Common Bases for Departmentation

1. **Knowledge and Skill.**

   People are grouped by what they know. For example, hospitals have departments like Neurology, Allergy, Cardiology, Internal Medicine, Gastro-Enterology, etc.

2. **Work Process.**

   Workers are grouped based on the process or activity used by the worker. For example, a manufacturing company may create separate casting, welding and machining groups.
Often, it is the underlying technology that determines the departmentation. For example, a print shop may have separate letterpress and offset departments -- two different processes for getting the same outputs.

3. **Business Function.**

Grouping by the basic function in the organization: purchase supplies, raise capital, generate research, etc. This leads to the familiar departments of manufacturing, marketing, engineering, finance, and so on.

**Need for Departmentation**

- **Specialization:** Each department performs one type of work in which its employees are trained and experienced. This helps to increase the quality and quality of work and to reduce costs.
- **Administrative Convenience:** Departmentation helps to simplify administration by systematic distribution of work among individuals and groups. It helps to establish an effective pattern and pace of work.

- **Clarity of Role:** The people working in a department clearly know their roles and responsibility. By assigning execution of work to various departments, top management can concentrate on planning and policy-making.
- **Autonomy:** Departments serve as work centers to which authority can be delegated. They create a feeling of autonomy among employees. Such a feeling helps to improve their job satisfaction and motivation.
The main departments in a commercial organization are as follows:

- Marketing and Sales Department.
- Finance and Accounts Department.
- Human Resources Department.
- Production or Works Department.
- Purchasing and Stores Department.
- General Administration and Legal Department.

**Coordination:**
All employees working in a department perform interrelated tasks. They work in accordance with the same departmental rules and regulations. They also report to the same head or manager. Therefore, departments help in coordination between different activities.

**Effective Control:**
Top management can lay down standards of performance for each and every department. The performance of every department can be compared with such standards. Responsibility for departmental results can be fixed on the concerned departmental heads. Financial control over departments can be exercised through departmental budgets.

**Training and Department:**
People working in a department receive on-the-job instructions from managers. They may also be given training in their jobs to improve their skills and performance. Direct and regular contact of employees with the head of their department also helps to develop a sense of belonging and loyalty among the employees.
The main functions of marketing and Sales Department in a large business firm are as follows:

MARKETING AND SALES DEPARTMENT: Marketing means a total system of interacting business activities designed to plan, price, promote and distribute want-satisfying products and services to present and potential customers.

Marketing and Sales Department performs all those activities and tasks which are concerned with marketing and selling of goods, and services. It is responsible for ensuring a steady flow of goods and services to consumers. Marketing involves a number of interrelated activities designed to plan, promote, price and distribute products and services to satisfy the needs and wants of customers.

Marketing Research:
Marketing and Sales Department conducts marketing research (surveys, etc.). Such research is undertaken:
1. To identify the needs, preferences and buying habits of different classes of consumers in the market;
2. To assess the total demand and the strength of competitors;
3. To explore new and profitable markets;
4. To formulate policies relating to price, discounts, credit, etc.;
5. To determine the most appropriate method of selling goods.

Product Planning and Development: On the basis of information collected through marketing research, suitable products are designed and developed. Decisions concerning package, brand name, label, etc., of the products are also taken in consultation with the Production Department. Standards and grades are decided to ensure uniform quality of goods.
**Selling:** Sales is an important function of this Department. This function involves the following activities.

1. Creating demand through advertising, salesmanship, publicity, etc.;
2. Collecting order from customers directly or through salesman and agents;
3. Executing orders through timely dispatch of property packed goods;
4. Arranging after-sale service and attending to complaints of customers.

**Distribution:** Distribution involves managing relations with dealers, distributors, agents, etc., and physical distribution of goods. Physical distribution is concerned with storage and transportation of goods from the factory/go down to dealers and customers. It is also necessary to insure the goods to cover risks during storage and warehousing.

