CHAPTER- FOUR

ORGANIZING

Basic Concepts of Organizing:

- Definition
- Steps in organizing process
- Division of labor
- Departmentalization
- Co-ordination
- Authority, responsibility and accountability.
- Authority and power
- Delegation
- Centralization and decentralization
- Span of management (control)
- Formal and informal organization
- Organizational structure, organizational chart and organizational manual

4.1. Definition:

- Organizing is the management function that establishes relationships between activity and authority. When managers create an organization they are actually developing a framework in which to create the desired product or service. This framework establishes the operating relationships among people: who supervises whom, who reports to whom, what departments are formed and /what kind of work each department performs?
- The result of an organizing process is an organization a whole consisting of a unified parts (a system) acting in harmony to execute tasks that achieve goals effectively and efficiently and accomplish the company's mission.

- There is no universally accepted definition of organizing. Different authors gave various but supplementary definitions. Among others the following are a few:

1. It is the establishing of effective behavioral relationships among persons so that they may work together efficiently and gain personal satisfaction in doing selected tasks under given environmental conditions for the purpose of achieving some goals and objectives.

2. It is one of the functions of management, the one concerned with choosing what tasks are to be done, who is to do them, how the tasks are to be grouped, who is to report to whom and where decisions are to be made.

3. It is the grouping of activities necessary to attain objectives, the assignment of each grouping to a manager with authority to supervise it, and the provision of co-ordination vertically and horizontally in the enterprise structure.

4. It defines the part, which each member of an enterprise is expected to perform and the relation between such members to the end that their consorted endeavor shall be most effective to the purpose of the enterprise.

5. Organizing is the part of managing that involves establishing an intentional structure of roles for people to fill in an organization.

Hence, it is a function of identifying, classifying, grouping, and assigning various activities and prescribing authority relationships to create an organism or structure capable of accomplishing predetermined objectives.

Organizing involves,

i) The identification and classification of required activities necessary to attain objectives.

ii) The grouping of activities necessary to attain objectives.

iii) The assignment of each grouping to a manager with authority necessary to supervise it.

iv) The provision for co-ordination horizontally and vertically in the organizational structure.

4.2. Relationship between planning and organizing

Planning and organizing are intimately related. Organizing begins with and is governed by plans that state where the organization is going and how of will get there. An organization must be built, or an existing one modified, to ensure that those plans are executed and objectives achieved.

4.3. Benefits of organizing

The organizing process is important as a way to help the organization attain its mission. In addition it has the following importance.

1. Clarifies the work environment:
Everyone understands what to do. The tasks and responsibilities of all individuals, departments and major organization divisions are clear. The type and limits of authority are determined.

2. Creates a coordinated environment
Confusion is minimized and obstacles to performance are removed because it defines the interrelationships of the various work units and establishes guidelines for interaction among personnel.

3. Achieves the principle of unity of direction
In organizing each work units will have one coordinator that leads them to one direction, i.e. the direction which similar to the general organization objectives.

4. **Establishes the chain of command**
Organizing creates unbroken line of relationship (Chain of command) from the bottom to the top of the organization. It defines the formal decision marking structure and avoids confusion.

4.4. Steps in Organizing Process

1. **Reviewing plans and goals/objectives.**

A company's objectives and its plans to achieve them dictate its work activities

2. **Determining work activities** – managers need to ask what work activities are necessary to accomplish the objectives.
3. **Classifying and grouping activities** – Once managers know what tasks must be done; they classify and group these activities in to manageable work units- departments (through departmentalization). Departmentalization may be functional, geographical, product, or customer.
4. **Assigning work and delegating authority**.
   After grouping the activities in to departments, managers must assign the units to individuals and give them the appropriate authority to accomplish the task.
5. **Designing a hierarchy of relationships**
   This last step requires managers to determine the vertical and horizontal operating relationships of the organization as a whole. Vertical structuring results in a decision-making hierarchy. Horizontal structuring defines working relationship between operating departments.

