

**NCERT Solutions for Class 12 Business Studies**  
**Principles and Functions of**  
**Management Chapter 5**  
**Organising Class 12**

**Very Short Answer questions**

**Question 1 :** Identify the network of social relationships which arises spontaneously due to interaction at work.

**Solution :**

A network of social relationship that arise spontaneously due to interaction at work is called informal organisation. It emerges from social interaction and free flow of communication among the employees of an organisation. On the other hand, formal organisation refers to a formal system based on superior-subordinate relationship. Whereas, delegation and decentralisation are concerned with the transfer of authority and responsibility to the subordinates.

**Question 2:** What does the term 'span of management' refer to?

**Solution :**

Span of management refers to the number of subordinates that a manager can efficiently handle. It is the determining factor for the nature and structure of an organisation. Span of management can be classified into the following two categories.

*i. Narrow Span of Management:* If the number of subordinates reporting to a particular manager is small, the span of management is said to be narrow. Narrow span of management leads to tall organisational structures that have multiple levels of management.

*ii. Wide Span of Management:* Span of management is said to be wide if, there are large number of subordinated reporting to a manager. Wide span of management leads to flatter organizational structures with only a few levels of management. Span of management depends on various factors such as ability of the manager in terms of leadership, control, etc., extent of decentralisation followed in the organisation, working ability of the subordinates, nature of work, etc.

**Question 3:** State any two circumstances under which the functional structure will prove to be an appropriate choice.

**Solution :**

A Functional structure entails organising and grouping together activities of similar nature. That is, under functional organisation activities or work of similar nature are grouped together. Each group functions as a separate department and specialises in its work. For example an organisation can have departments such as production, human resource, finance, marketing, etc. Each department in turn report to one coordinating head. Functional structure is usually suitable for large organisations who deal with number of varying functions requiring high degree of specialisation. The following points highlight the suitability of functional

structure.

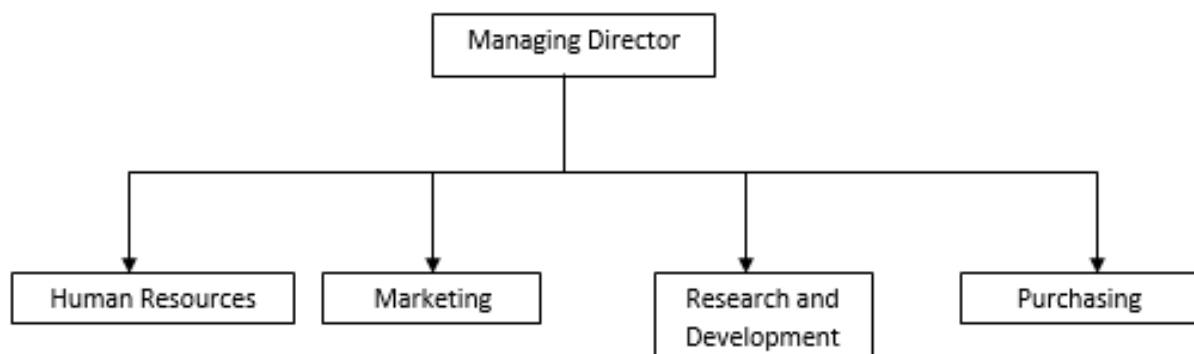
**i. Large Size:** A large size organisation can function smoothly, if the work is divided into various departments. Departmentalisation in large organisation improves managerial efficiency and the degree of control. Thereby, the work proceeds smoothly.

**ii. Varying Functions:** Dealing with diverse varying functions simultaneously requires high degree of coordination so as to improve efficiency. By a clear division of activities in various departments, a functional structure promotes coordination among the various functions and thereby, ensures smooth functioning.

**iii. Requirement of Specialisation:** Varying functions in an organisation can be performed better if dealt with specialisation. With departmentalisation, each department can function independently and specialise in their respective functions.

