

CONCEPT OF ORGANISATION THEORY

Organization Theory

- The term organization refers to the group of individuals who come together to perform a set of tasks with the intent to accomplish the common objectives.
- Thus, the relationships between the individuals working together and their overall effect on the performance of the organization is well explained through the organizational theories.
- Organization theory is a set of concepts, and principles that provide framework for systematic study of structure, functioning and performance of organization and of the behavior of individuals and groups working in them.
- Organization theory explains how organization structures are built. It also suggests how organization can be designed to improve their effectiveness.
- Organizational theories are broadly classified into three types:
 1. Classical Theory
 2. Neo-Classical Theory
 3. Modern Theory

Classical Theory

- It is the oldest theory of organization.
- It originated from the writings of classical management thinkers such as Taylor and Fayol.
- According to the classical theory, the organization is considered as a machine and the human beings as different components/parts of that machine.

- In Classical theory, more emphasis is on the organization rather than the employees working therein.
- The classical theory has the following characteristics:
 1. It lays emphasis on detecting errors and correcting them once they have been committed.
 2. It focuses on objectives and tasks and not on the human beings performing the tasks.
 3. The human beings are considered to be relatively homogeneous and unmodifiable. Thus, labor is not divided on the basis of different kinds of jobs to be performed in an organization.
 4. It is assumed that employees are relatively stable in terms of the change, in an organization.
 5. It aims at maximizing control.
- Criticism of classical theory:
 1. It ignores human aspect and views human beings as components of the organization machine.
 2. It believes that people at work can be motivated solely through monetary incentives.
 3. It is an authoritarian theory.
 4. It is based on certain principles which are based mainly on experience and not tested by scientific researches.
 5. It regards organization as a closed system instead of open system. Thus it ignores the influence of external factors on organization and its members.

Neo-Classical theory

- The neoclassical theory originated from the findings of famous Hawthorne experiments conducted under the leadership of Mayo.
- The neoclassical school focuses attention on human beings and their behavior in organizations.
- According to this theory, the organization is the social system, and its performance does get affected by the human actions.

- The Neo Classical theory posits that an organization is the combination of both the formal and informal forms of organization, which is ignored by the classical organizational theory. The informal structure of the organization formed due to the social interactions between the workers and gets affected by the formal structure of the organization. Usually, the conflicts between the organizational and individual interest exist, thus the need to integrate these arises.
- Characteristics of Neoclassical organization theory
 1. The social environment on the job affects people and is also affected by the people.
 2. Integration between organizational and individual goals is a must.
 3. Money is only one of the motivators but not the sole.
 4. Two way communication is necessary for sound functioning of the organization.
 5. Team work is essential for cooperation and higher productivity.
- Criticism of Neoclassical theory
 1. It is not a new theory of organizations. It is merely a modification of classical theory.
 2. The structures of organization suggested by this theory are not suitable in all situations.
 3. The theory over- emphasizes on human aspect. Consequently, other aspects remained ignored or neglected.

Modern Theory

- The modern theory of organization views organization as a system.
- The Modern theory is the integration of valuable concepts of the classical models with the social and behavioral sciences.
- This theory posits that an organization is a system that changes with the change in its environment, both internal and external.
- Characteristics of Modern organization theory
 1. It considers organization as a system composed of many subsystems such as managerial, technical, social sub system.

2. It regards individual as complex being who can be motivated in multitude of ways.
3. It is multi- disciplinary theory as draws concepts and principles from several disciplines such as sociology, psychology, economics, engineering and so on.
4. It covers both the micro and macro environment of the organization. The macro environment is external to the organization, while the micro environment is internal to the organization.
5. It ensures better flow of communication at all the levels and ensures effective control.
6. The modern theory considers the organization as an open system. This means an organization consistently interacts with its environment, so as to sustain and grow in the market. Thus, this theory differs from the classical theory where the organization is considered as a closed system.
7. Since the organization is treated as an open system, whose survival and growth is determined by the changes in the environment, the organization is said to be adaptive in nature, which adjusts itself to the changing environment.
8. The modern theory is probabilistic and not deterministic in nature. A deterministic model is one whose results are predetermined and whereas the results of the probabilistic models are uncertain and depends on the chance of occurrence.
 - Criticism of Modern Organization theory
 1. It is not a unified theory of organization but a mixture of several theories.
 2. It is based on past empirical studies and there is nothing new in it.

