# Classification of Organizations

Organizations are basically classified on the basis of relationships. There are two types of organizations formed on the basis of relationships in an organization

1. Formal Organization - This is one which refers to a structure of well defined jobs each bearing a measure of authority and responsibility. It is a conscious determination by which people accomplish goals by adhering to the norms laid down by the structure. This kind of organization is an arbitrary set up in which each person is responsible for his performance. Formal organization has a formal set up to achieve pre- determined goals.

2. Informal Organization - It refers to a network of personal and social relationships which spontaneously originates within the formal set up. Informal organizations develop relationships which are built on likes, dislikes, feelings and emotions. Therefore, the network of social groups based on friendships can be called as informal organizations. There is no conscious effort made to have informal organization. It emerges from the formal organization and it is not based on any rules and regulations as in case of formal organization.

#### Relationship between formal and informal organizations

For a concerns working both formal and informal organization are important. Formal organization originates from the set organizational structure and informal organization originates from formal organization. For an efficient organization, both formal and informal organizations are required. They are the two phase of a same concern. Formal organization can work independently. But informal organization depends totally upon the formal organization. Formal and informal organization helps in bringing efficient working organization and smoothness in a concern. Within the formal organization, the members undertake the assigned duties in co- operation with each other. They interact and communicate amongst themselves. Therefore, both formal and informal organizations are important. When several people work together for achievement of organizational goals, social tie ups tends to built and therefore informal organization helps to secure co-operation by which goals can be achieved smooth. Therefore, we can say that informal organization emerges from formal organization.

# Line Organization

             Line organization is the most oldest and simplest method of administrative organization. According to this type of organization, the authority flows from top to bottom in a concern. The line of command is carried out from top to bottom. This is the reason for calling this organization as scalar organization which means scalar chain of command is a part and parcel of this type of administrative organization. In this type of organization, the line of command flows on an even basis without any gaps in communication and co- ordination taking place.

**Features of Line Organization**

1. It is the simplest form of organization.

2. Line of authority flows from top to bottom.

3. Specialized and supportive services do not take place in these organizations.

4. Unified control by the line officers can be maintained since they can independently take decisions in their areas and spheres.

This kind of organization always helps in bringing efficiency in communication and bringing stability to a concern.

**Merits of Line Organization**

1. **Simplest-** It is the most simple and oldest method of administration.
2. **Unity of Command-** In these organizations, superior-subordinate relationship is maintained and scalar chain of command flows from top to bottom.
3. **Better discipline-** The control is unified and concentrates on one person and therefore, he can independently make decisions of his own. Unified control ensures better discipline.
4. **Fixed responsibility-** In this type of organization, every line executive has got fixed authority, power and fixed responsibility attached to every authority.
5. **Flexibility-** There is a co-ordination between the top most authority and bottom line authority. Since the authority relationships are clear, line officials are independent and can flexibly take the decision. This flexibility gives satisfaction of line executives.
6. **Prompt decision-** Due to the factors of fixed responsibility and unity of command, the officials can take prompt decision.

##### Demerits of Line Organization

1. **Over reliance-** The line executive’s decisions are implemented to the bottom. This results in over-relying on the line officials.
2. **Lack of specialization-** A line organization flows in a scalar chain from top to bottom and there is no scope for specialized functions. For example, expert advices whatever decisions are taken by line managers are implemented in the same way.
3. **Inadequate communication-** The policies and strategies which are framed by the top authority are carried out in the same way. This leaves no scope for communication from the other end. The complaints and suggestions of lower authority are not communicated back to the top authority. So there is one way communication.
4. **Lack of Co-ordination-** Whatever decisions are taken by the line officials, in certain situations wrong decisions, are carried down and implemented in the same way. Therefore, the degree of effective co- ordination is less.
5. **Authority leadership-** The line officials have tendency to misuse their authority positions. This leads to autocratic leadership and monopoly in the concern.

# Line and Staff Organization

Line and staff organization is a modification of line organization and it is more complex than line organization. According to this administrative organization, specialized and supportive activities are attached to the line of command by appointing staff supervisors and staff specialists who are attached to the line authority. The power of command always remains with the line executives and staff supervisors guide, advice and council the line executives. Personal Secretary to the Managing Director is a staff official.

