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## **UNIT 2 ORGANISATION THEORY**

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## **2.0 OBJECTIVES**

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After studying this unit, you should be able to:

- discuss the concept and importance of organisation;
- explain the principles of organisation;
- describe the classical theory of organisation;
- discuss the neo-classical theory of organisation;
- explain the modern theory of organisation; and
- analyse the contemporary issues in organisation.

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## **1.1 INTRODUCTION**

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We are born in organisation, educated by organisations and most of us spend much of our lives working for organisations. An organisation is a coordinated social entity, grouped together and interact for the achievement of the common goal. It refers to the process of identification and grouping of activities, defining and establishing the authority responsibility relationship and determining the manner in which the organisational activities are interrelated. Thus the organisation consists of a group of people working together for the achievement of the organisational goal. Various theories have been propounded which explain the organisation in terms of closed, open and dynamic system. Traditionally organisation is viewed

as a closed system which does not get affected by external environment . Here the focus is for designing sound organisational structure which facilitates people to accomplish its objectives smoothly. Contrarily the modern view of organisation accepts the environment as an integral part of organisational reality. Therefore to accomplish predetermined goals the organisation must adapt to external environment. The open system's view perceives the organisation as a social system which is composed of sub-systems all of which are independent and interrelated. Man and his organisations are interwoven. Man works in organisations and seek great benefits from organisations. Successful organisations imply the well coordinated efforts of two or more persons. These persons may enhance their abilities and reap the benefits from organisational entities. In this Unit, you will learn the concept and the principles of organisation. You will further learn various theories of organisation. You will be also acquainted with the contemporary issues in organisation theory.

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## **2.2 CONCEPT OF ORGANISATION**

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Organising refers to the process involving the identification and grouping of activities to be performed and defining and establishing the authority responsibility relationships. This enables people to work most effectively together in achieving the enterprise objectives. In a general sense, organising consists of determining and arranging for men, materials, machines and money required by an enterprise for the attainment of its goals. In a restricted and operational sense, the term organising means defining the duties and responsibilities of the people employed, and determining the manner in which their activities are to be interrelated. The end result of organising is the creation of a structure of duties and responsibilities of people in different positions, grouped according to the similarity and interrelated nature of activities. In other words, the outcome of the organising process is an Organisation consisting of a group of people working together for the achievement of one or more common objectives.

Robins has defined organisation as a consciously coordinated social entity, with a relatively identifiable boundary, that functions on a relatively continuous basis to achieve a common goal or set of goals. Thus, it can be concluded that an organisation is an economic and social entity in which a number of persons perform tasks to achieve a predetermined goals. This helps them to accomplish the personal goals like socio-economic satisfaction which they cannot achieve alone. Similarly it is a system of clearly defined structure of activities consciously designed to allow organisational participants to work effectively toward common goal.

The characteristics of an organisation are as follow:

**Group of People :** An organisation comes into existence when a group of people combine their efforts for some common purpose and willingly contribute towards their common endeavour.

**Division of Work :** Setting of an organisation involves division of the total work into various activities and functions, and assigning the tasks to different persons according to their skill, ability and experience.

**Common Purpose :** Every organisation comes into existence on the basis of goals of the enterprise which are separate from the personal goals of the people employed. It is the common purpose of the organisation which provides the basis of cooperation among the members of the organisation.

**Vertical and Horizontal Relationships :** An organisation creates cooperative relationships between different departments and divisions as well as between superiors and subordinates. Different functions and activities like production, marketing, financing etc. are integrated for the achievement of proper coordination. The duties and responsibilities of superiors and subordinates in each department or division are also unified so as to serve the purpose of their joint efforts.

**Chain of Command :** The superior-subordinate relationships established in an organisation are based on the authority which flows from the higher levels of management to the next lower levels, thereby forming a hierarchical chain. This is known as the chain of command, which also determines the line of communication.

**Dynamics of Organisation :** Besides the structural relationships among people which are based on their activities and functions, there exists an organising interactions based on sentiments, attitudes and behaviour of individuals and groups. These aspects of relationship provide a dynamic element to the organisational functioning. They are subject to change from time to time.

### 2.1.1 Importance of Organisation

Sound organisation contributes greatly to the continuity and success of the enterprise. Its importance can be discussed below:

**Facilitates Administration :** Sound organisation facilitates management to relate resource flows continually to overall objectives. It provides an appropriate platform from where management can perform the functions of planning, direction coordination, motivation and control.

**Facilitates Growth and Diversification :** It helps in organisational elaboration. Growth and diversification of activities is facilitated by clear division of work, proper delegation of authority etc. As the organisation expands to a reasonable proportion, the functional types can be replaced by a more flexible decentralised organisation.

**Permits Optimum use of Resources :** Sound organisation permits optimum use of technical and human resources. The organisation can incorporate the latest technological improvements like computers, electronic data processing machines etc. It permits optimum use of human efforts through specialisation. It also develops people by creating appropriate training and promotion opportunities. Thus, organisation gives a company the greatest possible strength for meeting predicted needs-changing conditions.

**Stimulate Creativity :** Specialisation provides individuals with well-defined duties, clear lines of authority and responsibility. Sound organisation structure enables managers to turn over routine and repetitive jobs to supporting positions and concentrate on important issues where they can exploit their potential better. Thus, it encourages the creativity of the people.

**Encourages Humanistic Approach :** People can work in team and not like robots or machines. Organisation provides job rotation, job enlargement and enrichment. Jobs are designed to suit human needs and are made meaningful and interesting. Organisation adopts efficient methods of selection, training, remuneration and promotion of employees. Proper delegation and decentralisation, conducive working environment and democratic and participative leadership provide higher job satisfaction to the employees. It enhances the interaction among different levels of the management.

Although we have discussed the importance of the organisation, a sound organisation structure by itself does not guarantee success. According to Drucker good organisation structure does not by itself produce good performance-just as a good constitution does not guarantee great presidents, or good laws or a moral society. But a poor organisation structure makes good performance impossible no matter how good the individuals may be.

