

PROFESSIONAL ETHICS IN BUSINESS

LECTURE TWO

ORGANISATION STRUCTURE

Types of structure

♣ The organisation structure, being abstract, is not visible in the same way as a biological or mechanical structure, though it can be inferred from the actual operations and behavior of the organisation.

♣ To put it in simple words Organizational structure refers to the levels of management and division of responsibilities within an organisation.

♣ In an organization of any size or complexity, employees' responsibilities typically are defined by what they do, who they report to, and for managers, who reports to them. Over time these definitions are assigned to positions in the organization rather than to specific individuals. The relationships among these positions are illustrated graphically in an organizational chart.

Factors in Designing Organisation Structure

A sound organisation requires sound organisation structure. This requires the identification and analysis of activities While designing a structure, the following points should be given adequate consideration.

1. Departmentation. Departmentation is the process of arranging work to form positions functions, and other organisational elements. There are several ways of departmentation. However, any base should provide (i) facility in co-ordination (ii) advantages of specialisation, (iii) minimum cost, (iv) emphasise on important activities, (v) consideration of internal and external factors, and external factors, and (vi) development of individuals. Departmentation is not a fixed pattern, it should be checked and analysed from time to time to make necessary adjustment according to changes in internal an external variables.

2. Balancing. Each function should be given its proper emphasis with respect to its basic purpose in the organisation. Each element of the organisation should be seen in the context of total structure because no decision can be taken on a particular element in isolation. Compromise in various elements gives a balanced and workable organisation structure.

3. Focusing of Operating Responsibility. The work assignment creates responsibility. Organisation structure should clearly define the responsibility of all the individuals so that they exactly know what is expected of them. Clearly defined responsibility helps in delegating appropriate authority to various level. Moreover, when responsibility is clearly defined, the

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persons can be trained accordingly to occupy the positions.

4. Establishing Span. Span of management, supervision, or control refers to the number of people one manager can supervise. There is a limit on this number; however, arbitrary designation of limits on number is misleading. In practice, the span may vary widely because a number of factors determine this. The span should be decided on the basis of its needs at various levels of organisation

5. Facilitating Units. Departmentation and responsibility centres provide as to who will perform the work. The persons heading the responsibility centres need the help of facilitating units which are created in the organisation. These units may be organised in the form of departments, sectors, or committees. In organising these units, factors like co-ordination of operating units, consistent action throughout the organisation, provision for adequate importance and control, and common use of specialised facilities should be considered.

6. Continuity. The structure is determined for future period also. As such, it should be designed in such a way that it helps in achieving the objectives of near future also. For this purpose, the structure should be kept flexible enough so that it can be adjusted to changing conditions.

Three-fold of organisation structure

The basic purpose of designing organisation structure is three-fold

1. All the necessary activities are performed and no unnecessary activity is performed.
2. There is no unnecessary duplication in performing necessary activities.
3. The various activities are performed in a synchronized or co-ordinated way.

Forms of Organisation Structure

Designing of the organisation structure is ordinarily considered to be a matter of choice among a large number of alternatives. There are three traditional forms: line, line and staff, and functional organisation, and two newer forms-committee and matrix organisations. In fact, no particular form is the best and, in practice, an admixture of all these or of some is found.

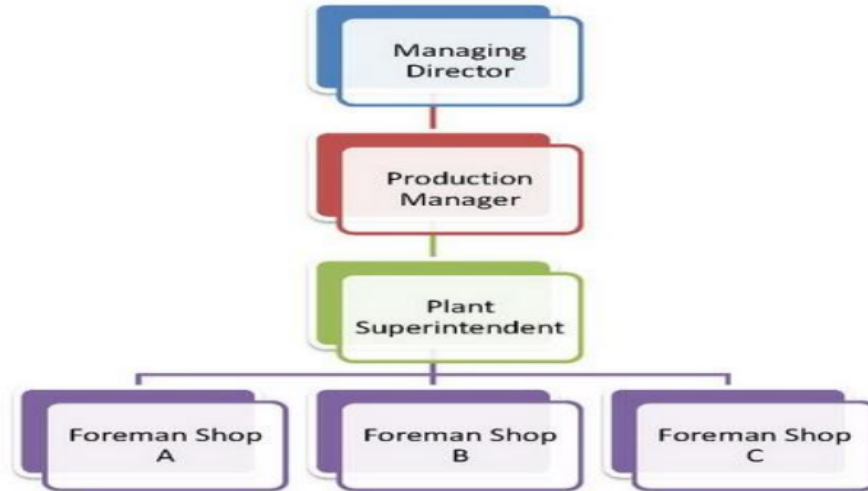
1) Line Organisation

This is also known as scalar, military, departmental, or vertical organisation and perhaps is the oldest form. This concept holds that in any organisation or hierarchy derived from a scalar process, there must be a single head who commands it.

