

Principles of Management (PoM)

01 – Managers and Managing

Brido Schuler

4. September 2023



Learning objectives (LO)

LO1-0: Explain the principal-agent theory and give examples

LO1-1: Describe what management is, why it is important, what managers do, and how managers use organizational resources efficiently and effectively to achieve organizational goals

LO1-2: Distinguish among planning, organizing, leading and controlling (the four principle managerial tasks), and explain how managers' ability to handle each one affects organizational performance

LO1-3: Differentiate among the three levels of management, and explain the tasks and responsibilities of managers at different levels of the organizational hierarchy

LO1-4: Distinguish between three kinds of managerial skill, and explain why managers are divided into different departments to perform their tasks more efficiently and effectively

LO1-5: Explain some major changes in management practices today that have occurred as a result of globalization and the use of advanced information technology (IT)

LO1-6: Explain the term “competitive advantage” and its building blocks

Content

- What is management?
- Manager and shareholder
- The four essential managerial tasks
- Level and skills of managers
- Organizational performance
- Recent changes and challenges for management

What is management?

Management is what managers do



Exercise #1: What is management?



Find your own definition of management in three steps:

Precondition: Close your books and notebooks. No aid is allowed

- (1) Find three words which explain the term management
- (2) Discuss with your neighbor
- (3) Come up with a definition of management. Write your definition down in one sentence

You have 10 minutes available. Be prepared to share your definition with the class

Characteristics of management

Organizations

- Collections of people who work together and coordinate their actions to achieve a wide variety of goals or desired future outcomes

Managers

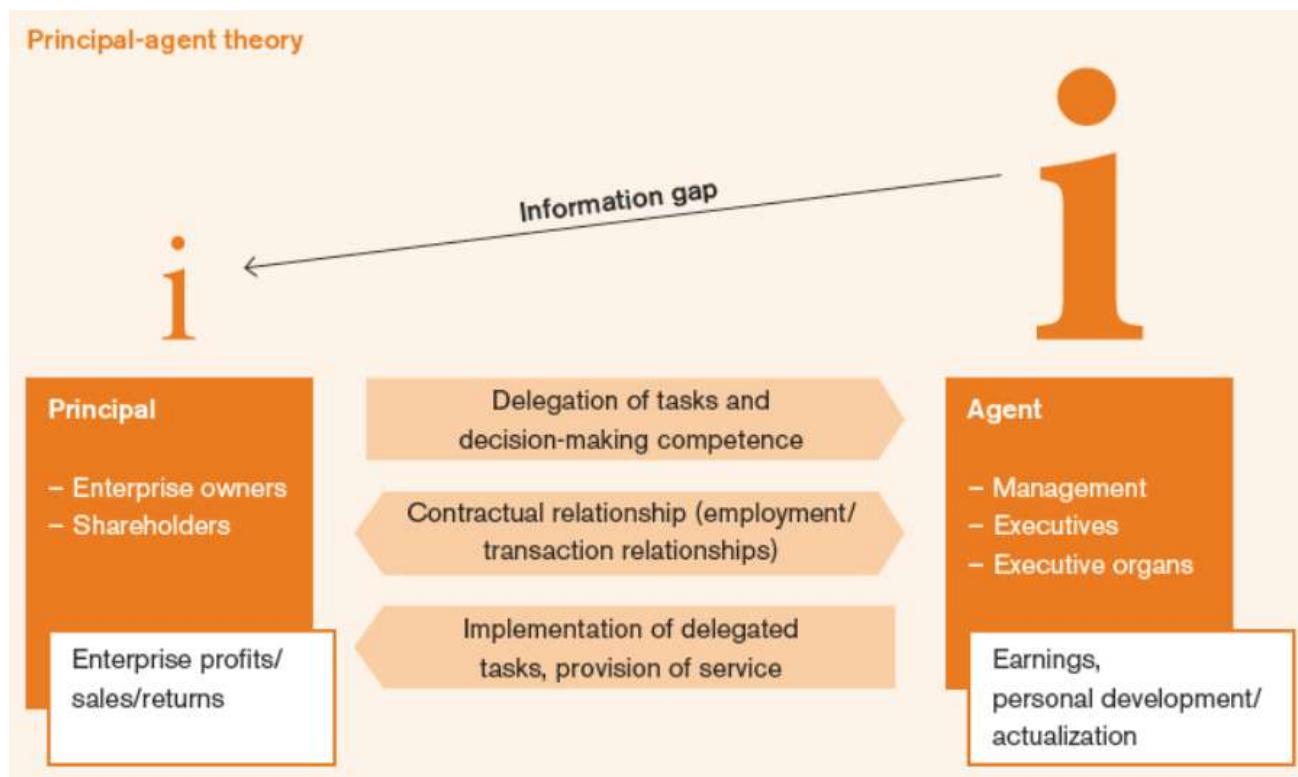
- The people responsible for supervising and making the most of an organization's human and other resources to achieve its goals



Jones and George (2020, p. 4 and 5). Contemporary Management. New York: McGraw-Hill, 11th edition

Manager and shareholder

Principal-agent theory describes the relationship between the client (principal) and the responsible party (agent)



Source: Capaul, R., Steingruber, D., 2014,
p.217

Manager and shareholder

The principal-agent theory is based on the following assumptions:

- Each side (principal and agent) is only imperfectly informed about the other
- In an enterprise, the agent (management) due its involvement into the daily business, has access to information, which is not directly accessible by the principal (shareholder)
- Both wishes to maximize its its own utility
- The information asymmetry (agent has more information than the principal) often leads to principal losses
- Principal tries through various contracts to minimize the information asymmetry. These contracts create costs, e.g. buyer (principal) of a used car from the seller (agent) ask for a warranty contract

Manager and shareholder



Exercise #2

- a) Chart a similar conflict of interest between two parties. What are the parties (principal or agent?) and which conflicting interest arise?
- b) Transfer the theoretical findings in terms of knowledge transfer at public limited company (Aktiengesellschaft). Who represent the agent and who represent the principal? What measures are provided under Swiss company law in order to minimize agency loss? Consult Swiss Code of Obligations, Art. 689 – 697. You can use the internet.

Time
available:
15 minutes

What is management?

- Mary Parker Follett (1868 – 1933): ‘The art of getting things done through people’



Our definition

The planning, organizing, leading and controlling of human and other resources to achieve organizational goals efficiently and effectively

Jones and George (2020, p. 4). Contemporary Management. New York: McGraw-Hill, 10th edition

Four essential managerial tasks



Jones and George (2020, p. 7). Contemporary Management. New York: McGraw-Hill, 11th edition

Planning

This task consist of:

- (1) Deciding which goals the organization will achieve
- (2) Deciding what strategies to adopt to attain those goals
- (3) Deciding how to allocate organizational resources to pursue the strategies that attain those goals

-> Result: Strategy, a cluster of decisions about what goal(s) to pursue, what actions to take and how to use resources to achieve goals

Example

Apple's smart glasses

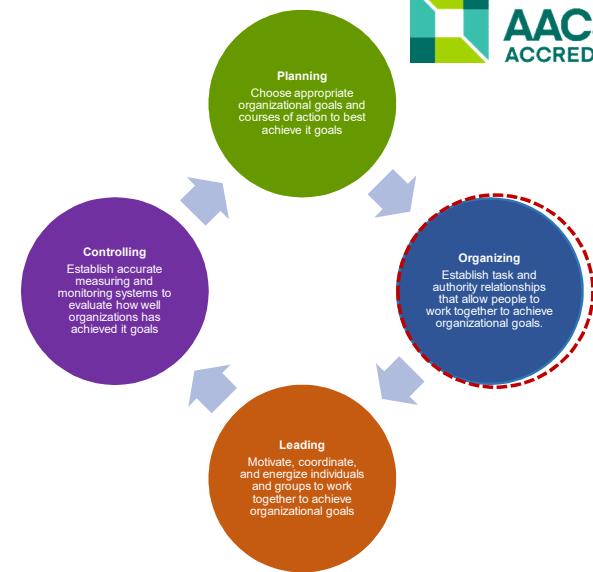
<https://www.tomsguide.com/news/apple-glasses>

(accessed: September 4th, 2023)



Organizing

- Structuring working relationships in a way that allows organizational members to work together to achieve organizational goals
 - It involves grouping people into departments according to the kinds of job-specific tasks they perform
 - Lays out the lines of authority and responsibility between individuals and groups
 - Decide how to organize resources, particularly human resources
- > Result: Organization structure, a formal system of task and reporting relationships, that coordinates members to achieve goals



Jones and George (2020, p. 7).
Contemporary Management. New York: McGraw-Hill, 11th edition

Example

Industry 4.0 needs agile organizations (project organizations: scrum)

Leading

- Articulating a clear vision and energizing and enabling organizational members so they understand the part they play in achieving organizational goals
- Leadership involves managers using their power, personality, influence, persuasion, and communication skills to coordinate people and groups so their activities and efforts are in harmony
- It revolves around encouraging all employees to perform at a high level to help the organization achieve its vision and goals



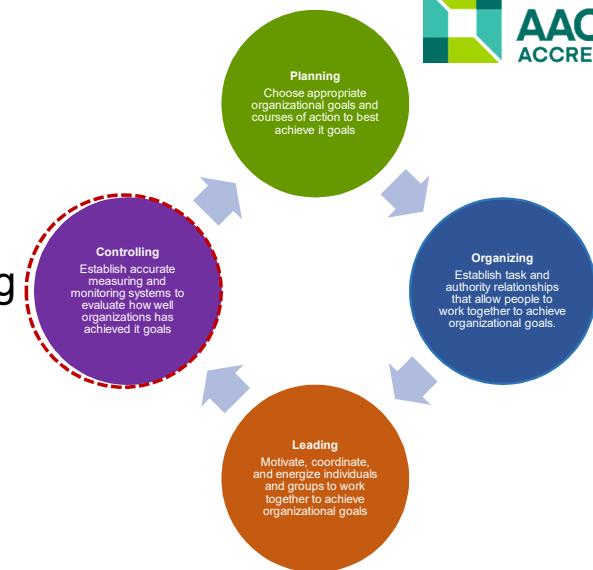
-> Result: Highly motivated and committed workforce

Examples of leaders?

Jones and George (2020 p. 8). Contemporary Management. New York: McGraw-Hill, 11th edition

Controlling

- Evaluating how well an organization is achieving its goals and taking action to maintain or improve performance
- To exercise control, managers must decide which goals to measure and then they must design control systems that will provide the information necessary to assess performance



-> Result: the ability to measure performance accurately and regulate organizational efficiency and effectiveness

Examples

Budgeting: Variance analysis budget versus actual figures and based on this analysis actions to be defined

Jones and George (2020, p. 8). Contemporary Management. New York: McGraw-Hill, 11th edition

Managerial roles identified by Mintzberg

Type of Role	Specific Role	Examples of Role Activities
Decisional	Entrepreneur	Commit organizational resources to develop innovative goods and services; decide to expand internationally to obtain new customers for the organization's products.
	Disturbance handler	Move quickly to take corrective action to deal with unexpected problems facing the organization from the external environment, such as a crisis like an oil spill, or from the internal environment, such as producing faulty goods or services.
	Resource allocator	Allocate organizational resources among different tasks and departments of the organization; set budgets and salaries of middle and first-level managers.
	Negotiator	Work with suppliers, distributors, and labor unions to reach agreements about the quality and price of input, technical, and human resources; work with other organizations to establish agreements to pool resources to work on joint projects.

Planning

Choose appropriate organizational goals and courses of action to best achieve its goals

Organizing

Establish task and authority relationships that allow people to work together to achieve organizational goals

Jones and George (2020, p. 10).
Contemporary Management.
New York: McGraw-Hill, 11th edition

Managerial roles identified by Mintzberg

Interpersonal	Figurehead	Outline future organizational goals to employees at company meetings; open a new corporate headquarters building; state the organization's ethical guidelines and the principles of behavior employees are to follow in their dealings with customers and suppliers.
Leader		Provide an example for employees to follow; give direct commands and orders to subordinates; make decisions concerning the use of human and technical resources; mobilize employee support for specific organizational goals.
Liaison		Coordinate the work of managers in different departments; establish alliances between different organizations to share resources to produce new goods and services.
Informational	Monitor	Evaluate the performance of managers in different tasks and take corrective action to improve their performance; watch for changes occurring in the external and internal environments that may affect the organization in the future.
Disseminator		Inform employees about changes taking place in the external and internal environments that will affect them and the organization; communicate to employees the organization's vision and purpose.
Spokesperson		Launch a national advertising campaign to promote new goods and services; give a speech to inform the local community about the organization's future intentions.

Leading

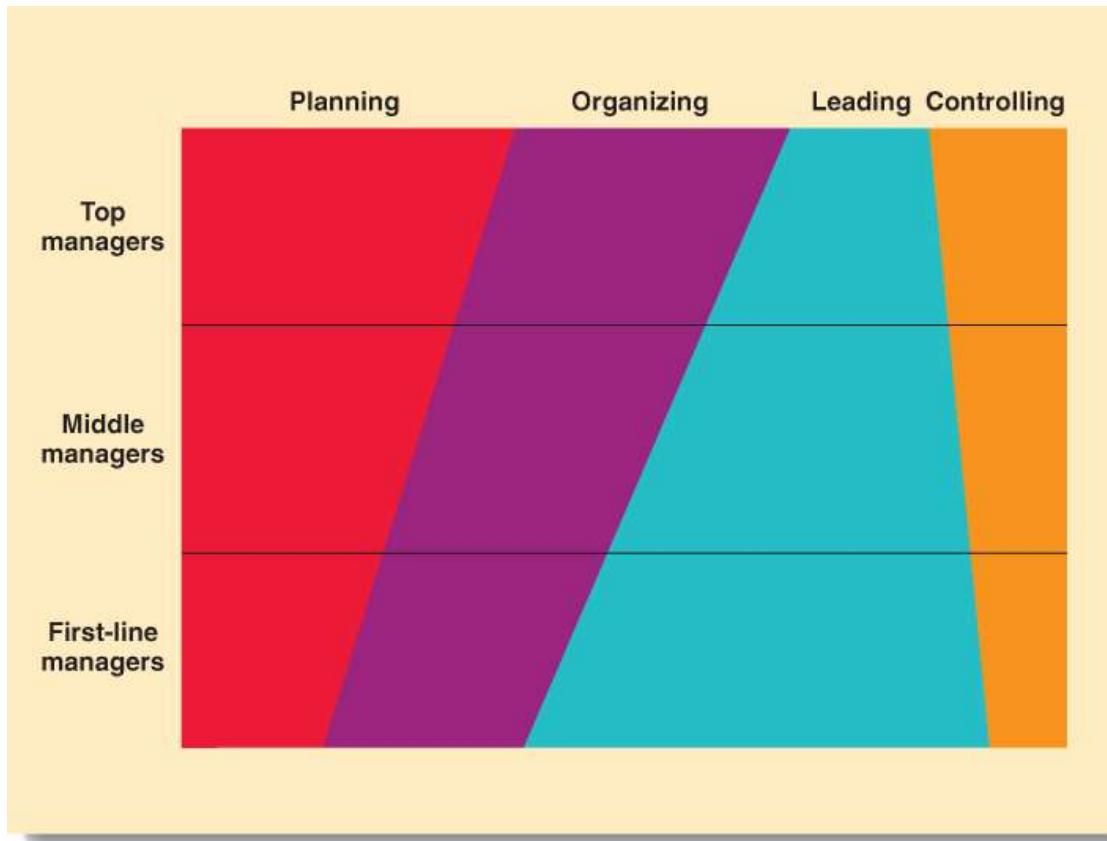
Motivate, coordinate, and energize individuals and groups to work together to achieve organizational goals

Controlling

Establish accurate measuring and monitoring systems to evaluate how well organizations have achieved its goals

Jones and George (2020, p. 10).
Contemporary Management. New York:
McGraw-Hill, 11th edition

Relative amount of time managers spend on



C-level management: CEO,
CFO, COO,

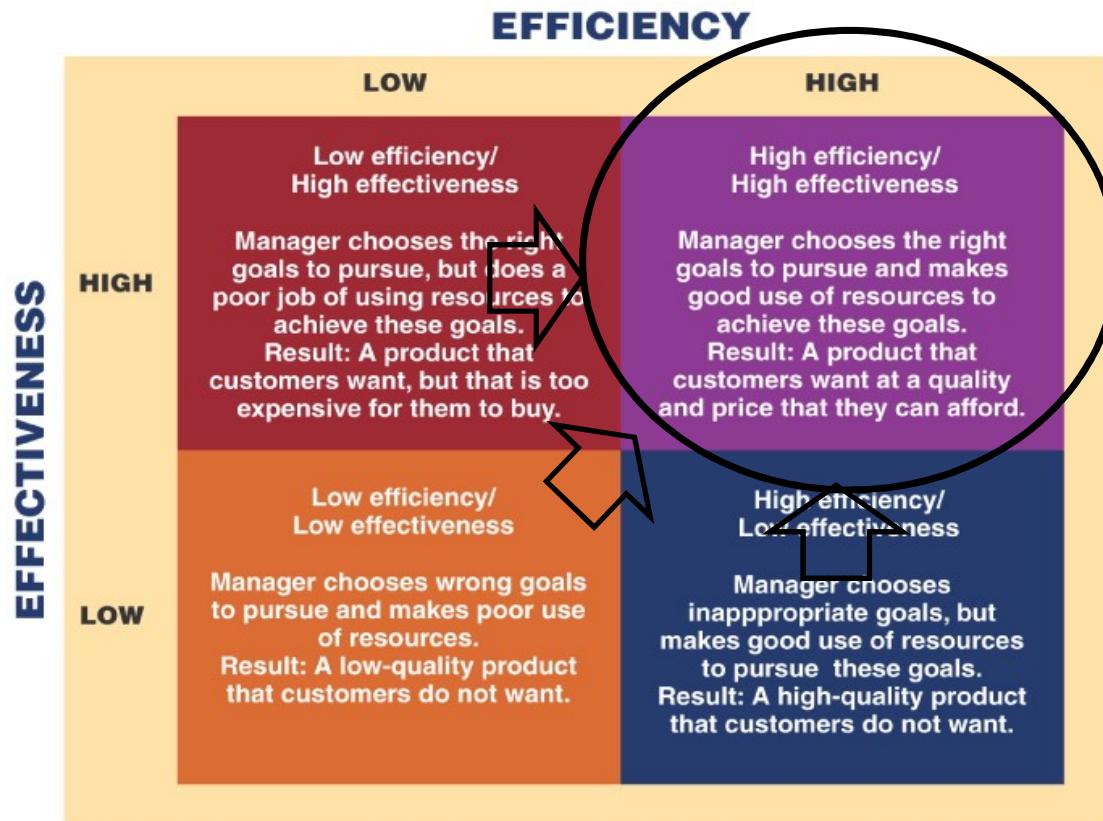
When it comes to
restructuring: often the ones
who are fired first

They control non-managerial
employees

Jones and George (2020, p. 12). Contemporary
Management. New York: McGraw-Hill, 11th edition

Organizational performance

- A measure how efficiently and effectively a manager uses resources to satisfy customers and achieve organizational goals



High-performing organizations are efficient *and* effective.

Jones and George (2020, p. 5). Contemporary Management. New York: McGraw-Hill, 11th edition

Level and skills of managers



Example Tesla

CEO & largest shareholder: Elon Musk

Tesla's major leadership team:

CFO: Zach Kirkhorn; CTO: JB Straubel;
Automotive president: Jerome Guillen.

Additional 24 senior executives

Jones and George (2020, p. 15). Contemporary Management. New York: McGraw-Hill, 11th edition

Organizational performance

Efficiency

- A measure of how productively resources are used to achieve its goals

Effectiveness

- A measure of the appropriateness of the goals on which an organization is pursuing and the degree to which the organization achieves those goals

Exercise #3: Discussion: Describe the difference between efficiency and effectiveness in your own words. Give an example.

Exercise #4: Discussion: In what ways can managers at each of the three levels of management contribute to organizational efficiency and effectiveness?



Suggested
discussion time:
10 minutes

Organizational performance: efficiency and effectiveness

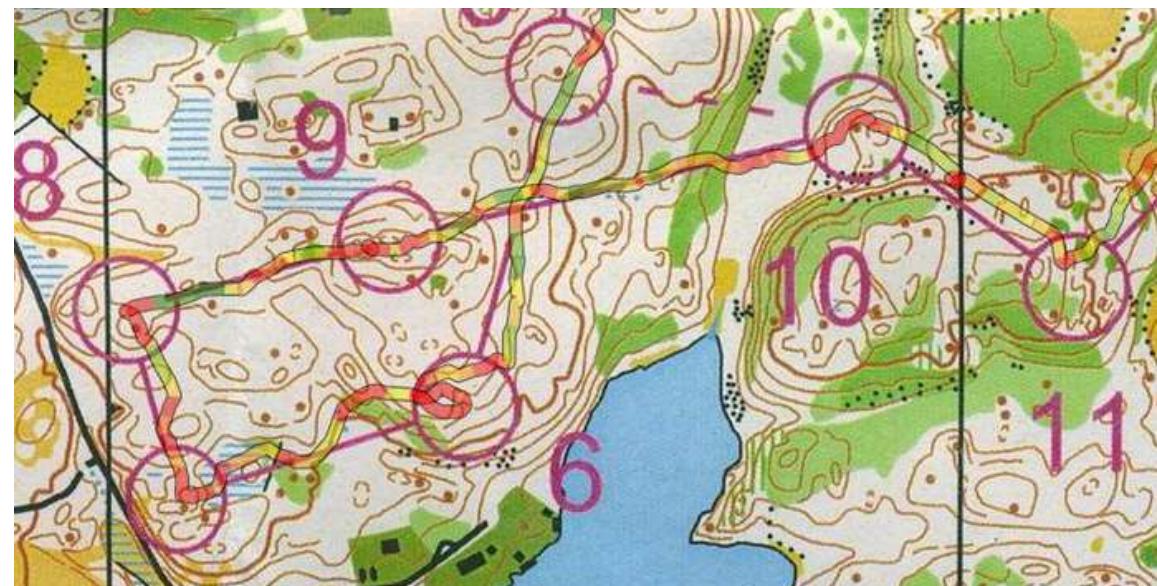
On the example of an orienteering runner:

Effectiveness

- Choose the right post in the right order

Efficiency

- The fastest running way between posts



Organizational performance: efficiency and effectiveness

Exercise #5: Identify an organization that you know or believe is high-performing and one that you know or believe is low-performing. Work in groups of max four students. Give your answer in note form and be prepared to share your findings with the class.



- (1) Explain why you think its performance is at it is
- (2) Give five reasons you think the performance level of the two organizations differ so much

Time available:
15 minutes

Be the Manager: Short case study (1/2)



Exercise #6: Form groups of max. four students. Break out time 15 minutes followed by your presentation of your findings to the class.

RAPID GROWTH CAUSES PROBLEMS

You have just been called in to help managers at Achieva, a fast-growing Internet software company that specializes in business-to-business (B2B) network software. Your job is to help Achieva solve some management problems that have arisen because of its rapid growth.

Customer demand to license Achieva's software has boomed so much in just two years that more than 50 new software programmers have been added to help develop a new range of software products. Achieva's growth has been so fast that the company still operates informally, its organizational structure loose and flexible, and programmers are encouraged to find solutions to problems as they go along. Although this structure worked well in the past, you have been told that problems are arising.

Be the Manager: Short case study (2/2)



There have been increasing complaints from employees that good performance is not being recognized in the organization and that they do not feel equitably treated. Moreover, there have been complaints about getting managers to listen to their ideas and to act on them. A bad atmosphere is developing in the company, and recently several talented employees left.

Your job is to help Achieva's managers solve these problems quickly and keep the company on the fast track.

QUESTIONS

- 1) What kind of organizing and controlling problems is Achieva suffering from?
- 2) What kind of management changes need to be made to solve them?

Suggested time
available:
15 minutes,
followed by group
presentation

Recent changes and challenges for management

Recent changes

- (1) Restructuring and outsourcing
- (2) Empowerment and self-managed teams

Recent challenges

Building a Competitive Advantage

Maintaining Ethical and Socially Responsible Standards

Managing a Diverse Workforce

Utilizing IT and E-Commerce

Practicing Global Crisis Management

Three managerial skills

Conceptual skills

The ability to analyze and diagonalise a situation and to distinguish between cause and effect

Human skills

The ability to understand, alter, lead and control the behavior of other individuals and groups

Technical skills

The job-specific knowledge and techniques required to perform an organizational role

-> Core competency

The specific set of departmental skills, knowledge and experience that allows one organizational to outperform another

Recent changes (1/2)

Restructuring

- Downsizing an organization by eliminating the jobs of large numbers of top, middle, and first-line managers and non-managerial employees

Outsourcing

- Contracting with another company to have it perform an activity the organization previously performed itself

Empowerment

- A management technique that involves giving employees more authority and responsibility over how they perform their activities
- E.g. Valve (a game developer): There is no hierarchy or top-down control, no reporting structure; employees pick their own high profile and complex projects
- For further information: <https://www.valvesoftware.com/de/>



Recent changes (2/2)

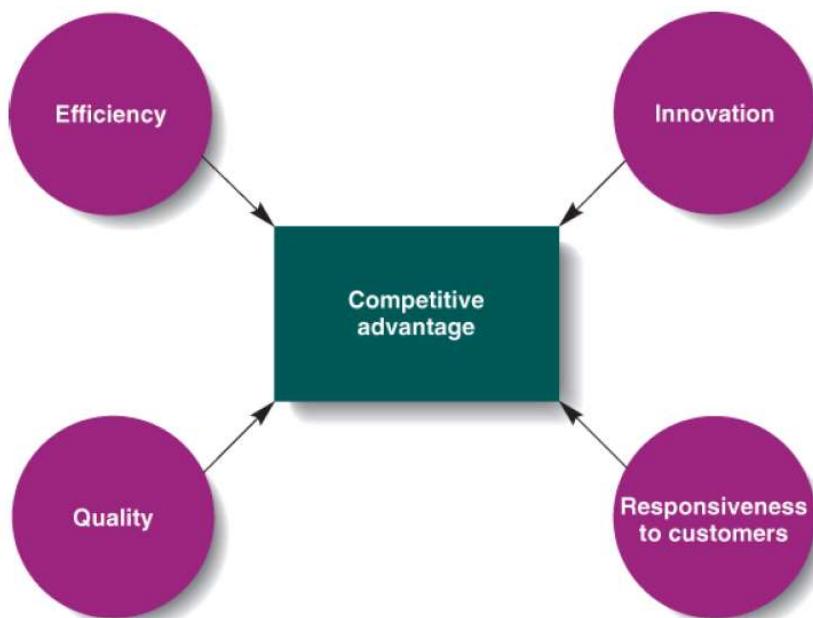
Self-managed teams

- A group of employees who assume responsibility for organizing, controlling, and supervising their own activities and monitoring the quality of goods and services they provide

Jones and George (2020, p. 16 - 18). Contemporary Management. New York: McGraw-Hill, 11th edition

Challenges for management

Building competitive advantages



Jones and George (2020, p. 19). Contemporary Management. New York: McGraw-Hill, 11th edition

Efficiency

An organization increase their efficiency when they reduce the quantity of resources used

Quality

Total quality management (TQM) as a quality improvement instrument

Innovation

The process of creating new or improved goods and services. E.g. electric cars, self driving cars

Flexibility

Ability to react to changes of the market demand

See also **VRIO method** (session 5)

Exercise #7: Bloomberg Case in the News



Jefferson, Georgia, near Atlanta started seeing a warehousing boom in 2015 when 31 eCommerce businesses, including Amazon.com, Williams-Sonoma, FedEx and others began locating there. Local employment has grown to match this boom, including an increase of at least \$2 per hour in most labor rates. Forklift drivers are particularly difficult to find and are earning pay rates of \$15 to \$17.50 per hour as a result.

The warehouse boom nationally is reshaping economies that once relied on farms or factories. With the plentiful jobs and higher wages, the area's unemployment dipped to a full percentage point lower than the national average in December 2017. Along with plentiful jobs are challenges of a growing economy, such as traffic gridlock, and housing shortages.

The full article is available on moodle. Form groups of max. four students to answer the questions on the next slide. Break out time 30 minutes followed by your presentation to the class.

Exercise #7: Bloomberg Case in the News (continued)

1. What challenges do managers of these warehouses face when the unemployment rate is low? When the rate is high?
2. What strategies can managers employ to retain talented workers?
3. How does planning figure in to a manager's day-to-day responsibilities as competition for workers and real estate heats up in this area of the country?



Suggested time
available:
30 minutes,
followed by group
presentation

Questions?



References

- Capaul, R., Steingruber, D. (2014): Business Studies – An introduction to the St. Gallen Model, 1st edition, Cornelsen Schulverlage: Wien.
- Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill.

Principles of Management (PoM)

02 – The Evolution of Management Thought

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4. September 2023



Learning objectives (LO)

LO2-1: Describe how the need to increase organizational efficiency and effectiveness has guided the evolution of management theory

LO2-2: Explain the principle of job specialization and division of labor, and explain why the study of person-task relationships is central to the pursuit of increased efficiency

LO2-3: Identify the principles of administration and organization that underlie effective organizations

LO2-4: Trace the changes in theories about how managers should behave to motivate and control employees

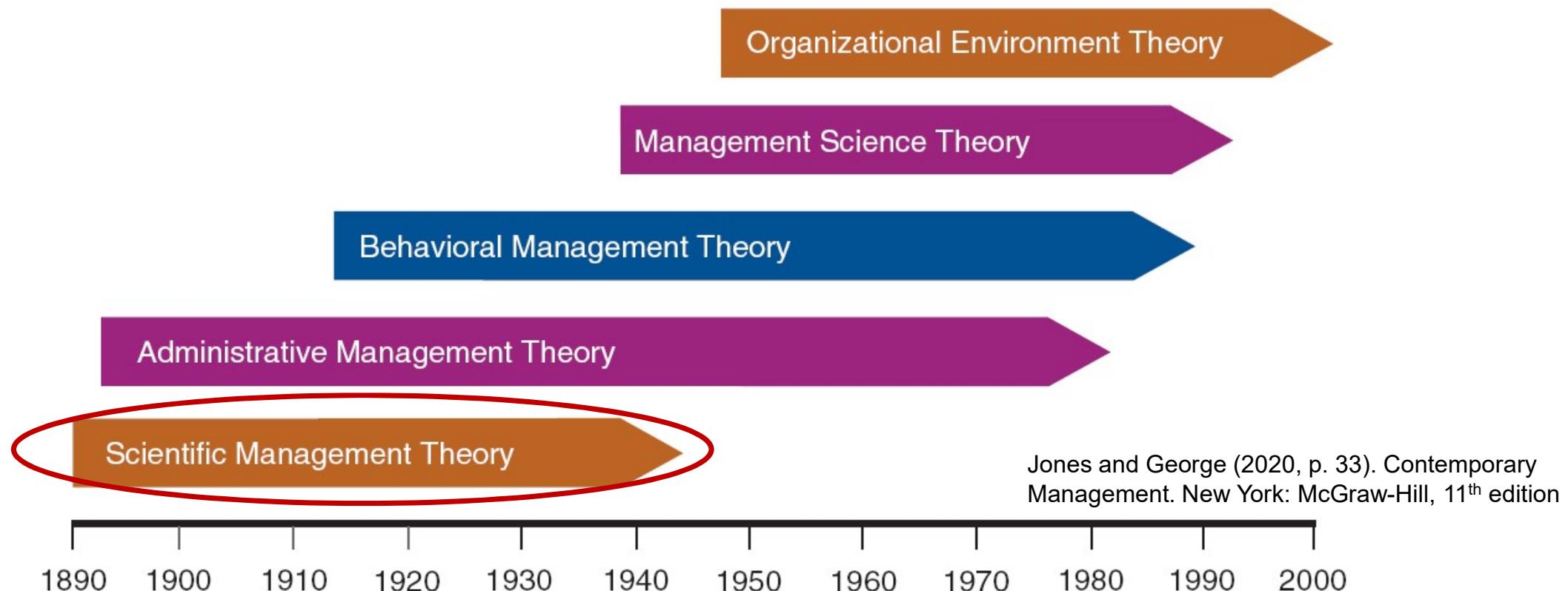
LO2-5: Explain the contribution of management science to the efficient use of organizational resources

LO2-6: Explain why the study of the external environment and its impact on an organization has become a central issue in management thought

Content

- Scientific management theory (Adam Smith; Frederick W. Taylor; Gilbreths)
- Administrative management theory (Max Weber; Henri Fayol)
- Behavioral management theory (Mary Parker Follett; Douglas McGregor)
- Management science theory
- Organizational environment theory

Scientific management theory



Job specialization and the division of labor

Adam Smith (1700s)

- In a study of factories that produced pins, he identified two different manufacturing methods:
 - (1) Craft style: each worker did all 18 tasks involved in producing a pin
 - (2) Specialization: workers are specialized in only one / few tasks
- Smith found that the performance of the factories in which workers specialized in only one or a few tasks was much greater than the performance of the factory in which each worker performed all pin-making task

Job specialization

- The process by which a division of labor occurs as different workers specialize in different tasks over time

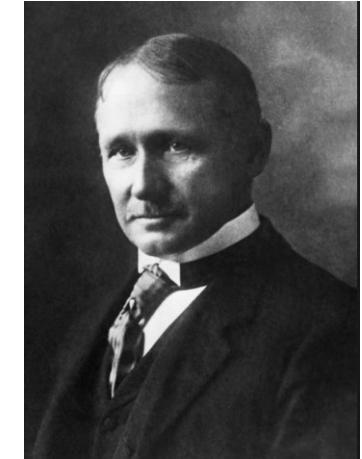


Job specialization and the division of labor

Frederick W. Taylor (1856 – 1915)

Scientific management

The systematic study of relationships between people and tasks
for the purpose of redesigning the work progress to increase efficiency



Taylor's four principles

- 1) Study the way workers perform their tasks, gather all the informal job knowledge that workers posses, and experiment with ways of improving how tasks are performed
- 2) Codify the new methods of performing tasks into written rules and standard operating procedures
- 3) Carefully select workers who posses skills and abilities that match the needs of the task, and train them to perform the task according to the established rules and procedures
- 4) Establish a fair or acceptable level of performance for a task, and then develop a pay system that rewards performance above the acceptable level

Problems

- Managers frequently implemented only the increased output side of Taylor's plan
 - Workers did not participate in the increased output
 - Managers increased the amount of work that each worker has to do
- Simplified jobs were often monotonous and repetitive, and many workers became dissatisfied with their jobs
- Workers learned that performance increases often resulted in fewer jobs and layoffs
- Workers slowed their pace of work, therefore moving conveyor belts to control the pace of work are introduced

Example

- Franklin Motor Company: By using scientific management principles the output of cars increased from 100 cars a month to 45 cars a day or approx. 900%
- But worker's salaries increased only by 90%

Modern times (1936)

https://www.youtube.com/watch?v=DfGs2Y5WJ14&start_radio=1&list=RDDfGs2Y5WJ14#t=13



Exercise#1 Choose a fitness center, a department store, fast-food-restaurant, a bank, or some other organization with which you are familiar.

- A) Describe the division of labor and job specialization it uses to produce goods and services. How might this division of labor be improved?
- B) Apply Taylor's principles of scientific management to improve the performance of the organization you choose in question A)

Work in groups of three students. You have total 15 minutes available. Be prepared to explain your findings to the class.

Lillian and Frank Gilbreth (1868 – 1924)

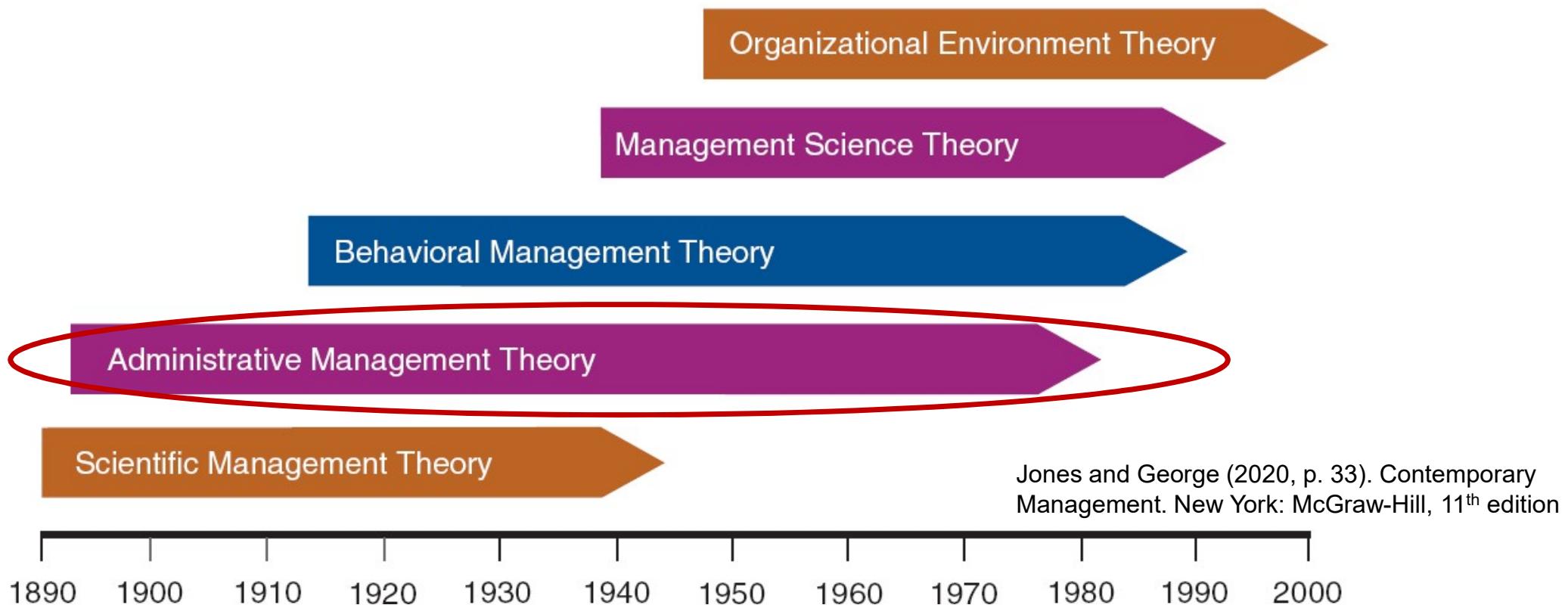


Their aims were to

- (1) analyze every individual action necessary to perform a particular task and break it into each of its component actions
- (2) find better ways to perform each component action
- (3) reorganize each of the component actions so that the action as a whole could be performed more efficiently

Finding: Often the management of work setting became a game between workers and managers: managers tried to increase performance and workers tried to hide the true potential efficiency

Scientific management theory



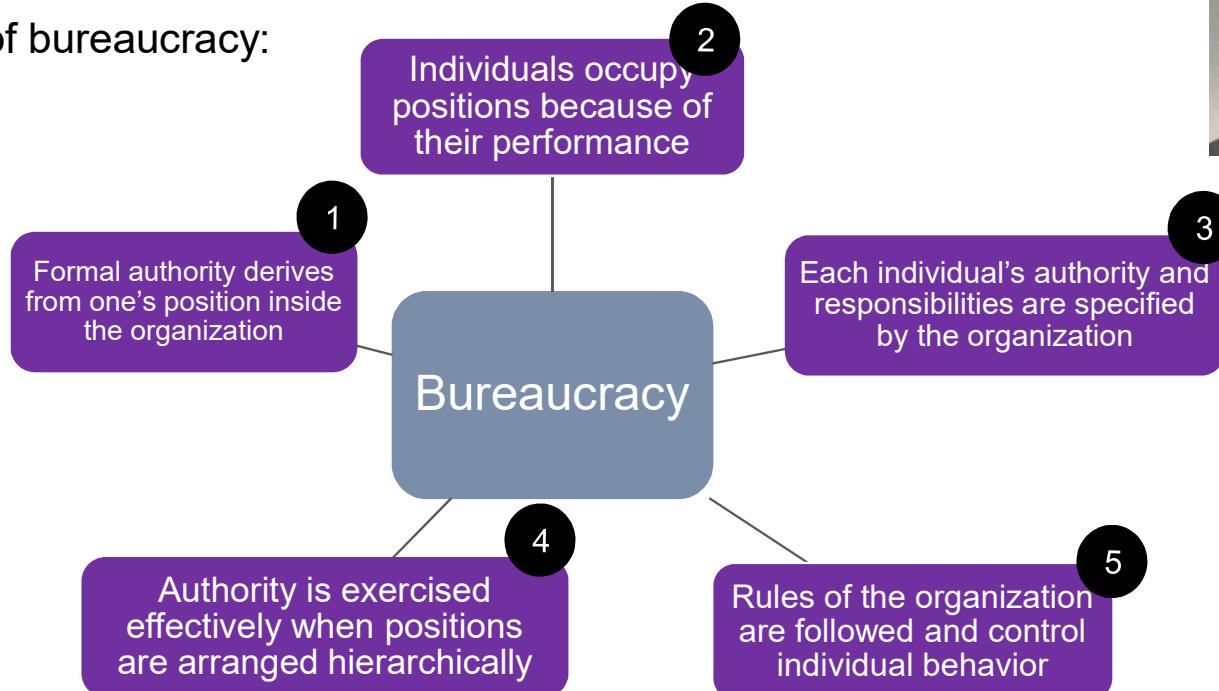
Administrative management theory

- The study of how to create an organizational structure and control system that leads to high efficiency and effectiveness
- Whereas the organizational structure is the system of task and authority relationships that controls how employees use resources to achieve the organization's goal
- **Remember:** The focus of scientific management was the relationship between worker and tasks to increase efficiency.



