
UNIT 5 UNDERSTANDING ORGANISATIONS

Structure

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5.0 OBJECTIVES

After reading this Unit, you will be able to :

- define an organisation,
- know the different organisational structures,
- understand how organisational structures are designed, and
- know about organisational culture.

5.1 INTRODUCTION

Unit-3 (Block-1) dealt with the different forms of ownership. Every business form has an organisation to carry out its activities. All managerial functions are performed in a set-up made available by the organisational structure. In this Unit an attempt has been made to familiarise you with different types of organisational structures, their characteristics and culture. However, **organising** as a management process has been dealt with separately in Unit-7. Whether you intend to be a Manager, owner manager, or an employee, an understanding about organisations and organisation structures is always useful for a tourism professional. This also helps in dealing with organisations.

5.2 ORGANISATION

Today you come across a variety of organisations with different organisational structures. You may ask why an organisation is needed? Well, **whenever the pursuit of an objective requires the realisation of a task that calls for the combined efforts of two or more individuals, an organisation is formed.** Hence, organisation is a social unit formed to carry out a specific purpose. It can be a club, a school, a corporation, a business unit etc.

Organisations have **existed** in some form or the other since the advent of human development. However, for Management purposes it is only for about a century that attempts have been made to study and understand **organisations**. You must remember that organisations emerge and exist in the society. Hence, changes in the society affect them and they also affect the society. It is vital to have an understanding about **organisations** also, because **organisational behaviour** and human behaviour of the people **working** in an organisation are inter-related. Let us examine some viewpoints about **organisations**.

5.2.1 Classical View

During the late 18th century there developed certain concepts about **bureaucracy**, **administrative theory** and **scientific management**. These concepts came to be known as the **classical theories** which described an organisation as "**the structure of relationships, power, objectives, roles, activities, communications and other factors that exist when persons work together**".

1) **Bureaucracy** : The features of bureaucracy included :

- **Rules and Regulations** - These are formally **fixed** and specify the official duties in a given structure. The position of authority is formally distributed in order to give commands for discharging duties. Within the framework of rules, the behaviour is subjected to controls.
- **Hierarchy** - A common feature among all bureaucracies, hierarchy is established by delegating power and authority. This starts from the top and goes down the ladder according to laid down procedures.
- **Recruitment - Qualifications** are prescribed for recruitment. Training is a mode for importing skills and job security is ensured in conformity with rules. The duties, responsibilities and reporting relationships are structured in a command hierarchy.

There are also opportunities for specialisation and a certain amount of stability is provided through a bureaucratic organisational structure.

There are certain drawbacks also in a bureaucratic structure :

- Rules and regulations are rigid. This inflexibility deters the pace of change or reacting to crisis situations.
- Functions are **directed** in a mechanical way with no scope for human relations or emotions.
- Inordinate delays occur in decision making and implementation because of hierarchical functioning and rigid procedures.

2) **Administrative Theory** : Some of the salient features of this theory include

- **Division of work** - to attain higher productivity,
- **Authority** - to give orders and responsibility to achieve organisational objectives,
- **Unity of command** - to reduce confusion and conflicts,
- **Subordination** of individual interests to common interests,
- **Fair salary structure** with rewards for good performance,
- **Respect for and obedience to** organisational goals and procedures.

3) **Scientific Management** : Whereas the earlier two classical theories focussed on macro structural aspects, the Scientific Management theory emphasised upon the micro aspects. Fredrick Winston Taylor described four principles of Scientific Management :

- 1) Develop a science for each element of a man's **work** which replaces the old rule-of-thumb method.
- 2) Scientifically select and then train, teach and develop a workman.
- 3) Management should cooperate with workers.
- 4) Equal division of work and responsibility amongst the management and workers.

5.2.2 Neo-Classical View

The preponders of the Neo-classical approach tried to improve upon the classical viewpoint by bringing in the human **element**. This provided a thrust towards **participative management and democratisation of organisational power structures**. It stood for more liberty for employees, a bigger role in **decision** making and openness in communication with managers

and among themselves. In fact this view point agreed for meeting the human requirements and raising satisfaction among the members of an organisation, rather than being suspicious or doubting their capabilities. The aim here was to relax rigidity.

5.2.3 Systems View

Under this viewpoint, an organisation is viewed as a system consisting of five parts :

- inputs
- process
- output
- feedback, and
- environment

The systems approach **emphasises** upon the inter-dependence of every segment of the organisation which through interaction form a unitary whole.

With new technological innovations and more managerial experiences, new perspectives keep emerging for a better understanding of organisations. You should remember that the process of understanding organisations and choosing the organisational structure is an ongoing process.