---

**FINANCE AND ACCOUNTS DEPARTMENT:**
Finance and Accounts Department estimates the financial needs of business, raises the required funds from appropriate sources, and ensures that the funds are judiciously utilized by different departments of the firm. This investor, coordinates financial activities of other departments, maintains proper books of accounts of business transactions, prepares the necessary financial statements of the firm and gets them audited.
The main functions of the Finance and Accounts Department are as follows:

**Financial Planning:**
Finance and Accounts Department prepares the financial policies and programmers of the firm. It estimates the total financial needs of the firm keeping in mind both short-term and long-term requirements. This is done by calculating the amount of funds required for purchasing the fixed assets and current assets.

**Sources of Funds:**
After estimating the amount of capital required, the Finance and Accounts Department decides the capital structure of the firm. In order words, it decides the proportions of owner’s capital and loan capital in the total capital after taking into consideration cost, risk, control and other factors. The Finance and Accounts Department also decides when, how and wherefrom the funds are to be acquired. For example, long-term loan capital may be raised by issuing debentures or by taking loans from special financial institutions. Needed funds are procured from the selected sources.

**Investment of Funds:**
The finance and Accounts Department decides judicious investment of funds in fixed assets and current assets so as to maximize the return on investment without compromising with the long-term survival of the firm. While investing funds, the principles of safety, liquidity and profitability are considered. Investment of funds involves managements of fixed assets, management of current assets, capital budgeting, etc.

**Dividend Policy:**
The profits of business may be distributed as dividend among shareholders and/or retained for further investment in business. The Finance and Accounts Department decides an appropriate balance between these two uses. For this purpose, a sound dividend policy is framed keeping in mind requirements of funds
for business, profitable opportunities for utilizations of funds, long-term in earnings, future prospects, share market expectations, attitudes of top managements, etc.

**Miscellaneous Functions:**

The Finance and Accounts Department performs several other functions such as analyzing the company’s financial statements, supplying necessary information to investors and government agencies, assisting top management in the valuation of proposal for takeovers and mergers, etc.

**Human Resources Department:**

It performs all the tasks concerned with employees of the firm. Recruitment, selection, training, appraisal compensation, integration and maintenance of employees are the main functions of this Department.

The main **functions** of the Human Resources Department are given below:

**Human Resources Planning:**

First of all the department forecasts the future vacancies in the organization. It carries out job analysis to decide the number and qualifications of persons required for performing various jobs in future. It also determines the extent to which the future manpower needs of the organization can be met with the help of the present manpower. The department prepares policies, programmes and procedures for meeting the estimated manpower requirements.
**Requirement and Selection:** The department analyses different sources of required manpower and simulates people to apply for jobs in the organization. After receiving job applications, the department selects the qualified persons through interview group discussion, etc.

**Placement and Orientation:** The selected candidates are put on their respective jobs in the organization. The new employees are made familiar with the organization and job environment. This process of socialization is called orientation.

**Training and Executive Development:** Policies and programmes are designed and implemented to provide training to both workers and managers. Several on-the-job and off-the-job methods, i.e., lectures, seminars, conferences, etc., are used for this purpose. Training is essential both for the success of the organization and its employees.

**Performance Appraisal:** The department evolves systems for evaluating the job performance and future potential of employees working in the organization. It helps different departments in conducting performance interviews and in judging individual and group results of employees.

**Promotions and Transfers:** The department advises and assists various departments in taking decisions relating to promotions and transfers of their employees.

**Wages and Salary Administration:** The Human Resources Department develops a sound wage and salary system. It helps in developing and administering equitable and fair wage policy for different categories of employees. Job evaluation and other necessary techniques are used for developing a sound compensation system.
**Industrial Relations:** It order to maintain industrial peace, there must be harmony and good relations between employers and employees. Human Resources Department advises and assists all other departments in developing a sense of belonging in employees. Conflicts between management and workers are resolved through arbitration, conciliation and collective bargaining. A system is developed for effective and speedy redressed of the grievances of the employees. Suggestion schemes and workers’ participation in management can be used for integrating employees with the organization. The department formulates rules and regulations to ensure discipline in the organization.