It is perhaps the oldest and the simplest organisational structure. In this kind of structure every manager exercises a direct authority over his subordinate who in turn directly reports to their superiors.

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- There is a hierarchical arrangement of authority.
- Each department is self-contained and works independently of other departments.
- Lines of authority are vertical i.e. from top to bottom.
- There are no staff specialists.



Advantages

- Simple to establish and operate
- Promotes prompt decision making.
- Easy to control as the managers have direct control over their subordinates.
- Communication is fast and easy as there is only vertical flow of communication.

Disadvantages

- Lack of specialisation
- Managers might get overloaded with too many things to do.
- Failure of one manager to take proper decisions might affect the whole organisation.

However, line structures are suitable for small businesses where there are few subordinates organisations where there is largely of routine nature and methods of operations are simple.

Two ways of designing Line Organisation

Line organisation can be designed in two ways:

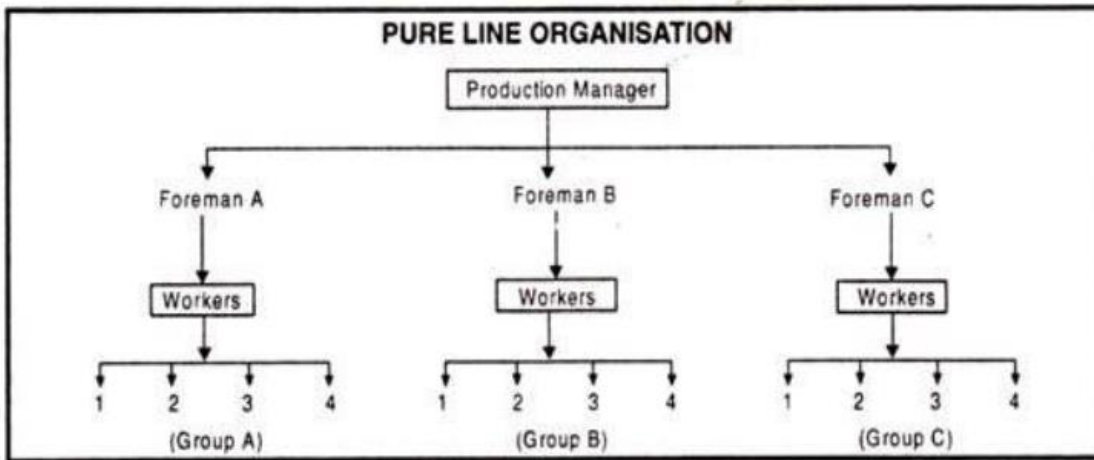
- **Pure Line Organisation**
- **Departmental Line Organisation**

1. Pure Line Organisation

Under this form, similar activities are performed at a particular level. Each group of activities is self-contained unit and is able to perform the assigned activities without the assistance of others.

Pure line organisation may be depicted as follows:

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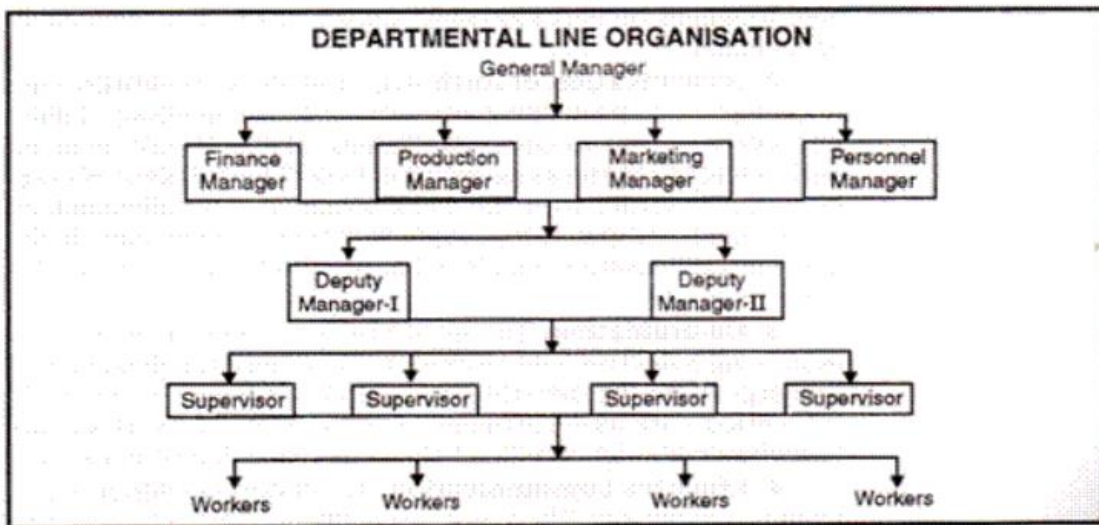


