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Chapter 4.2

Departmentation

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Aim

To equip the students with the concept of Departmentation



Instructional Objectives

After completing this chapter, you should be able to:

- Define departmentation
- Discuss the different types of departmentation
- Analyse centralisation
- Analyse decentralisation



Learning Outcomes

At the end of this chapter, you are expected to:

- Define the meaning and definition of departmentation
- Recognise the different types of departmentation
- Demonstrate centralisation
- Demonstrate decentralisation

4.2.1. Meaning Need and Importance of Departmentation

After identification of activities and deciding what job tasks will be done by whom, everyday work activities need to be grouped back together so work gets done in a coordinated and integrated way. The process of grouping activities is called departmentation.

Departmentation is required for specialisation of work and to reduce the number of subordinates that can be controlled directly by a superior. Departmentation leads to increase in organisational efficiency.

Primary importance of the departmentation can be stated as follows:

- **Advantages of specialisation:** Most important principle in the analysis of the classical approach to organisational design is a specialisation of work. In job specialisation, an employee focuses its attention on a particular task and develops mastery over it along with time.
- **Fixation of responsibility:** When the work is divided into smaller parts then it becomes clear and precise for the employees to perform the task. Hence, the duties are fixed, and the employees can be held accountable for it.
- **Development of managers:** Departmentation leads to the development of executives. As managers focus on some specific problems, hence they are provided effective on the job training. Managers need for further training can be identified easily because the managers role is precise and training can provide them with the opportunity to work better in the area of specialisation.
- **The facility in appraisal:** Due to departmentation there can be a particular measurement of the fixed standards and procedures to be followed by the organisation. It helps in monitoring the work progress and measuring the performance of the employees. The broader function is divided into smaller segments, and a particular segment is assigned to each manager. The area to be appraised is known, and the factors affecting the performance can be pointed out quickly.

Standard for performance can be fixed easily because factors affecting the work performance can be known precisely.

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- **Feeling of autonomy:** Departmentation provides motivation by developing a feeling of freedom. The managers in charge of a department can take independent decisions within the overall framework of the organisation.

4.2.2. Types of Departmentation

There are different forms of departmentation. These can be stated as follows:

1. Functional Departmentation

It is a method for separating the activities performed within the organisation into groups based on the different functions they perform. Example; business employing functional departmentation would tend to group together employees performing a particular function, such as accounting, that differs from the tasks performed by other employees. Merits of functional departmentation are like; efficiencies from putting together similar specialities and people with common skills, knowledge and orientation, coordination within the functional area, in-depth specialisation, etc. Demerits of useful departmentation are poor communication across the functional area and limited view of organisation goals.

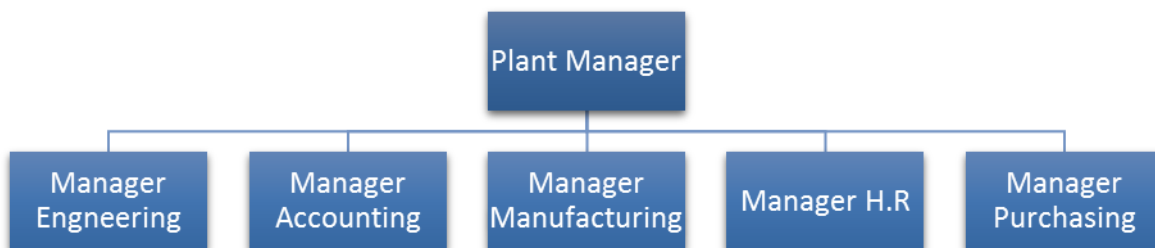


Figure 4.2.1: Functional departmentation

2. Geographical Departmentation

In geographic departmentation, an organisation is organised along geographic divisions. This kind of departmentation is useful in large scale organisation having activities which are physically or geographically spread such as banking, insurance, transportation, etc. In such kind of departmentation, all activities in a given area of operations are grouped together into zones, divisions, branches, etc. If the market is widely dispersed, then to bring in cost effectiveness all activities affecting a product line or service in a particular geographical region is grouped together. Merits of geographic departmentation are like; more effective and efficient handling of specific regional issues that arise, serves the need

of unique geographic markets better etc. Demerits are like; duplication of functions and can feel isolated from the organisational areas.

