

ORGANISATION STRUCTURES AND DEPARTMENTS

"Organisation structure is an indispensable means and the wrong structure will seriously impair business performance and may even destroy it." Peter F. Drucker.

The process of organising results into organisation structure and departments within the enterprise. In this chapter, an attempt is being made to discuss some of the important aspects of the organisation structures and departments.

ORGANISATION STRUCTURE : MEANING AND DEFINITIONS

Organisation structure simply means the systematic arrangement of people working for the organisation in order to achieve certain goals. It is the framework of authority relationships among individuals and groups in an enterprise.

According to **Fred Luthans**, "Organisation structure represents the skeleton framework for organisational behaviour."

According to **Henry Albert**, "Organisation structure is the framework within which managerial and operating tasks are performed."

In the words of **Carlisle**, "Organisation structure is the system of relationships, formally prescribed and informally developed that governs the activities of people who are dependent upon each other for the accomplishment of common objectives."

Thus, organisation structure is a network of formal authority relationships among people within which behaviour and activities of people are regulated for the accomplishment of organisational objectives.

Characteristics :

The basic characteristics of organisation structure are as follows :

1. Organisation structure is the arrangement of people working for an organisation.
2. It establishes positions or persons and the relationships between the positions.

3. It provides an appropriate **framework for authority and responsibility relationships** between the positions.
4. Organisation structure is generally **displayed on a chart**.
5. Organisation structure has **two dimensions**, i.e. vertical and horizontal.
6. Vertical dimension displays the **hierarchy of authority** in the organisation. On the other hand, horizontal dimension displays the **departmentation of the enterprise**.
7. Organisation structure is **formal as well as informal**. Informal structure means the structure which arises spontaneously out of the activities and interaction of the people in the organisation.

FACTORS AFFECTING ORGANISATION STRUCTURE

Organisation structure is the basis upon which all the individuals in the organisation perform their jobs. The structure, therefore, should be carefully planned and designed. A slight negligence in designing the structure may have the serious consequences. **Peter Drucker** has very rightly stated that **'Organisation structure is an indispensable means and the wrong structure will seriously impair business performance and may even destroy it.'**

There are variety of factors that affect the structure of an organisation. According to **Albert K. Wickesberg**, following are internal factors which influence the organisational structure :

1. The nature of **objectives** set forth for the group.
2. The operative **activities or duties** required to achieve these goals.
3. The **sequence of steps** in the performance of these activities as dictated by the product or service and by the technology.
4. The **managerial functions** to be performed including those of goal determination, problem solving, communication, control, motivation, and leadership.
5. Skill **limitations of each person** in the firm as well as limitations of technical facilities.
6. The **social needs** of the individuals who collectively comprise the organization.
7. The **size of the enterprise**.

In addition, following are a few more factors that also affect the organisation structure :

8. **Technology** used in performing the activities.
9. **Environment** within which organisation has to work.
10. **Socio-economic factors**.

FORMS OF ORGANISATION STRUCTURE

Following are the main forms or types of organisation structure :

- I. Line organisation.
- II. Line and staff organisation.
- III. Functional organisation.
- IV. Project organisation.
- V. Matrix organisation.
- VI. Committee organisation.

I. Line Organisation :

Line organisation is the oldest and simplest form of organisation structure. It is also known as the military, traditional, vertical, departmental, or hierarchical organisation structure.

Line organisation structure is one in which authority flows from the top to the bottom vertically in a straight line manner and responsibility and accountability flows in an opposite but equally direct vertical manner. More specifically, in line organisation the line of authority or command runs from the top (e.g. the board of directors) to the lowest level of management (e.g. supervisor) through the process of delegations and redelegations of authority and the line of responsibility flows vertically upward from the bottom to the top of the organisation. Consequently, line structure consists of the direct vertical relationships that connect the managerial positions and tasks of each level with those above and below it. [McFarland]

It may be pointed out that the authority at each level in a line organisation is derived from the immediate superior manager. In the similar fashion, each level of manager is accountable to his immediate superior manager. For instance, the Board of Directors derives authority from the general body i.e. the owners. The chief executive derives from the Board and his immediate subordinate manager derives authority from him. This process of delegation and redelegation goes to the lowest level of management i.e. supervisor. In the similar fashion, the supervisor is accountable to his immediate superior manager. The chief executive is accountable to the Board and ultimately, the Board is accountable to the general body or the owners. Figures 13.1 and 13.2 illustrate these lines of authority and accountability.

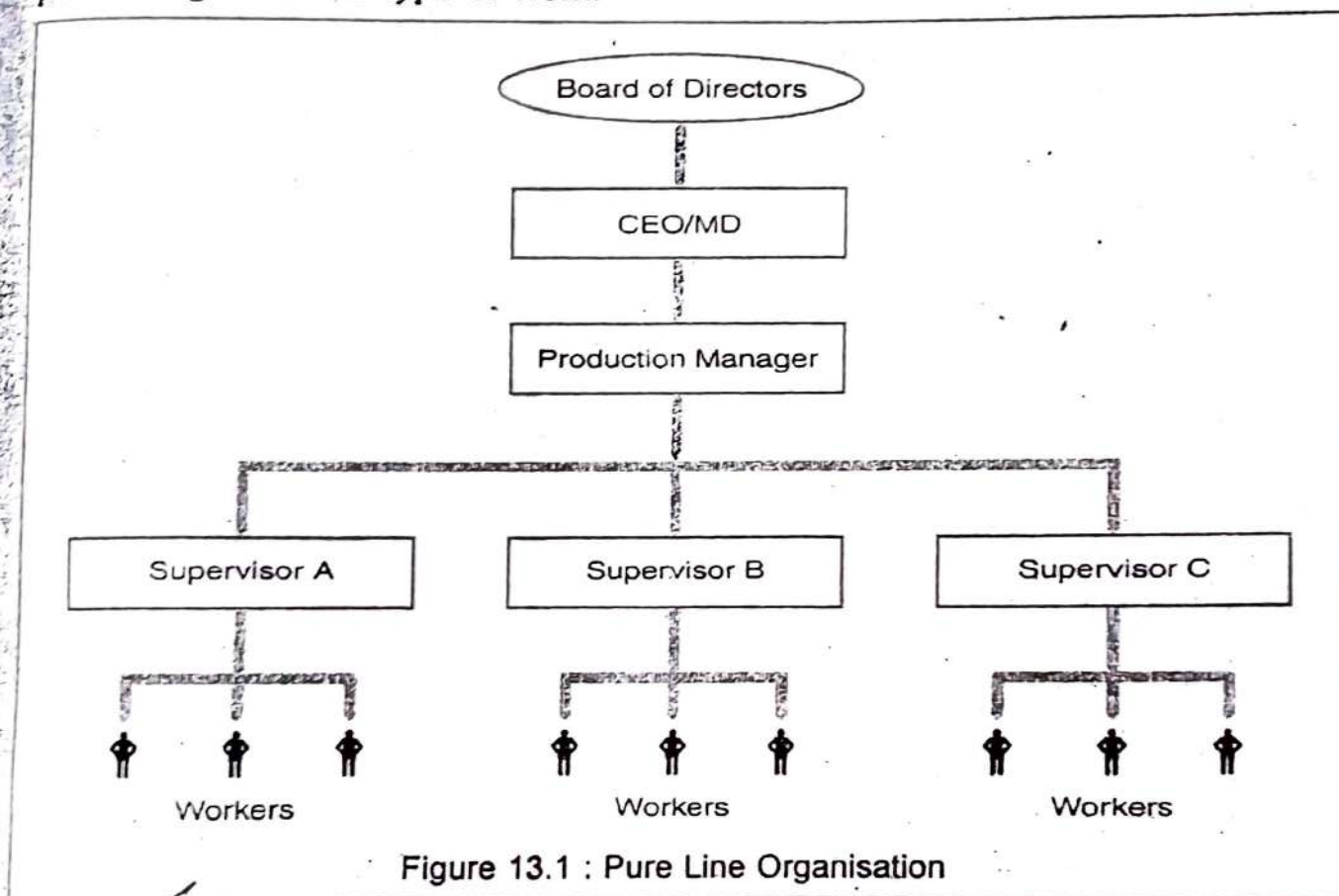
It may be pointed out that **line authority** is the authority to decide, to direct and to require subordinates to comply decisions and orders. A manager with **line authority** is called a **line manager or line officer**. **Line departments** are the departments that are directly involved in accomplishing the primary purpose of the organisation.

Line organisation **may be of two types :**

- (a) Pure line organisation, and

(b) Departmental line organisation.

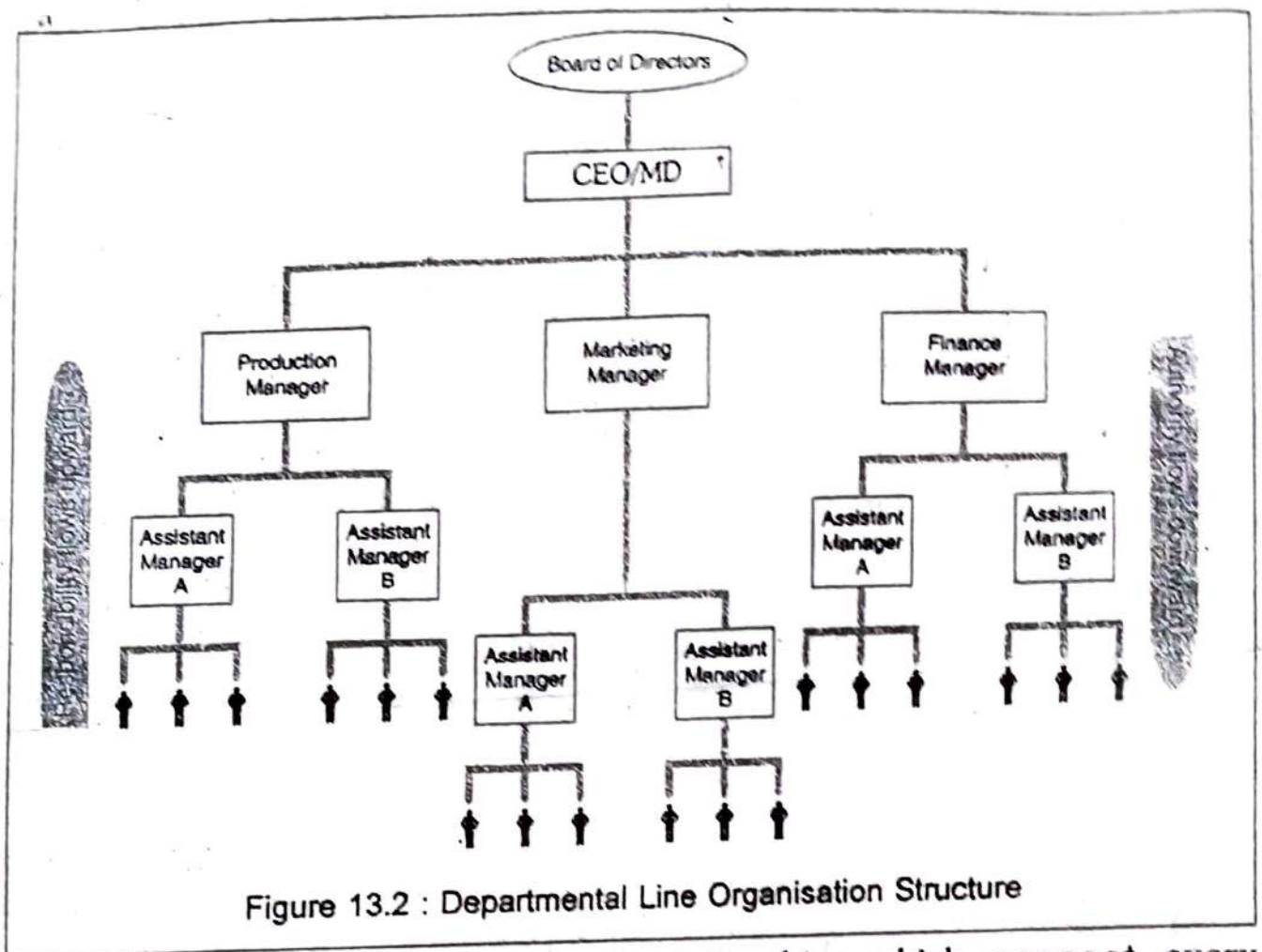
(a) **Pure line organisation** : Pure line organisation is one in which activities at a particular level are the same. Every employee performs by and large the same type of work. The divisions and departments are created for sake of convenience of supervision and control. This type of structure is not common in use. Figure 13.1 illustrates pure line organisation in which every employee is performing the same type of work.



