managerial level.
- **Unity of command.** No member of an organization should report to more than one superior.
- **Span of control.** It refers to the number of subordinates a manager can effectively supervise in a managerial position.
- **Scalar principle.** Authority and responsibility should flow in a clear unbroken line from the highest position to the lowest.
- **Exception principle.** Top management take care of exceptional situations.
- **Flexibility principle.** The organizational structure should be flexible enough to permit changes with minimum disruption.



Now let us talk about the principles of organization. Certain things I have already told. A few more things I have said here. One is the logical division of activities, division and grouping of activities. So enterprise activities are logically and rationally divided horizontally into main functional areas. We have given examples of how production department, finance department, personnel department and finance department were created.

They were logical and rational grouping of different activities that is how various departments are created that is the first task and then vertically. In each area down to the lowest managerial level, so one is a horizontal division of work and the other is a vertical division of work. Already, we have explained this when we took up the line function. Then unity of command.

No member of an organization should report to more than one superior. This is a very, very important concept and this holds in most of the cases. Whenever there is a violation of this principle, it can lead to lot of disenchantment and lot of dissatisfaction and also the subordinate will have an opportunity not to do his task well because he can always say that he was assigned a different task by a different person.

And therefore he could not do his basic task assignment by a particular superior, so unity of command. Then span of control, span of control is basically how many people report to one superior. If there are 20 people reporting to one superior, then naturally the superior will not be able to exercise control very well. He will have to divide his time among these 20 people knowing their difficulties, coordinating their work will be difficult for the superior.

And if instead there is only one person reporting to him then it is also meaningless, that means the work assigned to the superior himself was not or the goal assigned to the superior himself was not divided in anyway the same work he is not doing, he is getting it done by his subordinate that also is not desirable. It has been seen that the number of subordinates reporting to a superior should be about 4 to 5.

In today's environment; however, where IT information technology has made its presence has entered into the arena of industrial organizations in large measure has increased the optimum number of subordinates who can report to the superior from the conventional 4 or 5 to even 10 or 15 because of the ability of the superior to be able to know their performance with the help of computerized reports and other graphical tools and techniques.

So today we see particularly in IT firms, the software development firms or software companies the number of levels is not very high. It is just about 2 or 3 but in conventional manufacturing organization large manufacturing organizations one will not be surprised to find number of levels more than 5 or 6 or even 7. So more the span of control less will be the number of levels.

Less the span of control better is the control but higher will be the organization chart. The number of levels is high. Now there is a difficulty if the number of levels is high. If the span of control is less, naturally every superior can exercise great amount of control. He will come to know what his subordinates are doing but the problem is if the number of levels rises then what is happening at the operational level at the down below the organization, the top administration will not be able to capture it.

They may remain ignorant about what is happening at the operational level because of the distance that separates them because of the levels that separates them from the sub floor level because somewhere the information may be arrested maybe blocked. They will not come to know about this. So these are the problems, this is the problem of a very tall organization. So a flat organization has a difficulty that controls cannot exercised.

And a tall organization has the problem that the operational problems particularly in exceptional conditions will not be known to the top level. Then we say scalar principle,



authority and responsibility should flow in a clear unbroken line from the highest position to the lowest just as objectives are broken down into sub-objectives and further sub-objectives. To achieve these objectives, requisite amount of authority must be pass down the hierarchy.

So that the responsibility is discharged, it cannot be done that a superior holds the authority and asks his subordinate to do a task without giving him sufficient power or authority. He has to give certain authority to the subordinates to discharge his responsibilities and this has to go on in the hierarchical process. If more than required authority is given, then there will be more power with a person compared to the amount that he requires to discharge his responsibility.

That is bad, so more than requisite amount of power is bad and less than requisite amount of power is bad. So when an organization is designed, rules are framed, procedures are written down at that point of time to discharge a responsibility what amount of authority has to be passed on to an individual must also be planned for. Exception principle, as I was saying the happenings in the shop floor level or in the operational level, not everything need to be known by the top management.

But definitely if there are exceptions, standards being not maintained is an exception, major deviation from what is expected is an exception. These reports much reach the top management only under exceptional conditions. So this is exception principle and in any case the organization must be flexible, having a rigid organization is not good. From time to time committees must be held, groups must meet and discuss problems of common interest.

And the barrier of communication must vanish, only then the organization will flourish. Only then the employees will be interested to give their best and only then the objective set for the organization will be achieved.

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## The Classical Doctrine

- Division of Labour
- Coordination and control

Led to

- Functional division (horizontal dimension of organization chart)
- Scalar chain (vertical dimension of organization chart)

Rigid structure of organization chart gives rise to bureaucracy and a stagnant organization bogged down by red tape, strict rules, allegiance to tradition, preoccupation with status and politics



Now quickly we will say organization theories have gone through lot of changes. The classical theory basically we called it classical doctrine, they call for logical division of work and grouping them. That is division of labour into functional divisions and then a scalar chain or vertical dimension of the organization chart is to control and coordinate but this rigid structure can give rise to bureaucracy, red tapism, bogged down with strict rules, allegiance to tradition, preoccupation with status and politics.

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## Humanistic School of Thought

- Concern for human reaction and social values (emotions, sentiment, prejudice)
- Group behaviour (group reaction to organizational change) is important..
- Leadership (the power to influence the group behaviour) instead of headship.
- Plea for motivation instead of compulsion



Therefore, there are other things that are now coming into picture. Particularly, I told you in my first lecture on evolution of management thoughts the contribution of Elton Mayo on the basis of Hawthorne experiment that human element in an enterprise is the most valuable element and that must be preserved and that must be improved upon. Concern for human reaction and social values like emotions, sentiments, prejudice must be there.

