

Principles of Management and Information Systems

Ashok Arora

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BBA, MBA, B.Com, BMS, M.Com, BCA, MCA
and many more courses for Various Universities



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Sample Preview of The Chapter

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PRINCIPLES OF MANAGEMENT AND INFORMATION SYSTEMS

MANAGEMENT SYSTEMS

Organisational Overview



INTRODUCTION

An organisation uses human, physical, financial and information resources at all levels of the system to produce output. The structure of an organisation defines the various organisational components, their relationships and hierarchy. There are different types of organisational structures. An organisational structure has three important components: Complexity, Formalisation and Centralisation.

In this chapter, we will discuss the characteristics, functions and structures of various organisations. We will also discuss the five most acceptable and distinct stages in the life cycle of an organisation. The important questions with answers are given at the end of the chapter.

CHAPTER AT A GLANCE

ORGANISATION AND ITS TYPES

An *organisation* is a stable, formal social structure. It uses human, physical, financial and information resources at all levels of the system to produce output. In technical terms, we can define organisation as a stable, formal social structure that takes resources from the environment and processes them to produce outputs. In behavioural terminology, an organisation can be defined as collection of rights, privileges, obligations, and

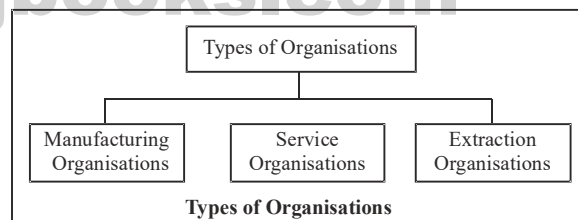
responsibilities that are delicately balanced over a period of time through conflict and conflict resolution.

Organisations are of three major types:

1. Manufacturing Organisations: They produce goods by conversion or by processing of raw materials into finished goods.

2. Service Organisations: They do not produce any tangible goods but provide services only.

3. Extraction Organisations: They produce goods by extracting them from the earth.



ORGANISATIONAL STRUCTURE

The structure of an organisation defines how job tasks are formally divided, grouped and coordinated. It defines the various organisational components, their relationships and hierarchy.

Types of Organisational Structures

According to Mintberg (1979), there are four types of organisational structures:

1. Bureaucracy: These are formal organisations with a clear-cut division of labour, abstract rules and

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procedures, and impartial decision making. They use technical qualifications and professionalism as a basis for promoting employees.

2. Entrepreneurial Structure: Such organisations are young, small firms in a fast-changing environment. They are dominated by a single entrepreneur and managed by a single chief executive officer.

3. Machine Bureaucracy: Such organisations are large bureaucracies, which are organised into functional divisions that centralise decision products, and exist in a slow-changing environment.

4. Professional Bureaucracy: They are knowledge-based organisations, which are dominated by department heads with weak centralised authority and operate in a slowly changing environment.

Key Elements of Organisations

For designing an organisational structure, the following key elements are required:

1. Work Specialisation (Division of Labour): It describes the degree to which tasks in an organisation are subdivided into different jobs.

2. Departmentalisation: The basis by which jobs are grouped together is called departmentalisation.

3. Formalisation: It refers to the degree to which jobs within the organisation are standardised.

4. Span of Control: It refers to the number of employees that can be directed efficiently and effectively by a manager.

5. Chain of Command: It refers to a line of authority that extends from the top to the lowest level.

6. Centralisation: It refers to the degree to which decision-making is concentrated to a single point in the organisation.

7. Decentralisation: It refers to the degree to which decision-making is distributed to various positions in the organisation.

ORGANISATIONAL CHARACTERISTICS

The common characteristics of all organisations are:

1. Division of Labour: Organisations practice division of labour both vertically and horizontally. Vertical division includes three basic levels – top, middle, and bottom while horizontal division divides work by defining task groups, or departments, and assigning workers with applicable skills to those groups.