Organizational Structure

- Organizational structure is a system used to define a hierarchy within an organization.
- It identifies each job, its function and where it reports to within the organization.

- This structure is developed to establish how an organization operates and assists an organization in obtaining its goals to allow for future growth.
- The structure is illustrated using an organizational chart.
- Organizational structures typically use one of two approaches:
 - A centralized structure gives most of the authority and decision-making power to the team at the top.
 - A decentralized structure distributes authority and decision-making power at lower levels, which might include departments, groups, or business units.
- A company can be organized in a number of ways. It might be built around divisions, functions, geography, or with a matrix approach:
 - A divisional structure is organized around divisions or business units that are self-contained entities with their own functional departments such as human resources, marketing, and so on.
 - A functional structure is based on job functions often labeled as departments – finance, purchasing, etc.
 - A geographical structure is often used when a company has multiple locations. Each location operates independently.
 - With a matrix structure, the company is organized around teams assembled for specific tasks. Team members usually report to more than one person – the team leader, and the supervisor for the team member’s functional area.

Types of Organizational Structures

1. Line Organisation:

In line Organizations:

- Line organisation is the simplest and oldest form of organisation structure.
- It is called as military or departmental or scalar type of organization.
- Line of authority and instructions are vertical i.e. top to bottom.
- Every superior has direct command over his immediate subordinate.
- Every employee is accountable to one superior i.e. there is unity of command. All persons at same level are independent of each other. It

implies that all dept. heads are supreme in their respective areas and independent of one another and are responsible to chief executive.

- The line organisation structure is given below:

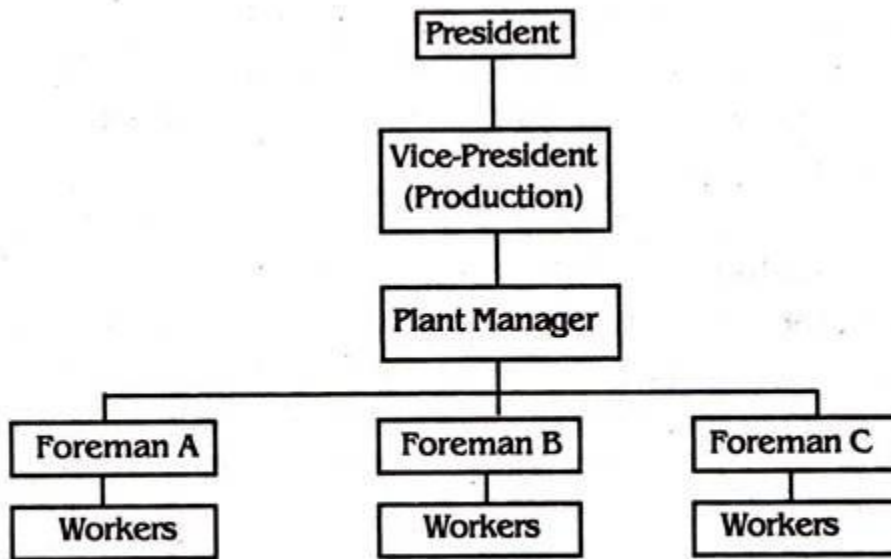


FIGURE 6.11 : LINE ORGANIZATION

Advantages of Line Organization:

- a. The line organization structure is very simple to understand and simple to operate.
- b. Communication is fast and easy and feedback can be acted upon faster.
- c. Responsibility is fixed and unified at each level and authority and accountability are clear-cut, hence each individual knows to whom he is responsible and who is or in truth responsible to him.
- d. Since it is especially useful when the company is small in size, it provides for greater control and discipline in the organization.
- e. It makes rapid decisions and effective coordination possible. So it is economic and effective.
- f. The system is capable of adjusting itself to changing conditions for the simple reason that each executive has sole responsibility in his own sphere.

Disadvantages of Line Organization:

- a. There is a tendency for line authority to become dictatorial.
- b. There is lack of specialization and flexibility. It forces Line managers to perform additional duties requiring special knowledge for which they may not be fitted. He has to depend on his own abilities and resources.