(b) **Departmental line organisation** : A departmental line organisation is one in which whole work of the organisation is divided into functional departments such as production, marketing, finance and so on..Each department works as a self-sufficient unit under the supervision and direction of a departmental manager who himself works under the direction of his immediate boss e.g. managing director. No other manager or departmental head can give orders to him. Figure 13.2 illustrates such an organisation structure.

Characteristics : The chief characteristics of line organisation structure are as follows :

1. In line organisation, authority flows vertically from the top to the bottom of the organisation.
2. The responsibility or accountability flows in the opposite vertical direction i.e. from the bottom to the top of the organisation.
3. It is the network of 'man-boss' direct **relationships or chain of command**. It shows who is to direct and supervise whom and who is to report whom.



4. It consists of those vertical relationships which **connect every managerial position** at each level in the organisation with **those above and below it**.

5. It portrays the **channels through which authority and responsibility** flow across the organisation through various vertical managerial positions.

6. In this structure, managers at each level **derive authority from his immediate superior manager**.

7. Every manager is **accountable for the acts of his subordinates to his immediate superior manager**.

8. There are **only line managers/officers** in a line organisation. There is no advisory staff to support line managers.

9. In line organisation structure, line manager has line authority and **performs the line functions**. Hence, he is responsible for achieving the objectives of the organisation or the department.

10. There is **complete lack of specialisation**. A manager is bound to be a 'jack-of-all trades'.

11. It is **based on the principle of unity of command**.

12. It is a simple structure with **limited number of subordinates** and levels of hierarchy.

13. It is the oldest type of organisation structure. All other kinds of organisation structures are modifications of it.

BOX 13.1 : KEY TERMS AND CONCEPTS

- ✓ **Organisation structure** is a network of formal authority relationships among people within which behaviour and activities of people are regulated for the accomplishment of organisational objectives.
- ✓ **Line organisation** structure is one in which authority flows from the top to the bottom vertically in a straight line manner and responsibility and accountability flows in an opposite but equally direct vertical manner.
- ✓ **Line authority** is the authority to decide, to direct and to require subordinates to comply decisions and orders.
- ✓ **Line organisation may be of two types** : (i) pure line organisation and (ii) departmental line organisation. **Pure line organisation** is one in which activities at a particular level are the same. Every employee performs by and large the same type of work.
- ✓ **A departmental line organisation** is one in which whole work of the organisation is divided into functional departments such as production, marketing, finance and so on. Each department works as a self-sufficient unit under the supervision and direction of a departmental manager who himself works under the direction of his immediate boss.

✓ **Advantages/Merits** : The basic advantages of line organisation structure are as follows :

- ✓ 1. It is simple to establish and easy to understand due to the direct and clear chain of command.
2. It portrays simple and clear authority and responsibility relationships within the organisation.
3. It clearly shows the division of authority and responsibility among various managerial positions. Hence, it helps in avoiding the **duplication of work**.
4. It helps in quick decision-making. It is so because a line manager can decide without consulting anyone other than his immediate superior manager.
5. It is strong in discipline as it fixes responsibility on every individual.
6. It checks red-tapism and buck-passing. Buck-passing is extremely difficult in such an organisation with unity of command and direction.
7. It is **flexible**. With the growth in the size of the enterprise, organisation structure can easily be extended by creating new departments and line managers.
- ✗ 8. It **facilitates change** more rapidly since there are only a few people to consult.
9. It **facilitates coordination** because of direct chain of command.
- ✗ 10. It provides **effective channel for communication**. It facilitates upward and downward communication due to the direct link between the managerial positions at all the levels in the organisation.
- ✗ 11. It serves as a **ground for executive development**. It is so because every line officer regularly faces new challenges and takes decisions. Thus, he learns something new every day.
12. It is **economical** since there is no staff specialists in it.

Demerits/Disadvantages : Following are some of the disadvantages/ demerits of the line organisation structure :

1. Line organisation **overloads the key executives** because they are to make all the decisions and perform auxiliary service activities.
2. It **fails to provide specialised skills**. Each line manager has to manage number of activities. But he cannot be an expert of in all of them. Consequently he is forced to become **jack-of-all-trades**.
3. Line organisation provides **room for arbitrary decisions** and actions which promotes **dictatorial leadership**.
4. The growth of organisation results in lengthening of the chain of command or hierarchy of management. Consequently the **flexibility** and **central control may be lost**.
5. In the case of growth and diversification of the enterprise, new **supportive service departments need to be formed**. But line structure does not make provision for such departments.
6. The subordinates **lose initiative** because all final decisions are made by the top management. Moreover, in such an organisation, human needs affecting his work attitudes are largely ignored.
7. In line organisation, there is much scope for **favouratism and nepotism** because of one man's control in each department.
8. There is **little or no communication** from subordinates upward because subordinates tend to keep distance from the authoritarian managers.
9. In such an organisation, it becomes difficult to achieve **inter-departmental coordination**.
10. In line organisation, similar activities are performed in every department. Hence, it may cause **increased operating cost**.

Suitability : Keeping in view the advantages and disadvantages of line organisation, it may be safely concluded that this structure is suitable for the following types of business organisations :

- (i) Small-scale or sole proprietary organisations free from all complexities.
- (ii) Organisations with simple routine operations.
- (iii) Organisations with automatic and continuous production processes.
- (iv) Organisations having a short chain of command.
- (v) Organisations having a few subordinates at each level.

However, now-a-days, the size of organisations is increasing tremendously. Organisations are becoming more and more complex. In such a situation, it is virtually impossible for a line manager to perform all the functions without the advice and help of staff specialists. Hence, there is very little scope for the existence of a line organisation structure as such. But line structure will remain indispensable to all organised efforts because all other kinds of structures are based on it.

II. Line and Staff Organisation :

In order to overcome the weaknesses and limitations of line organisation, line and staff organisation structure was developed. This represents a modification of and improvement over the basic line structure.

Line and staff organisation structure is one which combines the staff specialists/experts with the line managers. In other words, in line and staff structure, line managerial positions and vertical flow of authority and responsibility remain the same as that of a line structure. Additionally, staff specialists (or Departments) are associated with the line managers. Therefore, this structure is known as the line and staff organisation structure.

It may be pointed out that **staff specialists/experts are the persons or departments who provide technical advice or service to the line managers**. Thus, their role is to provide advice to the line managers. Line managers have authority to decide and direct their subordinates. They also have direct responsibility for the accomplishment of the objectives set for them. Line managers are supposed to consult the staff specialists whenever specialised knowledge is applicable in their decisions. But line managers are not obliged to do so. They can take decisions even without giving any intimation about it to them.

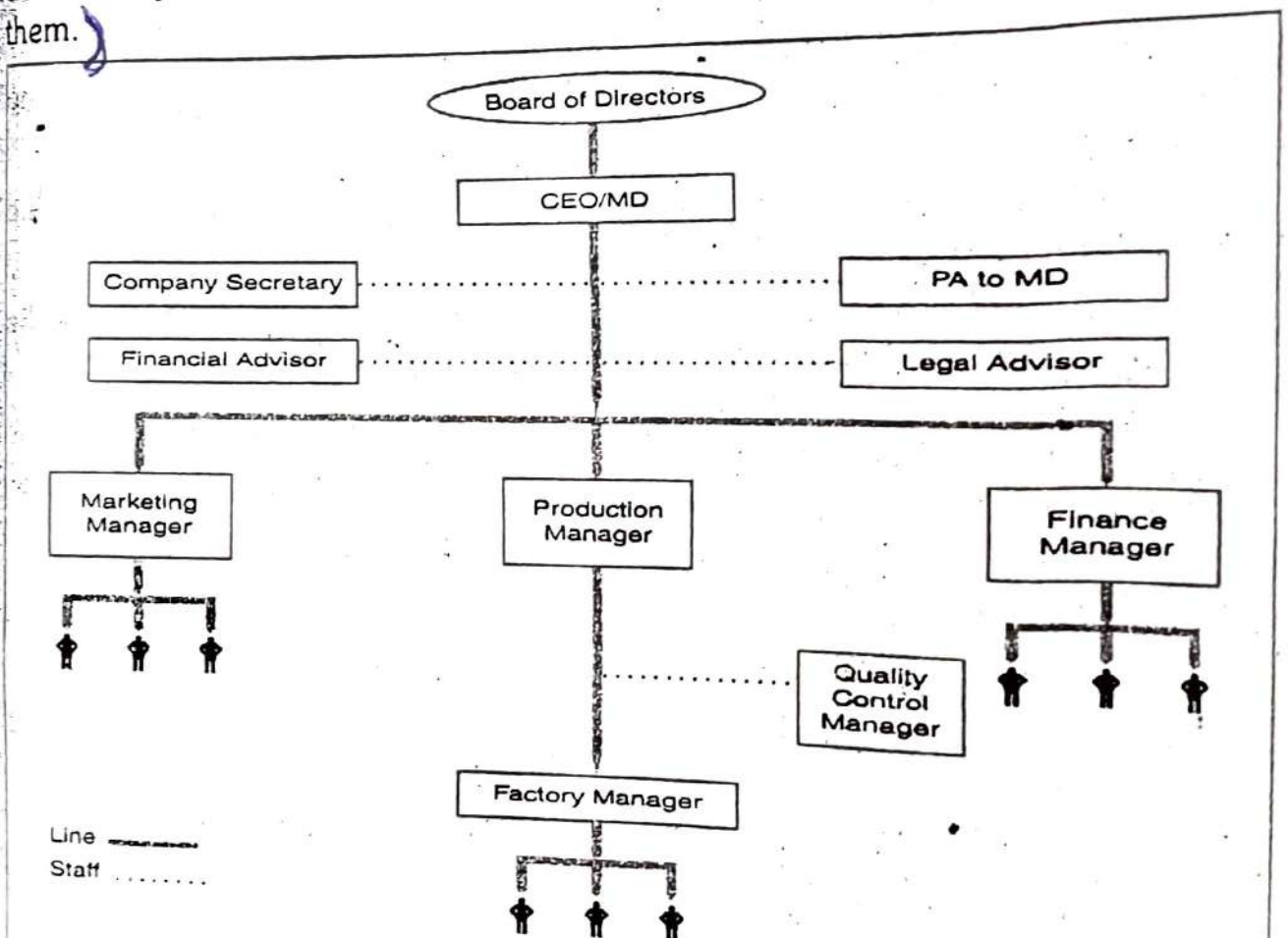


Figure 13.3 : Line and Staff Organisation Structure

Thus, a line and staff organisation is one that has line managers with direct, vertical relationships between different levels in the organisation in addition to the specialists responsible for advising and

assisting the line managers. Line managers are responsible for making decisions and accomplishing the objectives set for them. On the other hand, staff specialists are responsible for advising and assisting the line managers. Figure 13.3 illustrates the line and staff organisation structure.