### 2.1.2 Steps in the Organisation Process

Organising involves the following interrelated steps:

**Determination of Objectives :** Organisation is always related to certain objectives. Therefore, it is essential for the management to identify the objectives before starting any activity. It will help the management in the choice of men and materials with the help of which it can achieve its objectives. Objectives also serve as the guidelines for the management and the workers. They will bring unity of direction in the organisation.

**Identification and Grouping of Activities:** If the members of the groups are to pool their efforts effectively there must be proper division of the major activities. Each job should be properly classified and grouped. This will enable the people to know what is expected from them as members of the group and will help in avoiding duplication of efforts. For instance, the total activities of an individual industrial organisation may be divided into major functions like production, purchasing, marketing, and financing, and each such function is further subdivided into various jobs. The jobs then may be classified and grouped to ensure the effective implementation of the other steps.

**Allotment of Duties :** After classifying and grouping the activities into various jobs, they should be allowed to the individuals so that they could perform them effectively. Each individual should be given a specific job to do according to his ability and made responsible for that. He should also be given the adequate authority to do the job assigned to him.

**Developing Relationships:** Since so many individuals work in the same organisation it is the responsibility of management to lay down structure of relationships in the organisation. Everybody should clearly know to whom he is accountable. This will help in the smooth working of the enterprise by facilitating delegation of responsibility and authority.

**Integration of these Groups of Activities:** Integration can be achieved in all activities in following ways : (a) through authority relationships – horizontally, vertically, and laterally and (b) through organised information or communication systems, i.e., with the help of effective coordination and communication. We can achieve unity of objectives, team work and team spirit by the integration of different activities.

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## **2.3 PRINCIPLES OF ORGANISATION**

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The principles of organisation are guidelines for planning an efficient organisation structure. Let us discuss the important principles of organisation :

**Unity of Objectives :** An enterprise strives to accomplish certain objectives. The organisation and every part of it should be directed towards the attainment of objectives. Every member of the organisation should be familiar with its goals and objectives. There must be unity of objective so that all efforts can be concentrated on the set goals. The principle requires objectives to be clearly formulated and well-understood.

**Division of Work and Specialisation :** The entire work in the organisation should be divided into various parts so that every individual is confined to the performance of a single job. This facilitates specialisation which in turn leads to efficiency and quality. However, each area of specialisation must be interrelated to the total integrated system by means of coordination of all activities of all departments.

**Definition of Jobs :** Every position in the organisation should be clearly defined in relation to other positions in the organisation. The duties and responsibilities assigned to every position and its relationship with other positions should be so defined that there is no overlapping of functions.

**Separation of Line and Staff Functions :** Whenever possible, line functions should be separated from staff activities. Line functions are those which accomplish the main objectives of the company. In many

manufacturing companies, the manufacturing and sales departments are considered to be accomplishing the main objectives of the business and so are called the line functions. Other functions like personnel, plant maintenance, financing and legal are considered as staff functions.

**Chain of Command or Scalar Principle :** There must be clear lines of authority running from the top to the bottom of the organisation. Authority is the right to decide, direct and coordinate. The organisation structure should facilitate delegation of authority. Clarity is achieved through delegation by steps or levels from the top position to the operating level. From the chief executive, a line of authority may proceed to departmental managers, to supervisors or foremen and finally to workers. This chain of command is also known as scalar principle of organisation.

**Parity of Authority and Responsibility or Principle of Correspondence :** Responsibility should always be coupled with corresponding authority. Each subordinate must have sufficient authority to discharge the responsibility entrusted to him. This principle suggests that if a plant manager in a multiplant organisation is held accountable for all activities in his plant, he should not be subject to seek orders from company headquarters for his day to day activities.

**Unity of Command :** No one in the organisation should report to more than one line supervisor. Everyone in the organisation should know to whom he reports and who reports to him. Stated simply, everyone should have only one boss. Receiving directions from several supervisors may result in confusion, chaos, conflicts and lack of action.

**Unity of Direction :** According to this principle a group of activities that have a common goal should be managed by one person. There should be one head and one plan for a common objective of different activities. This facilitates smooth progression towards the achievements of overall organisational goals.

**Exception Principle :** This principle suggests that higher level managers should attend to exceptional matters only. All routine decisions should be taken at lower level, whereas problems involving unusual matters and policy decisions should be referred to higher levels.

**Span of Supervision :** The term 'span of supervision' means the number of persons a manager or a supervisor can direct. No manager should be required to supervise more subordinates than he can effectively manage within the limits of available time and ability. The exact number may vary according to the nature of the job and the frequency of intensity of supervision needed.

**Principle of Balance :** There should be proper balance between various parts of the organisation and no function should be given undue importance at the cost of others. Balance should be maintained also between centralisation and decentralisation, span of supervision and lines of communication, and authority allocated to department and personnel at various levels.

**Communication :** A good communication network is essential to achieve the objectives of an organisation. No doubt the line of authority provides channels of communication downward and upward, still some blocks in communication occur in many organisation. The confidence of superior in his subordinates and two-way communication are the factors that unite an organisation into an effectively operating system.

**Flexibility :** The organisation structure should be flexible so that it can be easily and economically adopted to the changes in the nature of business as well as technological innovations. Flexibility of organisation structure ensures the ability to change with the environment without disrupting the basic design.

**Continuity :** Change is the law of nature. Many changes take place outside the organisation. These changes must be reflected in the organisation. For this purpose the form of organisation structure must be able to serve the enterprise to attain its objective for a long period of time.

## Check Your Progress A

- 1) Enumerate the basic characteristics of an organisation.  
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- 2) How do principles of organisation facilitate smooth functioning of the organisation ?  
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- 3) Enumerate five principles of organisation which you find practising in an organisation.  
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## 2.4 CLASSICAL THEORY OF ORGANISATION

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The old theories of organisations are classified as classical theories of organisation. The origin of classical theories can be traced back to the writings of F.W. Taylor, Max Weber, James Moorey, E.F.L. Beach and Lois Allen. The impact of classical theory has been profound.

Classical theory was developed in three streams: Bureaucracy, Administrative Theory, and Scientific Management. These components of classical theory were developed on similar assumptions at about the same time (1900-1950 AD). These components develop the idea of structure within the connotation of organisation. Accordingly, organisation was defined as a structure of relationships, power, objectives, roles, activities, communications and other factors that exist when persons work together. Thus, these streams of classical theory view organisation as a mechanistic structure. Let us learn these three streams of classical theory in detail.

