VUZF UNIVERSITY OF FINANCE, BUSINESS
AND ENTREPRENEURSHIP

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FUNDAMENTALS OF MANAGEMENT FOR ENTERPRISES.
TEXTBOOK FOR BEGINNERS

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The manual describes the management methods and algorithms. Functions, basic tools and history of management as a science are described. Each function is complemented by a specific example of its implementation in market conditions. The book will be useful for anyone who is interested in management issues, its fundamentals and practical implementation in the economic environment.
The book is aimed at students and beginners who are interested in modern management and want to get an idea of its implementation. Each part has a list of questions, tasks and cases.

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INTRODUCTION

A business develops in course of time with complexities. With increasing complexities managing the business has become a difficult task. The need of existence of management has increased tremendously. Management is essential not only for business concerns but also for banks, schools, colleges, hospitals, hotels, religious bodies, charitable trusts etc. Every business unit has some objectives of its own. These objectives can be achieved with the coordinated efforts of several personnel. The work of a number of persons are properly coordinated to achieve the objectives through the process of management is not a matter of pressing a button, pulling a lever, issuing orders, scanning profit and loss statements, promulgating rules and regulations. Rather it is the power to determine what shall happen to the personalities and happiness of entire people, the power to shape the destiny of a nation and of all the nations which make up the world."

Peter F. Drucker has stated in his famous book "The Practice of Management" that, "the emergence of management as an essential, a distinct and leading social institution is a pivotal event in social history. Rarely in human history has a new institution proved indispensable so quickly and even less often as a new institution arrived with so little opposition, so little disturbance and so little controversy?"

Management is a vital aspect of the economic life of man, which is an organized group activity. It is considered as the indispensable institution in the modern social organization marked by scientific thought and technological innovations. One or the other form of management is essential wherever human efforts are to be undertaken collectively to satisfy wants through some productive activity, occupation or profession.

It is management that regulates man's productive activities through coordinated use of material resources. Without the leadership provided by management, the resources of production remain resources and never become production.

Management is the integrating force in all organized activity. Whenever two or more people work together to attain a common objective, they have to coordinate their activities. They also have to organize and utilize their resources in such a way as to optimize the results. Not only in business enterprises where costs and revenues can be ascertained accurately and objectively but also in service organizations such as government, hospitals, schools, clubs, etc., scarce resources including men, machines, materials and money have to be integrated in a productive relationship, and utilized efficiently towards the achievement of their gals. Thus, management is not unique to business organizations but common to all kinds of social organizations.

Management has achieved an enviable importance in recent times. We are all intimately associated with many kinds of organizations, the most omnipresent being the government, the school and the hospital. In fact, more and more of major social tasks are being organized on an institution basis. Medical care, education, recreation, irrigation, lighting, sanitation, etc., which typically used to be the concern of the individual or the family, are now the domain of large organizations. Although, organizations other than business do not speak of management, they all need management. It is the specific organ of all kinds of organizations since they all need to utilize their limited resources most efficiently and effectively for the achievement of their goals. It is the most vital forces in the successful performance of all kinds of organized social activities.

Importance of management for the development of underdeveloped economies has been recognized during the last one and a half decade. There is a significant gap between the management effectiveness in developed and underdeveloped countries. It is rightly held that development is the function not only of capital, physical and material resources, but also of their optimum utilization. Effective management can produce not only more outputs of goods and services with given resources, but also expand them through better use of science and technology. A higher rate of economic growth can be attained in our country through more efficient and effective management of our business and other social organizations, even with existing physical and financial resources. That is why it is now being increasingly recognized that underdeveloped countries are indeed somewhat inadequately managed countries. The emergence of management in modern times may be regarded as a significant development as the advancement of modern technology.

It has made possible organization of economic activity in giant organizations like the Steel Authority of India and the Life Insurance Corporation of India. It is largely through the achievements of modern management that western countries have reached the stage of mass consumption societies, and it is largely through more effective management of our economic and social institutions that we can improve the quality of life of our people. It is the achievements of business management that hold the hope for the huge masses in the third world countries that they can banish poverty and achieve for themselves decent standards of living.

PART 1. MANAGERS AND MANAGEMENT SKILLS

1.1. Definition of management

Although management as a discipline is more than 80 years old, there is no common agreement among its experts and practitioners about its precise definition. In fact, this is so in case of all social sciences like psychology, sociology, anthropology, economics, political science etc. As a result of unprecedented and breath-taking technological developments, business organizations have grown in size and complexity, causing consequential changes in the practice of management. Changes in management styles and practices have led to changes in management thought. Moreover, management being interdisciplinary in nature has undergone changes because of the developments in behavioral sciences, quantitative techniques, engineering and technology, etc. Since it deals with the production and distribution of goods and services, dynamism of its environments such as social, cultural and religious values, consumers' tastes and preferences, education and information explosion, democratization of governments, etc., have also led to changes in its theory and practice. Yet, a definition of management is necessary for its teaching and research, and also for improvement in its practice.

Many management experts have tried to define management. But, no definition of management has been universally accepted. Let us discuss some of the leading definitions of management: Peter F. Drucker defines, "management is an organ; organs can be described and defined only through their functions".

According to Terry, "Management is not people; it is an activity like walking, reading, swimming or running. People who perform Management can be designated as members, members of Management or executive leaders."

Ralph C. Davis has defined Management as, "Management is the function of executive leadership anywhere."

Mary Parker Follett defines management as the "art of getting things done through people". This definition calls attention to the fundamental difference between a manager and other personnel of an organization. A manager is one who contributes to the organization's goals indirectly by directing the efforts of others – not by performing the task himself. On the other hand, a person who is not a manager makes his contribution to the organization's goals directly by performing the task himself.

Sometimes, however, a person in an organization may play both these roles simultaneously. For example, a sales manager is performing a managerial role when he is directing his sales force to meet the organization's goals, but when he himself is contacting a large customer and negotiating a deal, he is performing a non-managerial role. In the former role, he is directing the efforts of others and is contributing to the organization's goals indirectly; in the latter role, he is directly utilizing his skills as a salesman to meet the organization's objectives.

A somewhat more elaborate definition of management is given by George R. Terry. He defines management as a process "consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and other resources". According to this definition, management is a process – a systematic way of doing things. The four management activities included in this process are: planning, organizing, actuating and controlling. Planning means that managers think of their actions in advance. Organizing means that managers coordinate the human and material resources of the organization. Actuating means that managers motivate and direct subordinates. Controlling means that managers attempt to ensure that there is no deviation from the norm or plan. If some part of their organization is on the wrong track, managers take action to remedy the situation.

To conclude, we can say that various definitions of management do not run contrary to one another. Management is the sum-total of all those activities that (i) determine objectives, plans, policies and programmes; (ii) secure men, material, machinery cheaply (iii) put all these resources into operations through sound organization (iv) direct and motivate the men at work, (v) supervises and control their performance and (iv) provide maximum prosperity and happiness for both employer and employees and public at large.

1.2. Characteristics of management

Management is a distinct activity having the following salient features:

1. Economic Resource : Management is one of the factors of production together with land, labour and capital. As industrialization increases, the need for managers also increases. Efficient management is the most critical input in the success of any organized group activity as it is the force which assembles and integrates other factors of production, namely, labour, capital and materials. Inputs of labour, capital and materials do not by themselves ensure production, they require the catalyst of management to produce goods and services required by the society. Thus, management is an essential ingredient of an organization.

2. Goal Oriented : Management is a purposeful activity. It coordinates the efforts of workers to achieve the goals of the organization. The success of management is measured by the extent to which the organizational goals are achieved. It is imperative that the organizational goals must be well-defined and properly understood by the management at various levels.

3. Distinct Process : Management is a distinct process consisting of such functions as planning, organizing, staffing, directing and controlling. These functions are so interwoven that it is not possible to lay down exactly the sequence of various functions or their relative significance.

4. Integrative Force : The essence of management is integration of human and other resources to achieve the desired objectives. All these resources are made available to those who manage. Managers apply knowledge, experience and management principles for getting the results from the workers by the use of non-human resources. Managers also seek to harmonize the individuals' goals with the organizational goals for the smooth working of the organization.

5. System of Authority : Management as a team of managers represents a system of authority, a hierarchy of command and control. Managers at different levels possess varying degree of authority. Generally, as we move down in the managerial hierarchy, the degree of authority gets gradually reduced. Authority enables the managers to perform their functions effectively.

6. Multi-disciplinary Subject : Management has grown as a field of study (i.e. discipline) taking the help of so many other disciplines such as engineering, anthropology, sociology and psychology. Much of the management literature is the result of the association of these disciplines. For instance, productivity orientation drew its inspiration from industrial engineering and human relations orientation from psychology. Similarly, sociology and operations research have also contributed to the development of management science.

7. Universal Application : Management is universal in character. The principles and techniques of management are equally applicable in the fields of business, education, military, government and hospital. Henri Fayol suggested that principles of management would apply more or less in every situation. The principles are working guidelines which are flexible and capable of adaptation to every organization where the efforts of human beings are to be coordinated.

1.3. Management functions

There is enough disagreement among management writers on the classification of managerial functions. Newman and Summer recognize only four functions, namely, organizing, planning, leading and controlling Henri Fayol identifies five functions of management, viz. planning, organizing, commanding, coordinating and controlling. Luther Gulick states seven such functions under the catch word "POSDCORB' which stands for planning, organizing, staffing, directing, coordinating, reporting and budgeting. Warren Haynes and Joseph Massie classify management functions into decision-making, organizing, staffing, planning, controlling, communicating and directing. Koontz and O'Donnell divide these functions into planning organizing, staffing, directing and controlling.

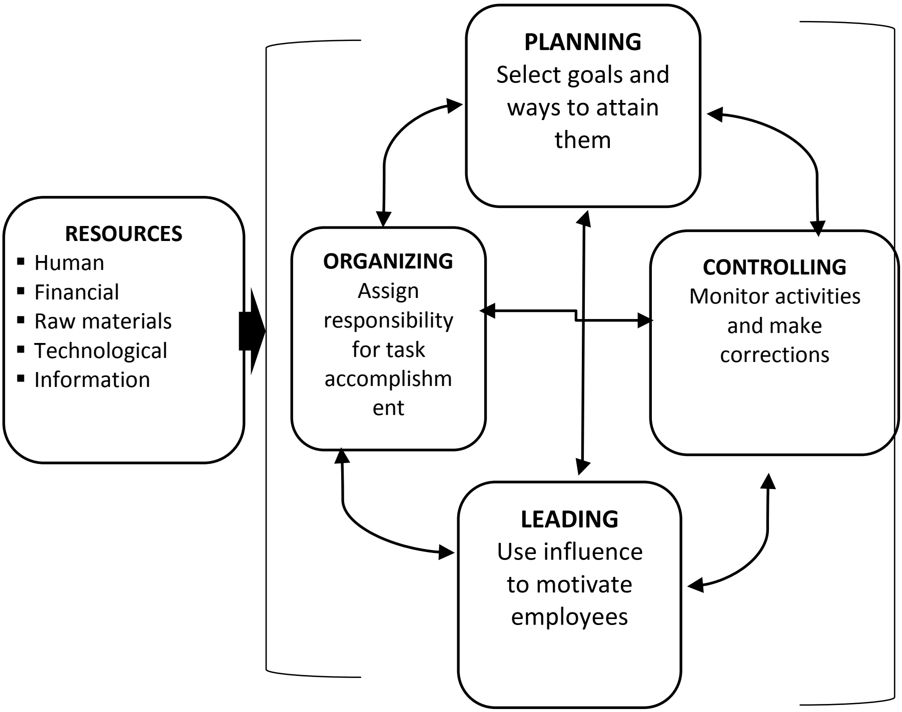

Figure 1.1 Management functions

For our purpose, we shall designate the following six as the functions of a manager: planning, organizing, staffing, directing, coordinating and controlling.

1. Planning : Planning is the most fundamental and the most pervasive of all management functions. If people working in groups have to perform effectively, they should know in advance what is to be done, what activities they have to perform in order to do what is to be done, and when it is to be done. Planning is concerned with 'what', 'how, and 'when' of performance. It is deciding in the present about the future objectives and the courses of action for their achievement. It thus involves:

(a) determination of long and short-range objectives;

(b) development of strategies and courses of actions to be followed for the achievement of these objectives; and

(c) formulation of policies, procedures, and rules, etc., for the implementation of strategies, and plans.

The organizational objectives are set by top management in the context of its basic purpose and mission, environmental factors, business forecasts, and available and potential resources. These objectives are both long-range as well as short-range. They are divided into divisional, departmental, sectional and individual objectives or goals. This is followed by the development of strategies and courses of action to be followed at various levels of management and in various segments of the organization. Policies, procedures and rules provide the framework of decision making, and the method and order for the making and implementation of these decisions.

Every manager performs all these planning functions, or contributes to their performance. In some organizations, particularly those which are traditionally managed and the small ones, planning are often not done deliberately and systematically but it is still done. The plans may be in the minds of their managers rather than explicitly and precisely spelt out: they may be fuzzy rather than clear but they are always there. Planning is thus the most basic function of management. It is performed in all kinds of organizations by all managers at all levels of hierarchy.

2. Organizing : Organizing involves identification of activities required for the achievement of enterprise objectives and implementation of plans; grouping of activities into jobs; assignment of these jobs and activities to departments and individuals; delegation of responsibility and authority for performance, and provision for vertical and horizontal coordination of activities. Every manager has to decide what activities have to be undertaken in his department or section for the achievement of the goals entrusted to him. Having identified the activities, he has to group identical or similar activities in order to make jobs, assign these jobs or groups of activities to his subordinates, delegate authority to them so as to enable them to make decisions and initiate action for undertaking these activities, and provide for coordination between himself and his subordinates, and among his subordinates. Organizing thus involves the following sub-functions :

(a) Identification of activities required for the achievement of objectives and implementation of plans.

(b) Grouping the activities so as to create self-contained jobs.

(c) Assignment of jobs to employees.

(d) Delegation of authority so as to enable them to perform their jobs and to command the resources needed for their performance.

(e) Establishment of a network of coordinating relationships. Organizing process results in a structure of the organization. It comprises organizational positions, accompanying tasks and responsibilities, and a network of roles and authority-responsibility relationships.

Organizing is thus the basic process of combining and integrating human, physical and financial resources in productive interrelationships for the achievement of enterprise objectives. It aims at combining employees and interrelated tasks in an orderly manner so that organizational work is performed in a coordinated manner, and all efforts and activities pull together in the direction of organizational goals.

3. Staffing : Staffing is a continuous and vital function of management. After the objectives have been determined, strategies, policies, programmes, procedures and rules formulated for their achievement, activities for the implementation of strategies, policies, programmes, etc. identified and grouped into jobs, the next logical step in the management process is to procure suitable personnel for manning the jobs. Since the efficiency and effectiveness of an organization significantly depends on the quality of its personnel and since it is one of the primary functions of management to achieve qualified and trained people to fill various positions, staffing has been recognized as a distinct function of management. It comprises several subfunctions :

(a) Manpower planning involving determination of the number and the kind of personnel required.

(b) Recruitment for attracting adequate number of potential employees to seek jobs in the enterprise.

(c) Selection of the most suitable persons for the jobs under consideration.

(d) Placement, induction and orientation.

(e) Transfers, promotions, termination and layoff.

(f) Training and development of employees.

As the importance of human factor in organizational effectiveness is being increasingly recognized, staffing is gaining acceptance as a distinct function of management. It need hardly any emphasize that no organization can ever be better than its people, and managers must perform the staffing function with as much concern as any other function.

4. Directing : Directing is the function of leading the employees to perform efficiently, and contribute their optimum to the achievement of organizational objectives. Jobs assigned to subordinates have to be explained and clarified, they have to be provided guidance in job performance and they are to be motivated to contribute their optimum performance with zeal and enthusiasm. The function of directing thus involves the following subfunctions :

(a) Communication

(b) Motivation

(c) Leadership

5. Coordination : Coordinating is the function of establishing such relationships among various parts of the organization that they all together pull in the direction of organizational objectives. It is thus the process of tying together all the organizational decisions, operations, activities and efforts so as to achieve unity of action for the accomplishment of organizational objectives.

The significance of the coordinating process has been aptly highlighted by Mary Parker Follet. The manager, in her view, should ensure that he has an organization "with all its parts coordinated, so moving together in their closely knit and adjusting activities, so linking, interlocking and interrelation, that they make a working unit, which is not a congeries of separate pieces, but what I have called a functional whole or integrative unity". Coordination, as a management function, involves the following sub-functions:

(a) Clear definition of authority-responsibility relationships

(b) Unity of direction

(c) Unity of command

(d) Effective communication

(e) Effective leadership

6. Controlling : Controlling is the function of ensuring that the divisional, departmental, sectional and individual performances are consistent with the predetermined objectives and goals. Deviations from objectives and plans have to be identified and investigated, and correction action taken. Deviations from plans and objectives provide feedback to managers, and all other management processes including planning, organizing, staffing, directing and coordinating are continuously reviewed and modified, where necessary.

Controlling implies that objectives, goals and standards of performance exist and are known to employees and their superiors. It also implies a flexible and dynamic organization which will permit changes in objectives, plans, programmes, strategies, policies, organizational design, staffing policies and practices, leadership style, communication system, etc., for it is not uncommon that employees failure to achieve predetermined standards is due to defects or shortcomings in any one or more of the above dimensions of management.

Thus, controlling involves the following process :

(a) Measurement of performance against predetermined goals.

(b) Identification of deviations from these goals.

(c) Corrective action to rectify deviations.

It may be pointed out that although management functions have been discussed in a particular sequence-planning, organizing, staffing, directing, coordinating and controlling – they are not performed in a sequential order. Management is an integral process and it is difficult to put its functions neatly in separate boxes. Management functions tend to coalesce, and it sometimes becomes difficult to separate one from the other. For example, when a production manager is discussing work problems with one of his subordinates, it is difficult to say whether he is guiding, developing or communicating, or doing all these things simultaneously. Moreover, managers often perform more than one function simultaneously.

1.4. Organizational performance

The other part of our definition of management is the attainment of organizational goals in an efficient and effective manner. Management is so important because organizations are so important. In an industrialized society where complex technologies dominate, organizations bring together knowledge, people, and raw materials to perform tasks no individual could do alone. Without organizations, how could technology be provided that enables us to share information around the world in an instant; electricity be produced from huge dams and nuclear power plants; and thousands of videogames, compact discs, and DVDs be made available for our entertainment? Organizations pervade our society, and managers are responsible for seeing that resources are used wisely to attain organizational goals.

Our formal definition of an **organization** is a social entity that is goal directed and deliberately structured. *Social entity* means being made up of two or more people. *Goal directed* means designed to achieve some outcome, such as make a profit (Wal-Mart), win pay increases for members (AFL-CIO), meet spiritual needs (United Methodist Church), or provide social satisfaction (college sorority). *Deliberately structured* means that tasks are divided and responsibility for their performance is assigned to organization members. This definition applies to all organizations, including both profit and nonprofit. Small, offbeat, and nonprofit organizations are more numerous than large, visible corporations—and just as important to society.

Based on our definition of management, the manager’s responsibility is to coordinate resources in an effective and efficient manner to accomplish the organization’s goals. Organizational **effectiveness** is the degree to which the organization achieves a *stated goal*, or succeeds in accomplishing what it tries to do. Organizational effectiveness means providing a product or service that customers value. Organizational **efficiency** refers to the amount of resources used to achieve an organizational goal. It is based on how much raw materials, money, and people are necessary for producing a given volume of output. Efficiency can be calculated as the amount of resources used to produce a product or service. Efficiency and effectiveness can both be high in the same organization. Managers at retailer Target, for instance, continually look for ways to increase efficiency while also meeting the company’s quality and customer satisfaction goals.

All managers have to pay attention to costs, but severe cost cutting to improve efficiency can sometimes hurt organizational effectiveness. The ultimate responsibility of managers is to achieve high **performance**, which is the attainment of organizational goals by using resources in an efficient *and* effective manner.

As illustrated in Figure 1.2, the application of these skills changes as managers move up in the organization. Although the degree of each skill necessary at different levels of an organization may vary, all managers must possess skills in each of these important areas to perform effectively.

Conceptual Skills

Conceptual skill is the cognitive ability to see the organization as a whole system and the relationships among its parts. Conceptual skill involves the manager's thinking, information processing, and planning abilities. It involves knowing where one's department fits into the total organization and how the organization fits into the industry, the community, and the broader business and social environment. It means the ability to *think strategically* – to take the broad, long-term view – and to identify, evaluate, and solve complex problems.

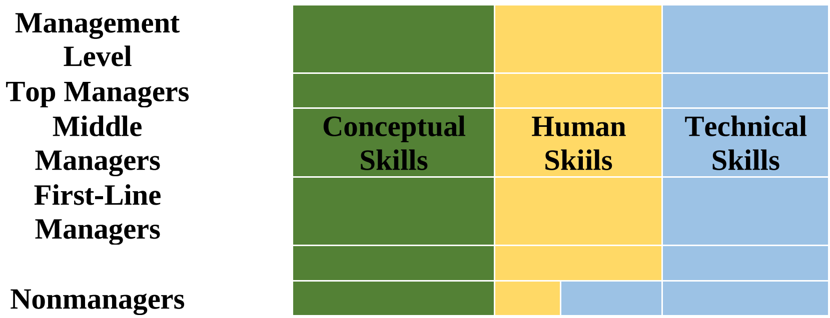

Figure 1.2 Management skills

Conceptual skills are needed by all managers but are especially important for managers at the top. Many of the responsibilities of top managers, such as decision making, resource allocation, and innovation, require a broad view. Consider how recent strategic changes at General Electric reflect the conceptual skills of CEO Jeff Immelt. Immelt is remaking GE by thinking on a broad, long-term scale about the types of products and services people around the world are going to need in the future. He's pushing for growth by investing heavily in basic scientific and technological research, looking toward the needs of developing countries, and making structural and cultural changes that focus GE toward creating innovative products and services to meet shifting customer needs.

