
UNIT-10 DEPARTMENTATION

Structure

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10.0 LEARNING OBJECTIVES

After completion of the Unit, you will be able to understand:

- Meaning and Importance of Departmentation
- Basis and forms of Departmentation
- Relative merits and demerits of different form of Departmentation

10.1 INTRODUCTION

Organisation structure based on Departmentation means division of work into small units on the basis of similarity of functions and features. Departments are created and activities of similar nature are grouped when the organisation grows in size.

According to G.R.Terry and Franklin

“Departmentalisation is the clustering of individuals into units and of units into departments and larger units in order to facilitate achieving organisational goals.”

10.2 IMPORTANCE OF DEPARTMENTATION

1. Organisation structure:

This network of authority- responsibility relationships is the basis organisation structure. Departmentation strengthens organisational structures so as to track authority relationship in a better way and fix accountability

2. Specialisation:

One of the important objectives of Departmentation is to reap the benefits of specialisation through division of work. As each department performs activities of similar nature repeatedly, they gain expertise. This leads to increase in efficiency and productivity.

3. Flexibility:

Organization's competitiveness and success can be ensured by making the structure flexible. Departmentation makes the structure flexible and adaptive to change.

4. Co-ordination and Control:

Control and coordination are facilitated by the activities which are undertaken with adequate clarity in Departmentation.

5. Sharing of resources:

Optimum utilisation of resources is ensured since resource sharing becomes need based in departmentation irrespective of their nature of activities. This reduces wastages as requirement is assessed based on priority.

6. Scope for growth and diversification:

Scope for organisational growth and diversification is ample in departmentation as it enables the management to expand their area of operation into new geographical divisions, new product and process line.

7. Responsibility:

It becomes easier for top management to fix responsibility since similar activities are grouped in departmentation and the responsibility is vested with a departmental head.

8. Development of managers:

Under departmentation , heads of the various departments get ample scope to take independent decisions of varied nature. This makes them to be creative as well as innovative. They are groomed to take up higher challenges in this process.

10.3 BASIS OF DEPARTMENTATION:

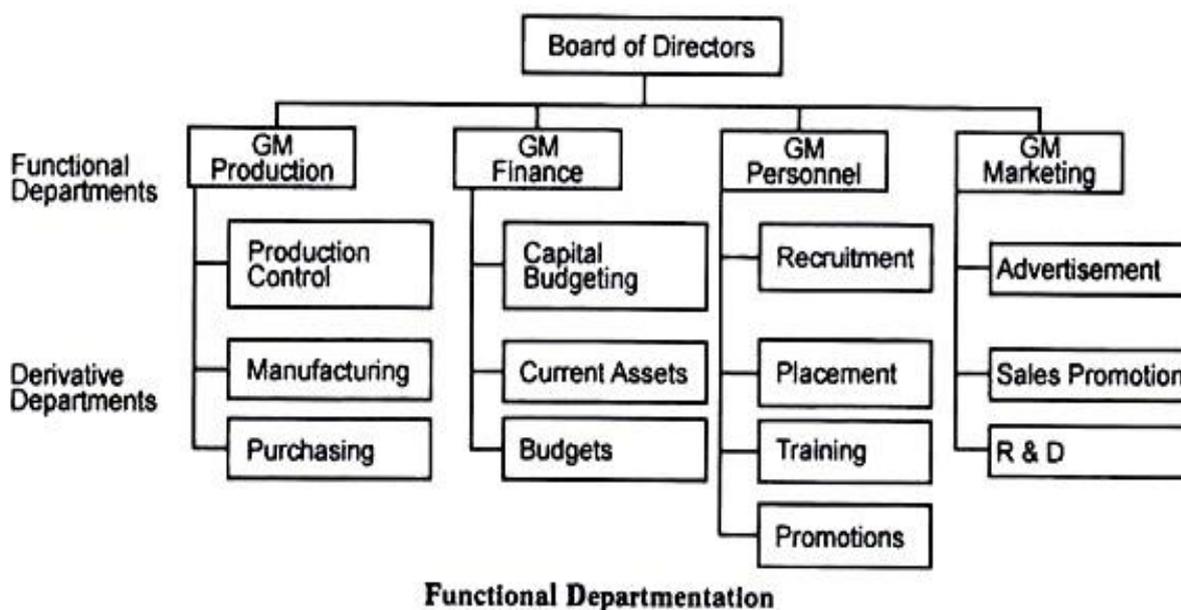
Departments are created for activities of similar nature to reap the aforesaid benefits, depending on the basis of products ,process or geographical locations. There are two broad forms or basis of departmentation:

- A. Functional departmentation, and
- B. Divisional departmentation

10.4 FUNCTIONAL DEPARTMENTATION

As the name suggests, functional organisation creates departments along activities or functions of similar nature. For example, activities carried out by a manufacturing organisation are production, finance, sales etc. For a bank they are borrowing, lending, agency services etc. The conscious grouping, of jobs and resources, is done in such a way that employees who perform the similar activities are kept in the same department. Keeping nature of the department sub-departments are also created.

Functional Departmentation Chart



Merits of Functional Departmentation:

- Functional departmentation is simple and logical basis of creating departments.
- Since workers in one functional area focus in a particular activity they acquire expertise and specialised skills.

- Employees working in one department are closely knitted and work collectively, which facilitates smooth coordination.
- The departmental manager ensures that activities are performed strictly according to rules and procedures laid down for the department.
- Exercising control is easier in functional departmentation as units are small and closely knitted.
- Functional organisation is best suited for small and stable organisations in which labour turnover is least and few specialised products are manufactured.

