



Collegedunia NCERT Notes

The Ultimate NCERT Revision Guide for Class 12 Business Studies

Chapter 5: Organising

What this chapter covers: the organising function, the four-step organising process, two organisation structures (functional and divisional), formal vs informal organisation, the three elements of delegation (authority, responsibility, accountability), and decentralisation. Session 2026-27.

Contents

1. Meaning of Organising

Core Definition

Organising is the management function of identifying and grouping activities, establishing authority relationships and assigning resources so that the planned objectives can be achieved. It builds the *structure* through which the plan is executed.

Place in the management cycle: Planning → **Organising** → Staffing → Directing → Controlling. Once the plan is in place, organising builds the authority-responsibility structure that delivers it.

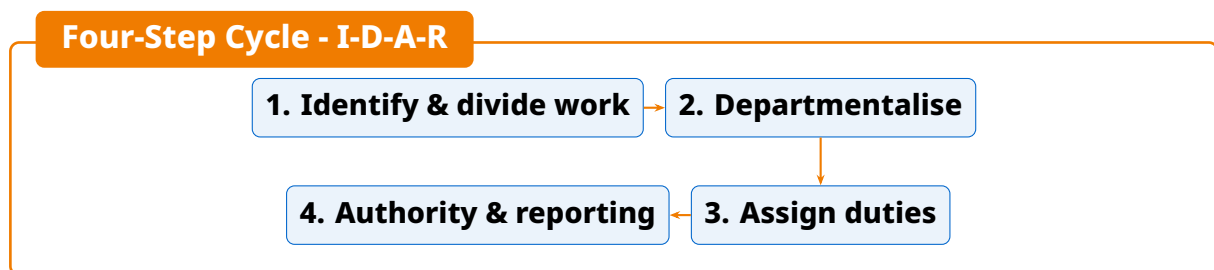
Definition for VSA

“Organising is the process of defining and grouping activities and establishing authority relationships among them to achieve specific objectives.” Use this verbatim for 1-mark VSA.

2. Importance of Organising

1. **Benefits of specialisation.** Each role is small enough to be mastered.
2. **Clarity in working relationships.** Reporting lines remove ambiguity.
3. **Optimum utilisation of resources.** Avoids overlapping and duplication.
4. **Adaptation to change.** A clear structure makes change easier to implement.
5. **Effective administration.** Distinct responsibility makes management simpler.
6. **Development of personnel.** Delegation builds talent at lower levels.
7. **Expansion and growth.** A scalable structure supports diversification.

3. The Organising Process (4 Steps)



1. **Identification and division of work.** List every activity needed to achieve the planned objectives; divide it into small and manageable activities so that duplication is avoided.
2. **Departmentalisation.** Group similar or related activities into departments (by function, product, region, or customer). This facilitates specialisation.
3. **Assignment of duties.** Allocate work to individuals based on their skills and competencies; each department is placed under the charge of an individual.
4. **Establishing authority and reporting relationships.** Define who reports to whom and the extent of authority each individual will exercise; this builds the chain of command and the hierarchical structure.

4. Organisation Structure

Structure refers to the framework within which the firm's managerial and operating tasks are performed. Two main forms exist.

4.1 Functional Structure

Definition

Activities are grouped by **function** (Production, Marketing, Finance, HR, R&D). Each function reports to the CEO.

Advantages:

1. Promotes specialisation, since each department deepens its functional expertise.
2. Better control because the head of each function supervises one type of work.
3. Lower cost (functions are not duplicated across product lines).
4. Easy training because functional specialists train other functional specialists.

Limitations:

1. Ignores organisational objectives (functional heads focus on their own function).
2. Inflexibility when the firm expands into multiple product lines.
3. Cross-functional conflicts (coordination only via the CEO).
4. Difficulty fixing responsibility on one person for a product or region.

Suitability: single product line, deep functional specialisation needed.

4.2 Divisional Structure

Definition

Activities are grouped by **product**, region, or customer. Each division has its own production, marketing, finance and HR sub-departments, run by a divisional head.