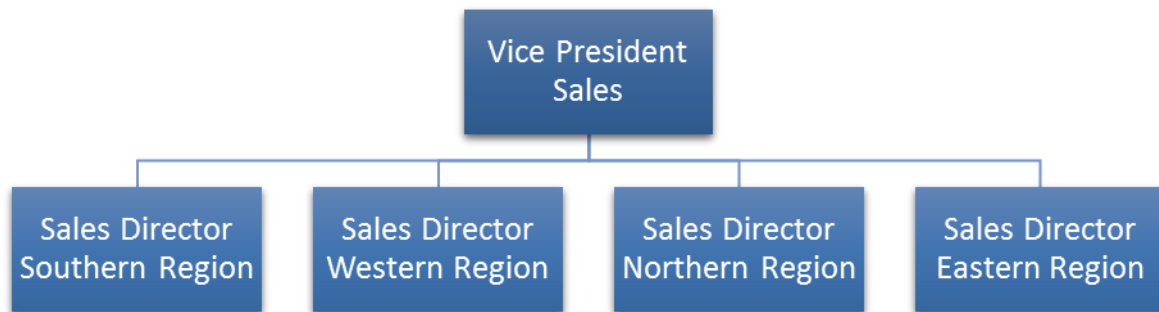


Figure 4.2.2: Geographical departmentation

3. Product Departmentation

Product departmentation involves grouping together of all activities necessary to produce a product or product line. As the organisation grows, it becomes difficult for the managers to coordinate the operations of the expanding product lines. It is used when the product is relatively complex, and lots of capital is required for plant and other facilities such as an automobile, electronics, etc. The merits of product departmentation are like; it allows specialisation in particular goods and services, managers can become an expert in their industry, closer to customers. There are certain demerits as well like; duplication of functions and limited view of organisational goals.