Max Weber (1864 – 1920)

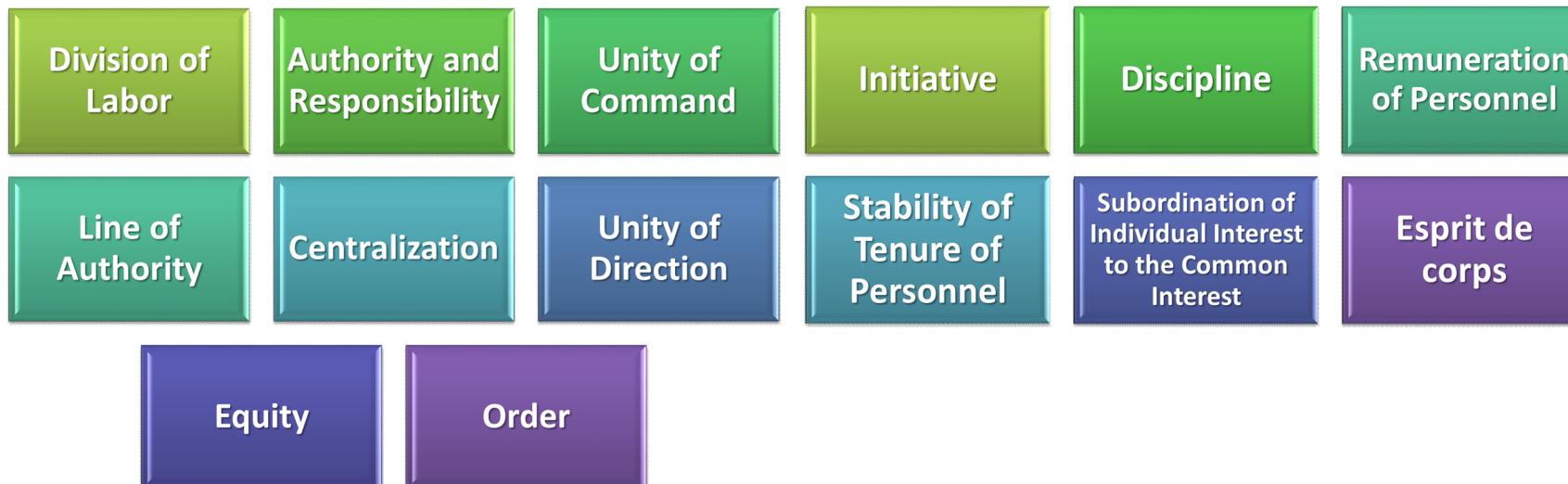
- Developed the **principles of bureaucracy**, which is a system of organization and administration designed to ensure efficiency and effectiveness
- Weber's principles of bureaucracy:



Weber's principles of bureaucracy

- 1 In a bureaucracy, a manager's formal authority derives from the position he or she holds in the organization
- 2 In a bureaucracy, people should occupy positions because of their performance, not because of their social standing or personal contacts
- 3 The extent of each position's formal authority and task responsibilities, and its relationship to other positions in an organization, should be clearly specified
- 4 Authority can be exercised effectively in an organization when positions are arranged hierarchically, so employees know whom to report to and who reports to them
- 5 Managers must create a well-defined system **of rules, standard operating procedures (SOP), and norms** so they can effectively control behavior within an organization

Fayol's (1841 – 1925) principles of management



Jones and George (2020), p. 39 – 42,
Contemporary Management. New York:
McGraw-Hill, 11th edition

Weber's and Fayol's ideas



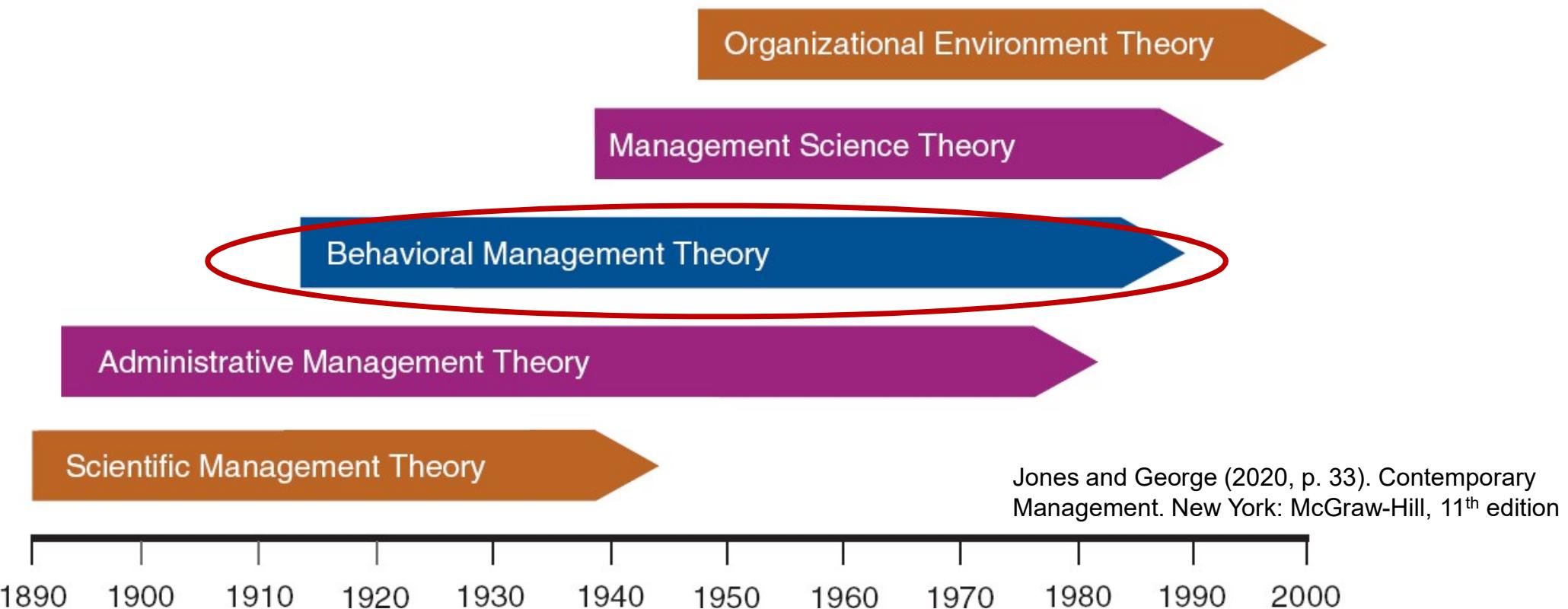
#2 Read Fayol's principles of management and Weber's theory of bureaucracy and answer the following questions:

Which principles can still be found in our days, based on your experience? Briefly explain, where you see which principles in todays organisation.

Time available: 30 minutes.

Note: The text is available on moodle: 02_Webers Fayols Principles.pdf

Scientific management theory



Behavioral management theory

- The study of how managers should behave to motivate employees and encourage them to perform at high levels and be committed to the achievement of organizational goals.

Jones and George (2020, p. 42). Contemporary Management. New York: McGraw-Hill, 11th edition

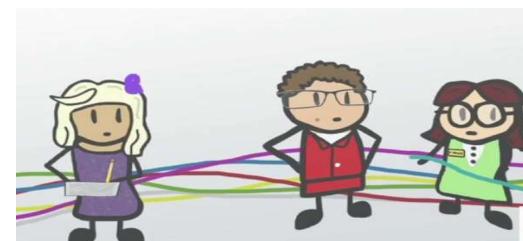
Remember



The focus of scientific management is the relationship between worker and task to increase efficiency



The focus of administrative management is to create an organizational structure and control system that leads to high efficiency and effectiveness



The focus of behavioral management is how managers should behave to motivate employees and encourage them to perform at high levels and be committed to the achievement of organizational goals

Mary Parker Follett (1868 – 1933)



- She was concerned that Taylor ignored the human side of the organization
- Taylor never proposed that managers should involve workers in analyzing their jobs to identify better ways to perform

Follett **very radical** propositions

- Authority should go with knowledge. If workers have the relevant knowledge of a task, then they should control the task
- Managers in different departments communicate directly with each other (cross-functioning)
- The power is fluid and should flow to the person who can best help the organization achieve its goals (horizontal view of authority)

The Hawthorne studies and human relations

#3 Watch an explanation video on Elton Mayo's 'The Hawthorne Studies' that you find on the net



Come up with a summary on your major findings. Work in groups of maximal three students.
Time available 15 minutes. Be prepared to present your summary to the class

Recommended videos:

Hawthorne studies:

<https://www.youtube.com/watch?v=UUMYVN-4wFw>

<https://www.youtube.com/watch?v=rLVp-CrBnPo>

Human relations movement

- A management approach that advocates the idea that supervisors should receive behavioral training to manage subordinates in ways that elicit their cooperation and increase their productivity

Implication of the studies

- The studies demonstrated the importance of understanding how the feelings, thoughts and behavior of work-group members and managers affect performance
- Behavior of managers and workers in the work setting is as important in explaining the level of performance as the technical aspects of the tasks

Theory X and theory Y – Douglas McGregor (1906 – 1965)

- Proposed two different sets of assumptions of workers

THEORY X	THEORY Y
The average employee is lazy, dislikes work, and will try to do as little as possible.	Employees are not inherently lazy. Given the chance, employees will do what is good for the organization.
To ensure that employees work hard, managers should closely supervise employees.	To allow employees to work in the organization's interest, managers must create a work setting that provides opportunities for workers to exercise initiative and self-direction.
Managers should create strict work rules and implement a well-defined system of rewards and punishments to control employees.	Managers should decentralize authority to employees and make sure employees have the resources necessary to achieve organizational goals.



Jones and George (2020, p. 45). Contemporary Management. New York: McGraw-Hill, 11th edition

Management theories

#4 How to manage a Luxury Hotel

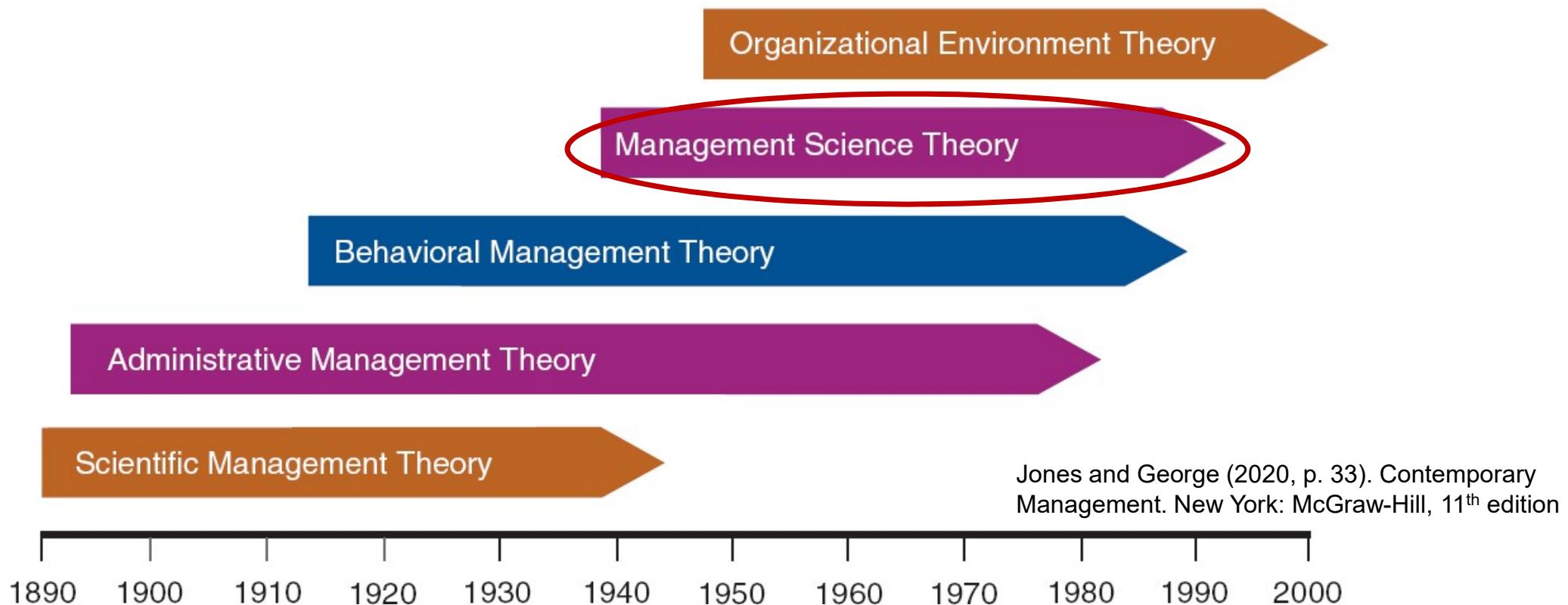


You have been called in to advise the owners of an exclusive new luxury hotel. For the venture to succeed, hotel employees must focus on providing customers with the highest-quality service possible. The challenge is to devise a way of organizing and controlling employees that will promote high-quality service, that will encourage employees to be committed to the hotel, and that will reduce the level of employee turnover and absenteeism – which are typically high in the hotel business.

- a) How do the various management theories discussed in this chapter offer clues for organizing and controlling hotel employees?
- b) Which parts would be the most important for an effective system to organize and control employees?

Work in groups of three to five students. You have 20 minutes available. Be prepared to explain your answer to the class.

Scientific management theory



Management science theory

An approach to management that uses rigorous quantitative techniques to help managers make maximum use of organizational resources. Each branch deals with a specific set of concerns:

Quantitative management

- Uses mathematical techniques, like linear and non-linear programming, modeling, simulation and chaos theory

Operations management

- Provides managers a set of techniques they can use to analyze any aspect of an organization's production system to increase efficiency

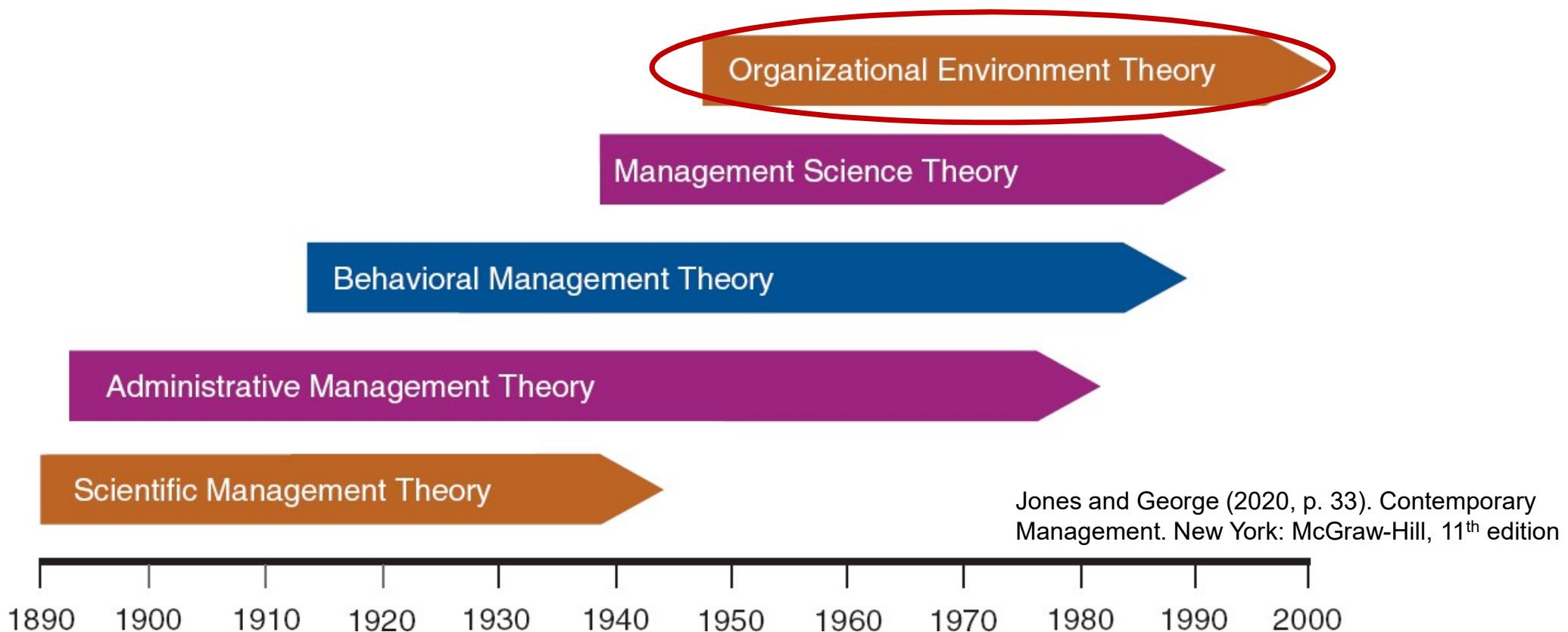
Total quality management (TQM)

- Focuses on analyzing an organization's input, conversion, and output activities to increase product quality

Management information systems (MIS)

- Help managers design systems that provide information that is vital for effective decision making

Scientific management theory

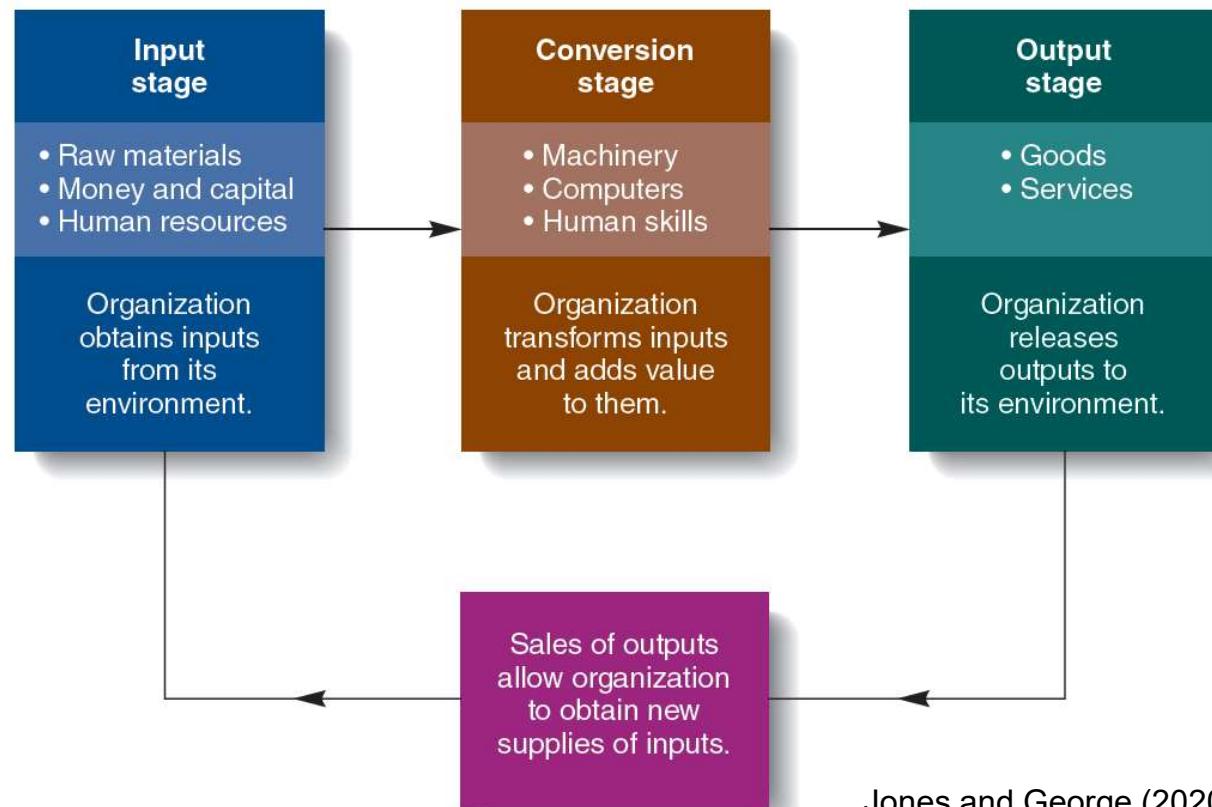


Organizational environment theory

- The set of forces and conditions that operate beyond an organization's boundaries but affect a manager's ability to acquire and utilize resources
- Resources in the organizational environment include raw material and skilled people that an organization requires to produce goods and services, customers
- The importance of studying the environment became clear after the development of open-system theory and contingency theory during the 1960s

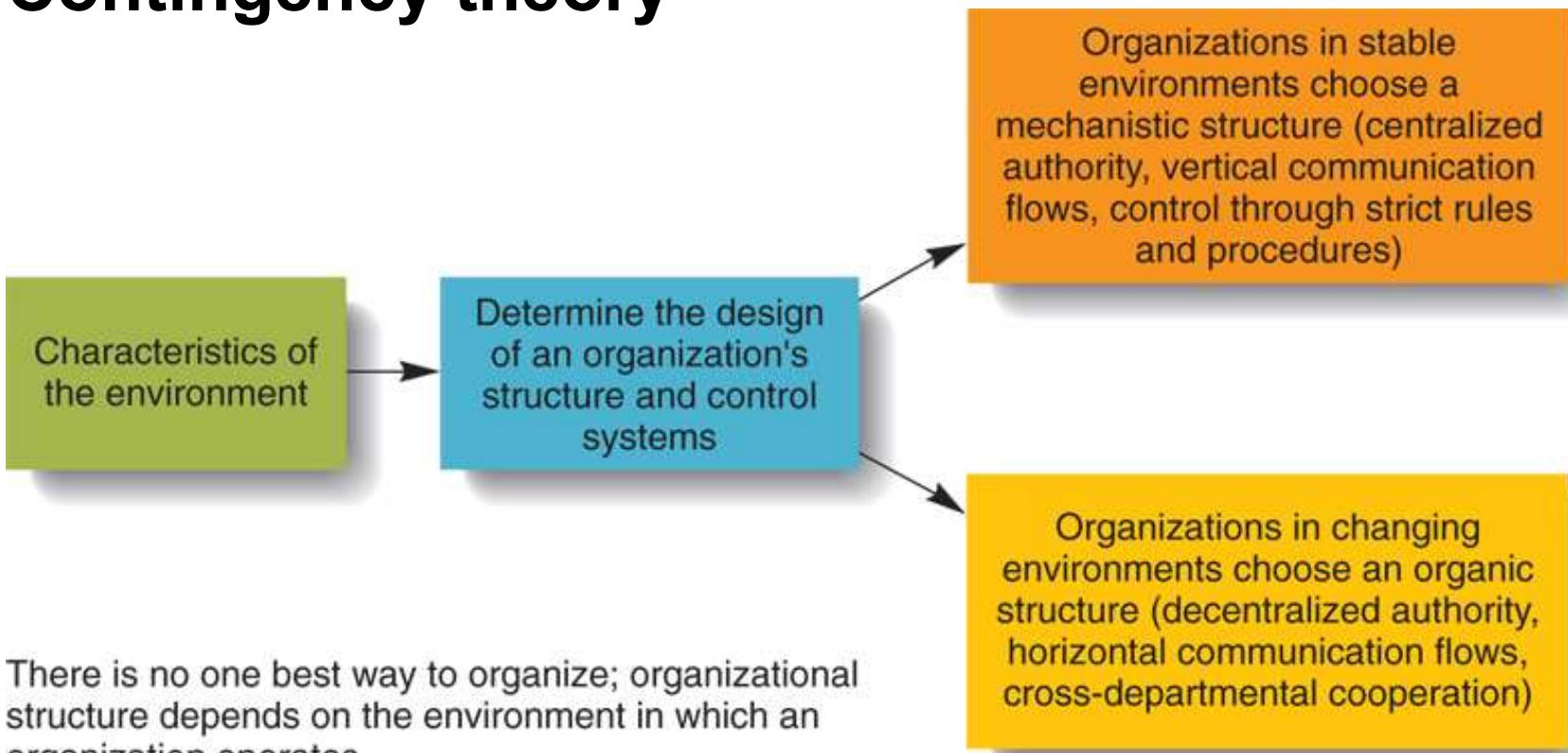
Jones and George (2020, p. 47). Contemporary Management.
New York: McGraw-Hill, 11th edition

The open system view



Jones and George (2020, p. 48). Contemporary Management. New York: McGraw-Hill, 11th edition

Contingency theory



There is no one best way to organize; organizational structure depends on the environment in which an organization operates.

Jones and George (2020, p. 49). Contemporary Management. New York: McGraw-Hill, 11th edition

Type of structure

Mechanistic Structure

- An organizational structure in which authority is centralized, tasks and rules are clearly specified, and employees are closely supervised

Organic Structure

- An organizational structure in which authority is decentralized to middle and first-line managers and tasks and roles are left ambiguous to encourage employees to cooperate and respond quickly to the unexpected

Dynamic capabilities

- Theory that organizations have the ability to build, integrate, and reconfigure processes to address rapidly changing internal and external environments

Jones and George (2020, p. 49). Contemporary Management. New York: McGraw-Hill, 11th edition

Managing your own business



#5 Imaging you are the founder of a software company that specializes in developing games for mobile devices. Customer demand for your games has increased so much that over the last year your company has grown from a busy one-person operation to one with 16 employees. In addition to yourself, you employ six software developers to produce the software, three graphic artists, two computer technicians, two marketing and sales personnel, and two assistants. In the next year you expect to hire 30 new employees, and you are wondering how best to manage your growing company.

- 1) Use the principles of Weber and Fayol to decide on the system of organization and management that you think will be most effective for your growing organization. How many levels will the managerial hierarchy of your organization have? How much authority will you decentralize to your subordinates? How will you establish the division of labor between subordinates? Will your subordinates work alone and report to you or work in teams?
- 2) Which management approach (for example, Theory X or Y) do you propose to use to run your organization? In 50 or fewer words, write a statement describing the management approach you believe will motivate and coordinate your subordinates, and tell why you think this style will be best.

Form group of maximal four students and appoint one group member as the spokesperson who will communicate your findings to the class. You have 20 minutes available.

Video summaries

Overall summaries:

<https://www.youtube.com/watch?v=d1jOwD-CTLI>

<https://www.youtube.com/watch?v=EobeHwOw3S4>

Theory X and theory Y

<https://www.youtube.com/watch?v=CXAzZRnJo2o>

Questions?



References

Capaul, R., Steingruber, D. (2014): Business Studies – An introduction to the St. Gallen Management Model, 1st edition, Cornelsen Schulverlage: Wien.

Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill.

Principles of Management (PoM)

03 – Management Models

Brido Schuler

4. September 2023



Learning objectives (LO)

LO3-1: Explain what a model is and why it is useful

LO3-2: Explain the business model CANVAS and adapt it to cases

LO3-3: Explain the St. Gallen Management Model and its elements and the interdependency of the elements

LO3-4: Use the St. Gallen Management Model to solve case studies

Content

- What is a model?
- Business Model CANVAS
- St. Gallen Management Model
 - Environmental spheres
 - Stakeholder
 - Structuring forces
 - Processes
 - Mode of development

What is a model?	What is the use of a model?	Example
Simplified picture of the reality	This simplification helps to make complex ideas easier to understand. Not all aspects are included, only those that are important	For Ahmed (who goes to a hiking trip to Toggenburg) getting from Bern to the Toggenburg by car, the Swiss roadmap, which shows only the main roads, is sufficient
Overview of a particular topic	An overview helps to provide a holistic view and thus to prevent blind spots. In addition, the model serves as an orientation (navigation) in a foreign environment	A. does not know the way from Bern to the Toggenburg. The map helps him to find the way to his destination in an unknown environment
Particular perspective on a topic	Having the same perspective on a topic and using the same terms facilitates everyone's communication within an enterprise	A. loses sight of his girlfriend on the hike. Fortunately, both have the same map and cell phones, so they can determine their locations on the maps in order to meet up at a defined place
Structuring a topic area	A problem or issue can be addressed in a structured way with the help of a model	A. knows the destination of his hike. The map gives him a structured image of the area. The next path is not always the fastest. By taking a detour, can avoid a gorge with no bridge over its river

Capaul, Steingruber (2014), p. 41

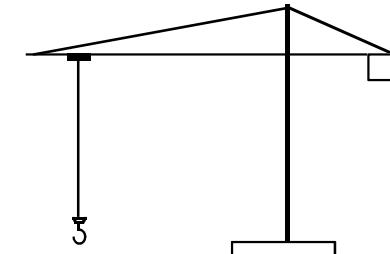
Model - Examples

Construction

Original



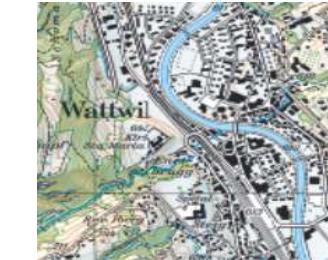
Model



Architect



Geography

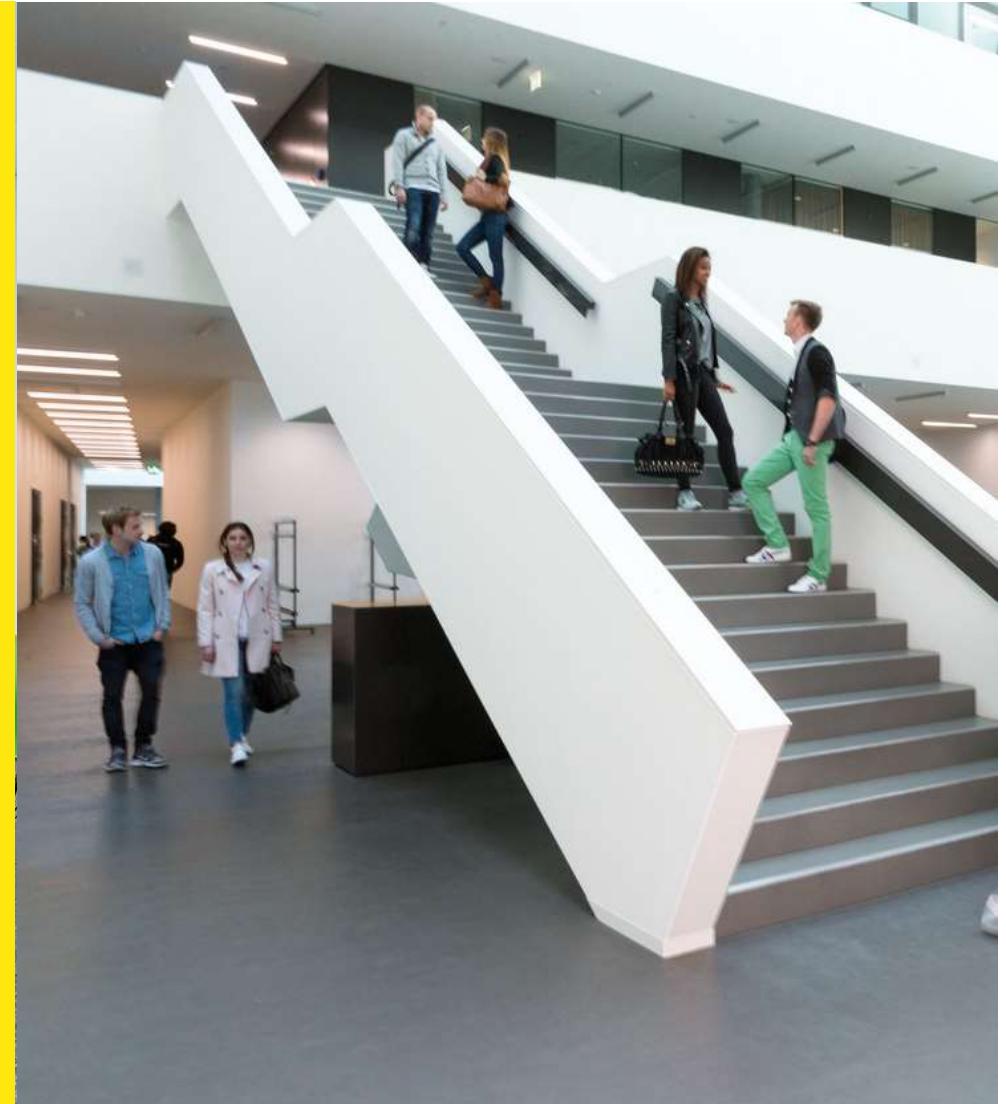




University of Applied Sciences and Arts Northwestern Switzerland
School of Business

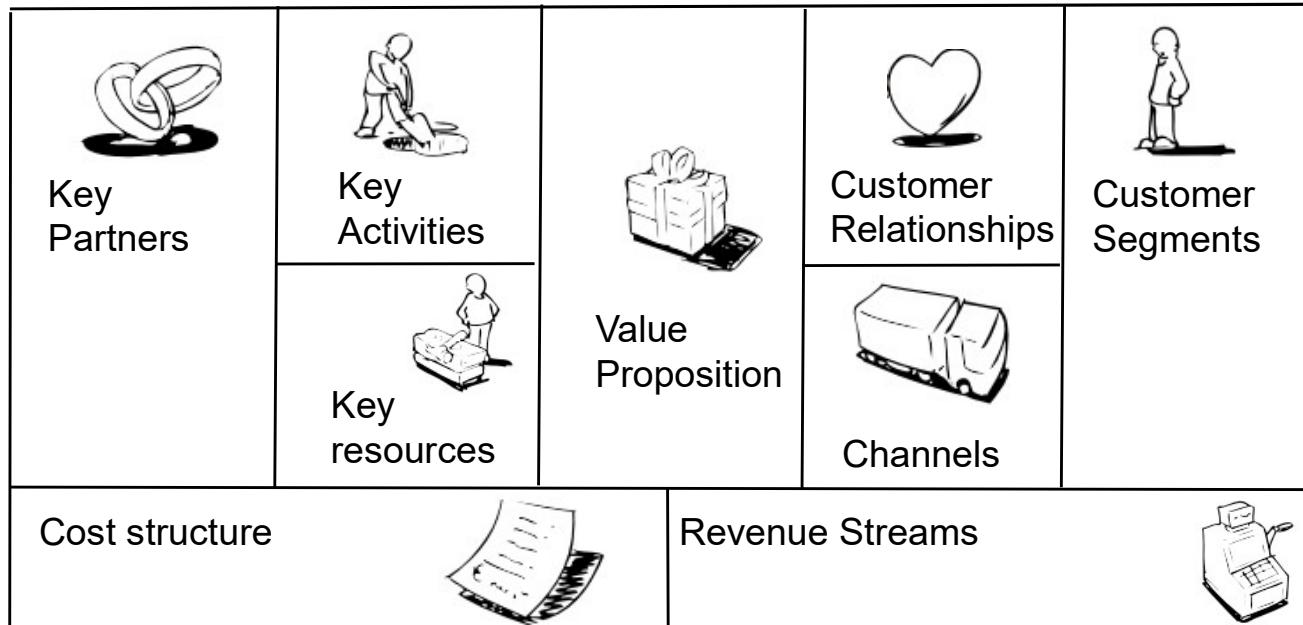


Business Model CANVAS (BMC)



BMC

- For a brief introduction: <https://youtu.be/QoAOzMTLP5s>



Source: <https://www.startplatz.de/startup-wiki/business-model-canvas/>, accessed on August, 30th 2023

BMC

- Questions to be asked for the nine building blocks:



Who are our key partners?
Who are our key supplier?
Which key resources are we acquiring from partners?
Which key activities do partners perform?



What key activities do our value proposition require?
Our distribution channels?
Customer relationships?
Revenue streams?



What are the most important costs inherent in our business model?
Which key resources are most expensive?
Which key activities are most expensive?



What value do we deliver to the customer?
Which one our customer's problem are we helping to solve?
What bundles of products and services are we offering to each customer segment?
Which customer needs are we satisfying?



What type of relationship does each of our customer segments expect us to establish and maintain to them?



For whom are we creating value?
Who are our most important customers?



Through which channels do our customer segments want to be reached?
How are we reaching them now?
How are our channels integrated?
Which ones work best?
Which ones are most cost-efficient?



For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying
How would they prefer to pay?
How much does each revenue stream contribute to overall revenue?

BMC



Exercise#1: Select a company you are familiar with and perform an analysis based on BMC.

Form groups of maximal four students, use the structure as shown on the previous two slides. Write your findings down and be prepared to present your findings to the class. You have 20 minutes available to perform your analysis and get ready for the presentation.