Characteristics : Line and staff organisation structure is marked by the following characteristics :

1. There are **two types of relationship** in the line and staff organisation structure : (i) line, and (ii) staff.
2. Line managers are the persons who have **authority to issue orders** and enforce compliance of the orders from the subordinates.
3. Line managers are responsible for **accomplishment of the objectives** set for their organisation or the department.
4. They are accountable to their superior managers for the performance of their subordinates.
5. Staff specialists/experts are the persons (sometimes departments) who have specialised knowledge in their respective areas.
6. The staff specialists render auxiliary services or advice to the line managers.
7. The line managers are not bound to follow the advice given by the 'staff'. They may implement if they see it fit.
8. There is **no superior and subordinate relationship** between a line manager and the staff specialists. They work **mutually but independently**.
9. Staff specialists **do not have line authority** to issue orders to line managers but have line authority to issue orders to their immediate subordinates under them.
10. It is based on the **principle of specialisation**.
11. It follows the **principle of unity of command**.

Advantages/Merits : Following are the main advantages of a line and staff organisation structure :

1. The **lines of authority** and responsibility are **clearly defined**.
2. It facilitates departmental line managers to exercise **total control** over their respective departments.
3. It **relieves** line managers **from the burden** of routine and auxiliary activities. They can devote their time to other more important activities.
4. **Expert advice** can be easily availed of.

5. It facilitates **separation of planning and executive function**. Thus, it provides the benefits of specialisation with the use of services and advice of staff specialists.

6. It helps managers in managing **complex and big organisations** more effectively with the help of specialised staff services.

7. It **increases executive efficiency** and effectiveness.

8. In such an organisation, **decisions tend to be sound and balanced**.

9. It ensures **unity of command** in the organisation. Consequently, it becomes easier to maintain discipline and to exercise control.

10. It is **flexible**. It is so because the number of line managers and staff specialists can be easily increased with the changing needs of the organisation.

11. Ample opportunities for **training and development** of executives exist in such an organisation.

Disadvantages/Demerits : Following are disadvantages associated with the line and staff structure :

1. Line and staff organisation structure tend to be **complicated and complex** if the relationship is not clearly defined.

• 2. Generally, there exists a conflict between line managers and staff specialists for many reasons. One of such reasons is that sometimes the staff specialists **encroach upon the authority** of line managers.

• 3. Staff **specialists feel ignored** when their advice is not given due importance.

4. Some staff specialists advise even **without proper research and analysis** of facts. It is because of the fact they are not accountable for the results.

5. Such a structure proves **expensive** because employment of staff specialists involves a huge cost.

* 6. These tend to be a problem of **coordination** in such an organisation. It is due to the lack of clear allocation of duties between the two.

7. Sometimes, line managers tend to depend heavily on the advice of the staff specialists. Consequently, line managers **may not properly use their creative skills** and lose their initiative and drive.

Suitability : Line and staff organisation structure is most suitable for the medium and large enterprises. But this structure is not suitable for small enterprises on account of high cost involved in it.

DISTINCTION BETWEEN 'LINE' AND 'LINE AND STAFF' ORGANISATION

Basis of Distinction 1	Line Organisation 2	Line and Staff Organisation 3
1. Meaning	Line organisation is one in which lines of authority run from top to the bottom and responsibility just in an opposite but equally direct manner.	Line and staff organisation is one which combines the staff specialists with the line managers. In other words, in such an organisation, lines of authority and responsibility flow in the same manner as in case of a line organisation but each line manager has advisory staff to advise him.
2. Advisory staff	There is no advisory staff in line organisation.	There are staff specialists to assist and advise the line managers.
3. Specialisation	There is no specialisation since line managers are not experts but generalists.	There is specialisation in this organisation because staff specialists are there in it.
4. Scope of activities	In line organisation, both planning and execution are done by line managers.	In line and staff organisation, line managers may execute and plan with the help of staff specialists.
5. Conflict	There is no one to conflict with a line manager.	There is always a risk of conflict between a line manager and a staff specialist.
6. Discipline	There is strict discipline in line organisation.	These tend little to be lose discipline in such an organisation.
7. Suitability	Line organisation is suitable for small enterprises.	Line and staff organisation is suitable for medium and large enterprises.
8. Economy	It is economical.	It involves a high cost of expert services.

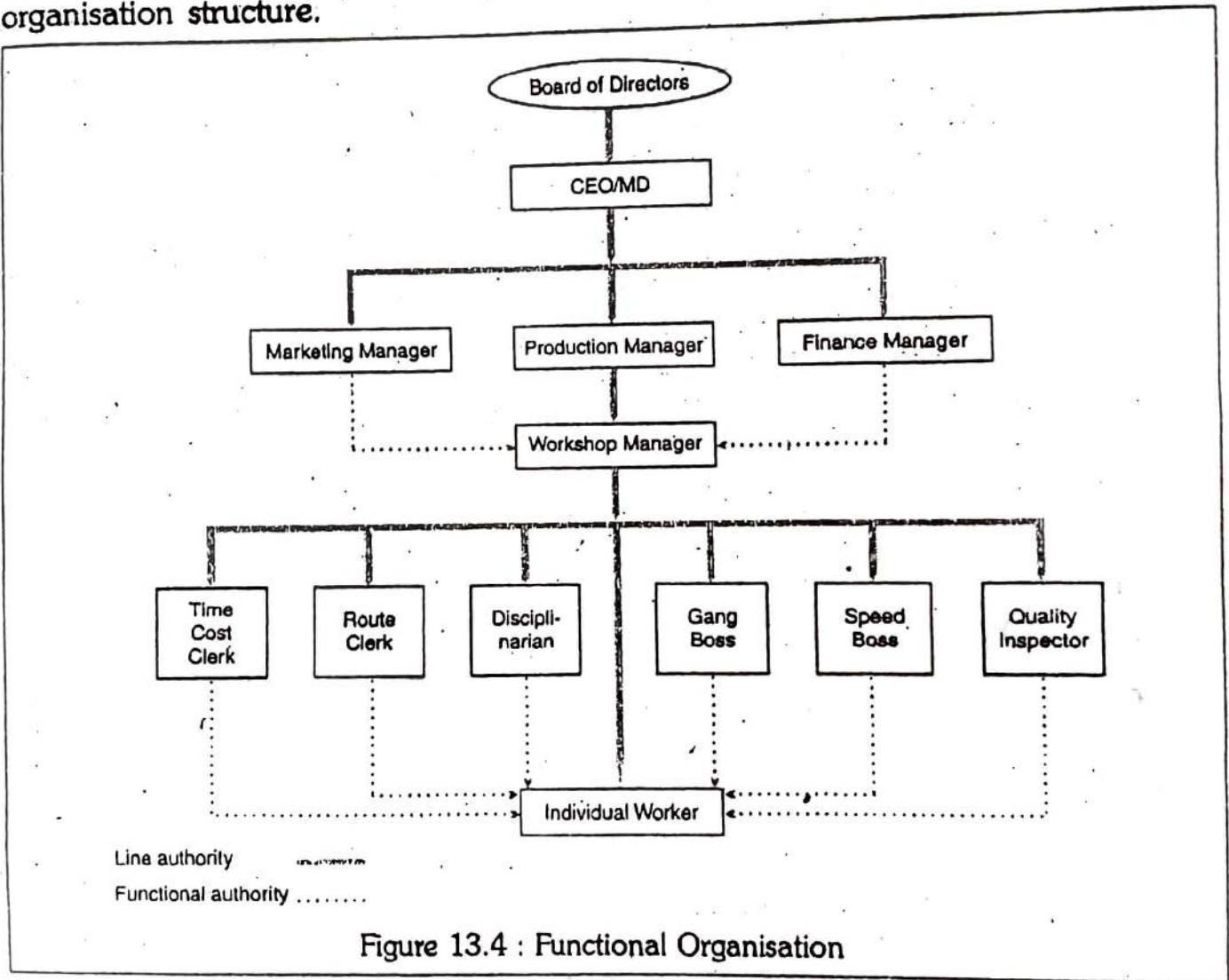
III. Functional Organisation :

The credit for developing functional organisation structure goes to F.W. Taylor. This structure is based on the concept of functional foremanship developed by Taylor. The concept of functional foremanship has been discussed in detail in the chapter entitled 'History of Management Thought' in this book.

Functional organisation structure is one in which line authority is channelised through the staff specialists. In such an organisation structure, line authority runs through many functional experts who have

authority to issue orders in their respective areas of specialisation. Thus, in functional structure, the distinction between line and staff is eliminated for all practical purposes.

In functional organisation, various activities of the enterprise are grouped into functional departments such as production, marketing, finance and so on. Then an expert is put in charge of every functional department who will have direct control over that function wherever it occurs. Consequently, his authority will over ride that of the line manager within whose department the function is being performed. Thus, in functional organisation, it is the function that determines the flow of authority and responsibility without reference to the actual operating line department. Consequently, multiplicity of command instead of unity of command exists in such an organisation. Figure 13.4 illustrates the functional organisation structure.



It may be pointed out that functional organisation is a step ahead of line and staff organisation. In functional organisation, each of the staff specialists has line authority over a particular activity whereas in line and staff structure, these specialists have only advisory authority.

Characteristics : The basic characteristics of functional organisation structure are as follows :

1. In functional structure, the activities of organisation are grouped into major **functional departments** such as production, marketing, finance and so on.

