Principles Of Management

MMS/MFM/MIM/MHRDM/MMM- I Sem

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Chapter 1:- Introduction to Management

What is Management:-

It is the process of coordinating work activities so that they are completed efficiently and effectively with and through other people. Which means?

- ***Process*** - represents ongoing functions or primary activities engaged in by managers
- ***Coordinating*** - distinguishes a managerial position from a non-managerial one
- ***Efficiency*** - getting the most output from the least amount of inputs "doing things right "concerned with means
- ***Effectiveness*** - completing activities so that organizational goals are attained "doing the right things" concerned with ends

Definition of Management:-

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

--Koontz and Weihrich

"*Organization and coordination of the activities of an enterprise in accordance with certain policies and in achievement of clearly defined objectives"*

--Peter Drucker

Some Important terms in this definition are:-

Organization:-Groups of individuals constantly join forces to accomplish common goals. Sometimes the **goals** of these organizations are for profit, such as franchise restaurant chains or clothing retailers. Other times, the goals are more altruistic, such as nonprofit churches or public schools. But no matter what their aims, all these organizations share two things in common: They're made up of people (called **Managers**), and certain individuals are in charge of these people.

Objectives of Management

The main objectives of management are:

1. **Getting Maximum Results with Minimum Efforts -** The main objective of management is to secure maximum outputs with minimum efforts & resources. Management is basically concerned with thinking & utilizing human, material & financial resources in such a manner that would result in best combination. This combination results in reduction of various costs.

2. **Increasing the Efficiency of factors of Production -** Through proper utilization of various factors of production, their efficiency can be increased to a great extent which can be obtained by reducing spoilage, wastages and breakage of all kinds, this in turn leads to saving of time, effort and money which is essential for the growth & prosperity of the enterprise.
3. **Maximum Prosperity for Employer & Employees -** Management ensures smooth and coordinated functioning of the enterprise. This in turn helps in providing maximum benefits to the employee in the shape of good working condition, suitable wage system, incentive plans on the one hand and higher profits to the employer on the other hand.
4. **Human betterment & Social Justice -** Management serves as a tool for the upliftment as well as betterment of the society. Through increased productivity & employment, management ensures better standards of living for the society. It provides justice through its uniform policies.

Functions of Managers:-

Managers perform five basic functions: planning, organizing, staffing, leading, and controlling.

- **Planning:** This step involves mapping out exactly how to achieve a particular goal. Say, for example, that the organization's goal is to improve company sales. The manager first needs to decide which steps are necessary to accomplish that goal. These steps may include increasing advertising, inventory, and sales staff. These necessary steps are developed into a plan. When the plan is in place, the manager can follow it to accomplish the goal of improving company sales.

- **Organizing:** After a plan is in place, a manager needs to organize her team and materials according to her plan. Assigning work and granting authority are two important elements of organizing.

- **Staffing:** After a manager discerns his area's needs, he may decide to beef up his staffing by recruiting, selecting, training, and developing employees. A manager in a large organization often works with the company's human resources department to accomplish this goal.

- **Leading:** A manager needs to do more than just plan, organize, and staff her team to achieve a goal. She must also lead. Leading involves motivating, communicating, guiding, and encouraging. It requires the manager to coach, assist, and problem solve with employees.

- **Controlling:** After the other elements are in place, a manager's job is not finished. He needs to continuously check results against goals and take any corrective actions necessary to make sure that his area's plans remain on track.

All managers at all levels of every organization perform these functions, but the amount of time a manager spends on each one depends on both the level of management and the specific organization.

Characteristics of Management

Management is an activity concerned with guiding human and physical resources such that organizational goals can be achieved. Nature of management can be highlighted as: -

1. **Management is Goal-Oriented:** The success of any management activity is assessed by its achievement of the predetermined goals or objective. Management is a purposeful activity. It is a tool which helps use of human & physical resources to fulfill the pre-determined goals. For example, the goal of an enterprise is maximum consumer satisfaction by producing quality goods and at reasonable prices. This can be achieved by employing efficient persons and making better use of scarce resources.
2. **Management integrates Human, Physical and Financial Resources:** In an organization, human beings work with non-human resources like machines. Materials, financial assets, buildings etc. Management integrates human efforts to those resources. It brings harmony among the human, physical and financial resources.
3. **Management is Continuous:** Management is an ongoing process. It involves continuous handling of problems and issues. It is concerned with identifying the problem and taking appropriate steps to solve it. E.g. the target of a company is maximum production. For achieving this target various policies have to be framed but this is not the end. Marketing and Advertising is also to be done. For this policies have to be again framed. Hence this is an ongoing process.
4. **Management is all Pervasive:** Management is required in all types of organizations whether it is political, social, cultural or business because it helps and directs various efforts towards a definite purpose. Thus clubs, hospitals, political parties, colleges, hospitals, business firms all require management. When ever more than one person is engaged in working for a common goal, management is necessary. Whether it is a small business firm which may be engaged in trading or a large firm like Tata Iron & Steel, management is required everywhere irrespective of size or type of activity.
5. **Management is a Group Activity:** Management is very much less concerned with individual's efforts. It is more concerned with groups. It involves the use of group effort to achieve predetermined goal of management of ABC & Co. is good refers to a group of persons managing the enterprise.

Management Levels:-
Two leaders may serve as managers within the same company but have very different titles and purposes. Large organizations, in particular, may break down management into different levels because so many more people need to be managed. Typical management levels fall into the following categories:

- **Top level (Strategic Level):** Managers at this level ensure that major performance objectives are established and accomplished. Common job titles for top managers include chief executive officer (CEO), chief operating officer (COO), president, and vice president. These senior managers are considered executives, responsible for the performance of an organization as a whole or for one of its significant parts.

- **Middle level (Operational Level):** Middle managers report to top managers and are in charge of relatively large departments or divisions consisting of several smaller units. Examples of middle managers include clinic directors in hospitals; deans in universities; and division managers, plant managers, and branch sales managers in businesses. Middle managers develop and implement action plans consistent with company objectives, such as increasing market presence.

- **Low level (Tactical Level):** The initial management job that most people attain is typically a **first-line management** position, such as a team leader or supervisor — a person in charge of smaller work units composed of hands-on workers. Job titles for these first-line managers vary greatly, but include such designations as department head, group leader, and unit leader. First-line managers ensure that their work teams or units meet performance objectives, such as producing a set number of items at a given quality, that are consistent with the plans of middle and top management.

Roles performed by managers:-
A manager wears many hats. Not only is a manager a team leader, but he or she is also a planner, organizer, cheerleader, coach, problem solver, and decision maker — all rolled into one. And these are just a few of a manager's roles.
In addition, managers' schedules are usually jam-packed. Whether they're busy with employee meetings, unexpected problems, or strategy sessions, managers often find little spare time on their calendars. (And that doesn't even include responding to e-mail!)
In his classic book, *The Nature of Managerial Work,* Henry Mintzberg describes a set of ten roles that a manager fills. These roles fall into three categories:

- **Interpersonal:** This role involves human interaction.
- **Informational:** This role involves the sharing and analyzing of information.
- **Decisional:** This role involves decision making.

Table 1 contains a more in-depth look at each category of roles that help managers carry out all five functions described in the preceding “Functions of Managers” section.

TABLE 1 Mintzberg's Set of Ten Roles

Category	Role	Activity
Informational	Monitor	Seek and receive information; scan periodicals and reports; maintain personal contact with stakeholders.
	Disseminator	Forward information to organization members via memos, reports, and phone calls.
	Spokesperson	Transmit information to outsiders via reports, memos, and speeches.
Interpersonal	Figurehead	Perform ceremonial and symbolic duties, such as greeting visitors and signing legal documents.
	Leader	Direct and motivate subordinates; counsel and communicate with subordinates.
	Liaison	Maintain information links both inside and outside organization via mail, phone calls, and meetings.
Decisional	Entrepreneur	Initiate improvement projects; identify new ideas and delegate idea responsibility to others.
	Disturbance handler	Take corrective action during disputes or crises; resolve conflicts among subordinates; adapt to environments.
	Resource allocator	Decide who gets resources; prepare budgets; set schedules and determine priorities.
	Negotiator	Represent department during negotiations of union contracts, sales, purchases, and budgets.

Skills needed by managers:-

Not everyone can be a manager. Certain **skills,** or abilities to translate knowledge into action that results in desired performance, are required to help other employees become more productive. These skills fall under the following categories:

- **Technical:** This skill requires the ability to use a special proficiency or expertise to perform particular tasks. Accountants, engineers, market researchers, and computer scientists, as examples, possess technical skills. Managers acquire these skills initially through formal education and then further develop them through training and job experience. Technical skills are most important at lower levels of management.

- **Human:** This skill demonstrates the ability to work well in cooperation with others. Human skills emerge in the workplace as a spirit of trust, enthusiasm, and genuine involvement in interpersonal relationships. A manager with good human skills has a high degree of self-awareness and a capacity to understand or empathize with the feelings of others. Some managers are naturally born with great human skills, while others improve their skills through classes or experience. No matter how human skills are acquired, they're critical for all managers because of the highly interpersonal nature of managerial work.

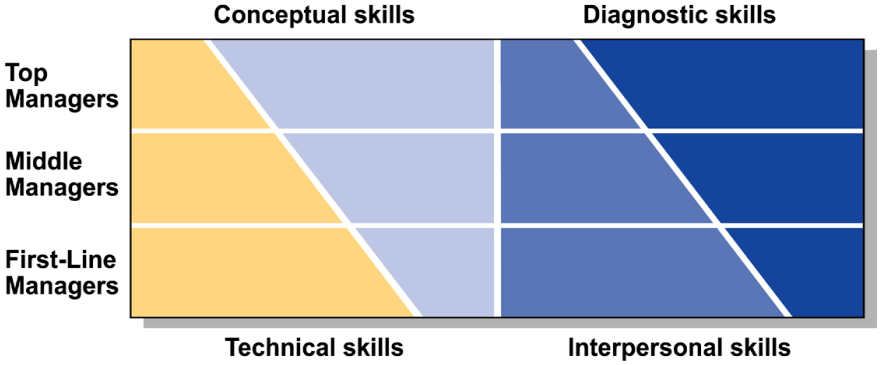
- **Conceptual:** This skill calls for the ability to think analytically. Analytical skills enable managers to break down problems into smaller parts, to see the relations among the parts, and to recognize the implications of any one problem for others. As managers assume ever-higher responsibilities in organizations, they must deal with more ambiguous problems that have long-term consequences. Again, managers may acquire these skills initially through formal education and then further develop them by training and job experience. The higher the management level, the more important conceptual skills become.

Although all three categories contain skills essential for managers, their relative importance tends to vary by level of managerial responsibility. Business and management educators are increasingly interested in helping people acquire technical, human, and conceptual skills, and develop specific competencies, or specialized skills that contribute to high performance in a management job.

Following are some of the skills and personal characteristics that the American Assembly of Collegiate Schools of Business (AACSB) is urging business schools to help their students develop.

- **Leadership** — ability to influence others to perform tasks
- **Self-objectivity** — ability to evaluate yourself realistically
- **Analytic thinking** — ability to interpret and explain patterns in information
- **Behavioral flexibility** — ability to modify personal behavior to react objectively rather than subjectively to accomplish organizational goals
- **Oral communication** — ability to express ideas clearly in words
- **Written communication** — ability to express ideas clearly in writing
- **Personal impact** — ability to create a good impression and instill confidence
- **Resistance to stress** — ability to perform under stressful conditions
- **Tolerance for uncertainty** — ability to perform in ambiguous situations

Management Skill Mixes at Different Organizational Levels



Management & Administration

According to *Theo Haimann*, "Administration means overall determination of policies, setting of major objectives, the identification of general purposes and laying down of broad programmes and projects". It refers to the activities of higher level. It lays down basic principles of the

enterprise. According to Newman, "Administration means guidance, leadership & control of the efforts of the groups towards some common goals".

Whereas, management involves conceiving, initiating and bringing together the various elements; coordinating, actuating, integrating the diverse organizational components while sustaining the viability of the organization towards some pre-determined goals. In other words, it is an art of getting things done through & with the people in formally organized groups.

The difference between Management and Administration can be summarized under 2 categories: -

1. **Functions**
2. **Usage / Applicability**

<u>On the Basis of Functions:</u> -

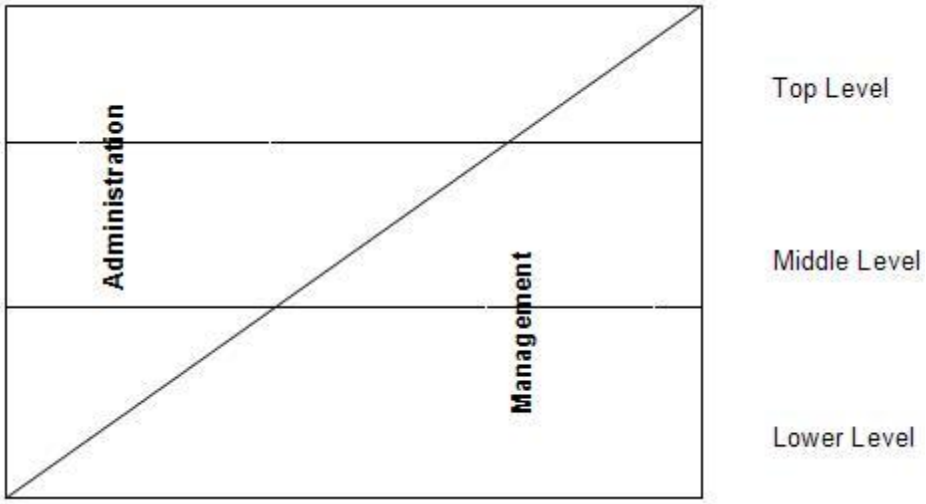
Basis	**Management**	**Administration**
Meaning	Management is an art of getting things done through others by directing their efforts towards achievement of pre-determined goals.	It is concerned with formulation of broad objectives, plans & policies.
Nature	Management is an executing function.	Administration is a decision-making function.
Process	Management decides who should as it & how should he dot it.	Administration decides what is to be done & when it is to be done.
Function	Management is a doing function because managers get work done under their supervision.	Administration is a thinking function because plans & policies are determined under it.
Skills	Technical and Human skills	Conceptual and Human skills

Level	Middle & lower level function	Top level function

On the Basis of Usage: -

Basis	**Management**	**Administration**
Applicability	It is applicable to business concerns i.e. profit-making organization.	It is applicable to non-business concerns i.e. clubs, schools, hospitals etc.
Influence	The management decisions are influenced by the values, opinions, beliefs & decisions of the managers.	The administration is influenced by public opinion, govt. policies, religious organizations, customs etc.
Status	Management constitutes the employees of the organization who are paid remuneration (in the form of salaries & wages).	Administration represents owners of the enterprise who earn return on their capital invested & profits in the form of dividend.

Practically, there is no difference between management & administration. Every manager is concerned with both - administrative management function and operative management function as shown in the figure. However, the managers who are higher up in the hierarchy denote more time on administrative function & the lower level denote more time on directing and controlling worker's performance i.e. management.



The Figure above clearly shows the degree of administration and management performed by the different levels of management

Few Examples

The Greatest living Business Leaders/Managers- Forbes Magazine

1. **Jeff Bezos, Amazon Industry- Internet Commerce**
   He innovated the concept of "predictive analytics"- recommending products to customers based on search history and buying habits.
2. **Anne Mulcahy, Xerox**
3. **Brad Smith, Intuit- It is one of the world's largest and most successful financial software company.**
4. **Howard Schultz, Starbuck.**
5. **Larry Page, Google**
6. **Tim Cook, Apple**
7. **Indra Nooyi, PepsiCo (Forbes 100 Most powerful Women)**
8. **Warren Buffett, Berkshire Hathaway**
9. **Sir Richard Branson, Virgin Group**
10. **Rupert Murdoch, News Corporation**

Is Management Arts or Science?

We often come across debate on this issue but management is blend of both. Management requires application of rationality, logic supplemented with experience and intuition.

- **The Science of Management**
  - Assumes that problems can be approached using rational, logical, objective, and systematic ways.
  - Requires technical, diagnostic, and decision-making skills and techniques to solve problems.
- Systematic Body of Knowledge
- Universal Principle
- Scientific enquiry and experiment

- Cause and effect relationship
- Tests of validity and predictability

- **The Art of Management**
  - Decisions are made and problems solved using a blend of intuition, experience, instinct, and personal insights.

Requires conceptual, communication, interpersonal, and time-management skills to accomplish the tasks associated with managerial activities

Management as an Art

Art implies application of knowledge & skill to trying about desired results. An art may be defined as personalized application of general theoretical principles for achieving best possible results. Art has the following characters -

1. **Practical Knowledge:** Every art requires practical knowledge therefore learning of theory is not sufficient. It is very important to know practical application of theoretical principles. E.g. to become a good painter, the person may not only be knowing different colour and brushes but different designs, dimensions, situations etc to use them appropriately. A manager can never be successful just by obtaining degree or diploma in management; he must have also know how to apply various principles in real situations by functioning in capacity of manager.
2. **Personal Skill:** Although theoretical base may be same for every artist, but each one has his own style and approach towards his job. That is why the level of success and quality of performance differs from one person to another. E.g. there are several qualified painters but M.F. Hussain is recognized for his style. Similarly management as an art is also personalized. Every manager has his own way of managing things based on his knowledge, experience and personality, that is why some managers are known as good managers (like Aditya Birla, Rahul Bajaj) whereas others as bad.
3. **Creativity:** Every artist has an element of creativity in line. That is why he aims at producing something that has never existed before which requires combination of intelligence & imagination. Management is also creative in nature like any other art. It combines human and non-human resources in useful way so as to achieve desired results. It tries to produce sweet music by combining chords in an efficient manner.
4. **Perfection through practice:** Practice makes a man perfect. Every artist becomes more and more proficient through constant practice. Similarly managers learn through an art of trial and error initially but application of management principles over the years makes them perfect in the job of managing.
5. **Goal-Oriented:** Every art is result oriented as it seeks to achieve concrete results. In the same manner, management is also directed towards accomplishment of pre-determined goals. Managers use various resources like men, money, material, machinery & methods to promote growth of an organization.

Thus, we can say that management is an art therefore it requires application of certain principles rather it is an art of highest order because it deals with moulding the attitude and behavior of people at work towards desired goals.

Management as a Science

Science is a systematic body of knowledge pertaining to a specific field of study that contains general facts which explains a phenomenon. It establishes cause and effect relationship between two or more variables and underlines the principles governing their relationship. These principles are developed through scientific method of observation and verification through testing.