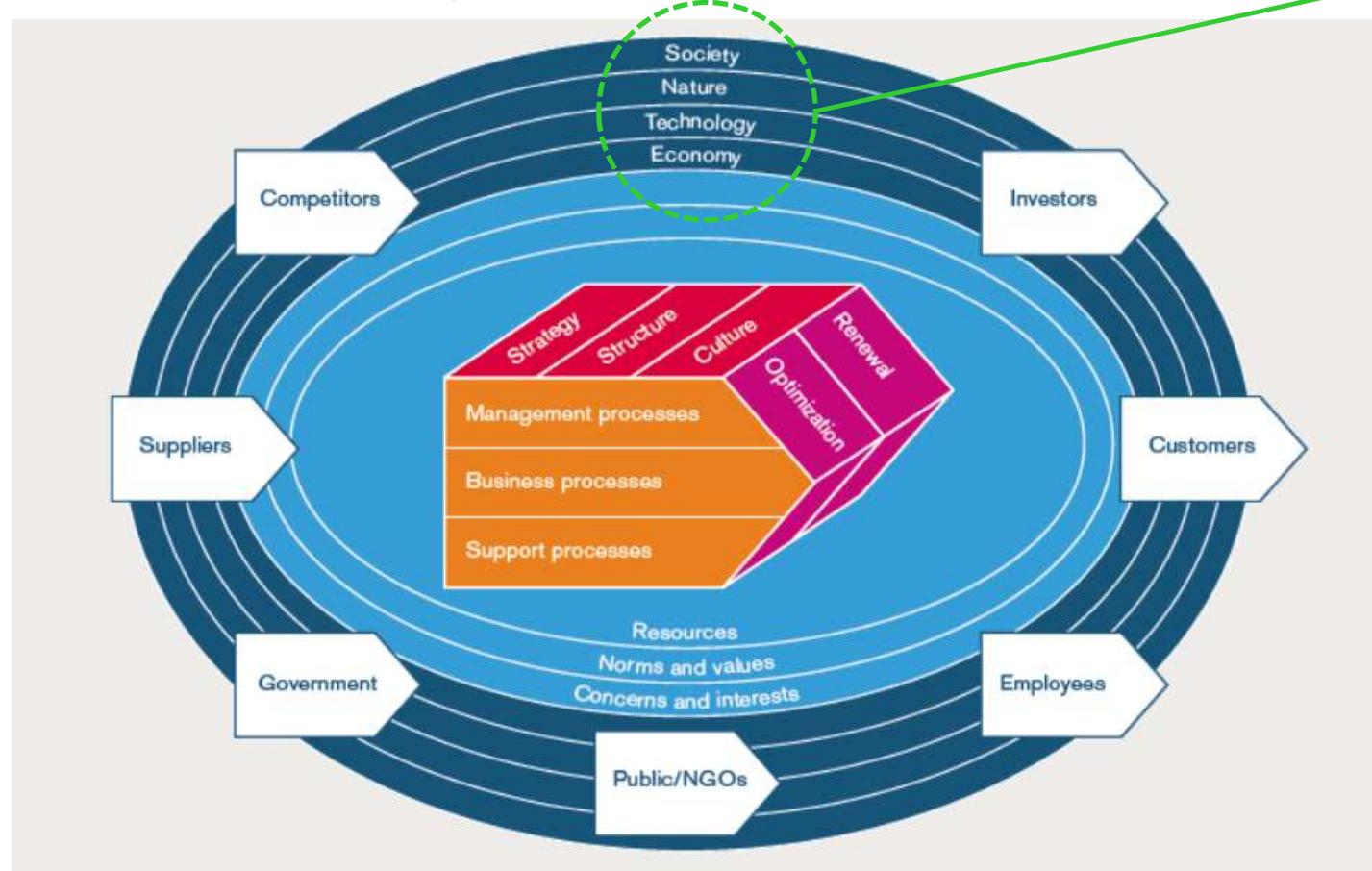
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School of Business



St. Gallen Management Modell



The St. Gallen Management Model



Environmental
spheres

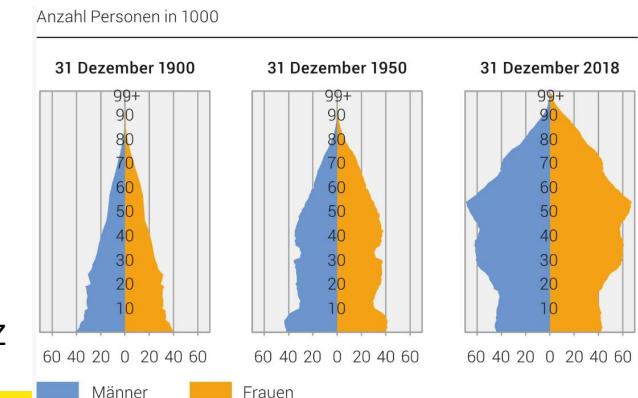
Capaul, Steingruber
(2014), p. 578

Environmental spheres

- The overall environment in which an enterprise operates can be divided into four so-called environmental spheres:
 - Society
 - Nature
 - Technology
 - Economy
- Environmental spheres are the context in which an enterprise operates. Each environmental sphere influences the enterprise in number of ways
- The enterprise, on the other hand, has no or very limited influence on the environmental spheres

Environmental sphere: Society

- The most comprehensive environmental sphere is society
- Persons, as part of society, stand in the middle of the social environmental sphere
- All values and norms prevailing in a society are subject to constant change, which every enterprise must take into consideration
- This sphere also involves political and legal issues
- Trends and change in values
- For example: Changing age structure (demographics) in Switzerland and other western countries



Source: BFS – STATPO, VZ

Environmental sphere: Nature

Massive and rapid economic growth in recent decades has caused mainly three problems:

- Increasing industrial production leads to over-increasing consumption of raw materials. It is expected that the global raw material consumption will increase from actual 90 giga-ton to 167 giga-ton in 2020 (Source: <https://www.solarify.eu/2019/02/12/283-bis-2060-doppelter-rohstoffverbrauch/>, visited at August 30th, 2023)
- Urbanization and industrialization, as consequences of a growing population, have led to the overexploitation of nature
- Increasing prosperity results to accumulation of waste, pollution, and wastewater



Environmental sphere: Technology

Technologies offer the potential to shape the characteristics of goods and services. This has an impact on production, as well as on the products

- Production process: Automatization and rationalization
- Products: E.g. CSS insurance company: discounts based on step counted; robot works at the reception at a hospital
- See also session “industry 4.0”

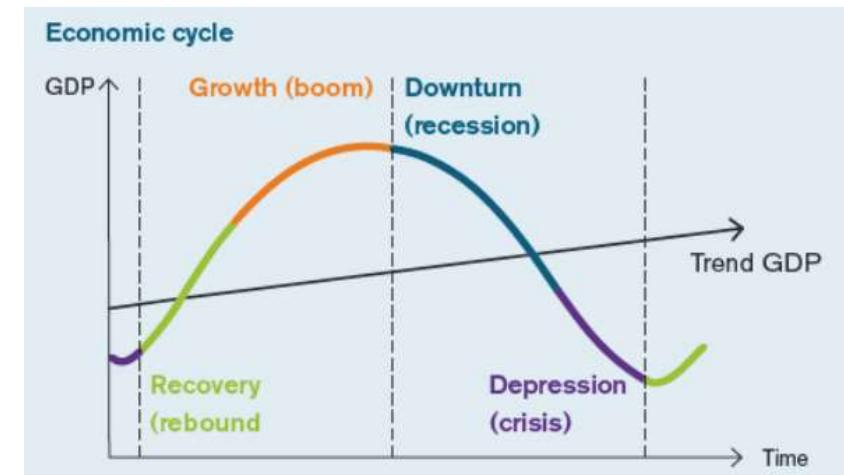


Environmental sphere: Economy

The economy is made up of all parties (enterprises, households and public authorities) that are involved with the production and distribution of goods and services and thus try to meet the needs of humanity.

Some areas that strongly affect the activities of an enterprise are the following:

- Monopoly or competition: Competition: many suppliers and many customers; supplier's monopoly: one supplier and many customers
- Economic cycle: Is the wavering, undulating course (economic cycle) of economic development, a rise and fall of the important economic factors, such as, production, employment, interest rates, and price



Source: Capaul, Steingruber, 2014, p. 65

Environmental sphere: Economy

- **Gross domestic product (GDP):** Is the total of all value of the products and services created by an economy valued at market price for a year
- **The exchange rate** specifies the amount of domestic currency to be paid for a certain amount of a foreign currency

Important notes:

- An enterprise is influenced by developments in the environmental spheres. However, the enterprise itself has no or very little impact on the environmental spheres
- An enterprise must therefore constantly observe developments in the environmental spheres and, from these observations, draw the right conclusions for itself
- An example: Blackberry Co-chief Balsillie as Apple presented the new iPhone at the beginning of 2007: Professionals want a real keypad and not touch screen



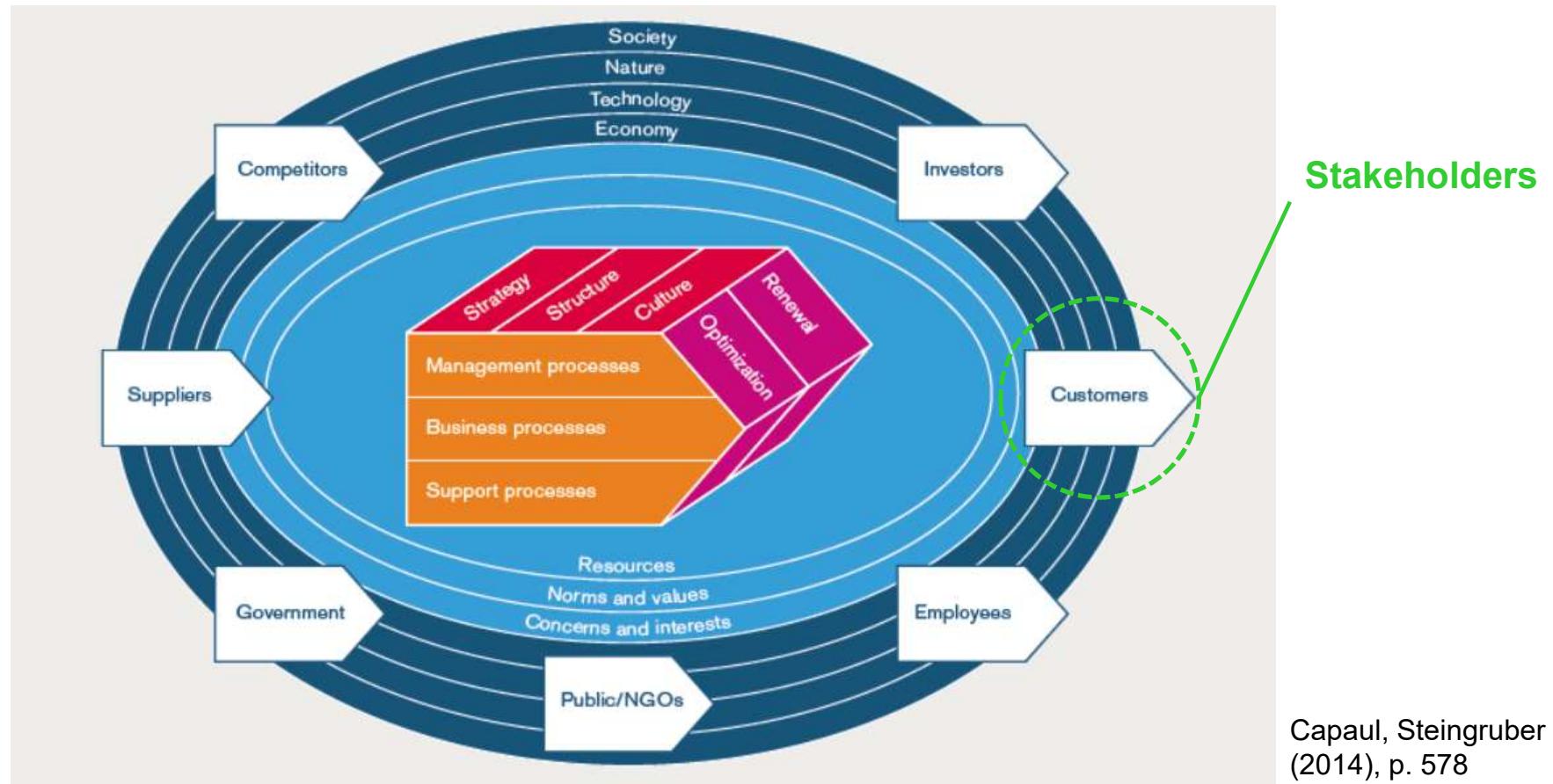
St. Gallen Management Model: Environmental spheres

Exercise #2: Examine the environmental spheres of Tesla. What questions are relevant for the enterprise? What might emerging trends look like? What could be the consequences for Tesla?

Form groups of maximal four students. Write your findings down and be prepared to present your findings to the class. You have 20 minutes available to perform your analysis and get ready for the presentation



The St. Gallen Management Model



Stakeholders and their expectations

- Stakeholders influence the activities of an enterprise through their interests and are, in turn influenced by the actions of an enterprise
- Stakeholders are individuals, groups or organizations that have different expectations of and demands on an enterprise. The enterprise, in turn, also has expectations of its stakeholders
- That is the reason why an enterprise should not put the stakeholders on the grill



Stakeholders and their expectations

Investors

- Investors provide capital to the enterprise, so that the enterprise can make necessary investments
- If an investor provides the enterprise with a loan, it is known as a lender, or creditor
- An equity investor or shareholder purchases shares of the company and therefore owns part of the company
- The equity investor is mainly interested in high profits, high dividends and comprehensive information about the enterprise's business
- The lender is interest in high interest, down- and interest-payments on time

Stakeholders and their expectations

Customers

- Customers refers to any group of individuals who buy the products or services of the enterprise
- They expect excellent value for money, good advice, and an adequate selection as well as a good after-sale-service

Stakeholders and their expectations

Employees

- The employees offer, with their labor, a vital contribution to the creation of products and services
- Specific interests and claims from the employee are submitted to the enterprise
- Central expectations include fair wages, safe workplaces and work schedules
- Employees are also interested in opportunities to participate in the enterprise and education opportunities

Public, non-governmental organizations (NGOs)

- The public includes residents of a country, organizations, and the media who observe and critically analyze the activities of an enterprise
- Basically, all clubs or associations not seeking to make profit is considered as NGO
- The public expects not to be negatively affected (or only minimally) affected and to at least be partially listened to or have a say in entrepreneurial activities

Stakeholders and their expectations

Government

- The term state or government is understood to include the Swiss Confederation, cantons and municipalities
- The state requires companies to pay a portion of their profits in the form of taxes
- In the other direction, the state offers enterprises legal certainty, and the state requires them to comply with applicable laws, such as environmental protection or labor laws

Suppliers

- The suppliers provide the enterprise with the necessary raw materials, semi-finished goods, products and services necessary to produce its goods
- As the customers, suppliers expect from the company, in addition to a fair price, regular, early, and large orders and timely payment of invoices

Stakeholders and their expectations

Competition

- The competitors offer the same or similar products or services in the market and courts the same or similar customer groups
- Competitors expect compliance with patent and trademark protection and no unfair competition

Stakeholders and their expectations

Goal harmony, goal neutrality and goal conflict

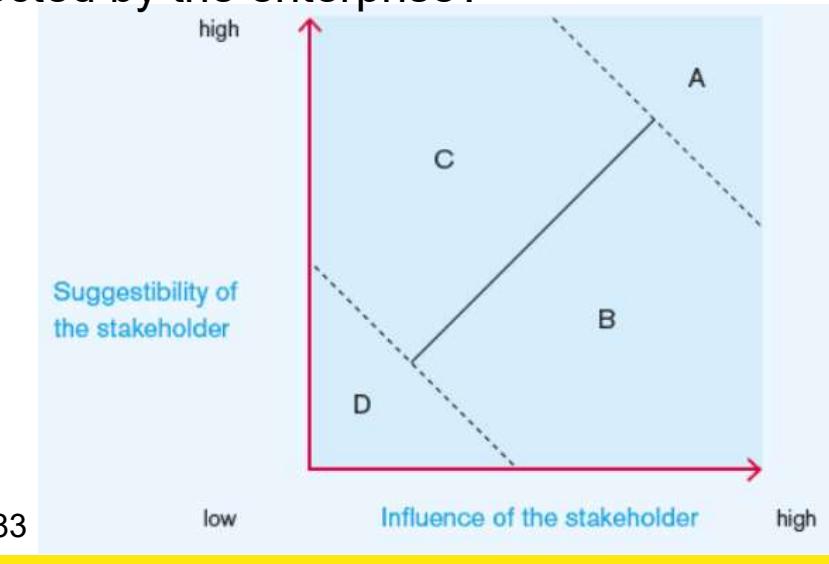
- The various stakeholders have different requirements and objectives for the enterprise. When comparing stakeholders' individual goals, three situations can arise:

Situation	Explanation	Example
Goal harmony	Two objectives complement each other	The state and equity investors are hoping for the highest profits: the state, because it expects higher taxes, and investors because they expect a higher dividend
Goal neutrality	Two goals have no influence on each other. They are mutually exclusive to each other	The competition demands fair behavior, and the state demands taxes
Goal conflict	Only one goal or the other can be achieved, also both objectives cannot be fully achieved at the same time. The two goals are in conflict with each other	Employees demand higher wages, and equity investors a high dividend

Stakeholders and their expectations

Stakeholder Relevance Matrix

- Is a tool for classification of stakeholders according to their importance
- The classification is performed using the following two questions:
 - a) What influence does or could the stakeholder exert?
 - b) How strongly is / could the stakeholder be affected by the enterprise?



Source: Capaul, Steingruber (2014), p. 83

Stakeholder Relevance Matrix

Area A

- This stakeholder exerts great influence on the company, but it is also heavily influenced by the company

Area B

- This stakeholder can exert a strong influence on the company, but is difficult to influence, which gives it special powers

Area C

- Unlike the B-stakeholder, here the power lies with the company, since the stakeholders depends on it

Area D

- Currently, these stakeholders are not essential for a company, since no side can be influenced by the other, and therefore not dependent on each other

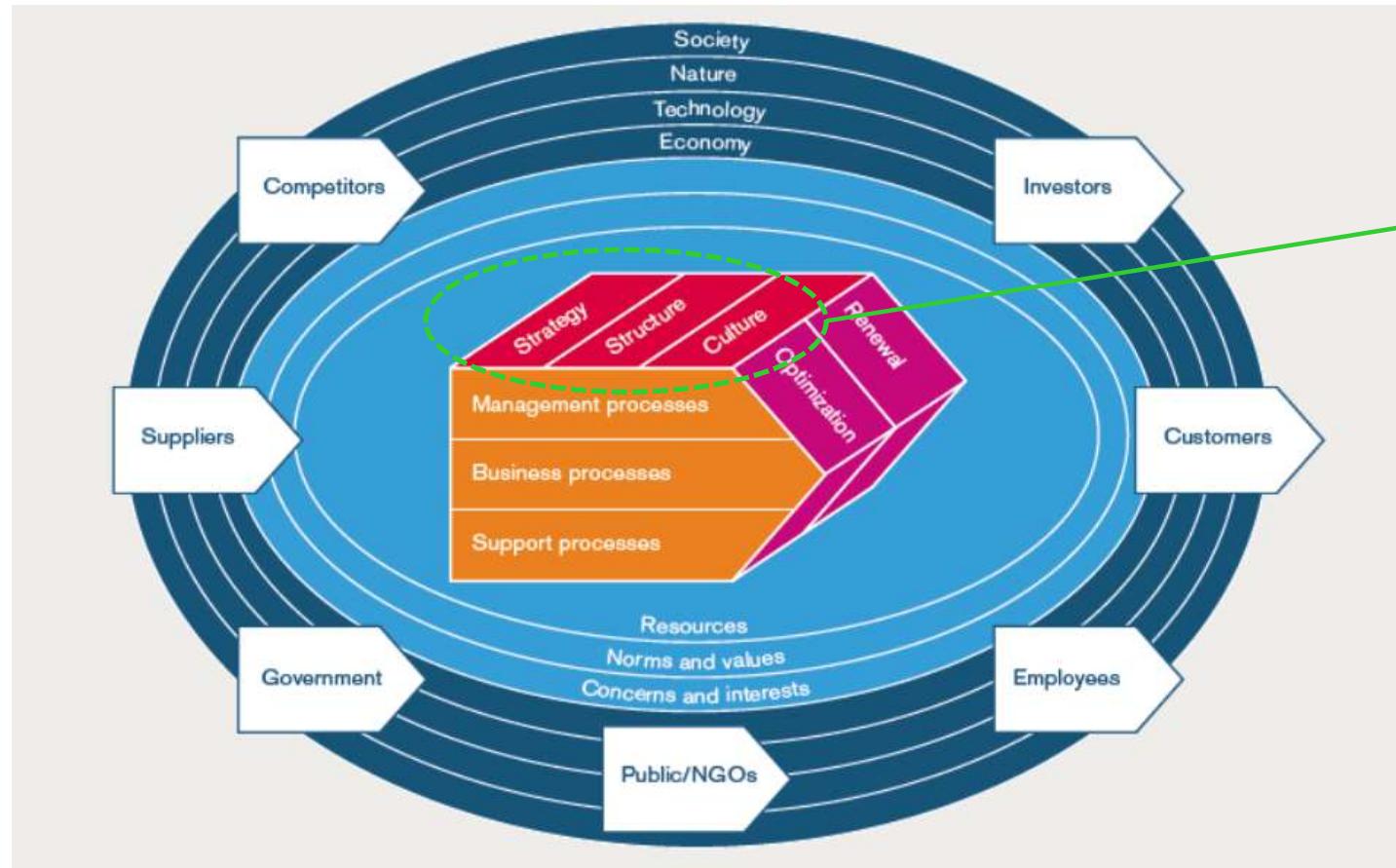
St. Gallen Management Model: Stakeholder



Exercise#3: Identify at least four stakeholder for your school (School of business). For each stakeholder formulate at least two expectations.

Work in your group of max 4 students. You have 10 minutes available.

The St. Gallen Management Model



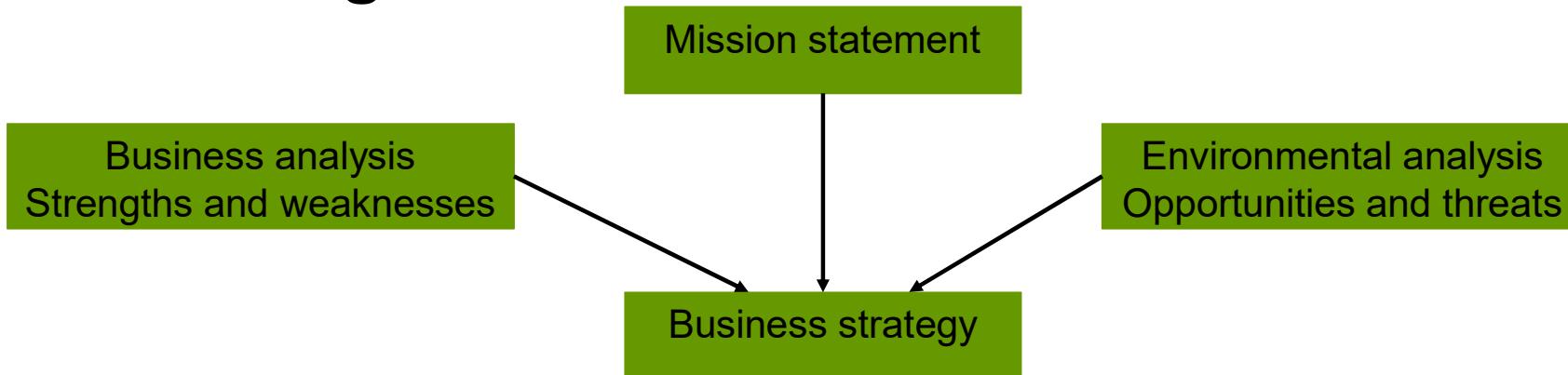
Capaul, Steingruber
(2014), p. 578

Structuring forces

Strategy

- A strategy is a plan for a unique course of action that serves to ensure the long-term viability of an enterprise
- It sets the direction of the enterprise and serves as a guide for management and employees
- To develop a strategy, environmental spheres and the stakeholders must be considered, together with the enterprise

Structuring forces



Mission statement

- A mission statement is the long-term vision of an enterprise
- It serves as a guide for both the enterprise and its employees and allows public to verify business activities
- For example Tesla: To accelerate the world's transition to sustainable energy



St. Gallen Management Model: Structuring forces



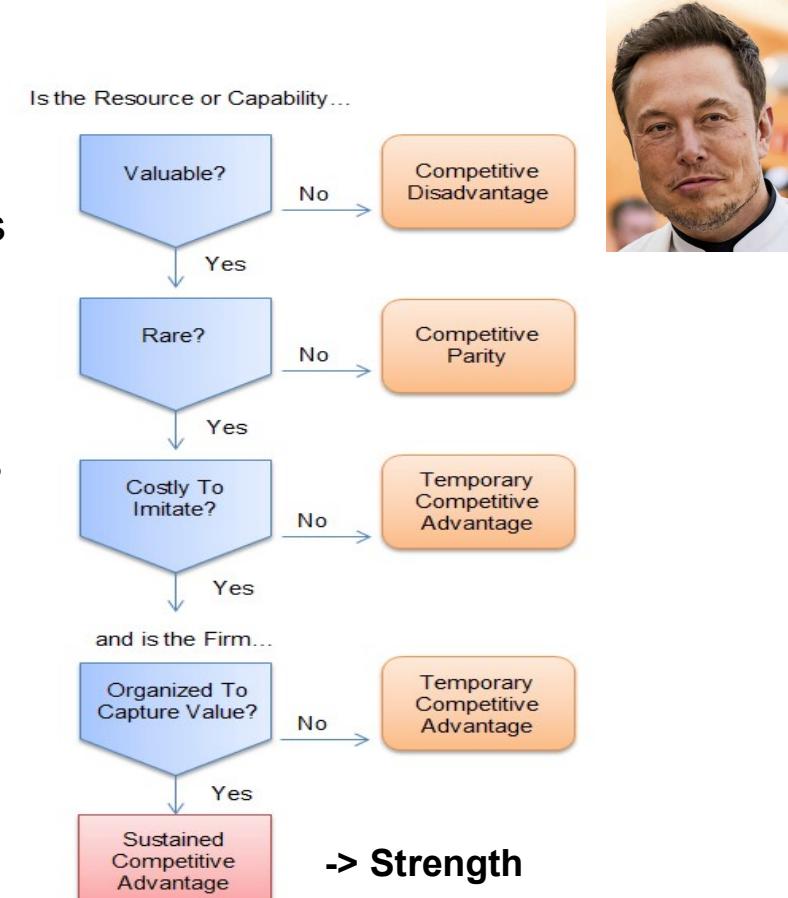
Exercise #4: Compare the mission statements of Tesla, Google and Coca-Cola. Search the internet for information. How do the respective companies deal with their ecological responsibilities and how do they address the environmental concerns of society?

Form groups of maximal four students. Write your findings down and be prepared to present your findings to the class. You have 20 minutes available to perform your analysis and get ready for the presentation.

Structuring forces

Business analysis

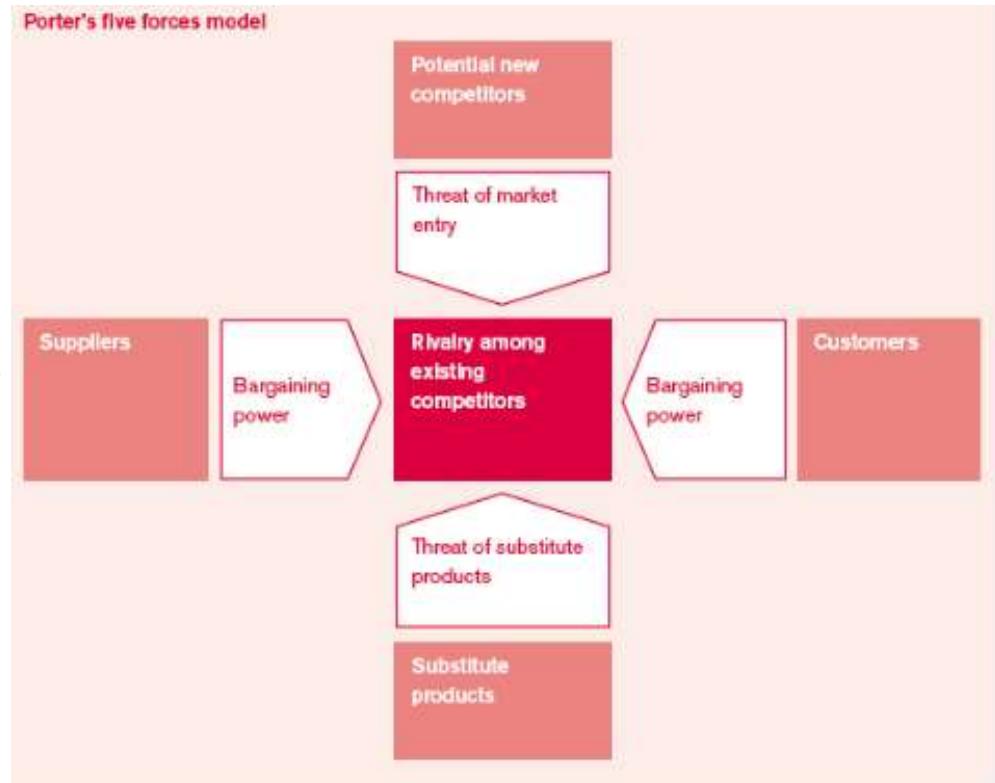
- An enterprise possesses strengths and weaknesses and is equipped with specific resources and capabilities
- Resources and capabilities include available infrastructure, the staff and their knowledge, patents on its products and many others
- VRIO analysis to figure out sustained competitive advantages of an enterprise
- For example: CEO of Tesla Elon Musk



Structuring forces

Environmental analysis

- It is not enough for an enterprise with its sustainable competitive advantage to make any product to for any market
- An environmental analysis includes beside others an industry analysis
- M. Porter's five forces model helps identify attractive industries



Source: Capaul, Steingruber (2014), p. 96

Structuring forces

Business strategy

- In the long run above-average entrepreneurial performance depends on sustained competitive advantage that allow an enterprise to compete
- M. Porter systematized the different competitive strategies that can allow an enterprise to achieve sustained competitive advantage

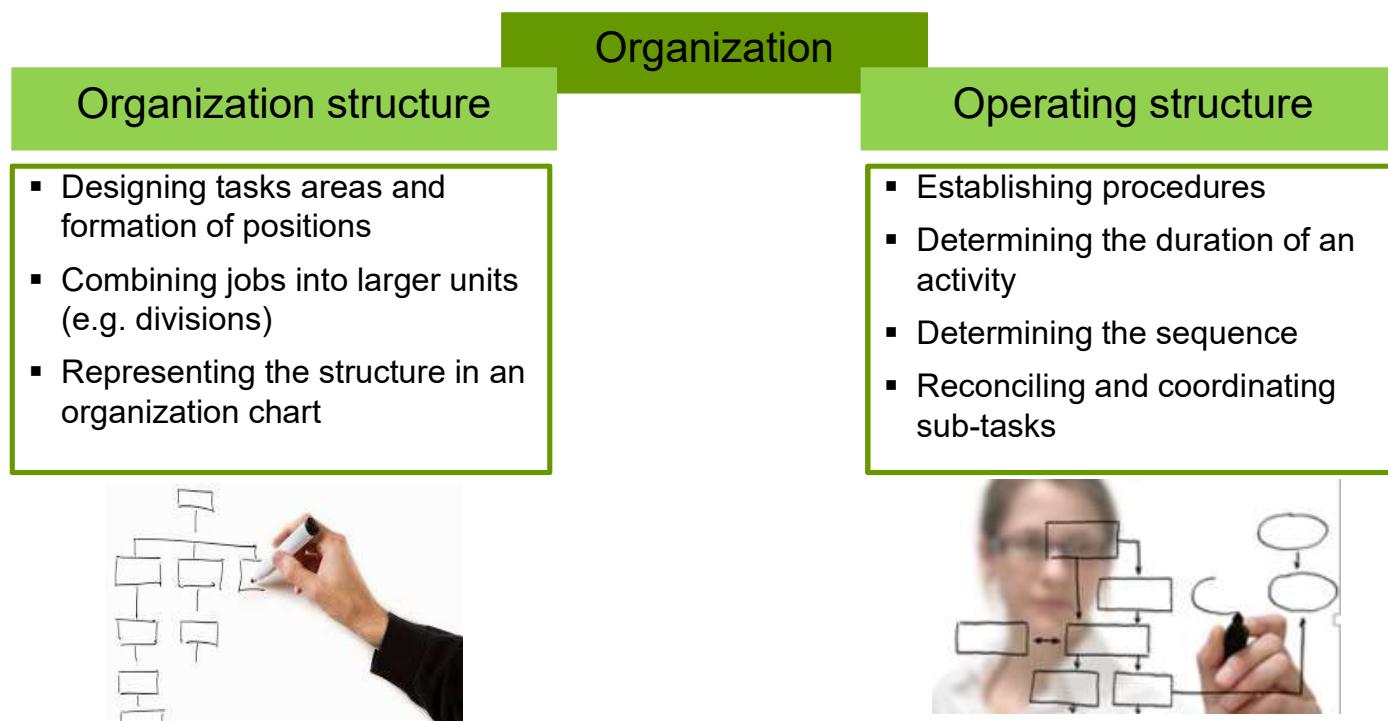
		Strategic advantage (performance or cost)	
Strategic target	Industry-wide (total market coverage)	Differentiation (quality leadership)	Cost leadership
	Restriction to segment (partial coverage)	Concentration on niches	

Source: Capaul,
Steingruber
(2014), p. 104

Structuring forces

Structure

- The classical distinction between organizing and operating structure:



Based on Capaul,
Steingruber (2014), p.
156

Structuring forces

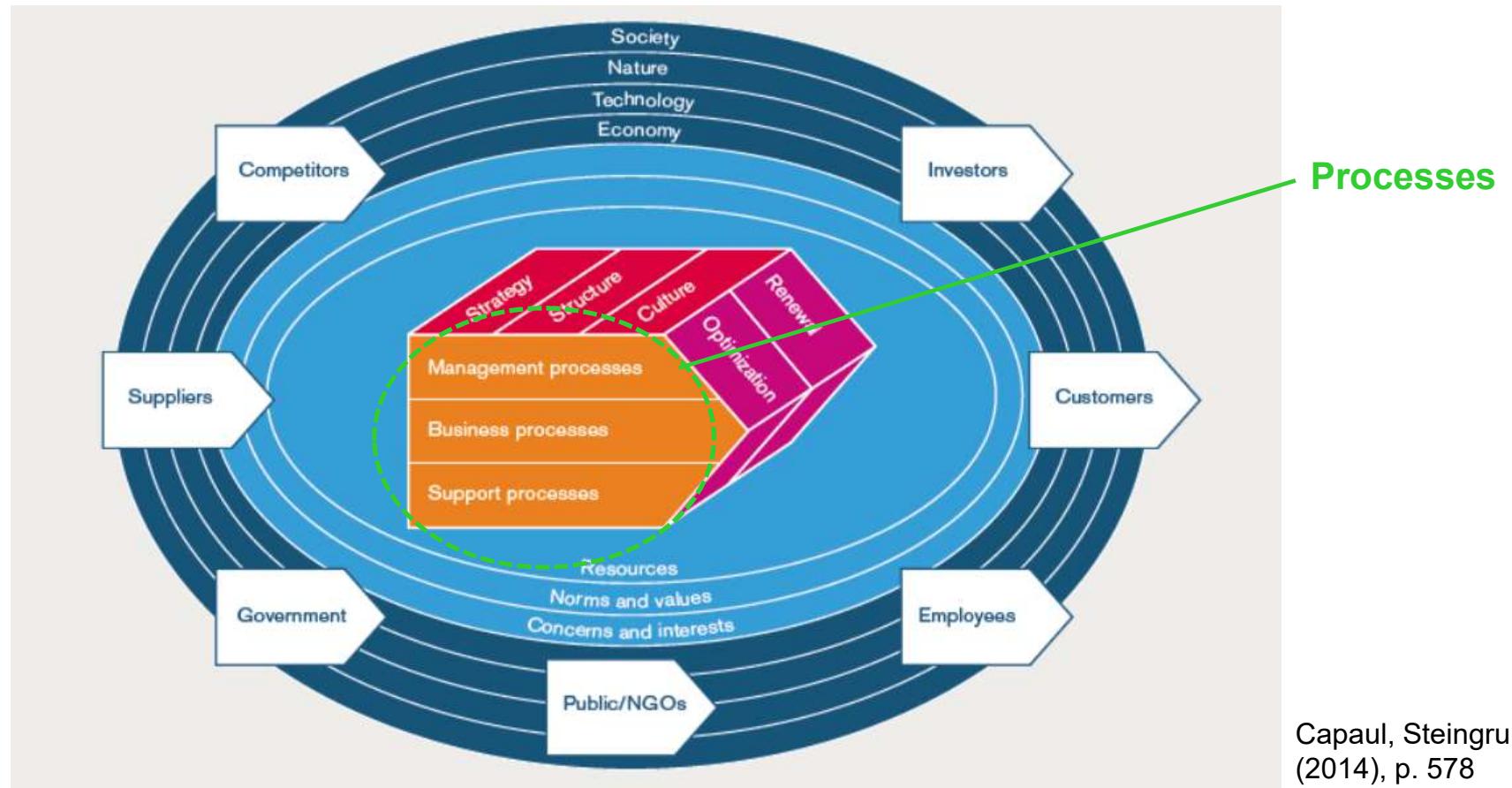


Source: Caupaul,
Steingruber (2014), p. 184

Culture

- The concept of culture includes all symbolic references (unwritten understandings and informal rules, rituals, symbols) by which we orient ourselves every day and we hold as self-confident. In simple terms, culture means: "**The way we do things around here.**"
- The visible part of the corporate culture is the top of the iceberg. The larger part, the cultural characteristics of a company, are not visible at first glance

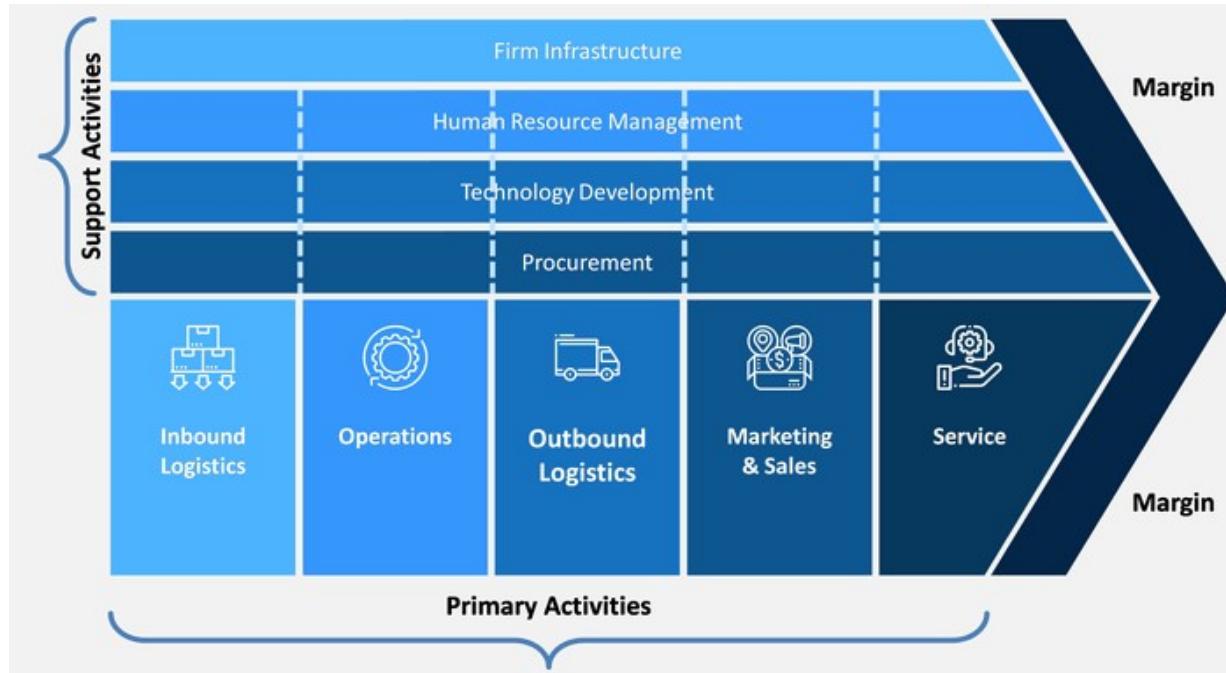
The St. Gallen Management Model



Capaul, Steingruber
(2014), p. 578

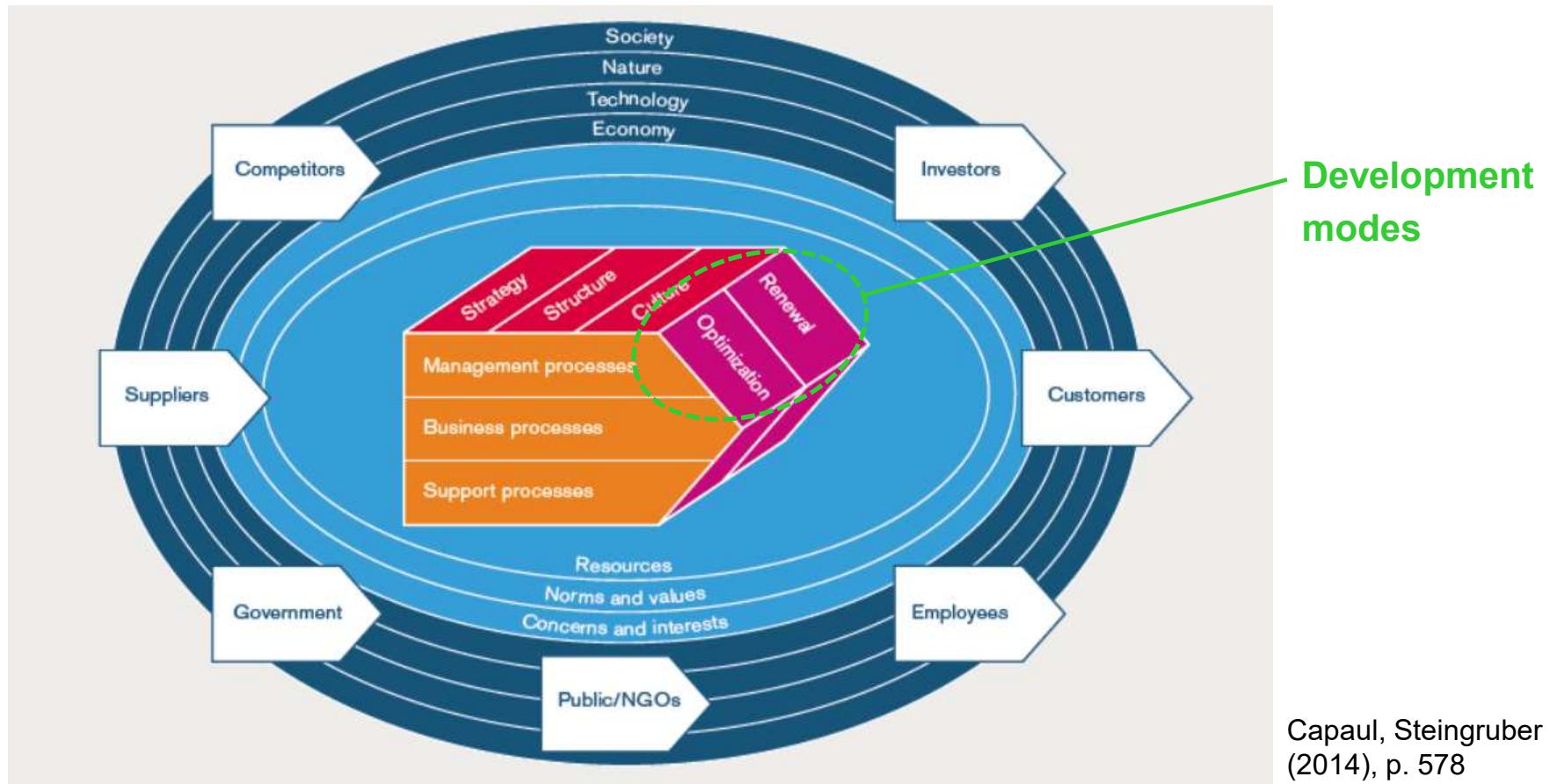
Processes

Porter's value chain model



Source: <https://www.sketchbubble.com/en/powerpoint-value-chain.html>, visited at August 30th, 2023

