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CHAPTER - 1

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ORGANIZATIONAL STRUCTURE

## CHAPTER - I

### ORGANIZATIONAL STRUCTURE

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#### 1.1 INTRODUCTION:

Organization is a prescribed pattern of relations among various tasks and the individuals who perform these tasks. Underlying this view of organization is the assumption that organizations are characterized by explicit, common goals which require the coordination of individual and group effort towards their attainment. This coordination is achieved by the establishment of vertical and horizontal network of relationship among various components of the organization. The vertical relationships are established by assigning tasks, delegating authority and extracting responsibility from the employees. It is a chain of command, beginning from the Chief Executive and running throughout the organization down to each operative employee. Horizontal relationships are those which are established among major functions such as production, marketing, finance, industrial relations, etc.

#### 1.2 REQUIREMENT OF ORGANIZATIONAL STRUCTURE:

Organizational structure is a formal physical arrangement of activities and people and interrelationships among them. People, resources, techniques and information are structured to achieve a common unified purpose. It takes a

a pyramidal form, the span of decision-making authority as a pyramid, widens towards its bottom.

Organizational structure should be dynamic to anticipate, absorb and adopt the changing environmental forces like technology, markets, customer-attitudes and socio-cultural variables. A structure that signals managers to identify the need and opportunity for crucial decisions and that facilitate decision-making at appropriate level throughout the organization instead of forcing decision-making problems up, the line could be called more dynamic, decision-focused organization. This will enable the top-management to establish a unified command over the totalling of its enterprise.

Finally, a dynamic organizational structure should facilitate an efficient and effective transformation of inputs into outputs through the media of technology and information in such a way as to promote the job-satisfaction and morale of organizational personnel and to develop managerial talent.

Sound organizational structure is an essential pre-requisite of efficient management. It depends upon certain established principles such as secular, departmentation, unity of command, span of control, balance, simplicity, continuity, etc., which must be kept in mind while establishing and developing organizational structure.

**Peter F. Drucker**, the distinguished author, in his

book, 'The Practice of Management', has observed that the organization is not an end in itself but a means to the end of business performance and business results. Organizational structure is an indispensable means and the working structure will seriously impair business performance and may even destroy it. Organizational structure must be designed so as to make possible the attainment of the objectives of the business for 10-15 years.

### **1.3 ORGANIZATION:**

#### **(a) Meanings and Definitions:**

"Organization means the group of persons who are working together to achieve common objective.

"Organization means division of work.

"Organization means identification of different tasks or jobs or activities necessary for the achievement of organizational objectives.

"Organization means grouping together of activities of similar or inter-related nature to avoid duplication of effort.

"It means allotment of activities to the persons for which they have the competence to perform the task.

"Organization means channelling the efforts made by different persons towards achieving the organizational goals."

"An organization is a group of individuals, coordinated into different levels of authority and segments of specialization for the purpose of achieving the goals and objectives of the organizations.

"An organization is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in establishing of objectives."

- Allen

"An organization is the formation of an effective machine, the management of an executive and the administration of an effective direction. Administration determines the goals, the management strives towards it, administration determines the organization, the management uses it. An organization is a machine of management in its achievement of the ends determined by its administration.

- Oliver Sheldon

"An organization tries to establish an effective behavioural relationship among selected employees and in selected work places in order that a group may work together effectively.

"An organization may be defined as any group of

individuals, large or small, that is cooperating under the direction of executive leadership in the accomplishment of certain common objectives".

- R.C.Davis

"Organization is an identifiable group of people contributing their efforts towards the attainment of goals."

- McFarland

"A system of cooperative activities of two or more persons is called 'organization'."

- Chester Bernard

"Organization is the form every human association for the attainment of a common purpose."

- Mooney and Reilly

"Organizing involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the supervision for authority delegation and coordination."

- Koontz and O'Donnell

"Organization is a process of defining and grouping the activities of the enterprise and establishing the authority relationship among them."

- Prof.Haiman

"Organization begins when people combine their efforts for a given purpose."

- Mooney

"Organization can be observed as a series of patterned inter-actions among actors."

