

Department of Management

College of Business and Economics

Addis Ababa University

Introduction to Management

Yohannes Neda

yohannesneda@gmail.com



Chapter Five

The Organizing Function

Chapter Objectives	Contents
At the end of this course you will be able to: ✓ Explain the meaning and importance of organizing ✓ Describe the process of organizing ✓ Discuss the basic elements of organizing and organizational structure	✓ Meaning and Importance of Organizing ✓ The Organizing Process ✓ Basic Elements of Organizing ✓ Division of Labor ✓ Departmentalization ✓ Authority, Responsibility and Accountability ✓ Centralization and Decentralization ✓ Span of Management ✓ Organizational Structure

Organizing

- In planning, managers set their objectives and determine exactly what to do to attain these objectives.
- Planning, consequently, requires organizing the efforts of many people.
- **Organizing,** thus is**,** the process of arranging people and other resources to work together to accomplish a goal.



Organizing

As one of the basic functions of management, organizing overall forces us to address several basic questions such as the following:

1. What specific tasks are required to implement our plans?
2. How many organizational positions are needed to perform all the required tasks?
3. How should these positions be grouped?
4. How many layers of management (Organizational levels) are needed to coordinate them?
5. How many people should a manager supervise directly?



Your Reflection

What benefits do you expect from organizing?



Benefits of Organizing

- Clarity of individual performance expectations and specialized tasks.
- Division of work that avoids duplication, conflict, and misuse of resources.
- A logical flow of work activities.
- Established channels of communication.
- Coordinating mechanisms that ensure harmony among organization members.
- Focused efforts that relate to objectives logically and efficiently.
- Appropriate authority structures with accountability to enhance planning and controlling throughout the organization.

Steps in Organizing

The following points represents the multi-step process of organizing.

1. Detailing all the work that must be done to attain the goals of the organization.
2. Dividing the total workload into activities that can logically and comfortably be performed by one person or by a group of individuals.
3. Combining the work of the organization members in a logical and efficient manner.
4. Setting up a mechanism to co-ordinate the work of organization members into a unified, harmonious whole.

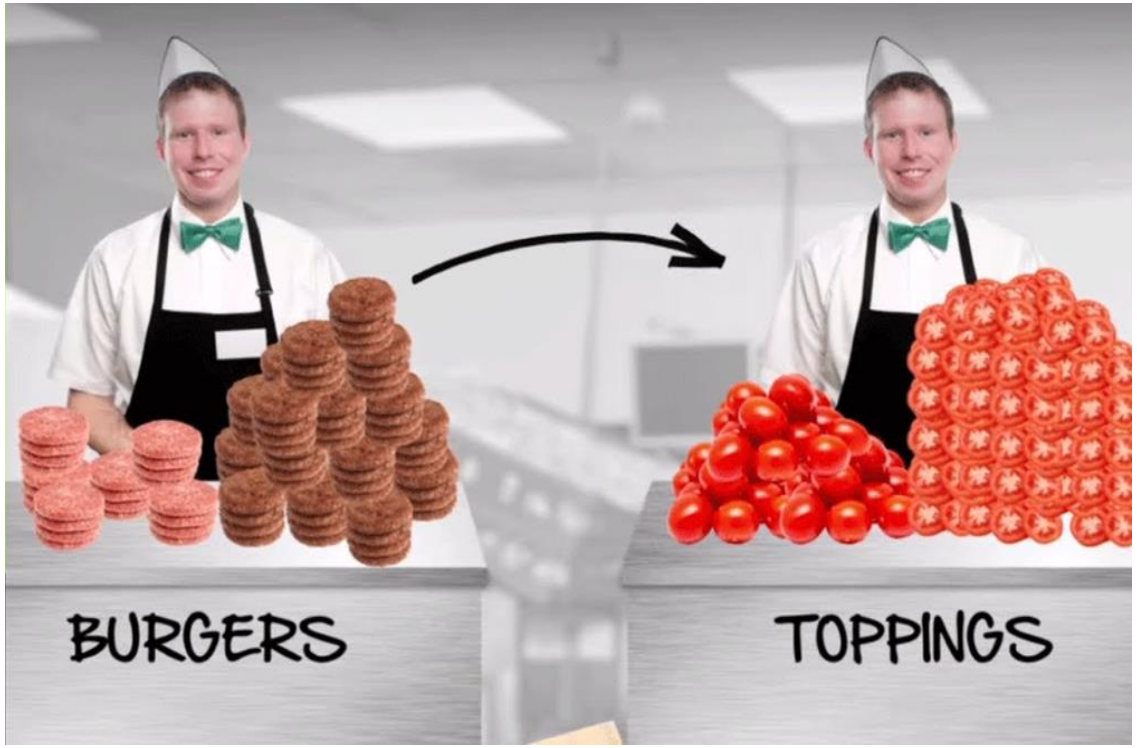
Basic Elements of Organizing

1. Division of Work/labor
2. Grouping Jobs/Departmentalizatio
3. Establishing reporting relationships between jobs
4. Distributing authority among jobs
5. Coordinating activities among jobs



