Chapter 5: Organising

Exercises — Exercises

Q1 Identify the network of social relationships which arises spontaneously due to interaction at work.

The network of social relationships that arises spontaneously due to interaction at work is called the Informal Organisation.

Q2 What does the term 'Span of management' refer to?

Span of management refers to the number of subordinates that can be effectively managed by a superior. It largely determines the levels of management in the organisational structure.

Q3 State any two circumstances under which the functional structure will prove to be an appropriate choice.

Functional structure is an appropriate choice when: (i) the size of the organisation is large and operations require a high degree of specialisation; and (ii) the organisation has diversified activities that benefit from grouping similar functions together under one department.

Q4 Draw a diagram depicting a functional structure.

A functional structure diagram shows the Managing Director at the top, with separate functional departments reporting to the MD. For example: Managing Director → [Human Resources | Marketing | Research and Development | Purchasing]. Each department head manages only their specific function and all departments report to the coordinating head.

Q5 A company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing and sales department at Faridabad. The company manufactures consumer products. Which type of organisational structure should it adopt to achieve its target?

The company should adopt a Functional structure. Since it manufactures consumer products and its key activities — manufacturing, marketing and administration — are geographically dispersed but functionally distinct, grouping employees by function (production, marketing, finance, etc.) will ensure specialisation, better coordination within each function, and efficient use of manpower.

Q6 What are the steps in the process of organising?

The process of organising involves four steps: (i) Identification and division of work — the total work is divided into manageable activities to avoid duplication and share the burden among employees; (ii) Departmentalisation — similar activities are grouped together to facilitate specialisation; (iii) Assignment of duties — work is allocated to individuals based on their skills and competencies so that the right person performs the right job; and (iv) Establishing authority and reporting relationships — each individual is made aware of who they report to and who reports to them, creating a clear hierarchical structure and enabling coordination.

Q7 Discuss the elements of delegation.

According to Louis Allen, delegation involves three essential elements: (i) Authority — the right of an individual to command subordinates and take action within the scope of their position. Authority flows downward from superior to subordinate and is highest at the top management level, reducing as one goes down the hierarchy. (ii) Responsibility — the obligation of a subordinate to properly perform the assigned duty. It arises from the superior-subordinate relationship and flows upward. Responsibility cannot be entirely delegated; a manager remains responsible even after delegation. (iii) Accountability — answerability for the final outcome. Once authority is delegated and responsibility accepted, the person cannot deny accountability. Accountability cannot be delegated at all and flows upward. In conclusion, authority is delegated, responsibility is assumed, and accountability is imposed.

Q8 How does informal organisation support the formal organisation?

Informal organisation supports the formal organisation in several ways: (i) It facilitates faster spread of information and quick feedback because prescribed lines of communication are not followed. (ii) It fulfills the social needs of members, enhancing job satisfaction and a sense of belongingness, which motivates employees to work better within the formal setup. (iii) It compensates for inadequacies in the formal organisation — for example, employee reactions to plans and policies can be tested through the informal network, giving management useful feedback. Thus, rather than confronting informal groups, management should recognise them and skillfully use both the formal and informal organisation for smooth functioning.

Q9 Can a large sized organisation be totally centralised or decentralised? Give your opinion.

No, a large-sized organisation can be neither totally centralised nor totally decentralised. Complete centralisation would concentrate all decision making at the apex, making a management hierarchy unnecessary. Complete decentralisation would delegate all decisions to the lowest level, making higher managerial positions unnecessary. Both scenarios are unrealistic. As an organisation grows in size and complexity, there is a tendency to move towards decentralised decision making because employees closer to operations have more relevant knowledge. However, every organisation will always be characterised by both centralisation and decentralisation — a balance between the two is essential for effective functioning.

Q10 Decentralisation is extending delegation to the lowest level. Comment.

This statement is largely true but requires qualification. Delegation is a process followed by a superior to share tasks with an immediate subordinate, and is a compulsory act since no individual can perform all tasks alone. Decentralisation, on the other hand, is a philosophy and an optional policy decision of the top management that implies selective dispersal of authority throughout all levels of the organisation — all the way down to the lowest level. While delegation has narrow scope (limited to a superior and immediate subordinate), decentralisation has wide scope as it is the systematic extension of delegation to every level of management. Thus, decentralisation is delegation extended to the lowest level, but it is more than just delegation — it reflects a belief that people at all levels are competent and capable of making decisions.

Q11 Neha runs a factory wherein she manufactures shoes. The business has been doing well and she intends to expand by diversifying into leather bags as well as western formal wear thereby making her company a complete provider of corporate wear. This will enable her to market her business unit as the one stop for working women. Which type of structure would you recommend for her expanded organisation and why?

Neha should adopt a Divisional structure for her expanded organisation. Since she is diversifying into three distinct product lines — shoes, leather bags, and western formal wear — each product line will require its own set of functions (production, marketing, purchase, etc.). A divisional structure creates separate divisions for each product; each division functions as an autonomous profit centre with a divisional head accountable for its performance. This structure is suitable because: (i) it facilitates product specialisation, developing diverse skills in divisional heads; (ii) it enables easy accountability — revenues and costs can be assigned to each division; (iii) it promotes flexibility and faster decision making within each division; and (iv) it facilitates further expansion — new product lines can be added without disrupting existing operations.

Q12 The production manager asked the foreman to achieve a target production of 200 units per day, but he doesn't give him the authority to requisition tools and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve the desired target? Give reasons.

No, the production manager cannot blame the foreman for failing to achieve the target of 200 units per day. This is because a fundamental principle of delegation is that authority granted must be commensurate with the assigned responsibility. In the chapter, it is stated that when an employee is given responsibility for a job, he must also be given the degree of authority necessary to carry it out. If responsibility assigned is more than authority, it may make a person ineffective. Here, the foreman has been given the responsibility of achieving 200 units per day but has not been given the authority to requisition the necessary tools and materials. Without this authority, the foreman cannot perform his duties effectively. The fault therefore lies with the production manager, not the foreman.

Q13 Why is delegation considered essential for effective organising?

Delegation is considered essential for effective organising for the following reasons: (i) Effective management — by delegating routine tasks to subordinates, managers get more time to concentrate on important matters, improving overall efficiency; (ii) Employee development — delegation provides employees opportunities to utilise their talent, develop skills, and build experience, preparing them for higher positions; (iii) Motivation of employees — being entrusted with a task builds the employee's self-esteem and confidence, encouraging them to improve performance; (iv) Facilitation of growth — delegation creates a trained workforce ready to take on leading roles in new ventures and projects, enabling organisational expansion; (v) Basis of management hierarchy — delegation establishes superior-subordinate relationships which form the basis of the management hierarchy, determining who reports to whom; and (vi) Better coordination — by clearly defining authority, responsibility and accountability for each position, delegation avoids overlapping of duties and duplication of effort, facilitating effective coordination.

Q14 What is a divisional structure? Discuss its advantages and limitations.

A divisional structure is an organisational design in which separate business units or divisions are created, each generally based on a product line. Each division is multifunctional — it includes functions like production, marketing, finance, and purchase — and works as a profit centre, with the divisional head responsible for the profit or loss of that division. Advantages: (a) Product specialisation helps develop varied skills in the divisional head, preparing them for top positions; (b) Divisional heads are accountable for profits, providing a proper basis for performance measurement and fixation of responsibility; (c) Each division functions as an autonomous unit, promoting flexibility and initiative, and enabling faster decision making; (d) Expansion is facilitated as new divisions can be added without disrupting existing operations. Limitations: (a) Conflict may arise among divisions over allocation of funds, and a division may seek to maximise its own profits at the cost of others; (b) Costs increase due to duplication of activities — each division has its own set of functions, increasing expenditure; (c) Divisional managers may over time assert their independence and ignore organisational interests.

Q15 Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised.

Decentralisation is described in the chapter as an optional policy decision of the top management, unlike delegation which is compulsory. An organisation would choose to be decentralised for the following reasons: (i) Develops initiative among subordinates — lower levels are given freedom to take decisions, making them self-reliant and helping identify potential dynamic leaders; (ii) Develops managerial talent for the future — handling assignments independently gives subordinates practical experience and creates a reservoir of qualified manpower for higher positions; (iii) Quick decision making — since decisions are taken at levels nearest to the points of action, the process is faster and information is less likely to get distorted through long channels; (iv) Relief to top management — decentralisation reduces the burden of direct supervision on top management, allowing them to devote time to important policy decisions; (v) Facilitates growth — greater autonomy for divisional or departmental heads fosters healthy competition between departments, increasing productivity and enabling expansion; (vi) Better control — performance can be evaluated at each level, with each department held accountable, enabling better control and feedback.

Q16 Distinguish between centralisation and decentralisation.

Centralisation and decentralisation are relative terms. An organisation is centralised when decision-making authority is retained by higher management levels; it is decentralised when such authority is delegated to lower levels. In a centralised organisation, every decision is taken by top management, the flow of information is slow as it traverses many levels, and response time is high — making it difficult to adapt to dynamic conditions. In a decentralised organisation, decisions are taken at levels nearest to the points of action, making the process faster and less prone to distortion. Fayol noted: 'everything that goes to increase the importance of a subordinate's role is decentralisation, everything that goes to reduce it is centralisation.' Complete centralisation would make a management hierarchy unnecessary; complete decentralisation would eliminate the need for higher managerial positions. Both extremes are unrealistic, so every organisation maintains a balance of both. As organisations grow in size and complexity, there is a natural tendency to move towards decentralisation.

Q17 How is a functional structure different from a divisional structure?

A functional structure groups similar or related jobs together into departments based on functions (e.g., production, marketing, finance, HR), while a divisional structure groups activities based on product lines, with each division being multifunctional and self-contained. Key differences: (i) Formation — functional structure is based on functions; divisional structure is based on product lines supported by functions. (ii) Specialisation — functional structure leads to functional specialisation; divisional structure leads to product specialisation. (iii) Responsibility — in functional structure it is difficult to fix responsibility on a single department; in divisional structure it is easy to fix responsibility for performance on the divisional head. (iv) Managerial development — functional structure makes managerial development difficult as functional managers only report to top management; divisional structure enables better managerial development through autonomy and exposure to multiple functions. (v) Cost — functional structure is economical as functions are not duplicated; divisional structure is costly due to duplication of resources across divisions. (vi) Coordination — functional structure makes coordination difficult for a multi-product company; divisional structure ensures easy coordination as all functions related to a product are integrated in one division.

Q18 A company, which manufactures a popular brand of toys, has been enjoying good market reputation. It has a functional organisational structure with separate departments for Production, Marketing, Finance, Human Resources and Research and Development. Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging. Which organisation structure should be adopted in this situation? Give concrete reasons with regard to benefits the company will derive from the steps it should take.

The company should shift from a functional structure to a Divisional structure. Reason: the company is diversifying into a new product category (electronic toys) in addition to its existing toys business. A divisional structure creates separate divisions for each product line — traditional toys and electronic toys — each functioning as a multifunctional, autonomous profit centre. Benefits the company will derive: (a) Product specialisation — each divisional head develops expertise in their product, preparing them for higher positions; (b) Accountability — revenues and costs of each division can be separately tracked, enabling clear performance measurement; (c) Flexibility and initiative — each division can make its own decisions quickly, enabling faster response to the emerging electronic toys market; (d) Expansion — the new electronic toys division can be added without disrupting existing toy operations; (e) Brand leverage — the company can use its established brand name across both divisions while managing each independently. Thus, the divisional structure is the most suitable for the company's expanded and diversified operations.

Q19 A company manufacturing sewing machines set up in 1945 by the British promoters follows formal organisation culture in totality. It is facing lot of problems in delays in decision making. As the result it is not able to adapt to changing business environment. The work force is also not motivated since they cannot vent their grievances except through formal channels, which involve red tape. Employee turnover is high. Its market share is also declining due to changed circumstances and business environment. You are to advise the company with regard to change it should bring about in its organisation structure to overcome the problems faced by it. Give reasons in terms of benefits it will derive from the changes suggested by you.

The company should supplement its rigid formal organisation by recognising and utilising the informal organisation that exists within it. Rather than relying solely on formal channels, management should identify informal groups and use them constructively. Changes and benefits: (a) Faster communication — the informal organisation facilitates faster spread of information and quick feedback without being bound by prescribed communication lines, reducing delays; (b) Motivation and job satisfaction — informal groups fulfill social needs of employees, giving them a sense of belongingness and reducing the frustration caused by red-tape-heavy formal channels, which will help reduce employee turnover; (c) Adaptability — management can test employee reactions to proposed changes through informal networks before formal implementation, enabling better adaptation to the changing business environment; (d) The company should also consider decentralising decision making, pushing authority to levels nearest to points of action. This will enable quicker decisions and reduce the delays that are costing it market share. Decentralisation also develops initiative and leadership among subordinates. The company must balance formal discipline with the flexibility that informal organisation and decentralisation provide.

Q20 A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown in size. Its business was very good till 1991. But after that, new liberalised environment has seen entry of many MNCs in the sector. With the result the market share of X limited has declined. The company had followed a very centralised business model with Directors and divisional heads making even minor decisions. Before 1991 this business model had served the company very well as consumers had no choice. But now the company is under pressure to reform. What organisation structure changes should the company bring about in order to retain its market share? How will the changes suggested by you help the firm? Keep in mind that the sector in which the company is FMCG.

X Limited should move from its highly centralised model to a Decentralised organisation structure. Since it is a large FMCG company now facing intense competition from MNCs, the centralised approach of Directors and divisional heads making even minor decisions is causing slow response times — a critical disadvantage in a fast-moving consumer goods environment. Changes and how they will help: (a) Quick decision making — under decentralisation, decisions will be taken by managers closest to the market, enabling faster response to consumer preferences and competitive moves by MNCs; (b) Relief to top management — Directors can focus on strategic policy decisions rather than routine operational ones, improving the quality of major decisions; (c) Develops initiative — lower-level managers empowered to take decisions become more proactive and innovative, helping the company compete with globally experienced MNCs; (d) Better control — each division or department can be held individually accountable for its performance, enabling better performance measurement and targeted corrective action; (e) Facilitates growth — greater autonomy fosters healthy competition among departments, improving productivity and helping recover market share. Additionally, if the company manufactures multiple product lines within cosmetics, it should formalise a divisional structure with each product category as a profit centre. This will combine the benefits of decentralisation with product-level accountability.