- Haas and Drebak

"An institution is like a tune, it is not constituted by individual sounds but by the relations between them."

- Peter F. Drucker

**(b) Characteristics of an Organization:**

1. An organization is an identifiable group of individuals.
2. The group in the organization works under the direction of an executive leadership.
3. Organization has directing-authority which controls the concerted efforts of the group.
4. Total work is divided into activities and functions such as production, purchase, sales, accounting, agriculture, etc.
5. The total work is first divided into units and sub-units of correlated activities and then the divided activities are linked together as an integrated whole.
6. Organization is the mechanism of management.
7. Organization is a functional concept.

**1.4 ORGANIZATIONAL STRUCTURE:**

Organizational structure is a framework which ties together technical and managerial experts and the specialists

in the organization. The organizational structure provides a line of authority and responsibility to knit the members of the group into more meaningful and effective team, division of labour, delegation, decentralization, span of management, departmentation and authority are the pillars of organizational structure.

Organizations create structures to facilitate the coordination of activities and to control the actions of its members. The term 'organization' refers to a mechanism which enables men to live together. In a static sense, an organization is a structure manned by a group of individuals who are working together towards a common goal. In a dynamic sense, organization is a process of welding together a framework of positions which can be used as a management tool for the most effective pursuit of an enterprise.

Organizational structure is the established pattern of interacting and coordinating the technology and human assets of an organization.

Organization is the foundation upon which the whole structure of the management is built. It is the backbone of the management.

The organizational structure is the set of relationships between/among individuals and groups. It is dependent upon the duties performed and the authority exercised



by these individuals and groups in goal attainment. This structure is effective or ineffective to the extent that it contributes to the goals or objectives of the firm.

'Structure' means the official relationship of people in organizations. Different jobs are required to accomplish all of an organization's activities. There are managers and employees, accountants and assemblers. These people have to be related in some structural way so that their work can be effective. The main structure relates to power and to duties. For example, one person has authority to make decisions that affect the work of other people. Organizational structure implies a network of relationships among persons operating at different levels. This relationship will be in the form of well-defined authority and responsibility in the formal structures. Formal and informal organizations have structures. The structure in a formal organization is defined by executive decisions. In an informal organization, it is laid down by the interactions, sentiments and other common characteristics of individuals comprising the organization.

In every organizational structure, different types of relationships are present. Such relationships may be administrative or operative, vertical or horizontal. Organizational hierarchical relationship which binds persons operating at different levels to continue their efforts to achieve common goal of the organization.

### 1.5 IMPORTANCE OF ORGANIZATIONAL STRUCTURE:

To achieve every object, a proper organization is needed. Even individual goals cannot be achieved without proper planning and organizational framework. Planning, organizing, coordination, motivation and control cannot be implemented without organization. Organization is the machine which is employed by the management to achieve the objectives. The formulation of plans and policies and the evaluation thereof cannot be done without proper organizational structure. It is the organization which will affect the division of work, division of authority and responsibility, flow of authority from superiors to subordinates without which organizational goals cannot be achieved with efficiency. To increase or expand activity in an enterprise requires a proper organizational structure which will take care of different categories of people to be appointed at different times and other inputs needed for such expansion. So, organization is of the people, for the people and by the people.

Organization is the backbone of the management. No enterprise can be run successfully without an organization. Organization is the time-honoured mechanism that enables people to work together. Organization enables management to make maximum and efficient use of factors of production. Organization facilitates administration, makes growth and better use of personnel efforts, provides for optimum use of

technological improvements, encourages good human relations.

Following are the advantages of organization:

- (1) Organization increases managerial efficiency in a number of ways. It avoids delays, duplication or confusion in the performance of work by the personnel, division of labour and assignment of fixed duties, increases efficiency and helps to fix the responsibilities.
- (2) Because of the division of labour and by following the principle "right-man-at-right-place", the organization can make best use of the knowledge, skill and experience of the workers. Division of labour leads to specialization.
- (3) Activities are divided into departments, sections and jobs. This enables the management to focus its attention on important activities.
- (4) Different departments, sections, functions and activities are linked together by structural relationships, so coordination is possible.
- (5) Organization helps the business enterprise to expand its size according to needs.