2. Each functional department is put **under the charge of a functional manager** who is an expert or specialist.
3. Each functional manager is **granted functional authority** i.e. the authority to give orders and to command in the area of his expertise.
4. Each functional manager can issue orders within the area of his expertise to every subordinate.
5. Each such subordinate shall be accountable to every functional manager from whom he received orders and directions.
6. Each functional manager has **authority to make decisions** about his functional department.
7. Each functional manager shall be **accountable to his superior** for the decisions made by him.
8. In such structure, functional authority of each functional manager **extends into the activities of several departments or work units**. Consequently, the principle of unity of command is violated in such a structure.

Advantages/Merits : Following are some of the advantages of functional organisation :

1. It allows organisation to make full **use of services of functional experts**.
2. It **relieves top executive from the burden of operating details**. Hence, they can devote more time on long-term strategic planning.
3. It facilitates **quick decision-making** because functional authority is available at the departmental level.
4. It facilitates **better supervision and control** since every supervisory is an expert.
5. It helps in maintaining **consistency and uniformity** in functioning of the organisation because functional experts command the operations.
6. It fosters **economy and efficiency in operations** through specialisation.
7. It encourages **research and development** activities in the organisation with the help of available services of specialists.
8. It encourages **joint control** of activities in place of one man's control.
9. It **is flexible** and it can **respond to changes quickly**.
10. It facilitates **standardisation** of operations, procedures, methods, and equipments.
11. It facilitates **mass production** through the use of specialisation and standardisation.

Disadvantages/Demerits : Functional organisation suffers from the following limitations/drawbacks :

1. There is **multiplicity of command** instead of unity of command. Thus, it violates principle of unity of command.

across departmental boundaries. Consequently, **systematic control becomes difficult.**

3. It is very difficult to establish **responsibility for failure.**
4. **Subordinates may get confused** by the multiple superiors who direct their work.
5. **Coordination becomes difficult** due to over specialisation.
6. The **position of line managers** tends to be weaken.
- *7. It is **too complicated** to be understood by the subordinates.
- ✓8. It **delays decision-making.**
9. It is an **expensive structure** because functional experts command high remuneration.
- *10. There is always a **problem of discipline** among the subordinates.
11. There are many functional experts of equal rank. This usually leads to **conflict among** them.
12. Functional structure **does not help in developing all round executives.** Consequently, it becomes difficult to develop successors of top executives positions.

DISTINCTION BETWEEN LINE AND FUNCTIONAL ORGANISATION

Basis of Distinction 1	Line Organisation 2	Functional Organisation 3
1. Authority	In line organisation, authority flows vertically from top to the bottom.	In functional organisation, authority does not always flows vertically. It also flows diagonally.
2. Command	There is unity of command.	There is multiplicity of command.
3. Responsibility	In line organisation, the lines of authority runs vertically from the bottom to the top. Thus, it is clearly defined.	The lines of responsibility are generally diffused in such an organisation. Thus, it is not clearly defined.
4. Discipline	Strong discipline is found in line organisation.	Usually, there is a problem of discipline in functional organisation.
5. Decision	Decision-making is simple and quick in line organisation.	Decision-making is difficult and decisions are delayed in functional organisation.
6. Coordination	It is easy to coordinate efforts in it.	It is difficult to coordinate efforts in it.
7. Flexibility	It is not flexible enough in the changing circumstances.	It is flexible enough to suit to the changing needs.

1	2	3
8. Specialisation	There is limited scope for specialisation.	There is vast scope for specialisation in such an organisation.
9. Foundation for Others	Line organisation is the foundation for every organisation structure.	Functional organisation structure is founded upon line structure.
10. Suitability	It is suitable for small enterprises.	It is suitable for large-scale production enterprises.

IV. Project Organisation :

Project organisation is a temporary structure designed to accomplish a specific task or project with the help of specialists drawn from different functional departments within the organisation.

A project organisation is led by a project manager and assisted by a team of functional specialists. The team focuses all its energies, skills and resources on the project. When the project is completed, the project team is abandoned. Its members move on to a new project or return to their 'parent' or 'home' department in the organisation.

Thus, a project organisation is specific and temporary vehicle for bringing specialised persons together in order to accomplish a project within the specified cost, time and quality framework.

In project organisation, a project manager is appointed to assume responsibility to complete the project. He draws specialists from different functional departments and assigns them activities necessary to accomplish the project. He himself is responsible for the coordination of efforts of all the personnel working on the project as well as the completion of the project within the specified time, cost and quality framework. Figure 13.5 illustrates the project organisation structure.

Characteristics : The basic characteristics of project organisation are as follows :

1. Project organisation is **temporarily** a part of the larger organisation.
2. Project organisation is designed to handle same medium or large size project.
3. It is an organisation under the charge of a project manager.
4. Project manager forms a team of specialists to be drawn from different functional departments of the organisation.
5. The project manager usually serves as a facilitator or coordinator of the project.
6. The project manager is directly accountable to the chief executive of the organisation.
7. The project manager generally has some line authority over the functional specialists.

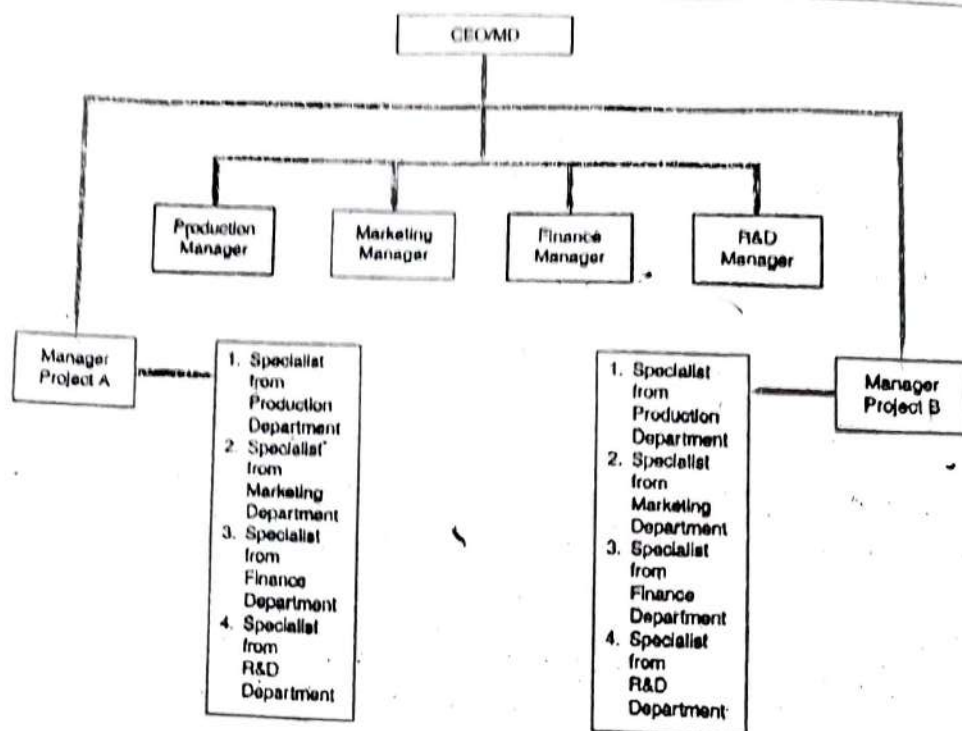


Figure 13.5 : Project Organisation

8. Project team is abandoned on the completion of the project. Its members move on to a new project or sent back to their home department.

Advantages/Merits : Project organisation structure has the following advantages :

1. **Proper attention** can be paid to each project.
2. Projects can be **timely** accomplished.
3. Project can be completed within the **projected cost**.
4. It is a **flexible structure**. It is created when a new project is taken up and abandoned with the completion of the project.
5. It permits maximum use of **specialists services**.
6. It allows to maintain **unity of command and unity of direction**.
7. The conflict between line and staff specialists is **minimal**.

BOX 13.2 : KEY TERMS AND CONCEPTS

- A **line and staff organisation** is one that has line managers with direct, vertical relationships between different levels in the organisation in addition to this the specialists responsible for advising and assisting the line managers.
- **Functional organisation structure** is one in which line authority is channelised through the staff specialists. In such organisation structure, line authority runs through many functional experts who have authority to issue orders in their respective areas of specialisation.
- **Project organisation** is a temporary structure designed to accomplish a specific task or project with the help of specialists drawn from different functional departments within the organisation.

Disadvantages/Demerits : Following are some of the drawbacks or disadvantages of project organisation :

1. It suffers from **uncertainty**. It is so because a project manager has to deal with the functional experts drawn from different departments. Such experts usually differ in their approach and interest.

2. It is very difficult for a project manager to **coordinate** the activities of different experts. It is mainly due to the lack of clearly defined authority and responsibility, clear communication patterns and performance standards.

3. **Decision-making becomes difficult** because of different viewpoints of and pressures from the specialists.

4. Specialists may face the problem of **insecurity**. They fear that completion of the project may result in loss of the job.

5. There is always a **danger of conflict** among specialists on account of difference in opinion.

6. There is always a danger of **over-specialisation**.

7. Project manager usually have **limited line authority**. He, therefore, faces problems in accomplishing the project.

Suitability : This form of organisation structure is suitable for medium and large scale projects which are required to be completed within the specified time and cost framework. It is also suitable for projects involving complex, technical or interrelated activities. Aerospace, engineering construction, building construction, irrigation system etc. are the specific projects for which such structure can be effectively used. This structure is **most suitable in the following cases :**

1. When the work or project is definite in terms of goals.
2. When target date for the completion of work is fixed.
3. When the work is unique and unfamiliar to existing organisation.
4. When work activities are interdependent.
5. When specialised skills are necessary for accomplishment of the work.
6. When possible gain or loss from the work can be measured.
7. When the work is of a temporary nature.

V. Matrix or Grid Organisation :

Matrix or grid organisation is a hybrid organisation structure. It combines **project structure with the functional structure**. In other words, in matrix organisation, project structure is super-imposed on a functional organisation. This graphically creates a grid or matrix. [See Figure 13.6]

A matrix organisation is a permanent organisation structure designed to accomplish specific project (or to achieve specific result) by using teams of specialists drawn from different functional departments within the organisation.

In matrix organisation, there are functional managers and project managers. **Functional managers are in-charge of specialised resources such as production,**

quality control, inventories, marketing and finance. Project managers are in-charge of one or more projects. They are authorised to prepare project strategies and call on the various functional managers for the necessary resources.

In a matrix organisation, the team members are accountable to both the project manager and head of the functional department to which they are permanently assigned. Project manager exercises the project authority. This authority may either be in the nature of line authority or staff authority depending on the authority delegated to him by the top management.

Generally, in a matrix organisation, project manager is responsible for coordination of activities and resources related to the project. To accomplish this, he is delegated full authority over all physical and monetary resources to be used in the project. Project manager is also responsible for planning the project and scheduling the work. He measures performance to ensure that project's cost, quality and time objectives are met. The functional department heads delegate duties, decide how the work is to be done, and determine where it will be done. Functional managers also supervise performance of the project jobs. Thus, personnel engaged in one project have two bosses : one, the project manager and second, the concerned functional manager.

