PRINCIPLES OF MANAGEMENT - MGT503

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Lesson 1

HISTORICAL OVERVIEW OF MANAGEMENT

Major objective of treating "Principles of Management" in a concise, interesting, and understandable manner will be to present management history and theory with an emphasis on the future. Most students will be applying the concepts learned here over a period of next many years. Another objective shall be to identify several areas where management concepts are applicable to the personal and professional goal-setting and also to apply the management skills to the challenge of managing the most difficult peer or subordinate – the one that may confront you in the mirror each morning in your professional career.

In any treatment of a basic subject like this, there is little that the resource/anchor person can claim to be uniquely his own except his/her tacit knowledge and the presentation style. The write-ups from chapters of recommended text books for this course have also been included and are highly acknowledged.

The Intellectual Heritage of Management

Organized endeavors directed by people responsible for planning, organizing, leading, and controlling activities have existed for thousands of years. The Egyptian pyramids and the Great Wall of China, for instance, are tangible evidence that projects of tremendous scope, employing tens of thousands of people, were undertaken well before modern times. The pyramids are a particularly interesting example. The construction of a single pyramid occupied more than 100,000 workers for 20 years. Who told each worker what to do? Who ensured that there would be enough stones at the site to keep workers busy? The answer to such questions is managers. Regardless of what managers were called at the time, someone had to plan what was to be done, how to organize people and materials to do it, lead and direct the workers, and impose some controls to ensure that everything was done as planned.

It is not very difficult for us to imagine modern management techniques in the days of the pharaohs. True, we can get a laugh or two thinking of profit sharing and other twentieth-century terms appearing in the ancient land of the Nile, but the generic relationships of people managing people must have borne a great many similarities. In fact, many ancient documents have been translated to reveal that, through the ages, wherever people have worked together to accomplish their goals, many of the same phenomena have prevailed.

Most scholars suggest that management, in its most basic format, has existed since one person persuaded another–whether with club or carrot–to do something. Frequently, management is defined as the challenge of creating as environment where people can work together to achieve a mutual objective. While this is true for managers in business, government, and other organizations, I hope that each management student will recognize the opportunities for applying management concepts to personal challenges. For that purpose, management can be defined as the concepts, techniques, and processes that enable goals to be achieved efficiently and effectively.

The Egyptian Pyramid:

Approximately four thousand years B.C., the Egyptians were building a civilization edge on the rest of the world. Very few of us can comprehend the extent to which this culture zoomed ahead of its times. If it were possible to make a reliable comparison, we would probably find that no nation in our time is as far ahead of its contemporaries as the land of the Pharaohs was between 4000 B.C. and 525 B.C.

The most obvious demonstration of Egyptian power is the construction projects that remain even today. Without the service of cranes, bulldozers, or tea/coffee breaks, the Egyptians constructed mammoth structures of admirable precision. The great pyramid of Cheops, for example, covers thirteen acres and contains 2,300,000 stone blocks. The blocks weigh about two and a half tons each and were cut to size many miles away. The stones were transported and set in place by slave labor and precision planning. The men who built the enduring structures of ancient Egypt not only knew how to use of human resources efficiently but also knew how to manage 100,000 workers in a twenty-year project.

In their business and governmental affairs, the Egyptians kept documents to show exactly how much material was received and from whom, when it came in, and exactly how it was used. The military, social, religious, and governmental aspects of Egyptian life were highly organized. There were much inefficiency, but the final task was accomplished. Three commodities, which virtually rule modern efforts, seem to have been only minor considerations along the Nile: time, money, and the satisfaction of the worker.

Great China Wall:
The Great China Wall built in the time period of 956 years (688 BC – 1644 AD). It is 6000 km long. Its base is 20 feet wide and top 11 feet wide. The height of China Wall is from 7 to 37 feet. The whole China wall is made by hands. Working as united for 956 years, there should be some purposes due to which people worked for a long time.

According to history, the purpose of china wall was:

- To mark territories
- To defend the area
- To protect silk road

These examples from the past demonstrate that organizations have been around for thousands of years and that management has been practiced for an equivalent period.

The Wealth of Nations
One of the classic books on economic philosophy was written by Adam Smith, an eighteenth-century professor at Glasgow, Scotland. In 1776, Adam Smith published a classical economics doctrine, The Wealth of Nations, in which he argued the economic advantages that organizations and society would gain form the **division of labor,** the breakdown of jobs into narrow and repetitive tasks. Using the pin manufacturing industry as an example, Smith claimed that 10 individuals, each doing a specialized task, could produce about 48,000 pints a day among them. However, if each person worked separately and had to perform each task, it would be quite an accomplishment to produce even 10 pins a day! Smith concluded that division of labor increases productivity by increasing each worker's skill and dexterity, by saving time lost in changing tasks, and by creating laborsaving inventions and machinery. The continued popularity of job specialization-for example, specific tasks performed by members of a hospital surgery team, specific meal preparation tasks done by workers in restaurant kitchens, or specific positions played by players on a football or cricket team–is undoubtedly due to the economic advantages cited by Adam Smith.

Smith's emphasis on the principle of specialization showed him to be ahead of his time. He believed that increasing specialization was the key to productivity. Productivity would produce more income, higher wages, larger families, increased demand, and further division of labor and . . . the cycle would never stop. Smith's contribution to the literature of economics is only exceeded by his optimism about the predictability of man.

The Pleasures of Productivity
As we look briefly at the development of the intellectual heritage of management through the ages, we can see a consistent correlation of productive periods with times of capitalism and individual competition. The concepts are for managers and prospective managers in both nonprofit and for-profit organizations.
Is it degrading to the profession of management to suggest that effective management practice is primarily common sense and was utilized by primitive people? It is no insult . . . because common sense is such an uncommon quality in most generations. In fact, some of the most disappointed students ever to emerge from learning institutions are those who think that, by taking a degree in management, they will receive inside knowledge of the secret words and formulas for manipulating people. The truth is that even the best management education curriculum can only hope to sharpen the skills and understanding that students already have.

Management in Twentieth Century:
The major contribution of the **Industrial Revolution** was the substitution of machine power for human power, which, in turn, made it more economical to manufacture goods in factories rather than at home. These large, efficient factories using power-driven equipment required managerial skills. Why? Managers were needed to forecast demand, ensure that enough material was on hand to make products, assign tasks

to people, direct daily activities, coordinate the various tasks, ensure that the machines were kept in good working condition and work standards were maintained, find markets for the finished products, and so forth. Planning, organizing, leading, and controlling became necessary, and the development of large corporations would require formal management practices. The need for a formal theory to guide managers in running these organizations had arrived. However, it wasn't until the early 1900s that the first major step toward developing such a theory was taken.

The development of management theories has been characterized by differing beliefs about what managers do and how they should do it. In the next sections we present the contributions of four approaches. Scientific management looked at management from the perspective of improving the productivity and efficiency of manual workers. General administrative theorists were concerned with the overall organization and how to make it more effective. Then a group of theorists focused on developing and applying quantitative models to management practices. Finally, a group of researchers emphasized human behavior in organizations, or the "people" side of management.

Professional Managerial Era
In our present age of market driven capitalism and futuristic knowledge driven economic markets, the decisions are made and the trends are set by the professional managers. Unlike their predecessors, the captains of today's business do not own their own companies. They must know the whole business but have control over only one small part. They must be product oriented, process conscious, financially responsible and public spirited. They must know all things, yet still function as only one cog in the wheel.
If the history of management tells us anything, it is that, no matter

What happens; peace or war, prosperity or famine, this world will always be in need of good managers . . . the kind who can get society from "where it is" to "where it wants to be." Can you be one?

Sydney Opera House:
Sydney Opera Hall is the milestone of the modern age situated in Sydney, Australia which was completed in a time period of 33 years (1940 – 1973). Sydney Opera hall consists of following:

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- 1000 rooms
- 5 theaters
- Hall for 2679 persons

Sydney Opera Hall is 183 meter tall and 120 meter wide and its roof carries1, 056,000 tiles which were imported from Sweden and it coasted $ 102 million. What is the purpose to build such a unique hall? They used people and technology to achieve that purpose. The main purpose is to provide entertainment to public.

Flying Colors on PC:
The most commonly used operating system on PC is also a great example to explain the topic of organized effort done by a modern IT organization. In making of one new version of an operating system, the dozens of engineers are deployed. When the first operating system was launched by the company, it took several years to launch, and today you get an operating system worth of millions on one CD. So, there are the engineers who made the operating system by some processes to give the services to the PC users /customers. The IT organization stands behind its products/services.

What is an Organization?
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"It is an entity where two or more persons work together to achieve a goal or a common purpose."
There are so many organizations around us. Daily we visit and see many organizations hospitals, colleges, factories, farms and government offices. Mosque/Church is also an example of an organization. People go there and say prayers. Activities of praying are to achieve a certain goal. Similarly, any unit in which two or more persons are working together for some purpose is called an organization.

- **People**

- **Purpose**
- **Process**
- **POLCA**

If there is an organization, then there must be some people. They work as whole for a common purpose, so there must be a defined purpose. If an organization doesn't have any purpose, it will not survive for long run. To achieve the purposes by using people, the processes are needed. Without any process, you cannot achieve any type of purpose or goal. If we see in our daily life, we have some goals. For achieving these goals, we use some processes. So that process is also obvious and important for an organization. The last important thing for any organization is that it requires main pillars of management i.e. **POLCA:**

- **Planning**
- **Organizing**
- **Leading**
- **Controlling**

A manager must perform all theses management functions with **Assurance!**

Lesson 2

MANAGEMENT AND MANAGERS

The concepts of organizations, managers, and management are explored in this session. Every organization, regardless of size, type, or location, needs managers who have a variety of characteristics. Managers may come from any nationality or be of either gender.
Four questions are addressed:

1. Who are managers?
2. What do managers do?
3. What is management?
4. Why study management?

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1. Who are Managers?

"A manager is someone who works with and through other people by coordinating their work activities in order to accomplish organizational goals."

The changing nature of organizations and work has blurred the clear lines of distinction between managers and non-managerial employees. Many workers' jobs now include managerial activities. Definitions used in the past may no longer work. Hence, an organizational member who works with and through other people by coordinating their work activities in order to accomplish organizational goals may be called a manager. However, keep in mind that managers may have other roles and work duties not related to integrating the work of others.

You should be aware that managers may have a variety of titles and roles. They perform various jobs and duties and are responsible for higher profits and for great performance. Managers work in various departments and are employed by many types of organization.

You will be meeting different managers in this session and note what jobs, roles and work they perform in their organizations, may it be national or multi-national or entrepreneurial organization.

2. What do managers do?

No two managers' jobs are alike. But management writers and researchers have developed some specific categorization schemes to describe what managers do. We can focus on following ***five categorization schemes*** while making mind what do managers do:

Management functions and management process as detailed below:

Traditionally, a manager's job has been classified according to the following four functions

Planning: determining organizational goals and the means for achieving them

Organizing: deciding where decisions will be made, who will do what jobs and tasks, and who will work for whom

Leading: inspiring and motivating workers to work hard to achieve organizational goals

Controlling: monitoring progress towards goal achievement and taking corrective action when needed

I. Good managers are those who **assure** themselves to perform these functions well.
II. New-style or 21st century managers are changing the way they perform these functions, thinking of themselves more like mentors, coaches, team leaders, or internal consultants. They work with anyone who can help them accomplish their goals rather than only following the chain of command. They ask others to participate in making decisions and share information with others.

III. New-style managers perform four functions that have evolved out of the traditional functions: making things happen; meeting the competition; organizing people, projects, and processes; and leading.

A. **Making Things Happen:** To make things happen you must determine what you want to accomplish, plan how to achieve these goals, gather and manage the information needed to make a good decision, and control performance, so that you can take corrective action if performance falls short.

B. **Meeting the Competition**: Free trade agreements, shorter product development cycles, and fewer barriers to entering industries have created increased competition. Companies must consider how to deal with international competitors, have a well-thought-out competitive strategy, be able to embrace change and foster new product and service ideas, and structure their organizations to quickly adapt to changing customers and competitors.

C. **Organizing People**: Projects, and Processes: Changes in how a company is organized must consider *both* people issues and work processes (how the work gets done)

D. **Leading**: Motivating and inspiring workers.

Management process is the set of ongoing decisions and work activities in which managers engage as they plan, organize, lead, and control.

1. Managers perform various roles in organizations.
2. While performing, variety of management skills are needed and employed by managers.
3. Regardless of the level the manager is on, he or she must ensure that the work activities in the part of the organizational system he or she is responsible for are coordinated and integrated.
4. Managers must "read" and attempt to interpret the situational contingencies facing them before deciding the best way to work with and through others as they coordinate work activities.

What is Management?

Simply speaking, management is what managers do. However, this simple statement doesn't tell us much. We define **management** as the process of coordinating and integrating work activities so that they are completed efficiently and effectively with and through other people. Let's look at some specific parts of this definition.

The process represents the ongoing functions of primary activities engaged in by managers. These functions are typically labeled planning, organizing, leading, and controlling. Let us remember it by POLCA.

Why Study Management?

Management is important for our society, industry and government organizations. The importance of studying management can be explained by looking at the way we interact with organizations every day in our lives. Every product we use, every service we receive, and every action we take is provided or affected by organizations. These organizations require managers.

Modern management ensures to create competitive advantage through People:

A. Top-performing companies recognize the importance of the way they treat their work forces.
B. These companies use ideas such as employee satisfaction, selective recruiting, performance based high wages , reduction of status differences, sharing information, self-managed teams, and training and skill development .
C. Investing in people will create long-lasting competitive advantages that are difficult for other companies to duplicate.
D. Sound management practices can produce substantial advantages in sales, revenues, and customer satisfaction.
E. Poorly performing companies that adopted management techniques as simple as setting expectations, coaching, and rewarding were able to substantially improve return on investment.
F. Good management can increase customer satisfaction because employees tend to treat customers the same way that their managers treat them.

By studying management, students will be able to recognize good management and encourage it, as well as to recognize poor management and work to get it corrected.
After graduation, you will either manage or be managed. A course in management provides insights into the way your boss or peer behave and shall help you to be familiar with the internal working of organizations.

Lesson 3

MANAGERIAL ROLES IN ORGANIZATIONS

Management Roles:

Managers fulfill a variety of roles. A **role** is an organized set of behaviors that is associated with a particular office or position.

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Dr. Henry Mintzberg, a prominent management researcher, says that what managers do can best be described by looking at the roles they play at work. The term management role refers to specific categories of managerial behavior. There are three types of roles which a manager usually does in any organization.

Interpersonal roles are roles that involve people (subordinates and persons outside the organization) and other duties that are ceremonial and symbolic in nature. The three interpersonal roles include being a figurehead, leader, and liaison.

Informational roles involve receiving, collecting, and disseminating information. The three informational roles include a monitor, disseminator, and spokesperson.

Decisional roles revolved around making choices. The four decisional roles include entrepreneur, disturbance handler, resource allocator, and negotiator.
In the late 1960s, Henry Mintzberg concluded that managers perform 10 different, but highly interrelated roles.

Follow-up studies of Mintzberg's role categories in different types of organizations and at different managerial levels within organizations have generally supported the notion that managers perform similar roles.

However, the more traditional functions have not been invalidated. In fact, the functional approach still represents the most useful way of classifying the manager's job.
As depicted in following table, Mintzberg delineated ten managerial roles in three categories.

a. **Interpersonal roles** grow directly out of the authority of a manger's position and involve developing and maintaining positive relationships with significant others.
   1) The **figurehead** performs symbolic legal or social duties.
   2) The **Leader** builds relationships with employees and communicates with, motivates, and coaches them.
   3) The **liaison** maintains a network of contacts outside the work unit to obtain information.

b. **Informational roles** pertain to receiving and transmitting information so that managers can serve as the nerve centers of their organizational units.
   1) The **monitor** seeks internal and external information about issues that can affect the organization.
   2) The **disseminator** transmits information internally that is obtained from either internal or external sources.
   3) The **spokesperson** transmits information about the organization to outsiders.

c. **Decisional roles** involve making significant decisions that affect the organization.
   1) The **entrepreneur** acts as an initiator, designer, and encourager of change and innovation.
   2) The **disturbance handler** takes corrective action when the organization faces important, unexpected difficulties.
   3) The **resource allocator** distributes resources of all types, including time, funding, equipment, and human resources.
   4) The **negotiator** represents the organization in major negotiations affecting the manager's areas of responsibility

The four major functions of management—planning, organizing, leading, and controlling provide the <u>purpose</u> for managers taking the roles they do.
Professor Mintzberg explained his concept with the help of table; it is given on next page:

Mintzberg's Managerial Roles	Role	Description	Examples of Identifiable Activities
Interpersonal	**Figurehead** sarbarah	Symbolic head: obliged to perform a number of routine duties of a legal or social nature.	Greeting visitors: signing legal documents
	Leader	Responsible for the motivation of subordinates: responsible for staffing, training, and associated duties.	Performing virtually all activities that involve subordinates
	Liaison brieg	Maintains self-developed network of outside contacts and informers who provide favors and information.	Acknowledging mail: doing external board work: performing other activities that involve outsiders
Informational	**Monitor**	Seeks and receives wide variety of internal and external information to develop thorough understanding of organization and environment.	Reading periodicals and reports: maintaining personal contacts.
	Disseminator	Transmits information received from outsiders or from subordinates to members of the organization	Holding informational meetings: making phone calls to relay information.
	Spokesperson	Transmits information to outsiders on organization's plans, policies, actions, results,	Holding board meetings: giving information to the media.
Decisional	**Entrepreneur**	Searches organization and its environment for opportunities and initiates "improvement projects" to bring about changes	Organizing strategy and review sessions to develop new programs
	Disturbance handler	Responsible for corrective action when organization faces important, unexpected disturbances	Organizing strategy and review sessions that involve disturbances and crises
	Resource allocator	Responsible for the allocation of organizational resources of all kinds – making or approving all significant organizational decisions	Scheduling: requesting authorization: performing any activity that involves budgeting and the programming of subordinates' work
	Negotiator mutmaieen karna kisi company ko	Responsible representing the organization at major negotiations	Participating in union contract negotiations

Lesson 4

MANAGERIAL FUNCTIONS I.E. POLCA

MCQ **POLCA as functions: Planning**

It is the management function that involves the process of defining goals, establishing strategies for achieving those goals. And developing plans to integrate and coordinate activities.

Organizing

It is the management function that involves the process of determining what tasks are to be done. Who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made.

motivated

Leading

It is the management function that involves motivating subordinates, influencing individuals or teams as they work, selecting the most effective communication channels, or dealing in any way with employee behavior issues.

Controlling

It is the management function that involves monitoring actual performance, comparing actual to standard and taking corrective action, if necessary.

Assurance

Quality function which demands from every manager that he/she ensures that prior management support and management processes are in place before POLC management functions are executed.

Management process

It is the set of ongoing decisions and work activities in which managers engage as they plan, organize, lead, and control. **The management process** includes more than the four management functions.

1) The process also includes work methods, managerial roles, and managerial work agendas.
2) The management process applies to both profit-making and not-for-profit organizations.
   a. A **not-for-profit organization** is an organization whose main purposes center on issues other than making profits.
   b. Examples of not-for-profit organizational include government organizations, cultural institutions, charitable institutions, and some health-care facilities.

Management Process:

Planning	**Organizing**	**Leading**	**Controlling**	***Lead to***
Defining goals, establishing strategy, and developing sub plans to coordinate activities	Determining what needs to be done, how it will be done, and who is to do it	Directing and motivating all involved parties and resolving conflicts	Monitoring activities to ensure that they are accomplished as planned	Achieving the organization's stated purpose

MCQ **Efficiency refers to getting the most output from the least amount of inputs.**

Efficiency (Means) Effectiveness (Ends)

Resource Usage **Goal Attainment**

Low Waste High Attainment

Management Strives For:
Low resource waste (high efficiency)
High goal attainment (high effectiveness)

Effectiveness is often described as “doing the right things” – that is, those work activities that will help the organization reach its goals.

We have learnt that; a manager is someone who works with and through other people by coordinating their work activities in order to accomplish organizational goals. While performing, the manager has to keep in mind that he /she has to deal workers and other people around him in variety of situations.

Mistakes Managers Make:

A comparison of “arrivers,” those who made it all the way to the top of their companies, and “derailers,” those who were successful early but were knocked off the “fast track,” shows that although both groups had talent and weaknesses, the “derailers” had some fatal flaws. Here are the top ten mistakes made by derailers.

1. Insensitive to others: abrasive, intimidating, bullying style.
2. Cold, aloof, arrogant.
3. Betrayal of trust.
4. Overly ambitious: thinking of next job, playing politics.
5. Specific performance problems with the business.
6. Over managing: unable to delegate or build a team.
7. Unable to staff effectively.
8. Unable to think strategically.
9. Unable to adapt to boss with different style.
10. Over dependent on advocate or mentor.

Successful entrepreneurs have all the managerial and technical competencies along with some key personal attributes to take risk and win through the odd situations.

Lesson 5

MANAGERIAL LEVELS AND SKILLS

Level of Managers in an
Organization: Top Managers
Middle Mangers
First-Line Managers
Non-managerial Employees

MCQ **First-line managers** (or **first-line supervisors)** are those managers having the least authority and are at the lowest level in the hierarchy of the organization. First-line managers are at the lowest level of management and manage the work of non-managerial individuals who are involved with the production or creation of the organization's products. They're often called supervisors but may also be called line managers, office managers, or even foremen. They are directly responsible for the work of operating (non-managerial) employees.

a Titles often include the term, "supervisor."
b Factors changing the jobs of first-line managers include emphasis upon worker participation and teamwork and the use of computers to regulate many activities formerly regulated by first-line managers.
c The jobs of first-line managers are likely to change toward a greater emphasis on dealing with internal human relations.

MCQ **Middle-level managers** are those managers beneath the top-levels of the hierarchy and directly supervise other managers below them. It includes all levels of management between the first-line level and the top level of the organization. These managers manage the work of first-line managers and may have titles such as department head, project leader, plant managers, or division manager.

a. Typical titles include "manager," "director of," "chief," "department head" and "division head."
b. Middle managers are mainly responsible for implementing overall organizational plans so that organizational goals are achieved as expected.
c. They plan, allocate resources to meet objectives and coordinate and link groups, departments, and divisions within a company.
d. They monitor and manage the performance of the subunits and individual managers who report to them.
e. Implement changes or strategies generated by top managers.
f. The modern trend of adding layers of middle management is reversing as companies reduce the number of levels in the managerial hierarchy.
g. Reducing the number of levels of managers' results in greater power and responsibility for those managers who remain.
h. It is predicted that there will be increasingly less emphasis on hierarchical levels in organization.

MCQ **Top managers** are those managers at the very top levels of the hierarchy who have the most authority and who are ultimately responsible for the entire organization. They are those who are responsible for making organization-wide decisions and establishing the plans and goals that affect the entire organization. These individuals typically have titles such as executive vice president, president, managing director, chief operating officer, chief executive officer, or chairman of the board.

a. Other titles include "chief executive officer (CEO)," "president," "executive vice president," "executive director," "senior vice president," and sometimes, "vice president."
b. They oversee overall planning for the organization, work with middle managers in implementing and planning, and maintain overall control over the progress of the organization.
c. In those public corporation that sell their stock to the public, top managers' report to the board of directors whose function is to represent the interests of the stockholders.
d. They are responsible for the overall direction of the organization and for creating the context for change.
e. They develop in employees the attitudes of commitment to and ownership in the company's performance and create a positive organizational culture through language and action.

f. The board of directors appoints the CEO (who sometimes also serves as the Chairman or Chairwoman of the Board). The CEO then appoints the other top managers subject to board approval.

Difference in Functions of Management within the Hierarchy:
A number of aspects of the management process differ within the hierarchy. The importance of each of the **functions of management** differs from one managerial level to another.

- **a. Planning** tends to be more important for top-level managers.
- **b. Organizing** tends to be more important for both top and middle-level managers.
- **c. Leading** is more important for first-line managers.
- **d. Controlling** is important among all levels of the hierarchy.

Management Skills, Knowledge and Performance

A. Managers need a **knowledge base.** This knowledge base provides a context for the manager's activities. It can include information about an industry and its technology, company policies and practices, company goals and plans, company culture, the personalities of key organization members, and important suppliers and customers.

B. Managers need three types of **key skills** to perform the duties and activities associated with being a manager.

a Technical skills are skills that reflect both an understanding of and a proficiency in a specialized field. Technical skills include knowledge of and proficiency in a certain specialized field, such as engineering, computers, accounting, or manufacturing. These skills are more important at lower levels of management since these managers are dealing directly with employees doing the organization's work.

bat karna ana chahiye

b Human skills are associated with a manager's ability to work well with others both as a member of a group and as a leader who gets things done through others. Because managers deal directly with people, this skill is crucial! Managers with good human skills are able to get the best out of their people. They know how to communicate, motivate, lead, and inspire enthusiasm and trust. These skills are equally important at all levels of management.

organization ka concept clear ho

c Conceptual skills are skills related to the ability to visualize the organization as a whole, discern interrelationships among organizational parts, and understand how the organization fit into the wider context of the industry, community, and world. Conceptual skills are the skills managers must have to think and to conceptualize about abstract and complex situations. Using these skills, managers must be able to see the organization as a whole, understand the relationships among various submits, and visualize how the organization fits into its broader environment.

C. The concept of **organizational performance** was analyzed by **Peter Drucker**.

1. **Effectiveness** is the ability to choose appropriate goals and to achieve those goals.
2. **Efficiency** is the ability to make the best use of available resources in the process of achieving goals. Efficiency is the ration of inputs used to achieve some level of outputs

Managing in the 21st century:

A. The world of business has changed dramatically in the past generation or so. Technology has shrunk distances; made communications possible in real-time all around the globe; made possible computers with incredibly large memories and super fast speeds; made us more aware of different places, peoples and cultures; and provided businesses with the opportunity to compete in nearly any market in the world.

B. Four trends are likely to impact managerial work in the future.

1. Successful managers in the twenty-first century will have to be able to guide their companies through shifts in economic conditions, modifications in customer preferences, rapidly changing technology, and other **changes.** Increasingly, successful companies will relay on **innovation** to successfully meet these changes

2. The work force is becoming increasingly **diverse.** Managers will need to be able to effectively utilize a much broader selection of personnel in the immediate future. **Managing diversity** is the planning and implementing of organizational systems and practices that maximize the potential of employees to contribute to organizational goals and develop their capabilities unhindered by group identities such as race, gender, age, or ethnic group. In the coming millennium, managers themselves will reflect the emerging diversity and, at the same time, will need to be able to effectively utilize and increasingly diverse work force.
3. Businesses increasingly face global competition; therefore, managers need to have greater knowledge of international business and to develop a **global perspective** Businesses are also more likely to be operating in more than one county.
4. Quality management programs have become increasingly important and **total quality management** program aimed at **continuous improvement** have been implemented in many business. Global competition has created an emphasis for better quality.

Lesson 6

MANAGEMENT IDEAS: YESTERDAY AND TODAY

The purpose of this lecture is to demonstrate that knowledge of management past history can help you better understand current management theory and practice. Thus, in order to understand the theories and practices used today, it's important for management students to look at the evolution of management thought and practices. The practice of management has always reflected historical times and societal conditions.

Introduction

Many current management concepts and practices can be traced to early management theories. The practice of management has always reflected the times and social conditions, so many organizations are responding to technology breakthroughs and developing Web-based operations. These new business models reflect today's reality: information can be shared and exchanged instantaneously anywhere on the planet. The purpose of this chapter is to demonstrate that knowledge of management history can help understand today's management theory and practice.

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Management's Connection to Other Fields of Study

Management courses have a rich heritage from humanities and social science courses.

A. **Anthropology—**the study of societies, which helps us learn about humans, their activities, and differences in fundamental values, attitudes, and behavior between people in different countries and within different organizations.
B. **Economics—**concerned with the allocation, distribution of scare resources, and understanding the changing economy, as well as the role of competition and free markets in a global context.
C. **Philosophy—**examines the nature of things, particularly values and ethics.
D. **Political Science—**studies the behavior of individuals and groups within a political environment, including structuring of conflict, allocating power in an economic system, and manipulating power for individual self-interest.
E. **Psychology—**science that seeks to measure, explain, and sometimes change the behavior of humans and other animals.
F. **Sociology**—the study of people in relation to their fellow human beings.

Historical Background Of Management

There are many examples from past history that illustrates how management has been practiced for thousands of years.

A. The Egyptian pyramids and the Great Wall of China are good examples of projects of tremendous scope and magnitude that employed tens of thousands of people. How was it possible for these projects to be completed? The answer is *management.*
B. Other examples of early management practices can be seen through assembly lines, accounting systems, and personnel functions as just a few of the processes and activities in organizations at that time that are also common to today's organizations.
C. Adam Smith, author of the classical economics doctrine, ***The Wealth of Nations,*** argued brilliantly about the economic advantages that **division of labor** (the breakdown of jobs into narrow, repetitive tasks) would bring to organizations and society.
D. The **Industrial Revolution** can be thought of as possibly the most important pre-twentieth-century influence on management. The introduction of machine powers, combined with the division of labor, made large, efficient factories possible. Planning, organizing, leading, and controlling became necessary.

The Birth of Early Management Ideas

A. **The Evolution of Management Theories** Trying to achieve goals through the judicious use of people and resources, getting the others to work toward these goals, and keeping track of whether or not we are accomplishing what we set out to do has been around for centuries. Expressed in other terms we could say that management is a very old concept. Generally, though, we think of "modern management" and the specific identification of planning, organizing, leading, and controlling being the functions of management as having begun at the end of the 1800s. Most of the contributors we recognize today have been twentieth century people.

B. Pre-classical Contributors: These contributors presented their ideas before the late 1800s.

MCQ
1. **Robert Owen** (1771-1858) was a British factory owner who advocated concern for the working and living conditions of workers, many of them young children. Many of his contemporaries thought he was a radical for such ideas.

MCQ
2. **Charles Babbage** (1792-1871) is considered to be the "father of modern computing." He foresaw the need for work specialization involving mental work. His management ideas also anticipated the concept of profit sharing to improve productivity.

MCQ
3. **Henry E. Towne** (1844-1924) called for the establishment of a science of management and the development of management principles that could be applied across management situations.

An assessment of the **pre-classical contributors** indicates that their efforts were fragmentary. By and large they applied their efforts towards developing specific techniques or solutions. They laid the groundwork for major management theories which came later.

Lesson 7

CLASSICAL VIEW OF MANAGEMENT (SCIENTIFIC AND BUREAUCRATIC)

Classical Viewpoint is divided into three parts: MCQ

1. **Scientific management**
2. **Bureaucratic management**
3. **Administrative management**

1. Scientific Management:

Scientific management is defined as the use of the scientific method to define the "one best way" for a job to be done.

Important Contributions:

MCQ Frederick W. Taylor is known as the "**father of scientific management**". Taylor's work at the Bethlehem Steel companies motivated his interest in improving efficiency.

1. Taylor sought to create a mental revolution among both workers and managers by defining clear guidelines for improving production efficiency. He defined four principles of management.
2. His "pig iron" experiment is probably the most widely cited example of scientific management.
3. Using his principles of scientific management, Taylor was able to define the one best way for doing each job.
4. Overall, Taylor achieved consistent improvements in productivity in the range of 200 percent. He affirmed the role of managers to plan and control and of workers to perform as they were instructed.