### 1.1.1 Bureaucracy

Bureaucracy is a social invention perfected during the industrial revolution to organise and direct the activities of a firm. It describes a system where the Government is run by officials, directly or indirectly. Bureaucracy is defined as a system of organisation in which roles, tasks and relationships among people and positions are clearly defined, carefully prescribed and controlled in accordance with formal authority and any deviations from rules and regulations is viewed very seriously. The bureaucratic theory was systematically developed by Max Weber (1864-1920). Weber termed his formulation of organisation as ideal type. According to Max Weber, every organisation can be defined as a structure of activities (means) directed towards the achievement of certain objectives (ends). Every organisation develops a system of specialisation (division of tasks) and a set of systematic rules and procedures to maximise efficiency and productivity. Weber stressed that the bureaucratic form is capable of attaining the highest degree of efficiency, and is in this sense, formally the most rational known means of carrying out control over human beings in any organisation. It is superior to every other form in precision, stability, discipline and reliability.

Weber tried to identify various factors and conditions that have contributed to the growth of bureaucracy in modern times. Development of modern Organisation and Corporation led to the development and considerable spread of bureaucracy in Organisations. Bureaucracy is simply indispensable irrespective of its inherent evils for the running of complex organisations. Secondly, an important factor responsible for the superiority of bureaucracy is the role of expanding technical knowledge and the development of modern

technology. Whether the economic system is capitalistic or socialistic a considerable degree of bureaucratic specialisation is required to attain a high level of organisational efficiency. Thirdly, Weber repeatedly stressed the fact that the capitalist system has undesirably played a major role in the development of modern bureaucracy. The proper functioning of a capitalist system necessitated a stable state and a well organised administration. Besides, capitalism is considered the most rational economic basis for bureaucratic administration itself.

### **Characteristics of Bureaucracy**

The bureaucratic form of organisation is distinguished by the following structural and behavioural characteristics:

**Division of Labour and Specialisation :** Specialisation based on division of labour is the cornerstone of bureaucracy. It applies more to the job than to the individual. The roles of various officials based on the division of job work are clearly defined. This leads to the clear definition of the job-content of an individual and his position in the organisation set up which in turn leads to the clarity of the goals/objectives of the organisation and helps in designing the hierarchical structure of the organisation. It is based on a specified sphere of competence which involves: (a) a sphere of applications to perform functions which has been marked off as part of a systematic division of labour, (b) the provision of the incumbent with necessary authority, and (c) the necessary means of compulsion are clearly defined and their use is subject to definite conditions.

**Hierarchy :** Hierarchy is the second fundamental characteristic which is the feature of any bureaucratic form of organisation. There is a clear separation between superior and subordinate officers, i.e., each lower officer is under the control and supervision of a higher one. Remuneration is fixed in accordance with the nature of the job and the grade of responsibility. Promotion and career advancement is on the basis of seniority and merit.

**Rules :** Bureaucracy operates in accordance with a consistent system of abstract rules. The role of rules has been stressed by Weber so that personal favouritism, arbitrariness or nepotism may not hinder the working of an organisation. Every act of personal discretion of official must be justified by impersonal ends.

**Rationality :** Weber's ideas on efficiency and rationality are closely related to his ideal typical model of bureaucracy. He observed that bureaucracy is the most rational known means of achieving imperative control over human beings. It is capable of obtaining a high degree of efficiency since the means used to achieve goals are rationally and objectively chosen towards the desired ends. An added factor of efficiency is that personal whims of the leaders and traditional pressures are no longer effective in such a system; it is run according to rules and there is a clearer demarcation between personal and official affairs. Rationality is also reflected by the relatively easier means of calculability of results in the organisation.

**Impersonality :** It should be observed by all officials in decision-making and in overall organisational life. The bureaucratic form has no place for personal whims, fancies or irrational sentiments. Official activity is conducted in a business like manner with a high degree of operational impersonality.

**Rule Orientation :** Rationality and impersonality are mainly achieved through formulation of rules and procedures which clearly define official spheres of authority and conduct. Employees are expected to follow the rules in discharging their duties.

**Neutrality :** Neutrality in decision making and their implementation are the cardinal principles of bureaucratic way of functioning. Bureaucracy is supposed to be a political and neutral in its orientation. It is committed only to the work it is meant to perform.

### **Criticism of Bureaucracy**

Max Weber gave the model which is normative in nature and could be followed by any large and complex organisation. However, the actual practices of bureaucracy often fall short of these ideals. Bureaucracy is a necessary evil in large and organisationally complex organisation. Following demerits have been pointed out in the bureaucratic model by various scholars:

**Rigidity :** A rigid organisation often fails to see innovation as a necessary life giving element to an evolving adaptive organisation. The ultimate goal of a bureaucracy sometimes seem to be perfect but its excessive dependence on rules tend to kill initiative and it leads to obsolescence of an organisation.

**Impersonality :** Relationships in a bureaucracy are secondary and contractual rather than being primary and personal. The characteristics of impersonality, anonymity, neutrality to values etc. are contradictory to the very basic nature of organisation where close cooperation between the people and bureaucracy is desirable. Lack of personal involvement leads to poor productivity levels.

**Delegation :** It is criticised on the ground of the problems of delegation that crop up in operative stages. The bureaucratic staff tend to concentrate power at higher positions and very little of delegation of authority and responsibilities down the rank is seen. In absence of delegation, organisational decisions are unnecessarily delayed.

**Goal Displacement :** Excessive adherence to rules and regulations lead to the problem of goal displacement. The rules and regulations that are meant to facilitate the functioning of the organisation are adhered irrespective of the fact whether they lead to goal achievement or not.

**Strict Categorisation :** In bureaucracy, coordination and specialisation are advantageous if there is strict categorisation or compartmentalisation of activities and persons. The dysfunction of categorisation results from the tendency of bureaucracy to grant career status to a position. Bureaucracy is not comfortable with the fact that an adaptive world can never be completely categorised.