Human Skills

Human skill is the manager's ability to work with and through other people and to work effectively as a group member. Human skill is demonstrated in the way a manager relates to other people, including the ability to motivate, facilitate, coordinate, lead, communicate, and resolve conflicts. A manager with human skills allows subordinates to express themselves without fear of ridicule, encourages participation, and shows appreciation for employees' efforts. Heather Coin, manager of the Sherman Oaks, California, branch of The Cheesecake Factory, demonstrates exceptional human skills. She considers motivating and praising her staff a top priority. "I really try to seek out moments because it's so hard to," she says. "You could definitely go for days without doing it. You have to consciously make that decision [to show appreciation]."

Human skills are essential for managers who work with employees directly on a daily basis. Organizations frequently lose good people because of front-line bosses who fail to show respect and concern for employees. However, human skills are becoming increasingly important for managers at all levels. In the past, many CEOs could get by without good people skills, but no longer. Today's employees, boards, customers, and communities are demanding that top executives demonstrate an ability to inspire respect, loyalty, and even affection rather than fear. "People are expecting more from the companies they're working for, more from the companies they're doing business with, and more from the companies they're buying from," says Raj Sisodia, a professor of marketing at Bentley College and co-author of a recent book called *Firms of Endearment*.

Technical Skills

Technical skill is the understanding of and proficiency in the performance of specific tasks. Technical skill includes mastery of the methods, techniques, and equipment involved in specific functions such as engineering, manufacturing, or finance. Technical skill also includes specialized knowledge, analytical ability, and the competent use of tools and techniques to solve problems in that specific discipline. Technical skills are particularly important at lower organizational levels. Many managers get promoted to their first management jobs by having excellent technical skills. However, technical skills become less important than human and conceptual skills as managers move up the hierarchy. For example, in his seven years as a manufacturing engineer at Boeing, Bruce Moravec developed superb technical skills in his area of operation. But when he was asked to lead the team designing a new fuselage for the Boeing 757, Moravec found that he needed to rely heavily on human skills in order to gain the respect and confidence of people who worked in areas he knew little about.

1.5. Management vs. administration

The use of two terms management and administration has been a controversial issue in the management literature. Some writers do not see any difference between the two terms, while others maintain that administration and management are two different functions. Those who held management and administration distinct include Oliver Sheldon, Florence and Tead, Spriegel and Lansburg, etc. According to them, management is a lower-level function and is concerned primarily with the execution of policies laid down by administration. But some English authors like Brech are of the opinion that management is a wider term including administration. This controversy is discussed as under in three heads:

Administration is concerned with the determination on policies and management with the implementation of policies. Thus, administration is a higher level function.

Management is a generic term and includes administration.

There is no distinction between the terms management and administration and they are used interchangeably.

Administration is a Higher Level Function : Oliver Shelden subscribed to the first viewpoint. According to him, "Administration is concerned with the determination of corporate policy, the coordination of finance, production and distribution, the settlement of the compass of the organization and the ultimate control of the executive. Management proper is concerned with the execution of policy within the limits set up by administration and the employment of the organization in the particular objects before it... Administration determines the organization; management uses it. Administration defines the goals; management strives towards it".

Administration refers to policy-making whereas management refers to execution of policies laid down by administration. This view is held by Tead, Spriegel and Walter. Administration is the phase of business enterprise that concerns itself with the overall determination of institutional objectives and the policies unnecessary to be followed in achieving those objectives. Administration is a determinative function; on the other hand, management is an executive function which is primarily concerned with carrying out of the broad policies laid down by the administration. Thus, administration involves broad policy-making and management involves the execution of policies laid down by the administration as shown in Table 1.1.

Table 1.1

No.	Basis	Administration	Management
1	Meaning	Administration is concerned with the formulation of objectives, plans and policies of the organization	Management means getting the work done through and with others
2	Nature of work	Administration relates to decision making. It is a thinking function	Management refers to execution of decisions. It is a doing function.
3	Decision Making	Administration determines what is to be done and when is to be done	Management decides who shall implement the administrative decisions
4	Status	Administration refers to highest level of management	Management is relevant at lower levels in the organization

Management is a Generic Term : The second viewpoint regards management as a generic term including administration. According to Brech, "Management is a social process entailing responsibility for the effective and economical planning and regulation of the operation of an enterprise in fulfillment of a given purpose or task.

Administration is that part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plans". Thus, Brech conceives administration as a part of management. Kimball and Kimball also subscribe to this view. According to them administration is a part of management. Administration is concerned with the actual work of executing or carrying out the objectives.

Management and Administration are Synonymous: The third viewpoint is that there is no distinction between the terms 'management' and 'administration'. Usage also provides no distinction between these terms. The term management is used for higher executive functions like determination of policies, planning, organizing, directing and controlling in the business circles, while the term administration is used for the same set of functions in the Government circles. So there is no difference between these two terms and they are often used interchangeably. It seems from the above concepts of administration and management that administration is the process of determination of objectives, laying down plans and policies, and ensuring that achievements are in conformity with the objectives. Management is the process of executing the plans and policies for the achievement of the objectives determined by an administration. This distinction seems to be too simplistic and superficial. If we regard chairmen, managing directors and general managers as performing administrative functions, it cannot be said that they perform only planning functions of goal determination, planning and policy formulation, and do not perform other functions such as staffing functions of selection and promotion, or directing functions of leadership, communication and motivation. On the other hand, we cannot say that managers who are responsible for the execution of plans and formulation of plans and policies, etc. do not contribute to the administrative functions of goal determination, and formulation of plans and policies. In fact all manages, whether the chief executive or the first line supervisor, are in some way or the other involved in the performance of all the managerial functions. It is, of course, true that those who occupy the higher echelons of organizational hierarchy are involved to a greater extent in goal.

1.6. Management types

Managers use conceptual, human, and technical skills to perform the four management functions of planning, organizing, leading, and controlling in all organizations – large and small, manufacturing and service, profit and nonprofit, traditional and Internet-based. But not all managers' jobs are the same. Managers are responsible for different departments, work at different levels in the hierarchy, and meet different requirements for achieving high performance.

Vertical Differences

An important determinant of the manager's job is hierarchical level. Figure 1.2 illustrates the three levels in the hierarchy. A recent study of more than 1,400 managers examined how the manager's job differs across these three hierarchical levels and found that the primary focus changes at different levels. For first-level managers, the main concern is facilitating individual employee performance. Middle managers, though, are concerned less with individual performance and more with linking groups of people, such as allocating resources, coordinating teams, or putting top management plans into action across the organization. For top-level managers, the primary focus is monitoring the external environment and determining the best strategy to be competitive.

Let's look in more detail at differences across hierarchical levels.

Top managers are at the top of the hierarchy and are responsible for the entire organization. They have such titles as president, chairperson, executive director, chief executive officer (CEO), and executive vice president. Top managers are responsible for setting organizational goals, defining strategies for achieving them, monitoring and interpreting the external environment, and making decisions that affect the entire organization. They look to the long-term future and concern themselves with general environmental trends and the organization's overall success. Top managers are also responsible for communicating a shared vision for the organization, shaping corporate culture, and nurturing an entrepreneurial spirit that can help the company innovate and keep pace with rapid change

Middle managers work at middle levels of the organization and are responsible for business units and major departments. Examples of middle managers are department head, division head, manager of quality control, and director of the research lab. Middle managers typically have two or more management levels beneath them. They are responsible for implementing the overall strategies and policies defined by top managers. Middle managers generally are concerned with the near future rather than with long-range planning.

The middle manager’s job has changed dramatically over the past two decades. Many organizations improved efficiency by laying off middle managers and slashing middle management levels. Traditional pyramidal organization charts were flattened to allow information to flow quickly from top to bottom and decisions to be made with greater speed. Yet even as middle management levels have been reduced, the middle manager’s job has taken on a new vitality. Rather than managing the flow of information up and down the hierarchy, middle managers create horizontal networks that can help the organization act quickly. Research shows that middle managers play a crucial role in driving innovation and enabling organizations to respond to rapid shifts in the environment.

As Ralph Stayer, CEO of Johnsonville Sausage said, “Leaders can design wonderful strategies, but the success of the organization resides in the execution of those strategies. The people in the middle are the ones who make it work.”

Middle managers’ status has also escalated because of the growing use of teams and projects. Strong project managers are in hot demand. A **project manager** is responsible for a temporary work project that involves the participation of people from various functions and levels of the organization, and perhaps from outside the company as well. Many of today’s middle managers work with a variety of projects and teams at the same time, some of which cross geographical and cultural as well as functional boundaries.

First-line managers are directly responsible for the production of goods and services. They are the first or second level of management and have such titles as supervisor, line manager, section chief, and off ce manager. They are responsible for groups of nonmanagement employees. Their primary concern is the application of rules and procedures to achieve efficient production, provide technical assistance, and motivate subordinates. The time horizon at this level is short, with the emphasis on accomplishing day-to-day goals. For example, Alistair Boot manages the menswear department for a John Lewis department store in Cheadle, England.

Boot's duties include monitoring and supervising shop floor employees to make sure sales procedures, safety rules, and customer service policies are followed. This type of managerial job might also involve motivating and guiding young, often inexperienced workers, providing assistance as needed, and ensuring adherence to company policies.

Horizontal Differences

The other major difference in management jobs occurs horizontally across the organization. **Functional managers** are responsible for departments that perform a single functional task and have employees with similar training and skills. Functional departments include advertising, sales, finance, human resources, manufacturing, and accounting. *Line managers* are responsible for the manufacturing and marketing departments that make or sell the product or service. *Staff managers* are in charge of departments such as finance and human resources that support line departments **General managers** are responsible for several departments that perform different functions. A general manager is responsible for a self-contained division, such as a Macy's department store or a General Motors assembly plant, and for all the functional departments within it. Project managers also have general management responsibility because they coordinate people across several departments to accomplish a specific project.

1.7. Characteristics of Professional Managers

1. **Managers are responsible and accountable :** Managers are responsible for seeing that specific tasks are done successfully. They are usually evaluated on how well they arrange for these tasks to the accomplished. Managers are responsible for the actions of their subordinates. The success or failure of subordinates is a direct reflection of managers' success or failure. All members of an organization, including those who are not managers, are responsible for their particular tasks. The difference is that managers are held responsible, or accountable, not only for their own work, but also for the work of subordinates.

2. **Managers balance competing goals and set priorities :** At any given time, the manager faces a number of organizational goals, problems and needs all of which compete for the manager's time and resources (both human and material). Because such resources are

always limited, the manager must strike a balance between the various goals and needs. Many managers, for example, arrange each day's tasks in order of priority the most important things are done right away, while the less important tasks are looked at later. In this way, managerial time is used effectively. A manager must also decide who is to perform a particular task and must assign work to an appropriate person. Although ideally each person should be given the task he would most like to do, this is not always possible. Sometimes individual ability is the decisive factor, and a task is assigned to the person most able to accomplish it. But sometimes a less capable worker is assigned a task as a learning experience. And, at times, limited human or other resources dictate decisions for making work assignments. Managers are often caught between conflicting human and organizational needs and so they must identify priorities.

3. **Managers think analytically and conceptually :** To be an analytical thinker, a manager must be able to break a problem down into its components, analyze those components and then come up with a feasible solution. But even more important, a manager must be a conceptual thinker, able to view the entire task in the abstract and relate it to other tasks. Thinking about a particular task in relation to its larger implications is no simple matter. But it is essential if the manager is to work towards the goals of the organization as a whole as well as towards the goals of an individual unit.

4. **Managers are mediators :** Organizations are made up of people, and people disagree or quarrel quite often. Disputes within a unit or organization can lower morale and productivity, and they may become so unpleasant or disruptive that competent employees decide to leave the organization. Such occurrences hinder work towards the goals of the unit or organization; therefore, managers must at times take on the role of mediator and iron out disputes before they get out of hand. Setting conflicts requires skill and tact. Managers who are careless in their handling conflicts may later on find that they have only made matters worse.

5. **Managers make difficult decisions :** No organization runs smoothly all the time. There is almost no limit to the number and types of problems that may occur : financial difficulties, problems with employees, or differences of opinion concerning an

organization policy, to name just a few. Managers are expected to come up with solutions to difficult problems and to follow through on their decisions even when doing so may be unpopular.

This description of these managerial roles and responsibilities shows that managers must 'change hats' frequently and must be alert to the particular role needed at a given time. The ability to recognize the appropriate role to be played and to change roles readily is a mark of an effective manager.

Questions

1. Describe the four management functions and the type of management activity associated with each.

2. Explain the difference between efficiency and effectiveness and their importance for organizational performance.

3. Describe conceptual, human, and technical skills and their relevance for managers.

4. Describe management types and the horizontal and vertical differences between them.

5. Define ten roles that managers perform in organizations.

6. Appreciate the manager's role in small businesses and nonprofit organizations.

7. Understand the personal challenges involved in becoming a new manager.

8. Discuss characteristics of the new workplace and the new management competencies needed to deal with today's turbulent environment.

Discussion questions

1. Is efficiency or effectiveness more important to organizational performance? Can managers improve both simultaneously? Why do some organizations seem to have a new CEO every year or two, whereas others have top leaders who stay with the company for many years (e.g., Jack Welch's 20 years as CEO at General Electric)? What factors about the manager or about the company might account for this difference?

2. If managerial work is characterized by variety, fragmentation, and brevity, how do managers perform basic management functions such as planning, which would seem to require reflection and analysis?

Case for critical analysis

Elektra Products, Inc.

Barbara Russell, a manufacturing vice president, walked into the monthly companywide meeting with a light step and a hopefulness she hadn't felt in a long time. The company's new, dynamic CEO was going to announce a new era of employee involvement and empowerment at Elektra Products, an 80-year-old, publicly held company that had once been a leading manufacturer and retailer of electrical products and supplies. In recent years, the company experienced a host of problems: market share was declining in the face of increased foreign and domestic competition; new product ideas were few and far between; departments such as manufacturing and sales barely spoke to one another; morale was at an all-time low, and many employees were actively seeking other jobs. Everyone needed a dose of hope. Martin Griffin, who had been hired to revive the failing company, briskly opened the meeting with a challenge: "As we face increasing competition, we need new ideas, new energy, and new spirit to make this company great. And the source for this change is you – each one of you." He then went on to explain that under the new empowerment campaign, employees would be getting more information about how the company was run and would be able to work with their fellow employees in new and creative ways. Martin proclaimed a new era of trust and cooperation at Elektra Products. Barbara felt the excitement stirring within her; but as she looked around the room, she saw many of the other employees, including her friend Simon, rolling their eyes. "Just another pile of corporate crap," Simon said later. "One minute they try downsizing, the next reengineering. Then they dabble in restructuring. Now Martin wants to push empowerment. Garbage like empowerment isn't a substitute for hard work and a little faith in the people who have been with this company for years. We made it great once, and we can do it again. Just get out of our way." Simon had been a manufacturing engineer with Elektra Products for more than 20 years. Barbara knew he was extremely loyal to the company, but he – and a lot of others like him – were going to be an obstacle to the empowerment efforts. Top management assigned selected managers to several problem-solving teams to come up with ideas for implementing the empowerment campaign. Barbara loved her assignment as team leader of the manufacturing team, working on ideas to improve how retail stores got the merchandise they needed when they needed it. The team thrived, and trust blossomed among the members. They even spent nights and weekends working to complete their report. They were proud of their ideas, which they believed were innovative but easily achievable: permit a manager to follow a product from design through sales to customers; allow salespeople to refund up to $500 worth of merchandise on the spot; make information available to salespeople about future products; and swap sales and manufacturing personnel for short periods to let them get to know one another's jobs. When the team presented its report to department heads, Martin Griff n was enthusiastic. But shortly into the meeting he had to excuse himself because of a late-breaking deal with a major hardware store chain. With Martin absent, the department heads rapidly formed a wall of resistance. The director of human resources complained that the ideas for personnel changes would destroy the carefully crafted job categories that had just been completed. The finance department argued that allowing salespeople to make $500 refunds would create a gold mine for unethical customers and salespeople. The legal department warned that providing information to salespeople about future products would invite industrial spying. The team members were stunned. As Barbara mulled over the latest turn of events, she considered her options: keep her mouth shut; take a chance and confront Martin about her sincerity in making empowerment work; push slowly for reform and work for gradual support from the other teams; or look for another job and leave a company she really cares about. Barbara realized she was looking at no easy choices and no easy answers.

Questions

1. How might top management have done a better job changing Elektra Products into a new kind of organization? What might they do now to get the empowerment process back on track?

2. Can you think of ways Barbara could have avoided the problems her team faced in the meeting with department heads?

3. If you were Barbara Russell, what would you do now? Why?

Essay's themes

1. Staffing as an additional management function

2. Coordinating as an additional management function
3. Describe conceptual skills and their relevance for managers
4. Describe human skills and their relevance for managers
5. Describe technical skills and their relevance for managers

PART 2. A BRIEF HISTORY OF MANAGEMENT'S ROOTS

Studying history doesn't mean merely arranging events in chronological order; it means developing an understanding of the impact of societal forces on organizations. Studying history is a way to achieve strategic thinking, see the big picture, and improve conceptual skills. Let's start by examining how social, political, and economic forces have influenced organizations and the practice of management.

Social forces refer to those aspects of a culture that guide and influence relationships among people. What do people value? What do people need? What are the standards of behavior among people? These forces shape what is known as the *social contract*, which refers to the unwritten, common rules and perceptions about relationships among people and between employees and management.

A significant social force today is the changing attitudes, ideas, and values of Generation Y employees (sometimes called Nexters). These young workers, the most educated generation in the history of the United States, grew up technologically adept and globally conscious. Unlike many workers of the past, they typically are not hesitant to question their superiors and challenge the status quo. They want a work environment that is challenging and supportive, with access to cutting-edge technology, opportunities to learn and further their careers and personal goals, and the power to make substantive decisions and changes in the workplace. In addition, Gen Y workers have prompted a growing focus on work/life balance, reflected in trends such as telecommuting, flextime, shared jobs, and organization-sponsored sabbaticals.

Political forces refer to the influence of political and legal institutions on people and organizations. Political forces include basic assumptions underlying the political system, such as the desirability of self-government, property rights, contract rights, the definition of justice, and the determination of innocence or guilt of a crime. The spread of capitalism throughout the world has dramatically altered the business landscape. The dominance of the free-market system and growing interdependencies among the world's countries require organizations to operate differently and managers to think in new ways. At the same time, strong anti-American sentiments in many parts of the world create challenges for U.S. companies and managers.

Economic forces pertain to the availability, production, and distribution of resources in a society. Governments, military agencies, churches, schools, and business organizations in every society require resources to achieve their goals, and economic forces influence the allocation of scarce resources. One trend is the growing economic power of less-developed countries. The rapid growth of China and India and their rise in the global marketplace dominated the 2007 World Bank-International Monetary Fund annual meetings, for example.5 Another force is the shifting of the economy of the United States and other developed countries, with the sources of wealth, the fundamentals of distribution, and the nature of economic decision making undergoing significant changes. Today's economy is based as much on ideas, information, and knowledge as it is on material resources. Supply chains and distribution of resources have been revolutionized by digital technology. Surplus inventories, which once could trigger recessions, are declining or completely disappearing.

Management practices and perspectives vary in response to these social, political, and economic forces in the larger society. During diff cult times, managers look for ideas to help them cope with environmental turbulence and keep their organizations vital. Recent challenges such as a tough economy and rocky stock market, environmental and organizational crises, lingering anxieties over war and terrorism, and the public suspicion and skepticism resulting from corporate scandals have left today's executives searching for any management tool – new or old – that can help them get the most out of limited resources. This search for guidance is reflected in a proliferation of books, scholarly articles, and conferences dedicated to examining management fashions and trends. Figure 2.1 illustrates the evolution of significant management perspectives over time.

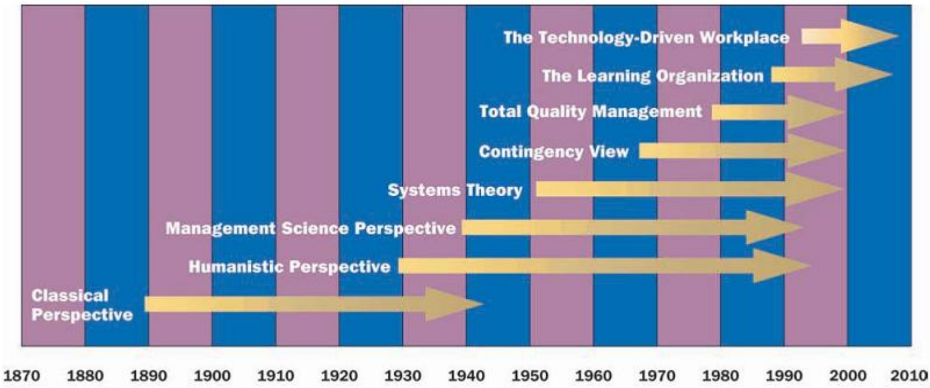

Figure 2.1 Evolution of significant management perspectives

The practice of management can be traced to 3000 b.c., to the first government organizations developed by the Sumerians and Egyptians, but the formal study of management is relatively recent. The early study of management as we know it today began with what is now called the **classical perspective**.