2. Line and Staff Organization:

In Line and Staff Organizations :

- Line and staff structure combines the advantages of both line organization and functional organization. Under this system, staff positions are attached to line executives.
- Line and staff organization structure refers to a pattern in which staff specialists advise managers to perform their duties.
- The staff positions or departments are of purely advisory nature.
- The line and staff structure is based upon the principle of specialization. The line managers are responsible for operations contributing directly to the achievement of organizational objectives whereas staff people are there to provide expert advice on the matters of their concerns.
- Line and staff organization is more suitable to large enterprises.
- A line and staff organisation chart is given below:

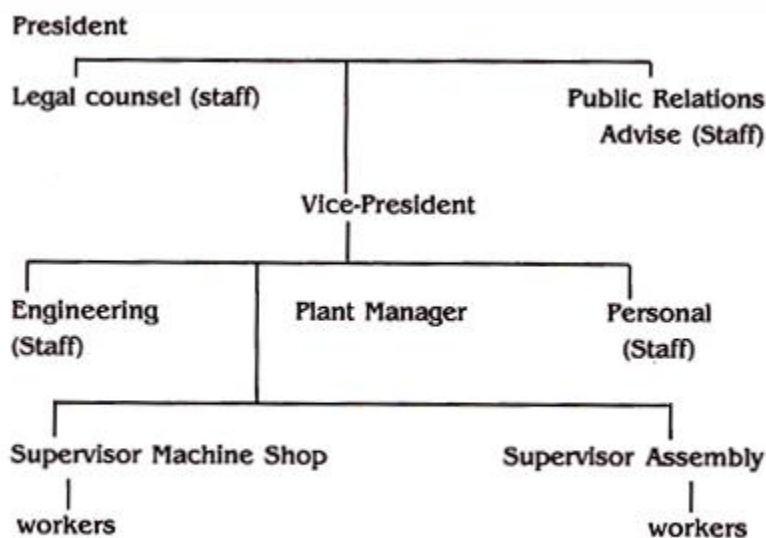


FIGURE 6.12 : LINE AND STAFF ORGANISATION

Advantages of Line and Staff Organisation:

- a. Line officers can concentrate mainly on the doing function as the work of planning and investigation is performed by the staff. Specialisation provides for experts advice and efficiency in management.
- b. Since the organisation comprises line and staff functions, decisions can be taken easily.

Disadvantages of Line and Staff Organisation:

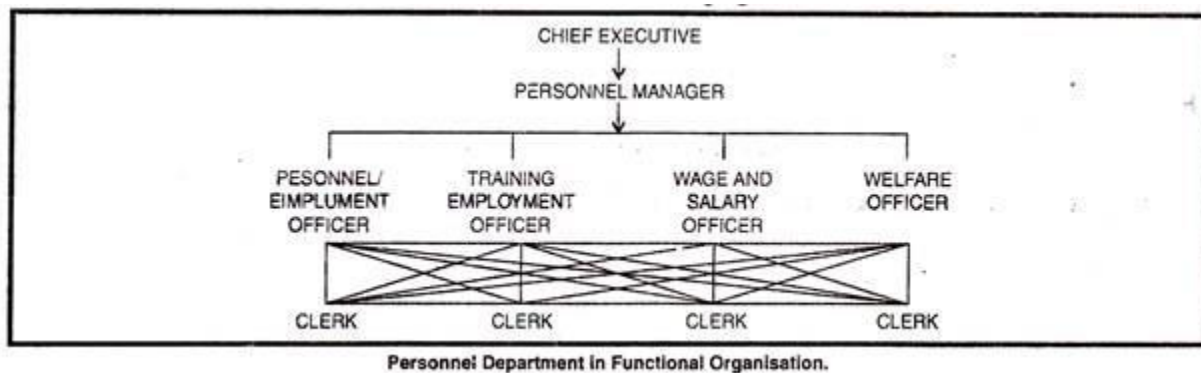
- a. Confusion and conflict may arise between line and staff. Because the allocation of authority and responsibility is not clear and members of the lower levels may be confused by various line orders and staff advices.
- b. Staff generally advise to the lines, but line decides and acts. Therefore the staffs often feel powerless.
- c. Too much reliance on staff officers may not be beneficial to the business because line officials may lose much of their judgment.
- d. Since staff specialists demand higher payments, it is expensive.
- e. The staffs are unable to carry out its plan or recommendations because of lack of authority. So they become ineffective sometimes, it will make them careless and indifferent towards their jobs.
- f. Since the line are performed, with the advise provided by the staff, if things go right then the staff takes the credit and if things go wrong then the line get the blame for it.

3. Functional Organization:

In functional Organizations:

- All activities in the company are grouped according to certain functions like production, marketing, finance and personnel.
- Each functional area is headed by a specialist who directs the activities of that area for the entire organization.
- The functional head has line authority over subordinates in his own functional area.
- There is high degree of control and coordination of functions because all work of one kind is under one manager.