MCQ **Frederick Winslow Taylor (1856-1915)** was the first nationally known management thinker. His "Taylorism" or "scientific management" was a major contribution to business operations as we know them today. The overview of his studies is given below:

a Taylor developed scientific management to counter the problem of soldiering by workers—deliberately working below full capacity.

b Taylor pioneered the time-and-motion study, where by a work task is broken down into its various motions, is improved by eliminating unnecessary motions, and then the motions timed to determine optimal daily production.

c Through his four principles of scientific management, Taylor advocated scientific study of the task to find the best work method rather than relying on traditional methods handed down from one worker to another.

d Taylor successfully implemented his theory at Bethlehem Steel in two famous studies involving shoveling and pig-iron handling.

e Although real and imagined abuses or misuses of scientific management occurred (leading in one instance to a congressional investigation—and thereby adding to Taylor's notoriety), Taylor's strong support of science and his redefining the role of managers remains his primary contribution to management theory.

Taylor's Four Principles of Scientific Management:

1. Study each part of the task scientifically, and develop a best method to perform it.
2. Carefully select workers and train them to perform a task using the scientifically developed method.
3. Cooperate fully with workers to ensure they use the proper method.
4. Divide work and responsibility so management is responsible for planning work methods using scientific principles and workers are responsible for executing the work accordingly.

MCQ **Frank and Lillian Gilbreth (1868-1924 and 1878-1972 respectively):**
They did studies aimed at eliminating unnecessary motions and way of reducing task fatigue.

MCQ

a. They perfected the time-and-motion study techniques first introduced by Taylor.
b. Together they provided the first vocabulary for identifying hand, arm, and body motions used at work—which they called "**Therbligs**." MCQ
c. Lillian's doctoral dissertation was published as the book, *The Psychology of Management,* one of the first books published on the findings of psychology in the workplace.
d. Frank "proved" the value of motion studies in his own construction company whose productivity was nearly three times better than his competitors who used the older work methods.

MCQ **Henry L. Gantt (1861-1919)**
One of Taylor's closest associates is best known for his Gantt chart, a graphic aide to planning, scheduling, and controlling. His other interests included a unique pay incentive system and the social responsibility of business.

How Do Today's Managers Use Scientific Management?
To understand why scientific management was viewed as such an important development, you need to look at the times in which Taylor, the Gilbreths, and other scientific management advocates lived.
1. It was important because it could raise countries' standards of living by making workers more productive and efficient.
2. Also, it's important to remember that many of the tools and techniques developed by the scientific management practitioners are still used in organizations today.

2. Bureaucratic Management:

GENERAL ADMINISTRATIVE THEORISTS
This group of writers focused on the entire organization. They're important for developing more general theories of what managers do and what constitutes good management practice.

The two most prominent theorists behind the general administrative approach were Henri Fayol and Max Weber.

1. Henri Fayol wrote during the same time period as Frederick Taylor. Fayol was the managing director of a large French coal-mining firm.
a. His attention was aimed at the activities of all managers.
b. He described the practice of management as distinct from other typical business functions.

MCQ

2. **Max Weber** was a German sociologist who wrote in the early part of the 20th century.
a. He developed a theory of authority structures and described organizational activity based on authority relations.
b. He described the ideal form of organization—the **bureaucracy**, defined as a form of organization marked by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships

It emphasized the need for organizational rationality rather than the owner's whims as a means for determining how work should be divided into individual work positions and how the work should be rewarded. Max Weber, the most important early advocate of this approach, argued that too often organizational decisions and rewards were made because of who the worker was (possibly a relative of the manager) or who the worker knew rather than on the ***performance*** of the worker. Scientific management focused on the work or the job and how to do it better. Bureaucratic management, on the other hand, focused on how to structure the organization better so that better overall performance might be achieved.

Max Weber (1864-1920) a well known German sociologist coined the term “bureaucracy” to apply to the ideal of large organizations operating on a rational basis. Weber’s original definition was much different than the definition of government red tape and bungling usually associated with the term “bureaucracy” today.

Characteristics of Weber’s Ideal Bureaucracy

The major characteristics of Weber’s ideal bureaucracy include:

a. Specialization of a labor
b. Formalization of rules and procedures
c. Impersonality in application of rules and sanctions
d. Formalization of lines of authority into a hierarchical structure
e. Formalization of the career advancement process to be based on merit

The timing of Weber’s contributions is a little confusing. Although he was a contemporary of Taylor and others described as “classical contributors,” Weber’s works weren’t translated into English until the 1940s. Weber’s bureaucratic characteristics are still evident in many of today’s large organizations—even in highly flexible organizations of talented professionals where some bureaucratic mechanisms are necessary to ensure that resources are used **efficiently** and effectively.

Contribution of the classical viewpoint:

I. Highlights the need for a scientific approach to management.
II. Points out that work methods often can be improved through study.
III. Identifies a number of important principles that are useful in running organization efficiently.

Lesson 8

ADMINISTRATIVE VIEW OF MANAGEMENT

The Administrative Management

It is a term used for those early-day contributors who developed and taught principles to be used by managers, both individually and collectively, to improve the performance of the overall functions of the organization.

MCQ

Henri Fayol (1841-1925) a successful French industrialist, developed theories about management he thought could be taught to those individuals with administrative responsibilities.

a. Fayol's lasting contribution is the functional approach to management which is still used today. The major managerial functions, according to Fayol, were planning, organizing, commanding, coordinating, and controlling. The functions have been slightly modified several times since Fayol. In the main, though, they still provide the basic framework for studying management as witnessed by the organization of this and most other principles of management texts used today. Like Weber, Fayol's works were not translated into English for a couple of decades after his death.

b. Fayol gives us 14 principles of management which are still being used nowadays. These principles are given below:

Fayol's 14 Principles of Management

1. **Division of work**
   Specialization increases output by making employees more efficient.
2. **Authority.**
   Managers must be able to give order. Authority gives them this right. Along with authority, however, goes responsibility.
3. **Discipline.**
   Employees must obey and respect the rules that govern the organization.
4. **Unity of Command**
   An employee should receive orders from one superior only.
5. **Unity of direction.**
   The organization should have a single plan of action to guide managers and workers.
6. **Subordination of individual interests to the general interest.**
   The interests of any one employee or group of employees should not take precedence over the interests of the organization as a whole.
7. **Remuneration.**
   Workers must be paid a fair wage for their services.
8. **Centralization.**
   This term refers to the degree to which subordinates are involved in decision making.
9. **Scalar Chain.**
   The line of authority from top management to the lowest ranks is the scalar chain.
10. **Order.**
    People and materials should be in the right place at the right time.
11. **Equity.**
    Managers should be kind and fair to their subordinates.
12. **Stability of tenure of personnel**
    Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
13. **Initiative.**
    Employees who are allowed to originate and carry out plans will exert high levels of effort.
14. **Esprit de corps**
    Promoting team spirit will build harmony and unity within the organization.

BEHAVIORAL THEORIES OF MANAGEMENT

Behavioral Viewpoint:

Organizational behavior (OB) research has contributed much of what we know about behavioral views of management, human resources management, motivation, leadership, trust, teamwork, and conflict management.

Early Advocates:

Four people stand out as early advocates of the OB approach. These include Robert Owen, Hugo Munsterberg, Mary Parker Follett, and Chester Barnard.

1. Robert Owen, a successful Scottish businessman, proposed a utopian workplace.
2. Hugo Munsterberg created the field of industrial psychology—the scientific study of individuals at work to maximize their productivity and adjustment.
3. Mary Parker Follett was a social philosopher who thought the manager's job was to harmonize and coordinate group efforts.
4. Chester Barnard, president of New Jersey Bell Telephone Company, saw organizations as social systems that required human cooperation.
    a. He believed that managers' major roles were to communicate and stimulate subordinates to high levels of effort.
    b. He also introduced the idea that managers have to examine the environment and then adjust the organization to maintain a state of equilibrium.

MCQ

MCQ

Hugo Munsterberg (1863-1916) is considered to be the "**father of industrial psychology**" and is regarded by students of psychology as an important figure as Frederick Taylor is by students of management. Munsterberg attempted to develop practical applications of psychology. He argued that psychologists could help industry in three major areas:

a. Finding ways to identify individuals best suited to particular jobs.
b. Identifying the psychological conditions for optimum efficiency.
c. Finding ways to influence individual behavior to be congruent with management's objectives

MCQ

Mary Parker Follett (1868-1933) brought to management the perspectives of political science and social work. She identified:

a. The importance of the functioning of groups, not just individuals, in organization.
b. The principle of "power with" rather than "Power over" in management-employee relations.
c. Conflict resolution through integration, i.e., finding a solution to a conflict that would satisfy both parties.
d. The achievement of integrative unity, whereby the organization operates as a functional whole, with the various interrelated parts working together effectively to achieve organizational goals.

The Hawthorne Studies

Without question, the most important contribution to the developing Organization Behavior field came out of the **Hawthorne Studies,** a series of studies conducted at the Western Electric Company Works in Cicero, Illinois. These studies, started in 1924 and continued through the early 1930s, were initially designed by Western Electric industrial engineers as a scientific management experiment. They wanted to examine the effect of various illumination levels on worker productivity.

Control and experimental groups were set up with the experimental group being exposed to various lighting intensities, and the control group working under a constant intensity. If you were one of the industrial engineers in charge of this experiment, what would you have expected to happen? That individual output in the experimental group would be directly related to the intensity of the light? Seems perfectly logical, doesn't it? However, they found that as the level of light was increased in the experimental group, output for both groups increased. Then, much to the surprise of the engineers, as the light level was decreased the productivity decrease was observed in the experimental group only when the level of light was reduced to that of a moonlit night. What would explain these un -excluded that illumination intensity was not directly related to group productivity, and that something else must have contributed to the results. However, they weren't able to pinpoint what that "something else" was.

In 1927, the Western electric engineers asked Harvard professor Elton Mayo and his associates to join the study as consultants. Thus began a relationship that would last through 1932 and encompass numerous experiments in the redesign of jobs, changes in workday and workweek length, introduction of rest periods, and individual versus group wage plans.[9] For example, one experiment was designed to evaluate the effect of a group piecework incentive pay system on group productivity.

Hawthorne studies reflected the scientific management tradition of seeking greater efficiency by improving the tools and methods of work—in this case, lighting.

1. In the first set of studies, no correlation was found between changes in lighting conditions and individual work performance. In fact, performance nearly always went up with any change—brighter or darker—in illumination.
2. In the second set of studies, the concept of the **Hawthorne effect** emerged. The Hawthorne effect refers to the possibility that individuals singled out for a study may improve their performance simply because of the added attention they receive from the researchers, rather than because of any specific factors being tested in the study.
3. The third set of studies centered on group production norms and individual motivation.
4. Although simplistic and methodologically primitive, the Hawthorne studies established the impact that social aspects of the job (and the informal group) have on productivity.

Human Relations Movement: This movement was an attempt to equip managers with the social skills they need.

Abraham Maslow (1908-1970) developed a theory of **motivation** that was based on three assumptions about human nature.

a. Human beings have needs that are never completely satisfied.
b. Human behavior is aimed at satisfying the needs that are yet unsatisfied at a given point in time.
c. Needs fit into a somewhat predictable hierarchy ranging from basic, lower-level needs to higher-level needs:
   1) Physiological (lowest)
   2) Safety
   3) Belongingness or social
   4) Esteem
   5) Self-actualization (highest and NOT achieved by everyone)

Douglas McGregor (1906-1964) developed the **Theory X and Theory Y** dichotomy about the assumptions managers make about workers and how these assumptions affect behavior.

a. **Theory X, managers** tend to assume that workers are lazy, need to be coerced, have little ambition, and are focused on security needs. These managers then treat their subordinates as if these assumptions were true.
b. **Theory Y managers** tend to assume that workers do not inherently dislike work, are capable of self-control, have the capacity to be creative and innovative, and generally have higher-level needs that are often not met on the job. These managers then treat their subordinates as if these assumptions were true.
c. Workers, like all of us, tend to work up or down to expectations.

The Behavioral Science Approach:
It emphasizes scientific research as the basis for developing theories about human behavior in organizations that can be used to develop practical guidelines for managers.

1. The emphasis is upon developing useful tools for managers. Unlike Scientific Management from the Classical Era, the findings in behavioral studies are often somewhat difficult to find with mathematical certainty. That does not mean however, that the scientific approach should not be attempted nor that the findings of such an approach are any less useful.
2. An example is the idea of improving performance by setting goals the individual finds to be attainable yet not too easy.

Contributions of the Behavioral Viewpoint:

1. Spotlight the managerial importance of such factors as communication, group dynamics, motivation, and leaders.
2. Articulates practical applications of behavioral studies.
3. Draws on the findings of a number of disciplines such as management, psychology, sociology, anthropology, and economics.
4. Highlights the importance of an organization's members as active human resources rather than passive tools.

Lesson 10

QUANTITATIVE, CONTEMPORARY AND EMERGING VIEWS OF MANAGEMENT

Quantitative Approach to Management:

The **quantitative approach** involves the use of quantitative techniques to improve decision making. This approach has also been labeled operations research of management science. It includes applications of statistics, optimization models, information models, and computer simulations.

How Do Today's Managers use the quantitative approach?

The quantitative approach has contributed directly to management decision making in the areas of planning and control. For instance, when managers make budgeting, scheduling, quality control, and similar decisions, they typically rely on quantitative techniques. The availability of sophisticated computer software programs to aid in developing models, equations, and formulas has made the use of quantitative techniques somewhat less intimidating for managers, although they must still be able to interpret the results.

The quantitative approach, although important in its own way, has not influenced management practice as much as the next one we're going to discuss–organizational behavior–for a number of reasons. These include the fact that many managers are unfamiliar with and intimidated by quantitative tools, behavioral problems are more widespread and visible, and it is easier for most students and managers to relate to real, day-to-day people problems than to the more abstract activity of constructing quantitative models.

Branches in the Quantitative Management Viewpoint:

There are three main branches in the **Quantitative Management Viewpoint:** management science, operations management, and management information systems.

1. **Management science (or operations research** as it has been called) is an approach aimed at increasing decision effectiveness through the use of sophisticated mathematical models and statistical methods. This is NOT a term to be used synonymously with either the term "Scientific Management" described earlier featuring Taylor and others or "The Science of Management," a term that usually refers broadly, to a deliberate, rational approach to management issues.
2. **Operations Management** is the function or field of expertise that is primarily responsible for the production and delivery of an organization's products and services.
3. **Management information systems (MIS)** is the name often given to the field of management that focuses on designing and implementing computer-based information systems for use by management

Contemporary Viewpoints:

This school of thought or view point about management includes those major ideas about managing and organizations that have emerged since the 1950s. Some of the ideas, systems theory for example, are rooted in experiences gained during World War II.

1. **The systems theory** approach is based on the notion that organizations can be visualized as systems of interrelated parts or subsystems that operate as a whole in pursuit of common goals. This will be discussed in more detail in the next session.
2. **Contingency Theory** is the view that appropriate managerial action depends on the particular parameters of each situation. This approach is in marked contrast to the earliest universal approach stemming from the classical management school which suggested that there was one, and only one, best decision for managers to make which applied in all cases and to all organization, big or little, for profit, or not-for-profit, etc. The generalized corollary to the universal approach is that the secret to successful managing was just to keep looking until that one best solution was "found." "it all depends", would be the slogan of contingency theory. The contingency approach applies

 particularly well in such areas as environmental factors, strategy, organizational design, technology, and leadership.

Emerging Views:

Now that you've got a good understanding of the evolution and past history of management theories and practices, what current concepts and practices are shaping today's management history and changing the way that managers do their jobs?

A. **Globalization**. Organizational operations no longer stop at geographic borders. Managers in all types and sizes of organizations are faced with the opportunities and challenges of globalization.

B. **Entrepreneurship** refers to the process whereby an individual or a group of individuals uses organized efforts and means to pursue opportunities to create value and grow by fulfilling wants and needs through innovation and uniqueness.
   1. Three important themes stand out in this definition:
      a. The pursuit of opportunities
      b. Innovation
      c. Growth
   2. Entrepreneurship will continue to be important to societies around the world.

C. **Managing in an E-Business World.**
   1. **E-business** (electronic business)—a comprehensive term describing the way an organization does its work by using electronic (Internet-based) linkages with key constituencies in order to efficiently and effectively achieve its goals.
   2. **E-commerce** (electronic commerce) is any form of business exchange or transaction in which the parties interact electronically.

D. **Need for Innovation and Flexibility.**
   1. The constant flow of new ideas is crucial for an organization to avoid obsolescence or failure.
   2. Flexibility is valuable in a context where customers/ needs may change overnight, where new competitors come and go, and where employees and their skills are shifted as need from project to project.

E. **Quality Management Systems.**
   1. **Total quality management** is a philosophy of management that is driven by customer needs and expectations and focuses on continual improvement in work processes
   2. TQM was inspired by a small group of quality experts, of whom W. Edwards Deming was one of the chief proponents. He has also developed and presented his quality philosophy and theory of profound knowledge.
   3. TQM represents a counterpoint to earlier management theorists who believed that low costs were the only road to increased productivity.
   4. The objective of TQM is to create an organization committed to continuous improvement.

F. **Learning Organizations and Knowledge Management.**
   Managers now must deal with an environment that is continually changing. The successful organizations of the 21st century will be flexible, able to learn and respond quickly, and be led by managers who can effectively challenge conventional wisdom, manage the organization's knowledge base, and make needed changes.
   1. **A learning organization** is one that has developed the capacity to continuously adapt and change.
   2. **Knowledge management** involves cultivating a learning culture where organizational members systematically gather knowledge and share it with others to achieve better performance.

G. **Theory Z : William Ouchi's** Theory Z combines positive aspects of American and Japanese management into a modified approach aimed at increasing managerial effectiveness while remaining compatible with the norms and values of society and culture.

Lesson 11

SYSTEM'S VIEW OF MANAGEMENT AND ORGANIZATION

Managing Systems

Another way to look at the manager's job is from the perspective of managing systems.

System:

A **system** is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. It's a concept taken from the physical sciences and applied to organizations.
The two basic types of systems are

Closed systems are not influenced by and do not interact with their environment.

Open systems dynamically interact with their environment.
Today, when we call organization systems, we mean open systems, that is, an organization that constantly interacts with its environment.

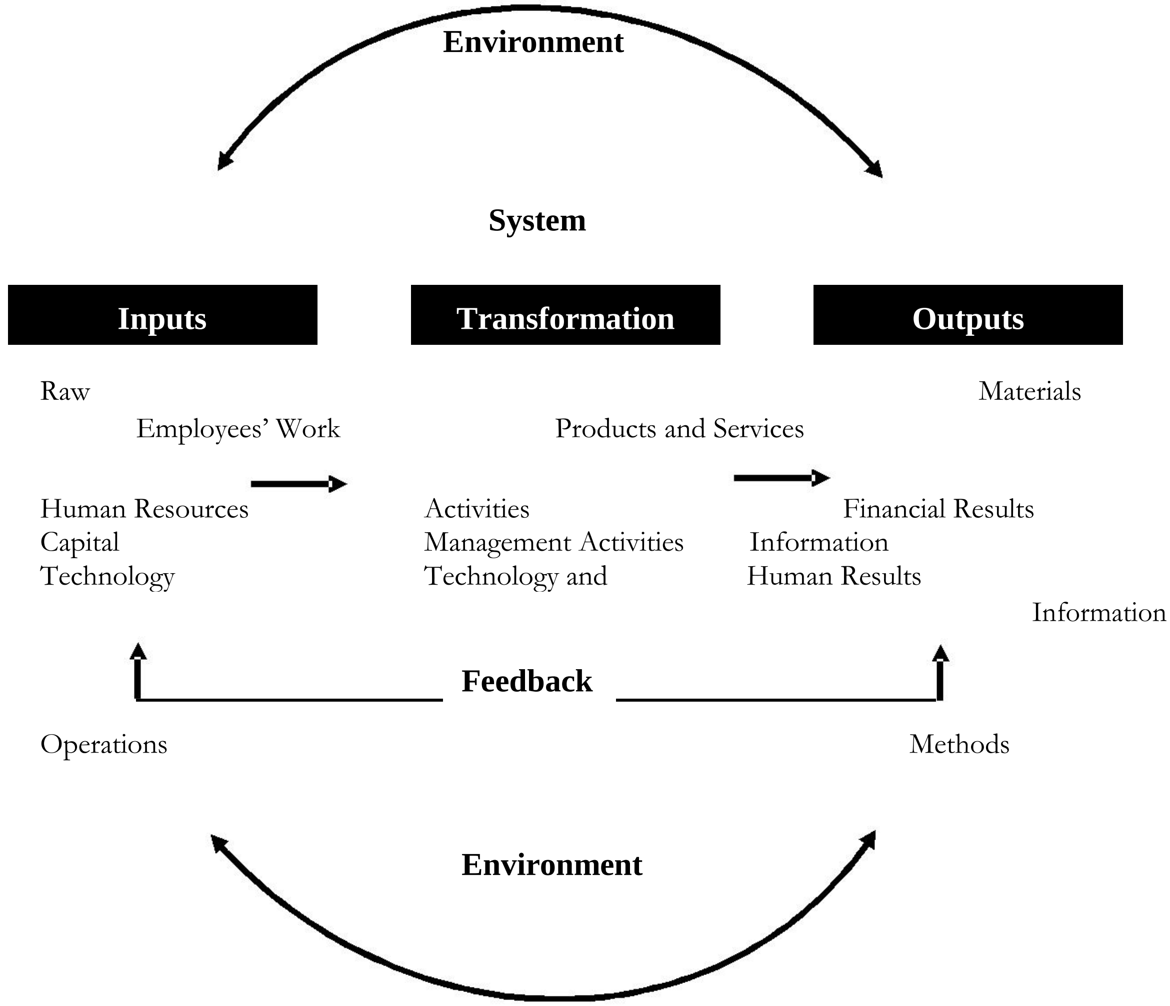
The systems theory approach is based on the notion that organizations can be visualized as systems of interrelated parts or subsystems that operate as a whole in pursuit of common goals. This will be discussed in more detail in the next session.

1. The major components of a system are:
   a. **Inputs:** the various human, materials, financial, equipment, and informational resources required to produce goods and services.
   b. **Transformation processes:** the organization's managerial and technological abilities that are applied to convert inputs into outputs.
   c. **Outputs:** the products, services, and other outcomes produced by the organization.
   d. **Feedback:** information about results and organizational status relative to its environment.

2. **Open versus closed systems.** These are terms indicating the relative degree with which a system interacts with its environment. While there are very few, if any, completely open or completely closed systems, we usually view open systems as those having continual interaction with its environment. Closed systems are those with little interaction and feedback from their environments.

3. Two major characteristics of open systems are:
   a. **Negative entropy** is the ability of open systems to bring in new energy in the form of inputs and feedback from the environment in order for the organization to delay or to arrest entropy, the decaying process.
   b. **Synergy** is the ability of the whole to equal more than the sum of its parts.
   c. **The systems viewpoint** suggests that managers are likely to be more successful if they attempt to operate their units as open systems rather than as closed system.

The Organization as an Open System



Answer to Test Yourself on Management Viewpoints and Theories!!!!

1. ***What are some early evidences of management practice?***
   Some early evidences of management practice are the Egyptian pyramids, the Great Wall of China, and the status of Venice as a major economic trade center in the 1400s.

2. ***Explain why division of labor and the Industrial Revolution were important to the study of management.***
   Division of labor increases productivity by increasing each worker's skill and dexterity, saves time that is commonly lost in changing tasks, and creates labor-saving inventions and machinery. During the Industrial Revolution, business owners were creating large businesses that required formalized management practice.

3. ***What are the four major approaches to the study of management?***
   The four major approaches to the study of management are scientific, general administrative, quantitative, and organizational behavior. Each is correct and makes an important contribution to our overall understanding of management.

4. ***What relevance does scientific management have to current management practice?***
Scientific management is the use of scientific methods to define the "one best way" for a job to be done. Its relevance to current management practice is that managers still use many of the techniques developed by Taylor, the Gilbreth, and other practitioners.

5. ***Describe Frederick W. Taylor's contributions to scientific management?***
Frederick Taylor defined four principles of management—develops a science for each element of an individual's work; scientifically select, train, teach, and develop each worker; cooperate with workers to ensure that all work is done in accordance with the principles of science; and divide work and responsibility almost equally between management and workers.

6. ***Explain Frank and Lillian Gilbreth's contributions to scientific management?***
Frank and Lillian Gilbreth studied work arrangements to eliminate wasteful hand and body motions. They also experimented with the design and use of proper tools and equipment for optimizing work performance.

7. ***Describe Fayol's principles of management and how they compare with Taylor's?***
Henri Fayol's principles of management were division of work, authority, discipline, unity of command, unity of direction, subordination of individual interests, remuneration, centralization, scalar chain, order, equity, and stability of tenure of personnel, initiative, and esprit de corps. In contrast to Taylor's principles, Fayol's focused on the entire organization and not just the individual worker.

8. ***What did Weber contribution to the general administrative theories of management?***
Max Weber described an ideal type of organization called a bureaucracy, characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships. Rules and controls were to be applied uniformly, avoiding involvement with individual personalities and preferences of employees.

9. ***Explain how the quantitative approach evolved and how it has contributed to the field of management.***
The quantitative approach, also called operations research or management science, is the use of quantitative techniques to improve decision making, and it evolved out of the development of mathematical and statistical solutions to military problems during World War II. After the war, many quantitative techniques that had been used for military problems were applied to the business sector. The quantitative approach has added another dimension to the evolution of management practice and thinking and has contributed most directly to management decision making in planning and control.

10. ***What is organizational behavior?***
Organizational behavior is the field of study concerned with the actions or behavior of people at work.

11. ***What were some of the contributions of the early advocates of OB?***
Early advocates of the OB approach were Robert Owen, who proposed an idealized workplace where work hours would be regulated, child labor outlawed, public education and meals provided, and business involved in community projects; Hugo Munsterberg, who created the field of industrial psychology, the study of individuals at work to maximize their productivity and adjustment; Mary Parker Follett, who thought that organizations should be based on a group ethic rather than on individualism to release individual potential; and Chester Barnard, who saw organizations as social systems that required human cooperation.

12. ***Describe the Hawthorne studies and their contribution to management practice.***
The Hawthorne studies, conducted at the Western Electric Company Works in Cicero Illinois, from 1924 through the early 1930s, exposed an experimental group of workers to various lighting intensities while providing a control group with constant intensity. As the level of light was increased in the experimental group, the output of both groups increased. The series of studies led to a new emphasis on the human behavior factor and helped change the dominant theme of the time that employees were not different from any other machines the organization used.

13. ***How is globalization affecting the way managers do their jobs?***
Management is no longer constrained by national borders, and managers in organizations of all sizes and types around the world are faced with the opportunities and challenges of operating in a global market.

14. ***What is workforce diversity, and what implications does it have for managers?***
Workforce diversity exists when workers are more heterogeneous in terms of gender, race, ethnicity, age, and other characteristics that reflect their differences. It's an important issue because as more women, minorities, elderly, and immigrants enter the job market in the first part of the 21st century, monumental changes are predicted in the workplace.

15. ***Discuss the three important themes in the definition of entrepreneurship?***
First, is the pursuit of opportunities, because entrepreneurship is about pursuing environmental trends and changes that no one else has seen or paid attention to.
Second, is innovation, because entrepreneurship involves changing, revolutionizing, transforming, and introducing products or services or new ways of doing business.
Third, is growth, because entrepreneurs are not content to stay small or to stay the same in size.

16. ***How is e-commerce different from e-business, and what are the main forms of e-commerce transactions?***
E-business is more than e-commerce, although e-business can include e-commerce. E-business is a comprehensive term describing the way an organization does its work by using electronic linkages with its key constituencies. The main forms of e-commerce transactions are **business-to-business, business-to-consumer, consumer-to-consumer, and government-to-business**.

17. ***Describe the three categories of e-business involvement.***
The three main categories of e-business are: **enhanced**—using the Internet to enhance but not replace traditional ways of doing business; **enabled**—using the Internet to perform its traditional business functions better, but not to sell anything; **tota**l—whole existence is made possible by and revolves around the Internet.

18. ***Why should managers be concerned about innovation and flexibility?***
Without a constant flow of new ideas an organization is doomed to obsolescence or failure. Also, flexibility is required in a context where customers/needs may change overnight, where new competitors come and go quickly, and where employees and their skills are shifted as needed from project to project

19. ***What is TQM, and how is it affecting manager's jobs?***
TQM is a philosophy of management driven by continual improvement and response to customer, employee, and supplier needs and expectations. It encompasses employees and suppliers as well as the people who purchase the organization's goods or services. The objective of managers is to create an organization committed to continuous improvement in work processes.

20. ***How does knowledge management fit into the concept of a learning organization?***
A learning organization is one that has developed the capacity to continuously learn, adapt, and change. Knowledge management involves cultivating a learning culture where organizational members systematically gather knowledge and share it with others in the organization in order to achieve better performance.

21. ***What is workplace spirituality and how is it an issue that managers must deal with?***
Workplace Spirituality is recognition of an inner life that nourishes and is nourished by meaningful work that takes place in the context of community. Workers and society in general, are searching for a deeper understanding of who they are and why they're here on Earth. They want more than just a steady job and a paycheck. Current research studies looking at the relationship between workplace spirituality and productivity have shown interesting results. Workplace spirituality is likely to be manifested in how managers treat employees and how employees' contributions are respected and valued.

Lesson 12

ANALYZING ORGANIZATIONAL ENVIRONMENT AND UNDERSTANDING ORGANIZATIONAL CULTURE

This lecture discusses the components and complexities of an organization's culture and the external /internal environment and how these may constrain managers. Managers are also responsible for improving stakeholder involvement in decisions making and actions taking. Managers must be aware that organizational culture and organizational environments will influence both the way an organization is managed as well as its effectiveness. How can an understanding of organizational culture and the external environment help the manager? Let us learn.

THE ENVIRONMENT:

The impact of the external environment on a manager's actions and behaviors cannot be overemphasized. There are forces in the environment that play a major role in shaping managers' endeavors.

The **environment** is defined as outside institutions and forces outside the organization that potentially affect an organization's performance.

Types of Environment:

1) **External Environment**
2) **Internal Environment**

External Environment

'Major forces outside the organization with potential to influence significantly a product or service's likely success is called its external environment.'

Types of External Environments:

The insights derived from systems theory have helped to highlight the importance of a managed interaction between an organization and its external environment. Two major divisions have been made in the external environment:

1) **The Mega Environment**
2) **The Task Environment**

The Mega Environment

The **mega-environment,** or general environment as it is sometimes called, is that segment of the **external environment** that reflects the broad conditions and trends in the societies within which an organization operates.

Major Elements of the Mega Environment

1. The **technological element** of the mega-environment reflects the current state of knowledge regarding the production of products and services.
    a. Technology is a particular state of knowledge. It is not "things." A computer, for instance, is an artifact or an example of technology and is not technology itself.
    b. Research indicates that technology tends to evolve through periods of incremental change punctuated by technological breakthroughs that either enhance or destroy the competence of firms in an industry.
    c. Numerous publications (such as Business Week, Forbes, etc.) and on-line services (such as LEXIS/NEXIS) provide information regarding technological and other environmental elements.

2. The **economic element** of the mega-environment encompasses the systems of producing, distributing, and consuming wealth.
   a. In a **capitalist economy,** economic activity is governed by market forces and the means of production are privately owned by individuals, either directly or through corporations.
   b. In a **socialist economy,** the means of production are owned by the state and economic activity is coordinated by state plan.
   c. In practice, countries tend to have hybrid economies, incorporating elements of capitalism and socialism.
   d. Organizations are influenced in any given economic system by a variety of economic conditions over which they have little control, such as inflation and interest rates.

3. The **legal-political element** of the mega-environment includes the legal and governmental systems within which an organization must function.
   a. Organizations must operate within the general legal framework of the countries in which they do business.
   b. Organizations are subject to an increase in lawsuits filed by customers or employees.
   c. The political issues which affect organizations include those which influence the extent of government regulation.

