Management Principles for Engineers

Lecture Notes

Compiled By:

Career Development Centre
SRM IST

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18PDH102T- Management Principles for Engineers

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Schermerhorn, J.R., Introduction to Management, 13th Edition. Wiley; 2017
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UNIT I

UNIT I

Course Introduction- Organization- Management- Role of managers- Evolution of management thought- Organization and the environmental factors.

1.1 Organization- The Individual and the Organization

Organization

A consciously coordinated social unit, composed of two or more people, that functions on a relatively continuous basis to achieve a common goal or set of goals.

An organisation is a collection of people working together to achieve a common purpose. It is a unique social phenomenon that enables its members to perform tasks far beyond the reach of individual accomplishment.

Common Characteristics of Organizations

- Have a distinct purpose (goal)
- Are composed of people
- Have a deliberate structure

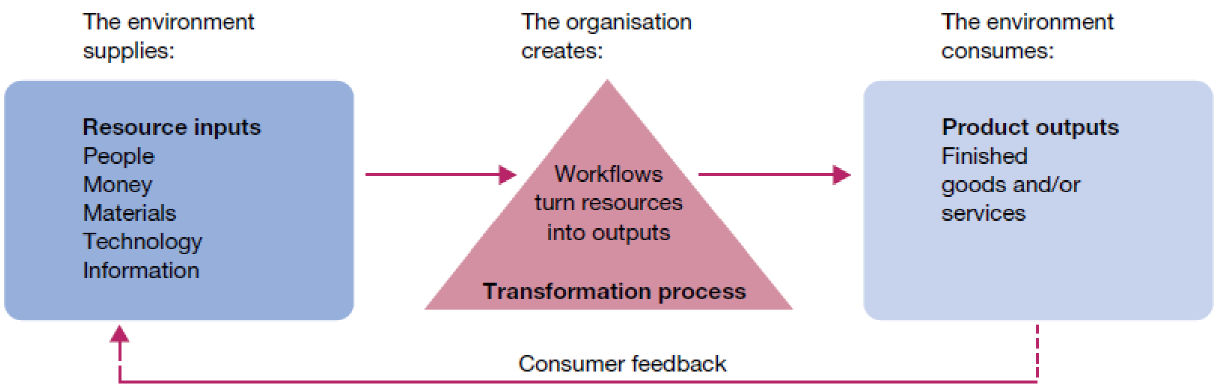

Fig 1.1.1 Organisation as open systems

The changing nature of organizations

Organisations are certainly undergoing dramatic changes today. Among the many forces and trends in the new workplace, the following organisational transitions set an important context for the study of management.

- Pre-eminence of technology. New opportunities appear with each new development in ICT; they continually change the way organisations operate and how people work.
- Demise of 'command-and-control'. Traditional hierarchical structures with 'do as I say' bosses are proving too slow, conservative and costly to do well in today's competitive environments. Contemporary management relies on collaboration and coaching.
- Focus on speed. Everything moves fast today; in business those who get products to market first have an advantage, and in any organisation work is expected to be both well done and timely.
- Adoption of networking. Organisations are networked for intense real-time communication and coordination, internally among departments and externally with partners, contractors, suppliers and customers.

- Belief in empowerment. Demands of the new economy place premiums on high-involvement and participatory work settings that rally the knowledge, experience and commitment of all members.
- Emphasis on teamwork. Today's organisations are less vertical and more horizontal in focus; they are increasingly driven by teamwork that pools talents for creative problem-solving.
- New workforce expectations. A new generation of workers brings to the workplace less tolerance for hierarchy, more informality and more attention to performance merit than to status and seniority.
- Concern for work–life balance. As society increases in complexity, workers are forcing organizations to pay more attention to balance in the often-conflicting demands of work and personal affairs.

1.2. Management- Primary Functions of Management

Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims

Many management thinkers have defined management in their own ways. For example, Van Fleet and Peterson define management, 'as a set of activities directed at the efficient and effective utilization of resources in the pursuit of one or more goals.'

Megginson, Mosley and Pietri define management as 'working with human, financial and physical resources to achieve organizational objectives by performing the planning, organizing, leading and controlling functions'.
Kreitner's definition of management:

'Management is a problem solving process of effectively achieving organizational objectives through the efficient use of scarce resources in a changing environment.'

According to F.W. Taylor, 'Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way'.

According to Harold Koontz, 'Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals.'

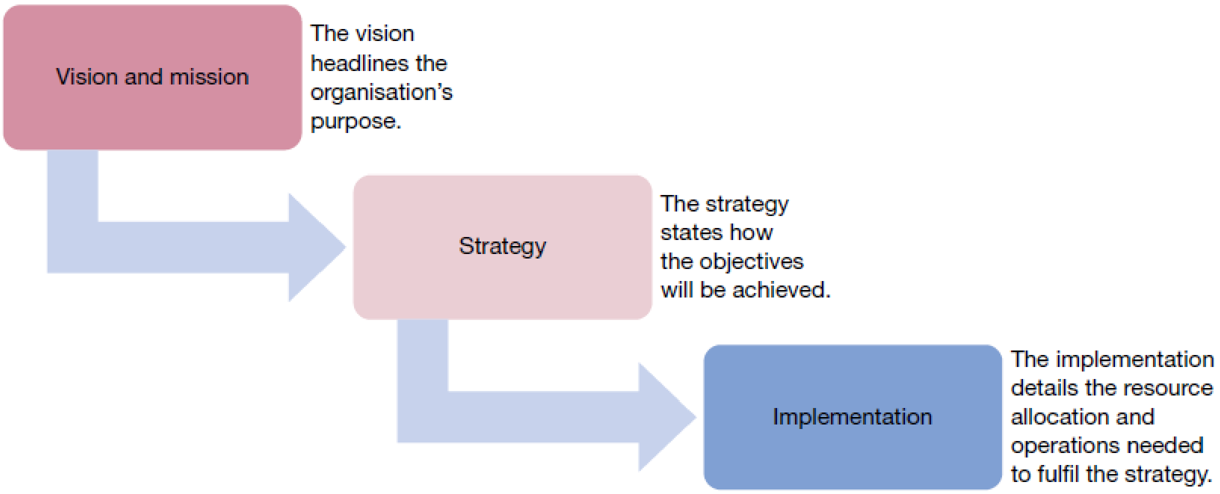

Fig 1.2.1 Process of management

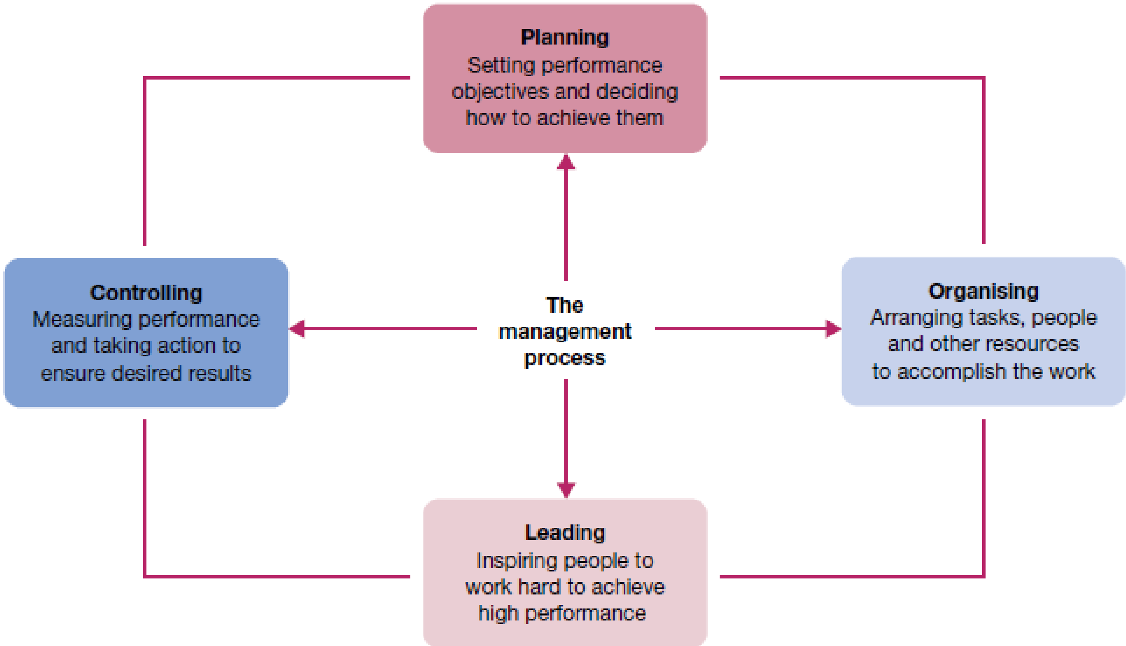

Fig 1.2.2 Functions of management

Functional Approach

Planning

In management, planning is the process of setting performance objectives and determining what actions should be taken to accomplish them. Through planning, a manager identifies desired work results and the means to achieve them. Planning involves selecting missions and objectives and the actions to achieve them, it requires decision making, i.e. choosing future courses of action from among alternatives.

Planning as a process typically involves the following steps
Selection of goals for the organization
Establishment of goals for each of the organization's sub-units
Establishment of programs for achieving goals in a systematic manner.

Controlling

A key issue in how well plans are implemented is how well the organisation adapts to rapid change. In today's dynamic times, things do not always go as expected and plans must be modified and redefined with the passage of time. The management function of controlling is the process of measuring work performance, comparing results with objectives, and taking corrective action as needed. Through controlling, managers maintain active contact with people in the course of their work, gather and interpret reports on performance, and use this information to plan constructive action and change. Through measurement management is able to track progress against objectives.
Managers at all levels engage in the managerial function of controlling to some degree.
Two traditional control techniques are budget and performance audits. An audit involves a physical examination and verification of the organization's records and supporting documents. A budget audit provides information about where the organization is with respect to procedures followed for financial planning and control, whereas a performance audit might try to determine whether the figures reported are a reflection of actual performance.
Controlling is not just limited to organization's financial state, but also spans across areas like operations, compliance with company policies and other regulatory policies, including many other activities within the organization. The management functions thus most effectively cover the broad scope of a manager's duties and responsibilities. Though the nature and complexities faced by businesses have undergone a vast change over the years the functions of management remain the same

Organising

Even the best plans may fail without effective implementation. The implementation phase begins with organising — the process of assigning tasks, allocating resources and arranging the coordinated activities of individuals and groups to implement plans. Through organising, managers turn plans into actions by defining jobs, assigning staff and supporting them with technology and other resources.
Organizing involves the following steps:
Creating the organizational structure
Making organizational design decisions
Making job design decisions

Leading

In management, leading is the process of arousing people's enthusiasm to work hard and direct their efforts to fulfil plans and accomplish objectives. Through leading, managers build commitments to a common vision, encourage activities that support goals, and influence others to do their best work on the organisation's behalf.

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1.3 Role of management in organization-Advantages of Managing People Well

1.3.1 Features of Management

Continuous and never ending process

Management is a Process. It includes four main functions, viz., Planning, Organising, Directing and Controlling. The manager has to Plan and Organise all the activities. He had to give proper Directions to his subordinates. He also has to Control all the activities. The manager has to perform these functions continuously. Therefore, management is a continuous and never-ending process.

Getting things done through people

The managers do not do the work themselves. They get the work done through the workers. The workers should not be treated like slaves. They should not be tricked, threatened or forced to do the work. A favorable work environment should be created and maintained.

Result oriented science and art

Management is result oriented because it gives a lot of importance to "**Results**". Examples of Results like, increase in market share, increase in profits, etc. Management always wants to get the best results at all times.

Multidisciplinary in nature

Management has to get the work done through people. It has to manage people. This is a very difficult job because different people have different emotions, feelings, aspirations, etc. Similarly, the same person may have different emotions at different times. So, management is a very complex job. Therefore, management uses knowledge from many different subjects such as Economics, Information Technology, Psychology, Sociology, etc. Therefore, it is multidisciplinary in nature.

A group and not an individual activity

Management is not an individual activity. It is a group activity. It uses group (employees) efforts to achieve group (owners) objectives. It tries to satisfy the needs and wants of a group (consumers). Nowadays, importance is given to the team (group) and not to individuals.

Follows established principles or rules

Management follows established principles, such as division of work, discipline, unity of command, etc. These principles help to prevent and solve the problems in the organization.

Aided but not replaced by computers

Nowadays, all managers use computers. Computers help managers to make accurate decisions. However, computers can only help management. Computers cannot replace management. This is because management takes final responsibility. Thus Management is aided (helped) but not replaced by computers.

Situational in nature

Management makes plans, policies, and decisions according to the situation. It changes its style according to the situation. It uses different plans, policies, decisions, and styles for different situations.
The manager first studies the full present situation. Then he draws conclusions about the situation. Then he makes plans, decisions, etc., which are best for the present situation. This is called **Situational** Management.

Need not be an ownership

In small organizations, management and ownership are one and the same. However, in large organizations, management is separate from ownership. The managers are highly qualified professionals who are hired from outside. The owners are the shareholders of the company.

Both an art and science

Management is result-oriented. Therefore, it is an Art. Management conducts continuous research. Thus, it is also a Science.

Management is all pervasive

Management is necessary for running a business. It is also essential for running a business, educational, charitable and religious institutions. Management is a must for all activities, and therefore, it is all pervasive.

Management is intangible

Management is intangible, i.e. it cannot be seen and touched, but it can be felt and realized by its results. The success or failure of management can be judged only by its results. If there is good discipline, good productivity, good profits, etc., then the management is successful and vice-versa.

Uses a professional approach in work

Managers use a professional approach to get the work done from their subordinates. They delegate (i.e. give) authority to their subordinates. They ask their subordinates to give suggestions for improving their work. They also encourage subordinates to take the initiative. Initiative means to do the right thing at the right time without being guided or helped by the superior.

Dynamic in nature

Management is dynamic in nature. That is, management is creative and innovative. An organization will survive and succeed only if it is dynamic. It must continuously bring in new and creative ideas, new products, new product features, new ads, new marketing techniques, etc.

1.3.2 Importance of Management

It helps in Achieving Group Goals - It arranges the factors of production, assembles and organizes the resources, integrates the resources in effective manner to achieve goals. It directs group efforts towards achievement of pre-determined goals. By defining objective of organization clearly there would be no wastage of time, money and effort. Management converts disorganized resources of men, machines, money etc. into useful enterprise. These resources are coordinated, directed and controlled in such a manner that enterprise work towards attainment of goals.

Optimum Utilization of Resources - Management utilizes all the physical & human resources productively. This leads to efficacy in management. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. It makes use of experts, professional and these services leads to use of their skills, knowledge, and proper utilization and avoids wastage. If employees and machines are producing its maximum there is no under employment of any resources.

Reduces Costs - It gets maximum results through minimum input by proper planning and by using minimum input & getting maximum output. Management uses physical, human and financial resources in such a manner which results in best combination. This helps in cost reduction.

Establishes Sound Organization - No overlapping of efforts (smooth and coordinated functions). To establish sound organizational structure is one of the objective of management which is in tune with objective of organization and for fulfillment of this, it establishes effective authority & responsibility relationship i.e. who is accountable to whom, who can give instructions to whom, who are superiors & who are subordinates. Management fills up various positions with right persons, having right skills, training and qualification. All jobs should be cleared to everyone.

Establishes Equilibrium - It enables the organization to survive in changing environment. It keeps in touch with the changing environment. With the change is external environment, the initial co-ordination of organization must be changed. So it adapts organization to changing demand of market / changing needs of societies. It is responsible for growth and survival of organization.

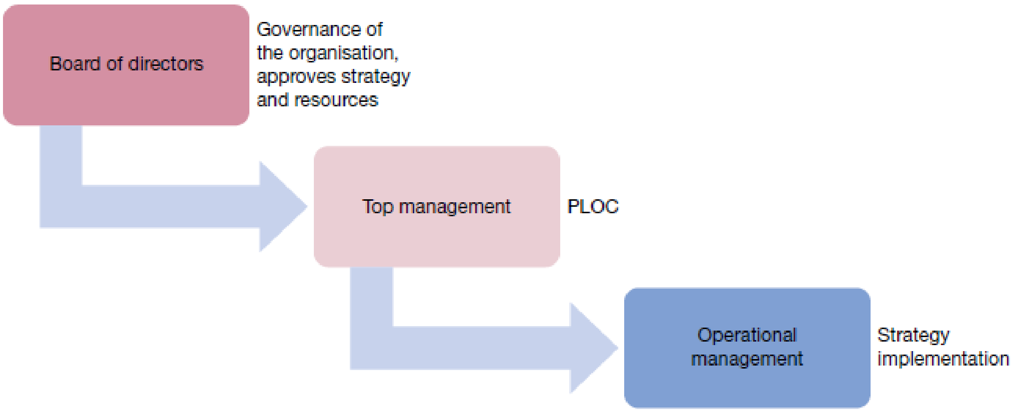
Essentials for Prosperity of Society - Efficient management leads to better economical production which helps in turn to increase the welfare of people. Good management makes a difficult task easier by avoiding wastage of scarce resource. It improves standard of living. It increases the profit which is beneficial to business and society will get maximum output at minimum cost by creating employment opportunities which generate income in hands. Organization comes with new products and researches beneficial for society.

1.4. Types of Managers- Role of managers

Manager

Someone who works with and through other people by coordinating their work activities in order to accomplish organizational goals

Levels of Managers



1.4.1 Levels of Managers

Skills and Managerial levels

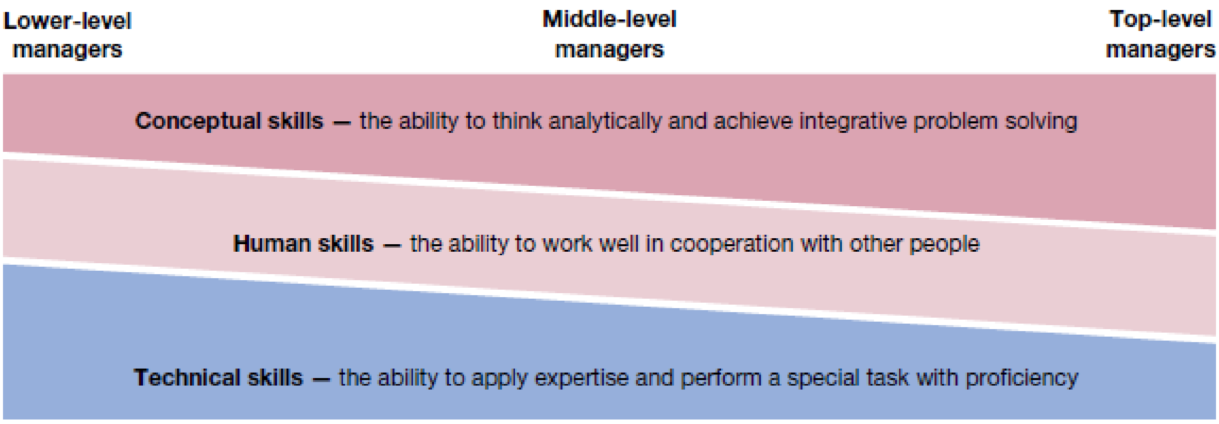


Fig 1.4.2 Skills and Managerial levels

Technical skills
The ability to apply specialized knowledge or expertise

Human skills
The ability to work with, understand, and motivate other people, both individually and in groups.
Conceptual Skills
The mental ability to analyze and diagnose complex situations.

Types of managers
Line managers are responsible for work activities that make a direct contribution to the

organisation's outputs. For example, the general manager, retail manager and department supervisors of a local department store all have line responsibilities. Their jobs in one way or another are directly related to the sales operations of the store. **Staff managers**, on the other hand, use special technical expertise to advise and support the efforts of line workers. In a department store, the director of human resources and the chief financial officer would have staff responsibilities.

In business, **functional managers** have responsibility for a single area of activity, such as finance, marketing, production, human resources, accounting or sales. **General managers** are responsible for more complex units that include many functional areas. An example is a plant manager who oversees many separate functions, including purchasing, manufacturing, warehousing, sales, personnel and accounting. It is not unusual for managers working in public or not-for-profit organisations to be called **administrators**. Examples include hospital administrator, public administrator and local government administrator.

Mintzberg's Management Roles Approach

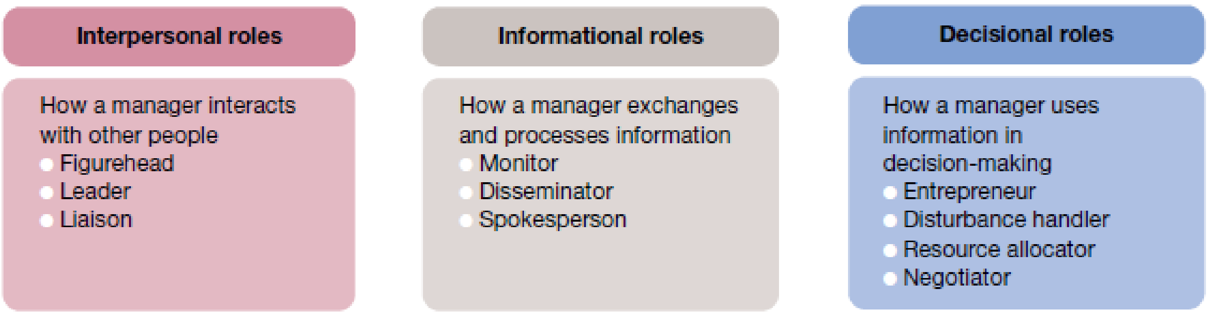


Fig 1.4.3 Mintzberg's Management Roles Approach

The way in which the Mintzberg Managerial Roles are carried out, are influenced by individual and situational factors. Henry Mintzberg initially divided the ten managerial Roles roles into three sub categories:

- Interpersonal contact
- Information processing
- Decision making

Interpersonal contact
Interpersonal contact concerns the contact between the manager and the people in his environment. For example, subordinates, other managers, the board of directors, the works council, customers and suppliers.

The following Mintzberg Managerial Roles are primarily concerned with interpersonal contact:

1. Figurehead

As head of a department or an organisation, a manager is expected to carry out ceremonial and/or symbolic duties. A manager represents the company both internally and externally in all matters of formality.He is a networker but he also serves as an exemplary role model. He is the one who addresses people celebrating their anniversaries, attends business dinners and receptions.

2. Leader

In his leading role, the manager motivates and develops staff and fosters a positive work environment. He coaches and supports staff, enters into (official) conversations with them, assesses them and offers education and training courses.

3. Liason

A manager serves as an intermediary and a linking pin between the high and low levels. In addition, he develops and maintains an external network. As a networker he has external contacts and he brings the right parties together. This will ultimately result in a positive contribution to the organization.

Information processing
According to Henry Mintzberg, the managerial role involves the processing of information which means that they send, pass on and analyze information. Managers are linking pins; they are expected to exchange flows of vertical information with their subordinates and horizontal flows of information with their fellow managers and the board of directors. Further more, managers have the responsibility to filter and transmit information that is important for both groups. The following Mintzberg Managerial Roles fall under process information:

4. Monitor

As a monitor the manager gathers all internal and external information that is relevant to the organization.He is also responsible for arranging, analyzing and assessing this information so that he can easily identify problems and opportunities and identify changes.

5. Disseminator

As a disseminator the manager transmits factual information to his subordinates and to other people within the organization.This may be information that was obtained either internally or externally.

6. Spokesman

As a spokesman the manager represents the company and he communicates to the outside world on corporate policies, performance and other relevant information for external parties.

Decision-making
Managers are responsible for decision-making and they can do this in different ways at different levels. The leadership style is important in decision-making.

An authoritarian leader is sooner inclined to make decisions independently than a democratic leader. The following Mintzberg Managerial Roles fall under decision-making:

7. Entrepreneur

As an entrepreneur, the manager designs and initiates changes and strategies.

8. Disturbance handler

In his managerial role as disturbance handler, the manager will always immediately respond to unexpected events and operational breakdowns. He aims for usable solutions. The problems may be internal or external, for example conflict situations or the scarcity of raw materials. .

9. Resource allocator

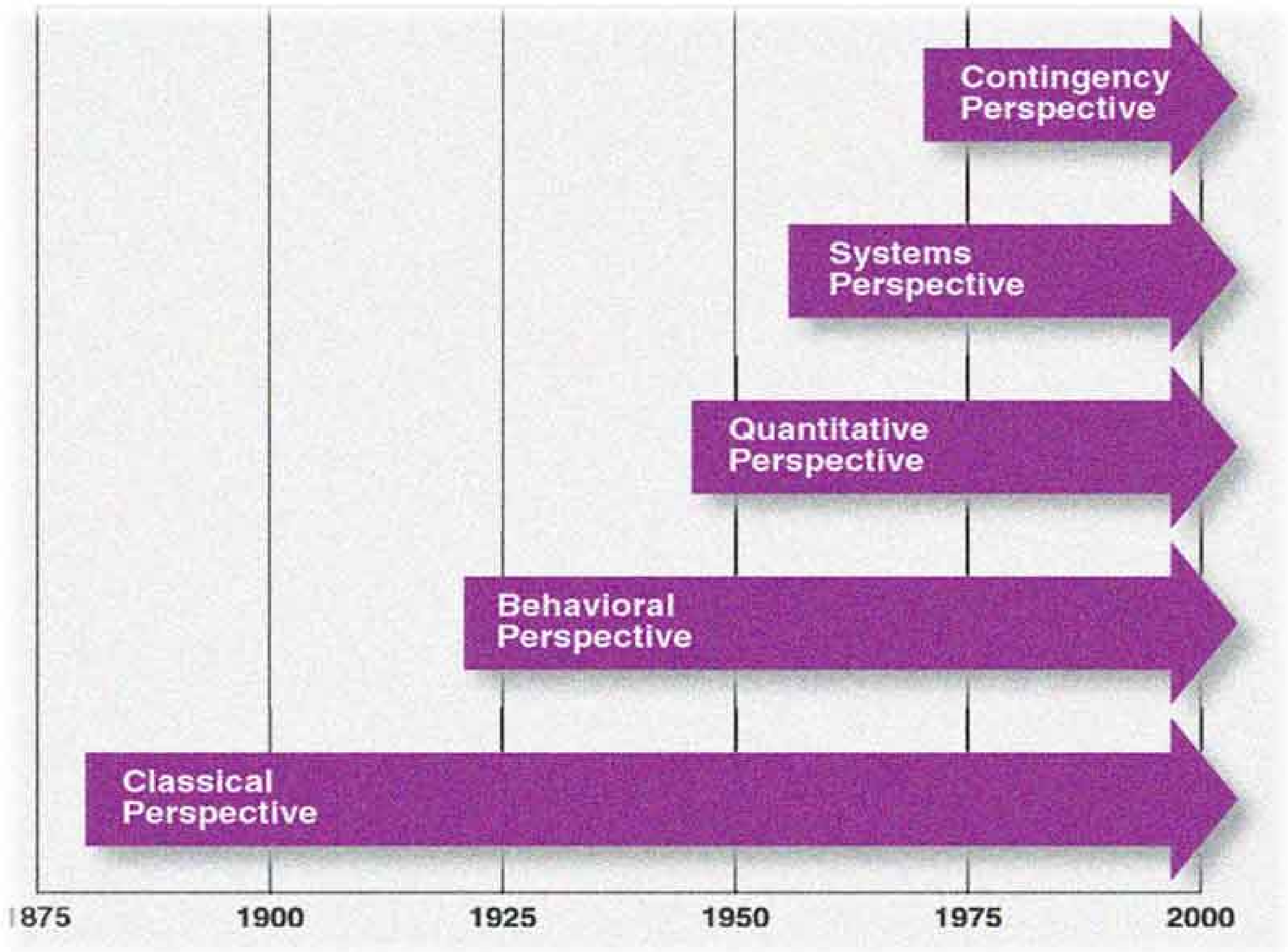
In his resource allocator role, the manager controls and authorizes the use of organizational resources.He allocates finance, assigns employees, positions of power, machines, materials and other resources so that all activities can be well-executed within the organization.

10. Negotiator

As a negotiator, the manager participates in negotiations with other organizations and individuals and he represents the interests of the organization.This may be in relation to his own staff as well as to third parties. For example salary negotiations or negotiations with respect to procurement terms.

1.5 Management Thought- Management Roles

Management Thought (Various approach to Management/Evolution of Management Thought)



Classical approaches to management

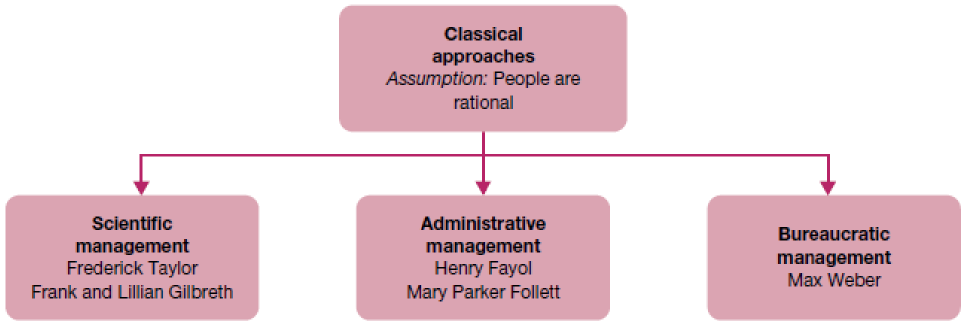


Fig 1.5.1 Classical approaches to management

- Frederick Taylor's four principles of scientific management focused on the need to carefully select, train and support workers for individual task performance.
- Henri Fayol suggested that managers should learn what are now known as the management functions of planning, organising, leading and controlling.
- Max Weber described bureaucracy with its clear hierarchy, formal rules and well-defined jobs as an ideal form of organisation.
- Jaques emphasised hierarchy in organisations and the crucial role of the manager.

Behavioural approaches to management

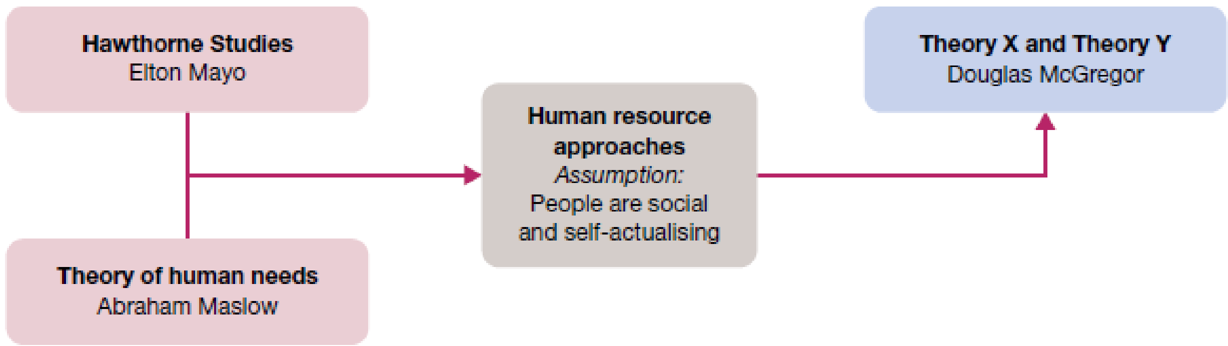


Fig 1.5.2 Behavioural approaches to management

The human resource approaches shifted attention towards the human factor as a key element in organisational performance.

- The historic Hawthorne Studies suggested that work behaviour is influenced by social and psychological forces and that work performance may be improved by better 'human relations'.
- Abraham Maslow's hierarchy of human needs introduced the concept of self-actualisation and the potential for people to experience self-fulfilment in their work.
- Douglas McGregor urged managers to shift away from Theory X and towards Theory Y thinking, which views people as independent, responsible and capable of self-direction in their work.
- Peter Drucker's influence on management thinking continues to be felt as a humanizing common sense approach to the many and complicated tasks involved in managing contemporary organisations.

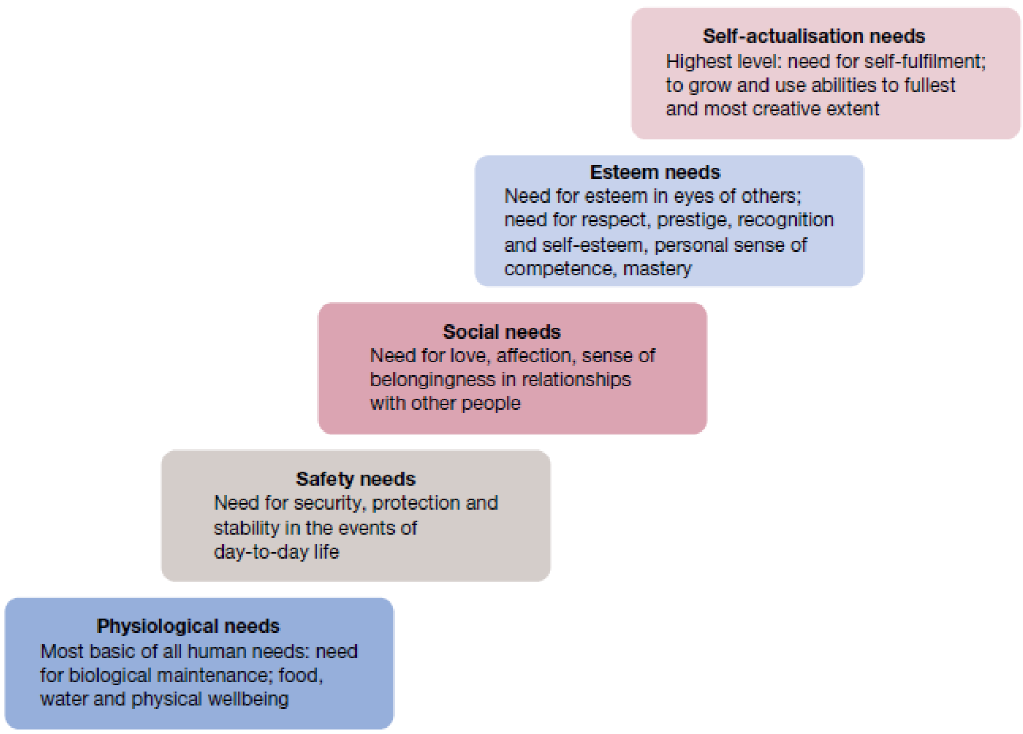


Fig 1.5.3 Maslow's hierarchy of human needs

Quantitative approaches to management

The availability of high-powered desktop computing provides new opportunities for mathematical methods to be used for problem-solving.

- Many organisations employ staff specialists in quantitative management science and operations research to solve problems.
- Quantitative techniques in common use include various approaches to forecasting, linear programming and simulation, among others.

Modern approaches to management

Organisations are complex open systems that interact with their external environments to transform resource inputs into product outputs.

- Resource acquisition and customer satisfaction are important requirements in the organisation–environment relationship.
- Organisations are composed of many internal subsystems that must work together in a coordinated way to support the organisation's overall success.
- Contingency thinking avoids 'one best way' arguments, and recognises the need to understand situational differences and respond appropriately to them.
- *In the 21st century:* The commitment to meet customer needs 100 per cent of the time guides organisations towards total quality management and continuous improvement of operations.
- The global economy is a dramatic influence on organisations today, and opportunities abound to learn new ways of managing from practices in other countries.
- This is the age of information in which knowledge and knowledge workers are major resources of modern society.
- New managers must accept and excel at leadership responsibilities to perform as global strategists, technology masters, consummate politicians and leader–motivators.

Henry Fayol's Principles of Management

One of the oldest and most popular approaches, Henry Fayol's theory holds that administration of all organizations – whether public or private, large or small – requires the same rational process or functions.

This school of thought is based on two assumptions −

- Although the objective of an organization may differ (for example, business, government, education, or religion), yet there is a core management process that remains the same for all institutions.
- Successful managers, therefore, are interchangeable among organizations of differing purposes. The universal management process can be reduced to a set of separate functions and related principles.

Fayol identifies fourteen universal principles of management, which are aimed at showing managers how to carry out their functional duties.

S.No	Universal principles of management	Managers Functional Duties
1	Specialization of labor	This improves the efficiency of labor through specialization, reducing labor time and increasing skill development.
2	Authority	This is the right to give orders which always carry responsibility

		commensurate with its privileges.
3	Discipline	It relies on respect for the rules, policies, and agreements that govern an organization. Fayol ordains that discipline requires good superiors at all levels.
4	Unity of command	This means that subordinates should receive orders from one superior only, thus avoiding confusion and conflict.
5	Unity of direction	This means that there should be unity in the directions given by a boss to his subordinates. There should not be any conflict in the directions given by a boss.
6	Subordination of individual interest to common good	According to this principle, the needs of individuals and groups within an organization should not take precedence over the needs of the organization as a whole.
7	Remuneration	Wages should be equitable and satisfactory to employees and superiors.
8	Centralization	Levels at which decisions are to be made should depend on the specific situation, no level of centralization or decentralization is ideal for all situations.
9	Scale of chain	The relationship among all levels in the organizational hierarchy and exact lines of authority should be unmistakably clear and usually followed at all times, excepting special circumstances when some departure might be necessary.
10	Order	There should be a place for everything, and everything should be in its place. This is essentially a principle of organization in the arrangement of things and people.
11	Equity	Employees should be treated equitably in order to elicit loyalty and devotion from personnel.
12	Personal tenure	Views unnecessary turnover to be both the cause and the effect of bad management; Fayol points out its danger and costs.
13	Initiative	Subordinates should be encouraged to conceive and carryout ideas.
14	Esprit de corps	Team work, a sense of unity and togetherness, should be fostered and maintained.