**Self-perpetuation and Empire Building :** Bureaucrat often thinks that holding an office gives him personal ownership and privileges. Through their desire to perpetuate the old, bureaucracies discourage innovations. According to Max Weber, Once its is fully established, bureaucracy is among those social structures which are hardest to destroy, even when it has outlived its usefulness. In bureaucracy, prestige and pay are often determined by the number of one's subordinates. Thus, the chief aim of bureaucracy is to increase the number of people employed under one's control, this is the familiar empire building.

**Cost of Controls :** The cost of maintaining rules, regulations and sometime seemingly countless procedures employed to gain conformity in bureaucracy is dysfunctional. There is frustration from perceived excessive restrictions and delays imposed by bureaucratic procedures.

### Activity A

a) Suppose you wanted to eliminate bureaucracy to avoid its demerits, how could this be done? What would be the consequences?

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b) Would you like to work in a bureaucracy? Why and why not?

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## 2.4.2 Administrative Theory

Scientific management was primarily concerned with increasing the productive efficiency of individual workers at the shop floor. The role of managers and their functions in the total organisation were not given adequate attention. Around the same time, that is the first quarter of the 20<sup>th</sup> century **Henri Fayol**, director of a coal mining company in France, made a systematic analysis of the process of management. His approach to the study of management is also known as the process or Functional Approach.

According to Fayol, business activities in any organisation consist of six inter-dependent operations viz., technical, commercial, financial, security, accounting and administrative or managerial operations. He analysed the nature of managerial activities and skill requirements which were so far given little attention by thinkers. He considered the process of management to be of universal application and distinguished among five elements of the process viz., to forecast and plan, to organise, to command, to coordinate, and to control. The concept of management was, thus, defined as the process of performing certain functions like planning, organising, etc. These functions were expected to be performed by managers at all levels in the organisation as well as in all types of industries and in all countries.

Fayol emphasized that management involved the application of certain skills which could be acquired by persons on the basis of systematic instructions and training. Once acquired, the skills could be applied to all types of institutions including the church, schools, political as well as industrial organisations.

Besides a systematic analysis of the management process and management functions, Fayol formulated a set of fourteen principles as guidelines for implementing the process of management. These principles were stated in flexible terms and expected to be of use of managers under all circumstances. The skill and abilities required for effective management were stated to be dependent on the managers' position at different levels of organisation. According to Fayol, administrative skills were more essential for higher level managers', while technical abilities were required more at the lower level positions. He also believed that managerial training was essential for people in all walks of life. He stressed, for the first time, the necessity of formal education and training in management. In short, Fayol's analysis provides a set of means (viz., planning, organising, commanding, coordinating and controlling) for viewing the management process and guidance (i.e., the principles for implementing the process).

The fourteen principles of management are as follow. You have already learnt them in Unit 1. Let us recapitulate them.

- Division of work
- Authority and Responsibility
- Discipline
- Unity of command
- Unity of Direction
- Subordination of individual interest to general interest
- Remuneration of Personnel
- Centralisation
- Scalar Chain
- Order
- Equity

- Stability of Tenure
- Initiative
- Esprit de corps

The Administrative Theory of Management and Functional Approach to management may be said to have developed on the foundation laid by Fayol. He provided a conceptual framework for analysing the process of management. At the same time, he isolated and analysed management as a separate, distinct activity. Management as a body of knowledge gained immensely from Fayol's analysis of managerial skills of universal relevance, and principles of general management developed by him. Although some critics called it inconsistent, vague and pro-management based theory, still this theory exerts considerable influence on the practice as well as teaching of management the world over.

### **2.4.3 Scientific Management**

The approach of scientific management was formulated by F.W. Taylor and others between 1890 and 1930 sought to determine scientifically the best method for performing any task, and for selecting, training, and motivating workers. Frederick Winslow Taylor and other contributors notably Frank Gilbreth, Lillian Gilbreth and Henry Gantt investigated the effective use of human beings in industrial organisations, particularly at shop floor levels. Taylor (1856-1915) an engineer by training is regarded as the father of scientific management.

Taylor based his management system on production line time studies instead of relying on traditional work methods. He analysed and timed steel workers' movements on a series of jobs. Using time study as his base, he broke each job down into its components and designed the quickest and best methods of performing each component. In this way he established how much should workers be able to work with the equipment and materials at hand and also encouraged employers to pay more productive workers at a higher rate, using a scientifically correct rate that would benefit both company and worker. Thus, workers were urged to surpass their previous performance standards to earn more money. Taylor called his plan the differential rate system.

The modern production miracle is just one legacy of scientific management. In addition, its efficiency techniques have been applied to many tasks in non-industrial organisations, ranging from fast food service to the training of surgeons. Taylor relentlessly pursued the idea that efficiency at work could be improved through careful scientific analysis. He advocated an inductive, empirical, detailed study of each job to determine the one best way to organise work.

Taylor's concept of scientific management essentially consisted of a scientific approach to management. Its primary objective was to replace methods based on trial and error and rule of thumb. The new approach rested on the following principles.

- Development and use of scientific methods in setting work standards, determining a fair day's work and best way of doing work.
- Scientific selection and placement of workers best suited to perform the various tasks and provision of their training and development for maximum efficiency.
- Clear cut division of work and responsibility between management and workers.
- Harmonious relations and close cooperation with workmen to secure performance of work in accordance with the planned jobs and tasks.

A number of techniques were developed to facilitate scientific management. Taken together the following techniques constituted the mechanism of the new approach :

- Time study to analyse and measure the time taken in doing the various elements of a job, and to standardise the operations as well as determining a fair day's work.
- Motion Study involving close observation of the movements required to perform a job with a view to eliminate wasteful motions and decide on the best way of doing the job.
- Standardisation of tools, equipments and machinery and working conditions.
- Incentive wage plan with differential piece rate of wages for efficient and inefficient workmen.
- Functional Foremanship involving different specialist foremen supervising machine speed, group work, repairs, etc.

Taylor presented his ideas on scientific management as a systematic body of thought. His main contribution to management practices included the following aspects :

- The importance of applying scientific methods of enquiry , observation and experimentation to the problems of management.
- Separation of planning of work from its execution so as to enable workers to perform at his best and earn accordingly.
- Emphasizing the aim of management to be the maximum prosperity of the employer along with the maximum welfare of each employee.
- The necessity of a complete mental revolution on the part of both workmen and management to derive the benefits of scientific management through harmony and cooperation rather than individualism and discord.