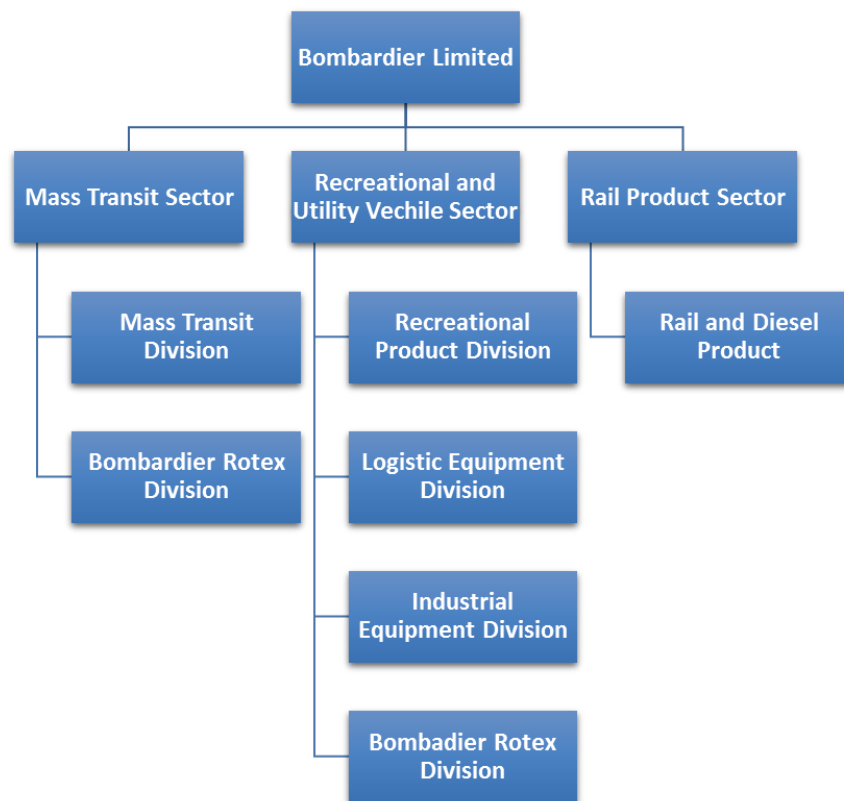


Figure 4.2.3: Product departmentation

4. Process Departmentation

In process departmentation, the process involved in the production or various types of equipment used are taken as the basis for departmentation. When production activities involve the use of several unique procedures, these can be used as the base for grouping of events. Example – textile, oil production, etc. Manufacturing unit of the textile organisation has various departments like spinning, dyeing, weaving and finishing. Merits of the process departmentation are like the most efficient flow of work activities, while the demerit is that it can only be used with certain types of products.

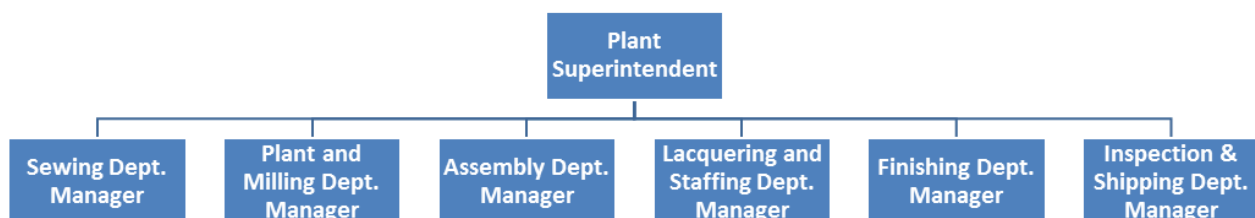


Figure 4.2.4: Process departmentation

5. Customer Departmentation

Customer-based departmentation is market oriented in which departments are created around the markets served or around the marketing channels. Grouping of activities around the marketing channels involves making an organisational structure, which reflects the ways an organisation reaches an ultimate customer. Market centred grouping supports marketing efforts for different types of customers. Merits of customer departmentation are that customer needs and problems can be met by a specialist. Demerits of customer departmentation are like; duplication of functions and limited view of organisational goals.



Figure 4.2.5: Customer departmentation

6. Time Departmentation

This kind of departmentation is present where work is performed throughout day and night in the form of shifts. In case the organisation operates into three shifts, three different departments may exist; one department for each shift though they all may be alike regarding objectives and activities. The basic idea is to get the advantages of people specialised to work a particular shift.



Figure 4.2.6: Time departmentation

7. Alpha Numerical Departmentation

Different departments are created based on the numbers allotted to different persons or an alphabet. A certain number of persons are kept under the supervision of one person irrespective of the task they do, where they do, and how they do? This method is suitable for the organisation having a large number of operations. This method is used at lower levels of hierarchy and is quite frequent in the military where, at the lowest level, the soldiers are grouped by numbers.

8. Matrix Departmentation

In matrix departmentation two or more forms of departmentation are clubbed together. This form of departmentation is found in some large organisations where the scale of operation is very complicated. Advantages of matrix departmentation are like; companies will be able to manage the large and complex task, and it gives scope for much diverse expertise and experience. Some of the disadvantages of matrix form of organisation are as follows: this requires a high level of duplication and due to lack of unity of command there may be confusion and conflict between project bosses.