**Question 4:** Draw a diagram depicting a functional structure.

**Solution :**



**Question 5:** company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing and sales department at Faridabad. The company manufactures the consumer products. Which type of organisational structure should it adopt to achieve its target?

**Solution :**

The company must adapt 'divisional organisational structure' as it operating at different places. A divisional structure it one in which division is created on the basis of products, region or territory.

**Short answers questions**

**Question 1:** What are the steps in the process of organising?

**Solution :**

The following are the steps involved in a successful process of organizing

Identification and division of work

- identifying and dividing the work that has to be done in accordance with previously determined plans.
- work is divided into manageable activities so that duplication canbe avoided
- burden of work can be shared among the
- employees

- Similar activities are grouped together
- Departmentalisation promotes specialisation.
- Departments can be formed on the basis of several criteria such as working profiles, regions, product, etc.

### Assignment of duties

- Jobs are then allocated to the members of each department in accordance to their skills and competencies.
- proper match is made between the nature of a job and the ability of an individual.

### Establishing reporting relationships

- Each individual should also know who he has to take orders from and to whom he is accountable.
- It helps in coordination amongst various departments.

**Question 2:** Discuss the elements of delegation.

**Solution :**

Delegation refers to the transfer of authority and responsibility to the subordinates. The following are the basic elements of delegation.



<b>Basis</b>	<b>Authority</b>	<b>Responsibility</b>	<b>Accountability</b>
Meaning	Right to command.	Obligation to perform an assigned task.	Answerability for outcome of the assigned task.
Delegation	Can be delegated	Cannot be entirely delegated	Cannot be delegated at all
Origin	Arises from formal position	Arises from delegated authority	Arises from responsibility

Flow	Flows downward from superior to subordinate	Flows upward from subordinate to superior	Flows upward from subordinate to superior
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1. **Authority**: It refers to the power given to an individual to command and direct the subordinates. It implies the right to take decisions regarding what is to be done and by whom.

Scalar chain in a formal organisation gives rise to authority as it entails the link between various jobs and determines the relation of who is to report to whom. It is a downward flowing channel, i.e. superior commands authority over the subordinates. The extent of authority at the top level management is the highest and it becomes lesser at the middle level and the lowest at the lower level management. However, the scope of authority delegated, depends on the rules and regulations of the organisation. Assigning authority helps in maintaining obedience and compliance.

2. **Responsibility**: Responsibility refers to the adherence and answerability of the subordinate to complete the given task. That is, once a duty has been assigned to a

subordinate, it is his responsibility to perform the task properly. A subordinate should be obedient and loyal towards the duty assigned to him. The superior-subordinate relationship gives rise to a sense of responsibility. As against authority, responsibility flows upward i.e. the subordinate is responsible to his superior. However, care should be taken that while assigning responsibility to a subordinate, he must also be given a certain degree of authority. On the other hand, an individual who is given authority must also have some responsibility. This is because authority without responsibility may lead to the misapplication of power. On the other hand, responsibility without authority may lead to inefficiency.

3. **Accountability:** Accountability implies the answerability of the superior for the final outcome of the work he assigned. Though the superior delegates the work to his subordinate but he still will be responsible for the final outcome. For this the superior, through regular feedbacks and supervision ensures that the subordinate performs the tasks properly and satisfactorily. The concept of being accountable arises out of responsibility itself. We may say that while responsibility is assumed, accountability is imposed.



**Question 3:** How does informal organisation support the formal organisation?

**Solution:**

Informal organisation refers to a complex network of relations that arises out of the social interactions outside the office. They originate from within the formal organisation and are not deliberately created by the management. These relations are based on the friendship which develops between the working personnel on the basis of like nature. Following are the factors of informal organisation that support the working of formal organisation.

(i) ***Free Flow of Communication:*** Informal organisation helps in establishing a free flow of communication. It allows the workers to form informal relations outside the organisation. This facilitates faster spread of information, thereby assisting the formal organisation. For example, if A needs to talk about a problem to E. In a formal structure he'll have to follow a scalar chain which may lead to delay in finding a solution for it. Thus, he can discuss it

over lunch, thereby, shortening the length of communication.