Advantages:

1. Product specialisation - each division masters its own product technology and market.
2. Quicker decisions because the divisional head has end-to-end authority.
3. Accountability for performance is clear; each division's profit is measurable.
4. Flexibility - one division can change strategy without disturbing others.
5. Ease of expansion - add a product line, add a division.

Limitations:

1. Departmental conflict over firm-wide resources.
2. Duplication of resources across divisions.
3. Higher cost due to duplication.

4. Ignoring organisational interest in favour of divisional interest.

Suitability: multiple unrelated product lines, large firms diversifying.

5. Formal vs Informal Organisation

5.1 Formal Organisation

Definition

The organisation deliberately designed by management to achieve specific objectives. It is reflected in the organisation chart and rule book.

Features: designed deliberately, role-based not person-based, follows the chain of command, has formal communication channels, allows fixing accountability.

5.2 Informal Organisation

Definition

The network of social and personal relationships that emerges spontaneously among employees through interaction at work. Not designed; not on the chart.

Features: spontaneous emergence, person-based, follows social ties not the chain of command, uses the grapevine for communication, satisfies social and esteem needs.

How informal supports formal:

1. **Faster communication** via the grapevine.
2. **Fills gaps** in the formal organisation.
3. **Higher morale** and job satisfaction.
4. **Provides feedback** to management on employee mood.
5. **Encourages teamwork** through cross-departmental friendships.

6. Delegation

Definition

Delegation is the downward transfer of authority from a superior to a subordinate. It has three inseparable elements: **Authority**, **Responsibility**, and **Accountability** (mnemonic A-R-A).

6.1 Three Elements

1. **Authority.** The right to take decisions and command subordinates. Flows downward.
2. **Responsibility.** The obligation of a subordinate to properly perform the assigned task. Flows upward (the subordinate reports back).
3. **Accountability.** The answerability for the outcome of the task. Cannot be delegated - even after delegation, the superior remains accountable.

6.2 Importance of Delegation

1. Effective management (frees the manager for strategy).
2. Employee development (subordinates build decision-making skills).
3. Motivation of employees (being trusted raises morale).
4. Facilitation of growth (scalability).
5. Basis of management hierarchy (delegations build the chart).
6. Better coordination (clear duties reduce overlap).

7. Decentralisation

Definition

Decentralisation is a systematic and consistent policy of pushing decision-making authority down the hierarchy to the lowest possible level. It is delegation extended firm-wide.

7.1 Importance of Decentralisation

1. Develops managerial talent at lower levels.
2. Quicker decision-making at the level of action.
3. Relief to top management for strategic work.
4. Develops initiative among employees.
5. Promotes growth and expansion.
6. Better control through divisional performance measurement.

7.2 Delegation vs Decentralisation

Basis	Delegation	Decentralisation
Nature	One-to-one transfer of authority	Firm-wide policy choice
Scope	Limited to two people	Across all levels and departments
Purpose	Reduce the burden on one manager	Push authority firm-wide for speed
Mandatory?	Yes - cannot avoid in any firm	No - a deliberate choice

8. Quick Recap - Exam-Ready Summary

10-Point Cheat Sheet

1. Organising = identify & divide work, departmentalise, assign duties, establish authority and reporting (I-D-A-R, 4 steps per NCERT).
2. Two structures: functional (by function) and divisional (by product/region/customer).
3. Functional suits single-product firms; divisional suits diversified firms.
4. Formal organisation is designed; informal emerges spontaneously.
5. Informal supports formal via grapevine, gap-filling, morale, feedback, teamwork.
6. Delegation elements: Authority (down), Responsibility (up), Accountability (non-delegable). Mnemonic A-R-A.
7. Parity of authority and responsibility - both must be equal.
8. Decentralisation = delegation systematically extended to the lowest level.
9. Decentralisation is a policy choice; delegation is mandatory in every firm.
10. Span of management = number of subordinates per manager; wide span gives flat hierarchy, narrow span gives tall hierarchy.

CBSE Tip

Case studies almost always test **structure choice** (functional vs divisional) or **delegation principles** (parity of authority and responsibility). Spot the keyword: "multiple product lines" ⇒ divisional; "single product, multiple cities" ⇒ functional; "responsibility without authority" ⇒ parity violation.

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