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| **MANAGING DIRECTOR** | | |
| **↓** | **↓** | **↓** |
| Production Manager | Marketing Manager | Finance Manager |
| **↓** | **↓** | **↓** |
| Plant Supervisor | Market Supervisor | Chief Assisstant |
| **↓** | **↓** | **↓** |
| Foreman | Salesman | Accountant |

##### **Features of Line and Staff Organization**

##### Line and Staff Organization is a compromise of line organization. It is more complex than line concern.

##### Division of work and specialization takes place in line and staff organization.

##### The whole organization is divided into different functional areas to which staff specialists are attached.

##### Efficiency can be achieved through the features of specialization.

##### There are two lines of authority which flow at one time in a concern :

##### Line Authority

##### Staff Authority

##### Power of command remains with the line executive and staff serves only as counselors.

##### Merits of Line and Staff Organization

1. **Relief to line of executives-** In a line and staff organization, the advice and counseling which is provided to the line executives divides the work between the two. The line executive can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.
2. **Expert advice-** The line and staff organization facilitates expert advice to the line executive at the time of need. The planning and investigation which is related to different matters can be done by the staff specialist and line officers can concentrate on execution of plans.
3. **Benefit of Specialization-** Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.
4. **Better co-ordination-** Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing co- ordination in work as every official is concentrating in their own area.
5. **Benefits of Research and Development-** Through the advice of specialized staff, the line executives, the line executives get time to execute plans by taking productive decisions which are helpful for a concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas. This is possible due to the presence of staff specialists.
6. **Training-** Due to the presence of staff specialists and their expert advice serves as ground for training to line officials. Line executives can give due concentration to their decision making. This in itself is a training ground for them.
7. **Balanced decisions-** The factor of specialization which is achieved by line staff helps in bringing co- ordination. This relationship automatically ends up the line official to take better and balanced decision.
8. **Unity of action-** Unity of action is a result of unified control. Control and its effectivity take place when co- ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions. This serves as effective control in the whole enterprise.

##### Demerits of Line and Staff Organization

1. **Lack of understanding-** In a line and staff organization, there are two authority flowing at one time. This results in the confusion between the two. As a result, the workers are not able to understand as to who is their commanding authority. Hence the problem of understanding can be a hurdle in effective running.
2. **Lack of sound advice-** The line official get used to the expertise advice of the staff. At times the staff specialist also provide wrong decisions which the line executive have to consider. This can affect the efficient running of the enterprise.
3. **Line and staff conflicts-** Line and staff are two authorities which are flowing at the same time. The factors of designations, status influence sentiments which are related to their relation, can pose a distress on the minds of the employees. This leads to minimizing of co- ordination which hampers a concern’s working.
4. **Costly-** In line and staff concern, the concerns have to maintain the high remuneration of staff specialist. This proves to be costly for a concern with limited finance.
5. **Assumption of authority-** The power of concern is with the line official but the staff dislikes it as they are the one more in mental work.
6. **Staff steals the show-** In a line and staff concern, the higher returns are considered to be a product of staff advice and counseling. The line officials feel dissatisfied and a feeling of distress enters a concern. The satisfaction of line officials is very important for effective results.

# Delegation of Authority

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| A manager alone cannot perform all the tasks assigned to him. In order to meet the targets, the manager should delegate authority. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results. Elements of Delegation  1. **Authority** - in context of a business organization, authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve the organizational objectives. Authority must be well- defined. All people who have the authority should know what is the scope of their authority is and they shouldn’t misuse it. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority. Authority always flows from top to bottom. It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else doesn’t imply escaping from accountability. Accountability still rest with the person having the utmost authority. |  |

1. **Responsibility** - is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for praises. While if he doesn’t accomplish tasks assigned as expected, then also he is answerable for that.
2. **Accountability** - means giving explanations for any variance in the actual performance from the expectations set. Accountability can not be delegated. For example, if ’A’ is given a task with sufficient authority, and ’A’ delegates this task to B and asks him to ensure that task is done well, responsibility rest with ’B’, but accountability still rest with ’A’. The top level management is most accountable. Being accountable means being innovative as the person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can’t be escaped. It arises from responsibility.