(ii) ***Coordination***: Through informal relations, working people develops a sense of belongingness towards each other and towards the organisation. This helps them over the working place as well. It promotes coordination among them by developing mutual trust and understanding. Thereby, it results in lowering down the rate of conflicts between the people. For example, if A and B are friends outside the office, then, they will work in coordination with each other at the work place as well.

(iii) ***Organisational Objectives***: Along with the personal goals, informal relations help in fulfilling the organisational objectives as well. The managers can interact with the workers informally and assess their reactions on various matters. They can ask the workers for their suggestions and ideas regarding the inadequacies in the formal structure. Thereby, contributing to the overall organisational objectives in a better way.

(iv) ***Harmonious Environment***: By developing healthy relationships, informal structure helps in building a harmonious working environment. It encourages cooperation between the people and maintains a peaceful environment at work. For example, if C and D have a dispute over some matter. They can discuss it outside the office and solve it without harming the formal working

environment. Thus, conserving the amiable working environment.

(v) ***Efficiency and Productivity***: Informal organisation fosters efficiency among the working personnel. By contributing to their well being, it helps in increasing their productivity. Such relations help in fulfilling the social and psychological needs of the employees and thereby, increase their efficiency.

**Question 4:** Can a large sized organisation be totally centralised or decentralised? Give your opinion.

**Solution:**

No, any organisation cannot work smoothly if it is either completely centralised or completely decentralised.

Rather a balance is required between the two.

Centralisation refers to a situation where the decision-making power is concentrated only in the hands of the top-level management. Herein, only the top-level managers are authorised to take the needed decisions. All the functions related to policy making, planning and controlling are curtailed to the top-level management. In contrast to this, decentralisation refers to a situation where the decision-making power is delegated to the lower level managers. Herein, the power of taking actions and deciding the policies is distributed at different levels. An organisation cannot function either with extreme centralisation or with extreme decentralisation. As an organisation grows in size, it cannot maintain complete centralization. Rather, a need arises to move towards

decentralisation. For a smooth functioning, the individuals involved in the actual work must have certain degree of authority and responsibility. With decentralisation, the overall management of the work becomes more efficient. It allows for better control of the work at each level of hierarchy. Moreover, as the organisation grows in size, decentralisation would facilitate quick decision making. This is because in a decentralized system the decision-making power is near the point of actual work. Thereby, the delay in work is avoided.

However, an organisation cannot also follow extreme decentralisation. If all the decision-making power is delegated to the lower level managers, then it may harm the harmony of the organisation. It is possible that lower level managers at each department mold the rules and policies according to their own convenience and thereby, diverge from the organisational goals. Thus, certain degree of authority and control must be retained at the top-level management so as to maintain integrity of the organisation.

Hence, we can say that a large sized organisation cannot be totally centralised or totally decentralised, rather it must maintain a balance between the two.

**Question 5:** Decentralisation is extending delegation to the lowest level. Comment.

**Solution:**

Both decentralisation and delegation relate to downward delegation of authority and responsibility. Under delegation, the authority is shared by the superior to the immediate subordinate. On the other hand, under decentralisation this concept is extended and the authority is distributed at not just one but multiple levels. That is, while delegation involves just two persons, i.e. the superior and subordinate, decentralisation is a wider concept of the same (delegation) where the power gets transferred to numerous levels. For example, suppose the director of an organisation delegates the responsibility of completing a task, hiring the required workers and supervising them to a project head. The project head in turn shares his responsibility of hiring and supervising the workers with the project lead. The project lead further delegates the responsibility of supervising the workers to the team lead. Thus, delegation at each level from

the director, to project head, project lead and further to the team lead results in decentralisation. Hence, it can be said that delegation at each level leads to decentralisation and decentralisation is extending delegation to the lowest level.