The classical perspective on management emerged during the nineteenth and early twentieth centuries. The factory system that began to appear in the 1800s posed challenges that earlier organizations had not encountered. Problems arose in tooling the plants, organizing managerial structure, training employees (many of them non-English-speaking immigrants), scheduling complex manufacturing operations, and dealing with increased labor dissatisfaction and resulting strikes.

2.1. Scientific Management

Scientific management emphasizes scientifically determined jobs and management practices as the way improve efficiency and labor productivity. In the late 1800s, a young engineer, Frederick Winslow Taylor (1856–1915), proposed that workers "could be retooled like machines, their physical and mental gears recalibrated for better productivity." Taylor insisted that improving productivity meant that management itself would have to change and, further, that the manner of change could be determined only by scientific study; hence, the label *scientific management* emerged. Taylor suggested that decisions based on rules of thumb and tradition be replaced with precise procedures developed after careful study of individual situations. Taylor's philosophy is encapsulated in his statement, "In the past the man has been first. In the future, the system must be first."15 The scientific management approach is illustrated by the unloading of iron from rail cars and reloading finished steel for the Bethlehem Steel plant in 1898.

Taylor calculated that with correct movements, tools, and sequencing, each man was capable of loading 47.5 tons per day instead of the typical 12.5 tons.

Although known as the *father of scientific c management*, Taylor was not alone in this area. Henry Gantt, an associate of Taylor's, developed the *Gantt chart* – a bar graph that measures planned and completed work along each stage of production by time elapsed. Two other important pioneers in this area were the husband-and-wife team of Frank B. and Lillian M. Gilbreth. Frank B. Gilbreth (1868–1924) pioneered *time and motion study* and arrived at many of his management techniques independently of Taylor. He stressed efficiency and was known for his quest for the one best way to do work. Although Gilbreth is known for his early work with bricklayers, his work had great impact on medical surgery by drastically reducing the time patients spent on the operating table. Surgeons were able to save countless lives through the application of time and motion study

Administrative Principles

Another major subfield within the classical perspective is known as the administrative principles approach. Whereas scientific management focused on the productivity of the individual worker, the **administrative principles** approach focused on the total organization. The contributors to this approach included Henri Fayol, Mary Parker Follett, and Chester I. Barnard. Henri Fayol (1841–1925) was a French mining engineer who worked his way up to become head of a major mining group known as Comambault. Comambault survives today as part of Le Creusot-Loire, the largest mining and metallurgical group in central France. In his later years, Fayol wrote down his concepts on administration, based largely on his own management experiences. In his most significant work, *General and Industrial Management*, Fayol discussed general principles of management, several of which are part of management philosophy today.

Mary Parker Follett (1868–1933) was trained in philosophy and political science at what today is Radcliffe College. She applied herself in many fields, including social psychology and management. She wrote of the importance of common superordinate goals for reducing conflict in organizations. Her work was popular with businesspeople of her day but was often overlooked by management scholars. Follett's ideas served as a contrast to scientific management and are reemerging as applicable for modern managers dealing with rapid changes in today's global environment. Her approach to leadership stressed the importance of people rather than engineering techniques. She offered the pithy admonition, "Don't hug your blueprints," and analyzed the dynamics of management-organization interactions. Follett addressed issues that are timely today, such as ethics, power, and how to lead in a way that encourages employees to give their best. The concepts of *empowerment*, facilitating rather than controlling employees, and allowing employees to act depending on the authority of the situation opened new areas for theoretical study by Chester Barnard and others.

2.2. Humanistic perspective

Mary Parker Follett and Chester Barnard were early advocates of a more **humanistic perspective** on management that emphasized the importance of understanding human behaviors, needs, and attitudes in the workplace as well as social interactions and group processes

The **human relations movement** was based on the idea that truly effective control comes from within the individual worker rather than from strict, authoritarian control. This school of thought recognized and directly responded to social pressures for enlightened treatment of employees. The early work on industrial psychology and personnel selection received little attention because of the prominence of scientific management. Then a series of studies at a Chicago electric company, which came to be known as the **Hawthorne studies**, changed all that.

Beginning about 1895, a struggle developed between manufacturers of gas and electric lighting fixtures for control of the residential and industrial market. By 1909, electric lighting had begun to win, but the increasingly efficient electric fixtures used less total power. The electric companies began a campaign to convince industrial users that they needed more light to get more productivity. When advertising did not work, the industry began using experimental tests to demonstrate their argument. Managers were skeptical about the results, so the Committee on Industrial Lighting (CIL) was set up to run the tests. To further add to the tests' credibility, Thomas Edison was made honorary chairman of the CIL. In one test location – the Hawthorne plant of the Western Electric Company – some interesting events occurred.

The human relations movement initially espoused a *dairy farm* view of management – contented cows give more milk, so satisfied workers will give more work. Gradually, views with deeper content began to emerge. The **human resources perspective** maintained an interest in worker participation and considerate leadership but shifted the emphasis to consider the daily tasks that people perform. The human resources perspective combines prescriptions for design of job tasks with theories of motivation.

In the human resources view, jobs should be designed so that tasks are not perceived as dehumanizing or demeaning but instead allow workers to use their full potential. Two of the best-known contributors to the human resources perspective were Abraham Maslow and Douglas McGregor. Abraham Maslow (1908–1970), a practicing psychologist, observed that his patients' problems usually stemmed from an inability to satisfy their needs. Thus, he generalized his work and suggested a hierarchy of needs. Maslow's hierarchy started with physiological needs and progressed to safety, belongingness, esteem, and, finally, self-actualization needs. Chapter 15 discusses his ideas in more detail.

Douglas McGregor (1906–1964) had become frustrated with the early simplistic human relations notions while president of Antioch College in Ohio. He challenged both the classical perspective and the early human relations assumptions about human behavior. Based on his experiences as a manager and consultant, his training as a psychologist, and the work of Maslow, McGregor formulated his Theory X and Theory Y, which are explained in Figure 2.2.

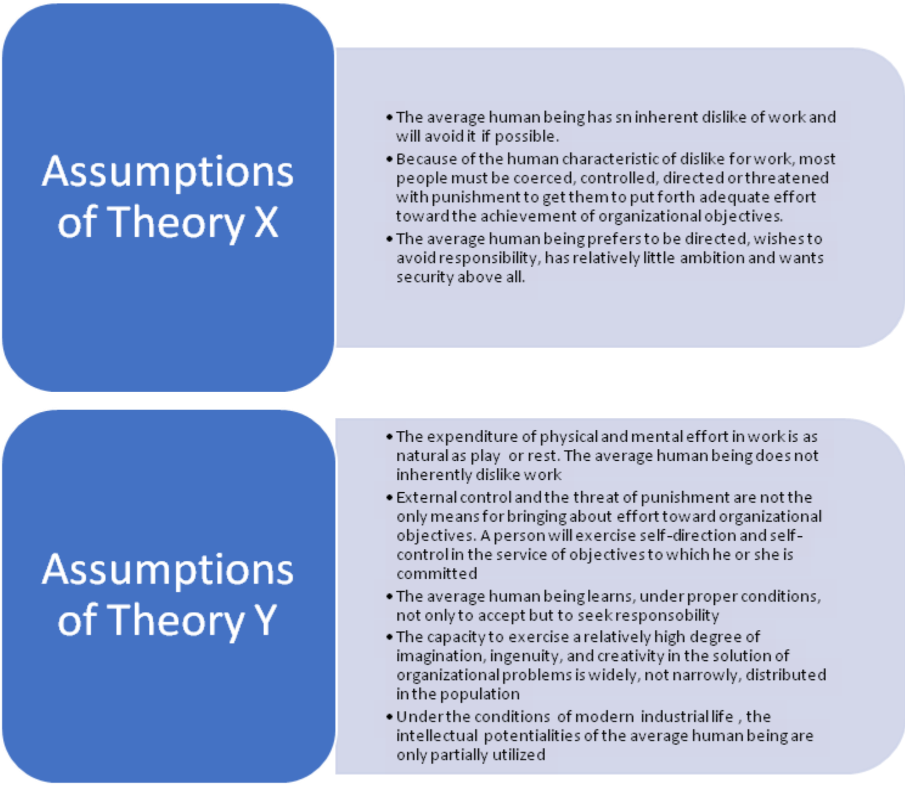

Figure 2.2 Assumptions Theory X and Theory Y

The point of Theory Y is that organizations can take advantage of the imagination and intellect of all their employees. Employees will exercise self-control and will contribute to organizational goals when given the opportunity. A few companies today still use Theory X management, but many are using Theory Y techniques. Consider how hearing-aid maker Oticon applies Theory Y assumptions to tap into employee creativity and mind power

2.3. Behavioral Sciences Approach

The **behavioral sciences approach** uses scientific methods and draws from sociology, psychology, anthropology, economics, and other disciplines to develop theories about human behavior and interaction in an organizational setting. This approach can be seen in practically every organization. When IBM conducts research to determine the best set of tests, interviews, and employee profiles to use when selecting new employees, it is using behavioral science techniques. When Best Buy electronics stores train new managers in the techniques of employee motivation, most of the theories and findings are rooted in behavioral science research.

One specific set of management techniques based in the behavioral science approach is *organization development* (OD). In the 1970s, organization development evolved as a separate field that applied the behavioral sciences to improve the organization's health and effectiveness through its ability to cope with change, improve internal relationships, and increase problem-solving capabilities.

MANAGEMENT SCIENCE PERSPECTIVE

World War II caused many management changes. The massive and complicated problems associated with modern global warfare presented managerial decision makers with the need for more sophisticated tools than ever before. The **management science perspective** emerged to address those problems. This view is distinguished for its application of mathematics, statistics, and other quantitative techniques to management decision making and problem solving. During World War II, groups of mathematicians, physicists, and other scientists were formed to solve military problems. Because those problems frequently involved moving massive amounts of materials and large numbers of people quickly and efficiently, the techniques had obvious applications to large-scale business firms.

Management scholar Peter Drucker's 1946 book *Concept of the Corporation* sparked a dramatic increase in the academic study of business and management. Picking up on techniques developed for the military, scholars began cranking out numerous mathematical tools for corporate managers, such as the application of linear programming for optimizing operations, statistical process control for quality management, and the capital asset pricing model.

Operations research grew directly out of the World War II military groups (called *operational research teams* in Great Britain and *operations research teams* in the United States).It consists of mathematical model building and other applications of quantitative techniques to managerial problems.

Operations management refers to the field of management that specializes in the physical production of goods or services. Operations management specialists use quantitative techniques to solve manufacturing problems. Some commonly used methods are forecasting, inventory modeling, linear and nonlinear programming, queuing theory, scheduling, simulation, and break-even analysis.

Information technology (IT) is the most recent subfield of the management science perspective, which is often reflected in management information systems. These systems are designed to provide relevant information to managers in a timely and cost-efficient manner. More recently, information technology within organizations evolved to include intranets and extranets, as well as various software programs that help managers estimate costs, plan and track production, manage projects, allocate resources, or schedule employees. Most of today's organizations have departments of information technology specialists who use management science techniques to solve complex organizational problems.

2.4. Systems Theory

A **system** is a set of interrelated parts that function as a whole to achieve a common purpose. A system functions by acquiring inputs from the external environment, transforming them in some way, and discharging outputs back to the environment. Figure shows the basic **systems theory** of organizations. It consists of five components: inputs, a transformation process, outputs, feedback, and the environment. *Inputs* are the material, human, financial, or information resources used to produce goods and services. The *transformation process* is management's use of production technology to change the inputs into outputs. *Outputs* include the organization's products and services. *Feedback* is knowledge of the results that influence the selection of inputs during the next cycle of the process.

Some ideas in systems theory significantly affected management thinking. They include open and closed systems, synergy, and subsystem interdependencies.

Open systems must interact with the environment to survive; **closed systems** need not. In the classical and management science perspectives, organizations were frequently thought of as closed systems. In the management science perspective, closed system assumptions – the absence of external disturbances – are sometimes used to simplify problems for quantitative analysis. In reality, however, all organizations are open systems, and the cost of ignoring the environment may be failure.

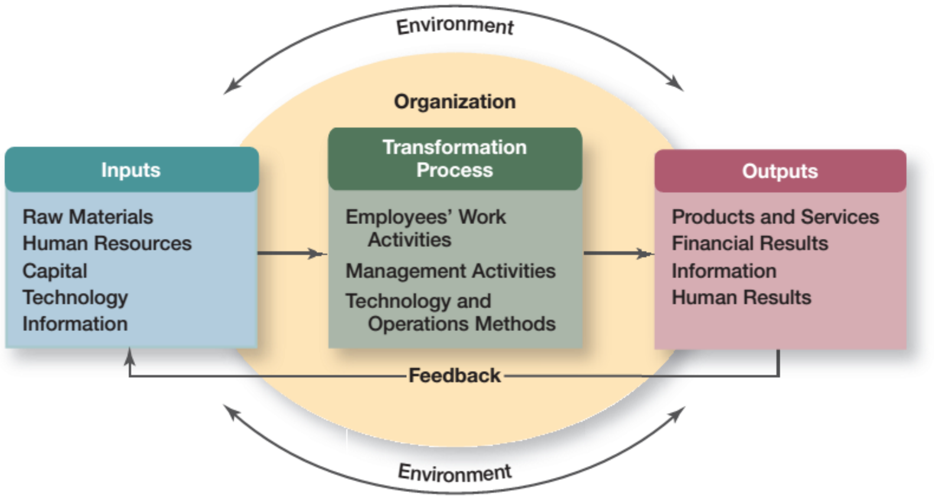

Figure 2.3 The structure of open system

Synergy means that the whole is greater than the sum of its parts. When an organization is formed, something new comes into the world. Management, coordination, and production that did not exist before are now present. Organizational units working together can accomplish more than those same units working alone. The sales department depends on production, and vice versa.

Subsystems depend on one another as parts of a system. Changes in one part of the organization affect other parts. The organization must be managed as a coordinated whole. Managers who understand subsystem interdependence are reluctant to make changes that do not recognize subsystem impact on the organization as a whole. Consider Toyota's highly successful application of the "just-in-time" inventory control system, which aims to keep inventory at its lowest. Managers knew that the best way to make the system work was to let employees on the factory floor control the flow of materials. Thus, the change in production required that the company also make changes in culture and structure. Toyota decentralized decision making so that employees doing the work were empowered to make choices about how to accomplish it. Cultural values were shifted to encourage every employee to think creatively about improving his or her particular piece of the organization and to see problems as opportunities for learning and improving.

As the example of Toyota shows, when managers learn to think systemically, they have a powerful tool for changing outcomes and improving performance. **Systemic thinking** means looking both at the distinct elements of a situation and at the interaction among those elements. The fundamental assumption of systemic thinking is that everything in the world affects and is affected by the things around it. For example, all managers know that price, cost, volume, quality, and profit are all interrelated. Changing one will affect the others. However, most managers tend to think *analytically*, by breaking things down to their distinct elements. Systemic thinking takes a further step. To think systemically, managers look not only at the distinct parts of a system or situation but also at the interactions among those parts, which are continually changing and affecting each other differently.

A systemic thinking process allows managers to get a handle on highly complex problems and situations in a way that analytical thinking cannot.

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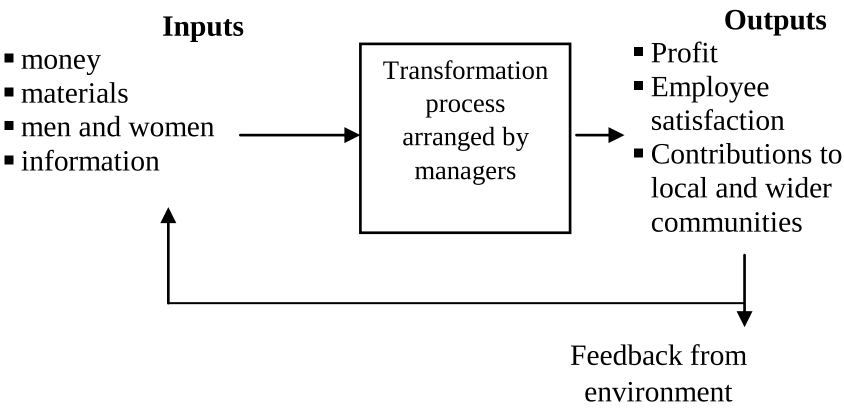

Figure 2.4 The structure of open system

Contingency View

A second contemporary extension to management thinking is the **contingency view**. The classical perspective assumed a *universalist* view. Management concepts were thought to be universal; that is, whatever worked – leader style, bureaucratic structure – in one organization would work in another. In business education, however, an alternative view exists. In this *case* view, each situation is believed to be unique. Principles are not universal, and one learns about management by experiencing a large number of case problem situations. Managers face the task of determining what methods will work in every new situation. To integrate these views the contingency view emerged, as illustrated in Figure 2.5. Here neither of the other views is seen as entirely correct. Instead, certain contingencies, or variables, exist for helping management identify and understand situations. The contingency view tells us that what works in one setting might not work in another. Contingency means that one thing depends on other things and a manager's response to a situation depends on identifying key contingencies in an organizational situation.

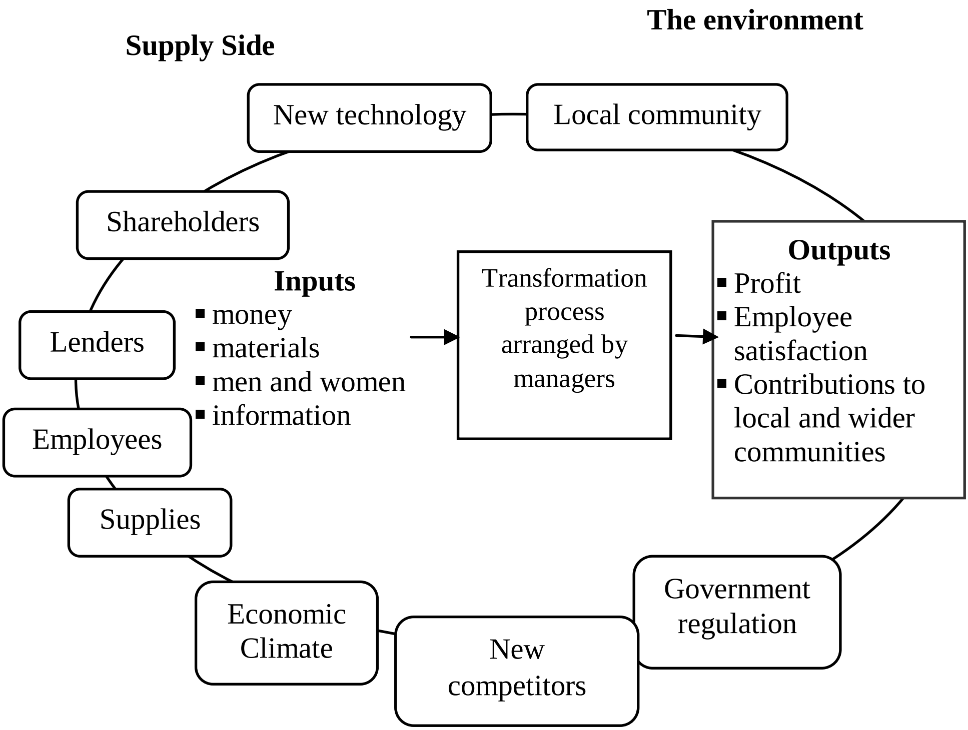

Figure 2.5 A complex open system

One important contingency, for example, is the industry in which the organization operates. The organizational structure that is effective for an Internet company such as Google would not be successful for a large auto manufacturer such as Ford. A management by-objectives (MBO) system that works well in a manufacturing firm, in turn, might not be right for a school system. When managers learn to identify important patterns and characteristics of their organizations, they can then fit solutions to those characteristics.

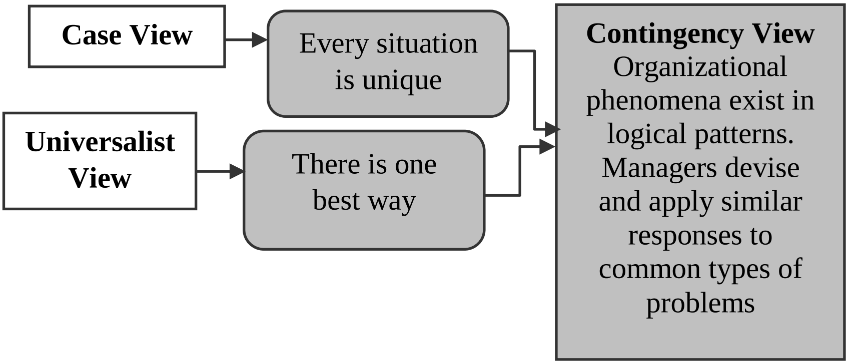

Figure 2.6 Contingency View

2.5. Total Quality Management

The theme of quality is another concept that permeates current management thinking. The quality movement is strongly associated with Japanese companies, but these ideas emerged partly as a result of American influence after World War II. The ideas of W. Edwards Deming, known as the "father of the quality movement," were initially scoffed at in the United States, but the Japanese embraced his theories and modified them to help rebuild their industries into world powers. Japanese companies achieved a significant departure from the American model by gradually shifting from an inspection-oriented approach to quality control toward an approach emphasizing employee involvement in the prevention of quality problems. During the 1980s and into the 1990s, **total quality management (TQM)**, which focuses on managing the total organization to deliver quality to customers, moved to the forefront in helping U.S. manager's deal with global competition. The approach infuses quality values throughout every activity within a company, with frontline workers intimately involved in the process. Four significant elements of quality management are employee involvement, focus on the customer, benchmarking, and continuous improvement.