Limitations of Functional Departmentation:

- Sight of the overall organisational goals is often lost as the employees are highly focused on departmental goals.
- Delayed decisions are observed for the organisation as a whole as several departments are to be consulted.
- Under functional departmentation, people are more loyal to their respective departments and departmental rivalry crops up. This makes it difficult to co-ordinate various functional activities by top management.
- Organisations operating in the dynamic environment do not accept functional activities as the basis of departmentation as this is a suitable form of departmentation for stable organisations.
- Functional departmentation is not suitable for complex organisations which are dynamic in products and process.

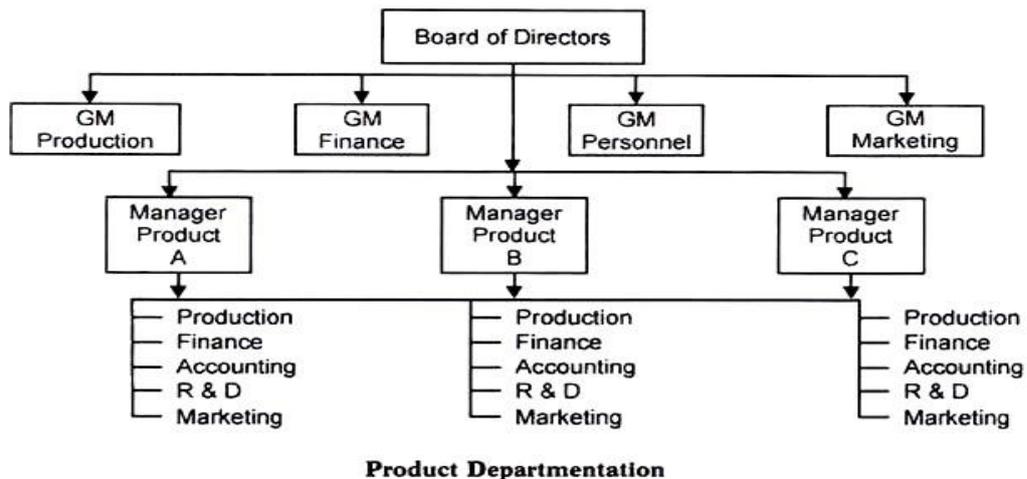
10.5 DIVISIONAL DEPARTMENTATION

Divisional structures are created on the basis of smaller divisions where each division has its own functional activities. Major divisions that determine the organisation structure are as follows;

10.5.1 Product Departmentation:

This form of departmentation is suitable for companies that produce multiple products and departments are created on the basis of products. Product departmentation is grouping of jobs and resources for a particular product or product lines.

ORGANISATION CHART SHOWING PRODUCT DEPARTMENTATION



Merits of product departmentation:

- As focused attention can be given for a particular product, efficiency is increased. This ensures better performance of employees in each department. This also promotes product specialisation which helps in product growth and quality.
- Since all decisions related to a product are taken by product manager decisions are taken quickly.
- The product manager finds it easier for coordination as all the activities, both primary and auxiliary, relating to the product are under his control.
- Establishing authority-responsibility relationships by delegation in a department is smooth in product departmentation. Thus control is exercised properly and growth is maximised.
- Product managers are accountable for results of their product departments. This promotes performance and profitability of different product departments.
- Organisational efficiency is enhanced by promoting profitable products as eliminating the unprofitable ones is easier due to independent comparison of different products on the basis of cost vis a vis revenue is easy under the system.

Demerits of Product Departmentation

The followings are few important limitations of product departmentation.

- Though intra departmental coordination and control improve, inter departmental coordination becomes difficult since departments focus attention on activities of their own departments without consideration for other departments.

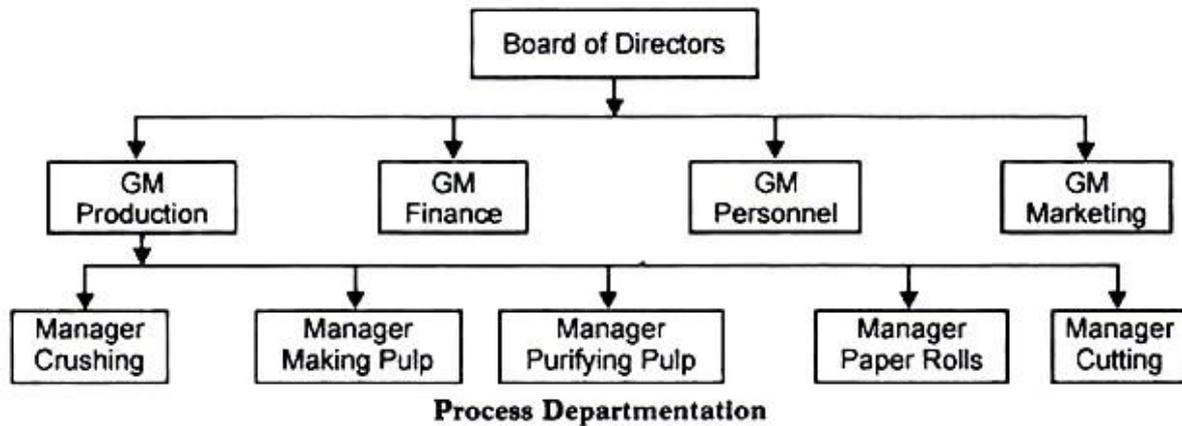
- This is comparatively an expensive basis of departmentation in comparison to functional departmentation because every department appoints specialists at the cost of duplication of efforts.

10.5.2 Process Departmentation

Process departmentation is popular, where the product passes through different stages and each stage is designated as a process. Departments are created for each process.

Sugar mill ,for example, has crushing ,boiling, filtering refining etc. processes. For each process, departments are created and headed by people skilled and competent to carry that process.