4. The **socio-cultural element** of the mega-environment includes the attitudes, values, norms, beliefs, behaviors, and associated demographic trends that are characteristic of a given geographic area.
   a. The socio-cultural element is of particular importance to multinational corporations.
   b. Socio-cultural trends can result in important shifts in demand for products.

5. The **international element** of the mega-environment includes the developments in countries outside an organization's home country that have the potential impact to the organization. International factors far beyond the direct influence of a particular organization can have profound effects on its ability to operate successfully.
   a. Fluctuations of the dollar against foreign currencies influence the ability of an organization to compete in international markets.
   b. Free-trade agreement, such as the NAFTA, GATT can affect an organization either positively or negatively.

The Task Environment

The **task environment** is that segment of the external environment made up of specific outside elements (usually organizations) with which an organization interfaces in the course of conducting its business. The task environment depends on the products and services the organization offers and the locations where it conducts business. The organization may be more successful in affecting its task environment than it is its mega-environment.

Elements of the Task Environment:

1. An organization's **customers and clients** are those individuals and organizations that purchase its products and/or services. It is becoming increasingly important to stay in touch with customers' needs.
2. An organization's **competitors** are other organizations that either offers of have a high potential of offering rival products or services.
   a. Organization needs to keep abreast of who their competitors are and what they are doing.
   b. Ways to track what competitors are doing include obtaining information from commercial data bases, specialty trade publications, news clippings from local newspaper, help-wanted ads, published market research reports, business reports, trade shows, public filings, advertisements, and personal contacts.

3. An organization's **suppliers** are those individual organizations that supply the resources (such as raw materials, products, or services) the organization needs to conduct its operations.
4. An organization's **labor supply** consists of those individuals who are potentially employable by the organization.
   – Organization may have to shift their location if labor supplies dry up in some areas and increase in others.

5. Various **government agencies** provide services and monitor compliance with laws and regulations at local (e.g., consumer affairs), state or regional (e.g., health department), and national (e.g., CBR) levels.

Organization's Relationships with Stakeholders:

1. Stakeholders are any constituencies in the organization's external environment that are affected by, or have a vested interest in, the organization's decisions and actions
2. Stakeholder relationship management is important for two reasons:
   a. It can lead to improved predictability of environmental changes, more successful innovation, greater degrees of trust, and greater organizational flexibility to reduce the impact of change.
   b. It is the "right" thing to do, because organizations are dependent on external stakeholders as sources of inputs and outlets for outputs and should be considered when making and implementing decisions.

3. Stakeholder relationships are managed using four steps:
   a. Identify external stakeholders
   b. Determine the specific interests of each stakeholder group
   c. Decide how critical these interests are to the organization
   d. Determine what specific approach managers should use to manage each relationship.

The Organization's Culture

Just as individuals have a personality, so, too, do organizations. We refer to an organization's personality as its culture.

Organizational culture is a system of shared meaning and beliefs within an organization that determines, in large degree, how employees act. This definition implies several things.

1. Culture is a perception that exists in the organization, not in the individual.
2. Organizational culture is a descriptive term. It describes rather than evaluates.
3. Seven dimensions of an organization's culture have been proposed:
   a. **Innovation and risk taking** (the degree to which employees are encouraged to be innovative and take risks)
   b. **Attention to detail** (the degree to which employees are expected to exhibit precision, analysis, and attention to detail)
   c. **Outcome orientation** (the degree to which managers focus on results or outcomes rather than on the techniques and processes used to achieve those outcomes)
   d. **People orientation** (the degree to which management decisions take into consideration the effect on people within the organization)
   e. **Team orientation** (the degree to which work activities are organized around teams rather than individuals)
   f. **Aggressiveness** (the degree to which people are aggressive and competitive rather than easygoing and cooperative)
   g. **Stability** (the degree to which organizational activities emphasize maintaining the status quo in contrast to growth)

Employees "learn" an organization's culture in different ways:

1. Organizational stories are one way that employees learn the culture. These stories typically involve a narrative of significant events or people.
2. Rituals are repetitive sequences of activities that express and reinforce the key values of the organization, what goals are most important, which people are important.

Lesson 13

21^{st} CENTURY MANAGEMENT TRENDS

Where are we today? What current management concepts and practices are shaping "tomorrow's history"? This session establishes first a framework for understanding social responsibility and managerial ethics. Then, in this session, we'll attempt to answer those above stated questions by introducing several trends and issues that we believe are changing the way managers do their jobs: globalization, entrepreneurship, managing in an e-business world.

Organizational Social Responsibility

What is Social Responsibility?

Before the 1960s, few people questioned the role of business organizations in social responsibility. However, times have changed. Now it's important to get an understanding of *what* social responsibility is.

There are two opposing views of what social responsibility is.

1. The **classical view** is the view that management's only social responsibility is to maximize profits.
   a. Milton Friedman is the most outspoken advocate of this view.
   b. He argues that managers' primary responsibility is to operate the business in the best interests of the stockholders—the true owners of the organization.

2. The **socioeconomic view** is the view that management's social responsibility goes well beyond the making of profits to include protecting and improving society's welfare.
   a. The argument behind this view is that corporations are not independent entities responsible only to stockholders.
   b. Also, modern organizations are no longer just economic institutions.

There are 10 major arguments *for* social responsibility, and they include the following:

a. Public expectations
b. Long-run profits
c. Ethical obligation
d. Public image
e. Better environment
f. Discouragement of further government regulation
g. Balance of responsibility and power
h. Stockholder interests
i. Possession of resources
j. Superiority of prevention over cures

There are six major arguments *against* social responsibility. These include:

a. Violation of profit maximization
b. Dilution of purpose
c. Costs
d. Too much power
e. Lack of skills
f. Lack of accountability

Social responsibility is an obligation, beyond that required by the law and economics, for a firm to pursue long-term goals that are good for society.

Social obligation is the obligation of a business to meet its economic and legal responsibilities.

Social responsiveness is the capacity of a firm to adapt to changing societal conditions.

Social Responsibility and Economic Performance

The question of whether socially responsible activities lower a company's economic performance has been addressed in numerous studies. The majority of studies found a positive relationship between corporate social involvement and economic performance, but some caution is necessary because of methodological questions associated with trying to measure social responsibility and economic performance.

Managerial Ethics

Ethics refers to the rules and principles that define right and wrong conduct. There are ethical dimensions to managerial decisions and actions.

Four Views of Ethics:

1. The **utilitarian view of ethics** states that ethical decisions are made solely on the basis of their outcomes or consequences.
2. The **rights view of ethics** says that ethical decisions are concerned with respecting and protecting individual liberties and privileges such as the rights of privacy, freedom of conscience, free speech, life and safety, and due process.
3. The **theory of justice view of ethics** states that decision makers seek to impose and enforce rules fairly and impartially.
4. Finally, the **integrative social contracts theory** proposes that ethical decisions should be based on empirical (what is) and normative (what should be) factors. This view is based on the integration of two "contracts"—the general social contract and a more specific contract among members of a specific community that might be affected by a decision.

Toward Improving Ethical Behavior

What can be done to improve ethical behavior? There are a number of things organizations can do to cultivate ethical behavior among members. Eight suggestions will be explored.

1. The selection process for bringing new employees into organizations should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.
2. A **code of ethics** is a formal statement of an organization's primary values and the ethical rules it expects employees to follow. Also, decision rules can be developed to guide managers in handling ethical dilemmas in decision making. Top management's leadership and commitment to ethical behavior is extremely important because it's the top managers who set the cultural tone.
3. Employees' job goals should be tangible and realistic, because when goals are clear and realistic, they reduce ambiguity and motivate rather than punish. Job goals are usually a key issue in performance appraisal.
4. If an organization wants it employees to uphold high ethical standards, it must include this dimension in its appraisal process. Performance appraisals should be comprehensive and not just focus on economic outcomes.
5. Ethics training should be used to help teach ethical problem solving and to present simulations of ethical situations that might arise. If it does nothing else, ethics training should increase awareness of ethical issues
6. Independent social audits evaluate decisions and management practices in terms of the organization's code of ethics and can be used to deter unethical behavior.
7. Finally, organizations can provide formal protective mechanisms so that employees with ethical dilemmas can do something about them without fear of reprisal.

Entrepreneurship:

Practically everywhere you turn these days you'll read or hear about entrepreneurs. If you pick up a current newspaper or general news magazine or log on to one of the Internet's news sites, chances are you'll find at least one story (and probably many more) about an entrepreneur or an entrepreneurial business. Entrepreneurship is a popular topic! But what exactly is it?

Entrepreneurship is the process whereby an individual or a group of individuals uses organized effort and means to pursue opportunities to create value and grow by fulfilling wants and needs through innovation and uniqueness, no matter what resources are currently controlled. It involves the discovery of opportunities and the resources to exploit them. Three important themes stick out in this definition of entrepreneurship. First is the **pursuit of opportunities**. Entrepreneurship is about pursuing environmental trends and changes that no one else has seen or paid attention to. For example, Jeff Bezos, founder of Amazon.com, was a successful programmer at an investment firm on Wall Street in the mid -1990s. However, statistics on the explosive growth in the use of the Internet and World Wide Web (at that time, it was growing about 2,300 percent a month) kept nagging at him. He decided to quit his job and pursue what he felt were going to be enormous retailing opportunities on the Internet. And the rest, as they say, is history. Today, Amazon sells books, music, home improvement products, cameras, cars, furniture, jewelry, and numerous other items from its popular Web site.

The second important theme in entrepreneurship is **innovation**. Entrepreneurship involves changing, revolutionizing, transforming, and introducing new approaches–that is, new products or services or new ways of doing business.

The final important theme in entrepreneurship is **growth**. Entrepreneurs pursue growth. They are not content to stay small or to stay the same in size. Entrepreneurs want their business to grow and work very hard to pursue growth as they continually look for trends and continue innovating new products and new approaches.

Entrepreneurship will continue to be important to societies around the world. For-profit and even not-for-profit organizations will need to be entrepreneurial–that is, pursuing opportunities, innovations, and growth–if they want to be successful.

Managing in an E-Business World

Few years ago the Internet and World Wide Web were a novelty to most managers and organizations. E-mail as a form of communication was gaining in popularity, and occasionally you saw Web addresses in company advertisements. Those days are long, gone! Now, everywhere you look, organizations (small to large, all types, global and domestic, and in all industries) are becoming e- businesses. Today's managers must manage in an e-business world! In fact, as a student, your learning may increasingly be taking place in an electronic environment. What do we know about this e-business world?

E-business (electronic business) is a comprehensive term describing the way an organization does its work by using electronic (Internet- based) linkages with its key constituencies (employees, managers, customers, suppliers, and partners) in order to efficiently and effectively achieve its goals. It's more than e-commerce, although e-business can include e-commerce. **E-commerce (electronic commerce)** is any form of business exchange or transaction in which the parties interact electronically.[6] Firms such as Dell (computers), Varsity books (textbooks), and PC Flowers and Gifts (flowers and other gifts) are engaged in e-commerce because they sell products over the Internet. Although e-commerce applications will continue to grow in volume, they are only one part of an e-business.

Not every organization is or needs to be a total e-business. There are three categories of e-business involvement. The first type is what we're going to call an e-business enhanced organization, a traditional organization that sets up e-business capabilities, usually e-commerce, while maintaining its traditional structure. Many Fortune 500 type organizations are evolving into e-business using this approach. They use the Internet to enhance (not to replace) their traditional ways of doing business. For instance, Sears, a traditional bricks-and- mortar retailer with thousands of physical stores worldwide started an Internet division whose goal is to make Sears "the definitive online source for the home." Although Sears Internet division, Sears.com, represents a radical departure for an organization founded in 1886 as a catalog-sales company, it's intended to expand, not replace, the company's main source of revenue.

Managing in an e-world, whether as an e-business enhanced, e-business enabled, or total e-business organization requires new insights and perspectives.

Globalization:

Management is no longer constrained by national borders. BMW, a German firm, builds cars in South Carolina. McDonald's, a U.S. firm, sells hamburgers in China. Toyota, a Japanese firm, makes cars in Kentucky. Australia's leading real estate company, Lend Lease Corporation, built the Blue water shopping complex in Kent, England, and has contracts with Coca-Cola to build all the soft drink maker's bottling plants in Southeast Asia. Swiss company ABB Ltd. has constructed power generating plants in Malaysia, South Korea, China, and Indonesia. The world has definitely become a global village!

Managers in organizations of all sizes and types around the world are faced with the opportunities and challenges of operating in a global market.

Lesson 14

UNDERSTANDING GLOBAL ENVIRONMENT WTO AND SAARC

Understanding the Global Environment

Several significant forces are reshaping the global environment that managers face. Two important features of the global environment are regional trading alliances and the World Trade Organization.

A. Regional Trading Alliances.

Regional trading alliances are reshaping global competition. It's no longer country versus country, but region against region.

1. The **European Union (EU)** is a union of 15 **(**25 state members are according to December, 2004**)** European nations created to eliminate national barriers to travel employment, investment, and trade.
    a. The primary motivation for the creation of the EU (in February 1992) was to allow these nations to reassert their position against the industrial strength of the United States and Japan.
    b. The EU took an enormous step towards full unification in 1999 when 11 of the 15 countries became part of the **EMU**—the economic and monetary union, the formal name for the system where participating countries share the same currency, the *Euro*.
    c. The original European Union consisted of 12 member nations: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and United Kingdom. It expanded in 1995 taking in Austria, Finland and Sweden. Since then Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Slovakia and Slovenia have been included.

2. The **North American Free Trade Agreement (NAFTA)** is an agreement among the Mexican, Canadian, and U.S. governments in which all barriers to free trade will eventually be eliminated.
    a. NAFTA went into effect on January 1, 1994.
    b. The signing of NAFTA had both critics and champions.
    c. Eliminating the barriers to free trade (tariffs, import licensing requirements, customs user fees) has resulted in a strengthening of the economic power of all three countries.
    d. Colombia, Mexico, and Venezuela signed an economic pact eliminating import duties and tariffs in 1994.
    e. An additional 36 countries in the Caribbean region, South America, and Central America are negotiating a Free Trade Area of the Americas (FTAA) trade agreement.
    f. Also in existence is another free-trade block known as the Southern Cone Common Market.

3. The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Asian nations.
    a. In the future, the Asian region promises to be one of the fastest-growing economic regions of the world.
    b. Another significant historical and economic event in this region was the return of Hong Kong from British rule to Chinese rule on July 1, 1997.

4. The **South Asian Alliance for Regional Cooperation (SAARC)**
    a. The South Asian Association for Regional Cooperation (SAARC) was established when its Charter was formally adopted on December 8, 1985 by the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
    b. SAARC provides a platform for the peoples of South Asia to work together in a spirit of friendship, trust and understanding. It aims to accelerate the process of economic and social development in Member States.
    c. In 2005 Afghanistan became the 8th member of SAARC.

5. **World Trade Organization (WTO)** is an international body of which more than 100 countries are members. Several trade treaties have been agreed and worked out so far for regulation of world trade. It is a body which helps in promoting global, regional and trade with most favored nation states.

Test your answers!

1. ***How does a global economy create both opportunities and challenges for managers?***
   The global economy creates opportunities because, with the entire world as a marketplace and national borders becoming irrelevant, the potential for organizations to grow and expand increases dramatically. It can create challenges in that new competitors can suddenly appear anytime, anywhere, and managers who don't respond quickly to changes are likely to find their organizations' survival in doubt.

2. ***Describe the four major regional trading alliances including what it is, why it was formed, and what challenges it is facing.***
   The **EU** was formed to allow its 15 member nations to reassert their position against the industrial strength of the United States and Japan. Its ultimate goal, to have common customs duties and unified industrial and commercial policies, as well as a single currency and regional central bank, faces problems particularly over the establishment of a single currency.

   The **North American Free Trade Agreement (NAFTA**) united Mexico, Canada, and the United States in dropping all barriers to free trade such as tariffs, import licensing requirements, and customs user fees. It was formed to provide such long-term benefits as job creation, market development, and an increased standard of living for all three countries. Studies have reported both positive and negative effects on employment to date. It faces continued opposition from labor advocates and environmentalists and competition from other regional trade alliances and trading blocs.

   The **Association of Southeast Asian Nations (ASEAN)** includes Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Burma, Cambodia, and Laos in a trading entity. Another significant development in Asia was the return of Hong Kong from British Rule to Chinese rule in July 1997.

   South Asian Alliance for Regional Cooperation (SAARC) is a body comprising of Pakistan, India, Bangladesh, Sri Lanka, and Nepal, Bhutan and Afghanistan. It is a trading as well as collaborative entity for dialogue on concerns of mutual interest.

3. ***What are the legal-political and economic factors that managers need to be aware of in managing globally?***
   The legal-political environment consists of legal-political systems and legal-political procedures. Managers must understand the legal-political environment in a foreign country in order to understand the constraints under which they operate and the opportunities that exist.
   The primary economic factors that managers must be aware of in global management are fluctuating currency exchange rates, inflation rates, and diverse tax policies.

4. ***Compare and contrast national culture and organizational culture.***
   Like organizational culture, national culture is shared by all or most inhabitants of a country and shapes their behavior and the way they see the world. As compared to organizational culture, national culture has a greater effect on employees of the organization.

5. ***Describe Hofstede's four characteristics of national culture.***
   Geert Hofstede found that national cultures differed on four dimensions: (a) individualism vs. collectivism, which describes who it's believed is responsible for caring for people—the individual or the group; (b) power distance, or the extent to which a society accepts the fact that power is distributed unequally; (c) uncertainty avoidance, or the degree to which people are tolerant of

behavior and opinions that differ from their own; and (d) quantity of life (assertiveness and the acquisition of money and material goods) vs. quality of life (importance of relationships and concern for the welfare of others).

6. ***How can an understanding of Hofstede's four dimensions help managers be more effective in managing in a global marketplace?***
   Understanding these four dimensions helps managers be more effective in managing in the global marketplace by identifying those countries that are most like and least like the United States, where U.S. managers would be likely to fit best, and where they would have the biggest adjustment problems.

Let us now learn about the first management function in POLCA i.e. Planning.

Planning; Why and what?

Planning is one of the four functions of management.

Why do Managers plan?

Purposes of Planning

1. Planning is important and serves many significant purposes.
2. Planning gives direction to the organization.
3. Planning reduces the impact of change.
4. Planning establishes a coordinated effort.
5. Planning reduces uncertainty.
6. Planning reduces overlapping and wasteful activities.
7. Planning establishes objectives or standards that are used in controlling.

WHAT IS PLANNING?

Planning involves defining the organization's goals, establishing an overall strategy for achieving these goals, and developing a comprehensive set of plans to integrate and coordinate organizational work. Planning is in fact the advance decision making by managers. Keeping in mind that decision making and decision taking, may it be for present or for future is always required and is very much a managerial job.

Lesson 15

DECISION MAKING AND DECISION TAKING

Intelligent computer software is helping managers and other decision makers to be more effective and efficient. Several diverse industries such as energy, health care, transportation, and telecommunications are relying on applied intelligence software to help make decisions by computers that were previously left to humans. Can any*thing* ever replace the decision-making process utilized by humans? In this session, we'll look at the decision making process and see that there is nothing that will ever replace the manager's need to make decisions. Making good decisions is something that every manager strives to do because the overall quality of managerial decisions has a major influence on organizational success or failure.
Decision making is part of all four managerial functions. In performing these functions, managers are often called decision makers.

The Decision-Making Process:

A **decision** is a choice made from two or more alternatives. The **decision-making process** is defined as a set of different steps that begins with identifying a problem and decision criteria and allocating weights to those criteria; moves to developing, analyzing, and selecting an alternative that can resolve the problem; implements the alternative; and concludes with evaluating the decision's effectiveness.
Models of decision making can be either descriptive or normative.

1. **Descriptive decision-making models** attempt to prescribe how managers actually <u>do</u> make decisions.
2. **Normative decision-making models** attempt to prescribe how managers <u>should</u> process.
   a Following the prescription should lead to a more effective decision-making process.
   b The models usually incorporate four steps.

Steps in an Effective Decision-Making Process

A. The first step is to identify **the organizational problem,** i.e., discrepancies between a current state and condition and what is desired.
   1. The scanning state involves monitoring the work situation for changing circumstances that may signal the emergence of a problem.
   2. The categorization stage entails attempting to understand and verify signs that there is some type of discrepancy between a current state and what is desired.
   3. The diagnosis stage involves gathering additional information and specifying both the nature and the causes of the problem.

B. The generation of alternative solutions step is facilitated by using the four principles associated with brainstorming.
   1. Don't criticize ideas while generating possible solutions
   2. Freewheel, i.e., offer even seemingly wild and outrageous ideas in an effort to trigger more usable ideas from others.
   3. Offer as many ideas as possible to increase the probability of coming up with an effective solution.
   4. Combine and improve on ideas that have been offered.

C. **The choice of an alternative** step comes only after the alternatives are evaluated systematically according to six general criteria:
   1. Feasibility is the extent to which an alternative can be accomplished within related organizational constraints, such as time, budgets, technology, and policies.
   2. Quality is the extent to which an alternative effectively solves the problem under consideration.
   3. Acceptability is the degree to which the decision makers and others who will be affected by the implementation of the alternative are willing to support it.

4. Costs are the resource levels required and the extent to which the alternative is likely to have undesirable side effects.
5. Reversibility is the extent to which the alternative can be reversed, if at all.
6. The ethics criterion refers to the extent to which an alternative is compatible with the social responsibilities of the organization and with ethical standards.

D. Finally, **the implementing and monitoring** the chosen solution step must be planned to avoid failure of the entire effort.
1. Implementation requires careful planning.
   a. The amount of planning depends upon whether the projected changes are minor or major.
   b. Irreversible changes require a great deal of planning.

2. Implementation requires sensitivity to those involved in or affected by the implementation.
   a Affected individuals are more likely to support a decision when they are able to participate in its implementation.
   b If Participation is not feasible, individuals should be kept informed of the changes.

3. Monitoring is necessary to ensure that things are progressing as planned and that the problem that triggered the planning process has been resolved.

Decision Making Situation:

Decision-making situations differ according to the types of problems that must be handled.

Certainty is a situation in which a manager can make accurate decisions because the outcome of every alternative is known. However, this isn't characteristic of most managerial decisions.

Uncertainty is a condition in which the decision maker chooses a course of action without complete knowledge of the consequences that will follow implementation.

Risk is the possibility that a chosen action could lead to losses rather than the intended results.
a. Uncertainty is seen as the reason why situation is risky.
b. A rapidly changing environment is a major cause of uncertainty.

Lesson 16

RATIONAL DECISION MAKING

Managers as Decision Makers:

Although we know about the decision-making process, we still don't know much about the manager as a decision maker. In this session, we'll look at how decisions are made, the types of problems and decisions managers face, the conditions under which managers make decisions, and decision-making styles.

The nature of managerial decision making:

Decision making is the process through which managers identify organizational problems and attempt to resolve them. Decision makers face three types of problems.

1. A **crisis problem** is a serious difficulty requiring immediate action.
2. A **non-crisis** problem is an issue that requires resolution, but does not simultaneously have the importance and immediacy characteristics of crises.
3. An **opportunity problem** is a situation that offers a strong potential for significant organizational gain if appropriate actions are taken.
   a. Opportunities involve ideas that could be sued, rather than difficulties that must be resolved.
   b. Non-innovative managers tend to focus on problems rather than upon opportunities.

Models of Decision Making:

Rational Model:
According to the **rational model** of decision making, managers engage in completely rational decision processes, ultimately make optimal decisions, and possess and understand all information relevant to their decisions at the time they make them (including all possible alternatives and all potential outcomes and ramifications).

Rational Model Step by Step:

Defining Problem by gathering relevant information:

Step 1 is identifying a problem. A **problem** is defined as a discrepancy between an existing and a desired state of affairs. Some cautions about problem identification include the following:
1. Make sure it's a problem and not just a symptom of a problem.
2. Problem identification is subjective.
3. Before a problem can be determined, a manager must be aware of any discrepancies.
4. Discrepancies can be found by comparing current results with some standard.
5. Pressure must be exerted on the manager to correct the discrepancy.
6. Managers aren't likely to characterize some discrepancy as a problem if they perceive that they don't have the authority, money, information, or other resources needed to act on it.

Step 2 is identifying the decision criteria. **Decision criteria** are criteria that define what is relevant and important in making a decision.

Step 3 is allocating weights to the criteria. The criteria identified in Step 2 of the decision-making process aren't all equally important, so the decision maker must weigh the items in order to give them correct priority in the decision.

Step 4 involves developing alternatives. The decision maker now needs to identify viable alternatives for resolving the problem.

Step 5 is analyzing alternatives. Each of the alternatives must now be critically analyzed. Each alternative is evaluated by appraising it against the criteria.

Step 6 involves selecting an alternative. The act of selecting the best alternative from among those identified and assessed is critical. If criteria weights have been used, the decision maker simply selects the alternative with the highest score from Step 5.

Step 7 is choosing a course of action and implementing the alternative. The chosen alternative must be implemented. Implementation is conveying a decision to those affected by it and getting their commitment to it.

Step 8 involves evaluating the decision effectiveness. This last step in the decision-making process assesses the result of the decision to see whether or not the problem has been resolved.

Lesson 17

NATURE AND TYPES OF MANAGERIAL DECISIONS

Nature of Managerial Decision-making:

Decision making is the act of choosing one alternative from among a set of alternatives. There are two types of decisions.

Programmed decisions are those made in routine, repetitive, well-structured situations through the use of predetermined decision rules.

Many programmed decisions are derived from established practices and procedures or habit. Computers are an ideal tool for dealing with several kinds of complex programmed decisions. Most of the decisions made by first-line managers and many by middle managers are programmed decisions.

Non-programmed decisions are those for which predetermined decision rules are impractical because the situations are novel and/or ill-structured.

Types of Problems and Decisions:

Managers will be faced with different types of problems and will use different types of decisions. Another dimension of problem is its structure. A problem can be well-structured or poorly structured.

1. **Well-structured problems** are straightforward, familiar, and easily defined. In handling this situation, a manager can use a **programmed decision,** which is a repetitive decision that can be handled by a routine approach. There are three types of plans for programmed decisions.
    a. A **procedure** is a series of interrelated sequential steps that can be used to respond to a structured problem.
    b. A **rule** is an explicit statement that tells managers what they ought or ought not to do.
    c. A **policy** is a guide that establishes parameters for making decisions rather than specifically stating what should or should not be done

2. **Poorly structured problems** are new or unusual problems in which information is ambiguous or incomplete. These problems are best handled by a **non-programmed decision** that is a unique decision that requires a custom-made solution.

General Organizational Situations:

1. At the higher levels of the organization, managers are dealing with poorly structured problems and using non-programmed decisions.
2. At lower levels, managers are dealing with well-structured problems by using programmed decisions.

Since managers can make decisions on the basis of rationality, bounded rationality, or intuition, let us try to understand them one by one:

Assumptions of Rationality

Managerial decision making is assumed to be **rational**; that is, choices that is consistent and value maximizing within specified constraints. The assumptions of rationality are summarized below.

a These assumptions are problem clarity (the problem is clear and unambiguous); goal orientation (a single, well-defined goal is to be achieved); known options (all alternatives and consequences are known); clear preferences; constant preferences (preferences are constant and stable); no time or cost constraints; and maximum pay off.

b The assumption of rationality is that decisions are made in the best economic interests of the organization, not in the manager’s interests.

The assumptions of rationality can be met *if* the manager is faced with a simple problem in which goals are clear and alternatives limited, in which time pressures are minimal and the cost of finding and evaluating alternatives is low, for which the organizational culture supports innovation and risk taking, and in which outcomes are concrete and measurable.

The rational model is flawed in that it does not apply to actual decision aiming for two reasons.

a. Perfect information is not available.
b. Manager's values and personality factors enter into their decisions.

The rational model presents an ideal against which actual decision-making patterns can be measured

Decision-Making Styles

Managers have different styles when it comes to making decisions and solving problems. One perspective proposes that people differ along two dimensions in the way they approach decision making.

One dimension is an individual's way of thinking—rational or intuitive. The other is the individual's tolerance for ambiguity—low or high.

These two dimensions lead to a two by two matrix with four different decision-making styles.

a. The **directive style** is one that's characterized by low tolerance for ambiguity and a rational way of thinking.
b. The **analytic style** is one characterized by a high tolerance for ambiguity and a rational way of thinking.
c. The **conceptual style** is characterized by an intuitive way of thinking and a high tolerance for ambiguity.
d. The **behavioral style** is one characterized by a low tolerance for ambiguity and an intuitive way of thinking.

Most managers realistically probably have a dominant style and alternate styles, with some relying almost exclusively on their dominant style and others being more flexible depending on the situation.

Lesson 18

NON RATIONAL DECISION MAKING

Non Rational Model:

The **non-rational models** of managerial decision making suggests that information-gathering and processing limitations make it difficult for managers to make optimal decisions.

1. The **Satisficing Model,** developed in the 1950s by Nobel Prize winner economist Herbert Simon, holds that managers seek alternatives only until they find one that looks satisfactory, rather than seeking the optimal decision.
   a. **Bounded rationality** means that the ability of managers to be perfectly rational in making decisions is limited by such factors as cognitive capacity and time constraints.
   b. Actual decision making is not perfectly rational because of
      1) Inadequate information
      2) Time and cost factors
      3) The decision maker's own misperceptions or prejudices
      4) Limited human memory
      5) Limited human data-processing abilities.

Satisficing can be appropriate when the cost of delaying a decision or searching for a better alternative outweighs the likely payoff from such a course.

2. The **Incremental Model** holds that managers make the smallest response possible that will reduce the problem to at least a tolerable level.
   a. Managers can make decisions without processing a great deal of information.
   b. Incremental strategies are usually more effective in the short run than in the long run.

3. The **Garbage-Can Model** of decision making holds that managers behave in virtually a random pattern in making non-programmed decisions.
   a. Factors that determine decisions include the particular individuals involved in the decisions, their interests and favorite solutions to problems, as well as any opportunities they stumble upon.
   b. The garbage-can approach is often used in the absence of solid strategic management and can lead to severe problems.

Group Decision making

Decisions on all levels of organization are frequently made by groups.
Group decision making has several advantages and disadvantages over individual decision making.

1. Some **advantages** of group decision making include:
   a) Groups bring more diverse information and knowledge to bear on the question under consideration.
   b) An increased number of alternatives can be developed.
   c) Greater understanding and acceptance of the final decision are likely.
   d) Members develop knowledge and skill for future use.

2. Group decision making has several **disadvantages** when compared to individual decision making.
   a) Group decision making is more time consuming.
   b) Disagreements may delay decisions and cause hard feelings.
   c) The discussion may be dominated by one or a few group members.
   d) **Groupthink** is the tendency in cohesive groups to seek agreement about an issue at the expense of realistically appraising the situation.

Managers can enhance group decision-making processes by taking steps to avoid the pitfalls of group decision making:

1. Individuals should be involved only if they have information and knowledge relevant to the decision.

2. The composition of the group should reflect the diversity of the broader workgroup. Heterogeneous groups have been found to be more effective over time than groups with the same nationality and ethnic backgrounds.
3. Two tactics are available to avoid group-think
   a. **Devil's advocates** are individuals who are assigned the role of making sure than the negative aspects of any attractive decision alternatives are considered.
   b. **Dialectical inequity** is a procedure in which a decision situation is approached from two opposite points of view.

Several **groupware** software packages are now available to enable managers to make use of recent advances in information technology that enables groups to utilize computers in their decision making.

1. Teleconferencing enables groups to "meet" electronically-either by conference phone hookups or through computer networks.
2. Group decision support systems are new specialized computer-based information systems which support groups working on less well defined problems.
3. Computer aids to group decision making seem to increase creativity. However, face-to-face meeting still tend to show stronger consensus and satisfaction among members of the group.