Science is characterized by following main features:

1. **Universally acceptance principles -** Scientific principles represents basic truth about a particular field of enquiry. These principles may be applied in all situations, at all time & at all places. E.g. - law of gravitation which can be applied in all countries irrespective of the time.

   Management also contains some fundamental principles which can be applied universally like the Principle of Unity of Command i.e. one man, one boss. This principle is applicable to all type of organization - business or non business.

2. **Experimentation & Observation -** Scientific principles are derived through scientific investigation & researching i.e. they are based on logic. E.g. the principle that earth goes round the sun has been scientifically proved.

   Management principles are also based on scientific enquiry & observation and not only on the opinion of Henry Fayol. They have been developed through experiments & practical experiences of large no. of managers. E.g. it is observed that fair remuneration to personal helps in creating a satisfied work force.

3. **Cause & Effect Relationship -** Principles of science lay down cause and effect relationship between various variables. E.g. when metals are heated, they are expanded. The cause is heating & result is expansion.

   The same is true for management, therefore it also establishes cause and effect relationship. E.g. lack of parity (balance) between authority & responsibility will lead to ineffectiveness. If you know the cause i.e. lack of balance, the effect can be ascertained easily i.e. in effectiveness. Similarly if workers are given bonuses, fair wages they will work hard but when not treated in fair and just manner, reduces productivity of organization.

4. **Test of Validity & Predictability -** Validity of scientific principles can be tested at any time or any number of times i.e. they stand the test of time. Each time these tests will

give same result. Moreover future events can be predicted with reasonable accuracy by using scientific principles. E.g. H_2 & O_2 will always give H_2O.

Principles of management can also be tested for validity. E.g. principle of unity of command can be tested by comparing two persons - one having single boss and one having 2 bosses. The performance of 1st person will be better than 2nd.

It cannot be denied that management has a systematic body of knowledge but it is not as exact as that of other physical sciences like biology, physics, and chemistry etc. The main reason for the inexactness of science of management is that it deals with human beings and it is very difficult to predict their behavior accurately. Since it is a social process, therefore it falls in the area of social sciences. It is a flexible science & that is why its theories and principles may produce different results at different times and therefore it is a behavior science. Ernest Dale has called it as a *Soft Science*.

Management as both Science and Art

Management is both an art and a science. The above mentioned points clearly reveals that management combines features of both science as well as art. It is considered as a science because it has an organized body of knowledge which contains certain universal truth. It is called an art because managing requires certain skills which are personal possessions of managers. Science provides the knowledge & art deals with the application of knowledge and skills.

A manager to be successful in his profession must acquire the knowledge of science & the art of applying it. Therefore management is a judicious blend of science as well as an art because it proves the principles and the way these principles are applied is a matter of art. Science teaches to 'know' and art teaches to 'do'. E.g. a person cannot become a good singer unless he has knowledge about various ragas & he also applies his personal skill in the art of singing. Same way it is not sufficient for manager to first know the principles but he must also apply them in solving various managerial problems that is why, science and art are not mutually exclusive but they are complementary to each other (like tea and biscuit, bread and butter etc.).

The old saying that "Manager are Born" has been rejected in favor of "Managers are Made". It has been aptly remarked that management is the oldest of art and youngest of science. To conclude, we can say that science is the root and art is the fruit.

Management as a Discipline

Management as a discipline refers to that branch of knowledge which is connected to study of principles & practices of basic administration. It specifies certain code of conduct to be followed by the manager & also various methods for managing resources efficiently.

Management as a discipline specifies certain code of conduct for managers & indicates various methods of managing an enterprise. Management is a course of study which is now formally being taught in the institutes and universities after completing a prescribed course or by obtaining degree or diploma in management, a person can get employment as a manager.

Any branch of knowledge that fulfils following two requirements is known as discipline:

1. There must be scholars & thinkers who communicate relevant knowledge through research and publications.
2. The knowledge should be formally imparted by education and training programmes.

Since management satisfies both these problems, therefore it qualifies to be a discipline. Though it is comparatively a new discipline but it is growing at a faster pace.

Management as A Profession

Over a large few decades, factors such as growing size of business unit, separation of ownership from management, growing competition etc have led to an increased demand for professionally qualified managers. The task of manager has been quite specialized. As a result of these developments the management has reached a stage where everything is to be managed professionally.

A profession may be defined as an occupation that requires specialized knowledge and intensive academic preparations to which entry is regulated by a representative body. The essentials of a profession are:

1. **Specialized Knowledge -** A profession must have a systematic body of knowledge that can be used for development of professionals. Every professional must make deliberate efforts to acquire expertise in the principles and techniques. Similarly a manager must have devotion and involvement to acquire expertise in the science of management.
2. **Formal Education & Training -** There are no. of institutes and universities to impart education & training for a profession. No one can practice a profession without going through a prescribed course. Many institutes of management have been set up for imparting education and training. For example, a CA cannot audit the A/C's unless he has acquired a degree or diploma for the same but no minimum qualifications and a course of study has been prescribed for managers by law. For example, MBA may be preferred but not necessary.
3. **Social Obligations -** Profession is a source of livelihood but professionals are primarily motivated by the desire to serve the society. Their actions are influenced by social norms and values. Similarly a manager is responsible not only to its owners but also to the society and therefore he is expected to provide quality goods at reasonable prices to the society.
4. **Code of Conduct -** Members of a profession have to abide by a code of conduct which contains certain rules and regulations, norms of honesty, integrity and special ethics. A code of conduct is enforced by a representative association to ensure self discipline among its members. Any member violating the code of conduct can be punished and his membership can be withdrawn. The AIMA has prescribed a code of conduct for managers but it has no right to take legal action against any manager who violates it.
5. **Representative Association -** For the regulation of profession, existance of a representative body is a must. For example, an institute of Charted Accountants of India establishes and administers standards of competence for the auditors but the AIMA however does not have any statuary powers to regulate the activities of managers.

From above discussion, it is quite clear that management fulfills several essentials of a profession, even then it is not a full fledged profession because: -

a. It does not restrict the entry in managerial jobs for account of one standard or other.
b. No minimum qualifications have been prescribed for managers.
c. No management association has the authority to grant a certificate of practice to various managers.
d. All managers are supposed to abide by the code formulated by AIMA,
e. Competent education and training facilities do not exist.
f. Managers are responsible to many groups such as shareholders, employees and society. A regulatory code may curtail their freedom.
g. Managers are known by their performance and not mere degrees.
h. The ultimate goal of business is to maximize profit and not social welfare. That is why Haymes has rightly remarked, "The slogan for management is becoming - 'He who serves best, also profits most'."

PATTERNS OF MANAGEMENT THOUGHT: THE SEARCH FOR NEW PERSPECTIVES

As a member of the audience in the Faculty Honor Lectures for the past several years, I have noticed that the presenters have typically done two things: they have reviewed some of their most significant research or theoretical contributions, and they have engaged in some freewheeling speculations or prescriptions about future trends. I intend to do both of these tonight. I would like to report on several aspects of contingency or situational theories of management where I have done most of my publishing, and I would also like to express some personal concerns and prescriptions I propose to improve the effectiveness of organizations.

Four caveats need to be identified prior to our moving into an analysis of theories of organizations and their management. First, in reviewing our current knowledge of organizations, it is obvious that the struggling, new discipline of management is just now, after approximately seventy years of development, finding sufficient empirical roots to support any sort of valid theoretical superstructure. The unknowns associated with organizations far exceed the knowns, and the knowns are more related to precepts that do not work than those that do. In fact, the frequently paraphrased statement that our knowledge is the equivalent to the light of a candle in a dark abyss seems appropriate. Second, no researcher or analyst of organizations can delve into the subject without being impressed with the fact that an organization represents one of the most intricate sets of relationships that can be found in any form of existence: One quickly comes to agree with Kenneth Boulding's well-known hierarchy of systems, in which organizations are the apex of complex systems.

Physical and mechanical systems and even biological forms of life all represent simpler phenomena. As one observer recently commented, trying to study an "organization is like trying

to nail Jell-O to a tree."The many different variables and the dynamic relationships associated with them make either micro- or macro-analysis extremely difficult. We often are forced to make predictions or conclusions when we only understand ten percent of the cause. This recognition that organizations are incredibly complex warns the researcher and analyst that simplistic solutions and explanations, that all too often flourish and hold wide appeal, are always forms of deception and frequently serve as roadblocks to further understanding. Most of our current assumptions about organizations are built on notions that are far too superficial and elementary.

The third caveat is that in doing research and analysis of organizations, it is almost impossible to assume the detached view of the true classical, scientific observer. Personal values, attitudes, and rewards tend to interfere with our observation and analysis of the subject or subjects being studied. A final caveat is that as a participant in organizations I have developed many biases that will be represented in the material presented. I feel that organizations generally tend to be mismanaged, large bureaucracies are a hindrance to progress, our leadership selection processes are far from optimal, and society is experiencing a genuine crisis resulting from inadequate leadership. All of this may be interpreted as reflecting the pessimism that has taken hold in many areas of higher education in the past several years. If so, it is not intentional. I think we have made considerable advance since 1964 when Harold Koontz made the following statement: "Most management problems exist in an extraordinarily complex environment in which it is extremely difficult, if not impossible, to isolate variables and where the laboratory or the computer cannot simulate reality. " In the past 15 years we have not been able to simulate the reality of organizations in any broad sense, but we have certainly made commendable strides in uncovering theprimary variables that dominate the functioning of organizations. We may be more pessimistic today, but it is because we know more what to be pessimistic about.

The naive claims by some theorists in the 1960s that we would have a general theory of management within five years indicate the danger of making judgments when little data · are available. Another significant sign of improvement is that our knowledge of management, even though it is extremely limited, still tends to at least double and more likely quadruple every ten years. The mass of information available today represents a broad stream of thought that was merely a trickle just thirty years ago. N evertheless, we still live in a world where the Dale Carnegies, Werner Erhards, and Yogis often have as much influence as the trained professionals. In getting into our topic, patterns of management thought, it is first important to emphasize the significance of the mental frameworks that we use to conceptualize a discipline or organize our sensory inputs. The frame of reference and mental set we use to comprehend any phenomena will structure what and how we perceive it. These mental frameworks can greatly expand or restrict our thinking and analysis, and are therefore vital to the development of a body of knowledge. The link between these theoretical models and a science is explained by L. L. Thurstone:

It is the faith of all science that an unlimited number of phenomena can be comprehended in terms of a limited number of concepts or ideal constructs. Without this faith no

science could ever have any motivation. To deny this faith is to affirm the primary chaos of nature and the consequent futility of scientific effort. The constructs in terms of which natural phenomena are comprehended are man-made inventions. To discover a scientific law is merely to discover that a man-made scheme serves to unify and thereby to simplify comprehension of a certain class of natural phenomena. A scientific law is not to be thought of as having an independent existence which some scientist is fortunate to stumble upon. A scientific law is not a part of nature. It is only a way of comprehending nature.

Thus it is my contention, that especially in the early stages of the evolution of a science, the primary task is to develop ways of thinking and basic models that are representative of the topic under study. A model as used here can be simply defined as "a coherent andsystematic set of descriptions of relevant relationships. Broad models covering a discipline must be able to accommodate vast amounts of information, and they must also contain the primary variables that account for the functioning of the entity under study, in our case that of the organization. The ultimate hope is to be able to account for the interdependences among the variables in the model and thus to uncover cause and effect relationships.

Our greatest need in the development of management thought is to establish more accurate ways of thinking encompassing models covering the management process and the functioning of organizations. Again, in recent years, especially those since 1970, we have made giant strides in this regard. However, nothing could more quickly accelerate the advance of management thought than conceptual breakthroughs that would serve to open up new vistas of thinking. It is this topic, along with some practical problems in the management of organizations, that will be the subjects for discussion in the balance of this lecture.

THE UNIVERSALIST PARADIGM OF MANAGEMENT

In order to fully appreciate the current theoretical approaches to management, it is first necessary to look at some of the early beginnings. In the time available this evening, it is obviously not possible to consider all of these approaches through reviewing what we refer to as the various schools of management. Only two major thrusts will be covered. These two schools are selected not only because of their significance but also because the more recent contingency approach that I am associated with grew out of a reaction to some of their limitations. Most writers on administration start with the scientific management movement that began around 1900.

This approach to management was under the leadership of Frederick Taylor, an engineer who became a major owner-manager in the iron and steel industry in the United States. As an engineer, Taylor was perturbed because there was no established sequence by which most physical tasks were performed in organizations. Accordingly he developed methods for analyzing jobs, primarily through observation, that would lead to the optimal sequence for maximizing efficiency. As he stated, ". . . there is always one method and one implement which is quicker and better than any of the rest. And this one best method and bestimplem.ent can only

be discovered or developed through a scientific study and analysis of all the methods and implements in use, together with accurate, minute, motion and time study." This concern for finding the one best way and the absolutes in management dominated study in the field for the next fifty years. Management theory was obsessed with the "principles approach" which emphasized that there are universal truths underlying organization and management practice that must be discovered and mastered if a science of management is to be developed.

Organization theorists such as Henri F ayol , Lyndall Urwick, Alvin Brown, and Harold Koontz attempted to develop sets of principles of organization that could be universally applied. Researchers investigating leadership during the first half of the century were also attempting to identify the universal set of skills that constitute leadership. Following this approach, the initial management textbooks were filled with principles for managers and students to memorize and apply. In the late 1950s, disenchantment developed with the principles theme. As early as 1945, Herbert Simon had referred to them as "little more than ambiguous and mutually contradictory proverbs." In stretching the concepts to force them to be universal, they lost their practical value. As Ernest Dale stated, "A principle so broad as to cover all types of situations is necessarily so broad as to tell us little we did not know before." The principles were normally deductive in nature and rarely supported by any empirical research. And, yet, the emphasis on universalism and absolutes has been slow to wane. The 1950s and 1960s saw the rapid rise of another theoretical thrust. Behavioral scientists, following the Hawthorne studies of the late 1920s and early 1930s, started to infiltrate management thinking and by 1960 they gave rise to a large number of concepts aimed at humanizing organizations and improving their management.

In 1960 Douglas McGregor expounded his famous contrasting assumptions of behavior in his formulations of Theory X and Theory Y. He favored the Theory Y view holding that man does not inherently dislike work, will exercise self-direction and self-control, seeks responsibility, and has the capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organization problems. Warren Bennis, a contemporary of McGregor's at M.I.T., coauthored with Philip Slater a landmark article in the Harvard Business Review in 1964 stating that democracy in organizations is inevitable. They perceived democracy to be "the only system which can successfully cope with the changing demands of contemporary civilization." If you are not familiar with the name of Warren Bennis, I hope you will remember it because we will come back to his contrasting views some ten years later. At the same time in the early 1960s, behavioral scientists such as Chris Argyris and Rensis Likert were decrying autocratic leadership and urging the adoption of more participative, democratic styles. The words of Chris Argyris, which I have repeated many times in the classroom, gave me rightful cause for indignation. He argues that task specialization "inhibits self-actualization and provides expression for few, shallow skinsurface abilities that do not provide the 'endless challenge' desired by the healthy personality."

In 1963 at the time most of these ideas were showing up in print, I was just returning to the university, after ten years of working in government and industry and I found comfort in these

new directions. I was pleased to be able to help eliminate some of the abuses that I had recently experienced. At the time the following conditions were still prevalent in organizations: there was too little consideration of subordinates' views by supervisors; no real due process existed in industry especially in non-union plants or for salaried employees; profit was too exclusively the goal of the firm which made subservient the consideration of social issues or values; the mistaken assumption that the administrative hierarchy was a knowledge hierarchy was allowed to persist; if an employee was to be transferred to another location, his or her only expected response was to ask when; employees furloughed or terminated were often treated with the nonchalance of a day dreamer plucking blades of grass; it was unthinkable that a female would handle any position except that of a secretary; and centralization continued to predominate even though there had been outcries against it since at least1950. I soon became convinced that the firm, as a subunit of the broader American democratic society, could not counter the values of this larger suprasystem. Such an emphasis on democracy eliminated or reduced many of the social abuses found in organizations, but it did not provide for a general theory of management. It forced the manager to be more humane, but it still left largely undone the task of adequately conceptualizing the role of the manager and the functioning of organizations. It also persisted in the emphasis on absolutes implicit in industrial humanism and the fostering of participative styles of leadership.

THE CONTINGENCY PARADIGM OF MANAGEMENT THOUGHT

In the late 1960s and early 1970s, several developments contributed to the rise of a new approach to management known as situational or contingency theory. First, there was the general dissatisfaction with the simplicities of traditional approaches especially in the assumptions behind the search for universal principles. Also research studies demonstrated time and again that different concepts and techniques tended to be successful depending on the situation at hand. Behavioral scientists were disappointed to find that they could not verify that happy work groups were always the most productive or that participative leadership styles were the most effective. Ralph Stogdill concluded following a comprehensive review of studies on leadership that the "results clearly indicate that neither democratic nor autocratic supervision can be advocated as a method for increasing productivity .. . . " Practitioners also found problems in universally app~ying the egalitarian dogma, and one began to hear such sarcastic questions as, "How do you get everyone in the act and still get action?" Another theoretical forerunner of contingency approaches was also a phenomena of the 1960s.

General systems theory came in as a popular means of viewing organizations and integrating the knowledge of a discipline. The basic assumption of G.S.T. is that nothing exists in nature that is unattached. The current state of any entity is dependent, at least partially, on other factors and forces that are external in nature. Systems theory focuses on relationships among variables and on the wholes that these variables represent. It is the "big picture" approach that attempts to broadly integrate systems, subsystems, and suprasystems. It provides a relationshipsoriented framework that can effectively serve as a method for integrating diverse fields of knowledge, as

an eclectic discipline like management demands. Contingency approaches to management thus grew out of the disenchantment with traditional management thought and the new understanping provided by systems theory. It rejected the universalism of traditional management and captured the relationships orientation of systems theory.

It strongly emphasized that the selection and application of management concepts and techniques is dependent on the context of the situation. The behavior of individuals and the functioning of organizations is thus reliant on the environment in which this behavior or functioning takes place. The problem in management is not to search for universals but to. be able to diagnose situations so that those differences can be identified that will influence the operations or change processes the manager is interested in. "If-then" statements come to replace broad, universal principles. "If" certain conditions exist in the context of the situation, "then" certain actions or the application of particular management concepts appropriate to the situation are warranted. There have been many major contributors to contingency theory going back to at least the industrial studies conducted in England in the 1950s. Likewise, now there are many different contingency models of management. Underlying these models are several common assumptions. Eight stand out as being significant:

1. Contingency approaches are model-oriented while traditional theory emphasizes abstract, often unrelated, principles. Using a systems orientation, contingency theory provides a framework for sizing up and evaluating the variables that are dominant in the broader organization or in any subset restricted to a particular situation.