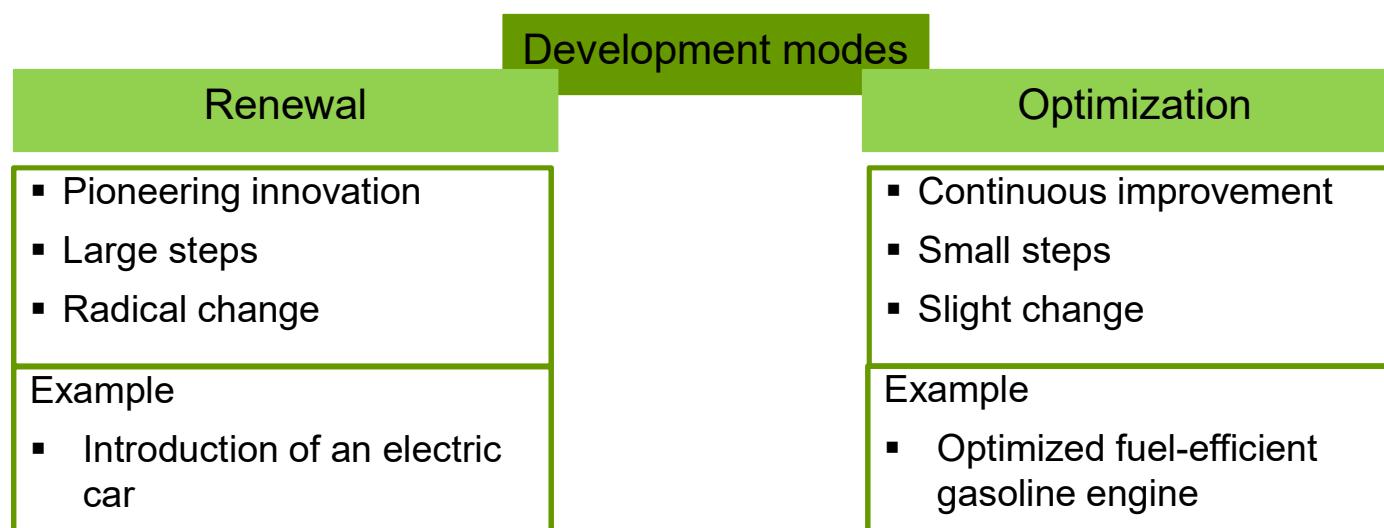
The St. Gallen Management Model



Development modes

Distinction between renewal and optimization

- One the one hand, enterprises face high-cost pressures in many markets while, on the other hand, they are confronted with customer demands for high quality
- Enterprises are forced to adapt their products, processes, and organizational forms over time in order to survive in the market



Source: Capaul, Steingruber (2014), p. 524

St. Gallen Management Model: Renewal and optimization



Exercise#5: Innovation

Renewal is also referred to as innovation. This term stands for new ideas and inventions that can be implemented economically. In addition, many ideas exist that could never work. Innovative ideas, therefore, have a certain degree of novelty but, at the same time, are marketable.

- a) Name drivers of innovation.
- b) Why are innovations important for an enterprise?
- c) Name two innovative products from the past and two for the present. If not self explaining, explain the named innovations.

Work in groups of max. four students. Write your solutions down and be prepared for your presentation to the class. You have 15 minutes available.

Exercise#6: Optimization

One reason trains are delayed is that passengers are too slow getting on and off at stations. What could SBB do to optimize the process of passengers embarking and disembarking trains? Identify existing as well as new measures.

Work in groups of max. four students. Write your solutions down and be prepared for your presentation to the class. You have 10 minutes available.

Questions?



References

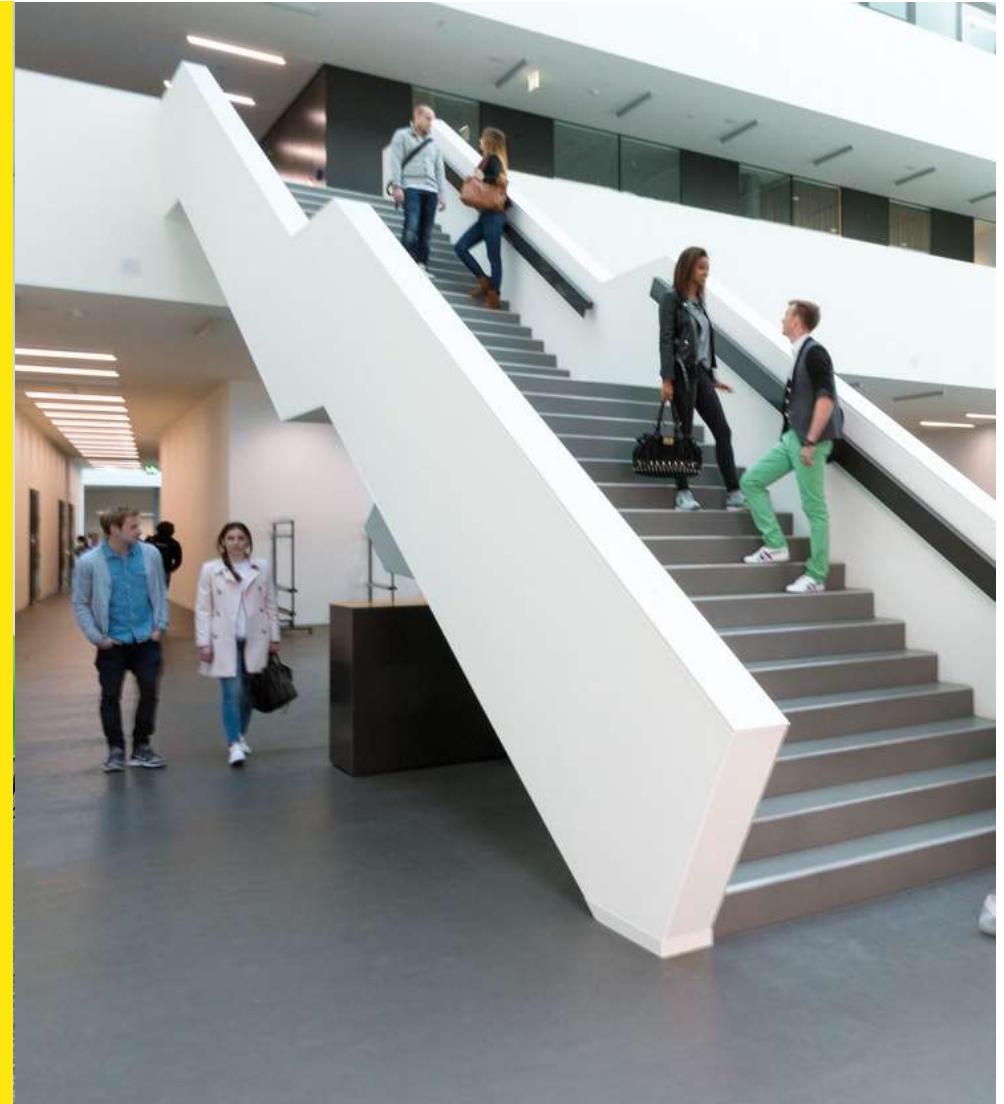
Capaul, R., Steingruber, D. (2014): Business Studies – An introduction to the St. Gallen Management Model, 1st edition, Cornelsen Schulverlage: Wien.

Principles of Management (PoM)

04 – Decision making and entrepreneurship

Brido Schuler

4. September 2023



Learning objectives (LO)

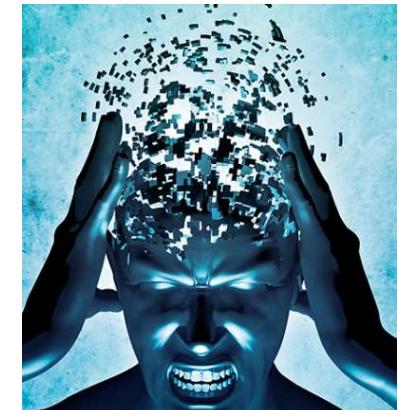
- LO4-1 Understand the nature of managerial decision making, differentiate between programmed and non-programmed decisions, and explain why non-programmed decision making is a complex, uncertain process
- LO4-2 Describe the six steps managers should take to make the best decisions, and explain how cognitive biases can lead managers to make poor decisions
- LO4-3 Explain and adapt different decision making instrument (cost benefit approach) and decision structuring instrument (mind map, network analysis) to cases
- LO4-4 Describe how managers can encourage and promote entrepreneurship to create a learning organization, and differentiate between entrepreneurs and intrapreneurs
- LO4-5 Explain what top decision-makers do differently. Name and explain the three decision traps and explain how to overcome these three traps

Content

- The nature of managerial decision making
- Six steps in the decision-making process
- Cognitive biases and decision making
- Entrepreneurship and creativity
- Top decision-makers

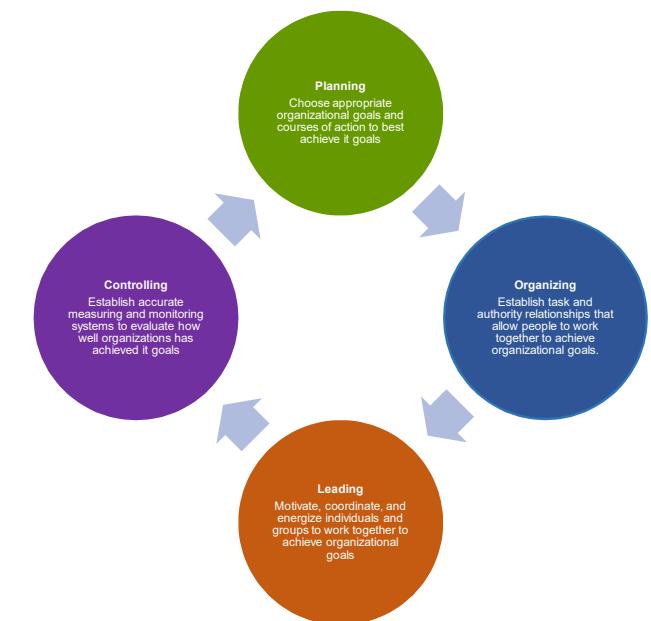
World-class bad decisions

- Hewlett-Packard's decision not to develop a product created by an employee. Steve Wozniak went off with his device to co-found Apple Computer
- Graham Bell invented the telephone in 1876. He approached Western Union Telegraph Company and offered to sell them patents. Their decision: they had no use for an electrical toy
- In 1962 four musicians played for executives of Decca Recording Company. They didn't like the group's sound, noting that guitar groups were on their way out. The group was the Beatles



The nature of managerial decision making

- Decision making: The process by which managers respond to opportunities and threats by analyzing options and making determinations about specific organizational goals and course of action
- Decision making is central to being a manager, and whenever managers engage in planning, organizing, leading and controlling – their four principles tasks – they are constantly making decisions



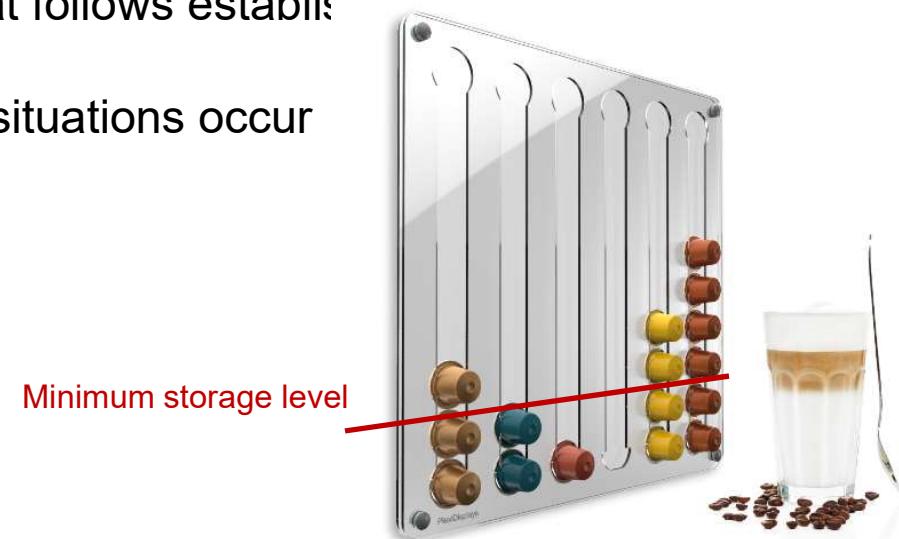
Jones and George (2020, p. 182). Contemporary Management. New York: McGraw-Hill, 11th edition

The nature of managerial decision making

- Regardless of the specific decision a manager makes, the decision-making process is either **programmed** or **non-programmed**:

Programmed decision making

- Routine, virtually automatic decision making that follows established guidelines
- Rules or guidelines to be applied when certain situations occur



Jones and George (2020, p. 183). Contemporary Management. New York: McGraw-Hill, 11th edition

The nature of managerial decision making

Non-programmed decision making

- Nonroutine decision making that occurs in response to unusual, unpredictable opportunities and threats
- Rules do not exist because the situation is unexpected or uncertain and managers lack the information they would need to develop rules to cover it



Jones and George (2020, p. 183). Contemporary Management. New York: McGraw-Hill, 11th edition

The nature of managerial decision making

Characteristics

	Programmed decisions	Non-programmed decisions
1. Nature of problem	Structured / routine / well-defined	Unstructured / novel / ill defined
2. Recurrence of problem	Repetitive	Non-repetitive
3. Method of solving	Policies / standards / rules	Managerial initiative
4. Judgment	Objective	Subjective
5. Probability of outcome	Some degree for certainty is involved	Uncertain
6. Level of management	Middle / Lower-level	Top-level
7. Types	Organization / Operational / Research / Opportunity	Personal / Strategic / Crisis / Intuitive / Problem-solving

The nature of managerial decision making

Non-programmed decision making

- In the absence of decision rules managers rely on their intuition or their make reasoned judgments

Intuition

Feelings, beliefs, and hunches that come readily to mind, require little effort and information gathering and result in on-the-spot decisions

Reasoned judgment

A decision that requires time and effort to make and results from careful information gathering, generation of alternatives, and evaluation of alternatives

Jones and George (2020, p. 184). Contemporary Management. New York: McGraw-Hill, 11th edition

The nature of managerial decision making

The administrative model of decision making

- An approach to decision making that explains why decision making is inherently uncertain and risky and why management usually make **satisfactory** rather than optimum decisions
- The administrative model is based on three important concepts:

Bounded rationality

- Cognitive limitations that constrain one's ability to interpret, process and act on information

Incomplete information

- Information is incomplete because of risk and uncertainty, ambiguity, and time constraints

Satisficing

- Searching for and choosing an acceptable, or satisfactory, response to problems and opportunities, rather than trying to make the best decision

The nature of managerial decision making

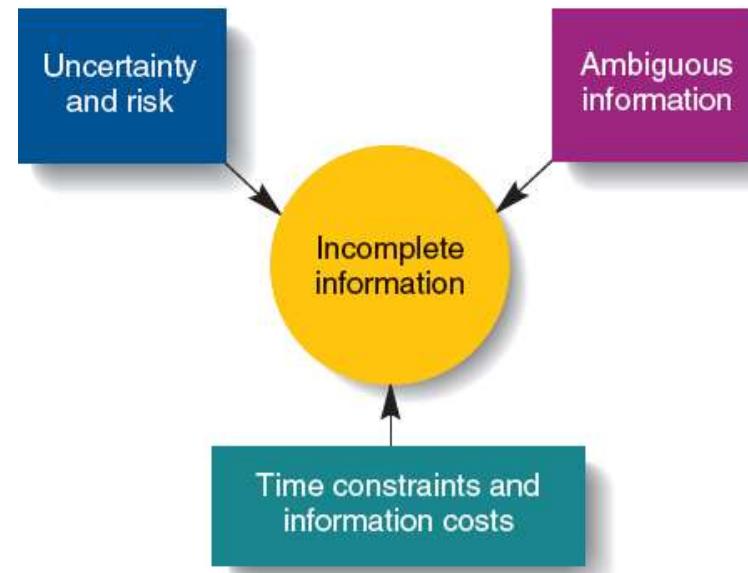
Why information is incomplete

Risk

- The degree of probability that the possible outcomes of a particular course of action will occur

Uncertainty

- Unpredictability
- The probabilities of alternative outcomes cannot be determined and future outcomes are unknown



Ambiguous information

- Information that can be interpreted in multiple and often conflicting ways

The nature of managerial decision making



Duck or rabbit?

Identify your own decision making style



Exercise #1:

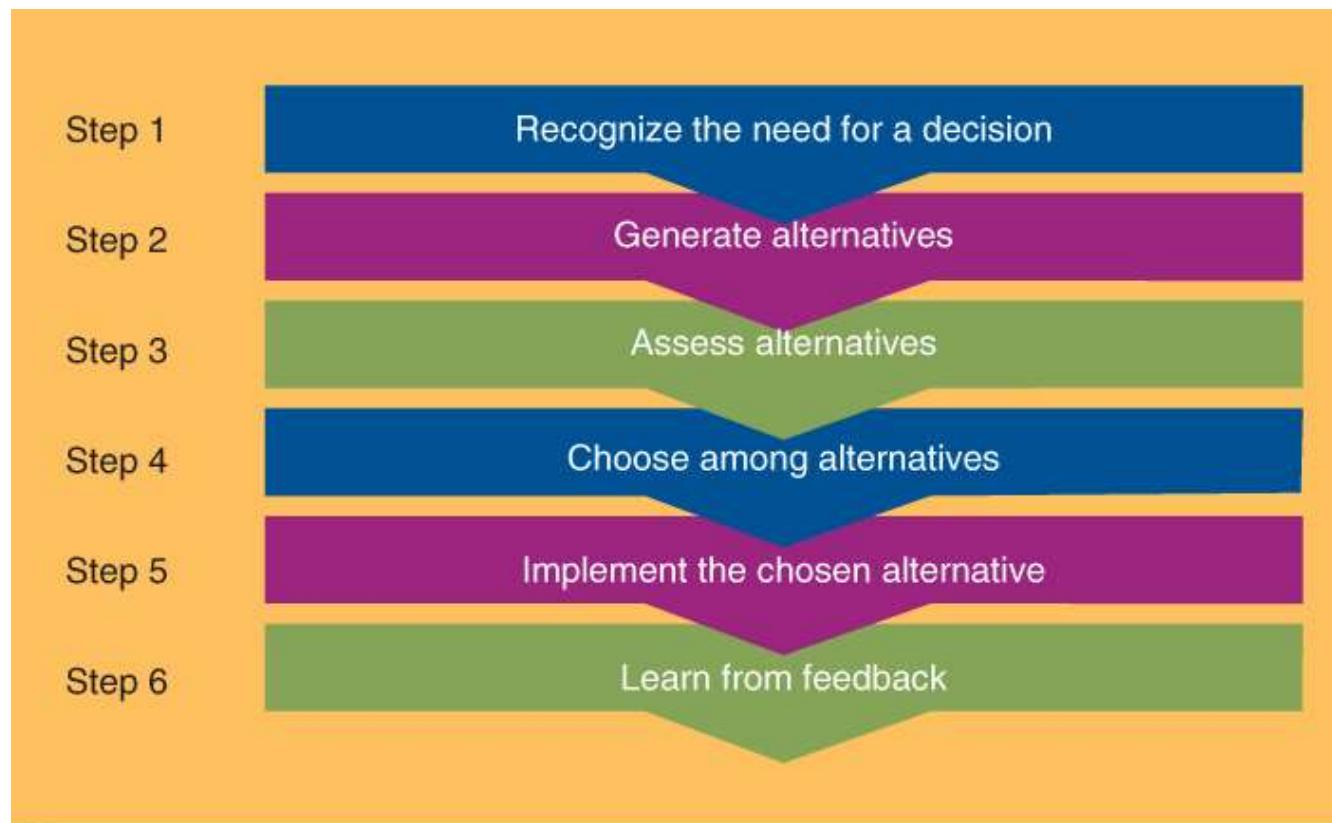
Review on your own one decisions you recently made. This can be either one successful decision or one other decision which was poor

- A) Analyse first the decision you made. Then write down the **activities** you performed to make the decision. Also write down, how much **time** you spent for each activity you performed. Identify **factors** that influence your decision making. Time available: 15 minutes

- B) Explain your decision made based on what analysis to another student. After 5 minutes change the roles in the group of the two students

Total time available for A) and B): 25 minutes.

Six steps in decision making



Jones and George (2020, p. 198). Contemporary Management. New York: McGraw-Hill, 11th edition

Six steps in decision making

Step 1: Recognize the need for a decision

- Sparked by an event such as environment changes
 - ✓ Managers must first realize that a decision must be made

Step 2: Generate alternatives

- Managers must develop feasible alternative courses of action
 - ✓ If good alternatives are missed, the resulting decision is poor
 - ✓ It is hard to develop creative alternatives, so managers need to look for new ideas

Step 3: Assess alternatives

- What are the advantages and disadvantages of each alternative? Managers should specify criteria, then evaluate

Step 4: Choose among alternatives

- Rank the various alternatives and make a decision
- Managers must be sure all the information available is brought to bear on the problem or issue at hand

Step 5: Implement the chosen alternative

- Managers must now carry out the alternative
- Often a decision is made and not implemented

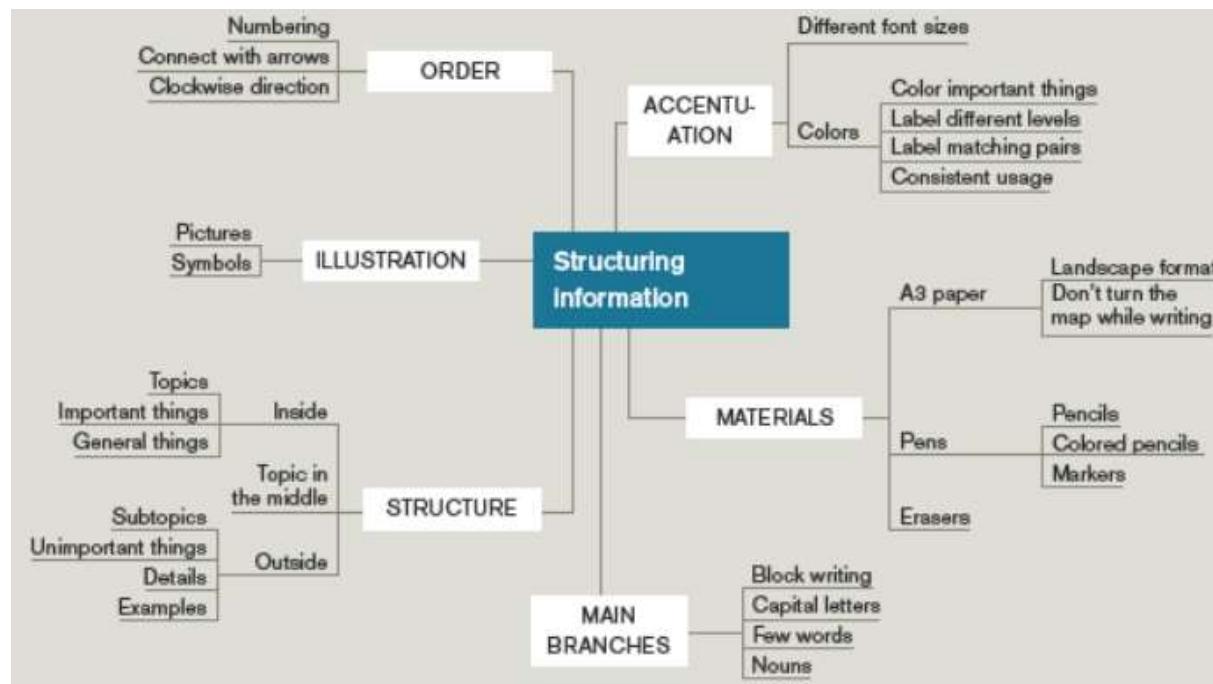
Step 6: Learn from feedback

- Managers should consider what went right and wrong with the decision and learn for the future
- Without feedback, managers do not learn from experience and will repeat the same mistake over

Possible instrument for step 1

Mind map

- The mind map is one possible technique to illustrate information in a clear and structured way
- Many facets of a problem can be represented in a very organized way



Possible instrument usable for step 1: Network analysis

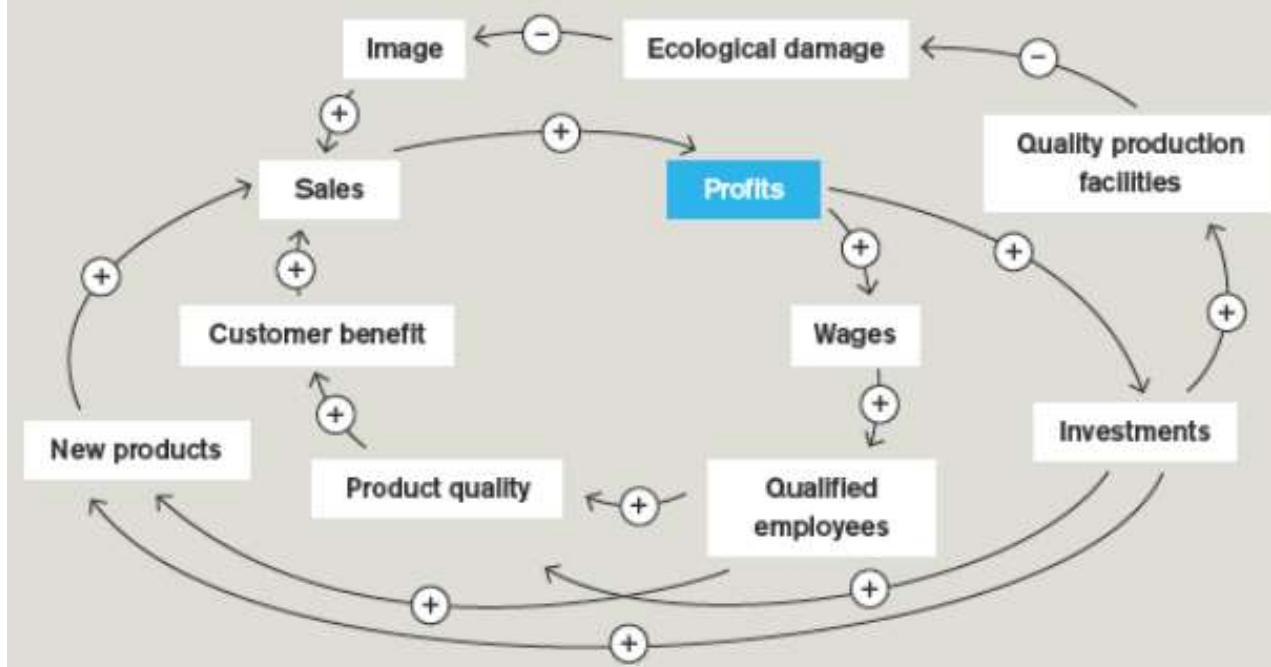
- Network analysis allows for the holistic consideration of a problematic situation. There are 5 steps in creating such a network:

Step	Questions to ask
1	What are the major influential factors of the problem (e.g. image, sales)?
2	Which influential factors are related? Related factors linked by arrows (e.g., image → sales)
3	What is the effect between two influential factors? Encouraging effect +: <ul style="list-style-type: none">▪ big (good) gets bigger (better)▪ small (bad) gets smaller (worse) Restraining effect -: <ul style="list-style-type: none">▪ bigger (good) gets smaller (worse)▪ smaller (bad) gets bigger (better)
4	How intense is the relationship between two factors?
5	What influential factors are controllable and thus starting point for concrete measures?

Possible instrument usable for step 1: Network analysis

Example "Toys AG" – Network (steps 1–3)

"Toys AG" is confronted with shrinking profits, so the management team has created a network in order to consider the problem holistically.





Ex#2: Network analysis

Draw a network for the KITA “Lionking”. Lionking has to leave its premises in Rheinfelden and the negotiation with a potential land lord for a new location in the same city does not go well. In the event “Lionking” is not able to find a new locations under enormous time pressure, it has to close its doors. 25 children (age between 1 and 10 years old) would need a new care place. Six employees of the “Lionking” will lose their jobs. Parents would have to find another care solution for the kids. All the other KITA’s in Rheinfelden have no free care places.

Draw a network analysis including at least 12 factors. The starting point for your network creation is «no care place» in the middle of you network.

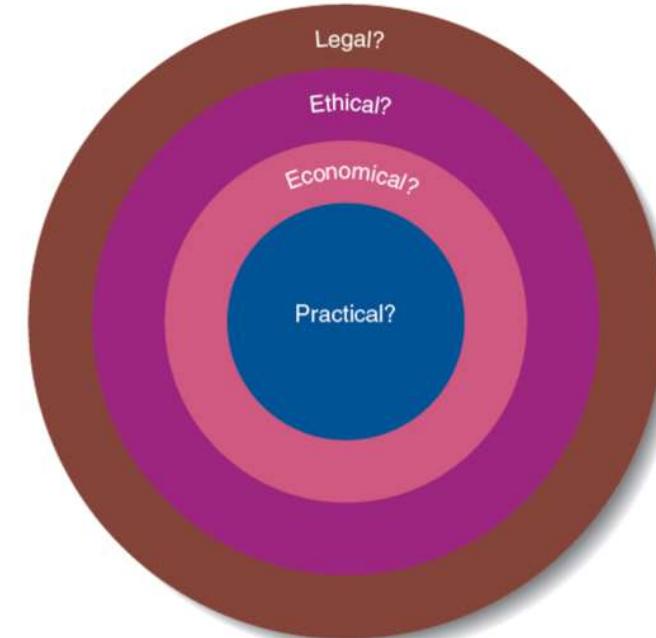
Work in groups of max. four students. You have 15 minutes available and get prepared for the presentation.

Six steps in decision making

@ step 3: General criteria for evaluating possible courses of action

@ step 6: Learn from feedback

- (1) Compare what actually happened to what was expected to happen as a result of the decision
- (2) Explore why any expectations for the decision were not met
- (3) Derive guidelines that will help in future decision making



Jones and George (2020, p. 191).
Contemporary Management. New York:
McGraw-Hill, 11th edition

Ex#3: Managerial decision making: Cost-benefit analysis



Found in 1991, the brand Volcom stands for individual, functional, and innovative snowboard clothing and fashion and is aimed at a young, athletic and sophisticated generation that appreciates the unconventional. As one of the first labels for snowboard clothing, Volcom occupied a niche position and rapidly built customer base with strong brand loyalty. Run a cost-benefit analysis on behalf of Volcom's management for production sites in America, Mexico, and China. You should first list all relevant (location) factors, then weigh them according to their importance for the company, and finally use the points to evaluate the locations.

Which location should Volcom ultimately choose? Use the template on the next slide for your analysis. Work in groups of max. 4 students. You have 15 minutes available



Managerial decision making: Cost-benefit analysis



		American location		Mexican location		Chinese location	
Evaluation criteria	Weighting W	Points P	Result = P·W	Points P	Result = P·W	Points P	Result = P·W
Total	100						
Ranking							

Cognitive biases and decision making

Four sources of biases

Confirmation bias

- A confirmation bias resulting from the tendency to base decisions on strong prior beliefs even if evidence shows that those beliefs are wrong

Representativeness bias

- A representativeness bias resulting from the tendency to generalize inappropriately from a small sample or from a single vivid event or episode

Illusion of control

- A source of cognitive bias resulting from the tendency to overestimate one's own ability to control activities and events

Escalating commitment

- A source of bias resulting from the tendency to commit additional resources to a project even if evidence shows that the project is failing

Decision about which university to attend, which major to select, whether to take a part-time job or full-time



Ex #4:

Adapt the Six steps in decision making to your decision(s) about which university to attend, which major to select, whether to take a part-time job or full-time. You can not take the decision you analyzed in exercise #1. Form group of four students. You have 20 minutes available. Answers are requested in writing.

Analyze how you made the decision by answering the following five questions:

- 1) Identify the criteria you used, to guide your decision making.
- 2) List the alternatives you considered. Were they all possible alternatives? Did you ignore some important alternatives?
- 3) How much information did you have about each alternative? Did you make the decision on the basis of complete or incomplete information?
- 4) Try to remember how you reached the decision? Did you sit down and consciously think through the implications of each alternative, or did you make the decision on the basis of intuition? Did you use any rules of thumb to help you make the decision?
- 5) In retrospect, do you think your choice of alternatives was shaped by any of the cognitive biases?

Group decision making

Because of the biases important organizational decisions are made by groups or teams

Advantages

- Choices less likely to fall victim to biases.
- Able to draw on the combined skills, competencies and accumulated knowledge of group members
- Improve ability to generate feasible alternatives
- Manager agree to cooperate
- Higher probability that the implementation is successful

Disadvantages

- Slow
- To achieve cooperation can be difficult, due to different interests and preferences
- Can be undermined by biases

Group decision making

Groupthink

- A pattern of faulty and biased decision making that occurs in groups whose members strive for agreement among themselves at the expense of accurately accessing information relevant to a decision
- Usually occurs when group members rally around a central manager's idea, and become blindly commit to the idea without considering alternatives. The group's influence tends to convince each member that the idea must go forward

Entrepreneurship

Entrepreneur

- An individual who notices opportunities and decides how to mobilize the resources necessary to produce new and improved goods and services

Social entrepreneur

- An individual who pursues initiatives and opportunities and mobilizes resources to address social problems and needs in order to improve society and well-being through creative solutions

Jones and George (2020, p. 202). Contemporary Management. New York: McGraw-Hill, 11th edition

Entrepreneurship

Characteristics of entrepreneurs

- **Open to experience:** they are original thinkers and take risks
- **Internal locus of control:** they take responsibility for their own actions
- **High level of self-esteem:** they feel competent and capable
- **High need for achievement:** they have a strong desire to perform challenging tasks and meet high personal standards of excellence

Jones and George (2020, p. 202). Contemporary Management. New York: McGraw-Hill, 11th edition

Entrepreneurship

Intrapreneur

- An manager, scientist, or researcher who works inside an organization and notices opportunities to develop new or improved and better ways to make them
- Many managers with intrapreneurial talents become dissatisfied if their superiors decide neither to support nor to fund new product ideas and development efforts that the managers think will succeed
- Often they decide to leave their current organizations and start their own companies to take advantage of their new product ideas

Jones and George (2020, p. 202). Contemporary Management. New York: McGraw-Hill, 11th edition

Ex #5: Promote entrepreneurship



Your company's CEO is concerned that the large, mature business is falling behind in its level of innovation. He would like to promote increased intrapreneurship and has asked for ideas. Prove at least two viable suggestions you would give the CEO.

Work in group of four students. You have 10 minutes available. Be prepared to share your findings with the class.



Ex #6: Taylor Swift Wants Her Money Back

Taylor Swift's most recent tour, was a success by every measure; it grossed more than \$250 million worldwide, the top tour of 2015. Yet Swift felt something was missing - about \$85 million in revenue that went to scalpers. As she prepared to hit the road to support her latest album, Reputation, Swift and Ticketmaster Entertainment Inc. concocted a strategy to neuter the scalpers. They used Ticketmaster's Verified Fan program, which utilizes in-house technology to identify actual fans and determine which of them should have access to fan-only presale tickets, based on their devotion to Swift as measured by their willingness to buy albums, sign up for a newsletter, and watch her music videos. While prices in the presale were fairly low for most people, Swift and promoter AEG Presents raised the cost of all the tickets in the later general sale to make them less attractive to scalpers.

Swift's use of Verified Fan added tweaks not tried before, Marcus says. Fans who wanted access to the first tickets on sale took part in a program called Taylor Swift Tix where they earned boosts in the virtual line by buying her album and merchandise, watching music videos, or spreading the word to friends.

Ex #6: Taylor Swift Wants Her Money Back (continued)



Some critics have called Swift greedy, panning her system as giving the best presale slots to fans who spend the most on her other goods. Ticketmaster says most of the fans who participated in the presale spent no money apart from the ticket purchase and noted those early sales started at \$49.50 - cheap for a star of Swift's stature. While tickets in the general sale can climb to near \$2,000 for some shows, the prices aren't so different from those of male acts such as Justin Timberlake or U2. If some higher prices are what's needed to combat scalping, the Swift camp is unapologetic. Says Marcus: "Taylor is trying to take control of her tour."

Questions (15 min; max groups of 3 students)

- 1) To what extent is Swift's strategy to outsmart the ticket bots a non-programmed decision?
- 2) Playing devil's advocate, do you think Swift's decision was greedy or creative? Explain your reasoning.
- 3) Provide three reasons why Taylor Swift could be considered an entrepreneur.

Ex #7: What top decision-makers do differently?