**Employee Benefits and Services:** The Human Resources Department manages the employee benefit programmes such as provident fund, pension, housing, leave travel, group insurance, etc. These and other perquisites are offered to employees due to legal obligations and for motivating them.

**Employee Health and Safety:** The Human Resources Department arranges for medical and insurance facilities and safety programmes. It seeks to promote hygiene and recreation for workers. Proper working conditions are maintained at all times to ensure efficiency of work and satisfaction of employees.

**Records and Research:** The Human Resources Department maintains attendance and other records of employees. It also carries out research in personnel matters to discover better policies, programmes and procedures for more effective management of human resources.
**Designing the Product:**

The production Department selects and designs the products to be produced in consultation with the Marketing and Sales Department. Product designs means deciding the shape, size and physical attributes of the product.

**Choice of Plant and Equipment:**

After designing the product, appropriate plant and machinery are selected. Selection and installation of tools and equipment depends upon several factors such as volume of output, cost and life of machinery, adaptability of the equipment, etc.

**Layout of Plant:**

The selected machines, equipment and tools, etc., are properly arranged in the factory building so as to ensure efficient and economical production. Such a physical arrangement is called plant layout.

**Production Planning:**

It means determining the inputs (raw materials, workers, machines, power, etc.) required for production. It also includes deciding the sequence of operations, and the time schedule for their completion. Route sheets or Route charts are prepared to show the sequence of operations for all parts, materials, and

---

**PRODUCTION OR WORKS DEPARTMENT:**

Production Department is responsible for producing the right product, at the right cost, at the right time and in the right quantity. Production planning and control, quality control, repairs and maintenance, research and development, etc., are the main functions of the Production Department.
assemblies. Work schedules are prepared to indicate the starting and finishing dates for different jobs.

**Production Control:**

The production Department ensures coordination between various manufacturing activities and control over them. It sets targets, monitors progress towards these targets and takes corrective actions whenever necessary to ensure achievement of production plans and goals. The department also ensures control over inventory (stock), quality and cost of goods produced.

**Repairs and Maintenance:**

The Production Department arranges for repairs and maintenance of all machines and equipment so as to keep them in proper working condition and to avoid interruptions due to sudden breakdown of plant.

**Research and Development:**

Continuous research and development is necessary to make of production. Research implies scientific investigation and analysis in order to acquire new knowledge.

**Record Keeping and Information:**

The Production Department maintains records of the costs, time and inputs involved in the production of goods. It provides necessary information to management on stock position, supply orders, work schedule, etc. For example, information is provided to Marketing and Sales Department keeps the Marketing and Sales Department informed about the quantity, quality, etc., of output for controlling the sale and distribution of products. Further order of customers can be booked and goods can be dispatched to them in time with the help of information provided by the Production Department.
**PURCHASING AND STORIES DEPARTMENT:** Purchasing and Stores Department performs various activities involved in procurement and storage of materials required by the firm. It is responsible for making available the right time and at the right cost.

The main **functions of the Purchasing Department are** given below:

<table>
<thead>
<tr>
<th>Preparing Purchasing Budget:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Purchasing Department prepares the firm’s purchase budget in consultation with production and other departments. This budget contains detailed information about the quantity of materials to be purchased during the coming year, quality of materials, time of purchase, total estimated cost of materials, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Developing purchase procedure:</th>
</tr>
</thead>
<tbody>
<tr>
<td>In order to purchase materials in an efficient manner a purchase procedure is framed. This procedure is a paper sequence of steps to be taken for purchase of materials. The main steps involved in the procedure are receipt of purchase requisitions, inviting quotations from suppliers, placing purchase order with the most suitable supplier, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receiving purchase Requisition:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The purchase Department makes purchase only after receiving properly authorized purchase requisitions from different departments of the firm. A purchase requisition is a formal and written request for purchasing material. This form contains the quantity, quality, specifications, purpose, etc., of materials are required, date of requisition, name of the requisitioning department and signature of the authorized manager.</td>
</tr>
<tr>
<td><strong>Determining Sources of Supply:</strong></td>
</tr>
<tr>
<td>-----------------------------------</td>
</tr>
<tr>
<td>After receiving the purchase requisitions, the purchase Department invites quotations (cost estimates) from the suppliers. Generally, Quotations are invited from at least three quotations received is made. On the basis of this study the most suitable supplier is selected.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Placing Purchase Order:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Purchase Department sends a purchase order in writing to the selected supplier. This is generally written on a printed form. It contains details regarding the quantity, quality, price, mode of delivery terms of payment, etc. The Purchase order authorizes the supplier to dispatch the materials specified in it.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Following-up of Purchase Order:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>In case the materials are not received by the date mentioned in the purchase order, the Purchase Department will remind the supplier. A follow-up of purchase order is necessary to ensure timely supply of materials. Delays in purchases may result in stoppage of work.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Maintaining Suppliers:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Purchase Department always maintains a list of approved suppliers. It should develop alternative sources of supply so that materials may be purchased from another supplier, if necessary. The list of suppliers should be updated periodically. The Purchase Department should also maintain good relations with the suppliers to ensure regular and efficient suppliers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Keeping Purchase Records:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Purchase Department maintains proper records of all purchase. It provides information regarding sources, prices, quality specifications, terms of delivery, etc. It also advises the management in matters concerning purchase.</td>
</tr>
</tbody>
</table>
Storekeeping means the physical storage of materials in a scientific and systematic manner in order to avoid loss and damage of materials and to exercise effective control over the movement materials.

**Receiving and Inspecting Materials:** The Stores Department receives the materials sent by suppliers. The materials are unpacked, counted, weighed and measured. The materials are compared with the purchase order and the supplier’s bill. The specifications and quality of materials are checked. Any discrepancy is brought to the notice of the Purchase Department. All received materials are recorded in stores ledger.

**Storing Material:** Materials and supplies are stored in proper bins. A card indicating the nature and type of materials is attached to every bin for easy location and identification. Bins and other containers are properly placed in the storeroom.

**Issuing Materials:** Various departments send requisitions to the storekeeper. On the basis of properly authorized notes materials are issued. All receipts and issues of materials are recorded in appropriate manner.

**Safe Keeping of Materials:** The stores Department take steps to ensure safety of materials against theft, damage, fire, deteriorations, etc. The Storeroom may be insured against these risks.

**Controlling Inventory:** In order to ensure that excess funds are not blocked in overstocking of materials, the Stores Department lays down minimum and maximum levels of stock of different materials. The reorder level and reorder quantity are also specified. Whenever the Store Department will inform the Purchase Department for making purchases.

**Stock Taking:** At specified time intervals, the balances of materials shown in records are checked with physical quantities. This is known as stock taking or stock verification.
The main functions of the General Administrations and Legal Department are given below:

**General Office Functions:** These functions consist of the following:

a. Receiving, recording, compiling, and supplying information.
b. Managing office correspondence, *i.e.*, handling inward and outward mail.
c. Arrangement of telephones, tele-printer, fax, etc.
d. Deciding office systems, procedures and routines.
e. Maintenance of office equipment.
f. Control of stationery and office forms.
g. Safeguarding documents and assets of the firm.
**Accounting Functions:** In some firms there is no separate Accounts Department. The accounts section of the office performs accounting functions in these firms. It records all business transactions, maintains book of accounts, handles cash receipts and payments, prepare final accounts and financial reports of the firm, gets them audited, etc.

**Legal Function:** This department handles the firm’s obligations relating to income tax, sales tax, excise duty, industrial and commercial laws, labour laws, pollution control laws, etc. It Advises on legal matters and helps in court cases filed on behalf of or against the firm.

**INTERRELATIONSHIP BETWEEN DEPARTMENTS:** We have discussed above various departments of a commercial organization. Each department performs its specialized functions.

However, the different departments are interrelated and interdependent. The activities and operations of every department provide support and assistance to all other departments. For example, unless and until purchasing and stores department ensures continuous supply of materials, production Department cannot produce goods. As a consequence, the marketing and Sales Department cannot sell goods. This will cause shortage of finance Department. Without adequate funds, the Human Resource Department cannot pay wages and salaries to their employees.