1. Division of Work/labor

- Tasks are broken down and divided into smaller parts
- It is the process by which tasks and responsibilities are allocated
- It is essential for greater efficiency and higher productivity



1. Division of Work/labor

Benefits of Division of Labor:

- Workers performing small, simple tasks will become very proficient at each task.
- Transfer time between tasks decreases
- The more narrowly defined a job is, the easier it is to develop specialized equipment to assist with that job.
- When an employee who performs a highly specialized job is absent or resigns, the manager is able to train someone new at relatively low cost.

1. Division of Work/labor

Limitations of Division of Labor:

- Workers who perform highly specialized jobs may become bored and dissatisfied.
- The job may be so specialized that it offers no challenge or stimulation.
- If boredom and monotony set in, absenteeism rises and the quality of work may suffer.
- The anticipated benefits of job specialization do not always occur.

➧ **Although some degree of specialization is necessary, it should not be carried to extremes because of the possible negative consequences**

2. Grouping Jobs: Departmentalization

- All organizations, regardless of their size or mission, divide their overall operations into sub-activities and then combine these sub-activities into working groups.
- This process of grouping specialized activities in a logical manner is called **departmentalization** .
- In smaller organizations, the owner-manager/partner may be able to personally oversee everyone who works there.
- As an organization grows, new managerial positions are created to supervise work of others grouped *according to some plan* which leads to the creation of departments.

Basis of Departmentalization

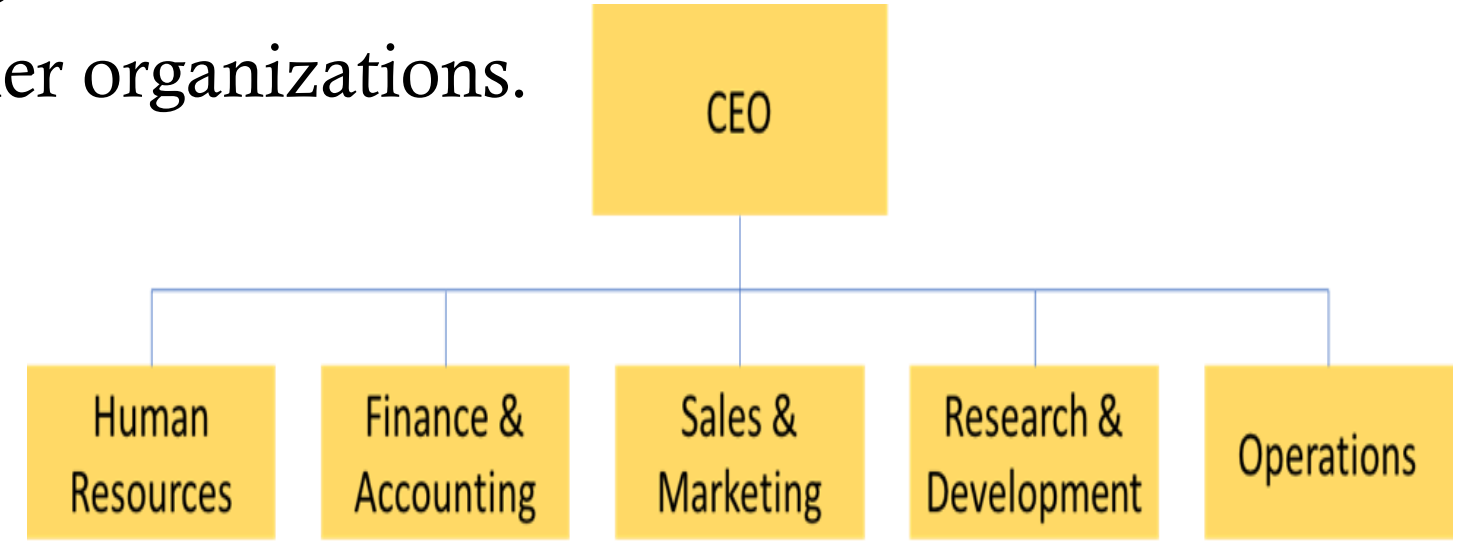
Since organizations are different in their activities, objectives and areas in which they operate, there are different bases for departmentalization.