ORGANISATION CHART SHOWING PROCESS DEPARTMENTATION



Merits of Process Departmentation:

- As work is divided into different processes, the process departmental head and his team gain specialisation in that process by constantly carrying out activities related to that process only. Specialisation results in economy of time, money and managerial skills.
- Process departmentation, helps in maintenance of the equipment's related to a process because specialised technology requires specialised skills to maintain that process.
- Since employees carry out only one operation or process on the work activity, managers can impart training to the to efficiently carry out that process.

Demerits of Process Departmentation

- Unless uniformity in output is maintained, coordination is hampered as output of one department is the input of another. This can also result in conflict amongst process managers.

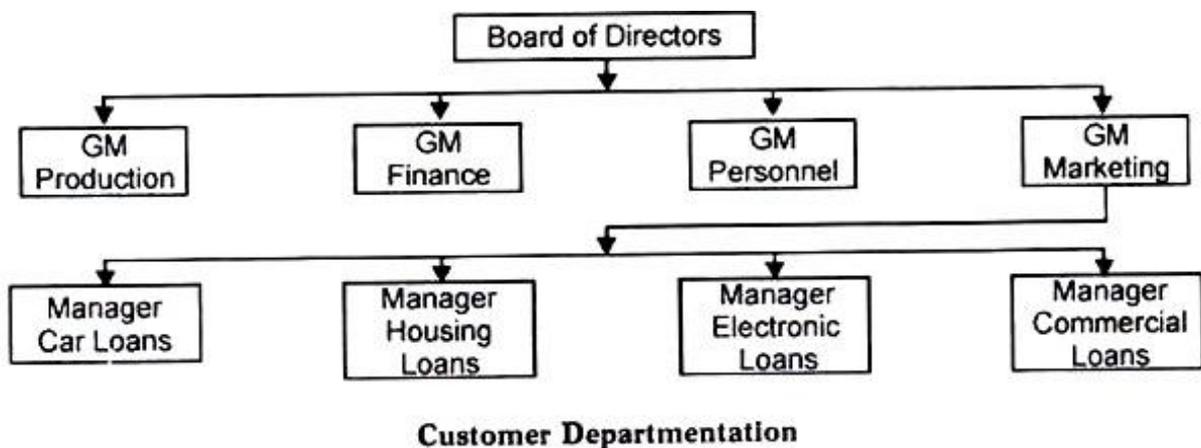
- Boredom and demotivation prevail as people handle the same job repeatedly. Scope of job rotation and job enrichment are limited. This state of affairs has a telling effect on the efficiency and productivity in the long run.

10.5.3 Customer Departmentation

When organisations resort to departmentation based on customers' need, it is known as Customer Departmentation.

Bank for example, gives loan to meet different customer requirements like housing loan, car loan, Business loan etc. Departments are created accordingly under this form of Departmentation.

ORGANISATION CHART SHOWING CUSTOMER DEPARTMENTATION:



Merits of Customer Departmentation:

- Competitive advantage is ensured due to greater consumer satisfaction through dedicated and specialised service. By catering to varied customer needs, companies have better chances of survival and growth.
- An organisation which is customer centric is bound to grow and make profits. The basis of departmentation according to customer needs justifies it.
- Departmentation on the basis of customers preference make the employees become specialists in that particular department. This specialisation ultimately translated in to more business and goodwill.

Limitations of customer departmentation:

- From the organisation perspective, coordination is difficult due to greater involvement of employees in their respective departments.

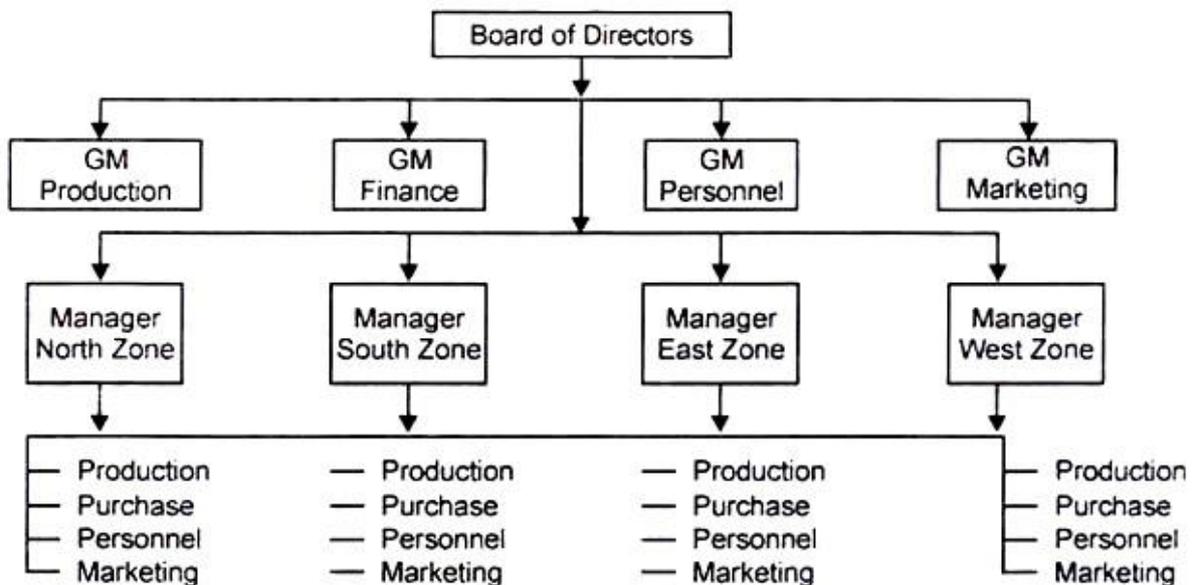
- Consumer behaviour is dynamic in nature and mostly unique in most of the cases. As such it becomes difficult to frame departmental policies and need a balancing act in framing policies so that organisation can adapt to the ever changing customer environment.
- Under this type of departmentation, employees must have specialised skills. Engagement of specialised manpower entails higher expenditure. So, it is expensive.
- As the personnel and products/ services are segregated category wise, scope of cross-selling is limited.