## 1.6 COOPERATIVE ORGANIZATIONAL STRUCTURE:

### (a) Introduction:

The cooperative form of organization is one of the different forms of organization. It has been established for rendering services to its members and society. Modern cooperative movement appears to have been started at Rochdale

in England in 1844. There, it developed as a consumers' cooperative store started by the famous 'Rochdale Society of Equitable Pioneers', to save the profits of the middlemen. A cooperative organization is a voluntary association of persons on the basis of equality not with a view to earn profits but to provide mutual assistance and service while promoting their common business and economic goals in a democratic way.

**(b) Definitions:**

"A form of organization wherein the persons voluntarily associate together as human beings on the basis of equality for the promotion of economic interests of themselves".

- Henry Calvert

"Something more than a system. It is a spirit which appeals to the heart and the mind. It is a religion applied to business. It is a gospel of self-sufficiency and service".

- M.L.Darling

"Cooperation is only one aspect of a vast movement which promotes voluntary association of individuals having common needs, who combine the achievement of common economic ends".

- V.L.Mehta

"A cooperative society is an enterprise formed and directed by an association of users, applying

within itself the rules of democracy and directly intended to serve both its own members and the community as a whole".

**Professor Paul Lambert**

"An association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of risk and benefits of the understanding."

**- The International Labour Office**

**(c) Characteristics:**

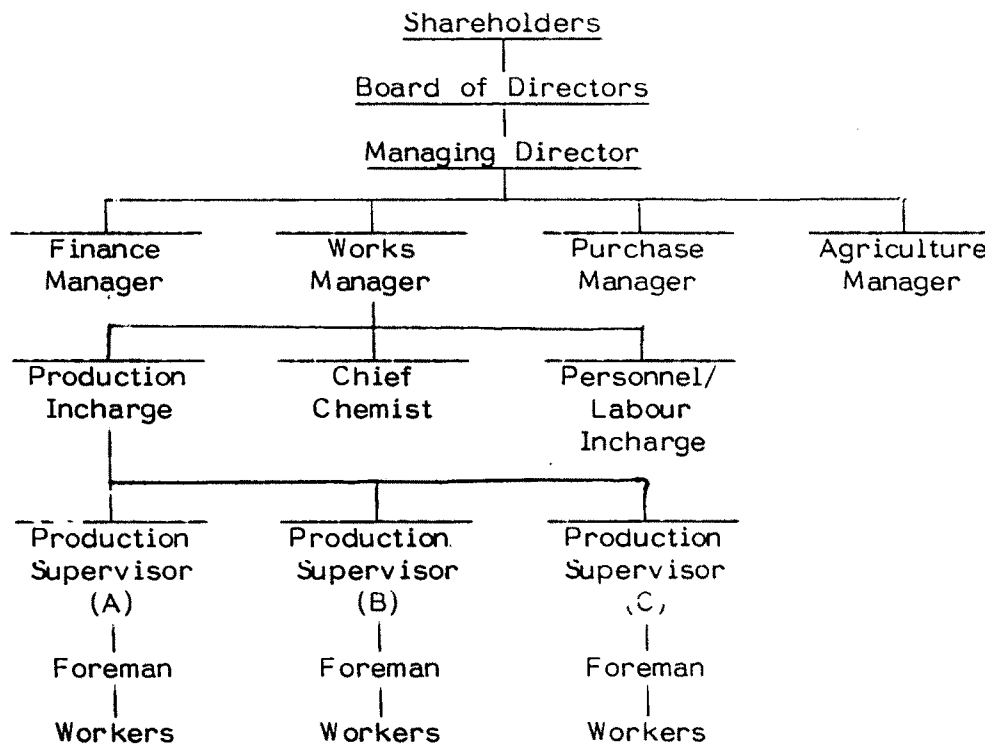
- (1) A cooperative society is a voluntary association of persons and not of capital.
- (2) The capital of the cooperative society is raised from members by way of share capital.
- (3) Democracy is the keynote of the management of a cooperative society.
- (4) Cooperative society/organization is organized with the object of rendering maximum service to its members.
- (5) The surplus resulting from the activities of the cooperative organization has to be distributed among the members equitably.
- (6) The cooperative societies are subject to considerable state control and supervision.