The most common bases of departmentalization are:

- **Functional**
- **Product**
- **Territory**
- **Customer**
- **Process**

Functional Departmentalization

- It is the grouping together of activities in accordance with the functions of an organization- on the basis of similarity of expertise, skills or work activities.
- Jobs that call for certain skills or the use of similar working methods will be put together.
- Most common in smaller organizations.



Functional Departmentalization

Advantages:

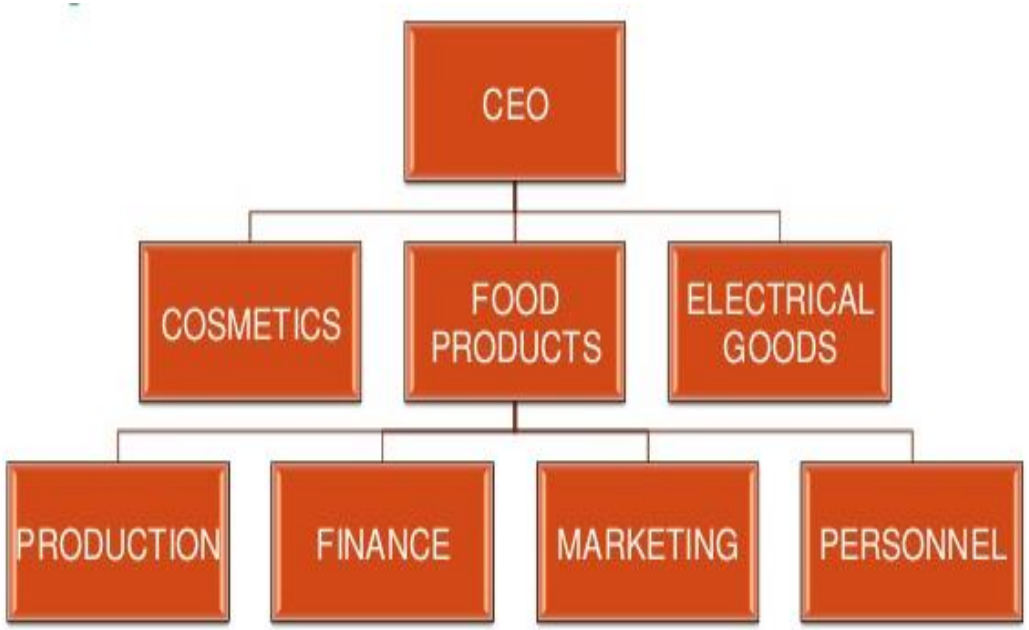
- Each department can be staffed by experts in that functional area.
- Supervision is also facilitated because an individual manager needs to be familiar with only a relatively narrow set of skills.
- Coordinating activities inside each department is easier.

Disadvantages:

- De-emphasis of overall company objectives.
- Over specializes and narrow viewpoints of key personnel.
- Reduce coordination and communication between (among) functions.
- Decisions are concentrated at the top management, creating delay.
- Limits development of general managers.

Product Departmentalization

- It is the grouping and arrangement of activities around products or product groups.
- Departmentalization by product should be considered when attention, energy and efforts need to be focused on an organization's particular products.
- This approach works well for an enterprise which engaged in very different types of products.
- **E.g. Textile products - Nylon products, woolen products, silk products, cotton products**



Product Departmentalization

Advantages:

- All activities associated with one product or product group can be easily integrated and coordinated.
- The speed and effectiveness of decision making are enhanced.
- The performance of individual products or product groups can be assessed more easily and objectively, thereby improving the accountability of departments for the results of their activities.
- Furnishes measurable training ground for general managers

Disadvantages:

- Managers in each department may focus on their own product or product group to the exclusion of the rest of the organization.
- Administrative costs may rise because each department must have its own functional specialists for areas such as market research and financial analysis.
- Requires more persons with general manager abilities.

Territory/Location Departmentalization

- Groups activities on the basis of geographic region or territory.
- Is common in enterprises that operate over wide geographic areas i.e. it is attractive to large-scale firms or other enterprises whose activities are physically or geographically dispersed.
- The logic is that all activities in a particular area or region should be assigned to a manager.
- This individual would be in charge of all operations in that geographic area.
- Geographic departmentalization works best when different laws, currencies, languages and traditions exist and have a direct impact on the ways in which business activities must be conducted.



Territory/Location Departmentalization

Advantages

- Places emphasis on local markets and problems; Encourages local participation in decision-making
- Improves coordination of activities in a region
- Furnishes measurable training ground for general managers.
- Encourages decentralized decision-making.

Disadvantages

- Requires more persons with general manager abilities
- Duplicates staffs, services, or effort.
- Tends to make maintenance of economical central services difficult and may require services such as personnel or purchasing at the regional level.