5 3 ORGANISATIONAL STRUCTURE

As a Manager, you work **in** an **organisation** and as an entrepreneur or an own-manager you create an organisation for achieving your business goals. But this organisation must have a structure because:

- relationships have to be established among the various components or departments of the organisation,
- work has to be divided among the different members or departments of an organisation,
- authority, responsibility, powers, duties, functions etc. have to be clearly **spelt** out,
- the activities have to be coordinated effectively, and
- the actions of the members have to be monitored or controlled.

However, all these are directed towards achieving the stated goals of an organisation. By an Organisation Structure, we mean a process through which the organisational **tasks** are divided, organised and coordinated. Organisation Structure plays a vital role in the decision making process.

53.1 Organisational Chart

An organisation has different hierarchical levels with different functions along with separate units or departments. To demonstrate **all** these and to depict the formal structure of the organisation at any given time, an **organisational** chart is made. It **also** shows the span of control. However, as the organisation grows and changes take place, the organisational chart also changes accordingly. But it does not contain informal relationships and linkages within an organisation.

Organisation Chart of a Travel Agency



53.2 Formal and Informal Structures

Organisational structures are based on :

- specialisation,
- standardization **i.e. laid down policies and procedures,**
- formalization **i.e. the extent to which policies and procedures are written down, and**
- centralization **i.e. the authority of decision making.**

In the tourism industry, we find numerous small organisations as well as big organisations. In small organisations the functions and responsibilities *can* be and are dealt with informally. But as the **organisation expands**, functions and responsibilities have to be allocated formally. Hence, a formal organisation is a result of deliberate and planned effort with explicit decision making. However, informal relationships continue in a formal organisation also amongst its members.

Check Your Progress - 1

- 1) Why is it necessary to understand organisations ?

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- 2) Discuss the classical approach to organisations. .

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- 3) What do you understand by Organisation Structure ?

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5.4 COMPONENTS OF ORGANISATION STRUCTURE

Organisation structure is created to facilitate the coordination of activities and to control or monitor the actions of organisational members. Structure, itself, is made up of three components :

- The first has to do with the degree to which activities within the organization are broken up or **differentiated**. It is called **complexity**.
- Second, is the degree to which rules and procedures are utilized. This component is referred to as **formalization**.
- The third component of structure is **centralization** which considers where decision-making authority lies.

Combined, these three components make up an organisation structure for **organising** the activities.

1) **Complexity** has three forms of differentiation namely **horizontal, vertical and spatial**.

a) **Horizontal Differentiation:**

This considers the degree of separation between units. The larger the number of different occupations within an organisation that require specialized knowledge and **skills**, the more horizontally complex that organization is. This is because diverse orientations make it more difficult for organizational members to communicate and more difficult for the **management** to coordinate their activities.

b) **Vertical Differentiation:**

This refers to the depth of the organizational hierarchy. **The more** levels that exist **between** top management and the operatives, the more complex the organization is. This is because when there is a greater potential for communication distortion, it is more difficult to coordinate the decisions of managerial **personnel**. It is also harder for top management to oversee closely the actions of operatives where there are more vertical levels.

c) **Spatial Differentiation:**

It encompasses the degree to which the location of an organization's physic. facilities and **personnel** are geographically dispersed. As spatial differentiation increases so does complexity, because communication, coordination **and** control become more difficult. Coordinating **Sheraton's hundreds** of hotels, **located** around the world is a far more complex undertaking **than coordinating** the dozen New York City hotels that make up the **Helmsley** Chain.

2) **Formalization**

This term refers to the degree to which jobs **within** the organization are standardized. If a job is highly formalized, the job incumbent has a minimum amount of discretion over what is to be done, when it is to be done and how he or she should do it. In other words, there is less emphasis on the decisions to be taken on routine works. There are explicit job **descriptions**, **lots** of organizational rules and clearly defined procedures covering work processes in organisations where there is **high formalization**.

On the other hand, where formalization is low, job behaviour is relatively non programmed and employees have a great **deal** of freedom to exercise discretion in **the** work **i.e.** they have to exercise options take a lot of decisions in their routine work. **Since** an individual's discretion on the job is inversely related to the amount of behaviour that is programmed by the organisation, the greater the standardization, the less input the employee has into how his or her work is to be done. Standardization not only **eliminates** the possibility of employees engaging in alternative behaviours, but it even removes the need for employees to consider alternatives.

3) **Centralization:**

In most of the Indian organisations, top managers make all the decisions. Lower-level managers merely carry out top management's directives. At the other extreme, there are

also a few organisations where decision making is pushed down to those managers who are closest to the action. The former case is called **centralization** and the later is **decentralization**.