People should work in a group and not in individual fashion. Therefore, the reaction of the group to any change in the organization is important. What one needs is not headship, the superior must not show headship. He must show leadership quality and what is the meaning of leadership quality, he must have power to understand and influence the group behaviour. There has to be plea for motivation and not compulsion to do a work.

We shall study more about motivation in our next lecture.

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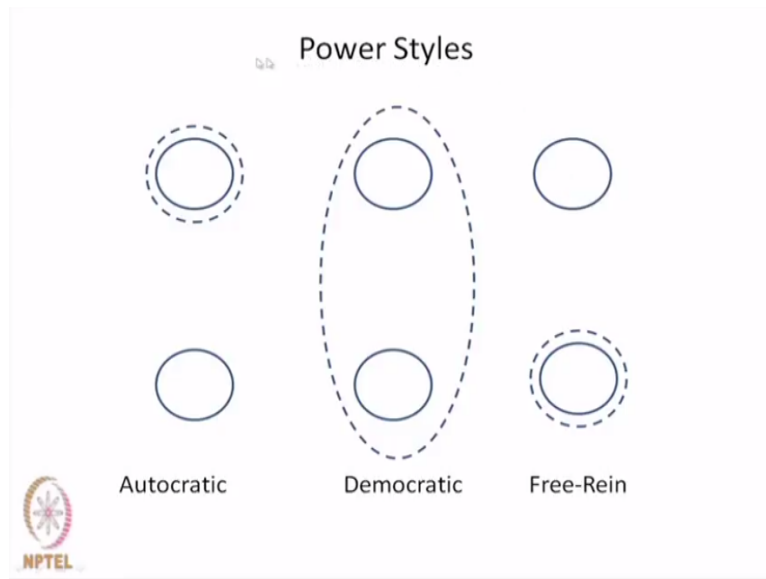
### Modern Organization Theory

- Set standards (set objectives)
- Design processes to meet the objectives
- Control (integrate the processes)
- Emphasis on communication
- Decentralization

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The modern organization theory says this is Peter Drucker's idea, set standards, design the processes to made the objectives, exercise control by integrating the processes, emphasize and communication and decentralize the activities.

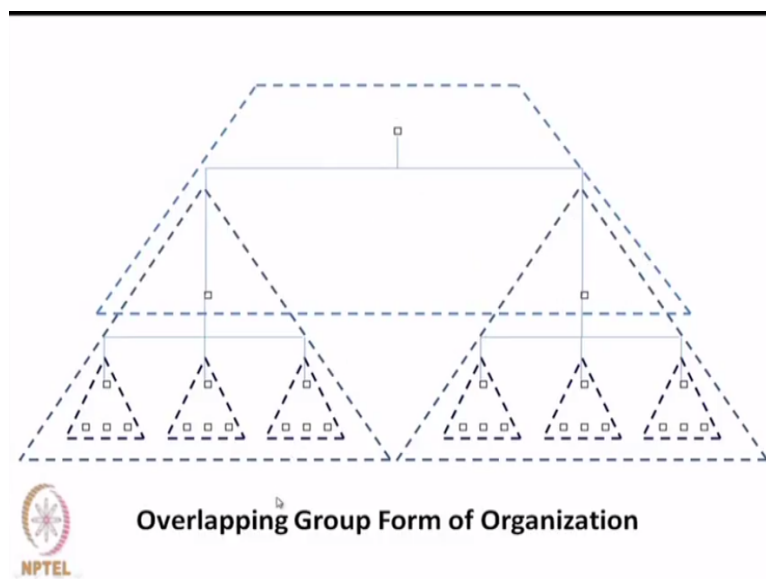
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Now in this context, I would like to show you 2 pictures as I come to the end of my lecture, one is the power styles, this is the classical doctrine; the rigid structure of line organization, the superior and the subordinate. Where the power lies? The power lies completely here, that is autocratic. In a democratic process, the 2 together sit, decide the objective that is the modern theory.

2 together sit together and decide what the goal and what should be the objectives, the way they should plan for and do the work. That is the democratic power style and the other extreme is that the power is completely resting with the subordinates. They decide what objectives to set for, how to achieve it and how to show the results, this is a free-rein power style.

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Finally, I would like to show you this diagram. This is the modern concept of organization. It says that these triangles basically it is a group activity. Each of them this is basically the superior and these are the subordinates but the work has to be done by this group. Similarly, here and similarly here. They are headed by another superior, these 3 people are headed by another superior and they then form a triangle, similarly here another department.

And then these 2 senior people and their common boss or common superior, they form another group, so it is the concept of how a group works instead of an individual to individual relationship instead of one superior and one subordinate relationship, it is a group relationship, one superior and all the subordinates form a group and together they are supposed to achieve the objective set for them.

And the group leader is a member of another group at the higher level and the group leader of the higher level is yet a junior member of another higher level group. So unless such group activities take place, the ultimate objective of achieving the enterprises goal will not be achieved. So friends let me summarize what we have discussed today. First thing is to accomplish a plan or the goal it is needed to go for logical division of activities.

That is the horizontal division, the functional division of the activities that leads to departmentation and things of that type. Then, for every department there has to be a vertical flow of authority, responsibility and accountability, that is a vertical flow. This leads to a line organization but advises are required from specialists. They are called staff functions. Usually, we see line and staff organization and this is depicted in an organization chart.

That is basically the static aspects of organization what is required is that everybody should work in a group. The superior subordinate concept should go, they should all work in a group. There are certain principles of organization. The important principles are of course division of activities into functional and vertical divisions but also unity of command, span of control, and then flexibility such as group activities, exception reporting and things of that time.

So today we have discussed about organizing in a very great detail and in our next lecture, we shall study about motivation theories. Thank you very much.