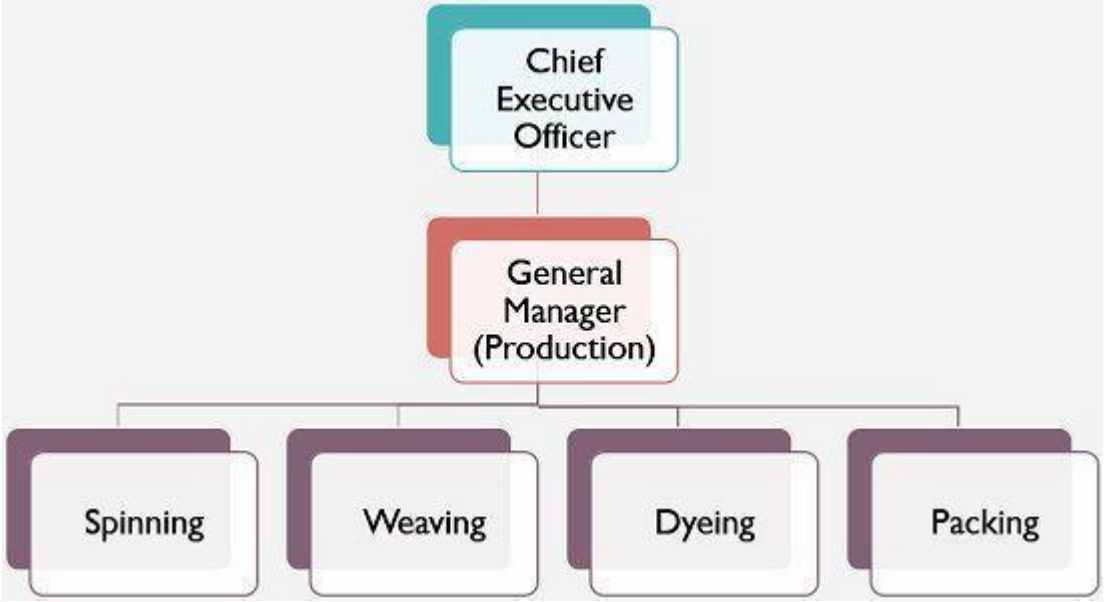
Customer Departmentalization

- occurs when the organization structures its activities to respond to and interact with specific customers or customer groups.
- Major advantage is that the organization is able to use skilled specialists to deal with unique customers or customer groups.
- A disadvantage is that a fairly large administrative staff is required to integrate various departments' activities to make sure the organization does not overcommit itself in any one area.



Process Departmentalization

- Manufacturing firms often group activities around a process or type of equipment.
- This is when special skill is needed to operate different machines.
- Making plywood, for example, involves several sequential processes: poling (removing bark from logs); sawing logs in to 8’ lengths, heating; veneer stripping and stamping veneer sheets in to 4' segments; drying and grading according to quality; gluing plies together; finishing and bundling.



Process Departmentalization

Advantages

- Achieves economic advantag
- Uses specialized technology
- Simplifies training

Disadvantages

- Coordination of departments is difficult
- Responsibility for profit is at the top
- Is unsuitable for developing general mangers

3. Establishing Reporting Relationships

- **Chain of Command** is a clear and distinct line of authority among the positions in an organization that has two components:
- **Unity of Command: The *unity of command principle* suggests that an employee should have one boss to whom he/she is directly responsible. It refers to the reporting relationship in which an employee should receive orders from and reports to only one boss.**
- **The Scalar principle: The *scalar principle* establishes that authority and responsibility flow from the top management to the lowest level in an organization.**
- **Here, there is no ambiguity about who should report to whom, since an employee reports to his/her immediate boss who also in turn reports to his/her immediate boss.**

3. Establishing Reporting Relationships

- **Span of Management:** The term span of management is also referred to as a span of control, span of supervision, span of authority or span of responsibility.
- ***Span of management*** refers to the number of subordinates who report directly to a manger, or the number of subordinates who will be directly supervised by a manager.
- There is no magical number for the span of management.
- There are various factors affecting the span of management.
- Based on the number of subordinates who should report to a manager or the number of subordinates that a superior should supervise, we can have *Wide span of management* and *Narrow span of management.*

Your Reflection

- Discuss and Identify the possible factors affecting the span of management in an organization.



Factors Determining an Effective Span of Management

- *Type/nature of work*
- *The availability of information and control systems*
- *Ability of the manger*
- *Manager's personality*
- *The abilities of subordinates*
- *Motivation and commitment*
- *Need for autonomy*
- *Geographic dispersion of subordinates*
- *Levels of management*

Narrow Span of Management

- This means superior controls few numbers of subordinates or few subordinates report to a superior.
- When there is narrow span of management in an organization, we get:
  - Tall organization structure with many levels of supervision between top management and the lowest organizational level.
  - More communication between superiors and subordinates.
  - Managers may be underutilized and their subordinates may be over controlled
  - More trained managerial personnel and centralized authority

Your Reflection

- What advantages and disadvantages may be there with narrow span of management?