➧ To understand the above steps look the following example:

STEP 1:- Plan 10% return on investment

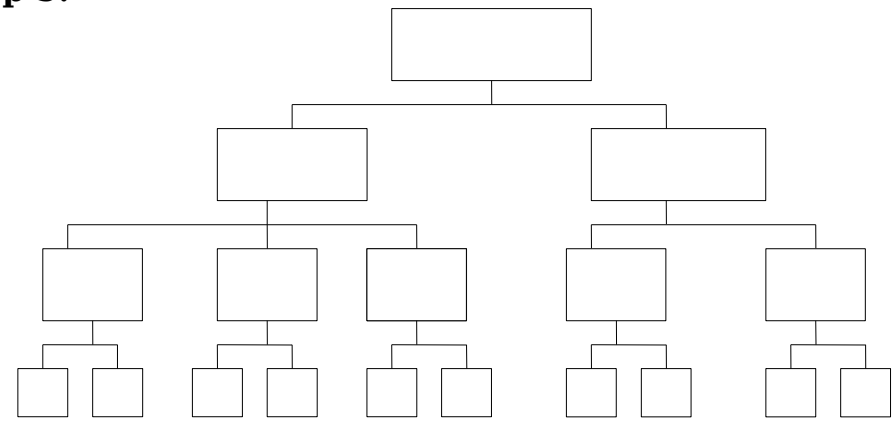
Step 2:-	Hiring	Training	Assembly	Sales
	Payroll	Bookkeeping		Recruiting Collection
	Machining	Advertising	packaging	Inspection

Step 3:-	**Marketing**	**Finance**	**Human**	**Resource**
	Production			
	Advertising	Payroll	Recruiting	Machining
	Sales	Bookkeeping	Hiring	Assembly
	Packaging	Collection	Training	Inspection

Step 4:-	Abebe	Lema	Samuel
	Sales	Bookkeeping	Payroll
	Kebede	Kassa	Sara

Hiring Collection Advertising

Step 5:-



4.5. Departmentalization: Meaning and Basis

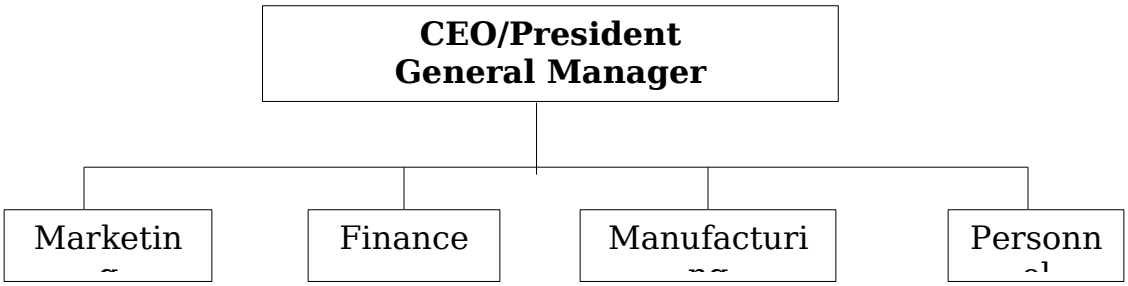
Departmentalization is dividing and grouping activities and employee of an organization in to various departments.

There are **six** types of approaches of departmentalization:

1. Functional Departmentalization

Functions refer to the various responsibility areas of an organizational component. It is the process of grouping the organizations activities in to units in logical manner on the basis of essential functions that must be performed to attain organizational objectives/goals.

These functions include marketing, finance, operations, manufacturing personnel, engineering etc.



Advantage

- It is logical, scientific and time tested method because its group like or similar activities together which facilitate specialization (efficiency is fostered through specialization)
- It makes supervision easier, since each manager is an expert in only the narrow range of skills
- Tight control of all functional units is assured, because the top managers are responsible for the end results.
- It simplifies training.