**Merits :** The primary benefit of scientific management was conservation and proper use of every ounce of energy. Moreover specialisation and division of labour have brought about the second industrial revolution. Time and motion techniques are important tools to organise the tasks in a more efficient and rational way. In short scientific management is not only a rational approach to solve organisational problems but it also facilitates the professionalisation of management.

Although the basic principles of scientific management were originally developed by Taylor, several associates of Taylor like Gantt, Frank and Lillian Gilbreth, and Emerson further elaborated the ideas, developed new techniques and improved upon the new approach to management. In practice, scientific management proved to be so fruitful in increasing productivity and efficiency of operations that it was widely accepted in the USA and Western Europe.

**Limitations :** Scientific management has its limitations and was criticised on several grounds. Some critics argue that scientific management is concerned with the efficiency of workers in the technical sense, and it emphasizes only the importance of production. It assumes that workers are inherently lazy and they require strict supervision and exercise of authority by managers. It is believed that workers can be motivated by monetary rewards alone. No importance is attached to social and psychological aspects of work environment. Other critics have called it unscientific, antisocial, psychologically aspect of work environment. Other critics is unscientific antisocial, psychologically unfair and anti-democratic. It is unscientific because there is no valid and reliable method to measure the efficiency and wages of the workers. It is antisocial because workers are treated as glorified economic tools only. It is psychologically unfair because each worker is pitted against every other worker in an unhealthy competitive scheme to make more and earn more. It is anti-democratic because it overshadows the workers independence. Trade unions have been opposed to scientific management on the ground that it leads to autocratic

management, and raises the workload of employees with a corresponding adverse impact on employment of men.

**Check Your Progress B**

- 1) How does bureaucracy enhance the efficiency of an organisation ?  
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- 2) Enumerate the limitations of Fayol’s principles of management.  
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- 3) How does scientific management enhance the efficiency of an organisation ?  
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**Activity B**

Which of Fayols principles of management do you observe in use of organisations today?  
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**2.5 NEO-CLASSICAL THEORY OF ORGANISATION**

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The neo-classical theory (also referred as the human relations school of thought) was built on the basis of classical theory. It is modified, added to and in some ways extended classical theory. Its basic assumption is that the psychological and social aspects of the worker as an individual and his work group ought to be emphasized. In classical view, organisation focussed on structure, order, the formal organisation, economic factors and objective rationality. Whereas neo classical view emphasized social factors and emotions at work. Human relation is frequently used as a general term to describe the ways in which managers interact with their employees. The essence of the human relations contributions is contained in two aspects: Organisational situation should be viewed in social terms as well as in economic and technical terms, and in terms of clinical method it is analogous to the doctor’s diagnosis of the human organism.

**The Hawthorne Experiments**

The human relations movement grew out of a famous series of studies conducted at the western Electric Co. from 1924 to 1933. These eventually became known as the “Hawthorne Studies” because many of them were preformed at Western Electrics Hawthorne plant near Chicago. The Hawthorne studies began as an attempt to investigate the relationship between the level of lighting in the workplace and worker productivity. In some of the early studies, the Western Electric researchers divided the employees into test groups, who were subjected to deliberate changes in lighting, and control groups, whose lighting remained constant throughout the experiments. The results of the experiments were ambiguous. When the test group’s lighting was improved, productivity tended to increase although erratically. When lighting conditions were made worse, there was also a tendency for productivity to increase in the test group. To compound the mystery, the

control groups output also rose over the course of the studies, even though it experienced no changes in illumination. Obviously, something besides lighting was influencing the workers' performance.

In a new set of experiments, a small group of workers was placed in a separate room and a number of variables were altered. Wages were increased, rest period of varying length were introduced, the workday and work weeks were shortened. The researchers, who allowed the groups to choose their own rest periods to have say in other suggested changes. Again the results were ambiguous. Performance tended to increase over time, but it also rose and fell erratically. Partway through this set of experiments, Elton Mayo (1880-1949) and some associates from Harvard, including Fritz J. Roethlisberger and William J. Dickson, became involved.

In these and subsequent experiments, Mayo and his associates decided that a complex chain of attitudes led to increase in productivity. They had been singled out for special attention, so both the rest and the control groups had developed a group pride that motivated them to improve their work performance. Sympathetic supervision had further reinforced their motivation. The researchers concluded that employees would work harder if they believed management was concerned about their welfare and supervisor paid special attention to them. This phenomenon was subsequently labeled as the Hawthorne Effect. Since the control group received no special supervisory treatment or enhancement of working conditions but still improved its performance, some people (including Mayo himself) speculated that the control group's productivity gains resulted from the special attention of the researchers themselves.

The researchers also concluded that informal work groups and the social environment of employee have a positive influence on productivity. Many of Western Electric's employees found their work dull and meaningless, but their associations and friendships with co-workers, sometimes influenced by a shared antagonism towards the bosses, imparted some meaning to their working lives and provided some protection from management. For these reasons, group pressure was frequently a stronger influence on worker productivity than management demands.

The findings of Hawthorne studies are as follows :

- Physical environment at the work place do not have any material impact on the efficiency of work.
- Favourable attitudes of workers and work-team towards their work were more important factors determining efficiency.
- Fulfilment of the workers' social and psychological needs had a beneficial effect on the moral and efficiency of workmen.
- Employee groups based on social interactions and common in the rest exercised a strong influence on workers' performance.
- Workers cannot be motivated solely by economic rewards. More important motivators are job security, recognition by superiors, and right to express their opinion on matters which are of concern to them.

The human relations approach to management problems is based on the view that the modern organisation is a social system in which the social environment and interpersonal relations govern the behaviour of employees. It emphasizes that the authority responsibility relationship between superiors and subordinates should relate to the social and psychological satisfaction of employees. It is only by making employees happy, the organisation can secure their full cooperation and thus increase efficiency. Management should encourage the development of social groups on the job and provide opportunities for free expression of the employees' viewpoints. Managers should recognize the importance of democratic leadership, so that there is free flow of communication and subordinates may participate in decision-making.