1.6. Environmental Factors- Internal and External Factors

Major elements of an organisation's general environment

Economic conditions
This includes the general state of the economy in terms of inflation, interest rates, income levels, gross domestic product and unemployment and related indicators of economic health.

Sociocultural conditions
This includes the general state of prevailing social values on matters such as human rights, trends in education and related social institutions, and demographic patterns.

Political–legal conditions
This includes laws and government regulations and the general state of the prevailing philosophy and objectives of the political party or parties running the government.

Technological conditions
This includes the general state of the development and availability of technology, including scientific advancements.

Natural environment conditions
This includes the general state of nature and the conditions of the natural environment, including levels of public concern expressed through environmentalism.

Fig 1.6.1 Major elements of an organisation's general environment

The specific environment

The **specific environment** consists of the actual organisations, groups and people with whom an organisation interacts and conducts business. These are environmental elements of direct consequence to the organisation as it operates on a day to day basis. The specific environment is often described in terms of **stakeholders** — the individuals, groups and institutions who are affected in one way or another by the organisation's performance.

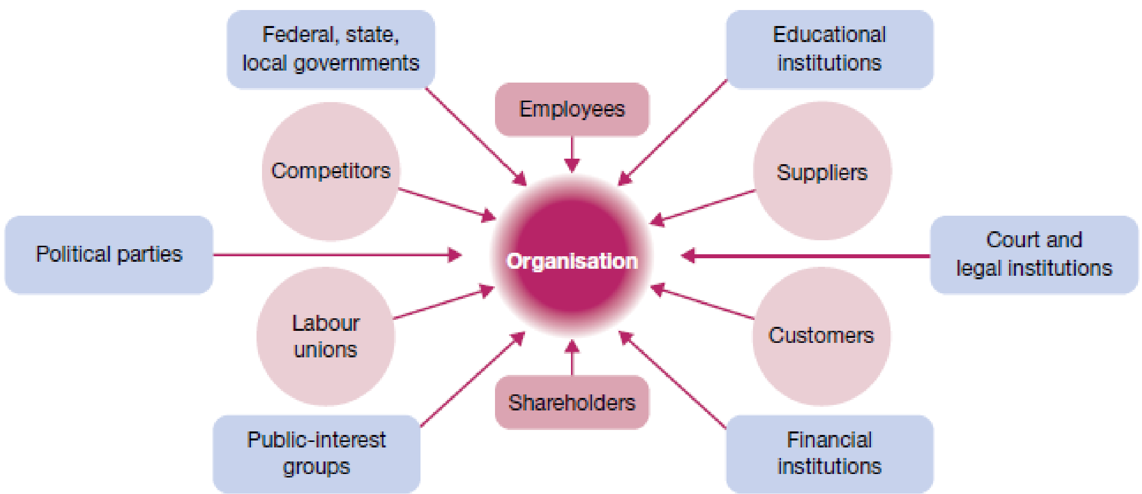


Fig 1.6.2

Multiple stakeholders in the environment of organizations

Sometimes called the *task environment*, the specific environment and the stakeholders are distinct for each organisation. They can also change over time according to the company's unique customer base, operating needs and circumstances. Important stakeholders common to the specific environment of most organisations include:

- *customers* — specific consumer or client groups, individuals and organisations that purchase the organisation's goods and/or use its services
- *suppliers* — specific providers of the human, information and financial resources and raw materials needed by the organisation to operate
- *competitors* — specific organisations that offer the same or similar goods and services to the same consumer or client groups
- *regulators* — specific government agencies and representatives, at the local, state and national levels, that enforce laws and regulations affecting the organisation's operations.

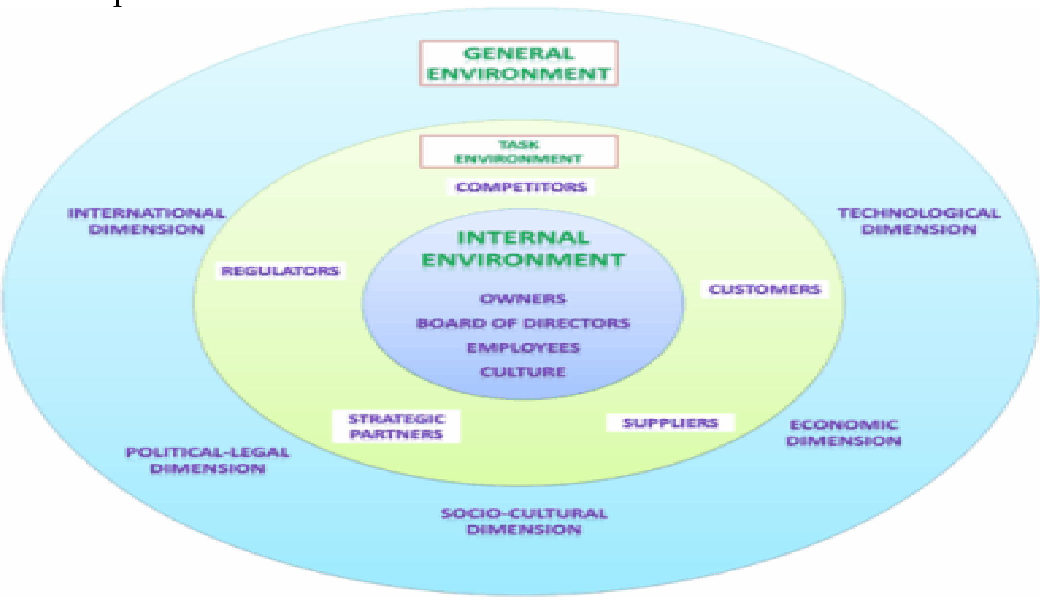


Fig 1.6.3 Multiple stakeholders in the environment of organizations - 2

Environmental uncertainty

The fact is that many organisations today face great uncertainty in their external environments. In this sense, **environmental uncertainty** means that there is a lack of complete information regarding what developments will occur in the external environment. This makes it difficult to predict future states of affairs and to understand their potential implications for the organisation. Figure below describes environmental uncertainty along two dimensions — complexity, or the number of different factors in the environment, and the rate of change in these factors.

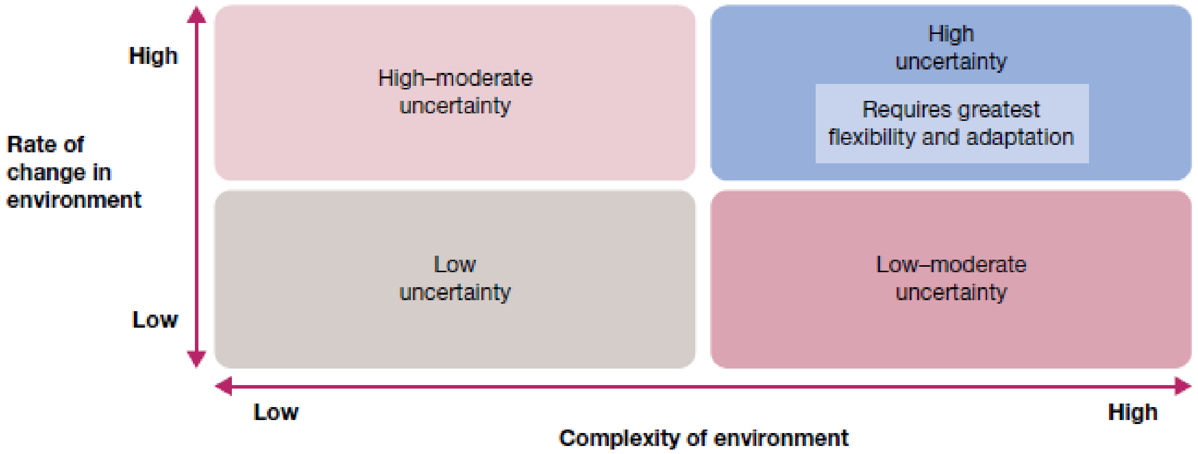


Fig 1.6.3 Dimensions of uncertainty in organisational environments

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UNIT II

UNIT II

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2.1 Information technology and the new workplace

Progressive organisations are doing all they can to design work settings for high performance in an environment where 'speed to market', 'quick response', 'fast cycle time' and 'time-based competition' are top priorities.
People work at 'smart' stations supported by computers that allow sophisticated voice, image, text and other data-handling operations. Many of these stations are temporary spaces that telecommuters 'visit' during those times when they are in the main office; otherwise they work from virtual offices — on the road, anywhere. Voice messaging uses the voice recognition capabilities of computers to take dictation, answer the telephone and relay messages. Databases are easily accessed and shared to solve problems, and to prepare and analyse reports.

Documents drafted via word processing are stored for later retrieval and/or sent via electronic mail or facsimile transmission to other people. Filing cabinets are few, and little paper is found. Meeting notes are written on electronic pads or jotted in palm-held electronic diaries. All are easily uploaded into computer files. Mail arrives and is routed to its destination via computer, where it is electronically prioritized according to its importance and linked to relevant databases to speed problem-solving. Computer conferencing and videoconferencing are commonplace. E-meetings allow people separated by great distances — distributed even around the world — to work together on projects every day without meeting personally face to face.

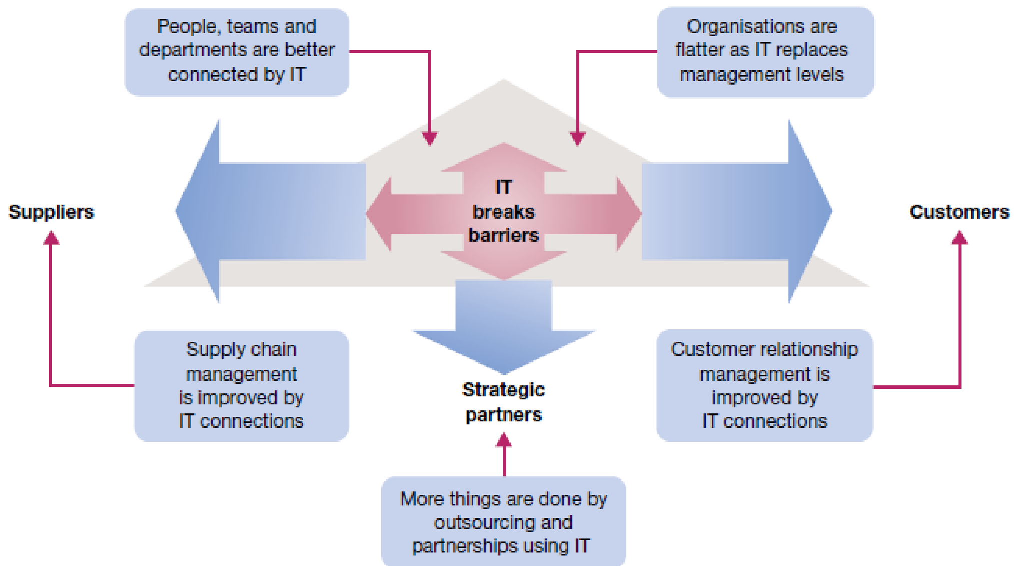


Fig 2.1.1 Information systems and the nature of managerial work

Information technology and the changing business
One of the most significant business developments of all time is **electronic commerce**, or 'e-commerce'
The stages of development in e commerce are as follows.
1. *Secure an online identity*. Organisations at this stage have a web address and most likely a posted home page.
2. *Establish a web presence*. Organisations at this stage use their home page for advertising or promotional purposes; it offers company and/or product information, but does not allow visitors online queries or ordering.
3. *Enable e commerce*. Organisations at this stage are viable e commerce businesses whose websites allow visitors to order products online.
4. *Provide e commerce and customer relationship management*. Organisations at this stage use their websites to develop and maintain relationships with customers by serving key processes, such as checking status of orders or inventory levels online.
5. *Use a service application model*. Organisations at this stage use advanced website capabilities to fully serve business functions and processes such as financial management and human resources.

2.1.1 Information and Information systems

Information systems use the latest in information technology to collect, organise and distribute data in such a way that they become meaningful as information. The integration of information systems is an essential element of high productivity.

The five essential characteristics of useful information are as follows.
i. *Timeliness*. The information is available when needed; it meets deadlines for decision-making and action.
ii. *Quality*. The information is accurate and reliable; it can be used with confidence.
iii. *Completeness*. The information is complete and sufficient for the task at hand; it is as current and as up to date as possible.
iv. *Relevance*. The information is appropriate for the task at hand; it is free from extraneous or irrelevant material.
v. *Understandability*. The information is presented in proper form, easily understood by the user; it is free from unnecessary detail; and the scope of the collected information is neither too narrow nor too broad.

A **decision support system (DSS)** allows users to interact directly with a computer to organise and analyse data for solving complex and sometimes unstructured problems. Decision support systems are now available to help with such business decisions as mergers and acquisitions, plant expansions, new product developments and share portfolio management, among many others.

Expert systems mimic the thinking of human experts and, in so doing, offer consistent and 'expert' decision-making advice to the user.

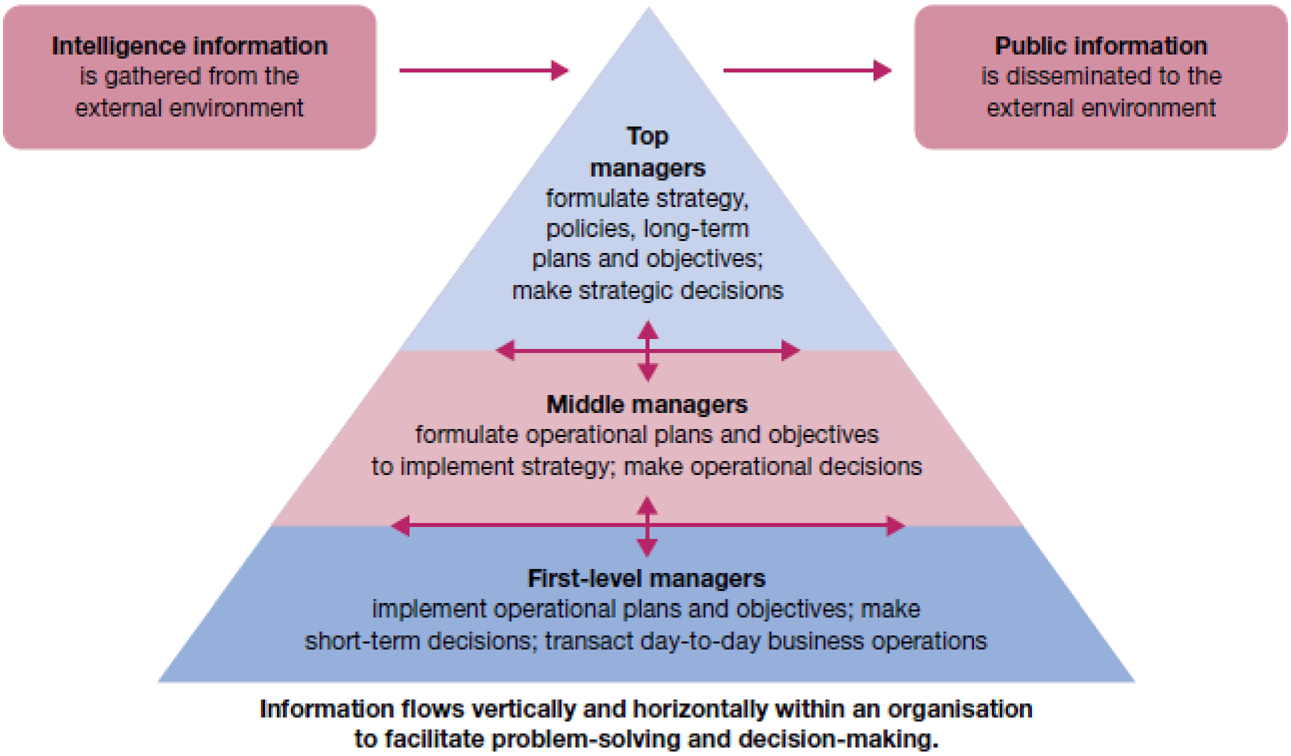


Fig 2.1.2 External and internal information needs of organisations

Central to the electronic office is the integration of computers and software into networks that allow users to easily transfer and share information through computer to computer linkages. It is now very common for organisations to have **intranets** and **corporate portals** that allow employees, by password access, to share databases and communicate electronically, from anywhere in the world. These networks of computers use special software to allow people working in various locations for the same organization to share databases and communicate electronically. The goal is to promote more integration across the organisation and improve operational efficiency and quality.

Fully integrated **extranets** and **enterprise portals** that allow communication and data sharing between the organisation and special elements in its external environment.

Electronic Data Interchange, or EDI. It uses controlled access to enterprise portals and supporting software to enable firms to transact business electronically with one another; for example, by sharing purchase orders, bills, receipt confirmations and payments. The goals of EDI include improved transaction speed and cost savings.

2.1.2 Information and Decision Making

A **decision**, to be precise, is a choice between alternative courses of action. The process of decision making is driven in part by the quality of information available. Information systems help managers to gather data, turn them into useful information, and use that information to make effective problem solving decisions.

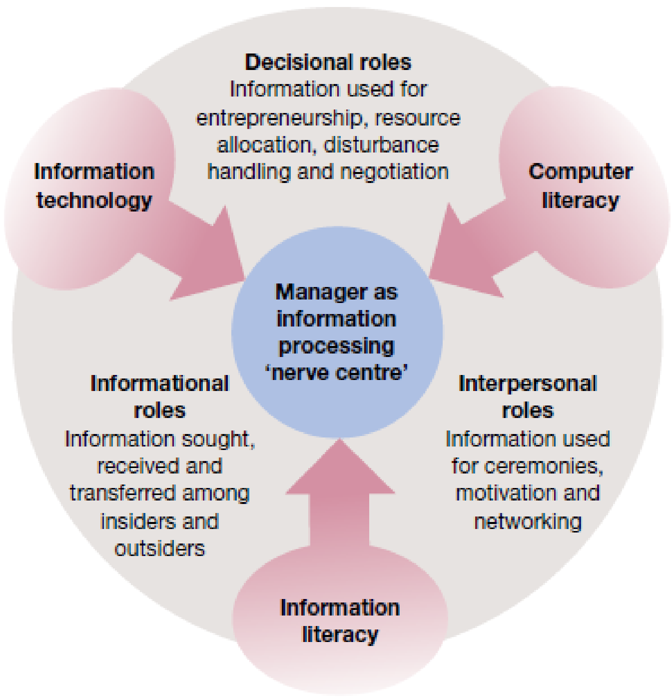


Fig 2.1.3 Information technology is breaking down barriers and changing organizations

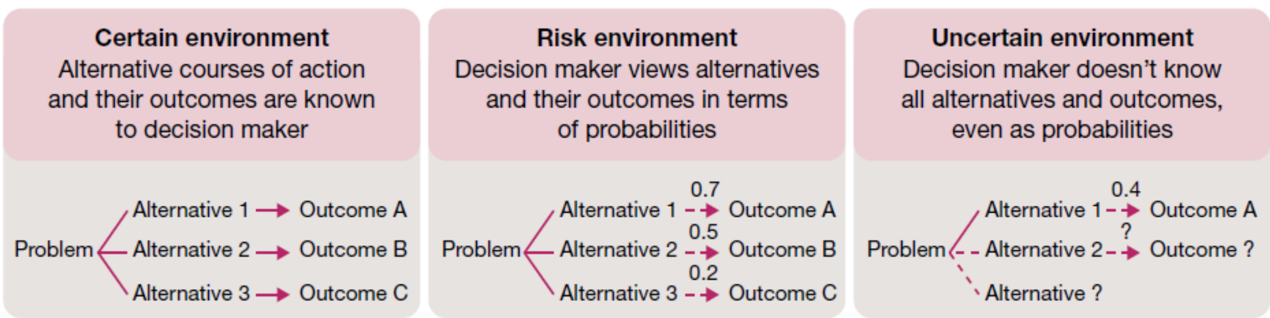
Types of managerial decisions

Programmed decisions — that is, solutions already available from past experience to solve problems that are familiar, straightforward and clear with respect to information needs. These decisions apply best to problems that are matters of routine; although perhaps not predictable, they can at least be anticipated. This means that decisions can be planned or programmed in advance, to be implemented as needed.

Unstructured problems require **non-programmed decisions** that craft novel solutions to meet the demands of the unique situation at hand. Most problems faced by higher level managers are of this type, with the problems often involving choice of strategies and objectives in situations of some uncertainty.

Decision conditions

People in organisations make decisions under each of the three conditions environments of certainty, risk and uncertainty.



2.1.4Three environments for managerial decision-making and problem-solving

Approaching Decisions

People display three quite different approaches or 'styles' in the way they deal with problem situations. Some are *problem avoiders* who ignore information that would otherwise signal the presence of an opportunity or performance deficiency. Such people are inactive and do not want to make decisions and deal with problems.

Problem solvers, in contrast, are willing to make decisions and try to solve problems, but only when forced to by the situation. They are *reactive* in gathering information and responding to problems after they occur.

Problem seekers actively process information and constantly look for problems to solve or opportunities to explore. True problem seekers are *proactive* and forward thinking; they

anticipate problems and opportunities and take appropriate action to gain the advantage. Success at problem seeking is one of the ways exceptional managers distinguish themselves.
Another distinction in the way managers approach decisions contrasts tendencies towards 'systematic' and 'intuitive' thinking. In **systematic thinking** a person approaches problems in a rational, step by step and analytical fashion. This type of thinking involves breaking a complex problem into smaller components and then tackling them in a logical and integrated fashion. Managers who are systematic can be expected to make a plan before taking action and then to search for information to facilitate problem solving in a step by step fashion.
Someone using **intuitive thinking**, on the other hand, is more flexible and spontaneous and may also be quite creative. This type of thinking allows us to respond imaginatively to a problem based on a quick and broad evaluation of the situation and the possible alternative courses of action. Managers who are intuitive can be expected to deal with many aspects of a problem at once, jump quickly from one issue to another and consider 'hunches' based on experience or spontaneous ideas. This approach tends to work best in situations of high uncertainty where facts are limited and few decision precedents exist.

2.2 Decision Making Process

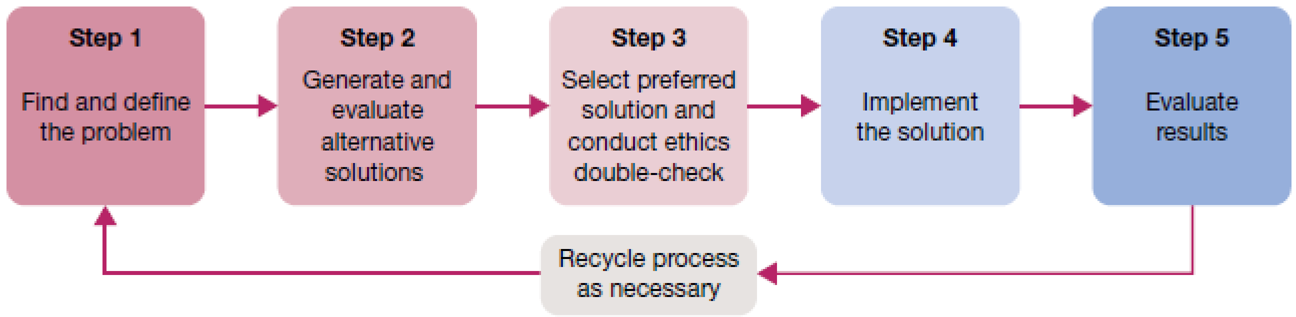


Fig 2.2.1 Steps in decision making and problem solving

Decision making step 1: Identify and define the problem

The first step in decision making is to find and define the problem. This is a stage of information gathering, information processing and deliberation.The way a problem is originally defined can have a major impact on how it is eventually resolved. Three common mistakes may occur at this vital first step in decision-making. *Mistakenumber 1* is defining the problem too broadly or too narrowly. To take a classic example, the problem stated as 'build a better mousetrap' might be better defined as 'get rid of the mice'. That is, managers should define problems so as to give themselves the best possible range of problem-solving options. *Mistake number 2* is focusing on symptoms instead of causes. Symptoms are indicators that problems may exist, but they shouldn't be mistaken for the problems themselves. Managers should be able to spot problem symptoms (e.g. a drop in performance). But instead of treating the symptoms (such as simply encouraging higher performance), managers should deal with their root causes (such as discovering the workers' need for training in the use of a complex new computer system). *Mistake number 3* is choosing the wrong problem to deal with. Managers should set priorities and deal with the most important problems first. They should also give priority to problems that are truly solvable.

Decision making step 2: Generate and evaluate possible solutions

Once the problem is defined, it is possible to formulate one or several potential solutions. At this stage, more information is gathered, data are analysed, and the pros and cons of possible alternative courses of action are identified. This effort to locate, clarify and evaluate alternative solutions is important to successful problem-solving. The involvement of other people is vital here in order to maximise information and build commitment. The end result can only be as good as the quality of the alternative solutions generated in this step. The better the pool of alternatives, the more likely a good solution will be achieved. Common errors in this stage include selecting a particular solution too quickly and choosing an alternative that, although convenient, has damaging side effects or is not as good as others that might be discovered with extra effort. The analysis of alternatives should determine how well each possible course of action deals with the problem while taking into account the environment within which the problem exists. A very basic evaluation involves **cost–benefit analysis**, the comparison of the cost of an alternative and the expected benefits. At a minimum, the benefits of a chosen alternative should be greater than its costs. Typical criteria for evaluating alternatives include the following.

- *Benefits*. What are the 'benefits' of using the alternative to solve a performance deficiency or take advantage of an opportunity?
- *Costs*. What are the 'costs' of implementing the alternative, including resource investments as well as potential negative side effects?
- *Timeliness*. How fast will the benefits occur and a positive impact be achieved?
- *Acceptability*. To what extent will the alternative be accepted and supported by those who must work with it?
- *Ethical soundness*. How well does the alternative meet acceptable ethical criteria in the eyes of the various stakeholders?

Decision making step 3: Choose a solution

At this point in the decision-making process an actual decision is made to select a particular course of action. Just how this is done and by whom must be successfully resolved in each problem situation. Management theory recognises differences between the classical model and the behavioural model of decision-making, as shown in figure. The **classical decision model** views the manager as acting in a certain world. Here, the manager faces a clearly defined problem and knows all possible action alternatives as well as their consequences. As a result, he or she makes an **optimising decision** that gives the absolute best solution to the problem. The classical approach is a very rational model that assumes perfect information is available for decision-making.

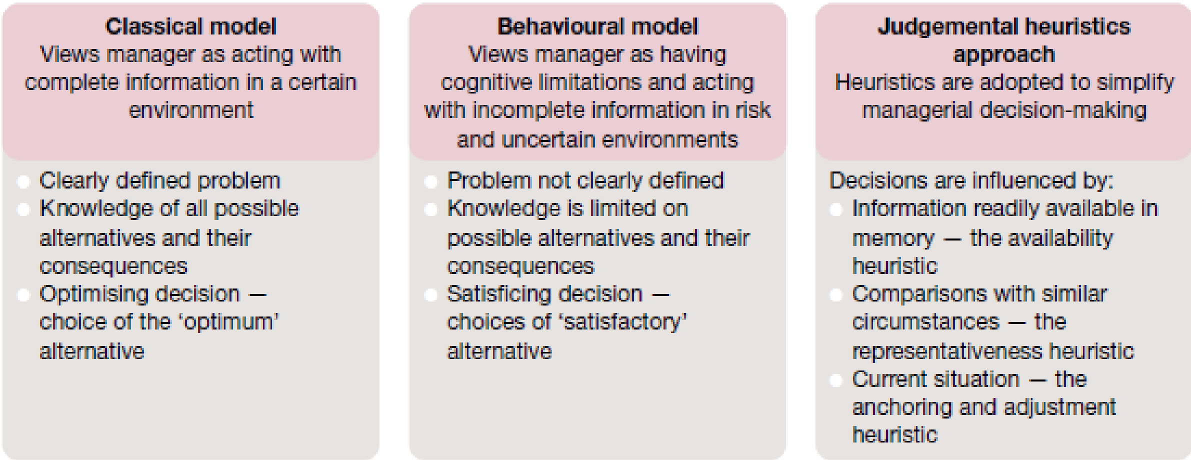


Fig 2.2.2 Classical, behavioural and judgemental heuristics approaches in decision making

Decision making step 4: Implement the solution

Given the choice of preferred solution, appropriate actions must be taken to fully implement it. This is the stage at which directions are finally set and problem solving actions are initiated. Nothing new can or will happen according to plan unless action is taken. Managers not only need the determination and creativity to arrive at a decision, they also need the ability and willingness to implement it.

The 'ways' in which previous steps have been accomplished can have an additional and powerful impact at this stage of implementation. Difficulties at this stage often trace to the lack of participation error, or the failure to adequately involve those people whose support is necessary to ensure a decision's complete implementation. Managers who use participation wisely get the right people involved in decisions and problem solving from the beginning. When they do, implementation typically follows quickly, smoothly and to everyone's satisfaction. Involvement not only makes everyone better informed, it also builds the commitments needed for implementation.

Decision making step 5: Evaluate results

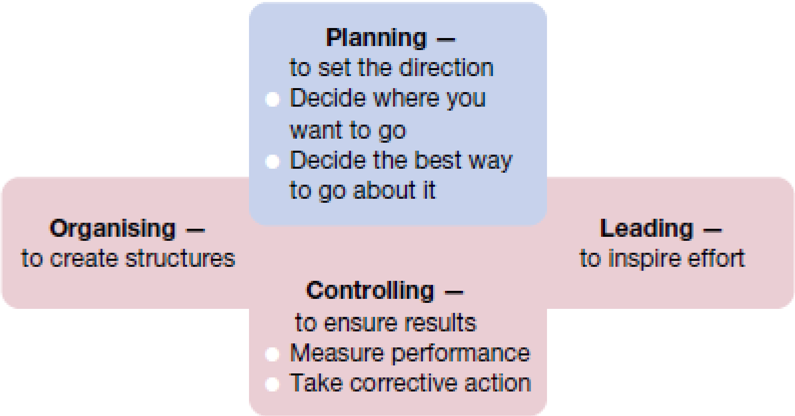
The decision making process is not complete until results are evaluated. If the desired results are not achieved, the process must be renewed to allow for corrective actions. In this sense, evaluation is a form of managerial control. It involves a continuing commitment to gather information on performance results. Both the positive and negative consequences of the chosen course of action should be examined.

If the original solution appears inadequate, a return to earlier steps in problem solving may be required to generate a modified or new solution. In this way, problem solving becomes a dynamic and ongoing activity within the management process. Evaluation is also made easier if the solution involves clear objectives that include measurable targets and timetables.

2.3 Planning

Planning involves selecting missions and objectives and the actions to achieve them, it requires decision-making that is choosing future courses of action from among alternatives. Plans thus provide a rational approach to achieving pre-selected objectives.

The role of the planning function in the management process



2.3.1 The role of the planning function in the management process

Types of Plans

mission or purpose
the mission or purpose identifies the basic function or the task of an enterprise or an agency or any part of it.

Objectives
This is the first step in planning the action plan of the organization. Objectives are the basics of every company and the desired objective/result that the company plans on achieving, so they are the endpoint of every planning activity.

For example one of the objectives of an organization could be to increase sales by 20%. So the manager will plan all activities of the organization with this end objective in mind. While framing the objectives of the organization some points should be kept in mind.

- Objectives should be framed for a single activity in mind.
- They should be result oriented. The objective must not frame any actions
- Objectives should not be vague, they should be quantitative and measurable.
- They should not be unrealistic. Objectives must be achievable.

Strategy

This obviously is the next type of plan, the next step that follows objectives. A strategy is a complete and all-inclusive plan for achieving said objectives. A strategy is a plan that has three specific dimensions

i. Establishing long-term objectives

ii. Selecting a specific course of action
iii. allocating the necessary resources needed for the plan

Forming strategy is generally reserved for the top level of management. It actually defines all future decisions and the company's long-term scope and general direction.

Policy

Policies are generic statements, which are basically a guide to channelize energies towards a particular strategy. It is an organization's general way of understanding, interpreting and implementing strategies. Like for example, most companies have a return policy or recruitment policy or pricing policy etc.

Policies are made across all levels of management, from major policies at the top-most level to minor policies. The managers need to form policies to help the employees navigate a situation with predetermined decisions. They also help employees to make decisions in unexpected situations.

Procedure

Procedures are the next types of plan. They are a stepwise guide for the routine to carry out the activities. These stepwise sequences are to be followed by all the employees so the activities can be fulfilled in an organized manner.

The procedures are described in a chronological order. So when the employees follow the instructions in the order and completely, the success of the activity is pretty much guaranteed.

Take for example the procedure of admission of a student in a college. The procedure starts with filling out an application form. It will be followed by a collection of documents and sorting the applications accordingly.

Rules

Rules are very specific statements that define an action or non-action. Also, rules allow for no flexibility at all, they are final. All employees of the organization must compulsorily follow and implement the rules. Not following rules can have severe consequences.

Rules create an environment of discipline in the organization. They guide the actions and the behaviour of all the employees of the organization. The rule of "no smoking" is one such example.

Program

Programmes are an in-depth statement that outlines a company's policies, rules, objectives, procedures etc. These programmes are important in the implementation of all types of plan. They create a link between the company's objectives, procedures and rules.

Primary programmes are made at the top level of management. To support the primary program all managers will make other programs at the middle and lower levels of management.

Methods

Methods prescribe the ways in which in which specific tasks of a procedure must be performed. Also, methods are very specific and detailed instructions on how the employees must perform every task of the planned procedure. So managers form methods to formalize routine jobs.

Methods are very important types of plan for an organization. They help in the following ways

- give clear instructions to the employees, removes any confusion
- Ensures uniformity in the actions of the employees
- Standardizes the routine jobs
- Acts as an overall guide for the employees and the managers

Budget

A budget is a statement of expected results the managers expect from the company. Budgets are also a quantitative statement, so they are expressed in numerical terms. A budget quantifies the forecast or future of the organization.

There are many types of budgets that managers make. There is the obvious financial budget, that forecasts the profit of the company. Then there are operational budgets generally prepared by lower-level managers. Cash budgets monitor the cash inflows and outflows of the company.

2.4 The planning process

The planning process begins with an organisation identifying specific outcomes that it wishes to achieve. It may set different targets depending on the environment it encounters, especially where the environment is uncertain or changing rapidly. This 'what-if' or scenario planning is practised by an increasing number of organisations. Organisations may also include in their plans action to help shape or stabilize the environment. Such action could include lobbying governments locally and overseas, creating industry networks, or philanthropy. The organisation's **plan** is a statement of the actual steps required to achieve its objectives. There are five sequential action steps in the systematic planning process.

1. *Define your objectives.* Identify desired outcomes or results in very specific ways. Know where you want to go; be specific enough that you will know you have arrived when you get there or know how far off the mark you are at various points along the way.

2. *Determine where you currently stand in relation to objectives.* Evaluate current accomplishments relative to the desired results. Know where you stand in reaching the objectives; know what strengths work in your favour and what weaknesses may hold you back.

3. *Develop perspectives regarding future conditions.* Try to forecast potential future events. Generate alternative 'scenarios' for what may happen; identify for each scenario things that may help or hinder progress towards your objectives. Systematically vary the drivers for each scenario to determine possible outcomes.

4. *Analyse and choose among action alternatives.* List and carefully evaluate the possible actions that may be taken. Choose the alternative(s) most likely to accomplish your objectives; describe step by step what must be done to follow the chosen course of action.

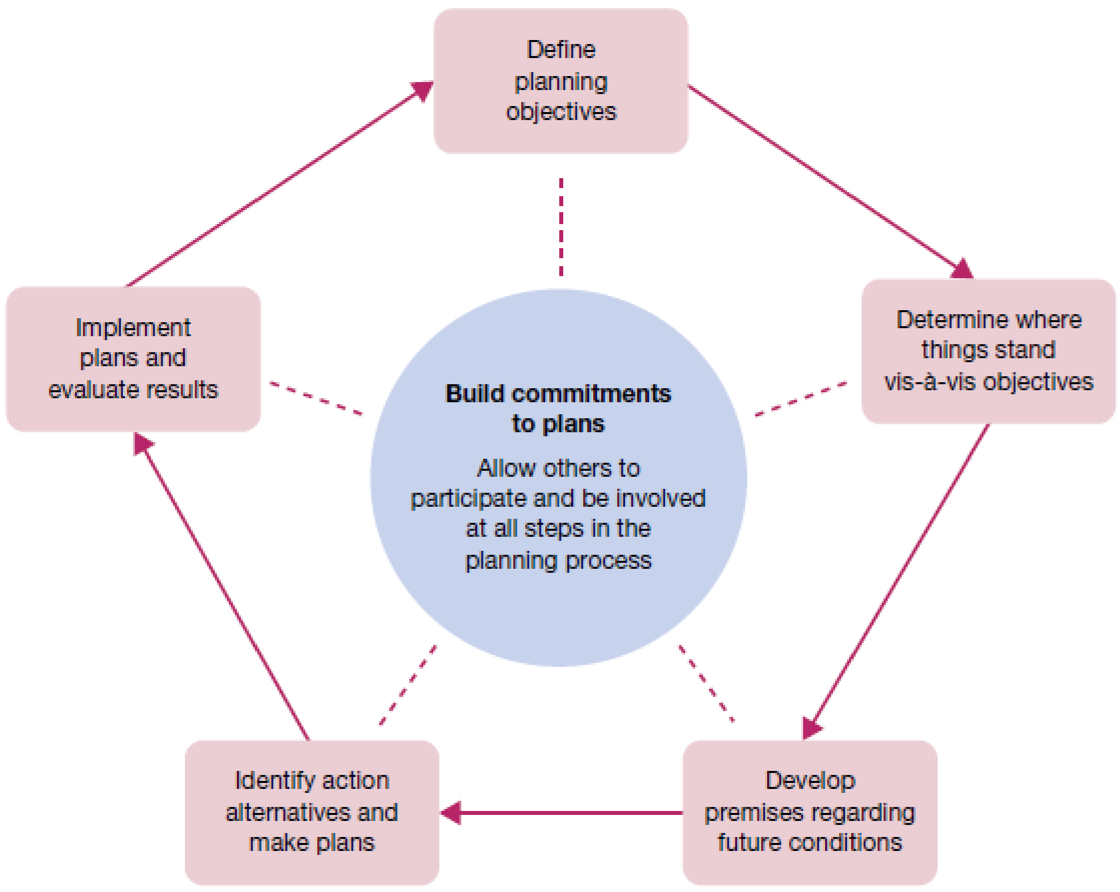


Fig 2.4.1 How participation and involvement help build commitments to plans

Characteristic	Explanation
Specific	Objectives need to be clearly defined so that it easy to understand what is to be achieved and what will be considered successful.
Measurable	The exact measure must be stated and the objective must be able to be measured through some means.
Actionable	An organisation needs to ensure that its business-unit managers have the authority and resources to take the actions necessary to attempt to achieve the objectives that are set.
Reasonable	There is no point setting unrealistic objectives. Unrealistic objectives are a disincentive for both managers and their employees.
Timetabled	Objectives should have milestone dates or deadlines at which progress towards achieving them will be measured.