Disadvantage

- People in functional departments may lose sight of the overall operations of the business sit in turn invites employee to de-emphasize the overall company objective.
- Lowercase may develop highly specialized skills, but not general managerial abilities. Consequently, functional departmental is not an ideal training ground for top level managers.
- Although there is strong relationship between units. Within a function, co-reduction b/n function is reduction.
- Sometimes conflicts develops among departments as each unit compete for resources
- The geographic area served or the type of product or product line produced may require a different type of departmentalization.
- Responsibility for profit is at the top.

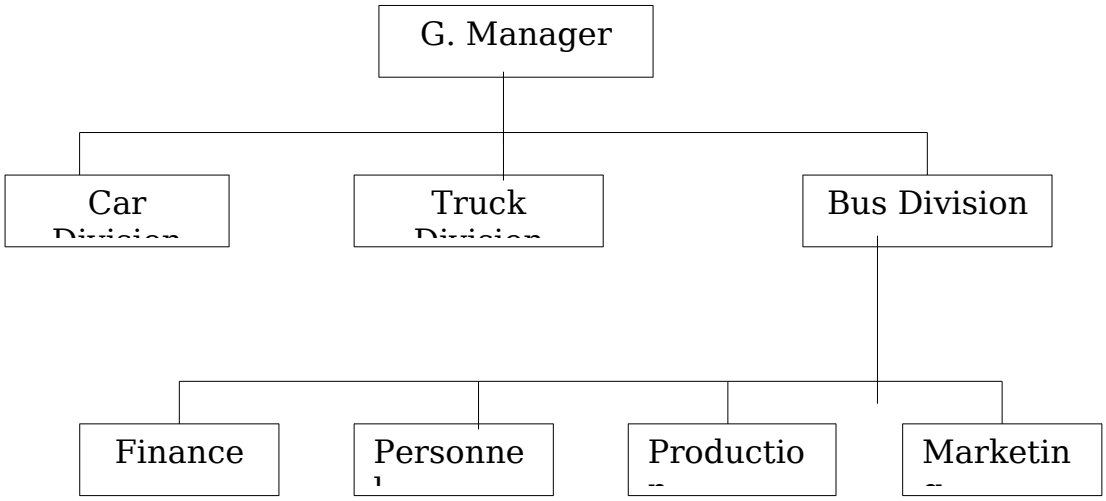
NB: Despite its disadvantages, Functional departmentalization is widely used by managers.

2. Product Departmentalization

It is the grouping of activities on the basis of product line. It is adopted by commonly used by many factories that produce and sell a number of

product lines made-up of several different items. Such as drug, food, clothing, machines, automobiles.

Example: Product departmentalization of automobiles



Advantages

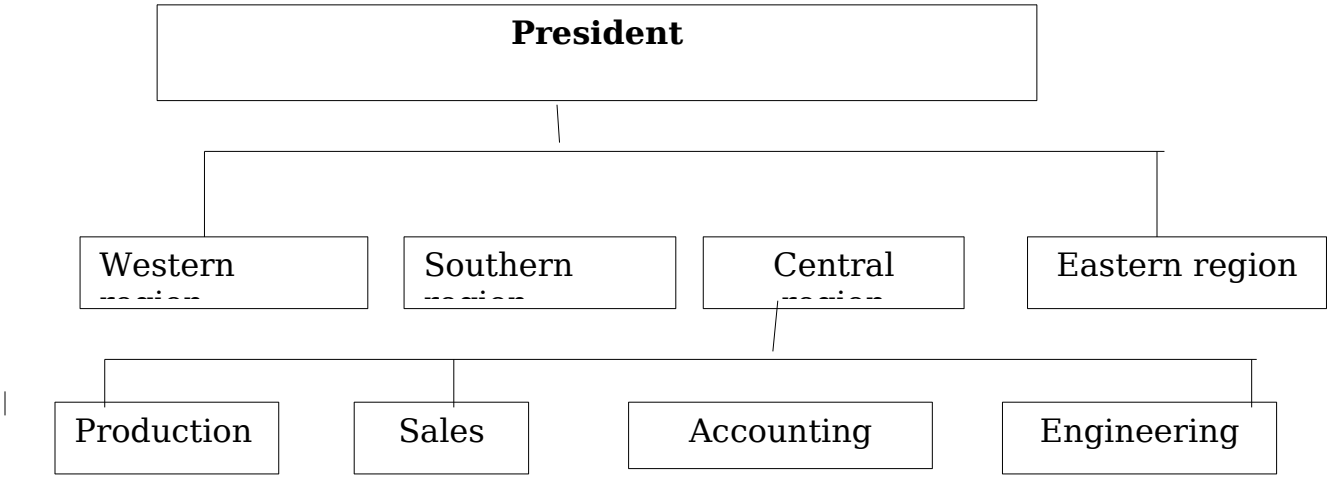
- It enables the enterprise to focus attention and efforts on product line, marking it easier for management to see the efficiency and effectiveness of production determine which product is profitable or not.
- It improves co-ordination b/n functions relating to a particular product.
- Furnishes measurable training ground for general managers
- Facilitates use of specialized facilities, skills; knowledge's; capital.