2. Contingency theory is based on the assumption that even though common elements exist in most organizations (tasks, technology, people, group norms, and so forth), they tend to differ from situation to situation both in terms of the nature of the variables and their significance. The variables external to an organization often exist in a deterministic relationship to the firm or other unit so thatit must meet the demands of the environment to survive and to maintain effectiveness. Thus the context of a situation is generally the crucial factor in determining managerial action. The executive needs to size up the forces that are at work in his or her area of responsibility and determine what steps can be taken either to accommodate or to change them. This is true at both the macroand micro-levels.

3. Even though contingency theory emphasizes the differences in situations, certain commonalties can be identified among classes of situations. Thus there are sets of similar conditions that frequently can be found in organizations. Some sets will call for the use of adaptive, loose structures and more participative leadership styles while other conditions will make bureaucratic structures and more directive styles desirable. Accordingly, universal principles are rarely appropriate but classifying subcategories of organizations or situations based on common conditions and forces associated with them is. As MacKenzie and House state ". . . the fate of the better theories is to become explanations that hold for some phenomena in

some limited conditions." The real issue in management becomes one of matching appropriate concepts and techniques with situational constraints or variables.

4. Contingency approaches emphasize the importance of understanding the relationships among situational variables. The conditions in any situation are a result of the interplay or interaction of a number of factors, and it is the relationship among these that accounts for the particular conditions evidenced. The important point to note is that contingency theory has changed the concern in management from knowing a set of rules or principles to viewing it as a method of analysis.

5. Contingency theory strongly endorses relativism and rejects the notion of absolutes. Since the same set of variables generally predominates, it is the relative differences in the nature and significance of these variables that become important, especially since all situations tend to be dynamic. Dualism often dominates our thinking where right or wrong and black or white extremes are the only alternatives. Yet, while organizations cannot simply be classified as centralized or decentralized, they all generally fit at some different point along a centralization-decentralization continuum. Scales reflect-ing relative differences thus replace universalistic rules-of-thumb. Decision making becomes a process in evaluating trade-offs rather than an exercise in selecting absolutes.

6. Contingency theory is deeply founded in pragmatism or the doctrine of using what works. With the exception of certain value and behavioral absolutes, essentially all others are rejected so that the ultimate test of management practic'e is the question of whether it achieves the results desired. Democratic leadership styles may be preferred for certain humanitarian reasons, but if the situation calls for more directive styles (such as an emergency during a crisis), they are to be utilized.

7. Traditional theory emphasizes the natural integration and mechanical functioning of organizations. Fayol often referred to centralization as the "natural order of things" and pointed out the importance of unity of direction. Contingency theory recognizes organizations as having multiple goals and subunits with the result that all organizations experience built-in conflict. The emphasis is on diversity rather than on commonalty, and on the problems involved in managing highly differentiated organizations characterized by multiple interests and operations rather than the single-purpose, hierarchically integrated firm.

8. Probably the most significant characteristic of contingency theory is that it is an affirmation that management theorists have finally faced up to the complexity of organizations and their management. As Morse and Lorsch state, "The strength of the contingency approach ... is that it begins to provide a way of thinking about this complexity rather than ignoring it. " Management consists of a host of different variables where multi causation is involved. Thus contingency paradigms generally reject single causation as an explanation for conditions in organizations, and also reject the assumption that the relationship between variables is unidirectional. The basic

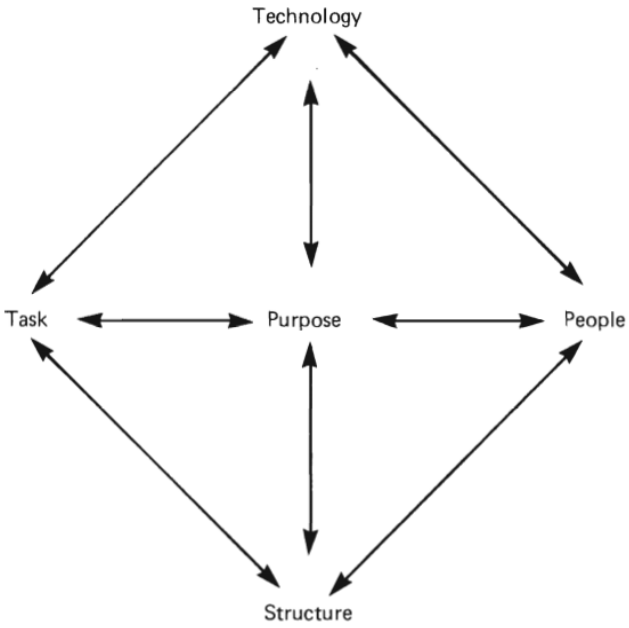
model is an interaction one where influence flows in both directions among a large number of variables. Hell riegel and Slocum state, "If the single-cause assumption is inadequate, an obvious substitute is the assumption that events are caused by many forces working in complex relation to each other." Many wonder if it is possible to design any contingency model of management if the previous eight characteristics are accepted. The basic problem in model building is explained by Hubert Blalock: "The dilemma of the scientist is to select models that are at the same time simple enough to permit him to think with the aid of the model but also sufficiently realistic that the simplifications required do not lead to predictions that are highly inaccurate. "

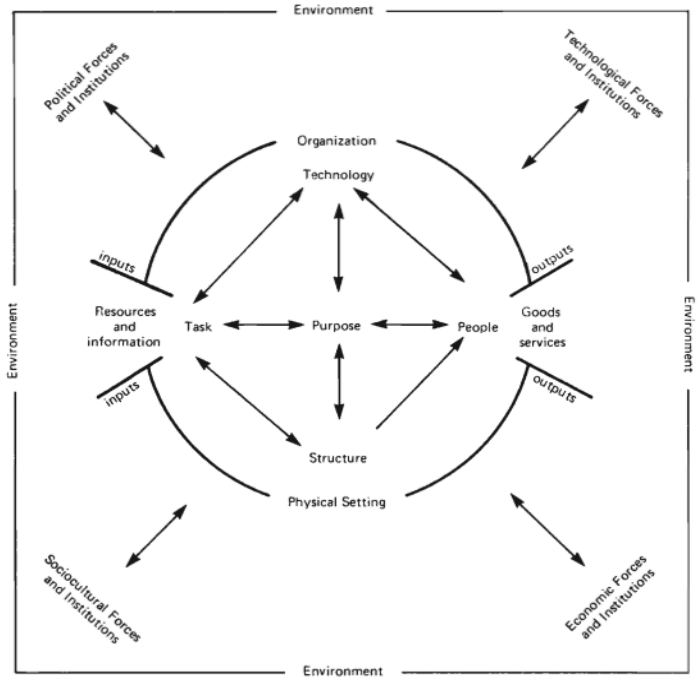
Thus, in the contingency model I have developed, I attempt to identify the primary factors that account for the functioning of organizations and that tend to predominate in situations (while seeking at the same time to avoid developing a laundry list of all factors that can come into play). The intent is to enumerate a limited number of variables that a manager can understand and cope with in his or her decision processes. If executives are to have their influence felt in a situation, they must have their hands on the right valves or controls that determine how the organization functions.

Organizations are complex enough without managers mistakenly concentrating on factors that are of secondary importance in the field of forces represented by an organization. Following these guidelines, the management model that I use consists of two sets of variables: those internal to the firm and those that are external. The internal variables (figure 1) consist of the goals of the organization and the tasks, technology, people, and organization structure involved. It is the nature and condition of these five factors that tend to dictate the need for the various different methods of planning, leading, job design, resource allocation, and other decisions that fall on the shoulders of the manager. To be effective in the decision process, the executive needs to concentrate on understanding these five factors. However, as indicated earlier, many of the conditions that exist in an organization are imposed by external forces.

The marketplace of any firm is dictated by economic, political, technological, and social considerations, and if a firm is to compete it must adapt its internal operations to meet these external contingencies. As a nonbusiness example, Title IX legislation has forced many changes in our education systems.

SITUATIONAL VARIABLES INTERNAL TO THE ORGANIZATION





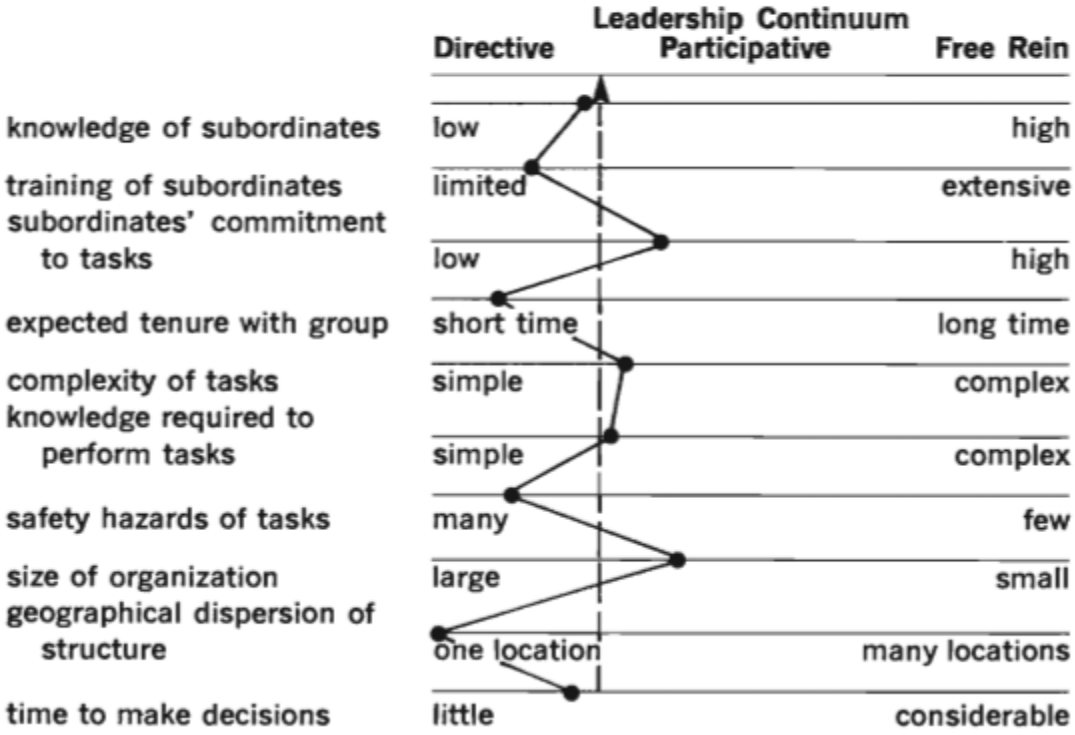
INTERNAL AND EXTERNAL VARIABLES IN THE CONTINGENCY MODEL OF A FIRM

It is probably easy · enough to develop a multivariate contingency model such as this, but the pragmatic question is how it is to be used? Since at this time it is impossible to explore this in any detail, I would refer you to my textbook published last year entitled Management: Concepts and Situations (Chicago: Science Research Associates, 1976) for a fairly thorough analysis of its implications in relation to planning, organizing, decision making, motivating, leading, communicating, and controlling.

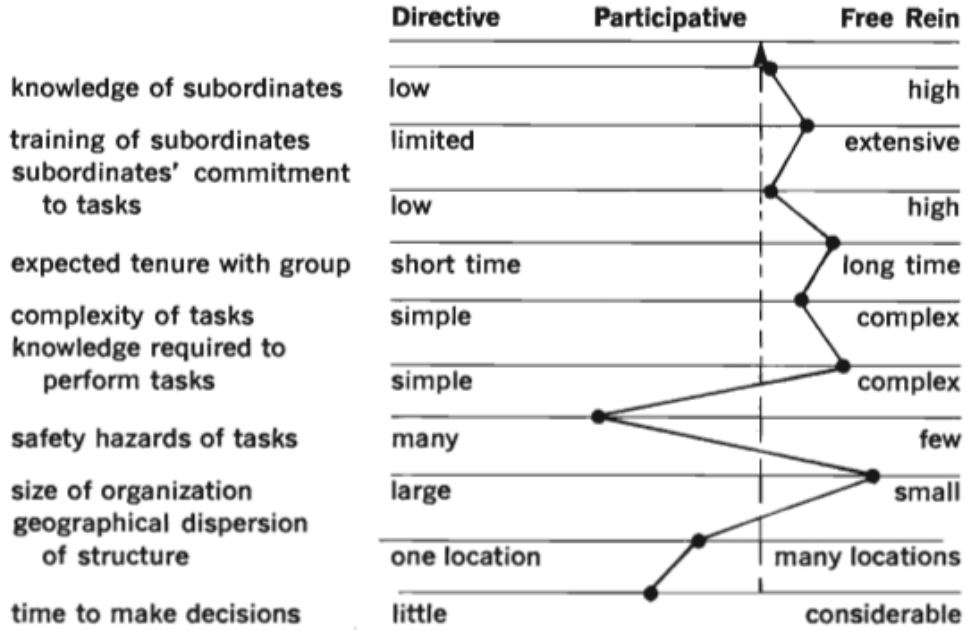
For our purposes, two examples will suffice. In determining which styles of leadership are appropriate in an organization, the primary variables are the knowledge of subordinates, their training, commitment to the tasks, expected tenure with the organization, complexity of the tasks, size of the organization, and other such factors. Figure 3 contrasts two situations in the U.S. Forest Service. In the first a supervisor has temporary summer hires who have little knowledge and training in Forest Service operations and who are engaged in simple tasks such as cleaning up campgrounds and constructing trails. Since the characteristics of the situation are all on the left side of the scales, it indicates that a directive style of leadership is more appropriate. This situation is contrasted with the National Forest Supervisor who has professional foresters reporting directly to him. In this situation the subordinates are well trained, knowledgeable, committed to the organization, and engaged in challenging tasks. Given these factors, a more participative style of leadership will be most effective. As another quick example, figure 4 shows that where you have many knowns in terms of tasks, technology, and the environment, it results in the need for specific, detailed planning systems but where you have more unknowns in these factors, it calls for more general, flexible plans. This is approximately where we stand today in management theory. It tends to be contingency oriented and its evolution is paced arm in arm by what has been the rather slow development of research data, enlightened models, and improved methods of getting from the theory to practice. However, it does seem to be on a track that will eventually lead us to greatly improved approaches and methodologies.

SITUATIONAL PROFILES OF VARIABLES INFLUENCING LEADERSHIP STYLES

Situation Involving a Supervisor of a Forest Service Work Crew

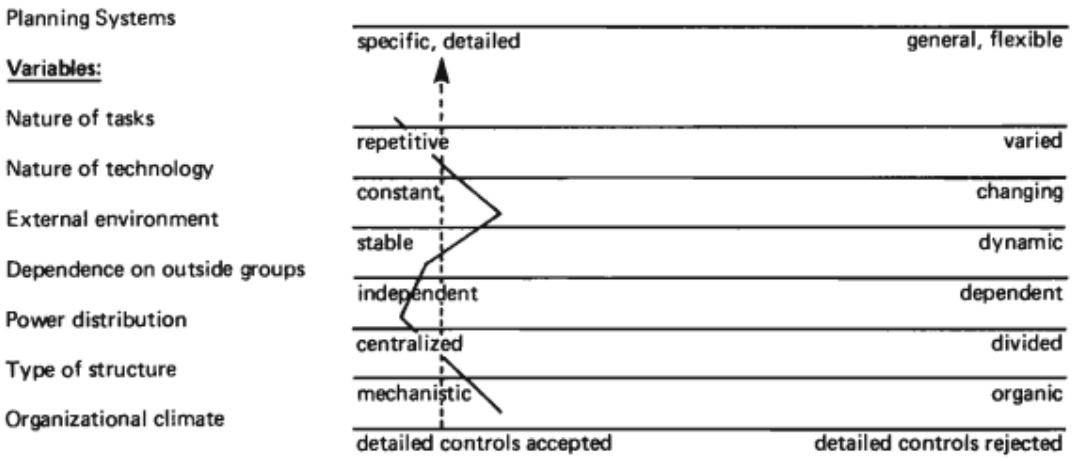


Situation Involving a Supervisor of Professional Foresters

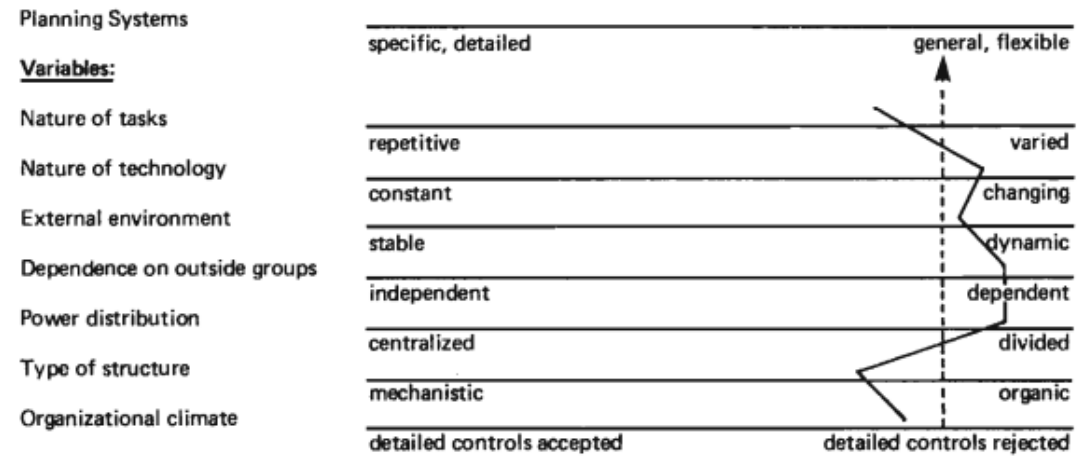


PROFILES OF TWO SITUATIONS RELATING CONTINGENCY VARIABLES TO THE NEED FOR DIFFERENT TYPES OF PLANNING AND CONTROL SYSTEMS

Family Corporation Producing Canned Vegetables



Environmental Protection Agency



PROBLEMS FACING MODERN ORGANIZATIONS

I would now like to look at some specifics in terms of problems we are experiencing with organizations. Unfortunately, some of the signs do not appear very encouraging. I am sure that what is more a reflection of my advancing senility than anything else is a feeling that there is a certain softness creeping into our society. Now softness is of course not necessarily undesirable if it involves humanitarianism, but it has other implications if it relates to personal and organizational commitment. I become disturbed each year to find that the national student norms on achievement tests (American College Testing Program tests and Scholastic Aptitude Test) have continued to drop, a trend in evidence since 1964; I find it appalling that the current high school graduate has averaged 15,000 hours watching television. and 11,000 hours in school, and that between the ages of 2 and 65 a person will spend nine years watching television ; I have the uncomfortable feeling, manifest in more ways than just television, that our desire to be entertained has come to exceed our desire to be educated; I also am inclined to think that the norm of doing the minimal to get by is replacing the norm of striving for excellence; and, finally, that we as educators have gradually let academic standards crumble. For some reason we have assumed that all learning should be fun and that it is not acceptable if it does not meet this criterion.