2. Decision-making Structures: These structures are used to organise authority in an organisation.

3. Rules, Policies, and Procedures: They serve as templates of managerial guidance in all sectors of organisational production and behaviour.

4. Degree of Formality: Organisations can be categorised as informal or formal, depending on the degree of formalisation of rules within their structures.

Organisations mainly differ in size, function, technology, environment and business processes. They reside in environment from which they draw resources. They also provide goods or services to the environment. There are two categories of environmental influences: *specific* or *general*. The specific environment includes the network of suppliers, distributors, government agencies, and competitors, while the general environment includes cultural value, economic condition, legal/political environment and quality of education.

ORGANISATIONAL FUNCTIONS

The various functions for different organisations are:

1. Bureaucracy: Bureaucracy refers to the way by which the administrative execution and enforcement of legal rules is socially organised. Examples: govt. organisations, hospitals, etc.

2. Business: Business organisations work on certain rules, which govern their formation and operation. They include the sole proprietorship firms, partnership firms, limited companies, etc.

3. Charity: Charity is the main function of the charitable organisations such as dispensaries, social groups, etc.

4. International Cooperation: Cooperation among different countries is the main function of specialized international organisations such as United Nations, Interpol, World Health Organisations, etc.

5. Mutual Cooperation: Cooperation among people for mutual benefits is the main function for the cooperative organisations or societies such as building societies, cooperative banks, etc.

6. Advocacy: Social, cultural, legal, and environmental advocacy is the function of Non-governmental organisations (NGOs), which are not part of a government.

LIFE CYCLE OF AN ORGANISATION

The five most acceptable and distinct stages in the life cycle of an organisation are (1) Start-up, (2) Growth, (3) Decline, (4) Renewal, and (5) Failure.

1. Start-up Phase (Birth): First of all, an organisation is created and its presence is established in the industry.

2. Growth Phase: It is further divided into four sub-phases of growth:

- (a) **Childhood:** In this sub-phase, the organisation begins to learn new skills and to build a strong infrastructure.
- (b) **Adolescence:** In the next sub-phase, the organisation expands the scope of its actions and learning.
- (c) **Adulthood:** In this sub-phase, the organisation achieves a greater level of responsibility.
- (d) **Maturity:** Finally, the organisation uses its legacy to strengthen it further.

3. Decline Phase: The organisation may go into the decline phase due to many reasons such as inefficient management decisions, poor teamwork, insufficient resources, etc.

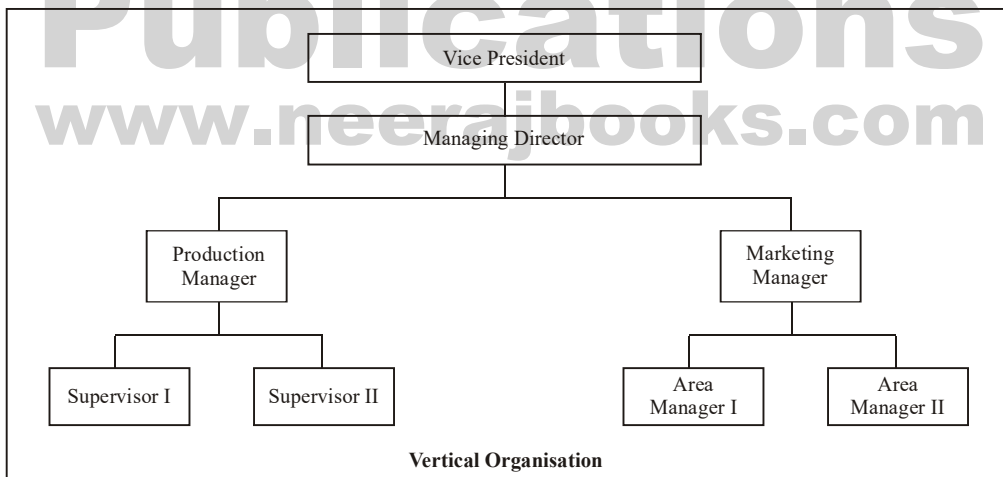
4. Renewal Phase: In this phase, the organisation resists the urge to stay comfortable by developing new strategic policies and operating skills.