Employee involvement means that achieving quality requires companywide participation in quality control. All employees are *focused on the customer*; companies find out what customers want and try to meet their needs and expectations. *Benchmarking* refers to a process whereby companies find out how others do something better than they do and then try to imitate or improve on it.

Continuous improvement is the implementation of small, incremental improvements in all areas of the organization on an ongoing basis. TQM is not a quick fix, but companies such as General Electric, Texas Instruments, Procter & Gamble, and DuPont achieved astonishing results in efficiency, quality, and customer satisfaction through total quality management. TQM is still an important part of today's organizations, and managers consider benchmarking in particular a highly effective and satisfying management technique.

The Learning Organization One of the toughest challenges for managers today is to get people focused on adaptive change to meet the demands of an uncertain and rapidly changing environment. Few problems today come with ready-made solutions, and they require that people throughout the company think in new ways and learn new values and attitudes. These needs demand a new approach to management and a new kind of organization.

The **learning organization** can be defined as one in which everyone is engaged in identifying and solving problems, enabling the organization to continuously experiment, change, and improve, thus increasing its capacity to grow, learn, and achieve its purpose. The essential idea is problem solving, in contrast to the traditional organization designed for efficiency. In the learning organization all employees look for problems, such as understanding special customer needs. Employees also solve a problem, which means putting things together in unique ways to meet a customer's needs. Today's best managers know that sustained competitive advantage can come only by developing the learning capacity of everyone in the organization.

Customer Relationship Management One of today's most popular applications of technology is for customer relationship management. **Customer relationship management (CRM)** systems use the latest information technology to keep in close touch with customers and to collect and manage large amounts of customer data. These data can help employees and managers act on customer insights, make better decisions, and provide superior customer service. For example, when you check in at a Marriott hotel, it is likely that the desk clerk is well aware of your past requests for a king-size bed, non-smoking room, and access to the Internet in your room.

Outsourcing Information technology has also contributed to the rapid growth of **outsourcing**, which means contracting out selected functions or activities to other organizations that can do the work more cost efficiently. Today's companies are outsourcing like crazy to free up cash for investment in long-term research and innovation. Outsourcing, like supply chain management and CRM, requires that managers not only be technologically savvy but that they learn to manage a complex web of relationships. These relationships might reach far beyond the boundaries of the physical organization; they are built through flexible e-links between a company and its employees, suppliers, partners, and customers.

QUESTIONS

1. Understand how historical forces influence the practice of management.

2. Identify and explain major developments in the history of management thought.

3. Draw and describe model of Chain Management

4. Describe the major components of the classical and humanistic management perspectives.

5. Discuss the management science perspective and its current use in organizations.

6. Explain the major concepts of systems theory, the contingency view, and total quality management.

7. Explain what a learning organization is and why this approach has become important in recent years.

8. Describe the management changes brought about by a technology driven workplace, including the role of supply chain management, customer relationship management, and outsourcing.

DISCUSSION QUESTIONS

What does it mean to "think systemically"? How would you apply systemic thinking to a problem such as poor performance in your current academic studies? To a problem with a romantic partner or family member?

Do you think management theory will ever be as precise as theories in the fields of finance, accounting, or experimental psychology? Why or why not?

How do societal forces influence the practice and theory of management? Do you think new management techniques are a response to these forces?

CASE FOR CRITICAL ANALYSIS

SIA Corporation

In the early years of the new century, it wasn't hard to see that SIA Corporation couldn't keep doing business the old-fashioned twentieth-century way. Chief knowledge officer Jerry Seibert fully realized he owed his new position in the newly created knowledge management department to this challenge. Headquartered in the Midwest, SIA was an umbrella organization offering a wide range of insurance products to commercial customers of all sizes throughout the country and, increasingly, to multinational corporations throughout the world. Over the years it had diversified into various types of insurance by absorbing smaller companies until it now consisted of more than 30 separate business units. Each had its own hierarchy, characterized by strong top-down administration and the well-defined rules and procedures typical of the insurance industry; virtually every employee possessed specialized knowledge about a narrowly defined market niche. Upper-level management had given the matter considerable attention and concluded that SIA's refined division of labor into technical specialists needed to give way to a collaborative learning organization, one where employee empowerment and open information made it possible for a single underwriter to be knowledgeable about a variety of products. Jerry's knowledge management department, housed within human resources, could make a contribution toward this goal. Jerry devised an elegant solution, if he did say so himself. He oversaw the development of software that allowed any SIA employee to post a query, have that question directed only to those employees with relevant expertise, and then receives an answer, often in a matter of minutes and usually before the day was out.

The only hitch was that hardly anyone was posting queries on the easy-to-use system. Why? Rachel Greenwell, a veteran SIA underwriter, clued him in. Especially after weathering a turbulent period, one that had seen plenty of layoffs in the insurance industry, many employees viewed the restructuring as the first step in a process that would lead to pink slips landing on their desks. Some employees, in fact, saw their own highly specialized knowledge as a kind of job insurance policy. “I know that’s not what your knowledge-sharing efforts are about and that their fears are unfounded,” she reassured him. “But you’ve got about 9,999 other employees who are at least willing to entertain the possibility that sharing what they know isn’t in their best interests.”

Questions

1. What are some of the social, political, and economic forces that are influencing SIA’s decision to become a learning organization? organization? What are some general measures managers can take to smooth the way?

Essay’s themes

1. 14 principles of management by Taylor
2. Assumptions of Theory X and Theory Y by McGregor
3. Using CRM in Ukrainian companies

PART 3. WHAT MANAGERS DO

One of the first questions new managers ask – even if only themselves – is: What am I supposed to do now? Traditionally, when new managers *are* provided with an answer to this question (often they aren’t; they are simply hired or promoted to manager with no training or direction whatsoever), the answer has been the four *classic functions* of management that you may have learned in school-planning, organizing, leading, and controlling.

• *Planning:* Running an organization is kind of like steering a ship on the ocean; to get where you want to go, you’ve got to have a plan – a map – that tells you where you’re headed. It’s the job of managers to develop the plans that determine the goals an organization will pursue, the products and services it will provide, how it will manufacture and deliver them, to whom, and at what price. These plans include creating an organizational vision and mission and specific tactics for achieving the organization’s goals.

• *Organizing:* After managers develop their plans, they have to build an organization that can put these plans into effect. Managers do this by designing organizational structures to execute their plans (often building elaborate organizational charts that divide an organization into divisions, departments, and other parts and designate the people who reside in each position) and by developing systems and processes to direct the allocation of human, financial, and other resources.

• *Leading:* Managers are expected to lead their employees, that is, to motivate them to achieve the organization's goals-quickly and efficiently. Leadership is considered by many to be the most important ingredient for a manager's success. Great leaders can make great things happen, inspiring their employees to do extraordinary things and accomplish extraordinary goals.

While these classic functions are still valid, they do not tell the entire story. Managers and workers are entering into a new kind of partnership that is forming the basis of a new reality in the workplace.

Today's managers are discovering that they cannot *command* an employee's best work; they can, however, create an environment that encourages employees to want to do their best work. And workers are discovering that, if they expect to survive the constant waves of change sweeping across businesses of all types, they have to find ways to contribute in their organizations in ways that they have never before been called on to do.

The *new functions* of management that tap into the potential of all employees are:

• *Energize:* Today's managers are masters of making things happen. The best managers create far more energy than they consume. Successful managers create compelling visions-visions that inspire employees to bring out their very best performance-and they encourage their employees to act on these visions.

• *Empower:* Empowering employees doesn't mean that you stop managing. Empowering employees means giving them the tools and the authority to do great work. Effective management is the leveraging of the efforts of your team to a common purpose. When you let your employees do their jobs, you unleash their creativity and commitment.

• *Support:* Today's managers need to be coaches, counselors, and colleagues instead of watchdogs or executioners. The key to developing a supportive environment is the establishment of a climate of open communication throughout the organization. Employees must be

3.1. Energizing employees

Wouldn't it be great if you could get the very best from your employees each and every day? Well, we have some good news for you: You *can* get the very best from your employees every day of the week. But you can't do it by mandating that your employees give their very best from this day forward, with the occasional pep rally or morale-building meeting, or by threats or coercion. The secret to making this happen is *energizing* your employees-unleashing the passion and talent that resides deep within them.

What can managers do to help unleash the passion and talent in their employees, in short, to energize them? Here are some suggestions:

• Develop a clear vision for where you want the organization to go, and then be sure to communicate the vision widely and often.

• Ask for and listen to your employees' ideas and suggestions, and, whenever possible, engage them in the process of implementing those ideas and suggestions. • Be sensitive to your employees' needs at work, and ensure that the work environment is conducive to your employees doing their best work.

Don't be a prisoner to your office; be sure to regularly visit the people who work for you on their turf and to encourage and inspire them.

• Be honest and truthful with your employees at all times; don't sugarcoat the truth in an attempt to soften the blow of difficult news.

• When you make a promise, be sure to keep it. At the same time, be sure that you don't make promises that you can't keep. What are you doing to energize your employees? Do you really know what your employees want? Are you responding to your employees' needs, or are you putting them on the back burner – either deferring these decisions until later or hoping they go away altogether?

Remember, employees are your most important resource – a resource that is much more productive when it is energized.

3.2. Empowering employees

The best (and the most effective) managers realize that they can get far more done – and get it done better, faster, and more cost effectively – by assigning their employees responsibility for accomplishing important tasks and goals, while providing them with the authority that they need to carry out those tasks and goals. It's not enough to assign a goal – employees must also be empowered to accomplish it. Here are some simple approaches to empowering your employees:

• *Put power in the hands of the people doing the work.* The employees closest to customers are in the best position to know what customers really need and, therefore, are in the best position to make decisions that have a direct impact on their customers.

• *Encourage individual responsibility for their contributions.* The flip side of putting power in the hands of the people doing the work is requiring employees to take responsibility for the quality of their work. When employees are trusted to play an active role in their organization's leadership, they'll naturally respond by taking a personal interest in the quality of their work.

• *Create clarity of roles.* Before employees can be comfortable and effectively share leadership duties with others, they first have to be given clearly defined roles so that they know exactly what they are responsible for, as well as what others are responsible for.

• *Share and rotate leadership.* By moving people in and out of positions of leadership – depending on their particular talents and interests – you can tap the leadership potential that resides within every employee, particularly those employees who aren't a part of the organization's formal leadership hierarchy.

• *Seek consensus (and build creative systems that favor consensus).* One of the best ways to involve others in the leadership process is to invite them to play a real and important role in the discussions and debates that lead to making important organizational decisions. Seeking consensus requires time and a high level of participation and trust, and it results in better decisions that are more easily implemented.

3.3. Supporting employees

While it's important to empower your employees – to give them responsibility to accomplish specific organizational tasks and goals along with the authority they need to accomplish them – it's not enough to simply make such assignments and then walk away. The best managers support their employees and act as continuing resources to help guide them on their way. If you don't provide your employees with the support they need, they may decide you don't care – lowering their trust and respect for you – and they may very well engage in activities that are counterproductive to what the organization hopes to achieve.

Here are a number of ways that you can and should support your employees:

• *Have frequent, personal contact with each of your employees.* Your employees won't feel that they have your support if you don't interact with them on a frequent basis. Some employees need more interaction than others, so it's your job to determine how much to provide, to whom, and how often.

• *Recognize the true potential of your employees.* Take time to assess and help further develop your employees' skills and interests, hopes, and dreams while correcting any shortfalls that they may have. Help employees plan pathways to success within the organization, giving them personal goals that they can strive for. *Act on employee ideas and suggestions.* It's one thing to ask employees for their ideas and suggestions; it's another thing altogether to put those ideas and suggestions to use in your organization.

Doing so not only can make your organization more effective, but also clearly demonstrates your support to your employees – a message that they will hear loud and clear.

• *Take time to ask employees what they really think about their jobs and about the leadership they receive from you and other managers.* Learning that employees are unhappy in their jobs or with their management team is of little use after an employee quits to take a job with another employer. It is critically important to get candid feedback from employees about their jobs and then to act on it whenever it is in the best interests of the organization.

• *Respect your employees, and treat them as valuable members of your team.* Employees know when you don't respect them or consider their opinions to be of value to the organization, and they will act accordingly when confronted with that realization – becoming demoralized, lowering their productivity, and perhaps even working against the goals of their employer.

• *Involve employees in making decisions that directly affect them.* While not every decision should involve every employee, you'll get far better buy-in and engagement when you give employees the opportunity to have an impact on decisions that directly affect them – improving the ultimate result and your bottom line.

Studies show that the one person who has the most influence on an employee is his or her boss. One of the main reasons talented employees leave organizations is that they feel they are not being supported by their managers. Don't allow this to become the reason that talented employees decide to leave your organization.

3.4. Communicating with employees

If there's one place where a great number of managers fail, it's in the area of communication. They don't set up effective communications systems and processes in their organizations; they don't encourage (or demand) their employees to communicate better with one another; and they themselves are ineffective communicators. But, in today's business at-the-speed-of-light environment, good communication is not just something nice to have – it is absolutely essential.

Are you an effective communicator within your organization? Here are some ways to improve your communications:

• *Regularly inform management of your employees' real feelings, opinions, and ideas about important organizational issues.* Managers must have the best information possible when making decisions – flawed information often results in flawed decisions. This means communicating the real feelings, opinions, and ideas of your employees to your own managers – providing them with information that is not colored by your own biases.

• *Involve* all *of your employees in the decision-making process.* While it may be easier for managers to make decisions themselves – particularly decisions that have the greatest impact on an organization – better decisions often result when you involve all of your employees in the process. Ask for their input and use as much of it as you can.

• *Avoid blaming others when you have to give bad news to your employees.* How many times have you heard a manager say something like, "I fought against this new policy, but it was out of my hands," only to later find out that he or she really didn't fight the decision but simply went along with it? It happens all the time. Instead of passing the buck, managers should be brave enough to honestly make their own views known – even if they just go along with what their managers decide.

When dealing with a difficult situation, have a face-to-face discussion instead of sending a memo or e-mail message or leaving a voice mail message. Sending someone a written note or message or leaving a voice mail message is a far less personal way of communicating than simply speaking with someone face to face, and it often results in misunderstandings on the part of the person who receives the message. In difficult situations, face-to-face communication requires courage on the part of the manager, but it will result in better communication.

• *Do not let your own opinions and points of view interfere with hearing what someone else is saying.* It's natural for managers to allow their opinions about others – the way they speak, look, or dress, or their reputation in the organization – to create biases that get in the way of communication. While it's easier said than done (but no less important), it is important for managers to neutralize such biases and to be completely open to what their employees say.

Go out of your way to make employees comfortable in approaching and speaking with you. It may be difficult for employees – especially low-status employees – to build up the courage to approach their bosses, much less to tell them what's really on their minds.

Make a point of encouraging your employees to approach you with their ideas, issues, and problems, and reward them by thanking them when they do.

• *Do not spend too much – or too little – time worrying about your organization's rumor mill.* Every organization has both formal and informal communication systems. The rumor mill or grapevine, as it is sometimes called, is an important way for employees to communicate informally within organizations. As such, the rumor mill contains valuable information for managers, as well as no small amount of distorted or false information. Managers can keep their finger on the pulse of the organization by monitoring the rumor mill and should make a point of correcting false or distorted information whenever it is detected.

Being a manager today requires more than a casual acquaintance with human behavior and how to create an environment that will encourage and allow your employees to give their very best at all times. Reflect for a few moments on what you have learned in this chapter; then ask yourself the following questions:

What do you do to energize your employees (or sap their enthusiasm)? Are you the type of manager *you'd* like to work for?

3. Would your employees say that they are empowered? If not, what could you personally do to change their answer?

4. In what visible ways do you support your employees? Would your employees agree with your response? Why or why not?

5. Do you communicate openly and honestly with your employees? If not, what do you hide from them, and why? Remember, they can't read your mind, and you don't want them to have to try!

Questions

1. Tell who managers are and where they work.

2. Describe the factors that are reshaping and redefining management.

3. Describe what managers do

4. Describe the factors that are reshaping and redefining management.

5. Describe supporting employees

6. Describe energizing employees

7. Describe communicating employees

Case study analysis

Google doesn't do anything halfway. So when it decided to "build a better boss," it did what it does best: look at data. Using data from performance reviews, - feedback surveys, and supporting papers turned in for individuals being nominated for top-manager awards, Google tried to find what a great boss is and does. The project, dubbed Project Oxygen, examined some 100 variables and ultimately identified eight characteristics or habits of Google's most effective managers. Here are the "big eight": • Provide an unambiguous vision of the future; • Help individuals to reach their long-term work goals;

• Express interest in employees' well-being; • Ensure you have the necessary technical abilities to support employee efforts; • Display effective communication skills, especially listening; • Provide coaching support when needed; • Focus on being productive and on end results; and • Avoid over-managing; let your team be responsible.

At first glance, you're probably thinking that these eight attributes seem pretty simplistic and obvious and you may be wondering why Google spent all this time and effort to uncover these. Even Google's vice president for people operations, Laszlo Bock, said, "My first reaction was, that's it?" Another writer described it as "reading like a whiteboard gag from an episode of The Office." But, as the old saying goes, there was more to this list than meets the eye. When Bock and his team began looking closer and rank ordering the eight items by importance, Project Oxygen got interesting – a lot more interesting! And to understand this, you have to understand something about Google's approach to management since its founding in 1999. Plain and simple, managers were encouraged to "leave people alone. Let the engineers do their stuff. If they become stuck, they'll ask their bosses, whose deep technical expertise propelled them to management in the first place." It's not hard to see what Google wanted its managers to be – outstanding technical specialists. Mr. Bock explains, "In the Google context, we'd always believed that to be a manager, particularly on the engineering side, you need to be as deep or deeper a technical expert than the people who work for you." However, Project Oxygen revealed that technical expertise was ranked number eight (very last) on the list. So, here's the complete list from most important to least important, along with what each characteristic entails:

• Provide coaching support when needed (provide specific feedback and have regular one-on-one meetings with employees; offer solutions tailored to each employee's strengths)

• Avoid over-managing; let your team be responsible (give employees space to tackle problems themselves, but be available to offer advice)

• Express interest in employees' well-being (make new team members feel welcome and get to know your employees as people)

• Focus on being productive and on end results (focus on helping the team achieve its goals by prioritizing work and getting rid of obstacles)

• Display good communication skills, especially listening (learn to listen and to share information; encourage open dialogue and pay attention to the team's concerns)

• Help individuals to reach their long-term work goals (notice employees' efforts so they can see how their hard work is furthering their careers; appreciate employees' efforts and make that appreciation known)

• Provide an unambiguous vision of the future (lead the team but keep everyone involved in developing and working toward the team's vision)

• Ensure you have the necessary technical abilities to support employee efforts (understand the challenges facing the team and be able to help team members solve problems) Now, managers at Google aren't just encouraged to be great managers, they know what being a great manager involves.

And the company is doing its part, as well. Using the list, Google started training managers, as well as providing individual coaching and performance review sessions. You can say that Project Oxygen breathed new life into Google's managers. Bock says the company's efforts paid off quickly. "We were able to have a statistically significant improvement in manager quality for 75 percent of our worst-performing managers."

Discussion Questions

1-17 Describe the findings of Project Oxygen using the functions approach, Mintzberg's roles approach, and the skills approach.

1-18 Are you surprised at what Google found out about "building a better boss?" Explain your answer.

1-19 What's the difference between encouraging managers to be great managers and knowing what being a great manager involves?
1-20 What could other companies learn from Google's experiences?

1-21 Would you want to work for a company like Google? Why or why not?

PART 4. FOUNDATIONS OF DECISION MAKING

A good decision should be judged by the process used, not the results achieved. In some cases, a good decision results in an undesirable outcome. As a decision maker, you can control the process. But in the real world, factors outside your control can adversely affect the outcome. Using the right process may not always result in a desirable outcome, but it increases the probability.

Decision making is typically described as choosing among alternatives, but this view is overly simplistic. Why? Because decision making is a process, not a simple act of choosing among alternatives. Figure 4.1 illustrates the **decision-making process** as a set of eight steps that begins with identifying a problem; it moves through selecting an alternative that can alleviate the problem and concludes with evaluating the decision's effectiveness. This process is as applicable to your decision about what you're going to do on spring break as it is to the decisions UPS executives are making as they deal with issues that could affect the organization's future profitability.

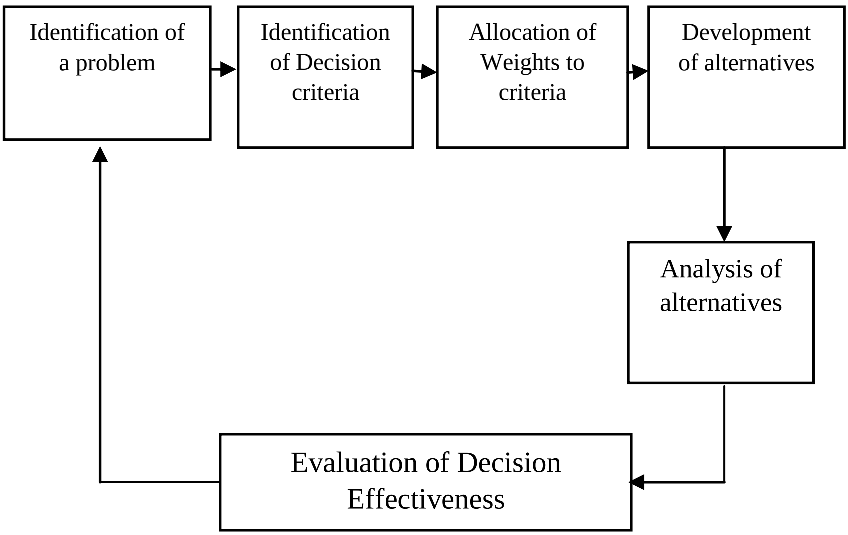

Figure 4.1 The Decision-Making Process

What Defines a Decision Problem?