I feel more inclined to agree with Eliot Butler who states:

To learn is hard work. It requires discipline. And there is much drudgery. When I hear someone say that learning is fun, I wonder if that person has never learned or if he has just never had fun. There are moments of excitement in learning: these seem usually to come after long periods of hard work but not after all periods of hard work.

While I do not want to also start this section off with a pessimistic note, still I find some rather alarming conditions in the management of organizations. Large bureaucratic structures tend to be unmanageable and out of control, and the decline of leadership is such that to find examples of leaders we are forced to look to the past. Alvin Tomer, the futurist, finds me sympathetic when he writes that "We are not going to make it through the upheavals of thenext 10 to 20 years with the political machinery we have. " While this is probably an overstatement, his general theme holds considerable merit.

This is that the pace of change in society, resulting primarily from technology, is increasing at a much more rapid pace than either people, institutions, or organizations are able to adapt. Just as a few examples, in the past hundred years we have increased our communication by a factor of ten to the seventh power, our speed of travel by ten squared, our speed of data handling by ten to the sixth power, our energy resources by ten to the third power, our power of weapons by ten to the sixth power, our ability to control diseases by ten squared, and our rate of population growth by ten to the third power. When one merely stops to analyze all of the changes that have come about

in society since the late 1940s which saw the introduction of the computer and television, it is difficult to ponder what might transpire in the next 100 years.

Certainly the pace of change will not decrease even though the rate of growth will have to be brought under control if overpopulation and resource depletion are not to threaten our survival. The major problem I see in management is that we are not encouraging the development of those types of organization structures and leadership styles that are necessary to meet the dynamic, environmental demands of the future. We have tended to foster organization climates where leadership is minimized and the status quo is protected with the result that organizations too frequently drift rather than experience a controlled change orientation. Now I am not arguing that all change is desirable, for some recent ones in management theory and practice are those to which I am most opposed, but in the name of democracy we have made many of our institutions so cumbersome and leaderless that any form of controlled adaptation becomes almost impossible.

I would like to express these concerns relating to current management theory and practice in the form of four paradoxes: The first paradox is the one already referred to resulting from the environment demanding more flexible structures at the same time we tend to be building in more rigidities. Organizations naturally have many defenses to protect the status quo. Leaders are going to resist any change that potentially threatens their power positions.

If someone holds four aces he hardly wants the deck reshuffled. Organizational policies, group norms, shared beliefs, and existing proC'edures and regulations all argue for conformance to existing standards. As Charles Perrow the noted sociologist states,

Even those organizations which do start out as adaptive and innovative strive to rationalize and routinize. Every manager prizes freedom and initiative for himself but attempts to routinize the areas under his control. Similarly, those in control of the expanding, innovative organization appear to maximize their own freedom and rewards by making the organization itself more predictable.

Furthermore, in recent years we have added to this, especially in universities, by following the democratic urgings to instill more representation based on interest groups in the authority structures and to expand the trend towards power sharing or power equalization. It is interesting to note how Warren Bennis, who was one of the authors of the widely quoted article on the inevitability of democracy in 1964, changed his views after serving as Executive Vice President at Buffalo in the New York system and later as the President of the University of Cincinnati. Reflecting on these experiences, he now interprets this subject as follows:

Vast splintering and fragmentation arise from the new populism of those who felt denied in the past and who, rightly, want to be consulted in those decisions that affect them. All this is supposed to add up to "participatory democracy" but adds up, instead, to a cave of winds where the most that can usually be agreed upon is to do nothing.

Gail Parker, a former college president, writes, "And we have created participatory bureaucracies in our institutions, elaborate systems of surveillance by committee, which guarantee that we can do only one thing really well, and that is to explore our mutual hostilities." Dwight Ladd further notes, "As so often seems to be the case in systems of shared power, the ability to prevent change has generally been greater than the ability to bring it about. We have somehow assumed that Adam Smith's invisible hand of economics also applies to politics in organizations. For each firm to pursue its own interests in the marketplace may result in the common good from an economic standpoint, but for each interest group to pursue its own ends in a bureaucracy more likely leads to organizational paralysis and compromise at the lowest common denominator. The danger is that the groups involved may become more concerned with the internal distribution of power and status than with organizational goals.

My immediate concern is with universities where committees and administrative groups established on the basis of interest representation are given the responsibility for handling the major administrative affairs of their institutions. The delegates to these groups by the nature of their appointments generally feel they are to represent the narrow interests of their constituencies. This results in a large number of factions where no one has the perspective or is held accountable for what happens to the total organization. It is also a situation where the organization became overly reliant on committees. I am reminded of the statement of Charles Fraser of South Carolina's Sea Pines Company who stated that he knew his company was in deep trouble when committees began to form "for the simplest tasks. " Fritz Roethlisberger's statement of 1964 still holds true: It is a debatable question as to whether you can "humanize" bureaucracies.

The question is not whether organizations should be humanitarian and foster the will of their membership, but it is a question of how these values can be preserved without turning the organization into a forum for dissent and without shackling the momentum to move ahead and keep an adaptive posture. The second paradox is closely related to the first. Organizations desire progress and innovation, but they tend to develop demands for conformity which stifle these very processes. Unfortunately, organizations are at their best in dealing with matters that are routine, and they are at their worst in establishing climates that are conducive to new ideas. The same factors that block adaptation also block creativity: Namely, the desire of leaders to protect their power positions, the effective socialization process which forces membership compliance with group norms and expectations, and rules, procedures, and policies that reward conformance and penalize those that thwart the system. Much of this resistance is psychological in nature.

As human beings, we tend to have little tolerance for ambiguity and if our sensory input is not consistent with images we have of the world, we tend to force it to fit our patterns. Unfortunately, we seem not to be satisfied unless other people think the way we do - as is manifest in the zeal of a missionary, the critical review of an accreditation board, or the march of an army into an enemy's territory. Organizations are simply not hospitable to innovators. If the individual does not share the common view of the organization, he or she is considered an

outsider or a heretic and the organization soon learns how to eliminate or wall off the dissenter. Calvin Taylor concludes the following from his numerous studies on creativity:

"The more highly creative an idea people have the more they will be in trouble with the institutions around them. "Part of this results also from our desire to avoid conflict and to reward those who are team players. Certainly once a decision or organizational policy is established, members of the organization should support it until it is proven faulty, but in the process of collecting ideas and evaluating alternatives prior to the establishment of these policies, as wide a divergence in thinking as possible should be fostered. The third paradox is that at this time in our history when we are in dire need of strong leadership is the very time when we are experiencing a leadership vacuum and, as John Gardner states, we have created an "antileadership vaccine." The question is frequently asked, "Where have all of our leaders gone?" since it is hard to scan the world scene and find anyone who could compare with a Lincoln, Roosevelt, Ghandi, Schweitzer, or Churchill. John Gardner says, "Most of the people picked by the system are not the kind of people you would have chosen to lead the society," which is all too evident in our last presidential election.

Now I am not nec'essarily arguing for the man on horseback, but I feel that we have tended to generate leaders who are consensus takers, nonalienators, and arbitrators rather than those who can provide new directions and guide the organization to higher levels of accomplishment. One of the discouraging things to me is that in our graduate management programs we have tended to create efficient managers and keen analysts, but we have done little to develop the leader's role that is contained in the following statement by John Gardner:

Leaders have a significant role in creating the state of mind that is the society. They can serve as symbols of the moral unity of the society. They can express the values that hold the society together. Most important they can conceive and articulate goals that lift people out of their petty preoccupations, carry them above the conflicts that tear a society apart, and unite them in the pursuit of objectives worthy of their best efforts.

The leader's role is more than testing the winds to see what his or her subordinates desire and it is more than placating and cajoling interest groups. The leader, because of his or her position in the organization, is frequently the only one with the perspective to pursue the common good. N ow certainly we need checks on power since power does breed contempt, but to restrict the leader to being only a moderator or a tightrope walker is to force the organization into a drift condition.

The current situation in universities is again depicted by Warren Bennis:
Academic leadership must develop the Vision and strength to call the shots. There are risks in taking the initiative. The greater risk is to wait for orders. This means that administrators at every level must lead, not just manage. This means that colleges and universities have to recognize that they need leadership, that their need is vision, energy, and drive, rather than a bland and safe figurehead.

We have done many things in recent years to make leadership difficult. The media has so exposed the private lives of executives that we have relegated them to commonplace; we have tied their hands with legal issues through making every decision a potential law suit; we have strongly fostered the organizational norm of power equalization; and we have seen the rise of large numbers of interest groups both internal and external to the organization. Regarding this last comment, the remarks of Governor Richard Lamm of Colorado are appropriate. He said, "We are umpires, not leaders. We mediate between all those strong factions, but there's no common consensus." Unfortunately, in permitting these developments to occur we have invited that blandness that now characterizes the upper structure of most organizations.

The fourth paradox is that the organizations in which enlight~ned management is the most critical are the very ones that are out of control and border on being totally unmanageable. These are the massive institutions of society represented by the federal government, conglomerates, large labor unions, and multinational corporations. One is almost inclined to agree with Richard Goodman that the villians of society are these gigantic bureaucracies that have experienced unparalleled growth and power. The concern is not necessarily their size but the fact they have become dangerously unresponsive and thus self-serving. Their complexity defies understanding and forces leadership into a reactive rather than proactive stance. C. Jackson Grayson, J r. notes that when organizations are shielded from the forces of change they become "bureaucratic, rigid, irrelevant, and inefficient," and he should have added inhumane.

Peter Drucker, the elder statesman of management thought, makes these observations about large organizations: "Our society has become, within an incredibly short fifty years, a society of institutions. It has become a pluralist society in which every major social task has been entrusted to large organizations. . . ." He later writes, "It is managers and management that make institutions perform. " This latter statement may be right regarding smaller- and mediumsized organizations, but I am not so sure about the massive institutions. Charles Perrow raises a more intriguing question when he asks, "To what extent are organizations tools, and to what extent are they products of the varied interests and group strivings of their members?" I believe we have made the mistake of assuming that organizations are tools and subject to the control of managers, but the large bureaucracies have moved beyond the regulation of one person or group of persons. Furthermore, they are resistant to most of the integrative, structural devices we have concocted.

Trying to control them is like grabbing a giant balloon. You might force air out of one portion but it just pops out somewhere else. Unfortunately, we in academe have done very little to alleviate the situation. We have focused our attention and research studies onsmaller organizations and have almost ignored problems of managing the large, unwieldy ones. In some of our classes we deal with forms control, but what do you do in the federal government where there are over 700,000? Sociologists in studying organization structure have tended to concentrate on the dyad of two persons, the small group of normalI,y less than a dozen, or else the complex organization of perhaps several dozen subunits. In management we have emphasized principles such as span of control, department at ion , job design, and leadership at the supervisory level and have avoided trying to look at the extremely large organizations except in terms of policy and strategy determination.

We have again caught ourselves in the universalist trap of assuming that the organizing, planning, and control concepts designed for the medium-sized firm (those holding up to several hundred million in assets) are also appropriate for the gigantic bureaucracies. Part of this indifference has resulted from the feeling of futility in dealing with anything so massive, but destroying the will to change these organizations will only guarantee their continued unbridled expansion. It is quite easy to identify problems in society and in management or organizations, but it is much more difficult to propose reasonable solutions. I have already mentioned some of these, but I would like to add a few more prescriptions or at least identify areas where we need improved ones. The greatest need is the one mentioned several times and that is for new wa,ys of thinking about organizations and management. Contingency theory has made it possible to reach a new plateau but further major improvements are dependent on more realistic paradigms and better taxonomies. As D. O. Hebb states, "A good theory is one that holds together long enough to get you to a better theory." Theory evolution will set the pace for the future development of management thought. A second need is to foster a greater tolerance of diversity in organizations and society. Many would call this unrealistic and wishful thinking but much the same could have been said about the need to improve race relations in the United States twenty years ago. The human and group inclination to force others to think as they do and to impose their desired behavior patterns on them is not consistent with the pluralism found in the world and with the great number of differences that characterize human existence

. A greater tolerance for diversity would enhance the process of change in organizations, and it would provide more maneuverability for the innovator. One is reminded of Darwin's gardner who said of him, "Poor man, he just stands and stares at a yellow flower for minutes at a time. He would be far better off with something to do. " A third requirement that would facilitate management is more adaptive forms of organization structure. Toffier asserts that we need more temporary or ad hoc structures that he refers to as ad-hocracy. Trying to back off from the trend toward bureaucracy in organizations is extremely difficult but some actions can be taken. The proje'ct form of departmentation is an example where the organization structure is eliminated once the project is completed. Assigning a temporary task force rather than establishing a permanent structure to handle a problem or future activity is another example.

The current interest in sunset laws relating to organizational charters, functional assignments, and rules and regulations which make their periodic renewal dependent on a review that would substantiate their continuing need and ability to contribute are trends that I support. Zero-base budgeting or a modified form of this proposal also holds considerable merit. As growth has leveled off in many segments of society, such as education, the response has been for legislatures to annually establish appropriation increases that approximate the inflation rate. What this does is protect the status quo because there are only enough resources to fund existing projects. This leaves nothing left over to start new programs or to provide seed money for the innovator who wants to pursue some far-fetched scheme that is counter to current organizational activities. Under zero-base budgeting, existing programs are not automatically funded. Rather organizations are required to justify current activities which, in effect) puts them on a par with new programs up for consideration. More adaptive units are especially needed in the gigantic public institutions such as the federal government. Business has been partially able to overcome the problem of bigness by dividing up the massive corporate structures using profit decentralization.

Major divisions of the corporation are permitted to function in a relatively independent fashion as long as they achieve certain profit objectives. However, we have no such convenient method of accountability in public institutions. If the current search for better methods of social accounting is successful, it should lead to more semi-autonomous public agencies where accountability is more to the publics served than to some supposedly strong central executive. As a final comment on the need for adaptive structures, I again return to the issue of interest representation. Many times it is justified in committees and other forms of organization structure, but we need to eliminate the assumption that this is the normal pattern for differentiating organizations. As any method of organizing, there are certain circumstances when it is appropriate, but there are also many when it is not. Often groups which have no ax to grind should have an input into the decision process similar to what Common Cause represents in governmental affairs. Furthermore, our aim should be to get the most knowledgeable people involved not just those who represent some faction in the organization.

Again, a change in thinking is required. We need to be more concerned with how to make the processes of the organization flow rather than with creating endless roadblocks and checks on power. As Bennis states, we require a declaration of interdependence that will place greater emphasis on the common good rather than continually diffusing organizations through fragmenting structures based on interest elements.

A fourth requirement in improving organizations and their management is to establish and make paramount individual standards rather than universal ones. This may sound as if it is a repudiation of the concepts just discussed relating to interest representation.
However, the difference is between goals and methods of evaluation. While we need a greater emphasis on total organizational goals, if we use organization-wide standards to measure subgroup or individual performance, it frequently creates stress and alienates subunits because of the disregard of their uniqueness. Feedback is significant in all motivation and performance, but the feedback must be based on standards that are considered fair by the individual or unit involved. This requires recognizing situational and individual differences within the overriding interdependence of the organization. As an example, I would commend Utah State University for its policies requiring that each faculty member have a separate role statement and that his or her performance be individually evaluated based on this role assignment.More emphasis should also be on self-evaluation if we are to unleash the strivings for originality that are found in human beings. Carl Rogers states,

Perhaps the most fundamental condition of creativity is that the source or locus of evaluative judgment is internal. The value of his product is, for the creative person, established not by the praise or criticism of others, but by himself. Have I created something satisfying to me? Does it express a part of me - my feeling or my thought, my pain or my ecstacy? These are the only questions which really matter to the creatI. ve person.

A fifth requirement is that we develop improved methods of leadership selection. I believe that this is probably the greatest unrecognized failure that exists in organizations today. Too often

those people who float to the top are those who have never taken a strong stand on anything, who have made sure they never alienate anyone or at least any significant segment of the organization, who have been unwilling in the past to buck the hierarchy or undermine the inbreeding found in essentially all organizations, and whose opinions and values seem to fluctuate with each change in the power elite. The political syndrome is too evident in all organizations. The less one says that is controversial and the more one is able to dodge taking a clear position on an issue, the more likely he or she is to gain broad-based support. Pussyfooting with the Equal Rights Amendment (ERA) and the abortion issue are recent examples. I am afraid that what this tendency has led to is "do-nothingism" and to the wasteland we refer to as leadership.

It would be my recommendation that before a leader is selected, or at a university before a committee is appointed to handle this selection, a determination should be made of what deficiencies exist and what future conditions or goals the organization is striving to attain. Consistent with this, criteria for a leader should then be established that will result in the selection of an individual who has the background and interest to be effective in helping the organization reach these goals. Leaders are too often selected based on pleasing personality characteristics that have nothing to do with the mission and tribulations of the organization.

There is no valid attempt to match the needs of the organization with the capabilities of individuals. Accordingly, a selection committee should be appointed based on individuals who are most familiar with the future goals and needs of the organization rather than on the basis of someone from each interest group. Interest representation only insures the selection of a compromise, nonoffending candidate who is the very antithesis of the leader. I, of course, am hardly the one to advocate an absolute, but I would be suspicious of an candidates who have proven records of nonalienation. How can individuals provide leadership if they have never firmly made up their minds or forcefully expressed their views on anything? The curious mixture of attitudes comprising modern man is demonstrated by the tendency towards nonalienation coupled with an intolerance for diversity.