Though, this is simple in organizing but it almost non-existent in the modern world.

2. Departmental Line Organisation

Under this form, entire activities are divided into different departments on the basis of similarity of activities.

Each department is placed under one departmental superintendent. All persons in the department are subject to control by the departmental head. The basic objective of this form is to have uniform control, authority, and responsibility.



2) Line and Staff Organisation

It is a combination of line and functional structures. In this organisation a structure, the authority flows in a vertical line and get the help of staff specialist who are in advisory. When the line executives need advice, information about any specific area, these staff specialists are consulted.

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For example Chief accountant has command authority over accountants and clerks in the accounts departments but he has only advisory relationship with other departments like production or sales.

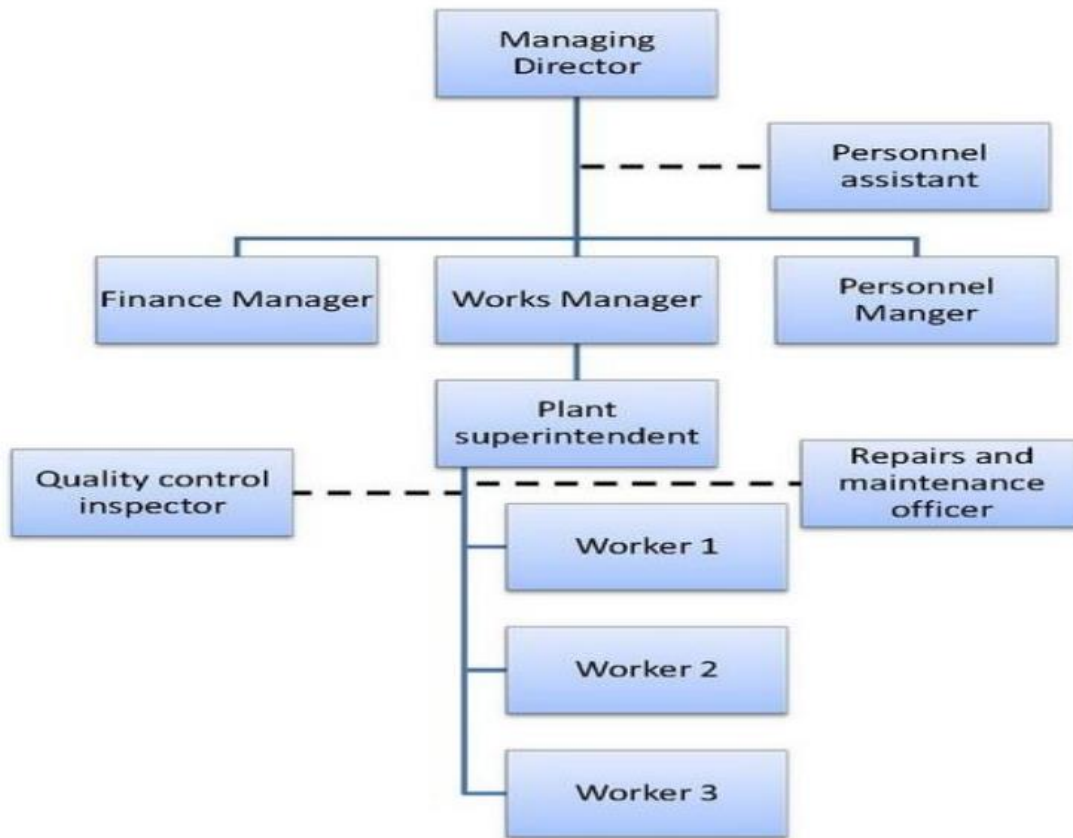


Fig.: Line and Staff Organisation

Advantages

Line managers are provided by expert advice by these specialists.

Staff managers provide specialist advice which can improve quality of decisions in various departments.