**Question 6:** Neha runs a factory wherein she manufactures shoes. The business has been doing well and she intends to expand by diversifying into leather bags as well as western formal wear thereby making her company a complete provider of corporate wear. This will enable her to market her business unit as the one stop for working women. Which type of structure would you recommend for her expanded organisation and why?

**Solution:**

The Divisional organisational structure is suitable for her expanded organisation.

Advantages of Divisional organisational structure are as follows:

1. Product specialisation helps in the development of varied skills in a divisional head and this prepares him for higher positions. This is because he gains experience in all functions related to a particular product.
2. Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them. This provides a proper basis for performance measurement. It also helps in fixation of responsibility in cases of poor

performance of the division and appropriate remedial action can be taken.

3.It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.

4.It facilitates expansion and growth as new divisions can be added without interrupting the existing operations by merely adding another divisional head and staff for the new product line.

**Question 7:** The production manager asked the foreman to achieve a target production of 200 units per day, but he doesn't give him the authority to requisition tools and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve the desired target? Give reasons.

**Solution:**

No, the production manager asked the foreman to achieve a target production of 200 units per day. The principle of authority and responsibility is violated here. The manager gave only the responsibility to the foreman and not the authority without which he cannot requisite tools and materials from the store department.

## Long answers Questions

**Question 1:** Why delegation considered essential for effective organising?

**Solution :**

Delegation implies transfer of authority, from a superior to his subordinate. It is an essential concept for effective organisation as it lowers the burden on the manager and thereby, facilitates the manager to focus on activities that command high priority. Also, the managers can extend his area of operations once he delegates the work to subordinates. In addition to this, it provides the subordinates with more opportunities for growth. It helps in efficient completion of tasks as the subordinates can now show their skills and exercise initiative. The following points highlight the importance of delegation in effective organising.

(i) ***Efficient Management:*** By empowering the employees, the managers are able to function more efficiently as they get more time to concentrate on important matters. Freedom from doing routine work provides them with opportunities to excel in new areas

(ii) ***Employee Development:*** By delegating the work, managers empower his subordinates by providing them opportunities to apply their skills. Herein, the subordinates get a chance to prove his abilities, gain experience and develop his career. Thus, delegation in a way helps in preparing future managers.



(iii) **Motivation**: Along with improving the managerial and employee efficiency, delegation provides the employees with the psychological benefits. It acts as a motivational guide for the workers. It imparts a feeling of mutual trust and commitment between the superior and subordinate. With responsibility the employee gains confidence and he get encouraged to give their best to the organisation.

(iv) **Facilitation of Growth**: Delegation helps in the expansion of an organisation by providing a ready workforce to take up leading positions in new ventures. Trained and experienced employees are able to play significant roles in the launch of new projects by replicating the work ethos they have absorbed from existing units, in the newly set up branches.

(v) **Hierarchical Structure**: Delegation forms the basis of the hierarchical structure of an organisation. It decides the superior-subordinate chain and determines who has to report to whom. It clearly states down the reporting relationships which helps in smooth working of the organisation.

(vi) **Coordination**: Delegation promotes coordination of work. It reduces overlapping of work by defining the reporting relationships. All the elements of delegation such as authority, responsibility and accountability helps in providing a clear working relationship, thereby, increasing efficiency.

**Question 2:** What is a divisional structure? Discuss its advantages and limitations.

**Solution:**

Divisional structure refers to an arrangement where activities are separated on the basis of products. There are different units and divisions which deal with varied products. Each division has its own divisional manager who supervises the whole unit and has the authority for it. Organisations that are large in size and deals in a diversified range of products or categories opt for this type of structure. Under each head of divisional structure, a functional structure develops itself, i.e. each divisional unit is further divided on the basis of its functions. For example, a company dealing with varied products have divisional heads such as clothing, shoes and electronics. Now these units will have further functional departments such as, under shoes, there will be resource inputs, advertising, production, sales, etc. Similarly, under clothing also there will be departments of resources, advertising, production and sales. The same will be under the electronics division. Here, each division has to take care about its profit and loss and is responsible for its own work.

Following are a few prominent *advantages* of a divisional structure.

