

1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 03 (Class XII, Semester - 1)
Module Name/Title	Structure of organization - functional and divisional: Part – 2
Module Id	Lebs_10502
Pre-requisites	Knowledge about Structure of organization
Objectives	<p>After going through this lesson, the learners will be able to understand the following:</p> <p>Importance of Organisation Structure</p> <ul style="list-style-type: none">• Meaning of organisation structure – its importance• Meaning of functional structure• Suitability, advantages and disadvantages of functional structure• Meaning of divisional structure• Suitability, advantages and disadvantages of divisional structure
Keywords	Structure of organization - functional and divisional.

2. Development team

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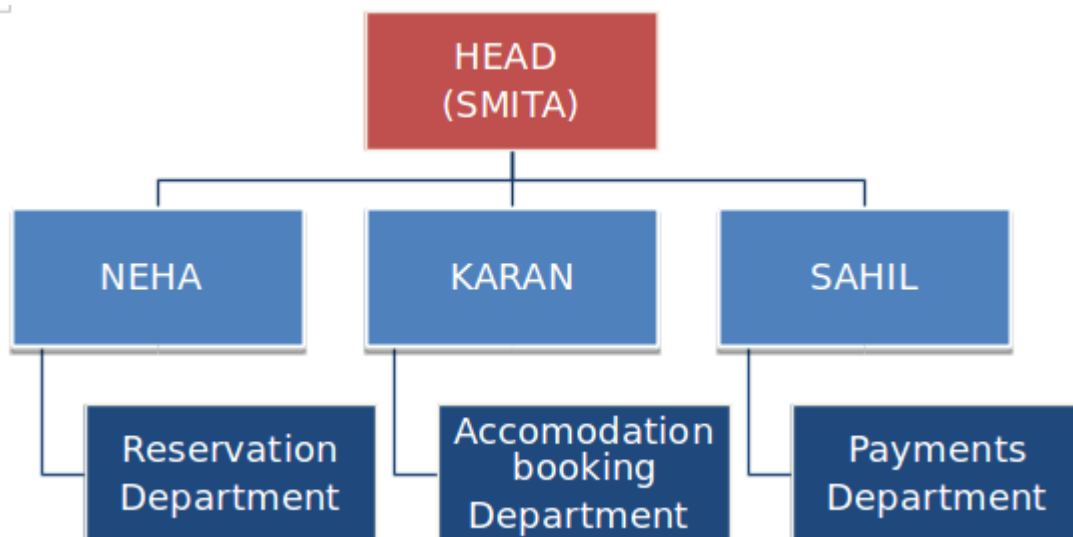
Organisation Structure

Introduction

Organisation structure is the outcome of the organising process. The organisation structure of a firm is shown in an organisation chart.

For example: Smita opened her own travel agency, sometime back. She assigned work to her three employees in the following manner ‘Neha, you are incharge of air plane, train and bus reservations.’ ‘Karan, you will take care of accommodation booking’ ‘Sahil, you will keep track of online queries and credit card payments’. I want regular reports from the three of you.

Thus, in a few sentences an organisation structure has been created specifying lines of authority and areas of responsibility.



Organisation chart of Travel agency owned by Smita

Meaning and Definition

The organisation structure can be defined as the framework within which managerial and operating tasks are performed.

- (a) Organisation Structure is a system of job positions, roles assigned to them and authority-responsibility relationships among positions.
- (b) It specifies relationships between people, work and resources.
- (c) It may be vertical(authority responsibility relationships.) or horizontal(coordinating relationships)
- (d) Ensures smooth flow of communication and better control over the operations.