Wide Span of Management

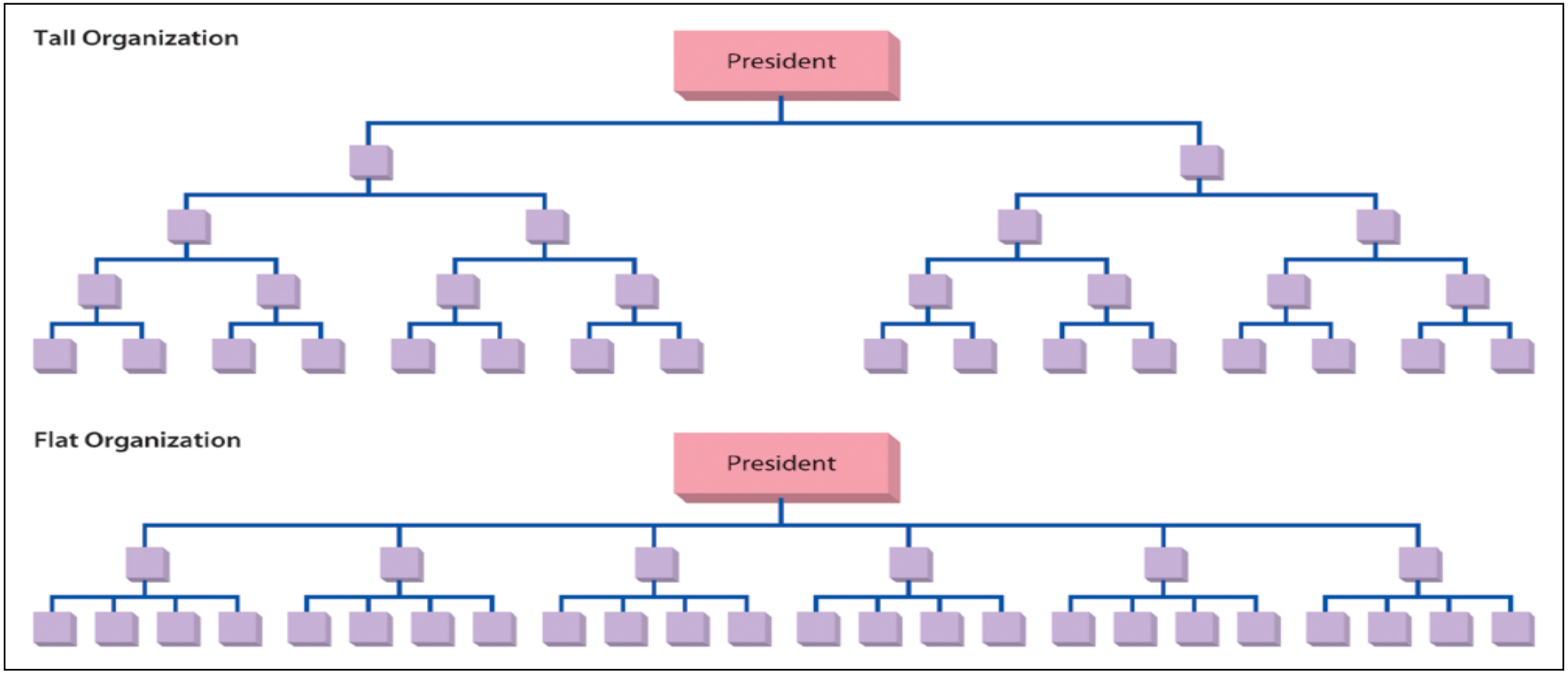
- This means many subordinates report to a superior or a superior supervises many subordinates.
- If the span of management is wide, we get:
  - ✓ A flat organization structure with fewer management levels between top and lower level
  - ✓ Many number of subordinates and decentralized authority
  - ✓ Managers may be overstrained and their subordinates may receive too little guidance and control
  - ✓ Fewer hierarchal level

Your Reflection

- What advantages and disadvantages may be there with wide span of management?