Lesson 19

GROUP DECISION MAKING AND CREATIVITY

The Creativity Factor in Decision Making

Innovation and creativity is important to organizational success in the marketplace.

Creativity versus Innovation
There is a difference between creativity and innovation.

1. **Creativity** is the ability to combine ideas in a unique way or to make unusual associations between ideas.
2. **Innovation** is the process of taking a creative idea and turning it into a useful product, service, or method of operation.

Creativity is the cognitive process of developing an idea, concept, commodity, or discovery that is viewed as novel by its creator or a target audience.

A. Creativity requires both convergent and divergent thinking.
   1. **Convergent thinking** is the effort to solve problems by beginning with a problem and attempting to move logically to a solution.
   2. **Divergent thinking** is the effort to solve problems by generating new ways of viewing a problem and seeking novel alternatives.

B. Creativity has three necessary ingredients.
   1. Domain-relevant skills are those associated with expertise in the relevant field.
   2. Creativity-relevant skills include a cognitive style, or method of thinking that is oriented to exploring new directions, knowledge of approaches that can be used for generating novel ideas, and a work style that is conducive to developing creative ideas.
   3. Task motivation is interest in the task for its own sake, rather than because of some external reward possibility, such as more

C. An individual's creative process has several stages.
   1. Preparation involves the individual's immersion in every aspect of a problem through
      a. Gathering initial information
      b. Generating alternatives
      c. Seeking and analyzing further data relating to the problem.
   2. Incubation involves a rest from consciously focusing on the problem as subconscious mental activities and divergent thinking take over.
   3. Illumination is often experienced as a breakthrough as a new level of insight is achieved.
   4. Verification involves testing the ideas to determine the validity of the insight.

D. Group creativity can be enhanced by means of a number of techniques. Two of which are following:
   1. **Brainstorming** is a means of enhancing creativity that encourages group members to generate as many novel ideas as possible on a given topic without evaluating them.
      a. The ground rules used in brainstorming were described earlier in this chapter.
      b. Computer assisted brainstorming have been found to give superior results.

   2. The N**ominal Group Technique** (NGT) is a means of enhancing creativity and decision making that integrates both individual work and group interaction within certain ground rules.
      a NGT was developed to foster creativity and to overcome the tendency to criticize ideas when they are presented
      b The ground rules of NGT are:
         1) Individuals independently prepare a list of their ideas on a problem.
         2) Group members present their ideas one at a time in turn, and ideas are listed for all to see.

3) Members discuss the ideas to clarify and evaluate them.
4) Individuals vote silently using a rating procedure.

c Recent research suggests that NGT is superior to brainstorming groups in generating ideas but not so when compared to computer-assisted brainstorming.

Lateral Thinking Vs Vertical Thinking

Vertical thinking is logical but only in one direction. You ignore the possibilities and alternatives around you or various other ways of doing same thing. Vertical way of thinking is the problem solving way the way computers do.

Rotating a problem from different angles to try and locate alternative points of entry involves Lateral thinking. This is a creative processing that the human mind can do, but computers are generally unable to do. It is useful when one channel of thought reaches a dead end and another approach is needed. It can be difficult but satisfying to solve and will encourage you to examine lots of different clues and information without any prejudice. Thinking laterally and avoiding the obvious is a great tool in life of a manager. This thinking asks you generate 3-4 alternatives to a given problem and then try one option at a time to put into action and see the results for best.

Other Decision Making Methods

1. **Delphi Method:**
   The Delphi method is a structured approach to gain the judgments of a number of experts on a specific issue relating to the future.
   a. A panel of experts is surveyed in the interest of compiling a list of likely scientific breakthroughs and the predicted time of their occurrence.
   b. The resultant list is resubmitted to the experts who then estimate whether the predicated breakthroughs are likely to occur earlier or later than the average estimated time frame.
   c. The next set of results is again submitted to the experts.
      1) If a consensus is reached, dissenters are asked to explain why they disagree with the majority.
      2) If there is a wide divergence of opinion this step is repeated.

2. **Scenario Analysis:**
   The **Scenario analysis,** developed in France, approach addresses a variety of possible futures by evaluating major environmental variables, assessing the likely strategies of other significant factors (e.g., other organizations), devising possible counter strategies, developing ranked hypotheses about the variables, and formulating alternative scenarios.
   a. Scenarios are outlines of possible future conditions, including possible paths the organization could take that would likely lead to these conditions.
   b. One object of the method is to enable the organization to make decisions that do not greatly inhibit further freedom of choice

Deming's TOOL FOR Improvement and Innovation:

PDCA or PDSA i.e. Planning, Doing, Checking/Studying and Acting are the four activities which Dr. Deming taught to Japanese companies to solve work related daily and yearly problems. When the tool i1s deployed out in a cyclic fashion will lead to improvement and innovation in every process and work area of the organization. This is one of the well-known quality management tools.

Questions and Answers

1. Differentiate between creativity and innovation.
Creativity is the ability to combine ideas in a unique way or to make unusual associations between ideas. Innovation is the process of taking a creative idea and turning it into a useful product, service, or method of operation.

2. How can the systems model be used to help organizations become more innovative?

In the systems model we use inputs like creative people and groups and, through a creative process or situation, transform the inputs into the desired output such as creative products. The right environment is also important.

3. Describe the specific structural, cultural, and human resource variables associated with innovation.

Variables associated with innovation are structural (organic structure, abundant resources, and high inter-unit communication), cultural (acceptance of ambiguity, tolerance of the impractical, low external controls, tolerance of risks, tolerance of conflicts, focus on ends, and open-system focus), and human resource (high commitment to training and development, high job security, and creative people).

Lesson 20

PLANNING AND DECISION AIDS-I

This session and the one follows shall introduce the planning tools and techniques that managers have at their disposal to assist them in performing the management functions. Management Science or Operation Research is a management perspective aimed at increased decision effectiveness by use of sophisticated mathematical models and statistical methods.

TECHNIQUES FOR ASSESSING THE ENVIRONMENT

Several techniques have been developed to assist managers in assessing the organization's environment.

Environmental Scanning
Environmental scanning is the screening of large amounts of information to anticipate and interpret changes in the environment. It's used by both large and small organizations, and research has shown that companies with advanced environmental scanning systems increased their profits and revenue growth.

SWOT analysis is an analysis of an organization's strengths, weaknesses, opportunities, and threats. It brings together the internal and external environmental analyses in order to identify a strategic niche the organization might exploit.

Competitor intelligence is an environmental scanning activity that seeks to identify who competitors are, what they are doing, and how their actions will affect the organization.

Another type of environmental scanning is global scanning in which managers assess the changes and trends in the global environment.

Environmental scanning provides the foundation for developing **forecasts**, which are predictions of outcomes.

There are three categories of forecasting techniques.

- **a** **Quantitative forecasting** applies a set of mathematical rules to a series of past data to predict outcomes.
- **b** **Qualitative forecasting** uses the judgment and opinions of knowledgeable individuals to predict outcomes.
- **c** **Judgmental forecasting**

Forecasting

Forecasting is the process of predicting changing conditions and future events that may significantly affect the business of an organization.

1. Forecasting is important to both planning and decision making.
2. Forecasting is used in a variety of areas such as: production planning, budgeting, strategic planning, sales analysis, inventory control, marketing planning, logistics planning, and purchasing among others.

It's important to look at forecasting effectiveness. Forecasting techniques are most accurate when the environment is not rapidly changing.

Some suggestions for improving forecasting effectiveness are as follows:

1) Use simple forecasting techniques.
2) Compare every forecast with "no change."
3) Don't rely on a single forecasting method.
4) Don't assume that you can accurately identify turning points in a trend.
5) Shorten the length of the forecasts.

6) Forecasting is a managerial skill and can be practiced and improved.

Methods of Forecasting

A. Quantitative forecasting relies on numerical data and mathematical model to predict future conditions. There are two types of quantitative forecasting most frequently used.

1. **Time-series methods** used historical data to develop forecasts of the future.
   a. The underlying assumption is that patterns exist and that the future will resemble the past.
   b. Time-series methods do not in themselves predict the impact of present or future actions that managers might take to bring about change.
   c. A trend reflects a long-range general movement is either an upward or a downward direction.
   d. A seasonal pattern indicates upward or downward changes that coincide with particular points within a given year.
   e. A cyclical pattern involves changes at particular points in time that span longer than a year.
   f. Time-series are more valuable for predicting broad environmental factors than in predicting the impact of present or future actions.
   g. Because time-series rely on past trends there can be a danger in their use if environmental changes are disregarded.

2. **Explanatory** or **causal models** attempt to identify the major variables that are related to or have caused particular past conditions and then use current measures of those variables (predictors) to predict future conditions.
   a. **Explanatory models** allow managers to assess the probable impact of changes in the predictors.
   b. **Regression models** are equations that express the fluctuations in the variable being forecasted in terms of fluctuations among one or more other variables.
   c. **Econometric models** are systems of simultaneous multiple regression equations involving several predictor variables used to identify and measure relationships or interrelationships that exist in the economy.
   d. **Leading indicators** are variables that tend to correlate with the phenomenon of major interest but also tend to occur in advance of the phenomenon.

B. Technological, or **Qualitative, Forecasting** is aimed primarily at predicting long-term trends in technology and other important aspects of the environment The focus is upon longer-term issues that are less amenable to numerical analysis as quantitative approaches.
The **Delphi method and Scenario analysis can be used as techniques.**

C. Judgmental Forecasting relies mainly on individual judgments or committee agreements regarding future conditions.

1. Judgmental forecasting methods are highly susceptible to bias.
2. The **jury of executive opinion** is one of the two judgmental forecasting models. It is a means of forecasting in which organization executives hold a meeting and estimate, as a group, a forecast for a particular item.
3. The **Sales-force composite** is a means of forecasting that is used mainly to predict future sales and typically involves obtaining the views of various salespeople, sales managers, and/or distributors regarding the sales outlook.

The choice of which forecasting method to use depends upon the needs within particular forecasting situations.

1. **Quantitative forecasting** methods:
   a Have a short-to-medium time horizon
   b Require a short period of time if a method is developed
   c Often have high development costs
   d Are high in accuracy in identifying patterns

e Are low in accuracy in predicting turning points for time series, but medium for other methods.
f Are difficult to understand

2. **Technological forecasting** methods:
   a Have a medium-to-long time horizon
   b Require a medium-to-long time
   c Have medium development costs
   d Are of medium accuracy in identifying patterns
   e Are of medium accuracy in predicting turning points
   f Are easily understood.

3. **Judgmental forecasting** methods:
   a Have a short-to-long time horizon
   b Require a short time
   c Have low development costs
   d Are of medium-to-high accuracy in identifying patterns
   e Are of low accuracy in predicting turning points
   f Are easily understood

Benchmarking

Benchmarking is the search for the best practices among competitors or non-competitors that lead to their superior performance.

The benchmarking process typically follows four steps.

a A benchmarking planning team is formed. The team's initial task is to identify what is to be benchmarked, identify comparative organizations, and determine data collection methods.
b The team collects internal and external data.
c The data is analyzed to identify performance gaps and to determine the cause of the difference.
d An action plan is prepared and implemented.

Lesson 21

PLANNING AND DECISION AIDS-II

1. TECHNIQUES FOR ALLOCATING RESOURCES.

Resources are the assets of the organization and include financial, physical, human, intangible, and structural.

1) Budgeting

A **budget** is a numerical plan for allocating resources to specific activities. Budgets are popular because they're applicable to a wide variety of organizations and units within an organization.

There are four different types of budgets.

a. A **revenue budget** is a budget that projects future sales.
b. An **expense budget** is a budget that lists the primary activities undertaken by a unit and allocates a dollar amount to each.
c. A **profit budget** is a budget used by separate units of an organization that combines revenue and expense budgets to determine the unit's profit contribution.
d. A **cash budget** is a budget that forecasts how much cash an organization will have on hand and how much it will need to meet expenses.

These budgets are based on the assumption of a single specified volume—**fixed budgets**. However, volume can't be predicted exactly. Therefore, a **variable budget** is a budget that takes into account the costs that vary with volume.

2) Scheduling

Scheduling involves a list of necessary activities, their order of completion, which is to do each, and time needed to complete them. Some useful scheduling tools include the following.

A. The **Gantt chart**, named after Henry Gantt, is a scheduling chart that visually shows actual and planned output over a period of time.

A **Gantt chart** is a specialized bar chart that shows the current progress on each major project activity relative to necessary completion dates.

a. A project is broken down into separate main activities listed on the left side of the chart.
b. The time frame is listed at the top or the bottom of the chart.
c. The duration and scheduling of activities is shown by a bar.
d. Gantt charts do not show interrelationships among activities.
e. Software packages for creating and using Gantt charts (and many other decision tools) on computer are becoming widely available.

B. PERT, or Program Evaluation and Review Technique

PERT is a network planning method for managing and controlling large one-time projects. It is a technique for scheduling complicated projects comprising many activities, some of which are interdependent.

A **PERT network** is a flowchart like diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity.

1. All of the major activities in the project are specified.
2. The sequences of these activities are determined
3. A **network diagram** a graphic depiction of the interrelationships among activities, is constructed.
    a. An **activity** is a work component to be accomplished, and is represented by an arrow on the network diagram.
    b. An **event (or node)** represents a single point in time that is the beginning or the ending of an activity.
4. Three time estimates for each activity are determined and an expected time is calculated for each activity.

5. The **critical path** is the path of activities and events in the network that will take the longest time to complete
   a. Delays on any activities on the critical path mean that the project will be delayed.
   b. **Slack** is the degree of latitude about when various activities can be started without endangering the completion date of the entire project.

6. After the project has begun, actual times for completion of each activity are collected and recorded on the PERT network so that any rescheduling and adjustments can be made as quickly as possible.

Please remember in PERT charts the followings:

1) **Events** are end points that represent the completion of major activities in a PERT network.
2) **Activities,** which are the time or resources required to progress from one event to another in a PERT network.
3) **Slack time** is the amount of time an individual activity can be delayed without delaying the whole project.
4) **Critical path** is the longest or most time-consuming sequence of events or activities in a PERT network.

3) Breakeven Analysis

Breakeven analysis is a technique for identifying the point at which total revenue is just sufficient to cover total costs.

4) Linear Programming

Linear programming is a mathematical technique that can be used to solve resource allocation problems. **Linear programming (LP)** is a quantitative tool for planning how to allocate limited or scarce resources so that a single criterion or goal (often profits) is optimized.

1. It is the most widely used quantitative planning tools in business.
2. There are optimal conditions for using linear programming.
   a. A single objective must be achieved.
   b. Attainable constraints exist.
   c. Variables are linearly related to the objective, i.e., and increase (or decrease) in the variable leads to a proportional increase (or decrease) in the objective.

2. CONTEMPORARY PLANNING TECHNIQUES.

Two planning techniques that are appropriate for planning in an environment that's both dynamic and complex are project management and scenario planning.

1) Project Management

A **project** is a one-time-only set of activities that has a definite beginning and ending point in time. **Project management** is the task of getting a project's activities done on time, within budget, and according to specifications.

Project Management Process

There are seven steps in the project planning process.

i. Define objectives.
ii. Identify activities and resources.
iii. Establish sequences.
iv. Estimate time for activities.
v. Determine project completion date.
vi. Compare with objectives.
vii. Determine additional human resource requirements.

The role of the project manager

i. The only real influence project managers have is their communication skills and their power of persuasion.
ii. Team members seldom work on just one project; they're usually assigned to two or three at any given time.

2) Scenario planning

i. A **scenario** is a consistent view of what the future is likely to be.
ii. Developing scenarios also can be described as contingency planning.
iii. The intent of scenario planning is not to try to predict the future but to reduce uncertainty by playing out potential situations under different specified conditions.
iv. Scenario planning is difficult to use when forecasting random events

3. OTHER PLANNING TECHNIQUES:

1) Queuing or waiting-line models are mathematical models that describe the operating characteristics of queuing situations.

i. Queuing situations can be any combination of single-server or multiple-server queues.
   1. Single-server queues involved service provided at a single point.
   2. Multiple-server queues occur when a number of stations draw from a single line.

ii. Queuing models allow managers to vary the parameters of a situation to determine the probable effects.

2) Simulation Models

Simulation is a mathematical imitation of reality. It is used when the situation is too complex for linear programming or queuing theory.

3) Decision Trees

Trees are graphic models displaying structures of a sequence of alternative course of action and usually showing payoffs associated with various paths and probabilities associated with potential future conditions.

Lesson 22

PLANNING: FUNCTIONS & BENEFITS

WHAT IS PLANNING?

Planning involves defining the organization's goals, establishing an overall strategy for achieving these goals, and developing a comprehensive set of plans to integrate and coordinate organizational work. The term *planning* as used in this chapter refers to *formal* planning. The *quality* of the planning process and appropriate *implementation* probably contribute to high performance than does the *extent* of planning.

WHY DO MANAGERS PLAN?

Purposes of Planning

Planning is important and serves many significant purposes.

1. Planning gives direction to the organization.
2. Planning reduces the impact of change.
3. Planning establishes a coordinated effort.
4. Planning reduces uncertainty.
5. Planning reduces overlapping and wasteful activities.
6. Planning establishes objectives or standards that are used in controlling.

How do managers plan?

Planning is often called the primary management function because it establishes the basis for all other functions. Planning involves two important elements: goals and plans.

The Role of Goals and Plans in Planning

1. Goals—desired outcomes for individuals, groups, or entire organizations.
2. Goals are objectives—the two terms are used interchangeably.
3. Types of goals.
   a. Financial performance versus strategic goals
   b. Stated versus Real.
      1) **Stated goals** are official statements of what an organization says, and what it wants its various stakeholders to believe, its goals are.
      2) **Real goals** are those that an organization actually purses.

Questions and Answers

1. **Define planning.**
   Planning involves defining the organization's goals, establishing an overall strategy for achieving those goals, and developing a comprehensive set of plans to integrate and coordinate organizational work. It's concerned with both ends (what's to be done) and means (how it's to be done).

2. **What purposes does planning serve?**
   Planning gives direction, reduces the impact of change, establishes coordinated effort, reduces uncertainty, minimizes waste and redundancy, and sets the standards used in controlling.

3. **What is the relationship between planning and organizational performance?**
   Formal planning is associated with higher profits, higher return on assets, and other positive financial results. The quality of the planning process and the appropriate implementation of the plans probably contribute to high performance than does the extent of planning.

4. **Differentiate between goals and plans.**
   Goals are desired outcomes for individuals, groups, or entire organizations. Plans are documents that outline how goals are going to be met and that typically describe resource allocations, schedules, and other necessary actions to accomplish the goals.

5. **What are the different types of goals?**
   Organizations may utilize financial and/or strategic goals, stated and/or real goals.

Describe each of the different types of plans.
Strategic plans apply to the entire organization, establish the organization's overall goals, and seek to position the organization in terms of its environment. Operational plans specify the details of how the overall goals are to be achieved. Long-term plans are plans with a time frame beyond three years. Short-term plans cover one year or less. Specific plans are clearly defined and leave no room for interpretation. Directional plans are flexible plans that set out general guidelines. Single -use plans are one-time plans specifically designed to meet the needs of a unique situation. Standing plans are ongoing plans that provide guidance for activities performed repeatedly and include policies, rules, and procedures.

The Nature of organizational Goals

The use of goals has several benefits.

1. **Performance** can be improved.
2. **Expectations** can be improved.
3. The **Controlling function** can be facilitated so that progress can be assessed and corrective action taken.
4. Meeting goals can increase **motivation.**

The three levels of goals within an organization form a hierarchy of goals, with lower-level goals forming a mean-end chain with the next level of goals.

1. **Strategic goals** are broadly defined targets or future end results set by top management.
2. **Tactical goals** are the targets or future end results usually set by middle management for specific departments or units.
3. **Operational goals** are those targets or future end results set by lower management that address specific, measurable outcomes required from the lower levels.

Linkage of goals and plans

Goal and plans are closely related in that plans specify the means to achieving the goals.

A. Plans, like goals, enter into a **hierarchy** of levels and priority.
   1. **Strategic plans** are detailed action steps mapped out to reach strategic goals.
      a. Strategic plans are organizational wide and are developed by top management.
      b. The time horizon tends to be long 3 to 5 years or more.

   2. **Tactical plans** are the means charted to support implementation of the strategic plan and achievement of tactical goals.
      a. Tactical plans tend to be more specific and concrete than strategic plans.
      b. Tactical plans are important to the success of strategic plans.
      c. The time horizon tends to be intermediate in range 1 to 3 years.

   3. **Operational plans** are the means devised to support implementation of tactical plans and achievement of operational goals.
      a. Operational plans spell out specifically what must be accomplished to achieve operational goals.
      b. The time horizon is relatively short-tem—usually less than 1 year as a maximum.

B. Plans can be categorized according to the extent to which they will be used on a recurring basis.
   1. **Single-use plans** are plans aimed at achieving a specific goal that, once reached, will most likely not recur in the future.
      a. A **program** is a comprehensive plan that coordinates a complex set of activities related to a major non-recurring goal.
      b. A **project** is a plan that coordinates a set of limited-scope activities that do not need to be divided into several major projects in order to reach a major non-recurring goal. Programs are broader than projects.

   2. **Standing plans** are plans that provide ongoing guidance for performing recurring activities.
      a. A **policy** is a general guide that specifies the broad parameters within which organization members are expected to operate in pursuit of organizational goals.
      b. A **procedure** is a prescribed series of related steps to be taken under certain recurring circumstances.
         1) Procedures are detained and inflexible; policies are general.
         2) Well established and formalized procedures are often called standard operating procedures (SOPs).

C. Different **levels** of goals and plans are related to different **time horizons.**

   Strategic plans typically involve time periods of 5 years or more, but the time frame is dependent upon the stability of the industry in question.
   1) Tactical goals and plans typically involve time periods of 1 to 5 years.
   2) Operational goals and plans can be for as short a period as 1 week or as long as 1

year. D. The planning process can be used to promote **innovation** in organizations.

   1. The organizational mission statement can be a primary means of encouraging innovation.
   2. The goals component can translate the mission in a way supporting innovation.

The plans component can provide actual plans for achieving innovative outcomes.

Lesson 23

PLANNING PROCESS AND GOAL LEVELS

The overall planning process

A. **Planning** is a two-part function—setting goals and determining how to try to achieve the goals.
   1. A **goal** (often used interchangeably with "objective") is a future target or end result that an organization wishes to achieve.
   2. A **plan** is the means devised for attempting to reach a goal.

B. An organization's **mission** is the organization's purpose or fundamental reason for existence.
   1. **A mission statement** is a broad declaration of the basic, unique purpose and scope of operations that distinguishes the organization from others of this type.
   2. A mission statement serves a variety of purposes.
      a. For managers, a mission statement can be a benchmark against which to evaluate success.
      b. For employees, mission statements define a common purpose, nurture organizational loyalty, and help foster a sense of community among members.
      c. For external groups, mission statements help provide unique insights into an organization's values and future directions.

   3. The mission statement typically defines the organization in terms of the important attributes of the organization. Answers to many of these questions are answered using information and processes described in the two previous chapters in the text.
      a. Customers: Who are the organization's customers?
      b. Products or services: What are the organization's major products or services?
      c. Location: Where does the organization compete?
      d. Technology: What is the firms' basic technology?
      e. Philosophy: What are the basic beliefs, values, aspirations, and philosophical priorities of the organization?
      f. Self-concept: What are the organization's major strengths and competitive advantages?
      g. Concern for public image: what are the organization's public responsibilities and what image is desired?
      h. Concern for employees: What is the organization's attitude toward its employees?

Types of Plans

Plans can be described by their breadth, time frame, specificity, and frequency of use.

a. Breadth: strategic versus operational plans. **Strategic plans** are those that are organization wide, establish overall objectives, and position an organization in terms of its environment. **Operational plans** are plans that specify details on how overall objectives are to be achieved.
b. Time frame: short-term versus long-term plans. **Short-term plans** are plans that cover one year or less. **Long-term plans** are those that extend beyond three years.
c. Specificity: specific versus directional plans. **Specific plans** are those that are clearly defined and leave no room for interpretation. **Directional plans** are flexible plans that set out general guidelines.

The Nature of Organizational Goals

A. The use of goals has several benefits.
   1. **Performance** can be improved.
   2. **Expectations** can be improved.
   3. The **Controlling function** can be facilitated so that progress can be assessed and corrective action taken.
   4. Meeting goals can increase **motivation.**

B. The three levels of goals within an organization form a hierarchy of goals, with lower-level goals forming a mean-end chain with the next level of goals.
   1. **Strategic goals** are broadly defined targets or future end results set by top management.
   2. **Tactical goals** are the targets or future end results usually set by middle management for specific departments or units.
   3. **Operational goals** are those targets or future end results set by lower management that address specific, measurable outcomes required from the lower levels.

How Goals Facilitate Performance

The content of goals should meet five criteria.

1. **Challenging** goals usually lead to higher performance from individuals and groups.
2. **Attainable** goals, not impossible demands, are more likely to improve performance.
3. **Specific and measurable** goals are needed so that it is clear when they have been achieved.
4. **Time-limited** goals give them meaning.
5. **Relevant** goals enable employees to see the purpose of the goals and to devise ways of meeting them.
6. **Measurable** means the performance and targets can be measured after an interval of time.

Goal commitment is one's attachment to, or determination to reach, a goal. Without commitment goals have little impact on performance. Managers can help foster commitments in a number of ways.

1. **Supervisory authority** should serve to motivate employees to meet their goals.
2. **Peer and group pressure** may serve as motivation.
3. **Expectations of success** can be improved by managerial coaching and instruction.
4. **Incentives** are offered during the goal-setting process; rewards occur upon goal achievement.
5. **Participation** in the goal setting process may be effective in engendering goals commitment.

Work behavior may be affected by four factors influenced by goals content and goal commitment.

1. Goals provide **Direction** by channeling attention and action toward activities related to those goals, rather than to other activities.
2. Goals to which we are **committed** boost effort by mobilizing energy.
3. **Persistence** involves maintaining direction and effort on behalf of a goal until it is reached.
4. Goal setting leads to **planning** if the goals are appropriately challenging.

The impact of goals on performance of any specific job can be influenced by a number of other process components.

1. **Job knowledge and ability** are likely to affect an individual' work behavior and prospects for reaching goals.
2. The **complexity** of the task may affect the degree to which goal-directed work behaviors influence job performance.
3. **Situation constraints** include such things as having the proper tools, materials, and equipment.
4. **Knowledge of results** or feedback about progress enables individuals to gauge their progress toward goal attainment.

Strategic plans typically involve time periods of 5 years or more, but the time frame is dependent upon the stability of the industry in question.

The planning process can be used to promote **innovation** in organizations.

1. The organizational mission statement can be a primary means of encouraging innovation.
2. The goals component can translate the mission in a way supporting innovation.

3. The plans component can provide actual plans for achieving innovative outcomes.

Obstacles to planning exist, but may be countered by organizations.

1. Obstacles to planning threaten the ability of organizations to develop effective plans.
    a. Plans in a rapidly changing environment require frequent revisions. Manager may resist formalized planning if they believe planning is unnecessary. The pressure of day-to-day responsibilities may keep managers from planning. Managers may be poorly prepared.
        – Staff specialists may come to dominate the planning process

2. Organizations can take steps to reduce the obstacles to planning.
    a. Top-level managers may demonstrate their support of the planning process.
    b. A **planning staff** is a small group of individuals who assist top-level managers in developing the various components of the planning process. This staff should focus on helping rather than taking over the planning process.
    c. **Contingency planning** is the development of alternative plans for use in the event that environmental conditions evolve differently than anticipated, rendering original plans unwise or unfeasible.

Lesson 24

MANAGEMENT BY OBJECTIVE (MBO)

Time Span of Goals and Plans

1. Strategic goals and plans generally involve time periods of 3-5 years.
2. Tactical goals and plans typically involve time periods of 1 to 3 years.
3. Operational goals and plans can be for as short a period as 1 week or as long as 1 year.

Characteristics of Well-Designed Goals

a. Written in terms of outcomes
b. Measurable and quantifiable
c. Clear as to a time frame
d. Challenging but attainable
e. Written down
f. Communicated to all organizational members

Steps in Goals Setting—Five Steps

a. Review the organization's mission.
b. Goals should reflect what the mission statement says.
c. Evaluate available resources.
d. Determine individually, or with input from others, the goals.
e. Write down the goals and communicate them to all who need to know.
f. Review results and whether goals are being met.

Developing Plans

The process of developing plans is influenced by three contingency factors and by the planning approach followed.

Contingency Factors in Planning

a. Manager's level in the organization.
   Operational planning usually dominates the planning activities of lower-level managers. As managers move up through the levels of the organization, their planning becomes more strategic.
b. Degree of environmental uncertainty. The greater the environmental uncertainty, the more plans should be directional and emphasis placed on the short term.
   1) When uncertainty is high, plans should be specific, but flexible.
   2) Managers must be prepared to rework and amend plans, or even to abandon their plans.

c. Length of Future Commitments.
   1) Commitment concept means that plans should extend far enough to meet those commitments made when the plans were developed.
   2) Planning for too long or for too short a time period is inefficient and ineffective.

Approaches to Establishing Goals

Goals can be established through a process of traditional goal setting or through management by objectives

a. Traditional goal setting is defined as the process whereby goals are set at the top of the organization and then broken down into sub goals for each level in an organization.
   1) Top managers are assumed to know what's best because they see the "big picture."
   2) These goals are also often largely non operational.

3) Specificity is achieved as each manager applies his or her own set of interpretations and biases.
4) However, what often results is that objectives lose clarity and unity as they move from top to bottom.
5) When the hierarchy of objectives is clearly defined, it forms an integrated **means-end chain** in which higher-level objectives are linked to lower-level objectives. These lower-level objectives serve as the means for the accomplishment of the higher-level objectives. And the goals at the lower levels (means) must be achieved in order to reach the goals at the next level (ends.)

Goal setting has some potential pitfalls

1. Setting difficult goals increases the **risk** that they will not be reached.
2. High goals may increase the **stress levels** of organizational members.
3. Failure to meet high goals may undermine the **self-confidence** of organizational members.
4. **Non goal areas** may be ignored.
5. Setting goals may encourage excessive **shot-range thinking.**
6. Inappropriate goals may lead to **dishonesty and cheating.**

b. Management by objectives (MBO) is a process through which specific goals are set collaboratively for the organization as a whole and every unit and individual within it; the goals then are used as a basic for planning, managing organizational activities, and assessing and rewarding contributions.

In Management by objectives (MBO) specific performance goals are jointly determined by employees and their managers, progress toward accomplishing these goals is periodically reviewed, and rewards are allocated on the basis of this progress.

1) MBO was first described by Peter Drucker and consists of four elements:
   i. Goal specificity
   ii. Participative decision making
   iii. Explicit time period
   iv. Performance feedback

2) MBO makes objectives operational through the process by which they cascade down through the organization.

Although there is considerable variation across organizations, MBO processes typically include the following steps:

1. Organizational goals are developed based on organizational missions.
2. Specific goals are established for departments, subunits, and individuals.
   a. In the top-down process, upper-level managers, conferring with their immediate managerial subordinates, formulate specific objectives for their areas of responsibility. These in turn enter into the formulation of objectives for the next level down, and so forth.
   b. In the bottom-up process, operational goals are proposed by lower-level managers on the basis of what they think they can achieve. These in turn are developed into tactical and finally strategic plans.

3. Action plans are formulated, describing what is to be done, how, when, where, and by whom in order to achieve a particular goals.
4. Individuals are given the responsibility of reaching their objectives and that goals will ultimately be met.
5. Performance is appraised at the end of the goal-setting cycle, typically at one-year intervals. Praise, recognition, and rewards should be given for effective performance.