Importance of Organisation Structure

For an organisation to function smoothly and face environmental changes, it becomes necessary for the some to pay attention to its structure. A proper organisation structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise Peter Drucker emphasises on the importance of having an appropriate organisation structure when he says, *“organisation structure is an indispensable means; and the wrong structure will seriously impair business performance and even destroy it.”*

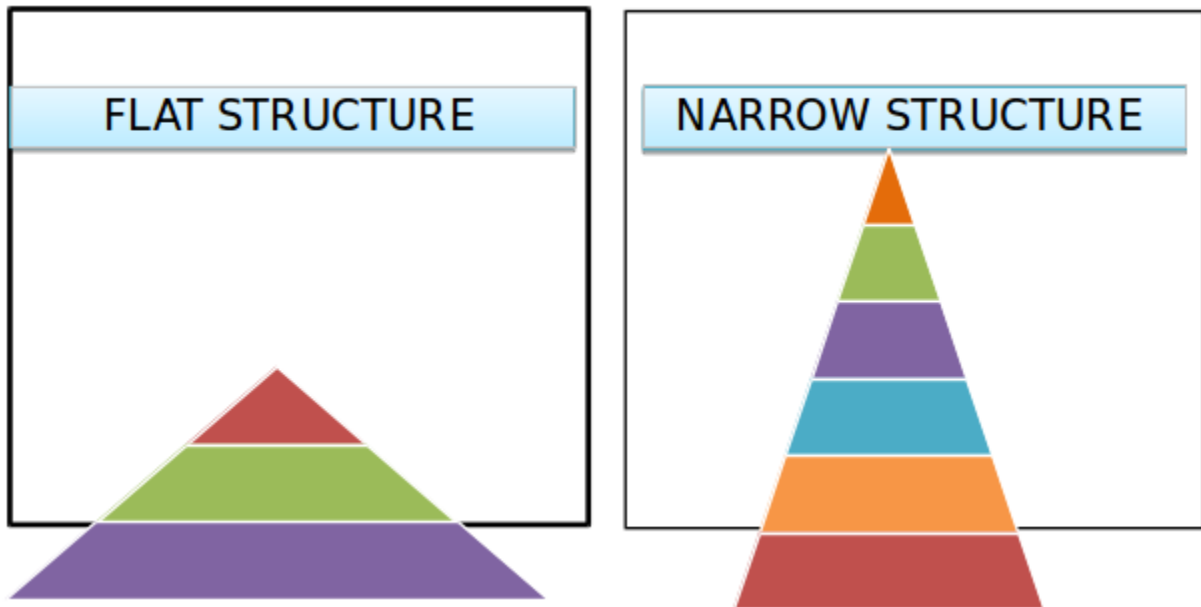
Span of management

Span of management refers to the number of subordinates that can be effectively managed by a Superior.

Example: If one sales manager can effectively handle 5 salesmen under him, his span of management is 5, But if some foremen can handle 30 workers under him effectively, his span of management is 30

Relationship between Span of management and organisational structure

The span of management, to a large extent gives shape to the organisational as it determines the levels of management in the structure.



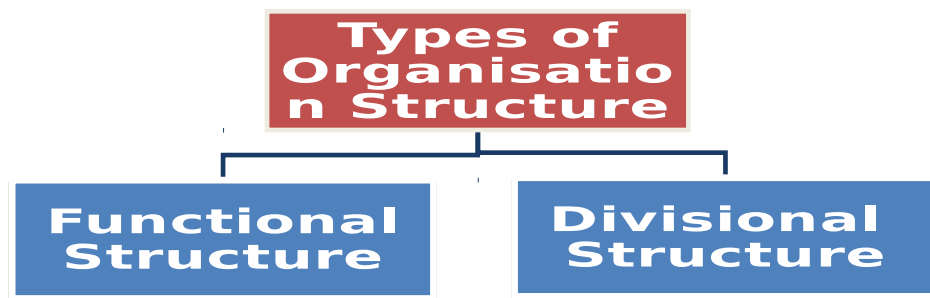
If span of management is more

Organisation structure is broad or flat as number of levels of management are less

If span of management is more

Organisation structure is narrow as number of levels of management are more

Types of Organisation Structure:



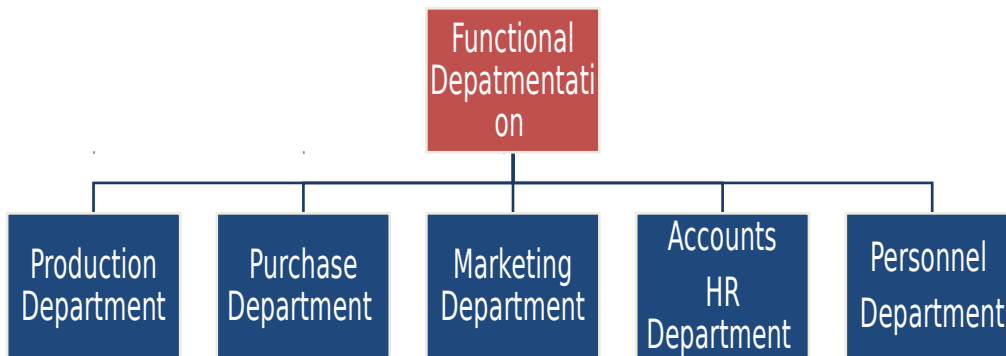
Functional Structure:

Activities are grouped according to the specific functions to be performed.

OR

Functional structure is an organisational design that groups similar or related jobs together.

For example, in a manufacturing concern division of work into key functions will include production, purchase, marketing, accounts and personnel.

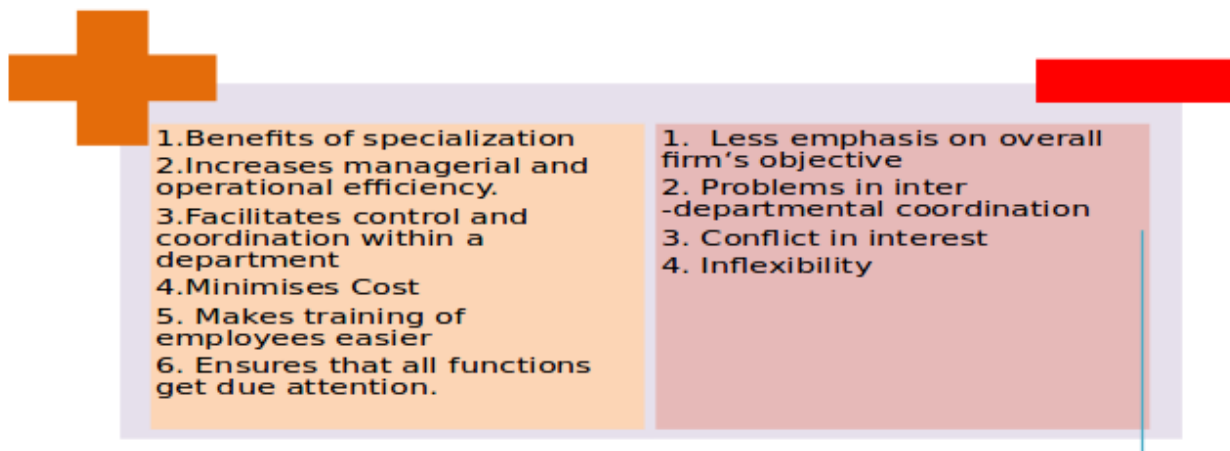


It is the most widely used basis for organising activities.

Suitability

1. Where the size of the business is medium or large.
2. Where there is only one main product.
3. Where specialization is required, so functional areas are given due importance.
4. Where professional experts are required to head various functional departments for better performance and to bring about uniformity of operations in a functional area throughout the organization.

Advantages and disadvantages of Functional structure



Advantages of Functional Structure:

1. Benefits Of Specialization:

- Activities are divided into depts. on the basis of major functions so leads to occupational specialization.

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- This results in more and better work being accomplished in much lesser time.
 - Promotes efficiency in utilization of manpower as employees perform similar tasks within a department & are able to improve performance.

2. Facilitates Coordination And Control Within The Department:

- There is similarity in the tasks performed within one department .for example: All employees of Production department only concentrate on production activity and not other activities like purchase, marketing etc.
- Also, all employees within the dept. know what is expected out of them & that leads to effective control over their activities.

3. Increases Managerial & Operational Efficiency:

- Since similar tasks are being performed by all employees which lead to specialization and it improves operational efficiency.
- Specialists in functional areas supervise the operations of each department which leads to increased managerial efficiency.