- Functional structure offers usually line and staff conflict and interdepartmental conflict.
- Functional authority is advisory, which means that the functional specialist recommends action or alternative actions to line managers.
- Every functional head has functional authority over other departments and every employee reports to several functional heads as shown on the following figure:



Advantages of Functional Organisation:

- Each manager is an expert in his field. He has to perform a limited number of functions. So complete specialisation will be in functional organisation.
- The greater degree of specialisation leads the improvement in the quality of product.
- Specialisation will lead for mass production and standardisation.
- There is high degree of control because all work of one kind is under one manager.

Disadvantages of Functional Organisation:

- Since there is no direct boss or controller of the workers, co-ordination is hard to achieve.
- Since workers are under different bosses, discipline is hard to achieve. As results there will be low morale on the part of the workers.

c. Functional structure essentially generates slow decision making process because the problem requiring a decision has to go through various departments as all of them have something to say on the matter.

4. Project Organisation:

- This organisational structure are temporarily formed for specific projects for a specific period of time, for the project of achieving the goal of developing new product.
- The specialists from different functional departments such as production, engineering, quality control, marketing research etc., will be drawn to work together. These specialists go back to their respective duties as soon as the project is completed.

The project organization chart may be shown as follows:

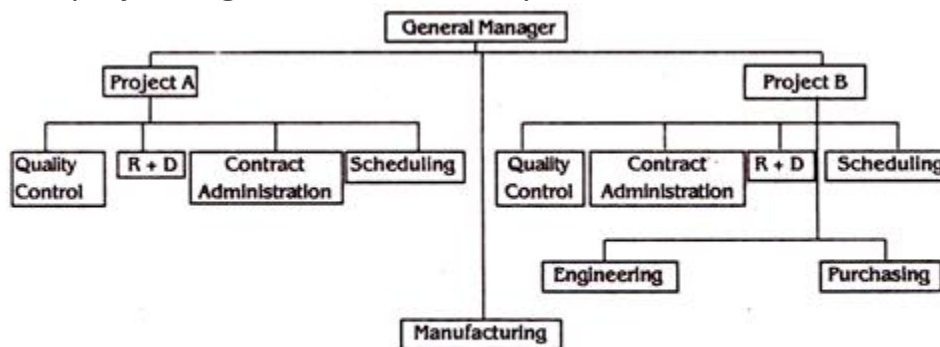


FIG. 6.13 : PROJECT ORGANISATION

Advantages of Project Organisation:

- a. The grouping of activities on the basis of each project results in introduction of new authority patterns.
- b. Since the specialists from different departments is drawn to work together under the project organisation it helps to coordination.
- c. It makes for meaningful control and fixation of individual responsibility.

Disadvantages of Project Organisation:

- a. The uncertainty may be attributed to the diverse backgrounds of the professional who are deputed to the project.

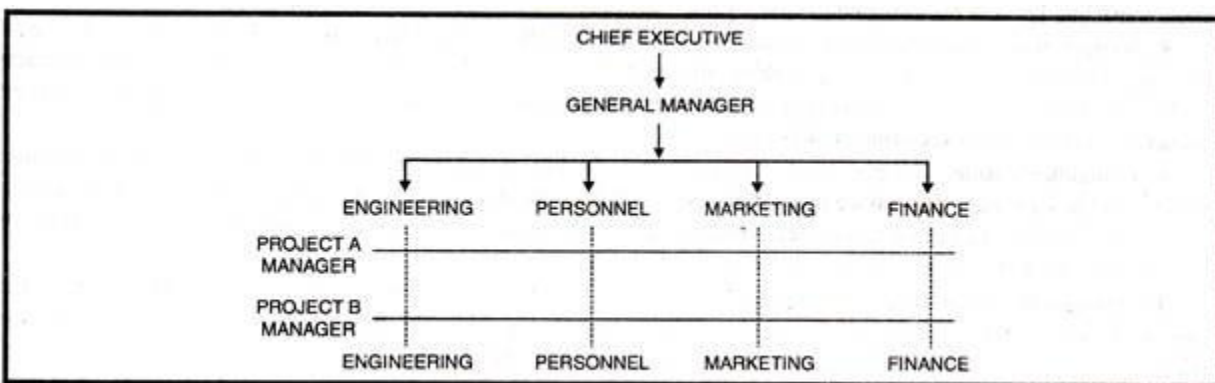
b. The project manager finds it difficult to motivate and control the staff in a traditional way in the absence of well-defined areas of responsibility lines of communication and criteria to judge performance.

c. Delay in completion of the project may occur.