1. Product specialisation helps in the development of varied skills in a divisional head and this prepares him for higher positions. This is because he gains experience in all functions related to a particular product.

2.Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them. This provides a proper basis for performance measurement. It also helps in fixation of responsibility in cases of poor performance of the division and appropriate remedial action can be taken.

3.It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.

4.It facilitates expansion and growth as new divisions can be added without interrupting the existing operations by merely adding another divisional head and staff for the new product line.

A divisional structure has certain disadvantages as well. The following are some of the *disadvantages* of a divisional structure.

1.Conflict may arise among different divisions with reference to allocation of funds and further a particular division may seek to maximise its profits at the cost of other divisions.

2.It may lead to increase in costs since there may be a duplication of activities across products.

Providing each division with separate set of similar functions increases expenditure.

3.It provides managers with the authority to supervise all activities related to a particular division. In course of time, such a manager may gain power and, in a bid, to assert his independence may ignore organisational interests.

**Question 3:** Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised.

**Solution :**

Decentralisation refers to the dispersal of the decision making power among the middle and lower level managers. It is an optional policy as it depends on the organisation how much power the top level management wants to delegate to the lower levels. An organisation may choose to be centralised or decentralised depending on the objectives and the decisions of the top level managers. Following are a few factors that explain why an organisation would choose to be decentralised.

(i) ***Initiative***: Decentralisation allows a sense of freedom to the lower managerial levels as it lets them take their own decisions. It gives them a higher degree of autonomy to take initiative. Moreover, it promotes a feeling of self-confidence and self-reliance among them. When the power is delegated to lower level managers, they learn to face new challenges and find solutions for the problems themselves. This helps in spotting those potential managers who can take the needed initiative.

(ii) ***Managerial Competence***: Once the authority is delegated to the managers at lower levels, it provides them the needed opportunity to develop themselves. It provides them with the opportunity to gain experience and thereby, develop the skills and knowledge

to face new challenges. Decentralisation gives them a chance to prove their talent and get ready for higher positions. It also helps in pre-identification of the future managers who are well-equipped with the necessary talent required to deal with managerial problems.

(iii) **Control**: Decentralisation helps in evaluating the performance of the organisation in a better manner. Decentralisation helps in analysing and evaluating the performances of each department separately. Thus, the extent of achievement of each department and their contribution to the overall objectives of the organisation can be easily evaluated.

(iv) **Active Decision Making**: Since through decentralisation, the authority of making decisions is passed on to lower levels of management, decisions are taken quickly and timely. This is because the decision can be taken at the nearest points of action which thereby, helps in easy adjudication of the problems.

(v) **Growth**: Managerial efficiency is developed to a large extent with the help of decentralisation. Decentralisation results in greater authority to the lower level managers. It promotes competition among the managers of various departments. In a race to outperform each other, they give their best shot and thereby, increase the overall productivity and efficiency. The organisation gains from the increased overall performance and thereby, grows.

(vi) **Reduced Workload of Top Managers**: Delegation of authority provides freedom to top level managers. It helps them in shifting the workload to their subordinates and gives them time to concentrate on more important and

higher priority work such as policy decisions. Moreover, direct supervision by the top level management is decreased, as the subordinates are given the rights to take the decisions by their own.

**Question 4:** Distinguish between centralisation and decentralisation.

**Solution :**

Following are the differential factors between Centralisation and Decentralisation.

<b>Basis of Difference</b>	<b>Centralisation</b>	<b>Decentralisation</b>
Authority	Authority remains concentrated only in few hands at the higher level of management.	Authority is delegated to lower levels of management.
Creativity	Restricts creativity of middle and lower level managers.	Promotes creativity and innovation at all the levels.

Work Load	Higher work load on the top level managers.	Lesser workload as sharing of authority and responsibility is done.
Scope of Delegation	Scope of delegation is limited as power is concentrated in a few hands.	Wider scope of delegation as authority can be transferred.
Subordinate Initiative	Limits the scope of initiatives by subordinates as the workers have to work on the pre-decided path.	Encourages the subordinates to come forward and take initiative as they are allowed the needed freedom for working.
Decision Making	The decision making is slowed down as the power lies only with the top management. The problem has to pass through different levels before an action is taken.	The decision making is quick as the authority lies near the actual action.