Watch the following video. Whilst watching answer the questions 1) to 3)

<https://youtu.be/542qgGgL1s4>

- 1) What do top decision-makers do differently?
- 2) Name and explain the three decision traps.
- 3) Explain the techniques to overcome decision traps.

Questions?



References

- Capaul, R., Steingruber, D. (2014): Business Studies – An introduction to the St. Gallen Model, 1st edition, Cornelsen Schulverlage: Wien.
- Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill.

Principles of Management (PoM)

05 – Strategy I

Brido Schuler

4. September 2023



Learning objectives (LO)

- LO5-1 Name and explain the terms strategy and mission statement
- LO5-2 Name and explain the models (VRIO, Porter's five forces model, SWOT)
used for the development of a strategy
- LO5-3 Adapt the models VRIO, Porter's five forces and SWOT to case studies

Content

- Planning, strategy, mission statement
- Development of a strategy

Planning and Strategy

Planning

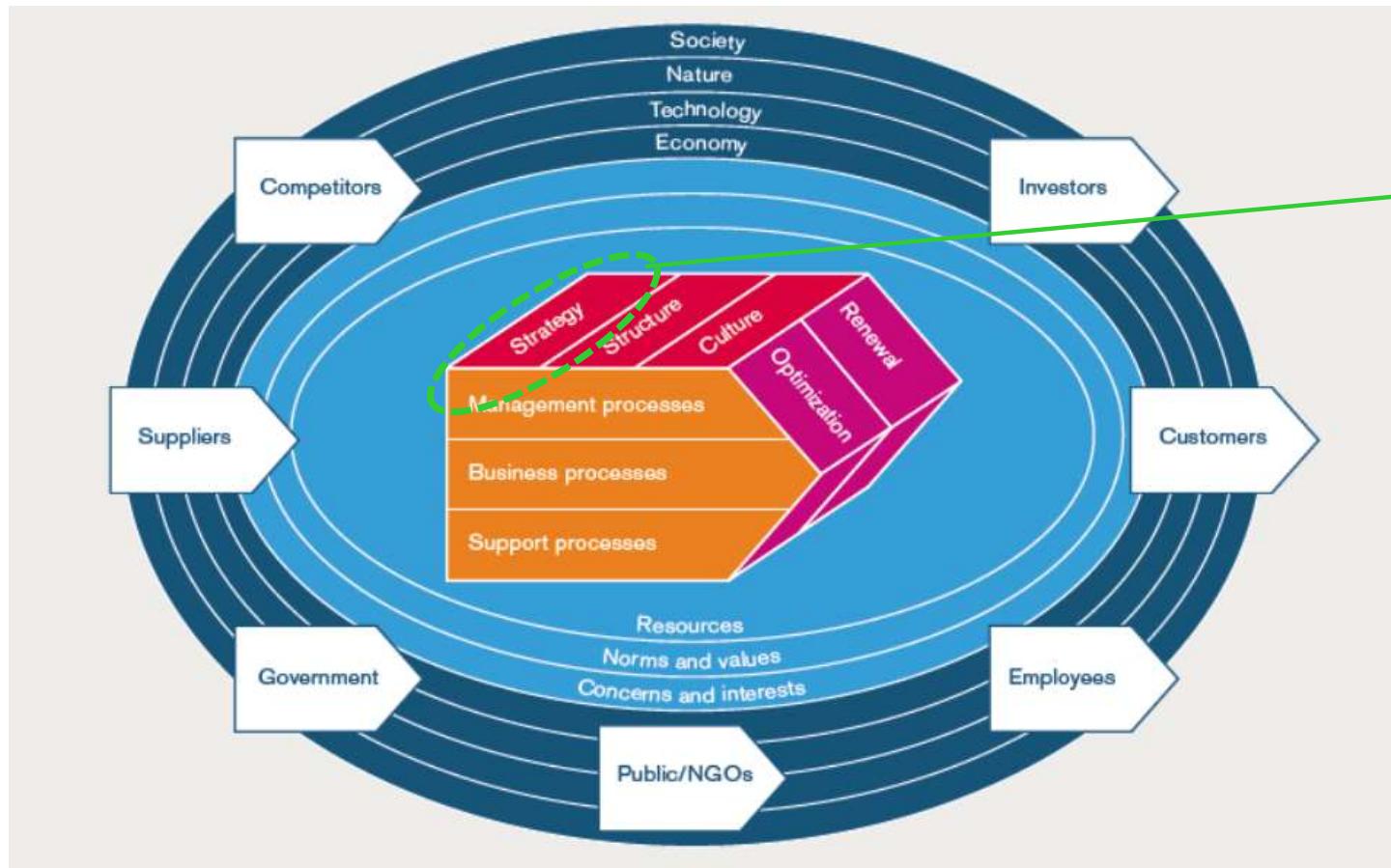
- Identifying and selecting appropriate goals and courses of action for an organization
- The organizational plan that results from the planning process **details** the goals and the specific **strategies** managers will implement to attain those goals



Strategy

- A cluster of decisions about what goals to pursue, what actions to take, and how to use resources to achieve goals
- **Example: Sorenson's strategy at Marriott**

The St. Gallen Management Model



Structuring
forces

Capaul, Steingruber (2014),
p. 578

Mission statement

Mission statement

- A broad declaration of an organization's purpose that identifies the organization's products and customers and distinguishes the organization from its competitors

Examples

- Nike's mission statement: "**to bring inspiration and innovation to every athlete in the world.**"
- Or the mission statement of the School of Business, University of Applied Sciences and Arts Northwestern Switzerland: "**We educate innovative, responsible specialists and managers for an interconnected and ever changing world.**"



Mission statement

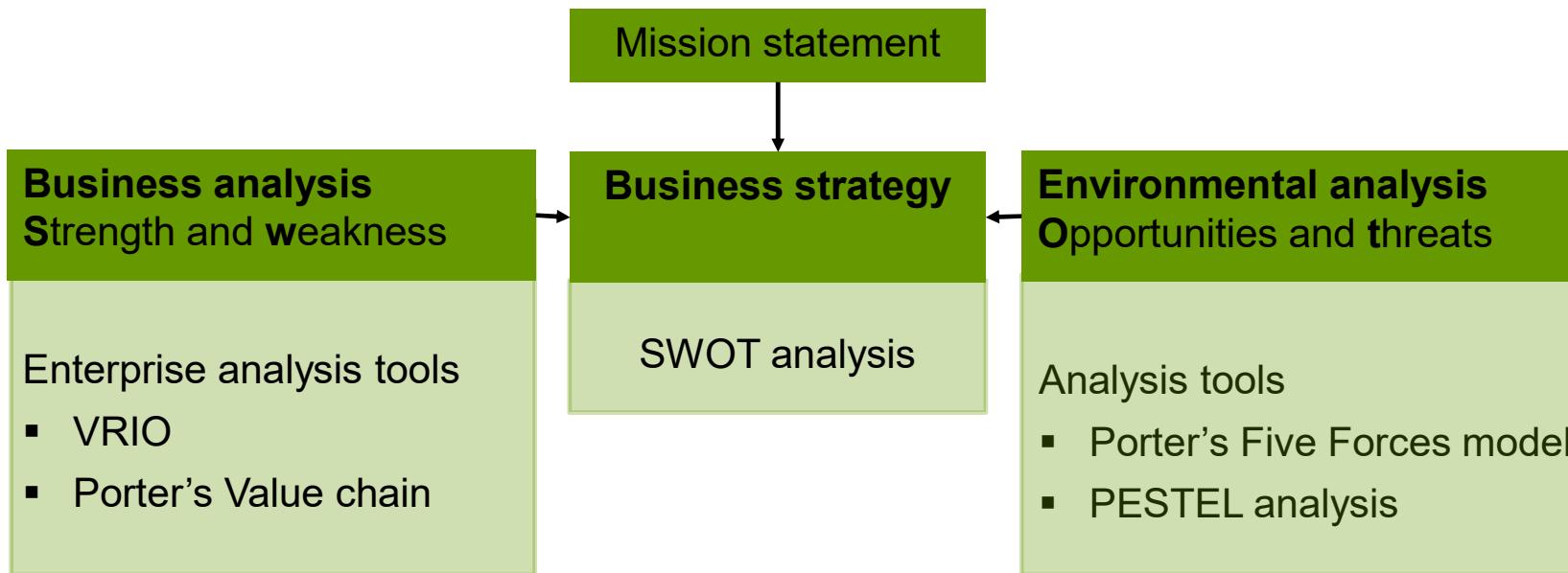
Exercise #1:



- a) Name reasons why a strategy is critical for the success of an enterprise.
- b) Find the mission statement of the enterprise you work(-ed) for, or a company from special interest for you. What is unique in your view? What is good? What has space for improvements?
- c) Compare your chosen mission statement with the mission statement of another enterprise? What is equal, what is different?

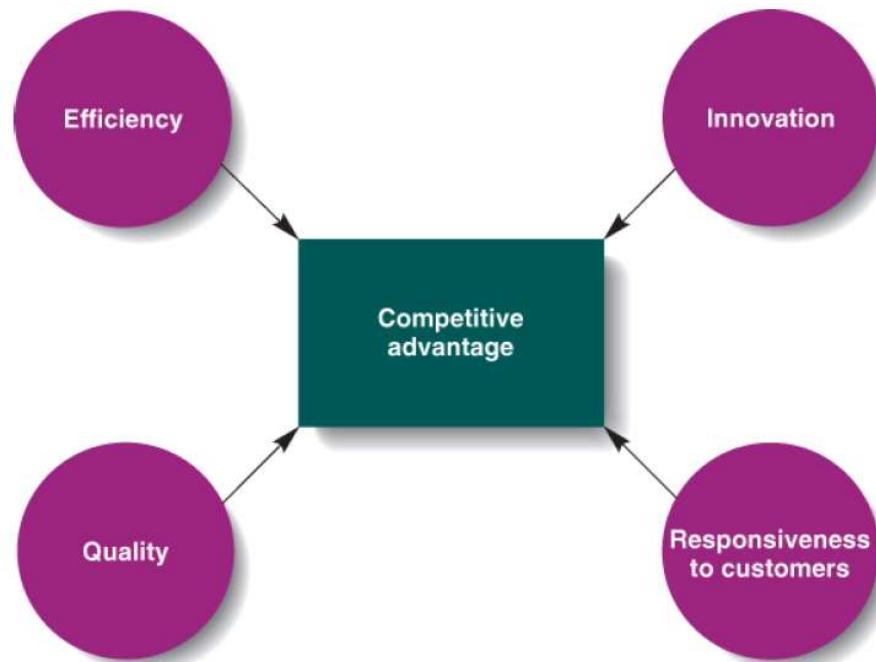
Work in group of two students for answering a) and b). For c) choose another group of two. In total you have 20 minutes available. Write your analysis down. Each member of the group is prepared to present the findings in the plenum.

Development of a strategy



- Enterprises are in competition with several others, therefore, in order for an enterprise to survive in the long term, it must develop a competitive advantage
- Strategy is on the enterprise's mission, the development of which requires an analysis of the enterprise itself as well as the environment

Recall: Competitive advantages



Efficiency

An organization increase their efficiency when they reduce the quantity of resources used

Quality

Total quality management (TQM) as a quality improvement instrument

Innovation

The process of creating new or improved goods and services. E.g. electric cars, self driving cars

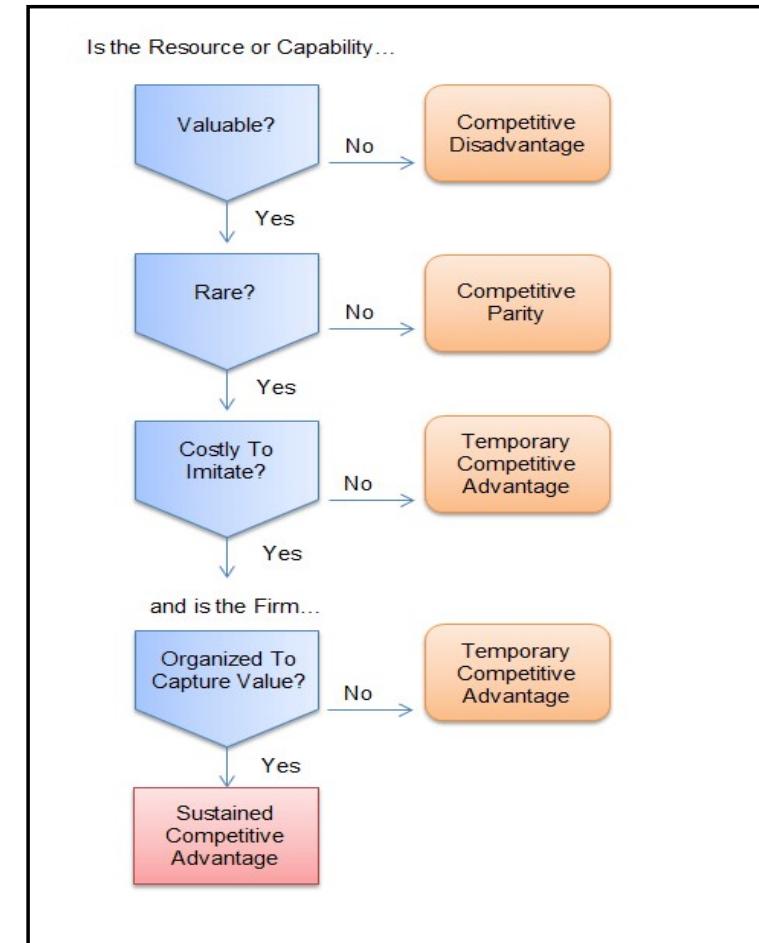
Flexibility

Ability to react to changes of the market demand

VRIO as a systematic approach to evaluate competitive advantages

Competitive advantages

- Gives the organization the ability to outperform its competitors because it produces goods and services cheaper or at higher quality than the competitors
- A systematic approach to identify competitive advantages is the VRIO method
- VRIO stands for the first letters of valuable, rare, costly to imitate and organized to capture value



VRIO as a systematic approach to evaluate competitive advantages

Valuable: A resource and / or capability adds value by enabling an organization to exploit opportunities or defend against threats

Key questions to identify valuable resources:

- Which activities lower the cost of production without decreasing perceived customer value?
- Which activities increase product or services differentiation and perceived customer value?
- Has the organization access to scarce raw materials or are those hard to get in the distribution channel?
- Has the organization employees with unique skills and capabilities?

VRIO as a systematic approach to evaluate competitive advantages

Rare: A resource and / or capability that can only be acquired by one or a very few companies is considered rare

Key questions to identify rare resources:

- How many other organizations own the resources or can perform the capability in the same way that organization can?
- Can a resource be easily bought in the market by the competitors?
- Can the competitor obtain the resource or capability in the near future?

VRIO as a systematic approach to evaluate competitive advantages

Costly to imitate: Other organizations can not imitate or substitute the resources / capability at a reasonable price

Key questions to identify valuable resources:

- Can competitors easily duplicate a resource?
- Can competitors easily develop a substitute resource?
- Does the organization have patents, trademarks or copyrights?
- Is it hard to identify the processes, tasks or other factors that form the resource?

VRIO as a systematic approach to evaluate competitive advantages

Organized to capture value: Are the organizations management systems, processes, policies organizational structure and culture structured to fully realize the potential of its valuable, rare and costly to imitate resources and capabilities?

Key questions to identify rare resources:

- Does the organization have an effective strategic management process?
- Are there effective motivation and reward systems in place?
- Does the culture of the organization reward innovative ideas?
- Is the organizational structure designed to use the resources?

VRIO Model

Exercise #2:

Using the VRIO method for identifying the strengths and weaknesses of the company «Ferrari». Beside the resources listed below, you may find other resources that are important for the company:

- Special skilled employees
- Companies reputation
- Special contracts with suppliers
- Customer service
- Capital
- Product quality
- ...

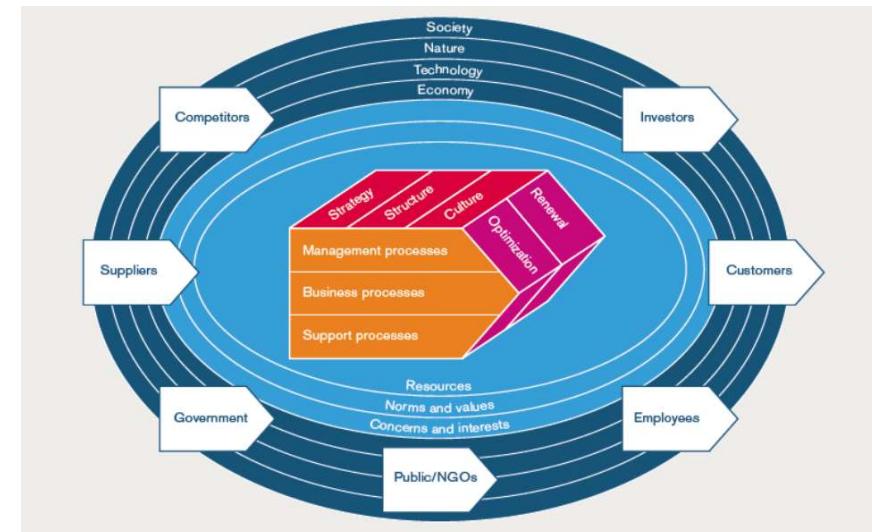


Work in groups of max. four students. You have 30 minutes available. Be prepared to present your findings to the class.

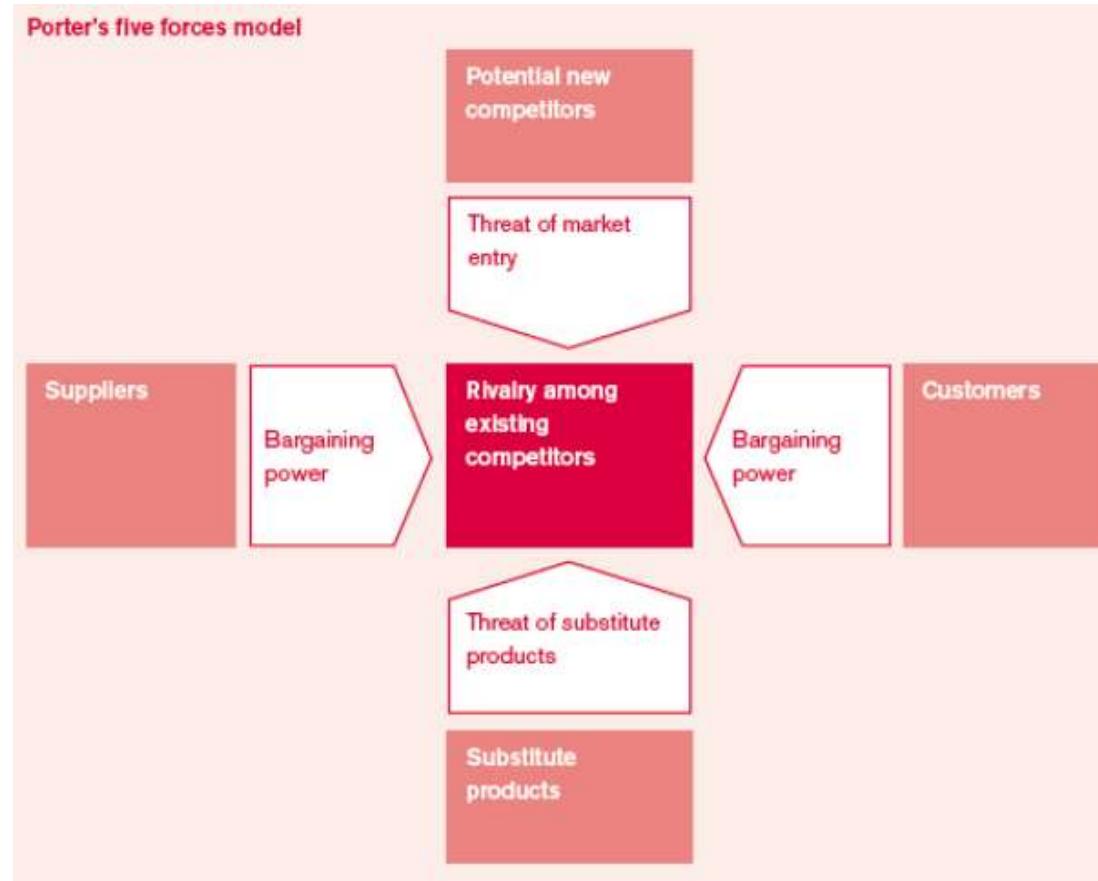
Environmental analysis

- A successful strategy cannot be considered in isolation from the opportunities and threats that arise externally, and which therefore can not be influenced by the company
- An environmental analysis includes an industry analysis, market analysis and analysis of the general environment
- The general environment analysis is done by the analysis of the environmental sphere and the stakeholders (see session 3: models)

Note: Analysis of the general environment, which is the environmental sphere, and the stakeholders, are in general also good source for identifying external factors



Environmental analysis: Porter's five forces model



Source: Capaul, p. 96

Environmental analysis: Porter's 5 forces model

Factor	Questions
Intensity of competition in the industry (number of competitors and rivalry between them)	<ul style="list-style-type: none">▪ Who are my competitors?▪ What strategy are they pursuing?▪ What products and services do they offer (similar, different)?▪ How high are their costs to produce these goods (cost advantage)?▪ How do they stand out from us (differentiation advantage)?▪ What special relationship do they have with certain customer groups?▪ What are their resources?
Bargaining power of customers to influence prices and delivery conditions	<ul style="list-style-type: none">▪ Are the customers in a dominant position?
Bargaining power of suppliers to influence prices and delivery conditions	<ul style="list-style-type: none">▪ Do suppliers have significant bargaining power?
Potential new competitors	<ul style="list-style-type: none">▪ Are there any new companies that want and could enter the industry?
Substitute products (replacements)	<ul style="list-style-type: none">▪ Is there a risk of substitute products or innovations?

SWOT Analysis

		Environment	
		Threats	Opportunities
Enterprise	Strengths	What strengths can help us avoid future threats?	What strengths can help us benefit from future opportunities?
	Weaknesses	What combination of weaknesses and threats represents a risk of future danger?	What weaknesses hinder us from taking advantage of future opportunities?

Source: Capaul,
p. 555

- Company uses its strengths to meet opportunities or to avoid threats from the environment.
- Company should take a defense strategy for the weaknesses either by turning a weakness into a strength or to sell weak businesses / divisions.

Questions for SWOT analysis

Potential Strengths	Potential Opportunities	Potential Weaknesses	Potential Threats
Well-developed strategy?	Expand core business(es)?	Poorly developed strategy?	Attacks on core business(es)?
Strong product lines?	Exploit new market segments?	Obsolete, narrow product lines?	Increase in domestic competition?
Broad market coverage?	Widen product range?	Rising manufacturing costs?	Increase in foreign competition?
Manufacturing competence?	Extend cost or differentiation advantage?	Decline in R&D innovations?	Change in consumer tastes?
Good marketing skills?	Diversify into new growth businesses?	Poor marketing plan?	Fall in barriers to entry?
Good materials management systems?	Expand into foreign markets?	Poor materials management systems?	Rise in new or substitute products?
R&D skills and leadership?	Apply R&D skills in new areas?	Loss of customer goodwill?	Increase in industry rivalry?
Human resource competencies?	Enter new related businesses?	Inadequate human resources?	New forms of industry competition?
Brand-name reputation?	Vertically integrate forward?	Loss of brand name?	Potential for takeover?
Cost of differentiation advantage?	Vertically integrate backward?	Growth without direction?	Changes in demographic factors?
Appropriate management style?	Overcome barriers to entry?	Loss of corporate direction?	Changes in economic factors?
Appropriate organizational structure?	Reduce rivalry among competitors?	Infighting among divisions?	Downturn in economy?
Appropriate control systems?	Apply brand-name capital in new areas?	Loss of corporate control?	Rising labor costs?
Ability to manage strategic change?	Seek fast market growth?	Inappropriate organizational structure and control systems?	Slower market growth?
Others?	Others?	High conflict and politics?	Others?

Source: Jones and George, 2020, p. 223.

Porter's Five Forces Model / SWOT Analysis

Exercise #3:



Adapt Porter's forces model to the company Ferrari and the market for luxury high-end sports cars. In doing so you can identify the opportunities (O) and threats (T).

Use your results from exercise #2 and #3 and finalize your SWOT analysis for Ferrari. For each box of the 4 boxes of the SWOT analysis, define one concrete strategy for Ferrari.

Work in groups of max. 4 students. You have for Porter's five forces analysis and the finalization of the SWOT analysis. You have 30 minutes available. Be prepared to present your findings to the class.



Questions?



References

Capaul, R., Steingruber, D. (2014): Business Studies – An introduction to the St. Gallen Management Model, 1st edition, Cornelsen Schulverlage: Wien.

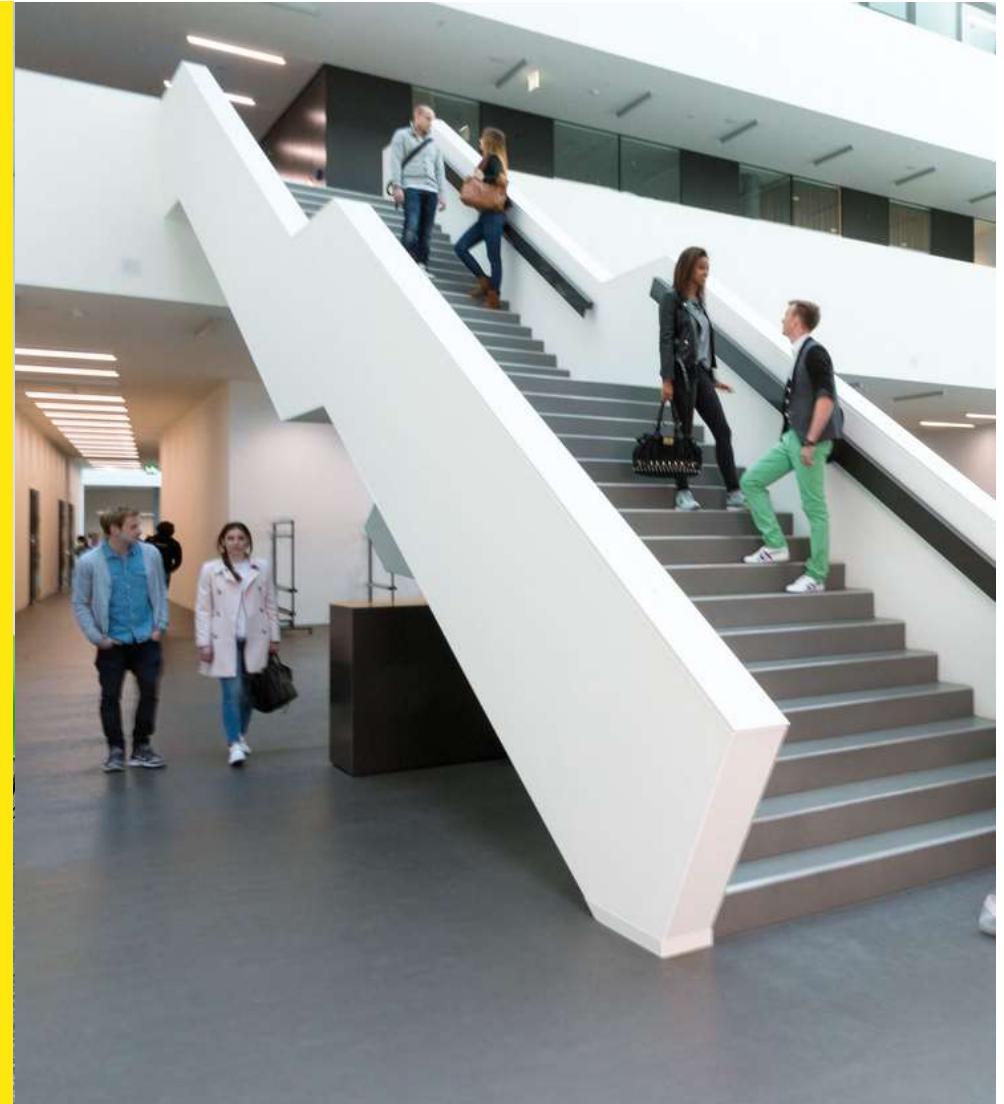
Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill.

Principles of Management (PoM)

06 – Strategy II

Brido Schuler

4. September 2023



Learning objectives (LO)

- LO6-1 Explain the elements of Ansoff's growth strategies model and adapt the model to specific cases
- LO6-2 Explain the elements of Porter's generic strategies and adapt the model to specific cases
- LO6-3 Explain the elements of the BCG portfolio analysis and adapt the model to concrete cases

Content

- Ansoff's growth strategies
- Porter's generic strategies
- BCG portfolio analysis
- Product life cycle

Types of strategies: Ansoff's growth strategies

- Ansoff identifies four growth strategies:

Product	New	Product development	Diversification
	Current	Market penetration	Market development
	Current		New
		Market	

Source: Capaul, p. 103

Types of strategies: Ansoff's growth strategies

Strategy	Description	Measures
Market penetration	Increases sales of current products in the traditional market	<ul style="list-style-type: none">Sell more to existing customersEntice customers from the competitors (crowding-out effect)
Market development	Sell current products in new markets (areas and / or customer groups)	<ul style="list-style-type: none">Access foreign marketsSlightly adapt products to reach new target groups
Product development	Develop new products for current markets	<ul style="list-style-type: none">Develop a real market innovations (product innovation)Improve existing products (product optimization)
Diversification	Develop new products for new markets	<ul style="list-style-type: none">Include very similar products in the product range (horizontal diversification)Include new products from up- or downstream stages of the value chain (vertical diversification)Include product-market area that has no relationship with the current product offering (lateral diversification)

Source: Capaul, p. 103



Exercise #1: Diversification strategies

In order to grow, a company can, among other possibilities, opt for a diversification strategy. The three types of diversification are: vertical, horizontal and a lateral diversification (see one slide before)

- Locate two examples of each of the three types of diversification.
- List the possible reasons why a company might opt for diversification strategy.

Exercise #2: Ansoff's growth strategies

The carproducer “Drive” produces a single vehicle model for the German market. The CEO of the company has set a growth target, but he is not sure how to proceed in order to achieve this goal. He asks you for help. What are the different strategies you could recommend to him. Give for each strategy a concrete example and explain it.

You have in total 20 minutes available for Ex1 and Ex2. Work in groups of two to four students. Be prepared to explain / present your findings to the class.

Porter's generic strategies

- In the long run, above-average entrepreneurial performance depends on competitive advantages that allow an enterprise to compete
- Porter systematized the different competitive strategies that can allow enterprises to achieve competitive advantage

		Strategic advantage (performance or cost)	
Strategic target	Industry-wide (total market coverage)	Differentiation (quality leadership)	Cost leadership
	Restriction to segment (partial coverage)	Concentration on niches	

Source: Capaul, p. 105

Porter's generic strategies

Strategy	Description	Measures
Differentiation / quality leadership	By implementing this strategy, the enterprise attempts to consistently set itself apart from the competition in order to shield itself from pricing pressure. The product must offer customers added value, in comparison with alternative products, thereby increasing customers' willingness to pay (be different than the competitors).	Differentiation is achieved by ensuring that the product or service represents a certain uniqueness for the customer.
Cost leadership	By implementing this strategy, an enterprise tries to develop a cost advantage over the competition and thus either increase sales by offering a lower price in the market or retain a higher margin at the same price (produce more cheaply than the competitors).	Identification and elimination of cost drivers in purchasing, manufacturing, sales and service.
Focus strategy	By implementing this strategy, an enterprise tries to differentiate itself in a particular market niche or achieve cost leadership to achieve the goal more efficiently and effectively (meeting a very specific need).	A market niche can mean a particular customer group, a section of a product range, or a specific geographically based market.

Source: Capaul, p. 105

BCG Portfolio Analysis

- Portfolio analysis divides the products / services of an enterprise into four categories and derives from the strategy that will make the best of existing scarce resources



Source: Capaul, p. 107

BCG Portfolio Analysis

Category	Description	Recommended strategy
Stars	The enterprise enjoys a high market share with these products in a growing market, but this share must be protected against the competition.	Investment strategy Continue to invest in the marketing and development of these products
Cash Cows	The enterprise has a high market share and still earns profits with these products in a stagnating market.	Skimming strategy End investment in these products and use profits to finance other products
Poor Dogs	The enterprise has a low market share and still earns profits with these products in a stagnant market, so resulting profits are low.	Divestment strategy These products have poor future prospects and should be taken off the market in order to free up valuable resources
Question Marks	The enterprise has low market share with these products in growing market. These products are the potential stars of the future and should therefore be scrutinized of their chances of success.	Investment strategy Considerable resources should be invested in these products in order to achieve a sufficiently large market share. Divestment strategy If the chances of these products to win market share are poor, they should be withdrawn from the market

Source: Capaul, p. 107

Exercise #3: BCG Portfolio Analysis



Chose a company you are familiar with, eg. the company you are working for or you worked for in the past. Alternatively, you can chose a company of your special interest. Perform a research on the company, eg. by searching the internet. Get familiar with the products of the company and perform a BCG portfolio analysis. Be prepared to explain and present your findings to the class.

Work in groups of two to five students. You have 20 minutes available.

Exercise #4: Falkenhaus



The company Falkenhaus was established over 200 years ago as a winery. Today it is a highly specialized provider best quality juices. The core competencies of the company are the production of high-quality juice and distribution of health food. Falkenhaus is engaged in the four business areas juice, wine, tea and water. The distribution area of the products is Germany, Switzerland and Austria. Answer the questions on the next slide using the table below:

Business area	Market volume in CHF Mio.	Market growth	Market share Falkenhaus	Market share of the largest competitor
Juice	125	1%	45%	15%
Wine	23	16%	20%	25%
Tea	50	18%	42%	35%
Water	150	3%	5%	25%

Exercise #4: Falkenhaus (continued)



- a) Falkenhaus wants to achieve greater penetration in the wine market. Describe one way in which this goal could be achieved.
- b) Specify a potential product development for the tea sector.
- c) Explain what is involved in vertical diversification and provide an example of a possible vertical diversification for Falkenhaus.
- d) Perform a portfolio analysis for Falkenhaus and use this to make strategy recommendations for the individual divisions. Justify your recommendations.

You have in total 30 minutes. Work in groups of two to four students. Be prepared to explain / present your findings to the class.

Exercise #5: Fuji got digitized early



The Japanese manufacturer of film and photo equipment Fuji Photo Film entered the business of digital photography early. It was among the pioneers in the field of digital cameras in the 1980s and is now the No. 4 camera manufacturer in the world.

This strategy has paid off: In the last fiscal year ending March 2004, the company earned a profit of 180.4 billion yen (2 billion CHF) on sales of 2,560 billion yen (30 billion CHF, +2.2% year-over-year) or 13% more than the year before. Sales of digital cameras increased by 36% to 6.25 million units. The firm has also established itself as a manufacturer of chips for digital cameras and camera phones.

However, the firm is also feeling the effects of fierce price competition in the industry. Analyst criticize its slow development of new models. For the current fiscal year, the company has budgeted restructuring costs of 20 billion yen. Among other things, the distribution system should be streamlined. Operating profit is expected to decline by 9% even as growth opportunities are expected in the areas of high-resolution printers as well as sensors for mobile phones and digital cameras.



Exercise #5: Fuji got digitized early (continued)

The classical photography market is declining. However, Fuji in 2003 still generated 42% of sales from analogue products: film, photo paper, chemicals for photo processing, and printers. Over the next three years, this share is expected to drop 31%. Analogue photography remains significant in developing countries like India and China. In the case of the U.S. rival Kodak, according to Citigroup, the proportion of the analogue firm business is still 64% and will drop to 43% by 2007. Its home market share of almost 70% in the analogue photo business. Kodak retains modest 12%, and Agfa a 0.4%.

Allocate the Fujifilm products mentioned in the article above to the different categories of portfolio analysis. Work on your own. You have 15 minutes available.

Product life cycle



Source: Capaul, p. 108

- The product life cycle represents a classification of products at the different stages of their useful life

Product life cycle

	Phase						
Criterion	Development	Introduction	Growth	Maturity	Saturation	Decline	Residual
Sales/ market volume	None yet	Low	Rapidly growing	Slow growing	Stagnant	Shrinking	No longer
Costs	High (R & D)	High (advertising and marketing)	Shrinking	Low	Low	Low	Ending
Profits	Negative	Negative	Income threshold reached (break-even) → P.380 Break-even analysis	Growing	High	Shrinking	Negative
Competitors	Few (pioneering enterprises)	Growing number (follower enterprises)	Many	Many	Declining number (market exits)	–	–
Strategy	– Investment or disinvestment	– Investment or disinvestment – Growth strategies – Competitive (generic) strategies	– Investment or disinvestment – Growth strategies – Competitive (generic) strategies	– Skimming or disinvestment – competitive strategies	– Skimming or disinvestment – competitive strategies	–	–
Remarks	– Product idea – Product development and testing – Implementation	– Market launch – Probation and establishment – Small number of units – Low awareness	– Majority of newly launched products never reaches this stage – Repeat purchases and new buyers – Imitation (me-too) products – Differentiation through a clever marketing mix	– Predatory competition – Fight for market share through differentiation or cost leadership	– Customer needs largely satisfied – Predatory competition – Fight for market share through differentiation or cost leadership	– Market entry of better, cheap products/substitutes	– Warranty support – Spare parts supply – Collection and disposal of old products – Disinvestment of resources

Source: Capaul, p. 109

Questions?



References

- Capaul, R., Steingruber, D. (2014): Business Studies – An introduction to the St. Gallen Management Model, 1st edition, Cornelsen Schulverlage: Wien.
- Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill.

Principles of Management (PoM)

07 – Managing organizational structure and culture

Brido Schuler

4. September 2023



Learning objectives (LO)

LO7-1 Identify the factors that influence managers' choice of an organizational structure

LO7-2 Explain how managers group tasks into jobs that are motivating and satisfying for employees

LO7-3 Describe the types of organizational structures managers can design and explain why they choose one structure over another

LO7-4 Explain why managers must coordinate jobs, functions, and divisions using the hierarchy of authority and integrating mechanisms

LO7-5 List the four sources of organizational culture and explain why and how a company's culture can lead to competitive advantage

Content

- Designing organizational structure
- Grouping tasks into job: job design
- Grouping jobs into functions and divisions: designing organizational structure
- Coordinating functions and divisions
- Organizational culture

Designing organizational structure

Organizational architecture

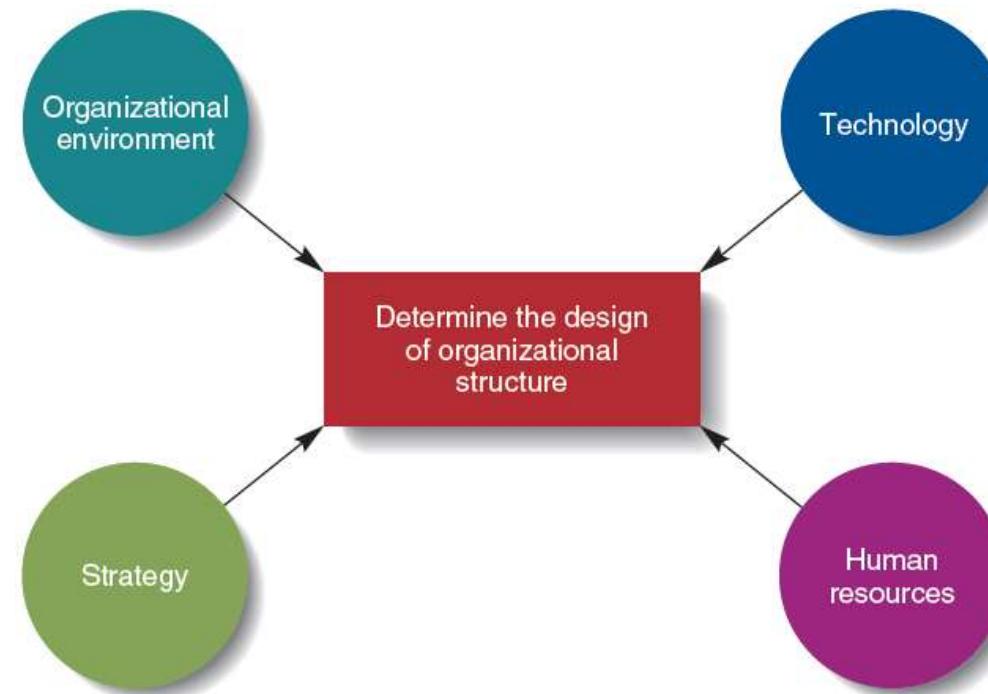
- The organizational structure,
- control systems,
- culture, and
- human resource management systems

that together determine how efficiently and effectively organizational resources are used

Jones and George (2020, p. 274). Contemporary Management. New York: McGraw-Hill, 11th edition

Designing organizational structure

Factors affecting organizational structure



Jones and George (2020, p. 275).
Contemporary Management. New York: McGraw-Hill, 11th edition

Designing organizational structure

The organizational environment

- The quicker the environment changes, the more problems face managers.
- Structure must be more flexible (i.e., decentralized authority) when environmental change is rapid.
- In contrast, if the external environment is stable, resources are readily available, and uncertainty is low, then less coordination and communication among people and functions are needed to obtain resources.