5. Matrix Organisation:

In Matrix Organizations:

- In a matrix organization structure, every employee has two superiors.
- One chain of command is functional and the other chain of command is a project team. Hence, matrix structure is referred to as a multi command system, both vertical and horizontal dimension.
- Both dimensions of structure are permanent and balanced, with power held equally by both functional and a project manager.
- Matrix structure is suitable when organizational tasks are uncertain, complex and highly interdependent or when an organization has to cope with more than one function or project.
- In large organizations employees from various functional departments are from time to time assigned to one or more projects. On completion of the project these employees revert back to their respective departments until the next assignment to a project.



Personnel Department in a Matrix Organisation.

Advantages of Matrix Organisation:

1. Since there is both vertical and horizontal communication it increases the coordination and this coordination leads to greater and more effective control over operations.
2. Since the matrix organisation is handling a number of projects, available resources will be used fully.
3. It focuses the organisational resources on the specified projects, thus enabling better planning and control.
4. As any department or division has to harness its effort towards accomplishment of a single project, employees are effectively motivated.

Disadvantages of Matrix Organisation:

1. Since, there is more than one supervisor for each worker, it causes confusion and conflicts and reduce effective control.
2. The problem with this kind of structure is that there is always power struggle among people which may become dysfunctional if top management does not play active role in balancing the power.
3. There is delay in decision making as many persons are involved in the decision process. Each person hold veto power or may not give consent because of power struggle and conflict.

Form of Organization Culture

The practices, principles, policies and values of an organization form its culture. The culture of an organization decides the way employees behave amongst themselves as well as the people outside the organization.

The various types of organization culture are:

1. **Normative Culture:** In such a culture, the norms and procedures of the organization are predefined and the rules and regulations are set as per the existing guidelines. The employees behave in an ideal way and strictly

adhere to the policies of the organization. No employee dares to break the rules and sticks to the already laid policies.

2. **Pragmatic Culture:** In a pragmatic culture, more emphasis is placed on the clients and the external parties. Customer satisfaction is the main motive of the employees in a pragmatic culture. Such organizations treat their clients as Gods and do not follow any set rules. Every employee strives hard to satisfy his clients to expect maximum business from their side.
3. **Academy Culture:** Organizations following academy culture hire skilled individuals. The roles and responsibilities are delegated according to the back ground, educational qualification and work experience of the employees. Organizations following academy culture are very particular about training the existing employees. They ensure that various training programmes are being conducted at the workplace to hone the skills of the employees. The management makes sincere efforts to upgrade the knowledge of the employees to improve their professional competence. The employees in an academy culture stick to the organization for a longer duration and also grow within it. Educational institutions, universities, hospitals practice such a culture.
4. **Baseball team Culture:** A baseball team culture considers the employees as the most treasured possession of the organization. The employees are the true assets of the organization who have a major role in its successful functioning. Employees are "free agents" who have highly prized skills. They are in high demand and can rather easily get jobs elsewhere. Advertising agencies, event management companies, financial institutions follow such a culture.
5. **Club Culture:** Organizations following a club culture are very particular about the employees they recruit. The individuals are hired as per their specialization, educational qualification and interests. Each one does what he is best at. The high potential employees are promoted suitably and appraisals are a regular feature of such a culture.
6. **Fortress Culture:** There are certain organizations where the employees are not very sure about their career and longevity. Such organizations follow fortress culture. The employees are terminated if the organization is not performing well. Individuals suffer the most when the organization is at a loss. Examples are savings and loans, large car companies, etc.
7. **Tough Guy Culture:** In a tough guy culture, feedbacks are essential. The performance of the employees is reviewed from time to time and their

work is thoroughly monitored. Team managers are appointed to discuss queries with the team members and guide them whenever required. The employees are under constant watch in such a culture.

8. **Bet your company Culture:** Organizations which follow bet your company culture take decisions which involve a huge amount of risk and the consequences are also unforeseen. The principles and policies of such an organization are formulated to address sensitive issues and it takes time to get the results.
9. **Process Culture:** As the name suggests the employees in such a culture adhere to the processes and procedures of the organization. Feedbacks and performance reviews do not matter much in such organizations. The employees abide by the rules and regulations and work according to the ideologies of the workplace. All government organizations follow such a culture.