**Question 5:** How is functional structure different from a divisional structure?

**Solution:**

The following points highlight the difference between a functional structure and a divisional structure.

<b>Basis of Difference</b>	<b>Functional structure</b>	<b>Divisional structure</b>
Creation	These are created on the basis of functions.	These are created on the basis of product-lines along with the functions.
Costs	It is economical as duplication of work is minimised.	It is costly as there is higher rate of duplication of work and resources between various departments.
Decision Making	Decision making is centralised as the decisions are taken by the coordinating head for various departments.	Decision making is decentralised as each division of the product line has their own decision making authority.



Duplication of work	Due to functional specialisation overlapping of work is minimised.	Due to each product department having the same functions, overlapping of work is increased.
Suitability	More suitable for companies who focuses on 'operational specialisation'.	More suitable for multi-product companies focusing on 'differentiated products'.
Functional Hierarchy	Horizontal functional hierarchy is formed while the departments are devised on the basis of key operations.	Vertical functional hierarchy is formed while devising the departments on the basis of product-line categories.
Management	Management is difficult as each work has to report to a coordinating head at the top level of management.	Management is easier as different line of department is formed for each product.

**Question 6:** A company, which manufactures a popular brand of toys, has been enjoying good market reputation. It has a functional organisational structure with separate departments for Production, Marketing, Finance, Human Resources and Research and Development. Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging. Which organisation structure should be adopted in this situation? Give concrete reasons with regard to benefits the company will derive from the steps it should take.

**Solution:**

The organisation should shift from functional structure to divisional structure as it is looking to diversify into manufacture new range of toys.

The benefits will be as follows:-

- The performance will be easily accessed.
- Easy Decision making.
- New electronic toys will be added without disturbing the previous toys.

**Question 7:** A company manufacturing sewing machines set up in 1945 by the British promoters follows formal organisation culture in totality. It is facing lot of problems in delays in decision making. As the result it is not able to adapt to changing business environment. The work force is also not motivated since they cannot vent their grievances except through formal channels, which

involve red tape. Employee turnover is high. Its market share is also declining due to changed circumstances and business environment. You are to advise the company with regard to change it should bring about in its organisation structure to overcome the problems faced by it. Give reasons in terms of benefits it will derive from the changes suggested by you.

**Solution:**

The Company need to change complete formal organisation culture and accept informal things. The higher managerial superior should interact with the sub ordinates.

This will help the company in the following ways:-

- It will lead to faster spread of information. Prescribed lines of communications are not followed.
- A good relationship between the superior and subordinates thereby maintaining a healthy environment.
- It will collectively help them to achieve their set target.

**Question 8:** A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown in size. Its business was very good till 1991. But after that, new liberalized environment has seen entry of many MNC's in the sector. With the result the market share of X limited has declined. The company had followed a very

centralised business model with Directors and divisional heads making even minor decisions. Before 1991 this business model had served the company very well as consumers had no choice. But now the company is under pressure to reform.

What organisation structure changes should the company bring about in order to retain its market share? How will the changes suggested by you help the firm? Keep in mind that the sector in which the company is FMCG.

### **Solution:**

A major change that needs to be adopted is a **move towards decentralisation**. As the organisation is growing it cannot maintain complete centralisation. The employees must be given some authority and responsibility to ensure smooth and efficient functioning of the organisation. Moreover, it would enable quick decision making in the organisation.

Decentralisation would benefit the organisation in the following manner.

1. With decentralisation the lower level managers would get freedom and autonomy to take initiatives.
2. Decentralisation would help in developing managerial competence which would prove useful in the process of growth.
3. With decentralisation the decisions are taken quickly and in a timely manner. This is useful in finding solutions to the problems easily.