Disadvantages

Line managers and staff managers might have conflicts on particular issues.

Line and staff managers might not be clear as to what the actual area of operations is and what is expected of them. Co-ordination may be a problem.

Staff personnel are not accountable for the results and thus may not take tasks seriously.

However, Line and staff organisation is very suitable for large organisation.

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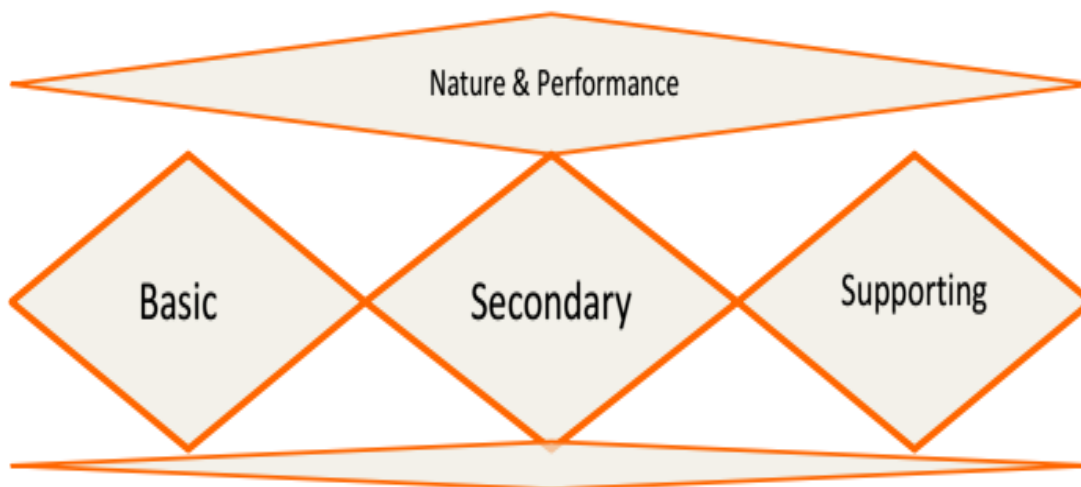
3) Functional Organisation Structure

Functional organisation structure is where “authority rests with the functional heads; the structure is sectioned by departmental groups.” The organisation is divided into a number of functional areas. This organisation has grouping of activities in accordance with the functions of an organisation such as production, marketing, finance, human resource and so on. The specialist in charge of a functional department has the authority over all other employees for his function.

It is a kind of Formal Organisation whose structure is based on organising resources to perform specialized tasks or activities in order to attain the goals of organisation.

This structure emerges from the idea that the organisation must perform certain functions in order to carry on its operations.

Functional structure is created by grouping the activities on the basis of functions required for the achievement of organisational objectives. For this purpose all the functions required are classified as shown below:-



Characteristics of Functional Organisation

1. Functional authority relationship
2. Limited span of management
3. Line and staff division
4. Organisation growth through emphasis on sub goals
5. Specialisation on functional areas