The term centralization refers to the degree to which decision making is concentrated at a single point in the organisation. The concept includes only formal authority, that is, the rights inherent in one's position. Typically, it is said that if top management makes the organisation's key decisions with little or no input from lower-level personnel, then the organisation is **centralized**. In contrast, the more lower-level personnel provide input or are actually given the discretion to make decisions, the more decentralized is the organisation.

In a decentralized organisation:

- action can be taken more quickly to solve problems,
- more people provide input into decisions, and * employees are less likely to feel alienated from those who make the decisions that effect their working lives.

But again you cannot simply rule out the possibility of confusion and difference of opinions if you involve too many people in decision making. Therefore, the best alternative would be to select a hybrid kind of situation where not only top managers but the key people or a few representatives from the lower level are allowed to participate in the decision making process. There is a growing trend of these kind of organisations throughout and the results shown by these organisations are very encouraging.

5.5 CLASSIFICATION OF ORGANIZATION STRUCTURES

The concepts like complexity, formalization and centralization may often seem abstract to the typical reader or the average employee in an organisation. A simple classification scheme that can help to describe the organisation and on which most of the organizational designs are based, is the **classification** into:

- **Mechanistic Structure and**
- **Organic Structure**

An organisation's overall structure generally falls into one of these two signs.

The **Mechanistic Structure** is characterised by :

- high complexity (especially a great deal of horizontal differentiation),
- high formalization,
- limited information network (mostly **downward** communication), and
- little participation by low-level members in the decision making process.

On the other hand, at the other extreme is the **Organic Structure** :

- It is **low** in complexity and formalization,
- it possesses a comprehensive information network (utilizing lateral and upward communication as well as downward), and
- it involves high participation in decision making.

Mechanistic structures are rigid, relying on authority and a well defined hierarchy to facilitate coordination. The organic structure, on the other **hand**, is flexible and adaptive. Coordination is achieved through constant communication and adjustment. There is a proper feedback of results and people strive jointly for comprising the organisational goal.

Further, in the context of the tourism industry, we briefly discuss four types of organisational structures:

- 1) **Product/service** based structures
- 2) **Spatial** based structures

- 3) Conglomerate structures
- 4) Matrix structures

1) **Product/service based structures**

In this category comes an organisation which offers a **variety** of products or services and builds a structure where each service or product is a division of its own. In other words, the activities are structured according to their services or products. For example an organisation in the hospitality industry may have one division of hotels another of restaurants and another of airline catering. Each of these divisions resembles a separate business, focuses its own operations and is responsible for its own costs and profitability. Yet, each division is not a separate enterprise in the true sense because the ultimate authority and control rests with the central authority.



2) **Spatial based structures**

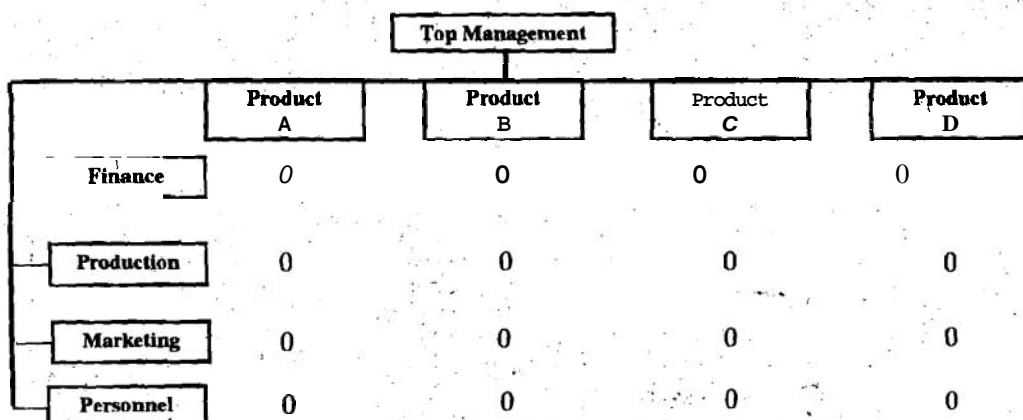
In the tourism industry some **organisations** go for division of their activities by structuring them on geographical lines, i.e. through a network of **regional** offices. The **services** are **divisionalised** according to customers or on a regional basis.

3) **Conglomerate structures**

Some organisations grow through acquiring other businesses. In such conglomerate structures, the **business** or companies acquired are **maintained** as subsidiaries. **However**, the autonomy of the subsidiary is determined by deciding on the nature of **control**, **authority** and line of communication between the subsidiary and the parent company.

4) **Matrix structures**

In mathematics, matrix means an array of vertical columns and horizontal rows. In a matrix organisation structure, the employees work under a dual authority. One line of command is functional or divisional while the second depicts a project based approach in a specialised area. This means that a person is accountable to two heads at onetime. One is the usual head under whom the person works and the other, the head of the project which may be for a limited duration. Often, the matrix structure is known as a **multiple command system** as it is a **combination** of product and functional organisation.