Step 1. The decision-making process begins with the identification of a problem or, more specifically, a discrepancy between an existing and a desired state of affairs.3 Take the case of a sales manager for Pfizer. The manager is on the road a lot and spent nearly $6,000 on auto repairs over the past few years. Now her car has a blown engine and cost estimates indicate it's not economical to repair. Furthermore, convenient public transportation is unavailable.

So, we have a problem – a discrepancy between the manager's need to have a car that works and the fact that her current one doesn't. In our example, a blown engine is a clear signal to the manager that she needs a new car, but few problems are that obvious. In the real world, most problems don't come with neon signs identifying them as such. And problem identification is subjective. A manager who mistakenly solves the wrong problem perfectly is just as likely to perform poorly as the manager who fails to identify the right problem and does nothing.

So, how do managers become aware they have a problem? They have to make a comparison between current reality and some standard, which can be (1) past performance, (2) previously set goals, or (3) the performance of some other unit within the organization or in other organizations. In our car-buying example, the standard is past performance – a car that runs.

What Is Relevant in the Decision-Making Process?

Step 2. Once a manager has identified a problem that needs attention, the decision criteria that will be important in solving the problem must be identified. In our vehicle-buying example, the sales manager assesses the factors that are relevant in her decision, which might include criteria such as price, model (two-door or four-door), size (compact or intermediate), manufacturer (French, Japanese, South Korean, German, American), optional equipment (navigation system, side-impact protection, leather interior), and repair records. These criteria reflect what she thinks is relevant in her decision. Every decision maker has criteria – whether explicitly stated or not – that guide his or her decision making. Note that in this step in the decision-making process, what's not identified can be as important as what is because it's still guiding the decision. For instance, although the sales manager didn't consider fuel economy to be a criterion and won't use it to influence her choice of car, she had to assess that criteria before choosing to include or not include it in her relevant criteria.

How Does the Decision Maker Weight the Criteria and Analyze Alternatives?

Steps 3, 4, and 5. In many decision-making situations, the criteria are not all equally important. So, the decision maker has to allocate weights to the items listed in step 2 in order to give them their relative priority in the decision (step 3). A simple approach is to give the most important criterion a weight of 10 and then assign weights to the rest against that standard.

Thus, in contrast to a criterion that you gave a 5, the highest-rated factor is twice as important. The idea is to use your personal preferences to assign priorities to the relevant criteria in your decision and indicate their degree of importance by assigning a weight to each.

Figure lists the criteria and weights that our manager developed for her vehicle replacement decision.

Table 4.1

Important Criteria and Weights in a Car-Buying Decision

Criterion	Weight
Price	10
Interior comfort	8
Durability	5
Repair record	5
Performance	3
Handling	1

Then the decision maker lists the alternatives that could successfully resolve the problem (step 4). No attempt is made in this step to evaluate these alternatives, only to list them.6 Let's assume that our manager identifies 12 cars as viable choices: Jeep Compass, Ford Focus, Hyundai Elantra, Ford Fiesta SES, Volkswagen Golf, Toyota Prius, Mazda 3 MT, Kia Soul, BMW i3, Nissan Cube, Toyota Camry, and Honda Fit Sport MT.

Table 4.2

Assessment of Possible Car Alternatives

Alternatives	Initial price	Interior comfort	Durability	Repair record	Performance	Hand-ling	Total
Jeep Compass	2	10	8	7	5	5	37
Ford Focus	9	6	5	6	8	6	40
Hyundai Elantra	8	5	6	6	4	6	35
Ford Fiesta	9	5	6	7	6	5	38
Volskvagen Golf	5	6	9	1	7	7	44
Toyota Prius	10	5	6	4	3	3	31
Mazda 3	4	8	7	6	8	9	42
KIA Soul	7	6	8	6	5	6	38
BMW i3	9	7	6	4	4	7	37
Nissan Cube	5	8	5	4	10	10	42
Toyota Camry	6	5	10	10	6	6	43
Honda Fit Spot	8	6	6	5	7	8	40

Once the alternatives have been identified, the decision maker critically analyzes each one (step 5). How? By evaluating it against the criteria. The strengths and weaknesses of each alternative become evident as they're compared with the criteria and weights established in steps 2 and 3. Figure 4.3 shows the assessed values that the manager assigned each of her 12 alternatives after she had test-driven each car. Keep in mind that the ratings shown in Figure 4.2 are based on the assessment made by the sales manager. Again, we're using a scale of 1 to 10. Some assessments can be achieved in a relatively objective fashion. For instance, the purchase price represents the best price the manager can get online or from local dealers, and consumer magazines report data from owners on frequency of repairs. Others, like how will the car handles, are clearly personal judgments.

Personal judgments by a decision maker are reflected in
(1) the criteria chosen in step 2,
(2) the weights given to the criteria, and
(3) the evaluation of alternatives.

The influence of personal judgment explains why two car buyers with the same amount of money may look at two totally distinct sets of alternatives or even look at the same alternatives and rate them differently.

Figure 4.2 shows only an assessment of the 12 alternatives against the decision criteria; it does not reflect the weighting done in step 3. If one choice had scored 10 on every criterion, obviously you wouldn't need to consider the weights. Similarly, if all the weights were equal – that is, all the criteria were equally important to you – each alternative would be evaluated merely by summing up the appropriate lines in Figure 4.2. For instance, the Ford Fiesta SES would have a score of 38, and the Toyota Camry a score of 43. But if you multiply each alternative assessment against its weight, you get the figures in Figure 4.2. For instance, the Kia Soul scored a 40 on durability, which was determined by multiplying the weight given to durability [5] by the manager's appraisal of the car on this criterion [8]. The sum of these scores represents an evaluation of each alternative against the previously established criteria and weights.

The Volkswagen Golf, for example, has gone from first to third. Looking at the analysis, both initial price and interior comfort worked against the Volkswagen.

What Determines the Best Choice?

Step 6. Now it's time to choose the best alternative from among those assessed. Because we determined all the pertinent factors in the decision, weighted them appropriately, and identified and assessed the viable alternatives, this step is fairly simple. We merely choose the alternative that generated the highest score in step 5. In our vehicle example (Figure 4.3), the manager would choose the Toyota Camry. On the basis of the criteria identified, the weights given to the criteria, and her assessment of each car on the criteria, the Toyota scored highest [224 points] and, thus, became the best alternative.

Table 4.3

Evaluation of Car Alternatives: Assessment Criteria * Criteria Weight

Alternatives	Initial price		Interior comfort		Durability		Repair record		Performance		Handling		Total
Jeep Compass	2	**20**	10	**80**	8	**40**	7	**35**	5	**15**	5	**5**	**195**
Ford Focus	9	**90**	6	**48**	5	**25**	6	**30**	8	**24**	6	**6**	**223**
Hyundai Elantra	8	**80**	5	**40**	6	**30**	6	**30**	4	**12**	6	**6**	**198**
Ford Fiesta	9	**90**	5	**40**	6	**30**	7	**35**	6	**18**	5	**5**	**218**
Volskvagen Golf	5	**50**	6	**48**	9	**45**	1	**50**	7	**21**	7	**7**	**221**
Toyota Prius	10	**100**	5	**40**	6	**30**	4	**20**	3	**9**	3	**3**	**202**
Mazda 3	4	**40**	8	**64**	7	**35**	6	**30**	8	**24**	9	**9**	**202**
KIA Soul	7	**70**	6	**48**	8	**40**	6	**30**	5	**15**	6	**6**	**209**
BMW i3	9	**90**	7	**56**	6	**30**	4	**20**	4	**12**	7	**7**	**215**
Nissan Cube	5	**50**	8	**64**	5	**25**	4	**20**	10	**30**	10	**10**	**199**
Toyota Camry	6	**60**	5	**40**	10	**50**	10	**50**	6	**18**	6	**6**	**224**
Honda Fit Spot	8	**80**	6	**48**	6	**30**	5	**25**	7	**21**	8	**8**	**212**

What Happens in Decision Implementation?

Step 7. Although the choice process is completed in the previous step, the decision may still fail if it's not implemented properly (step 7). Therefore, this step, decision implementation, involves putting the decision into action. If others will be affected by the decision, implementation also includes conveying the decision to those affected and getting their commitment to it.7 *Want people to be committed to a decision?* Let them participate in the decision-making process. We'll discuss later in the chapter how groups can help a manager do this.

What Is the Last Step in the Decision Process?

Step 8. In the last step in the decision-making process, managers appraise the outcome of the decision to see *whether the problem was resolved*. Did the alternative chosen in step 6 and implemented in step 7 accomplish the desired result? For our sales manager, that means does she have a car that reliably works? Evaluating the results of a decision is part of the managerial control process, which we'll discuss in Chapter 14.

What Common Errors Are Committed in the Decision-Making Process?

When managers make decisions, they use their own particular style, and may use "rules of thumb," or heuristics, to simplify their decision making.8 Rules of thumb can be useful because they help make sense of complex, uncertain, and ambiguous information. However, even though managers may use rules of thumb, that doesn't mean those rules are reliable. Why? Because they may lead to errors and biases in processing and evaluating information. Figure 4.2 identifies 12 common decision errors and biases that managers make. Let's look briefly at each.

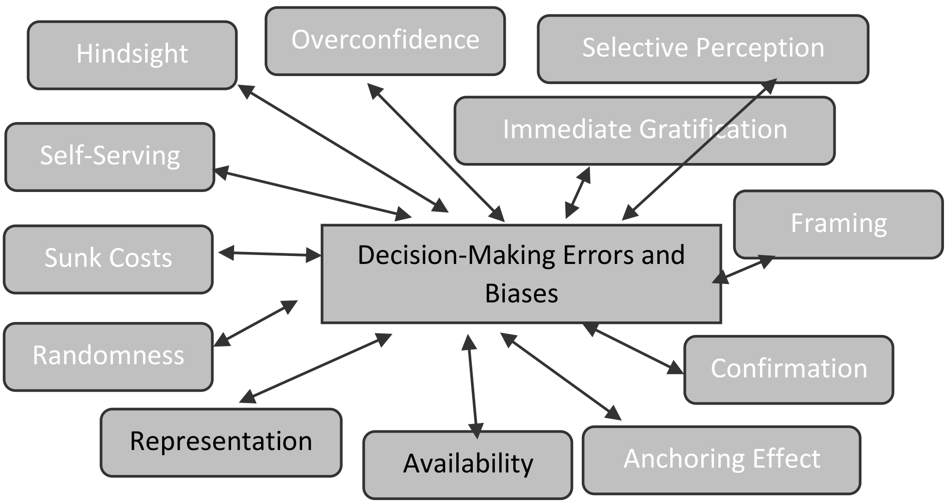

Figure 4.2 Common Decision-Making Errors and Biases

When decision makers tend to think they know more than they do or hold unrealistically positive views of themselves and their performance, they're Figureing the *over-confidence bias.* The *immediate gratification bias* describes decision makers who tend to want immediate rewards and to avoid immediate costs. For these individuals, decision choices that provide quick payoffs are more appealing than those in the future. The *anchoring effect* describes when decision makers fixate on initial information as a starting point and then, once set; fail to adequately adjust for subsequent information. First impressions, ideas, prices, and estimates carry unwarranted weight relative to information received later. When decision makers selectively organize and interpret events based on their biased perceptions, they're using the *selective perception bias*. This influences the information they pay attention to, the problems they identify, and the alternatives they develop. Decision makers who seek out information that reaffirms their past choices and discount information that contradicts past judgments Figure the *confirmation bias.* These people tend to accept at face value information that confirms their preconceived views and are critical and skeptical of information that challenges these views. The *framing bias* happens when decision makers select and highlight certain aspects of a situation while excluding others. By drawing attention to specific aspects of a situation and highlighting them, while at the same time downplaying or omitting other aspects, they distort what they see and create incorrect reference points. The *availability bias* occurs when decision makers tend to remember events that are the most recent and vivid in their memory.

The result? It distorts their ability to recall events in an objective manner and results in distorted judgments and probability estimates. When decision makers assess the likelihood of an event based on how closely it resembles other events or sets of events, that's the *representation bias.* Managers Figureing this bias draw analogies and see identical situations where they don't exist. The *randomness bias* describes when decision makers try to create meaning out of random events. They do this because most decision makers have difficulty dealing with chance even though random events happen to everyone and there's nothing that can be done to predict them. The *sunk costs error* takes place when decision makers forget that current choices can't correct the past. They incorrectly fixate on past expenditures of time, money, or effort in assessing choices rather than on future consequences. Instead of ignoring sunk costs, they can't forget them. Decision makers who are quick to take credit for their successes and to blame failure on outside factors are Figureing the *self-serving bias*. Finally, the *hindsight bias* is the tendency for decision makers to falsely believe that they would have accurately predicted the outcome of an event once that outcome is actually known.

How can managers avoid the negative effects of these decision errors and biases?

❶ Be aware of them and then don't use them!

❷ Pay attention to "how" decisions are made, try to identify heuristics being used, and critically evaluate how appropriate those are.

❸ Ask colleagues to help identify weaknesses in decision-making style and then work on improving those weaknesses.

What Types of Decisions and Decision-Making Conditions Do Managers Face?

Decision making in that type of environment is quite different from decision making done by a manager of a local Gap store. The types of problems managers face in decision-making situations often determine how it's handled.

Structured problem is a straightforward, familiar, and easily defined problem

Unstructured problem is a problem that is new or unusual for which information is ambiguous or incomplete

Decisions are also divided into two categories: programmed and nonprogrammed. Programmed, or routine, decisions are the most efficient way to handle structured problems.

Decisions are programmed to the extent that (1) they are repetitive and routine and (2) a specific approach has been worked out for handling them. Because the problem is well structured, the manager does not have to go to the trouble and expense of an involved decision process. Programmed decision making is relatively simple and tends to rely heavily on previous solutions. The develop-the-alternatives stage in the decision-making process is either nonexistent or given little attention. Why? Because once the structured problem is defined, its solution is usually self-evident or at least reduced to only a few alternatives that are familiar and that have proved successful in the past. In many cases, programmed decision making becomes decision making by precedent.

Managers simply do what they and others have done previously in the same situation. The damaged rim does not require the manager to identify and weight decision criteria or develop a long list of possible solutions.

For structured problems, use:
– Procedures
– Rules
– Policies

Procedures. A procedure is a series of interrelated sequential steps that a manager can use when responding to a well-structured problem. The only real difficulty is identifying the problem. Once the problem is clear, so is the procedure.

Rules. A rule is an explicit statement that tells a manager what he or she must – or must not – do. Rules are frequently used by managers who confront a structured problem because they're simple to follow and ensure consistency.

Policies. A third guide for making programmed decisions is a policy. It provides guidelines to channel a manager's thinking in a specific direction. The statement that "we promote from within, whenever possible" is an example of a policy.

When problems are unstructured, managers must rely on nonprogrammed decisions in order to develop unique solutions. Examples of nonprogrammed decisions include deciding whether to acquire another organization, deciding which global markets offer the most potential, or deciding whether to sell off an unprofitable division. Such decisions are unique and nonrecurring. When a manager confronts an unstructured problem, no cut-and-dried solution is available. A custom-made, nonprogrammed response is required.

The creation of a new organizational strategy is a nonprogrammed decision. This decision is different from previous organizational decisions because the issue is new; a different set of environmental factors exists, and other conditions have changed.

Figure 4.3 describes the relationship among types of problems, types of decisions, and level in the organization. Structured problems? Use programmed decision making. Unstructured problems? Use nonprogrammed decision making. Lower-level managers essentially confront familiar and repetitive problems so they most typically rely on programmed decisions such as standard operating procedures. However, as managers move up the organizational hierarchy, the problems they confront are likely to become less structured. Why? Because lower-level managers handle the routine decisions themselves and only pass upward decisions that they find unique or difficult. Similarly, managers pass down routine decisions to their employees so they can spend their time on more problematic issues.

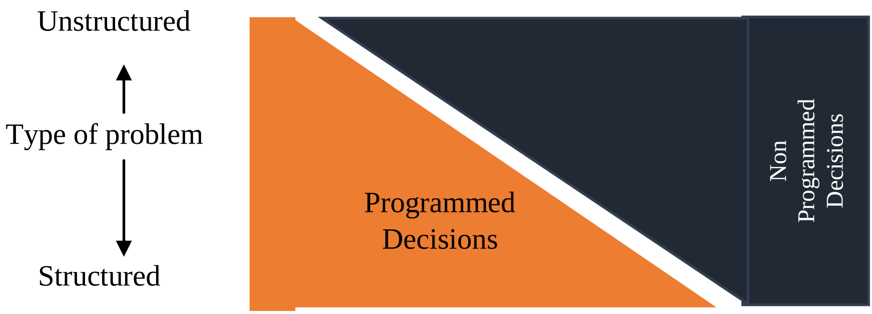

Figure 4.3 Types of Problems, Types of Decisions, and organizational Level

When making decisions, managers face three different conditions: certainty, risk, and uncertainty. Let's look at each. The ideal situation for making decisions is one of certainty, which is a situation where a manager can make accurate decisions because the outcome of every alternative is known. For example, when South Dakota's state treasurer decides where to deposit excess state funds, he knows exactly the interest rate being offered by each bank and the amount that will be earned on the funds. He is certain about the outcomes of each alternative. As you might expect, most managerial decisions aren't like this.

Far more common is a situation of risk, conditions in which the decision maker is able to estimate the likelihood of certain outcomes. Under risk, managers have historical data from past personal experiences or secondary information that lets them assign probabilities to different alternatives. What happens if you face a decision where you're not certain about the outcomes and can't even make reasonable probability estimates? We call this condition uncertainty. Managers do face decision-making situations of uncertainty. Under these conditions, the choice of alternative is influenced by the limited amount of available information and by the psychological orientation of the decision maker.

Many decisions in organizations, especially important decisions that have far-reaching effects on organizational activities and people, are typically made in groups. It's a rare organization that doesn't at some time use committees, task forces, review panels, work teams, or similar groups as vehicles for making decisions.

What Are the Advantages and Disadvantages of group Decision Making?

Advantages of Group Decisions

• *More complete information*.

• *Diversity of experiences and perspectives* brought to the decision process.

• *More alternatives generated* due to greater quantity and diversity of information, especially when group members represent different specialties.

• *Increased acceptance of a solution* by having people who will be affected by a certain solution and who will help implement it participate in the decision.

• *Increased legitimacy* because the group decision-making process is consistent with democratic ideals, and decisions made by groups may be perceived as more legitimate than those made by a single person, which can appear autocratic and arbitrary

Disadvantages of Group Decisions

Time-consuming – assembling the group, getting decisions made.

• *Minority domination* can unduly influence final decision because group members are never perfectly equal – they differ in rank, experience, knowledge about the problem, influence on other members, verbal skills, assertiveness, etc.

• *Ambiguous responsibility*. Group members share responsibility, BUT who is actually responsible for final outcome? Individual decision – it's clear. Group decision – it's not.

• *Pressures to conform*. Have you ever been in a group where your views didn't match the group's consensus views and you remained silent? Maybe others felt the same way and also remained silent. This is what Irving Janis called groupthink, a form of conformity in which group members withhold deviant, minority, or unpopular views in order to give the *appearance of agreement*.

Brainstorming is a relatively simple idea-generating process that specifically encourages any and all alternatives while withholding criticism of those alternatives. In a typical brainstorming session, a half-dozen to a dozen people sit around a table. Of course, technology is changing where that "table" is. The group leader states the problem in a clear manner that is understood by all participants. Members then shout out, offer up, fire off, "freewheel" as many alternatives as they can in a given time.

Questions

1. Describe the decision-making process
2. Explain the three approaches managers can use to make decisions
3. Describe the types of decisions and decision-making conditions managers face
4. Draw and describe Types of Problems, Types of Decisions, and organizational Level
5. Discuss contemporary issues in managerial decision making

Discuss Questions

1. Explain how a manager might deal with making decisions under conditions of uncertainty.

2. Why do companies invest in nurturing group decision making rather than individual decision making?

3. Explain the advantages and disadvantages of both techniques.

4. Find two examples each of procedures, rules, and policies. Bring your examples to class and be prepared to share them.

5. Managers make decisions by planning, organizing, leading, and controlling. Which of these skills is more important for a manager to master in order to be a competent manager?

Case for critical analysis

Horseracing has rich traditions dating back to the firs traces in 4500 BC and the early civilizations of Central Asia, the Mediterranean, and Europe.62 Once considered the "Sport of Kings", today's horse racing has evolved in to multi-billion dollar entertainment industry. Owners, jockeys, trainers, and horses travel the globe in search for a win. Crossing the finish line in one of the top three places can produce significant earnings from the modest racing circuits in small cities to the extravagant payouts of the most prestigious venues. In the Hong Kong circuit alone, winning owners can earn up to 60% of prize money ranging from $100,000 to over $3 million per weekly race over a season.

A winning jockey and trainer can easily earn 10% each from an owner's winnings. Fans from all walks of life share in the enthusiasm as they fill massive grand stands and hotel rooms. Hong Kong's world class Happy Valley Racecourse can draw up to 55,000 spectators on any given night. The Dubai Cup with the largest purse in all of horseracing at a $10,000,000 attracts not only the top horses in the world but entices tourists to visit the United Arab Emirates eager to experience the spectacular Meydon Hotel overlooking the Dubai racecourse. And the Kentucky Derby continues to draw record-breaking crowds to the U.S. city of Louisville where ticket prices for this spectacle can range from $43 for general admission tickets to $11,000 for an upper clubhouse seat.