Strategy

- Different strategies require the use of different structures.
- A **differentiation strategy** needs a flexible structure, **low cost strategy** may need a more formal structure.
- Increased vertical integration or diversification also requires a more flexible structure.

Designing organizational structure

Technology

- The combination of (1) skills, (2) knowledge, (3) machines and (4) computers are used to design, make and distribute goods and services.
- As a rule, the more complicated the technology that an organization uses, the more difficult it is to regulate or control it because more unexpected even can arise.
- Technology can be measured by:
 - **Task variety** is the number of new or unexpected problems or situations that a person or function encounters in performing tasks or jobs.
 - **Task analyzability** is the degree to which programmed solutions are available to people or functions to solve the problems they encounter.
- High task variety and low analyzability present many unique problems to managers.
 - Flexible structure works best in these conditions.
- Low task variety and high analyzability allow managers to rely on established procedures.

Designing organizational structure

Human resources

- The more highly skilled its workforce, and the greater the number of employees who work together in groups or teams, the more likely an organization is to use a flexible, decentralized structure and a professional culture based on values and norms that foster employee autonomy and self-control.
- Flexible structures, characterized by decentralized authority and empowered employees, are well suited to the needs of highly skilled people.
- Managers must take into account all four factors (environment, strategy, technology and human resources) when designing the structure of the organization.

Jones and George (2020, p. 276). Contemporary Management. New York: McGraw-Hill, 11th edition

Exercise #1: Factors affecting organizational structure



Would a flexible or a more formal structure be appropriate for each of these organizations?

- (a) A large department store
- (b) A big four accountancy firm
- (c) A biotechnology company

Discuss with your neighbor for 10 minutes. Explain your reasoning.

Designing organizational structure

The way an organization's structure works depends on the choices managers make about:

- (1) How to group tasks into individual jobs.
- (2) How to group jobs into functions and divisions.
- (3) How to allocate authority and coordinate or integrate functions and divisions.

Job design

- The process by which managers decide how to divide tasks into specific jobs (**division of labor**)
- The appropriate **division of labor** results in an effective and efficient workforce

Jones and George (2020, p. 309). Contemporary Management. New York: McGraw-Hill, 10th edition

Grouping tasks into jobs: job design

Example of job design:



Two roles

Chefs: cooking the food (putting oil in the fryers, opening packages of frozen French fries, putting beef patties on the grill making salad etc.)

Food servers: greeting customers, taking orders, putting burgers and fries into bags etc.



One role

The roles of chefs and food servers are combined in one.

Grouping tasks into jobs: job design

Job Simplification

- The process of reducing the number of tasks that each worker performs.

Job Enlargement

- Increasing the number of different tasks in a given job by changing the division of labor.

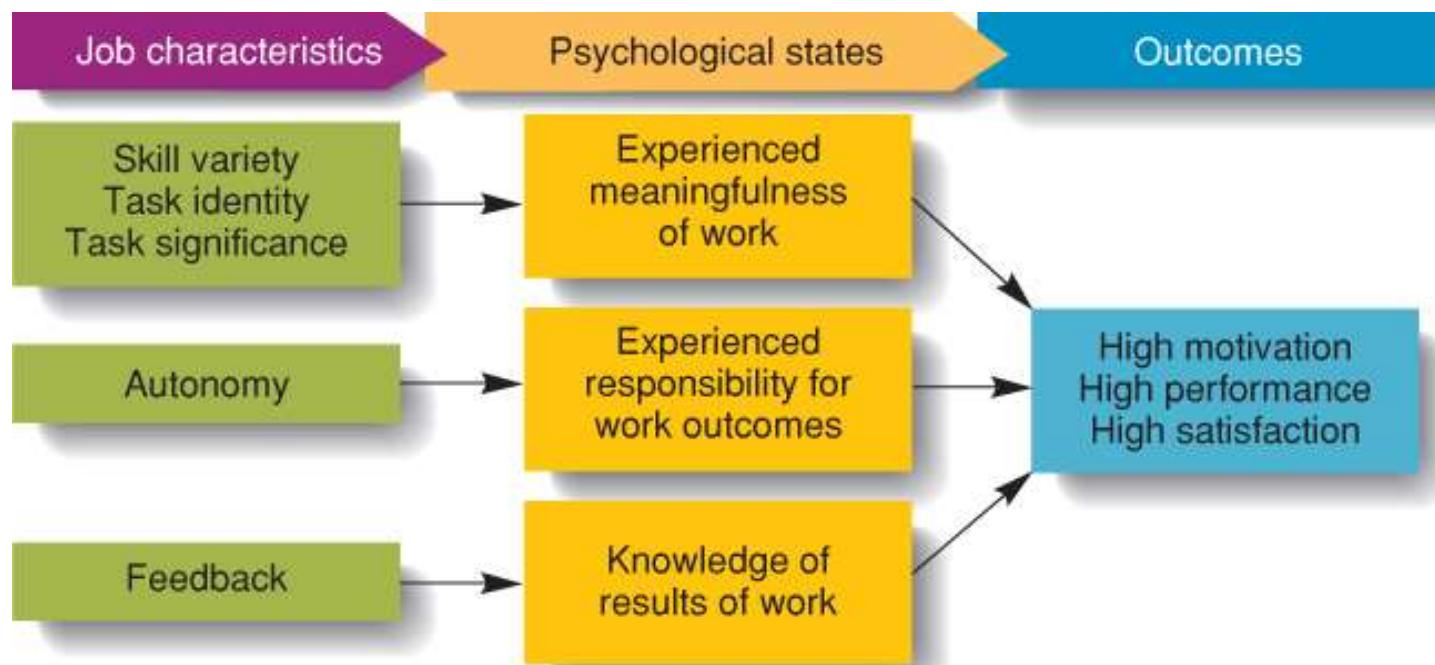
Job Enrichment

- Increasing the degree of responsibility a worker has over his or her job.
 - (1) Empowering workers to experiment to find new or better ways of doing the job.
 - (2) Encouraging workers to develop new skills.
 - (3) Allowing workers to decide how to do the work and giving them the responsibility for deciding how to respond to unexpected situations.
 - (4) Allowing workers to monitor and measure their own performance.

Designing organizational structure

Job characteristics model

<https://www.bing.com/videos/search?q=explanation+video+job+characteristics+model&view=detail&mid=985B6AF2AFF1220904A4985B6AF2AFF1220904A4&FORM=VIRE>



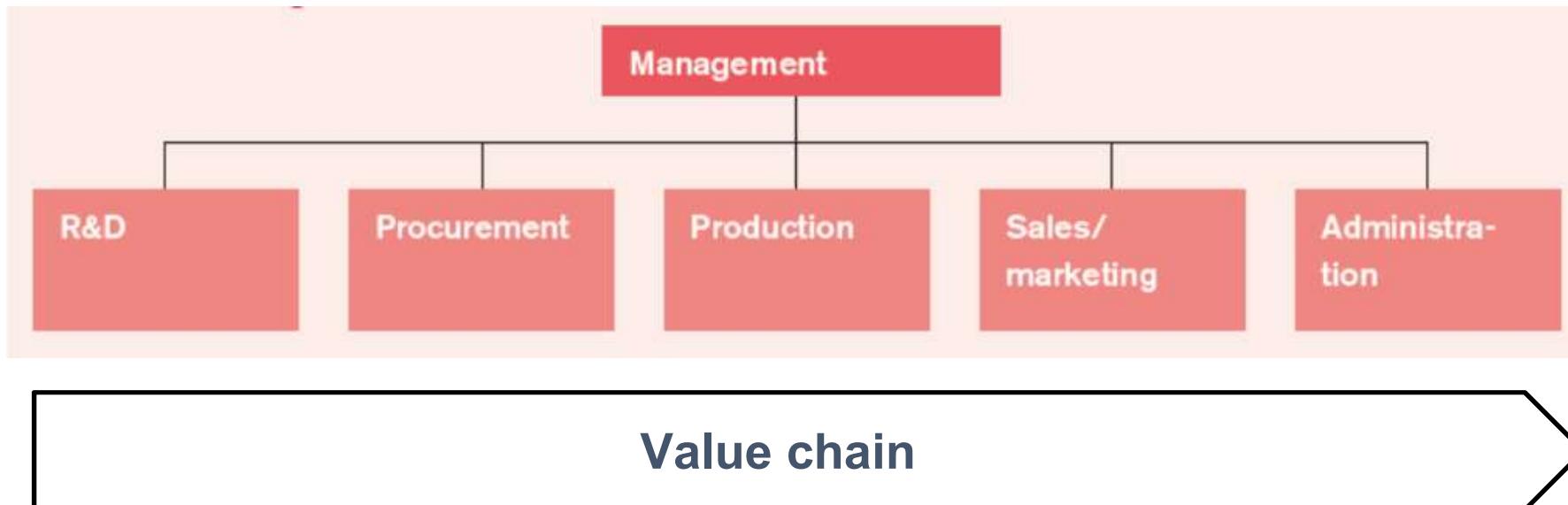
Exercise #2: Job design: Job enlargement and job enrichment



How might a salesperson's job or an administrative assistant' job be enlarged and / or enriched to make it more motivating?

Discuss with your group of max. 4 students for 15 minutes. Explain your reasoning and write it down. Be prepared to present your findings to the class.

Example of a functional structure



Capaul (2014, p. 163). Business studies.
Berlin: Cornelison, first edition

Functional structure

Advantages

- Encourages learning from others doing similar jobs.
- Easy for managers to monitor and evaluate workers.
- Allows managers to create the set of functions they need in order to scan and monitor the competitive environment.

Disadvantages

- Difficult for departments to communicate with others.
- Preoccupation with own department and losing sight of organizational goals.

Jones and George (2020, p. 280). Contemporary Management. New York: McGraw-Hill, 11th edition

Types of divisional structure

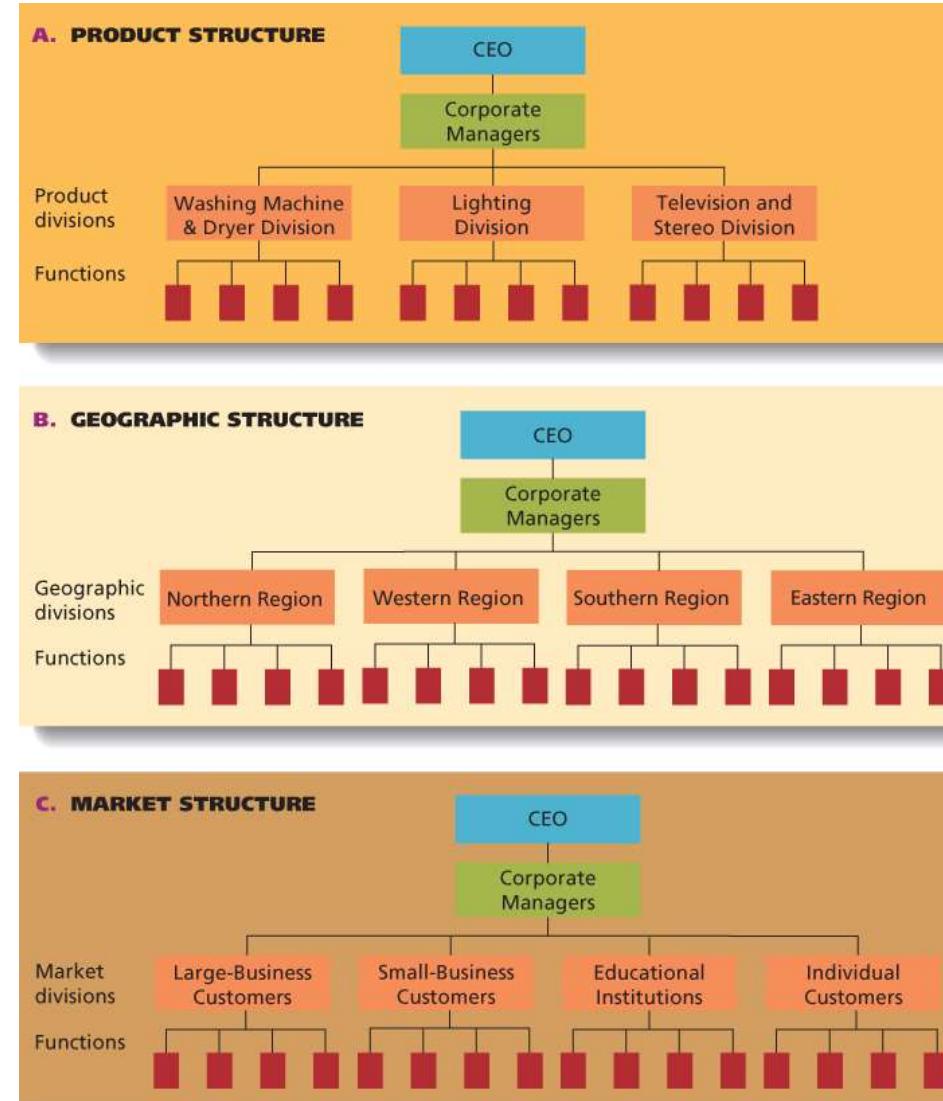
Product, market and geographical structures

- An organizational structure composed of separate business units within which are the functions that work together to produce a specific product for a specific customer.
- Product, market and geographic structures.

Jones and George (2020, p. 282). Contemporary Management. New York: McGraw-Hill, 11th edition

Types of divisional structure

Product, market and geographic structures



Jones and George (2020, p. 283).
Contemporary Management. New York: McGraw-Hill, 11th edition

Types of divisional structure

- **Product Structure**

- An organizational structure in which each product line or business is handled by a self-contained division.
- Divisional managers have the responsibility for devising an appropriate business-level strategy to allow the division to compete effectively in its industry.

- Allows functional managers to specialize in one product area.
- Division managers become experts in their area.
- Removes need for direct supervision of division by corporate managers.
- Divisional management improves the use of resources.

Jones and George (2020, p. 282). Contemporary Management. New York: McGraw-Hill, 11th edition

Types of divisional structure

Geographic Structure

- An organizational structure in which each region of a country or area of the world is served by a self-contained division.
- Divisions are broken down by geographic location.

Global geographic structure

- Managers locate different divisions in each of the world regions where the organization operates.
- Generally, occurs when managers are pursuing a multi-domestic strategy.

Jones and George (2020, p. 284). Contemporary Management. New York: McGraw-Hill, 11th edition

Types of divisional structure

Market structure

- An organizational structure in which each kind of customer is served by a self-contained division, also called customer structure.
- Groups divisions according to the particular kinds of customers the company serves.
- Allows managers to be responsive to the needs of their customers and act flexibly in making decisions in response to customers' changing needs.

Exercise #3:



When and under what conditions might managers change from (a) a functional, to (b) a geographic, or to (c) a market structure?

Work in your group with max. 4 students. You have 10 minutes available.

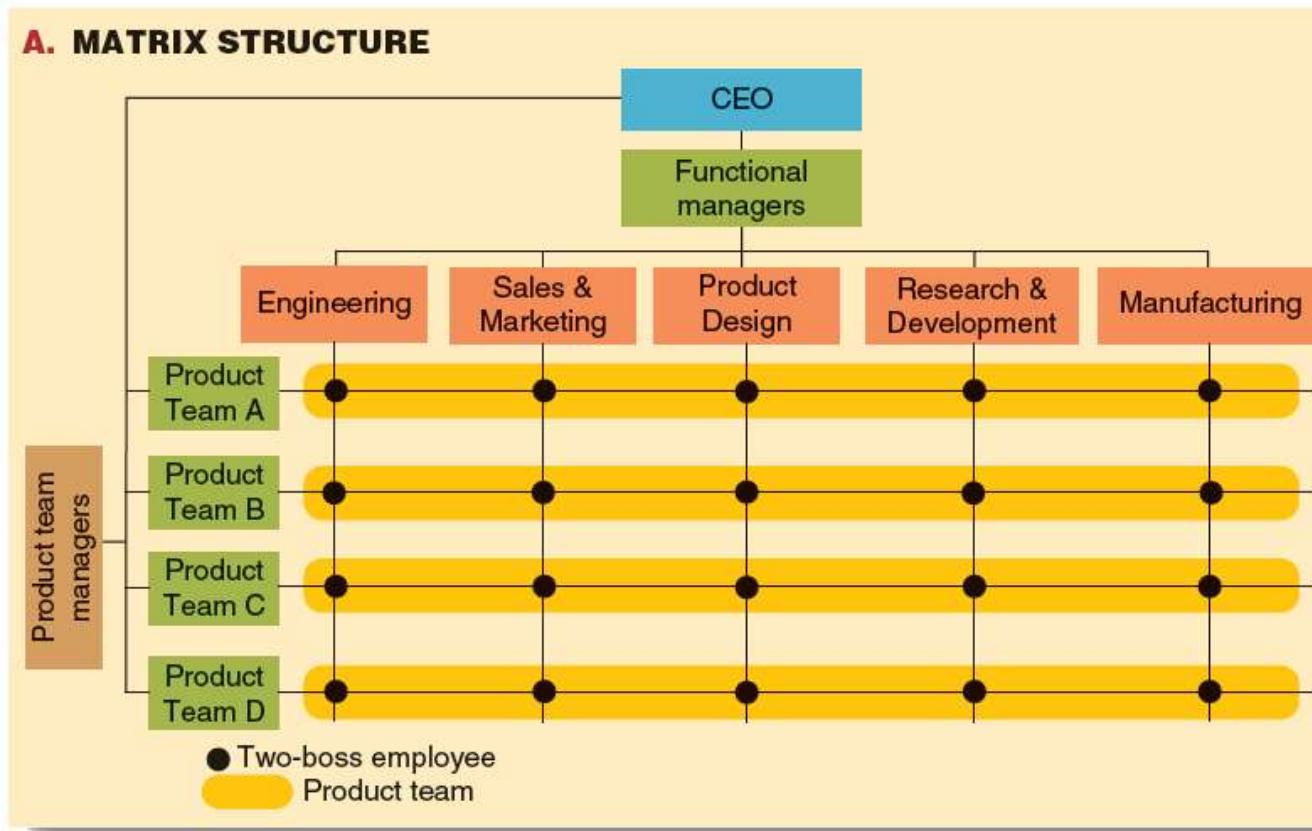
Matrix and product team designs

Matrix structure

- An organizational structure that simultaneously groups people and resources by function and product.
 - Results in a complex network of superior-subordinate reporting relationships.
- The structure is very flexible and can respond rapidly to the need for change.
- Each employee has two bosses
 - (functional manager and product manager) and possibly cannot satisfy both.

Jones and George (2020, p. 286 - 288).
Contemporary Management. New York: McGraw-Hill,
11th edition

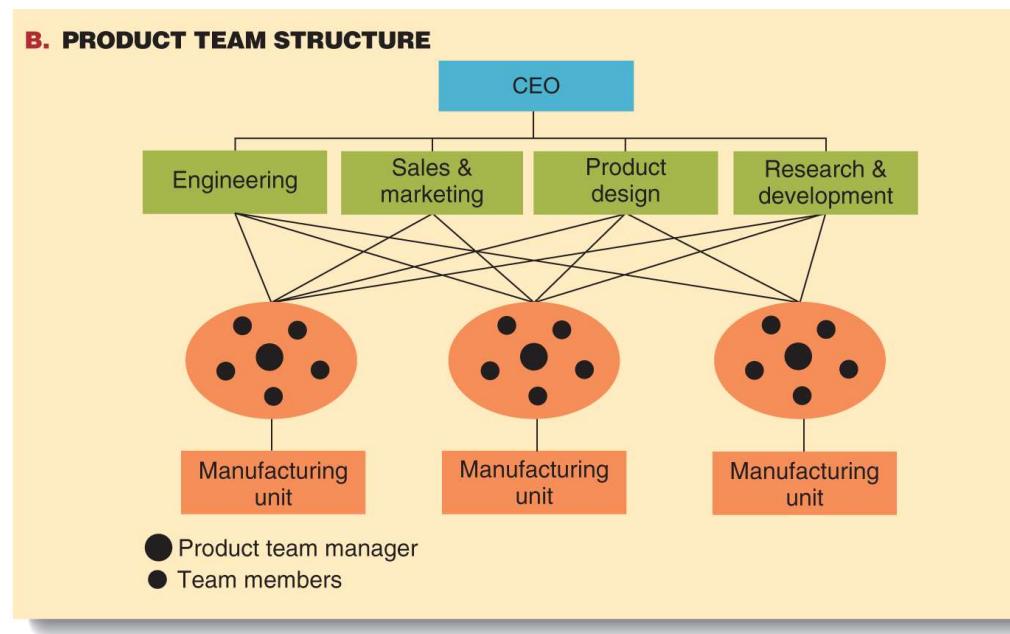
Matrix structure



Jones and George (2020, p. 287). Contemporary Management. New York: McGraw-Hill, 11th edition

Product team structure

- An organizational structure in which employees are permanently assigned to a cross-functional team and report only to the product team manager or to one of his direct subordinates.
- Does away with dual reporting relationships and two-boss manager.



Jones and George (2020, p. 287).
Contemporary Management. New York: McGraw-Hill, 11th edition

Exercise #4:

How do **matrix structure** and product **team structure** differ? Why is product team structure more widely used?



First, read the text uploaded to moodle on your own, then second, answer the two questions in your group of max. 4 students. You have 20 minutes available. Write your findings down and be prepared to present your finding to the class.

Coordinating functions and divisions

Authority

- The power to hold people accountable for their actions and to make decisions concerning the use of organizational resources.

Hierarchy of authority

- An organization's chain of command, specifying the relative authority of each manager.
 - Span of Control: The number of subordinates that report directly to a manager.

Line Manager

- Someone in the direct line or chain of command who has formal authority over people and resources at lower levels.

Staff Manager

- Someone responsible for managing a specialist function, such as finance or marketing.

Coordinating functions and divisions

Minimum chain of command

- Top managers should always construct a hierarchy with the fewest levels of authority necessary to efficiently and effectively use organizational resources.

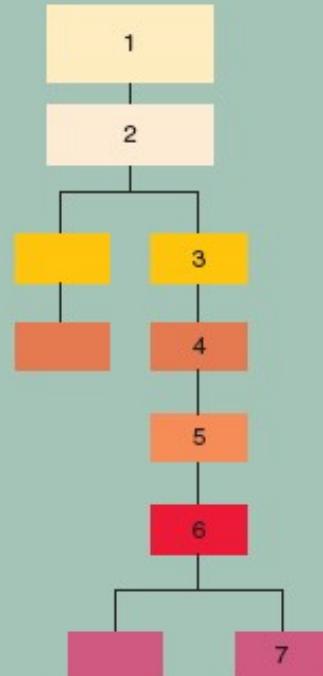
Tall structures have many levels of authority and narrow spans of control.

- As hierarchy levels increase, communication gets difficult creating delays in the time being taken to implement decisions.
- Communications can also become distorted as it is repeated through the firm.
- Can become expensive.

Jones and George (2020, p. 290 - 291).
Contemporary Management. New York: McGraw-Hill,
11th edition

Tall and flat organizations

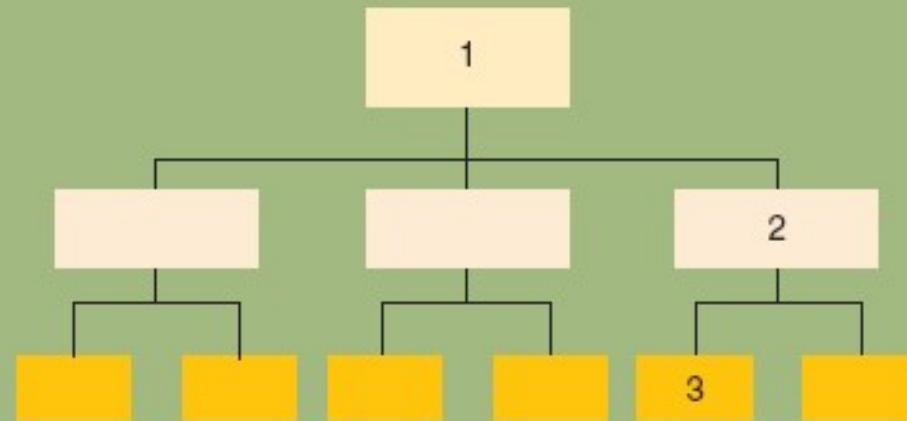
B. TALL ORGANIZATIONAL HIERARCHY (7 LEVELS IN THE HIERARCHY)



Jones and George (2020, p. 290).
Contemporary Management. New
York: McGraw-Hill, 11th edition

Tall and flat organizations

A. FLAT ORGANIZATIONAL HIERARCHY (3 LEVELS IN THE HIERARCHY)



Jones and George (2020, p. 290).
Contemporary Management. New York:
McGraw-Hill, 11th edition

Flat structures have fewer levels and wide spans of control

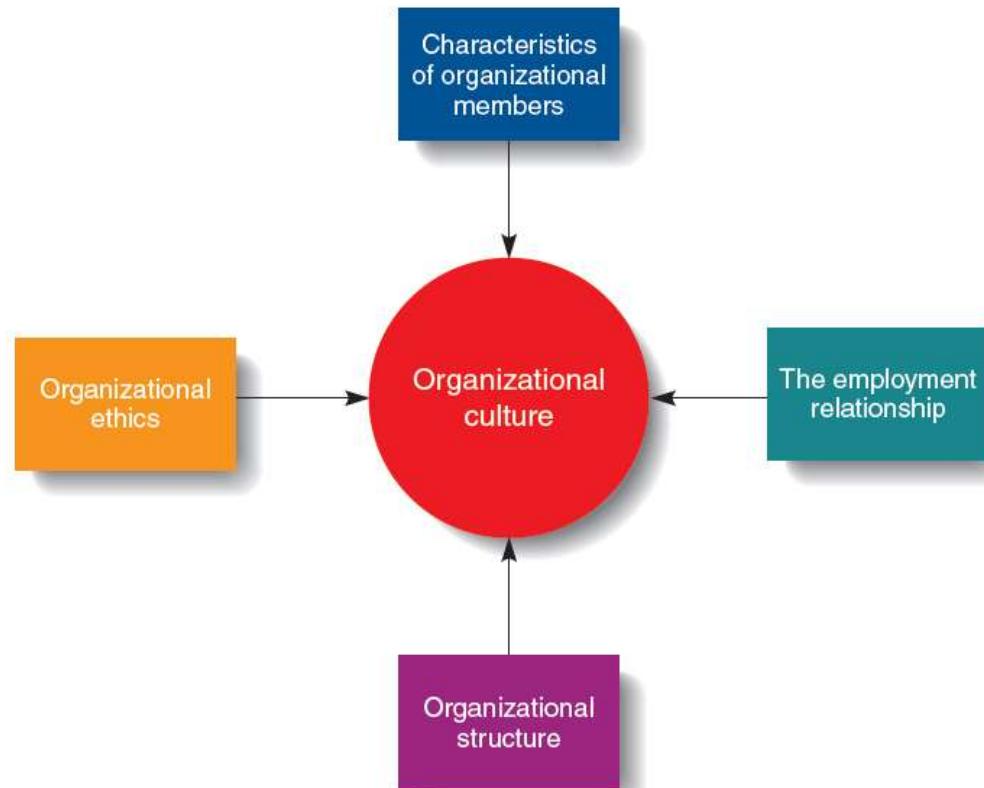
- Structure results in quick communications but can lead to overworked managers.

Exercise #5: Bob's appliances



Read first the case study on moodle on your own. Second, work with your group of max. 4 students and answer the questions. Be prepared to present your findings to the class. You have in total 20 minutes available.

Sources of organization's culture



Jones and George (2020, p. 296). Contemporary Management. New York: McGraw-Hill, 11th edition

Exercise #6: Nike



After [Nike Inc.](#) ousted a handful of male executives for [behavior issues](#) over the past few months, some media reports tied the departures to the #MeToo movement and its revelations of sexual harassment and assault. Interviews with more than a dozen former Nike employees, including senior executives, however, paint a picture of a workplace contaminated by a different behavior: corporate bullying.

Gary Namie, co-founder of the [Workplace Bullying Institute](#), who consults with businesses on workplace issues, says one reason some companies have long tolerated or even encouraged such behavior is that many American managers believe the workplace is by nature rough around the edges. “Bullying is inextricably interwoven with capitalism,” he says. “It creates a zero-sum, competitive work environment where people feel they need to obliterate their competitors.”

Exercise #6: Nike



Workplace bullying is often defined as behavior—including verbal abuse, derogatory remarks, humiliation, and undermining work performance—that results in physical or mental harm. About 1 in 5 Americans say they've been the target of it, according to a 2017 survey by Zogby Analytics that was commissioned by the Workplace Bullying Institute. Men make up 70 percent of the perpetrators and 34 percent of the targets. "It's a significant and still underreported problem," Yamada says. Surveys have shown such behavior is four times more prevalent than legally actionable sexual harassment, he says. "Bullying looms large."

Questions:

- 1) Do you think misbehavior on the part of managers is affected by organizational structure? Why or why not?
- 2) Do you think authority was misused on the part of bullying managers? Explain your reasoning.
- 3) Going forward, how can Nike revise or re-invent its organizational culture to attract and retain top talent?

Questions?



References

Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill, chapter 10 Managing organizational structure and culture.

Principles of Management (PoM)

08 – Organizational control and change

Brido Schuler

4. September 2023



Learning objectives (LO)

- LO8-1 Define organizational control and explain how it increases organizational effectiveness
- LO8-2 Describe the four steps in the control process and the way it operates over time
- LO8-3 Identify the main output controls, and discuss their advantages and disadvantages as means of coordinating and motivating employees
- LO8-4 Identify the main behavior controls, and discuss their advantages and disadvantages as means of coordinating and motivating employees
- LO8-5 Discuss the relationship between organizational control and change and explain why managing change is a vital management task

Content

- What is organizational control?
- Output control
- Behavior control
- Clan control
- Organizational change

What is organizational control?

The Control Function

https://www.viddler.com/embed/f2d43b36/?f=1&player=arpeggio&secret=89031193&make_responsive=0

Organizational Control

- Managers monitor and regulate how efficiently and effectively an organization and its members are performing the activities necessary to achieve organizational goals.
- Control, however, does not mean just reacting to events after they have occurred. It also means keeping an organization on track, anticipating events, changing the organization to respond to opportunities and threats.

What is organizational control?



Exercise #1: Discussion

The average worker spends more than 13 hours a week on email - and those hours are not limited to time spent in the office. In this 24/7 world, with people connected to multiple devices simultaneously, how can managers implement controls that help employees handle email so that the quality of their work and their work-life balance don't suffer?

What is organizational control?

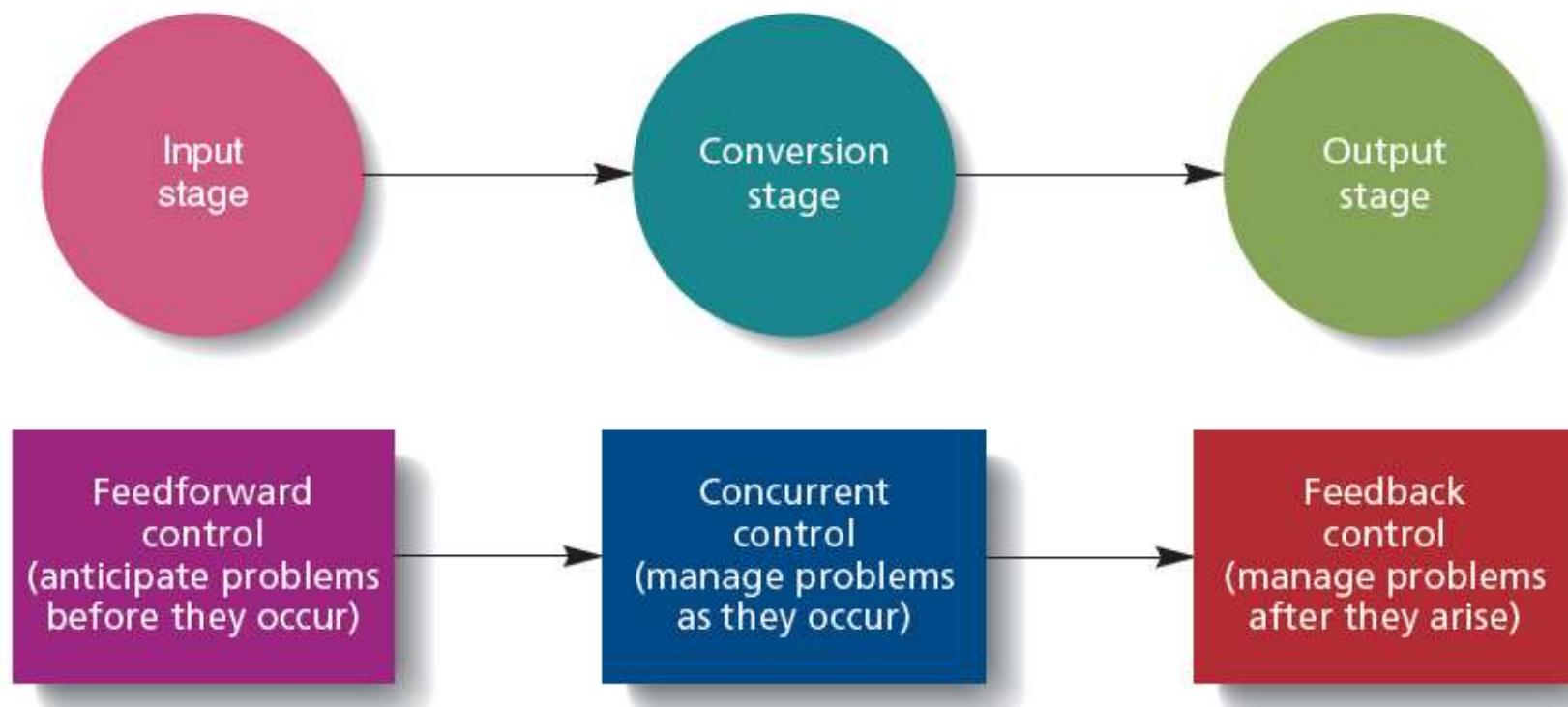
Control systems

- Formal, target-setting, monitoring, evaluation and feedback systems that provide managers with information about how well the organization's strategy and structure are working.
- An effective control system has three characteristics:
 1. be flexible so managers can respond as needed.
 2. provide accurate information about the organizational performance.
 3. provide information in a timely manner.

Jones and George (2020, p. 310). Contemporary Management. New York: McGraw-Hill, 11th edition

What is organizational control?

Three types of control



Jones and George
(2020, p. 313).
Contemporary
Management. New
York: McGraw-Hill,
11th edition

What is organizational control?

Control systems and IT

(1) Feedforward control

Control that allows managers to anticipate problems before they arise.

- Giving stringent product specifications to suppliers in advance.
- IT can be used to keep in contact with suppliers and to monitor their progress.

(2) Concurrent control

- Control that gives managers immediate feedback on how efficiently inputs are being transformed into outputs so managers can correct problems as they arise.

(3) Feedback control

- Control that gives managers information about customers' reactions to goods and services so corrective action can be taken if necessary.

What is organizational control?



Exercise #2: In groups of two students write down for each type of control two to three specific examples and explain each type.

You have 10 minutes available.

The control process

Four Steps in Organizational Control



Jones and George (2020, p. 314). Contemporary Management. New York: McGraw-Hill, 11th edition

The control process

(1) Establish standards of performance, goals, or targets against which performance is to be evaluated

- Managers at each organizational level need to set their own standards.

(2) Measure actual performance

- Managers can measure outputs resulting from worker behavior or they can measure the behavior themselves.
- The more non-routine the task, the harder it is to measure behavior or outputs.

(3) Compare actual performance against chosen standards of performance

- Managers evaluate whether - and to what extent - performance deviates from the standards of performance chosen in step (1).

(4) Evaluate the result and initiate corrective action if the standard is not being achieved

- If managers decide that the level of performance is unacceptable, they must try to change the way work activities are performed to solve the problem.

Three organizational control systems

Three types of control

Type of control	Mechanisms of control
Output control	Financial measures of performance Organizational goals Operating budgets
Behavior control	Direct supervision Management by objectives Rules and standard operating procedures
Clan control	Values Norms Socialization

Jones and George
(2020, p. 317).
Contemporary
Management. New
York: McGraw-Hill,
11th edition

Output control

1. Profit Ratios

- Measure how efficiently managers are using the organization's resources to generate profits.

1.1 Return on Investment (ROI)

- Organization's net income before taxes divided by its total assets.
- Most commonly used financial performance measure.

1.2 Operating margin

- Is calculated by dividing a company's operating profit (the amount it has left after all the costs of making the product and running the business have been deducted) by sales revenues.

Jones and George (2020, p. 318). Contemporary Management. New York: McGraw-Hill, 11th edition

Output control

Income statement

Earnings

- COGS (Costs of goods sold)

= **Gross profit**

- OPEX (=Operating expenses)

= **EBITDA**

- Depreciation

- Amortization

= **EBIT**

- Interest

= **EBT**

- Taxes

= **Net profit**

EBITDA: Earnings before interest, taxes, depreciation and amortization

EBITDA and EBITDA margin (EBITDA as % of earnings)

- Gives indications of the operative performance of the company and therefore of the performance of the operative managers.

Explanation

- Depreciation and amortization are to a certain extent subjective, depending on the depreciation policy of the company.
- Interest is dependent on the financial structure of the organization.
- Taxes are given by the country the organization is located.
- All three can not be influenced by operational managers.

Output control

2. Liquidity ratios

- ... measure how well managers have protected organizational resources to be able to meet short-term obligations.

3. Leverage ratios

- ... measure the degree to which managers use debt or equity to finance ongoing operations.

4. Activity ratios

- Show how well managers are creating value from organizational assets.

Jones and George (2020, p. 318). Contemporary Management. New York: McGraw-Hill, 11th edition

Output control

Organization wide goal setting

Corporate-level managers set goals for individual divisions that will allow the organization to achieve corporate goals.

Divisional managers set goals for each function that will allow the division to achieve its goals.

Functional managers set goals for each individual worker that will allow the function to achieve its goals.

Jones and George (2020, p. 320). Contemporary Management. New York: McGraw-Hill, 11th edition

Output control

Operating Budgets

- A budget that states how managers intend to use organizational resources to achieve organizational goals efficiently.
- Each division is evaluated on its own budgets for cost, revenue or profit.
- Managers are evaluated by how well they meet goals for controlling costs, generating revenues, or maximizing profits while staying within their budgets.