Disadvantage

- Requires more persons with general manager abilities
- There is an ever-present danger of duplication of activities
- It presents increased problem of top mgt. Control.

3. Departmentalization by Geographical area (Territory)

It is often referred to as area or territorial departmentalization and it groups business activity on the basis of geographic region or territory; this enables a firm to adapt to local customs and laws and to serve customers more quickly. It is especially attractive to large-scale firm or other enterprises whose activates are geographically dispersed.



Advantages

- Results in great saving in time and money.
- Lower freights, rents and lower labor costs. Thus, It takes advantages of economics of local operations (place emphasis on local markets and operation)
- Places responsibilities at lower level (these will be quick decisions)
- Places measurable training ground for general managers
- Better face to face communication with local interests

Disadvantage

- Requires more persons with general managers abilities (its is costly to implements)
- Duplication of efforts
- Increase problem of top management control. This is because of having flat span of management controls. Sometimes the decision to

set-up geographic departments is based on economic consideration such as, transportation costs for raw materials, for distribution, etc.

4. Customer departmentalization

It is the proving of enterprise activities based on customer interests companies that must provide special services to different groups set up departments by types of customers, using by customer's departmentalization. For example a manufacturer may have both an industrial products division for industrial customers and consumer product division for other consumers. An airlines company may make departments for traveling agency, government, government passengers, tourists and other customers. Normally, setting up departments by customers is not a primarily form of departmentalization. It is used instead with in some other framework.

Advantage

- Encourage concentration on customers' needs
- Giving customer felling that they have understanding suppliers
- Develops expertise in customer area.

Disadvantage

- May be difficult to co-ordinate operations between competing customer demands
- Requires managers and staff experts in customers problems
- It may result in underutilization of resources in some departments
- Customer groups may not always be clearly defined
- There may be duplication of activities

5. Process or equipment departmentalization

It is the grouping of enterprise activities according to the products manufacturing process.

This method of departmentalization is logical and used when the machine or capacity which eliminate organizational dividing or have technical facilities

which strongly suggest a concentrated location. For example, a textile factory may be classified in to spinning, walling, and processing etc. Economic and technological considerations are the foremost reasons for adapting process departmentalization.