Characteristics : Basic characteristics of matrix organisation are as follows :

1. It is a **combination of two organisations** i.e. project organisation, and (b) functional organisation.

2. It is a **permanent organisation** structure in the enterprise.
3. In this organisation, **project manager is the in-charge** of the project.
4. Project manager **accomplishes the project with the help of specialists** drawn from different functional departments within the organisation.
5. Functional manager is **in-charge of specialists** and specialised resources.

6. **Functional manager determines** (a) who will perform the specific tasks, (b) how the tasks will be accomplished, and (c) where the tasks will be performed.

7. Functional manager also **supervises the performance** of tasks.
8. Project manager is responsible for **coordination** of activities and resources related to the project.

9. Project manager is also **responsible for planning and scheduling** the project work.

10. Project manager ensures that project's **cost, quality and time objectives are being met.**

Advantages/Merits : Matrix organisation has gained popularity because of the following advantages :

1. It permits **effective use of resources.** It is so because individual specialists and physical resources can be shared across the project.

2. In matrix organisation, attention and resources are focused on each project. Hence, it ensures better **planning and controlling.**

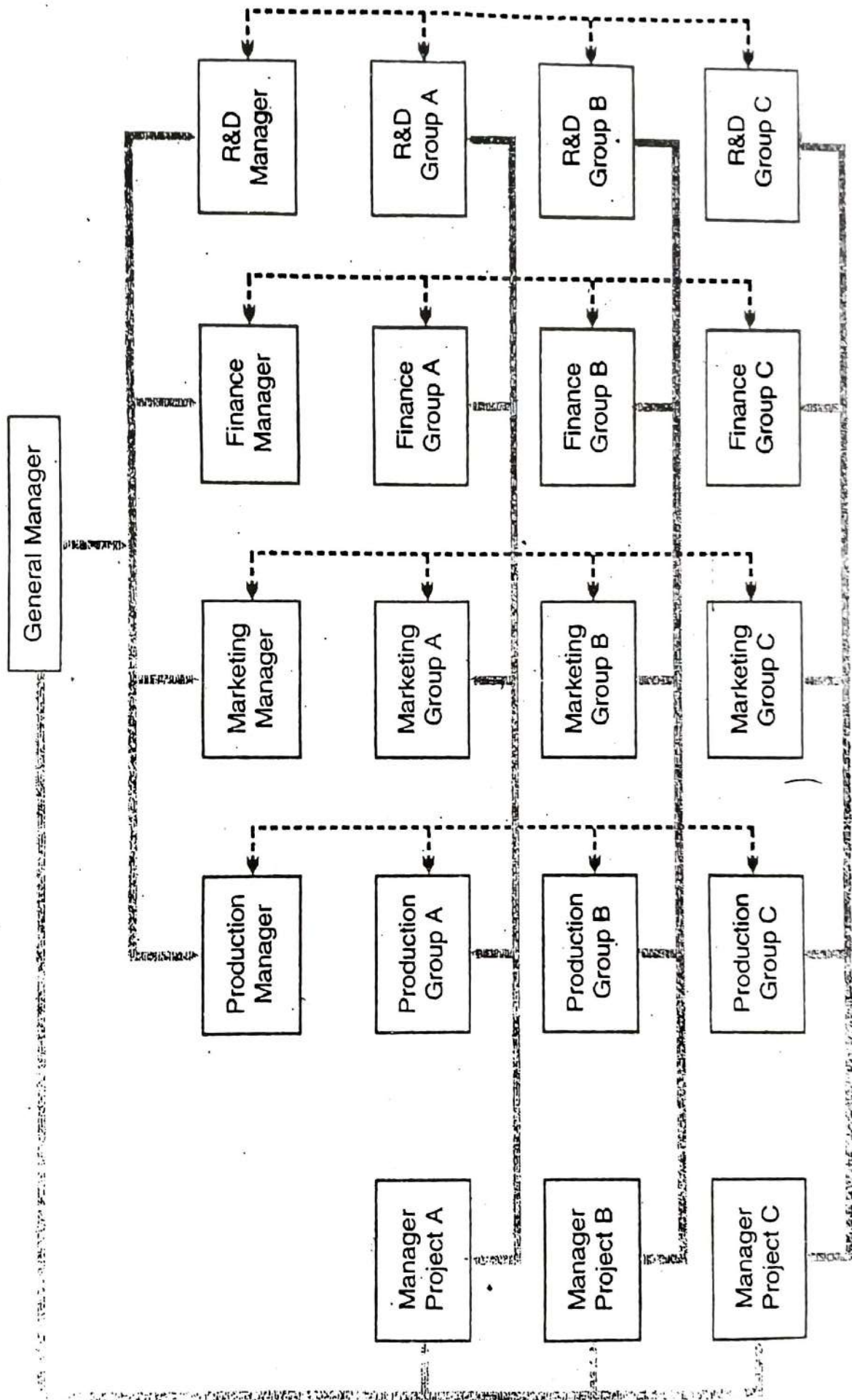


Figure 13.6 : Matrix Organisation

3. It is **flexible**. It allows better and quick response to the changes that are constantly taking place in the organisational environment.

4. It encourages **improved communication and interaction** among project unit and functional heads and members. This leads to **better coordination**.

5. It helps in making **quick and sound decisions** because of effective flow of communication among the project manager and functional managers.

6. It provides **motivation** to the project personnel as they can focus their attention and energy directly on the project.

7. It helps in meeting the project's cost, quality and time objectives.

8. In matrix organisation, mostly the decisions are taken at lower levels. Thus, it allows top management to **devote more time on long-range corporate planning**.

Disadvantages/Demerits : Matrix organisation is subject to the following limitations :

1. It **violates the principle of unity of command** as the project staff receives orders from the project manager as well as from the functional bosses.

2. There is **possibility of power struggle** between the project manager and the functional managers because boundaries of authority and responsibility overlap.

3. **Conflict between** project manager and functional managers may arise because they share the scarce resources across the projects.

4. **Decisions are usually delayed** as decisions are made after proper consultation and participation of all concerned.

5. There is also possibility of **problem of coordination** as there arises informal relations along with the formal relations in the organisation.

6. In matrix organisation, personnel are drawn from different functional departments and the project manager does not have line authority over them. This situation may give rise to **lack of commitment** among the personnel towards the project objectives.

7. It is very difficult to **fix responsibility and performance** of individual employees.

8. Adoption of matrix organisation structure is a **time consuming and challenging process**. It involves the change of relations and status of employees. Employees may, therefore, **resist change**.

Suitability : Despite these limitations, the matrix organisation provides an opportunity for effective accomplishment of complex projects within the specified time and cost. It is suitable particularly for aerospace, construction, industrial plant, advertising, hospital, college projects within the specified time and cost framework.

CENTRALISATION OF AUTHORITY

Centralisation of authority refers to the situation in which the authority to make decisions is retained by the top management.

According to **Allen**, "Centralisation is the systematic and consistent reservation of authority at central point in an organisation."

According to **Weihrich** and **Koontz**, "Centralisation (as an aspect of management) is the tendency to restrict delegation of decision-making. A high degree of authority is held at or near the top by managers in the organisational hierarchy."

In the words of **Henry Fayol**, "Everything which goes to reduce the role of a subordinate is centralisation."

In the words of **Mondy et al**, "Centralisation is the degree to which authority is retained by higher-level managers within an organisation rather than being delegated."

Thus, **Centralisation refers to the extent to which authority to make decisions is retained by the top managers in the organisation. It is a situation which goes to decrease the role of subordinates.**

Characteristics :

1. Centralisation is the extent to which authority retained by higher-level managers.
2. It reserves the right to make decisions in the hands of top managers.
3. In centralised organisations, the actions and operations are regulated by the top managers.
4. In such organisations, operating authority vests with the middle managers.
5. It reduces the role of subordinates.
6. Centralisation belongs to the natural order. It is always present to greater or lesser extent. In practice, no organisation is either purely centralised or purely decentralised.
7. It undertakes close supervision and control over every aspect of the organisational working.
8. Centralisation of management authority should be distinguished from centralisation of performance and departmental centralisation. Centralisation of performance means geographic concentration in which a

firm operates in a single location. **Departmental centralisation** refers to concentration of specialised activities, generally in one department. [Wehrich and Koontz].

Advantages of Centralisation :

Advantages of centralisation of authority are briefly discussed as follows :

1. Uniformity of decisions and actions : Centralisation permits uniformity in decisions and actions because all decisions are taken at one point.

2. Uniformity in organisational working : Centralisation facilitates uniformity in organisational working. It is so because (i) all policies, procedures, rules are framed at one point and (ii) all decisions and actions originate from one point.

3. Personal leadership : Centralisation facilitates personal leadership. This, in turn facilitates quick decisions and actions which are essential for the success of every organisation.

4. Facilitates integration and coordination : In a centralised organisation (i) lines of authority are clear, and (ii) policies, decisions and directions are uniform. There is little chance of confusion among organisation members. Such situations facilitate integration and coordination of activities in the organisation.

5. Effective leadership : Centralisation tends to make top managers more powerful and strong. Such powerful managers can provide effective leadership to the organisation in a dynamic and complex business environment.

6. Reduced mistakes by subordinates : Subordinates tend to make less mistakes because all the important decisions and actions are taken by top managers.

7. Expert services : Centralised organisations can easily and economically avail expert services of the specialised personnel.

8. Closer control of operations : Centralised organisation facilitate close control of operations performed by the lower level subordinates.

9. Increased efficiency/economy : Centralisation of authority helps to avoid overlapping and duplication of activities and efforts. Top managers can utilise the resources in a most efficient way. They can hire managers with simple skills at lower levels, at lower rates of remuneration. All this leads to considerable efficiency and economy in the operation of the enterprise.

10. Facilitates crisis/emergency management : Quick decisions, actions and the mobilisation of resources are the prerequisite for handling crisis and emergency situations effectively. Centralisation facilitates all these things. This, in turn, facilitates crisis and emergency management in an effective way.

Disadvantages of Centralisation :

Following disadvantages are associated with centralisation of authority :

1. Increased burden on top managers : Centralisation of authority means all decisions and actions by top managers. This increases burden of top managers.

2. Delay in decisions and actions : Centralisation may cause delay in decisions and actions.

3. Weak organisation structure : Centralisation of authority may weaken the organisation structure because of disparities in distribution of authority.

4. Abuse of power : It has been rightly said that '**power corrupts simply and absolute power corrupts absolutely.**' Centralisation of authority may lead to abuse of power and corrupt the managers enjoying absolute power.

5. Bureaucratic and autocratic organisation : Over centralisation of authority fosters bureaucratic and autocratic atmosphere in the organisation. It tends to discourage initiative, enthusiasm and dynamism among the organisation members.

6. Weak communication system : In a centralised organisation, system of communication tends to be weak. Free flow of communication among organisation members is generally absent. Top managers usually remain ignorant of the views, and problems of the organisation members.