The sixth requirement is to improve leadership through upgrading our expectations of leaders and through modifying our standards for evaluating them. Peter Drucker told us over thirty years ago that we should measure organizations, individuals, and leaders on results,

not on current activities, vague promises, or outward appearances. By focusing on what someone has accomplished one avoids being deceived by a pleasant personality, flurry of activity, or expression of support. Drucker's management by results theme is one that holds considerable rational appeal but one which is difficult to implement in practice. The problem of establishing individual standards for all positions has already been addressed as has the difficulty of letting interpersonal relationships interfere with the objective interpretation of a subordinate's progress.

Another mistake in measuring performance is to establish rewards and place emphasis on achieving short-run, expediency goals, rather than on the more basic long-term objectives of the individual or organization. Generally, pay raises and other formal organization reinforcement contingencies occur on an annual or more frequent basis that provides obvious advantages in achieving short-term results which are often suboptimal in terms of the future good of the organization. Jerry Apodaca, Governor of New Mexico, recently related this issue to government when he stated that "we have too many politicians who look from one election to the next, rather than to where we might be in 20 years." The energy crisis is certainly one place where short-range expediency planning continues to take precedence over long-run solutions to the problem.

One of the major changes required in relation to leadership is a modification of the expectations that people have for leaders. Buoyed on by the participative management movement, we have come to expect leaders to be consensus takers and group facilitators. Now certainly, these are important situational roles for some managers but with this trend has faded the image of the leader as an advocate. The leader's roles in goal articulation, image building, providing a vision of the future, instilling confidence, tackling problems head-on, striving for excellence, and attempting to uplift the values and achievements of an organization and society have taken a backseat to avoiding controversy and minimizing risks. The leader's role should be to rise above the petty power struggles that characterize the infighting of interest groups. If this becomes the focus of the leader, as we found in Watergate, the result is to degrade the organization and society rather than to enrich it.

Leaders have a significant and powerful role that we have tended to diminish. The role is not that of the dictator who forces change on society, but it is that of providing uplifting alternatives that can enhance a society. What I am advocating is not hero worship because I believe there is a difference between this and leadership. Also it is not the leadership mystique preached by Eugene Jennings nor is it for the

all-powerful executive. But it is for a greater will to take controversial positions, attempt to clarify issues, stimulate thought and action, and above all force a broad consideration of where an organization is now and where it ought to be headed. The administrative structure of the organization should be involved in any final decisions, but the leader has to ensure that alternatives under consideration can raise the organization or society to higher levels of accomplishment. If the leader is to deal with these types of issues, one of the greatest needs we have is to shield him or her from the necessary routine that constitutes much of the workings of an organization. One of Warren Bennis' administrative laws is that routine matters will drive out the nonroutine. Leaders need to be given time away from the distracts of everyday administration to engage in long-range planning and to concentrate on improving the system rather than merely tending it. Tying up executive ability in housekeeping affairs is a great loss to the organization and erodes the type of leadership role I am advocating.

A seventh need we have in organizations is to improve staff selection. This is especially the case with the personal staff of the chief officer or other top administrators because by necessity in the extremely large organizations we have been forced to move to a group executive. The Executive Office of the President in the federal government in recent years has induded several hundred staff members, and top administrators in industry are typically backed up by an entourage of personal aides. The problem I see in staff selection is a carryover of some of the same weaknesses we have discussed in other areas of management. Executives normally select as their staff assistants individuals who think and act the same as they do. They want loyal subordinates, team players, and back slappers who effectively feed their egos. But again, as we saw in Watergate, all this normally does is protect their insular parochialism and shield them from the realities of the organization.

The issue is again one of diversity. An executive is normally much more justified in selecting a subordinate who will provide complementary rather than supplementary skills. If subordinates only mimic and resemble the thinking of the executive, they do not offset his or her weaknesses or fill conceptual voids. Also they are normally reluctant to challenge ideas, suggest different alternatives, or force a rethinking of issues which should be their most vital functions. What all executives need are people close to them who will provide a different perspective and who will avoid, in the name of loyalty, caving in on every issue and silencing those who want to suggest that things are not going as anticipated. Now certainly there are many different roles that staff assistants play and one of these is to

represent the executive to groups inside and outside the organization where reflecting the party line is important, but for those staff members who are responsible for drafting policies, evaluating proposed programs, and serving as a sounding board, a wide divergence of thinking should be involved. The "yes man" syndrome is one that is hard to eliminate both in the thinking of staff personnel and the reward system of the executive.

The eighth and final recommendation is that we need to develop more skill in matching individual, organizational, and environment variables. Too frequently we look almost solely at one factor as I have done in some of these recommendations. This again fails to recognize that conditions (both current and potential future ones) can only be accounted for by considering many different variables. We need improved methods to identify the primary factors in a situation, reflect the relative differences in these variables, and determine what management concepts and techniques are appropriate. The models should be more dynamic but they also need to be developed around common sets of conditions such as a certain or uncertain environment represents.

Many of the views I have expressed are those shaped through being a business professor, but our input into society has its place just as anyone else's. I am convinced that a continued passive course in dealing with leadership and bureaucracy can only see us slide backwards into mediocrity or and maybe even to the precipice of disaster as we have recently seen in Britain and some of the other advanced Western countries. Norman McRae, deputy editor of *The Economist,* predicts this when he states, "Americans on the eve of 1976 are showing the same drift from dynamism as the British did at the end of their century in 1876." The challenges are many. It is doubtful that we can reduce the societal pace of change so we will be forced to modify our institutions and methods of adaptation to keep up with it.

To fail to adapt is to invite both economic and political chaos. The capacities of a society are found in its resources, institutions, and leadership. Certainly we have the resources in this country to continue to be a world power. The question now is whether we can establish the type of institutions and leadership that will have a synergistic effect in continually revitalizing and synthesizing the strengths of our country rather than letting them languish in a quagmire of indifference. Indifference can only lead to the growth of cumbersome bureaucracies that sap a society, an overcommitment in government services that is inconsistent with a society'S ability to fund these activities, petty infighting

relating to jurisdictional disputes and private gains, and leadership that tends to pacify rather than rekindle the will to achieve. In the end I am inclined to agree with Peter Drucker who states, "To make our institutions perform responsibly autonomously, and on a high level of achievement is thus the only safeguard of freedom and dignity in the pluralist society of institutions.

I have wanted to express some of these things for a long time and I appreciate the opportunity this forum represents. Attacking sacred cows is not necessarily a pleasure even though it is considered by some to be an academic pastime. I hope you will tolerate my indiscretions but also share with me my desire for change.

Social Responsibility and Managerial Ethics –

Introduction

Managers today are usually quite sensitive to issues of social responsibility and ethical behavior because of pressures from the public, interest groups, legal and governmental concerns, and media coverage. It is less clear where to draw the line between socially responsible behavior and the corporation's other concerns, or between the conflicting expectations of ethical behavior among different countries. This essay on social responsibility and ethics set externally to international managers and thus in a sense outside their realm of control, is the expectation of appropriate behavior. This behavior is measured both in terms of social responsibility of the organization as such, as well as ethical behavior of individual managers. In addition to these expectations there is an onus on organizations and managers alike to manage the relationship with the host country. Having noted this, I shall now move on to the main issues this essay has set out to address in the following manner: 1.2 Global Interdependence Global interdependence is a compelling dimension of the global business environment, creating demands on international managers to take a positive stance on issues of: *ƒ* social responsibility and ethical behaviour; *ƒ* economic development in host countries; and *ƒ* ecological protection around the world. Multinational corporations continue to be the centre of debate regarding the benefits versus harm wrought by their operations around the world. Because of their size and economic power, the MNC will be held to a higher standard of performance. Balancing the interests of the varied stakeholders is an important consideration of top managers. Issues of social responsibility continue to be those of: *ƒ* poverty and lack of equal opportunity around the world; *ƒ* the environment ; *ƒ* consumer concern;and *ƒ* employees' safety and welfare

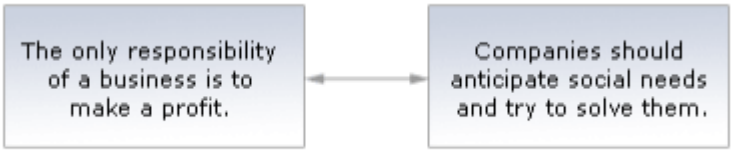
Multinational corporations constitute a powerful presence in the world economy, and often have more leadership and capacity to induce change than many governments. Many argue that MNCs should play a proactive role in handling worldwide social and economic problems and should be concerned with host country welfare.

Social Responsibility-

International The concept of international social responsibility is the expectation that MNCs concern themselves about the social and the economic effects of their decisions regarding activities in other countries.

Level of Social Responsibility

The opinions on the level of social responsibility that a domestic firm should demonstrate range from two extremes:



Pro-active and re-active Social Responsibility

Pro-active responsibility is where an organization accepts responsibilities beyond its legal requirements and attempts to establish a positive association with its interaction with the environment within which it functions. Re-active responsibilities are evident when an organization has breached the legal requirements and is brought to book (held accountable). In this situation the organization only accepts responsibility for its behavior and impact after it has been held accountable and all escape options have been exhausted. Carroll presents a three-dimensional model of corporate social responsibility (Carroll, 1979). The model presents the interaction between a company's philosophy of responsiveness, social responsibility categories, and the social issues involved.

Consensus

With the growing awareness of the interdependence of the world's socioeconomic systems, global organizations are beginning to recognize the need to reach a consensus on what should constitute moral and ethical behavior around the world. Some think a consensus is forming due to the development of a global corporate culture — an integration of the business environments in which firms currently operate.

Moral Universalism and Ethnocentrism

Although it is very difficult to implement a generalized code of morality and ethics in individual countries, such guidelines do provide a basis of judgment regarding specific situations. Bowie

used the term moral universalism to describe a moral standard that could be accepted by all cultures (Bowie, 1987). Under the ethical approach of ethnocentrism, a company would apply the morality used in its own home country. A company subscribing to ethical relativism would take the local approach to morality appropriate in whatever country it is operating.

MNC Responsibility toward Human Rights

What constitutes "human rights" is clouded by the perceptions and priorities of people in different countries. While the United States (US) often takes the lead in the charge against what they consider human rights violations around the world, other countries point to the homelessness and high crime statistics in the U.S. The best chance to gain some ground on human rights around the world would be for large MNCs and governments to take a unified stance. A number of large, imageconscious companies have established corporate codes of conduct for their buyers, suppliers and contractors, and have instituted strict procedures for auditing their imports. Reebok (a multinational company manufacturing running shoes) (http://www.reebok.com/static/global/initiatives/rights/pdf/ReebokHR_OurCommitment. pdf) has audited all of its suppliers in Asia. Levi Strauss (a multinational company manufacturing denim clothing, in particular jeans) (http://www.levistrauss.com/responsibility) announced this corporate policy: "We should not initiate or renew contractual relationships in countries where there are pervasive violations of basic human rights." (Zachary, 1994)

Codes of Conduct

A considerable number of organizations have developed their own codes of conduct. Some have gone further to group together with others around the world to establish standards to improve the quality of life for workers around the world. Companies such as Avon (cosmetics), Sainsbury Plc. (a food retailer in the United Kingdom (UK)), Toys 'R Us (toy retailer) and Otto Versand (clothing retailer) have joined with the Council on Economic Priorities (CEP) to establish SA8000 (Social Accountability 8000, on the lines of the manufacturing quality standard ISO9000) ('http://www.sa-intl.org/). Their proposed global labor standards would be monitored by outside organizations to certify if plants are meeting those standards, among which are the following:

ƒ Do not use child or forced labour.

ƒ Provide a safe working environment.

ƒ Respect workers' rights to unionise.

ƒ Do not regularly require more than 48-hour work weeks.

ƒ Pay wages sufficient to meet workers' basic needs.

There are four international codes of conduct that provide some consistent guidelines for multinational enterprises (MNEs). These codes were developed by the:

ƒ International Chamber of Commerce.

ƒ Organisation for Economic Cooperation and Development.

ƒ International Labor Organisation.

ƒ United Nations Commission on Transnational Corporations.

Getz has integrated these four codes and organized their common underlying principles, thereby establishing MNE behavior toward governments, publics (any group, with some common characteristic with which an organization needs to communicate), and people (Getz, 1990). Taking all this into account, I shall proceed to explain the meaning of ethics and the role of managers for good management, the different views of ethics, & the factors that affect ethical behavior, followed by ethical issues in global management.

Procter & Gamble's Values and Code of Ethics

Procter & Gamble Company lives by a set of five values that drive its code of business conduct. These values are:

- *Integrity*

  - We always try to do the right thing.
  - We are honest and straightforward with each other.
  - We operate within the letter and spirit of the law.
  - We uphold the values and principles of P&G in every action and decision.
  - We are data-based and intellectually honest in advocating proposals, including recognizing risks.

- *Passion for Winning*

  - We are determined to be the best at doing what matters most.
  - We have a healthy dissatisfaction with the status quo. We have a compelling desire to improve and to win in the marketplace.

- *Leadership*

  - We are all leaders in our area of responsibility, with a deep commitment to delivering leadership results.
  - We have a clear vision of where we are going.

- We focus our resources to achieve leadership objectives and strategies.
- We develop the capability to deliver our strategies and eliminate organizational barriers.

• *Trust*

- We respect our P&G colleagues, customers and consumers, and treat them as we want to be treated.
- We have confidence in each other's capabilities and intentions.
- We believe that people work best when there is a foundation of trust.

• *Ownership*

- We accept personal accountability to meet our business needs, improve our systems, and help others improve their effectiveness.
- We all act like owners, treating the Company's assets as our own and behaving with the Company's long-term success in mind.

Ethics and the Role Managers

Ethics deals with human action.It can be considered as philosophy,philosophical thinking about morality,moral problems and moral judgements. Ethics can also be defined as a study of what is good or right for human beings,what goals people ought to pursue and what actions they ought to perform. We are guided by our sense of maorality based on a combination of beliefs and values,stemming from individual and societal ideologies along with the various eastern and western religious cultures. All managers need to be aware that while they may be employed by an organization as its representative or decision maker, they bring with them entities; people,not organizations, make decisions. Organizations exist within society and as such should be bound by the expectaions and moral codes of that society and contribute to its betterment as well as furthering its own interests.

The Different Views of Ethics

f Utilitarianism – in this view you approach an ethical problem using the question, "Which course of action will do the most good and the least harm?" This view is based on the ideas of Jeremy Bentham and John Stuart Mill (18th and 19th Century). Actions are considered good or bad depending on the extent to which they make the greatest number of people happy. So suffering of a few is OK as long as it maximises the overall good.

ƒ Rights view – in this view you ask the question, "Which alternative best serves other's rights?" This view is based on the ideas of Thomas Jefferson's Declaration of Independence (USA) and John Locke and Immanuel Kant. Actions here are judged according to whether people's rights have been served and may be seen in terms of keeping within the Law. (e.g. shareholders' rights are written in Law).

Theory of justice view – in this view you ask the question, "What plan can I live with which is consistent with the basic values and commitments of the community in which I live?" This view is based on the ideas of John Rawls and Alasdair MacIntyre (late 20th century). Actions are judged according to the enforcement of widely-held views of justice and virtue. (e.g. protecting the needy, looking after the community).

ƒ Integrative social contracts theory – in this view you would ask the question, "What course of action is possible in the world as it is now?" This view is based on the ideas of Machiavelli in which actions are judged according to pragmatic consideration and practicalities. Decisions are made according to the current situation and with reference to what ought to be done. So you would be both pragmatic and idealistic as the need arose.

Factors that Affect Ethical Behavior

ƒ Stage of moral development (Kohlberg) – Stage one – pre-conventional, rule following. Stage two – Conventional, living up to expectations of others. Stage three – Principled, following self-chosen path and respecting others.

ƒ Individual characteristics – values, knowing right from wrong. Ego strength, the power of your convictions. Locus of control, an internal locus of control means that you believe you control your own destiny, an external locus of control means you believe you have no control.

ƒ Structural factors – an organisation's structure affects people's ethical behaviour (e.g. clear ethical statements, policies and regulations).

ƒ Organisational culture – this is made up of the values and norms shared by people working for an organisation. A strong culture will exert more influence than a weak one.

ƒ Issue intensity – this refers to how important an issue is. Something not so important (e.g. making private local calls) has different ethical implications to something very large (e.g. embezzling $1 million). The act is the same (theft) but the intensity of the issue is different.

Ethical Issues in Global Management

Ethical Problems

Globalization has multiplied the ethical problems facing organizations. While domestic American companies may use general guidelines for appropriate behavior based on federal

law and the value structure rooted in the nation's Judeo-Christian heritage, such guidelines are not consistently applicable overseas.

International Business Ethics

International business ethics refers to the business conduct or morals of MNCs in their relationships with all individuals and entities. Such behavior for MNCs is based largely on the cultural value system and the generally accepted ways of doing business in each country or society. Those norms are based on broadly accepted guidelines in religion, philosophy, the professions, and the legal system.

Rules and Values

The American approach is to treat everyone the same by making moral judgments based on general rules. Managers in Japan and Europe tend to make such decisions based on shared values, social ties and their perception of obligations.

Variation of Standards

The biggest single problem for MNCs in their attempt to define a corporate-wide ethical posture is the great variation of standards of ethical behavior around the world. U.S. companies are often caught between being placed at a disadvantage in doing business in some countries by refusing to go along with accepted practices, or being subject to criticism at home for going along with them to get the job done.

Ethical Limits

Whereas the upper limits of codes of ethics for international activities are set at any given time by the individual standards of certain leading companies, it is more difficult to set the lower limits of those standards. Laczniak and Naor explain: The laws of economically developed countries generally define the lowest common denominator of acceptable behavior for operations in those domestic markets. In an underdeveloped country or a developing country, it would be the actual degree of enforcement of the law that would, in practice, determine the lower limit of permissible behavior. (Laczniak and Naor, 1985)

Questionable Payments

A specific ethical issue for managers in the international arena is that of questionable payments. These are business payments that raise significant questions of appropriate moral behavior either in the host nation or in other nations. Such questions arise out of differences in laws, customs and ethics in various countries - whether the payments in question are political payments, extortion, bribes, sales commissions or "grease money" (payments to expedite routine transactions).

Making the Right Decision

What is the right decision for a manager operating abroad when faced with questionable circumstances of doing business? Richard Rhodes discusses the ethical issues he has faced with his business, Rhodes Architectural Stone, Inc., as he conducts business in Africa, China, India and Indonesia. He explains that his business has had to clearly establish "black and white" (http://www.entreworld.com/Content/EntreByline.cfm?ColumnID=445) operating principles, and the company will not pay bribes. This sometimes requires walking away from a deal. Rhodes offers the following advice when pondering an ethical situation:

ƒ Who am I?