As the big business of horse racing continues to grow, risk and uncertainty in this high stakes affair looms heavy for its decision makers. Each decision can be the difference between winning and losing. Not just a sport for pleasure, owners with small and large pocketbooks seek returns on their investment. And a jockey's livelihood for the month can be decided in a matter of seconds.

An owner must assess whether to invest in the potential of young colt or buy an experienced mare. Pedigree, age, and past performance are just a few factors alongside sentiment. Tradition can influence a buyer to seek a thoroughbred from England's hallowed breeding grounds in Newmarket or to lean toward the bloodline of an Arabian. Evaluating the return on investment must be weighed against the cost of ownership including training and boarding fees.

Decisions do not just rest in ownership. A jockey makes split second decisions during a race while galloping at speeds exceeding 35mph. Not knowing a horse's tendencies or using the wrong race strategy could lead to life threatening injury to horse or rider. A well prepared jockey studies course dimensions and the patterns of competitors. Horse preparation relies on the daily decision of trainer who must decide optimal diets and appropriate equipment such as proper fitting horseshoes. This extends to exercise routines monitored by data collected via smartphone apps and tracking of graphical data.

The rationality of science continues to permeate the sport. Race teams seek competitive advantage via genetic testing and aerobic measurements. Yet, at the end of the day, many decisions are still made by one's love and feel for the horse.

Discussion Questions

1. What are some examples of rational and intuitive decision making that you may see in horse racing?
2. A jockey from Melbourne, Australia is swayed by a friend to race at the last minute in Happy Valley, Hong Kong without a track preview. How would bounded rationality affect the jockey who normally races in Australia?
3. What decision-making approaches could an owner use to help decide what type of horse to buy?
4. Suppose some trainers meet at a conference and view a presentation about an organic new feed that naturally improves muscle development in race horses. A trainer who did not attend the presentation hears each trainer who left the presentation signed up for a month's supply. Then the trainer decides to follow suit without

gathering any evidence. What type of decision bias would you consider this to be?

Essay's themes

1. Design thinking as an approach management problems
2. The most popular techniques to make group decisions
3. How Does national Culture Affect Managers' Decision Making?

PART 5. MANAGERIAL PLANNING AND GOAL SETTING

One of the primary responsibilities of managers is to decide where the organization should go in the future and how to get it there. In some organizations, typically small ones, planning is informal. In others, managers follow a well-defined planning framework. The company establishes a basic mission and periodically develops formal goals and plans for carrying it out. Large organizations such as Royal Dutch/Shell, IBM, and United Way undertake a comprehensive planning exercise each year – reviewing their missions, goals, and plans to meet environmental changes or the expectations of important stakeholders such as the community, owners, or customers.

Planning is considered the most fundamental. Everything else stems from planning. Yet planning also is the most controversial management function. How do managers plan for the future in a constantly changing environment?

A **goal** is a desired future state that the organization attempts to realize. Goals are important because organizations exist for a purpose, and goals define and state that purpose. A **plan** is a blueprint for goal achievement and specifies the necessary resource allocations, schedules, tasks, and other actions. Goals specify future ends; plans specify today's means. The concept of **planning** usually incorporates both ideas; it means determining the organization's goals and defining the means for achieving them.

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Figure 5.1 Overview of goals and plans

Levels of Goals and Plans

Figure 5.1 illustrates the levels of goals and plans in an organization. The planning process starts with a formal mission that defines the basic purpose of the organization, especially for external audiences. The mission is the basis for the strategic (company) level of goals and a plan, which in turn shapes the tactical (divisional) level and the operational (departmental) level. Top managers are typically responsible for establishing *strategic* goals and plans that reflect a commitment to both organizational efficiency and effectiveness, as described in Chapter 1. *Tactical* goals and plans are the responsibility of middle managers, such as the heads of major divisions or functional units. A division manager will formulate tactical plans that focus on the major actions the division must take to fulfill its part in the strategic plan set by top management. *Operational* plans identify the specific procedures or processes needed at lower levels of the organization, such as individual departments and employees. Front-line managers and supervisors develop operational plans that focus on specific tasks and processes and that help meet tactical and strategic goals. Planning at each level supports the other levels.

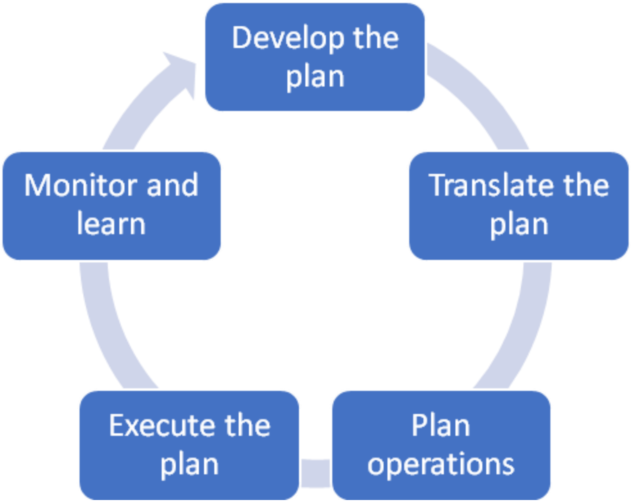

Figure 5.2 The Organizational Planning Process

The Organizational Planning Process

The overall planning process, illustrated in Figure 5.2, prevents managers from thinking merely in terms of day-to-day activities. The process begins when managers develop the overall plan for the organization by clearly defining mission and strategic (company-level) goals. Second, they translate the plan into action, which includes defining tactical plans and objectives, developing a strategic map to align goals, formulating contingency and scenario plans, and identifying intelligence teams to analyze major competitive issues. Third, managers lay out the operational factors needed to achieve goals. This involves devising operational goals and plans, selecting the measures and targets that will be used to determine if things are on track, and identifying stretch goals and crisis plans that might need to be put into action. Tools for executing the plan include management by objectives, performance dashboards, single-use plans, and decentralized responsibility. Finally, managers periodically review plans to learn from results and shift plans as needed, starting a new planning cycle.

All **managers plan.**

Planning is often called the primary management function because it establishes the basis for all the other things managers do as they organize, lead, and control. What is meant by the term *planning?* As we said in Chapter 1, planning involves defining him organization's objectives or goals, establishing an overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities. It's concerned with ends (*what* is to be done) as well as with means (*how* it's to be done).

Planning can be further defined in terms of whether it's *formal* or *informal.* All managers plan, even if it's only informally. In informal planning, very little, if anything, is written down. What is to be accomplished is in the heads of one or a few people. Furthermore, the organization's goals are rarely verbalized. Informal planning generally describes the planning that takes place in many smaller businesses. The owner-manager has an idea of where he or she wants to go and how he or she expects to get there. The planning is general and lacks continuity. Of course, you'll see informal planning in some large organizations, while some small businesses will have sophisticated formal plans.

Organizational Mission

At the top of the goal hierarchy is the **mission** – the organization's reason for existence. The mission describes the organization's values, aspirations, and reason for being. A well-defined mission is the basis for development of all subsequent goals and plans. Without a clear mission, goals and plans may be developed haphazardly and not take the organization in the direction it needs to go. The formal **mission statement** is a broadly stated definition of purpose that distinguishes the organization from others of a similar type. A well-designed mission statement can enhance employee motivation and organizational performance. The content of a mission statement often focuses on the market and customers and identifies desired fields of endeavor. Some mission statements describe company characteristics such as corporate values, product quality, location of facilities, and attitude toward employees. The mission statement of Volvo Group is shown in Figure 5.3. Such short, straightforward mission statements describe basic business activities and purposes as well as the values that guide the company.

Goals and Plans

Strategic goals, sometimes called *official goals*, are broad statements describing where the organization wants to be in the future. These goals pertain to the organization as a whole rather than to specific divisions or departments. **Strategic plans** define the action steps by which the company intends to attain strategic goals. The strategic plan is the blueprint that defines the organizational activities and resource allocations – in the form of cash, personnel, space, and facilities – required for meeting these targets. Strategic planning tends to be long term and may define organizational action steps from two to five years in the future. The purpose of strategic plans is to turn organizational goals into realities within that time period. After strategic goals are formulated, the next step is defining **tactical goals**, which are the results that major divisions and departments within the organization intend to achieve. These goals apply to middle management and describe what major subunits must do for the organization to achieve its overall goals.

Tactical plans are designed to help execute the major strategic plans and to accomplish a specific part of the company's strategy. Tactical plans typically have a shorter time horizon than strategic plans – over the next year or so. The word *tactical* originally comes from the military. In a business or nonprofit organization, tactical plans define what major departments and organizational subunits will do to implement the organization's strategic plan. For example, the overall strategic plan of a large florist might involve becoming the number one telephone and Internet-based purveyor of flowers, which requires high-volume sales during peak seasons such as Valentine's Day and Mother's Day. Human resource managers will develop tactical plans to ensure that the company has the dedicated order takers and customer service representatives it needs during these critical periods. Tactical plans might include cross-training employees so they can switch to different jobs as departmental needs change, allowing order takers to transfer to jobs at headquarters during off-peak times to prevent burnout, and using regular order takers to train and supervise temporary workers during peak seasons. These actions help top managers implement their overall strategic plan. Normally, it is the middle manager's job to take the broad strategic plan and identify specific tactical plans. The results expected from departments, work groups, and individuals are the **operational goals**. They are precise and measurable.

Lower levels of the organization to specify action steps toward achieving operational goals and to support tactical plans. The operational plan is the department manager's tool for daily and weekly operations. Goals are stated in quantitative terms, and the department plan describes how goals will be achieved. Operational planning specifies plans for department managers, supervisors, and individual employees. Schedules are an important component of operational planning.

Aligning Goals with Strategy Maps

Effectively designed organizational goals are aligned; that is, they are consistent and mutually supportive so that the achievement of goals at low levels permits the attainment of high-level goals. Organizational performance is an outcome of how well these interdependent elements are aligned, so that individuals, teams, departments, and so forth are working in concert to attain specific goals that ultimately help the organization achieve high performance and fulfill its mission.

An increasingly popular technique for achieving *goal alignment* is the strategy map. A **strategy map** is a visual representation of the key drivers of an organization's success and shows how specific goals and plans in each area are linked. The strategy map provides a powerful way for managers to see the cause-and-effect relationships among goals and plans. The simplified strategy map illustrates four key areas that contribute to a firm's long-term success – learning and growth, internal processes, customer service, and financial performance – and how the various goals and plans in each area link to the other areas. The idea is that learning and growth goals serve as a foundation to help achieve goals for excellent internal business processes. Meeting business process goals, in turn, enables the organization to meet goals for customer service and satisfaction, which helps the organization achieve its financial goals and optimize its value to all stakeholders.

Criteria for Effective Goals

First and foremost, goals need to be *specific and measurable.* When possible, operational goals should be expressed in quantitative terms, such as increasing profits by 2 percent, having zero incomplete sales order forms, or increasing average teacher effectiveness ratings from 3.5 to 3.7. Not all goals can be expressed in numerical terms, but vague goals have little motivating power for employees. By necessity, goals are qualitative as well as quantitative. The important point is that the goals be precisely defined and allow for measurable progress. Effective goals also have a *defined time period* that specifies the date on which goal attainment will be measured. School administrators might set a deadline for improving teacher effectiveness ratings, for instance, at the end of the 2009 school term. When a goal involves a two- to three-year time horizon, setting specific dates for achieving parts of it is a good way to keep people on track toward the goal.

Goals should *cover key result areas.* Goals cannot be set for every aspect of employee behavior or organizational performance; if they were, their sheer number would render them meaningless. Instead, managers establish goals based on the idea of *choice and clarity*. A few carefully chosen, clear, and direct goals can more powerfully focus organizational attention, energy, and resources.17 Managers should set goals that are *challenging but realistic.* When goals are unrealistic, they set employees up for failure and lead to a decrease in employee morale. However, if goals are too easy, employees may not feel motivated. Goals should also be *linked to rewards.* The ultimate impact of goals depends on the extent to which salary increases, promotions, and awards are based on goal achievement. Employees pay attention to what gets noticed and rewarded in the organization.

Management by Objectives

Described by famed management scholar Peter Drucker in his 1954 book, *The Practice of Management*, management by objectives has remained a popular and compelling method for defining goals and monitoring progress toward achieving them. **Management by objectives (MBO)** is a system whereby managers and employees define goals for every department, project, and person and use them to monitor subsequent performance.19 A model of the essential steps of the MBO system is presented in Figure 5.2.

Four major activities make MBO successful:

1. ***Set goals.*** Setting goals involves employees at all levels and looks beyond day-to-day activities to answer the question "What are we trying to accomplish?" Managers heed the criteria of effective goals described in the previous section and make sure to assign responsibility for goal accomplishment. However, goals should be jointly derived. Mutual agreement between employee and supervisor creates the strongest commitment to achieving goals. In the case of teams, all team members may participate in setting goals.

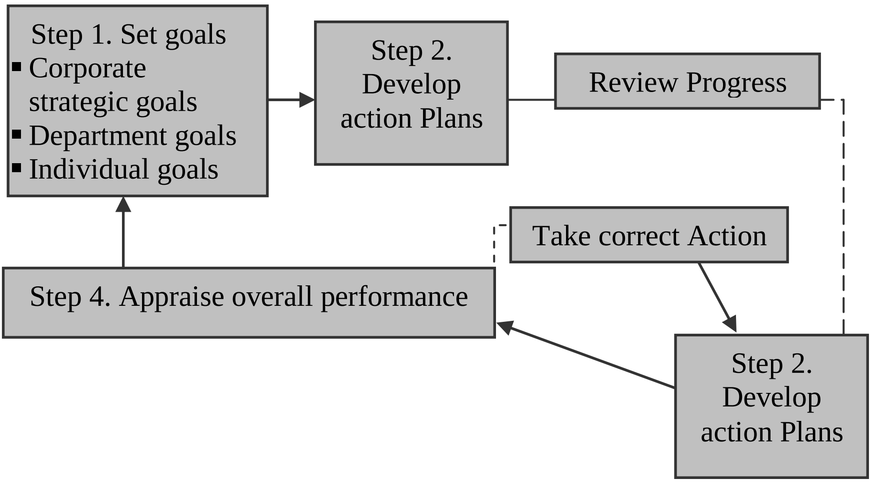

Figure 5.3 Model of the MBO Process

2. ***Develop action plans.*** An *action plan* defines the course of action needed to achieve the stated goals. Action plans are made for both individuals and departments.

3. ***Review progress.*** A periodic progress review is important to ensure that action plans are working. These reviews can occur informally between managers and subordinates, where the organization may wish to conduct three-, six-, or nine-month reviews during the year. This periodic checkup allows managers and employees to see whether they are on target or whether corrective action is needed. Managers and employees should not be locked into

predefined behavior and must be willing to take whatever steps are necessary to produce meaningful results. The point of MBO is to achieve goals. The action plan can be changed whenever goals are not being met.

4. ***Appraise overall performance.*** The final step in MBO is to carefully evaluate whether annual goals have been achieved for both individuals and departments. Success or failure to achieve goals can become part of the performance appraisal system and the designation of salary increases and other rewards. The appraisal of departmental and overall corporate performance shapes goals for the next year. The MBO cycle repeats itself on an annual basis. The benefits of the MBO process can be many. Corporate goals are more likely to be achieved when they focus manager and employee efforts. Using a performance measurement system, such as MBO, helps employees see how their jobs and performance contribute to the business, giving them a sense of ownership and commitment. Performance is improved when employees are committed to attaining the goal, are motivated because they help decide what is expected, and are free to be resourceful. Goals at lower levels are aligned with and enable the attainment of goals at top management levels.

Problems with MBO occur when the company faces rapid change. The environment and internal activities must have some stability for performance to be measured and compared against goals. Setting new goals every few months allows no time for action plans and appraisal to take effect. Also, poor employer-employee relations reduce effectiveness because of an element of distrust that may be present between managers and workers. Sometimes goal "displacement" occurs if employees focus exclusively on their operational goals to the detriment of other teams or departments. Overemphasis on operational goals can harm the attainment of overall goals. Another problem arises in mechanistic organizations characterized by rigidly defined tasks and rules that may not be compatible with MBO's emphasis on mutual determination of goals by employee and supervisor. In addition, when participation is discouraged, employees will lack the training and values to jointly set goals with employers. Finally, if MBO becomes a process of filling out annual paperwork rather than energizing employees to achieve goals, it becomes an empty exercise.

QUESTIONS

1. Define goals and plans and explain the relationship between them.

2. Draw and describe model of The Organizational Planning Process

3. Draw and describe Managerial Planning process

4. Explain the concept of organizational mission and how it influences goal setting and planning.

5. Describe the types of goals an organization should have and how managers use strategy maps to align goals.

6. Define the characteristics of effective goals.

7. Draw and describe MBO Benefits and Problems

8. Describe the four essential steps in the management by objectives (MBO) process.

9. Explain the difference between single-use plans and standing plans

10. Draw and describe Major Types of Single-Use and Standing Plans

11. Draw and describe Model of the MBO Process

12. Draw and describe A Strategy Map for Aligning Goals

DISCUSSION QUESTIONS

1. What strategic plans could the college or university at which you are taking this management course adopt to compete for students in the marketplace? Would these plans depend on the school's goals?
3. One of the benefits of a strategy map is that goals and how they are linked can be clearly communicated to everyone in the organization. Does a minimum wage maintenance worker in a hospital really need to understand any goals beyond keeping the place clean? Discuss

2. How do you think planning in today's organizations compares to planning 25 years ago? Do you think planning becomes more important or less important in a world where everything is changing fast and crises are a regular part of organizational life? Why?

CASE FOR CRITICAL ANALYSIS

Nielsen Media Research

David Calhoun left a job he loved as a star executive at General Electric to step into a mess as CEO of the A. C. Nielsen Corporation. His immediate challenge: The media research unit, which is under heavy f re from television clients such as NBC and CBS for chronic delays in reporting television ratings. Nielsen held a conference call with major clients acknowledging the delays and promising to do better, but the following Monday, the company again failed to report any ratings at all for the previous day. Nielson was not delivering data to customers as promised. What's the big deal? Calhoun and chief of research Susan Whiting know that about $70 billion a year in advertising revenues for the television industry depends on Nielsen ratings. Viewers might think TV networks are in the business of providing entertainment, but management's primary goal is providing eyeballs for advertisers. When television managers and advertisers don't get timely, accurate data from Nielsen, they're shooting in the dark with decisions about how to allocate resources. Daily meetings at some companies are scheduled based on getting the information from Nielsen when promised.

"There is so much revenue involved over which we have no quality control," said Alan Wurtzel, president of research for NBC. "We don't just use this data for analytical purposes. This is the currency of the business." Calhoun and other top managers are analyzing what went wrong at Nielsen. Originated in 1923 to perform surveys of the production of industrial equipment, Nielsen became a household name when it launched its television ratings system in 1950. More than 60 years later, Nielsen still functions as a near-monopoly in the ratings business. Yet the company could be facing a serious threat from cable and satellite companies that are working on a way to get set-top boxes to provide real-time TV viewing data to rival Nielsen's. Managers see several factors involved in the problems at Nielsen, but the biggest one is that the amount of data the company processes doubled in a year, overloading computer servers and straining the company's human systems. The increase has come both because of changes in how people are watching television, such as over the Internet and other digital devices and in the amount of information networks want. As the television business gets cut into thinner slices, clients need even more precise data to make good decisions. Nielsen is pursuing a strategy it calls “Anytime, Anywhere Media Measurement” to stay relevant and address new competition, but it has to get its quality problems fixed fast. Clients understand the strain, but they have little sympathy. They want to know why Nielsen managers didn’t anticipate the spike in data demands and plan accordingly.

Questions

1. Where do you think the problems lie at Nielsen? For example, are they primarily with the company’s strategic goals and plans, tactical goals and plans, or operational goals and plans? With alignment of goals and plans?
2. Do you think developing a strategy map would be a good idea for Nielsen? Why or why not?
3. If you were David Calhoun, what kind of planning processes might you implement right now to fix this problem?

Essay’s themes

1. Describe and explain the importance of contingency planning in today’s environment
2. Describe and explain the importance of scenario building
3. Describe and explain the importance of crisis planning in today’s environment
4. Summarize the guidelines for high-performance planning in a fastchanging environment

PART 6. DESIGNING ADAPTIVE ORGANIZATIONS

A manager’s work is influenced by how the company is organized. New managers are typically more comfortable and more effective working in an organization system that is compatible with their leadership beliefs. Yet all organizations wrestle with the question of structural design, and reorganization often is necessary to reflect a new strategy, changing market conditions, or innovative technology. Good managers understand and learn to work within a variety of structural configurations.

Organizing is the deployment of organizational resources to achieve strategic goals. The deployment of resources is reflected in the organization's division of labor into specific departments and jobs, formal lines of authority, and mechanisms for coordinating diverse organization tasks. Organizing is important because it follows from strategy. Strategy defines *what* to do; organizing defines *how* to do it. Structure is a powerful tool for reaching strategic goals, and a strategy's success often is determined by its f t with organizational structure.

Organizing the vertical structure

The organizing process leads to the creation of organization structure, which defines how tasks are divided and resources deployed. **Organization structure** is defined as: (1) the set of formal tasks assigned to individuals and departments; (2) formal reporting relationships, including lines of authority, decision responsibility, number of hierarchical levels, and span of managers' control; and (3) the design of systems to ensure effective coordination of employees across departments.3 Ensuring coordination across departments is just as critical as defining the departments to begin with. Without effective coordination systems, no structure is complete.

The set of formal tasks and formal reporting relationships provides a framework for vertical control of the organization. The characteristics of vertical structure are portrayed in the **organization chart**, which is the visual representation of an organization's structure.

A sample organization chart for a water bottling plant is illustrated in Figure 5.1. The plant has four major departments – accounting, human resources, production, and marketing. The organization chart delineates the chain of command, indicates departmental tasks and how they f t together, and provides order and logic for the organization. Every employee has an appointed task, line of authority, and decision responsibility.

Work Specialization

Organizations perform a wide variety of tasks. A fundamental principle is that work can be performed more efficiently if employees are allowed to specialize. **Work specialization**, sometimes called *division of labor,* is the degree to which organizational tasks are subdivided into separate jobs. Work specialization in Figure 5.1 is illustrated by the separation of production tasks into bottling, quality control, and maintenance. Employees within each department perform only the tasks relevant to their specialized function. When work specialization is extensive, employees specialize in a single task. Jobs tend to be small, but they can be performed efficiently. Work specialization is readily visible on an automobile assembly line where each employee performs the same task over and over again. It would not be efficient to have a single employee build the entire automobile, or even perform a large number of unrelated jobs

Chain of Command

The **chain of command** is an unbroken line of authority that links all persons in an organization and shows who reports to whom. It is associated with two underlying principles. *Unity of command* means that each employee is held accountable to only one supervisor. The *scalar principle* refers to a clearly defined line of authority in the organization that includes all employees. Authority and responsibility for different tasks should be distinct. All persons in the organization should know to whom they report as well as the successive management levels all the way to the top. In Figure 6.1, the payroll clerk reports to the chief accountant, who in turn reports to the vice president, who in turn reports to the company president.

Authority, Responsibility, and Delegation The chain of command illustrates the authority structure of the organization. **Authority** is the formal and legitimate right of a manager to make decisions, issue orders, and allocate resources to achieve organizationally desired outcomes. Authority is distinguished by three characteristics:

1. ***Authority is vested in organizational positions, not people.*** Managers have authority because of the positions they hold, and other people in the same positions would have the same authority.

2. ***Authority is accepted by subordinates.*** Although authority flows top-down through the organization's hierarchy, subordinates comply because they believe that managers have a legitimate right to issue orders. The *acceptance theory of authority* argues that a manager has authority only if subordinates choose to accept his or her commands. If subordinates refuse to obey because the order is

outside their zone of acceptance, a manager's authority disappears.6

3. ***Authority flows down the vertical hierarchy.*** Positions at the top of the hierarchy are vested with more formal authority than are positions at the bottom. Responsibility is the flip side of the authority coin. **Responsibility** is the duty to perform the task or activity as assigned. Typically, managers are assigned authority commensurate with responsibility. When managers have responsibility for task outcomes but little authority, the job is possible but diff cult. They rely on persuasion and luck. When managers have authority exceeding responsibility, they may become tyrants, using authority toward frivolous outcomes.

Accountability is the mechanism through which authority and responsibility are brought into alignment. **Accountability** means that the people with authority and responsibility are subject to reporting and justifying task outcomes to those above them in the chain of command. For organizations to function well, everyone needs to know what they are accountable for and accept the responsibility and authority for performing it. Accountability can be built into the organization structure. For example, at Whirlpool, incentive programs tailored to different hierarchical levels provide strict accountability. Performance of all managers is monitored, and bonus payments are tied to successful outcomes. Another example comes from Caterpillar Inc., which got hammered by new competition in the mid-1980s and reorganized to build in accountability.

Delegation is the process managers use to transfer authority and responsibility to positions below them in the hierarchy. Most organizations today encourage managers to delegate authority to the lowest possible level to provide maximum flexibility to meet customer needs and adapt to the environment. However, as at Caterpillar, many managers find delegation diff cult. When managers can't delegate, they undermine the role of their subordinates and prevent people from doing their jobs effectively.

Line and Staff Authority An important distinction in many organizations is between line authority and staff authority, reflecting whether managers work in line or staff departments in the organization's structure. *Line departments* perform tasks that reflect the organization's primary goal and mission. In a software company, line departments make and sell the product. In an Internet-based company, line departments would be those that develop and manage online offerings and sales. *Staff departments* include all those that provide specialized skills in support of line departments. Staff departments have an advisory relationship with line departments and typically include marketing, labor relations, research, accounting, and human resources.

Line authority means that people in management positions have formal authority to direct and control immediate subordinates. **Staff authority** is narrower and includes the right to advise, recommend, and counsel in the staff specialists' area of expertise. Staff authority is a communication relationship; staff specialists advise managers in technical areas. For example, the finance department of a manufacturing firm would have staff authority to coordinate with line departments about which accounting forms to use to facilitate equipment purchases and standardize payroll services.

The average span of control used in an organization determines whether the structure is tall or fat. A **tall structure** has an overall narrow span and more hierarchical levels. A **fat structure** has a wide span, is horizontally dispersed, and has fewer hierarchical levels.

Having too many hierarchical levels and narrow spans of control is a common structural problem for organizations. The result may be routine decisions that are made too high in the organization, which pulls higher-level executives away from important long-range strategic issues, and it limits the creativity and innovativeness of lower-level managers in solving problems. The trend in recent years has been toward wider spans of control as a way to facilitate delegation. Figure 6.2 illustrates how an international metals company was reorganized. The multilevel set of managers shown in panel *a* was replaced with ten operating managers and nine staff specialists reporting directly to the CEO, as shown in panel *b*. The CEO welcomed this wide span of 19 management subordinates because it f t his style, his management.

Tall structure A management structure characterized by an overall narrow span of management and relatively large number of hierarchical levels. **Flat structure** A management structure characterized by an overall broad span of control and relatively few hierarchical levels.

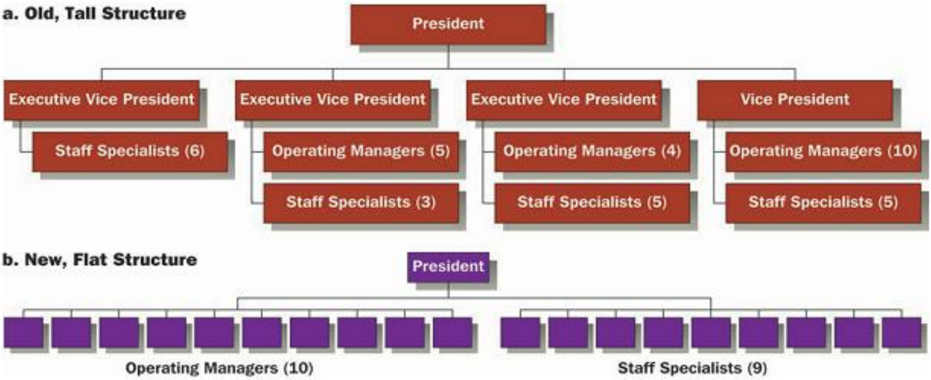

Figure 6.1 Reorganization to Increase Span of Management for President of a Company

Centralization and Decentralization

Centralization and decentralization pertain to the hierarchical level at which decisions are made. **Centralization** means that decision authority is located near the top of the organization. With **decentralization**, decision authority is pushed downward to lower organization levels. Organizations may have to experiment to fend the correct hierarchical level at which to make decisions. For example, most large school systems are highly centralized. However, a study by William Ouchi found that three large urban school systems that shifted to a decentralized structure giving school principals and teachers more control over staff, scheduling, and teaching methods and materials performed better and more efficiently than centralized systems of similar size.

In the United States and Canada, the trend over the past 30 years has been toward greater decentralization of organizations. Decentralization is believed to relieve the burden on top managers, make greater use of employees' skills and abilities, ensure that decisions are made close to the action by well-informed people, and permit more rapid response to external changes. However, this trend does not mean that every organization should decentralize all decisions. Managers should diagnose the organizational situation and select the decision-making level that will best meet the organization's needs. Factors that typically influence centralization versus decentralization are as follows:

1. ***Greater change and uncertainty in the environment are usually associated with decentralization.*** A good example of how decentralization can help cope with rapid change and uncertainty occurred following Hurricane Katrina. Mississippi Power restored power in just 12 days thanks largely to a decentralized management system that empowered people at the electrical substations to make rapid on-the-spot decisions.16

2. ***The amount of centralization or decentralization should f t the firm's strategy.*** Top executives at New York City Transit are decentralizing the subway system to let managers of individual subway lines make almost every decision about what happens on the tracks, in the trains, and in the stations. Decentralization fits the strategy of responding faster and more directly to customer complaints or other problems. Previously, a request to fix a leak causing slippery conditions in a station could languish for years because the centralized system slowed decision making to a crawl. 17 Taking the opposite approach, Procter & Gamble recentralized some of its operations to take a more focused approach and leverage the giant company's capabilities across business units.

3. ***In times of crisis or risk of company failure, authority may be centralized at the top.*** When Honda could not get agreement among divisions about new car models, President Nobuhiko Kawamoto made the decision himself.

Departmentalization

Another fundamental characteristic of organization structure is **departmentalization**, which is the basis for grouping positions into departments and departments into the total organization. Managers make choices about how to use the chain of command to group people together to perform their work. Five approaches to structural design reflect different uses of the chain of command in departmentalization, as illustrated in Figure 6.2. The functional, divisional, and matrix are traditional approaches that rely on the chain of command to define departmental groupings and reporting relationships along the hierarchy. Two innovative approaches are the use of teams and virtual networks, which have emerged to meet changing organizational needs in a turbulent global environment.

Figure 6.2 shows a simplified continuum that illustrates how different structural approaches are associated with strategy and the environment. The pure functional structure is appropriate for achieving internal efficiency goals in a stable environment. The vertical functional structure uses task specialization and a strict chain of command to gain efficient use of scarce resources, but it does not enable the organization to be flexible or innovative. In contrast, horizontal teams are appropriate when the primary goal is innovation and the organization needs flexibility to cope with an uncertain environment. Each team is small, is able to be responsive, and has the people and resources necessary for performing its task. The flexible horizontal structure enables organizations to differentiate themselves and respond quickly to the demands of a shifting environment but at the expense of efficient resource use.

Figure 6.2 also illustrates how other forms of structure represent intermediate steps on the organization's path to efficiency or innovation. The functional structure with cross-functional teams and project managers provides greater coordination and flexibility than the pure functional structure. The divisional structure promotes differentiation because each division can focus on specific products and customers, although divisions tend to be larger and less flexible than small teams. Figure 6.2 does not include all possible structures, but it illustrates how structures can be used to facilitate the organization's strategic goals.

QUESTIONS

1. Draw and explain Five Approaches to Structural Design
2. Discuss the fundamental characteristics of organizing, including such concepts as
3. Define work specialization, chain of command, span of management, and centralization versus decentralization.
4. Explain why organizations need coordination across departments and hierarchical levels, and describe mechanisms for achieving coordination.
5. Identify how structure can be used to achieve an organization's strategic goals

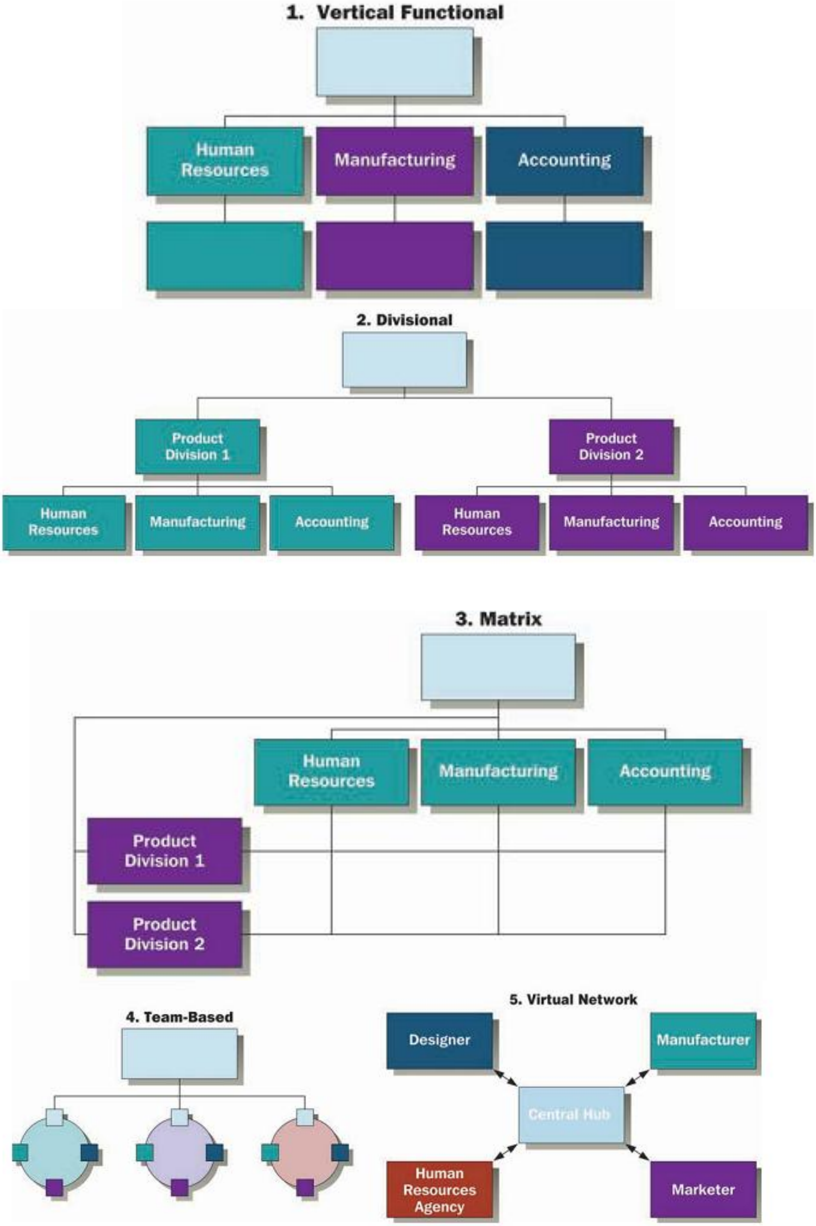

Figure 6.2 Five Approaches to Structural Design

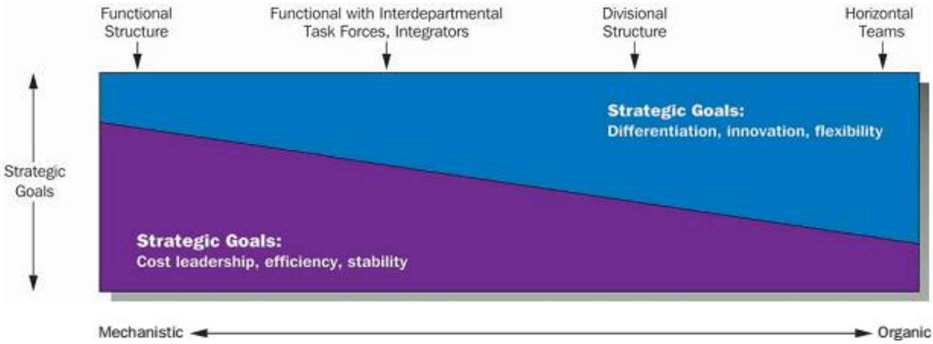

Figure 6.3 Relationship of Structural Approach to Strategy and the Environment

Discussion questions

1. Sandra Holt, manager of Electronics Assembly, asked Hector Cruz, her senior technician, to handle things in the department while Sandra worked on the budget. She needed peace and quiet for at least a week to complete her figures. After ten days, Sandra discovered that Hector had hired a senior secretary, not realizing that Sandra had promised interviews to two other people. Evaluate Sandra's approach to delegation.

2. Many experts note that organizations have been making greater use of teams in recent years. What factors might account for this trend?

3. An organizational consultant was heard to say, "Some aspect of functional structure appears in every organization." Do you agree? Explain

Case for critical analysis

FMB&T

Marshall Pinkard, president and CEO of FMB&T, a growing California-based regional commercial and consumer retail bank, clicked on an e-mail from Ayishia Coles. Ayishia was the bright, hardworking, self-conf dent woman who'd recently come onboard as the bank's executive vice president and chief information officer. The fact that the person in Coles's position in the company's traditional vertical organization now reported directly to him and was a full-f edged member of the executive committee reflected FMB&T's recognition of just how important information technology was to all aspects of its increasingly competitive business. The successful, leading-edge banks were the ones using information technology not only to operate efficiently, but also to help them focus more effectively on customer needs. Marshall settled back to read what he expected would be a report on how she was settling in. He was sadly mistaken.

After a few months on the job, Ayishia Coles was frustrated. What she needed from him, she wrote, was a clear statement of her responsibilities and authority. The way Ayishia saw it, the relationship between information technology and the bank's other business units was muddled, often causing considerable confusion, friction, and inefficiency. Typically someone from retail banking or marketing, for example, came to her department with a poorly defined problem, such as how to link up checking account records with investment records, and they always expected a solution the same day. What made the situation even more vexing was that more often than not, the problem crossed organizational lines. She found that generally the more work units the problem affected; the less likely it was that any single unit took responsibility for defining exactly what they wanted IT to do. Who exactly was supposed to be getting all these units together and coordinating requests? When she tried to step into the breach and act as a facilitator, unit managers usually didn't welcome her efforts.

Despite the vagueness of their requests, the work units still expected IT to come up with a solution and come up with it quickly. All these expectations seemed almost calculated to drive the methodical IT folks mad. Before taking on a problem, they wanted to make sure they thoroughly understood all of its dimensions so that the solution would f t seamlessly into the existing systems. This coordination took time that other parts of the bank weren't willing to give IT.

In addition, Ayishia knew the IT staff was increasingly feeling underused. The staff wanted to identify opportunities for dazzling new IT developments to contribute to business strategies, but it found itself limited to applications work. Ayishia's greatest concern was the president of a large regional branch who was actively campaigning to locate decentralized IT departments in each large branch under branch authority so that work would be completed faster to meet branch needs. He said it would be better to let work units coordinate their own IT departments rather than run everything through corporate IT.

Under that scenario, Ayishia Coles's department could end up one-half its current size. Marshall leaned back in his high-backed executive chair and sighed. At the very least, he needed to clarify Ayishia's authority and responsibilities as she had asked him to do. But he recognized that the new vice president was talking about a much larger can of worms. Was it time to rethink the bank's entire organizational structure?

Questions

1. What are the main organizational causes of the frustration that Ayishia Coles feels?

2. If you were Marshall Pinkard, how would you address both Ayishia's request for clarification about her authority and responsibilities and the underlying problems her e-mail brings to his attention? Can the problems be addressed with minor adjustments, or would you need to consider a drastic overhaul of the bank's organizational structure?

What environmental and technological factors would influence your decision?

3. Sketch a general chart for the type of organization that you think would work best for IT at FMB&T.

Essay's themes

1. Delegation authority and responsibility to employees
2. Business process reengineering as a main organizational process
3. Project Manager Relationships to other Departments in one organization

PART 7. THE ENVIRONMENT AND CORPORATE CULTURE

The classical, behavioral, and management science schools looked at internal aspects of organizations over which managers have direct control. These views are accurate but incomplete. To be effective, managers must monitor and respond to the environment – an open-systems view. The events that have the greatest impact on an organization typically originate in the external environment. In addition, globalization and worldwide societal turbulence affect companies in new ways, making the international environment of growing concern to managers everywhere.

This chapter explores in detail components of the external environment and how they affect the organization. The chapter also examines a major part of the organization's internal environment – corporate culture. Corporate culture is shaped by the external environment and is an important part of the context within which managers do their jobs.

THE EXTERNAL ENVIRONMENT

The tremendous and far-reaching changes occurring in today's world can be understood by defining and examining components of the external environment. The external **organizational environment** includes all elements existing outside the boundary of the organization that have the potential to affect the organization. The environment includes competitors, resources, technology, and economic conditions that influence the organization. It does not include those events so far removed from the organization that their impact is not perceived.

The organization's external environment can be further conceptualized as having two layers: general and task environments, as illustrated in Figure 7.1. The **general environment** is the outer layer that is widely dispersed and affects organizations.

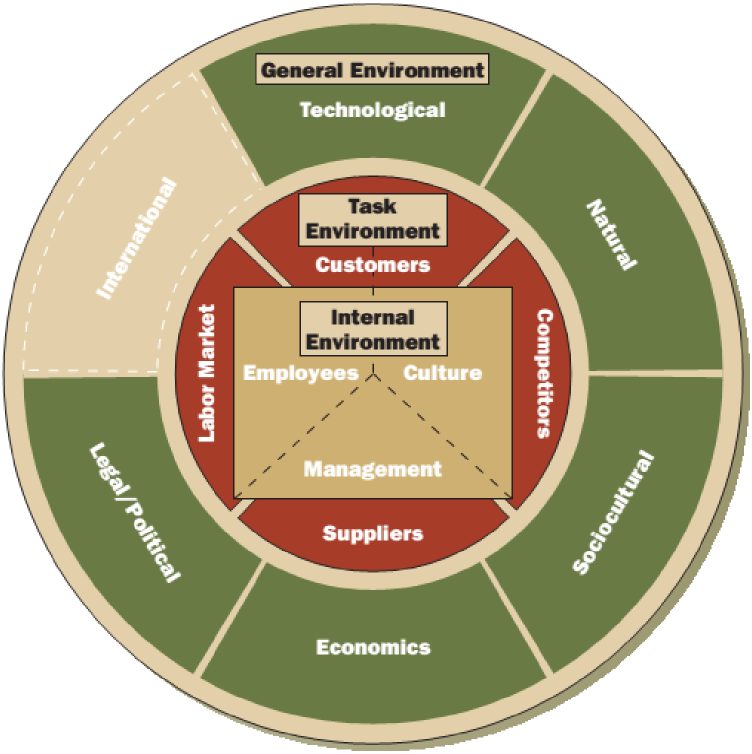

Figure 7.1 The organization's external environment indirectly

It includes social, economic, legal/political, international, natural, and technological factors that influence all organizations about equally. Increases in the inflation rate or the percentage of dual-career couples in the workforce are part of the organization's general environment. These events do not directly change day-to-day operations, but they do affect all organizations eventually. The **task environment** is closer to the organization and includes the sectors that conduct day-to-day transactions with the organization and directly influence its basic operations and performance. It is generally considered to include competitors, suppliers, customers, and the labor market.