7. Frustration in subordinates : Centralisation may cause frustration in subordinates. It is because of the fact that they are unable to use their discretion but are forced to operate in accordance with the decisions of top managers.

8. Hampers growth : Centralisation may hamper organisational growth and development. It hampers growth of middle and lower level managers. Moreover, top managers remain ignorant of real opportunities for growth.

In view of these facts, absolute centralisation should be avoided.

DECENTRALISATION

Decentralisation is the opposite of centralisation. It refers to a situation in which authority to make decisions is assigned at the point where operations take place.

According to **McFarland**, "Decentralisation is the degree to which an organisation places authority and responsibility for decisions as far down in the organisation as efficient management permits."

✓ According to **Henri Fayol**, "Everything that goes to increase the importance of the subordinate's role is decentralisation."

✓ In the words of **Allen**, "Decentralisation implies consistent and systematic effort to delegate to the lowest levels of all authority except that which can only be exercised at central points."

In the words of **Gray and Smeltzer**, "Decentralisation refers to the extent to which managerial authority is delegated or pushed downward in an organisation."

Thus, **decentralisation of authority refers to the extent to which decision-making authority is widely dispersed within the organisation.** In a decentralised organisation, top management retains authority to make certain important decisions such as setting overall objectives, strategic

planning, policy formulation etc. and delegates the authority to make operating decisions at the points as near as possible where actions take place.

Characteristics :

1. Decentralisation authority refers to the extent to which dispersal of decision-making authority within an organisation is made.
2. In decentralisation, authority to make operating and routine decisions is delegated at the points where operations or actions take place.
3. In a decentralised organisation, decision-making power relating to functional areas are delegated to middle and lower-level managers whereas top managers retain authority to make decisions relating to setting corporate objectives, formulating policies etc.
4. In a decentralised organisation, managers at middle and lower levels have discretion in specific operational areas.
5. Decentralisation is more than mere delegation of authority. Delegation of authority means assigning authority from one person to another. On the other hand, decentralisation means dispersal of authority throughout the organisation. Under decentralisation, top managers exercise minimum control whereas under delegation control remains with top managers.
6. Decentralisation of authority differs from decentralisation or dispersal of physical facilities. Decentralisation of physical facilities means dispersal of geographical location of factories or offices. On the other hand, decentralisation of authority means dispersal of decision-making authority within the organisation.
7. It is impossible to achieve absolute decentralisation of authority.

Distinction between Delegation and Decentralisation :

1. **Nature** : Delegation is a process of assigning authority from a superior to his subordinates. On the other hand, decentralisation is an organisational process by which dispersal of authority takes place throughout the organisation.
2. **Process and the end-result** : Delegation is a process of devolution of authority whereas decentralisation is the end-result of the "process of delegation".
3. **Control** : In delegation, immediate superior has control over the subordinates whereas in decentralisation, top managers have overall control and operating control vests with the subordinates..
4. **Choice** : Delegation is a must for management and key to organisation. Without delegation managers cannot get the things done effectively. On the other hand, decentralisation is optional. Top managers may or may not decentralise their authority.

5. **Use of authority by superior** : In the case of delegation of authority, both the superior and the subordinate can exercise the same authority. But in the case of decentralisation, superior cannot exercise the decentralised authority.

6. Responsibility : In the case of delegation, the superior continues to be responsible for the decisions and actions of his subordinates. But in the case of decentralisation, subordinates become liable for their decisions and actions to the top managers.

7. Dependence : Delegation is not dependent on decentralisation. It can take place even without decentralisation. But decentralisation cannot take place without delegation.

8. Degree of autonomy : In delegation, degree of autonomy to subordinates is regulated by the superior. But in the case of decentralisation, the organisational departments are granted a semi-autonomous status.

9. Technique and philosophy : Delegation is regarded as a technique whereas decentralisation is considered to be a philosophy of management and organisation.

10. Scope : Delegation is simply the process of assigning authority to subordinates in order to get things done through them. On the other hand, decentralisation is more than assigning authority to subordinates. It is both dispersal and concentration of authority within the organisation.

11. Relationship : Delegation establishes superior and subordinate relationship. On the other hand, decentralisation establishes relationships between organisational departments or levels.

12. Life span : Delegation is a task specific and ceases as soon as the task is over. Thus, it has a shorter life span. Decentralisation is an ongoing process in the organisation.

Advantages of Decentralisation :

The main advantages of decentralisation of authority are as follows :

1. Reduces burden of top managers : Decentralisation of authority reduces the workload of top managers as they are free from the routine operational decision-making work. They can devote their time on more important work of strategic planning, policy formulation and so on.

2. Quick decisions : It facilitates quick decisions as the decisions can be made on the spot without consulting higher level managers.

3. Better decisions : Decisions are likely to be better because they are made by the persons closest to situation. Moreover, decisions are likely to be adapted to local conditions.

4. Better communication : Decentralisation improves organisation's communication system. It is due to the fewer levels of authority and lesser distance between the points of information generation and the points of action.

5. Training and development : It facilitates training and development of managers at middle and lower levels in the organisation. It is because managers at these levels are allowed to make decisions and take actions independently. In this process they develop many skills and talent.

6. Democratic atmosphere : Decentralisation promotes democratic atmosphere in the organisation because of dispersal of authority throughout the organisation.

7. Improves motivation and morale : Decentralisation enables subordinates to exercise their own judgement and initiative which promote job satisfaction. This ultimately improves motivation and morale of subordinates.

8. Effective supervision and control : The greater the degree of decentralisation, the more effective is the supervision and control. Under decentralisation, lower level managers have full authority as regards operation of activities. They can change work assignment or production schedules, or can recommend promotion of the subordinates and can take disciplinary action wherever necessary. It facilitates effective supervision. Control can also be made effective by evaluating the performance of each unit in the light of predetermined standards.

9. Provides flexibility : Decentralisation provides flexibility to meet changing needs at local levels.

10. Survival and growth of organisation : Decentralisation contributes to survival and growth of organisation. It is so because it creates multiple managerial centres to cope with diverse and unique situations of the organisational environment.

Disadvantages of Decentralisation :

Following are some of the disadvantages associated with decentralisation of authority :

1. Loss of control : Decentralisation creates semi-autonomous departments in the organisation. In such an organisation structure, there is a damage that top management may lose its control over the functioning of different departments.

2. Difficulty in coordination : Decentralisation may create problems in bringing coordination among the different departments of the organisation.

3. Lack of uniformity : Uniformity of decisions and actions may be lacking in decentralised organisation. It is because of lack of uniform policies and procedures of different departments.

4. High Cost : Decentralisation of authority is likely to increase cost of administration and operation. It is mostly due to the duplication of activities, highly paid middle and lower level managers etc.

5. External limitations : Sometimes, decentralisation may not be advantageous for external limitations. Growing competition, increasing complexities and uncertainties, rising cost of materials and services and so on are some of the external limitations that hampers the tendency of decentralisation.

6. Imbalance : It is very difficult to strike a balance between the degrees of centralisation and decentralisation. Operating functional departments demands more autonomy whereas top managers want to retain control more and more. This situation may lead conflicts between the two levels of managers.

7. Competition among departments : Decentralisation may lead to unnecessary unfair competition among the decentralised departments. They may compete with each other in the market. They may even compete for a higher share of resources and facilities in the organisation.

Classical Approach

Classical organization theory evolved during the first half of this century. It represents the merger of scientific management, bureaucratic theory, and administrative theory.

Classical organization theories (Taylor, 1947; Weber, 1947; Fayol, 1949) deal with the formal organization and concepts to increase management efficiency. Taylor presented scientific management concepts, Weber gave the bureaucratic approach, and Fayol developed the administrative theory of the organization. They all contributed significantly to the development of classical organization theory.

- Scientific approach
- Bureaucratic approach
- Administrative approach

Scientific Approach

The scientific management approach developed by Taylor is based on the concept of planning of work to achieve efficiency, standardization, specialization and simplification. Acknowledging that the approach to increased productivity was through mutual trust between management and workers, Taylor suggested that, to increase this level of trust,

- 1 the advantages of productivity improvement should go to workers.
- 2 physical stress and anxiety should be eliminated as much as possible,
- 3 capabilities of workers should be developed through training, and
- 4 the traditional 'boss' concept should be eliminated.

Taylor developed the following four principles of scientific management for improving productivity:

- 1 Science, not rule-of-thumb Old rules-of-thumb should be supplanted by a scientific approach to each element of a person's work.
- 2 Scientific selection of the worker Organizational members should be selected based on some analysis, and then trained, taught and developed.
- 3 Management and labour cooperation rather than conflict Management should collaborate with all organizational members so that all work can be done in conformity with the scientific principles developed.
- 4 Scientific training of the worker Workers should be trained by experts, using scientific methods.

Bureaucratic Theory

(2)

Max Weber and Henri Fayol were also two theorists known for their work in the classical perspectives to organizational communication. These two theories focus on the structure of the organization rather than the organizational activities. Many of their ideas are around today.

Max Weber

Max Weber termed bureaucracy as the ideals in which organizations should aim for and aspire. Weber was influenced by socialist philosophy. He developed the idea of bureaucracy when he noticed several corrupt and unethical behaviors of leaders. He felt that organizational leaderships should center on task proficiency and impersonal relationships. Even though many people associate bureaucracy with red tape and ineffective organizations, this is not the outcome of bureaucracy. According to Weber, bureaucracy should be synonymous with order, consistency, reason, and reliability. In order to aspire to these traits, organizations need to have specific rules and emphasize impersonality. He noted that bureaucratic organization must have the following characteristics:

1. Administrative Class:

Bureaucratic organisations generally have administrative class responsible for maintaining coordinative activities of the members.

Main features of this class are as follows:

- (i) People are paid and are whole time employees,
- (ii) They receive salary and other perquisites normally based on their positions,
- (iii) Their tenure in the organisation is determined by the rules and regulations of the organisation,
- (iv) They do not have any proprietary interest in the organisation,
- (v) They are selected for the purpose of employment based on their competence.



2. Hierarchy of Authority

The basic feature of bureaucratic organisation is that there is hierarchy of positions in the organisation. Hierarchy is a system of ranking various positions in descending scale from top to bottom of the organisation. In bureaucratic organisation, offices also follow the principle of hierarchy that is each lower office is subject to control and supervision by higher office.

Thus, no office is left uncontrolled in the organisation. This is the fundamental concept of hierarchy in bureaucratic organisation. The hierarchy serves as lines of communication and delegation of authority. It implies that communication coming down or going up must pass through each position.

Similarly, a subordinate will get authority from his immediate superior. However, this hierarchy is not unitary but sub-pyramids of offices within the large organisation corresponding etc. functional divisions exist.

Thus, there are offices with the same amount of authority but with different kinds of functions operating in different areas of competence. For example, the Government organisations, we can observe separate offices looking after particular functions. This happens in business organisations too.