ƒ How do I feel about this situation?

ƒ Can I sleep at night if I engage in this behaviour?

Ethics and transparency

The standards of performance include ethical behavior. You should therefore exhibit the highest standards of ethical behavior, avoid dual standards (for example, tolerating behavior in one country that would not be tolerated in another), and clearly communicate expectations about how your personnel should behave—that is, clearly and consistently communicate your values. These actions are, of course, integral to being a good leader, and these leadership responsibilities are likely to become more rather than less important in the future. What all this, in turn, suggests to us is that the question of the legitimacy of management and the ground for its power-a code of responsibility and a focus of accountability.

Managing Interdependence

Implications Because multinational firms (or other organizations such as the Red Cross) represent global interdependency, their managers at all levels must recognize that what they do, in the aggregate, has long-term implications for the socioeconomic interdependence of nations. Simply to describe ethical issues as part of the general environment does not stress the fact that managers need to control their activities at all levels for the long-term benefit of all concerned. The powerful long-term effects of MNC activities should be considered as an area for managerial planning and control, not as haphazard side effects of business.

Managing Subsidiary-Host Country Interdependence

When managing interdependence, international managers must go beyond general issues of social responsibility and deal with specific concerns of the MNC subsidiary/host country relationship. Exhibit 2-6 (Deresky page 49) summarizes the benefits and costs to host countries of MNCs in three areas: Capital market effects, technology and production effects, and employment effects.

Going green & Managing Ecological Interdependence

Going green refers to the recognition by a business that there is a close link between its activities and decisions and the impact they have on the environment, and the effects this will have on the future performance of the business. Many companies have now recognized that going green means a healthier "bottom line", better customer relations, increased sales, an assured long-term future and very little possibility of legal or government action against them. It is clear that MNCs must take the lead in dealing with ecological interdependence by integrating those factors with strategic planning. At the least MNC managers must deal with the increasing scarcity of natural resources in the next few decades by:

- Looking for alternate raw materials;
- Developing new methods of recycling or disposing of used materials;and
- Expanding the use of by-products.

How Managers can Shape the Future-

Managing Paradoxes As a good manager, you will be dealing with a complex and faster-changing world. You will need to bring intellect and passion to bear on your work. While you must strategies, you must also inspire; while you must implement, you must also be visionary; while you must be creative, you must also be ethical; while you must simplify, you must also cope with great complexity. These are the challenges that will test your mettle. While these requirements may seem paradoxical, they constitute the gauntlet (challenge) that has been cast in front of you. A fulfilling and exciting opportunity awaits those who can meet the challenge.

Concluding Remarks

Ethics concerns itself with human conduct or activity that is done knowingly or consciously. Ethics does have applicability to organizational life. Organizations do not make decisions, individuals acting in the interests of the organizations do. It is their responsibility to ensure that they understand the consequences of their actions and business decisions, not just in terms of the impact on the organization but also on society. No company today, regardless of size, is isolated from the impact of globalization. It will be your reality: prepare for it, relish it, and seize the opportunities it will present.

CASE STUDY -

The president of Simplex Mills sat at his desk in the hushed atmosphere, so typical of business offices, after the close of working hours. He was thinking about Rehman, the manager in-charge of purchasing, and his ability to work with George, the production manager, and Vipulabh, the marketing and sales manager in the firm.
When the purchasing department was established two years ago, both George and Vipulabh

agreed with the need to centralise this function and place a specialist in charge. George was of the view that this would free his supervisors from detailed ordering activities. Vipulabh opined that the flow of materials into the firm was important enough to warrant a specialised management assignment. Yet since the purchasing department began operating it has been precisely these two managers who have had a number of confrontations with the new purchase manager, and occasionally with one another, in regard to the way the purchasing function in being carried out.

From George's point of view, instead of simplifying his job as production manager by taking care of purchasing for him, the purchasing department has developed a formal set of procedures that has resulted in as much time commitment on his part as he had previously spent in placing his orders directly with vendors. Further, he is specially irritated by the fact that his need for particular items or particular specification is constantly being questioned by the purchasing department. When the department was established, George assumed that the purchasing manager was there to fill his needs, not to question them.

As Vipulabh sees it, the purchasing function is an integral part of marketing function, and the two therefore need to be jointly managed as a unified process. Purchasing function cannot be separated from a firm's overall marketing strategy. However, Rehman has attempted to carry out the purchasing function without regard for this obvious relationship between his responsibilities and those of Vipulabh, thus making a unified marketing strategy impossible.

In his previous position, Rehman had worked in the purchasing department of a firm considerably larger than Simplex. Before being hired, he was interviewed by all the top managers, including George and Vipulabh, but it was the president himself who negotiated the details of the job offer. As Rehman sees it, he was hired as a professional to do a professional job. Both George and Vipulabh have been distracting him from this goal by presuming that he is somehow subordinate to them, which he believes is not the case. The people in the production department, who use the purchasing function most, have complained about the detail that he requires on their requisitions. But he has documented proof that materials are now being purchased much more economically than they were under the former decentralised system. He finds Vipulabh's interests more difficult to understand, since he sees no particular relationship between his responsibilities for efficient procurement, and Vipulabh's responsibilities to market the firm's products.

The president has been aware of the continuing conflict among three managers for some time, but on the theory that a little rivalry is healthy and stimulating, he has felt that it was nothing to be unduly concerned about. But now that much of his time is being taken up by much of what he considers to be petty bickering, the time has come to take some positive action.

Questions:

1. Is George's view of the situation realistic?
2. How do you evaluate Vipulabh's position?
3. How might this conflict be associated with factors in the formal organisation?
4. What should the president of Simplex Mills do now?

CASE – 2

Bharat Engineering Works Limited is a major industrial machineries besides other engineering products. It has enjoyed market preference for its machineries because of limited competition in the field. Usually there have been more orders than what the company could supply. However, the scenario changed quickly because of the entry of two new competitors in the field with foreign technological collaboration. For the first time, the company faced problem in marketing its products with usual profit margin. Sensing the likely problem, the chief executive appointed Mr Arvind Kumar as general manager to direct the operations of industrial machinery division. Mr Kumar had similar assignment abroad before coming back to India.

Mr Kumar had a discussion with the chief executive about the nature of the problem being faced by the company so that he could fix up his priority. The chief executive advised him to consult various heads of department to have first hand information. However, he emphasised that the company lacked an integrated planning system while members of the Board of Directors insisted on introducing this in several meetings both formally and informally.

After joining as General Manager, Mr Kumar got briefings from the heads of all departments. He asked all heads to identify major problems and issues concerning them. The marketing manager indicated that in order to achieve higher sales, he needed more sales support. Sales people had no central organisation to provide sales support nor was there a generous budget for demonstration teams which could be sent to customers to win business.

The production manager complained about the old machines and equipments used in manufacturing. Therefore, cost of production was high but without corresponding quality. While competitors had better equipments and machinery, Bharat Engineering had neither replaced its age-old plant nor reconditioned it. Therefore to reduced the cost, it was essential to automate production lines by installing new equipment.

Director of research and development did not have specific problem and therefore, did not indicate for any change. However, a principal scientist in R&D indicated on one day that the director of R&D, though very nice in his approach, did not emphasize on short-term research projects, which could easily increase production efficiency by at least 20 per cent within a very short period without any major capital outlay.

Questions

(a) Discuss the nature and characteristics of the problems in this case.

(b) What steps should be taken by Mr Kumar to overcome these problems?

Discussion Questions

1. Definition 0f management?

Management is the art and science of getting work done through people. It is the process of giving direction and controlling of various activities of people to achieve the objectives of organization.

KOONTZ & WEIHRICH

"Management is the process of designing and maintaining of an environment in which individuals working together in groups effectively accomplish selected aims".

F.W.TAYLOR

"Management is the art of knowing what do you want to do and then seeing that is done in the best cheapest way".

2. Skills needed for managers:

Technical skill

1. It refers to the ability to the tools, equipment procedure and techniques.
2. Effective supervision and co-ordination of the work a group members or subordinates.

Human skill

1. It refers to the ability of the manager to work effectively as a group members and to build co-operative effort in team leaders.
2. Needed to understand people.

Conceptual skill

1. It is also called as design and problem
2. To see the organization and the various component of it as whole
3. To understand how its various parts and functions mesh together

3. Different approaches of management

1. System approach

2. Contingency approach

System approach

Introduction

Like a human organism an organization in a system. In an organization also people task and management are independent.

System concepts

System theory was first applied in field of science and engineering.

Contingency approach

The Contingency approach is called as situational approach. It is developed by managers, consultant and researchers who tried to apply for real life situation. Some management concepts are different and are very effectively in one situation. The same concept is failed in another situation. Results or solutions differ because situations differ.

In this approach the managers identify which is suitable technique for a particular solution. Particular environment of the organization at a specific time.

4. Comparison between art and science.

Science:

It is a systematic body of knowledge with array of principles.

Art:

1. It is the application of skill in finding desired results.
2. Management is both science and art:
3. It contains general principle

4. It also an art because it require certain personal skills to achieve desired result.

5. Functions of management

1. Planning
2. Organizing
3. Staffing
4. Co – ordinating
5. Controlling

6. Management level and functions.

1. Top-level management
2. Middle level management
3. Lower level management

Top level management functions

1. To formulate goals and policies
2. To formulate budgets
3. To appoint top executives

Middle level management functions.

1. To train motives &develop supervisory level
2. To monitor and control the operations performance

Low level management

1. To train &develop workers
2. To assign job
3. To give orders and instructions
4. To report the information about the workers

7. What to you mean by social responsibility& social responsiveness.

Corporate social responsibility is seriously considering the impact of the company's action on society.

Social responsiveness means "the ability of a corporation to relate its operations & policies to the social environment in ways that are mutually beneficial to the company and to society.

8. What is institutionalizing ethics& how it can be accomplished?

Institutionalizing ethics means applying & integrating ethical concepts in to daily actions. This can be accomplished in three ways.

1. By establishing appropriate company policy or a code of ethics
2. By using a formally appointed ethics committee
3. By teaching ethics in management development programs

9. What is ethics? What are the types of ethics explain?

Ethics is defined as the discipline dealing with what is good & bad and with moral duty & obligation.

The three types of ethics are.

Personal ethics:

The rules by which an individual lives his or her personal life.

Accounting ethics:

The code that guides the professional conduct of accountants.

Business ethics:

Concerned with truth& justice & has a variety of aspects such as expectations of society. Fair competition, advertising, public relations, social responsibility, consumer autonomy & co-operate behavior.

10. What are the arguments against the social involvement of business?

1. Social involvement may reduce economic efficiency.
2. Social involvement would create excessive costs for business, which cannot commit its resources for social action.
3. Social involvement can weaken the international balance of payment.
4. it may leads to the hike in prices of the commodities
5. Incomplete support for involvement in social action &&disagreement among groups will cause friction.
6. There is a link of accountability of business to society.

Discussion Questions

1. **Why do organizations need managers?**

2. **What are some different types of managers and how do they differ?**

3. **What are Mintzberg's 10 managerial roles?**

4. **What three areas does Mintzberg use to organize the 10 roles?**

5. **What four general managerial functions do principles of management include?**

Chapter 2:- Evolution and Approaches to Management

Classical Schools of Management:

One of the first schools of management thought, the **classical management theory,** developed during the Industrial Revolution when new problems related to the factory system began to appear. Managers were unsure of how to train employees (many of them non-English speaking immigrants) or deal with increased labor dissatisfaction, so they began to test solutions. As a result, the classical management theory developed from efforts to find the "one best way" to perform and manage tasks. This school of thought is made up of two branches: classical scientific and classical administrative, described in the following sections.

Classical scientific school (Scientific Management):

The **classical scientific branch** arose because of the need to increase productivity and efficiency. The emphasis was on trying to find the best way to get the most work done by examining how the work process was actually accomplished and by scrutinizing the skills of the workforce. The classical scientific school owes its roots to several major contributors, including Frederick Taylor, Henry Gantt, and Frank and Lillian Gilbreth.

Frederick Taylor is often called the "father of scientific management." Taylor believed that organizations should study tasks and develop precise procedures. As an example, in 1898, Taylor calculated how much iron from rail cars Bethlehem Steel plant workers could be unloading if they were using the correct movements, tools, and steps. The result was an amazing 47.5 tons per day instead of the mere 12.5 tons each worker had been averaging. In addition, by redesigning the shovels the workers used, Taylor was able to increase the length of work time and therefore decrease the number of people shoveling from 500 to 140. Lastly, he developed an incentive system that paid workers more money for meeting the new standard. Productivity at Bethlehem Steel shot up overnight. As a result, many theorists followed Taylor's philosophy when developing their own principles of management.

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. Based on time instead of quantity, volume, or weight, this visual display chart has been a widely used planning and control tool since its development in 1910.

Frank and Lillian Gilbreth, a husband-and-wife team, studied job motions. In Frank's early career as an apprentice bricklayer, he was interested in standardization and method study. He watched bricklayers and saw that some workers were slow and inefficient, while others were very productive. He discovered that each bricklayer used a different set of motions to lay bricks. From his observations, Frank isolated the basic movements necessary to do the job and eliminated unnecessary motions. Workers using these movements raised their output from 1,000 to 2,700 bricks per day.

This was the first **motion study** designed to isolate the best possible method of performing a given job. Later, Frank and his wife Lillian studied job motions using a motion-picture camera and a split-second clock. When her husband died at the age of 56, Lillian continued their work. Thanks to these contributors and others, the basic ideas regarding scientific management developed.

They include the following:

- Developing new standard methods for doing each job
- Selecting, training, and developing workers instead of allowing them to choose their own tasks and train themselves
- Developing a spirit of cooperation between workers and management to ensure that work is carried out in accordance with devised procedures
- Dividing work between workers and management in almost equal shares, with each group taking over the work for which it is best fitted

Classical administrative school:
Whereas scientific management focused on the productivity of individuals, the classical administrative approach concentrates on the total organization. The emphasis is on the development of managerial principles rather than work methods.
Contributors to this school of thought include Max Weber, Henri Fayol, Mary Parker Follett, and Chester I. Barnard. These theorists studied the flow of information within an organization and emphasized the importance of understanding how an organization operated.

In the late 1800s, **Max Weber** disliked that many European organizations were managed on a "personal" family-like basis and that employees were loyal to individual supervisors rather than to the organization. He believed that organizations should be managed impersonally and that a formal organizational structure, where specific rules were followed, was important. In other words, he didn't think that authority should be based on a person's personality. He thought authority should be something that was part of a person's job and passed from individual to individual as one person left and another took over. This nonpersonal, objective form of organization was called a **bureaucracy.**

Weber believed that all bureaucracies have the following characteristics:

- **A well-defined hierarchy.** All positions within a bureaucracy are structured in a way that permits the higher positions to supervise and control the lower positions. This clear chain of command facilitates control and order throughout the organization.
- **Division of labor and specialization.** All responsibilities in an organization are specialized so that each employee has the necessary expertise to do a particular task.
- **Rules and regulations.** Standard operating procedures govern all organizational activities to provide certainty and facilitate coordination.
- **Impersonal relationships between managers and employees.** Managers should maintain an impersonal relationship with employees so that favoritism and personal prejudice do not influence decisions.
- **Competence.** Competence, not "who you know," should be the basis for all decisions made in hiring, job assignments, and promotions in order to foster ability and merit as the primary characteristics of a bureaucratic organization.
- **Records.** A bureaucracy needs to maintain complete files regarding all its activities.

Case in Point: Hanna Andersson Corporation Changes for Good

Figure 3.3

Source: Used by permission from Hanna Andersson Corporation.

Born from a desire to bring quality European-style children's clothing to the United States, Hanna Andersson Corporation has sold colorful clothing and accessories since 1983. Husband and wife cofounders, Tom and Gun (pronounced "gōōn") Denhart, started the Portland, Oregon–based company by distributing imported Swedish clothing from their home. Named for Gun's Swedish grandmother, the company now boasts over $100 million in annual sales and employs over 500 people. Growing from an exclusive mail-order catalog business in the early 1980s, today Hanna Andersson also distributes products online, in 29 retail stores nationwide, and through select specialty retailers.

Over the years, Hanna Andersson has shown that it deeply values its employees. The company provides supplemental child-care reimbursement to all employees—even part-time sales associates. Additional employee benefits include part-time and flexible work hours, considerable paid time off, and 8 hours per year of paid time for employees to volunteer in the community. More important, though, employees feel like they are part of the Hanna Andersson family. In fact, in the beginning many of the employees were friends and family members of the Denharts.

It was important to the Denharts that they were involved in the decisions of the company and that those decisions took quality of life issues into account. Gun states, "If you can create balance among your work, your community, your family, and your friends, then you're going to be more satisfied." Examples of this philosophy infusing Hanna Andersson include the establishment of

HannaDowns, a clothing recycling program where customers can return used clothing and receive a 20% off coupon for their next purchase. The charitable nature of Hanna Andersson has continued through what is now the HannaHelps program. This program awards grants and donates products to schools and nonprofit groups, helping children in the community and around the world. In addition, under Gun's leadership Hanna Andersson established ongoing donations, 5% of pretax profits, to charities that benefit women and children.

The considerable growth and development the business experienced did not come without its challenges and necessary organizational change. In the 1990s and early 2000s, increased competition from other retailers and the introduction of online commerce posed some challenges for Hanna Andersson. The Denharts found themselves without a solid growth plan for the future. They worried that they might have lost sight of market forces. Change was necessary if Hanna Andersson was to remain viable.

Realizing the need for help and direction, the Denharts promoted from within the company to help initiate change and strategic growth, and in 1995, Phil Iosca took the strategic lead as CEO. Hanna Andersson was then sold to a private equity firm in 2001 and has since changed ownership several times, leading to a new business direction for the company. After selling the business, Gun remained on the Hanna board of directors until 2007. She also served as chair of the Hanna Andersson Children's Foundation from 2001 to 2006. She still partners with the company from time to time on charitable events in the community.