Self-assessment Questions

- 1) The process of grouping of activities is known as:
 - a) Partnership
 - b) Coordination
 - c) Cooperation
 - d) Departmentation

- 2) Organisational efficiency increases through:
 - a) Production
 - b) Departmentation
 - c) Organisational culture
 - d) Leadership

- 3) The method of separating the activities performed within the organisation into groups based on the different functions they perform is known as:
 - a) Functional departmentation
 - b) Product departmentation
 - c) Geographical departmentation
 - d) Customer departmentation

- 4) Grouping together of all activities necessary to produce a product or product line is known as:
 - a) Process departmentation
 - b) Product departmentation
 - c) Geographical departmentation
 - d) Time departmentation

- 5) Which kind of departmentation is required in case of large scale organisation which are physically spread across different locations?
 - a) Process departmentation
 - b) Product departmentation
 - c) Geographical departmentation
 - d) Time departmentation

- 6) In _____ departmentation, process involved in production or various types of equipments used are taken as basis for departmentation.
 - a) Process
 - b) Time
 - c) Alpha numerical
 - d) Product

4.2.3. Centralisation

Centralisation in decision making is the third building block in organisational design. Centralization refers to the concentration of authority. Centralisation is an important dimension of organisational effectiveness since it refers directly to the appropriateness and swiftness with which the organisation can deal with the critical issues for effective organisational decision making. It is the degree to which decision making takes place at upper levels of the organisation. Here, most of the critical decision making power is vested in the top managers with little inputs from the subordinates. Centralisation is one of the extreme points in the distribution of authority. It was prevalent mainly in the earlier days in a government organisation.

The term centralisation has several meanings: Centralisation of performance pertains to geographic concentration; it characterises, *for example*, a company operating in a single location. Departmental centralisation refers to the level of specialised activities, generally in one department. *For example*, maintenance of a whole plant may be carried out by a single unit. Centralization of management is the tendency to restrict delegation of decision making. A high degree of authority is held by managers at the top of the organisational hierarchy.

Definitions of Centralisation are like:

Reimann (1974) defined “*Centralisation as reflecting the locus of decision making, on significant and specific policies, the degree of information sharing between the levels, and the level of participation in long-range planning*”.

L. Robbins (1987) defined “*centralisation as the extent to which the formal authority for discretionary choices is concentrated in an individual unit or level (usually high in the organisation), thus permitting employees (generally small in the organisation), minimum input in their work*”.

The salient features of Centralisation are as follows:

- Centralization refers to the distribution of formal authority in the organisation. There is every possibility of informal coalition and leaders who may influence the organisational decision making. But this cannot be interpreted as affecting the level of centralisation of the organisation.

-
- Centralization of decision making may be with the single person, unit or level. The single point, however, should be placed at the higher level in the organisation.
 - Decisions delegated to the subordinates, may have elaborate formalised policies, systems and rules that constrain the decision making the power of the subordinate employees.



Advantages of Centralisation:

Centralization leads to high personal control over the working of the organisation. Centralization brings in certain issues and attitudes which are helpful for the growth of the organisation. Merits of centralisation can be discussed as:

- Centralisation brings in the standardisation of procedures which helps in the smooth functioning of the organisation and enhances the customer service. Centralisation makes the working out of the policies more structured.
- Centralization leads to standardisation of systems which helps in the analysis of various activities like comparative cost studies etc.
- Centralisation of systems also helps in economies of scale, due to large scale production.
- Personal leadership is found in the case of centralisation. It makes decision making faster due to the concentration of decision making power and unity of command.
- Centralization leads to coordination of the activities so that it is unidirectional and helps in achieving the common goal.
- Decision making is faster in the case of centralisation. In the event of an emergency, the policies can be immediately changed by the centralised authority.



Disadvantages of Centralisation:

- Top management is too much busy in organisational decision making. It gives them less time for long-term strategic decision making.
- There is a lack of initiative as they are overloaded with the task.

-
- Lack of innovative ideas as few people take part in decision making. These people may not have the concept of the actual problems at the shop floor level.
 - As the top management is usually located at the head office, there is a lack of response to the local requirement.

Exhibit:

China has a centralised form of government:

Local governments in China officially operate on three different levels: province, county and township. In practice, multiple divisions belong to the list, with prefectures falling under the jurisdiction of provinces and villages under that of townships.