It must be noted that the objective of human relations approach was to make workers more productive. But it was emphasized that employee satisfaction was the best means of achieving the goals of higher productivity and efficiency. For this purpose, it was necessary that managers must know why employees act and what social and psychological factors motivate them. Attempt should be made to create a satisfying work environment in which people may fulfil their own needs as well as contribute to the achievement of organisational goals.

According to Mayo, the concept of social man motivated by social needs, wanting, rewarding on the job relationships, and responding more to work-group pressures than to management control was necessary to complement the old concept of rational man motivated by personal economic needs. All these findings might seem unremarkable today. The neo-classical theory examines in detail and has made significant contributions in the field of human relations for structural adjustments in an organisation. The contribution of the neo-classical theorists can be categorised as the modification of the classical theory.

The theory recognises the importance of co-ordination and communication for motivation of human resources. More attention was given on fatigue and monotony than division of labour. They are of the view that if human beings are not treated well, human problems arise. For example, if authority does not commensurate with responsibility it will lead to frustration or disfunctionality. The neo-classical theorists view that participation, recognition of human dignity and communication are the cornerstones of efficient management. Simultaneously the role of informal organisation should not be undermined in the formal setting of organisations.

The neo-classical theory is a definite improvement over the classical theory. It explains various new variables and concepts like informal organisation. However, the neo-classical viewpoint has also been criticised on the ground of too much cynical puppeteering of people, a short sighted perspective and lack of integration among many facets of human behaviour.

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## **2.6 MODERN THEORY OF ORGANISATION**

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The modern organisation theory considers the dynamic conditions at micro and macro levels. It recognises the dramatic changes taking place in the society. The modern organisation theory is a collection of views of different thinkers of organisation. The theory is centred around the concept of a system hence it is termed synonymous with system theory. For the first time Chester I. Barnard (1938) viewed organisation as a social system of cooperative interactions among the members; organisation, individuals and customer are parts of environment. Subsequently Mary Parker Follet (1940) emphasized on the integration of individual and organisational units through systems approach. Norbert Weiner (1948), a pioneer in cybernetics gave a crystal clear views of the organisation as a system. Further operational researchers like Churcham (1957), etc. were also among those who considered the system as an interconnected complex of functionally related components. Some more social scientists like Katz and Kahn presented a comprehensive theory of organisation using open systems approach.

### **2.6.1 Systems Theory**

Organisational realities have been investigated from different points of view. Divergent theories have thus emerged; a need has arisen of looking at the organisation as a whole. Advance in scientific knowledge in general have made possible the formulation of a general systems theory for the integration of scientific knowledge.

The systems approach is particularly relevant to the study of complex public organisation that have elaborate structures and that are embedded in larger social, political and economic environments. According to the open systems perspective, an organisation survives and grows by drawing inputs from the environment

which are processed internally to produce its output. It is through this input conversion-output processes that an organisation lives and develops. The systems thinking helps us to have a total view of the organisation including its different parts and their interrelationships.

The systemic view of organisation was prominent in the writings of M.P. Follet and Chester Bernard. Herbert Simon's decision making scheme follows the systems approach which was further elaborated by him and his associates later. Philips Selznick has used the systems framework in his studies of governmental and other complex organisations. The most representative writings in this field are: "Organisation theory" by Haire Norbet Weiner pioneered in the field of Cybernetics. He gave the first clear view of an organisation as a system consisting of inputs, process, outputs, feed back and environment.

In simple words, a system may be defined as a set of interdependent parts forming an organised unit or entity. These parts, known as sub-systems, interact with each other and are subject to change. They are interrelated as well as interdependent. Thus, changes in any sub-system lead to changes in others. Any working organisation may be said to consist of three broad sub-systems :

- technical sub-system which represents the formal relationships among the members of an organisation;
- Social sub-systems which provides social satisfaction to members through informal group relations, and
- Power sub-system which reflects the exercise of power or influence by individual and groups.

The total system emerges as a result of the interaction of the various sub-systems. The total system and sub-systems also interact with the environment, which may influence or be influenced by the system or the sub-systems.

The system approach has the following features :

- System is a group of interrelated but separate elements.
- The arrangement of all the elements must be orderly.
- There must be proper communication facilitating interaction among the elements.
- Finally the interaction should lead to achieve a common goal.

The enterprise operations are viewed in terms of basic elements engaged in procuring and transforming inputs into outputs. Money, employees and the managers themselves are parts of the system. Inputs are the materials, information and energy, flowing into the organisation. The outputs are products, services, and satisfaction provided by the organisation. The organisation transforms input into a variety of outputs (in the form of products, goods and services) and offers the same to the external environment. Sale of the outputs provides the necessary energy which is called feedback to repeat this systems cycle. Look at Figure 2.1 which shows this cycle.

**Figure 2.1 : Cycle of Systems Approach**

Input

Output

Feedback

Organisation systems like social systems are considered to be Cybernetic in their behaviour with regard to the external environment. This means that they are self steering, using feedback to guide and control their behaviour. They develop mechanism to collect interpret and apply feed back in their decision making process so as to acquire the capacity to adapt, evaluate perform and to correct errors.

Look at Figure 2.2 which shows the basic elements of systems theory.

**Figure 2.2 : Basic Elements of Systems Theory**

<b>Inputs</b>	<b>Throughputs</b>	<b>Outputs</b>
<ul style="list-style-type: none"> <li>● Environmental conditions, needs &amp; demands-goals●</li> <li>Material resources</li> <li>Goods● Services●</li> </ul>	<ul style="list-style-type: none"> <li>● OrganisationsTransformations●</li> <li>Manpower● Strategies to influence environment</li> </ul>	<ul style="list-style-type: none"> <li>● Societal norms &amp; laws●Human resources●</li> <li>● Sub-system functions ●</li> </ul>

The systems approach to management view organisations as extremely complex entities subject to changes from within and outside. To meet various needs of such an organisation, a balanced and integrated approach to management is required. At the heart of the systems, approach lies a Management Information Systems and communication network for collection, analysis and flow of information and quantitative data so as to facilitate planning and control. It emphasizes the importance of decision-making and the primary means of balancing the different parts of the organisation. Modern thinkers consider management as a system of integrating activities aimed at making the best use of scarce resources. Management is viewed also as a sub-system of the social system. As a sub-system management is required to adapt and cope with environmental changes.