Under Iosca's steady leadership, the company opened several retail stores throughout the country in 2002 and established online commerce. In 2009, Hanna Andersson began distributing merchandise wholesale through retail partners such as Nordstrom and Costco. The implementation of each of these new distribution avenues required a great deal of change within the company. HR Vice President Gretchen Peterson explains, "The growth of the retail business required the greatest shift in our internal processes from both technical systems, to inventory planning and buying to distribution processes to our organizational communication and HR processes (recruitment, compensation, etc.), as well as our marketing communication programs." Tenured employees throughout the company found themselves in unfamiliar territory, unsure of the company's future as the board and owners debated the risks and rewards of retail expansion. Fortunately, the changes were mostly offset by a consistent leadership team. Petersen, who has been with the company since 1994, explains, "From 1995 to 2010, we retained the same CEO (Iosca) and therefore, the face of the company and the management style did not fluctuate greatly."

When Iosca retired in early 2010, chief operating officer Adam Stone took over as CEO. He helped his company weather yet another transition with a calm push for changes within the company. To help understand different points of view at Hanna Andersson, Stone often sat in on inventory and operational planning meetings. Step by step, Stone was able to break down work

initiatives so the continuing changes were not so overwhelming to the company and its valued employees. Over time, his and other company leaders' presence has helped employees make better, more strategic decisions. Rather than resisting change, they now feel heard and understood.

The decision to sell wholesale turned out to be a good one, as it has enabled the company to weather the recession's negative effect on retail and online purchases. Accounting for approximately 10% of total sales, the company's wholesale business is expected to boost yearly revenue by 5%. With more conscientious inventory purchases and strategic distribution initiatives, Hanna Andersson has realized a higher sales volume, lower inventory at year-end, and less liquidation. Through it all, company management has done an effective job at interpreting the desired growth goals of its owners while inspiring change within the company. With continued clear communication, direction, and willingness to try new techniques, Hanna Andersson is poised for growth and success in the future while not forgetting to take care of its employees.

Primary Resource:

Secondary Resources:

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DISCUSSION QUESTIONS

- **How has Hanna Andersson applied values-based leadership in terms of the organization's choices related to P-O-L-C?**
- **How did company leaders like Iosca, Petersen, and Stone help facilitate change within the company? Did they remain consistent with the values of the founders?**
- **What were the reasons for organizational change within Hanna Andersson, both internally and externally?**
- **What unique challenges do family-owned and -operated businesses face?**
- **How did the mission of Hanna Andersson evolve over time?**

Fayol's 14 Principles of Management:-

Henri Fayol, a French mining engineer, developed 14 principles of management based on his management experiences. These principles provide modern-day managers with general guidelines on how a supervisor should organize her department and manage her staff. Although later research has created controversy over many of the following principles, they are still widely used in management theories.

- **Division of work:** Division of work and specialization produces more and better work with the same effort.
- **Authority and responsibility:** Authority is the right to give orders and the power to exact obedience. A manager has official authority because of her position, as well as personal authority based on individual personality, intelligence, and experience. Authority creates responsibility.
- **Discipline:** Obedience and respect within an organization are absolutely essential. Good discipline requires managers to apply sanctions whenever violations become apparent.
- **Unity of command:** An employee should receive orders from only one superior.
- **Unity of direction:** Organizational activities must have one central authority and one plan of action.
- **Subordination of individual interest to general interest:** The interests of one employee or group of employees are subordinate to the interests and goals of the organization.
- **Remuneration of personnel:** Salaries — the price of services rendered by employees — should be fair and provide satisfaction both to the employee and employer.
- **Centralization:** The objective of centralization is the best utilization of personnel. The degree of centralization varies according to the dynamics of each organization.

- **Scalar chain:** A chain of authority exists from the highest organizational authority to the lowest ranks.
- **Order:** Organizational order for materials and personnel is essential. The right materials and the right employees are necessary for each organizational function and activity.
- **Equity:** In organizations, equity is a combination of kindliness and justice. Both equity and equality of treatment should be considered when dealing with employees.
- **Stability of tenure of personnel:** To attain the maximum productivity of personnel, a stable work force is needed.
- **Initiative:** Thinking out a plan and ensuring its success is an extremely strong motivator. Zeal, energy, and initiative are desired at all levels of the organizational ladder.
- **Esprit de corps:** Teamwork is fundamentally important to an organization. Work teams and extensive face-to-face verbal communication encourages teamwork.

Mary Parker Follett stressed the importance of an organization establishing common goals for its employees. However, she also began to think somewhat differently than the other theorists of her day, discarding command-style hierarchical organizations where employees were treated like robots. She began to talk about such things as ethics, power, and leadership. She encouraged managers to allow employees to participate in decision making. She stressed the importance of people rather than techniques — a concept very much before her time. As a result, she was a pioneer and often not taken seriously by management scholars of her time. But times change and innovative ideas from the past suddenly take on new meanings. Much of what managers do today is based on the fundamentals that Follett established more than 80 years ago.

Chester Barnard, who was president of New Jersey Bell Telephone Company, introduced the idea of the **informal organization** — *cliques* (exclusive groups of people) that naturally form within a company. He felt that these informal organizations provided necessary and vital communication functions for the overall organization and that they could help the organization accomplish its goals.

Barnard felt that it was particularly important for managers to develop a sense of common purpose where a willingness to cooperate is strongly encouraged. He is credited with developing the **acceptance theory of management,** which emphasizes the willingness of employees to accept that managers have legitimate authority to act. Barnard felt that four factors affected the willingness of employees to accept authority:

- The employees must understand the communication.
- The employees accept the communication as being consistent with the organization's purposes.
- The employees feel that their actions will be consistent with the needs and desires of the other employees.
- The employees feel that they are mentally and physically able to carry out the order.

Barnard's sympathy for and understanding of employee needs positioned him as a bridge to the behavioral school of management, the next school of thought to emerge

Contributions

- Laid the foundation for later developments.
- Identified important management processes, functions, and skills.

- Focused attention on management as a valid subject of scientific inquiry.

Limitations

– More appropriate approach for use in traditional, stable, simple organizations.
– Prescribed universal procedures that are not appropriate in some settings.
– Employees are viewed as tools rather than as resources.

Behavioral Management Theory

As management research continued in the 20th century, questions began to come up regarding the interactions and motivations of the individual within organizations. Management principles developed during the classical period were simply not useful in dealing with many management situations and could not explain the behavior of individual employees. In short, classical theory ignored employee motivation and behavior. As a result, the behavioral school was a natural outgrowth of this revolutionary management experiment.

The **behavioral management theory** is often called the human relations movement because it addresses the human dimension of work. Behavioral theorists believed that a better understanding of human behavior at work, such as motivation, conflict, expectations, and group dynamics, improved productivity.

The theorists who contributed to this school viewed employees as individuals, resources, and assets to be developed and worked with — not as machines, as in the past. Several individuals and experiments contributed to this theory.

Elton Mayo's contributions came as part of the *Hawthorne studies,* a series of experiments that rigorously applied classical management theory only to reveal its shortcomings. The Hawthorne experiments consisted of two studies conducted at the Hawthorne Works of the Western Electric Company in Chicago from 1924 to 1932. The first study was conducted by a group of engineers seeking to determine the relationship of lighting levels to worker productivity. Surprisingly enough, they discovered that worker productivity increased as the lighting levels decreased — that is, until the employees were unable to see what they were doing, after which performance naturally declined.

A few years later, a second group of experiments began. Harvard researchers Mayo and F. J. Roethlisberger supervised a group of five women in a bank wiring room. They gave the women special privileges, such as the right to leave their workstations without permission, take rest periods, enjoy free lunches, and have variations in pay levels and workdays. This experiment also resulted in significantly increased rates of productivity.

In this case, Mayo and Roethlisberger concluded that the increase in productivity resulted from the supervisory arrangement rather than the changes in lighting or other associated worker benefits. Because the experimenters became the primary supervisors of the employees, the intense interest they displayed for the workers was the basis for the increased motivation and resulting productivity. Essentially, the experimenters became a part of the study and influenced its outcome. This is the origin of the term *Hawthorne effect,* which describes the special attention researchers give to a study's subjects and the impact that attention has on the study's findings.

The general conclusion from the Hawthorne studies was that human relations and the social needs of workers are crucial aspects of business management. This principle of human motivation helped revolutionize theories and practices of management.

Maslow's Need Hierarchy Theory:-

Abraham Maslow, a practicing psychologist, developed one of the most widely recognized **need theories,** a theory of motivation based upon a consideration of human needs. His theory of human needs had three assumptions:

- Human needs are never completely satisfied.
- Human behavior is purposeful and is motivated by the need for satisfaction.
- Needs can be classified according to a hierarchical structure of importance, from the lowest to highest.

Maslow broke down the needs hierarchy into five specific areas:

- **Physiological needs.** Maslow grouped all physical needs necessary for maintaining basic human well-being, such as food, shelter and drink, into this category. After the need is satisfied, however, it is no longer a motivator.
- **Safety needs.** These needs include the need for basic security, stability, protection, and freedom from fear. A normal state exists for an individual to have all these needs generally satisfied. Otherwise, they become primary motivators.
- **Belonging and love needs (Affiliation Needs).** After the physical and safety needs are satisfied and are no longer motivators, the need for belonging and love emerges as a primary motivator. The individual strives to establish meaningful relationships with significant others.
- **Esteem needs.** An individual must develop self-confidence and wants to achieve status, reputation, fame, and glory.
- **Self-actualization needs.** Assuming that all the previous needs in the hierarchy are satisfied, an individual feels a need to find himself.

Maslow's hierarchy of needs theory helped managers visualize employee motivation.

Theory X and Theory Y:-

Douglas McGregor was heavily influenced by both the Hawthorne studies and Maslow. He believed that two basic kinds of managers exist. One type, the Theory X manager, has a negative view of employees and assumes that they are lazy, untrustworthy, and incapable of assuming responsibility. On the other hand, the Theory Y manager assumes that employees are not only trustworthy and capable of assuming responsibility, but also have high levels of motivation.

Theory X Assumptions:

- People do not like work and try to avoid it.
- People do not like work, so managers have to control, direct, coerce, and threaten employees to get them to work toward organizational goals.

- People prefer to be directed, to avoid responsibility, and to want security; they have little ambition.

Theory Y Assumptions

- People do not dislike work; work is a natural part of their lives.
- People are internally motivated to reach objectives to which they are committed.
- People are committed to goals to the degree that they receive rewards when they reach their objectives.
- People seek both seek responsibility and accept responsibility under favorable conditions.
- People can be innovative in solving problems.
- People are bright, but under most organizational conditions their potentials are underutilized

Mc Gregor's theory is a useful and simple reminder of the natural rules for managing people and he maintained that there are two fundamental approaches to managing people.

Theory X Manager is an authoritarian manager and generally gets poor results.
Theory Y Manager is a participative manager which produces better performance and results and allows people to grow.

Quantitative School of Management:-

During World War II, mathematicians, physicists, and other scientists joined together to solve military problems. The quantitative school of management is a result of the research conducted during World War II. The **quantitative approach** to management involves the use of quantitative techniques, such as statistics, information models, and computer simulations, to improve decision making. This school consists of several branches, described in the following sections.

Management science

The management science school emerged to treat the problems associated with global warfare. Today, this view encourages managers to use mathematics, statistics, and other quantitative techniques to make management decisions.
Managers can use computer models to figure out the best way to do something — saving both money and time. Managers use several science applications.

- Mathematical forecasting helps make projections that are useful in the planning process.
- Inventory modeling helps control inventories by mathematically establishing how and when to order a product.
- Queuing theory helps allocate service personnel or workstations to minimize customer waiting and service cost.

Operations management:-

Operations management is a narrow branch of the quantitative approach to management. It focuses on managing the process of transforming materials, labor, and capital into useful goods and/or services. The product outputs can be either goods or services; effective operations

management is a concern for both manufacturing and service organizations. The resource inputs, or factors of production, include the wide variety of raw materials, technologies, capital information, and people needed to create finished products. The transformation process, in turn, is the actual set of operations or activities through which various resources are utilized to produce finished goods or services of value to customers or clients.
Operations management today pays close attention to the demands of quality, customer service, and competition. The process begins with attention to the needs of customers: What do they want? Where do they want it? When do they want it? Based on the answers to these questions, managers line up resources and take any action necessary to meet customer expectations.

Management information systems:-
Management information systems (MIS) is the most recent subfield of the quantitative school. A management information system organizes past, present, and projected data from both internal and external sources and processes it into usable information, which it then makes available to managers at all organizational levels. The information systems are also able to organize data into usable and accessible formats. As a result, managers can identify alternatives quickly, evaluate alternatives by using a spreadsheet program, pose a series of "what-if" questions, and finally, select the best alternatives based on the answers to these questions.

Contributions:-
- Developed sophisticated quantitative techniques to assist in decision making.
- Application of models has increased our awareness and understanding of complex processes and situations.
- Has been useful in the planning and controlling processes.

Limitations:-
- Quantitative management cannot fully explain or predict the behavior of people in organizations.
- Mathematical sophistication may come at the expense of other managerial skills.
- Quantitative models may require unrealistic or unfounded assumptions, limiting their general applicability.

Modern Approaches to Management:-
Modern Approach includes the following three theories and their contributors:
- Open Systems
- Contingency Thinking
- Lessons from the Japanese management style (theory z)

Systems management theory (Open Systems):
The **systems management theory** has had a significant effect on management science. A system is an interrelated set of elements functioning as a whole. An organization as a system is composed of four elements:
- **Inputs** — material or human resources
- **Transformation processes** — technological and managerial processes
- **Outputs** — products or services
- **Feedback** — reactions from the environment

In relationship to an organization, *inputs* include resources such as raw materials, money, technologies, and people. These inputs go through a transformation process where they're planned, organized, motivated, and controlled to ultimately meet the organization's goals. The *outputs* are the products or services designed to enhance the quality of life or productivity for customers/clients. Feedback includes comments from customers or clients using the products. This overall systems framework applies to any department or program in the overall organization.

The systems theory encourages managers to look at the organization from a broader perspective. Managers are beginning to recognize the various parts of the organization, and, in particular, the interrelations of the parts.

Contemporary system theorists find it helpful to analyze the effectiveness of organizations according to the degree that they are open or closed.

The following terminology is important to your understanding of the systems approach:

- An organization that interacts little with its external environment (outside environment) and therefore receives little feedback from it is called a **closed system.**
- An **open system,** in contrast, interacts continually with its environment. Therefore, it is well informed about changes within its surroundings and its position relative to these changes.
- A **subsystem** is any system that is part of a larger one.
- **Entropy** is the tendency of systems to deteriorate or break down over time.
- **Synergy** is the ability of the whole system to equal more than the sum of its parts

The system perspective of the organization

The Contingency Approach to management:-

The contingency approach to management is an extension of the humanistic perspective which is based on the idea that in an organization there is no one best way in the management process (planning, organizing, leading, and controlling) to successfully resolve any tailored circumstances; because organizations, people, and situations vary and change over time. Thus, the right thing to do depends on a complex variety of critical environmental and internal contingencies.

The contingency approach was suggested by two American academics, Lawrence and Lorsch in 1967. Their important contribution to this approach was as follows:

- The more dynamic and diverse the environment, the higher the degree of both differentiation and integration required for successful organization. Less changeable environments require a lesser degree of differentiation but still require a high degree of integration.
- The more differentiated an organization, the more difficult it is to resolve conflict where the environment is uncertain, the integrating functions tend to be carried out by middle and low-level managers where the environment is stable, integration tends to be achieved at the top end of the management hierarchy.

Also, Fred Fiedler, in the 1960s and 1970s, was an early pioneer in this area. He identified that various aspects of the situation had an impact on the effectiveness of different leadership styles. For example, Fiedler suggests that the degree to which subordinates like or trust the leader, the degree to which the task is structured, and the formal authority possessed by the leader are key determinants of the leadership situation. Task oriented or relationship oriented leadership would each work if they fit the characteristics of the situation.

Japanese Management Style (Theory Z):-

McGregor, identified a negative set of assumptions about human nature, which he called Theory X. He asserted that these assumptions limited the potential for growth of many employees. McGregor presented an alternative set of assumptions that he called Theory Y and were more positive about human nature as it relates to employees. In McGregor's view, managers who adopted Theory Y beliefs would exhibit different, more humanistic, and ultimately more effective management styles and Theory Y became a well-known prescription for improving management practices.

Concerns about the competitiveness of U. S. companies led some to examine Japanese management practices for clues to the success enjoyed by many of their industries.

This led to many articles and books purporting to explain the success of Japanese companies. It was in this atmosphere that Theory Z was introduced into the management lexicon.

Theory Z is humanistic approach to management by William Ouchi.

The key features of Japanese industrial organizations, according to Ouchi are as follows:

- Offer lifetime employment (at least for their core workers).
- Promote from within.
- Insist on mandatory retirement of core workers at age 55.
- Employ a large number of temporary employees mostly women.
- There is a high degree of mutual trust and loyalty.
- Career paths are non-specialized with life-long job rotation as a central feature of career development.
- Decision making is shared at all levels.
- Performance appraisal is long term (ie the first appraisal takes place 10 years after joining the company).
- There is a strong sense of collective responsibility for the success of the organization and cooperation effort rather than individual achievement is encouraged.

Though it is not possible to adapt all the features of the Japanese management due to cultural difference across countries following features of Japanese management can be adopted to be theory Z organization:

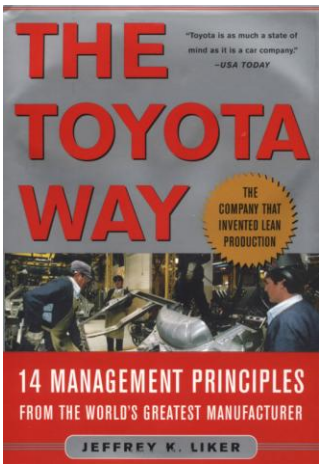
- Lifelong employment prospects
- Shared forms of decision-making
- Relationship between boss and subordinate based on mutual respect

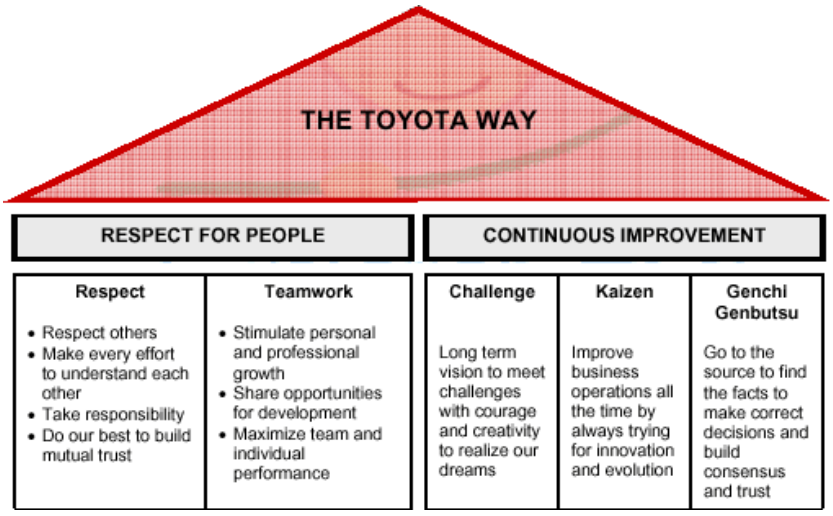
Contemporary Management Issues and Challenges:-

- Acute labor shortages in high-technology job sectors and an oversupply of less skilled labor
- An increasingly diverse and globalized workforce
- The need to create challenging, motivating, and flexible work environments
- The effects of information technology on how people work
- The complex array of new ways of structuring organizations
- Increasing globalization of product and service markets
- The renewed importance of ethics and social responsibility
- The use of quality as the basis for competition
- The shift to a predominately service-based economy

The 14 Principles of the Toyota Way

The Toyota Way has been called "a system designed to provide the tools for people to continually improve their work"





The 14 principles of The Toyota Way are organized in four sections:

1. Long-Term Philosophy
2. The Right Process Will Produce the Right Results
3. Add Value to the Organization by Developing Your People
4. Continuously Solving Root Problems Drives Organizational Learning

The principles are set out and briefly described below:

Section I — Long-Term Philosophy

Principle 1

Base your management decisions on a long-term philosophy, even at the expense of short-term financial goals.