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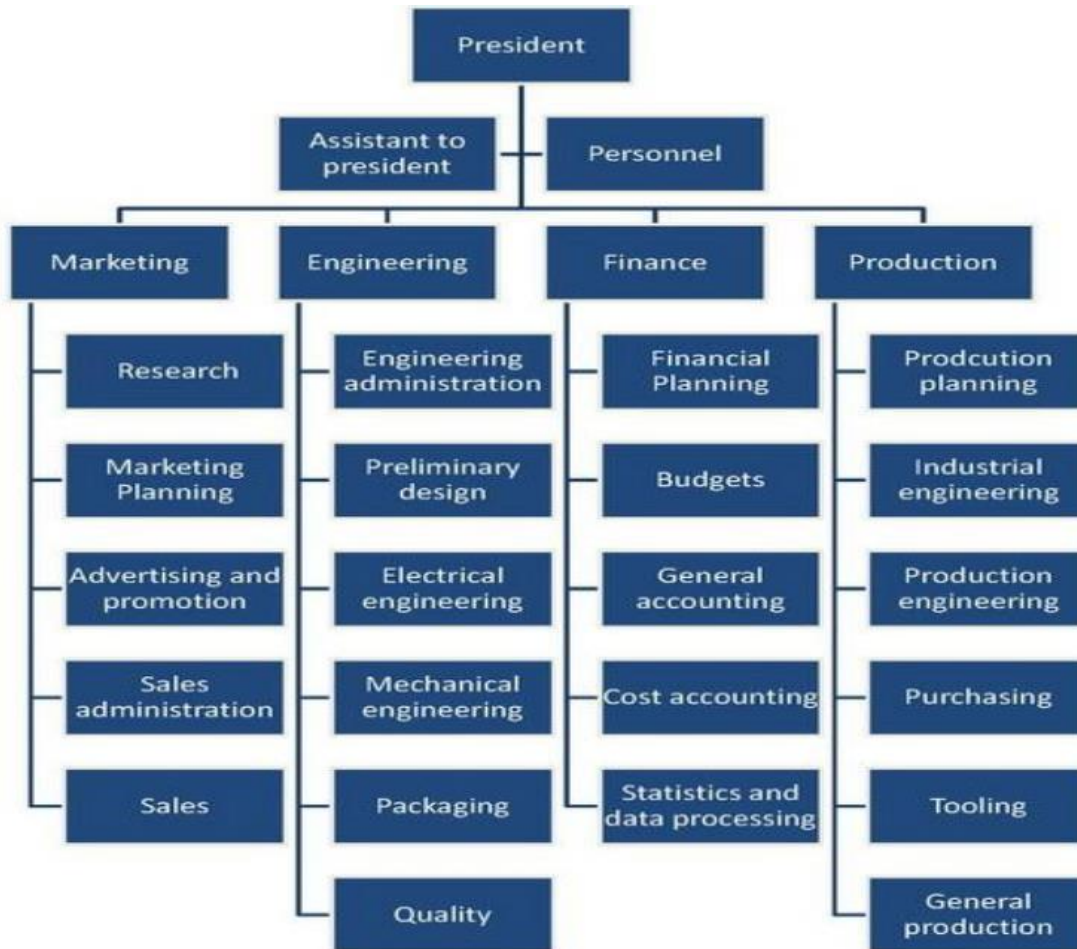


Fig.: Functional Organisation Structure

Advantages

- Is logical and reflection of functions
- Follows principle of occupation specialisation
- Simplifies training
- Better control as the manager in charge of each functional department is usually an specialist.

Disadvantages

- Overspecialization and narrow viewpoints of key personnel can limit the organisation growth.
- Reduced coordination between functions.
- Conflicts between different functions could be detrimental for the organisation as a whole.
- Difficult for general managers to coordinate different departments.

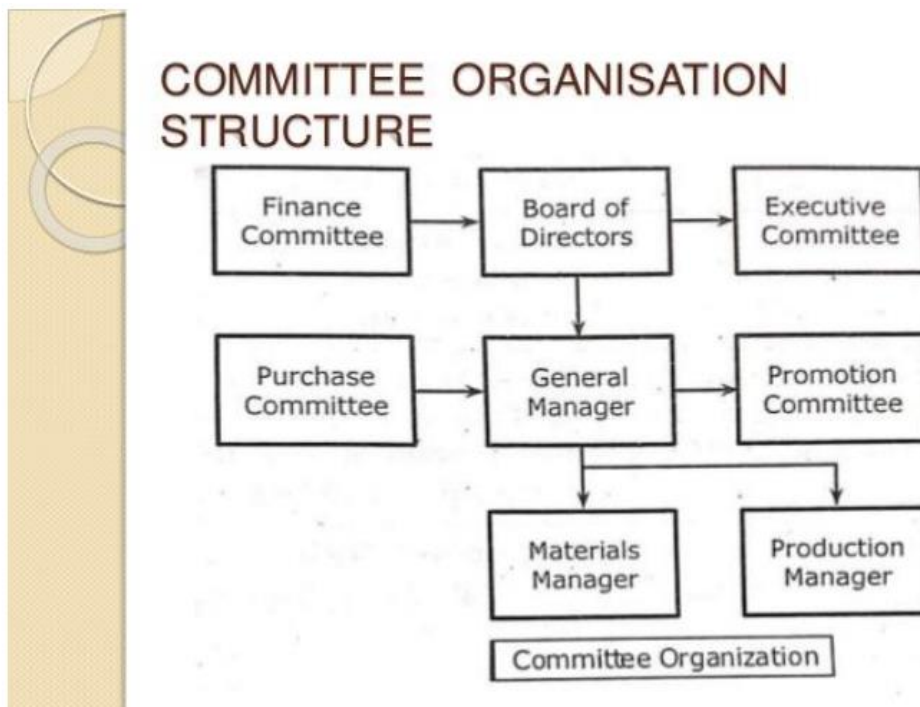
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However, it is much suitable for large organisations where there is ample scope for specialization. Once harmony and proper coordination among different functions is achieved, it could lead to sure success for an organisation.