Tall Versus Flat Organizations



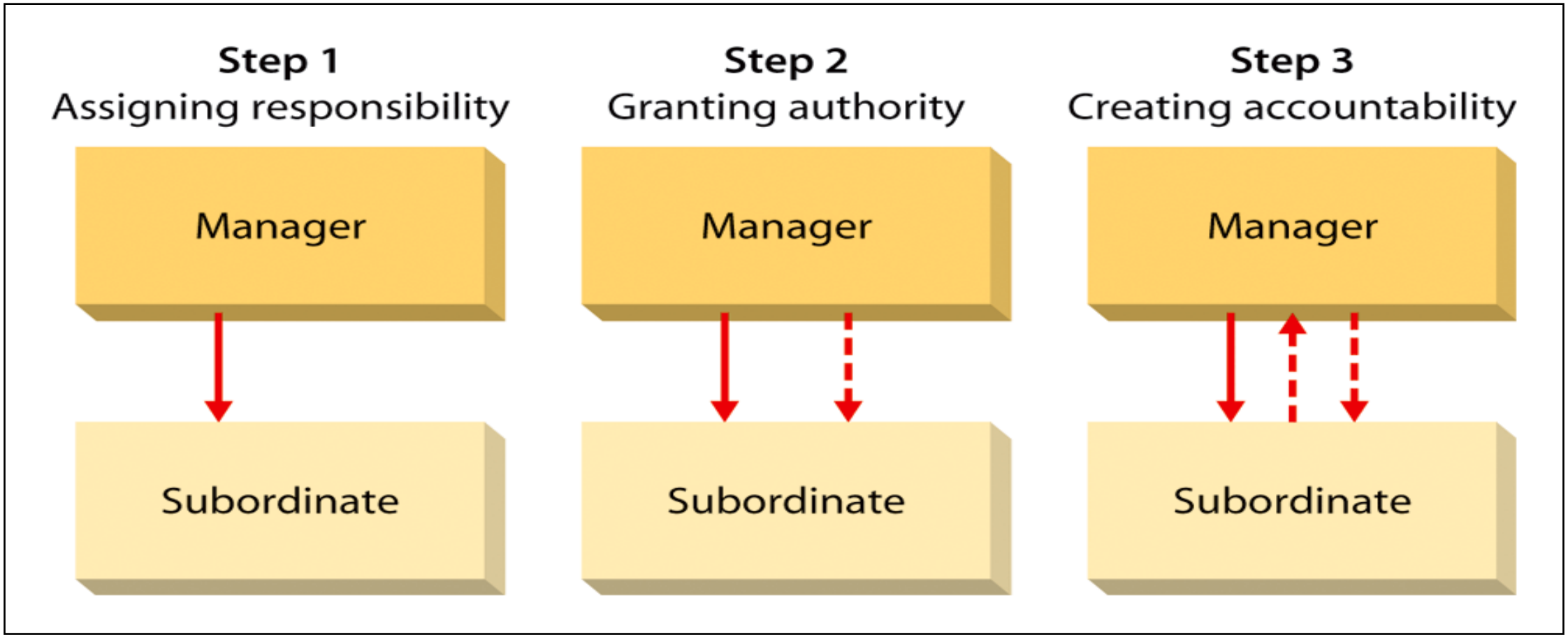
4. Distributing Authority

- Responsibility and authority mean that the responsibilities of each individual in the organization are clearly defined.
- Each individual is also given the authority needed to meet these responsibilities and is held accountable for meeting them.
- **Responsibility** *is the obligation to achieve objectives by performing required activities.*
- **Authority** is *the right to make decisions, issue orders, and use resources.*
- ***Accountability*** *is the evaluation of how well individuals meet their responsibility.*
- All members of the organization should be evaluated periodically and held accountable for achieving their objectives.

Delegation of Authority

- Delegation is an organizational process whereby as many people as possible are directly and personally involved in decision making, directing the work and doing the work.
- Delegation is a process of sharing ones authority and responsibility with others.
- Delegation is an act of entrusting others with authority and responsibility, and at the same time creating obligation and accountability for results.

Steps in the Delegation Process



Your Reflection

- What are the possible advantages of delegation of authority?