The **strengths** of MBO are that it:

1. Aids coordination of goals and plans.
2. Helps clarify priorities and expectations.
3. Facilitates vertical and horizontal communications.
4. Fosters employee motivation.

The **weaknesses** of MBO are that it:

1. Tends to falter without strong, continual commitment from top management.
2. Necessitates considerable training of managers.
3. Can be misused as a punitive device.
4. May cause overemphasis of quantitative goals.

The "spirit" of MBO is tremendous. In practice however, MBO has been successful only about 20 to 25 percent of the time, primarily because of lack of support from top management and poor goal-setting and communication skills.

Lesson 25

STRATEGIC MANAGEMENT -I

INTRODUCTION

Today's business news is filled with reports of organizations making changes in their strategies for whatever reasons. An underlying theme of discussing strategic management is that good strategies can lead to high organizational performance.

THE IMPORTANCE OF STRATEGIC MANAGEMENT

The environmental shocks during the decades of the 1970s and 1980s forced managers to develop a systematic means of analyzing the environment, assessing their organization's strengths and weaknesses, identifying opportunities that would give the organization a competitive advantage, and incorporating these findings into their planning. The value of thinking strategically was recognized.

The Concept of Strategic Management

Strategic management is a process through which managers formulate and implement strategies geared to optimizing goal achievement, given available environmental and internal conditions. **Strategic management** is that set of managerial decisions and actions that determines the long-run performance of an organization. It entails all of the basic management functions—planning, organizing, leading, and controlling.

Purposes of strategic management

1. One reason strategic management is important is because it's involved in many of the decisions that managers make.
2. Another reason is that studies of the effectiveness of strategic planning and management have found that, in general, companies with formal strategic management systems had higher financial returns than those companies with no such systems.
3. Strategic management has moved beyond for-profit organizations to include all types of organizations, including not-for-profit.

Strategic management is important to organizations because it:

1. Helps organizations identify and develop a **competitive advantage,** a significant edge over the competition in dealing with competitive forces.
2. Provides a sense of direction so that organization members know where to expend their efforts.

Helps highlight the need for innovation and provides an organized approach for encouraging new ideas related to strategies.

Strategies are large-scale action plans for interacting with the environment in order to achieve long-term goals. Most well-run organizations attempt to develop and follow strategies.

The strategic management process is made up of several components

1. **Strategy formulation** is the part of the strategic management process that includes:
   a. Identifying the mission and strategic goals.
   b. Conducting competitive analysis
   c. Developing specific strategies
2. **Strategy implementation** is the part of the strategic management process that focuses on:
   a. Carrying strategic plans.
   b. Maintaining control over how those plans are carried out.

Q. Define strategic management and how it entails the four management functions.

A. Strategic management is that set of managerial decisions and actions that determines the long-run performance of an organization. It entails all of the basic management functions because the organization's strategies must be planned, organized, put into effect, and controlled.

Lesson 26

STRATEGIC MANAGEMENT - II

THE STRATEGIC MANAGEMENT PROCESS

The **strategic management process** is an eight-step process that encompasses strategic planning, implementation, and evaluation.

A. The first step is identifying the organization's current mission, objectives, and strategies.
   1. Every organization needs a **mission,** which defines the purpose of the organization. What is the organization's reason for being in business?
   2. It's also important to identify the organization's current objectives and strategies, as well.

B. Step 2 is analyzing the external environment. It's important to analyze the environment because, to a large degree, it defines management's strategic options.
   1. A successful strategy is one that aligns well with the environment.
   2. This step is complete when managers have an accurate grasp of what is taking place in the external environment and are aware of important trends that might affect the organization.

C. The third step is identifying opportunities and threats. After analyzing the external environment, managers need to assess what opportunities to exploit and what threats to avoid.
   1. **Opportunities** are positive external environmental factors.
   2. **Threats** are negative external environmental factors.

D. Step 4 is analyzing the organization's resources. In this internal analysis, managers are looking at the organization's specific assets, skills, and work activities.
   1. Managers look for **core competencies**, which are an organization's major value-creating skills, capabilities, and resources that determine its competitive advantage.
   2. This step forces managers to realize that every organization, no matter how large or powerful, is constrained in some way by its resources and skills.

E. Step 5 is identifying strengths and weaknesses. The analysis in step 4 should lead to a clear assessment of the organization's internal resources.
   1. **Strengths** are those activities the firm does well or the unique resources it controls.
   2. **Weaknesses** are those activities the firm doesn't do well or the resources it needs but doesn't possess.
   3. One area that's often overlooked in this step is an analysis of the organization's culture and its strengths and weaknesses.
      a. Remember that culture is the organization's personality.
      b. The strength of the culture is a result of how much employees understand and support the shared values.
      c. A strong culture should make it easy for managers to convey to employees the organization's distinctive competencies. However, the strong culture will make it more difficult to change, if needed.
      d. Strategic choices will also be influenced by the culture's tolerance of risk and innovation and how performance is rewarded.
      e. The culture can also promote or hinder an organization's strategic actions.

   4. The merging of steps 3 and 5 results in a **SWOT analysis**, which is an analysis of an organization's strengths, weaknesses, opportunities, and threats. It brings together the internal and external analyses in order to identify a strategic niche the organization might exploit.
   5. In light of the SWOT analysis, managers need to reevaluate the organization's current mission and objectives.

F. Step 6 is formulating strategies. Strategies need to be established for the corporate, business, and functional levels of the organization. In formulating strategies, managers hope to give the organization a competitive advantage.

G. The next step is implementing strategies. The strategies must now be put into action. Strategies are only as good as their implementation.

H. The eighth (and final) step in the strategic management process is evaluating results. Managers must evaluate the results to determine how effective their strategies have been and what corrections are necessary.

The Role of Competitive Analysis in Strategy Formulation

Before an effective strategy to gain a competitive advantage can be formulated, the organization's competitive situation needs to be carefully analyzed.

A. A SWOT ANALYSIS is one method for doing so. The SWOT analysis involves assessing organization strengths (S) and weaknesses (W), as well as environmental opportunities (O) and threats (T).
   1. Strengths and weaknesses apply to <u>internal</u> characteristics.
      a. A <u>strength</u> is an internal characteristic that has the potential of improving the organization's competitive situation.
      b. A <u>weakness</u> is an internal characteristic that leaves the organization potentially vulnerable to strategic moves by competitors.

   2. Opportunities and threats are found in the <u>external</u> environment.
      a. An <u>opportunity</u> is an environmental condition that offers significant prospects for improving an organization's situation relative to competitors.
      b. A <u>threat</u> is an environmental condition that offers significant prospects for undermining an organization's competitive situation.

Lesson 27

LEVELS OF STRATEGIES, PORTER'S MODEL AND STRATEGY DEVELOPMENT (BCG) AND IMPLEMENTATION

Level of Strategies

Many organizations develop strategies at three different levels. These three different and distinct levels of strategy are corporate, business, and functional:

Corporate-level strategy is developed by top -level management and the board of directors. The **corporate-level strategy** seeks to determine what businesses a corporation should be in or wants to be in. Two popular approaches for answering the question of what business(es) should we be in are the grand strategies framework and the corporate portfolio matrix.

1. **These strategies address**
   a. What business the organization will be coordinated to strengthen the organization's competitive position.
   b. How the strategies of those businesses will be coordinated to strengthen the organization's competitive position.
   c. How resources will be allocated among businesses.

2. **Business-level strategy** concentrates on the best means of competing within a particular business while also supporting the corporate-level strategy.
   a. The distinction between corporate-level and business-level strategy applies only to organizations with separate divisions that compete in different industries.
   b. A **strategic business unit (SBU)** is a distinct business, with its own set of competitors that can be managed reasonably independently of other businesses within the organization.

3. **Functional-level strategy** focuses on action plans for managing a particular functional area within a business in a way that supports the business-level strategy.
   a. Functional areas include operations, marketing, finance, human resources management, accounting, research and development, and engineering.
   b. Functional strategies are usually developed by functional managers and are typically reviewed by business unit heads.

4. **Coordinating** strategies across these three levels is critical in maximizing strategic impact.

The Role of Competitive Analysis in Strategy Formulation and Implementation

Porter's Forces Model:

Michael E. Porter, a noted strategy expert, has devised the **five competitive forces model** as an approach for analyzing the external environment for both the nature and the intensity of competition in a given industry in terms of five major forces.

1. The model provides an environmental assessment of strategically significant elements of the organization's task environment.
2. Rivalry is the extent to which competitors use tactics to lower the profits of their competitors.
3. The bargaining power of <u>suppliers</u> is the extent to which suppliers can exert power over business in an industry by threatening to raise prices or reduce the quality of goods and services they provide.
4. The bargaining power of <u>buyers</u> depends on the factors such as number of customers in the market, customer information, and the availability of substitute which determine the amount of influence that buyers have in an industry.
5. The threat of <u>new entrants</u> is the threat of a price war if new competitors can enter the market.

6. The threat of <u>substitute products or services</u> is the extent to which businesses in other industries can offer substitute products, thus reducing the profit potential for the industry.

The competitive environment, in some industries, may reach the point of **hyper competition-**a state of rapidly escalating competition. When this happens, environments may become upward spirals of uncertainty, dynamism, and heterogeneity of players making it difficult for any organization to sustain competitive advantage.

An **organizational assessment** determines how organizational factors in the internal environment affect the competitive situation.

1. The <u>resource-based strategic view</u> is a useful approach to internal assessment as it focuses on competitive implications of several sets of organizational resources and capabilities.
   a. Financial resources include debt, equity, retained earnings, and other money related matters.
   b. Physical resources include buildings, machinery, and other materials to operate.
   c. Human resources include skills, abilities, experience, and other work related characteristics of those associated with the organization.
   d. Organizational resources include the history, relationships, levels of trust, and other culture dimensions.

2. Assessing the competitive implications of these resources and capabilities relative to the environment involves answering questions about four critical factors.
   a. How much <u>value</u> does any resource or capability add?
   b. What, if any, degree of rareness does each resource or capability has among competing firms?
   c. What is the <u>degree of imitability</u> by competitors of each resource or capability?
   d. Is the <u>organization</u> of the firm's resources and capabilities by the formal reporting relationships, the control and reward systems, and other factors such so as to achieve the best competitive advantage?

3. Achieving sustained competitive advantage requires both the development in industries in which competitive forces are favorable and upon the development of resources and capabilities that are valuable, rare, and are difficult to imitate. When a firm has valuable, rare, and difficult to imitate resources and capabilities, it is said to have a **distinctive competence.**

Formulating <u>corporate</u>-level strategy

A. **A grand strategy** (master strategy) provides the basic strategic direction at the corporate level of the organization. Four grand strategies have been identified.

   1. **Growth strategies** are grand strategies that involve organizational expansion along some major dimension.

      a. **Concentration** focuses on effecting the growth of a single product or service or a small number of closely related products or services.
         1) <u>Market development</u> is gaining a larger share of a current market or expanding into new ones.
         2) <u>Product development</u> is improving a basic product or service or expanding into closely related products or services.
         3) <u>Horizontal integration</u> is adding one or more business that is similar, usually by purchasing such business.

      b. **Vertical integration** involves effecting growth through the production of inputs previously provided by suppliers or through the replacement of a customer role (such as that of a distributor) by disposing of one's own outputs.
         1) <u>Backward integration</u> occurs when a business grows by becoming its own supplier
         2) <u>Forward integration</u> occurs when organizational growth encompasses a role previously fulfilled by a customer.

c. **Diversification** entails effecting growth through the development of new areas that are clearly distinct from current businesses.
    1) Conglomerate diversification takes place when an organization diversifies into areas that are unrelated to its current business.
    2) Concentric diversification occurs when an organization diversifies into a related, but distinct, business.

These growth strategies can be implemented through a number of means:
1) Internal growth occurs as the organization expands by building on its own internal resources.
2) An **acquisition** is the purchase of all or part of one organization by another.
3) A **merger** is the combining of two or more companies into one organization.
4) A joint venture occurs when two or more organizations provide resources to support a given project or product offering.

2. A **stability strategy** is a second type of grand strategy that involves maintaining the status quo or growing in a methodical, but slow, manner.
   a. Small, privately owned businesses are most likely to adopt this strategy.
   b. Some of the reasons for adopting a stability strategy are that it
      1) Avoids the risks or hassles of aggressive growth.
      2) Provides the opportunity to recover after a period of accelerated growth.
      3) Lets the company hold on to current market share.
      4) May occur through default.

3. **Defensive strategies,** the third class of grand strategies, are sometimes called retrenchment strategies. They tend to focus on the desire or need to reduce organizational operations usually through cost reductions, such as cutting back on non-essential expenditures and instituting hiring freezes, and/or asset reductions such as selling land, equipment, or the business itself.
   a. **Harvest** entails minimizing investments while attempting to maximize short-run profits and cash flow, with the long-run intention of existing with the market.
   b. A **turnaround** is designed to reverse a negative trend and restore the organization to appropriate levels of profitability.
   c. A **divestiture** involves an organization's selling or divesting of a business or part of a business.
   d. A **bankruptcy** is a means whereby an organization that is unable to pay its debts can seek court protection from creditors and from certain contract obligations while it attempts to regain financial stability.
   e. **Liquidation** entails selling or dissolving an entire organization.

B. A **portfolio strategy approach** is a method of analyzing an organization's mix of businesses in terms of both individual and collective contributions to strategic goals. Two portfolio approaches are used most frequently. Each uses a two-dimensional matrix, and each may apply to either the existing or to potential strategic business units (SBUs). The portfolio concept is analogous to an individual's selecting a portfolio of stocks to achieve balance in terms of risk, long-term growth, etc.

1. **The Boston Consulting Groups (BCG) growth-share matrix** compares various businesses in an organization's portfolio on the basis of relative market share and market growth rate. The corporate portfolio matrix approach has been a popular approach to determining corporate-level strategy.

The **BCG matrix,** developed by the Boston Consulting Group, is a strategy tool to guide resource allocation decisions based on market share and growth of SBUs.

a. Relative market share is determined by the ratio of a business's market share compared to the market share of its largest rival.

b. Market growth rate is the growth in the market during the previous year relative to growth in the economy as a whole.

The matrix defines four business groups. SBUs plotted on the BCG matrix can be categorized:

1) The **Star** has a high market share in a rapidly growing market.
2) A **Question Mark** (problem child) has a low market share in a rapidly growing market.
3) The **Cash Cow** has a high market share in a slowly growing market.
4) A **Dog** has a low market share in an area of low growth.

c. Strategies are suggested by the SBU's position on the matrix.
1) Use funds from cash cows to duns stars and possibly question marks.
2) Divest dogs and less desirable question mark.

2. **The product/market evolution matrix** (sometimes called the life-cycle portfolio matrix) is a 15-cell matrix in which business is plotted according to the business unit's business strengths or competitive position, and the industry's stage in the evolutionary product/market life cycle.

   a. While the BCG matrix measures market growth rate the product/market evolution matrix shows the industry's stage in the evolutionary life cycle.
   b. The maturity and saturation stage is particularly important because it may last for an extended period of time and is a stage that presents special challenges to preserve market share while facing the prospect of the decline stage.

In **assessing these portfolio matrixes** remember that each model offers a somewhat different perspective. Portfolio matrices do not provide advice about specific business within the organization-such specifics are derived at the business level.

The BCG matrix (and the portfolio concept) has lost much of its merit because:

a. Not every organization has found that increased market share leads to lower costs.
b. The portfolio concept assumes that an organization's businesses can be divided into a reasonable number of independent units.
c. Contrary to predictions, many so-called dogs have shown consistently higher levels of profitability than their growing competitors with dominant market shares.
d. Given the rate at which the economy has been growing and the fact that a market can have only one leader, well over half of all businesses by definition fall into the dog category.
e. Strategic implications of the BCG matrix are: "milk" the cash cows; invest resources in the stars; liquidate or sell the dogs; and sell off or invest in the question marks.

Formulating Business-level strategy

A. Business-level strategies provide advice about specific strategies for various businesses.
B. Michael E. Porter has developed three business-level strategies that are generic, i.e., widely applicable to a variety of situations.
   1. A **cost leadership strategy** involves emphasizing organizational efficiency so that the overall costs of providing products and services are lower than those of competitors.
      a. The business should have a cost advantage that is not easily or inexpensively imitated.
      b. Managers should consider making those product or service innovations that are most important to customers.

   2. A **differentiation strategy** involves attempting to develop products and services that are viewed as unique in the industry.

a. Differentiation may occur in brand image, technology, customer service, features, quality, and election.
b. Costs are not as important as product or service uniqueness.

3. A **focus strategy** entails specializing by establishing a position of overall cost leadership, differentiation, or both, but only within a particular portion, or segment, or an entire market.

Formulating functional-level strategy

A. Strategies at the functional level are important in supporting a business-level strategy.
B. Functional areas develop the distinctive competencies that lead to potential competitive advantages.

Strategy Implementation

Strategies at the functional level are important in supporting a business-level strategy. Functional areas develop the distinctive competencies that lead to potential competitive advantages.

Strategy implementation includes the various management activities that are necessary to put the strategy in motion, institute strategic controls that monitor progress, and ultimately achieve organizational goals.

A. Managers need to synchronize major factors within an organization needed to put a chosen strategy into action.
   1. **Technology** is the knowledge, tool, equipment, and work technique used by an organization in delivering its product or service.
   2. **Human resources** are the individuals who are members of the organization.
   3. **Reward systems** include bonuses, awards, or promotions provided by others, as well as rewards related to internal experiences, such as feeling of achievement and challenge.
   4. **Decision processes** include the means of resolving questions and problems that occur in organizations.
   5. **Organization structure** is the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups in achieving organizational goals.

B. Managers need to be able to monitor progress through strategic control.
   Strategic control involves monitoring critical environmental factors that could affect the viability of strategic plans, assessing the effects of organizational strategic actions, and ensuring that strategic plans are implemented as intended.

Strategic control systems include information systems that provide feedback on the implementation and effectiveness of strategic plans.

Lesson 28

ENTREPRENEURSHIP MANAGEMENT

What Is Entrepreneurship?

1. **Entrepreneurship**—the process where individuals or a group of individuals risk time and money in pursuit of opportunities to create value and grow through innovation regardless of the resources they currently control.
2. **Entrepreneurial ventures vs. small businesses**
   Entrepreneurial ventures—organizations that are pursuing opportunities, characterized by innovative practices, and have growth and profitability as their main goals.
   Small businesses—organization that is independently owned, operated, and financed; has fewer than 100 employees; doesn't necessarily engage in any new or innovative practices, and has relatively little impact on its industry, usually remaining small by choice or by default.

Why Is Entrepreneurship Important?

1. Innovation—a process of changing, experimenting, transforming, revolutionizing, and a key aspect of entrepreneurial activity.
2. Number of New Start-Ups
   Assuming that some of these new businesses engage in innovative practices and pursue profitability and growth, then entrepreneurship has contributed to the overall creation of new firms.
3. Job Creation
   The latest figures show that virtually all new net jobs were generated by firms with fewer than 500 employees.

The Entrepreneurial Process

1. Exploring the entrepreneurial context
   It includes the realities of the new economy, society's laws and regulations that compose the legal environment, and the realities of the changing world of work.
2. Identifying opportunity and possible competitive advantages
3. Starting the venture
   It includes researching the feasibility of the venture, planning the ventures, organizing the ventures, and launching the venture.
4. Managing the venture
   It includes managing processes, people, and growth.

What Do Entrepreneurs Do?

1. Initially, an entrepreneur is engaged in assessing the potential for the venture, and then dealing with start-up issues.
2. Once the venture is up and running, the entrepreneur's attention switches to managing it.
3. Finally, the entrepreneur must manage the venture's growth.

Preparing to Operate a Small Business:

Writing a Business Plan:
A business plan is a document written by an entrepreneur or perspective owner that details the nature of business, the product or service, the customers, the competition, the production and marketing methods, the management, the financing and other significant aspects of proposed business venture.
It has several purposes:

- To think in concrete terms about every aspect of business.
- To able to get financing
- To measure progress

- To establish credibility with others.

The plan should describe the match between the entrepreneur's abilities and the requirements for producing and marketing a particular product or service.

WHAT IS CHANGE?

Organizational change is defined as any alteration in people, structure, or technology. Change is ever present in organizations and cannot be eliminated. Instead, we need to look at the key issues related to managing change.

FORCES FOR CHANGE

There are external and internal forces that create the need for change.

A. External forces that create the need for change come from various sources.
   1. The marketplace
   2. Government laws and regulations
   3. Technology
   4. Labor markets
   5. Economic changes

B. Internal forces tend to originate primarily from the internal operations of the organization or from the impact of external changes.
   1. Changes in strategy
   2. Changes in the workforce
   3. New equipment
   4. Change in employee attitudes

STIMULATING INNOVATION

Innovation is important to organizational success in the marketplace.

Creativity versus Innovation
There is a difference between creativity and innovation.

1. **Creativity** is the ability to combine ideas in a unique way or to make unusual associations between ideas.
2. **Innovation** is the process of taking a creative idea and turning it into a useful product, service, or method of operation.

How can managers foster innovation?

a. Organic structures positively influence innovation.
b. The easy availability of organizational resources provides a critical building block for innovation.
c. Frequent inter-unit communication helps break down barriers to innovation.

Human resources variables are indicative of the important role that people play in innovative organizations.

a. Innovative organizations actively promote the training and development of their employees so their knowledge remains current.
b. Innovative organizations offer employees high job security.
c. Innovative organizations encourage individuals to become **idea champions**—individuals, who actively and enthusiastically support a new idea, build support, overcome resistance, and ensure that the innovation is implemented.

Answering the Questions

1. **Differentiate between entrepreneurial ventures and small businesses.**
   Entrepreneurial Ventures—organizations that are pursuing opportunities, characterized by innovative practices, and have growth and profitability as their main goals.

   Small Businesses—organization that is independently owned, operated, and financed; has fewer than 100 employees; doesn't necessarily engage in any new or innovative practices, and has relatively little impact on its industry, usually remaining small by choice or by default.

2. **Why is entrepreneurship important in Pakistan?**
   The important of entrepreneurship in Pakistan can be shown in three areas: innovation, number of new start-up business and SMEs, and job creation.

3. **Is the pursuit of entrepreneurship important only in Pakistan? Explain.**
   The Global Entrepreneurship Monitor (GEM) studied the pace of entrepreneurial activity on economic growth in various countries. Among the major industrialized G-7 countries in particular, there was a very strong relationship between the level of entrepreneurial activity and annual economic growth. Same is true for every country like Pakistan i.e. developing nation.

4. **Describe the four key steps in the entrepreneurial process.**
   – Exploring the entrepreneurial context; includes the realities of the new economy, society's laws and regulations that compose the legal environment, and the realities of the changing world of work.
   – Identifying opportunity and possible competitive advantages
   – Starting the venture; includes researching the feasibility of the venture, planning the ventures, organizing the ventures, and launching the venture.
   – Managing the venture; includes managing processes, people, and growth.

5. **What do entrepreneurs do?**
   Initially, an entrepreneur is engaged in assessing the potential for the venture, and then dealing with start-up issues. Once the venture is up and running, the entrepreneur's attention switches to managing it. Finally, the entrepreneur must manage the venture's growth.

6. **Why are social responsibility and ethical considerations important to entrepreneurs?**
   Ethical considerations play a role in decisions and actions of entrepreneurs. The results of a study of approximately 300 entrepreneurs and corporate managers showed that entrepreneurs generally have more strict ethical standards than do managers and are also better able to live by their beliefs, probably because they have more control over their decisions and actions.

Lesson 29

ORGANIZING

Organizations are experimenting with different approaches to organizational structure and design. Organizational structure can play an important role in an organization's success. The process of **ORGANIZING**—the second management functions—is how an organization's structure is created.

The Nature of Organization Structure

Managers are seeking structural designs that will best support and allow employees to effectively and efficiently do their work. **Organizing** is the process of creating an organization's structure.

Organization structure is the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups in achieving organizational goals. An **organizational structure** is the formal framework by which job tasks are divided, grouped, and coordinated.

1. This formal pattern designed by management is to be distinguished from the informal pattern of interactions that simply emerges within an organization.
2. Organization structure consists primarily of four elements:
   a. Job design
   b. Departmentalization
   c. Vertical coordination
   d. Horizontal coordination

3. **Organization design** is the process of developing an organization structure. **Organizational design** is the process of developing or changing an organization's structure. It involves decisions about six key elements: work specialization, departmentalization, and chain of command, span of control, centralization/decentralization, and formalization. We need to take a closer look at each of these structural elements.

The **organization chart** is a line diagram that depicts the broad outlines of an organization's structure. While varying in detail from one organization to another, typically organization charts show the major positions or departments in the organization, the way positions are grouped together, reporting relationships for lower to higher levels, official channels for communications, and possibly the titles associated with major positions in the organization.

1. The organization chart provides a visual map of the **chain of command,** the unbroken line of authority that ultimately links each individual with the top organizational position thorough a managerial position at each successive layer in between.
2. Nearly all organizations having just a few members have an organization chart.

Responsibility is the obligation or expectation to perform and carry out duties and achieve goals related to a position.

Authority is the right inherent in a managerial position to tell people what to do and to expect them to do it, right to make decisions and carry out actions to achieve organizational goals.

While part of a manager's work may be delegated, the manager remains accountable for results.

a. **Accountability** is the requirement of being able to answer for significant deviations from duties or expected results.
b. The fact that managers remain accountable for delegated work may cause them to resist delegation.

Delegation is assignment of part of manager's work to others along with responsibility and authority.

1. In addition to issues of accountability, managers may resist delegation for a number of reasons.
    a. Managers may fear if subordinates fail.
    b. Managers may think they lack time to train subordinates.
    c. Managers may want to hold on to their power.
    d. Managers may enjoy doing the tasks subordinates could do.
    e. Managers may feel threatened by subordinates.
    f. Managers may not know how to delegate.

2. Subordinates may resist delegation because of fear of failure or of risk taking.
3. Failure to delegate may have serious negative consequences for a manger's career.

Lesson 30

JOB DESIGN/SPECIALIZATION AND DEPARTMENTALIZATION

Building Blocks of Organizing

1. Job design

A. Job design is an essential part of organizational structure.
   1. **Job design** is the specification of task activities, usually repeated on a regular basis, associated with each particular job.
      a. Task activities need to be grouped in reasonably logical ways for each job.
      b. The way the jobs are configured influences employee motivation.
   2. **Work specialization** is the degree to which the work necessary to achieve organizational goals is broken down into various jobs.

   In Work specialization the tasks in an organization are divided into separate jobs. Another term for this is *division of labor*.

   1. Work specialization can be traced back to the writings of Adam Smith.
   2. Work specialization was seen as a way to make the most efficient use of workers' skills because workers would be placed in jobs according to their skills and paid accordingly.
   3. Other advantages of work specialization included improvement in employees' skills at performing a task, more efficient employee training, and encouragement of special inventions and machinery to perform work tasks.
   4. Work specialization was viewed as a source of unending productivity improvements. And it was—up to a certain point.
   5. The human diseconomies from work specialization included boredom, fatigue, stress, lowered productivity, poor quality of work, increased absenteeism, and higher job turnover.

B. There are four approaches to job design.
   1. **Job simplification** is the process of configuring or designing jobs so that job holders have only a small number of narrow, repetitive, activities to perform.
      a. The concept of job simplification was championed by economist Adam Smith and by Frederick Taylor
      b. Training new workers becomes relatively easy and workers become almost interchangeable.
      c. The advantage is that major production efficiencies may be gained.
      d. The disadvantages are that, if carried too far, job satisfaction may be destroyed by narrow, repetitive, boring jobs and the firm may become too inflexible to serve customers with varying needs.

Types of Departmentalization

Departmentalization is the clustering of individuals into units and units into departments and larger units in order to facilitate achieving organizational goals.

1. An organization design is an overall pattern of departmentalization.
2. There are four major patterns of departmentalization.
   a. The functional structure groups jobs into units based upon similarity of expertise, skills, and work activities, e.g., marketing, accounting.
   b. The divisional structure groups jobs into units according to the similarity of products or markets.
   c. The hybrid structure combines aspects of both the functional and divisional forms, with some jobs grouped into departments by functions and other grouped by products or markets.
   d. The matrix structure superimposes a horizontal set of divisional reporting relationships onto a hierarchical functional structure.

Assessing Structural Alternatives

Each of the four most common types of departmentalization has major advantages and disadvantages.

A. Functional structure is a type of departmentalization in which positions are grouped according to their main functional (or specialized) area.

1. Typical functional form of organization has several major advantages.
2. The functional form of organization has several major advantages.
    a. In-depth development of expertise is encouraged.
    b. Employees have clear career paths within their function.
    c. Resources are used more efficiently.
    d. Economies of scale may be possible because of specialized people and equipment.
    e. Intradepartmental coordination is facilitated.
    f. Specialized technical competencies may be developed and may constitute a competitive advantage.

3. The functional form of origination has several disadvantages.
    a. Response time on multifunctional problems may be slow due to coordination problems.
    b. Major issues and conflicts between departments may have to be resolved by top management, with resultant delays.
    c. Bottlenecks due to sequential tasks.
    d. Over specialization may lead to a restricted view of the department's and the organization's needs.
    e. Performance may be difficult to measure because several functions are responsible for organizational results.
    f. Managers may be trained too narrowly in a single department.

4. The functional form of departmentalization is more appropriate under certain circumstances.
    a. The organization is small or medium-sized.
    b. There is a limited number of related products or services, or a relatively homogeneous set of customers or clients.
    c. The organization is large and diverse, but the environment is stable.

B. Divisional structure is a type of departmentalization in which positions are grouped according to similarity of products, services, or markets.

1. Divisional structures are also called "self-contained structures" because each division contains the major functional resources it needs to pursue its own goals with little or no reliance on other divisions.
2. The three major forms of divisional structure differ according to the rationale for forming the divisions.
    a. **Product divisions** are divisions created to concentrate on a single product or service or at least a relatively homogeneous set of products or services.
    b. **Geographic divisions** are divisions designed to serve different geographic areas.
    c. **Customer divisions** are divisions set up to service particular types of clients or customers.

3. Divisional structure has several major advantages.
    a. Divisions can react quickly to changes in the environment.
    b. Coordination across functions is simplified.
    c. Each division can focus upon serving its customers.
    d. The division's goals can be emphasized.
    e. Performance is more easily measured.
    f. Managers can be trained in general management skills.

4. Divisional structure has several disadvantages.
    a. Duplication of resources in each division often occurs.
    b. In-depth expertise may be sacrificed.

c. Divisions may compete for limited resources.
d. Expertise across divisions may not be shared.
e. Innovations may be restricted to single divisions.
f. Divisional goals may take priority over overall organizational goals.

5. The divisional structure is likely to be used in large organizations where substantial differences exist among products or services, geographic areas, or customers served.

C. Hybrid structure is a form of departmentalization that adopts parts of both functional and divisional structures at the same level of management.

1. Hybrid structures are adopted by large organizations to gain the advantages of functional and divisional structures.
   a. Functional departments are created to take advantage of resource utilization efficiencies, economies of scale, or in-depth expertise.
   b. Divisional departments are usually created to benefit from a stronger focus on products, services, or markets.

2. The hybrid structure has several advantages.
   a. Corporate and divisional goals can be aligned.
   b. Specialized expertise and economies of scale can be achieved in major functional areas.
   c. Adaptability and flexibility may be achieved in handling diverse product or service lines, geographic areas, or customers.

3. The hybrid structure has several disadvantages.
   a. Conflict may arise between departments and divisions.
   b. Hybrid organizations tend to develop excessively large staffs in the corporate-level functional departments.
   c. There may be a slow response to exceptional situations requiring coordination between a division and a corporate functional department.

4. The hybrid structure is best used under particular conditions.
   a. The organization faces environmental uncertainty best met by a divisional structure.
   b. The organization requires functional expertise and/or efficiency.
   c. The organization has sufficient resources to justify the structure.

D. A **matrix structure** is a type of departmentalization that superimposes a horizontal set of divisional reporting relationships onto a hierarchical functional structure.

1. An organization with a matrix structure has a functional and a divisional structure at the same time.
2. Employees who work in a matrix organization report to two “bosses,” thus, the unity-of-command principle is violated.
3. Organizations that adopt a matrix structure usually go through several identifiable structural stages.
   a. Stage 1 is a traditional structure, usually a functional structure, which follows the unity-of-command principle.
   b. Stage 2 is a temporary overlay in which managerial integrator positions are created to handle issues of finite duration that involves coordinating across functional departments.
   c. Stage 3 is a permanent overlay in which the managerial integrator positions become permanent.
   d. Stage 4 is a mature matrix, in which matrix bosses have equal power.

4. As an organization passes through the matrix stages, horizontal integration increases at the cost of greater administrative complexity. The matrix form of organization has several advantages.
5. The matrix form of organization has several advantages.
   a. Decision making can be decentralized.

b. Horizontal coordination is strengthened.
c. Environmental monitoring is improved.
d. Responses to environmental changes are quickly made.
e. Functional specialists can be added to or resigned to projects as needed.
f. Support systems can be allocated to projects as needed.

6. Matrix designs have several disadvantages.
   a. Administrative costs are increased.
   b. Lines of authority and responsibility may not be clear to individual employees.
   c. Possibilities of conflict are increased.
   d. Individuals can become preoccupied with internal relations at the expense of clients and project goals.
   e. All decisions may become group decisions, leading to gross inefficiency.
   f. Reactions to change may be slowed if interpersonal skills are lacking or top management fights for control.

7. Matrix designs are usually appropriate when the following three conditions are met:
   a. The considerable pressure from the environment that necessitates a simultaneous and strong focus on both functional and divisional dimensions.
   b. The demands placed on the organization are changing and unpredictable, making it important to have a large capacity for processing information and coordinating activities quickly.
   c. There is pressure for shared resources.

8. Research indicates some of the factors that may be necessary to the success of a matrix systems
   a. The organizational culture may need to be changed to support collaboration.
   b. Managers may need special training, especially in interpersonal relations.

E. Of particular interest are two new types of organizational structure that have recently emerged: the **process structure** and the **networked structure.**

1. A process structure is a type of departmentalization which groups positions into process team which are given beginning-to-end responsibility for that process or that specified work flow. The process structure is sometimes called the horizontal organization.
2. The networked structure is a form of organizing in which many functions are contracted out to other independent firms and coordinated through the use of information technology networks. Sometimes the networked structure is called the virtual corporation because it performs as virtually one corporation.

Lesson 31

SPAN OF COMMAND, CENTRALIZATION VS. DE-CENTRALIZATION AND LINE VS. STAFF AUTHORITY

Methods of Vertical Coordination

Vertical coordination is the linking of activities at the top of the organization with those at the middle and lower levels in order to achieve organizational goals.

Formalization is the degree to which written policies, rules, procedures, job descriptions, and other documents specify what actions are (or are not) to be taken under a given set of circumstances.

1. Most organizations need some degree of formalization so that fundamental decisions do not have to be made more than once and so that inequities will be less likely to occur.
2. Being too highly formalized can lead to cumbersome operations, slowness in reacting to change, and low levels of creativity and innovation.

Span of management or **span of control** is the number of subordinates who report directly to a specific manager.

1. Managers should have neither too many nor too few subordinates.
2. Research indicates that there is no universally correct span of management for all managers. Rather, spans of management can be narrower or broader depending on the circumstances of each managerial job.
    a. Subordinates' work is such that little interaction with others is required.
    b. Managers and/or their subordinates are highly competent.
    c. The work of subordinates is similar.
    d. Problems are infrequent.
    e. Subordinates are located within close physical proximity of one another.
    f. Managers have few non supervisory duties to perform.
    g. Managers have additional help such as secretaries or assistants.
    h. The work is challenging enough to motivate subordinates to do a good job.

Spans of management determine the number of hierarchical levels in an organization.

a. A **tall structure** is one that has narrow spans of management and many hierarchical levels in an organization.
b. A **flat structure** is one that has broader spans of management and few hierarchical levels and wide spans of control.

The number of hierarchical levels in an organization affects organizational effectiveness.

a. Very tall organizations raise administrative overhead, slow communication and decision making, make it more difficult to pinpoint responsibility for various tasks, and encourage the formation of dull, routine jobs.
b. **Downsizing** is the process of significantly reducing the layers of middle management, expanding the spans of control, and shrinking the size of the work force.
c. **Restructuring** is the process of making a major change in organization structure that often involves reducing management levels and also possibly changing some major components of the organization through divestiture and/or acquisition.
d. Downsizing must be planned and implemented carefully.
    1) Done well, downsizing may result in reduced costs, faster decision making, more challenging jobs, fewer redundancies, and increased innovation.
    2) Done poorly, downsizing may result in the loss of valuable employees, demoralized survivors, and an ultimate decline in productivity.

3) A five-year study showed only increases in profits and productivity in a relatively small number of firms that downsized while most had noticeable decreased in morale.

The degree to which authority in an organization is centralized or decentralized affects the pattern of decision making in the organization.

1. **Centralization** is the extent to which power and authority are retained at the top organizational levels.
2. **Decentralization** is the extent to which power and authority are delegated to lower levels.
3. An organization is centralized if decisions made at lower levels are governed by a restrictive set of policies, procedures, and rules, and if situations not explicitly covered are referred to higher levels for resolution.
4. An organization is decentralized to the extent that decisions made at lower levels are made within a general set of policies, procedures, and rules, with decisions not covered left to the discretion of lower-level managers.
5. Centralization offers advantages.
   a. It is easier to coordinate the activities of various units and individuals.
   b. Top managers have more experience and may therefore make better decisions.
   c. Top managers have a broader perspective on decision situations.
   d. Duplication of effort by various organizational units can be avoided.
   e. Strong leadership is promoted.

6. Decentralization offers advantages.
   a. Top managers can concentrate upon major issues.
   b. The jobs of lower-level employees are enriched by the challenge of making decisions.
   c. Decisions can be made faster.
   d. Individuals at lower levels may be closer to the problem and may be in a better position to make good decisions.
   e. Relatively independent units emerge as divisions, with more easily measured outputs.

7. Organizations should move toward a decentralized structure when:
   a. The organization is so large that top managers do not have the time or the knowledge to make all the major decisions.
   b. Operations are geographically dispersed.
   c. Top managers cannot keep up with complex technology.
   d. The environment is increasingly uncertain.

The configuration of line and staff positions can affect the vertical integration in organizations.

1. A **line position** is a position that has authority and responsibility for achieving the major goals of the organization.
2. A **staff position** is a position whose primary purpose is providing specialized expertise and assistance to line positions.
3. Line authority differs from staff authority.
   a. **Line authority** is authority that follows the chain of command established by the formal hierarchy.
   b. Staff departments have **functional authority,** authority over others in the organization in matters related directly to the staff departments' functions.
   c. Conflicts of line and functional authority.
      1) Staff personnel may usurp line authority.
      2) Line personnel may abdicate responsibility of staff departments.
      3) Conflicts may be avoided by clarifying lines of authority and encouraging team work.

   d. Recently a trend had developed to reduce the number of corporate-level staff positions in cost cutting moves.

Promoting Innovation: Methods of Horizontal coordination

Horizontal coordination is the linking of activities across departments at similar levels.

1. The need for horizontal coordination in an organization is directly proportional to the information-processing needs of the organization.
2. Organizations need to process more information under certain circumstances.
    a. The organization faces complex and/or changing technology.
    b. The environment is uncertain.
    c. The company is growing.

3. In facilitating information processing across the organization, horizontal coordination also promotes innovation.
    a. New ideas are more likely to emerge when views are shared.
    b. Awareness of problems and opportunities across areas may spark creative solutions.
    c. Involving employees in the development of ideas promotes commitment to proposed changes.

A **managerial integrator** is a manager who is given the tasks of coordinating related work that involves several functional departments.

1) Project managers usually are responsible for coordinating the work associated with a particular project until its completion.
2) Product managers orchestrate the launching of new products and services and may then continue coordinating interdepartmental work related to the new products and services.
3) Brand manager coordinate organizational efforts involving particular brand-name products, most often within the soap, food, and toiletries industries.

Managerial integrators do not have the line authority and must gain the cooperation of staff mangers to implement their proposals.

Lesson 32

ORGANIZATIONAL DESIGN AND ORGANIC VS. MECHANISTIC VS. VIRTUAL STRUCTURES

1. **Job rotation** is the practice of periodically shifting workers through a set of jobs in a planned sequence.
   a. One purpose of job rotation is to combat boredom, but its success is short-lived if tasks are too simple.
   b. Another purpose of job rotation is cross training so that there is maximum flexibility in job assignments.
   c. A related purpose is employee development so that employees increase their capabilities and understanding of various aspects of the organization.
   d. A potential problem is that rotating individuals may be treated as temporary helps and their loyalty perceived as questionable.

2. **Job enlargement** is the allocation of a wider variety of similar tasks to a job in order to make it more challenging.
   a. Job enlargement broadens **job scope,** the number of different tasks an employee performs in a particular job.
   b. The problem is that if additional simple tasks are added, worker boredom may persist. Too, lower efficiency, mental overload, increased errors, and other problems may develop.

3. **Job enrichment,** pioneered by Frederick Hertzberg, is the process of upgrading the job-task mix in order to increase significantly the potential for growth, achievement, responsibility, and recognition.
   a. Job enrichment increases **Job depth,** the degree to which individuals can plan and control the work involved in their jobs.
   b. The important **job characteristics model** is a model developed to guide job enrichment efforts that include consideration of **core job characteristics, critical psychological states,** and **outcomes.**
   c. The job characteristics model has five core job characteristics.
      1) **Skill variety** is the extent to which the job requires a number of activities that require different skills.
      2) **Task identity** is the degree to which the job allows the completion of a major identifiable piece of work, rather than just a fragment.
      3) **Task significance** is the extent to which the worker sees the job output as having an important impact on others.
      4) **Autonomy** is the amount of discretion allowed in determining schedules and work methods for achieving the required output.
      5) **Feedback** is the degree to which the job provides clear, timely information about performance results.

   d. According to the job characteristics model, the core characteristics will increase worker motivation only if workers experience three critical psychological states.
      1) Workers must feel that the work is meaningful.
      2) Workers must know they are responsible for the outcomes.
      3) Workers must actually find out results.

   e. According to the job characteristics model, outcomes of the critical states will be higher internal work motivation, greater satisfaction of growth needs, higher general job satisfaction, and increased work effectiveness.
   f. The job characteristics model is likely to be used successfully under two conditions.
      1) Workers have high **growth-need strength,** the degree to which an individual needs personal growth and development on the job.
      2) Workers are satisfied with other aspects of the job context, i.e. supervision, pay, coworkers, and job security.

ORGANIZATIONAL DESIGN DECISIONS

Organizations aren't structured the same way. Top managers put a lot of thought into how best to design the organization's structure. That "best" design depends on four contingency variables: the organization's strategy, size, technology, and degree of environmental uncertainty.

There are two generic models of organizational design.

1. A **mechanistic organization** is an organizational structure that is characterized by high specialization, rigid departmentalization, narrow spans of control, high formalization, a limited information network, and little participation in decision making by low-level employees.
2. An **organic organization** is a structure that is highly adaptive and flexible with little work specialization, minimal formalization and little direct supervision of employees.
3. When is each design favored? It "depends" on the contingency variables.

Contingency factors—appropriate structure depends on four contingency variables:

1. Strategy and structure

One of the contingency variables that influence organizational design is the *organization's strategy*. Most current strategy-structure frameworks tend to focus on three strategy dimensions:

1) Innovation—needs the flexibility and free flow of information of the organic organization
2) Cost minimization—needs the efficiency, stability, and tight controls of the mechanistic organization
3) Imitation—which uses characteristics of both mechanistic and organic

2. Size and structure

There is considerable historical evidence that an *organization's size* significantly affects its structure. Larger organizations tend to have more specialization, departmentalization, centralization and formalization although the size-structure relationship is not linear.

Technology also has been shown to affect an organization's choice of structure.

a. Every organization uses some form of technology to transform inputs into outputs.
b. The study of structure and technology found that organizations adapted to their technology and that three distinct technologies had increasing levels of complexity and sophistication.
   1) Unit production is the production of items in units or small batches.
   2) Mass production is large-batch manufacturing.
   3) Process production is continuous-process production.

3 Environmental uncertainty and structure

The final contingency factor that has been shown to affect organizational structure is *environmental uncertainty*. One way to manage environmental uncertainty is through adjustments in the organization's structure. The more uncertain the environment, the more flexible and responsive the organization may need to be.

COMMON ORGANIZATIONAL DESIGNS

A. Traditional organizational designs.

We now need to look at various organizational designs that you might see in today's organizations.

1. A **simple structure** is an organizational design with low departmentalization, wide spans of control, authority centralized in a single person, and little formalization.
   a. Its strengths are its flexibility, speed and low cost to maintain.
   b. Its major drawback is that it's most effective in small organizations.

   As an organization grows, the structure tends to become more specialized and formalized. When contingency factors favor a bureaucratic or mechanistic design, one of two options is likely to be used.

2. One option expands functional departmentalization into the **functional structure,** which is an organizational design that groups similar or related occupational specialties together.
3. The other option is the **divisional structure,** which is an organizational structure made up of autonomous, self-contained units.

B. Contemporary organizational designs

However, many of today's organizations are finding that the traditional hierarchical organizational designs aren't appropriate for the increasingly dynamic and complex environments they face.

1. **Team-based structures:**
   One of the newer concepts in organizational design is the **team-based structure,** which is an organizational structure made up of work groups or teams that performs the organization's work.
2. **Project and matrix structures:**
   Another variation in organizational arrangements is based on the fact that many of today's organizations deal with work activities of different time requirements and magnitude.
   a. One of these arrangements is the **matrix organization** that assigns specialists from different functional departments to work on one or more projects being led by project managers.
   b. Another of these designs is the **project structure,** which is a structure in which employees are permanently assigned to projects.

3. **Autonomous Internal Units:**
   Some large organizations have adopted a structure that's described as **autonomous internal units**, a design in which there are independent, autonomous decentralized business units, each with its own products, clients, competitors, and profit goals.
4. **The Boundary less Organization:**
   Another approach to organizational design is the **boundary less organization**, which describes an organization whose design is not defined by, or limited to the horizontal, vertical, or external boundaries imposed by a predefined structure.
5. **Learning Organization:**
   An organization that facilitate the life long learning and development of its employees while transforming itself to respond to changing demands and needs of market.

Lesson 33

LEADING AND LEADERSHIP MOTIVATING SELF AND OTHERS

The Nature of Motivation

Being able to effectively motivate employees is a challenge that managers face in all types and sizes of organizations. "Everything that we give to our workers gets returned to us in terms of efficiency, quality, loyalty, and innovation."

Motivation is the willingness to exert high levels of effort to reach organizational goals, conditioned by the effort's ability to satisfy some individual need.

A. Effort is a measure of intensity or drive. High levels of effort are unlikely to lead to favorable job performance unless the effort is channeled in a direction that benefits the organization.
B. A **need** is an internal state that makes certain outcomes appears attractive. An unsatisfied need creates tension that stimulates drives within an individual. These drives generate a search behavior to find particular goals that, if attained, will satisfy the need and reduce the tension.

Hence motivation is the force that energizes behavior, gives direction to behavior, and underlies the tendency to persist.

1. A person's motivation is not directly measurable, but must be inferred from behavior.
2. Performance is a function of ability, motivation and working conditions.
3. Besides hiring individual with ability to do the work, managers have the challenge to provide working conditions that nurture and support individual motivation to work toward organization goals.

The main elements of motivation have been identified based on numerous studies. A simplified model of motivation has been developed.

1. Inner needs and cognitions lead to behaviors.
2. Appropriate behaviors may result in rewards, which reinforce the behaviors, fulfill needs, and provide cognitive input regarding the future association of behaviors and rewards.
3. Lack of rewards may lead to unfulfilled needs, un-reinforced behaviors, and cognitive input in the form of expectations about the future.

Intrinsic Motivators

A person's internal desire to do some thing for his satisfaction, respect, prestige or loyalty

Extrinsic Motivators

Factors of motivation that comes from outside (environment) or organization like pay, bonuses, tangible benefits etc

FROM THEORY TO PRACTICE: SUGGESTIONS FOR MOTIVATING EMPLOYEES

Several suggestions for motivating employees are given and are based on what is currently known about motivation.

A. Recognize individual differences in terms of needs, attitudes, personality, and other important individual factors.
B. Match people to jobs by identifying what needs are important to individuals and trying to provide jobs that allow them to fulfill those needs.

C. Use goals because the literature on goal setting suggests that managers should ensure that employees have hard, specific goals and feedback on how well they're doing in pursuit of those goals.
D. Ensure that goals are perceived as attainable. Employees who see goals as unattainable will reduce their levels of effort.
E. Individualize rewards. Because employees have different needs, what is a reward and reinforce to one may not work for another.
F. Link rewards to performance by making rewards contingent on desired levels of performance.
G. Check the system for equity. Employees should perceive that the rewards or outcomes are equal to the inputs given.
H. Don't ignore money. The allocation of performance-based increases, piecework bonuses, and other pay incentives is important in determining employee motivation.

Lesson 34

MASLOW'S NEEDS THEORY AND ITS ANALYSIS

Maslow's Need Theory

One of the most widely mentioned theories of motivation is the hierarchy of need theory put forth by Abraham Maslow, one of the most widely known theories of motivation. Maslow saw human needs in the form of hierarchy ascending from the lowest to the highest and concluded that, when one set of need is satisfied this kind of need ceases to be a motivator.

1 Maslow's hierarchy of needs from the most basic to the highest.
   a. **Physiological needs** are basic and include needs for food, water, and shelter. Maslow took the position that until these needs are satisfied to the degree necessary to maintain life, other needs will not motivate people.
   b. **Safety needs** pertain to the desire to be safe, secure and free from threats to our existence. These needs can be satisfied in the workplace by job continuity, or retirement benefits.
   c. **Belongingness needs** involve the desire to affiliate with and be accepted by others. These needs are satisfied for most people by family and community relationship outside of work and friendship on the job.
   d. **Esteem needs** are related to the two-pronged desire to have a positive self-image and to have our contributions valued and appreciated by others. According to Maslow, once people begin to satisfy their need to belong, they tend to want to be held in esteem both by themselves and by others this kind of need produces such satisfactions as power, prestige, status and self confidence.
   e. **Self-actualization needs** pertain to the requirement of developing our capabilities and reaching our full potential. Maslow regards this as the highest need in his hierarchy. It is the desire to become what one is capable of becoming- to maximize one's potential and to accomplish something.

2 Maslow suggests that the five need categories constitute a hierarchy. An individual is motivated first and foremost to satisfy physiological needs. As long as they remain unsatisfied, the individual is motivated only to fulfill them. When satisfaction of physiological needs is achieved they cease to act as primary motivational factors and the individual moves up the hierarchy and become concerned with security need. This process continues until the individual reaches the self- actualization level.

3 Recent studies have raised questions as to whether the hierarchical aspect of Maslow's theory is applicable to everyone and whether there might be fewer than five levels of needs.

Analysis and Weakness of Theory

1. Five levels of need are not always present.
2. Order of needs and hierarchy may not be the same for all employees.
3. There are certainly cultural differences which the theory did not take care.
4. Analyzing the theory in country and cultural context, for example in China, the hierarchy of needs found was different than Maslow's theory.

Lesson 35

OTHER NEED AND COGNITIVE THEORIES OF MOTIVATION

McGregor's Theory X and Theory Y

This theory was developed by Douglas McGregor and describes two distinct views of human nature.

1. **Theory X** was the assumption that employees dislike work, are lazy, seek to avoid responsibility, and must be coerced to perform.
2. **Theory Y** was the assumption that employees are creative, seek responsibility, and can exercise self-direction.
3. Theory X assumed that lower-order needs (Maslow's) dominated individuals, and Theory Y assumed that higher-order needs dominated.

Motivation-Hygiene Theory

This is the theory developed by Frederick Herzberg that suggests that intrinsic factors are related to job satisfaction and motivation, and extrinsic factors are associated with job dissatisfaction. The basis of Herzberg's theory is that he believed that the opposite of satisfaction was not dissatisfaction. Removing dissatisfying characteristics from a job would not necessarily make the job satisfying. Frederick Herzberg's **two-factor** theory states that there are only two categories of needs.

Hygiene factors are factors that eliminate dissatisfaction. They include things such as supervision, company policy, salary, working conditions, security and so forth—extrinsic factors associated with job context, or those things surrounding a job.

Hygiene factors are necessary to keep workers away from feeling dissatisfied. There are several hygiene factors.

a. Pay
b. Working conditions
c. Supervisors
d. Company policies
e. Benefits

Motivators are factors that increase job satisfaction and hence motivation. They include things such as achievement, recognition, responsibility, advancement and so forth—intrinsic factors associated with job content, or those things within the job itself.

Motivator factor can only lead workers to feel satisfied and motivated.

a. Achievement
b. Responsibility
c. Work itself
d. Recognition
e. Growth and achievement

ERG Theory

Clayton Alderfer's ERG theory combines Maslow's five needs into three need levels: existence, relatedness and growth.

1. **Existence needs** include the various forms of material and physiological desires, such as food and water, as well as such work-related forms as pay, fringe benefits and physical working conditions.

2. **Relatedness needs** address our relationships with significant others, such as families, friendship groups, work groups and professional groups.
3. **Growth needs** impel creativity and innovation, along with the desire to have a productive impact on our surroundings.
4. ERG needs differ in concreteness, i.e. the degree to which their presence or absence can be verified.
5. The **satisfaction-progression principle** is a principle that states that satisfaction of one level of need encourages concern with the next level.
6. Besides disagreeing as to the number of need levels that might exist, the ERG theory differs from Maslow's hierarchy of needs theory in three other significant ways:
   a. Although the general notion of a hierarchy is retained, Alderfer's theory argues that we can be concerned with more than one need category at the same time.
   b. ERG theory is more flexible in acknowledging that some individuals' needs may occur in a somewhat different order than the posited by the ERG framework.
   c. ERG theory incorporates a **frustration regression principle** which states that if we are continually frustrated in our attempts to satisfy a higher-level need, we may cease to be concerned about that need.

Acquired-Needs Theory

McClelland's acquired-needs theory argues that our needs are acquired or learned on the basis of our life experience.

1. The Thematic Apperception Test (TAT) measures the needs for achievement, affiliation, and power.
2. The **need of achievement (nAch)** is the desire to accomplish challenging tasks and achieve a standard of excellence in one's work.
3. The **need for affiliation (nAff)** is the desire to maintain warm, friendly relationships with others.
4. The **need for power (nPow)** is the desire to influence others and control one's environment.
   a. **Personal power** is the need for power in which individuals want to dominate others for the sake of demonstrating their ability to wield power.
   b. **Institutional power** is the need for power in which individuals focus on what they can do to solve problems and further organizational goals.

5. The need profile of successful managers in competitive environments appears to include:
   a. A moderate-to-high need for institutional power.
   b. A moderate need for achievement to facilitate individual contributions early in one's career and a desire for the organization to maintain a competitive edge as one moves to higher levels
   c. At least a minimum need for affiliation to provide sufficient sensitivity for influencing others.
   d. Need for achievement may actually be more important than need for power in running small or large, decentralized companies.

6. It may be possible to foster the needs for achievement and for institutional power through training.

Significance for Managers

Many aspects of need theories are of value to managers.

1. Need theories are compatible in pointing out the importance of higher-level needs as a source of motivation.
2. Research indicates that it is more likely that individuals differ in the makeup of their need structures than that the need structures of individuals are basically the same.
3. The frustration-regression aspect of ERG theory may have serious implications for organizations.

Cognitive Perspectives

Equity Theory

Equity Theory**,** developed by J. Stacey Adams, says that an employee perceives what he or she got from a job situation (outcomes) in relation to what he or she put into it (inputs) and then compares the inputs-outcomes ratio with the inputs-outcomes ratios of relevant others and finally corrects any inequity.

1. The **referents** are the persons, systems, or selves against which individuals compare themselves to assess equity.
2. Equity theory recognizes that individuals are concerned with their absolute rewards as well as the relationship of those rewards to what others receive.
3. What will employees do when they perceive an inequity?
    a. Distort either their own or others' inputs or outcomes.
    b. Behave in some way to induce others to change their inputs or outcomes.
    c. Behave in some way to change their inputs or outcomes.
    d. Choose a different comparison person.
    e. Quit their job

Lesson 36

EXPECTANCY, GOAL SETTING AND RE-ENFORCEMENT THEORIES

Expectancy Theory

Expectancy Theory is the theory that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual. Three relationships are important to this theory.

1. Effort-performance linkage (expectancy) is the probability perceived by the individual that exerting a given amount of effort will lead to a certain level of performance.
2. Performance-reward linkage (instrumentality) is the degree to which an individual believes that performing at a particular level is instrumental in, or will lead to, the attainment of a desired outcome.
3. Attractiveness of the reward (valence) is the importance that the individual places on the potential outcome or reward that can be achieved on the job.
4. There are four features inherent in the theory.
   a. What perceived outcomes does the job offer the employee?
   b. How attractive do employees consider these outcomes to be?
   c. What kind of behavior must the employee exhibit to achieve these outcomes?
   d. How does the employee view his or her chance of doing what is asked?

5. The key to understanding this theory is to understand an individual's goal and the linkage between effort and performance, between performance and rewards, and between rewards and individual goal satisfaction.

Goal-Setting Theory

This theory says that specific goals increase performance, and difficult goals, when accepted, result in higher performance than easy goals. What do we know about goals as motivators?

A Intention to work toward a goal is a major source of job motivation. Specific and challenging goals are superior motivating forces. Specific hard goals produce a higher level of output than do generalized goals.

B Is there a contradiction between achievement motivation and goal setting? No, and here's why.
  A. Goal-setting theory deals with people in general; achievement theory is based only on people who have a high need for achievement. Difficult goals are still recommended for the majority of employees.
  B. The conclusions of goal-setting theory apply to those who accept and are committed to the goals. Difficult goals will lead to higher performance only if they are accepted.

C Will employees try harder if they participate in the setting of goals?
  A. We can't say that participation is always desirable.
  B. However, participation is probably preferable to assigning goals when the manager expects resistance.

D Will people do better when they get feedback on how well they're progressing toward their goals?
  A. Feedback acts to guide behavior.
  B. Self-generated feedback has been shown to be a more powerful motivator than externally generated feedback.

E What contingencies exist in goal-setting theory? There are four contingencies we need to know about.
  A. Feedback influences the goal-performance relationship.

   b. Goal commitment is another contingency. Commitment is most likely to occur when goals are made public, when the individual has an internal locus of control, and when the goals are self-set rather than assigned.
   c. **Self-efficacy** is another contingency and refers to an individual's belief that he or she is capable of performing a task. The higher your self-efficacy, the more confidence you have in your ability to succeed in a task.
   d. The last contingency that affects goal setting is national culture.

6. Our conclusion about motivation from goal-setting theory is that intentions, as defined by hard and specific goals, are a powerful motivating force.
   a. In the proper conditions, they can lead to higher performance.
   b. However, there's no evidence that such goals are associated with increased job satisfaction.

Reinforcement Theory

Reinforcement Theory is counter to goal-setting theory. It proposes that behavior is a function of its consequences.

1. Reinforcement theory argues that behavior is externally caused.
2. What controls behavior are **reinforcers**, which are consequences immediately following a response that increase the probability that the behavior will be repeated.
3. Reinforcement theory ignores factors such as goals, expectations, and needs.
4. It focuses solely on what happens when a person takes some action.
5. How can the concept of reinforcement be used to explain motivation?
   a. People will most likely engage in a desired behavior if they are rewarded for doing so.
   b. These rewards are most effective if they immediately follow a desired response.
   c. Behavior that isn't rewarded or is punished is less likely to be repeated.

6. Managers can influence employees' behavior by reinforcing the work behaviors they desire.

Open Book Management

This is a motivational approach in which an organization's financial statements (the "books") are opened to and shared with all employees.

1. The goal of open-book management is to get employees to think like an owner by seeing the impact their decisions and actions have on financial results.
2. To be effective, employees have to be taught the fundamentals of financial statement analysis and what the numbers show.
3. The style of management demands for involvement of employees in all decision making for organization involving the transparency of financial statements.
4. Employees may be treated as business partners so productivity and profitability is enhanced.

Pay-for-performance programs are compensation plans that pay employees on the basis of some performance measure.

1. Performance-based compensation is probably most compatible with expectancy theory.
2. The increasing popularity of pay-for-performance programs can be explained in terms of both motivation and cost control.
3. Do pay-for-performance programs work? Studies seem to indicate that they do.

Integrating Contemporary Theories of Motivation

1. The basic foundation is the simplified expectancy model.
2. The model also considers the achievement-need, reinforcement and equity theories.
3. Rewards also play an important role in the model.

Lesson 37

MOTIVATING KNOWLEDGE PROFESSIONALS LEADERSHIP TRAIT THEORIES

Motivating the "New Workforce i.e. Knowledge Professionals"

Another current motivation issue revolves around motivating the "new workforce." These special groups present unique motivational challenges to managers. These professionals possess specialty knowledge of markets, of customers, of supplier, of software, of hardware, of technology and are very important to run the organizations smoothly in 21st century.

Motivating professionals is one of these special challenges.

a. Professionals are different from nonprofessionals and have different needs.
b. Money and promotions are typically low on the motivation priority list for professionals. Job challenge is usually ranked high as is support and the feeling that they're working on something important.

Special challenges in motivating professionals include their long-term commitment to their field of expertise, with greater loyalty to their profession than to their employer. Money and promotions are typically low on professionals' priority list. Contingent workers lack the security that permanent employees have and do not identify with or display much commitment to the organization. Temporary workers also typically lack benefits such as health care and pensions. Low-skilled minimum-wage workers typically have limited education and skills; offering higher pay is usually not an option.

Leadership

The recognition of the important role that leadership plays in organizational performance is widely acknowledged by managers everywhere. Leadership is what makes things happen in organizations.

MANAGERS VERSUS LEADERS

There are distinctions between managers and leaders. Managers are appointed and have legitimate power within the organization.

Leaders are those persons who are able to influence others and who possess managerial authority.

Leadership, then, is the ability to influence a group toward the achievement of goals

How leaders influence others

Leadership, the foundation of the management function of leading, is the process of influencing others toward the achievement of organizational goals.

Power is the capacity to affect the behavior of others.

There are different types of power depending upon their sources originally identified by French and Raven.

1. **Legitimate power** stems from a position's placement in the managerial hierarchy and the authority vested in the position.
2. **Reward power** is based on the capacity to control and provide valued rewards to others.
3. **Coercive power** is based on the ability to obtain compliance through fear of punishment.
4. **Expert power** is based on the possession of expertise that is valued by others.
5. **Information power** result from access to and control over the distribution of important information about organizational operations and future plans.
6. **Referent power** results from being admired, personally identified with, or liked by others.

The different types of power can engender different levels of subordinate motivation.

1. With commitment, employees respond enthusiastically and exert a high level of effort toward organizational goals.
   a. Commitment is the most common outcome of referent power and expert power.
   b. Commitment is least likely to result from the use of coercive power.