3. Division of Work:

Work of the organisation is divided on the basis of specialisation to take the advantages of division of labour. Each office in the bureaucratic organisation has specific sphere of competence.

This involves:

- (i) a sphere of obligations to perform functions which has been marked off as part of a systematic division of labour;
- (ii) the provision of the incumbent with necessary authority to carry out these functions; and
- (iii) the necessary means of compulsion are clearly defined and their use is subject to definite conditions.

Thus, division of labour tries to ensure that each office has a clearly-defined area of competence within the organisation and each office knows the areas in which he operates and the areas in which he must abstain from action so that he does not overstep the boundaries between his role and those of others. Further, division of labour also tries to ensure that no work is left uncovered.

4. Official Rules:

A basic and most emphasised feature of bureaucratic organisation is that administrative process is continuous and governed by official rules. Bureaucratic organisation is the antithesis of ad hoc, temporary, and temporary and unstable relations. A rational approach to

organisation calls for a system of maintaining rules to ensure twin requirements of uniformity and coordination of efforts by individual members in the organisation.

These rules are more or less stable and more or less exhaustive. When there is no rule on any aspect of organisational operation, the matter is referred upward for decision which subsequently becomes precedent for future decision on the similar matter. Rules provide the benefits of stability, continuity, and predictability and each official knows precisely the outcome of his behaviour in a particular matter.

5. Impersonal Relationships:

A notable feature of bureaucracy is that relationships among individuals are governed through the system of official authority and rules. Official positions are free from personal involvement, emotions and sentiments. Thus, decisions are governed by rational factors rather than personal factors. This impersonality concept is used in dealing with organisational relations as well as relations between the organisation and outsiders.

6. Official Record:

Bureaucratic organisation is characterised by maintenance of proper official records. The decisions and activities of the organisation are formally recorded and preserved for future reference. This is made possible by extensive use of filing system in the organisation. An official record is almost regarded as encyclopedia of various activities performed by the people in the organisation.⁷

7. Formal Communication

All decisions, rules, regulations, and behaviors are recorded. This information and communication will be shared in terms of the chain of command. Hence, everything is documented and accounted. There is no question in what needs to be done, because it is written down.

8. Detailed Job Descriptions

The organization has clear and concise definitions, directions, and responsibilities of each position. Each worker is aware of their task and how to employ.

9. Employment Based on Expertise

The organization will assign workers in positions that would fit their competencies. Hence, workers will be placed in the organization where they can maximize production.

Benefits of Bureaucracy:

The following are the advantages of Bureaucracy:

1. The rules and procedures are decided for every work it leads to, consistency in employee behaviour. Since employees are bound to follow the rules etc., the management process becomes easy.
2. The duties and responsibilities of each job are clearly defined there is no question of overlapping or conflicting job duties.
3. The selection process and promotion procedures are based on merit and expertise. It assists in putting right persons on right jobs. There is optimum utilisation of human resources.
4. The division of labour assists workers in becoming experts in their jobs. The performance of employees improves considerably.
5. The enterprise does not suffer when some persons leave it. If one person leaves then some other occupies that place and the work does not suffer.

Disadvantages of Bureaucracy:

The following are the disadvantages of Bureaucracy:

1. This system suffers from too much of red tape and paper work.
2. The employees do not develop belongingness to the organisation.
3. The excessive reliance on rules and regulations and adherence to these policies inhibit initiative and growth of the employees. They are treated like machines and not like individuals. There is neglect of human factor.
4. The employees become so used to the system, they resist to any change and introduction of new techniques of operations.

Evaluation:

Weber's model will be performed in those enterprises where change is not anticipated. Big business houses and government departments use this type of organisation. Weber is credited for attempting to develop Bureaucratic model for the first time.

Weber's model has some drawbacks. It has rigidity, impersonality, excessive cost of control, excessive dependence on superiors, tendency to ignore organisational goals. In spite of these limitations this model is very useful in large enterprises.

Problems in Bureaucracy:

Bureaucracy organisation has been considered once superior than ad hoc or temporary structure. It has been termed as rational and ideal leading to efficiency. The efficiency in bureaucratic organisation comes through rationality and predictability of behaviour because everyone knows the consequence of his action become actually the action is undertaken.

However, bureaucracy has been criticised because of its inefficiency and has been termed as a symbol of inefficiency. There are many dysfunctional aspects of bureaucracy which is referred to as bureau pathology.

Looking into the needs of modern organisations, bureaucracy has many shortcomings and is, therefore, not suitable. The major problems of bureaucracy are because of the following factors: invalidity of bureaucracy assumptions, goal displacement, unintended consequences, inhuman and closed-system perspective.

Invalidity of Bureaucratic Assumptions:

In fact, the source of bureau pathology lies in the invalidity of various assumptions of ideal bureaucracy. Many authors have questioned the validity of bureaucracy. In most of these cases, either the conditions are not found in practice, or even if found, may not result in efficiency.

Specially the following aspects of bureaucracy work against efficiency of the organisation, though they are supposed to contribute to efficiency:

1. Rules are normally provided for guidelines but often they become source of inefficiency because of too much emphasis on rules, their misuse, and people's apathy from rules.
2. Rigid organisational hierarchy works against efficiency. It overemphasizes superior-subordinate relationships unnecessarily which is detrimental to congenial organisational climate.
3. In dealing with people, total impersonal approach cannot be adopted because people have feelings, emotions and sentiments which affect decision. Thus, people cannot work totally according to rules and prescriptions.

Administrative Theory

Fayol's 14 Principles 1949

1. Division of Work — improves efficiency through a reduction of waste, increased output, and simplification of job training

2. Authority and Responsibility—authority: the right to give orders and the power to extract obedience – responsibility: the obligation to carry out assigned duties
3. Discipline—respect for the rules that govern the organization
4. Unity of Command—an employee should receive orders from one superior only
5. Unity of Direction—grouping of similar activities that are directed to a single goal under one manager
6. Subordination of Individual Interests to the General Interest—interests of individuals and groups should not take precedence over the interests of the organization as a whole.
7. Remuneration of Personnel—payment should be fair and satisfactory for employees and the organization
8. Centralization—managers retain final responsibility – subordinates maintain enough responsibility to accomplish their tasks
9. Scalar Chain (Line of Authority)—the chain of command from the ultimate authority to the lowest
10. Order—people and supplies should be in the right place at the right time
11. Equity—managers should treat employees fairly and equally
12. Stability of Tenure of Personnel—managerial practices that encourage long-term commitment from employees create a stable workforce and therefore a successful organization
13. Initiative—employees should be encouraged to develop and carry out improvement plans
14. Esprit de Corps—managers should foster and maintain teamwork, team spirit, and a sense of unity among employees

Fayol's Five Elements of Management

Fayol is also famous for his five elements of management, which outline the key responsibilities of good managers:

1. Planning: Managers should draft strategies and objectives to determine the stages of the plan and the technology necessary to implement it.
2. Organizing: Managers must organize and provide the resources necessary to execute said plan, including raw materials, tools, capital, and human resources.
3. Command (delegation): Managers must utilize authority and a thorough understanding of long-term goals to delegate tasks and make decisions for the betterment of the organization.
4. Coordination: High-level managers must work to integrate all activities to facilitate organizational success. Communication is key to success in this component.
5. Monitoring: Managers must compare the activities of the personnel to the plan of action; this is the evaluation component of management.

Neo-classical theory

Neo-classical theory deals with the human factor. Neoclassical theorists recognized the importance of individual or group behaviour and emphasized human relations. Elton Mayo pioneered the human relations to improve levels of productivity and satisfaction. This approach was first highlighted by the improvements known as 'Hawthorne Experiments' conducted at Illinois plant of Western Electric Company between 1927 and 1932. Elton Mayo and Mary Parker Follett are the main contributors of human relations approach. Neo-classical approach also causes 'Behavioural Science Management' which is a further refinement of human relations approach. It was argued that these considerations were more consequential in determining productivity than mere changes in working conditions. Productivity increases were achieved as a result of high morale, which was influenced by the amount of individual, personal and intimate attention workers received.

Principles of the neoclassical approach

The classical approach stressed the formal organization. It was mechanistic and ignored major aspects of human nature. The neoclassical approach introduced an informal organization structure and emphasized the following principles:

- ❑ **The individual** An individual is not a mechanical tool but a distinct social being, with aspirations beyond mere fulfillment of economic and security works. Individuals differ from each other in pursuing these desires. Thus, an individual should be treated as interacting with social and economic factors.
- ❑ **The work group** The neoclassical approach highlighted the social facets of work groups or informal organizations that exist within a formal organization. The concept of 'group' and its synergistic benefits were considered important.
- ❑ **Participative management** Participative management or decision making permits workers to participate in the decision making process. This was a new form of management to ensure increases in productivity.

Neo-Classical Theory: Human Relations and Behavioural Sciences Movement

Neo-classical theory deals with the human factor. Elton Mayo pioneered the human relations to improve levels of productivity and satisfaction. This approach was first highlighted by the improvements known as 'Hawthorne Experiments' conducted at Illinois plant of Western Electric Company between 1927 and 1932. Elton Mayo and Mary Parker Follett are the main contributors of human relations approach. Neo-classical approach also causes 'Behavioural Science Management' which is a further refinement of human relations approach.

I. Human Relations Movement:

Human relations movement deals with the factors which encourage higher performance on the part of workers. The improvement of working conditions, lowering of hours of work, improvement of social relations of workers, besides monetary gains help in increasing productivity.

The contributions of some thinkers in this area are discussed here:

Elton Mayo (1880-1949):

Elton Mayo, an Australian by birth went to United States and joined the staff of Harvard University. He later on became Professor of Industrial Research at the Harvard Graduate School of Business Studies. His interest was primarily in people in organizations. His widely read books are: *The Human Problems of an Industrial Civilization* and *The Social Problems of an Industrial Civilization*. Elton Mayo and his associates greatly contributed to the human relations approach and Mayo is rightly called as father of Human Relations Movement.

Hawthorne Studies:

Mayo is known for his work on the project which is commonly referred to as the Hawthorne studies. An extensive investigation was started in 1927 at the Hawthorne plant, near Chicago, of the Western Electric Company. These studies were conducted to determine the effect of better physical facilities on workers' output. A number of experiments were conducted on the workers to find out the impact of different situations on their efficiency.

- (i) The first phase of these experiments involved five girls engaged in electrical assembly testing. These girls were separated from the rest and placed in a separate room known as Relay Assembly Test Room. A supervisor was attached to them to maintain a record of their performance and maintain a friendly atmosphere. This experiment continued for over 42 years and changes like; extended rest periods, reducing working week from 48 to 42 hours every change showed an improvement in performance.

(ii) All the improvements introduced earlier were systematically removed. Though the output fell a little but still it was more than it was before the experiments.

(iii) The improvements were reintroduced. The output soared and even working for 42 hours it was more than the previous records.

The researches were baffled and could not explain the reasons for such changes. It was later pointed out that morale of employees improved because of their recognition for experiments and hence their performance was better. The girls became a closely knit group and co-operated happily with researches. They were made to feel that they were governing their own fate. The attention they received from others, for being part of research, also acted as a motivating factor.