Besides these, there are also **organisations** which have a structure based on functions like marketing, finance, production etc. Here all persons **performing** similar functions are placed under one functional head.

It must be noted here that there is no one structure that is perfect for any organisation. The efficacy of any structure adopted is proved through an **evaluation** of the course of its operations. However, an appropriate structure could be one that :

- enables operational **efficiency** for achieving organisational goals, and
- provides such a structure where individual jobs can be adjusted at ease.

There are certain factors to be kept in mind while choosing a structure. These include :

- 1) Size of the organisation
- 2) Objectives of the organisation
- 3) The market and environment
- 4) Range, nature and scope of business
- 5) Technology to be adopted, etc.

Certain other aspects like designing of jobs and spans of control within an organisation have been dealt with in Unit 7.

5.6 ORGANISATIONAL CULTURE

Very often you must have **heard** these words that **the culture of so and so organisation is very good; the climate in that organisation is not good or from the employee's point of view, so and so organisation is bad or good.** In fact each organisation has its own set of characteristics and among these some are common with other organisations. According to Stephen P Robbins : "**Organisational culture is a relatively uniform perception held of the organisation, it has common characteristics, it is descriptive, it can distinguish one organisation from another and it integrates individual, group and organisation system variables.**"

Very often, organisational culture is also described as organisational climate. Renato **Tagiuri** described organisational climate as : "**a relatively enduring quality of the internal environment that is experienced by the members, influences their behaviour, and can be described in terms of values of a particular set of characteristics of the organisation.**"

In fact, just as individuals have a **personality** so does an **organisation**. In any culture, **there** are do's and don'ts and a similar situation exists in an organisation. The organisational culture affects and influences the attitude of employees towards colleagues, supervisors, subordinates, clients as well as competitors.

Let us examine some **dimensions** and determinants of organisational culture.

1) DIMENSIONS

Some dimensions of organisational culture are as follows :

- **Autonomy**: It is closely related to the freedom in exercising responsibility. It is the degree to which employees are given liberty for decision making, managing themselves or dealing with subordinates etc.
- **Rewards** : Where, how and to which degree, an **organisation** rewards individuals for **hardwork** or achievements or not, is another dimension of organisational culture.
- **Conflict** : How **much** conflict or inter-personal differences exist within an organisation is another dimension.
- **Risk taking** : Risk **taking** dimension of an **organisation's** culture is indicated by the freedom given to an individual for trying out new ideas without fear of ridicule or punishment.
- **Congenial atmosphere** : This refers to the support and incentive given to an individual member by other organisational members.

These dimensions may or may not depict the **climate** or culture of an organisation in totality but they do provide indicators for perceiving the organisational culture.

Among the determinants of organisational culture, the influencing factors are :

- Organisational structure,
- Organisational policies,
- Organisational size,
- Leadership styles,
- Financial position,
- Organisational behaviour, and
- Managerial values

Similarly, the organisational culture is also perceived in terms of exploitative, benevolent, participative or consultative. These ratings can be done by posing certain questions like :

- What is the decision making process and what levels are involved?
- What is the level of confidence posed in subordinates?
- How does the management respond to problems faced by employees?
- How much career advancement opportunities are provided to the employees etc.?
- How much care does the management take, of employees' interests etc.?

Managers are duty-bound to create a congenial organisational **climate** or culture and in an industry like tourism, **providing** quality **service** to the customers, is also an important consideration.

Check Your Progress -2

1) Discuss the components of Organisational Structure?

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2) What do you understand by Mechanistic Structure?

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- 3) What do you understand by Organisational Culture?

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5.7 LET US SUM UP

In this Unit, you have been **familiarised** with organisational structures alongwith their components and classification. If you are an entrepreneur aspiring to establish your own business, you should take into account the various aspects related to the setting-up of organisations. Similarly, as managers, you must be aware of these aspects. It is equally important to develop a healthy organisational culture in your organisation in order to attract talented people to join your organisation and at the same time to build an image for your organisation in the market. You must remember that organisational structures and organisational culture are not static. They keep changing as per the requirements and developments within an organisation. They are also affected by both internal as well as external forces.

5.8 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress - 1

- 1) Base your answer on **Sec. 5.2** alongwith your own views.
- 2) Read Sub-sec. 5.2.1 for your answer.
- 3) This has been discussed in **Sec. 5.3**

Check Your Progress-2

- 1) Base your answer on **Sec. 5.4**.
- 2) Base your answer on **Sec. 5.5**.
- 3) Read **Sec. 5.6** for your answer.