

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	Organising – Formal and Informal organisation: Part – 3
Module Id	Lebs_10503
Pre-requisites	Knowledge about Formal and Informal organisation
Objectives	After going through this lesson, the learners will be able to understand the following: <ul style="list-style-type: none">• Meaning of Formal organisation• Features, advantages and disadvantages of Formal organisation• Meaning of Informal organisation• Features, advantages and disadvantages of Informal organisation• Difference between Formal and Informal organisation
Keywords	Organising – Formal and Informal organisation

2. Development team

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Formal Organization:

Formal organisation refers to the organizational structure that is designed by the management to accomplish organizational objectives.

Louis Allen – System of well-defined jobs, each bearing a definite measure of authority, responsibility & accountability

- It specifies clearly the boundaries of authority & responsibility and there is a systematic coordination among the various activities to achieve organizational goals.
- The structure in a formal organisation can be functional or divisional.

Features of Formal Organization:

1. Clarifies Authority Relationships:

It clearly explains the inter-relationship between jobs and thus, everybody knows his authority and responsibility. This clarifies who has to report to whom.

2. Means to Achieve Organizational Objectives

It is a means to achieve the objectives specified in the plans. It lays down the rules & procedures essential for their achievement.

3. Coordinate Efforts Of Various Departments:

Efforts of various depts. are coordinated, interlinked & integrated through the formal organisation.

4. Deliberately Designed By Top Management

The top management deliberately creates this org for successful achievement of objectives of organisation.

5. Emphasis on Work

It places more emphasis on work to be performed than inter personal relationships among employees.

Importance/ Advantages of Formal Organisation

1. ***Easy To Fix Responsibilities:***

Since mutual relationships are clearly defined therefore it is easy to fix responsibility of employees.

2. ***Avoids Duplication of Effort:*** In Formal organisation, work is systematically divided among various departments & employees therefore there is no chance of overlapping of work.

3. ***Maintains Chain Of Command:***

Formal organisation clearly defines superior subordinate relationships, i.e. who reports to whom so chain of command is maintained.

4. ***Facilitates Achievement of Firm's Goals:*** Formal organisation leads to effective accomplishment of goals by providing a framework for the operations to be performed and ensuring that each employee knows the role he has to play.

5. ***Provides Stability To The Organisation:*** As behaviour of employees can be fairly predicted since there are specific rules to guide them. Formal organisation brings stability in the organisation through policies, procedures & rules. Working continues in spite of old employees leaving and new employees joining.

Disadvantages/Limitations of Formal Organisation:

A) Procedural Delays

- Formal communication may lead to procedural delays as the established chain of command has to be followed which increases the time taken for decision-making.
- Work is bound by rules & while following the scalar chain of command, decisions & actions get delayed

B) Rigidity/ Curbs Creativity

- In this organisation the employees have to do what they are told to do & have no opportunity of thinking. Thus, their initiative gets slackened Poor organisation practices

may not provide adequate recognition to creative talent, since it does not allow any deviations from rigidly laid down policies.

C) Does not give a complete picture of how the organisation works

- Formal organisation gives importance to work only. It ignores human relationships, creativity & talent. Does not give a complete picture of how an organisation works as it does not incorporate the human element so does not provide a complete picture of the functioning of the organisation

Informal Organization

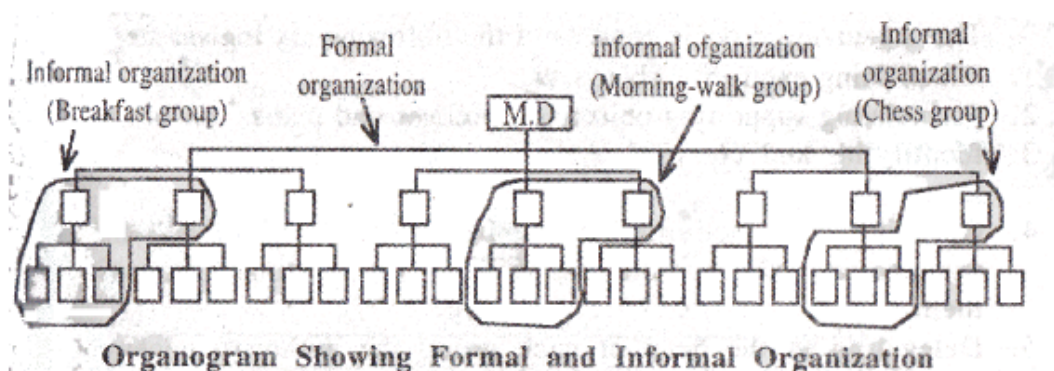
While working in the Formal organisation structure, individuals interact with each other & develop some social & friendly relationships in the organisation.