(iv) The last phase of these studies consisted of an investigation into the work practices on non-experimental group, consisting of fourteen men and four supervisors, working in the Bank Wiring Observation Room. It was noticed that there was a definite code of conduct operating among employees and they restricted their output between 'rate-busting' (producing too much) and chiseling (producing too little). It was clear that attachment to this 'informal' organization was stronger than both the individual's desire for greater earnings and the company's formal requirements.

Hawthorne studies revealed that an organization is not only a formal arrangement, of men and functions, but also a social system which can be operated successfully only with the application of the principles of psychology and other behaviour sciences.

Conclusions of Hawthorne Studies:

Hawthorne studies brought out the following observations:

1. Impact of Social Factors:

The impact of social factors was visible on the productivity of workers. The normally known 'monetary incentives' for increasing output were not visible. Elton Mayo described organization as a 'social system' and social norms at work play an important role in motivating people. It was the restructuring of social relationships that was the main cause of changes in productivity at Hawthorne studies. It was made clear that man was primarily motivated by his social needs i.e., a sense of security, recognition, morale and belongingness. The output increased in Relay Room due to the effectively functioning of social group with a warm relationship with its supervisors.

2. Importance of Informal Groups:

It was observed that in order to overcome the shortcomings of formal groups, workers create informal groups. Informal work groups have a great influence on productivity and attitudes of the workers towards work performance. Social pattern and pressure of group, rather than management demands, frequently had the strongest influence on how productive workers would be.

3. Leadership:

Leadership is required to direct group activities. A formal supervisor as appointed by the management may not be able to achieve the desired results. The 'informal leaders' acceptable to the informal groups have more influence on their behaviour patterns because they associate themselves with the groups. A supervisor formally appointed should associate himself with the social problems of the group for getting co-operation and better work from the workers.

4. Proper Communication:

Proper communication system is necessary for better understanding between management and workers. The experiments showed that if workers are explained the logic of taking various decisions and also their participation in decision making brought much better results. Management should understand the attitudes and viewpoints of workers and giving them due recognition will help in overcoming many difficulties.

5. Balanced Approach:

The experiments showed that a balanced approach should be taken to the whole situation. The problems of workers could not be explained by taking one factor or management could not achieve the results by emphasising one aspect. All the things should be

discussed and decision be taken for improving the whole situation. The results

Mayo's Contribution to Management Thought:

Mayo was the first person to advocate for the understanding of workers problems in the context of growth of science and technology. He wanted the management to understand the problems of workers and make efforts to redress them.

His main contributions are described as follows:

1. Human Relations Approach:

Mayo is rightly called the father of human relations movement. His ideas were a milestone and a turning point in human relations approach of the management. He recognized the importance of human factor in management. He said that human beings are complex and influential input into organizational performance. The social and psychological needs of human beings cannot be ignored.

2. Non Economic Awards:

The traditional assumption was that workers will work more if they are offered more monetary incentives. Taylor was the main proponent of this approach. Elton Mayo said that the techniques of economic incentives were not only inadequate but also unrealistic. He was able to show that humane and respectful treatment, sense of participation and belonging, recognition, morale, human pride and social interaction are sometimes more important than pure monetary rewards.

3. Social Man:

Mayo developed a concept of 'social man'. He said that man is basically motivated by social needs and obtains his sense of identity through relationships with others. He is more responsive to the social forces of the group rather than managerial incentives and controls. He also related productivity to a social phenomenon.

4. Organisation as a Social System:

Mayo was of the opinion that informal relationships in the organization are more effective than formal relationships. People form informal groups to give a vent to their feelings and seek guidance for action from such groups. In Mayo's words, "An organization is a social system, a system of cliques, grapevines, informal status systems, rituals and a mixture of logical, non-logical and illogical behaviour." He was of the view that managers should maintain an equilibrium between the "logic of efficiency" demanded by the formal organization. He thought that besides logic and facts people are also guided by sentiments and feelings.

Hawthorne's experiments were criticized for lack of scientific and vigorous research. The experiments were too narrow to warrant generalizations. Despite these observations Mayo's work was a turning point in the development of management thought.

Mary Parker Follett (1868-1933):

Another thinker associated with human relations movement is Follett. She studied political science and economics at Harvard and Cambridge. She was a social worker associated with educational, recreational and vocational guidance centres. She found that managers were also facing same problems as faced by public administrators.

Follett interpreted classical management principles in terms of human factor. She wrote several papers which were collected in 'Dynamic Administration' edited by Metcalf and Urwick. Follett favoured participation of the workers in the decision making process by establishing clear cut channels of communication. She argued that authority and order in an organisation should be de-personalised. Facts of a situation determine the basis of authority and responsibility. She favoured professionalization of management. Follett advocated that integration not domination should be followed for removing conflicts among parties.

Follett's main concern was the efficient use of people. She used the tool of psychology to answer various questions. Even though her approach was different than those of other thinkers on human relations but she has a reputation as a pioneer of human relations approach.

II. Behavioural Sciences Movement:

Behavioural science movement is regarded as a further refinement of human relations movement. It covered wider aspects in inter-personal roles and responsibilities. It laid emphasis on the application of the methods and findings of general and social psychology and sociology for understanding the organisational behaviour.

The important aspects of behavioural approach were:

- (i) Motivation of employees for improving productivity,
- (ii) Organisation as a social system,
- (iii) Leadership-study of managerial behaviour,
- (iv) Communication for better understanding in the organisation,
- (v) Employee development- upgrading of employee and managerial skills.

The contributors to this thinking of management included Abraham Maslow, Douglas McGregor, Rensis Likert, Chester Bernard.

Modern theories of organizational structure

D System approach

System Approach to Management In the 1960s, a new approach to management appeared which attempted to unify the earlier school of thoughts. This approach is commonly referred to as 'System Approach'. The system approach is based on the generalization that an organization is a system and its components are inter-related and inter-dependent. "A system is composed of related and dependent elements which, when in interactions, form a unitary whole. On other words, a system may be defined as an organized and purposeful entity of inter-related, inter-dependent and inter-acting elements. It is a goal oriented organism that is composed of parts interrelated in such a way that the total system is greater than the sum of its parts. The elements of each system may themselves be sub systems. These sub-systems are functionally related to each other and to the total system.

The basic postulates of the system approach are as follows:

- An organization is a system consisting of several subsystems. For example, in a business enterprise production, sales and other departments are the subsystems
- The position and function of each subsystem can be analyzed only in relation to other subsystem and to the organization as a whole rather than in isolation.
- An organization is a dynamic system because it is responsive or sensitive to its environment. It is vulnerable to changes in its environment.

Systems are of several types. A **static system**, e.g. a petrol engine operates repetitively completing the same cycle of functions without change or deviation. On the other hand, the **dynamic system**, undergoes change, it grows or decays. **Biological systems**, e.g. plants, animals and human being are dynamic. A closed system is self-dependent and does not have any interaction with the external environment. Physical and mechanical systems are closed systems. A closed system concentrates completely on internal relationships, i.e. interaction between sub-systems only. An open system approach recognizes the dynamic interaction of the system with its environment in Figure-2.8: The open system consisting of four basic elements • **Inputs**: These are ingredients required to initiate the transformation process. They include human, financial, material and information resources.

Figure-2.9 ELEMENTS OF OPEN SYSTEM

- **Transformation Process**: The inputs are put through a transformation process that applies technology, operating methodologies, administrative practices and control techniques in order to produce the output.
- **Outputs**: The output may be products and/or services, the sale of which creates profits or losses. This process also has by-product outputs such as worker behaviour, information, environmental pollution, community services and so on.
- **Feedback**: A feedback loop is used to return the resultant environmental feedback to the system as inputs. If the environment is satisfied with the output, business operations continue. If it is not, changes are initiated within the business systems so that requirements of the customers are fully met. This is how an open system responds to the forces of change in the environment.

Contingency or Situational Approach

Contingency or Situational Approach to Management Another important approach which has arisen because of the inadequacy of the Quantitative, Behavioural and System Approach to management is the Contingency Approach. Pigors and Myers propagated this approach in 1950. Other contributors include Joan Woodward, Tom Burns, G.W. Stalker, Paul Lawrence, Jay Lorsch and James Thompson. They analyzed the relationship between organization and environment. The contingency theories relate to how the organization structure adjusts to fit with both the internal environment such as work technology and the external environment such as given economic or political legal. Contingency means that one thing depends upon another thing or that one characteristic depends upon another characteristic. What works in one setting may not work in another

setting. There are no universal principles that apply to every organization. There is no one best way. Contingency theory means it depends. The most efficient organization structure varies may be contingent upon the size, technology, strategy and since organizations are open different systems, its environment.

They concluded that managers must keep the functioning of an organization in harmony with the needs of its members and the external forces. Management is situational and lies in identifying the important variables in a situation. The basic theme of contingency approach is that organizations have to cope with different situations in different ways. There cannot be particular management action which will be suitable for all situations. The management must keep the functioning of an organization in harmony with the needs of its members and the external forces.

According to Kast and Rosenzweig, "The contingency view seeks to understand the interrelationships within and among sub-system as well as between the organization and its environment and to define patterns of relationships or configurations of variables.

Contingency views are ultimately directed towards suggesting organizational designs and managerial actions most appropriate for specific situations".

The approach has been used in important sub systems of management like organization, design, leadership, behaviour change and operation. The main features of contingency approach are:

- Management is entirely situational. The application and effectiveness of any techniques is contingent on the situation.
- Management action is contingent on certain action outside the system or subsystem as the case may be.
- Management should, therefore, match or fit its approach to the requirements of the particular situation. To be effective management policies and practices must respond to environmental changes. 90
- Organizational action should be based on the behaviour of action outside the system so that organization should be integrated with the environment.
- Management should understand that there is no one hard way to manage. They must not consider management principles and techniques universal. A general framework for contingent management has been shown in the Figure-2.10. However, it is an abstract depiction of the contingency model. In order to operationalise the contingency approach, managers need to know the alternatives for different situations. It may be operationalized as a 'if then' approach to management.

The environment (If) is an independent variable where as management (when) is a dependent variable. In this model, a manager has to take four sequential steps:

- Analyze and understand the situation,
- Examine the applicability or validity of different principles and techniques to the situation at hand,
- Make the right choice by matching the techniques to the situations,
- Implement the choice.

FIGURE-2.10 A CONCEPTUAL MODEL OF CONTINGENCY APPROACH

Socio-technical approach

It is not just job enlargement and enrichment which is important, but also transforming technology into a meaningful tool in the hands of the users. The socio-technical systems approach is based on the premise that every organization consists of the people, the technical system and the environment (Pasmore, 1988). People (the social system) use tools, techniques and knowledge (the technical system) to produce goods or services valued by consumers or users (who are part of the organization's external environment). Therefore, an equilibrium among the social system, the technical system and the environment is necessary to make the organization more effective.