For achieving delegation, a manager has to work in a system and has to perform following steps : -

1. Assignment of tasks and duties
2. Granting of authority
3. Creating responsibility and accountability

**Delegation of authority** is the base of superior-subordinate relationship, it involves following steps:-

1. **Assignment of Duties -** The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.
2. **Granting of authority -** Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.
3. **Creating Responsibility and Accountability -** The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them. Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important. Therefore, it is that which gives effectiveness to authority. At the same time, responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed. Accountability arises out of responsibility and responsibility arises out of authority. Therefore, it becomes important that with every authority position an equal and opposite responsibility should be attached.

Therefore every manager, i.e.,the delegator has to follow a system to finish up the delegation process. Equally important is the delegatee’s role which means his responsibility and accountability is attached with the authority over to here.

##### **Relationship between Authority and Responsibility**

Authority is the legal right of person or superior to command his subordinates while accountability is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates, in which orders and instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding accountability from subordinates. If the marketing manager directs the sales supervisor for 50 units of sale to be undertaken in a month & If the above standards are not accomplished, it is the marketing manager who will be accountable to the chief executive officer. Therefore, we can say that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.

##### Differences between Authority and Responsibility

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| **Authority** | **Responsibility** |
| It is the legal right of a person or a superior to command his subordinates. | It is the obligation of subordinate to perform the work assigned to him. |
| Authority is attached to the position of a superior in concern. | Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him. |
| Authority can be delegated by a superior to a subordinate | Responsibility cannot be shifted and is absolute |
| It flows from top to bottom. | It flows from bottom to top. |

**Importance of Delegation**

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| 1. Delegation of authority is a process in which the authority and powers are divided and shared amongst the subordinates. When the work of a manager gets beyond his capacity, there should be some system of sharing the work. This is how delegation of authority becomes an important tool in organization function. Through delegation, a manager, in fact, is multiplying himself by dividing/multiplying his work with the subordinates. The importance of delegation can be justified by - 2. Through delegation, a manager is able to divide the work and allocate it to the subordinates. This helps in reducing his work load so that he can work on important areas such as - planning, business analysis etc. 3. With the reduction of load on superior, he can concentrate his energy on important and critical issues of concern. This way he is able to bring effectiveness in his work as well in the work unit. This effectively helps a manager to prove his ability and skills in the best manner |  |

4. Delegation of authority is the ground on which the superior-subordinate relationship stands. An organization functions as the authority flows from top level to bottom. This in fact shows that through delegation, the superior-subordinate relationship become meaningful. The flow of authority is from top to bottom which is a way of achieving results.

1. Delegation of authority in a way gives enough room and space to the subordinates to flourish their abilities and skill. Through delegating powers, the subordinates get a feeling of importance. They get motivated to work and this motivation provides appropriate results to a concern. Job satisfaction is an important criterion to bring stability and soundness in the relationship between superior and subordinates. Delegation also helps in breaking the monotony of the subordinates so that they can be more creative and efficient. Delegation of authority is not only helpful to the subordinates but it also helps the managers to develop their talents and skills. Since the manager get enough time through delegation to concentrate on important issues, their decision-making gets strong and in a way they can flourish the talents which are required in a manager. Through granting powers and getting the work done, helps the manager to attain communication skills, supervision and guidance, effective motivation and the leadership traits are flourished. Therefore it is only through delegation, a manager can be tested on his traits.
2. Delegation of authority is help to both superior and subordinates. This, in a way, gives stability to a concern’s working. With effective results, a concern can think of creating more departments and divisions flow working. This will require creation of more managers which can be fulfilled by shifting the experienced, skilled managers to these positions. This helps in both virtual as well as horizontal growth which is very important for a concern’s stability.

Therefore, from the above points, we can justify that delegation is not just a process but it is a way by which manager multiples himself and is able to bring stability, ability and soundness to a concern.

# Centralization and Decentralization

Centralization is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. According to Allen, “Centralization” is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be :-

1. Reservation of decision making power at top level.

2. Reservation of operating authority with the middle level managers.

3. Reservation of operation at lower level at the directions of the top level.

Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. For example, in a business concern, the father & son being the owners decide about the important matters and all the rest of functions

like product, finance, marketing, personnel, are carried out by the department heads and they have to act as per instruction and orders of the two people. Therefore in this case, decision making power remain in the hands of father & son.