4) Committee Organisation Structure

Organisation committees are quite popular at different levels for various functions. The board of directors is a committee.

Similarly, there may be executive committee, finance committee, audit committee, bonus committee, planning committee, grievance committee, etc. Exact definition of a committee is difficult because there are many different kinds of committees and the concept of a committee may be defined as a group of persons in an organization to another. However, a committee may be defined as a group of persons in an organization for taking or recommending certain decisions.



Characteristics of committee organisation

On the basis of the definition, following broad characteristics of a committee may be spelled out.

1) A committee is a group of persons there should be at least two persons. There is no limitation on the maximum number of persons. However, if number of persons rises above seven, communication tends to become centralized because committee members do not have adequate opportunity to communicate directly with one another.

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2) A committee is charged with dealing with specific problems and it cannot go in for actions in all spheres of activities. There are strictly defined jurisdictions within which a committee is expected to justify its existence. Beyond these limited spheres a committee is doomed to fail as an organ of action.

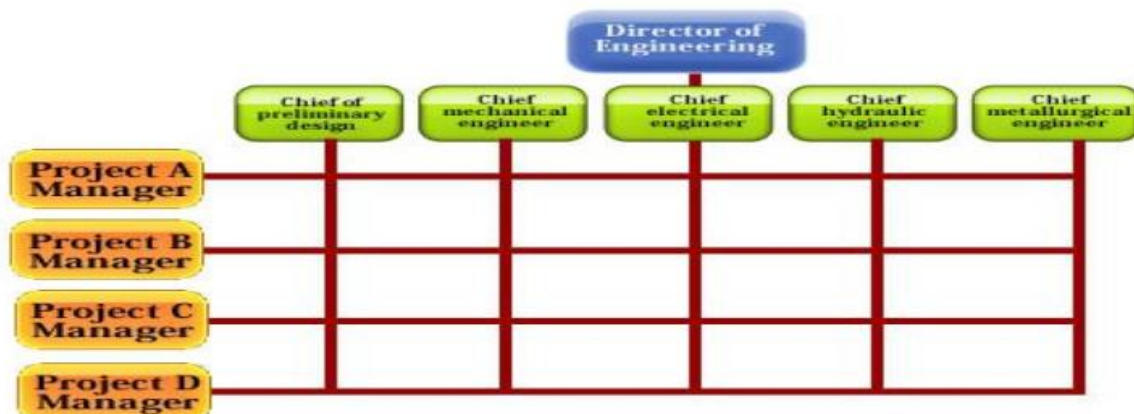
3) Members of the committee have authority to go into details of the problems. This authority usually is expressed in terms of one vote for each member.

4) A committee have the authority either to take a final decision or it may merely decision or it may merely deliberate on problems without authority to decide.

5) A committee may be constituted at any level of organisation. Moreover, the members of a committee may be drawn from various levels. Usually in such a case, all the members of the committee enjoy equal authority.

5) Matrix Organisation Structure

- Matrix organisation combines two structures – functional departmentation and project structure.
- Functional department is a permanent feature of the matrix structure and retains authority for overall operation of the functional units.
- Project teams are created whenever specific projects require a high degree of technical skill and other resources for a temporary period.
- Project team form the horizontal chain and functional departments create a vertical chain of command.
- Members of a particular team are drawn from the functional departments and are placed under the direction of a project manager who has the overall responsibility of a particular project.



Matrix Organisation Structure

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Advantage

- Is oriented towards end results.
- Professional identification is maintained
- Pinpoints product-profit responsibility

Disadvantages

- Conflict in organisation authority exists.
- Possibility of disunity of command exists
- Requires manager effective in human relations

Matrix organizations are used in industries with highly complex product systems for example, aerospace industry where project teams are created for specific space or weapon systems.

6) Project Organisation Structure

The project structure consists of a number of horizontal organisational units to complete projects of a long duration. A team of specialists from different areas is created for each project. Usually this team is managed by the project manager. The project staff is separate from and independent of the functional departments.

Advantages

- Special attention can be provided to meet the complex demand of the project.
- It allows maximum use of specialist knowledge thus chances of failure are very less.
- Project staff works as a team towards common goal which results in high motivation level for its members.

Disadvantages

As the project staff consists of personnel from diverse fields, it might be quite challenging for the project manager to coordinate among them.