5. Failure Phase: The organisation may be closed or being acquired and merged into another organisation.

VERTICAL AND HORIZONTAL ORGANISATION

An organizational structure has three important components: Complexity, Formalisation and Centralisation.

1. Complexity: It refers to the degree to which activities within the organisation are differentiated. It is of three types: Horizontal, Vertical and Spatial. Horizontal differentiation refers to the degree of differentiation between departments based on their processes such as product development process, customer support process, etc. Vertical differentiation is characterised by the number of hierarchical levels in the organisation such as Finance Manager, Sales Manager, HR Manager, etc. Spatial differentiation refers to the degree to which the location of the organisations offices and facilities are geographically distributed such as North Region, South Region, etc.



2. Formalisation: It refers to the extent to which jobs within the organisation are specialised.

3. Centralisation: It refers to the degree to which decision-making is concentrated to one point within the organisation.

CHECK YOUR PROGRESS

Q. 1. What are the types of organisations at macro level? What is the distinctive features for each of these types?

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Ans. At macro level, organisations are of three major types:

1. Manufacturing Organisations,
2. Service Organisations,
3. Extraction Organisations.

Features of various types of Organisations:

1. Manufacturing Organisations: They produce goods by conversion or by processing of raw materials into finished goods. Examples: Drug manufacturing, Electronic Goods companies, Furniture manufacturers, etc.

2. Service Organisations: They do not produce any tangible goods, but provide services only. Examples: Banking, Insurance, Transportation, etc.

3. Extraction Organisations: They produce goods by extracting them from the earth. Examples: Agriculture, Oil Extraction, etc.

Q. 2. What are the six key elements required for designing an organisational structure?

Ans. For designing an organisational structure, the following key elements are required:

(i) Work Specialisation (Division of Labour):

Work specialisation or division of labour describes the

degree to which tasks in an organisation are subdivided into various jobs.

(ii) Departmentalisation: Departmentalisation is the basis by which jobs are grouped together.

(iii) Formalisation: Formalisation refers to the degree to which jobs within the organisation are standardised.

(iv) Span of Control: Span of control refers to the number of employees that be directed efficiently and effectively by a manager in an organisation.

(v) Chain of Command: Chain of command refers to a unbroken line of authority that extends from the top to lowest level and clarifies who reports to whom.

(vi) Centralisation and Decentralisation: Centralisation refers to the degree to which decision-making is concentrated to a single point in the organisation, while decentralisation refers to the degree to which decision-making is distributed to various positions in the organisation.

Q. 3. How ‘Centralised Organisations’ are different from ‘Decentralised Organisations’? Give examples of each.

Ans. The differences between Centralised and Decentralised Organisations are described in the following table:

<i>Centralised Organisation</i>	<i>Decentralised Organisation</i>
1. Centralisation refers to the degree to which decision-making is concentrated to a single point in the organisation.	1. Decentralisation refers to the degree to which decision-making is distributed to various positions in the organisation.
2. Top management retains absolute authority for making almost all decisions.	2. Top management retains authority for making major decisions (strategic).
3. Middle level management is not entrusted with operational authority for taking decisions.	3. Middle level management is entrusted with operational authority for taking decisions.
4. It does not provide greater flexibility to tackle problems.	4. It provides greater flexibility to tackle problems.
5. Examples: <ul style="list-style-type: none"> ● Decision of an organisation to allow credit to its customers is made by the Director. ● The Director makes appointment of the employees. 	5. Examples: <ul style="list-style-type: none"> ● Decision of an organisation to allow credit to its customers is made by the Sales Manager. ● The HR Manager makes appointment of the employees.

Q. 4. Indicate four common and five unique characteristics of organisation.

Ans. 1. Division of Labour: Vertically and horizontally.

2. Decision-making structures: These structures are used to organise authority in an organisation.