On the other hand, **Decentralization** is a systematic delegation of authority at all levels of management and in all of the organization. In a decentralization concern, authority in retained by the top management for taking major decisions and framing policies concerning the whole concern. Rest of the authority may be delegated to the middle level and lower level of management.

The degree of **centralization and decentralization** will depend upon the amount of authority delegated to the lowest level. According to Allen, “Decentralization refers to the systematic effort to delegate to the lowest level of authority except that which can be controlled and exercised at central points.

Decentralization is not the same as delegation. In fact, decentralization is all extension of delegation. Decentralization pattern is wider is scope and the authorities are diffused to the lowest most level of management. Delegation of authority is a complete process and takes place from one person to another. While decentralization is complete only when fullest possible delegation has taken place. For example, the general manager of a company is responsible for receiving the leave application for the whole of the concern. The general manager delegates this work to the personnel manager who is now responsible for receiving the leave applicants. In this situation delegation of authority has taken place. On the other hand, on the request of the personnel manager, if the general manager delegates this power to all the departmental heads at all level, in this situation decentralization has taken place. There is a saying that “Everything that increasing the role of subordinates is decentralization and that decreases the role is centralization”. Decentralization is wider in scope and the subordinate’s responsibility increase in this case. On the other hand, in delegation the managers remain answerable even for the acts of subordinates to their superiors.

##### **Implications of Decentralization**

1. There is fewer burdens on the Chief Executive as in the case of centralization.
2. In decentralization, the subordinates get a chance to decide and act independently which develops skills and capabilities. This way the organization is able to process reserve of talents in it.
3. In decentralization, diversification and horizontal can be easily implanted.
4. In decentralization, concern diversification of activities can place effectively since there is more scope for creating new departments. Therefore, diversification growth is of a degree.
5. In decentralization structure, operations can be coordinated at divisional level which is not possible in the centralization set up.
6. In the case of decentralization structure, there is greater motivation and morale of the employees since they get more independence to act and decide.
7. In a decentralization structure, co-ordination to some extent is difficult to maintain as there are lot many department divisions and authority is delegated to maximum possible extent, i.e., to the bottom most level delegation reaches. Centralization and decentralization are the categories by which the pattern of authority relationships became clear. The degree of centralization and de-centralization can be affected by many factors like nature of operation, volume of profits, number of departments, size of a concern, etc. The larger the size of a concern, a decentralization set up is suitable in it.

**Delegation and Decentralization**

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| **Basis** | **Delegation** | **Decentralization** |
| Meaning | Managers delegate some of their function and authority to their subordinates. | Right to take decisions is shared by top management and other level of management. |
| Scope | Scope of delegation is limited as superior delegates the powers to the subordinates on individual bases. | Scope is wide as the decision making is shared by the subordinates also. |
| Responsibility | Responsibility remains of the managers and cannot be delegated | Responsibility is also delegated to subordinates. |
| Freedom of Work | Freedom is not given to the subordinates as they have to work as per the instructions of their superiors. | Freedom to work can be maintained by subordinates as they are free to take decision and to implement it. |
| Nature | It is a routine function | It is an important decision of an enterprise. |
| Need on purpose | Delegation is important in all concerns whether big or small. No enterprises can work without delegation. | Decentralization becomes more important in large concerns and it depends upon the decision made by the enterprise, it is not compulsory. |
| Grant of Authority | The authority is granted by one individual to another. | It is a systematic act which takes place at all levels and at all functions in a concern. |
| Grant of Responsibility | Responsibility cannot be delegated | Authority with responsibility is delegated to subordinates. |
| Degree | Degree of delegation varies from concern to concern and department to department. | Decentralization is total by nature. It spreads throughout the organization i.e. at all levels and all functions |
| Process | Delegation is a process which explains superior subordinates relationship | It is an outcome which explains relationship between top management and all other departments. |
| Essentiality | Delegation is essential of all kinds of concerns | Decentralization is a decisions function by nature. |
| Significance | Delegation is essential for creating the organization | Decentralization is an optional policy at the discretion of top management. |
| Withdrawal | Delegated authority can be taken back. | It is considered as a general policy of top management and is applicable to all departments. |
| Freedom of Action | Very little freedom to the subordinates | Considerable freedom |