10.5.4. Territorial Departmentation:

Organisation creates departments based on location of customers or resources dispersed geographically under this type for which this is also known as geographical departmentation.

The product or customer differentiation, both can be the basis of geographic or territorial departmentation. This basis is suitable for large-sized organisations which have activities dispersed over different geographical areas.

Chart Showing Geographic Departmentation:



Geographic Departmentation

Merits of Geographical Departmentation:

- The emphasis is on selling in different regions according to customer needs.. Managers are able to promote sales as they are aware of the local conditions of the area where they are operating.
- Firms setting up their units near the sources of raw material, take advantage of economies of operation.
- Communication with the consumers and formulation of policies are smooth as marketing people belong to local area.

Limitations of Geographic Departmentation:

- Top management finds it difficult to control and co-ordinate their activities since departments are widely dispersed, Different local conditions also create problems of understanding.
- As each department has auxiliary departments like personnel, accounting etc., it is expensive. This method is suitable for large-scale organisations who can afford its cost.
- Managers are to perform functional activities related to their departments for which, they may not be specialists in all the functional activities.

Few other types of departmentations

10.5.5 Departmentation by Time:

This method of departmentation is used in situations where work is done round the clock because, the nature of work entrusted to the organisations is such that work cannot be stopped or essential in nature i.e. health, fire, police, railways, air-lines etc.

Here, workers work in shifts; morning, afternoon and night, so that work can progress continuously to meet the demand.

10.5.6. Departmentation by Size:

Departments are created on the basis of number of people who form the department. Example may ARMY, where soldiers are grouped to form various departments.

10.5.7. Departmentation by Task Force:

When organisation has a number of projects (tasks), it forms task forces which consist of people from different units having different skills to complete those projects.

10.6 LET'S SUM-UP

Departmentations should not be confused with the functional aspects of Management like Planning, Controlling etc. It is grouping of various organisational activities which are of similar nature. It is pursued for increasing efficiency and effectiveness of organisation There are two broad forms of Departmentation-Functional and Divisional. Divisional departmentations are on the basis of Product, Process, Customers, Geographical location, Time, Numbers and Tasks(Projects).Each has its own merits and demerits.

10.7 KEY TERMS

- **Authority:** The power or right to give orders, make decisions, and enforce obedience.
- **Responsibility:** Responsibility is the obligation of a subordinate to perform the duty as required by his superior.
- **Accountability:** The fact or condition of being accountable; answerable.
- **Delegation:** Delegation is the assignment of any authority to another person to carry out specific activities.
- **Specialisation:** Expertise in a field or in an activity.
- **Customer centric:** Customer oriented or in favour of customers
- **Consumer behaviour:** Response of the consumers
- **Dynamic;** Which is not constant or static. Ever changing

10.8 FURTHER READINGS

- Kootnz& O'Donnell, Principles of Management.
- L. M. Prasad, Principles and Practice of Management.
- J.S. Chandan, Management Concepts and Strategies.
- Arun Kumar and R. Sharma, Principles of Business Management

10.9 MODEL QUESTIONS

- Q1- Why Departmentation is important?
- Q2- What is Functional Departmentation? State it's relative merits and demerits.
- Q3- Distinguish between Product and Process Departmentation. Give examples to illustrate your answer.
- Q4- Write short notes on the following terms:-
- a. Geographical Departmentation,
 - b. Project Departmentation,

UNIT-11 DELEGATION OF AUTHORITY AND RESPONSIBILITY

Structure

- 11.0 Introduction
- 11.1 Definitions
- 11.2 Parity of Authority and Responsibility
- 11.3 Importance of Delegation
- 11.4 Principles of Delegation
- 11.5 Let's Sum-up
- 11.6 Key Terms
- 11.7 Self-Assessment Questions
- 11.8 Further Readings
- 11.9 Model Questions

11.0 LEARNING OBJECTIVES

After completion of the unit, you should be able to:

- Explain the meaning, concept and definition of management.
- Describe scope and importance of management.
- Know the nature and characteristics of management.
- Also understand whether management is a science or an art or a profession.

11.1 INTRODUCTION

All activities are not performed by one person. Every individual is only one manpower. Single handed he can accomplish so little in a day. Only way to accomplish more is through sound and effective delegation. Authority should be provided to the subordinates too. Process of transferring authority and creation of responsibility between superior and subordinates to accomplish a certain task is called delegation of authority. It can take place without decentralization. It can be withdrawn by delegator at any time. It minimizes the burden of managers of unit, departments or plant. Relationship between superior and immediate subordinates are indicated. It is technique of management used to get the things done through others. It is confined to manager and subordinates. Authority is only delegated, not responsibilities. Very important to management process Control remains in hand of superior who supervise the activities of subordinates. It is an art of management science. When authority is not given to subordinates there is no performance. Delegation is the process of sharing authority; power and work (deliver the power from one person to another or one level to another level).

11.2 DEFINITIONS

It is necessary to have brief understanding of three terms intimately connected with the concept and process of delegation.

Responsibility

Responsibility indicates the duty assigned to a position. The person holding the position has to perform the duty assigned. It is his responsibility. The term responsibility is often referred to as an obligation to perform a particular task assigned to a subordinate. In an organisation, responsibility is the duty as per the guidelines issued.

Definitions of Responsibility

According to Davis, "Responsibility is an obligation of individual to perform assigned duties to the best of his ability under the direction of his executive leader." In the words of Theo Haimann, "Responsibility is the obligation of a subordinate to perform the duty as required by his superior".

McFarland defines responsibility as "the duties and activities assigned to a position or an executive".