- (7) The cooperative society must have atleast ten members who have attained majority of age.
- (8) The members should be bound together by a common bond.
- (9) Political and religious neutrality is one of the important features of cooperative organization.
- (10) All the transactions by a cooperative should be carried on cash basis.
- (11) The members should be constantly educated in cooperative organization.
- (12) A cooperative society is to be registered and thus it gets corporate status.

#### **1.7 LINE ORGANIZATION:**

This type of organization is characterized by direct lines of authority, following from the top to the bottom of the organizational hierarchy and lines of responsibility flowing from bottom to top, i.e. when the authority flows from the top to the subordinate at the lowest level in a more or less straight line, it is known as 'line organization' and the subordinates under it are responsible to their immediate superiors. McFarland states, "Line structure consists of the direct vertical relationships which connect the positions and tasks of each level with those above and below it". In a sugar factory, departmental line organization exists. In this type a departmental-head receives orders from the managing director and passes them on to his subordinates. Various departmental-

heads enjoy equal status and work independently. The respective workers and supervisors are grouped on a functional basis such as production, chemicals, transport, agriculture, purchase, accounting, personnel, etc. For example,



**(a) Advantages of Line Organization:**

- (1) Line organization is easiest to establish and to understand at any level.
- (2) It is a flexible form, whereby adjustments in the pattern can be made easily and quickly to suit the changing conditions.
- (3) As there is a definite authority at every level, prompt decisions can be taken. An executive cannot shift his decision-making to others.

- (4) It helps to have effective coordination of control.
- (5) There is clear-cut identification of authority and responsibility relationship. This avoids conflicts in respect of power and authority.
- (6) Line organization is economical method of organization.
- (7) Due to vertical arrangement of authority and duty, unity of command, loyalty and discipline can be maintained.
- (8) There is a direct communication between the officer and the subordinate at different levels. This ensures enhanced efficiency in performance.

**(b) Disadvantages of Line Organization:**

- (1) There is centralization of authority at the top. All the decisions are taken by only one boss. Hence, if the top executives are not able, the enterprise will suffer.
- (2) Absence of managerial specialization is the serious drawback of this system.
- (3) There is no spirit of team-work. So, lack of coordination arises.
- (4) This type of organization requires many talented and capable persons. But it is very difficult to find sufficient number of such persons.
- (5) This type of organization cannot be adopted to manage the large-scale enterprises which require minute specializations.



### 1.8 LINE AND STAFF ORGANIZATION:

This type of organization is a golden mean of the line and functional organizations. It combines the merits of line and functional organizations. Line and staff system implies the combined role of line and staff officers in attaining the objective of the business. It consists of line officers who have authority to take decisions, enforce them, control the personnel, etc. Line officers are assisted by the staff officers in framing and executing business policies and plans. The staff personnel provide advise to the line authority. The implementation of their suggestions is the responsibility of line authority. The staff performs an advisory, coordinating, service function for the line.

#### (a) Advantages:

- (1) It is based on planned specialization. So, operational efficiency is enhanced.
- (2) Line officers are not under heavy pressure since they are concerned only with routine task of administration and execution.
- (3) It provides opportunities for sound managerial decisions as the decisions are taken by the experts.
- (4) In some cases, it is found that the staff services have provided an excellent training to line officers.
- (5) It provides opportunities for advancement for able workers, in that a greater variety of responsible jobs are available.

**(b) Disadvantages:**

- (1) Unless the duties and responsibilities of the staff members are clearly indicated by charts, there may be considerable confusion throughout the organization.
- (2) The staff experts may be ineffective because they do not get the authority to implement their recommendations.
- (3) The inability to see each other's viewpoint may cause difficulty and friction between the line supervisors and staff members.
- (4) Though the staff members are experts, the advice given by them is conveyed to workers through line officers and as such, it is likely to be misunderstood and misrepresented.
- (5) The line executives have simply to carry out the advice of the staff executives, they may not develop their power of thinking.