4. Minimises Cost:

- In this type of organisation structure unnecessary duplication of effort is eliminated.
- Human & other resources are utilized more effectively and economically which results in economies of scale and hence lower cost.
- E.g. Function of finance for whole organisation is only carried by the finance dept. There is no need to establish two or more departments.

5. Makes Training Of Employees Easier:

- Training of employees become easier as they need to be trained in limited types of skills.
- E.g. employees of production department are given training of production techniques only.

6. Ensures That All Functional Areas Get Due Attention

Since separate departments are created for different functions of the organisation therefore all the functions like purchase, production, finance, marketing etc. gets due attention. No area or function of business is neglected.

Limitations of Functional Structure:

1. Less Emphasis on Overall Firm's Objective

- Each dept. head gives more weight to their departmental objectives .Hence overall organisational objectives suffer
- Functional empires wherein the importance of a particular function may be overemphasized.
- Pursuing dept. interests at the cost of org. interests can also hinder interaction between two or more depts.
- E.g. to make his image, production dept. may make a very high quality product going contrary to the organisational objectives of selling it to the target market of middle income group.

2. Problems In inter departmental Coordination:

- This structure facilitates co-ordination within the department but makes inter departmental coordination difficult as to facilitate coordination, information has to be exchanged across functionally differentiated departments.
- If departmental heads work as per according to their own wishes, sharing of information and inter-department coordination becomes difficult.

3. Conflict in Interest

- Managers try to build their own functional empires & undermine the role of other depts., leading to inter departmental rivalry and conflicts.
- E.g.: Sales department insists on a customer friendly design which may cause production difficulties.
- Such disagreement can prove to be harmful in terms of fulfilment of organisational interest.
- Inter-departmental conflicts can also arise in the absence of clear separation of responsibility

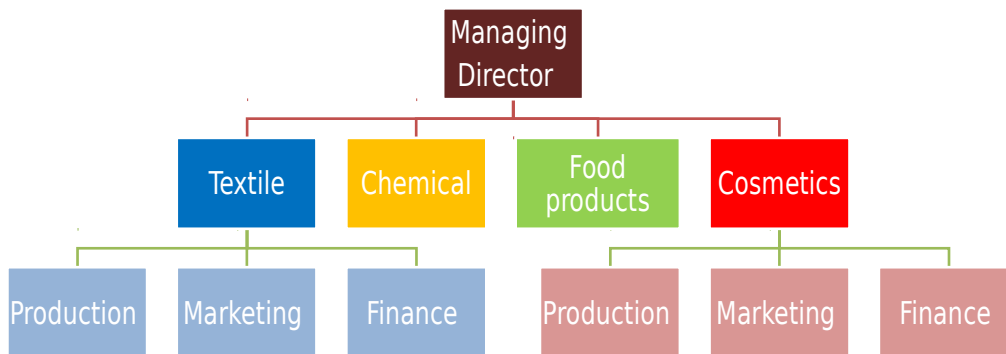
4. Inflexibility

- As people with same skills & knowledge base may develop a narrow perspective and thus, have difficulty in appreciating any other point of view.

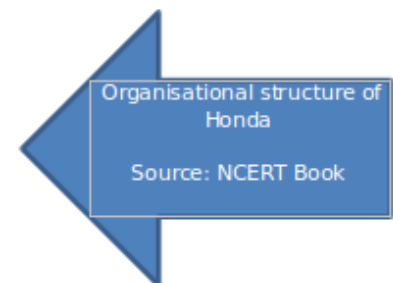
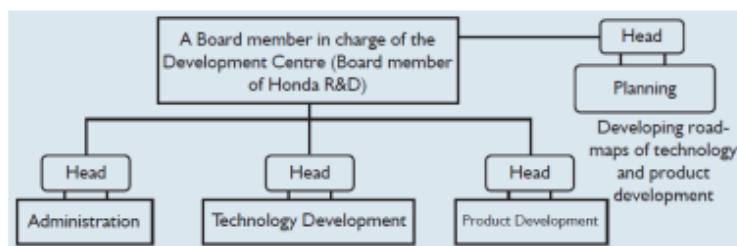
- E.g Finance department head may not be able to understand the problem faced by Production department and vice-versa.
- Functional heads do not get training for top management positions because they are unable to gather experience in diverse areas. E.g Production manager does not know anything about finance function or sales function so their suitability to take over top level position decreases.