Meaning: The network of social & friendly groups forms another structure in the organisation called informal org. structure.

OR

Interaction among people at work gives rise to a 'network of social relationships among employees' called the informal organisation.

Examples of such groups formed with common interest may be those who take part in cricket matches on Sundays, meet in the cafeteria for coffee, are interested in dramatics etc.



Link : http://i1.wp.com/bankofinfo.com/wp-content/uploads/2013/11/formal_and_informal_organization.gif

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- This may be based on common language, tastes, likes etc. & its main purpose is psychological satisfaction.
 - Informal organisation has no written rules, is fluid in form and scope and does not have fixed lines of communication
 - Depends upon Formal organisation structure & if there is no Formal organisation structure, there will be no jobs & people & thus, no informal organisation.

Features of Informal Organisation:

1. Aim/objective

- Informal organisation emerges to meet the social and psychological needs of the people

2. Norms of Behaviour

- In informal organisation there are no written rules & procedures to govern inter relationships. But there are group norms to be observed.

- E.g. employees working in an org. and belonging to a particular community form a separate group in an informal way and gradually some norms emerge and all the members are bound to observe them.

3. Flow of Communication

- In informal organisation Information or communication flows in all directions and it is very difficult to trace the source of information.

4. Formation

- An Informal organisation is not deliberately created by management but comes into existence on the basis of personal interaction, relationships, common interest, tastes, languages, likes etc.

5. Structure or Form

- It is a complex network of social relationships and it cannot be defined so it is not rigid but flexible .Example: Employee at the lowest level can have relationship at the top level.

Advantages of Informal Organisation:

1. Faster Spread of Communication and Quick Feedback

- Informal organisation cuts across formal channels of communication. It may not follow scalar chain of command therefore spreads faster.
- Through Informal organisation, the managers can get to know the real feedback on various policies and plans

2. Fulfil social needs of Members

- Members of an Informal organisation share their tensions, joys & frustrations with one another. They have an outlet to release all their emotions and feelings and provide relief from the monotony created by formal organisation.
- It helps to fulfil the social needs of the members and allows them to find like-minded people.
- This enhances their job satisfaction since it gives them a sense of belongingness in the organisation.

3. Fills Inadequacies in the Formal Structure

- It contributes towards fulfilment of organisational objectives by compensating for inadequacies in the formal organisation.

For example, employee's reactions towards plans and policies can be tested through the informal network.

Disadvantages/ Limitations of Informal Organisation

1. Spreads Rumours

- Informal organisation is a breeding ground for rumours especially where there is ambiguity in the policies and programs of formal organisation
- An outbreak of rumour can cause serious harm to the enterprise and its management by
- Carrying incorrect information throughout the organization.

2. Resistance to Change

- Informal organisation generally prefers existing work routine. Changes are regarded as a threat to its beliefs & values.

- Thus, management has to face resistance to new work methods. This may delay/ restrict growth.

3. Pressurizes Members To Conform To Group Norms.

- An Informal organisation evolves its own norms.
- These norms may be harmful if norms are against firms 'interests & are contrary to standards of behaviour and performance in formal organisation. In such a case it becomes very difficult to achieve the goals of the formal organisation.

ADVANTAGES OF FORMAL ORG	ADVANTAGES OF INFORMAL ORG
1. Easy to fix responsibility	1. Faster Spread of Communication and Quick Feedback
2. Avoids Duplication of Effort	2. Fulfil social needs of Members
3. Maintains Chain Of Command:	3. Fills Inadequacies in the Formal Structure
4. Facilitates Achievement of Firm' Goals	
Provide stability in organisation.	
DISADVANTAGES OF FORMAL ORG	DISADVANTAGES OF INFORMAL ORG
1. Procedural Delays	1. Spreads rumours
2. Rigidity/ Curbs Creativity	2. Resistance to changes
3. Does not give a complete picture of how the organisation works	3. Pressurizes Members To Conform To Group Norms

Differences Between Formal and Informal Organisations:

S. No.	Basis	Formal organisation	Informal organisation
1	Meaning	Structure of authority relationships created by the management	Network of social relationships arising out of interaction among employees
2	Origin	Deliberately formed by mangement	Arises out of social interaction
3	Authority	AuthorityArises by virtue of position in management	Authority arises out of personal qualities
4	Behavior	Behavior is directed by rules	There is no set behavior pattern
5	Flow of communication	Communication takes place through Scalar chain	Flow of communication is not through a planned route. It can take place in any direction
6	Nature	Rigid	Flexible
7	Leadership	All managers are leaders	Leaders are chosen by the group