Fig 2.4.2 The SMART model of establishing effective organisational objectives

5. *Implement the plan and evaluate results*. Take action and carefully measure your progress towards objectives.

Do what the plan requires; evaluate results; take corrective action, and revise plans as needed. The planning process described is an application of the decision-making process introduced in the chapter on information and decision-making. It is a systematic way to approach two important tasks: setting performance objectives, and deciding how to best achieve them. Importantly, in the complex setting of the modern workplace this is not a process that managers do while working alone in quiet rooms, free from distractions, and at scheduled times. Rather, planning should be part of a manager's everyday work routine. It should be an ongoing activity that is done continuously even while dealing with an otherwise hectic and demanding work setting.6 Importantly, the best planning in management always involves those people whose work efforts will eventually determine whether the objectives are accomplished.

2.4.1 Features Of Planning

Planning is Goal Oriented:

All plans arise from objectives. Objectives provide the basic guidelines for planning activities. Planning has no meaning unless it contributes in some positive manner to the achievement of predetermined goals.

Planning is a Primary Function:
Planning is the foundation of management. It is a parent exercise in management process. It is a preface to business activities. According to Koontz, "Planning provides the basic foundation from which all future management functions arise".

Planning is All Pervasive:
Planning is a function of all managers. It is needed and practiced at all managerial levels. Planning is inherent in everything a manager does.

Planning is a Mental Exercise:
Planning is a mental process involving imagination, foresight and sound judgment. Planning compels managers to abandon guesswork and wishful thinking. It makes them think in a logical and systematic manner.

Planning is a Continuous Process:
Planning is continuous. It is a never-ending activity. It is an ongoing process of adjustment to change. There is always need for a new plan to be drawn on the basis of new demands and changes in the circumstances.

Planning Involves Choice:
Planning essentially involves choice among various alternative courses of action. If there is one way of doing something, there is no need for planning. The need for planning arises only when alternatives are available.

Planning is Forward Looking:
Planning means looking ahead and preparing for the future. It means peeping into the future, analyzing it and preparing for it. Managers plan today with a view to flourish tomorrow. Without planning, business becomes random in nature and decisions would become meaningless, adhoc choices.

Planning is Flexible:
Planning is based on a forecast of future events. Since future is uncertain, plans should be reasonably flexible. When market conditions change, planners have to make necessary changes in the existing plans.

Planning is an Integrated Process:
Plans are structured in a logical way wherein every lower-level plan serves as a means to accomplish higher level plans. They are highly interdependent and mutually supportive.

Planning Includes Efficiency and Effectiveness Dimensions:
Plans aim at deploying resources economically and efficiently. They also try to accomplish what has been actually targeted. The effectiveness of plans is usually dependent on how much it can contribute to the predetermined objectives.

2.4.2 Importance Of Planning

Increases efficiency: Planning makes optimum utilization of all available resources. It helps to reduce the wastage of valuable resources and avoids their duplication. It aims to give the highest returns at the lowest possible cost. It thus increases the overall efficiency.

Reduces business-related risks: There are many risks involved in any modern business. Planning helps to forecast these business-related risks. It also helps to take the necessary precautions to avoid these risks and prepare for future uncertainties in advance. Thus, it reduces business risks.

Facilitates proper coordination: Often, the plans of all departments of an organization are well coordinated with each other. Similarly, the short-term, medium-term and long-term plans of an organization are also coordinated with each other. Such proper coordination is possible only because of efficient planning.

Aids in Organizing: Organizing means to bring together all available resources, i.e. 6 Ms. Organizing is not possible without planning. It is so, since, planning tells us the number of resources required and when are they needed. It means that planning aids in organizing in an efficient way.

Gives right direction: Direction means to give proper information, accurate instructions and useful guidance to the subordinates. It is impossible without planning. It is because planning tells us what to do, how to do it and when to do it. Therefore, planning helps to give the right direction.

Keeps good control: With control, the actual performance of an employee is compared with the plans, and deviations (if any) are found out and corrected. It is impossible to achieve such control without the right planning. Therefore, planning becomes necessary to keep good control.

Helps to achieve objectives: Every organization has certain objectives or targets. It keeps working hard to fulfill these goals. Planning helps an organization to achieve these aims, but with some ease and promptness. Planning also helps an organization to avoid doing some random (done by chance) activities.

Motivates personnel: A good plan provides various financial and non-financial incentives to both managers and employees. These incentives motivate them to work hard and achieve the objectives of the organization. Thus, planning through various incentives helps to motivate the personnel of an organization.

Encourages creativity and innovation: Planning helps managers to express their creativity and innovation. It brings satisfaction to the managers and eventually a success to the organization.

Helps in decision-making: A manager makes many different plans. Then the manager selects or chooses the best of all available strategies. Making a selection or choosing something means to take a decision. So, decision-making is facilitated by planning.

2.5 Tools, techniques and processes

Today's planners use a broad array of planning tools, techniques and processes. These include forecasting, specific contingency planning, benchmarking, participatory or team-based planning, and staff planners.

Forecasting

A forecast is a vision of the future. Forecasting is the process of making assumptions about what will happen in the future.15 All good plans involve forecasts, either implicit or explicit. Some forecasts are based on *qualitative forecasting*, which uses expert opinions to predict the future. In this case, a single person of special expertise or reputation or a panel of experts may be consulted. Others involve *quantitative forecasting* that uses mathematical and statistical analysis of data banks to predict future events. Time-series analysis makes predictions by using statistical routines such as regression analysis to project past trends into the future. General economic trends are often forecast by econometric models that simulate events and make predictions based on relationships discovered among variables in the models. Statistical analysis of opinion polls and attitude surveys, such as those reported in newspapers and on television, is typically used to predict future consumer tastes, employee preferences and political choices, among other issues. In the final analysis, forecasting always relies on human judgement.

Contingency planning

Activity undertaken to ensure that proper and immediate follow-up steps will be taken by a management and employees in an emergency. Its major objectives are to ensure (1) containment of damage or injury to, or loss of, personnel and property, and (2) continuity of the key operations of the organization. Contingency planning identifies alternative courses of action that can be implemented if and when an original plan proves inadequate because of changing circumstances.

Scenario planning and contingency planning

Scenario planning is the long-term version of contingency planning. Identifying a range of different possible future scenarios helps organisations operate more flexibly and respond more rapidly in uncertain and changing environments.

Benefits of scenario planning
Scenario planning is not forecasting what planners think will happen. Rather, it consists of developing possible plausible scenarios of the future, with reference to a particular firm, that make different assumptions about forces driving the market and including different uncertainties.16 This allows the manager or planner to consider how these environmental uncertainties might affect the firm's strategy, and thus to plan for such eventualities should they occur.
Scenario planning improves focus and flexibility
Scenario planning improves action orientation
Scenario planning improves coordination
Scenario planning improves time management
Scenario planning improves control

Benchmarking
Another important influence on the success or failure of planning involves the frame of reference used as a starting point. All too often planners have only a limited awareness of what is happening outside the immediate work setting. Successful planning must challenge the status quo; it cannot simply accept things the way they are. One way to do this is through benchmarking, a technique that makes use of external comparisons to better evaluate an organisation's current performance and identify possible actions for the future. The purpose of benchmarking is to find out what other people and organizations are doing very well and then to plan how to incorporate these ideas into your organisation's operations
This powerful planning technique is increasingly popular in today's competitive business world. It is a way for progressive companies to learn from other 'excellent' companies, not just competitors. It allows them to analyse and thoroughly compare all systems and processes for efficiencies and opportunities for innovation.

Staff planners
As the planning needs of organisations grow, there is a corresponding need to increase the sophistication of the overall planning system itself. In some cases, staff planners are employed to help coordinate planning for the organisation as a whole or for one of its major components. These planners should be skilled in all steps of the formal planning process, including the benchmarking and scenario-planning approaches just discussed. They should also understand the advisory nature of their roles. Given clear responsibilities and their special planning expertise, staff planners can bring focus to efforts to accomplish important planning tasks. But one risk is a tendency for a communication 'gap' to develop between staff planners and line managers. This can cause a great deal of difficulty. Resulting plans may lack relevance, and line personnel may lack commitment to implement them even if they are relevant. One trend in organisations today is to de-emphasise the role of large staff planning groups and to place much greater emphasis on the participation and involvement of line managers in the planning process.

Management by objectives
A useful planning technique that helps integrate planning and controlling is management by objectives, or just MBO. This is a structured process of regular communication in which a

manager or team leader works with staff or team members to jointly set performance objectives and review results accomplished. MBO creates an agreement between the two parties regarding:

1. Performance objectives for a given time period
2. Plans through which they will be accomplished
3. Standards for measuring whether they have been accomplished
4. Procedures for reviewing performance results.

Of course, both parties in any MBO agreement are supposed to work closely together to fulfil the terms of the agreement.

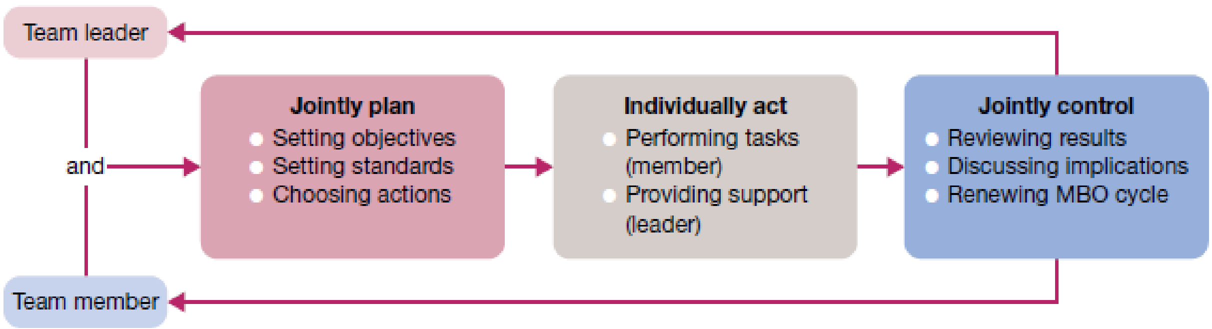


Fig 2.5.1 Performance objectives in MBO

Participation and involvement

Planning is a process, not an event, and ‘participation’ is a key component of the planning process. Participatory planning means that the process includes people who will be affected by the resulting plans and/or who will be asked to help implement them. This brings to the organisation many benefits. Participation can increase the creativity and information available for planning. It can also increase the understanding, acceptance and commitment of people to final plans. Indeed, planning should be organized and accomplished in a participatory manner that includes the contributions of many people representing diverse responsibilities and vantage points. This includes the level of strategic planning, once considered only the province of top management. The more aware all levels are of strategic plans and the more they are involved in helping to establish them, the greater the commitment throughout the organisation to their accomplishment.

Planning Process alternate content

1] Recognizing Need for Action

An important part of the planning process is to be aware of the business opportunities in the firm's external environment as well as within the firm. Once such opportunities get recognized the managers can recognize the actions that need to be taken to realize them. A realistic look must be taken at the prospect of these new opportunities and SWOT analysis should be done.

Say for example the government plans on promoting cottage industries in semi-urban areas. A firm can look to explore this opportunity.

2] Setting Objectives

This is the second and perhaps the most important step of the planning process. Here we establish the objectives for the whole organization and also individual departments. Organizational objectives provide a general direction, objectives of departments will be more planned and detailed.

Objectives can be long term and short term as well. They indicate the end result the company wishes to achieve. So objectives will percolate down from the managers and will also guide and push the employees in the correct direction.

3] Developing Premises

Planning is always done keeping the future in mind, however, the future is always uncertain. So in the function of management certain assumptions will have to be made. These assumptions are the premises. Such assumptions are made in the form of forecasts, existing plans, past policies, etc.

These planning premises are also of two types – internal and external. External assumptions deal with factors such as political environment, social environment, the advancement of technology, competition, government policies, etc. Internal assumptions deal with policies, availability of resources, quality of management, etc.

These assumptions being made should be uniform across the organization. All managers should be aware of these premises and should agree with them.

4] Identifying Alternatives

The fourth step of the planning process is to identify the alternatives available to the managers. There is no one way to achieve the objectives of the firm, there is a multitude of choices. All of these alternative courses should be identified. There must be options available to the manager.

Maybe he chooses an innovative alternative hoping for more efficient results. If he does not want to experiment he will stick to the more routine course of action. The problem with this step is not finding the alternatives but narrowing them down to a reasonable amount of choices so all of them can be thoroughly evaluated.

5] Examining Alternate Course of Action

The next step of the planning process is to evaluate and closely examine each of the alternative plans. Every option will go through an examination where all there pros and cons will be weighed. The alternative plans need to be evaluated in light of the organizational objectives.

For example, if it is a financial plan. Then it that case its risk-return evaluation will be done. Detailed calculation and analysis are done to ensure that the plan is capable of achieving the objectives in the best and most efficient manner possible.

6] Selecting the Alternative

Finally, we reach the decision making stage of the planning process. Now the best and most feasible plan will be chosen to be implemented. The ideal plan is the most profitable one with the least amount of negative consequences and is also adaptable to dynamic situations.

The choice is obviously based on scientific analysis and mathematical equations. But a managers intuition and experience should also play a big part in this decision. Sometimes a few different aspects of different plans are combined to come up with the one ideal plan.

7] Formulating Supporting Plan

Once you have chosen the plan to be implemented, managers will have to come up with one or more supporting plans. These secondary plans help with the implementation of the main plan. For example plans to hire more people, train personnel, expand the office etc are supporting plans for the main plan of launching a new product. So all these secondary plans are in fact part of the main plan.

8] Implementation of the Plan

And finally, we come to the last step of the planning process, implementation of the plan. This is when all the other functions of management come into play and the plan is put into action to achieve the objectives of the organization. The tools required for such implementation involve the types of plans- procedures, policies, budgets, rules, standards etc.

Management Principles for Engineers

Lecture Notes

Compiled By:

Career Development Centre
SRM IST

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UNIT 3

Organisational control - Types of controls – Motivation theories of motivation - Leading Traits of an ethical leader - The nature of leadership - Leadership traits and behaviours - Issues in leadership development - Organising - Organising as a management function - Traditional organisation structures – Essentials of organizational design - Contingencies in organisational design.

3.1 Organisational control

Controlling is the process of measuring performance and taking action to ensure the planned outcomes are achieved. Control is aimed at ensuring that plans are fulfilled and that performance targets are met. Control can be important not only for guaranteeing that the performance level is met but also for ensuring that performance is consistent. Carefully controlling the performance levels of an organisation requires accurate and timely flows of information on the key operational variables and outcomes. There is a need for control mechanisms that can quickly detect and correct unlawful and corrupt behaviour at all levels within an organisation.

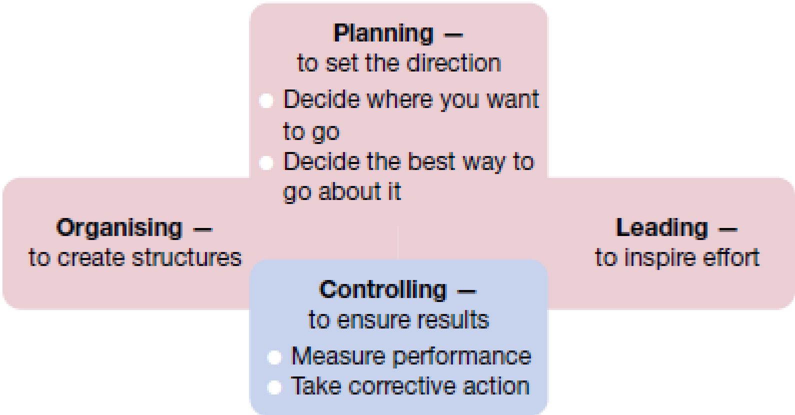


Fig 3.1: The role of the controlling function in the management process

3.1.1 Steps in the control process

The management control process involves four steps.

1. Establish objectives and standards.
2. Measure actual performance.
3. Compare results with objectives and standards.
4. Take corrective action as needed.

Step 1: Establish objectives and standards

The control process starts with planning, when performance objectives and standards for measuring them are set. Performance objectives, furthermore, should represent key results to be achieved. The focus in planning should be on describing ‘critical’ or ‘essential’ results that will make a substantial difference in the success of the organisation. The standards are important, too, and they must also be considered right from the beginning. As key results are identified, the standards or specific measures that will be taken to indicate success or failure in their accomplishment must also be specified.

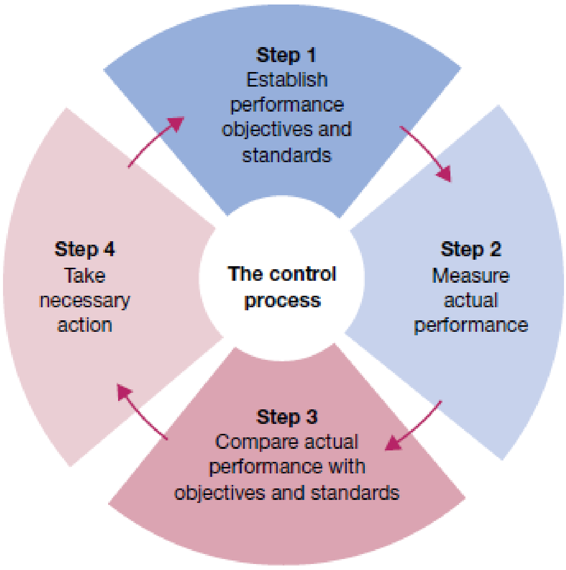


Fig 3.1.2 Four steps in management control

Two types of standards are common to the organisational control process. Output standards measure performance results in terms of outcomes like quantity, quality, cost or time taken to accomplish work. Examples of output standards include percentage error rate, dollar deviation from budgeted expenditures, and the number of units produced or customers served in a time period. Input standards, on the other hand, measure effort in terms of the amount of work expended in task performance. They are used in situations where outputs are difficult or expensive to measure. Examples of input standards include conformance to rules and procedures, efficiency in the use of resources, and work attendance or punctuality.

Step 2: Measure actual performance

The goal is to accurately measure the performance results (output standards) and/or the performance efforts (input standards). In both cases, the measurement must be accurate enough to spot significant differences between what is really taking place and what was originally planned. A common management failure in this regard is an unwillingness or inability to measure the performance of people at work. Yet without measurement, effective control is not possible. Increasingly, managers are required to assess organisational performance. It can be achieved through analysing statistical/quantitative data collected by employees, supervisors or managers, or by an external organisation, and typically presented in the form of spreadsheets. Alternatively, managers can use qualitative techniques such as observing employees at work. This is often referred to as ‘management by wandering around’ (MBWA).

There are many activities for which it is difficult to develop accurate standards, and there are many activities that are hard to measure. It may be quite simple, for example, to establish labor-hour standards for the production of a mass-produced item and it may be equally simple to measure performance against these standards, but in the less technical kinds of work. For example, controlling the work of the industrial relations manager is not easy because definite standards cannot be easily developed. The superior of this type of managers often rely on vague standards, such as the attitude of labor unions, the enthusiasm, and loyalty of subordinates, the index of labor turnover and/or industrial disputes etc. In such cases, the superior’s measurements are often equally vague.

Step 3: Compare results with objectives and standards

The third step in the control process is to compare measured performance with objectives and standards to establish the need for action. This step can be expressed as the following control equation:

Need for action = Desired performance − Actual performance

There are different ways of comparing desired and actual performance. A historical comparison uses past performance as a benchmark for evaluating current performance. A relative comparison uses the performance achievements of other people, work units or organisations as the evaluation standard. An engineering comparison uses engineered standards that are set scientifically through such methods as time and motion studies. For instance, the delivery routines of drivers for a courier company are carefully measured in terms of the expected time taken to make a delivery on various routes.

Step 4: Take corrective action

The control equation indicates that the greater the measured difference between desired and actual performance, the greater the need for action. The final step in the control process, accordingly, is taking any action necessary to correct or improve things. This allows for a judicious use of management by exception — the practice of giving priority attention to situations that show the greatest need for action. This approach can save valuable time, energy and other resources, while allowing all efforts to be concentrated on the areas of greatest need.

Two types of exceptions may be encountered. The first is a problem situation in which actual performance is below the standard. The reasons for this performance deficiency must be understood. Corrective action is required to restore performance to the desired level. The second exception is an opportunity situation in which actual performance is above the standard. The reasons for this extraordinary performance must also be understood. Action should then be taken to continue this higher level of accomplishment in the future. The original plan, objectives and standards can also be reviewed to determine whether they should be updated.

For example, the branch manager of a bank might discover that more counter clerks are needed to meet the five-minute customer-waiting standard set earlier. Control can also reveal inappropriate standards and in that case, the corrective action could involve a change in the original standards rather than a change in performance.

3.1.2 Types of controls

3.1.2.1 Process Control

There are three major types of managerial controls — *feedforward, concurrent and feedback controls*. Each is relevant to a different phase of the organisation's input–throughput– output cycle of activities. Each offers significant opportunities for actions to be taken that advance organisational productivity and high performance, each offers the opportunity for performance oriented organisational and personal learning through systematic assessment of actions and results.

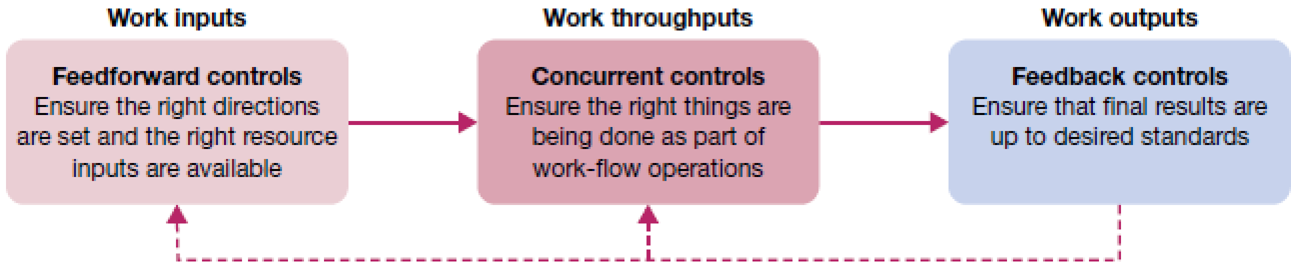


Fig 3.1.3 Feedforward, concurrent and feedback controls in the management process

Feedforward controls

Feedforward controls, also called preliminary controls, are accomplished before a work activity begins. They ensure that objectives are clear, that proper directions are established, and that the right resources are available to accomplish them, feedforward controls are preventive in nature. They are designed to eliminate the potential for problems later on in the process by asking an important but often neglected question: what needs to be done before we begin? This is a forward thinking and active approach to control rather than a reactive and defensive one. The quality of resources is a key concern of feedforward controls.

Concurrent controls

Concurrent controls focus on what happens during the work process. Sometimes called steering controls, they monitor ongoing operations and activities to make sure things are being done according to plan. Ideally, concurrent controls allow corrective actions to be taken before a task is completed. The key question is: What can we do to improve things before we finish? Here, the focus is on quality of activities during the work process. This approach to control can reduce waste in the form of unacceptable finished products or services.

Feedback controls

Feedback controls, also called post action controls, take place after work is completed. They focus on the quality of end results rather than on inputs and activities. They ask the question: Now that we are finished, how well did we do?

3.1.2.1 Organisational Control systems

1. BUDGETARY CONTROL

The establishment of budgets, relating the responsibilities of executives to the requirements of a policy

Revenue and Expense Budgets

- Budgets spell out plans for revenues and operating expenses in rupee terms.

Time, Space, Material, and Product Budgets

- Many budgets are better expressed in quantities rather than in monetary(money) terms.

Capital Expenditure Budgets

- capital expenditures for plant, machinery, equipment, inventories, and other items.

Cash Budgets

- cash budget is simply a forecast of cash receipts

Variable Budget

- analysis of expense items to determine how individual costs should vary with volume of output

Zero Based Budget

- By starting the budget of each package from base zero, budgeters calculate costs

2. NON-BUDGETARY CONTROL TECHNIQUES

- Many traditional control devices not connected with budgets, although some may be related to, and used with, budgetary controls.

Statistical data:

- Analysing the numerical data

Break- even point analysis

- chart depicts the relationship of sales and expenses

3. INFORMATION AND FINANCIAL CONTROLS

Liquidity — ability to generate cash to pay bills;
Leverage — ability to earn more in returns than the cost of debt;
Asset management — ability to use resources efficiently and operate at minimum cost;
Profitability — ability to earn revenues greater than costs.

4. COST CONTROL

- Cost control is the measure taken by management to assure that the cost objectives set down in the planning stage are attained

5. OPERATIONS CONTROL

- **Purchase Control**
- **Inventory Control**
- **Quality Control**
  Quality control refers to the technical process that gathers, examines, analyze & report the progress of the project & conformance with the performance requirements

6. HR FUNCTIONS CONTROL

- **Remuneration and benefits**
- **Employee discipline systems**

7. PROJECT MANAGEMENT AND CONTROL

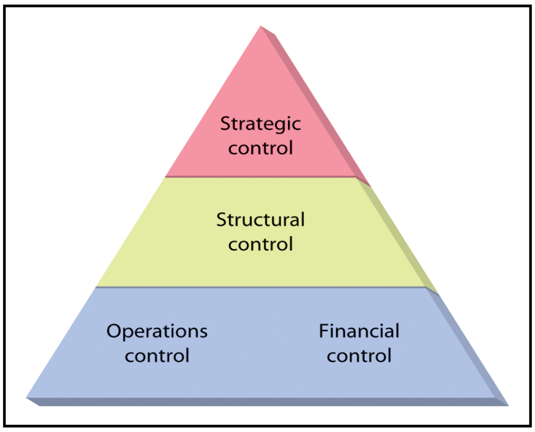
Gantt charts

A Gantt chart, such, graphically displays the scheduling of tasks required to complete a project

CPM/PERT techniques

PERT – Project Evaluation and Review Technique
CPM- Critical Path Method

Levels of Control



- Operational control:
  - Focuses on the processes used to transform resources into products or services.
- Financial control:
  - Concerned with financial resources.
- Structural control:
  - How the elements of structure are serving the intended purposes.
- Strategic control:
  - How effective are the functional strategies helping the organization meet its goals.

The difference between Planning and Controlling.

Basis	**Planning**	**Controlling**
Meaning	It is the first step on deciding what to do, how, where and when a specific work has to be done	Controlling is the main goal and responsibilities of all management in any enterprises.
Function	Planning is about looking ahead	Controlling is looking back
Process	It is the first process in building a business	It is the last structure any business
Features	Planning, arranging, employee, direction	Controls all the planning features

3.1.3 Characteristics of Control:

1. Managerial Function:

Control is one of the managerial functions. It is not only the function of chief executive but is the duty of every manager. A manager is responsible for whatever work is assigned to him. He will control the performance of his subordinates for ensuring the accomplishment of goals. Control is mainly the function of line organization but manager may ask for data from staff personnel.

2. Continuous Activity:

Control is regularly exercised. It is not an activity in isolation. The manager will have to see that his subordinates perform according to plans at all the time. Once the control is withdrawn it will adversely affect the work. So control will have to be exercised continuously.

3. Control is Related to Planning:

Planning is the first function of management while control is the last. Control cannot be exercised without planning. First the objectives are set and then efforts are made to see whether these are accomplished or not. Whenever there is a laxity in performance or things are not happening as per the plans then corrective measures are taken immediately. So planning provides a base for controlling.

4. Essence of Control is Action:

Whenever performance is not as per the standards the immediate action is needed to correct the things. The purpose of control will be defeated if corrective action is not taken immediately. If the sales are less than the standard set for marketing department then steps will be taken to ensure that performance is not low in future. If no such steps are taken then there will be a lack of control. In practice, immediate action is the essence of control.

3.1.4 Importance of Controlling

1. Accomplishing Organizational Goals

The controlling function is an accomplishment of measures that further makes progress towards the organizational goals & brings to light the deviations, & indicates corrective action. Therefore it helps in guiding the organizational goals which can be achieved by performing a controlling function.

2. Judging Accuracy of Standards

A good control system enables management to verify whether the standards set are accurate & objective. The efficient control system also helps in keeping careful and progress check on the changes which help in taking the major place in the organization & in the environment and also helps to review & revise the standards in light of such changes.

3. Making Efficient use of Resources

Another important function of controlling is that in this, each activity is performed in such manner so an in accordance with predetermined standards & norms so as to ensure that the resources are used in the most effective & efficient manner for the further availability of resources.

4. Improving Employee Motivation

Another important function is that controlling help in accommodating a good control system which ensures that each employee knows well in advance what they expect & what are the standards of performance on the basis of which they will be appraised. Therefore it helps in motivating and increasing their potential so to make them & helps them to give better performance.

5. Ensuring Order & Discipline

Controlling creates an atmosphere of order & discipline in the organization which helps to minimize dishonest behavior on the part of the employees. It keeps a close check on the activities of employees and the company can be able to track and find out the dishonest employees by using computer monitoring as a part of their control system.

6. Facilitating Coordination in Action

The last important function of controlling is that each department & employee is governed by such pre-determined standards and goals which are well versed and coordinated with one another. This ensures that overall organizational objectives are accomplished in an overall manner.

3.2 Motivation

Motivation is the act of stimulating someone or oneself to get a desired course of action. Motivation is forces within the individual that account for the level, direction and persistence of effort expended at work.

3.2.1 Motivation and rewards

A reward is a work outcome of positive value to the individual. A motivational work setting is rich in rewards for people whose performance accomplishments help meet organisational objectives. In management, it is useful to distinguish between two types of rewards, extrinsic and intrinsic.

Extrinsic rewards are externally administered. They are valued outcomes given to someone by another person, typically a supervisor or higher level manager. Common workplace examples are pay bonuses, promotions, time off, special assignments, office fixtures, awards and verbal praise. In all cases, the motivational stimulus of extrinsic rewards originates outside of the individual.

Intrinsic rewards, on the other hand, are self-administered. They occur 'naturally' as a person performs a task and are, in this sense, built directly into the job itself. The major sources of intrinsic rewards are the feelings of competency, personal development and self-control people experience in their work. In contrast to extrinsic rewards, the motivational stimulus of intrinsic rewards is internal and does not depend on the actions of some other person.

3.2.2 Importance of Employee Motivation

Organization Goal Achievement
Enduring Relationship
Workforce Stability
Role of Human Resource
Reduction in Employees' Turnover

3.2.3 Theories of Motivation

Content theories of motivation help us to understand human needs and how people with different needs may respond to different work situations. The *process theories of motivation* offer additional insights into how people give meaning to rewards and then respond with various work-related behaviours. The *reinforcement theory of motivation* focuses attention on the environment as a major source of rewards and influence on human behavior

1. Content theories of motivation

a. Hierarchy of needs theory
Maslow offers two principles to describe how these needs affect human behaviour. The deficit principle states that a satisfied need is not a motivator of behaviour. People are expected to act in ways that satisfy deprived needs; that is, needs for which a 'deficit' exists. The progression principle states that a need at one level does not become activated until the next lower level need is already satisfied. People are expected to advance step-by-step up the hierarchy in their search for need satisfactions. At the level of self-actualisation, the more these needs are satisfied, the stronger they are supposed to grow. According to Maslow, a person should continue to be motivated by opportunities for self-fulfilment as long as the other needs remain satisfied

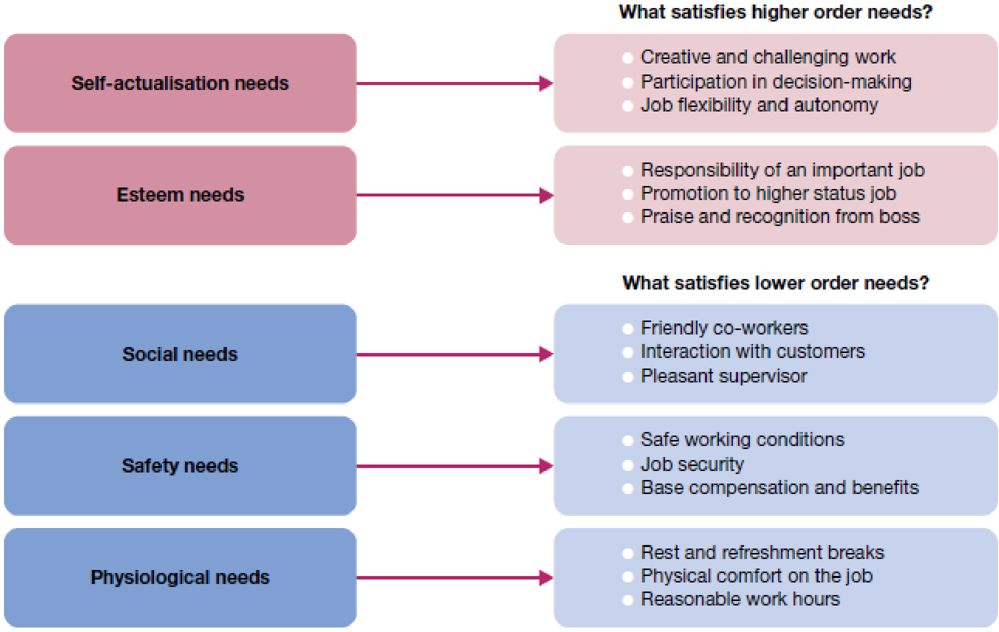


Fig 3.2.1 Opportunities for satisfaction in Maslow's hierarchy of human needs

b. ERG theory
The existence, relatedness and growth (ERG) theory proposed by Clayton Alderfer, collapses Maslow's five needs categories into three. *Existence needs* are desires for physiological and material wellbeing. *Relatedness needs* are desires for satisfying interpersonal relationships. *Growth needs* are desires for continued psychological growth and development. Alderfer's ERG theory also differs from Maslow's theory in other respects. This theory does not assume that lower level needs must be satisfied before higher level needs become activated. According to ERG theory, any or all of these three types of needs can influence individual behaviour at a given time. Alderfer also does not assume that satisfied needs lose their motivational impact. ERG theory thus contains a unique *frustration–regression principle*, according to which an already satisfied lower level need can become reactivated and influence behaviour when a higher level need cannot be satisfied. Alderfer's approach offers an additional means for understanding human needs and their influence on people at work.

c. Two-factor theory
Another framework for understanding the motivational implications of work environments is the two-factor theory of Frederick Herzberg. The theory was developed from a pattern identified in the responses of almost 4000 people to questions about their work. When questioned about what 'turned them on', they tended to identify things relating to the nature of the job itself. Herzberg calls these **satisfier factors**. When questioned about what 'turned them

off', they tended to identify things relating more to the work setting. Herzberg calls these **hygiene factors**.

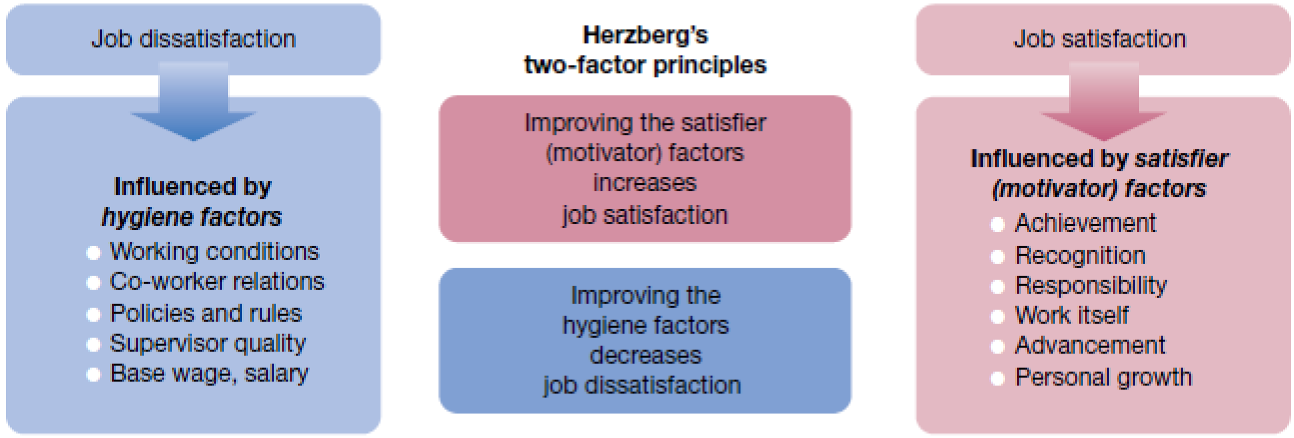


Fig 3.2.2. Herzberg's two-factor theory

d. Acquired needs theory

McClelland identified three needs that are central to his approach to motivation. **Need for achievement (nAch)** is the desire to do something better or more efficiently, to solve problems, or to master complex tasks. **Need for power (nPower)** is the desire to control other people, to influence their behaviour, or to be responsible for them. **Need for affiliation (nAff)** is the desire to establish and maintain friendly and warm relations with other people.

According to McClelland, people acquire or develop these needs over time as a result of individual life experiences. In addition, he associates each need with a distinct set of work preferences. Managers are encouraged to recognise the strength of each need in themselves and in other people. Attempts can then be made to create work environments responsive to them. People high in the need for achievement, for example, like to put their competencies to work, take moderate risks in competitive situations and are willing to work alone. As a result, the work preferences of people with a high need for achievement include individual responsibility for results, achievable but challenging goals and feedback on performance.

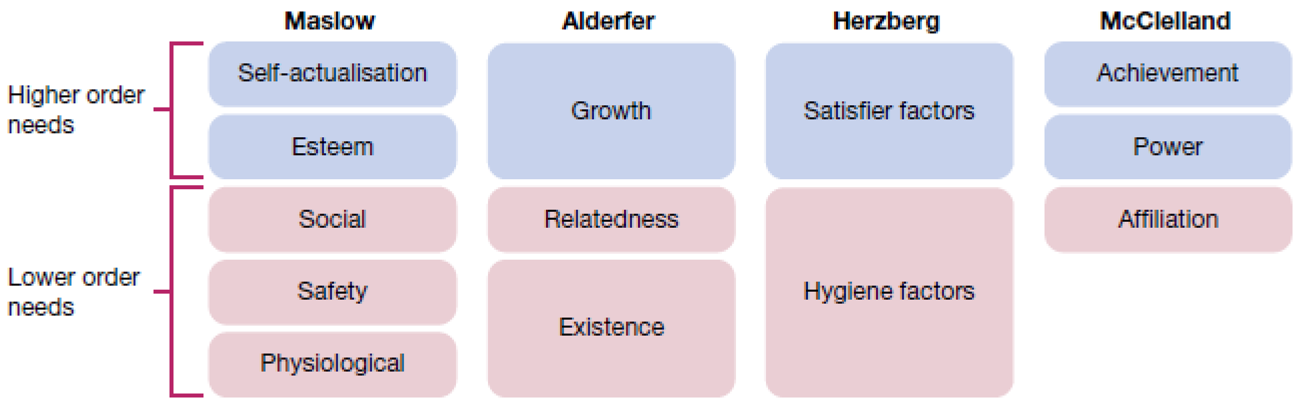


Fig 3.2.3 Comparison of Maslow's, Alderfer's, Herzberg's and McClelland's motivation theories

Additional Motivation Theories:

McGregor 's Theory X and Theory Y

Douglas McGregor, the eminent social psychologist, divides management style into two contrasting theories –

Theory X

This theory believes that employees are naturally unmotivated and dislike working, and this encourages an authoritarian style of management. According to this theory, management must firmly intervene to get things done. This style of management concludes that workers −

- Disfavor working.
- Abstain responsibility and the need to be directed.
- Need to be controlled, forced, and warned to deliver what's needed.
- Demand to be supervised at each and every step, with controls put in place.
- Require to be attracted to produce results, else they have no ambition or incentive to work.

McGregor observed that X-type workers are in fact mostly in minority, and yet in mass organizations, such as large scale production environment, X Theory management may be needed and can be unavoidable.

Theory Y

This theory explains a participative style of management, that is, distributive in nature. It concludes that employees are happy to work, are self-motivated and creative, and enjoy working with greater responsibility. It estimates that workers −

- Take responsibility willingly and are encouraged to fulfill the goals they are given.
- Explore and accept responsibility and do not need much guidance.
- Assume work as a natural part of life and solve work issues imaginatively.

In Y-type organizations, people at lower levels are engaged in decision making and have more responsibility.

Comparing Theory X & Theory Y

Motivation
Theory X considers that people dislike work, they want to avoid it and do not take responsibilities willingly.
While, Theory Y considers that people are self-motivated, and sportingly take responsibilities.

Management Style and Control
In Theory X-type organization, management is authoritarian, and centralized control is maintained.
While in Theory Y-type organization, the management style is participative, employees are involved decision making, but the power retains to implement decisions.

Work Organization
Theory X employees are specialized and the same work cycle continues.

In Theory Y, the work tends to be coordinated around wider areas of skill or knowledge. Employees are also motivated to develop expertise, and make suggestions and improvements.

Rewards and Appraisals
Theory X-type organizations work on a 'carrot and stick' basis, and performance assessment is part of the overall mechanism of control and compensation.

Coming to Theory Y-type organizations, appraisal is also regular and crucial, but is usually a separate mechanism from organizational controls. Theory Y-type organizations provide employees frequent opportunities for promotion.
Application

3.3 Leadership

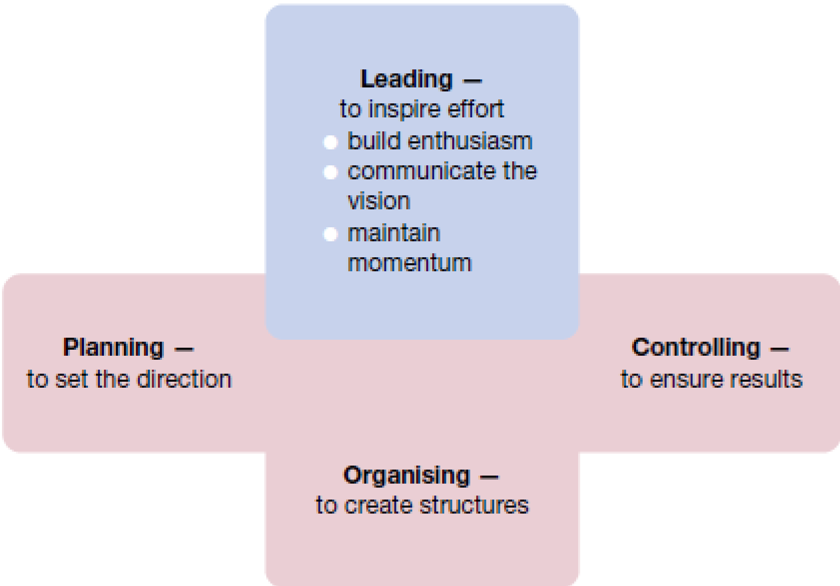


Fig 3.3.1 Leading viewed in relationship to the other management functions

3.3.1 Traits of an ethical leader

The personality to defy groupthink
Good leaders display intelligence and imagination to create a compelling vision of the future, and bring those who can deliver it with them. A good leader must be trustworthy and display unshakeable integrity, be action-oriented, resilient in the face of setbacks while treating people with respect, not as mere units of production. They have rid themselves of delusion and are brutally honest with themselves, know when to take risks and when to play it safe. Leaders are courageous, defy groupthink and accept the backlash against their unorthodox practices.

The ability to set a good example
A defining feature of the ethical leader is that in addition to the foundational qualities mentioned above, setting a consistently good example for others to follow. They have created a moral matrix that people internalise and operate from day to day.

Selflessness
Ethical leaders are strong when it comes to selfless service in the interests of the greater good.

They're not afraid to be challenged

Having one's subordinates call you out, disagree with you, challenge your judgement; all of this calls for great understanding and tolerance. Ethical leaders understand that it's part of a culture of continuous improvement.

They take responsibility for everything
The ethical leader accepts that they are either directly or indirectly responsible for everything that happens in the organisation. They understand that blame shifting and finger pointing is a failure of leadership. The ethical leader does not resort to the 'plausible deniability' defence. Ultimately, good ethics is good business.

3.3.2 The nature of leadership

Leadership and vision
Today, leadership is often associated with **vision** — a future that you hope to create or achieve in order to improve on the present state of affairs. Truly great leaders are extraordinarily good at turning their visions into concrete results. Importantly, this involves the essential ability to communicate your vision in such a way that others commit their hard work to its fulfillment. .

Power and influence
The foundations of effective leadership lie in the way a manager uses power to influence the behavior of other people. Power is the ability to get someone else to do something you want done. It is the ability to make things happen the way you want them to. Need for power should not be a desire to control for the sake of personal satisfaction; it is a desire to influence and control others for the good of the group or organisation as a whole.

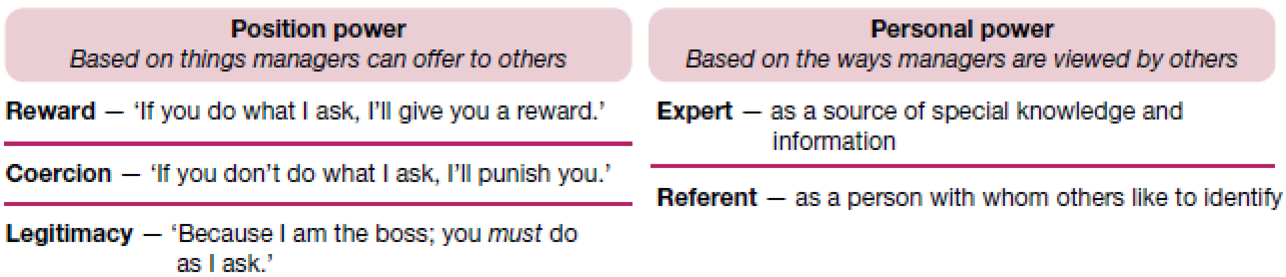


Fig 3.3.2 Sources of position power and personal power used by managers

Sources of position power
One important source of power is a manager's official status, or position, in the organisation's hierarchy of authority. Whereas anyone holding a managerial position theoretically has this power, how well it is used will vary from one person to the next. Consequently, leadership success will vary as well. The three bases of *position power* are reward power, coercive power and legitimate power.

Reward power is the ability to influence through rewards. It is the capacity to offer something of value — a positive outcome — as a way of influencing the behaviour of other people. This involves the control of rewards or resources such as pay rises, bonuses, promotions, special assignments and verbal or written compliments.

Coercive power is the ability to influence through punishment. It is the capacity to punish or withhold positive outcomes as a way of influencing the behaviour of other people. A manager may try to coerce someone by threatening him or her with verbal reprimands, pay penalties and even termination.

Legitimate power is the ability to influence through authority — the right by virtue of organizational position or status to exercise control over people in subordinate positions.

Sources of personal power

Expert power is the ability to influence through special expertise. It is the capacity to influence the behaviour of other people because they recognise your knowledge, understanding and skills. Expertise derives from the possession of technical know-how or information pertinent to the issue at hand. This is developed by acquiring relevant skills or competencies or by gaining a central position in relevant information networks.

Referent power is the ability to influence through identification. It is the capacity to influence the behaviour of other people because they admire you and want to identify positively with you. Reference is a power derived from charisma or interpersonal attractiveness. It is developed and maintained through good interpersonal relations that encourage the admiration and respect of others.

Turning power into influence

The best leaders and managers understand that different outcomes are associated with use of the various power bases. When a leader relies on rewards and legitimacy to influence others, the likely outcome is temporary compliance. When a leader relies on coercion to gain influence, compliance also depends on the continued threat of punishment. In this case, however, the compliance is very temporary and often accompanied by resistance. Use of expert and referent power creates the most enduring influence; they create commitment. Followers respond positively because of internalised understanding or beliefs that create their own long-lasting effects on behaviour. Position power alone is often insufficient to achieve and sustain needed influence. Personal power and the bases of expert and referent power often make the difference between leadership success and mediocrity. Four points to keep in mind are: (1) there is no substitute for expertise; (2) likeable personal qualities are very important; (3) effort and hard work breed respect; and (4) personal behaviour must support expressed values.

Ethics and the limits to power

Four conditions that determine whether a leader's directives will be followed and true influence achieved.

- The other person must truly understand the directive.
- The other person must feel capable of carrying out the directive.
- The other person must believe that the directive is in the organisation's best interests.
- The other person must believe that the directive is consistent with personal values.

Leadership and empowerment

Empowerment is the process through which managers enable others to gain power and achieve influence within the organisation. Effective leaders empower others by providing them with the information, responsibility, authority and trust to make decisions and act independently within their areas of expertise. They know that when people feel empowered to act, they tend to follow through with commitment and high-quality work. They also realise that power in organisations is not a 'zero-sum' quantity. That is, in order for someone to gain power, it isn't necessary for someone else to give it up.

3.3.3 Leadership traits and behaviours

Shelley Kirkpatrick and Edwin Locke identify these personal traits as being common among successful leaders.

- *Drive*. Successful leaders have high energy, display initiative and are tenacious.
- *Self-confidence*. Successful leaders trust themselves and have confidence in their abilities.
- *Creativity*. Successful leaders are creative and original in their thinking.
- *Cognitive ability*. Successful leaders have the intelligence to integrate and interpret information.
- *Business knowledge*. Successful leaders know their industry and its technical foundations.
- *Motivation*. Successful leaders enjoy influencing others to achieve shared goals.
- *Flexibility*. Successful leaders adapt to fit the needs of followers and the demands of situations.
- *Honesty and integrity*. Successful leaders are trustworthy; they are honest, predictable and dependable.

Focus on leadership behaviours

Recognising that the possession of certain traits alone is not a guarantee of leadership success, *behavioural theories of leadership*, work to determine which **leadership style** — the recurring pattern of behaviours exhibited by a leader — worked best. If the preferred style could be identified, the implications were straightforward and practical — train leaders to become skilled at using the ideal style to best advantage. Most research in the leader behaviour tradition focused on two dimensions of leadership style: concern for the task to be accomplished and concern for the people doing the work. Concern for task is sometimes called *initiating structure, job-centredness* and *task orientation*; concern for people is sometimes called *consideration, employee-centredness* and *relationship orientation*. *A leader high in concern for task* plans and defines work to be done, assigns task responsibilities, sets clear work standards, urges task completion and monitors performance results. In contrast, *a leader high inconcern for people* acts in a manner that is warm and supportive towards followers, maintains good social relations with them, respects their feelings, is sensitive to their needs and shows trust in them. The results of leader behaviour research at first suggested that followers of people oriented leaders were more productive and satisfied than those working for more task oriented leaders. Later results, however, suggested that truly effective leaders were high in both concern for people and concern for task.

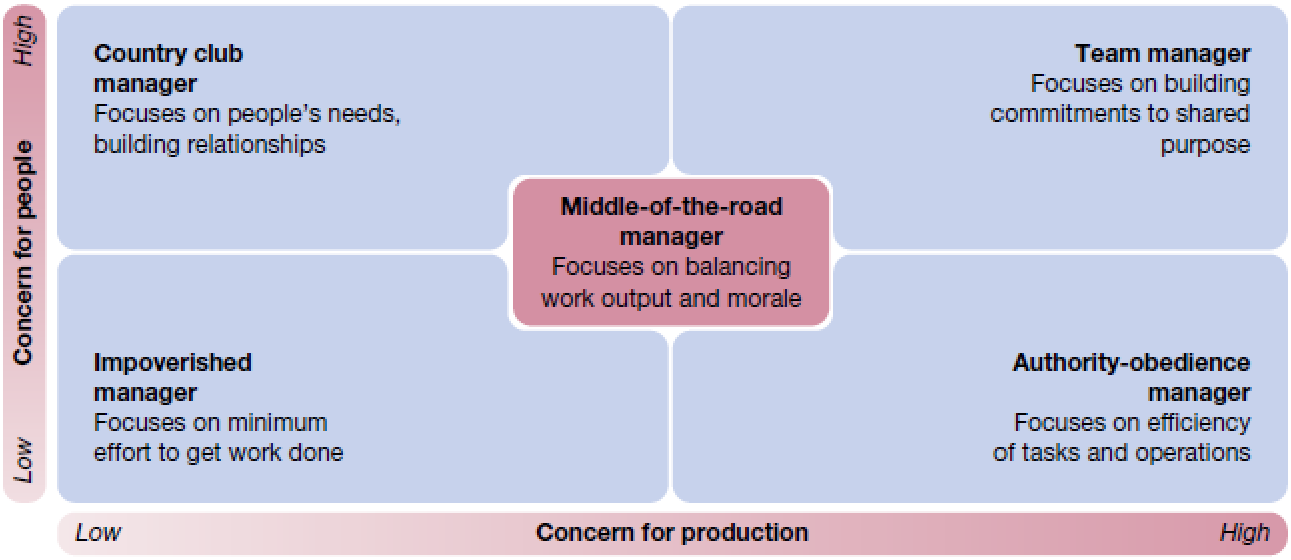


Fig 3.3.3 Managerial styles in Blake and Mouton's Leadership Grid

3.3.4 Issues in leadership development

Transformational leadership

The term **transformational leadership** describes someone who is truly inspirational as a leader and who arouses others to seek extraordinary performance accomplishments. The late Steve Jobs, mentioned in the technology box in this chapter, exemplifies such a leader. A transformational leader uses charisma and related qualities to raise aspirations and shift people and organisational systems into new high performance patterns. Scholars differentiate this from **transactional leadership**, which describes someone who is more methodical in keeping others focused on progress towards goal accomplishment. A transactional leader adjusts tasks, rewards and structures to move followers towards accomplishing organisational objectives.
The special qualities that are often characteristic of such transformational leaders include the following:

- *vision* — having ideas and a clear sense of direction; communicating them to others; developing excitement about accomplishing shared 'dreams'
- *charisma* — arousing others' enthusiasm, faith, loyalty, pride and trust in themselves through the power of personal reference and appeals to emotion
- *symbolism* — identifying 'heroes', offering special rewards and holding spontaneous and planned ceremonies to celebrate excellence and high achievement
- *empowerment* — helping others develop, removing performance obstacles, sharing responsibilities and delegating truly challenging work
- *intellectual stimulation* — gaining the involvement of others by creating awareness of problems and stirring their imagination to create high-quality solutions
- *integrity* — being honest and credible, acting consistently out of personal conviction and following through commitments

Emotional intelligence

An area of leadership development currently very popular is **emotional intelligence**, emotional intelligence is defined as 'the ability to manage ourselves and our relationships effectively'. A leader's emotional intelligence is an important influence on his or her effectiveness, especially in more senior management positions.

The critical components of emotional intelligence are the following.
i. *Self-awareness* is an ability to understand our own moods and emotions, and understand their impact on our work and on others.
ii. *Self-regulation* is the ability to think before we act and to control otherwise disruptive impulses.
iii. *Motivation* is the ability to work hard with persistence and for reasons other than money and status.
iv. *Empathy* is the ability to understand the emotions of others and to use this understanding to better relate to them.
v. *Social skill* is the ability to establish rapport with others and to build good relationships and networks.

Gender and leadership

The evidences clearly supports that both women and men can be effective leaders. Women may tend towards a style sometimes referred to as interactive leadership. This style focuses on the building of consensus and good interpersonal relations through communication and involvement. Leaders of this style display behaviours typically considered democratic and participatory — such as showing respect for others, caring for others, and sharing power and information with others. This interactive style also has qualities in common with the transformational leadership just discussed. Men, on the other hand, may tend towards more of a transactional approach to leadership — relying more on directive and assertive behaviours, and using authority in a traditional 'command and control' sense.
Given the emphasis on shared power, communication, cooperation and participation in the new form organisations of today, these results are provocative. Gender issues aside, the interactive leadership style seems to be an excellent fit with the demands of a diverse workforce and the new workplace. Regardless of whether the relevant behaviours are displayed by women or men, it seems clear that future leadership success will rest more often on capacity to lead through positive relationships and empowerment than through aloofness and formal authority.

Drucker's 'oldfashioned' leadership

Peter Drucker offers another very pragmatic approach to leadership in the new workplace. It is based on what he refers to as a 'good old-fashioned' view of the plain hard work it takes to be a successful leader. He said, 'leadership . . . is work'. He identifies the following three essentials of leadership. First, *defining and establishing a sense of mission.* Second, *accepting leadership as a responsibility rather than a rank*. Third, *earning and keeping the trust of others*. 'Effective leadership . . . is not based on being clever; it is based primarily on being consistent'.

Moral leadership

Society expects organisations to be run with **moral leadership**. This is leadership by ethical standards that clearly meet the test of being 'good' and 'correct'. The expectation is that anyone in a leadership position will practise high ethical standards of behaviour, help to build and maintain an ethical organisational culture, and both help and require others to behave ethically in their work. Another is the notion of **authentic leadership.** An authentic leader has a high level of selfawareness and clearly understands his or her personal values. This leader also acts consistent with those values, being honest and avoiding self deceptions. The result is positive self regulation that helps authentic leaders clearly frame moral dilemmas, transparently respond to them, and consistently serve as ethical role models.

3.4 Organising

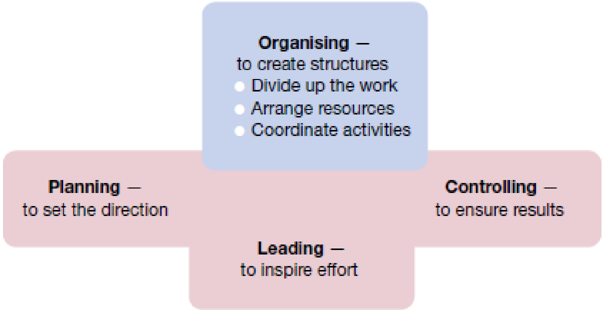


Fig 3.4.1 Organising viewed in relationship with the other management functions

Organizations are systems created to achieve common goals through people-to-people and people-to-work relationships. They are essentially social entities that are goal-directed, deliberately structured for coordinated activity systems, and is linked to the external environment. Organizations are made up of people and their relationships with one another. Managers deliberately structure and coordinate organizational resources to achieve the organization's purpose.

Each organization has its own external and internal environments that define the nature of the relationships according to its specific needs. Organizing is the function that managers undertake to design, structure, and arrange the components of an organization's internal environment to facilitate attainment of organizational goals.

Organizing creates the framework needed to reach a company's objectives and goals.

Organizing is the process of defining and grouping activities, and establishing authority relationships among them to attain organizational objectives.

Importance of Organizing

A comprehensive approach to organizing helps the management in many ways. Organizing aligns the various resources towards a common mission.

Efficient Administration

It brings together various departments by grouping similar and related jobs under a single specialization. This establishes coordination between different departments, which leads to unification of effort and harmony in work.

It governs the working of the various departments by defining activities and their authority relationships in the organizational structure. It creates the mechanism for management to direct and control the various activities in the enterprise.

Resource Optimization

Organizing ensures effective role-job-fit for every employee in the organization. It helps in avoiding confusion and delays, as well as duplication of work and overlapping of effort.

Benefits Specialization

It is the process of organizing groups and sub-divide the various activities and jobs based on the concept of division of labor. This helps in the completion of maximum work in minimum time ensuring the benefit of specialization.

Promotes Effective Communication

Organizing is an important means of creating coordination and communication among the various departments of the organization. Different jobs and positions are interrelated by structural relationship. It specifies the channel and mode of communication among different members.

Creates Transparency

The jobs and activities performed by the employees are clearly defined on the written document called **job description** which details out what exactly has to be done in every job. Organizing fixes the authority-responsibility among employees. This brings in clarity and transparency in the organization.

Expansion and Growth

When resources are optimally utilized and there exists a proper division of work among departments and employees, management can multiply its strength and undertake more activities. Organizations can easily meet the challenges and can expand their activities in a planned manner.

Principles of Organizing

Work Specialization

Also called **division of labor**, work specialization is the degree to which organizational tasks are divided into separate jobs. Each employee is trained to perform specific tasks related to their specialized function.

Specialization is extensive, for example running a particular machine in a factory assembly line. The groups are structured based on similar skills. Activities or jobs tend to be small, but workers can perform them efficiently as they are specialized in it.

Authority

Authority is the legitimate power assigned to a manager to make decisions, issue orders, and allocate resources on behalf of the organization to achieve organizational objectives.

Authority is within the framework of the organization structure and is an essential part of the manager's job role. Authority follows a top-down hierarchy. Roles or positions at the top of the hierarchy are vested with more formal authority than are positions at the bottom.

Chain of Command

The chain of command is an important concept to build a robust organization structure. It is the unbroken line of authority that ultimately links each individual with the top organizational position through a managerial position at each successive layer in between.

It is an effective business tool to maintain order and assign accountability even in the most casual working environments. A chain of command is established so that everyone knows whom they should report to and what responsibilities are expected at their level. A chain of command enforces responsibility and accountability. It is based on the two principles of **Unity of command** and **Scalar Principle**.

Delegation

Another important concept closely related to authority is delegation. It is the practice of turning over work-related tasks and/or authority to employees or subordinates. Without delegation, managers do all the work themselves and underutilize their workers. The ability to delegate is crucial to managerial success.

Delegation as a process involves establishment of expected outcomes, task assignment, delegation of authority for accomplishing these tasks, and exaction of responsibility for their accomplishment. Delegation leads to empowerment, as employees have the freedom to contribute ideas and do their jobs in the best possible ways.

Span of Control

Span of control (also referred to as Span of Management) refers to the number of employees who report to one manager. It is the number of direct reportees that a manager has and whose results he is accountable for.

Span of control is critical in understanding organizational design and the group dynamics operating within an organization. Span of control may change from one department to another within the same organization.

3.4.1 Organisational structure

The organisational structure is the system of tasks, workflows, reporting relationships and communication channels that link the work of diverse individuals and groups. Any structure should both allocate task assignments, through a division of labour, and provide for the coordination of performance results. A good structure that does both of these things well can be an important asset to an organisation. However, there is no structure that meets the needs of all circumstances. Structure must be handled in a contingency fashion; as environments and situations change, structures must often be changed too. To make good choices, a manager must know the alternatives and be familiar with current trends and developments. They must also be prepared to create 'chaos' to help produce innovative solutions to complex problems, when necessary. Nothing new and innovative can emerge from organising systems that are highly ordered and stable. Chaotic systems, such as revolutions and resistance, create new configurations of decision making and power.

Formal structure

The concept of structure is known best in the form of an **organisation chart**, which is a diagram that shows reporting relationships and the formal arrangement of work positions within an organisation. A typical organisation chart identifies various positions and job titles, as well as the lines of authority and communication between them. This is the *formal structure*, or the structure of the organisation in its official state. It represents the way the organisation is intended to function.

Informal structure

Behind every formal structure typically lies an **informal structure**. This is a 'shadow' organization made up of the unofficial, but often critical, working relationships between organisational members. If the informal structure could be drawn, it would show who talks to and interacts regularly with whom, regardless of their formal titles and relationships. The lines of the informal structure would cut across levels and move from side to side. Importantly, no organisation can be fully understood without first gaining insight into the informal structure, as well as the formal one. Informal structures can be very helpful in getting needed work accomplished in any organisation.

Through the emergent and spontaneous relationships of informal structures, people gain access to interpersonal networks of emotional support and friendship that satisfy important social needs. They also benefit in task performance, by being in personal contact with others who can help them get things done when necessary. *Informal learning* is increasingly recognized as an important resource for organisational development. Of course, informal structures also have potential disadvantages. Because they exist outside the formal authority system, the activities of informal structures can sometimes work against the best interests of the organisation as a whole. They can also be susceptible to rumour, carry inaccurate information, breed resistance to change and even divert work efforts from important objectives.

3.4.2 Traditional organisation structures

A traditional principle of organising is that performance gains are possible when people are allowed to specialise and become experts in specific jobs or tasks. Given this division of labour, however, decisions must then be made on how to group work positions into formal teams or departments, and then link them together in a coordinated fashion within the larger organisation. These decisions involve a process called **departmentalisation**, which has traditionally resulted in three major types of organisation structures — the functional, divisional and matrix structures.

Functional structures

In **functional structures**, people with similar skills and performing similar tasks are formally grouped together into work units. Members of functional departments share technical expertise, interests and responsibilities. The first example in figure shows a common functional structure in a business. In this case, senior management includes the functions of marketing, finance, production and human resources. In this functional structure, manufacturing problems are the responsibility of the production director; marketing problems are the province of the marketing director, and so on.

The key point is that members of each function work within their areas of expertise. If each function works properly, the expectation is that the business will operate successfully. Functional structures are not limited to businesses. The figure also shows how this form of departmentalization can be used in other types of organisations, such as banks and hospitals. These types of structures typically work well for small organisations that produce only one or a few products or services. They also tend to work best in relatively stable environments, where problems are predictable and there are limited demands for innovation and change.

The major *advantages of functional structures* include the following:

- Economies of scale with efficient use of resources
- Task assignments consistent with expertise and training
- High quality technical problem solving
- Indepth training and skill development within functions
- Clear career paths within functions.

There are also potential *disadvantages of functional structures*. Common problems with functional structures involve difficulties in pinpointing responsibilities for things like cost containment, product or service quality, timeliness and innovation in response to environmental changes. Such problems with functional structures are magnified as organisations grow in size and environments begin to change. Another significant concern is often called the *functional chimneys problem,* refers to the lack of communication, coordination and problem solving across functions.

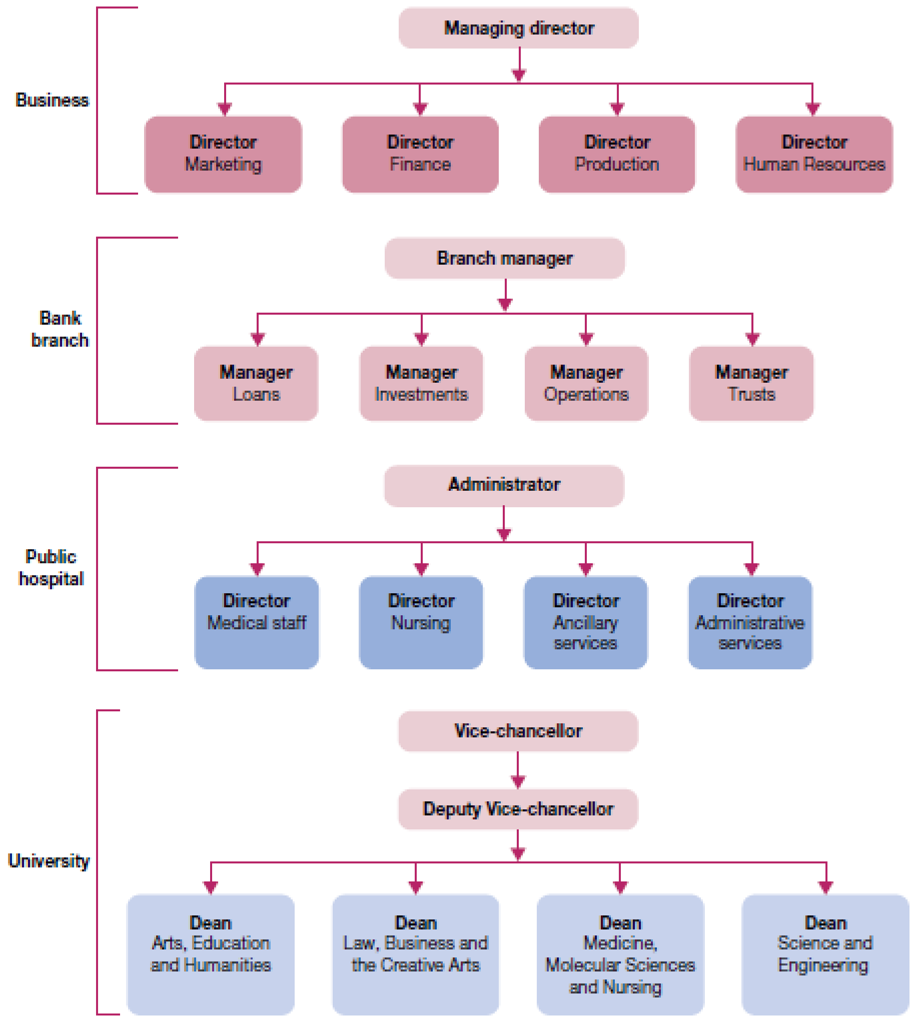


Fig 3.4.2 Functional structures in a business, a bank branch, a public hospital and a university

Divisional structures

Divisional structure groups together people who work on the same product or process, serve similar customers, and/or are located in the same area or geographical region. As illustrated in figure, divisional structures are common in complex organisations that have multiple and differentiated products and services, serve diverse customers, pursue diversified strategies, and/or operate in various and different competitive environments. The major types of divisional approaches are the product, geographical, customer and process structures.

Divisional structures attempt to avoid problems common to functional structures. They are especially popular among organisations with diverse operations that extend across many products, territories, customers and work processes.
The potential *advantages of divisional structures* include:

- More flexibility in responding to environmental changes
- Improved coordination across functional departments
- Clear points of responsibility for product or service delivery
- Expertise focused on specific customers, products and regions
- Greater ease in changing size by adding or deleting divisions.

There are also potential *disadvantages of divisional structures*. They can reduce economies of scale and increase costs, through the duplication of resources and efforts across divisions. They can also create unhealthy rivalries — as divisions compete for resources and attention, and they emphasise division needs and goals to the detriment of the goals of the organisation as a whole.

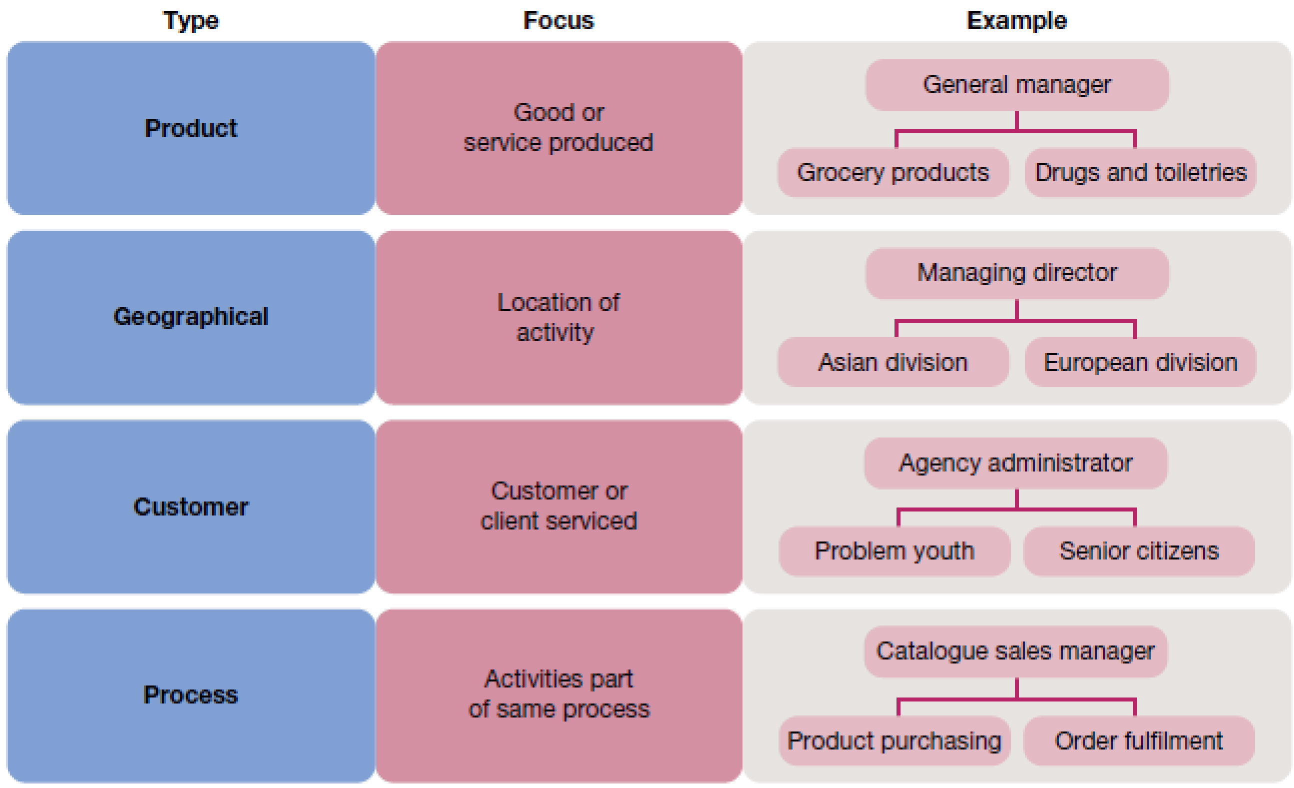


Fig 3.4.3 Divisional structures based on product, geography, customer and process

Product structures

Product structures group together jobs and people working on a single product or service. They clearly identify costs, profits, problems and successes in a market area with a central point of accountability. Consequently, managers are encouraged to be responsive to changing market demands and customer tastes. Common in large organisations, product structures may even extend into global operations. Product structures are becoming less common in major companies, as many companies are constantly trying to innovate and create new products. Heinz, Intel and Apple have all moved away from product structures in recent years.

Geographical structures

Geographical structures group together jobs and activities being performed in the same location or geographical region. They are typically used when there is a need to differentiate products or services in various locations, such as in different regions of a country. They are also quite common in international operations, where they help to focus attention on the unique cultures and requirements of particular regions

Customer structures

Customer structures group together people and jobs that are serving the same customers or clients. The major appeal is the ability to serve the special needs of the different customer groups. With increasing differentiation of global markets, this structure is often well suited to complex businesses.

Process structures

A *work process* is a group of tasks related to one another that collectively create something of value to a customer. An example is order fulfilment — when you email a catalogue retailer and request a particular item. The process of order fulfilment takes the order from point of initiation by the customer to point of fulfilment by a delivered order. **Process structures** group together jobs and activities that are part of the same processes. In the example in figure , this might take the form of product purchasing teams, order fulfilment teams and systems support teams for the mail order catalogue business.

Matrix structures

The **matrix structure**, often called the *matrix organisation*, combines the functional and divisional structures, it is an attempt to gain the advantages and minimise the disadvantages of each. This is accomplished in the matrix by using permanent cross functional teams to integrate functional expertise, in support of a clear divisional focus on a product, project or program. As shown figure, workers in a matrix structure belong to at least two formal groups at the same time — a functional group and a product, program or project team. They also report to two bosses — one within the function and the other within the team.

The matrix organisation has gained a strong foothold in the workplace, with applications in diverse settings, such as manufacturing (e.g. aerospace, electronics, pharmaceuticals), service industries (e.g. banking, brokerage, retailing), professional fields (e.g. accounting, advertising, law) and the not for profit sector (e.g. city, state and federal agencies; hospitals; universities). Matrix structures are also in multinational organisations, in which they offer the flexibility to deal with both regional differences and multiple product, program or project needs. Matrix structures are common in organisations pursuing growth strategies in dynamic and complex environments.

The main contribution of matrix structures to organisational performance lies in the use of permanent cross functional teams. Team members work closely together, and in a timely manner, to share expertise and information to solve problems. The potential *advantages of matrix structures* include:

- Better inter functional cooperation in operations and problem solving
- Increased flexibility in adding, removing and/or changing operations to meet changing demands
- Better customer service, since there is always a program, product or project manager informed and available to answer questions
- Better performance accountability through the program, product or project managers
- Improved decision making, as problem solving takes place at the team level — where the best information is available
- Improved strategic management, since top managers are freed from unnecessary problem solving and can focus on strategic issues.

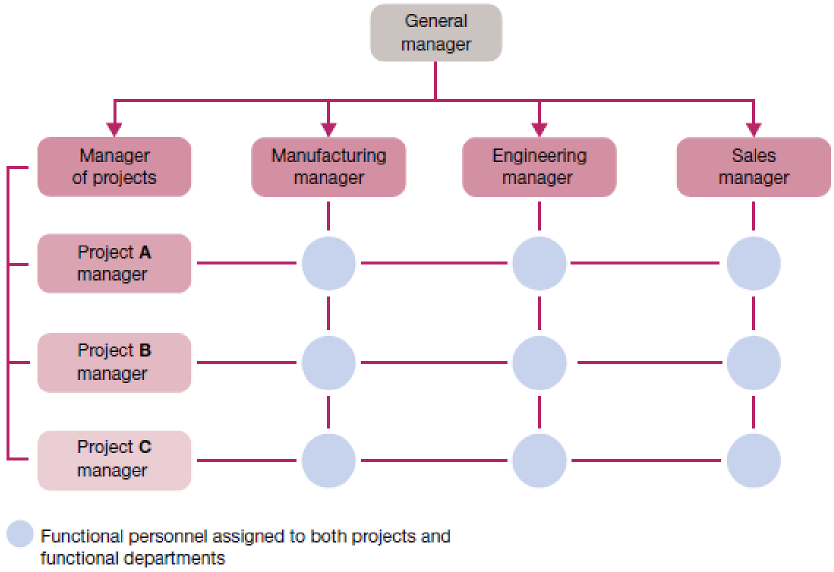


Fig 3.4.4 Matrix structure in a small multi project business

There are also potential *disadvantages of matrix structures*. The two boss system is susceptible to power struggles, as functional supervisors and team leaders vie with one another to exercise authority. The two boss system can also be frustrating for matrix members, if it creates task confusion and conflicts in work priorities. Team meetings in the matrix are also time consuming. Teams may develop 'groupitis', or strong team loyalties that cause a loss of focus on larger organizational goals, and the requirements of adding the team leaders to a matrix structure can result in increased costs.

3.5 Essentials of organisational design

Organisational design is the process of choosing and implementing structures that best arrange resources to serve the organisation's mission and objectives. The ultimate purpose of organizational design is to create an alignment between supporting structures and situational challenges. As shown in figure, this includes taking into consideration the implications of environment, strategies, people, technology and size. Importantly, the process of organisational design is a problem solving activity that should be approached in a contingency fashion that takes all of these factors into account. There is no universal design that applies in all circumstances. The goal is to achieve a best fit between the structure and the unique situation faced by each organisation. In the contemporary global economy, one of the key developments in organisational design is the emergence of the virtual organisation.

The idea of a deliberately formless and fluid organisation might seem at odds with notions of organisational design. However, virtual organisations are the antithesis of the rigid hierarchies and bureaucracies that often characterise conventional organisations. Key directions for changes in organisations today involve a basic shift in attention — from a traditional emphasis on more vertical or authority driven structures to an emphasis on structures that are more horizontal and task driven. In management theory, these developments are framed by the distinction between bureaucratic designs that are mechanistic and vertical in nature, and adaptive designs that are more organic and horizontal in nature. This distinction itself is viewed from the contingency position that there is no one best way to organise, and that the choice of organisational design should always achieve the best fit with situational needs.

Bureaucratic designs

A *bureaucracy* can be described as a form of organisation based on logic, order and the legitimate use of formal authority. Its distinguishing features include a clear cut division of labour, a strict hierarchy of authority, formal rules and procedures, and promotion based on competency. Bureaucracies are supposed to be orderly, fair and highly efficient. Yet, the term 'bureaucracy' today, has a negative connotation. Instead of operating efficiency, the bureaucracies that we know are often associated with 'red tape'. Instead of being orderly and fair, they are often cumbersome and impersonal, to the point of insensitivity to customer or client needs.

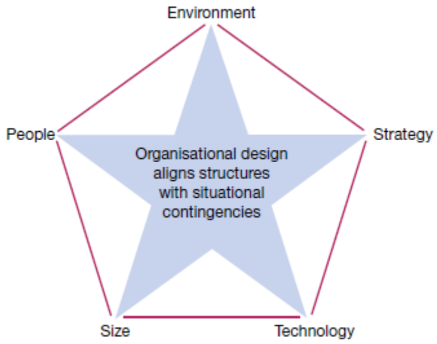


Fig 3.5.1 A framework for organisational design — aligning structures with situational contingencies

Instead of viewing all bureaucratic structures as inevitably flawed, management theory takes a contingency perspective. When is a bureaucratic form a good choice for an organisation? What alternatives exist when it is not a good choice?

Two quite different organisational forms could be successful, with the choice between them depending on the nature of an organisation's external environment. A more bureaucratic form, called a *mechanistic approach*, thrived when the environment was stable, but experienced difficulty when the environment was rapidly changing and uncertain. In these dynamic situations, a much less bureaucratic form, called an *organic approach*, performed best.

Organisations that operate with highly **mechanistic designs** are very bureaucratic in nature. As shown in the figure, they typically operate with more centralised authority, many rules and procedures, a precise division of labour, narrow spans of control and formal means of coordination. Mechanistic designs are described as 'tight' structures of the traditional vertical or pyramid form. An example is your local KFC or McDonald's. A relatively small operation, each store operates quite like others in the franchise chain and according to rules established by the corporate management. Service personnel work in orderly and disciplined ways, guided by training, rules and procedures, and with close supervision by crew leaders who work alongside them. Even the appearance of service personnel is carefully regulated, with everyone working in a standard uniform. These restaurants perform well, as they repetitively deliver items that are part of their standard menus. You quickly encounter the limits, however, if you try to order something not on the menu. The servers do not prepare anything out of the ordinary. The chains also encounter difficulty when consumer tastes change or take on regional preferences that are different from what the corporate menu provides. Adjustments to the system are typically a long time coming.

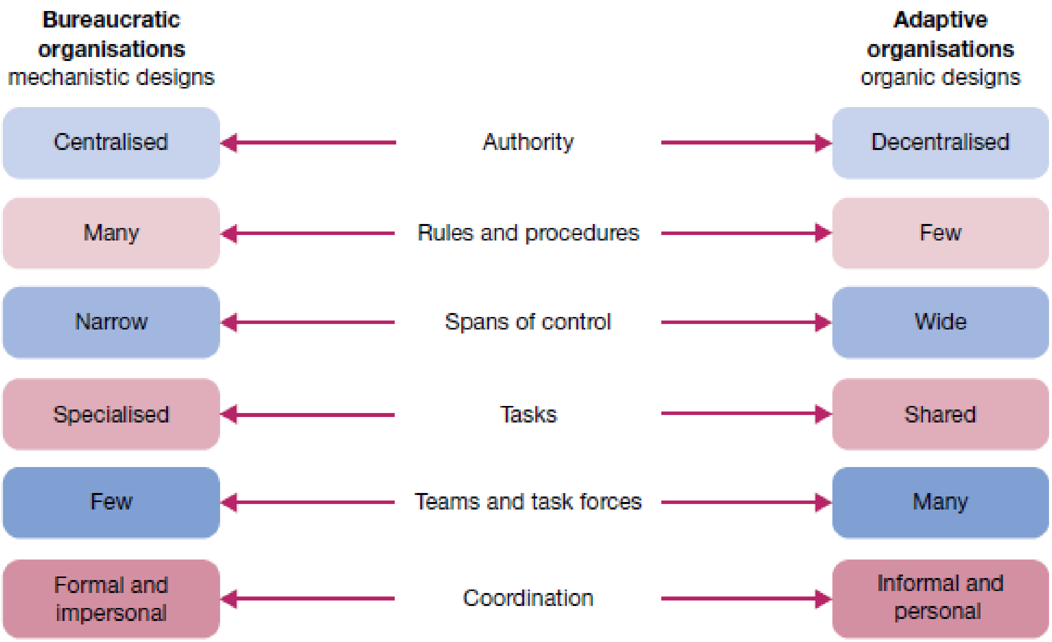


Fig 3.5.2 A continuum of organisational design alternatives — from bureaucratic to adaptive organizations

Adaptive designs

A technology company, consumer products firm, financial services business or dot com retailer make continual adjustments to its operations and organisational design. Enlightened managers are helping organizations reconfigure into new forms that emphasise flexibility and speed, while retaining sight of important performance objectives. The organisational design trend now is towards more **adaptive organisations** that operate with a minimum of bureaucratic features and with cultures that encourage worker empowerment and participation. Such organisations display features of the **organic designs** portrayed in figure , including more decentralised authority, fewer rules and procedures, less precise division of labour, wider spans of control and more personal means of coordination. They are described as relatively loose systems in which a lot of work is done through informal structures and networks of interpersonal contacts. Organic designs recognise and legitimise these links, and give them the resources they need to operate best. Adaptive organisations are built on trusting that people will do the right things on their own initiative. They move organisational design in the direction of what some might call *self organisation*, where the focus is on freeing otherwise capable people from unnecessarily centralised control and restrictions.

Virtual designs

A number of common features define virtual organisations. First, the lack of physical structure compared with conventional organisations means there are fewer tangible assets, such as office buildings, warehouses and fleet vehicles. Organisations are emerging that are structured entirely in virtual reality, with computer links replacing physical infrastructure, so that companies exist only in cyberspace. Second, electronic communications technologies — the internet, social media platforms, instant and text messaging, and other forms of electronic communication — form the basis of the virtual organisation, linking people, assets, knowledge and ideas. A third feature of the virtual organisation is mobility of work. Communication networks, rather than buildings and physical assets, become the 'workspace' for organizational members. A fourth feature of virtual organisations is their hybrid nature. They can consist of a loose framework of human resources, assets and knowledge involving organisational units, a consortia of companies, and autonomous members brought together for a given time period to achieve a mutual objective.

Once the objective is achieved, the virtual organisation either ceases to exist or reconfigures itself to tackle the next goal. These hybrids can be short term but also long term if they are tackling difficult research or infrastructure projects, or are part of an ongoing supply chain. A fifth and related feature is their lack of boundaries and inclusiveness. Virtual organisations are not constrained by what is traditionally thought of as an individual company or corporation and how they are legally defined. Virtual organisations often encompass suppliers and distributors to such an extent that it is difficult to unravel where one company ends and the other begins. Finally, virtual organisations embody flexibility, through their ability to restructure and to redeploy assets to meet changing requirements.

3.5.2 Contingencies in organisational design

The contingency factors in the organisational design are the environment, strategy, technology, size and life cycle, human resources and restructuring.

Environment

The organisation's external environment and the degree of uncertainty it offers are of undeniable importance in organisational design.A *certain environment* is composed of relatively stable and predictable elements. Bureaucratic organisations and mechanistic designs are quite adequate under such conditions. An *uncertain environment* will have more dynamic and less predictable elements. This requires more adaptive organizations and organic designs.

Strategy

The nature of organisational strategies and objectives influence the choice of structure, structure follows strategy. When strategy is stability oriented, the choice of organisational design should be based on the premise that little significant change will be occurring in the external environment. This means that plans can be set and operations programmed to be routinely implemented. To best support this strategic approach, the organisation should be structured to operate in well defined and predictable ways. This is most characteristic of bureaucratic organisations that use more mechanistic design alternatives. When strategy is growth oriented and likely to change frequently, the situation as a whole becomes more complex, fluid and uncertain. Operating objectives are likely to include the need for innovation and flexible responses to changing competition in the environment. Operations and plans are likely to have short life spans, and require frequent and even continuous modification over time. The most appropriate structure is one that allows for internal flexibility and freedom to create new ways of doing things.

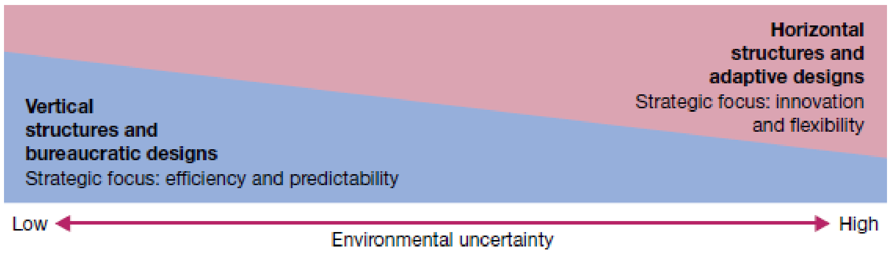


Fig 5.5.3 Environmental uncertainty and the performance of vertical and horizontal designs

Size and life cycle
Organisational size, typically measured by number of employees, is another contingency factor in organizational design. Larger organisations tend to have more mechanistic structures than smaller ones, it is clear that this is not always best for them. Organisations tend to become more bureaucratic as they grow in size and consequently have more difficulty adapting to changing environments. It is especially important to understand the design implications of the **organisational life cycle**, or the evolution of an organisation over time through different stages of growth.

The stages in the organizational life cycle can be described as:
i. *birth stage* — when the organisation is founded by an entrepreneur
ii. *youth stage* — when the organisation starts to grow rapidly
iii. *midlife stage* —when the organisation has grown large with success
iv. *maturity stage* — when the organisation stabilises at a large size.

In its *birth stage*, the founder usually runs the organisation. It stays relatively small, and the tructure is quite simple. The organisation starts to grow rapidly during the *youth stage* and management responsibilities extend among more people. An organisation in the *midlife stage* is even larger, with a more complex and increasingly formal structure. More levels appear in the chain of command, and the founder may have difficulty remaining in control. In the *maturity stage*, the organization stabilises in size, typically with a mechanistic structure. It runs the risk of becoming complacent and slow in competitive markets. One way of coping with the disadvantages of large size is downsizing; that is, taking action to reduce the scope of operations and number of employees. This response is often used when top management is challenged to reduce costs quickly and to increase productivity. Downsizing is often associated with decreases in subsequent firm profitability, and that research and development industries in particular may suffer many negative effects from downsizing.

Human resources
A good organisational design provides people with the supporting structures they need to achieve both high performance and satisfaction in their work. Modern management theory views people–structure relationships in a contingency fashion. There should be a good ‘fit’ between organisation structures and the human resources. An important human resource issue in organisational design is skill. Any design should allow the expertise and talents of organisational members to be realised to the full.

Additional Learning

2. Process theories of motivation

a. Equity theory

The equity theory of motivation is is based on the logic of social comparisons and the notion that perceived inequity is a motivating state. That is, when people believe that they have been unfairly treated in comparison to others, they will be motivated to eliminate the discomfort and restore a perceived sense of equity to the situation.

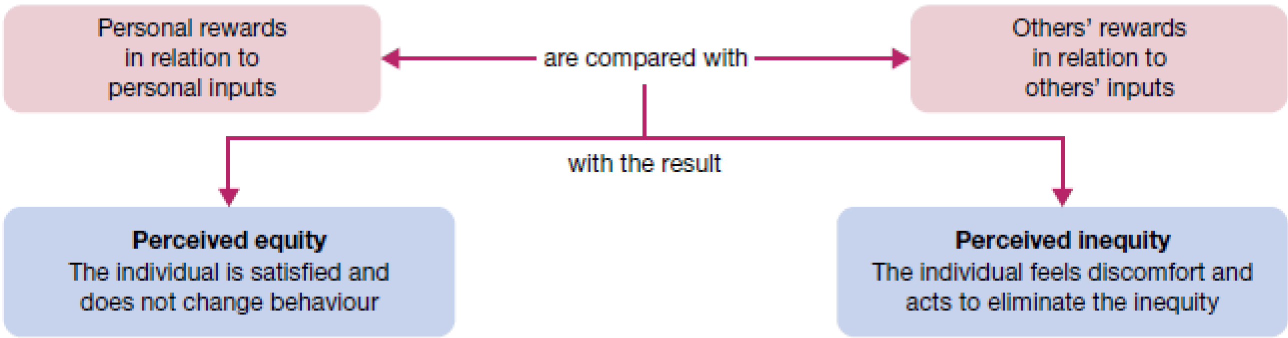


Fig 3.2.4 Equity theory and the role of social comparison

Adams (Equity theory is known by his works) predicts that people will try to deal with perceived negative inequity, the case where the individual feels disadvantaged in comparison with others, by:

- Changing their work inputs by putting less effort into their jobs
- Changing the rewards received by asking for better treatment
- Changing the comparison points to make things seem better
- Changing the situation by leaving the job.

b. Expectancy theory

The expectancy theory of motivation by Victor Vroom asks a central question: What determines the willingness of an individual to work hard at tasks important to the organisation? In response to this question, expectancy theory suggests that 'people will do what they can do when they want to do it'. More specifically, Vroom suggests that the motivation to work depends on the relationships between the *three expectancy factors*

- **Expectancy** is a person's belief that working hard will result in a desired level of task performance being achieved (this is sometimes called effort–performance expectancy).
- **Instrumentality** is a person's belief that successful performance will be followed by rewards and other potential outcomes (this is sometimes called performance–outcome expectancy).
- **Valence** is the value a person assigns to the possible rewards and other work-related outcomes.

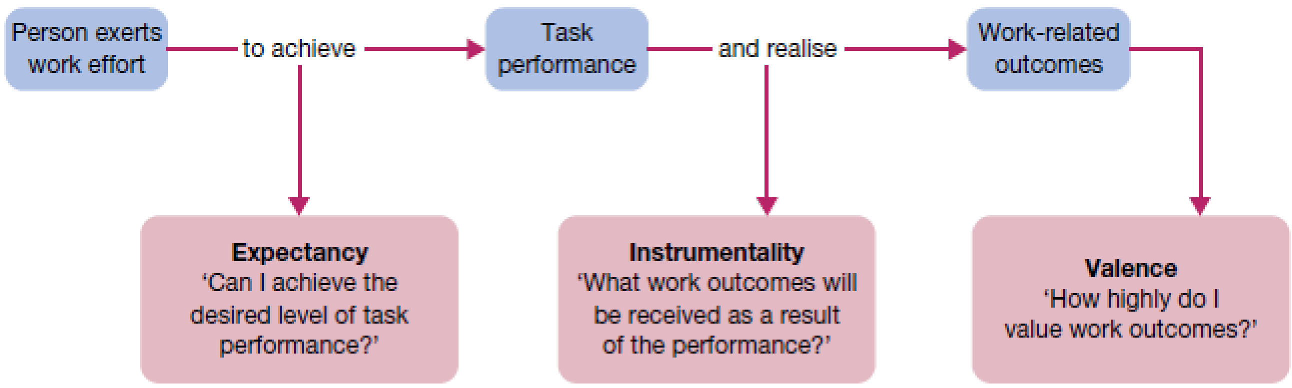


Fig 3.2.5 Elements in the expectancy theory of motivation

Expectancy theory posits that motivation (*M*), expectancy (*E*), instrumentality (*I*) and valence (*V*) are related to one another in a multiplicative fashion: $M = E \times I \times V$. In other words, motivation is determined by expectancy times instrumentality times valence. This multiplier effect among the expectancy factors has important managerial implications. Mathematically speaking, a zero at any location on the right-hand side of the equation (that is, for *E*, *I* or *V*) will result in zero motivation. Managers are thus advised to act in ways that maximise all three components of the equation — expectancy (people must believe that if they try they can perform), instrumentality (people must perceive that high performance will be followed by certain outcomes) and valence (people must value the outcomes). Not one of these factors can be left unattended.

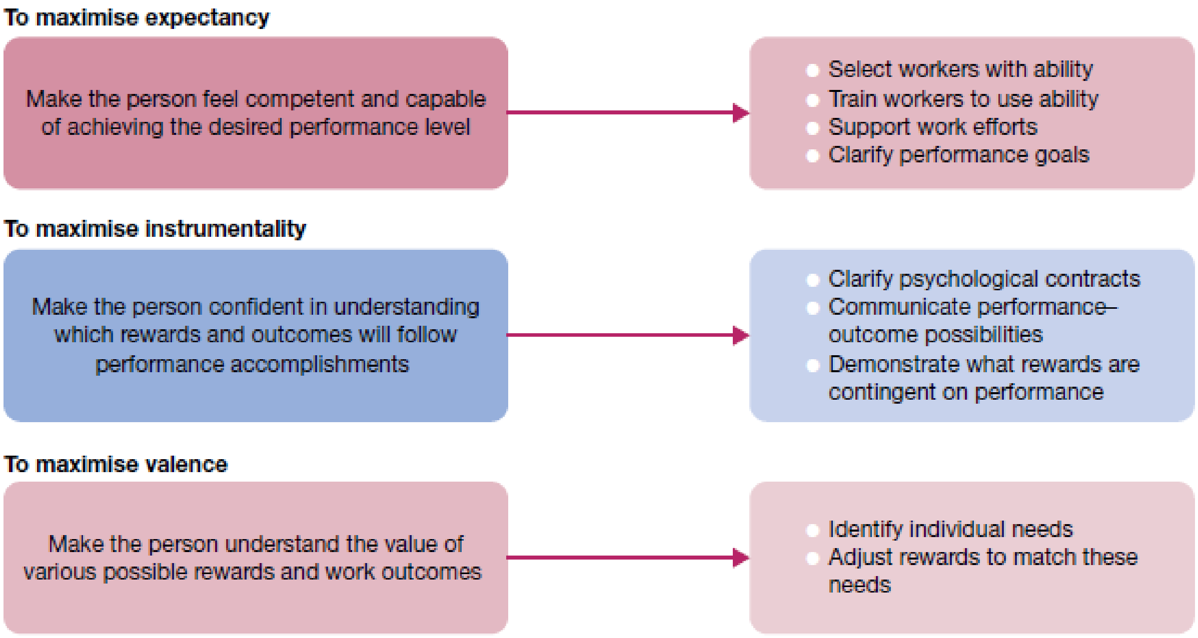


Fig 3.2.6 Managerial implications of expectancy theory

c. Goal-setting theory

Another process theory, as described by Edwin Locke, suggests task goals can be highly motivating — if they are properly set and if they are well managed. Goals give direction to people in their work. Goals clarify the performance expectations between a supervisor and subordinate, between co-workers, and across subunits in an organisation. Goals establish a frame of reference for task feedback. Goals also provide a foundation for behavioural self-management. In these and related ways, Locke believes goal setting can enhance individual work performance and job satisfaction.

d.Self-efficacy theory

Closely related to both the expectancy and goal-setting approaches to motivation is self-efficacy theory, also referred to as social learning theory. Based on the work of psychologist Albert Bandura, the notion of self-efficacy refers to a person's belief that she or he is capable of performing a task. You can think of self-efficacy using terms such as confidence, competence and ability. From a manager's perspective, the major insight of self-efficacy theory is that anything done to boost feelings of confidence, competence and ability among people at work is likely to pay off with increased levels of motivation.

3. Reinforcement theory of motivation

The content and process theories described so far use cognitive explanations of behaviour. They are concerned with explaining 'why' people do things in terms of satisfying needs, resolving felt inequities, and/or pursuing positive expectancies and task goals. Reinforcement theory, in contrast, views human behaviour as determined by its environmental consequences. Instead of looking within the individual to explain motivation and behaviour, it focuses on the external environment and the consequences it holds for the individual. The basic premises of the theory are based on what E. L. Thorndike called the **law of effect** — behaviour that results in a pleasant outcome is likely to be repeated; behaviour that results in an unpleasant outcome is not likely to be repeated.

Reinforcement strategies

Psychologist B. F. Skinner popularised the concept of **operant conditioning** as the process of applying the law of effect to control behaviour by manipulating its consequences. You may think of operant conditioning as learning by reinforcement. In management the term is often discussed with respect to **organisational behaviour modification (OB Mod)**, the application of operant conditioning techniques to influence human behaviour in the workplace. The goal of OB Mod is to use reinforcement principles to systematically reinforce desirable work behaviour and discourage undesirable work behaviour.

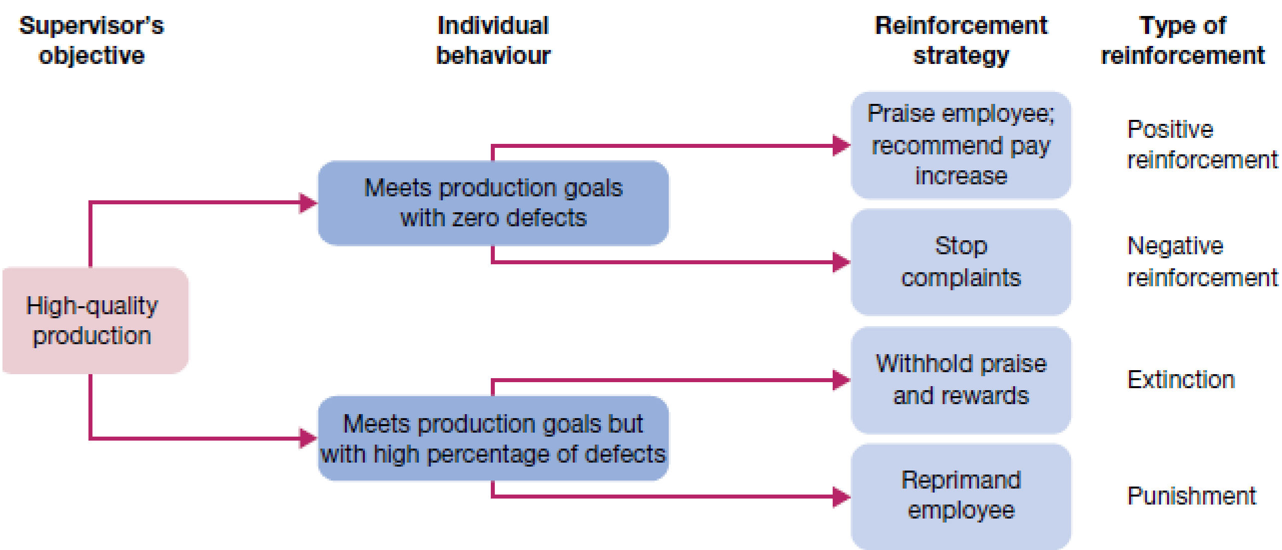


Fig 3.2.7 Applying reinforcement strategies: case of total quality management

Four strategies of reinforcement are used in operant conditioning. **Positive reinforcement** strengthens or increases the frequency of desirable behaviour by making a pleasant consequence contingent on its occurrence. **Negative reinforcement** increases the frequency of or strengthens desirable behaviour by making the avoidance of an unpleasant consequence contingent on its occurrence. **Punishment** decreases the frequency of or eliminates an undesirable behaviour by making an unpleasant consequence contingent on its occurrence. **Extinction** decreases the frequency of or eliminates an undesirable behaviour by making the removal of a pleasant consequence contingent on its occurrence.

Ethical issues in reinforcement
There debates over both the results and the ethics of controlling human behaviour. Opponents are concerned that use of operant conditioning principles ignores the individuality of people, restricts their freedom of choice and ignores the fact that people can be motivated by things other than externally administered rewards. Advocates, however, attack these criticisms. They agree that reinforcement involves the control of behaviour, but they argue that control is part of every manager's job. The real question may not be whether it is ethical to control behaviour but whether it is ethical not to control behaviour well enough so that the goals of both the organisation and the individual are well served. Even as research continues, the value of reinforcement techniques seems confirmed.

Additional control types

Internal and external control
Managers have two broad options with respect to control. They can rely on people to exercise self control over their own behaviour. This strategy of internal control allows motivated individuals and groups to exercise self discipline in fulfilling job expectations. Alternatively, managers can take direct action to control the behaviour of others. This is a strategy of external control that occurs through personal supervision and formal administrative systems. Organisations with effective control typically use both strategies to good advantage. However, the trend today is to increase the emphasis on internal control, or self control. This is consistent with the renewed emphasis on participation, empowerment and involvement in the workplace.

Bureaucratic control
A classic form of external control is bureaucratic control. It uses authority, policies, procedures, job descriptions, budgets, and day-to-day supervision to make sure that people's behaviour is consistent with organisational interests. This form of control flows through the organisation's hierarchy of authority.

Clan control
Whereas bureaucratic control emphasises hierarchy and authority, clan control influences behavior through norms and expectations set by the organisational culture. This is the power of collective identity, where persons who share values and identify strongly with one another tend to behave in ways that are consistent with one another's expectations.

Market control
Market control is essentially the influence of market competition on the behaviour of organizations and their members. Businesses show the influence of market control in the way that they adjust products, pricing, promotions, and other practices in response to customer feedback and what competitors are doing.

Management Principles for Engineers

Lecture Notes

Compiled By:

Career Development Centre
SRM IST

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UNIT IV

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4.1 Strategic management

Strategic management is the process of formulating and implementing strategies to accomplish longterm goals and sustain competitive advantage. The essence of strategic management is looking ahead, understanding the environment and the organisation, and effectively positioning the organisation for competitive advantage in changing times.

Competitive advantage arises when an organisation acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high-grade ores or inexpensive power, or access to highly trained and skilled personnel — human resources.

Henry Mintzberg describes **organisational strategy** as ‘a pattern in a stream of decisions’. This decision-based concept of strategy has two important implications. First, strategy is not necessarily apparent from the analysis of just one decision, because it must be viewed in the context of several decisions and the consistency among the decisions. Second, the organization must be aware of alternatives in all of its decisions.

4.1.1 Sustainable strategic competitiveness

Achieving and sustaining competitive advantage is a challenging task for even the largest organisations, all of which are very aware that new technologies, changes in the global economy or world geopolitics, and sudden shifts in consumer demand could lead to their demise.

Sustainable competitive advantage is the hallmark of successful companies such as Facebook, Sony and IKEA. In all these companies, technological and design leadership has been central to the strategy of sustainable competitive advantage and has been driven by senior management with almost crusading zeal and passion. Sustainable competitive advantage can also be achieved through applying technologies developed by other industries. The aim for any organisation, however, is not just to achieve competitive advantage but to make it sustainable in spite of competitors’ attempts to copy or duplicate a success story.

Organisations need to be prepared for a wide range of eventualities. Importantly, a strategy provides the plan for allocating and using resources with consistent strategic intent — that is, with all organisational energies directed towards a unifying and compelling target or goal. Companies need to be aware of technological changes that alter the rules of competition. In addition, companies need to be aware of how customers may interact with these technologies and where the technologies may provide access to certain ‘slack’ resources, such as privately owned vehicles or vacant residential accommodation. It could be said, therefore, that these marketplace companies enable existing infrastructure to be used more efficiently.

Strategic management, however, is more than just being aware of how environmental trends interact with each other to provide new opportunities and a changed business landscape. For instance, not every company who is aware of these trends can turn the opportunity into profit. The company must be able to harness its own resources and in some cases change itself to turn opportunity into profit.

4.2 Strategic management goals

A **goal** is a desired future state that the organization attempts to realize. The term **objective** is often used interchangeably with goal but usually refers to specific targets for which measurable results can be obtained. Organizational objectives are the end points of an organization's mission.

The strategic goals are crucial to clarify its vision, which they concretize and specify outcomes. They are generally defined by the owner or top management, who is also responsible for achieving them. Strategic goals concretize the vision and help managers to manage and motivate staff at the organization, together with properly defined specific objectives.

Sound strategy starts with having the right goal, the ultimate goal for any business should be superior profitability. This creates value for investors in the form of above average returns, returns that exceed what an investor could earn by investing in alternative opportunities of equivalent risk. The nature of the competition within an organisation’s environment largely determines whether above average returns are achievable. An understanding of the organisation’s markets is crucial for setting strategic management goals. Good economic analysis is therefore essential. The roots of the structural and market analysis within strategic management lie within economics.

Organisations compete in environments that vary according to their market structures. Where a *monopoly environment* exists there is only one organisation and no competition. This creates absolute competitive advantage, delivering sustainable and probably excessive business profits. This absolute competitive advantage may not be in the public interest — lack of consumer choice and high prices are the likely outcomes.

An *oligopoly environment* or oligopolistic competition is a market where a small number of competitors feel themselves constrained more by the actions of their rivals than by those of their customers. Organisations within an oligopoly sustain long-term competitive advantages within defined market segments. In the absence of competition within these segments, they can reap excessive business profits. Aircraft manufacturers, major machine tool producers, defence manufacturers, national newspapers, natural resource extraction operations and segments of the food manufacturing industry are in an oligopolistic environment.

An effective understanding of the principles of game theory therefore becomes a critical skill of strategists under an oligopoly. They need to guess correctly what a rival’s response to a price change will be; to understand when a new entrant to the industry should be accommodated rather than driven out; and to know when to collude with a rival, either explicitly or implicitly, rather than fighting a cut-throat action.

The global economy has helped to create for many businesses today an *environment of hypercompetition*. This is an environment in which there are at least several players who directly compete with one another. An example is the fast-food industry where McDonald’s, KFC, Pizza Hut and many other restaurant chains all compete for largely the same customers. Because the competition is direct and intense, any competitive advantage that is realised is temporary. Successful strategies are often copied and organisations must be agile, in that they must continue to find new strategies that deliver new sources of competitive advantage, even while trying to defend existing ones. In hypercompetition, there are always some winners and losers. Business profits can be attractive but intermittent. The customer generally gains in this environment through lower prices and more product/-service innovation.

4.3 The strategic management process

Strategic management is successful when organisations, even those operating in environments of hypercompetition, achieve sustainable competitive advantage and earn above-average returns. Successful strategies are crafted from insightful understandings of the competitive environment as well as intimate knowledge of the organisation. They are implemented with commitment and resolution.

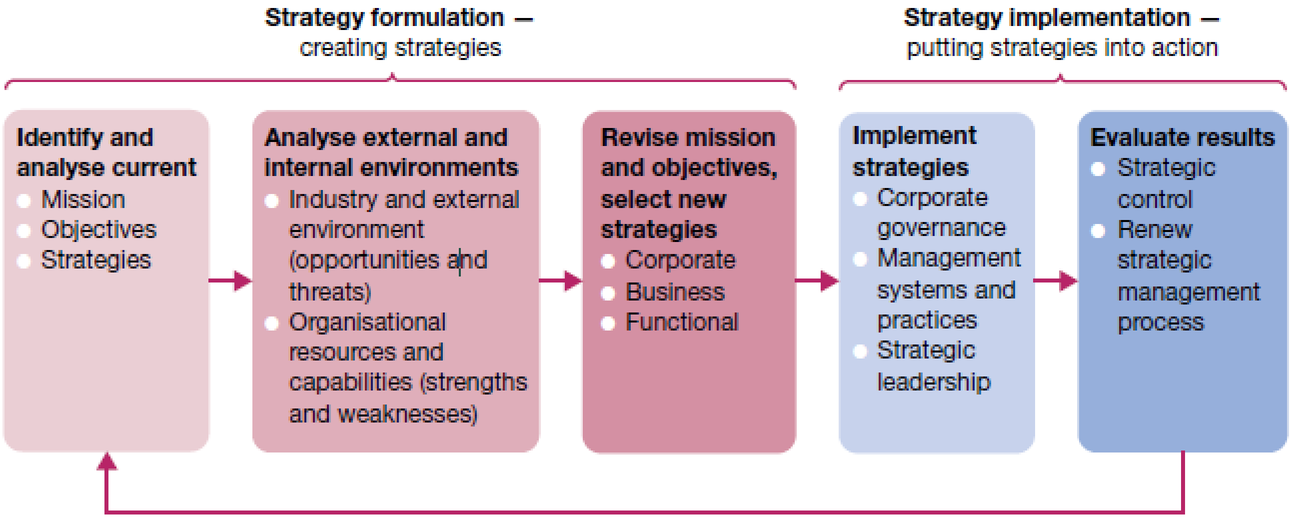


Fig 4.3.1 Strategy formulation and implementation in the strategic management process

The first strategic management responsibility is **strategy formulation**, the process of creating strategy. This involves assessing existing strategies, the organisation and your environment to develop new strategies and strategic plans capable of delivering future competitive advantage. Peter Drucker associates this process with a set of five strategic questions: *What is our business mission? Who are our customers? What do our customers consider value? What have been our results? What is our plan?*

The second strategic management responsibility is **strategy implementation**, the process of allocating resources and putting strategies into action. Once strategies are created, they must be successfully acted on to achieve the desired results. It requires decision — now. It imposes risk — now. It requires action — now. It demands allocation of resources, and above all, of human resources — now. It requires work — now.

4.3.1 Analysis of mission, values and objectives

The strategic management process begins with a careful assessment and clarification of the organisational mission, values and objectives.

Mission

The **mission** or purpose of an organisation may be described as its reason for existence in society. A mission should represent what the strategy or underlying business model is trying to accomplish. 'What are we moving to? What is our dream? What kind of a difference do we want to make in the world?' can be asked

A good mission statement identifies the domain in which the organisation intends to operate — including the customers it intends to serve, the products and/or services it intends to provide, and the location in which it intends to operate. The mission statement should also communicate the underlying philosophy that will guide employees in these operations. For example Consider the mission statement for Merck, one of the world's leading pharmaceutical companies: 'To discover, develop and provide innovative products and services that save and improve lives around the world'.

An important test of corporate purpose and mission is how well it serves the organisation's **stakeholders**. Stakeholders are individuals and groups — customers, shareholders, suppliers, creditors, community groups and others — who are directly affected by the organisation and its accomplishments.

Fig 4.3.2 External stakeholders and the mission statement

In the strategic management process, the stakeholder test can be done as a constituencies analysis. Here, the specific interests of each stakeholder are assessed along with the organisation's record in responding to them. Figure above gives an example of how stakeholder interests can be reflected in a mission statement

Core values

Values are broad beliefs about what is or is not appropriate. **Organisational culture** is defined as the predominant value system of the organisation as a whole. Through organisational cultures, the values of managers and other members are shaped and pointed in common directions. In strategic management, the presence of strong core values for an organisation helps build institutional identity. It gives character to an organisation in the eyes of its employees and external stakeholders, and it backs up the mission statement. Shared values also help guide the behaviour of organisation members in meaningful and consistent ways. For example, Merck backs up its mission with a public commitment to core values that state 'our core values are driven by a desire to improve human life, achieve scientific excellence, operate with the highest standards of integrity, expand access to our products and employ a diverse workforce that values collaboration'.

Objectives

Whereas a mission statement sets forth an official purpose for the organisation and the core values describe appropriate standards of behaviour for its accomplishment, **operating objectives** direct activities towards specific performance results. These objectives are shorter term targets against which actual performance results can be measured as indicators of progress and continuous improvement. Any and all operating objectives should have clear means–ends links to the mission and purpose. Any and all strategies should, in turn, offer clear and demonstrable opportunities to accomplish operating objectives.

According to Peter Drucker, the operating objectives of a business might include:
i. *profitability* — producing at a profit in business
ii. *market share* — gaining and holding a specific market share
iii. *human talent* — recruiting and maintaining a high-quality workforce
iv. *financial health* — acquiring capital; earning positive returns
v. *cost efficiency* — using resources well to operate at low cost
vi. *product quality* — producing high-quality goods or services
vii. *innovation* — developing new products and/or processes
viii. *social responsibility* — making a positive contribution to society.

4.3.2 Analysis of organisational resources and capabilities

Second step in the strategic management process are analysis of the organisation and analysis of its environment. They may be approached by a technique known as SWOT analysis — the internal analysis of organisational Strengths and Weaknesses as well as the external analysis of environmental Opportunities and Threats. A SWOT analysis begins with a systematic evaluation of the organisation's resources and capabilities. A major goal is to identify core competencies in the form of special strengths that the organisation has or where it does exceptionally well in comparison with competitors. They are capabilities that by virtue of being rare, costly to imitate, and non-substitutable become viable sources of competitive advantage.

Core competencies may be found in special knowledge or expertise, superior technologies, efficient manufacturing technologies or unique product distribution systems, among many other possibilities. Organisations need more competencies that do important things better than the competition and that are very difficult for competitors to duplicate.

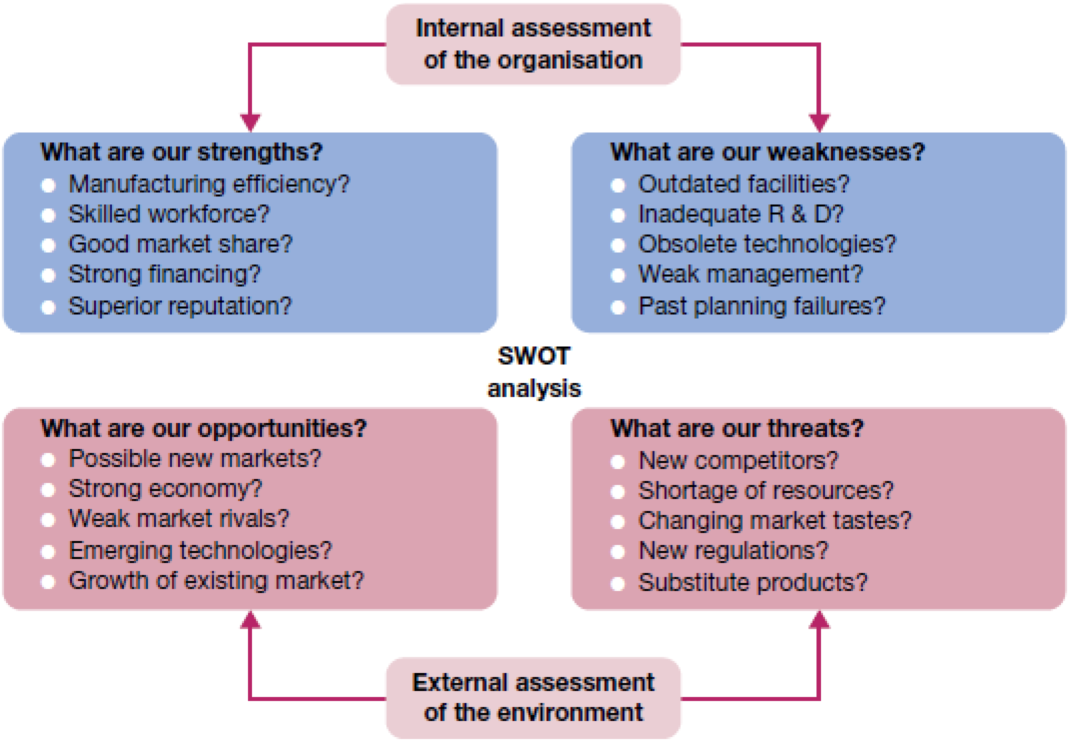


Fig 4.3.3 SWOT analysis of strengths, weaknesses, opportunities and threats

Analysis of industry and environment

A SWOT analysis is not complete until opportunities and threats in the external environment are also analysed. They can be found among *macroenvironment factors* such as technology, government, social structures and population demographics, the global economy and the natural environment. They can also include developments in the *industry environment* of resource suppliers, competitors and customers. Opportunities may exist as possible new markets or a strong economy; threats may be identified in such things as the emergence of new competitors or technologies, resource scarcities, changing customer tastes and new government regulations, among other possibilities.

In respect to the external environment as a whole, the more stable and predictable it is, the more likely that a good strategy can be implemented with success for a longer period of time, but when the environment is composed of many dynamic elements that create uncertainties, more flexible strategies that change with time are needed. Given the nature of competitive environments today, strategic management must be considered an ongoing process in which strategies are formulated, implemented, revised and implemented again in a continuous manner.

Michael Porter offers the five forces model as a way of adding sophistication to this analysis of the environment

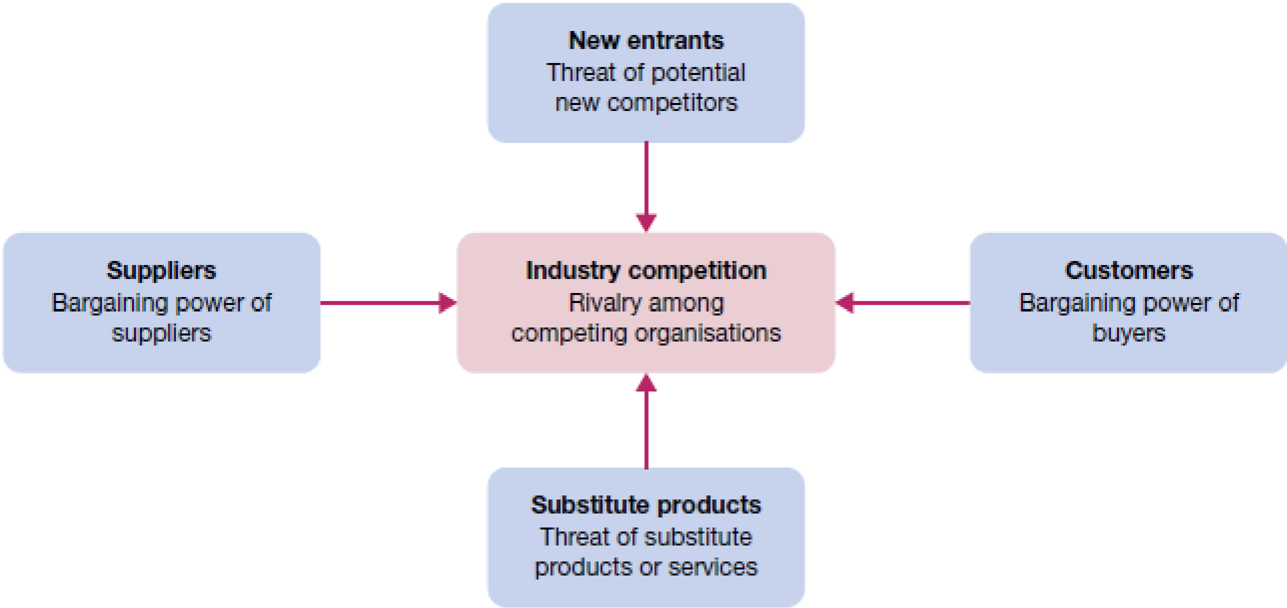


Fig 4.3.4 Porter's model of five strategic forces affecting industry competition

Porter's framework for competitive industry analysis directs attention towards understanding the following forces:

1. *industry competitors* — intensity of rivalry among firms in the industry
2. *new entrants* — threats of new competitors entering the market
3. *suppliers* — bargaining power of suppliers
4. *customers* — bargaining power of buyers
5. *substitutes* — threats of substitute products or services.

Michael Porter's Five Forces is a powerful competitive analysis tool to determine the principal competitive influence in a market. It is a broadly used model in business that refers to the five important factors that drive a firm's competitive position within an industry. By thinking through how each force affects you, and by identifying the strength and direction of each force, you can quickly assess the strength of the position and your ability to make a sustained profit in the industry. Thus Five Forces analysis helps the firm stay competitive by:

- Knowing the strength of these five forces, you can develop strategies that help their businesses be more competitive and profitable.
- Looking at opportunities, you can to strengthen their organization's position compared to the other players for reducing the competitive pressure as well as generate competitive advantage.

Step-by-Step Five Forces Analysis

Porter's Five Forces Analysis is an important tool in the project planning stage. Porter's Five Forces Analysis makes a strong assumption that there are only five important forces that could determine the competitive power in a business situation. Using the following three steps:

1. Identify the different factors that bring about the competitive pressures for each of the five forces:
    - Who are the suppliers?
    - Who are the customers?
    - What are the substitute products?

    - Is it difficult to enter this industry?
    - Who are the major competitors in this industry?
2. Based on the factors identified, determine if the pressures are:
    - Strong
    - Moderate
    - Weak
3. Determine whether the strength of the five forces is favorable to earning attractive profits in the industry. Using the Five Forces model can help answer the following questions:
    - Is the state of competition in the industry stronger than "normal"?
    - Can companies in this industry expect to earn decent profits in light of the competitive forces?
    - Are the competitive forces sufficiently powerful enough to undermine industry profitability?

Components of Porter's Five Forces
The Porter's five forces analysis include the following components:

The bargaining power of suppliers: it represents the extent to which the suppliers can influence the prices. When there are a lot of suppliers, buyers can easily switch to competition because no supplier can, actually, influence the prices and exercise control in the industry. On the contrary, when the number of suppliers is relatively small, they can push the prices up and be powerful. Thus, supplier bargaining power is high when:

- The market is conquered by a few big suppliers.
- There are no alternative products available.
- The supplier customer base is fragmented, making their bargaining power low.
- High switching costs from one to another supplier.

Possibility of supplier integration forward, to obtain higher profits and margins.

The bargaining power of Customers: The bargaining power of customers looks at customers' ability to affect the pricing and quality of products and services. When the number of consumers of a particular product or service is low, they have much more power to affect pricing and quality. The same holds true when a large proportion of buyers can easily switch to a different product or service. When consumers buy products in low quantities, the bargaining power is low. Factors affecting this force are buyer concentration, the degree of dependency on the product, overall bargaining leverage, readily available purchasing information, substitute products, price sensitivity, and total volume of trade. Thus, customer bargaining power is high when:

- Customers procure large volumes.
- The supplying industry consists of several small operators.
- The supplying industry is controlled with high fixed costs.
- The product has substitutes. Switching products is easy and simple.
- Switching products does not incur high costs.
- Customers are price responsive. Customers could manufacture the product themselves.

The threat of new entrants: when the barriers to entry into an industry are high, new businesses can hardly enter the market due to high costs and strong competition. Highly concentrated industries, like the automobile or the health insurance, can claim a competitive advantage because their products are not homogeneous, and they can sustain a favorable position. On the other hand, when the barriers to entry into an industry are low, new businesses can take advantage of the economies of scale or key technologies. Possible barriers to entry could include:

- Economies of scale. High initial investment costs or fixed costs
- Cost advantage of existing players.
- Brand loyalty.
- Intellectual property like licenses, etc.
- Shortage of important resources.
- Access to raw materials is controlled by existing players.
- Distribution means are controlled by existing players.
- Existing players have secure customer relations. Elevated switching costs for customers.
- Legislation and government acts.

The threat of substitutes: when customers can choose between a lot of substitute products or services, businesses are price takers, i.e. buyers determine the prices, thereby lessening the power of businesses. On the contrary, when a business follows a product differentiation strategy, it can determine the ability of buyers to switch to the competition. This threat is determined by things such as:

- Brand dependability of customers.
- Secure customer relationships.
- Switching costs for customers.
- The relative price for performance of substitutes.
- Up-to-date trends.

Competitive rivalry: in highly competitive industries, firms can exercise little or no control on the prices of the goods and services. In contrast, when the industry is a monopolistic competition or monopoly, businesses can fully control the prices of goods and services. Rivalry between existing players is likely to be high when:

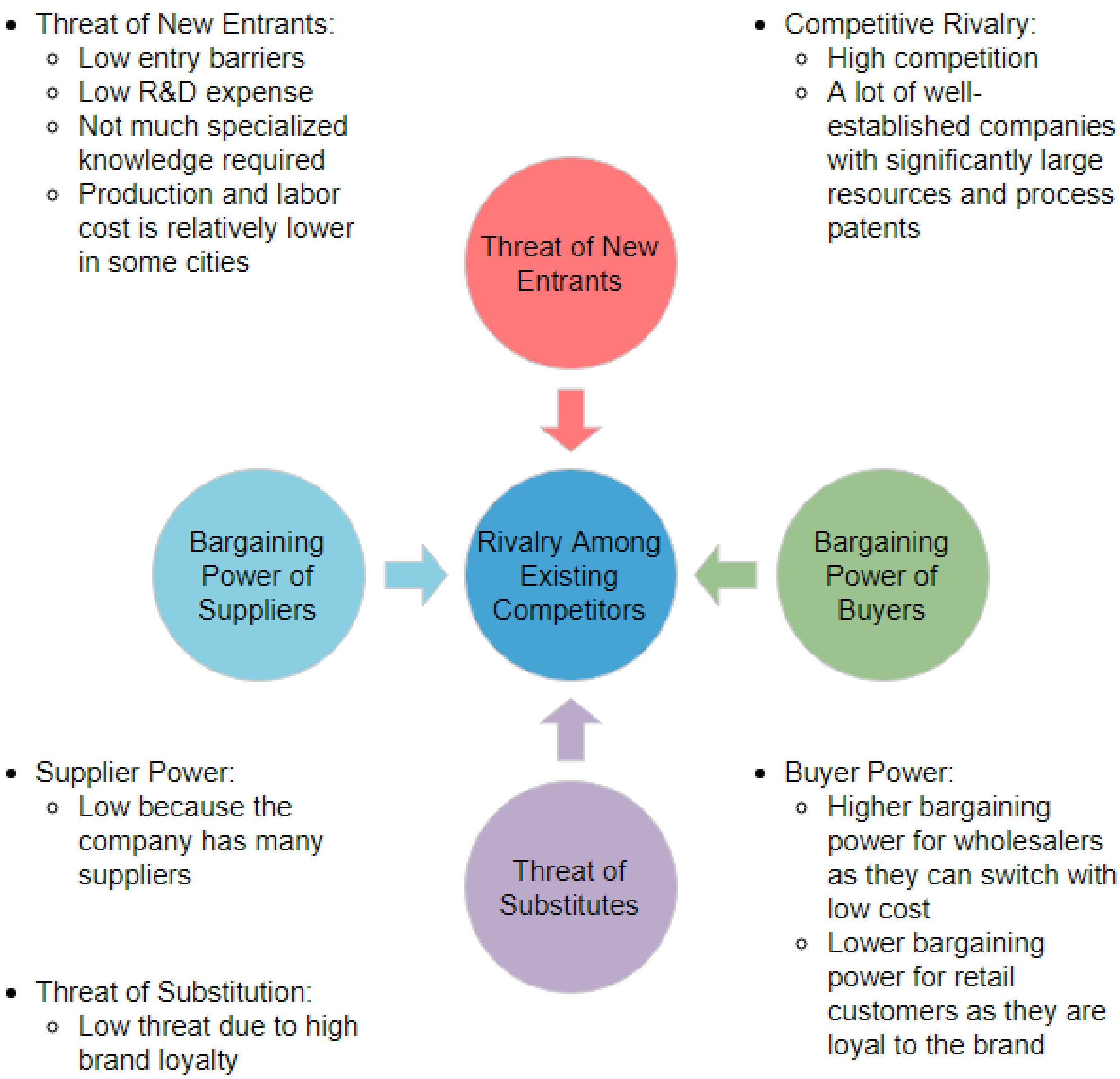
- Players are the same size.
- Players have comparable strategies.
- Little or no differentiation between players and their products leading to price competition.
- Low market growth rates.
- Barriers for exit are high.

Porter's Five Forces Example - Footwear Company

NiceWare is a leading Footwear company that operates in the athletic apparel industry.
Based on Porter's Five Forces model the threat of new entrants is moderate as there are high capital costs, mostly related to advertising and promotion, especially when a new product line is launched. On the other hand, company A can expand in the performance apparel industry and cross-sell its products.
The bargaining power of suppliers is relatively low because the company has many different suppliers both in the US and abroad.
The bargaining power of customers is higher in the wholesale customers as they can switch at a low cost to the competition, thereby gaining a higher margin. With respect to the retail customers, the bargaining power is lower as customers are loyal to the brand.
The threat of new entrants is high as the entry barriers are low **-** low R & D expense, not much specialized knowledge is required in operating the business, low production and labour cost in some cities.

The threat of substitute products is relatively low because brand loyalty is high. Hence, the demand for the company's products is expected to continue in the long-term.
The competitive rivalry in the industry is high as there are a lot of well-established companies with significantly larger resources and process patents.

These forces are brought together in a diagram below:



The effect on Internet on Porter's 5 forces model

The entry of new competitors

Today, it's not just traditional industry competitors the firm needs to worry about, but new entrants from outside the industry, equipped with new digitally based business models and value propositions. This is often tech giants and startups that have envisioned and built a new business model from the ground up, powered by a new platform ecosystem for digital business. They're leveraging the familiar social, mobile, analytics and cloud technologies, but are often adding in personas and context, intelligent automation, the Internet of Things, and cybersecurity to further enhance the value proposition of their platform.

Why can new entrants move in so easily? Digital business changes the rules by lowering the traditional barriers to entry. A digitally based business model requires far less capital and can bring large economies of scale for example.

The threat of substitutes

The threat of substitutes has to do with the threat of substitute products or services. In terms of internet based business, this can come from a purely digital substitute or a hybrid digital/physical substitute. Taxi services, such as Uber and EasyTaxi for example, provide a hybrid model via a digital app for consumers and taxi drivers, coupled with the physical taxis.

Digital services wrapped around a physical product are another example and can range from one extreme such as the industrial Internet to another such as home automation technologies or personal fitness products. In addition, the long-term revenue stream from the digital services may be worth far more than the one time sale of the physical product.

The threat of substitutes is high in many industries since switching costs are low and buyer propensity to substitute is high. In the taxi services example, customers can easily switch from traditional models to the new model simply by installing an app on their smartphone. Propensity to switch from the traditional model is high due to consumer wait times for taxis, lack of visibility into taxi location and so on.

The bargaining power of buyers

Perhaps the strongest of the five forces impacting industry competition is the bargaining power of buyers since the biggest driver of digital business comes from the needs and expectations of consumers and customers themselves.

This bargaining power lays out a new set of expectations for the digital customer experience and necessitates continual corporate innovation across business models, processes, operations, products and services.

Customers and consumers have amassed far more bargaining power today due to instant access to information, insights from social media including access to reviews and feedback, low switching costs via digital channels, price sensitivity, access to substitute products and services with greater ease of use and convenience, as well as increased industry competitiveness as a result of the other forces.

The bargaining power of suppliers

Suppliers can accelerate or slow down the adoption of a digitally based business model based upon how it impacts their own situation. Those pursuing digital models themselves, such as the use of APIs to streamline their ability to form new partnerships and manage existing ones, may help accelerate your own model.

Those who are suppliers to the traditional models, and who question or are still determining their new role in the digital equivalent, may use their bargaining power to slow down or dispute the validity or legality of the new model.

Good examples are the legal and business issues surfacing around the digital-sharing economy (i.e. ride-sharing, room-sharing etc.) where suppliers and other constituents work to ensure the business model and process innovations still adhere to established rules, regulations, privacy, security and safety. This is a positive and needed development since, coupled with bargaining power of buyers, it can help to keep new models "honest" in terms of how they operate.

The rivalry among the existing competitors

Finally, existing competitors are all looking at internet-based business, trying to understand the disruptions occurring, and prepare their response. The responses can range all the way from defensive to offensive measures, and even a first-mover attack. This rivalry among competitors is always in play, but in recent years digital business has added fuel to the fire, just as the e-business era did many years ago.

The rivalry is heating up because entry and exit barriers are going down due to the comparative low-cost of internet business models, and in many cases new entrants do not even need to own physical assets or infrastructure. In particular, the "platform" model is seeing considerable success in the marketplace by simply connecting stakeholders and applying a set of peripheral services to enhance the customer experience.

By doing so, platform operators are moving to the forefront of service delivery and getting closer to the customer without even owning assets or employees working in that particular industry. Today, any service provider, and even content provider, risks becoming hostage to the platform operator, which, by aggregating all those peripherals and streamlining the experience of using them, suddenly moves from the periphery to the centre.

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4.4 Strategies used by organisations

The strategic management process encompasses the three levels of strategy shown in figure. Strategies are formulated and implemented at the organisational or corporate level, business level and functional level. All should be integrated in means–ends fashion to accomplish objectives and create sustainable competitive advantage.

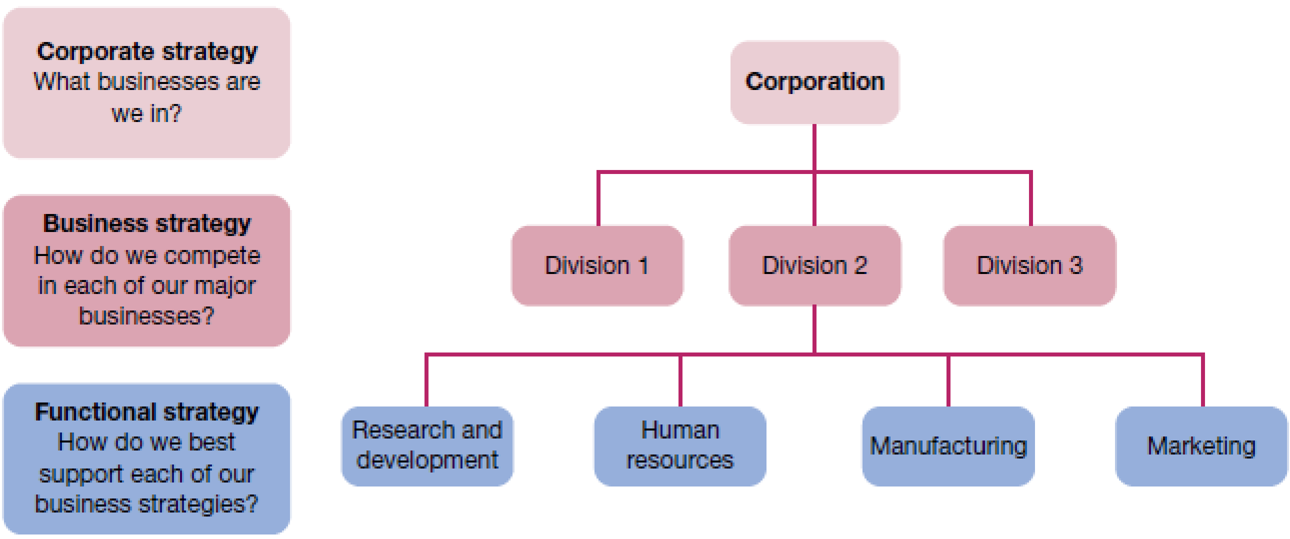

Fig 4.4.1 Levels of strategy in organisations

Levels of strategy

The level of **corporate strategy** directs the organisation as a whole towards sustainable competitive advantage. For a business it describes the scope of operations by answering the following question: In what industries and markets should we compete? The purpose of corporate strategy is to set direction and guide resource allocations for the entire enterprise. In large, complex organisations like General Electric (GE), corporate strategy identifies the different areas of business in which a company intends to compete. The organisation presently pursues business interests in aviation, home and businesses solutions, financial (capital) services, healthcare, energy and transportation, for example. Typical strategic decisions at the corporate level relate to the allocation of resources for acquisitions, new business development, divestitures and so on across the business portfolio. Increasingly, corporate strategies for many businesses include an important role for global operations such as international joint ventures and strategic alliances.

Business strategy is the strategy for a single business unit or product line. It describes intent to compete within a specific industry or market. Large conglomerates such as GE, are composed of many businesses, with many differences among them in product lines and even industries. The term **strategic business unit (SBU)** is often used to describe a single business or a component that operates with a separate mission within a larger enterprise. The selection of strategy at the business level involves answering the question: How are we going to compete for customers in this industry and market? Typical business strategy decisions include choices about product/service mix, the location of facilities and new technologies.

Functional strategy guides the use of organisational resources to implement business strategy. This level of strategy focuses on activities within a specific functional area of operations. The standard business functions of marketing, manufacturing, human resources, and research and development illustrate this level of strategy. The question to be answered in selecting functional strategies becomes: How can we best use resources to implement our business strategy? Answers to this question typically involve the choice of progressive management and organizational practices that improve operating efficiency, product or service quality, customer service or innovativeness.

Growth and diversification strategies
Traditionally one of the most common and popular of the grand or master strategies pursued by organizations at the corporate or business levels is growth. **Growth strategies** pursue an increase in size and the expansion of current operations. They are popular in part because growth is viewed as necessary for long-term survival in some industries.

One approach to growth is through **concentration**, where expansion is within the same business area. Another approach to growth is through **diversification**, where expansion takes place through the acquisition of, or investment in, new and sometimes different business areas. A strategy of *related diversification* involves growth by acquiring new businesses or entering business areas that are related to what the organisation already does. This strategy seeks the advantages of growth in areas that use core competencies and existing skills. A corporate strategy of *unrelated diversification* involves growth by acquiring businesses or entering business areas that are different from what the organisation already does. Occasionally, a company will invest in a market that is completely unrelated to its current operations.

Diversification can also take the form of **vertical integration**, where a business seeks added value creation by acquiring suppliers (*backwards vertical integration*) or distributors (*forwards vertical integration*). In the car making industry, backwards vertical integration has been common as firms purchased suppliers of key parts to ensure quality and control over their availability. In beverages, both Coca Cola and PepsiCo have pursued forward vertical integration by purchasing some of their major bottlers.

There is a tendency to equate growth with effectiveness, but that is not necessarily true. Any growth strategy, whether by concentration or some form of diversification, must be well planned and well managed to achieve the desired results. Increased size of operation in any form adds challenge to the management process. Diversification, in particular, brings the difficulties of complexity and the need to manage and integrate very dissimilar operations. Research indicates that business performance may decline with too much unrelated diversification.

Restructuring and divestiture strategies
When organisations experience performance problems, perhaps due to unsuccessful diversification, retrenchment of some sort often takes place. The most extreme **retrenchment strategy** is *liquidation*, when operations cease, owing to the complete sale of assets or the declaration of bankruptcy. Less extreme but still of potential dramatic performance impact is **restructuring**. This changes the scale and/ or mix of operations in order to gain efficiency and improve performance. The decision to restructure can be difficult for managers to make because, at least on the surface, it seems to be an admission of failure. But in today’s era of challenging economic conditions and environmental uncertainty, restructuring is used frequently and with new respect.

Restructuring is sometimes accomplished by **downsizing**, which decreases the size of operations with the intention of becoming more streamlined. The expected benefits are reduced costs and improved operating efficiency. A common way to downsize is to cut the size of the workforce. Research has shown that such downsizing is most successful when the workforce is reduced in a way that allows for better focusing of resources on key performance objectives. Retrenchment with a strategic focus is sometimes referred to as *rightsizing*. This contrasts with the less well regarded approach of simply cutting staff ‘across the board’.

Restructuring by **divestiture** involves selling off parts of the organisation to refocus on core competencies, cut costs and improve operating efficiency. This is a common strategy for organisations that find they have become overdiversified and are encountering problems managing the complexity of diverse operations. It is also a way for organisations to take advantage of the value of internal assets by 'spinning off' or selling to shareholders a component that can stand on its own as an independent business.

Cooperation in business strategies

In recent years increasing globalisation and regionalisation of markets has led to the dramatic growth of cross border cooperation between companies. The steady reduction of trade barriers has been accompanied by considerable economic turbulence and uncertainty in world markets, and the spread of a high degree of trade liberalisation in most countries of the world. A major response to this has been the growth of **strategic alliances** and other forms of cooperative strategy between companies, particularly in technology and marketing. For Porter and Fuller, the basic motivation for an alliance is that: 'Coalitions that arise when performing a value chain activity with a partner are superior to any other way . . . Coalitions can be a valuable tool in many aspects of global strategy, and the ability to exploit them will be an important source of international advantage.'

International joint ventures are common form of international business; they constitute one among many forms of strategic alliance. For example, in the airline industry most companies have entered into some form of strategic marketing alliance. (Airvistara).

Another way to cooperate strategically is through outsourcing alliances — contracting to purchase important services from another organisation. Many organisations are outsourcing their payroll, recruitment, information technology and security functions to specialised companies. This is often driven by a combination of motives — the desire to reduce costs and to gain access to expertise that does not exist within the company. Supplier alliances, in which preferred supplier relationships ensure a smooth and timely flow of supplies among alliance partners, stem from cooperation in the supply chain. For example, car manufacturers such as General Motors and Ford relied on multisourcing during much of the 20th century, but in the 1980s began to develop supplier alliances which were necessary for their just-in-time (JIT) production systems and to guarantee improved component quality. Distribution alliances are another cooperative approach. These involve organisations joining together to accomplish product or service sales and distribution. For example, Telstra in Australia and Cisco Systems in the United States have an alliance to jointly market internet services to business customers.

E‐business strategies

e‐business strategy is the strategic use of the internet to gain competitive advantage. Popular e-business strategies involve B2B (business-to-business) and B2C (business-to-customer) applications. *B2B business strategies* involve the use of IT and the internet to vertically link organisations with members of their supply chains. One of the interesting developments in this area involves the use of online auctions as a replacement for preferred supplier relationships and outsourcing alliances. Organisations can now go to the internet to participate in auction bidding for supplies of many types. Whether small or large in size they immediately have access to potential suppliers competing for their attention from around the world.

B2C business strategies use IT and the internet to link organisations with their customers. A common B2C strategy is e-tailing; that is, the sale of goods directly to customers via the internet.

For some organisations, e-tailing is all that they do; these are ‘new economy’ organisations and the business strategy is focused entirely on internet sales — examples include Amazon.com, priceline. com and Dell.com. For others who are part of the traditional or ‘old economy’, e-tailing has been added as a component in their business strategy mix.

4.5 Strategy formulation

Michael Porter says: ‘The company without a strategy is willing to try anything’. With a good strategy in place, the resources of the entire organisation can be focused on the overall goal — superior profitability or above-average returns. Whether building e-business strategies for the new economy or crafting strategies for more traditional operations, it is always important to remember this goal and the need for **sustainable competitive advantage**. The major *opportunities for competitive advantage* are found in the following areas:

i. *cost and quality* — where strategy drives an emphasis on operating efficiency and/or product or service quality
ii. *knowledge and speed* — where strategy drives an emphasis on innovation and speed of delivery to market for new ideas
iii. *barriers to entry* — where strategy drives an emphasis on creating a market stronghold that is protected from entry by others
iv. *financial resources* — where strategy drives an emphasis on investments and/or loss sustainment that competitors can’t match.

Importantly, any advantage gained in today’s global and information-age economy of intense competition must always be considered temporary, at best. Things change too fast. Any advantage of the moment will sooner or later be eroded as new market demands, copycat strategies and innovations by rivals take their competitive toll over time. The challenge of achieving sustainable competitive advantage is thus a dynamic one. Strategies must be continually revisited, modified and changed if the organisation is to keep pace with changing circumstances. Formulating strategy to provide overall direction for the organisation thus becomes an on-going leadership responsibility. Fortunately, a number of strategic planning models or approaches are available to help executives in the strategy formulation process. At the business level, one should understand Porter’s generic strategies model and product lifecycle planning. At the corporate level, it is helpful to understand portfolio planning, adaptive strategies and incrementalism and emergent strategies.

Porters generic strategies

Michael Porter’s five forces model for industry analysis was introduced earlier. Use of the model helps answer the question: Is this an attractive industry for us to compete in? Within an industry, however, the initial strategic challenge becomes positioning your organisation and products relative to competitors. The strategic question becomes: How can we best compete for customers in this industry? Porter advises managers to answer this question by using his generic strategies framework shown in figure.

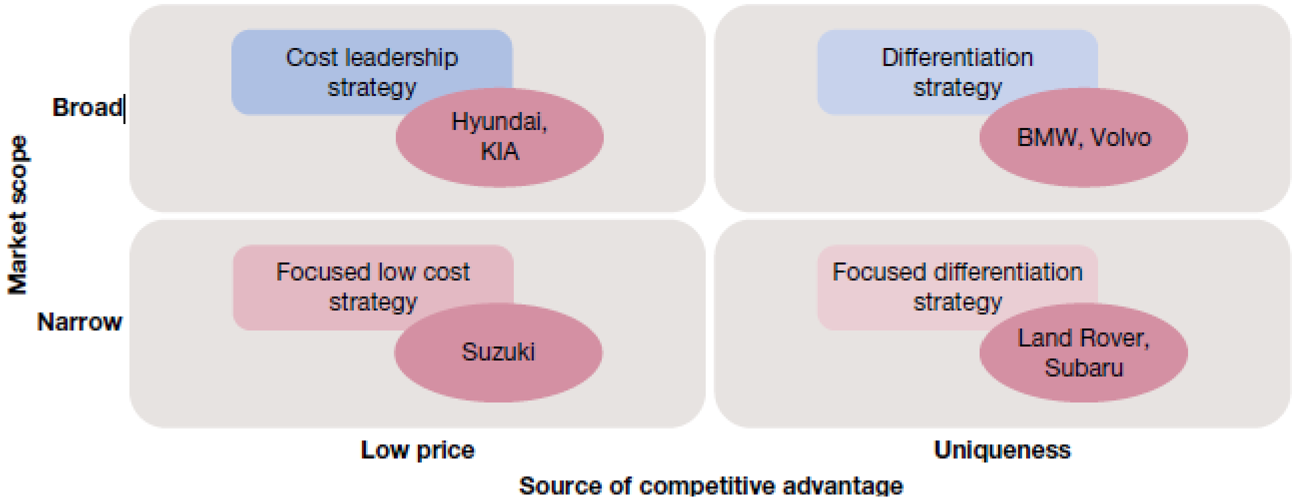

Fig 4.5.1 Porter's generic strategies framework: motor vehicle industry examples

According to Porter, business-level strategic decisions are driven by two basic factors: (1) *market scope* and (2) *source of competitive advantage* — ask: 'How will you compete for competitive advantage, by lower price or product uniqueness?' . These factors combine to create the following four generic strategies that organisations can pursue. The examples in the figure are of competitive positions within the motor vehicle industry:

i. *differentiation* — where the organisation's resources and attention are directed towards distinguishing its products from those of the competition (e.g. BMW, Volvo)

ii. *cost leadership* — where the organisation's resources and attention are directed towards minimising costs to operate more efficiently than the competition (e.g. Hyundai, KIA)

iii. *focused differentiation* — where the organisation concentrates on one special market segment and tries to offer customers in that segment a unique product (e.g. Land Rover, Subaru)

iv. *focused cost leadership* — where the organisation concentrates on one special market segment and tries in that segment to be the provider with lowest costs (e.g. Suzuki)

Organisations pursuing a **differentiation strategy** seek competitive advantage through uniqueness. They try to develop goods and services that are clearly different from those made available by the competition. The objective is to attract customers who become loyal to the organisation's products and lose interest in those of competitors. This strategy requires organisational strengths in marketing, research and development, technological leadership and creativity. It is highly dependent for its success on continuing customer perceptions of product quality and uniqueness.

Organisations pursuing a **cost leadership strategy** try to continuously improve the operating efficiencies of production, distribution and other organisational systems. The objective is to have lower costs than competitors and therefore achieve higher profits. This requires tight cost and managerial controls as well as products that are easy to manufacture and distribute. Of course, quality must not be sacrificed in the process. In fast food, McDonald's remains the most cost-effective operation of its type through preferential bulk-purchasing agreements with suppliers, de-skilled and often automated in-house operations, and large customer volume providing economies of scale. It also uses one of the youngest and least expensive labour forces. It pays the minimum wage and keeps most staff on part-time or casual employment, thereby escaping government requirements to pay superannuation and other statutory fulltime entitlements.

Organisations pursuing a **focused differentiation strategy** or a **focused cost leadership strategy** concentrate attention on a special market segment with the objective of serving its needs better than anyone else. The strategies focus organisational resources and expertise on a particular customer group, geographical region or product or service line. They seek to gain competitive advantage in product differentiation or cost leadership. Importantly, focused strategies require willingness to concentrate and the ability to use resources to special advantage in a single area.

Product life cycle planning

Another way to consider the dynamic nature of business strategy formulation is in terms of **product life cycle**. This is a series of stages a product or service goes through in the 'life' of its marketability. In terms of planning, different business strategies are needed to support products in the lifecycle stages of *new product development, introduction, growth, maturity* and *decline*. Products in the new product development, introduction and growth stages lend themselves to differentiation strategies. They require investments in market research, product development and advertising in order to establish a product, market presence and customer base. In the maturity stage, the emphasis shifts towards keeping customers and gaining production efficiencies. This may involve focused and an attempt at cost leadership.

These strategies may hold initially as the product moves into decline. But at some point, strategic planners must seek new ways to extend product life. Understanding product life cycles and adjusting strategy accordingly is an important business skill. Especially in dynamic times, managers need to recognise when a product life cycle is maturing. They should have contingency plans for dealing with potential decline, and they should be developing alternative products with growth potential. Consider what happened at IBM, an organisation that dominated the market for large mainframe computers for years. As customers began to use more powerful and smaller PCs, the mainframe became less important to their operating systems. When the mobile phone industry was starting to use new digital technologies, Motorola continued to emphasise its successful, but older, analogue products. Both IBM's and Motorola's top managers failed to properly consider industry trends. Their companies lost momentum against very aggressive competitors such as Hewlett-Packard, Compaq and Dell in the computer industry and Nokia and Ericsson and in the mobile phone industry.

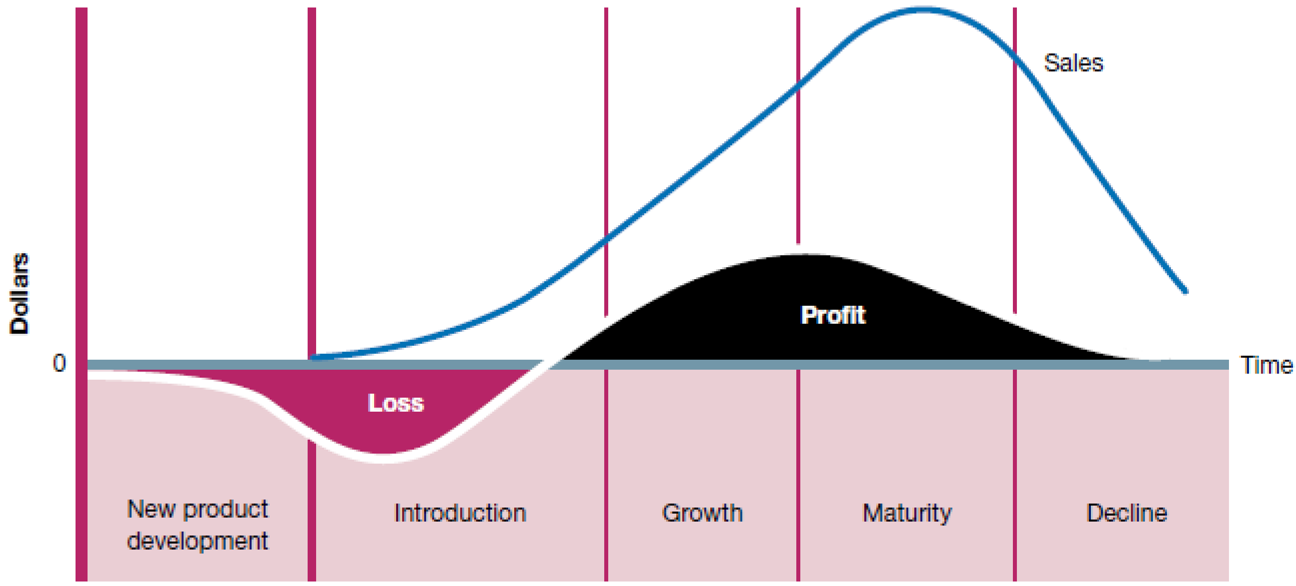

Fig 4.5.2 The product life cycle

Portfolio planning

In a single-product or single-business organisation the strategic context is one industry. Corporate strategy and business strategy are the same, and resources are allocated on that basis. When organisations move into different industries, resulting in multiple product or service offerings, they become internally more complex and often larger in size. This makes resource allocation a more challenging strategic management task, since the mix of businesses must be well managed. The strategy problem is similar to that faced by an individual with limited money who must choose between alternative shares, bonds and real estate in a personal investment portfolio. In multi-business situations, strategy formulation also involves **portfolio planning** to allocate scarce resources among competing uses.

BCG matrix

One of the approaches to business portfolio planning is developed by the Boston Consulting Group and known as the **BCG matrix**. This framework ties strategy formulation to an analysis of business opportunities according to industry or market growth rate and market share. This comparison results in the following four possible business conditions, with each being associated with a strategic implication: *stars* —high market share, high-growth businesses; *cash cows* — high market share, low-growth businesses; *questionmarks* — low market share, high-growth businesses; and *dogs* — low market share, low-growth businesses *Stars* are high market share businesses in high-growth markets. They produce large profits through substantial penetration of expanding markets. The preferred strategy for stars is growth, and further resource investments in them are recommended. *Question marks* are low market share businesses in high-growth markets. They do not produce much profit but compete in rapidly growing markets. They are the source of difficult strategic decisions. The preferred strategy is growth, but the risk exists that further investments will not result in improved market share. Only the most promising question marks should be targeted for growth; others are restructuring or divestiture candidates. *Cash cows* are high market share businesses in low-growth markets. They produce large profits and a strong cash flow. Because the markets offer little growth opportunity, the preferred strategy is stability or modest growth. 'Cows' should be 'milked' to generate cash that can be used to support needed investments in stars and question marks. *Dogs* are low market share businesses in low-growth markets. They do not produce much profit, and they show little potential for future improvement. The preferred strategy for dogs is retrenchment by divestiture.

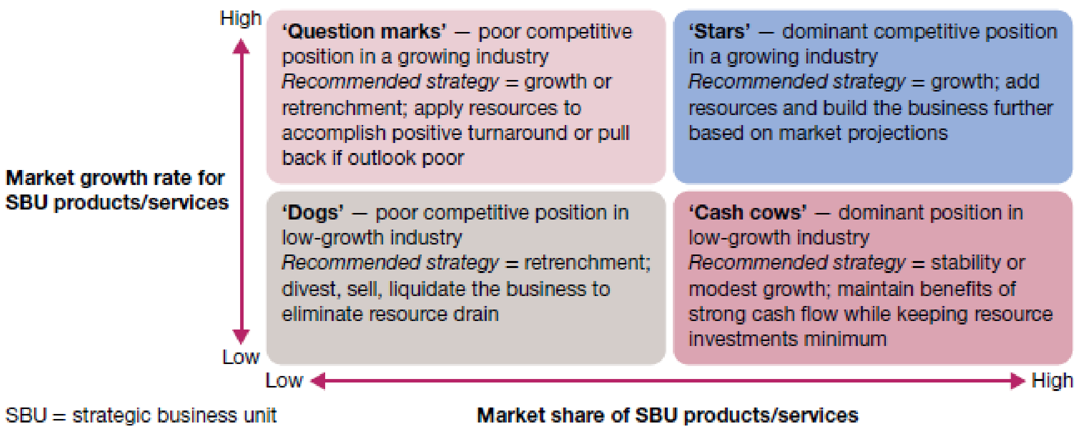

Fig 4.5.3 The BCG matrix approach to corporate strategy formulation

Adaptive strategies

The Miles and Snow adaptive model of strategy formulation suggests that organisations should pursue product/market strategies congruent with their external environments. A well-chosen strategy, in this sense, allows an organisation to successfully adapt to environmental challenges. The *prospector strategy* involves pursuing innovation and new opportunities in the face of risk and with prospects for growth. This is best suited to a dynamic and high-potential environment. A prospector 'leads' an industry by using existing technology to new advantage and creating new products to which competitors must respond. This contrasts with a *defender strategy*, in which an organisation avoids change by emphasising existing products and current market share without seeking growth. Defence as a strategy is suited only for a stable environment and perhaps declining industries. Defenders, as do many small local retailers, try to maintain their operating domains with only slight changes over time. As a result, many suffer long-term decline in the face of competition. The *analyser strategy* seeks to maintain the stability of a core business while exploring selective opportunities for innovation and change. This strategy lies between the prospector and reactor strategies. It is a 'follow-the-leader-when-things-look-good' approach. Many of the 'clone' makers in the personal computer industry are analysers; that is, they wait to see what the industry leaders do and how well it works out before modifying their own operations. Organisations pursuing a *reactor strategy* are mainly responding to competitive pressures in order to survive. This is a 'follow-as-last-resort' approach. Reactors do not have long-term and coherent strategies. Some public utilities and other organisations operating under government regulation may use this strategy to some extent.

Incrementalism and emergent strategy

Not all strategies are clearly formulated at one point in time and then implemented step by step. Not all strategies are created in systematic and deliberate fashion and then implemented as dramatic changes in direction. Instead, strategies sometimes take shape, change and develop over time as modest adjustments to past patterns. James Brian Quinn calls this a process of *incrementalism*, whereby modest and incremental changes in strategy occur as managers learn from experience and make adjustments. This approach has much in common with Henry Mintzberg's and John Kotter's descriptions of managerial behaviour.They view managers as planning and acting in complex interpersonal networks and in hectic, fast-paced work settings. Given these challenges, effective managers must have the capacity to stay focused on long-term objectives while still remaining flexible enough to master short-term problems and opportunities as they occur. Such reasoning has led Mintzberg to identify what he calls **emergent strategies**. These are strategies that develop progressively over time as 'streams' of decisions made by managers as they learn from and respond to work situations. There is an important element of 'craftsmanship' here that Mintzberg worries may be overlooked by managers who choose and discard strategies in rapid succession while using the formal planning models. He also believes that incremental or emergent strategic planning allows managers and organisations to become really good at implementing strategies, not just formulating them.

4.6 Strategy implementation

No strategy, no matter how well formulated, can achieve longer term success if it is not properly implemented. This includes the willingness to exercise control and make modifications as required to meet the needs of changing conditions. More specifically, current issues in strategy implementation include re-emphasis on excellence in all management systems and practices, the responsibilities of corporate governance, and the importance of strategic leadership.

Management practices and systems

The rest of *Management* is all about strategy implementation. In order to successfully put strategies into action the entire organisation and all its resources must be mobilised in support of them. This, in effect, involves the complete management process from planning and controlling through organising and leading. No matter how well or elegantly selected, a strategy requires supporting structures, the right technology, a good allocation of tasks and workflow designs, and the right people to staff all aspects of operations. The strategy needs to be enthusiastically supported by leaders who are capable of motivating everyone, building individual performance commitments, and using teams and teamwork to best advantage. And the strategy needs to be well and continually communicated to all relevant persons and parties. Only with such total systems support can strategies succeed in today's environments of change and innovation.

Common strategic planning pitfalls that can hinder implementation include both failures of substance and failures of process. *Failures of substance* reflect inadequate attention to the major strategic planning elements — analysis of mission and purpose, core values and corporate culture, organisational strengths and weaknesses, and environmental opportunities and threats. *Failures of process* reflect poor handling of the ways in which the various aspects of strategic planning were accomplished. An important process failure is the *lack of participation error*. This is failure to include key people in the strategic planning effort. As a result, their lack of commitment to all-important action follow-through may severely hurt strategy implementation. Process failure also occurs with too much centralisation of planning in top management or too much delegation of planning activities to staff planners or separate planning departments. Another process failure is the tendency to get so bogged down in details that the planning process becomes an end in itself instead of a means to an end. This is sometimes called 'goal displacement'.

Recent research on strategy implementation has identified that information flow and decision rights are two of the most important drivers in strategy execution.75 Clarification on what decisions and actions each person in the organisation is responsible for is one of the most important factors in strategy implementation. Also, in terms of decision rights, once decisions are made they should only rarely be second-guessed, as second-guessing tends to slow down implementation. In terms of information flow, information about the competitive environment must flow to headquarters quickly and information must flow freely across organisational boundaries.

Corporate governance

Organisations today are experiencing new pressures at the level of **corporate governance**, especially since the spate of high-profile corporate collapses in the past decade. Corporate governance is the system of control and performance monitoring of top management that is maintained by boards of directors and other major stakeholder representatives. In businesses, for example, corporate governance is enacted by boards, institutional investors in a company's assets, and other ownership interests. Each in its own way is a point of accountability for top management.

The trend towards strategic alliances within and between industries raises new issues for corporate governance. Boards of directors are formally charged with ensuring that an organisation operates in the best interests of its owners and/or the representative public in the case of not-for-profit organisations. Controversies often arise over the role of *inside directors*, who are chosen from the senior management of the organisation, and *outside directors*, who are chosen from other organisations and positions external to the organisation. In the past, corporate boards may have been viewed as largely endorsing or confirming the strategic initiatives of top management. Today they are increasingly expected to exercise control and take active roles in ensuring that the strategic management of an enterprise is successful. If anything, the current trend is towards greater emphasis on the responsibilities of corporate governance. Top managers probably feel more accountable for performance than ever before to boards of directors and other stakeholder interest groups. Furthermore, this accountability relates not only to financial performance but also to broader social responsibility concerns.

Strategic leadership

Strategic management is a leadership responsibility. Effective strategy implementation and control depends on the full commitment of all managers to supporting and leading strategic initiatives within their areas of supervisory responsibility. To successfully put strategies into action, the entire organisation and all its resources must be mobilised in support of them. In our dynamic and often uncertain environment, the premium is on **strategic leadership** — the capability to enthuse people to successfully engage in a process of continuous change, performance enhancement and implementation of organisational strategies.

Porter argues that the managing director or CEO of an organisation has to be the chief strategist, someone who provides strategic leadership.80 He describes the task in the following way: a strategic leader has to be the *guardian of trade-offs*. It is the leader's job to make sure that the organisation's resources are allocated in ways consistent with the strategy. This requires the discipline to sort through many competing ideas and alternatives to stay on course and not get sidetracked. A strategic leader also needs to *create a sense of urgency*, not allowing the organisation and its members to grow slow and complacent. Even when doing well, the leader keeps the focus on getting better and being alert to conditions that require adjustments to the strategy. A strategic leader needs to *make sure that everyone understands the strategy*. Unless strategies are understood, the daily tasks and contributions of people lose context and purpose. Everyone might work very hard, but without alignment to strategy the impact is dispersed rather than advancing in a common direction to accomplish the goals. Importantly, a strategic leader must *be a teacher*. It is the leader's job to teach the strategy and make it a 'cause', says Porter. In order for strategy to work it must become an ever present commitment throughout the organisation. People must understand the strategy that makes their organisation different from others. This means that a strategic leader must *be a great communicator*.

Finally, it is important to note that the challenges faced by organisations today are so complex that it is often difficult for one individual to fulfil all strategic leadership needs. Strategic management in large firms is increasingly viewed as a team leadership responsibility. It takes hard work and special circumstances to create a real team — at the top or anywhere else in the organisation. Top management teams must work up to their full potential in order to bring the full advantages of teamwork to strategic leadership.

Management Principles for Engineers

Lecture Notes

Compiled By:

Career Development Centre
SRM IST

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UNIT V

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5.1 People Managment

People management, also known as human resource management (HRM), encompasses the tasks of recruitment, management, and providing ongoing support and direction for the employees of an organization. These tasks can include the following: compensation, hiring, performance management, organization development, safety, wellness, benefits, employee motivation, communication, administration, and training.

5.1.1 Diversity and the importance of people

With flattening structures within organisations proving to be more effective than the traditional hierarchical structures, the use of teams has grown. Incorporating the concepts of self-directed teams, traditional teams or cross-functional teams, the ability to work in teams is essential. The focus on strategic achievement means that the image of HR needs to move from a cost centre to an investment centre. Accountability through scorecard targets is the norm in most organisations, with emphasis on ensuring that employees are well trained, skilled and engaged to deliver the highest productivity. Many organisations have seen devolution of HR processes to line managers, with the productivity improvement within the teams. HR needs to ensure this targeted group is fully supported. This means that HR policies must be in place to ensure that there is no detraction from the highest possible productivity through negative influences such as bullying, discrimination or the lack of value for diversity in the workplace.

Why people make the difference

Even with the guidance of the best strategies and supported by the best designs, an organisation must be well staffed with capable and committed people if it is to fully achieve its objectives. There is strong connection between how firms manage their people and the economic results achieved, organisations perform better when they treat their members better. The management practices associated with successful organisations are employment security, decentralisation, use of teams, good remuneration, extensive training and information sharing. Too many organisations fail to operate in this manner, are referred as ‘toxic workplaces’ that treat their employees poorly. Researchs show a positive relationship between HR policies and organisational performance, stating: ‘human resources are key to organizational success or failure’. Initial decisions on HR policies and practices have long term impact on company performance. Founders showing strong and early commitments to a positive HR philosophy are able to operate in the future with fewer managers and with greater reliance on self-management by their employees. Focus on people is good for business. Organisational policies that link employee remuneration with individual and organisational performance are on the rise, as are policies that provide flexibility in working hours and the design of jobs. Performance management systems have also grown in popularity. Many organisations use performance appraisals to evaluate past performance and to determine the training and development needs of their employees, while many use appraisals to align individual and corporate objectives.

The use of high-quality HR practices experienced steep increase in their share price over the years. HRM is taking on higher significance because of the effects of the ageing population, the shrinking executive talent pool and the steady fall in the retirement age for many in the workforce. Companies are increasingly looking for the best staff at the same time that the pool of top-quality people shrinks due to these kinds of factors.

The diversity advantage

Diversity is linked with competitive advantage. It brings to problem-solving and strategy formulation an array of talents, perspectives, experiences and worldviews that broaden any organisation's repertoire of skills and capabilities. That's one side of the diversity story — finding the best talent available. The other side of the story is tapping it — finding ways to allow diversity to work its advantages to help create high-performing organisations.

Job-relevant talent is not restricted because of anyone's race, gender, religion, marital or parental status, ethnicity or other diversity characteristics. Organisation should not let these characteristics interfere with finding, hiring and developing the best job talents available. They must place a primacy on people with the talent and desire to do good work. While cultural and gender diversity have received significant attention in the literature, little attention has been paid to the impact of age diversity on HRM practices

HRM

The process of **human resource management (HRM)** involves attracting, developing and maintaining a talented and energetic workforce to support the organisation's mission, objectives and strategies. In order for strategies to be well implemented, workers with relevant skills and enthusiasm are needed. A key task of HRM is to make them available.

Employment discrimination

Discrimination involves 'making a distinction between individuals or groups so as to advantage some and disadvantage others'. Employers specifically and managers generally must take care in their HRM practices not to discriminate between people on the basis of characteristics such as age, disability, marital status, ethnicity, family responsibilities, social origin.

The HRM process

The HRM process involves attracting, developing and maintaining a quality workforce. The first responsibility of *attracting a quality workforce* includes HR planning, recruitment and selection. The second responsibility of *developing a quality workforce* includes employee orientation, training and development, and career planning and development. The third responsibility of *maintaining a quality workforce* includes management of employee retention and turnover, performance appraisal and remuneration and benefits.

Strategic HRM

Any organisation should at all times have the right people available to do the work required to achieve and sustain competitive advantage. **Strategic HRM** applies the HRM process to ensure the effective accomplishment of the organisation's mission. Strategic HRM mobilises human resources to implement strategies and sustain competitive advantage. This requires a top-level commitment to **HR planning**, a process of analysing staffing needs and planning how to satisfy these needs in a way that best serves the organisation's mission, objectives and strategies.

The major elements in strategic human resource planning are shown in figure. The process begins with a review of the organisation's mission, objectives and strategies. This establishes a frame of reference for forecasting HR needs and labour supplies, both within and outside the organisation. Ultimately, the planning process should help managers identify staffing requirements, assess the existing workforce, and determine what additions and/or replacements are required to meet future needs.

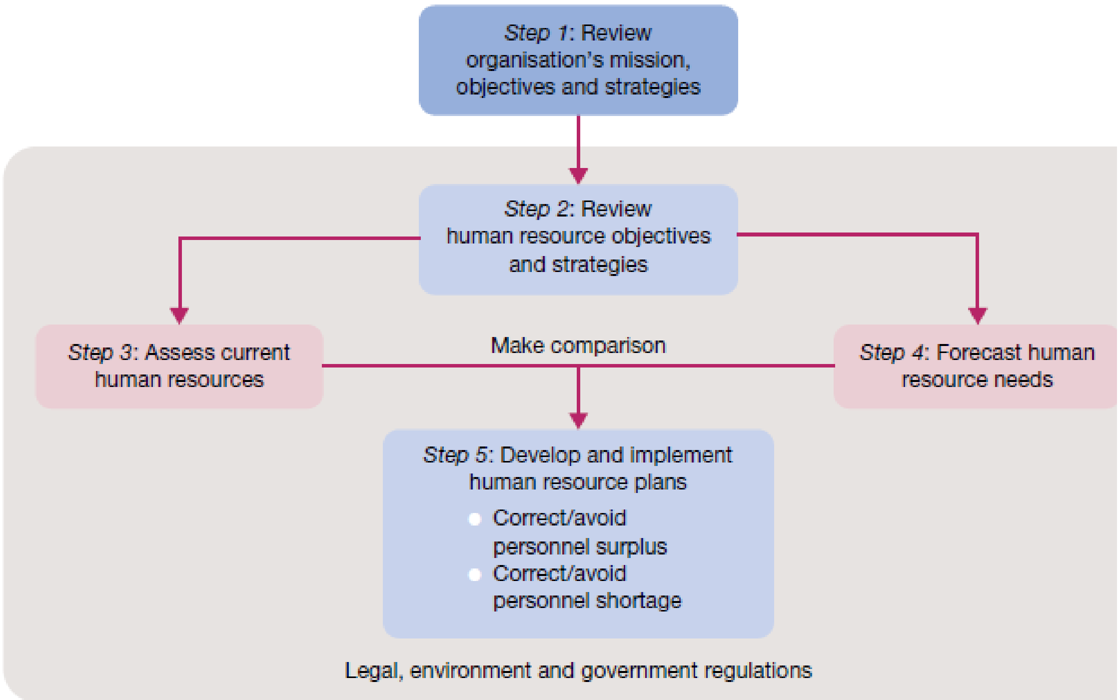


Fig 5.1.1 Steps in strategic HR planning

The foundations for HR planning are set by **job analysis** — the orderly study of job facts to determine just what is done, when, where, how, why, and by whom in existing or potential new jobs. The job analysis provides useful information that can then be used to write and/or update a **job description**. This is a written statement of job duties and responsibilities. The information in a job analysis can also be used to create a **job specification** that lists the qualifications — such as education, previous experience and skill requirements — needed by any person hired for or placed in a given job.

5.2 Attracting a quality workforce

With a HR plan prepared, the process of attracting a quality workforce begins. An advertisement once run by the Motorola Corporation identified the goal this way: 'Productivity is learning how to hire the person who is right for the job'. To attract the right people to its workforce, an organisation must first know exactly what it is looking for — it must have a clear understanding of the jobs to be done and the talents required to do them well. Then it must have the systems in place to excel at employee recruitment and selection.

The recruiting process

Recruitment is a set of activities designed to attract a *qualified* pool of job applicants to an organisation. Emphasis on the word 'qualified' is important. Effective recruiting should bring employment opportunities to the attention of people whose abilities and skills meet job specifications. The three steps in a typical recruitment process are advertising a job vacancy, preliminary contact with potential job candidates and initial screening to create a pool of qualified applicants. In university recruiting, for example, advertising is done by the company posting short job descriptions in print or online through a careers resource or campus placement centre and/or in the student newspaper. Preliminary contact is made after candidates register for interviews with company recruiters on campus. This typically involves a short 20- to 30-minute interview, during which the candidate presents a written résumé and briefly explains his or her job qualifications. As part of the initial screening, the recruiter shares interview results and résumés from the campus visits with appropriate line managers. Decisions are then made about who to include in the final pool of candidates to be invited for further interviews during a formal visit to the organisation. Given that both the shortage of skilled people in some sectors and an ageing workforce are creating greater competition for the best people, recruiting has become a crucial HRM process for organisations seeking to retain or build their competitive advantage.

External and internal recruitment

External recruitment, in which job candidates are sought from outside the hiring organisation. Specialist websites such as naukri (www.naukri.com), newspapers, employment agencies, universities, personal contacts, walk-ins, employee referrals and even people in competing organisations are all sources of external recruits. Competition is especially tough in the very tight labour markets characteristic of the contemporary economy.

Internal recruitment seeks applicants from inside the organisation. Most organisations have a procedure for announcing vacancies through newsletters, electronic bulletin boards and the like. They also rely on managers to recommend subordinates as candidates for advancement. Internal recruitment creates opportunities for long-term career paths. Both recruitment strategies offer potential advantages and disadvantages. External recruiting brings in outsiders with fresh perspectives. It also provides access to specialised expertise or work experience not otherwise available from insiders. Internal recruitment is usually less expensive. It also deals with people whose performance records are well established. A history of serious internal recruitment can also be encouraging to employees. It builds loyalty and motivation, showing that you can advance in the organisation by working hard and achieving high performance at each point of responsibility.

Realistic job previews

Realistic job previews that give the candidate *all* pertinent information about the job and organisation without distortion and before the job is accepted. Instead of 'selling' only positive features of a job, this approach tries to be realistic and balanced in the information provided. It tries to be fair in depicting actual job and organisational features, both favourable and unfavourable, the candidate gets a more complete and balanced view of the future employment possibility. This helps to establish more 'realistic' job expectations when starting work as a new employee.

With expectations being more realistic, the individual is better prepared to handle the 'ups and downs' of a new job. A better perspective on the employment relationship, higher levels of early job satisfaction, and less inclination to quit prematurely are among the benefits of this interview approach. In recruiting the best staff, providing realistic job previews may provide a competitive edge. Rather than having questions about the future direction of the organisation, many job seekers are far more interested in finding out about the colleagues with whom they will work, the culture of the company, and even the location of the desk at which they will work. In a competitive job market, like that for the best accounting graduates, providing realistic job previews can be a key means of attracting the best people and minimising any concerns they may have before starting a job.

Making selection decisions

The process of **selection** involves choosing from a pool of applicants the person or persons who offer the greatest performance potential. Steps in a typical selection process are shown in figure. They are completion of a formal application form, interviewing, testing, reference checks, physical examination and final analysis and decision to hire or reject. As with all aspects of the HRM process, the best employers exercise extreme care in making selection decisions.

In using any selection devices, including such testing, it is important to know that they meet the important criteria of reliability and validity. Reliability means that the device is consistent in measurement; it returns the same results time after time. Validity means that there is a demonstrable relationship between a person's score or rating on a selection device and eventual job performance. In simple terms, validity means that a good score really does predict good performance.

Application forms

The application form declares the individual to be a formal candidate for a job. It documents the applicant's personal history and qualifications. The personal résumé is often included with the job application. This important document should accurately summarise an applicant's special qualifications. Importantly, the application should request only information that is directly relevant to the job and the applicant's potential job success.

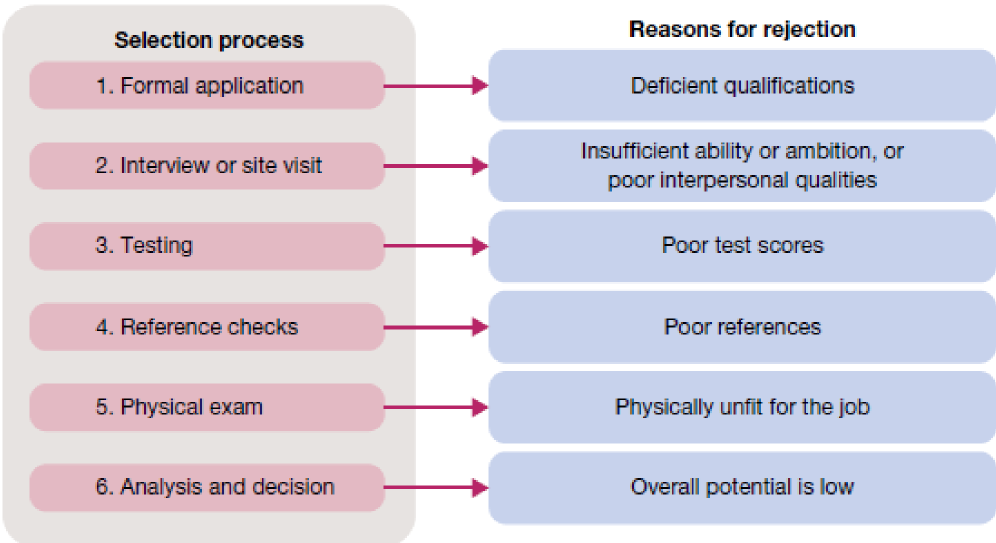


Fig 5.2.1 Steps in the selection process: the case of a rejected job applicant

Interviews
Interviews are extremely important in the selection process because of the information exchange they allow. It is a time when both the job applicant and potential employer can learn a lot about one another. However, interviews are also recognised as potential stumbling blocks in the selection process. The interviewer should not fall prey to personal biases and makes a judgement that fails to fullyconsider the applicant's capabilities. Behavioural interview questions are becoming increasingly popular in many job interviews. Through such questions, applicants are invited to reflect on their own previous work and life experiences. Candidates might be asked to cite a time when they performed well under pressure or dealt effectively with a difficult customer or colleague, for example.

Employment tests
Testing is often used in the screening of job applicants. Some common employment tests are designed to identify intelligence, aptitudes, personality and interests; others ask the applicant to indicate how he or she would respond to a series of job-relevant situations. Some corporations using psychological tests. Whatever test is used, however, the goal should be to gather information that will help predict the applicant's eventual performance success. An employment test should meet the criteria of *reliability* and *validity*, and should be legally defensible on the grounds that it actually measures an ability required to perform the job. New developments in testing extend the process into actual demonstrations of job-relevant skills and personal characteristics. An **assessment centre** evaluates a person's potential by observing his or her performance in activities designed to simulate daily work, such as interviews, group discussions, inbasket exercises, psychological tests and business games.

Reference and background checks
Reference checks are inquiries to previous employers, academic advisers, co-workers and/or acquaintances regarding the qualifications, experience and past work records of a job applicant. Although they may be biased if friends are prearranged 'to say the right things if called', reference checks can be helpful in revealing important information not discovered elsewhere in the selection process. Some job candidates lie during job interviews. Lying is particularly common when candidates talk about their hobbies, past salaries or skills.

References given by a job applicant can also add credibility to an application if they include a legitimate and even prestigious list of persons. An organisation that does not disclose negative information about ex-employees may be held responsible for economic losses suffered by another organisation that relied on this information when employing a new staff member. For this reason, references are becoming a less reliable source of information about potential employees as increasing numbers of employers provide only the bare minimum of information about departing staff. Some companies outsource reference checking to specialised providers in order to ensure that the most value is extracted from this process.

Physical examinations
Many organisations ask job applicants to take a physical examination. This health check helps ensure that the person is physically capable of fulfilling job requirements. It may also be used as a basis for enrolling the applicant in health-related fringe benefits such as life, health and disability insurance programs. At a minimum, care must be exercised that any required test is job relevant and does not discriminate in any way against the applicant.

Final decisions to hire or reject
The best selection decisions are most likely to be those involving extensive consultation among the manager or team leader, potential co-workers and HR staff. Importantly, the emphasis in selection must always be comprehensive and focus on all aspects of the person's capacity to perform in a given job. After all, the selection decision poses major consequences for organisational performance and for the internal environment or work climate. Just as a 'good fit' can produce long-term advantage, a 'bad fit' can be the source of many (and perhaps long-term) problems.

5.3 Developing a quality workforce

When people join an organisation, they must 'learn the ropes' and become familiar with the way things are done. It is important that newcomers are helped to fit into the work environment in a way that furthers their development and performance potential. **Socialisation** is the process of influencing the expectations, behaviour and attitudes of a new employee in a way considered desirable by the organisation. The intent of socialisation in HRM is to help achieve the best possible fit between the individual, the job and the organisation.

Employee orientation
Socialisation of newcomers begins with **orientation** — a set of activities designed to familiarise new employees with their jobs, co-workers and key aspects of the organisation as a whole. This includes clarifying the mission and culture, explaining operating objectives and job expectations, communicating policies and procedures, and identifying key personnel.

The first six months of employment are often crucial in determining how well someone will perform over the long term. It is a time when the original expectations are tested, and patterns are set for future relationships between an individual and employer. Unfortunately, orientation is sometimes neglected and newcomers are often left to fend for themselves. They may learn job and organisational routines on their own or through casual interactions with co-workers, and they may acquire job attitudes the same way. The result is that otherwise well-intentioned and capable persons may learn inappropriate attitudes and/or behaviours. Good orientation, on the other hand, enhances a person's understanding of the organisation and adds purpose to his or her daily job activities. Increased performance, greater job satisfaction and greater work commitment are the desired results. Orientation is particularly important for employees being sent on international assignments.

Training and development
Training is a set of activities that provide the opportunity to acquire and improve job-related skills. This applies both to the initial training of an employee and to upgrading or improving someone's skills to meet changing job requirements. A major concern of employers is the lack of educational preparation of some workers for jobs, often high technology jobs, in the new workplace. These concerns even extend to the basic skills of reading, writing and arithmetic, as well as to computer skills. Progressive organisations offer extensive training programs to ensure that their workers always have the skills and computer literacy needed to perform well.

On the job training
On-the-job training takes place in the work setting while someone is doing a job. A common approach is job rotation that allows people to spend time working in different jobs to expand

the range of their job capabilities. Another is **coaching**, in which an experienced person provides performance advice to someone else. One form of coaching is **mentoring**, in which employees at the early stages of their careers are formally assigned as protégés of senior people. The mentoring relationship gives them regular access to advice on developing skills and getting a good start in their careers. An informal type of coaching involves **modelling**. This occurs when someone demonstrates through day-to-day personal behaviour what is expected of others. One way to learn managerial skills, for example, is to observe and practise the techniques displayed by good managers. Modelling is a very important influence on behaviour in organisations.

Off the job training

Off-the-job training is accomplished outside the work setting. It may be done within the organisation at a separate training room or facility or at an offsite location. Examples of the latter include attendance at special training programs sponsored by universities, trade or professional associations, or consultants. The willingness of organisations to invest in training is a good indicator of their commitment to the people they hire. An important form of off-the-job training involves **management development**, designed to improve a person's knowledge and skill in the fundamentals of management. For example, *beginning managers* often benefit from training that emphasises delegating duties; *middle managers* may benefit from training to better understand multifunctional viewpoints; *top managers* may benefit from advanced management training to sharpen their decision-making and negotiating skills and to expand their awareness of corporate strategy and direction. Moves to blend different types of training are becoming increasingly popular. Because individuals have different learning styles and approaches, it makes sense to provide employees with a range of training options to meet their needs. E-learning, for instance, uses the internet to encourage less pressured, more reflective, self-paced learning. It can be used to supplement other methods such as outdoor experiences or face-to-face discussions.