Advantages

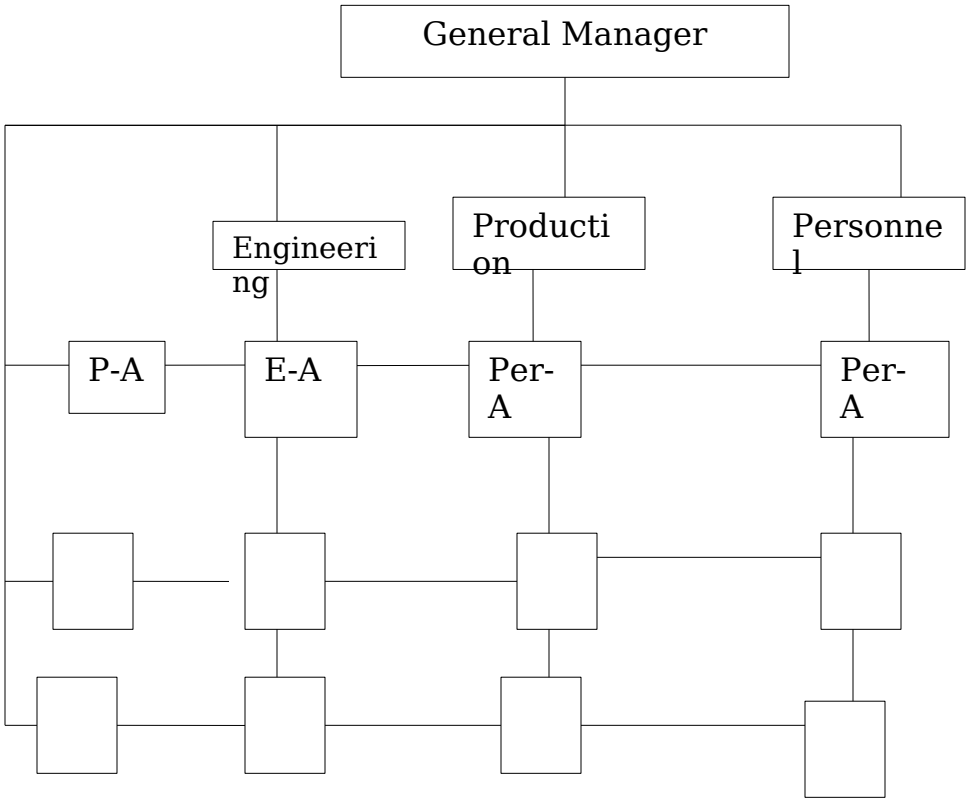
- Achieves economic advantage
- Uses specialized knowledge
- Simplifies training
- Sues specialized technology

Disadvantage

- Co-ordination of department is difficult
- Responsibility for profit is at the top
- It is unsuitable for developing general managers

6. Matrix departmentalization

It is an organization arrangement that developed because of the need for quick completion of highly technical projects that required significant contribution by two or more functional groups. It is the combination of different departmentalization systems.



Advantage

- Resources are used more efficiently, because groups share machinery or equipment.
- There is more information flow between managers and workers
- Motivated workers, because they see their visible results.

Disadvantage

- It creates conflict, since everyone struggle for power, because there is dual authority between line and staff.
- No clear authority.
- It needs more managers-and increase cost.

4.6. Division of Labor or specialization

It is an important concept in specifying tasks. Specialization of labor or division of labor breaks a potentially complex job down in to simpler tasks or activities.

Advantage

- ❖ It increases efficiency/ productivity by making workers more proficient. i.e. it saves time, material and other costs.

Disadvantage

- ❖ The boredom and fatigue caused by monotonous or repetitive tasks.
- ❖ It lacks job enrichment.

Co-ordination

- ❖ It is the establishment of proper and adequate relationship between:
  1. An employee and his work
  2. One employee to another or to the group
  3. One department to another

To promote Co-ordination in addition to other methods, managers can use MBO (Management by Objective).

4.7 . Authority, Responsibility and Accountability Relationships

A. Authority – is the formal and legitimate right of a manager to make decisions, give orders and allocate resources. Authority is delegated.

Types of authority

In an organization three different types of authority are created by the relationships between individuals and departments.