Authority

Authority is the right or power assigned to an executive or a manager in order to achieve certain organizational objectives.

A manager will not be able to function efficiently without proper authority. Authority is the genesis of organizational framework. It is an essential accompaniment of the job of management. Without authority, a manager ceases to be a manager, because he cannot get his policies carried out through others. Authority is one of the founding stones of formal and informal organisations. An Organisation cannot survive without authority. It indicates the right and power of making decisions, giving orders and instructions to subordinates. Authority is delegated from above but must be accepted from below i.e. by the subordinates. In other words, authority flows downwards.

Definitions of Authority

According to Henri Fayol, "Authority is the right to give orders and the power to exact obedience."

According to Mooney and Reily, "Authority is the principle at the root of Organisation and so important that it is impossible to conceive of an Organisation at all unless some person or persons are in a position to require action of others."

Accountability

Every employee/manager is accountable for the job assigned to him. He is supposed to complete the job as per the expectations and inform his superior accordingly.

Accountability is the liability created for the use of authority. It is the answerability for performance of the assigned duties.

Definition of Accountability

According, to McFarland, "accountability is the obligation of an individual to report formally to his superior about the work he has done to discharge the responsibility."

When authority is delegated to a subordinate, the person is accountable to the superior for performance in relation to assigned duties. If the subordinate does a poor job, the superior cannot evade the responsibility by stating that poor performance is the fault of the subordinate. A superior is normally responsible for all actions of groups under his supervision even if there are several layers down in the hierarchy. Simply stated, accountability means that the subordinate should explain the factors responsible for non-performance or lack of performance.

11.3 FEATURES/CHARACTERISTICS OF DELEGATION

Delegation has the following features:

1. Delegation is a process:

Managers delegate tasks in a sequential order of steps.

2. On-going process:

Delegation is a continuous process. Managers continue to delegate tasks to subordinates and get them delegated by their superiors to achieve the organisational goals.

3. An art: not science:

Delegation does not necessarily mean that subordinates will perform those tasks well. There is no cause and effect relationship between the task assigned and their actual performance. Delegation is, thus, not a science. It is the art of how well and what the manager delegates to subordinates.

4. Delegation of authority and not accountability:

Managers can only delegate work and authority to perform that work. Delegation does not absolve managers of accountability to their superiors for the part of task assigned to subordinates. They remain accountable for the tasks assigned to subordinates and are answerable to their superiors for its performance. Thus, responsibility (tasks) and authority can be delegated but not accountability.

5. Necessary activity:

Managers cannot avoid delegation. They cannot perform all the tasks themselves. They have to learn the art of delegation that is, how to delegate and what to delegate. Corporate performance is judged by how well managers get the work done by the process of delegation. Delegation is not an option. It is a necessity.

6. Different forms:

Delegation can take different forms. It can be downward, upward or lateral.

11.4 PARITY OF AUTHORITY AND RESPONSIBILITY

Managers exercise great care during the process of delegation. If routine jobs are retained by them and important matters are delegated, the entire process of delegation becomes ineffective. Manager determines the authority and responsibility that should be retained by him and that which should be delegated.

The authority and responsibility which he retains for his own performance is called reserved responsibility. According to Louis A Allen “a manager cannot effectively delegate responsibility and authority for initiating and making final decisions for planning, organising, coordinating, motivating and controlling the activities and positions that report to him.”

Making plans; single use or multiple use, strategic plans, policies, procedures rules etc. cannot be delegated. These activities are of supreme importance for the organization and managers cannot delegate them to subordinates. These are the foundation which provide meaning and substance to the organisation. Though not delegated, managers can take help of other line and staff managers in framing the plans.

While organising determines the framework of the organisation structure with well-defined authority-responsibility relationships amongst various individuals at various levels, the base for providing structure to organisation, whether functional or divisional or matrix, is the sole responsibility of managers and cannot be delegated to subordinates.

The kind of people to be recruited, selected, trained, placed on different jobs, the kind of leadership style to be adopted, the measures of reward or coercion used as motivational factors are the important business decisions that cannot be delegated. These are, thus, the important areas of management where delegation will not be effective. What then are the areas where delegation will be effective?

With reference to plans and objectives of the organisation, the important managerial functions of planning, organising, staffing, directing and controlling are managed by managers themselves and routine activities with respect to each functional area of production, finance, personnel and marketing are delegated to subordinates, i.e., responsibility entrusted to lower-level managers should be with respect to routine jobs in the specific functional area. In the finance department, for example, the sources of raising funds, designing the capital structure, determining the optimum debt-equity ratio, apportioning funds between fixed and current assets are determined by the top managers. Once decided, accepting applications, returning excess funds and issuing share certificates can be delegated to lower-level managers (if funds are raised through issue of shares). Launching a new product, planning a market survey, feasibility and project report are done by top managers but actually conducting the feasibility studies

and market surveys is delegated to lower-level managers. Once responsibilities to be delegated are determined, authority to carry out those responsibilities is also delegated. The authority must be commensurate with responsibilities so that subordinates can effectively discharge their obligations. The matters which are of routine nature for top managers are important for subordinates and they need authority to carry out those responsibilities.

Delegation has the following important elements:

Responsibility

Responsibility is the activity or task entrusted by the manager to subordinates. Though delegated, the ultimate responsibility (accountability) for completion of the task rests with the manager.

Authority

To carry out the responsibility assigned, there is need for authority to allocate resources, command people, issue directions and make decisions. The authority is therefore, delegated to subordinates to enable them to carry out the responsibility assigned.

Accountability

When managers delegate part of their work-load to subordinates, they remain accountable for accomplishment of that task. The responsibility and authority, thus, can be delegated but accountability cannot.