Effective output control

- The following three components are the essence of effective output control:
 - (1) Objective financial measures.
 - (2) Challenging goals and performance standards.
 - (3) Appropriate operating budgets.

Jones and George (2020, p. 320).
Contemporary Management. New York: McGraw-Hill, 11th edition

Output control

Problems with output control

Managers must create output standards that motivate at all levels

- They must be careful not to create short-term goals that motivate managers to ignore the future.

Should not cause managers to behave in inappropriate ways to achieve organizational goals

- If standards are set too high, workers may engage unethical behaviors to attain them.

Jones and George (2020, p. 321). Contemporary Management.
New York: McGraw-Hill, 11th edition

Behavior control

Three mechanisms of behavior control: Direct supervision, Management by objectives (MbO), Bureaucratic Control

Direct supervision

- Managers who actively monitor and observe the behavior of their subordinates:
 - teach subordinates appropriate behaviors.
 - intervene to take corrective action as needed.
- Most immediate and potent form of behavioral control.
- Can be an effective way of motivating employees.

Jones and George (2020, p. 322). Contemporary Management. New York: McGraw-Hill, 11th edition

Behavior control

Problems with direct supervision

- Very expensive because a manager can personally manage only a relatively small number of subordinates effectively.
- Can demotivate subordinates if they feel that they are under such close scrutiny that they are not free to make their own decisions.
- Direct supervision is difficult to do effectively in complex job settings.

Management by objectives (MBO)

- A goal-setting process in which a manager and each of his or her subordinates negotiate specific goals and objectives for the subordinate to achieve and the periodically evaluate the extent to which the subordinate is achieving those goals.

Jones and George (2020, p. 323). Contemporary Management. New York: McGraw-Hill, 11th edition

Behavior control

MBO involves three steps:

- (1) Specific goals and objectives are established at each level of the organization.
- (2) Managers and their subordinates together determine the subordinates' goals.
- (3) Managers and their subordinates periodically review the subordinates' progress toward meeting goals.

Jones and George (2020, p. 323-324). Contemporary Management. New York: McGraw-Hill, 11th edition

Behavior control

Bureaucratic control

- Control through a system of rules and standard operating procedures (SOPs) that shapes and regulates the behavior of divisions, functions, and individuals.
 - Rules and SOPs tell the worker what to do (standardized actions).
 - a need for output control to correct mistakes.
 - best used for routine problems in stable environments.

Clan control

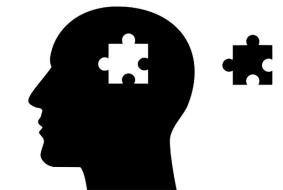
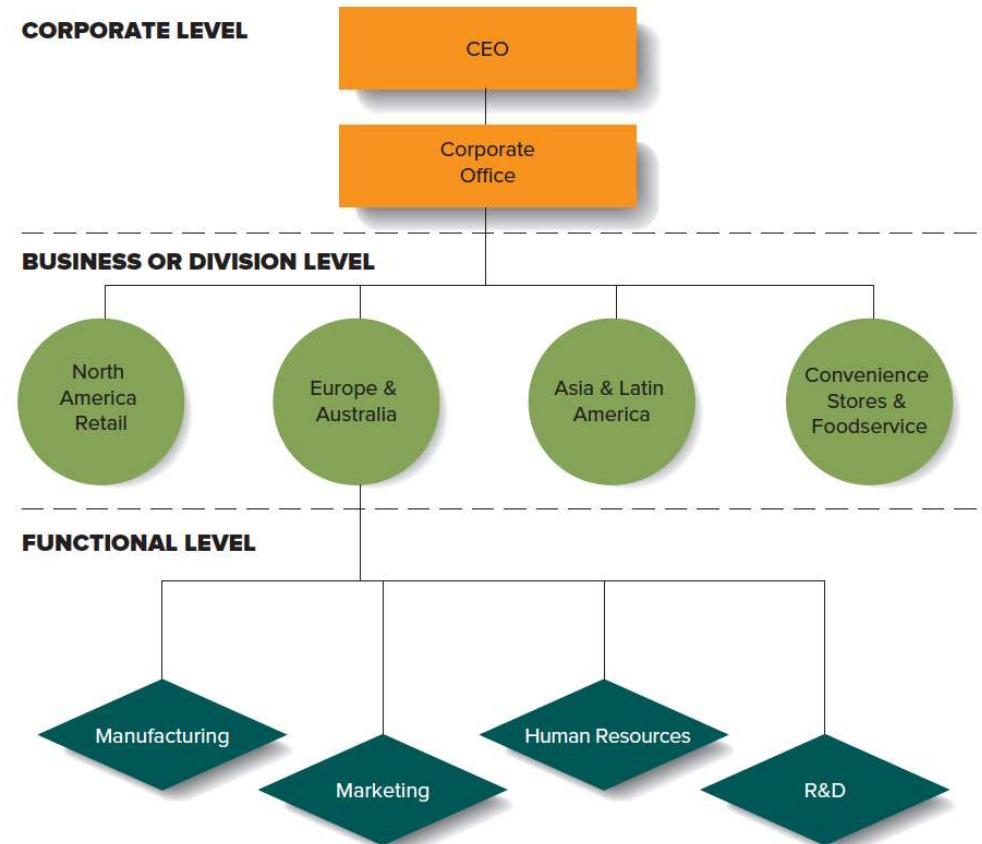
- The control exerted on individuals and groups in an organization by shared values, norms, standards of behavior, and expectations.
- Clan control takes advantage of the power of internalized values and norms to guide and constrain employee attitudes and behavior in ways that increase organizational performance.

Exercise #3: Form groups of max. 4 students. Choose an organization you are familiar with. For the selected company, answer the following questions and be prepared to present your findings to the class. You have 30 minutes.

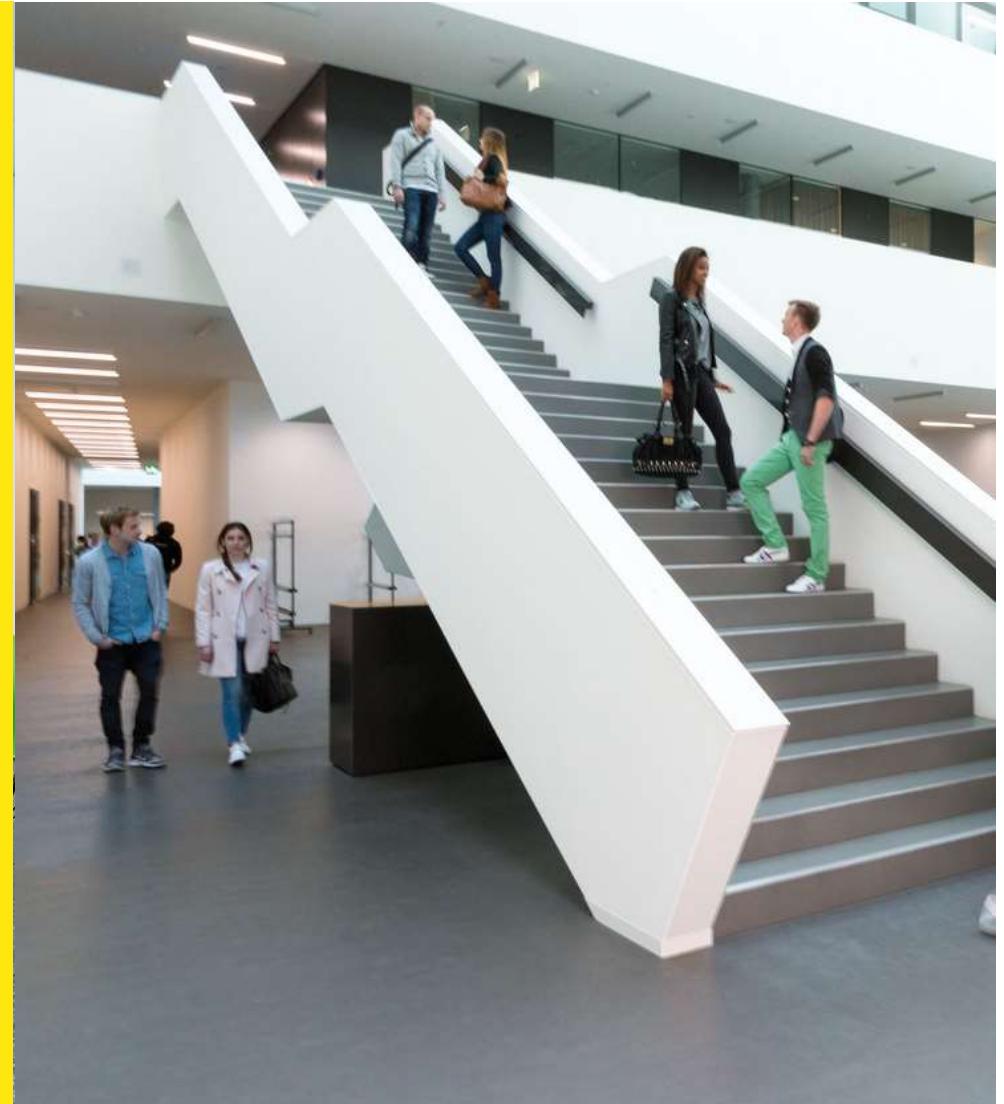


- (1) At what level does control take place in the organization?
- (2) Which output performance standards (such as financial measures and organizational goals) do managers use most to evaluate performance at each level?
- (3) Does the organization have a MBO system in place? If it does, describe it. If it does not, speculate about why not.
- (4) How important is behaviour control in this organization? For example, how much of managers' time is spent directly supervising employees? How formalized is the organization? Do employees receive a book of rules to teach them how to perform their jobs?
- (5) What kind of culture does the organization have? What are the values and norms? What effect does the organizational culture have on the way employees behave or treat customers?
- (6) Based on this analysis, do you think there is a fit between the organization's control systems and its culture? What is the nature of this fit? How could it be improved?

for (1), recall: Levels within the Organization:



Organizational change

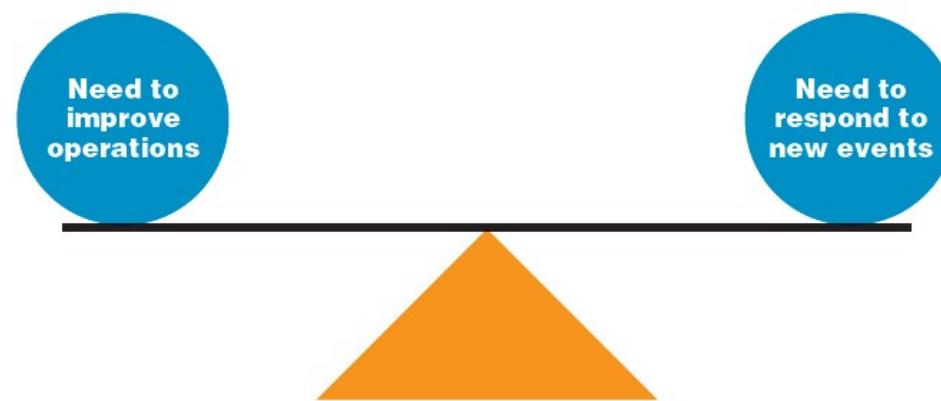


Organizational change

Organizational change

- Is the movement of an organization away from its present state and toward some preferred future state to increase its efficiency and effectiveness.

Organizational Control and Change

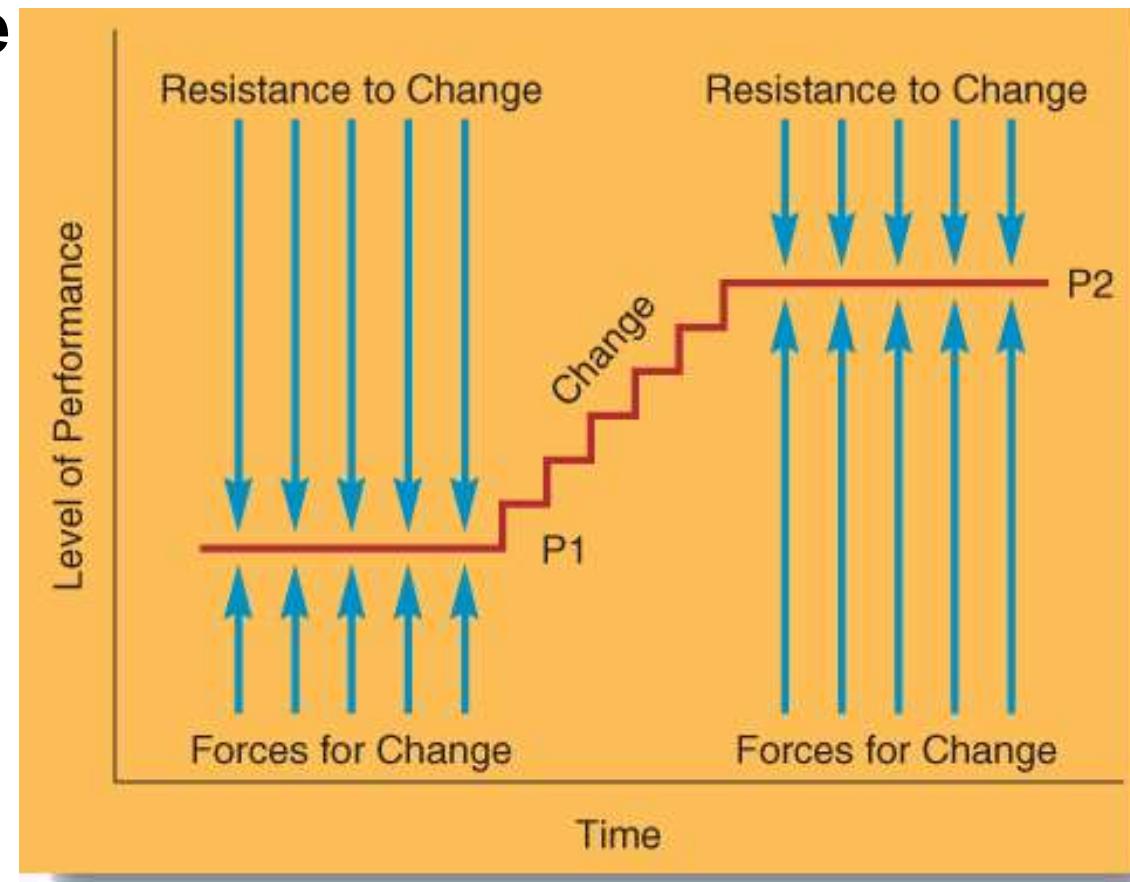


Managers must balance the need for an organization to improve the way it currently operates and the need for it to change in response to new, unanticipated events.

Jones and George
(2020, p. 327).
Contemporary
Management. New
York: McGraw-Hill, 11th
edition

Organizational change

Lewin's force-field theory of change



Jones and George (2020, p. 328). Contemporary Management. New York: McGraw-Hill, 11th edition

Organizational change

Lewin's force-field theory of change

- There are a wide variety of forces arising from the way an organization operates, from its structure, culture, and control systems that make organizations resistant to change.
- To get an organization to change, managers must find a way to increase the forces for change, reduce resistance to change, or do both simultaneously.

Organizational change

Evolutionary change

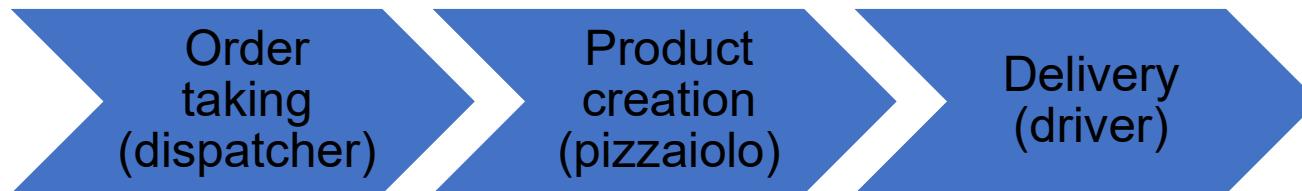
- Change that is gradual, incremental, and narrowly focused.
- Change is not drastic or sudden, but, rather is a constant attempt to improve, adapt, and adjust strategy and structure incrementally to accommodate changes in the environment.

Revolutionary change

- Change that is rapid, dramatic, and broadly focused.
- Change involves a bold attempt to quickly find ways to be effective.
- It is likely to result in a radical shift in ways of doing things, new goals, and a new structure for the organization.

Exercise #4 : Evolutionary change

- (1) The pizza deliver «best pizzas» has the following three processes:

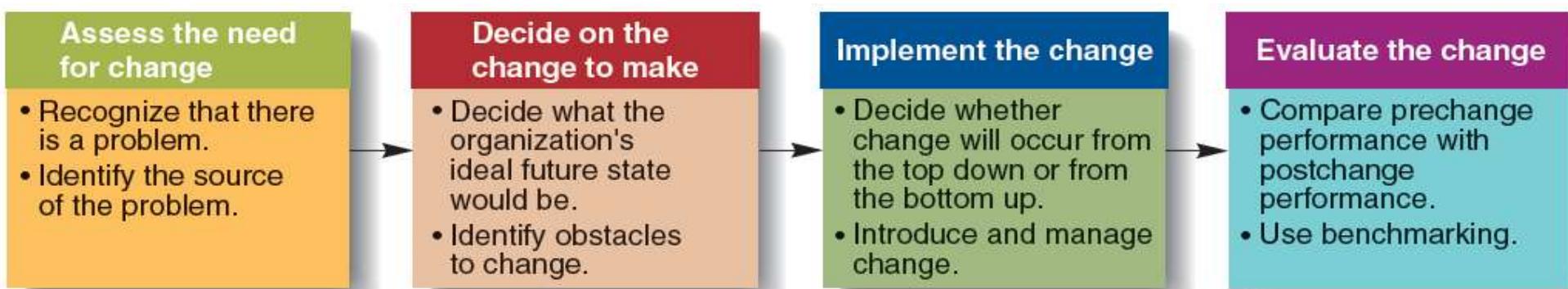


- a) How can «best pizzas» pizza delivery optimize the individual processes in terms of cost, time, and quality?
- b) What could the dispatcher, pizzaiolo and driver do to keep themselves busy in their areas of responsibility when they have a few free minutes?

Work in groups of max. 4 students. You have 15 minutes.

Organizational change

Four steps in the organizational change process



Jones and George (2020, p. 329). Contemporary Management. New York: McGraw-Hill, 11th edition

Organizational change

Implementing the change

Top-down change

- A fast, revolutionary approach to change in which top managers identify what needs to be changed and then move quickly to implement the changes throughout the organization.

Bottom-up change

- A gradual or evolutionary approach to change in which managers at all levels work together to develop a detailed plan for change.

Benchmarking

- The process of comparing one company's performance on specific dimensions with the performance high-performing organizations.

Jones and George (2020, p. 321). Contemporary Management. New York: McGraw-Hill, 11th edition

Exercise #5:



You have been asked by your company's CEO to find a way to improve the performance of its teams of web design and web hosting specialists and programmers. Each team works on a different aspect of website production; although each is responsible for the quality of its own performance, its performance also depends on how well the other teams perform. Your task is to create a control system that will help to increase the performance of each team separately and facilitate cooperation among the teams. This is necessary because the various projects are interlinked and affect one another, just as the different parts of a car must fit together. Because competition in the website production market is intense, it is imperative that each website be up and running as quickly as possible and incorporate all the latest advances in website software technology.

Questions:



- (1) What kind of output controls will best facilitate positive interactions both within the teams and among the teams?
- (2) What kind of behaviour controls will best facilitate positive interactions both within the teams and among the teams?
- (3) How would you help managers develop a culture to promote high team performance.

Work in groups of max. 4 students. You have 20 minutes to prepare your presentation.

Questions?



References

Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill, chapter 11
Organizational control and change.

Principles of Management (PoM)

09 – Human resource management (HRM)

Brido Schuler

4. September 2023



Learning objectives (LO)

- LO9-1 Explain why strategic human resource management can help an organization gain a competitive advantage
- LO9-2 Describe the steps managers take to recruit and select organizational members
- LO9-3 Discuss the training and development options that ensure organization members can effectively perform their jobs
- LO9-4 Explain why performance appraisal and feedback are such crucial activities, and list the choices managers must make in designing effective performance appraisal and feedback procedures
- LO9-5 Explain the issues managers face in determining levels of pay and benefits.
- LO9-6 Understand the role that labor relations play in the effective management of human resources

Content

- HRM / Strategic HRM
- Recruitment and selection
- Training and development
- Performance appraisal and feedback
- Pay and benefits
- Labor relations

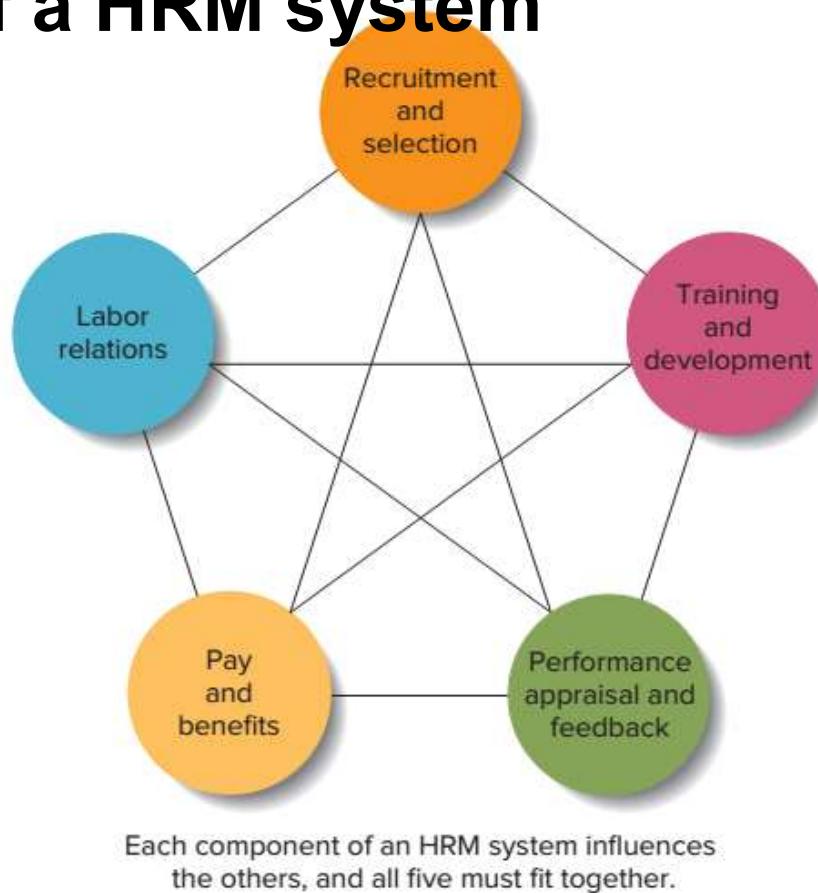
Strategic HRM

- The process by which managers design the components of an HRM system to be consistent with each other.
- The objective is the development of an HRM system that enhances organization's efficiency, quality, innovation and responsiveness to customers (the four building blocks of a competitive advantage).

HRM

- Activities to attract and retain employees.
- To ensure that employees perform at a high level and contribute to the accomplishment of organizational goals.
- These activities make up an organization's **human resource management system**, which has five major components:

Components of a HRM system



Jones and George (2020, p. 341).
Contemporary Management. New
York: McGraw-Hill, 11th edition

Overview of the components of HRM

- Managers use **recruitment and selection** to attract and hire new employees who have the abilities, skills, and experiences that will help an organization to achieve its goals.
- Managers use **training and development** to ensure that organizational members develop needed skills and abilities to perform their jobs effectively in the present and the future.
- Performance **appraisal and feedback** serve two purposes in HRM:
 - 1) A kind of control system that can provide managers with the information they need to make good human resources decisions.
 - 2) Feedback from performance appraisal allows managers to regularly evaluate their subordinates' performance in order to provide them with valuable information about their strengths and weaknesses.
- On the basis of performance appraisals, managers distribute pay to employees (**pay and benefits**).

Overview of the components of HRM

- **Labor relations** encompass the steps that managers may take to develop and maintain good working relationships with the labor unions that may represent their employees' interests.

All five of these components fit together and complement their company's structure and control systems. Each of the five components of HRM influences the others.

Strategic Human Resource Management



Exercise #1:

Form groups of four students and discuss the following scenario. Be prepared to present your solution(s) to the class. You have 20 minutes available.

You are a first line manager at a small production facility. Your crew of 12 is down two members because a nearby shop has increased its wages and your two best workers jumped ship. You need to hire replacements and are worried that more defections will occur. In other news, you just learned that the main production machine on your line, the POS 3100 is being upgraded next week to the PXS 4500, which has a completely different interface. None of your employees know how to use the 4500. You also just learned that all the employees' paychecks are incorrect due to a computer glitch. Everyone in the HR department is on strike because they felt underappreciated, so you have no HR support.

What are your problems and how do you address them?

Recruitment and selection

- **Recruitment** includes all the activities managers engage in to develop a pool of qualified candidates for open positions.
- **Selection** is the process by which managers determine the relative qualifications of job applicants.



Jones and George (2020, p. 344). Contemporary Management. New York: McGraw-Hill, 11th edition

Recruitment and selection

1 Before:

- **Human resource planning** includes all the activities managers engage in to forecast their current and future needs for human resources.
- Forecast of **demand** and **supply** of employees.
- Sometimes HRM is **outsourced**. Increased flexibility and lower costs are the advantages of HRM outsourcing.
- Lose of control of the quality, individual may have less knowledge of the organizational practices and goals.
- Less commitment to the organization. Often office work is outsourced and not the HRM.
- Work outsourced to other countries is often known as **offshoring**.

Recruitment and selection

2 Job analysis is the process of identifying:

- I. the tasks, duties, and responsibilities that make up a job (the **job description**), and
- II. the knowledge, skills, and abilities needed to perform the job (the **job specifications**).
- A job analysis needs to be done for each job in the organization and can be done in a number of ways, e.g. **observing** current employees as they perform the job or **interviewing** them.

External and internal recruitment

External recruitment

- When managers recruit externally, they look outside the organization for people who have not worked for the organization previously.
- Multiple ways, such as: advertisement in newspaper and magazines, websites, open houses for students, recruiting events at universities etc.
- **Advantages** of external recruitment are: having access to a potentially large application pool, newcomers may bring a fresh approach to problems.
- **Disadvantages** of external recruitment are high cost, external's lack of knowledge of the organization, higher uncertainty.

External and internal recruitment

Internal recruitment

- When recruiting is internal, managers turn to existing employees to fill open positions.
- Internal employees are seeking either a **lateral move**, which is a job change that entails major changes in responsibility or authority levels, or a promotion.
- **Advantages** of internal recruitment are: internal applicants are already familiar with the organization, information about candidates' skills, abilities and actual behavior, can help boost levels of employees motivation and morale, less time consuming and less expensive.
- **Disadvantages** of internal recruitment are limited pool of candidates.

Recruitment and selection

Selection process

- Managers need to find out whether each applicant is **qualified** for the position and whether he or she is likely to be a good **performer**.
- There are several selection tools to help managers sort out the relative qualifications of job applicants and appraise their potential for being good performers in a particular job.

Recruitment and selection

Selection tools



Recruitment and selection

Background information

- Background information from **resumes** and job **applications**.
- Help to screen out applicants who are lacking key qualifications. Determine which qualified applicants are more promising.
- Increasing numbers of organizations are performing background checks to verify the background information prospective employees provide (and also to uncover any negative information such as crime convictions).

Recruitment and selection

Paper and pencil test

- **Ability tests** assess the extent to which applicants possess the skills necessary for job performance, e.g. verbal comprehension or numerical skills.
- **Personality tests** measure personality traits and characteristics relevant to job performance. The use of personality tests for hiring purposes is controversial.

Physical ability test

- Physical ability tests are used to measure strength and stamina as selection tools.

Recruitment and selection

Interviews

- Structured or unstructured.
- In a **structured interview**, managers ask each applicant the same standard questions.
- An **unstructured interview** proceeds more like an ordinary conversation. Instead of asking fixed questions, the interviewer asks probing questions to determine what the candidate is like.
- Structured interviews are superior to unstructured interviews.
- When structured interviews are used, the potential exists for the **interviewer's biases** to influence his or her judgment.
- Used in various stages of the selection process, be aware of the biases, avoid questions that are irrelevant to the job.

Recruitment and selection

Performance tests

- **Performance tests** measure job applicants' performance on actual job tasks.
- Assessment centers (**AC**) take performance tests a step further by having applicants participate in a variety of activities over a few days.

Recruitment and selection

References

- Applicants for many jobs are required to provide references from former employers or other sources who know the applicants' skills, abilities, and other characteristics.
- These individuals are asked to provide candid information about the applicant personality traits and characteristics relevant to job performance.

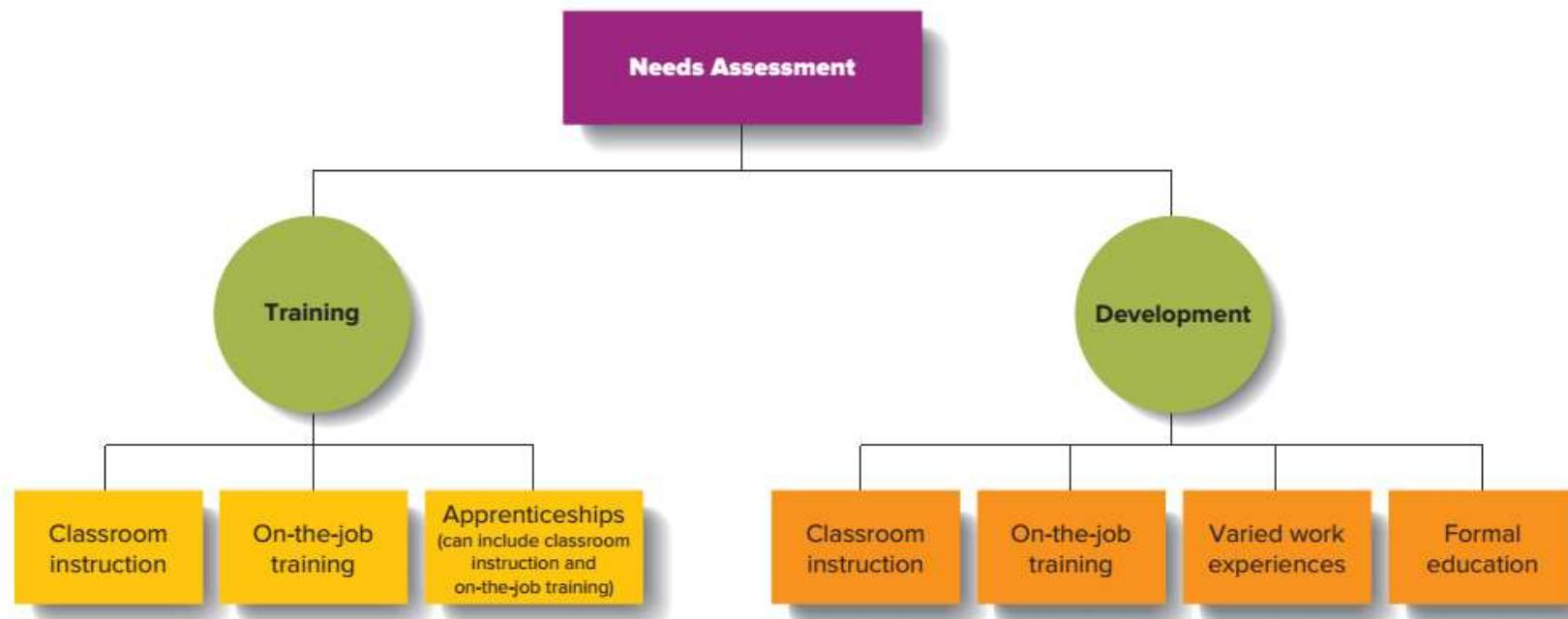
Training and development

- **Training** primarily focuses on teaching organizational members to perform their current jobs and helping them acquire the knowledge and skills they need to be effective performers.
- **Development** focuses on building the knowledge and skills of organizational members so that they will be prepared to take on new responsibilities and challenges.

Training and development

Figure 12.4

Training and Development



Jones and George (2020, p. 352).
Contemporary Management.
New York:
McGraw-Hill,
11th edition

Training and development

- There are two types of training: **classroom instruction** and **on-the-job training**.

Classroom instruction

- Through classroom instruction, employees acquire knowledge and skills in a classroom setting. This may take place within the organization or outside it.
- Includes use of videos, role playing, writing, lecturers, group discussions and simulations etc.

On-the-job-training

- In **on-the-job training**, learning occurs in the work setting as employees perform their jobs.

Training and development

- Development often includes additional activities such as **varied work experiences** and formal **education**.

Varied work experience

- Employees with high potential are given a wide variety of job experiences in both line and staff positions.
- Varied work experiences broaden employees' horizons and help them think about the big picture
- A mentor can help managers seek out work experiences and assignments that will contribute to their development and enable them to gain the most possible from varied work experiences.

Training and development



Exercise #2

Form groups of four students and prepare a plan for the scenario below. Be prepared to present your solution(s) to the class. You have 20 minutes available.

Design an onboarding plan for a new college hire at Acme Services, Inc.. The position is HR generalist (meaning the person will perform many tasks in human resources rather than specialize in just one). Onboarding is all the activities that introduce the new hire to the organization, from filling out employment forms (sign employment contract, insurance applications, etc.) to training for the actual position. Although this onboarding is specific to the new hire into HR, it is hoped that the overall plan can be adapted for all new hires.

Performance appraisals and feedback

- **Performance appraisal** is the evaluation of employees' job performance and contributions to the organization.
- **Performance feedback** is the process through which managers share performance appraisal information with their subordinates. Performance appraisal must take place first, in order for performance feedback to occur.

Performance appraisals and feedback

- Performance appraisal focuses on the evaluation of **traits, behaviors, and results**.

Trait appraisals

- Managers assess subordinates on personal characteristics that are relevant to job performance, such as skills, abilities, or personality.

Behavior appraisals

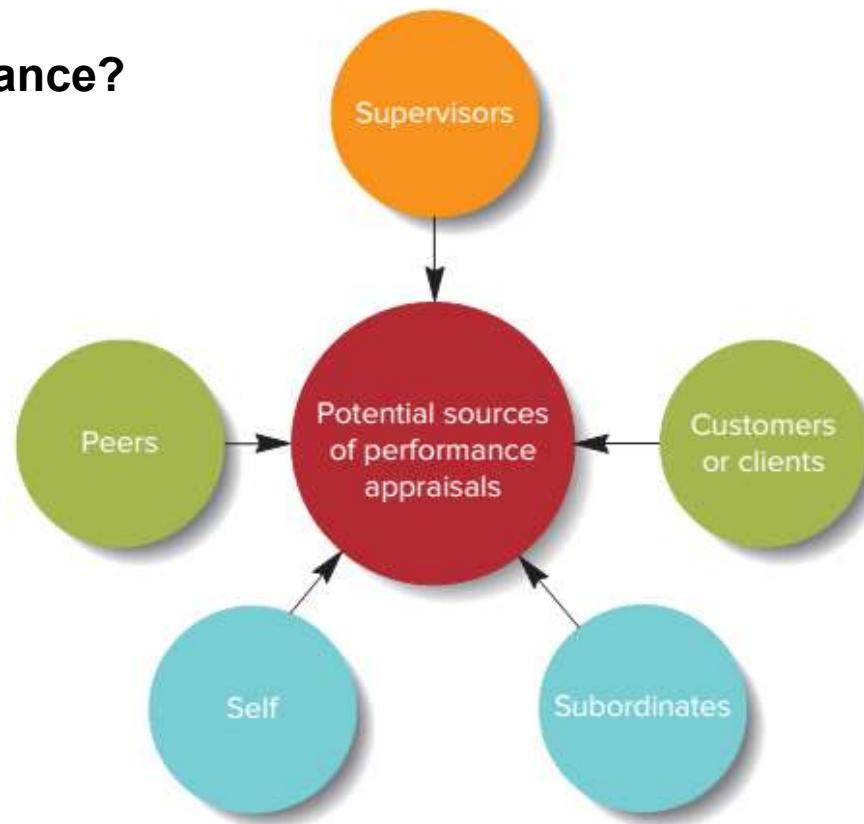
- Managers assess how workers perform their jobs - the actual actions and behaviors that workers exhibit on the job.
- Whereas trait appraisals assess what workers **are like**, behavior appraisals assess what workers do.

Results appraisals

- With results appraisals, managers appraise performance in terms of results or the actual outcomes of work behaviors.

Performance appraisals and feedback

Who appraises performance?



Jones and George (2020, p. 357).
Contemporary Management.
New York: McGraw-Hill, 11th
edition

Performance appraisals and feedback

Who appraises performance?

- Supervisors
- Other sources: Self, peer, subordinates and clients

- Although appraisals from each of these sources can be useful, there are **drawbacks** of which managers need to be aware of:
 - Self-appraisals could be inflated.
 - Managers who are appraised by their subordinates may fail to take needed but unpopular actions out of fear that their subordinates will appraise them negatively.

360-degree appraisals

- A manager's performance is appraised by a variety of people: managers, peers or coworkers, subordinates, superiors and customers.

Performance appraisals and feedback



Exercise#3 (groups of 4; 20 minutes):

- a) Evaluate the pros and cons of 360-degree performance appraisals and feedback.
Would you like your performance to be appraised in this manner? Why or why not?

- b) What are in your view guidelines for giving effective performance feedback? Discuss with your neighbor and list at least five guidelines.

Pay and benefits

Pay

- Includes: base salaries, pay raises, and bonuses.

Benefits

- Are based on membership in an organization. For example: fitness abo, use of company car, reduced cost for lunch etc.
- **Cafeteria-style benefit plans** that let employees themselves choose the plan they want.

Pay structure

- The arrangement of jobs into categories based on their relative importance to the organization and its goals, level of skills, and other characteristics.

Pay and benefits

Exercise#4: What's my Raise?



Three months ago, Gina Hernandez was promoted to supervisor for the bookkeeping department of a large Midwestern property management company. Gina has been told by human resources that her annual performance reviews must be completed for all her employees in the next week. She doesn't feel comfortable in making salary recommendations since she has been in her job only a short time. Sadly, the previous supervisor she replaced has left the company and is unavailable for consultation. To make matters worse, that supervisor kept incomplete records regarding employee performance.

Work in your group with 4 students. First consult the description of the mini case uploaded to moode (text_for_Ex_4). Come up with your recommendations. You have 30 minutes available.

Pay and benefits



Idee: Frage zu Preis Lohnspirale? Frage zu
Lohngerechtigkeit, wenn der Top-Manager 300
Mal mehr verdient wie der Arbeitnehmende mit
dem tiefsten Lohn.(gutes Bsp. Coop, schlechtes
Bsp. Roche)

Labor relations

- The activities managers engage in to ensure they have effective working relationships with the labor unions that represent their employees interests.

Collective bargaining

- Negotiation between labor and management to resolve conflicts and disputes about issues such as working hours, wages, benefits, working conditions, and job security.

Collective bargaining

Exercise #5:

After watching the following video in class:

<https://youtu.be/pb-8pxjGcTg>

Ev. Streichen oder VWL Frage zu
Mindestlohn!!



discuss the pros and cons of unionization and decide whether they believe unions are mainly good for workers and the economy or detrimental to workers and the economy. Groups report out, explaining their reasoning and experience with unions.

You have 10 minutes available.

Questions?