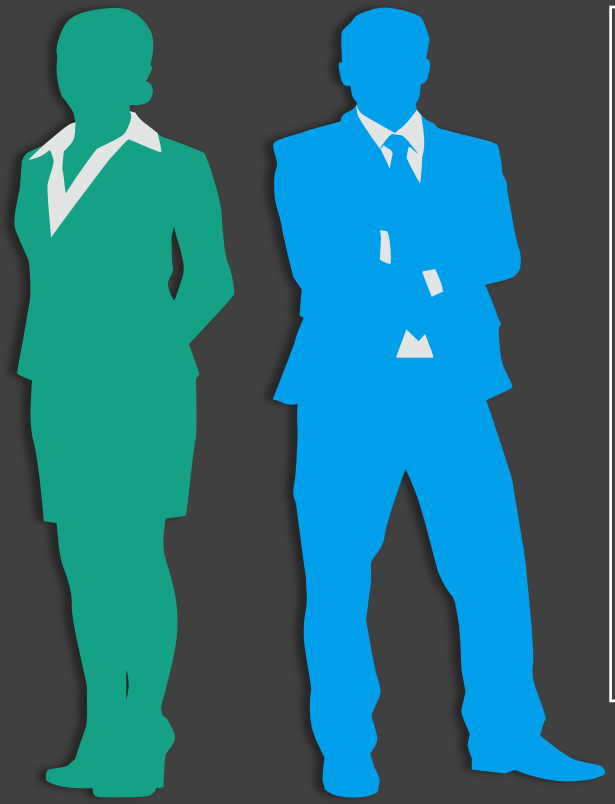
Advantages in Delegation

- ✓ It eases the burden on management and creates time for important tasks.
- ✓ It helps to exploit the specialized knowledge and experience of the employees
- ✓ It helps promote and develop the abilities, initiative, self - reliance and competence of employees.
- ✓ It has a positive effect on the motivation and job satisfaction of employees.
- ✓ Delegation contributes to subordinates growth and development.
- ✓ Delegation ensures the maximum utilization of the skills and abilities of subordinates.
- ✓ Delegation increases motivation and job satisfaction.
- ✓ Delegation creates a climate in which subordinates can become more involved in decision-making and planning processes within an organization.

Obstacles to Effective Delegation

Superior-related Reasons of Inadequate Delegation

- Belief that he can make better decisions
- Fear of losing importance
- Fear of loss of control
- Fear of being exposed
- Unwillingness to take calculated risk
- Tendency to be authoritarian
- Environment of mutual distrust



Subordinate-related Factors

- Lack of self-confidence in their abilities
- Fear of making mistakes
- Dependent personality
- Unclear delegation
- Lack of motivation

Principles of Effective Delegation

- Define authority and responsibility
- Involve subordinates
- Require completed work
- Provide training
- Interference should be minimum
- Tolerance of mistakes
- Adequate controls should be established
- Goals should be predetermined
- Policies, rules and procedures should be established to guide decisions
- Delegation should be rewarded
- Unity of command
- Principle of communications
- Principle of management by exception

Centralization and Decentralization of Authority

- Centralization and decentralization of authority are basic, overall management philosophies of delegation, of where decisions are to be made.
- Centralization of authority is characterized by authority concentrated at the top of an organization or department.
- Decentralization of authority is characterized by a high degree of delegated authority throughout an organization or department.
- Decentralization is an approach that requires managers to decide what and when to delegate, to carefully select and train personnel, and to formulate adequate controls.

Centralization and Decentralization of Authority

- Neither centralization nor decentralization is absolute.
- No one manager makes all the decisions, even in a centralized setting.
- And total delegation would end the need for top level managers.
- Thus there are only degrees of centralization and decentralization.
- In most organizations some tasks are relatively centralized (for example, payroll system, purchasing, and personnel policies), and others are relatively decentralized.

Factors Affecting Centralization and Decentralization

- Costliness of decisions
- Uniformity of policy
- Corporate culture
- Availability of managers
- Control mechanisms
- Environmental influences
- Time frame of decisions
- Adequacy of communication system
- Types of tasks
- Existence of standing plans
- Size and Complexity of the organization
- Locations of target market

5. Coordinating Activities

- Coordination is the process of linking the activities of the various departments of an organization.
- Primary reason for coordination is that departments and work groups are interdependent – they depend on each other for information and resources to perform their respective activities.
- The greater the interdependence between departments, the more coordination the organization requires so departments are able to perform effectively.

5. Coordinating Activities

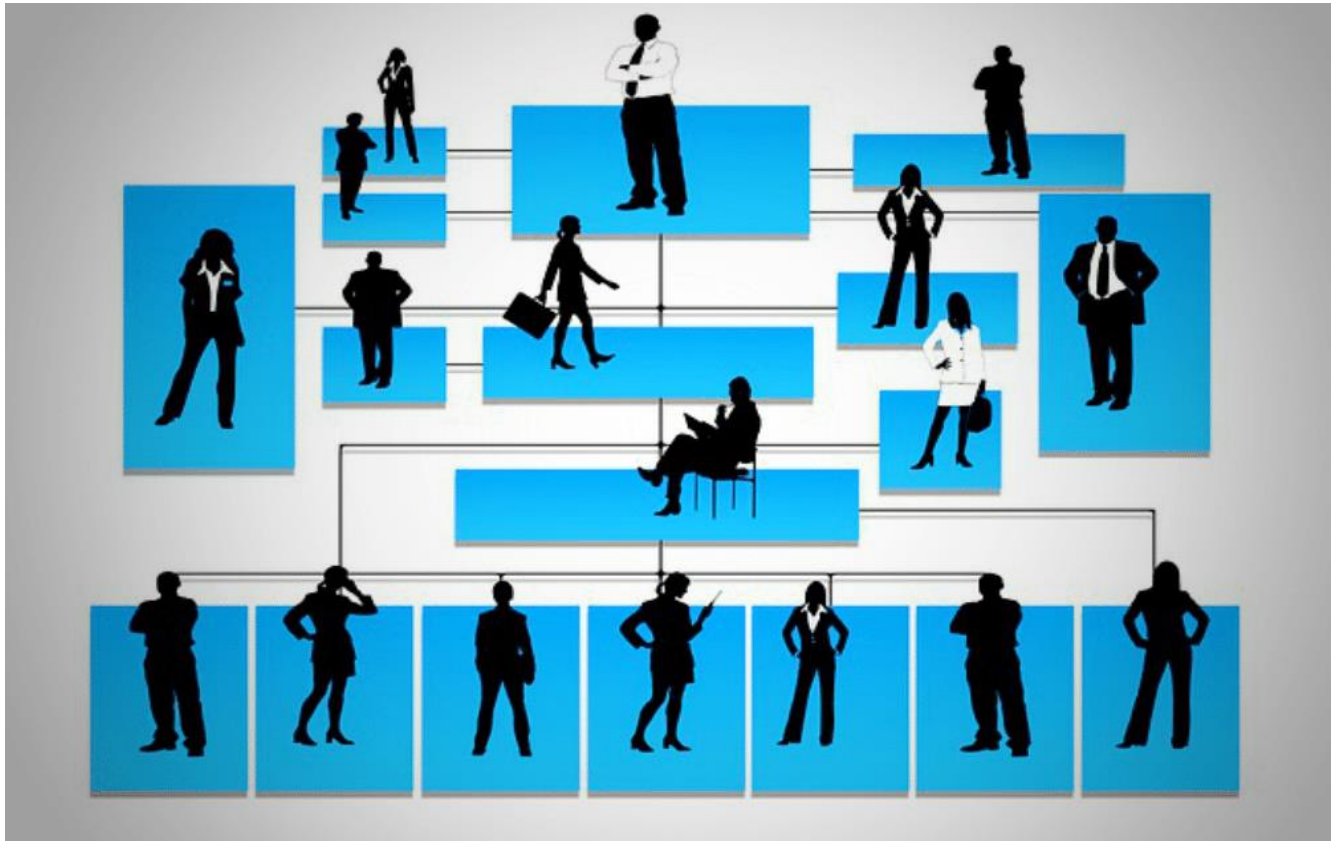
Structural Coordination Techniques

These techniques are designed to achieve and maintain coordination among interdependent units. They include:

- The managerial hierarchy: One manager is placed in charge of interdependent departments or units.
- Rules and procedures: Routine coordination activities may be handled by rules and standard procedures.
- Liaison roles: A manager acts as a common point of contact but has no formal authority over the interdependent groups.
- Task forces: A task force may be needed when interdependence is complex and several interdependent units are involved and it is created by drawing one representative from each unit.
- Integrating departments: Similar to a task force but is more permanent, and usually has more authority than a task force and may even be given some budgetary control.

6. Differentiating Between Positions

- Line position is in the direct chain of command that is responsible for achieving an organization's goals.
- Staff position is one intended to provide expertise, advice and support for line positions.



6. Differentiating Between Positions

Differences between Line and Staff

- Line managers work toward organizational goals; staff managers advise and assist.
- Line managers have formal and legitimate authority; staff authority is less concrete and may take a variety of forms:

- Compulsory authority – line manager must listen to advice of staff manager, but can choose to take it or ignore it. [Finance Manager must listen to advice of auditor, but may take it or leave it]
- Functional authority – formal or legitimate authority given to staff managers over activities related to their specialties. [HR specialist who is expert in discrimination or Labor Law]

Organizational Structure

- ***Organizational Structure*** is the defined set of relationships among divisions, departments, and managers in the organization, including the responsibilities of each unit.
- The formal organizational structure is visualized using an organization chart.
- The organizational chart, thus, is a graphic representation of how the organization should function.
- It describes a system of formal ***lines of authority***, ***responsibility***, ***communication*** and ***chain of command*** that must be maintained.

Informal Organizations

- ***Informal organizations*** are shadow organizations that evolve through the personal interactions, sentiments, and social activities of individuals.
- They are not written down, they do not have job titles or formal descriptions of authority, yet they are often more influential than formal structures of authority.
- With every formal organization, there exists an informal organization.
- Informal leadership and communication channels, lunch and coffee break conversations, small group interactions, cliques, friendships, group gossip, and grapevines are all powerful components of the informal structure of an organization