Divisional Structure:

Divisional structure is an organization structure comprising of separate business units or divisions which are grouped either on the basis of products or on the basis of territories.



- Each unit has a divisional manager responsible for performance and who has authority over the unit.
- Each division is **multifunctional** because within each division functions like production, marketing, finance, purchase etc, are performed together to achieve a common goal. Each division is self-contained as it develops expertise in all functions related to a product line.
- Each division works as a **profit centre** where the divisional head is responsible for the profit or loss of his division.



Suitability

1. Where the size of the concern is very large.
2. Where a large variety of products are manufactured
3. Where different productive resources, manufacturing technologies and marketing methods are required for different products.
4. Firms having wide coverage or wide geographical area or having different market segments.
5. Where an organization is in an expansions mode. i.e wants to grow, add more departments.

Advantages and disadvantages of Divisional Structure



Advantages of Divisional Structure:

1. Better managerial development

- Product specialization helps in development of varied skills in a divisional head & prepares him for higher positions.
- This is because he gains experience in all the functions related to a particular product.
- For example: Head of Textile department will be expert in all the decisions relating to textiles like production, marketing, finance etc. Similarly Head of cosmetics department will be expert in production, marketing, finance of cosmetics.

2. Fixation of Responsibilities

- All the activities of each division are carried out independently. Hence the divisional results can be assessed easily. Cost, revenues and profits of each division can be identified.
- Therefore it is easy to fix responsibility for performance of particular department.

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- Department heads cannot shift their responsibility on other departmental heads
 - On this basis unprofitable division can be closed.
 - Hence, in cases of poor performance of the division, appropriate remedial action can be taken.

3. Faster Decision Making:

- As every division is independent, the divisional manager can take any decision regarding his division independently without consulting other divisional managers.
- Thus, division functions as an autonomous unit which leads to faster decision making
- It promotes flexibility and initiative because each division functions as an autonomous unit.

4. Facilitates Expansion And Growth.

- For every product a separate division is opened and if a company wants to introduce a new product, it can be introduced easily without disturbing the existing divisions.

For example: If company is presently dealing in cosmetics and textiles wants to diversify in medicines. Then new medicine division can be created having its own purchase, production and marketing. It will not disturb the working of existing department.

Limitations of Divisional Structure:

1. Conflicts among Divisions

- Conflicts may arise among divisions especially with reference to allocation of funds and between divisional heads by top management.
- Every division tries to display better performance, sometimes even at the cost of other divisions. Consequently it hits the interest of the concern as a whole.

2. Increase in Costs

- The entire set of functions (e.g. production, marketing, finance, personnel etc.) is reqd. for all divisions.
- This gives rise to duplicity of efforts among divisions.
- Resources are misused & cost of operation increases unnecessarily.

3. Ignoring organisational interests

- Divisional structure provides managers with the authority to supervise all activities related to a particular division.
- Divisional managers have a lot of autonomy & with time, gain a lot of power & may ignore organisational interest.

Differences between functional and divisional structure:

Basis	Functional structure	Divisional structure
1. Formation	It is formed on the basis of different functions performed in an organization.	It is formed on the basis of different products produced in an organization supported by functions
2. Specialisation	Emphasis is given to functional specializing.	Emphasis is given to product line specializing.
3. Managerial development	Difficult, as each functional manager has to report to the top Management.	Easier, autonomy as well as the chance to perform multiple functions helps in managerial development
4. Cost	It is very economical since duplication of work is avoided.	There is duplication of work in various departments hence costly
5. Coordination	There is difficulty in coordinating the activities if an enterprise is dealing in many products.	Coordination is easy as all the functions of a particular department can easily be integrated.
6. Suitability	This type of structure is suitable for all types of organizations.	This type of structure is suitable for multi-product or diversified firms.
7. Autonomy of operations	Less because various functions are interdependent and inter related	More because each unit is autonomous and independent