Province-level governments include 5 autonomic regions, 22 provinces, 4 municipalities and 2 special administrative regions.

The provinces answer directly to the central government and represent the first level of the administrative structure. Their boundaries were, for the most part, established already during the Yuan (1280 to 1368), Ming (1368 to 1644) and Qing dynasties (1644 to 1911), with the exception of a few regions situated in the northeast, which underwent modification under Mao Zedong. Each province is headed by a governor. The territories they administer should by no means be underestimated, as they are inhabited by an average of 42 million people.

Also, China has five autonomic regions which enjoy "equal status with provinces" and which are home to the nation's most significant minority groups. These ethnic groups enjoy a relatively large autonomy, especially about administrative matters. Each region is headed by a president who is a representative of the same ethnic group that inhabits the region. These areas include the autonomous regions of Guangxi Zhuang (established in 1958), Inner Mongolia (1947), Xinjiang Uygur (1955), Ningxia (1958) and Tibet (1965).

China's four municipalities correspond to the nation's largest cities, which are subservient to the central government and not to the provinces. These include Beijing, Shanghai, Chongqing and Tianjin.

(contd...)

These islands enjoy a very extensive autonomy because they both have their currencies, passports and judicial systems. The official language in both is Cantonese instead of Mandarin, but in Hong Kong English is also spoken and Portuguese in Macao. These two regions are run by their Chief Executives. The two special administrative regions (SAR) are Hong Kong and Macao, which were granted their current status on their return to Chinese rule in 1997 to 1999 respectively.

The prefecture-level division mainly consists of prefecture-level cities (283), generally made up of an urban centre and rural suburbs, prefectures (17) situated in the regions of Xinjiang and Tibet, and autonomous prefectures (30), which are inhabited by ethnic minorities and enjoy larger autonomy than other prefectures.

Although there have been several waves of decentralisation in China from 1970's still, it is considered to be one of the strongly centralised states in the world. The county-level is subdivided into counties (1,464), autonomous counties (117), cities (374) and districts (862).

4.2.4. Decentralisation

Decentralisation is the tendency to disperse decision making authority in an organised structure. It is the systematic delegation of authority in the organisation. As a fundamental aspect of the delegation, to the extent that authority that is delegated is decentralised is to be predefined. In a decentralised organisation, most of the decisions are made by the mid-level and lower level managers. Only the most important decisions which are necessary for the organisation is taken by the top level management.

During the 1700s, East India Company was considered to be decentralised organisation. The factories were located in far flung areas and were run by the person designated by the company. Instant and real-time decisions were to be taken based on the problems associated with these factories as there were no alternative means of communication. Problems were to be solved by these managers based upon their decision making ability.

Definitions of decentralisation

Henry Fayol defines decentralisation as, “*everything that goes to increase the importance of the subordinate’s role is decentralisation and everything which goes to reduce it is centralisation*”.

According to Keith Davie, “*decentralisation is a wide distribution of authority and responsibility to the smallest unit that is practical throughout the organisation*”.

In the words of Louis A. Allen, “*devolution refers to the systemic effort to delegate to the lowest levels all authority, except that which can only be exercised at central points*”.

These definitions imply that the importance of the subordinates increases due to decentralisation of powers and responsibilities in the organisation to the lowest level.

Features of decentralisation are as follows:

- Decentralisation is the systematic delegation of authority in the organisation.
- In a decentralised organisation, most of the decisions are made by the mid-level and lower level managers except the strategic decisions which are decided by the top level management.
- There is greater autonomy in decision making on the part of the subordinate employees.
- There is scope for better decisions making at the shop floor level as these employees are well acquainted with the real issues that arise in the day to day operations.



Advantages of decentralisation are as follows:

- Decentralisation reduces the burden of the top management. Thus, they can focus their attention on strategic decisions.
- It helps in growth and diversification of the organisation.
- It increases motivation among the mid and junior level managers as they are vested with decision making power.
- In the long term, these managers can move the ladder to the next level and contribute towards achieving their individual as well as the organisational goal.