This systems approach has the following advantages :

- It provides a unified focus to organisational efforts.
- It provides managers an opportunity of looking at the organisation as a whole which is grater than the sum of its parts.
- This theory treats the organisation as an open system. Moreover, the process of interaction between sub-systems is dynamic.
- Modern theory is based on multilevel and multidimensional approach i.e., it includes both micro and macro aspect.
- The system is based on multiple variables because an event may be the product of many factors which in turn may be interrelated and interdependent.
- The feedback mechanism provides an opportunity to organisation to rearrange its parts according to the change in the environment.

The systems approach is now being widely used in organisational analysis. It has proved to be a very useful tool for the conceptualisation of the organisation and its external and internal relationships. It has also facilitated the contingency or situational view of organisation which marks a radical departure from the traditional approach that emphasized generally the one best way of structuring organisations. Under the influence of systems theory the current view in organisations analysis is that the structure can vary from situation to situation depending on such factors as their environmental conditions and technology.

Although system theory has given fascinating appeal still it has some limitation. In fact, this is not the complete explanation of the whole organisational system. It does not explain how are the sub-systems of a specific organisation uniquely related in a given environment.

### **2.2.2 Contingency Theory**

The modern approach to organisation theory underlines the importance of dynamic interaction with environment and other situational factors influencing organisational design.

Two important lines of thought are significant in this context as they seek to determine the key situational factors. One of these underlies the significance of technology in determining organisational design. The other line of thought suggests the importance of environment. Technology refers to the techniques used by organisations in work flow activities to transform inputs into outputs. Technology is a term that is applicable to all types and kinds of organisations. Irrespective of whether an organisation is production oriented or service-oriented the role of technology can be seen in the activities that result in the transformation of things. Looking into the role of environment in managerial functions, management ecology has been developed. Individual and his organisational environment are in a complex state of interaction with each other and the organisation itself is in a state of interaction with its environment. Thus, managing an organisation effectively requires a thorough understanding of its environment.

Contingency approach is based on the view that there is no best way to manage. In fact there are many effective ways to perform various management functions. This theory emphasizes that the best way to lead, plans, organise and conduct managerial activities varies with the situation. A particular method may yield fruitful results in one situation but may drastically fail in other situations. There is no universal principles to be applied in all situations. Managers must analyse different situations and use the best approach which is best suitable in that particular situation. For example to improve productivity, supporters of scientific management may prescribe work simplification and additional incentives, the behavioural scientist may recommend job enrichment and democratic participation of employees in the decision-making process. But the supporters of contingency approach may offer a solution which is responsive to the characteristics of the total situation being faced. Work simplification would be ideal where there is limited resources, unskilled labour, limited training opportunities and limited products offered to the local markets. Job enrichment would be ideal for that organisation where there are abundant skilled labour force. This shows that managerial action depends upon circumstances within a given situation. In this approach managers are supposed to diagnose a given situation and adopt to meet the conditions present. In short contingency approach emphasizes on two aspects, 1) It focuses attention on specific situational factors that influence the appropriateness of one managerial strategy over another, 2) It highlights the importance of developing skills for managers in situational analysis. Such skills will help managers find out important contingency factors which influence their managing approach.

Contingency approach has the following features:

- Management action is contingent on certain action outside the system or subsystem as the case may be.
- Organisational action should be based on the behaviour of action outside the system so that organisation should be integrated with the environment.
- Because of the specific organisation environment relationship, no action can be universal. It varies from situation to situation.

Contingency theory concentrates on practical, day to day situational puzzle solving assignments the managers encounter. It has become popular because of several reasons which are as follow :

**Conceptual framework :** Contingency theory provides a conceptual framework within which managers can systematically study the characteristics of the major organisational components, as well as their interrelationship.

**Linkage between theory and practice :** Contingency theory is a practical way of studying and analysing the organisations. This theory suggest a host of alternatives that might be applicable to a particular situation.

**A basis for introducing changes :** Contingency theory explains the dynamic process of organisational change. It provides information about the relevant changes that occur in the environment from time to time. It also provides the necessary information to maintain the dynamic equilibrium.

**Wide applicability :** Wherever there is a need to define or redefine the relationships in an organisation contingency theory may be useful.

**New Micro phase :** Contingency approach is called by Scott and Mitchell as new micro phase in management. Since the primary attention of contingency approach is on problem-solving puzzles and putting out fires, it has entirely pragmatic flavour. Contingency approach is considered as refreshing breeze in management literature that away the humanistic and general systems fog.

The main advantage of this contingency approach is that it compels us to be aware of the complexity in every situation and forces us to take an active and dynamic role in determining what best would work in each case. Like a system theory it does not only examines the relationships between sub-systems of a specific organisation in a given environment, but also offers solutions to particular organisational problems.

Inspite of its towering appreciations the contingency theory is fraught with a number of limitations the scientist cannot ignore. This theory has been criticised on the ground of heavy theoretical complexity. For example a simple problem has to be analysed on a number of organisational components, each of which having innumerable dimensions. So its empirical testing becomes very difficult. Therefore, it is criticised mainly on the grounds of its complexity, paucity of contents, difficulty in empirical testing, and its reactive nature.

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## **2.7 CONTEMPORARY ISSUES IN ORGANISATION THEORY**

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Different theories of organisation have been discussed which clearly state that there are three types of approaches; namely (i) Structural -Functional approach, (ii) Socio-Psychological approach and (iii) System-Contingent approach. All of them are mutually dependent as they have inherent relationships. Each theory is incomplete unless it is supplemented by other two approaches. However, at the same time, it is equally difficult to generalise a single theory of organisation which can explain the organisation in totality. As mechanistic (structural) approach ignores human problems, the humanistic socio-psychological approach does not give weightage to closed and formal settings of an organisation. Thus the difference of these theories is that of focus and emphasis . It is being recognised to consolidate different views to understand an organisation in view of the recent/contemporary trends in organisation theory. Based on several scholars research, a synoptic view of contemporary trends/issues in organisation theory has been presented in table 2.1.