Subordinates need authority to carry out the responsibility. Authority enables delegates to give instructions to members of their unit. Authority without responsibility and responsibility without authority has no meaning. Authority, Responsibility and Accountability are Inter-related. They need proper consideration while introducing delegation of authority within an Organisation. In the process of delegation, the superior transfers his duties/responsibilities to his subordinate and also give necessary authority for performing the responsibilities assigned. At the same time, the superior is accountable for the performance of his subordinate. As authority and responsibility are not mathematically related to each other, authority cannot be exactly equal to responsibility. It must be commensurate with the responsibility; neither more nor less.

11.5 IMPORTANCE OF DELEGATION

Delegation is unavoidable. Managers have to be skilled in the art of delegation. Delegation of authority is a process in which the authority and powers are divided and shared amongst the subordinates. When the work of a manager gets beyond his capacity, there should be some system of sharing the work. This is how delegation of authority becomes an important tool in organization function. Through delegation, a manager, in fact, is multiplying himself by dividing/multiplying his work with the subordinates. The importance of delegation can be justified by –

1. Relief to managers:

Delegation relieves managers of the burden to carry out every activity on their own. By delegating routine activities to lower levels, top managers concentrate on important policy matters. This increase efficiency of the organisation.

2. Develops managers:

By delegating authority and responsibility to subordinates, managers can accept more and responsibilities from their superiors. By delegating routine jobs down the hierarchy, they can take more challenging projects and enhance their skills as competent managers

3. Develops subordinates:

When routine and innovative tasks are delegated to subordinates, their skill in performing the delegated tasks increases. Training programmes can be organised to develop them as potential managers.

4. Better decisions:

Through delegation, decisions related to routine matters are taken by those who are closest to the decision-making situation. This increases the quality of decisions.

5. Faster decisions:

Not only are the decisions effective, they are also fast as subordinates have the authority to do the jobs assigned without going to the superiors every time they face a problem. They have authority to solve the problems on their own.

6. Specialisation:

Division of work into sub-units and delegation of responsibilities according to skill, knowledge and competence of subordinates promotes specialisation on the job and results in greater output. "Delegation provides a way to break down the responsibilities of a manager and assign them across several subordinate managers based on their specialised capability."

7. Job satisfaction:

When subordinates achieve the delegated standards of performance, it provides them job satisfaction and motivates them to perform better.

8. Promotes inter-personal relationships:

Delegation increases interaction of managers with the subordinates and promotes healthy relationships amongst them.

Therefore, from the above points, we can justify that delegation is not just a process but it is a way by which manager multiplies himself and is able to bring stability, ability and soundness to a concern.

11.6 PRINCIPLES OF DELEGATION

The following principles make the process of delegation effective:

1. Authority, responsibility and accountability:

These are the elements of delegation that make it an effective process.

2. Parity of authority and responsibility:

Subordinates need authority to carry out the responsibility. Authority enables delegates to give instructions to members of their unit. Authority without responsibility and responsibility without authority have no meaning. As authority and responsibility are not mathematically related to each other, authority cannot be exactly equal to responsibility. It must be commensurate with the responsibility; neither more nor less.

3. Scalar chain:

Every member should know his position in the scalar chain to know his superiors who have the power to delegate and his subordinates to whom he can delegate. The responsibility can be assigned if every person knows his position in the hierarchy. Scalar- chain determines direct authority relationship between the superior and subordinates. Clarity in scalar chain relationships promotes faster and effective decisions.

4. Completeness of delegation:

Every part of the total work (except the one which is reserved by managers) should be delegated down the scalar chain. If some part of the work is not delegated, gaps would arise in respect of the work not so assigned and the work will not be completed properly.

5. Unity of command:

Every individual should have one boss to whom he should report. If subordinates have more than one boss, they may not be able to carry out the assigned task. For example, if a person cannot accomplish the task assigned to him by boss A, he may say that he was busy carrying out instructions of boss B and vice versa while it may not actually be so.

He, thus, avoids responsibility of carrying out the assigned tasks. Unity of command creates personal responsibility for results and avoids conflicts in instructions in the organisations. There is complete clarity about who has to carry out whose orders and when.

6. Absoluteness of responsibility:

Though the task and authority to carry out the task is delegated, the delegator continues to remain accountable to his superiors for the acts assigned to his subordinates. If district manager cannot achieve the sales target, branch manager (delegator) remains responsible to the General Manager of sales department. Delegation does not mean that superiors get free from the responsibility of tasks assigned to subordinates. If subordinates do not perform well, delegator has to ensure that they know the task and

perform it will. Ultimate responsibility means accountability. While responsibility can be delegated, accountability cannot be delegated.

7. Delegation by results:

Managers should determine the objective of delegation, that is, what they want their subordinates to do and then delegate the tasks along with authority to them. If production manager wants to increase production of Northern Branch, he should delegate this task to his branch manager, Northern Region.

The branch manager will carry out the tasks when things are clear to him. Vague orders like, 'increase the sales' are not effective even if subordinates have authority to carry out such orders. What is expected out of delegation by whom, when etc. must be clearly planned and communicated to subordinates for effective delegation. Subordinates should know the outcomes expected from their actions.

8. Delegate within defined limits:

Managers cannot delegate what they are themselves not authorised to do. For example, if manager does not have authority to raise funds from financial market without sanction of top managers, he cannot delegate this task to subordinates. Only those tasks which manager is himself authorised to do can be further delegated.

Sometimes, decisions are made by two or more managers together. This is called splintered authority. It means authority to take decisions through interdepartmental interaction. A single manager is not authorised to make decisions.

11.7 LET'S SUM-UP

Delegation means to grant or confer. It helps to coordinate activities at various levels to increase efficiency of the organisation. It helps managers to concentrate on important organisational matters and pass the routine matters to subordinates. Management is the art of getting things done through others and managers can get others to do things if they delegate them the responsibility along with authority. Delegation is an important skill that helps manager to effectively manage his organisation. "How well a manager delegates determines how well he can manage." Delegation relieves the burden of managers and creates healthy atmosphere in the organisation. Companies identify the capabilities of managers by judging their skills in how effectively they engage in the process of delegation

11.8 KEY TERMS

Delegation: Delegation is the assignment of any responsibility or authority to another person to carry out specific activity/activities.

Authority: Authority is the right or power assigned to a person in order to achieve certain organizational objectives.

Responsibility: Responsibility is the obligation of a subordinate to perform the duty as required by his superior.

Accountability: Accountability is the liability created for the use of authority for performance of the assigned duties.

11.9 SELF-ASSESSMENT QUESTIONS

1. Explain the concept of delegation. Distinguish between authority and responsibility.
2. What do you mean by parity of authority and responsibility?

11.10 FURTHER READINGS

- Kootnz & O'Donnell, Principles of Management.
- L. M. Prasad, Principles and Practice of Management.
- J.S. Chandan, Management Concepts and Strategies.
- Arun Kumar and R. Sharma, Principles of Business Management.
- Sherlerkar and Sherlerkar, Principles of Management

11.11 MODEL QUESTIONS

1. Justify the importance of sound delegation in achieving organisational objectives.
2. Explain how delegation of authority and responsibility can create accountability on the part of the subordinate.
3. What are the characteristics features of delegation.

UNIT-12 CENTRALISATION AN DECENTRALISATION

Structure

- 12.0 Learning Objectives
- 12.1 Introduction
- 12.2 Definitions
- 12.3 Decentralisation vs. Delegation
- 12.4 Factors affecting Centralisation and Decentralisation
- 12.5 Principle of Centralisation and Decentralisation
- 12.6 Advantages and Disadvantages
- 12.7 Let's Sum-up
- 12.8 Key Terms
- 12.9 Self-Assessment Questions
- 12.10 Further Readings
- 12.11 Model Questions

12.0 LEARNING OBJECTIVES

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- Also understand whether management is a science or an art or a profession.

12.1 INTRODUCTION

Centralization and decentralization are the opposite ends of an organization continuum. On the one hand, centralization brings uniformity of policy and action, utilizes the skills of centralized and specialized staff, and enables closer control over operating units. And on the other hand, decentralization tends to effect faster decision-making and action on the spot without consulting higher levels. Decentralization has the effect of motivating the subordinates since they have a greater share in management decision-making. The question of centralization or decentralization is a matter of degree. It is not possible to conceive of an organization which is exclusively centralized as some decentralization of authority is bound to exist. Likewise, there can be no absolute decentralized structure as the top executive cannot delegate all his authority. The issue of centralization and decentralization has to be decided objectively taking into consideration the size and nature of enterprise, diversity of the company's product, economies of division of labour, location of markets, nature of services to be performed, availability of trained and efficient managers, philosophy of management, etc. Centralization is not a system of management good or bad by itself, capable of being adopted or discarded at the whim of managers or of circumstances; it is always present to a greater or less extent

12.2 DEFINITIONS

When the power to take decision rests with the top management it is called as 'Centralisation'.

When the power to take decision is given to the person performing the job it is called as 'Decentralisation'.

According to Fayol—"everything which goes to increase the importance of the subordinate's role is decentralisation and everything which goes to reduce it is centralisation." The importance of the subordinate is reduced and the importance of the superior executive is increased in centralisation.

According to Allen, "Centralization" is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be:-

1. Reservation of decision making power at top level.
2. Reservation of operating authority with the middle level managers.
3. Reservation of operation at lower level at the directions of the top level.

12.3 DE-CENTRALISATION VS. DELEGATION

Though both delegation and decentralization are related concepts, but the distinction between the two terms must be clearly understood. Decentralization could be differentiated from delegation in the following way:

- (i) Delegation creates authority-responsibility relationship between a superior and his subordinates, whereas decentralization refers to the creation of semiautonomous decision-making units or even profit centres functionally related to the top management. In other words, decentralization is diffusion of decision making authority throughout the multiple layers of the organization.
- (ii) Decentralization is simply not an extension of delegation. The purpose of delegation may be confined to relieve the excessive burden of key managerial personnel, but decentralization has a deeper meaning bordering on a new philosophy of organization and management.
- (iii) Delegation is a process whereby the superior assigns certain tasks and responsibilities within his control to his subordinates, immediately vests part of his decision-making authority in them and precisely it is an obligation from them for proper discharge of authority conferred upon them and for

effective performance in the area of delegated activity. But, on the other hand, decentralization refers to structural dispersal of authority for decision making in various parts of organizational operations throughout the organization in the form of semi autonomous units, subject to overall control by the top management.

- (iv) Delegation takes place between a superior and a subordinate and is a complete process. It may consist of certain tasks alone. But decentralization involves spreading out the total decision-making power throughout the organization.
- (v) Sheer pressure of managerial workload forces managers to delegate a part of their burden to their subordinates, as a matter of necessity with few alternatives. Decentralization, on the other hand, could be only one of the options open to an enterprise out of several alternative ways of organizing expanding operations. This means that delegation of authority could take place without decentralization, whereas there can be no decentralization without delegation of authority.
- (vi) In case of delegation of authority, the superior has directive responsibility in relation to his subordinates. But in a decentralized setting, direction is to a large extent substituted by control by the top management. The control mechanism is also elaborate so as to ensure that the dispersal of authority strengthens the entire organization and that the semi autonomous units have a central focus on viability and vitality of the organization; and
- (vii) Delegation could be a routine administrative activity involving only managers and their subordinates while decentralization is a conscious and deliberate organizational action with strategy overtones, to manage growth and expansion under conditions of environmental pressures, challenges and opportunities.

12.4 FACTORS AFFECTING CENTRALISATION AND DECENTRALISATION

Some degree of centralisation and decentralisation should be decided in order to maintain a balance. There are some factors which may require centralisation while there are others which may need decentralisation. These factors influence a decision about the degree of centralisation and decentralisation.

1. Size and Complexity of Organisation:

In case of bigger concerns there is a need to decentralise authority to lower levels in the organisation. It will facilitate decision making and control. When the concern is small then centralisation will be useful. If the operations of a concern are simple then centralisation is preferred while in complex operations decentralisation will be useful.

2. Communication System:

When communication system is good then top management can control the operations at last and centralisation should be preferred. In the present technological age, managers setting in even other countries can control decision making and operation of a business. If the communication system is slow and ineffective then decentralisation should be used.

3. Competence of Personnel:

When competent personnel are available in the organisation then powers should be delegated to various levels of management to make use of their expertise. In case competent persons are not available to share the responsibility of the top management then decision making should be retained at higher level.

4. Degree of Standardisation:

The greater the degree of standardisation in operations, the more will be the centralisation because it will be easy to control the operations from the top. The centralised structure will bring uniformity of action in such an organisation.

5. Spread of Activities:

If a business has different plants or units situated at different places then decentralisation will be essential to carry on the activities effectively. The finance function in such a business should be centralised to ensure effective control over assets and capital expenditure.

12.5 PRINCIPLE OF CENTRALISATION AND DECENTRALISATION

Fayol is of the opinion that there should be a proper balance between centralisation and decentralisation. An organization must not be completely centralized or decentralized, there should be a match between the two depending upon the size, nature and location of business.

The top management must keep the authority to take important decisions of the organization but adequate authority must be delegated to the lower level employees to take the department level decisions. This will facilitate the proper and timely functioning in the organization. And the top management will be free from extra burden of taking and handling each and every affair of the organization. All the lower level problems will be handled at that level only; this also gives a feeling of superiority to the lower level employees which motivate them to perform better.

Positive impacts of this principle:

- Facilitates proper functioning of the organization;
- Timely completion of work;
- No extra burden on the top management;

- Motivates the lower level employees; and
- Decisions will be taken at the level of action.

Consequences of violation of this principle:

- Over burden on the top management;
- Difficulty in the achievement of organizational objective;
- Delay in action, because the decisions of top management are to be waited.
- Sometimes it creates conflict between the management and the employees; and
- Ego clashes in case of different decision by lower level and top level management.

12.6 CENTRALISATION AND DECENTRALISATION

Centralization and decentralization are the opposite ends of an organization continuum. On the one hand, centralization brings uniformity of policy and action, utilizes the skills of centralized and specialized staff, and enables closer control over operating units. And on the other hand, decentralization tends to effect faster decision-making and action on the spot without consulting higher levels. Decentralization has the effect of motivating the subordinates since they have a greater share in management decision-making. The question of centralization or decentralization is a matter of degree. It is not possible to conceive of an organization which is exclusively centralized as some decentralization of authority is bound to exist. Likewise, there can be no absolute decentralized structure as the top executive cannot delegate all his authority. The issue of centralization and decentralization has to be decided objectively taking into consideration the size and nature of enterprise, diversity of the company's product, economies of division of labour, location of markets, nature of services to be performed, availability of trained and efficient managers, philosophy of management, etc. Centralization is not a system of management good or bad by itself, capable of being adopted or discarded at the whim of managers or of circumstances; it is always present to a greater or less extent. Nowadays, two types of organizational structure can be seen, which are centralized and decentralized. **Centralization** of authority means the power of planning and decision making are exclusively in the hands of top management while in the case of **Decentralization**, the powers for the same has been disseminated by the top management to the middle or low-level management. There is a never ending debate between these two terms to prove which one is better. In this significant differences between Centralization and Decentralization are explained:

12.7 LET'S SUM-UP

Centralisation and decentralisation are the two opposite ends in an organisation. In practice there cannot be neither complete centralisation nor decentralisation. In a highly centralised organisation decision making is costly and delayed. The operations of the

organisation suffer for want of authority at different levels of management. In a decentralised system, authority is spread throughout the organisation and controls are assigned to functional managers. In order to keep it abreast with the working, top management will keep some powers and controls to itself.

On the one hand, centralization brings uniformity of policy and action, utilizes the skills of centralized and specialized staff, and enables closer control over operating units. And on the other hand, decentralization tends to effect faster decision-making and action on the spot without consulting higher levels. Decentralization has the effect of motivating the subordinates since they have a greater share in management decision-making.

12.8 KEY TERMS

Centralisation: Consistent reservation of decision-making power at the top of the organizational hierarchy.

Decentralisation: Dispersion of decision-making power in an organization-wide context across all levels in an organisation.

Delegation: Distribution of authority and responsibility to subordinates, and creation of accountability for performance.

Decision-making: Selection of a particular course of action from various alternatives available.

12.9 SELF-ASSESSMENT QUESTIONS

1. "Delegation and decentralization are interchangeable terms in management and organization theory". Comment.
2. "Centralization is not necessarily bad, nor is decentralization necessarily good". Elucidate the statement.
3. "Delegation is the key to administrative effectiveness". Elucidate.

12.10 FURTHER READINGS

1. Kootnz & O'Donnell, Principles of Management.
2. L. M. Prasad, Principles and Practice of Management.
3. J.S. Chandan, Management Concepts and Strategies.
4. Arun Kumar and R. Sharma, Principles of Business Management
5. Sherlerkar and Sherlerkar, Principles of Management.

12.11 MODEL QUESTIONS

1. Explain the term 'Decentralization' and give its principal advantages. What are the factors that govern the degree of decentralization in an organization?
2. "Delegation is the key to administrative effectiveness". Elucidate.