- Decentralisation reduces the organisational hierarchy as it emphasises on horizontal growth.
- The decentralised organisation focuses on the results achieved by each unit of the organisation. It increases the overall efficiency of the organisation.



Demerits of Decentralisation are as follows:

- Decentralisation if not implemented properly may lead to a conflict of ideas and chaos in the organisation.
- It increases administrative cost due to the formation of various departments and facilities.
- If managers at the unit level are not capable enough to take sound decisions, then decentralisation cannot be effective.
- Managers need to have a high degree of self-motivation, and self-control to face the problems in the right manner or else decentralisation will fail.

Difference between Centralisation and Decentralisation

Centralisation	Decentralisation
<ul style="list-style-type: none"> • Applicable in case there is stable organisational environment. • Lower level managers are not as capable or experienced at making decisions as upper level managers. • Generally minor operational decisions are taken. • Generally organisation is located at the head quarter. • Effective implementation of company strategies depends on managers retaining say over what happens. 	<ul style="list-style-type: none"> • Applicable in complex and uncertain environment. • Lower level managers are capable, experienced and exercise greater autonomy in decision making. • Open structure helps managers to share ideas. • Generally organisation is geographically dispersed. • Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

Exhibit:**Panchayati Raj Institution in India – Decentralised form of government:**

Accordingly, they provided for Village Panchayats under the Directive Principles of the Constitution. India has a long history of village panchayats. The framers of the Constitution were aware of this Indian heritage in village panchayat system. Thus, Article 40 of the Constitution requires that "the State shall take steps to organise village panchayats and endow them with such power and authority as may be necessary to enable them to function as units of self-government".

The structure has been recommended) Most of the States have constituted State Election Commissions and State Finance Commissions (SFCs) as stipulated. Today, PRIs are Constitutional entities. The State Governments have to endow these panchayats with powers and authority necessary to enable them to function as institutions of local self-government with the responsibility of preparing plans for socio-economic development and for implementing them. As we enter the Ninth Plan, democratic decentralisation has been given a boost with the enactment of the 73rd and 74th Constitutional Amendment Acts. Consequent to this, Most of the State Governments/UTs have enacted enabling legislations, providing for elected bodies at the village, intermediate (Taluka) and district levels with adequate representation from the weaker sections and of women. (In case of some UTs only a two tier. For PRIs to be able to undertake the responsibility entrusted to them, they require both financial and functional autonomy. It is necessary not only to ensure the flow of funds to them from the Consolidated Funds of the States and the Central Government via the Centrally-Sponsored Schemes (CSS) but also to give them independent revenue raising powers of their own.

PRIs can allocate their resources but until such time that they are financially dependent on funds from the State government, these should be in the form of free funds. The State budgets should specify the amount earmarked for district sector plan under Panchayati rajas also the distribution of this among the three tiers. It is suggested that 30 - 40% of a State's program be devolved on local bodies.

Primary tasks of the PRIs is the preparation of plans for fostering economic development and social justice. Primary tasks of the PRIs is the development of plans for promoting economic development and social justice. For instance, in the case of Andhra Pradesh maintenance of community assets, poverty alleviation programmes, sanitation, markets, internal roads have been devolved at the gramme panchayat level.

(contd...)

The intermediate level would be responsible for block component of Primary Education, Women and Child Welfare and Jawahar Rozgar Yojana. At the Zilla Parishad level drinking water, rural roads, secondary education and the district component of JRY would be implemented. However, to make decentralised development success, time-bound training programme would have to be initiated as the majority of the new entrants into the Panchayati Raj system may not be familiar with the various plans of the government, the available technologies and requisite information. Also, training of trainers would be given priority through identified national level institutions like the NIRD, LBSNAA and IIPA and other State-level institutions. To the extent possible NGOs would also be drawn into the training programme.