2. With compliance, employees exert at least minimal efforts to complete directives, but are likely to deliver average, rather than stellar, performance.
   a. Compliance is the most likely outcome of the use of legitimate power, information power, and reward power.
   b. Compliance is a possible outcome of coercive power if used in a helpful way or of referent power of expert power when some element of apathy is present.

3. With resistance, employees may appear to comply, but actually do the absolute minimum, possibly even attempting to sabotage the attainment of organizational goals.
   a. Resistance is a likely outcome of coercive power.
   b. Resistance is a possible outcome of other types of power if used inappropriately.

4. The effective manager is one who does not have to rely on a single power base but rather, has high levels of power in several (all if possible) of these six power types.

Searching for Leadership Traits

Researchers began to study leadership in the early part of the 20th century. These early theories focused on the leader (trait theories) and how the leader interacted with his/her group members (behavior theories).

A. Trait Theories
   1. Research in the 1920s and 1930s focused basically on leader traits with the intent to isolate one or more traits that leaders possessed, but that non-leaders did not.
   2. Identifying a set of traits that would always differentiate leaders from non-leaders proved impossible.

B. **Traits** are distinctive internal qualities or characteristics of an individual such as physical characteristics (e.g., height, weight, appearance, energy), personality characteristics (e.g., dominance, extroversion, originality), skills and abilities (e.g., intelligence, knowledge, technical competence), and social factors (e.g., interpersonal skills sociability, and socioeconomic position).

C. A number of the early research attempts were reanalyzed in the 1950s and concluded that there is no set of traits which consistently distinguish leaders from non-leaders.

D. Recent efforts suggest that the trait approach may have been abandoned prematurely.
   1. More sophisticated statistical techniques are now available.
   2. Several rather predictable traits have now been suggested such as:
      a. intelligence
      b. dominance
      c. aggressiveness
      d. decisiveness

E. The question of whether traits can be associated with leadership remains open. Recent research work has looked at communication skills, human relations skills, resistance to stress, tolerance of uncertainty, and others.

Lesson 38

BEHAVIORAL AND SITUATIONAL MODELS OF LEADERSHIP

Identifying Leader Behaviors

A number of researchers have focused on the question of whether specific behaviors, rather than traits, make some leaders more effective than others.

1. If behavior studies turned up critical behavioral determinants of leadership, people could be trained to be leaders.
2. Four main leader behavior studies are carried out.
   a. University of Iowa Studies—Kurt Lewin and associates—studied three leadership styles: autocratic, democratic, and laissez-faire.
   b. The Ohio State Studies identified two important dimensions of leader behavior—initiating structure and consideration.
   c. University of Michigan Studies identified two dimensions of leader behavior—employee oriented and production oriented.
   d. The Managerial Grid is a two-dimensional grid for appraising leadership styles using "concern for people" and "concern for production" as dimensions.

3. Predicting leadership success involved more than isolating a few leader traits or behavior. This "failure" to attain consistent results led to a focus on situational influences.

University of Iowa researcher, Kurt Lewin, conducted some of the earliest attempts to identify effective leadership behaviors.

1. Three types of leadership behavior styles were identified.
   a. **Autocratic** leaders tend to make unilateral decisions, dictate work methods, limit worker knowledge about goals to just the next step to be performed, and sometimes give feedback that is punitive.
   b. **Democratic** leaders tend to involve the group in decision making, let the group determine work methods, make overall goals known, and use feedback as an opportunity for helpful coaching.
   c. **Laissez-faire** leaders generally give the group complete freedom, provide necessary materials, participate only to answer questions, and avoid giving feedback.

2. Research on the comparative effectiveness of the three leadership styles was inconclusive.
   a. The laissez-fair style was ineffective.
   b. The effectiveness of the autocratic and democratic leaders varied, although satisfaction levels tended to be higher in the democratically led groups.

Michigan Studies

The Michigan studies compared leadership within groups already identified as effective or as ineffective.

1. A continuum was developed from employee-centered to job-centered approaches.
2. With the **employee-centered** approach, managers channel their main attention to the human aspects of subordinates' problems and to the development of an effective work group dedicated to high performance goals.
3. With the **job-centered** approach (or production-centered approach), leaders divide the work into routine tasks, determine work methods, and closely supervise workers to ensure that the methods are followed and productivity standards are met.
4. The outcomes of the study were mixed, but they sometimes showed that the high-producing work units tended to have job-centered supervisors.

Ohio State Studies

Researchers at the Ohio State University developed a questionnaire to measure leaders' behaviors and to correlate them with group performance and satisfaction.

1. Two behaviors were identified as particularly important.
   a. **Initiating structure** is the degree to which a leader defines his or her own role and the roles of subordinates in terms of achieving unit goals.
   b**. Consideration** is the degree to which a leader builds mutual trust with subordinates, respects their ideas, and shows concern for their feelings.

2. In contrast to the Iowa and Michigan studies, the two behaviors were considered to be independent variables and are best illustrated with separate continuums rather than the single continuum developed in the Iowa and Michigan studies.

3. The leader who is high in both initiating structure and consideration was thought to be the most effective, but further research indicated that such a generalization was too simplistic.

The Mouton-Blake Managerial Grid uses concern for people and concern for production as its two axes.

1. Used a training device, the grid enables managers to understand their own styles.
2. The manager high in concern for people and concern for production is the theoretical ideal. Research into male-female stereotypes of management styles do not hold. Most studies indicate that male and female leaders are similar in the amounts of interpersonal and task behaviors exhibited.

Situational Theories

A. Lack of success in identifying an effective leadership style generalize-able to all situations led to consideration of situational factors—i.e., any particular style of leadership could be effective depending on the situation.
   1. **Situational theories** are theories that emphasize situations.
   2. Contingency theories are theories of leadership because they hold that appropriate leader traits or behaviors are contingent, or dependent, on relevant situational characteristics.

B. **Fielder's contingency model** is a situational approach originally developed by Fred Fielder and his associates.
   1. A leader's **LPC orientation** is a personality trait measured by the least preferred coworker (LPC) scale.
   2. The LPC scale is a 1 to 8 rating by the leader of "the person with whom the leader can work least well."
   3. The interpretation of the scale has been controversial, but there is an orthodox interpretation at present.
      a. Low-LPC leaders describe a least-preferred coworker in relatively negative terms and are likely to be task-motivated.
      b. High-LPC leaders describe a least-preferred coworker in relatively positive terms and are likely to be people-motivated.

   4. Fielder maintains that management style or LPC orientation is difficult to change, so it is important to carefully match the leader's personality to situational factors that favor the leader's prospects for success.
      a. The situation should be assessed to determine the degree of situational control for the leader.

1. The most important situational variable is leader-member relations, i.e., the extent to which the leader has the support of group members.
2. Task structure is the extent to which a task is clearly specified with regard to goals, methods, and standards of performance.
3. Position power is the amount of power that the organization gives the leader to accomplish necessary tasks.

b. Leadership style should be matched with situation.
   1) Low-LPC leaders do best in situations of either high favorability or extremely low favorability.
   2) High-LPC leaders do best in situations of moderate favorability

5. Recent analyses are tending to support Fielder's original research do suggest that there are additional factors at work that are not accounted for in the contingency model.

C. The **normative leadership model** is a model that helps leaders assess important situational factors that affect the extent to which they should involve subordinates in particular decisions.
1. Five types of management method for solving group problems are delineated.
   a. Autocratic I (AI): You solve the problem or make the decision yourself using present information.
   b. Autocratic II (AII): You obtain necessary information from subordinates without involving them in the decision, and make the decision yourself.
   c. Consultative I (CI): You share the problem with the relevant subordinates individually, then you make a decision which may or may not be influenced by subordinates.
   d. Consultative II (CII): You obtain ideas and suggestions from subordinates in a group session, but make the decision yourself.
   e. Group II (GII): You share the problem with your subordinates as a group and coordinate their efforts to devise a solution.

2. A decision about which method to use is guided by the answer to eight questions.
   a. How important is the technical quality of this decision?
   b. How important is subordinate commitment to this decision?
   c. Do you have sufficient information to make a high-quality decision?
   d. Is the problem well structured?
   e. If you were to make the decision by yourself, is it reasonably certain that your subordinates would be committed to the decision?
   f. Do subordinates share the organizational goals to be attained in solving this problem?
   g. Is conflict among subordinates over preferred solution likely?
   h. Do subordinates have sufficient information to make a high-quality decision?

3. The revised normative leadership model can be used in either of two variations: when developing subordinates is more important than conserving time in decision making or when minimizing time is more important.

D. The **situational leadership theory,** developed by Paul Hersey and Ken Blanchard, is on the premise that leaders need to alter their behaviors depending on the readiness of followers.
1. Two leader behaviors are considered to be independent dimensions.
   a. Task behavior is the extent to which the leader engages in spelling out the duties and responsibilities of an individual or group.
   b. Relationship behavior is the extent to which the leader engages in two-way or multi-way communication

2. The four levels of readiness defined along a continuum from low to high readiness prescribe the appropriate leadership style.

a. Telling is used in situations of low readiness, when followers are unable and also unwilling or too insecure to take responsibility for a given task.
b. Selling is used for low to moderate readiness, when followers are unable to take responsibility, but are willing or feel confident to do so.
c. Participating is used with moderate to high readiness, when followers are able to take responsibility, but are unwilling or too insecure to do so.
d. Delegating is used for high readiness, when followers are able and willing or confident enough to take appropriate responsibility.

3. Leaders should help increase the task-related readiness of their followers as quickly as feasible by adjusting their own leadership styles.
4. Studies have found the situational theory of leadership particularly effective with newly hired employees and employees in new jobs.
5. Recent analyses are tending to support Fielder's original research do suggest that there are additional factors at work that are not accounted for in the contingency model.

The **path-goal theory** of leadership attempts to explain how leader behavior impacts the motivation and job satisfaction of subordinates.

1. The theory gets its name from the fact that it focuses on how leaders influence the way that subordinates perceive work goals and possible paths to reaching both work goals (performance) and personal goals (intrinsic and extrinsic rewards).
2. Path-goal theory relies heavily on the expectancy theory of motivation.
3. Four major leader behaviors can be used to affect subordinate perceptions of paths and goals.
   a. **Directive** leader behavior involves letting subordinates know what is expected of them, providing guidance about work methods, developing work schedules, identifying work evaluation standards, and indicating the basis for outcomes or rewards.
   b. **Supportive** leader behavior entails showing concern for the status, well-being, and needs of subordinates; doing small things to make the work more pleasant; and being friendly and approachable.
   c. **Participative** leader behavior is characterized by consulting with subordinates, encouraging their suggestions, and carefully considering their ideas when making decisions.
   d. **Achievement-oriented** leader behavior involves setting challenging goals, expecting subordinates to perform at their highest level, and conveying a high degree of confidence in subordinates.

Situational factors must be taken into account when choosing a leader behavior.

1. Subordinate characteristics include personality traits, skills, abilities, and needs.
2. Context characteristics include the task itself, the work group, and the organization's formal authority system.

Diagnosis in terms of expectancy theory leads to a choice of appropriate leader behavior and involves three steps.

1. Think in terms of the elements used in expectancy theory to diagnose various situational factors in terms of their effects on the three expectancy-theory elements (the path).
   a. Effort-performance is the probability that our efforts will lead to the required performance level.
   b. Performance-outcome expectancy is the probability that our successful performance will lead to certain outcomes or rewards.
   c. Valence is the anticipated value of the outcomes or rewards.

1) Diagnose situational factors that can be changed to enhance the expectancy theory elements are targeted.
2) Appropriate leader behaviors are initiated to change the situational factors.

Path-goal theory encompasses multiple leader behaviors and a potentially large number of situational variables. Its flexibility provides a useful framework about likely impacts of leader behavior on subordinate motivation, goal attainment, and job satisfaction.

Lesson 39

STRATEGIC LEADERSHIP MODELS

CUTTING-EDGE APPROACHES TO STRATEGIC LEADERSHIP

The most current approaches to looking at leadership are discussed.

The research we've discussed has described transactional leader. What is the difference between transactional and transformational leaders?

1. **Transactional leaders** are leaders who guide or motivate their followers in the direction of established goals by clarifying role and task requirements.
2. **Transformational leaders** are leaders who provide individualized consideration and intellectual stimulation and possess charisma.
3. Transformational leadership is built on top of transactional leadership.
4. The evidence supporting the superiority of transformational leadership over the transactional variety is overwhelmingly impressive.
    a. **Transformational leaders** motivate subordinates to perform at expected levels by helping them recognize task responsibilities, identify goals, acquire confidence about meeting desired performance levels, and understand how their needs and the rewards that they desire are linked to goal achievement.
    b**. Transformational leaders** motivate individuals to perform beyond normal expectations by inspiring subordinates to focus on broader missions that transcend their own immediate self-interests, to concentrate on intrinsic higher-level goals (such as safety and d security), and to have confidence in their abilities to achieve the extraordinary missions articulated by the leadership.
    c. **Transformational leadership** is not a substitute for transactional leadership; it is an enhancement.
    d**. Charisma** is the leader's ability to inspire pride, faith, and respect; to recognize what is really important, and to articulate effectively a sense of mission, or vision, that inspires followers.
        – Charisma was once thought to be an inborn personality trait.

Recent research attempts to identify behaviors which cause people to view a person as charismatic.

Charismatic-Visionary Leadership

Charismatic leadership theory is an extension of attribution theory and suggests that followers make attributions of heroic or extraordinary leadership abilities when they observe certain behaviors.

1. Five personal characteristics of charismatic leaders have been identified.
    a. Have a vision
    b. Are able to articulate that vision
    c. Are willing to take risks to achieve that vision
    d. Are sensitive to both environmental constraints and follower needs
    e. Exhibit behaviors that are out of the ordinary

2. An increasing amount of research shows impressive correlations between charismatic leadership and high performance and satisfaction among followers.
3. Most experts think that individuals can be trained to exhibit charismatic behaviors.
4. Charismatic leadership may not always be needed to achieve high levels of employee performance. It may be most appropriate when an employee's job has a lot of ideological content.

Visionary leadership is described as going beyond charisma with the ability to create and articulate a realistic, credible, attractive vision of the future for an organization or organizational unit that grows out of and improves on the present.

1. If the vision is properly selected and implemented, it can be so energizing that it incites individuals to use their skills, talents, and resources to make it happen.
2. A vision differs from other forms of organizational direction in that it uses compelling imagery, taps into people's emotions and energy, and creates the enthusiasm that people need to bring energy and commitment to the workplace.
3. The key properties of a vision are that it has inspirational possibilities that are value centered, are realizable, have superior imagery, and are well articulated.
4. What skills do visionary leaders have?
    a. The ability to explain the vision to others.
    b. The ability to express the vision not just verbally but through behavior.
    c. The ability to extend or apply the vision to different leadership contexts.

Another important contemporary issue for leaders is creating a culture of trust and credibility.

1. **Credibility** is the degree to which followers perceive someone as honest, competent, and able to inspire.
2. **Trust** is the belief in the integrity, character, and ability of a leader.
3. Research has identified five dimensions that make up the concept of trust.
    a. Integrity (honesty and truthfulness)
    b. Competence (technical and interpersonal knowledge and skills)
    c. Consistency (reliability, predictability, and good judgment in handling situations)
    d. Loyalty (willingness to protect a person, physically and emotionally)
    e. Openness (willingness to share ideas and information freely)

4. Given the fact that many organizations have moved to self-managed work teams, trust is extremely important because many of the traditional control mechanisms have been removed.
5. How should leaders build trust? Here are eight suggestions.
    a. Practice openness.
    b. Be fair.
    c. Speak your feelings.
    d. Tell the truth.
    e. Show consistency.
    f. Fulfill your promises.
    g. Maintain confidences.
    h. Demonstrate competence.

Team Leadership

As the usage of work teams grows, the role of team leader becomes increasingly important.

1. The challenge for most managers is learning how to become an effective team leader.
2. Effective team leaders have mastered the difficult balancing act of knowing when to leave their teams alone and when to get involved.
3. There are two priorities for a team leader.
    a. Managing the team's external boundaries
    b. Facilitating the team process

4. These priorities can be broken down into four specific leadership roles.
    a. Liaisons with external constituencies
    b. Troubleshooters
    c. Conflict managers
    d. Coaches

Gender and Leadership

The next contemporary leadership issue we want to discuss is gender and leadership. This topic is one that still creates controversy! What, if any, differences exist between male and female leaders and what implications would these differences have?

1. The evidence generally has found that males and females *do* use different leadership styles.
   a. Women tend to adopt a more democratic or participative style and a less autocratic or directive style than men do.
   b. Women are more likely to encourage participation, share power and information, and attempt to enhance followers' self-worth.
   c. Men are more likely to use a directive, command-and-control style.
   d. Men rely on the formal authority of their position for their influence base.
   e. Men use transactional leadership, handing out rewards for good work and punishment for bad.

2. Is different better? The best managers (leaders) listen, motivate, and provide support to their people. They inspire and influence rather than control. Generally speaking, women seem to do these things better than men.
3. However, gender doesn't imply destiny. Which leadership style is effective depends on the situation. Gender simply provides a behavioral *tendency* in leadership style.

Lesson 40

UNDERSTANDING GROUP DYNAMICS IN ORGANIZATIONS

INTRODUCTION

Work groups are a common arrangement within today's business organizations. Work is being restructured around groups of all kinds and in all sizes of organizations. Managers need an understanding of group behavior and the concept of teams in order to appreciate what groups can and cannot do within organizations and how groups function.

Any one member in group can influence the behavior of the individuals in the group and teamwork. We will examine some basic characteristics of groups including the types of work groups, the development of informal groups, and the manner in which groups operate.

UNDERSTANDING GROUP BEHAVIOR

Groups exhibit different behavior—more than just the sum total of each group member's individual behavior. In this section, we're going to look at various aspects of group behavior.

What is a Group?

A **group** is defined as two or more interacting and interdependent individuals who come together to achieve particular objectives.

1. Groups differ from mere aggregates of individual because the latter have no interdependence, interaction, or common goal.
2. Groups differ from organizations because the latter involve systematic efforts and are engaged in the production of goods and services.
3. Teamwork occurs when groups are able to work efficiently and effectively together to achieve organizational goals.

There are a number of types of work groups

1. A **formal group** is a group officially planned and created by an organization for a specific purpose.
   – A **command** or **functional group** is a formal group consisting of a manager and all the subordinates who report to that manager.
   1) Each identifiable work group consisting of manager and subordinates is a command group.
   2) A linking is an individual who provides a means of coordination between command groups at two different levels by fulfilling a supervisory role in the lower-level group and a subordinate role in the higher-level group.

2. Informal groups are natural social formations that appear in the work environment. An **informal group** is a group that is established by employees, rather than by the organization, in order to serve group members' interests or social needs. Informal groups are unplanned groups.
   a. An interest group is an informal group created to facilitate employee pursuits of common concern.
   b. A friendship group is an informal group that evolves primarily to meet employee social needs.

Overview of Group Dynamics

Formal and informal work groups are becoming increasingly important competitive factors in organizations. Teamwork is the result of groups working together to effectively and efficiently achieving organizational goals. Formal groups include command and task groups. Informal groups include interest and friendship groups. A useful way to analyze groups is to view them as systems that use inputs, engage in various processes or transformations, and produce outcomes.

 Managers can help bring about higher performance from formal work groups by weighing the characteristics of members they assign to particular groups. Group members should have task-relevant expertise and appropriate interpersonal skills. Also, it has been found, that a degree of diversity among group members usually adds to performance. Group training, particularly for diverse groups, has been found to be useful.

Members may be attracted to a group for a number of reasons including being attracted to or liking other members of the group, liking the activities of the group, the goals or purposes of the group, because the group satisfies an individual's need for affiliation, and/or because the group can help an individual achieve a goal outside the group. The absence of attraction can prevent the group from achieving high performance. Member roles in groups include group task roles, group maintenance roles, and self performance. Member roles in groups include group task roles, group maintenance roles, and self oriented roles. The size of the group has also been found to have significant bearing on the group's performance. Mid-sized groups, from five to seven members, seem to be an optimum size according to recent research. Smaller groups can often exacerbate individual differences. Large groups tend to be when working in groups than when working alone. Free riding is particularly likely when members exhibit individualism rather than collectivism. Managers can combat social loafing by several methods. Assign just enough people to do the work is one key method. Other methods include making each individual's work visible, providing for individual feedback, have people work with those the respect, have standards to actually measure group performance, and making rewards contingent on a combination of individual and group performance.

The work group processes usually result in greater or lesser performance than would occur if the individuals worked alone rather than as members of the group. This process is called synergy. Managers strive to have a positive synergy from the group rather than negative. Three key characteristics of the group help determine the synergy levels. These are group norms, group cohesiveness, and group development. Norms are the behaviors of group members that are acceptable to the group. Norms stem from explicit statements by supervisors and coworkers, critical events in a group's history, primacy, and carryover behaviors. Group cohesiveness has important consequences for group communication, satisfaction, performance, hostility and aggression toward other groups, and a group's willingness to innovate and change. Factors influencing the amount of cohesiveness in a group include whether or not members of the group share attitudes and values, the amount and severity of external threats to the group, whether or not the group experiences recognizable successes, the degree of difficulty encountered in joining the group, and the size of the group. One view of group development shows groups passing through five distinct stages: forming, storming, norming, performing, and adjourning. A group's performance varies depending on the stage it is in.

A special kind of group behavior is found in group meetings. Because of the considerable amount of time spent in meetings, it is important for managers to know how to maximize group meeting effectiveness. This chapter includes an excellent short guide for how managers can lead more effective group meetings. Groups can also help facilitate creativity and innovation in the organization. Some of the major mechanisms that organizations use to encourage the creative and innovative capacity of groups include the use of task forces, or ad hoc committees, and teams, particularly entrepreneurial and self-managing teams.

Lesson 41

GROUP CONCEPTS, STAGES OF GROUP DEVELOPMENT AND TEAM EFFECTIVENESS

Work Group Inputs

A. Work group inputs are those that are necessary for the group to operate.

B. The composition of a work group has a strong bearing on the group's ultimate success, so careful consideration should be made in making group assignments.
   1. Characteristics of members that influence group effectiveness include task-relevant expertise, interpersonal skills, and diversity in the makeup of the group to include sufficient individual skills and interest.
   2. Individuals may be attracted to a group because of friendships, interest in the activities of the group, shared values, the need for affiliation, and the need to fulfill objectives outside those of the group.

C. An input into the group is the members' assumption of **roles,** set of behaviors expected of individuals who occupy particular positions in a group.
   1. **Group task roles** are roles that help a group develop and accomplish its goals.
      a. The initiator-contributor proposes goals, suggests way of approaching tasks, and recommends procedures for approaching a problem or task.
      b. The information seeker asks for information, view points, and suggestions about the problem or task.
      c. The information giver offers information, viewpoints, and suggestions about the problem or task.
      d. The coordinator clarifies and synthesizes various ideas in an effort to tie together the work of the members.
      e. The orienter summarizes, points to departures from goals, and raises questions about discussion direction.
      f. The energizer stimulates the group to higher levels of work and better quality.

   2. Group leaders often assume task roles.
   3. An **informal leader** is an individual, other than the formal leader, who emerges from a group, has major influence, and is perceived by group members as a leader.

D. **Group Size** is an important input into the functioning of groups.
   1. The number of individuals in a group influences how the members interact.
      a. Very small groups have a number of disadvantages.
         1) In two-person groups, or dyads, members are either at odds frequently or are extremely polite to avoid differences.
         2) Three-person groups frequently lead to two-against-one situations.
         3) Even-numbered groups often lead to deadlocks

      b. Groups of five to seven are ideal because of enough input and the lack of deadlocks.
      c. Large groups beyond seven and more so beyond eleven, pose difficulties.
         1) Interactions tend to become centralized to a few members.
         2) Overall group satisfaction declines.
         3) Interactions become too lengthy when complex issues are considered.

   2. Group performance stops rising and even possibly declines as group size increases.
      a. Social loafing is the tendency of individuals to expend less effort when working in groups than when working alone.
      b. Free riders are individuals who engage in social loafing in a group
      c. **Individualism,** a condition where by personal interests are stronger than the needs of the group, often leads to social loafing.

d. On the other hand, **collectivists** tend to put the good of the group before personal interest.
e. To reduce the likelihood of social loafing, managers, may
   1) Assign just enough people to do the work
   2) Have each group member of different tasks
   3) Make each individual's work visible in some way
   4) Provide for individual feedback
   5) Having individuals work with people they respect
   6) Provide standards against which to measure how the group is doing
   7) Make rewards contingent on individual, as well as group performance
   8) Design interesting, challenging tasks, or select members committed to particular tasks.

Work Group Processes

A. Group processes are the dynamic, inner workings of groups as they operate over a period of time.
   1. Process loss is the energy diverted from the task to develop and operate the group itself.
   2. **Positive synergy** is the force that results when the combined gains from group interaction (as opposed to individuals operating alone) are greater than group process losses.
   3. **Negative synergy** is the force that results when group process losses are greater than any gains achieved from combining the forces of group members.

B. **Norms** are expected behaviors sanctioned by a group that regulate and foster uniformity in member behaviors.
   1. Work groups tend to develop and enforce norms related to certain central issues.
      a. Groups develop norms regarding production processes.
      b. Groups develop norms regarding informal social relationships, e.g., where to have lunch.
      c. Groups develop norms regarding allocation of resources, e.g., materials, equipment, etc.

   2. Norms typically develop through one of four mechanisms.
      a. Explicit statements made by supervisors and coworkers can provide information about expectations.
      b. Critical events set precedents for the future.
      c. Primacy is the phenomenon that the first behavior pattern that emerges in a group tends to establish group expectations.
      d. Carryover behaviors are those that arise among individuals who have worked together in other groups.

C. **Group cohesiveness** is the degree to which members are attracted to a group, are motivated to remain in the group, and are mutually influenced by one another.
   1. A high degree of cohesiveness in a group can have consequences on group performance.
      a. Members tend to communicate more frequently and be more sensitive to one another, leading to greater job satisfaction.
      b. Cohesiveness can also lead to giving more aid to other group member, a form of organizational citizenship.
      c. Aggression among groups may arise.
         1) Within the same organization, competition may be helpful or detrimental.
         2) Competition with other organizations may have positive effects.

      d. Performance levels may be either very high or very low, depending upon the group's norms and cohesiveness.
      e. The group's openness to innovation may be very high or very low.

   2. A number of factors have a positive effect on group cohesiveness; they include:
      a. Similar attitudes and values.
      b. External threats

c. Outstanding successes
d. Difficulties encountered in joining a group
e. Small group size

Stages of Groups Development

1. It has been proposed that groups progress through a series of five stages, but may regress with changes in membership.
    a. Stage 1: **Forming** occurs as group members attempt to assess the ground rules that will apply to a task and to group interaction.
    b. Stage 2: **Storming** occurs as group members experience conflict with one another as they locate and attempt to resolve differences of opinion regarding key issues.
    c. Stage 3: **Norming** occurs as group members begin to build group cohesion, as well as develop a consensus about norms for performing a task and relating to one another.
    d. Stage 4: **Performing** occurs as energy is channeled toward a task and as norms support teamwork.
    e. Stage 5: **Adjourning** occurs as group members prepare for disengagement as the group nears successful completion of its goals.

2. Research indicates that these five stages apply primarily to newly formed, relatively unstructured groups.

Many organizational decisions are made by groups

1. Group decisions have certain advantages over individual decisions.
    a. Provide more complete information.
    b. Generate more alternatives.
    c. Increase acceptance of a solution.
    d. Increase legitimacy.

2. However, group decisions also have disadvantages.
    a. Time consuming.
    b. Minority domination.
    c. Pressures to conform, which can lead to **groupthink**.
    d. Ambiguous responsibility.

3. Effectiveness and Efficiency of Group Decision Making.
    – Are group decisions more effective? It depends on the criteria used for defining effectiveness.
        a. Group decisions tend to be more accurate.
        b. Individual decisions are quicker in terms of speed.
        c. Group decisions tend to have more acceptances.
        d. The effectiveness of group decisions tends to be influenced by the size of the group. Groups should not be too large.
        e. Groups also are not as efficient as individual decision makers.

4. Techniques for Improving Group Decision Making.
    a. **Brainstorming** is an idea-generating process that encourages alternatives while withholding criticism.
    b. **Nominal group technique** is a group decision-making technique in which group members are physically present but operate independently.
    c. **Electronic meetings** are one way that decision-making groups can interact by way of linked computers.

TURNING GROUPS INTO EFFECTIVE TEAMS

Work teams are formal groups made up of interdependent individuals, responsible for attaining goals. Organizations are increasingly designing work around teams rather than individuals. Why?

Most of us are probably familiar with the concept of a team. However, we may not be as familiar with work teams. All work teams are groups, but only formal groups can be work teams.

There are different types of teams. Four characteristics can be used to distinguish different types of teams.

1. Teams can vary in their *purpose or goal.*
2. The *duration* of a team tends to be either permanent or temporary.
3. *Team membership* can be either functional or cross-functional.
4. Finally, teams can either be *supervised or self-managed.*
5. Given these four characteristics, some of the most popular types of teams used today include the following:
    a. A **functional team** is a type of work team that is composed of a manager and his or her subordinates from a particular functional area.
    b. A **self-directed or self-managed team** is one that operates without a manager and is responsible for a complete work process or segment that delivers a product or service to an external or internal customer.
    c. A **virtual team** is one that uses computer technology to link physically dispersed members in order to achieve a common goal.
    d. Finally, a **cross-functional team** is one in which individuals who are experts in various specialties (or functions) work together on various organizational tasks.

DEVELOPING AND MANAGING EFFECTIVE TEAMS

Teams aren't automatically going to magically perform at high levels. We need to look more closely at how managers can develop and manage effective teams.

There are eight characteristics associated with effective teams.

1. Clear goals
2. Relevant skills
3. Mutual trust
4. Unified commitment
5. Good communication
6. Negotiating skills
7. Appropriate leadership
8. Internal and external support

What's involved with managing teams?

1. In planning, it's important that teams have clear goals and that these goals be clear to and accepted by every member of the team.
2. Organizing tasks associated with managing a team include clarification of authority and structural issues.
3. Leading issues include such things as determining what role the leader will play, how conflict will be handled, and what the best communication process is.
4. Two important controlling issues include how to evaluate the team's performance and how to reward team members.

One popular approach to group incentive plans is **gain-sharing,** which is a program that shares the gains of the efforts of group members with those group members.

In conclusion, a **TEAM** is a temporary or ongoing task group whose members are charged with working together to identify problems, form a consensus about what should be done, and implement necessary actions in relation to a particular task or organizational area.

1. Teams differ from task forces in two ways.
   a. Teams identify problems rather than merely reacting to problems identified by others.
   b. Teams decide on a course of action and implement it, rather than leaving the implementation to others.
2. Teams are widely used today and are often, but not always, task groups from across command groups.
3. An **entrepreneurial team** is a group of individuals with diverse expertise and backgrounds who are brought together to develop and implement innovative ideas aimed at creating new products or services or significantly improving existing ones.
4. **Self-managed teams,** or autonomous work groups, are work groups given responsibility for a task area without day-to-day supervision and with authority to influence and control both group membership and behavior.
   a. Assessment of the situation is critical in that self-managing teams are not successful in all situations.
   b. Group makeup and proper allocation of needed resources is important.
   c. Team training and guidance in cultivating appropriate norms are important.
   d. Managers need to remove performance obstacles and assistance to help the group continue to learn.