References

Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill, chapter 12
Human resource management

Principles of Management (PoM)

10 – Motivation and performance

Brido Schuler

4. September 2023



Learning objectives (LO)

- LO10-1 Explain what motivation is and why managers need to be concerned about it
- LO10-2 Describe from the perspectives of expectancy theory and equity theory what managers should do to have a highly motivated workforce
- LO10-3 Explain how goals and needs motivate people and what kinds of goals are especially likely to result in high performance
- LO10-4 Identify the motivation lessons that managers can learn from operant conditioning theory and social learning theory
- LO10-5 Explain why and how managers can use pay as a major motivation tool

Content

- The nature of motivation
- Expectancy theory
- Need theories
- Equity theory
- Goal-setting theory
- Learning theories
- Pay and motivation

The nature of motivation

Motivation

- The psychological forces that determine the direction of a person's behavior in an organization, a person's level of effort, and a person's level of persistence.
- Explains **why** people behave the way they do in organizations.
- Motivation can come from **intrinsic** or **extrinsic** sources.

The nature of motivation

- **Intrinsically motivated behavior** is behavior that is performed for its own sake. Motivation comes from doing the work / activities itself.
- **Extrinsically motivated behavior** is behavior that is performed to acquire material or social rewards, or to avoid punishment. The source of motivation is the consequences of the behavior, not the behavior itself.
- **Prosocially motivated behavior** is behavior that is performed to benefit or help others. Behavior can be prosocially motivated in addition to being extrinsically and / or intrinsically motivated.
- The combination of high prosocial motivation and high intrinsic motivation seems to be related to high performance.

The nature of motivation

Motivation

- An **outcome** is anything a person gets from a job or organization.
- An **input** is anything a person contributes to his or her job or organization.

Expectancy theory

The motivation equation



Jones and George (2020, p. 377).
Contemporary Management. New York:
McGraw-Hill, 11th edition

Expectancy theory

- Motivation will be high when workers believe that high levels of effort will lead to high performance and high performance will lead to the attainment of desired outcomes.
- 1960s, Victor H. Vroom
- Identifies three major factors that determine a person's motivation level: **expectancy, instrumentality, and valence.**

Expectancy

- A person's perception concerning the extent to which effort (input) results in a certain level of performance.

Instrumentality

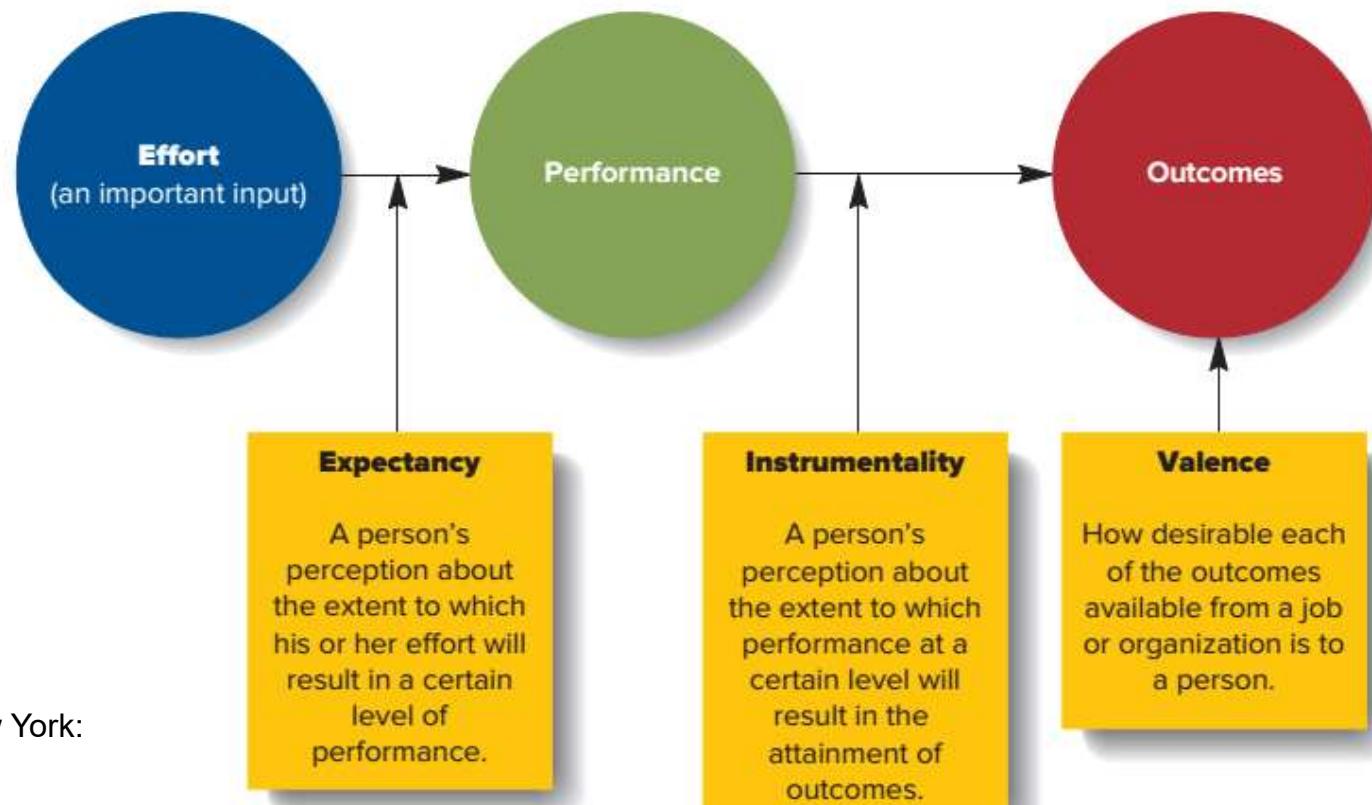
- A person's perception about the extent to which performance at a certain level results in the attainment of outcomes.

Valence

- How desirable each of the available outcomes from the is to a person.

Expectancy theory

**Expectancy,
instrumentality and
valence**



Jones and George (2020, p. 378).
Contemporary Management. New York:
McGraw-Hill, 11th edition

Expectancy theory

Bringing it all together

Figure 13.3
Expectancy Theory



Jones and George (2020, p. 379). Contemporary Management. New York: McGraw-Hill, 11th edition

Diagnosing motivation



Exercise #1

Watch the following Office Space clip about a lack of motivation:

<https://youtu.be/cgg9byUy-V4> (Run Time: 2:35)

Discuss in your group of four students how expectancy theory explains Peter's attitude. Pretending this is a real company, decide what specific changes can be made to better motivate Peter.

You have 10 minutes available to get ready to share your findings with the class.

Need theories

Need theories

- Theories of motivation that focus on what needs people are trying to satisfy at work and what outcomes will satisfy those needs.

Need

- A requirement of necessity for survival and well-being.

Maslow's hierarchy of needs

- An arrangement of five basic needs that motivate behavior.
- Maslow proposed that the level of unmet needs is the prime motivator and that only one level of needs is motivational at a time.

Maslow's hierarchy of needs

Levels	Needs	Description	Examples of How Managers Can Help People Satisfy These Needs at Work
Highest-Level Needs	Self-actualization Needs	The needs to realize one's full potential as a human being.	Giving people the opportunity to use their skills and abilities to the fullest extent possible.
Below Highest-Level Needs	Esteem Needs	The needs to feel good about oneself and one's capabilities, to be respected by others, and to receive recognition and appreciation.	Granting promotions and recognizing accomplishments.
Medium-Level Needs	Belongingness Needs	Needs for social interaction, friendship, affection, and love.	Promoting good interpersonal relations and organizing social functions such as company picnics and holiday parties.
Above Lowest-Level Needs	Safety Needs	Needs for security, stability, and a safe environment.	Providing job security, adequate health care benefits, and safe working conditions.
Lowest-Level Needs	Physiological Needs	Basic needs for things such as food, water, and shelter that must be met in order for a person to survive.	Providing a level of pay that enables a person to buy food and clothing and have adequate housing.

The lowest level of unsatisfied needs motivates behavior; once this level of needs is satisfied, a person tries to satisfy the needs at the next level.

Needs theory



Exercise #2

Watch the following video, “Up and the Hierarchy of Needs”

<https://www.youtube.com/watch?v=lucf76E-R2s> (Run Time: 6:25)

Discuss in your group your levels on Maslow's hierarchy. What will it take to get to the next level? How will their goals change once they get out of school and into their careers? You have 15 minutes available.

Need theories

Alderfer's ERG theory

- The theory that three universal needs - for existence, relatedness, and growth - constitute a hierarchy of needs and motivate behavior.
- Alderfer proposed that needs at more than one level can be motivational at the same time.

Alderfer's ERG theory

Levels	Needs	Description	Examples of How Managers Can Help People Satisfy These Needs at Work
Highest-Level Needs	Growth needs	The needs for self-development and creative and productive work	Allowing people to continually improve their skills and abilities and engage in meaningful work
Medium-Level Needs	Relatedness needs	The needs to have good interpersonal relations, to share thoughts and feelings, and to have open two-way communication	Promoting good interpersonal relations and providing accurate feedback
Lowest-Level Needs	Existence needs	Basic needs for food, water, clothing, shelter, and a secure and safe environment	Providing enough pay for the basic necessities of life and safe working conditions

As lower-level needs are satisfied, a person is motivated to satisfy higher-level needs. When a person is unable to satisfy higher-level needs (or is frustrated), motivation to satisfy lower-level needs increases.

Need theories

Herzberg's motivator-hygiene theory

- A need theory that distinguishes between motivator needs and hygiene needs and proposes that **motivator needs** must be met for motivation and job satisfaction to be high.

Motivator needs

- Relate to the nature of the work itself – autonomy, responsibility, interesting work.

Hygiene needs

- Are related to the physical and psychological context of the work – comfortable work environment, pay, job security.

Need theories

McClelland's needs for achievement, affiliation, and power

Need for achievement

- The extent to which an individual has a strong desire to perform challenging tasks well and to meet personal standards for excellence.

Need for affiliation

- Concerned about establishing and maintaining good interpersonal relations, being liked, and having the people around him get along with each other.

Need for power

- A desire to control or influence others.

Equity theories

Equity theory

- A theory of motivation that focuses on people's perceptions of the fairness of their work outcomes relative to their work input.

Condition	Person	Equals, less than, or greater than	Referent	Example
Equity	<u>Outcomes</u> Inputs	=	<u>Outcomes</u> Inputs	An engineer perceives that he contributes more inputs (time and effort) and receives proportionally more outcomes (a higher salary and choice job assignments) than his referent.
Underpayment inequity	<u>Outcomes</u> Inputs	< (less than)	<u>Outcomes</u> Inputs	An engineer perceives that he contributes more inputs but receives the same outcomes as his referent.
Overpayment inequity	<u>Outcomes</u> Inputs	> (greater than)	<u>Outcomes</u> Inputs	An engineer perceives that he contributes the same inputs but receives more outcomes than his referent.

Equity theories

Inequity

- Inequity is the lack of fairness.

Underpayment inequity

- The inequity that exists when a person perceives that his or her own outcome to input ratio is **less** than the ratio of a referent.

Overpayment inequity

- The inequity that exists when a person perceives that his or her own outcome to input ratio is **greater** than the ratio of a referent.

Equity theories

Equity and justice in organizations

Distributive justice

- A person's perception of the fairness of the distribution of outcomes in an organization.

Procedural justice

- A person's perception of the fairness of the procedures that are used to determine how to distribute outcomes in an organization.

Interpersonal justice

- A person's perception of the fairness of the interpersonal treatment he or she receives from whoever distributes outcomes to him or her.

Informational justice

- A person's perception of the extent to which his or her manager provides explanations for decisions and the procedures used to arrive at them.

Equity theory



Exercise #3: Watch with your group the following video:

<https://youtu.be/bicel9ykp9E> (Run Time: 2:22)

In your group answer the following scenario: Your group has just been assigned a presentation and paper about motivation due the next class period. The presentation should be 10 minutes long (usually about 5 slides) and the paper is to be 5 to 6 pages.

How will you split up the work so that distributive, procedural and interpersonal justice are high? Create an overview of the process and deliverables your group will create, and who will create each part (if more than one person works on a part, list them). How are each types of justice addressed?

You have 15 minutes available to get prepared to share your findings with the class.

Goal setting theory

- A theory that focuses on identifying the types of goals that are most effective in producing high levels of motivation and performance and explaining why goals have these effects.
- Must be specific and difficult.

Exercise #4: Watch the brief video on creating SMART goals.



<https://youtu.be/yA53yhiOe04> (Run Time: 1:15)

In your group: Take out a (virtual) sheet of paper and brainstorm a list of three goals you have for yourselves in a relatively short time horizon (6 to 12 months).

Write each goal using the SMART characteristics. You have 15 minutes available.

Learning theories

- Theories that focus on increasing employee motivation and performance by linking the outcomes that employees receive to the performance of desired behaviors and the attainment of goals.

Operant conditioning tools

Operant conditioning

- People learn to perform behaviors that lead to desired consequences and learn not to perform behaviors that lead to undesired consequences.

Positive reinforcement

- Gives people outcomes they desire when they perform organizationally functionally behaviors.

Negative reinforcement

- Eliminating or removing undesired outcomes when people perform organizationally functional behaviors.

Operant conditioning tools

Extinction

- Curtailing the performance of a dysfunctional behavior by eliminating whatever is reinforcing it.

Punishment

- Administering an undesired or negative consequence when dysfunctional behavior occurs.

Avoiding side effects of punishment

- Downplay the **emotional element** involved.
- Try to punish dysfunctional behaviors as soon as they occur.
- Try to **avoid** punishing someone in front of others.
- For illustration <https://youtu.be/JA96Fba-WHk> (Run time: 4:53)

Learning

Social learning theory

- A theory that takes into account how learning and motivation are influenced by people's thoughts and beliefs and their observations of other people's behavior.

Vicarious learning

- Occurs when a person becomes motivated to perform a behavior by watching another person perform the behavior and be positively reinforced for doing so.
- Also called **observational learning**.

Self-reinforcer

- Any desired or attractive outcome or award that a person gives himself or herself for good performance.

Self-efficacy

- A person's belief about his or her ability to perform a behavior successfully.

Pay and motivation

Pay as a motivator

- Expectancy: Instrumentality, the association between performance and outcomes, must be high for motivation to be high.
- Need theory: pay is used to satisfy many needs.
- Equity theory: pay is given in relation to inputs.
- Goal setting theory: pay is linked to attainment of goals.
- Learning theory: outcomes (pay), is distributed upon performance of functional behaviors.

Pay and motivation

Merit pay and performance

Merit pay plan

- A compensation plan that bases pay based on individual, group and/or organization performance.
- Individual plan: when individual performance (sales) can accurately measured.

Employee stock option

- A financial instrument that entitles the bearer to buy shares of an organization's stock at a certain price during a certain period of time under certain conditions.

Pay and motivation



Exercise#5: Watch the following whiteboard video, “RSA Animate Drive: The surprising truth about what motivates us,”

<https://youtu.be/u6XAPnuFjJc> (Run time: 10:47)

The video (and research it explains) actually disputes the value of money as a motivator for higher level cognitive tasks but supports it for routine, repetitive tasks.

In your group discuss jobs or volunteer experiences you have had where motivation was high or low. How did money factor into your motivation? Each group picks one or two examples to share with the class. You have 20 minutes available.

Questions?



References

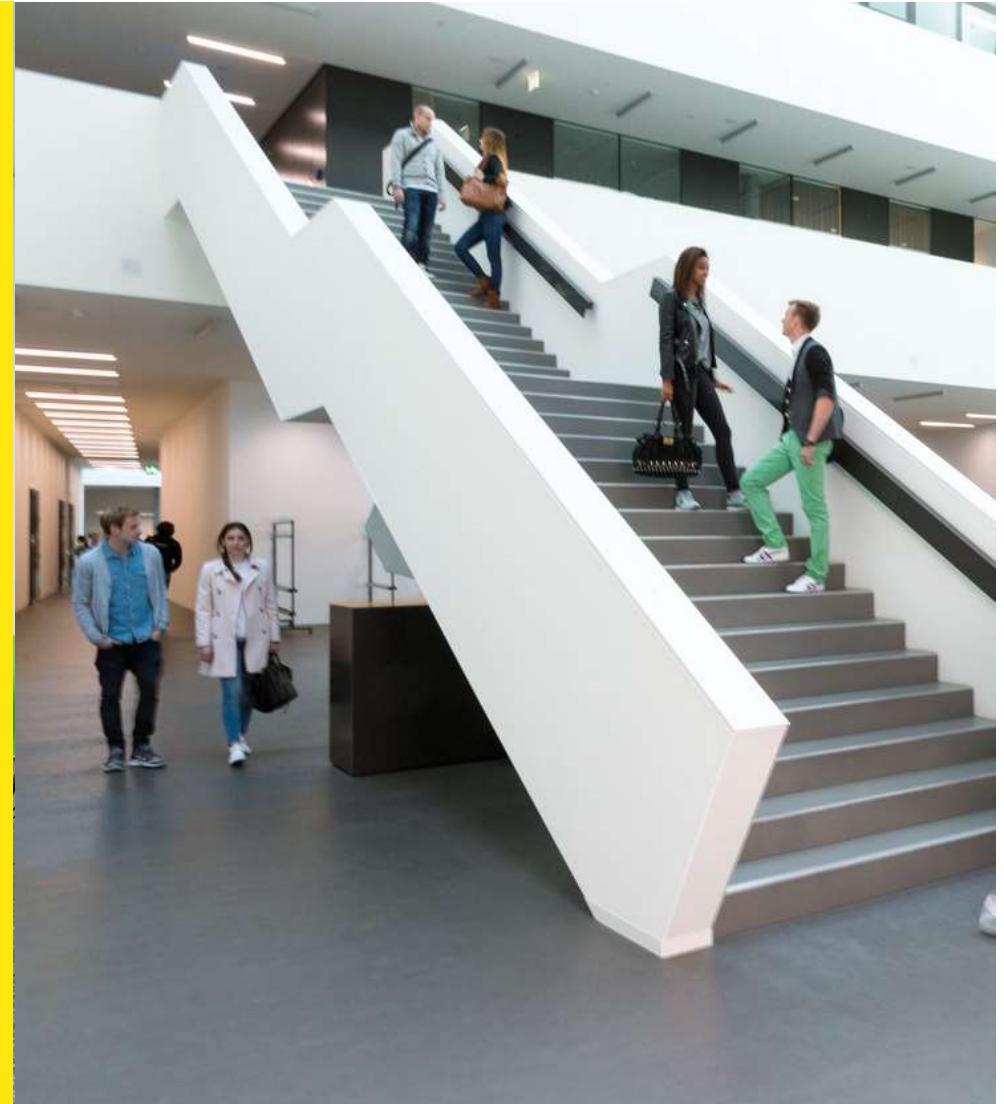
Jones, G., George, J. (2020): Contemporary Management, 11th edition, McGraw Hill, chapter 13 Motivation and Performance

Principles of Management (PoM)

11 – 4th industrial revolution (Industry 4.0)

Brido Schuler

4. September 2023



Learning objectives (LO)

- LO11-1 Explain and characterize the four stages of the industrial revolution
- LO11-2 Define and explain industry 4.0
- LO11-3 Name and explain the four basic principles of industry 4.0 (full networking, information transparency, technical assistance, decentralized decisions), in order to use the chances of industry 4.0
- LO11-4 Give and explain examples of the four basic principles
- LO11-5 Explain the challenge per principle of organizational design
- LO11-6 Recognize and explain the challenges of Industry 4.0 for Western societies

Content

- History: The four stages of the Industrial Revolutions
- Industry 4.0
- Organizational Design Principles
 - Full networking
 - Transparency of information
 - Technical assistance
 - Decentralized decisions
- Challenges of Industry 4.0

History: The 4 stages of the Industrial Revolutions

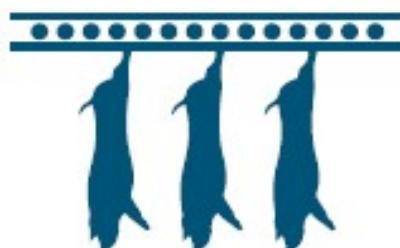


1st Industrial Revolution



1st mechanical loom 1784

2nd Industrial Revolution



1st assembly line, Sladgummeuses Co., Cincinnati 1870

- Profound and lasting transformation of economic and social conditions from the middle / end of the 18th century
- Transition from the agrarian to the industrial society
- Introduction of mechanical production facilities using water and steam power

- Comprehensive electrification of cities, railroads and production facilities at the end of the 19th century
- Development of telegraphs and telephones for communication and coordination of production systems
- Introduction of mass production (Taylor, Ford)

2nd Industrial Revolution



- Frederick W. Taylor (1856 - 1915)
- Engineer
- Inventor of management through his book "Principles of scientific management" in 1911 and of modern occupational science
- Inventor of the management consultancy
- Main goal: Increase efficiency by reducing complexity (specialization) in work processes
- His principles were introduced only selectively. For example, productivity improvements were not rewarded

Source: Jones, George (2020), p. 34.

2nd Industrial Revolution



- Frederick W. Taylor (1856 - 1915)
- Division of the organization into a thinking part (manager) and an executive part (worker)
- Standardization and measurement of workflows with the aim of optimizing the processes
- Result: Enormous efficiency gains in stable and not complex markets
- For example: Franklin Motor Company 1908: Production increase from 100 cars per month to 45 cars per day

Exercise



#1: Taylor and Scientific Management

- a) Name and explain the four principles of Taylor's Scientific Management based on the text excerpt "F.W. Taylor and Scientific Management". See text on moodle.
- b) What do the authors criticize?
- c) What consequences did the answer have on the relationship between managers and workers?
- d) Have you already experienced this (b) and (c) in your work? If so, give a concrete example and consider how you solved the problem.

Answer the question individually. Write down your answer. You have 15 minutes.

2nd Industrial Revolution



- Henry Ford (1863 - 1947)
- Founder of the Ford Motor Company 1903
- Start of production T-model 1908
- Production of standardized cars by means of the assembly line using Taylor's management rules
- “You can have it (T-model) in any color as long as it's black”
- More than 15 million vehicles (T-model) produced between 1908 and 1927

Modern times (1936)

https://www.youtube.com/watch?v=DfGs2Y5WJ14&start_radio=1&list=RDDfGs2Y5WJ14#t=13

2nd Industrial Revolution



#2: Why mass production?

Important advantages of mass production are the economies of scale (EoS) and the experience curve.

Explain the two principles briefly and clearly, summarized on one page.

Work in pairs. Guide time: 15 minutes.

3rd Industrial Revolution



- Invention of the computer
- Automation, computer-aided mass production and customization
- Computer systems take over large parts of the control of machines and processes
- Internet as a system for worldwide communication and coordination of global value-added networks
- However, machines and equipment of production systems have so far been largely excluded from this networking

First programmable logic controller
(PLC), Modicon 084, 1969

4th Industrial Revolution (Industry 4.0)



- Computer-supported machines and systems are linked with each other via the Internet
- The technological perfection of the production facilities in combination with a stronger integration of employees, customers and users of the products enables new business models

Based on Cyber-Physical
Systems (CPS)



University of Applied Sciences and Arts Northwestern Switzerland
School of Business



Industry 4.0



Industry 4.0: What is it now?



Exercise #3: Work out a definition of "Industry 4.0" in groups of four. You can use any source for your analysis work.

Approximate time: 20 minutes.

Industry 4.0: A structuring suggestion

- The name for a future project for the comprehensive digitization of industrial production
- Industrial production is to be dovetailed with modern information and communication technologies
- Technical basis: intelligent and digitally networked systems, enabling largely self-organized production: People, machines, systems, logistics and products communicate with each other
- Networking allows not only one production step to be optimized, but an entire value-added chain - across company boundaries

Source: https://de.wikipedia.org/wiki/Industrie_4.0 visited on August 31st, 2023

Principles of Industry 4.0



- 1 Full networking
- 2 Information transparency
- 3 Technical assistance
- 4 Decentralized decisions

https://de.wikipedia.org/wiki/Industrie_4.0, visited on 31st August, 2023

Full networking

- Internet of Things (IoT) for beginners:
<https://medialist.info/2019/08/04/internet-of-things-fuer-einsteiger/>
- The communication between objects and production systems is mainly done via IoT
- Important technologies here are RFID (radio-frequency identification)*, NFC (near field communication)** and sensors (from Latin sentire, meaning to feel or sense)***
- In order for a Smart Factory, for example, to control itself using production information, each object must be able to process and pass on information



*



**



Full networking

Examples

- Package Tracking (A+)
- Reordering printer cartridges
- Measurement of air quality
- Smart City, e.g. H2S measurement in sewer
- EPCglobal Network. EPC stands for: Electronic Product Code.
- iBin of the company Würth



Source: https://de.wikipedia.org/wiki/Internet_der_Dinge; visited on 31st August 2023; own additions

Full networking

Challenges

- Enormous amount of data (Big Data*), which must be transmitted and processed in real time
- Requirements for the communication network
- Enormous storage requirements -> cloud offer -> data security

* Big Data

- Describes large and complex amounts of data, which are characterized by their fast pace and little pronounced structuring
- **Data Analytics** or also data analysis deals with the examination of data. It should help to convey patterns and conclusions within the existing data and information. **Data Science** is much more complex than Data Analytics
- Example for Data Analytics: Amazon predicts what the customer will buy

Full networking

- Big Data as a prerequisite for artificial intelligence (AI)
- AI refers to the attempt to imitate certain decision-making structures of humans

Examples

- Bots
- Face recognition
- Robots

1

Full networking

Porter's value chain model

- Networking goes beyond departmental and company boundaries
- From Porter's value creation model within a company to the...

**Support
activities**

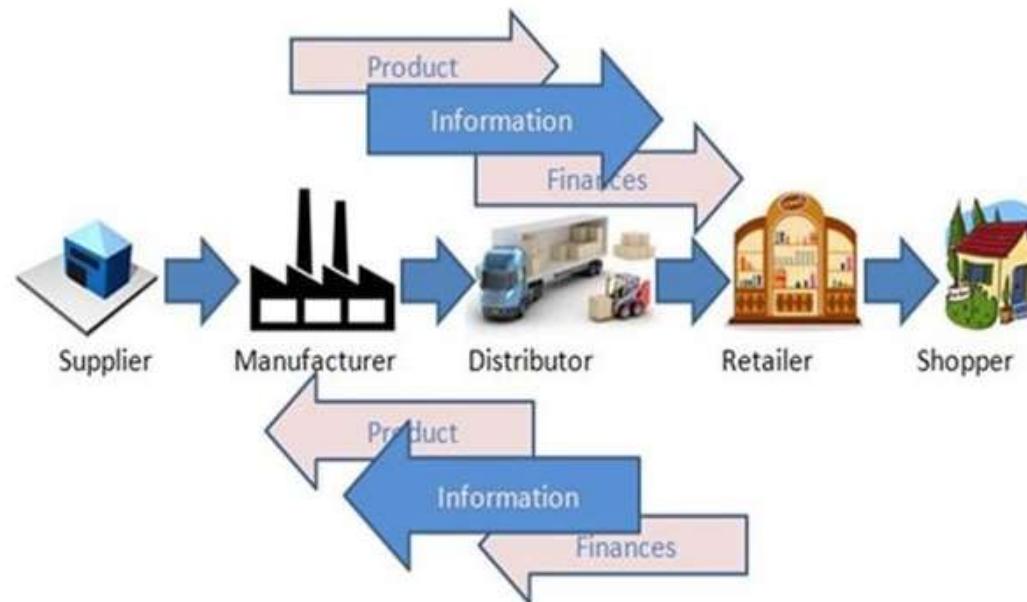
**Primary
activities**



Full networking

Supply chain management

- ...entire value chain from raw material supplier to end customer across individual companies (Supply Chain Management (SCM))



Full networking

SCM

- SCM is the integrated process-oriented planning and control of the flow of goods, information and money along the entire value chain from the customer to the raw material supplier with the objectives
 - Improvement of customer orientation
 - Synchronization of supply with demand
 - Flexibilization and demand-oriented production
 - Reduction of inventories along the value chain

2

Information transparency

- The border between the real and virtual world is blurring
- Sensor data extend information systems of digital factory models to create a virtual image of the real world
- The factories become more efficient and cost-saving in their production processes
- The sensors tell which object is involved and also have the status information

Information transparency

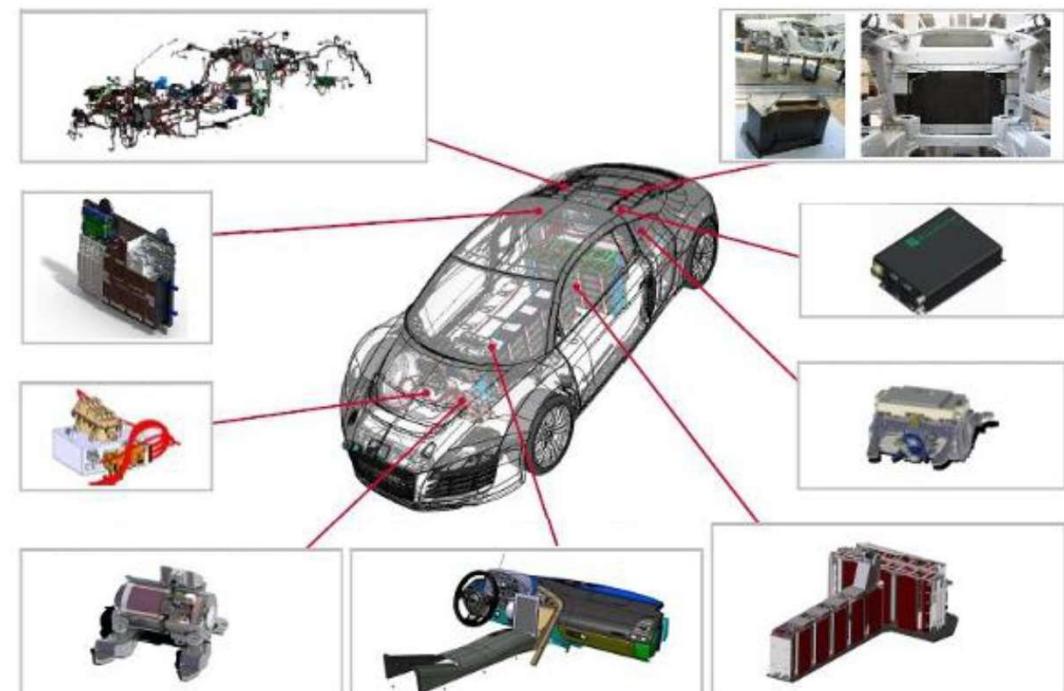
2

Example Smart Factory

Components provide information

... for the production:

- availability (quantity, location)
- quality,
- Type / Version,
- serial number,



Information transparency

Example Smart Factory

Machines provide information:



Systems provide information:

- Current workload
- Material requirement / demand
- Wear and tear
- Error
- Maintenance requirements etc.

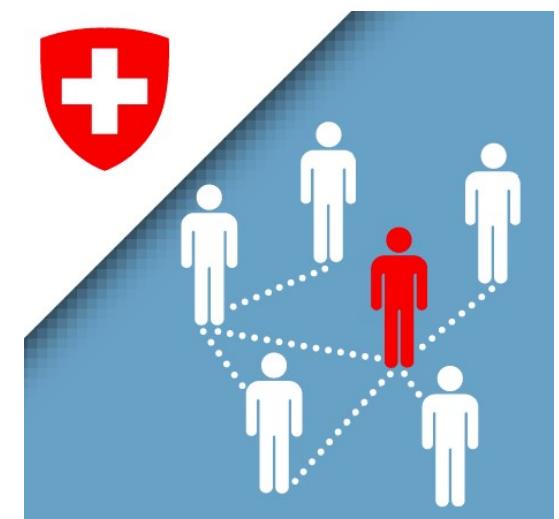
- Process status
- Parts requirements
- Capacity balancing
- Transport requirement
- Production status
- Single product

2

Information transparency

Challenges

- Complexity
- Data protection and security
- Privacy and data protection, e.g. SwissCovid App



3

Technical assistance

- Assistance systems will make working life much easier
- For example, Augmented Reality (AR). This is the computer-aided extension of the perception of reality
- A new form of communication between the real and the virtual world becomes possible
- Cameras in computers, smartphones or special displays superimpose digital objects on the real image
- An exoskeleton is an external support structure for an organism. Also called robot suits, or in medicine orthoses

3

Technical assistance

Examples

- Augmented reality
- Exoskeleton

Challenges

- Design the man-machine interface so that the operator has both hands free

Decentralized decisions

- A cyber-physical system (CPS) is a combination of computer and software components with mechanical and electronic parts that communicate via a data infrastructure such as the Internet

Examples

- Smart Grid
- Age-appropriate assistance systems
- Early Warning System, e.g. German Indonesian Tsunami Early Warning System

Challenge

- As an example: Which people are killed by the car?

Decentralized decisions

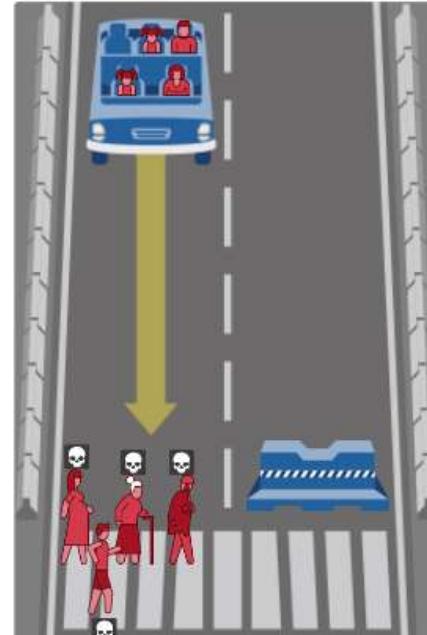
Challenges: Morale machines

What should the self-driving car do?

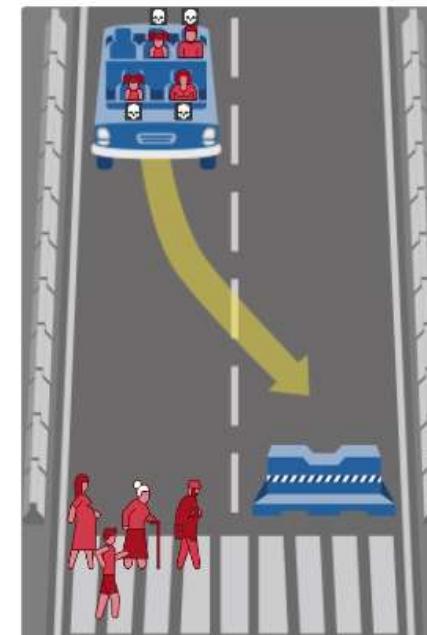
In this case, the self-driving car with sudden brake failure will continue ahead and drive through a pedestrian crossing ahead. This will result in ...

Dead:

- 1 pregnant woman
- 1 elderly woman
- 1 homeless person
- 1 male athlete



[Hide Description](#)



[Hide Description](#)

3 / 13

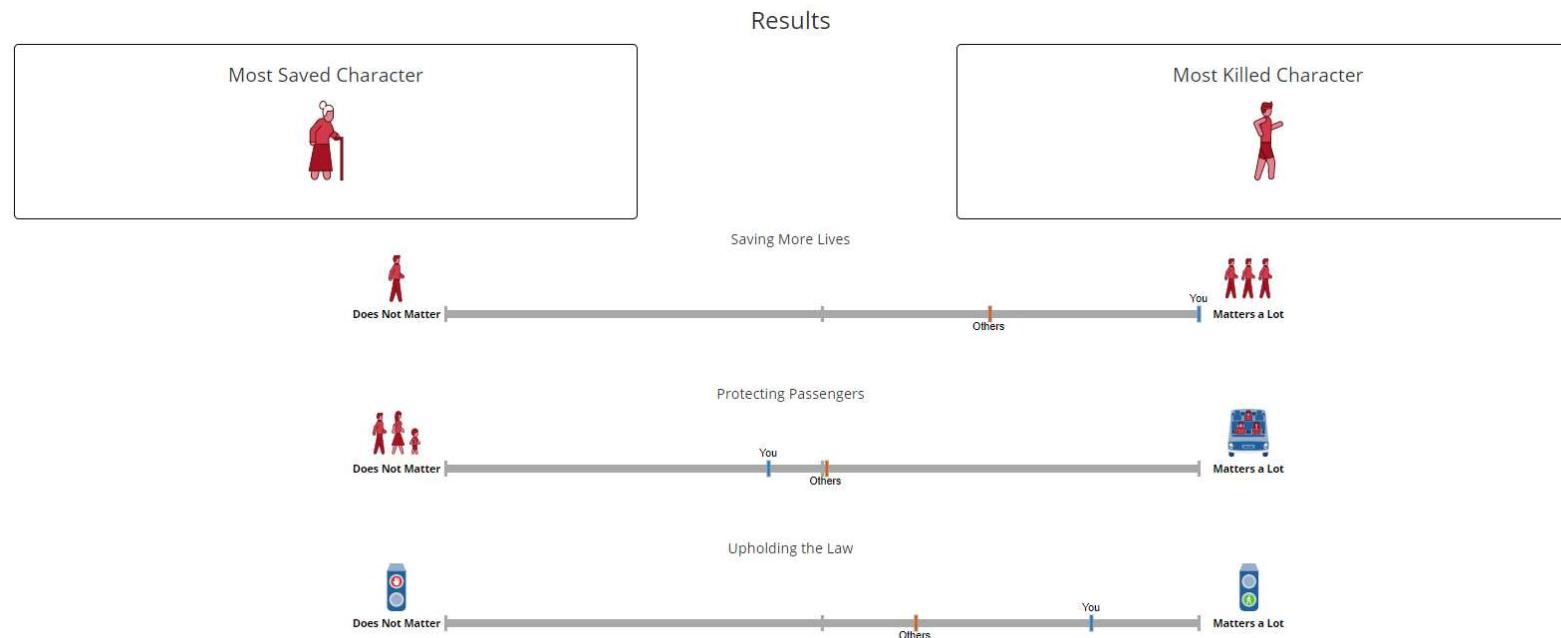
In this case, the self-driving car with sudden brake failure will swerve and crash into a concrete barrier. This will result in ...
Dead:

- 1 large woman
- 2 girls
- 1 man

Source: <https://www.moralmachine.net>

Decentralized decisions

Challenges: Extract from the evaluation



Source: <https://www.moralmachine.net>

#4 Industry 4.0: Revolution or Evolution?



"Revolution" (also: renewal) is understood to be a fundamental and lasting structural change of one or more systems, which usually occurs abruptly or in a relatively short time. The term "evolution" (also: optimization) is used as a contrast. It stands for slower developments or changes without radical change.

Against this background, you answer the question: Is the term "fourth industrial revolution" justified? What speaks for evolution or revolution? Make a list with your arguments that speak for revolution and arguments that speak for evolution and come to a solution.

Work alone or in pairs. Approximate time: 15 minutes.

Challenges of Industry 4.0



- Machines displace people (Elon Musk, Stephen Hawking, Bill Gates)
- Legal and ethical issues?

Challenges



#5 Jobs

As just heard, there are voices saying that industry 4.0 - in contrast to industries 1.0 to 3.0 - will destroy jobs.

1) What is your opinion on this? Proceed as follows:

Make a list of arguments that argue that industry 4.0 destroys jobs or creates jobs.

Weigh the arguments against each other and come to an opinion.

2) Assume that it is indeed the case that industry 4.0 destroys jobs. Make suggestions for...

a) ...how a single person that can minimize risk is rationalized away (= losing the job) by the industry 4.0

Challenges



#5 Jobs (continued)

- a) ...what measures a state - let's call this paradise - can take to deal with the expected high number of unemployed.

Total guide time: 20 minutes. Work on questions first alone for 10 minutes. The Internet is at your disposal. Discuss your solution in your group of four and prepare to present the results of the group of three to the whole class.

Questions?



...and finally...

<https://www.youtube.com/watch?v=iLPkYgpxKBM>

References

BITKOM (Hrsg.) (2014): Industrie 4.0 – Volkswirtschaftliches Studie. Potenzial für Deutschland,

https://de.wikipedia.org/wiki/Industrie_4.0

<https://www.plattform-i40.de/>

Jones, G., George J. (2020): Contemporary Management, McGraw-Hill, New York.