I. Line authority

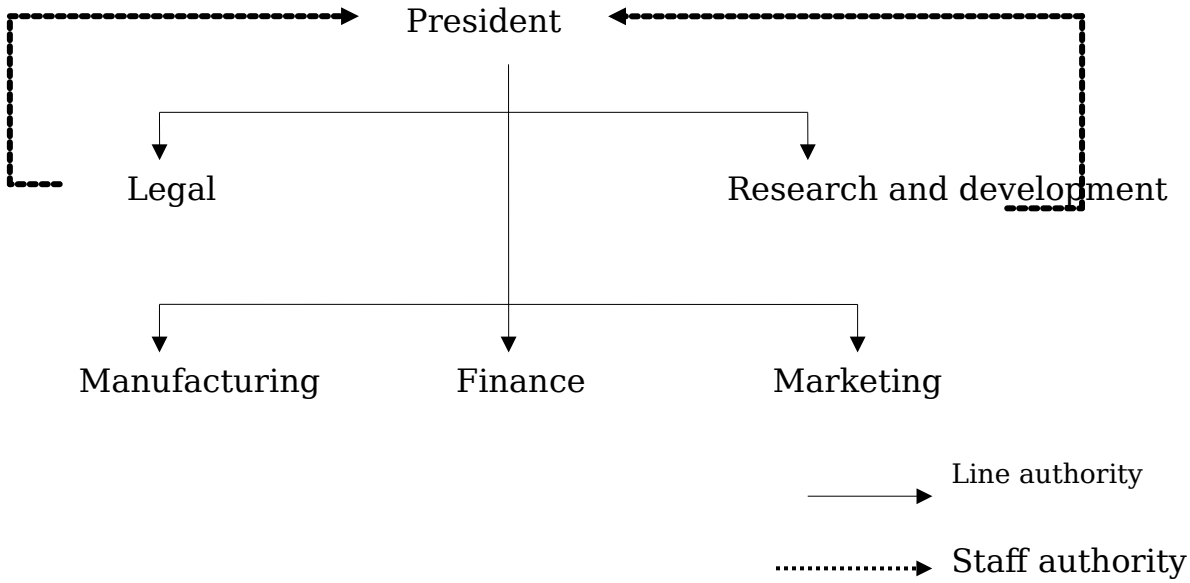
II. Staff authority

III. Functional authority

I. **Line authority** – the relationship between superior and subordinate. Any manager who supervises operating employees – or other managers – has line authority, allowing the manager to give direct orders to those subordinates, evaluate their actions reward or punish them.

II. **Staff authority** –is the authority to serve in an advisory capacity. They provide advice or technical assistance. Staff or advisory

authority does not provide basis for direct control over the subordinates or activities of other departments with which the person holding staff authority consults, however, within the staff manager's own department, he or she is bill get can exercise line authority over subordinates. Staff authority in the form of advice or assistance flows upward to the decision maker.



III. **Functional authority** – the authority that permits staff managers to make decisions about specific activities performed by employees within the departments. Staff departments often use functional authority to control their procedures in other departments. E.g. Human resource manager can monitor recruiting, selecting, and evaluation systems in other departments (marketing, production etc.), however he doesn't have the authority to tell the marketing manager which products to promote or the manufacturing manager which products to manufacture.

B. **Responsibility** – is the obligation to carryout one's assigned duties to the best of one's ability and to use the authority properly. Responsibility is acceptable but not delegated. Authority is delegated.

C. **Accountability** – the need to answer to someone for your actions. It means accepting the consequences either credit or blame of these actions. When a person accepts and assignment and the authority to carry out that assignment, he or she is bill get is accountable or answerable, for his or her action.

4.8 .Authority and power

Power – is the ability to exert influence in the organization. Authority is positional – (i.e.) it will be there when the person leaves. Authority is part of power. Power is personal; it exists because of the person. A person does not need to be a manager to have power, because managers can acquire power form several different sources.

Sources of power:

1**. Legitimate or position power**- is the power possessed by managers and derived from the positions they occupy in the formal organization. Legitimate / delegated power is authority.

2. **Coercive power** – the power on fear of the negative results that may happen if one fails to comply. Managers because of their position, have the ability to punish with holding promotion, demotion or dismissing an employee. This gives them power so it is dependent on fear.