The organization also has an **internal environment**, which includes the elements within the organization's boundaries. The internal environment is composed of current employees, management, and especially corporate culture, which defines employee behavior in the internal environment and how well the organization will adapt to the external environment.

Figure illustrates the relationship among the general, task, and internal environments. As an open system, the organization draws resources from the external environment and releases goods and services back to it.

General Environment

The general environment represents the outer layer of the environment. These dimensions influence the organization over time but often are not involved in day-to-day transactions with it. The dimensions of the general environment include international, technological, socio-cultural, economic, legal-political, and natural.

International

The **international dimension** of the external environment represents events originating in foreign countries as well as opportunities for U.S. companies in other countries. Note in Figure 7.1 that the international dimension represents a context that influences all other aspects of the external environment. The international environment provides new competitors, customers, and suppliers and shapes social, technological, and economic trends as well. Today, every company has to compete on a global basis.

The global environment represents a complex, ever-changing, and uneven playing field compared with the domestic environment. Managers who are used to thinking only about the domestic environment must learn new rules to remain competitive. When operating globally, managers have to consider legal, political, socio-cultural, and economic factors not only in their home countries but in other countries as well.

Global managers working in China, for example, recognize that their competitive success begins with their ability to build personal relationships and emotional bonds with their Chinese contacts.

The **technological dimension** includes scientific and technological advancements in a specific industry as well as in society at large. In recent years, this dimension created massive changes for organizations in all industries. Twenty years ago, many organizations didn’t even use desktop computers. Today, computer networks, Internet access, handheld devices, videoconferencing capabilities, cell phones, and laptops are the minimum tools for doing business. A new generation of handhelds allows users to check their corporate e-mail, daily calendars, business contacts, and even customer orders from any location with a wireless network.

Socio-cultural

The **socio-cultural dimension** of the general environment represents the demographic characteristics as well as the norms, customs, and values of the general population. Important socio-cultural characteristics are geographical distribution and population density, age, and education levels. Today's demographic profiles are the foundation of tomorrow's workforce and consumers.

Economic

The **economic dimension** represents the general economic health of the country or region in which the organization operates. Consumer purchasing power, the unemployment rate, and interest rates are part of an organization's economic environment. Because organizations today are operating in a global environment, the economic dimension has become exceedingly complex and creates enormous uncertainty for managers. The economies of countries are more closely tied together now. For example, the economic recession and the decline of consumer confidence in the United States in the early 2000s affected economies and organizations around the world. Similarly, economic problems in Asia and Europe had a tremendous impact on companies and the stock market in the United States. One significant recent trend in the economic environment is the frequency of mergers and acquisitions.

Legal-Political

The **legal-political dimension** includes government regulations at the local, state, and federal levels, as well as political activities designed to influence company behavior. The U.S. political system encourages capitalism, and the government tries not to overregulated business. However, government laws do specify rules of the game. The federal government influences organizations through the Occupational Safety and Health Administration (OSHA), Environmental Protection Agency (EPA), fair trade practices, libel statutes allowing lawsuits against business, consumer protection legislation, product safety requirements, import and export restrictions, and information and labeling requirements. Many organizations also have to contend with government and legal issues in other countries. The European Union (EU) adopted environmental and consumer protection rules that are costing American companies hundreds of millions of dollars a year.

Natural

In response to pressure from environmental advocates, organizations have become increasingly sensitive to the earth's diminishing natural resources and the environmental impact of their products. As a result, the natural dimension of the external environment is growing in importance. The **natural dimension** includes all elements that occur naturally on earth, including plants, animals, rocks, and natural resources such as air, water, and climate.

The natural dimension is different from other sectors of the general environment because it has no voice of its own.

Task Environment

Customers Those people and organizations in the environment that acquire goods or services from the organization are **customers.** As recipients of the organization's output, customers are important because they determine the organization's success. Patients are the customers of hospitals, students the customers of schools, and travelers the customers of airlines. Many companies are searching for ways to reach the coveted teen and youth market by tying marketing messages into online social High-school buddies Eric Ryan (left) and Adam Lowry (right) make environmentally friendly products look good. Their company, method, produces nontoxic cleaning products with a concern for the **natural environment** and packages them in designer-looking bottles. Lowry, a chemical engineer, and Ryan, with an advertising background, founded Method in 2000 and sales grew to nearly $100 million in 2007.

Natural dimension The dimension of the general environment that includes all elements that occur naturally on earth, including p plants, animals, roocks, and natural resources such a as a air, water, and climate.

Customers People and o organizations i in t the environment that acquire goods or services from the organization.

The environment of management networks such as MySpace.com and Facebook.com. With high school and college students representing a $375 billion consumer spending market, it's serious business for managers at companies such as Target, Apple, Coca-Cola, and Disney. Apple sponsors an Apple-lovers group on Facebook.com, giving away iPod Shuffles in weekly contests. Target has sponsored a group on MySpace.com that features a 15-year-old professional snowboarder wearing a Target logo on his helmet. Customers today have greater power because of the Internet, which presents threats as well as opportunities for managers. Today's customers can directly affect the organization's reputation and sales, for example, through gripe sites such as untied.com, where United Airlines employees and disgruntled fliers rail against the air carrier. "In this new information environment," says Kyle Shannon, CEO of e-commerce consultancy Agency.com, "you've got to assume everyone knows everything."

Competitors

Specific competitive issues characterize each industry. Other organizations in the same industry or type of business that provide goods or services to the same set of customers are referred to as **competitors**. The recording industry differs from the steel industry and the pharmaceutical industry.

Suppliers

Suppliers provide the raw materials the organization uses to produce its output. A steel mill requires iron ore, machines, and financial resources. A small, private university may use hundreds of suppliers for paper, pencils, cafeteria food, computers, trucks, fuel, electricity, and textbooks. Companies from toolmakers to construction firms and auto manufacturers were hurt recently by an unanticipated jump in the price of steel from suppliers.

Labor Market

The **labor market** represents people in the environment who can be hired to work for the organization. Every organization needs a supply of trained, qualified personnel. Unions, employee associations, and the availability of certain classes of employees can influence the organization's labor market. Labor market forces affecting organizations right now include: (1) the growing need for computer literate knowledge workers; (2) the necessity for continuous investment in human resources through recruitment, education, and training to meet the competitive demands of the borderless world; and (3) the effects of international trading blocs, automation, outsourcing, and shifting facility locations on labor dislocations, creating unused labor pools in some areas and labor shortages in others.

The internal environment: corporate culture

The internal environment within which managers work includes corporate culture, production technology, organization structure, and physical facilities. Of these, corporate culture surfaces as extremely important to competitive advantage. The internal culture must f t the needs of the external environment and company strategy. When this fit occurs, highly committed employees create a high performance organization that is tough to beat **culture.** The set of key values, beliefs, understandings, and norms that members of an organization share.

Culture can be analyzed at three levels, as illustrated in Figure 7.2, with each level becoming less obvious. At the surface level are visible artifacts, which include such things as manner of dress, patterns of behavior, physical symbols, organizational ceremonies, and office layout. Visible artifacts are all the things one can see, hear, and observe by watching members of the organization. At a deeper level are the expressed values and beliefs, which are not observable but can be discerned from how people explain and justify what they do. Members of the organization hold these values at a conscious level. They can be interpreted from the stories, language, and symbols organization members use to represent them. Some values become so deeply embedded in a culture that members are no longer consciously aware of them. These basic, underlying assumptions and beliefs are the essence of culture and subconsciously guide behavior and decisions. In some organizations, a basic assumption might be that people are essentially lazy and will shirk their duties whenever possible; thus, employees are closely supervised and given little freedom, and colleagues are frequently suspicious of one another.

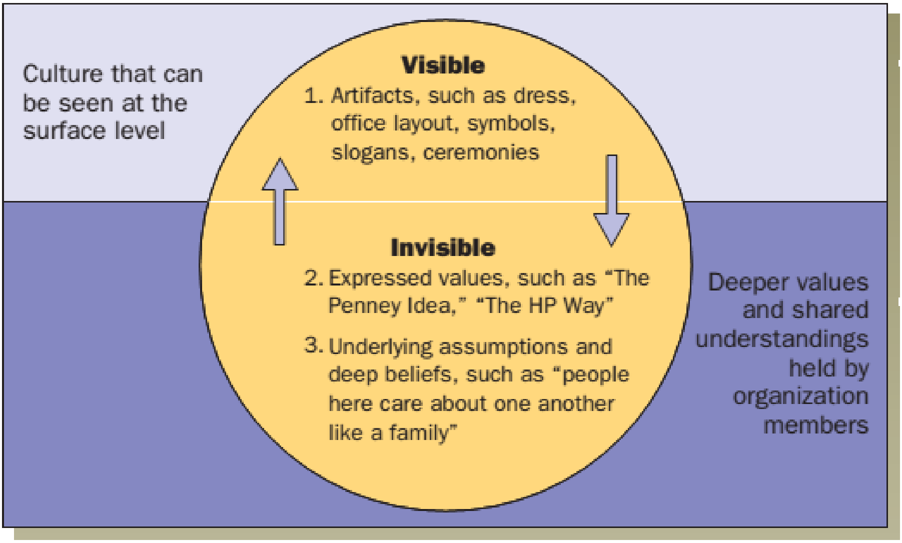

Figure 7.2 Visible and invisible corporate culture

Symbols

A **symbol** is an object, act, or event that conveys meaning to others. Symbols can be considered a rich, nonverbal language that vibrantly conveys the organization's important values concerning how people relate to one another and interact with the environment.51 For example, managers at a New York-based start-up that provides Internet solutions to local television broadcasters wanted a way to symbolize the company's unofficial mantra of "drilling down to solve problems."

Stories

A **story** is a narrative based on true events and is repeated frequently and shared among organizational employees. Stories paint pictures that help symbolize the firm's vision and values and help employees personalize and absorb them. A frequently told story at UPS concerns an employee who, without authorization, ordered an extra Boeing 737 to ensure timely delivery of a load of Christmas packages that had been left behind in the holiday rush.

Heroes

A **hero** is a figure who exemplifies the deeds, character, and attributes of a strong culture. Heroes are role models for employees to follow. Sometimes heroes are real, such as the female security supervisor who once challenged IBM's chairman because he wasn't carrying the appropriate clearance identification to enter a security area.

Slogans

A **slogan** is a phrase or sentence that succinctly expresses a key corporate value. Many companies use a slogan or saying to convey special meaning to employee's **slogan.** A phrase or sentence that succinctly expresses a key corporate value.

Ceremonies

A **ceremony** is a planned activity at a special event that is conducted for the benefit an audience. Managers hold ceremonies to provide dramatic examples of company values.

Types of Cultures

In considering what cultural values are important for the organization, managers consider the external environment as well as the company's strategy and goals. Studies suggest that the right fit between culture, strategy, and the environment is associated with four categories or types of culture, as illustrated in Figure 7.3. These categories are based on two dimensions:

(1) the extent to which the external environment requires flexibility or stability and

(2) the extent to which a company's strategic focus is internal or external. The four categories associated with these differences are adaptability, achievement, involvement, and consistency.

The **adaptability culture** emerges in an environment that requires fast response and high-risk decision making. Managers encourage values that support the company's ability to rapidly detect, interpret, and translate signals from the environment into new behavior responses. Employees have autonomy to make decisions and act freely to meet new needs, and responsiveness to customers is highly valued. Managers also actively create change by encouraging and rewarding creativity, experimentation, and risk taking.

The **achievement culture** is suited to organizations concerned with serving specific customers in the external environment but without the intense need for flexibility and rapid change. This results-oriented culture values competitiveness, aggressiveness, personal initiative, and willingness to work long and hard to achieve results. An emphasis on winning and achieving specific ambitious goals is the glue that holds the organization together.

The **involvement culture** emphasizes an internal focus on the involvement and participation of employees to adapt rapidly to changing needs from the environment. This culture places high value on meeting the needs of employees, and the organization may be characterized by a caring, family-like atmosphere. Some managers might think putting employees ahead of customers and shareholders is nice, but not very good for business. But at Valero, a strong involvement culture based on putting employees first has paid off in terms of high employee performance and rising market share, profits, and shareholder value. The final category of culture, the **consistency culture**, uses an internal focus and a consistency orientation for a stable environment. Following the rules and being thrifty are valued, and the culture supports and rewards a methodical, rational, orderly way of doing things. In today's fast-changing world, few companies operate in a stable environment, and most managers are shifting toward cultures that are more flexible and in tune with changes in the environment.

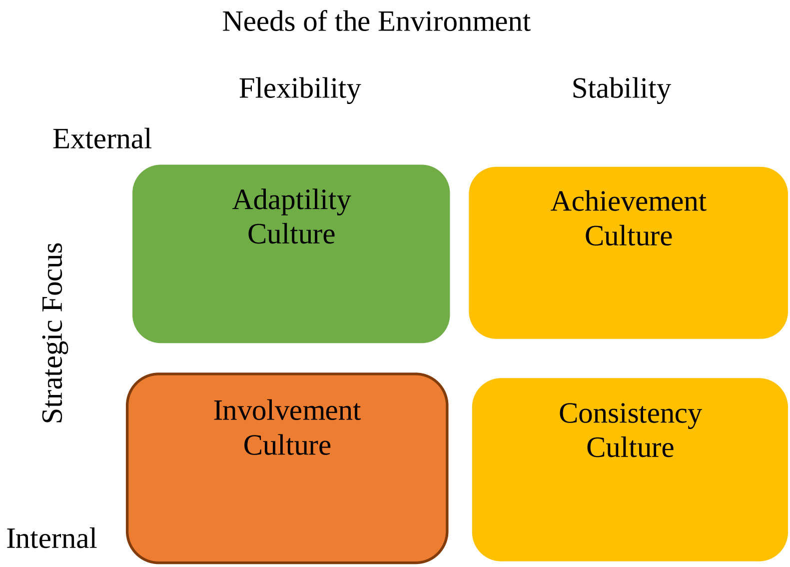

Figure 7.3 Corporate culture

QUESTIONS

1. Describe the general and task environments and the dimensions of each.

2. Explain the strategies managers use to help organizations adapt to an uncertain or turbulent environment.

3. Draw and describe the paradigm of the Interorganizational Partnerships

4. Define corporate culture and give organizational examples.

5. Draw and describe the model of The organization's external environment

6. Explain organizational symbols, stories, heroes, slogans, and ceremonies and their relationships to corporate culture.

7. Describe how corporate culture relates to the environment.

8. Draw and describe model of corporate culture

9. Define a cultural leader and explain the tools a cultural leader uses to create a high-performance culture.

DISCUSSION QUESTIONS

1. Why are symbols important to a corporate culture? Do stories, heroes, slogans, and ceremonies have symbolic value?

2. What do you think are the most important forces in the external environment creating uncertainty for organizations today? Do the forces you identified typically arise in the task environment or the general environment?

CASE FOR CRITICAL ANALYSIS

Rio Grande Supply Company

Jasper Hennings, president of Rio Grande Supply Company, knew full well that a company's top executives were largely responsible for determining a firm's corporate culture. That's why he took such personal pride in the culture of his Texas-based wholesale plumbing supply company. It didn't just pay lip service to the values it espoused: integrity, honesty, and a respect for each individual employee. His management team set a good example by living those principles. At least that's what he'd believed until the other day.

The importance Jasper attached to respecting each individual was apparent in the company's Internet use policy. It was abundantly clear that employees weren't to use Rio Grande's computers for anything but business-related activities. However, Jasper himself had vetoed the inclusion of what was becoming a standard provision in such policies that management had the right to access and review anything employees created, stored, sent, or received on company equipment. He cut short any talk of installing software filters that would prevent abuse of the corporate computer system. Still, the company reserved the right to take disciplinary action, including possible termination, and to press criminal charges if an employee was found to have violated the policy.

So how was he to square his cherished assumptions about his management team with what he'd just discovered? Henry Darger, his hard-working chief of operations and a member of his church, had summarily f red a female employee for having accessed another worker's e-mail surreptitiously. She hadn't taken her dismissal well. "Just ask Darger what he's up to when he shuts his office door," she snarled she stormed out of Jasper's office. She made what Jasper hoped was an idle threat to hire a lawyer.

When Jasper asked Henry what the f red employee could possibly have meant, tears began to roll down the operations chief's face. He admitted that ever since a young nephew had committed suicide the year before and a business he'd helped his wife start had failed, he'd increasingly been seeking escape from his troubles by logging onto adult pornography sites. At first, he'd indulged at home, but of late he'd found himself spending hours at work visiting pornographic sites, the more explicit the better. Jasper was stunned. After a few

Ever since green became the new black, U.S. companies have been scrambling to change their products, packaging, and energy consumption to stay in the game. Thanks to Eric Hudson's perceptive scanning of the external environment in the mid-1990s, he saw an opportunity others missed when the eco-craze hit. At a socio-cultural level, Hudson observed that an increasing number of consumers were actively engaged in their local recycling programs, and recycled materials were plentiful. Even though consumers made the effort to recycle, they never saw what happened to their recycling after it left the curb. A self-congratulatory pat on the back was their only reward. How satisfying could it be for recycling zealots to purchase something – anything – made with recycled materials? Hudson broke into the natural product arena with an innovative toothbrush made from recycled materials – a bold decision in 1996. Hudson named his first product the Preserve Toothbrush, and a company called Recycline was born. (The company has since been rebranded “Preserve,” with the “Recycline” name stepping into the background as the parent company.) The Preserve Toothbrush, with nylon bristles and a 100 percent recycled-plastic, reverse-curved, ergonomic handle, was a hit with eco-conscious consumers. The buzz grew and new converts flocked to it. Energetic and full of ideas, Hudson gradually added other sleek and stylish products to his developing venture. Preserve’s current product line features razors, colanders, cutting boards, tableware, and more. It also formed a strategic partnership with Whole Foods, which provided an ideal opportunity to expand its line and customer base. Preserve’s latest joint venture with Target will bring its products to the masses. Although Preserve doubled its business every year for the last three years, Hudson and his senior management team need to stay attuned to different dimensions of the external environment to ensure they don’t miss important news that could affect the company. Not surprisingly, advances in the plastics technologies are always on their radar. Both Hudson and Preserve’s director of marketing, C. A. Webb, are speechless minutes, he told Henry to take the rest of the day off, go home, and think things over. The president himself needed the afternoon to gather his wits. How should he handle this turn of events? On the one hand, Henry’s immediate dismissal of the woman who’d tapped into another employee’s e-mail when the operations chief was violating the Internet policy himself was hypocritical, to say the least.

The person charged with enforcing that policy needed to be held to the highest standards. On the other hand, Jasper knew that Rio Grande employees routinely used computers at their desks to check personal e-mail, do banking transactions, check the weather, or make vacation arrangements. The company had turned a blind eye because it didn’t seem worth the effort of enforcing the hard-and-fast policy for such minor infractions. Besides, Henry was a valued, if clearly troubled, employee. Replacing him would be costly and difficult. If Jasper decided to keep him on, the president clearly had no choice but to cross the line and get involved in Henry’s private life, and he would be treating Darger differently from the treatment the female employee received. When he met with Henry again first thing in the morning, he needed to have a plan of action.

Questions

1. What environmental factors have helped to create the situation Jasper Hennings faces? What factors does Jasper need to consider when deciding on his course of action?

2. Analyze Rio Grande's culture. In addition to the expressed cultural values and beliefs, what other subconscious values and beliefs do you detect? Are conflicting values present? When values are in conflict, how would you decide which ones take precedence?

3. Assume you are Jasper. What are the first two action steps you would take to handle the Henry Darger situation? How would your role as a cultural leader influence your decision? What message will your solution send to the other managers and rank-and-file employees?

Essay's themes

1. Corporative culture of Toyota
2. Cultural Leadership in the company
3. Corporative culture of MAU

CONCLUSIONS

Management development is a deeper process than more sophisticated management, and it performs according to certain logic. The primary step in the management logic is the disappearance of new tasks that are intended to change management. The second step is to correct the work in the reaction management system for new tasks. The third step is to restructure the founding principles on which the management system is built. The fourth step is to translate the structure of the structures and elements of the control system. And accumulating, in the fifth, completing the stage is strengthened in new qualities and property.

A market economy requires an adequate system of governance, which must undergo radical transformations with the whole of society. In the conditions of transition to market relations, continuous improvement of management theory and practice becomes the most important factor of success.

It is of great importance to study the advanced and progressive experience of managing foreign countries and to use it in the analysis of their own management problems. Therefore, the study of the history of development of the theory and practice of foreign management is extremely relevant.

Training of modern managers-professionals is impossible without knowledge of management development history. Management developed for centuries before it became an independent branch of knowledge, science.

“One-dimensional” indicates the concentration of attention on one of the problems of management: tasks, people, and organization of management activities. The most well-known “one-dimensional” concepts with "scientific management", the developer F. Taylor, behavioral entities, concluded in the organization, the founders of which are used by A. Fayol and M. Weber. Synthetic governments consider managing an organization in all its diversity. In this way, we can include the theoretical development of P. Druker, the concept of situational management,

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TEXTBOOK FOR BEGINNERS
textbook tool

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