**Table 2.1 : Contemporary Trends in Organisation Theory**

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<b>From</b>	<b>To</b>
Traditionalism	Social dynamics

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Job task hierarchy	Social process
Efficiency a mechanical process	Efficiency as a human process
Organisation as a bureaucratic structure	Organisation as a social institution.
Control through command	Control through communication
Authority from the top	Authority from the group
Leadership by authority	Leadership by consent
Decision as an individual highly centralised	Decision as collective and situational
Regimented work environment	Democratic work environment
Technological change by fear	Technological change by consultation
Job as subsistence	Job as satisfying experience
Planning as crisis technique	Planning as formalised process
Incomplete and delayed information	Complete and current information
Policy and administration dichotomy	Policy and administration continuum
Profiteering	Profit with social responsibility.

The basic objective of organisation theory is to explain and predict. It attempts to understand social or human grouping that is designed as an organisation. The theory helps a researcher by providing him an opportunity to test his ideas about organisation and improve the theories further. In view of the environmental changes the contemporary issues to be addressed in organisational theory can be enumerated as under.

- Impact of technology on human side of an organisation.
- Impact of globalisation on organisational designs.
- Impact of different strategies on organisation.
- Impact of behavioural change of human beings on organisation.
- Impact of newer organisations on the society.
- Environment organisation interface.
- Cross cultural impact on organisation.
- Impact of mobility of people and technology on Organisation and so on.

## Check Your Progress C

1) Distinguish between classical and neo-classical theory of management.

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2) How does systems theory operate in an organisation.

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3) What do you mean by contingency theory of organisation ?

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4) Enumerate five contemporary issues in organisation theory.

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## 2.8 LET US SUM UP

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An organisation is an economic and social entity in which a number of persons perform tasks to achieve a common goal. The structure and activities are clearly defined to facilitate the flow of work. The principles of organisation provide guidelines for smooth functioning of the organisation. The organisation theory explains the structure and design of organisations. It helps to understand, diagnose and respond to organisational needs and problems.

The classical theory of organisation has been developed in three streams : Bureaucracy, Administrative theory and Scientific management theory. Bureaucracy theory explains that every organisation develops a system of specialisation and a set of systematic rules and procedures to maximize efficiency and productivity. The characteristics of bureaucracy include : division of labour and specialisation, hierarchy, rules, rationality, impersonality, rules orientation and neutrality. The demerits of bureaucracy are : impersonality, little delegation, goal displacement, strict categorisation, self perpetuation and empire building and the cost of controls.

Administrative theory divides the activities of an industrial organisation into six groups. They are : technical, commercial, financial, security, accounting and managerial. This theory stressed that the managing is a process and can be dissected intellectually by analysing the functions of the manager. The theory stipulates fourteen principles of management which facilitates the smooth functioning of the organisation. It has been criticised on the basis of having a closed system and underestimating the human factors.

The scientific management theory helps in determining scientifically the best method for performing any task and for selecting, training and motivating workers. The theory emphasizes on the scientific selection of personnel, incentives and functional foremanship. It stresses on increase in productivity but ignores the human relations.

The neo classical theory of organisation emphasized the social factors and emotions at the work place. It advocates that the participative approach, human dignity and the communication are the cornerstones of efficient management. It is considered as an improvement over the classical theory due to its focus on the human relations and informal organisation. It is criticised on the ground that it stresses too much on the people.

Modern theory of organisation considers the dynamic conditions at the micro and macro levels. The systems theory emphasized on the integration of individual and organisational units through systems approach. It is reflected in terms of inputs, process, output and feedback. The contingency theory explains that the management action is contingent in certain action outside the system or subsystem. The behaviour should be integrated with the environment. The contemporary issues in organisational theory suggests to consolidate different views to understand an organisation.

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## 2.9 KEY WORDS

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**Chain of Command :** The line of authority running from the top to the bottom of the organisation

**Departmentation :** Grouping of various activities on some well defined basis.

**Differential Piece Rate :** Piece rates of wages which apply differently to efficient and inefficient workers.

**Formation Organisation :** A planned structure which represents the officially established pattern of relationship among individuals, groups, sections, units, departments and divisions.

**Functional Foremanship :** Supervision of work by different specialist foremen.

**Hawthorne Studies :** Experimental studies conducted to find out what factors motivate workers on the shop floor for improved performance.

**Human Relations Approach :** Motivating employees with a satisfying work environment and fulfillment of their social and psychological needs.

**Information Organisation :** A network of relationship among the participants of an organisation which arises spontaneously on the basis of psychological needs.

**Motion Study :** Observation of the movements required to perform a job so as to eliminate wasteful motions and decide on the best way of doing the job.

**Scientific Management :** Application of scientific methods to resolve management problems in place of rule of thumb or trial and error methods.

**Span of Control :** The number of subordinates a manager can effectively supervise.

**Structure :** A framework of relationship among parts.

**Systems :** An arrangement and set of relationship among multiple parts operating as a whole.

**Systems Approach :** Understanding management as a balancing and integrating system.

**Time Study :** Technique used to analyse and measure the time taken in doing the various elements of job.

**Unity of Command :** The principle of every subordinate being under one supervisor.

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## 2.10 TERMINAL QUESTIONS

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- 1) Describe the basic objectives and steps involved in the process of an organisation.
- 2) Explain the basic principles of organisation.

- 3) What do you mean by bureaucracy? Discuss its characteristics. Do you think that bureaucracy enhances efficiency in the organisation. Give your arguments.
- 4) What is administrative theory of organisation? Is it relevant today? Explain with examples.
- 5) Discuss the central theme of scientific management. Do you think that the scientific management enhances productivity in the organisation. Give your arguments.
- 6) Elaborate the Hawthorne Experiments. What are their findings ? How are they relevant in the modern organisation.
- 7) What is the contribution of Neo-classical theory of organisation? Do you think that the neo-classical theory is an improved version of the classical theory. Discuss with examples.
- 8) Critically examine the modern theory of organisation.
- 9) Discuss the emerging trends/issues in organisation theory.

**Note :** These questions will help you to understand the unit better. Try to write answers for them. Do not submit your answers to the university for assessment. These are for your practice only.

Transformation  
Process

Direct-Indirect Feedback about outputs