3. **Reward power** – the power that comes from the ability to promise or grant rewards. Managers have the ability to decide on promotions, favorable performance appraisals and preferred work shifts, and this gives them power.

4. **Referent power** – the power that is based on the kind of personality or charisma an individual has and how other perceives it.

5. **Expert power-** ability to influence others by one's ability, skill, knowledge and experience E.g. An experienced manager exercise power with new comers.

4.9. Line and staff departments

While line and staff authority describes the authority guaranteed to managers, line and staff departments are terms for different roles or positions for various functions in the organizational structure.

a. **Line departments** (headed by a line manager) - are the departments established to meet the major objectives of the business and directly influence the success (profitability) of a business. E.g. For factories – production, marketing, finance etc. are line departments.
b. **Staff departments** – (headed by staff manager) provide assistance to the line departments and to each other. They contribute indirectly through advice, service and assistance. E.g. Legal service, public relations etc.

Staff departments meet the special needs of the organization.

4.10. Delegation – is the downward / transfer of formal authority from one person to another. Superiors delegate, or pass, authority to subordinates to facilitate the accomplishment of work. The process of delegation involves sequence of:

1. Assignment of tasks or duties to subordinates.
2. Delegation of authority (to complete the duties)
3. Acceptance of responsibility (by the delegated one)
4. Creation of accountability accepting the consequences either credit or blame of these actions.

Delegation doesn't relieve managers (who transfer their authority) from responsibility and accountability. Managers are accountable for the transfer of their authority to others.

Delegation frees managers from some management areas to be able to focus on more critical concerns. It can increase the ability of a manager.

4.11. Span of Management (Control)

Span of control refers to the number of employees a manager directly supervises. There is no correct number for the span of control, but it is normally narrower at the top of the organization than at the bottom. Generally the more complex the subordinate's job, the fewer such subordinates should report to a manager. The more routine the work: the greater the number to be supervised.

4.12. Centralization versus Decentralization

a) Centralization – is a philosophy of organization and management that focuses on systematically retaining authority in the hands of higher level managers.

b) **Decentralization** – a philosophy of organization and management that focuses on systematically delegating authority throughout the organization to middle and lower level managers, it is one. Management's operating philosophy determines where authority resides. Management can decide either to concentrate authority for decision making in the hands of one or a few or to force it down the organization structure in to the hands of many.

Decentralization is more important when subordinates are matured enough (have enough knowledge) to decide and vice versa. Empowerment is the maximum expression of a decentralized philosophy.

4.13. Formal and Informal Organizations

a. **Formal organization**- is the organizing function, which results in an intentional formal organization structure of roles in a legally and formally organized enterprise.

b. **Informal organization** – is a network of personal and social relations not established or required by the formal organization, but arising spontaneously as people associate with one another.

It is undocumented and officially unrecognized relationships between members of the organization group needs of employees. It consists of small social groups and friendly associations with in the formal organization.

Informal groups are created on the basis of similarity of status, interest, beliefs, attitudes, backgrounds etc.

Informal organizations affect the formal organization positively or negatively.

Positive impact:

-Makes the total system effective

- Provides support to management / better management
- Provides stability in the environment
- Provides a useful communication channel

Negative impact

- Develops pressure for conformity. An informal group often uses rewards or penalties called sanctions, to persuade its members to conform to its norms.
- Create conflict – With the formal organization
- Resists change – that may affect employees.
- Initiates rumors and processes false information
- Exposes weak management

4.14. Organizational Structure, Charts and manual

a. Organization structure – is a systematic arrangement of organizational parts in to a working whole.

It is establishing of relationships among different components or parts of an organization.

b. Organizational charts- are diagrams of the organizational structure showing the functions, departments or position of the organization and how they are related. It is a graphic representation of organizational structure.

c. Organizational manual

It is the description of the organizational charts and designed to promote understanding of the basic organizational structure. It is a guidebook consists of every department and functional activity together with objectives and strategies of the organization