Managing Conflict in Groups

A. **Conflict** is a process in which one party perceives that its interests are being opposed or adversely affected by one or more other parties.
B. Conflict can have constructive as well as destructive consequence.
   1. Conflict can delay projects, drive up costs, and cause valued employees to leave.
   2. Conflict can highlight areas for improvement, promote constructive changes, enhance morale and cohesiveness, and encourage new ideas.
C. There are a number of causes of conflict.
   1. Two types of task interdependence can lead to conflict.
      a. Sequential interdependence occurs when one individual or work unit is heavily dependent on another.
      b. Reciprocal interdependence occurs when individuals or work units are mutually interdependent.
   2. Scarcity of resources can lead to conflict.
   3. Goals of different organizational members may be incompatible.
   4. Communication may fail due to distortions or lack of communication.
   5. Differences in personality, experience, and values may breed conflict.
   6. Poorly designed reward systems may foster competitions when cooperative behavior is necessary for organizational success.
D. Managers may use a number of approaches to reduce and resolve conflict.
   1. Conflict-producing factors in a situation can be changed.
   2. One of five interpersonal modes may be adopted to resolve conflicts.
      a. **Avoidance** involves ignoring or suppressing a conflict in the hope that it will either go away or not become too disruptive.
      b. **Accommodation** focuses on solving conflicts by allowing the desires of the other party to prevail.
      c. **Competition** involves attempting to win a conflict at the other party's expense.
      d. **Compromise** aims to solve conflict issues by having each party give up some desired outcomes in order to get other desired outcomes.
      e. **Collaboration** involves devising solutions that allow both parties to achieve their desired outcomes.

Lesson 42

UNDERSTANDING MANAGERIAL COMMUNICATION

INTRODUCTION

Communication between managers and employees provides the information necessary to get work done effectively and efficiently in organizations. In this and following lecture, basic concepts in managerial communications will be presented including: the interpersonal communication process, methods of communicating, barriers to effective communications and ways to overcome these barriers, communication flow and communication networks, and contemporary issues and challenges associated with electronic communications and information technology.

The Nature of Managerial Communication

A. **Communication** is the transfer and understanding of meaning.
   1. If no information or ideas have been conveyed or transferred, communication hasn't taken place.
   2. For communication to be successful, the meaning must be imparted and understood.

B. Good communication does not require agreement with the message; just clear understanding of the message.
C. Managerial communication encompasses both **interpersonal communication** (between two or more people) and **organizational communication** (all the patterns, networks, and system of communication within an organization).
D. **Communication** and associated **interpersonal processes** are important ingredients of organizational effectiveness.
E. **Communication** is the exchange of messages between people for the purpose of achieving common meanings.
F. Managers use two types of communication in their work.
   1. **Verbal communication** is the use of words to communicate.
      a. Written communication includes letters, memoranda, reports, newsletters, policy manuals, etc.
      b. Disadvantage includes the fact that the conversations may be time-consuming and difficult to terminate, and that additional time may have to be spent to document what was said.\

   2. **Nonverbal communication** is communication by means of elements and behaviors that are not coded into words.
   3. **Nonverbal Communication** is communication transmitted without words. The best-known types of nonverbal communication are body language and verbal intonation.
      a. **Body language** refers to gestures, facial expressions, and other body movements that convey meaning.
      b. **Verbal intonation** refers to the emphasis someone gives to words or phrases that convey meaning.

The communication process can be analyzed into its basic components

1. The **sender** is the initiator of the message.
2. **Encoding** is the process of translating the intended meaning into symbols.
   a. Symbols include words and gestures.
   b. The sender's choice of symbols depends upon
      1) Sender encoding skills.
      2) Assessments of the ability of the intended receiver to understand various symbols
      3) Judgments regarding the appropriateness of the use of certain symbols
      4) Past experience in similar situations
      5) Job status and education
      6) Emotional state at the time of the communication attempt

3. The **message** is the encoding-process outcome, which consists of verbal and nonverbal symbols that have been developed to convey meaning to the receiver.
    a. The **medium** is the method used to convey the message to the intended receiver, e.g., telephone, meeting, formal report.
    b. Factors to consider when selecting a medium include relative speed, cost, intelligibility, convenience, timing, flow of communication, feedback options, interpersonal dynamics, and documentation.

4. The **receiver** is the person with whom the message is exchanged.
    a. **Decoding** is the process of translating the symbols into the interpreted message.
        1) Effective communication results in the senders and receivers achieving a common meaning.
        2) The receiver needs to consider the medium and the context of the message.

    b. **Noise** is any factor in the communication process that interferes with exchanging messages and achieving common meaning.
    c. **Feedback** is the basic response of the receiver to the interpreted message.
        1) The receiver becomes the sender during feedback.
        2) Feedback provides preliminary information to the sender about the success of the communication.
        3) **One-way communication** is the communication that results when the communication process does not allow for feedback.
        4) **Two-way communication** is the communication that results when the communication process explicitly includes feedback.

Barriers to Effective Interpersonal Communication

1. **Filtering** is the deliberate manipulation of information to make it appear more favorable to the receiver.
    a. As information is communicated up through the organizational levels, it's condensed and synthesized, and those doing the condensing filter communication through their personal interests and perceptions of what is important.
    b. The more that organizational cultural reward emphasizes style and appearance, the more that managers will be motivated to filter communications in their favor.

2. **Selective perception** is when people selectively interpret what they see or hear on the basis of their interests, background, experience, and attitudes.
3. **Emotions** influence how a receiver interprets a message when it is received. It's best to avoid reacting to a message when the receiver is upset because he/she is not likely to be thinking clearly.
4. **Information overload** happens when the information we have to work with exceeds our processing—such as 600 waiting e-mail messages in the inbox.
    a. Receivers tend to select out, ignore, pass over, or forget information when they have too much information.
    b. Or, receivers may put off further processing until the overload situation is over—still ineffective communication.

5. **Defensiveness**—engaging in behaviors such as verbally attacking others, making sarcastic remarks, being overly judgmental, and questioning others' motives—happens when people feel that they're being threatened.
6. **Language**—words mean different things to different people.
    a. Age, education, and cultural background can influence language use and definition given to words
    b. **Jargon** is specialized terminology or technical language that members of a group use to communicate among themselves.

7. **National culture** can affect the way a manager chooses to communicate.

Overcoming the Barriers to Effective Interpersonal Communication

1. Use feedback. This feedback can be verbal or nonverbal.
2. Simplify language.
3. Listen actively.
   a. Listening is an active search for meaning, whereas hearing is passive.
   b. **Active listening** is listening for full meaning without making premature judgments or interpretations, and demands total concentration.
   c. Active listening is enhanced by developing empathy with the sender—placing yourself in the sender's position.
   d. Emotions: The simplest answer is for a manager to refrain from communicating until he/she has regained composure.

4. Watch nonverbal cues—actions speak louder than words.

ORGANIZATIONAL COMMUNICATION

Formal versus Informal Communication

1. **Formal communication** refers to communication that follows the official chain of command or is part of the communication required to do one's job.
2. **Informal communication** is organizational communication that is not defined by the organization's structural hierarchy.
   a. Informal communication systems permit employees to satisfy their needs for social interaction.
   b. Informal communication systems can improve an organization's performance by creating alternative, and frequently faster and more efficient, channels of communication.

Direction of Communication Flow

1. **Downward communication**—flows from a manager to employees and is used to inform, direct, coordinate, and evaluate employees.
2. **Upward communication** flows from employees to managers
   a. Upward communication can be used in order to keep managers aware of how employees feel about their jobs, their coworkers, and the organization in general.
   b. The organizational culture influences the extent of upward communication. A climate of trust, respect, and participative decision making will encourage considerable upward communication. A highly mechanistic and authoritarian environment will severely limit upward communication in both style and content.

3. **Lateral communication** takes place among employees on the same organizational level.
4. **Diagonal communication** is communication that cuts across both work areas and organizational levels.
   a. The increased use of e-mail facilitates diagonal communications.
   b. Diagonal communication has the potential to create problems if employees don't keep their managers informed.

Lesson 43

COMMUNICATION NETWORKS AND CHANNELS EFFECT OF ICT ON MANAGERIAL COMMUNICATION

As organizational workforces become more and more diverse and widespread throughout the world, communication issues increase in importance.

Organizational communication network

It is the pattern of information flow among task group members.

Five major network structures have been identified.

1. The three centralized networks are structured so that most messages must flow through a pivotal person in the network.
   a. In the wheel network, all messages must flow through the individual at the center of the wheel.
   b. In the chain network, some members can communicate with more than one member of the network, but the individual in the center of the chain still tends to control the messages.
   c. In the Y network, the member at the fork of the "Y" usually becomes the central person in the network.

2. The two decentralized networks permit freer communication among the various members.
   a. In the circle network, each member can communicate with the individual on either side.
   b. In the star network, each member can communicate with any other member.

3. Some general differences have been found between the centralized and the decentralized types of networks.
   a. Effective performance is a function of type of network and type of tasks undertaken.
      1) The centralized networks were usually faster and more accurate at performing simple, routine tasks.
      2) The decentralized networks were usually faster and more accurate at performing complex tasks.

   b. Group moral in the decentralized networks was consistently higher than in the centralized, regardless of task assignment.

Organizational communication channels

A. **Communication channels** are various patterns of organizational communication flow that represent potential established conduits through which managers and other organization members can send and receive information.
B. **Vertical communication** is a communication that flows from a higher level to one or more lower levels in the organization.
   1. **Downward communication** is a vertical communication that flows from a higher level to one or more lower levels in the organization.
      a. Most downward communication involves information in one of five categories:
         1) Job instructions related to specific tasks.
         2) Job rationales explaining the relationship between a task and other organizational tasks.
         3) Procedures and practices of the organization.
         4) Feedback on individual performance on assigned tasks.
         5) Efforts to encourage a sense of mission and dedication to the goals of the organization.

      b. Downward communication is prone to distortion.

1) Faulty message transmission may occur because of sender carelessness, poor communication skills, and the difficulty of encoding a message for a number of receivers.
2) Overuse of one-way communication methods means that manager get no feedback
3) Filtering of communication may occur through withholding, screening, or manipulating information to enhance personal power.

c. The effectiveness of downward communication can be increased by using multiple channels, by repeating the message, and by encouraging feedback.

2. **Upward communication** is the vertical flow of communication from a lower level to one or more higher levels in the organization.
   a. Forms of upward communication include individual and group meetings with superiors, memos and reports, suggestion systems, grievance procedures, and employee attitude surveys.
   b. The information disseminated through upward communication typically pertains to:
      1) Progress of current work projects
      2) Serious unsolved problems and situations in which subordinates need help from superiors.
      3) New developments arising within or affecting the work unit or organization suggestions for improvements and innovations.
      4) Employee attitudes, morale, and efficiency

   c. Upward communication can be distorted.
      1) Subordinates filter information that they send upward.
      2) Managers do not expend enough effort to encourage upward communication.

   d. **Management by wandering around (MBWA)** is a practice whereby managers frequently tour areas for which they are responsible, talk to various employees, and encourage upward communication.

C. **Horizontal communication** is lateral or diagonal message exchange either within work-unit boundaries, involving peers who report to the same supervisor, or across work-unit boundaries, involving individuals who report to different supervisors.
   1. Horizontal communication can take the form of meetings, reports, memos, telephone conversations, and face-to-face discussions.
   2. Horizontal communication usually relates to:
      a. Task coordination
      b. Problem solving
      c. Information sharing
      d. Conflict resolution
      e. Peer support

   3. There are three impediments to necessary, work-related horizontal communication.
      a. Rivalry among individuals or work units may cause individuals to hide information.
      b. Specialization may cause individuals to be concerned mainly about the work of their own unit and to have little appreciation for the work and communication needs of others.
      c. Motivation may be lacking when subordinate horizontal communication is not encouraged or rewarded.

D. **Informal communication,** better known as "the **grapevine,"** is communication that takes place without regard to hierarchical or task requirements.
   1. Informal communication within organizations differs from formal communication.

   a. **Formal communication** is vertical and horizontal communication that follows paths specified by the official hierarchical organization structure and related task requirements.
   b. Formal communication relates to position in the organization; informal communication depends upon personal relationships.

2. Grapevines can be configured in a number of ways.
   a. In the single-strand chain, communication moves serially from person A to B to C and so on.
   b. With the gossip chain, person A seeks out and tells others.
   c. When following the probability chain, person A spreads the message randomly, as do individuals F and D.
   d. In the cluster chain, the most predominant form, person A tells three selected individuals, and then one of these tells three others.

3. Grapevines have a number of characteristics.
   a. They are fast.
   b. The data produced ranges from 50 to 90 percent accurate.

4. Grapevines are most harmful when they carry false rumors and gossip.
5. Grapevines might serve positive organizational purposes.
   a. They may serve to transmit organizational rules, values, and morals.
   b. They may serve to disseminate organizational traditions and history.
   c. They may help to reinforce formal messages, to test new proposals, and to obtain feedback about employee feelings and ideas.
   d. They may help to foster innovation by facilitating communication among various parts of the organization.

How Technology Affects Managerial Communication

Two developments in information and communication technology seem to be having the most significant impact on current managerial communication: networked computer systems and wireless capabilities.

Networked Systems

1. An **electronic mail system** is a mail system that allows high-speed exchange of written messages through the use of computerized text-processing and communication networks.
   a. Electronic mail has advantages.
      1) It is a time-saver.
      2) It leads to exchanges of information among managers who previously did not communicate.
      3) Managers tend to receive new types of information through these systems.

   b. Electronic mail has a couple of disadvantages.
      1) It eliminates the nonverbal cues that serve as aids in face-to-face communication.
      2) It is easy to vent anger and frustrations over email that would never be communicated through regular written communication channels.
      3) It leads to an excess of irrelevant mail.

2. **Voice mail** is the recording systems which enable senders to leave messages for receivers by telephone.
   a. Some nonverbal cues are sent, such as voice quality and tone.
   b. It is particularly suited for short messages that require no further discussions or feedback.

3. **Teleconferencing** is the simultaneous communication among a group by telephone or via computer using specially designed software. The software is often referred to a “groupware.”

a. Meeting can be held while members are not in the same location.
b. Each group member has access to their own computer which is linked to a network and to an overhead projector.
c. Messages are anonymous.
d. Most, and sometimes all, communication is done through the computers.
e. These systems have incredibly high speeds and, usually, very high success rates.

4. **Videoconferencing** is the holding of meetings with individuals in two or more locations by means of closed-circuit television.
   1) It is synchronous, meaning that senders and receivers can engage in simultaneous communication of the type associated with face-to-face conversation.
   2) It is fast.

5. **Electronic data interchange (EDI**) is a way for organizations to exchange standard business transaction documents, such as invoices or purchase orders, using direct computer-to-computer networks.
6. **Intranet** systems are organizational communication networks that use Internet technology and are accessible only by organizational employees.
7. **Extranet** systems are organizational communication networks that use Internet technology and allow authorized users inside the organization to communicate with certain outsiders such as customers and vendors.

Wireless Capabilities

Wireless communication depends on signals sent through air or space without any physical connection using things such as microwave signals, satellites, radio waves and radio antennas, or infrared light rays.

How Information Technology Affects Organizations

1. Communication and the exchange of information among organizational members are no longer constrained by geography or time.
2. However, managers must not forget to address the psychological drawbacks such as the cost of an employee being constantly accessible, pressure to "check in" even during off hours, and the separation of work lives and personal lives.

Lesson 44

CONTROLLING AS A MANAGEMENT FUNCTION

Introduction and Overview of Controlling

Regardless of the thoroughness of the planning done, a program or decision still may be poorly or improperly implemented without a satisfactory control system in place.

Controlling is that process of regulating organizational activities so that actual performance conforms to expected organizational goals and standards. While interrelated with all of the other management functions, a special relationship exists between the planning function of management and controlling. Planning, essentially, is the deciding of goals and objectives and the means of reaching them. Controlling lets manager tell if the organization is on track for goal achievement, and if not, why not. A well-developed plan should provide benchmarks that can be used in the control process.

Controls serve other important roles including helping managers cope with uncertainty, detecting irregularities, identifying opportunities, handling complex situations, and decentralizing authority. Like planning, controlling responsibilities differ by managerial level with control responsibilities paralleling planning responsibilities at the strategic, tactical, and operational level.

There are several major steps usually identified in the basic control process. These are, in order, determining the areas to be controlled, establishing the appropriate standards, measuring performance, comparing the performance against standards, recognizing performance if standards are met or exceeded or take corrective actions as necessary if not, and adjusting either/or standards and measures as necessary. Of course it would be impossible to control all activity in an organization. Consequently, it is important for the manager to decide which activities should have the control process applied. Argues that managers need to consider controls mainly in areas in which they depend on others for resources necessary to reach organizational goals. Four conditions help delineate when controls should be used. These are having a high dependence on the resource, having a high expectation that the resource flows would be unacceptable without proper controls, that the instituting of a control process would be feasible, and that the total control process costs would be within the acceptable range.

Timing is one of the bases for differentiating control systems. Some major control types are based on timing. These include feed forward controls, concurrent controls, and feedback controls. These are terms which are unfamiliar to many students and special note needs to be made in reviewing this material. A variety of these types of control is frequently used in multiple control systems and usually involve non-cybernetic. Cybernetic controls involve little, if any, human discretion as part of the system. Rather, it is a self-regulating system that, once put into operation, can automatically monitor the situation and take corrective action when necessary. Non-cybernetic systems, on the other hand rely on human discretion as a basic part of its process.

In addition to deciding the types of controls to use, managers also have the options regarding the mechanisms to be used to implement controls. The three basic approaches are bureaucratic, clan, and market. Bureaucratic controls rely on regulation through rules, policies, supervision, budgets, schedules, reward systems, and other administrative mechanisms aimed at ensuring acceptable behavior and performance Clan controls rely on the values, beliefs, traditions, corporate culture, shared norms, and informal relationships to regulate behavior and to facilitate the reaching of organizational goals. The market controls have a somewhat more limited application in organizations than do bureaucratic or clan controls; all three approaches are likely to be used to some extent. Market controls rely on market mechanisms to regulate prices for certain goods and services used by the organization.

There are some potential dysfunctional aspects of control systems the manager must consider. Behavioral displacement, game playing, operating delays, and negative attitudes are some of these. To decrease the likelihood of the effects, managers need to avoid engaging in either over-control or under-control. To be effective, control systems should be future-oriented, multidimensional, cost-effective, accurate, realistic, timely monitor able, acceptable to organization members, and flexible.

Control as a management process

A. **Controlling,** one of the four major functions of POLCA management, is the process of regulating organizational activities so that actual performance conforms to expected organizational standards and goals.
   1. Controlling is largely geared to ensuring that the behavior of individuals in the organization contributes to reaching organizational goals.
   2. Controls encourage wanted behaviors and discourage unwanted behaviors.

B. A **control system** is a set of mechanisms that are designed to increase the probability of meeting organizational standards and goals.

C. Controls can play five important roles in organizations.
   1. Control systems enable managers to cope with uncertainty by monitoring the specific activities and reacting quickly to significant changes in the environment.
   2. Controls help managers detect undesirable irregularities, such as product defects, cost overruns, or rising personnel turnover.
   3. Controls alert managers to possible opportunities by highlighting situations in which things are going better than expected.
   4. Controls enable managers to handle complex situations by enhancing coordination within large organizations.
   5. Controls can decentralize authority by enabling managers to encourage decision making at lower levels in the organization while still remaining in control.

D. Control responsibilities differ according to managerial level.
   1. **Strategic control** involves monitoring critical environmental factors that could affect the viability of strategic plans, assessing the effects of organizational strategic actions, and ensuring that strategic plans are implemented as intended.
      a. Strategic control is typically the domain of top-level managers who must insure core competencies are developed and maintained.
      b. Long time frames are involved, although shorter time frames may be appropriate in turbulent environments.

   2. **Tactical control** focuses on assessing the implementation of tactical plans at departmental levels, monitoring associated periodic results, and taking corrective action as necessary.
      a. Tactical control is primarily under the direction of middle managers, but top-level managers may at times get involved.
      b. Time frames are periodic, involving weekly or monthly reporting cycles.
      c. Tactical control involves department-level objectives programs, and budgets.

   3. **Operational control** involves overseeing the implementation of operating plans, monitoring day-to-day results, and taking corrective action when required.
      a. Operational control is the responsibility of lower-level managers.
      b. Control is a day-to-day process.
      c. The concern is with schedules, budgets, rules, and specific outputs of individuals.

   4. For controls and three levels to be effective they must operate in concert with one another.

The Control Process

A. The basic process used in controlling has several major steps. 1. Determine areas to control.

a. It is impractical, if not impossible, to control every aspect of an organization's activities.
b. Major controls are based on the organizational goals and objectives developed during the planning process.

2. Develop standards spelling out specific criteria for evaluating performance and related employee behaviors.
   a. Standards are often incorporated into the objectives set in the planning process.
   b. Standards serve three main purposes related to employee behavior.
      1) Standards help employee understand what is expected and how their work will be evaluated.
      2) Standards provide a basis for detecting job difficulties that are related to personal limitations of organization members.
      3) Standards help reduce the potential negative effects of **goal incongruence,** a condition in which there are major incompatibilities between the goals of an organization member and those of the organization.

3. Make a decision about how and how often to measure performance related to a given standard.
   a. MBO is a popular technique for coordinating the measurement of performance throughout an organization.
   b. The means of measuring performance depends upon the performance standards that have been set, as well as data, such as units produced, quality of output, or profits.
   c. Most organizations use combinations of both quantitative and qualitative performance measures.
   d. The period of measurement usually depends upon
      1) The importance of the goal to the organization
      2) How quickly the situation is likely to change
      3) The difficulty and expense of rectifying a problem if one were to occur

4. Compare performance against standards.
   a. Reports that summarize planned versus actual results are often developed.
   b. **Management by exception** is a control principle which suggests that managers should be informed of a situation only if control data show a significant deviation from standards.
   c. Mangers may compare performance and standards through personal observation.
   d. The 360-degree feedback system described in chapter 10 is being used by a number of organizations as an evaluation approach.

5. Recognize above-standard performance both to give precognition to top performing employees and also to aid improving performance on regular bases.
6. Assess the reason why standards are not met, and take corrective action.
7. Adjust standards and measures as necessary.
   a. Standards and measures need to be checked for relevance.
   b. Managers must decide whether the cost of meeting certain standards is worth the resources consumed.
   c. Exceeding a standard may signal opportunities, the potential to raise standards, and/or the need for possible adjustments in organizational plans.

B. Managers can take a number of approaches to deciding what to control.
1. **Resource dependence** is an approach based on the view that managers need to consider controls mainly in areas in which they depend on others for resources consider control mainly in areas in which they depend on others for resources necessary to reach organizational goals.
   a. **Strategic control points** are performance areas chosen for control because these are particularly important in meeting organizational goals.
   b. Strategic control points meet four conditions.
      1) Dependence on a resource is high because the resource is important and limited in availability.

2) The probability that the expected resource flow will be unacceptable is high because of anticipated problems with quantity, quality, or timeliness.
3) Instituting a control system is feasible.
4) The cost of instituting the control system is acceptable.

2. Mangers need to develop an alternative to controls if they are needed, but cannot be instituted due to problems of feasibility or cost.
    a. The dependence relationship can be changed so that controls are unnecessary, e.g., lining up several suppliers.
    b. The nature of the dependence relationship can be changed so that a control system is feasible and/or cost-effective, e.g., job simplification or vertical integration.
    c. Organizational goals can be changed so that the resources in question are no longer necessary.

REVISITING CONTROL PROCESS

Let us take the **control process** as the three-step process of measuring actual performance, comparing it against a standard, and taking managerial action to correct deviations or inadequate standards.

B. Measuring.
Measuring is the first step in the control process.
1. *How we measure* is done through four common sources of information that managers use. Each of these sources has its own advantages and drawbacks.
    a. Personal observation
    b. Statistical reports
    c. Oral reports
    d. Written reports

2. *What we measure* is probably more critical than the how. Both objective and subjective measures are used.

C. Comparing is the next step in the control process.
1. It determines the degree of variation between *actual* performance and the standard.
2. It's critical to determine the **range of variation**, which are the acceptable parameters of variance between actual performance and the standard.

D. Taking managerial action is the final step in the control process. Although the manager might decide to "do nothing," two other alternatives are possible.
1. *Correct actual performance.* Once the manager has decided to correct actual performance, he or she has another decision to make.
    a. Take **immediate corrective action**, which is correcting an activity at once in order to get performance back on track.
    b. Take **basic corrective action**, which is determining how and why performance has deviated and correcting the source of deviations.
    c. The action taken will depend on the cost/benefit of doing so.

2. *Revise the standard.* If the standard was set too high or too low, a manager may decide to revise

it. D. Summary of Managerial Decisions.

The control process is a continuous flow between measuring, comparing, and managerial action.

Designing Control Systems

Since control is the process of monitoring activities to ensure they are being accomplished as planned and of correcting any significant deviations. There are three different approaches to designing organizational control systems.

A. **Market control** is an approach that emphasizes the use of external market mechanisms to establish the standards used in the control system.
B. **Bureaucratic control** is an approach that emphasizes organizational authority and relies on administrative rules, regulations, procedures, policies, standardization of activities, well-defined job descriptions, and other administrative mechanisms to ensure that employees exhibit appropriate behaviors and meet performance standards.
   1. Bureaucratic control has advantages.
      a. Unlike market control, bureaucratic control does not require that all requirements be specified in advance.
      b. Bureaucratic control is useful for keeping recurring, relatively predictable activities running smoothly.
      c. Bureaucratic control focuses on doing the job and aids extrinsic reward systems.

   2. Bureaucratic control has disadvantages.
      a. Innovation is not encouraged.
      b. Needed changes may be inhibited.
      c. Employees tend to comply with regulations rather than committing to a course of action.

C. **Market control** relies on market mechanisms to regulate prices for certain clearly specified goods and services needed by an organization.
   1. Two conditions must hold if market control is to be used.
      a. There must be a reasonable level of competition in the goods or service area.
      b. It must be possible to specify requirements clearly.

   2. Market controls may be used to regulate internal operations as well as external relations.
      a. Profit centers, e.g., photocopying centers, are set up and charge other departments for their services.
      b. The intra-organizational use of market controls is limited because the conditions of competitiveness and specificity or requirements may not hold.

   The use of market controls is increasing. For example, **outsourcing,** using outside vendors to perform services normally carried out within the organization, is becoming a more common practice.

D. **Clan control** is an approach to designing control systems in which employee behaviors are regulated by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization's culture.
   Clan control relies on values, beliefs, traditions, corporate culture, share norms and information relationships to regulate employee behaviors and facilitate the reaching of organizational goals.
   1. Clan control differs from bureaucratic control.
      a. Internal motivation is emphasized.
      b. Duties are flexible and tasks are broadly defined.
      c. Influence is based on relevant information and expertise, rather than upon position in the hierarchy.

   2. A primary advantage of clan control is that it is conducive to innovation.

Lesson 45

CONTROLLING ORGANIZATIONAL PERFORMANCE THROUGH PRODUCTIVITY AND QUALITY

Types of Controls

A. Controls can be classified according to their timing or place in the productive cycle.
   1. **Feed forward control** focuses on the regulation of inputs to ensure that they meet the standards necessary for the transformation process.
      a. The emphasis is upon preventing problems.
      b. Other names for feed forward control are "preliminary control," "pre-control," "preventative control" and "steering control."

   2. **Concurrent control** involves the regulation of ongoing activities that are part of the transformation process to ensure that conform to organizational standards.
      a. Checkpoints are in place to determine whether to continue the process, take corrective action, or stop worked altogether.
      b. Other names for concurrent control are "screening" and "yes-no control."
      c. This type of control is not appropriate for work that requires creativity or innovation.

   3. **Feedback control** is regulation exercised after a product or service has been completed in order to ensure that the final output meets organizational standards and goals.
      a. Feedback control is used when feed forward and concurrent controls are not feasible or are too costly.
      b. Feedback control serves a number of functions:
         1) To serve as a final means to check for deviations not detected earlier
         2) To provide information that will facilitate the planning process
         3) To provide information regarding employee performance

      c. Other names for feedback control are "post action control" or "output control."

B. **Multiple control systems** are systems that use two or more of the feed forward, concurrent, and feedback control processes and involve several strategic control points.
   1. Multiple control systems develop because of the need to control various aspects of a productive cycle, including inputs, transformation, and outputs.
   2. Computer software companies provide examples of processes complex enough to require multiple controls.

C. The degree to which human discretion is part of a control process determines whether it is cybernetic or non-cybernetic.
   1. A **cybernetic control system** is a self-regulated control system that, once it is put into operation, can automatically monitor the situation and take corrective action when necessary, e.g., a heating system or some computerized inventory systems.
   2. A **non-cybernetic control system** is a control system that relies on human discretion as a basic part of its process.

CONTROLLING FOR ORGANIZATIONAL PERFORMANCE

What Is Organizational Performance?

Performance is the end result of an activity. Managers are concerned with **organizational performance—** the accumulated end results of all the organization's work processes and activities.

Measures of Organizational Performance

Employees need to see the connection between what they do and the outcomes. The most frequently used organizational performance measures include organizational productivity, organizational effectiveness, and industry rankings.

1. **Organizational productivity** is the overall output of goods or services produced divided by the inputs needed to generate that output. It's the management's job to increase this ratio.
2. **Organizational effectiveness** is a measure of how appropriate organizational goals are and how well an organization is achieving those goals.

TOOLS FOR MONITORING AND MEASURING ORGANIZATIONAL PERFORMANCE

Managers might use any of the following types of performance control tools: financial controls, information controls, balanced scorecard approach, or benchmarking best practices approach.

A. **Financial Controls.**
   1. Traditional Financial Control Measures.
      a. Financial ratios are calculated by taking numbers from the organization's primary financial statements—the income statement and the balance sheet. The four key categories of financial ratios are as follows.
         1) Liquidity ratios measure an organization's ability to meet its current debt obligations.
         2) Leverage ratios examine the organization's use of debt to finance its assets and whether it's able to meet the interest payments on the debt.
         3) Activity ratios measure how efficiently the firm is using its assets.
         4) Profitability ratios measure how efficiently and effectively the firm is using its assets to generate profits.

      b. We have also discussed budgets as a planning tool. However, budgets are also control tools. They provide managers with quantitative standards against which to measure and compare actual performance and resource consumption.

   2. Other Financial Control Measures. Managers are using measures such as EVA (economic value added) and MVA (market value added).
      a. **Economic value added** is a tool for measuring corporate and divisional performance by calculating after-tax operating profit minus the total annual cost of capital.
      b. **Market value added** adds a market dimension by measuring the stock market's estimate of the value of a firm's past and expected capital investment projects.

B. **Information Controls.**
   Controlling information can be vital to an organization's success. We need to look at the development and use of management information systems.

   1. A **management information system** is a system that provides managers with needed and usable information on a regular basis.
      a. Managers need usable information, not just data
      b. **Data** are raw, unanalyzed facts. **Information** is analyzed and processed data.

   2. Information can help managers control the various organizational areas efficiently and effectively. It plays a vital role in the controlling process.

C. **Balanced Scorecard Approach.**
   1. The **balanced scorecard** is a performance measurement tool that looks at four areas—financial, customer, internal processes, and people/innovation/growth assets—that contribute to a company's performance.
   2. The intent of the balanced scorecard is to emphasize that all of these areas are important to an organization's success.

D. **Benchmarking of Best Practices**
   1. **Benchmarking** is the search for the best practices among competitors or non-competitors that lead to their superior performance.

2. Research shows that best practices frequently already exist within an organization, but usually go unidentified and unused.
   – Internal benchmarking best practices program.

Establishing Quality Management Systems

By implementing international quality standards like ISO-9000, European Quality Award, Deming Prize, or Malcolm Baldrige Award; an organization can boost its productivity and quality. This will give leverage for a continuous improvement and consistent quality products for customers and keeping the employees happy as well. One can also adapt TQM philosophy of Deming, Juran or Crosby or Taguchi to outperform their competitors in the global market.

THE END