**1.9 FUNCTIONAL ORGANIZATION:**

In functional organization, authority does not flow from top to bottom as in a line-organization. Each work is divided according to functions. A specialist is placed in-charge of each function and he has control over the same functions. As a result, each foreman gets orders from several functional foremen. In the words of Koontz and O'Donnell, "functional authority is the power of one manager over specified processes, policies or rather, matters relating to the

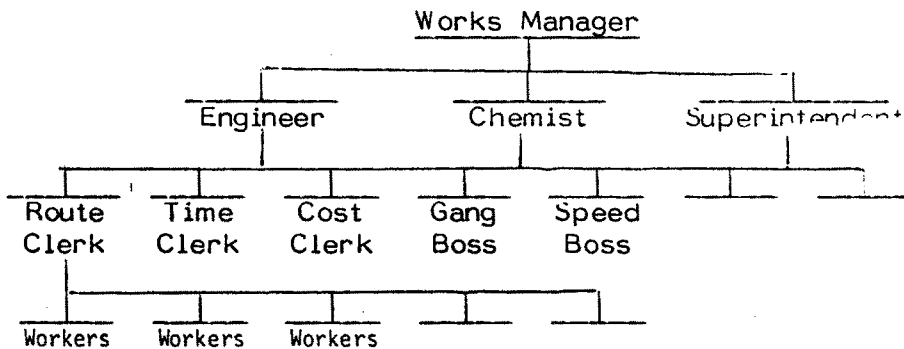
implementation of the activities undertaken by personnel in other departments".

**(a) Advantages:**

- (1) It ensures a greater division of labour and specialization of functions.
- (2) It ensures the separation of mental and manual functions.
- (3) It facilitates mass-production through specialization and standardization.
- (4) It makes decision-making easier and quicker.

**(b) Disadvantages:**

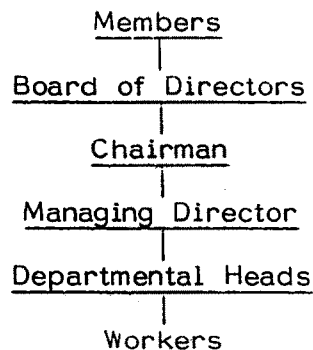
- (1) Use of several functional experts creates the problem of coordination.
- (2) It is too complicated in operation because the division of functions into a number of sub-functions.
- (3) All-round executives cannot be available, especially in case of emergency.
- (4) It makes difficult for the management to fix responsibility.



**1.10 ORGANIZATIONAL STRUCTURE IN  
A COOPERATIVE SUGAR FACTORY:**

Cooperative sugar factory is a type of organizational structure which is based on the principle of cooperation. In this organization, generally, the farmers who produce sugarcane and who are the members gathered together to have various processes on their production. The required capital is collected for this organization from these farmers. The management of these cooperative sugar factories is done by the elected representatives. The members of these sugar factories are the owners of them. They have the right of sugar factory management but the number of these members is very large and these members being scattered, it is not possible to run the management by the members of such cooperative sugar factories. To avoid this problem, the management is run by their elected representatives.

The organizational structure of these cooperative sugar factories is very important, because it is a typical organization having largest size and extension of its own. The organization structure is as follows:



The above belongs to the line organization because the cooperative sugar factory has fulfilled all the characteristic features of a line organization. In this organization, messages are sent from top to bottom and the responsibility of implementation of the orders is given to the related persons. In this line organization, we find the features of line and staff organizations and of functional organization, because in the structure of such cooperative managements, representatives of the members, workers, nominees of the government, banks, etc., are working. The decisions are taken in the cooperative sugar factory by discussions and by taking advice of these persons. Therefore, it can be said that the features of line and staff organizations, and to some extent, the features of functional organizations are found in such cooperative sugar factories.

The sections in the cooperative sugar factories are determined by the functions and the responsibility is given to the respective sections with special rights. They are functioning within their own authority.

With the help of the above discussions, it seems that in cooperative sugar factories, a combination of three organizational structures are found, i.e. line organization, line and staff organization and functional organization. But prominently, the features of line organization are found in it.

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