In the process of transferring of power to the local level democratic institutions there are bound to be conflicts of various kinds; most importantly between the democratic agencies and the bureaucracy. Hence, it is necessary to institutionalise the link between the two to facilitate harmonious functioning by formulating appropriate rules of business.



Self-assessment Questions

- 7) The upper levels of the organisation, the degree to which decision making takes place at, is known as:
- a) Decentralisation
 - b) Administrative
 - c) Operational
 - d) Centralisation
- 8) In a centralised organisation in case of an emergency policies can be changed _____.
- a) Immediately
 - b) Slowly
 - c) Very slowly
 - d) None of the above
- 9) In an organised structure, the tendency to disperse decision making authority is known as:
- a) Centralisation
 - b) Authoritative
 - c) Decentralisation
 - d) Consolidation
- 10) Which level of employees enjoys greater autonomy in decision making in decentralisation?
- a) Lower
 - b) Middle
 - c) Higher
 - d) None of the above



Summary

- The process of grouping activities is called departmentation.
- Departmentation is required for specialisation of work and to reduce the number of subordinates that can be controlled directly by a superior.
- Functional departmentation is the method for separating the activities performed within the organisation into groups based on the different functions they perform.
- In geographic departmentation, an organisation is organised along geographic divisions.
- Product departmentation involves grouping together of all activities necessary to produce a product or product line.
- In process departmentation, the process participating in the production or various types of equipment used are taken as the basis for departmentation.
- Customer based departmentation is market oriented in which departments are created around the markets served or around the marketing channels.
- Time departmentation is present where work is performed throughout day and night in the form of shifts.
- In alpha, numerical departmentation different departments are created based on numbers allotted to different persons or an alphabet.
- In matrix departmentation, two or more forms of departmentation are clubbed together.
- Centralization refers to the concentration of authority. Here most of the critical decision making power is vested in the top managers with little inputs from the subordinates.
- Decision making is faster in the case of centralisation.
- Decentralisation is the tendency to disperse decision making authority in an organised structure.
- Devolution gives greater autonomy in decision making to the subordinate employees.



Terminal Questions

1. Define the meaning and definition of departmentation.
2. What are the different types of departmentation?
3. What do you mean by centralisation?
4. What do you mean by decentralisation?



Answer Keys

Self-assessment Questions	
Question No.	Answer
1	d
2	b
3	a
4	b
5	c
6	a
7	d
8	a
9	c
10	a



Activity

Activity Type: Offline

Duration: 30 Minutes

Description:

Make a group of 5 to 6 students and visit a McDonald outlet. Observe the scale of operation in Mc. Donald.

You are required to:

1. Find out what type of departmentation is followed in Mc. Donald?

Case Study

NIVEA

Nivea is one of the largest international skin care company in the world. It has more than 130 years of experience in skin care products. The parent company, Beiersdorf of Germany started direct operations in India through a wholly owned subsidiary, Nivea India. It has one of the world's most modern skin research centres for innovation, research and development. This gives them the expertise to develop high quality cosmetic products based on the customer demand. Nivea's philosophy is to remain closer to the customers by offering them compelling and innovative products. It is in the process of rolling out a series of premium skincare products pitted against competitor like L'Oreal, Olay and Pond's. Nivea has products for all the segments of the market like; women, men care, baby care etc. It tries to cater to the customers need as per their requirement along with the change in their taste and preferences.

You are required to:

1. Find out which kind of departmentation does Nivea follow?
2. Do you think that most of the skin care products follow the same kind of departmentation?

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External Resources

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Video Links

Topic	Link
Departmentation	https://www.youtube.com/watch?v=MPRyJ0HKW60
Organisational structure	https://www.youtube.com/watch?v=BYufMjSle0Q
Centralisation and Decentralisation	https://www.youtube.com/watch?v=smhyEinAgPk
Centralisation versus Decentralisation	https://www.youtube.com/watch?v=sqtK4X-SUts



Notes:

