Chapter 5: Organising

(ii) _Greater Accountability:_ In divisional structure, each product department is treated as a 'profit centre' and is accountable for its own profit or loss. This provides a base for measuring performance and helps in fixing responsibility in case of poor performance.

(iii) _Flexibility:_ It promotes flexibility and initiative as each division functions as an autonomous unit. It leads to faster decision-making and permits greater flexibility and adaptability in responding to changes in environment.

(iv) _Expansion and growth:_ It facilitates expansion, diversification and growth as new divisions can be added without interrupting the existing operations.

Disadvantages of Divisional Structure

(i) _Departmental conflicts:_ Conflict may arise among different department with respect to allocation of funds. Particular department may seek to maximise its profits at the cost of other departments.

(ii) _Costly:_ Each product division has to maintain its own facilities, equipments and personnel. It may lead to increase in operating costs since there may be duplication of activities.

(ii) _Ignore organisational interests:_ Divisional structure provides managers with the authority to supervise all activities related to a particular division. Managers focus on their own product without thinking of the rest of the organisation. Thus, organisational objectives suffer and become difficult to accomplish.

Q8. Distinguish between Functional Structure and Divisional Structure

Ans.

Basis	Functional Structure	Divisional Structure
Meaning	It refers to grouping of jobs of similar nature under one department.	It refers to grouping of jobs of one product under one department.
Formation	It is formed on the basis of functions.	It is formed on the basis of product.
Specialisation	It leads to functional specialisation.	It leads to product specialisation.
Responsibility	It is difficult to fix responsibility on a paticular department.	It is easy to fix responsibility for performance on the department.
Managerial Development	There are less chances for overall development as manager becomes specialised in one function only.	Managerial develop-ment is easy due to greater autonomy and chance to perform multiple functions.
Cost	It is economical as there is no duplication of work.	It is costly as all resources are required in each department.
Coordination	Coordination is difficult for a multi-product company.	Coordination is easy as all functions related to a particular product are integrated in one department.

Q9. How can an organisation be divided on the basis of relationship?

Ans. On the basis of relationship, an organisation may be divided into two broad categories:
(i) Formal Organisation; and
(ii) Informal Organisation.

Q10. What is meant by 'formal organisation'? Briefly discuss its features, advantages and disadvantages.

Ans. Formal organisation refers to structure of jobs and positions with clearly-defined functions and relationships, which is designed by the management to accomplish a particular task.

Features of Formal Organisation

(i) _Formation:_ It is intentionally created by top management to facilitate smooth functioning of the organisation.

(ii) _Purpose:_ It is created to achieve organisational objectives.

(iii) _Reporting relationships:_ The position, responsibility and accountability of each level are clearly defined.

(iv) _Stability:_ It is very stable due to its well defined structure.

(v) _Chain of command and communication:_ It follows the official chain of command and communication at every step.

(vi) _Flexibility:_ It is rigid as members are required to behave in a prescribed manner.

(vii) _Coordination:_ It coordinates and integrates the efforts of various departments.

Advantages of Formal Organisation

(i) _Fixation of responsibility:_ It is easier to fix responsibility as mutual relationships are clearly defined.

(ii) _Clarity of duties:_ Role and duties of each member are clearly and explicitly specified. So, there is no confusion and it helps in avoiding duplication of efforts.

(iii) _Unity of command:_ There is unity of command as formal organisation makes more use of official channels of command and communication.

(iv) _Helpful in achieving objectives:_ It leads to effective accomplishment of objectives by providing framework for operations to be performed and clarity of roles in the minds of employees.

(v) _Provides stability:_ The well defined structure, policies, procedures and rules provides stability to formal organisation.

Disadvantages of Formal Organisation

(i) _Delay in action:_ It may lead to delay in decision-making and action as official chain of command has to be followed.

(ii) _Lack of Initiative:_ It does not allow any deviations from rigidly laid down polices and strict rules. It kills the spirit of initiative and creativity among the members of the organisation.

(iii) _Ignores human element:_ It places more emphasis on structure and work. It ignores the importance of interpersonal relations and human needs.