Performance management systems

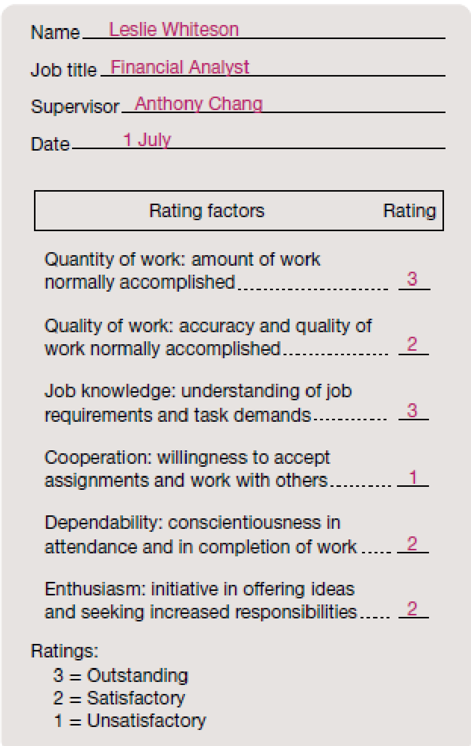
Performance has to be measured. With measurement comes the opportunity not only to document results but also to take steps towards their future improvement. Part of the HRM responsibility is design and implementation of a successful **performance management system**. This is a system that ensures that performance standards and objectives are set, that performance is regularly assessed for accomplishments, and that actions are taken to improve performance potential in the future. Unfortunately, many managers believe that the appraisal is the beginning and end of **performance management**. It is only one aspect of ongoing feedback and development, and a continuous process of setting goals and objectives, watching performance, and then giving and receiving feedback and ongoing coaching. Managers must ensure through performance management that all activities and outputs are aligned with strategic goals — thus ensuring the company can achieve competitive advantage through well-trained and developed people. Performance management provides a direct link between 'employee performance and organizational goals and makes the employee's contribution "explicit"'.

Purpose of performance appraisal

Usually performance appraisal is a once-a-year contribution to feedback. It does not provide the ongoing coaching that allows for improvement, but instead measures the strengths and weaknesses of the employee. An appraisal is an important part of a performance management, because performance management is much more than performance appraisal. The process of formally assessing someone's work accomplishments and providing feedback is **performance appraisal**. It serves two basic purposes in the maintenance of a quality workforce: evaluation and development. The *evaluation purpose* is intended to let people know where they stand relative to performance objectives and standards. The *development purpose* is intended to assist in their training and continued personal development. The evaluation purpose of performance appraisal focuses on past performance and measures results against standards. Performance is documented for the record and to establish a basis for allocating rewards. The manager acts in a *judgemental role* in which he or she gives a direct evaluation of another person's accomplishments. The development purpose of performance appraisal, on the other hand, focuses on future performance and the clarification of success standards. It is a way of discovering performance obstacles and identifying training and development opportunities. Here the manager acts in a *counselling role*, focusing on a subordinate's developmental needs. Like employment tests, any performance appraisal method can fulfil these purposes only when the criteria of *reliability* and *validity* are met. To be reliable, the method should consistently yield the same result over time and/or for different raters; to be valid, it should be unbiased and measure only factors directly relevant to job performance.Written documentation of performance appraisals and a record of consistent past actions will be required to back up any contested evaluations.

Performance appraisal methods

Organisations use a variety of performance appraisal methods. One of the simplest is a **graphic rating scale**, such as the example in figure . Such scales offer the appraisers checklists of traits or characteristics thought to be related to high-performance outcomes in a given job. A manager rates the individual on each trait using a numerical score. The main appeal of graphic rating scales is that they are relatively quick and easy to complete. Their reliability and validity are questionable, however, because the categories and scores are subject to varying interpretations.



Name Leslie Whiteson

Job title Financial Analyst

Supervisor Anthony Chang

Date 1 July

Rating factors	Rating
Quantity of work: amount of work normally accomplished	3
Quality of work: accuracy and quality of work normally accomplished	2
Job knowledge: understanding of job requirements and task demands	3
Cooperation: willingness to accept assignments and work with others	1
Dependability: conscientiousness in attendance and in completion of work	2
Enthusiasm: initiative in offering ideas and seeking increased responsibilities	2

Ratings:
3 = Outstanding
2 = Satisfactory
1 = Unsatisfactory

Fig 5.3.2 Sample graphic rating scale for performance appraisal

A more advanced approach is the **behaviourally anchored rating scale** (BARS), which offers an appraiser rating scales for actual behaviours that exemplify various levels of performance achievement in a job. Look at the case of a customer service representative illustrated in figure. Unsatisfactory performance is clearly defined as rude or disrespectful treatment of a customer. Because performance assessments are anchored to specific descriptions of work behaviour, a BARS is more reliable and valid than the graphic rating scale. The behavioural anchors can also be helpful in training people to master job skills of demonstrated performance importance.

The **critical incident technique** involves keeping a running log or inventory of effective and ineffective job behaviours. By creating a written record of positive and negative performance examples, this method documents success or failure patterns that can be specifically discussed with the individual. Using the case of the customer service representative again, a critical-incidents log might contain the following types of entries: *positive example* — 'Took extraordinary care of a customer who had purchased a defective item from a company store in another city'; *negative example* — 'Acted rudely in dismissing the complaint of a customer who felt that a sale item was wrongly advertised'.

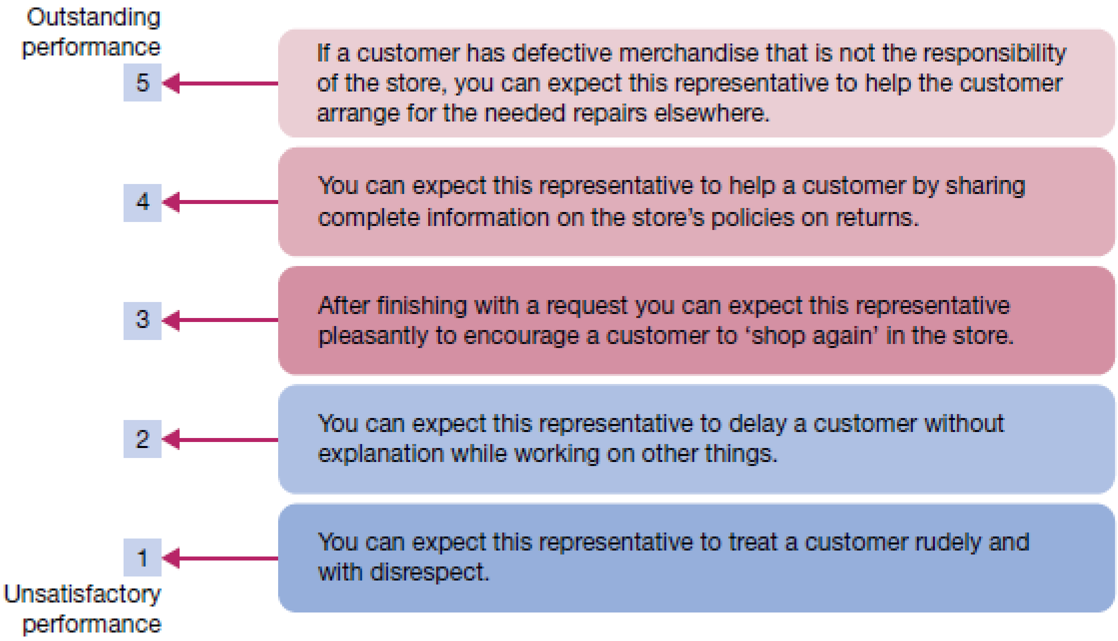


Fig 5.3.2 Sample behaviourally anchored rating scale for performance appraisal

Some performance management systems use **multiperson comparisons**, which formally compare one person's performance with that of one or more others. Such comparisons can be used on their own or in combination with some other method. They can also be done in different ways. In *rank ordering*, all people being rated are arranged in order of performance achievement. The best performer goes at the top of the list, the worst performer at the bottom; no ties are allowed. In *paired comparisons*, each person is compared with every other person and rated as either the superior or the weaker member of the pair. After all paired comparisons are made, each person is assigned a summary ranking based on the number of superior scores achieved. In *forced distribution*, each person is placed into a frequency distribution that requires that a certain percentage fall into specific performance classifications, such as top 10 per cent, next 40 per cent, next 40 per cent and bottom 10 per cent. Not all performance appraisals are completed only by an employee's immediate boss. It is increasingly popular today to expand the role of a job's stakeholders in the appraisal process. The new workplace often involves use of *peer appraisal*, including in the process others who work regularly and directly with a job holder, and *upward appraisal*, including in the process subordinates reporting to the job holder. An even broader stakeholder approach is known as **360° feedback**, where superiors, subordinates, peers and even internal and external customers are involved in the appraisal of a job holder's performance.

5.4 Environment and diversity

The modern manager should consider diversity to be another key to achieving competitive advantage. With changing demographics, organisational culture and diverse workforces, to remain successful in the dynamic, complex and ever changing environment of today the organisations must be prepared.

Environment and competitive advantage

Environmental shifts constantly affect companies and their operations. Companies, need to develop strategic or dynamic capabilities in order to advantageously compete in the face of these far reaching changes that emanate from the environment. **Strategic capabilities** are difficult to imitate, are of value to the customer, and are better than those possessed by the majority of competitors.8 An example is a unique or differentiated product or service. Taking the concept of strategic capabilities one step further, dynamic capabilities can be matched to environmental contingencies and opportunities, because they enable an organisation to reconfigure its resources to cope with exogenous shocks. **Dynamic capabilities** are physical (e.g. state of the art equipment or advantageous location), organisational (e.g. an outstanding sales force) and human (e.g. expertise in a specialised field). For this reason, in an 'information is power' age, the company that employs knowledgeable staff with a canny ability to scan the environment for shifts and ideas might gain a competitive advantage. Old levers of competition — labour, capital and land — are being supplemented by knowledge, and that most successful companies in the future will be those that learn how to exploit knowledge — knowledge about customer behaviour, markets, economies, technology — faster than their competitors.

What is competitive advantage?

Astute executives are ever alert to environmental trends that require adjustments in the ways their organisations operate and that offer opportunities to achieve **competitive advantage**. This term refers to the use of a core competency that clearly sets an organisation apart from its competitors and gives it an advantage over them in the marketplace. Simply put, competitive advantage comes from an ability to do things better than your competitors. An organisation may achieve competitive advantage in many ways, including through its products, pricing, customer service, cost efficiency, quality, and even diversity, among other aspects of operating excellence. But regardless of how the advantage is achieved, the key result is the same — an ability to consistently do something of high value that your competitors cannot replicate quickly or do as well.

The general environment

Business excellence in organisations is only possible when business leaders understand the interdependencies between their organisation and the external environment. Competitive advantage in the demanding global economy can be achieved only by continuously scanning the environment for opportunities, and taking effective action based on what is learned. The ability to do this begins with the answer to a basic question: what is in the external environment of organisations? The **general environment** consists of all the background conditions in the external environment of an organisation. This part of the environment forms a general context for managerial decision making. The major external environmental issues of our day include the factors listed in figure

Economic conditions
This includes the general state of the economy in terms of inflation, interest rates, income levels, gross domestic product and unemployment and related indicators of economic health.

Sociocultural conditions
This includes the general state of prevailing social values on matters such as human rights, trends in education and related social institutions, and demographic patterns.

Political–legal conditions
This includes laws and government regulations and the general state of the prevailing philosophy and objectives of the political party or parties running the government.

Technological conditions
This includes the general state of the development and availability of technology, including scientific advancements.

Natural environment conditions
This includes the general state of nature and the conditions of the natural environment, including levels of public concern expressed through environmentalism.

Fig 5.4.1 Major elements of an organisation's general environment

While all of these forces in the general environment can influence business activities, three in particular have received much attention in recent times — economic, sociocultural and natural environment conditions. Managers need to keep a sharp eye out for such economic turbulence and make contingency plans. The natural environment has also emerged as an increasingly important issue, with the world as a whole generally becoming more aware of the need to minimise the impact of human and organisational behaviour on our planet. This issue, and its potential implications for managers, is discussed in more detail in the boxed feature.

5.5 Internal environment and organisational culture

Culture is a popular word in management these days. Important differences in national cultures are discussed in the chapter on the global dimensions of management. **Organisational culture** is the system of shared beliefs and values that develops within an organisation and guides the behaviour of its members. Sometimes called the *corporate culture*, it is a key aspect of any organisation and work setting. Whenever people speak, for example, of 'the way we do things here, they are talking about the culture.

What strong cultures do?

Although it is clear that culture is not the sole determinant of what happens in organisations, it is an important influence on what they accomplish and how they accomplish it. The internal culture has the potential to shape attitudes, reinforce common beliefs, direct behaviour and establish performance expectations and the motivation to fulfil them. Organisational culture makes a major contribution to their long term performance records. Importantly, the cultures in these organisations provided for a clear vision of what the organisation was attempting to accomplish, allowing individuals to rally around the vision and work hard to support and accomplish it. In these and related ways, organisational culture is a bond that further mobilises resources for action.

Strong cultures — ones that are clear and well defined and widely shared among members — discourage dysfunctional work behaviours and encourage positive ones. They commit members to do things for and with one another that are in the best interests of the organisation, and then they reinforce these habits. The best organisations have strong cultures that show respect for members and encourage adaptability and continuous improvement in all areas of operations. They are likely to have cultures that are performance oriented, emphasise teamwork, allow for risk taking, encourage innovation and make the wellbeing of people a top management priority.

Levels of organisational culture

Organisational culture is usually described from the perspective of the two levels the ‘observable’ culture and the ‘core’ culture. The *observable culture* is visible — it is what one sees and hears when walking around an organisation as a visitor, a customer or an employee. In strong culture organisations the observable culture will be readily apparent. It can be seen in the way people dress at work, how they arrange their offices, how they speak to and behave towards one another, the nature of their conversations and how they talk about and treat their customers. More formally stated, the observable culture includes the elements of daily organisational life — through them, new members learn the organisation’s culture and all members share and reinforce its special aspects over time:

- *stories* — oral histories and tales, told and retold among members, about dramatic sagas and incidents in the life of the organisation
- *heroes* — the people singled out for special attention and whose accomplishments are recognised with praise and admiration among members; they include founders and role models
- *rites and rituals* — the ceremonies and meetings, planned and spontaneous, that celebrate important occasions and performance accomplishments
- *symbols* — the special use of language and other non verbal expressions to communicate important themes of organisational life.
-

Standing at the foundation of what can be observed directly in the daily life of an organisation is a second and deeper level of culture. This is the core culture, and it determines why things are the way they are. It consists of **core values** or underlying assumptions and beliefs that influence

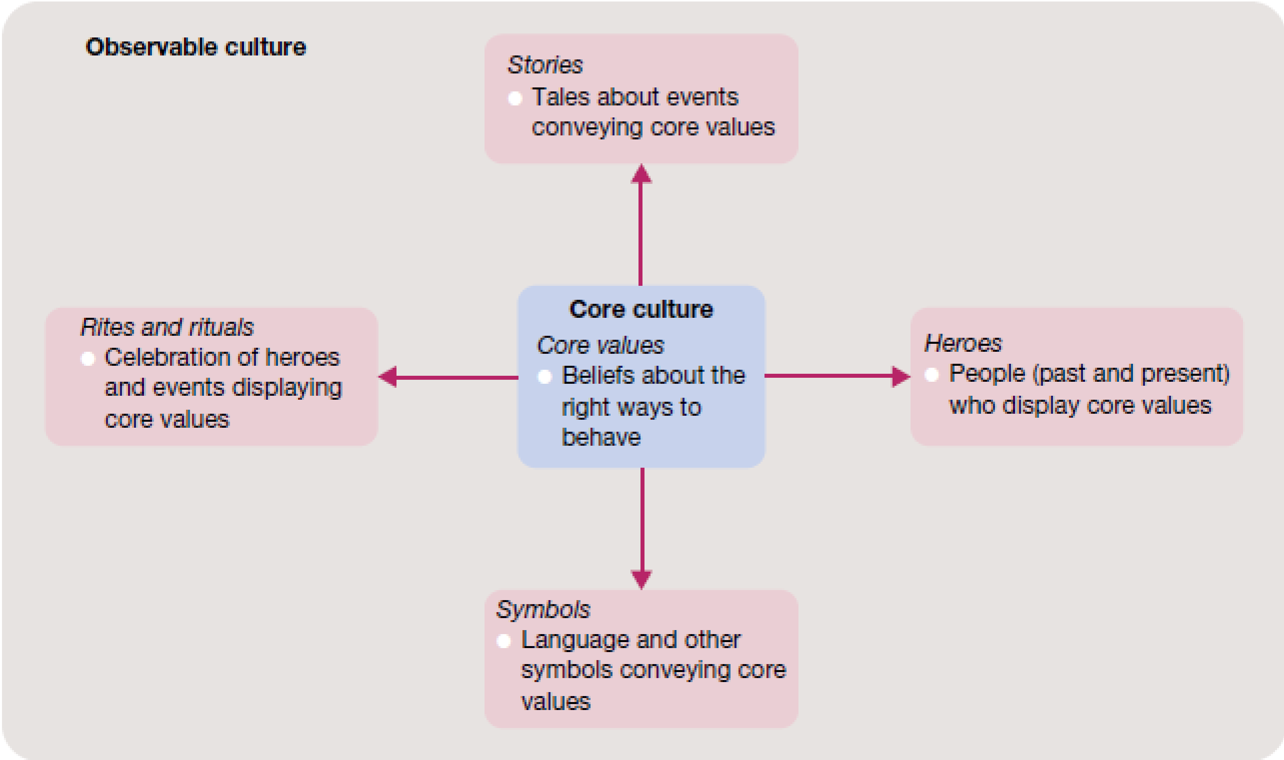


Fig 5.5.1 Levels of organisational culture — observable culture and core culture

behaviour and actually give rise to the aspects of observable culture just described. Values are essential to strong culture organisations and are often widely publicised in formal statements of corporate mission and purpose. Strong culture organisations operate with a small but enduring set of core values. The enduring commitment to core values is a major ingredient of organisations that achieve long term success. Highly successful companies typically emphasise the values of performance excellence, innovation, social responsibility, integrity, worker involvement, customer service and teamwork.

Leadership and organisational culture
Leadership of the organisational culture involves establishing and maintaining appropriate core values. Although this is most often considered a top management job, the same requirement holds for any manager or team leader at any level of responsibility. Just like the organisation as a whole, any work team or group will have a culture. How well this culture operates to support the group and its performance objectives will depend in part on the strength of the core values. At any level, these values should meet the test of three criteria: (i) *relevance* — core values should support key performance objectives; (ii) *pervasiveness* — core values should be known by all members of the organisation or group; and (iii) *strength* —core values should be accepted by everyone involved. Attention is increasingly being given to the concept of a **symbolic leader** — someone who uses symbols well to establish and maintain a desired organisational culture. Symbolic managers and leaders talk the ‘language’ of the organisation. They are always careful to use spoken and written words to describe people, events and even the competition in ways that reinforce and communicate core values.

Language metaphors — the use of positive examples from another context — are very powerful in this regard. Good symbolic leaders highlight the observable culture. They tell key stories over and over again, and they encourage others to tell them. They often refer to the ‘founding story’ about the entrepreneur whose personal values set a key tone for the business. They often talk about organisational heroes, past and present, whose performances exemplify core values. They often use symbolic rites and rituals that glorify the performance of the organisation and its members.

5.6 Ethics

Ethics can be defined as the code of moral principles that sets standards of good or bad, or right or wrong, in a person’s conduct and thereby guides the behaviour of that person or group. These principles guide behaviour and help people make moral choices among alternative courses of action. In practice, **ethical behaviour** is that which is accepted to be ‘good’, ‘right’ and ‘proper’ as opposed to ‘bad’, ‘wrong’ or ‘improper’ in the context of the governing moral code.

Law, values and ethical behaviour
It makes sense that there should be a legal component to ethical behaviour; that is, you would expect that any legal behaviour should be considered ethical. Furthermore, just because an action is not strictly illegal does not make it ethical. Living up to the ‘letter of the law’ is not sufficient to guarantee that your actions will or should be considered ethical. Is it truly .ethical, for example, for an employee to take longer than necessary to do a job? to make personal telephone calls on company time? to call in sick to take a day off for leisure? to fail to report rule violations by a co worker? None of these acts is strictly illegal, but many people would consider any one or all of them to be unethical. Most ethical problems in the workplace arise when people are asked to do, or find themselves about to do, something that violates the dictates of their conscience. For some, if the act is legal they proceed with confidence. For others, the ethical test goes beyond the legality of the act alone. The ethical question extends to personal **values** — the underlying beliefs and attitudes that help determine individual behaviour. Values vary among people.

Alternative views of ethical behaviour
There are many different interpretations of what constitutes ethical behaviour. The first is the **utilitarian view**. Behaviour that would be considered ethical from this perspective delivers the greatest good to the greatest number of people. Founded in the work of 19th century philosopher John Stuart Mill, this is a results oriented point of view that tries to assess the moral implications of decisions in terms of their consequences. Business decision makers, for example, are inclined to use profits, efficiency and other performance criteria to judge what is best for the most people. A manager may make a utilitarian decision to cut 30 per cent of a factory’s workforce in order to keep the factory profitable and save jobs for the remaining 70 per cent.

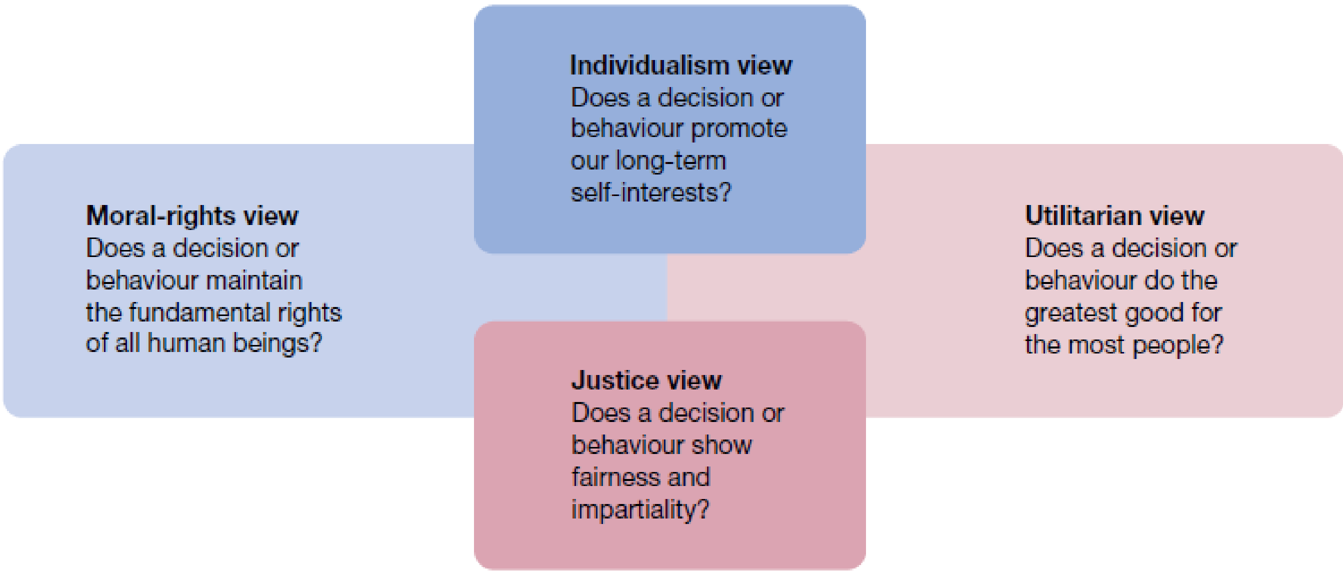


Fig 5.6.1 Four views of ethical behaviour

The **individualism view** of ethical behaviour is based on the belief that our main commitment is to the advancement of long term self interests. When people pursue individual self interests, they supposedly become self regulating. For example, such things as lying and cheating for short term gain should not be tolerated. If one person does it, everyone will do it, and no one's long term interests will be served. The individualism view is supposed to promote honesty and integrity. But in business practice it may result in a pecuniary ethic, described by one business executive as the tendency to 'push the law to its outer limits' and 'run roughshod over other individuals to achieve one's objectives.

Ethical behaviour under a **moral-rights view** is that which respects and protects the fundamental rights of people. In many organisations today, this concept extends to ensuring that employees are always protected in their rights to privacy, due process, free speech, free consent, health and safety, and freedom of conscience. The issue of human rights, so characteristic of ethical concerns in the international business environment, is central to this perspective.

The United Nations stands by the Universal Declaration of Human Rights passed by the General Assembly in 1948. People are not a cost; they are a resource. Considerations for workers in and out of the workplace are the responsibility of the corporate leader just as much as the profits, survival, and growth of the business or organisation. Finally, the **justice view** of moral behaviour is based on the belief that ethical decisions treat people impartially and fairly according to guiding rules and standards. This approach evaluates the ethical aspects of any decision on the basis of whether it is 'equitable' for everyone affected. One justice issue in organisations is **procedural justice** — the degree to which policies and rules are fairly administered. A second issue is **distributive justice** — the degree to which outcomes are allocated without respect to individual characteristics based on ethnicity, race, gender, age or other criteria. A third issue is **interactional justice** — the degree to which others are treated with dignity and respect.

Cultural issues in ethical behaviour

The influence of culture on ethical behaviour is increasingly at issue as businesses and individuals travel the world. Corporate leaders must master difficult challenges when operating across borders that are cultural as well as national. Those who believe that behaviour in foreign settings should be guided by the classic rule of 'when in Rome, do as the Romans do' reflect an ethical position of **cultural relativism**. This is the notion that there is no one right way to behave and that ethical behaviour is always determined by its cultural context. When it comes to international business, for example, a Western executive guided by rules of cultural relativism might argue that the use of child labour is okay if it is consistent with local laws and customs.

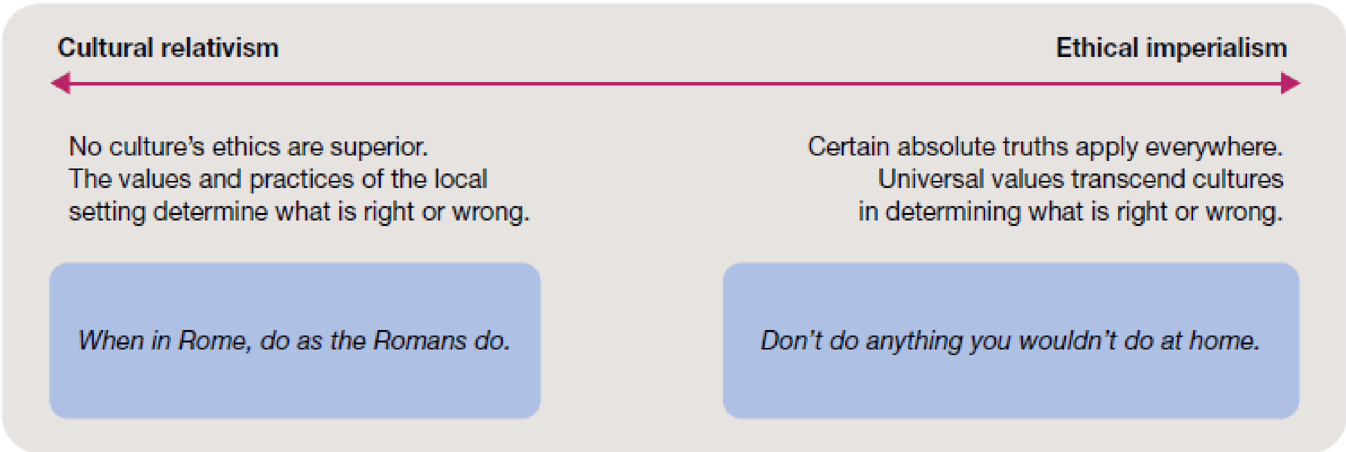


Fig 5.6.2 The extremes of cultural relativism and ethical imperialism

However, contrasts this position with the alternative of **universalism**. This ethical position suggests that if a behaviour or practice is not okay in your home environment, it shouldn't be acceptable practice anywhere else. In other words, ethical standards are universal and should apply absolutely across cultures and national boundaries. Critics of such a universal approach claim that it is a form of **ethical imperialism**, or the attempt to externally impose your ethical standards on others.

Although there is no simple answer, it is possible both extremes have faults. Certain fundamental rights and ethical standards can be preserved while values and traditions of a given culture are respected. The core values or 'hyper norms' that should transcend cultural boundaries focus on human dignity, basic rights and good citizenship. With a commitment to core values creating a transcultural ethical umbrella, international business behaviours can be tailored to local and regional cultural contexts.

Ethics in the workplace

'Ethical business is good business' is a classic quote. The same can be said for all persons and institutions throughout society. But the real test is when managers or workers encounter a situation that challenges their ethical beliefs and standards. Often ambiguous and unexpected, these 'ethical dilemmas' are part of the challenge of modern society.

What is an ethical dilemma?
An ethical dilemma occurs when our own behaviour, or the behaviour we witness from others, conflicts with our values and beliefs. Such dilemmas cause stress to us until they are resolved. An **ethical dilemma** arises when action must be taken but there is no clear 'ethically right' option. The burden is on the individual to make good choices. An engineering manager, speaking from experience, sums it up this way: 'I define an unethical situation as one in which I have to do something I dont feel good about.'

Ethical problems faced by managers
There are many potential sources of discomfort in managerial decision making, including those with ethical overtones. Some of the problem areas or situations where managers can get caught in ethical dilemmas include:

- *discrimination* — where a manager denies promotion or appointment to a job candidate because of the candidate's race, religion, gender, age or other criterion not relevant to the job
- *sexual harassment* — where a manager makes a co worker feel uncomfortable because of inappropriate comments or actions regarding sexuality.
- *conflicts of interest* — where a manager takes a bribe or kickback or extraordinary gift in return for making a decision favourable to the gift giver
- *customer confidence* — where a manager has privileged information regarding the activities of a customer and shares that information with another party
- *organisational resources* — where a manager uses official stationery or a company email account to communicate personal opinions or requests to community organisations.

Often many of the ethical dilemmas reported by managers involved conflicts with superiors, customers and subordinates. The most frequently occurring issues involved dishonesty in advertising and communications with top management, clients and government agencies. problems in dealing with special gifts, entertainment and kickbacks. The managers' bosses were sometimes pressure their subordinates to engage in such unethical activities as supporting incorrect viewpoints, signing false documents, overlooking the boss's wrongdoings and doing business with the boss' friends.

Rationalisations for unethical behaviour
Why might otherwise reasonable people act unethically? Think back to the earlier examples and to those from your experiences. Consider the possibility of being asked to place a bid for a business contract using insider information, paying bribes to obtain foreign business, falsifying expense account bills, and so on. 'Why', you should be asking, 'do people do things like this?' In fact, there are at least four common rationalisations that are used to justify misconduct in these and other ethical dilemmas.
i. Convince yourself that the behaviour is not really illegal.
ii. Convince yourself that the behaviour is really in everyone's best interests.
iii. Convince yourself that nobody will ever find out what you've done.
iv. Convince yourself that the organisation will 'protect' you.

After doing something that might be considered unethical, a rationaliser says, 'It's not really illegal. This expresses a mistaken belief that your behaviour is acceptable, especially in ambiguous situations. When dealing with 'shady' or borderline situations in which you are having a hard time defining precisely what is right and what is wrong, the advice is quite simple. When in doubt about a decision to be made or an action to be taken, don't do it. Another common statement by a rationaliser is: 'It's in everyone's best interests'. This response involves the mistaken belief that because someone can be found to benefit from the behaviour, the behaviour is also in the individual's or the organisation's best interests. Overcoming this rationalisation depends in part on the ability to look beyond short term results to consider longer term implications, and to look beyond results in general to the ways in which they are obtained.

Lack of accountability, unrealistic pressures to perform and a boss who prefers 'not to know' can all reinforce such thinking. In this case, the best deterrent is to make sure that everyone knows that wrongdoing will be punished whenever it is discovered. Rationalisers may proceed with a questionable action because of a mistaken belief that 'the organisation will stand behind me'. This is misperceived loyalty. The individual believes that the organisation's best interests stand above all others. In return, the rationaliser thinks that top managers will condone the behaviour and protect the individual from harm. But loyalty to the organisation is not an acceptable excuse for misconduct; organisational loyalty should not stand above the law and social morality.

Factors influencing ethical behaviour

In practice, people are often challenged to choose ethical courses of action in situations where the pressures may be contradictory and great. Increased awareness of the factors influencing ethical behaviour can help in dealing with them more appropriately.

Fig 5.6.3 Factors influencing ethical managerial behaviour — the person, organisation and environment

The person

Family influences, religious values, personal standards and personal needs, financial and otherwise, will help determine a person's ethical conduct in any given circumstance. Managers who lack a strong and consistent set of personal ethics will find that their decisions vary from situation to situation as they strive to maximise self interests. Those who operate within strong ethical frameworks (personal rules or strategies for ethical decision making) will be more consistent and confident since choices are made against a stable set of ethical standards.

The organisation
The organisation is another important influence on ethics in the workplace. The first port of call is at the staff selection stage. Unethical or unsavoury characters should not be recruited and appointed in the first instance. The expectations and reinforcement provided by peers and group norms are likely to have a similar impact. Formal policy statements and written rules are also very important in establishing an ethical climate for the organisation as a whole. They support and reinforce the organisational culture, which can have a strong influence on members' ethical behaviour.

The environment
Organisations operate in external environments composed of competitors, government laws and regulations, and social norms and values, among other influences. Laws interpret social values to define appropriate behaviours for organisations and their members; regulations help governments monitor these behaviours and keep them within acceptable standards. The climate of competition in an industry sets a standard of behaviour for those who hope to prosper within it. Sometimes the pressures of competition contribute further to the ethical dilemmas of managers.

Maintaining high ethical standards
Progressive organisations support a variety of methods for maintaining high ethical standards in workplace affairs. Some of the most important efforts in this area involve ethics training, whistleblower protection, top management support, formal codes of ethics and strong ethical cultures.

Ethics training
Ethics training, in the form of structured programs to help participants understand the ethical aspects of decision making, is designed to help people incorporate high ethical standards into their daily behaviour. Many ethical dilemmas arise as a result of the time pressures of decisions. Ethics training is designed to help people deal with ethical issues while under pressure. The decision making process includes responsibility for double checking a decision before taking action. The key issue is the risk of public disclosure of your action and your willingness to bear it. This is a strong way to test whether a decision is consistent with your personal ethical standards

Whistleblower protection
Whistleblowers, are people who expose the misdeeds of others in organisations in order to preserve ethical standards and protect against wasteful, harmful or illegal acts. Whistleblowers face the risks of impaired career progress and other forms of organisational retaliation, up to and including dismissal. Many workers become whistleblowers unintentionally when reporting workplace fraud, corruption or maladministration. But although signs indicate that the courts are growing supportive of whistleblowers, legal protection for them can still be inadequate. Laws vary from state to state, and federal laws mainly protect government workers.

Furthermore, even with legal protection, potential whistleblowers may find it hard to expose unethical behaviour in the workplace. Some organisational barriers to whistleblowing include a *strict chain of command* that makes it hard to bypass the boss, *strong work group identities* that encourage loyalty and self censorship, and *ambiguous priorities* that make it hard to distinguish right from wrong. In the attempt to remove these and other blocks to the exposure of unethical behaviours, some organisations have formally appointed staff members to serve as ‘ethics advisers’. Others have set up formal staff units to process reported infractions. One novel proposal goes so far as to suggest the convening of *moral quality circles* to help create shared commitments for people to work at their moral best.

Ethical role models

Top managers in large and small businesses have the power to shape their organisation’s policies and set its moral tone. They also have a major responsibility to use this power well. They can and should serve as role models of appropriate ethical behaviour for the entire organisation. Not only must their day to day behaviour be the epitome of high ethical conduct, but top managers must also c

mmunicate similar expectations throughout the organisation, and reinforce positive results. Unfortunately, communication from the top may subtly suggest that top management does not want to know about deceptive or illegal practices by employees, or simply doesn’t care. Even though top managers bear a special responsibility for setting the ethical tone of an organisation, every manager is also in a position to influence the ethical behaviour of the people who work for and with them. All managers must act as ethical role models and set an ethical tone in their areas of responsibility. Care must be taken to do this in a positive and informed manner. The important supervisory act of setting goals and communicating performance expectations is a good case in point. Clearly, any manager, in his or her relationships with subordinates, may unknowingly encourage unethical practices by exerting too much pressure for them to accomplish goals that are too difficult. Part of the manager’s ethical responsibility is to be realistic in setting performance goals for others.

Codes of ethics

Formal **codes of ethics** are official written guidelines on how to behave in situations susceptible to the creation of ethical dilemmas. They are found in organisations and in professions such as engineering, medicine, law and public accounting. In the professions such as accounting and engineering, ethical codes try to ensure that individual behaviour is consistent with the historical and shared norms of the professional group.

Most codes of ethical conduct identify expected behaviours in terms of general organisational citizenship, the avoidance of illegal or improper acts in a person’s work, and good relationships with customers. Codes, include workforce diversity, bribes and kickbacks, political contributions, the honesty of books or records, customer–supplier relationships and the confidentiality of corporate information. In the increasingly complex world of international business, codes of conduct for manufacturers and contractors are becoming more prevalent.

A sample formal Code of Vendor Conduct, among the many areas covered, the document specifically deals with:

- *discrimination* — stating ‘Factories shall employ workers on the basis of their ability to do the job, not on the basis of their personal characteristics or beliefs’
- *forced labour* — stating ‘Factories shall not use any prison, indentured or forced labour’
- *working conditions* — stating ‘Factories must treat all workers with respect and dignity and provide them with a safe and healthy environment’
- *freedom of association* — stating ‘Factories must not interfere with workers who wish to lawfully and peacefully associate, organize or bargain collectively.

The codes have limits. They cannot cover all situations, and they are not automatic insurance for universal ethical conduct. But they do play important roles in setting the ethical tone and expectations in organisations. When fully integrated into the organisational culture, furthermore, the moral fabric created has a strong influence on day to day behaviour. And there is no replacement for leadership by committed managers who are willing to set examples and act as positive ethical role models to ensure desired results.