People need purpose to find motivation and establish goals.

Section II — The Right Process Will Produce the Right Results

Principle 2

Create a continuous process flow to bring problems to the surface.

Work processes are redesigned to eliminate waste (muda) through the process of continuous improvement — kaizen. The eight types of muda are:

Overproduction

Waiting (time on hand)

Unnecessary transport or conveyance

Overprocessing or incorrect processing

Excess inventory

Unnecessary movement

Defects

Unused employee creativity

Principle 3

Use "pull" systems to avoid overproduction.

A method where a process signals its predecessor that more material is needed. The pull system produces only the required material after the subsequent operation signals a need for it. This process is necessary to reduce overproduction.

Principle 4

Level out the workload (heijunka). (Work like the tortoise, not the hare).

This helps achieve the goal of minimizing waste (muda), not overburdening people or the equipment (muri), and not creating uneven production levels (mura).

Principle 5

Build a culture of stopping to fix problems, to get quality right the first time.

Quality takes precedence (Jidoka). Any employee in the Toyota Production System has the authority to stop the process to signal a quality issue.

Principle 6

Standardized tasks and processes are the foundation for continuous improvement and employee empowerment.

Although Toyota has a bureaucratic system, the way that it is implemented allows for continuous improvement (kaizen) from the people affected by that system. It empowers the employee to aid in the growth and improvement of the company.

Principle 7

Use visual control so no problems are hidden.

Included in this principle is the 5S Program - steps that are used to make all work spaces efficient and productive, help people share work stations, reduce time looking for needed tools and improve the work environment.

Sort: Sort out unneeded items

Straighten: Have a place for everything

Shine: Keep the area clean

Standardize: Create rules and standard operating procedures

Sustain: Maintain the system and continue to improve it

Principle 8

Use only reliable, thoroughly tested technology that serves your people and processes.

Technology is pulled by manufacturing, not pushed to manufacturing.

Section III — Add Value to the Organization by Developing Your People

Principle 9

Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others.

Without constant attention, the principles will fade. The principles have to be ingrained, it must be the way one thinks. Employees must be educated and trained: they have to maintain a learning organization.

Principle 10

Develop exceptional people and teams who follow your company's philosophy.

Teams should consist of 4-5 people and numerous management tiers. Success is based on the team, not the individual.

Principle 11

Respect your extended network of partners and suppliers by challenging them and helping them improve.

Toyota treats suppliers much like they treat their employees, challenging them to do better and helping them to achieve it. Toyota provides cross functional teams to help suppliers discover and fix problems so that they can become a stronger, better supplier.

Section IV: Continuously Solving Root Problems Drives Organizational Learning

Principle 12

Go and see for yourself to thoroughly understand the situation (Genchi Genbutsu).

Toyota managers are expected to "go-and-see" operations. Without experiencing the situation firsthand, managers will not have an understanding of how it can be improved. Furthermore, managers use Tadashi Yamashima's (President, Toyota Technical Center (TCC)) ten management principles as a guideline:

Always keep the final target in mind.

Clearly assign tasks to yourself and others.

Think and speak on verified, proven information and data.

Take full advantage of the wisdom and experiences of others to send, gather or discuss information.

Share information with others in a timely fashion.

Always report, inform and consult in a timely manner.

Analyze and understand shortcomings in your capabilities in a measurable way.

Relentlessly strive to conduct kaizen activities.

Think "outside the box," or beyond common sense and standard rules.

Always be mindful of protecting your safety and health.

Principle 13

Make decisions slowly by consensus, thoroughly considering all options; implement decisions rapidly (nemawashi).

The following are decision parameters:

Find what is really going on (go-and-see) to test

Determine the underlying cause

Consider a broad range of alternatives

Build consensus on the resolution

Use efficient communication tools

Principle 14

Become a learning organization through relentless reflection (hansei) and continuous improvement (kaizen).

The process of becoming a learning organization involves criticizing every aspect of what one does. The general problem solving technique to determine the root cause of a problem includes:

Initial problem perception

Clarify the problem

Locate area/point of cause

Investigate root cause (5 whys)

Countermeasure

Evaluate

Standardize

Translating the principles

There is a question of uptake of the principles now that Toyota has production operations in many different countries around the world. As a New York Times article notes, while the corporate culture may have been easily disseminated by word of mouth when Toyota manufacturing was only in Japan, with worldwide production, many different cultures must be taken into account. Concepts such as “mutual ownership of problems,” or “genchi genbutsu,” (solving problems at the source instead of behind desks), and the “kaizen mind,” (an unending sense of crisis behind the company’s constant drive to improve), may be unfamiliar to North Americans and people of other cultures. A recent increase in vehicle recalls may be due, in part, to "a failure by Toyota to spread its obsession for craftsmanship among its growing ranks of overseas factory workers and managers." Toyota is attempting to address these needs by establishing training institutes in the United States and in Thailand.[3]

E X E R C I S E S

1. **What goals seem to dominate early management principles?**

2. **Do you see any commonalities between Fayol’s principles of management from 1911 and those of Tom Peters in the 1990s?**

3. **Are there any jobs today for which time and motion studies would make sense to do? Would any other skills need to be taught as well?**

4. **What do early management principles leave out?**

5. **How would you put some of the ideas of the 1990s into practice**

6. Discuss the functions and nature of management.
7. Explain the nature of management process. Why management process is called social and consequential process?
8. What are the principles and features of scientific management of Taylor? Why did trade unions oppose scientific management?
9. Discuss contributions of Elton Mayo to the development of management thought?
10. Discuss features of systems approach to management.
11. What is management? Explain the characteristics of management.
12. Explain the importance of management in the present day business world.

Chapter 3:- Planning

Why Managers Plan

Have you ever walked up to a pretty girl, and when you started to talk, nothing came out but silence? Have you run out of gas just a few miles from the nearest gas station? Have you found yourself freezing cold, wishing you had worn a sweater? Or maybe you have had to pull an all-nighter to finish a project that you procrastinated on until the last possible minute? What all these scenarios have in common is a lack of planning. Having a plan is a good practice for everyone, especially for managers.

Here are some of the reasons why it is a good idea for managers to plan:

- Managers can examine critical issues facing the organization instead of waiting for them to blow up in their face. Allowing uncertainty, high risk and doubt to rule in an organization is never a good idea. Planning allows a manager to determine organizational goals and define a means of achieving them.
- A manager can set explicit guidelines for decision-making when done in advance. This allows the manager to be both small picture- and big picture-minded when making decisions.
- A manager is able to be more proactive than reactive in decisions. Failing to plan will take away your ability to look into the future and potentially predict an inevitable event before it becomes an issue. Planning increases the likelihood of long-term survival of an organization.
- A manager can focus attention on organizational goals and results.
- A manager is able to create ownership of the plan and develop a team that buys into and accepts accountability for their role in the plan.
- A manager can provide a sense of direction, vision, rationale and purpose for the plan, which can be easily communicated to other members of the organization, showing them how serious a manager is about reaching organizational goals.
- A manager can create a competitive advantage by taking the time to plan - a process that allows an organization to examine who they are in relation to their competition and thus provide a good deal of insight into how to be better than that competition.

Now that we know why it's a good idea for managers to plan, let's dive a bit deeper into the planning function of management.

Planning as a Function of Management

In the world of management, planning is as fundamental as it gets. If you recall, the first of the managerial functions is **planning**. Many believe planning is the most fundamental of the managerial functions because all other functions, including organizing, leading, controlling and staffing, stem from the planning function. Planning prepares organizations for tomorrow today by assessing what an organization wants to accomplish and how it will go about achieving that goal.

Managers will spend much of their time planning for all sorts of things that may or will occur in the organization. Typically a manager will create a plan that is aimed at accomplishing some organizational goal such as increasing sales or improving customer service. However, it is important to note that planning is an ongoing step that can be highly specialized based on an organization's goals, division goals, departmental goals and team goals. It is up to the manager to recognize what goals need to be planned within their individual area.

For example, let's say Erin the enrollment manager has noticed a steady decline in the amount of students enrolling in the business program, so she creates a goal to increase enrollments in that area. Erin must first spend time mapping out the necessary steps she and her team of enrollment advisors need to take to increase the enrollment numbers of undergraduate business students. These steps might include things like increasing online advertisements on business-related sites, creating a new advertisement for television or radio, asking current business students to talk to their friends and family about enrolling in the program or going out to local high schools or community colleges to speak directly with students who may be enrolling at the university in the next semester. The steps are then organized into a logical pattern so that Erin and her team can follow it.

Planning means looking ahead and chalking out future courses of action to be followed. It is a preparatory step. It is a systematic activity which determines when, how and who is going to perform a specific job. Planning is a detailed programme regarding future courses of action.

It is rightly said "**Well plan is half done**". Therefore planning takes into consideration available & prospective human and physical resources of the organization so as to get effective co-ordination, contribution & perfect adjustment. It is the basic management function which includes formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources.

According to Urwick, "Planning is a mental predisposition to do things in orderly way, to think before acting and to act in the light of facts rather than guesses". Planning is deciding best alternative among others to perform different managerial functions in order to achieve predetermined goals.

According to Koontz & O'Donell, "Planning is deciding in advance what to do, how to do and who is to do it. Planning bridges the gap between where we are to, where we want to go. It makes possible things to occur which would not otherwise occur".

Steps in Planning Function

Planning function of management involves following steps:-

1. **Establishment of objectives**
    a. Planning requires a systematic approach.
    b. Planning starts with the setting of goals and objectives to be achieved.
    c. Objectives provide a rationale for undertaking various activities as well as indicate direction of efforts.
    d. Moreover objectives focus the attention of managers on the end results to be achieved.

e. As a matter of fact, objectives provide nucleus to the planning process. Therefore, objectives should be stated in a clear, precise and unambiguous language. Otherwise the activities undertaken are bound to be ineffective.
f. As far as possible, objectives should be stated in quantitative terms. For example, Number of men working, wages given, units produced, etc. But such an objective cannot be stated in quantitative terms like performance of quality control manager, effectiveness of personnel manager.
g. Such goals should be specified in qualitative terms.
h. Hence objectives should be practical, acceptable, workable and achievable.

2. Establishment of Planning Premises

a. Planning premises are the assumptions about the lively shape of events in future.
b. They serve as a basis of planning.
c. Establishment of planning premises is concerned with determining where one tends to deviate from the actual plans and causes of such deviations.
d. It is to find out what obstacles are there in the way of business during the course of operations.
e. Establishment of planning premises is concerned to take such steps that avoids these obstacles to a great extent.
f. Planning premises may be internal or external. Internal includes capital investment policy, management labour relations, philosophy of management, etc. Whereas external includes socio- economic, political and economical changes.
g. Internal premises are controllable whereas external are non- controllable.

3. Choice of alternative course of action

a. When forecast are available and premises are established, a number of alternative course of actions have to be considered.
b. For this purpose, each and every alternative will be evaluated by weighing its pros and cons in the light of resources available and requirements of the organization.
c. The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made.
d. After objective and scientific evaluation, the best alternative is chosen.
e. The planners should take help of various quantitative techniques to judge the stability of an alternative.

4. Formulation of derivative plans

a. Derivative plans are the sub plans or secondary plans which help in the achievement of main plan.
b. Secondary plans will flow from the basic plan. These are meant to support and expediate the achievement of basic plans.
c. These detail plans include policies, procedures, rules, programmes, budgets, schedules, etc. For example, if profit maximization is the main aim of the enterprise, derivative plans will include sales maximization, production maximization, and cost minimization.
d. Derivative plans indicate time schedule and sequence of accomplishing various tasks.

5. Securing Co-operation

a. After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence.
b. The purposes behind taking them into confidence are :-
    i. Subordinates may feel motivated since they are involved in decision making process.
    ii. The organization may be able to get valuable suggestions and improvement in formulation as well as implementation of plans.
    iii. Also the employees will be more interested in the execution of these plans.

6. Follow up/Appraisal of plans

a. After choosing a particular course of action, it is put into action.
b. After the selected plan is implemented, it is important to appraise its effectiveness.
c. This is done on the basis of feedback or information received from departments or persons concerned.
d. This enables the management to correct deviations or modify the plan.
e. This step establishes a link between planning and controlling function.
f. The follow up must go side by side the implementation of plans so that in the light of observations made, future plans can be made more realistic.

Characteristics of Planning

1. Planning is goal-oriented.

a. Planning is made to achieve desired objective of business.
b. The goals established should general acceptance otherwise individual efforts & energies will go misguided and misdirected.
c. Planning identifies the action that would lead to desired goals quickly & economically.
d. It provides sense of direction to various activities. E.g. Maruti Udhyog is trying to capture once again Indian Car Market by launching diesel models.

2. Planning is looking ahead.

a. Planning is done for future.
b. It requires peeping in future, analyzing it and predicting it.
c. Thus planning is based on forecasting.
d. A plan is a synthesis of forecast.
e. It is a mental predisposition for things to happen in future.

3. Planning is an intellectual process.

a. Planning is a mental exercise involving creative thinking, sound judgement and imagination.
b. It is not a mere guesswork but a rotational thinking.
c. A manager can prepare sound plans only if he has sound judgement, foresight and imagination.
d. Planning is always based on goals, facts and considered estimates.

4. Planning involves choice & decision making.

a. Planning essentially involves choice among various alternatives.
b. Therefore, if there is only one possible course of action, there is no need planning because there is no choice.
c. Thus, decision making is an integral part of planning.
d. A manager is surrounded by no. of alternatives. He has to pick the best depending upon requirements & resources of the enterprises.

5. **Planning is the primary function of management / Primacy of Planning.**

a. Planning lays foundation for other functions of management.
b. It serves as a guide for organizing, staffing, directing and controlling.
c. All the functions of management are performed within the framework of plans laid out.
d. Therefore planning is the basic or fundamental function of management.

6. **Planning is a Continuous Process.**

a. Planning is a never ending function due to the dynamic business environment.
b. Plans are also prepared for specific period f time and at the end of that period, plans are subjected to revaluation and review in the light of new requirements and changing conditions.
c. Planning never comes into end till the enterprise exists issues, problems may keep cropping up and they have to be tackled by planning effectively.

7. **Planning is all Pervasive.**

a. It is required at all levels of management and in all departments of enterprise.
b. Of course, the scope of planning may differ from one level to another.
c. The top level may be more concerned about planning the organization as a whole whereas the middle level may be more specific in departmental plans and the lower level plans implementation of the same.

8. **Planning is designed for efficiency.**

a. Planning leads to accompishment of objectives at the minimum possible cost.
b. It avoids wastage of resources and ensures adequate and optimum utilization of resources.
c. A plan is worthless or useless if it does not value the cost incurred on it.
d. Therefore planning must lead to saving of time, effort and money.
e. Planning leads to proper utilization of men, money, materials, methods and machines.

9. **Planning is Flexible.**

a. Planning is done for the future.
b. Since future is unpredictable, planning must provide enough room to cope with the changes in customer's demand, competition, govt. policies etc.
c. Under changed circumstances, the original plan of action must be revised and updated to male it more practical.

Using Plans to Achieve Goals

Planning is a crucial activity, for it designs the map that lays the groundwork for the other functions. The plan itself specifies what should be done, by whom, where, when, and how. All

businesses — from the smallest restaurant to the largest multinational corporation — need to develop plans for achieving success. But before an organization can plan a course of action, it must first determine what it wants to achieve. *Objectives,* the end results desired by the organization, are derived from the organization's **mission statement.** The mission statement explains what the organization stands for and why it exists. A strong mission statement symbolizes legitimacy to external audiences, such as investors, customers, and suppliers. Likewise, a strong mission statement allows employees to identify with the overall purpose of the organization and commit to preserving it.

The mission statement is the basis for all goals and plans outlined throughout the organization. Therefore, managers must use effective planning and goal-setting techniques to ensure that internal policies, roles, performances, structures, products, and expenditures are in line with the mission of the organization.

Criteria for effective goals

To make sure that goal setting benefits the organization, managers must adopt certain characteristics and guidelines. The following describes these criteria:

- **Goals must be specific and measurable.** When possible, use quantitative terms, such as increasing profits by two percent or decreasing student enrollment by one percent, to express goals.
- **Goals should cover key result areas.** Because goals cannot be set for every aspect of employee or organizational performance, managers should identify a few key result areas. These key areas are those activities that contribute most to company performance — for example, customer relations or sales.
- **Goals should be challenging but not too difficult.** When goals are unrealistic, they set employees up for failure and lead to low employee morale. However, if goals are too easy, employees may not feel motivated. Managers must be sure that goals are determined based on existing resources and are not beyond the team's time, equipment, and financial resources.
- **Goals should specify the time period over which they will be achieved.**Deadlines give team members something to work toward and help ensure continued progress. At the same time, managers should set short-term deadlines along the way so that their subordinates are not overwhelmed by one big, seemingly unaccomplishable goal. It would be more appropriate to provide a short term goal such as, "Establish a customer database by June 30."
- **Goals should be linked to rewards.** People who attain goals should be rewarded with something meaningful and related to the goal. Not only will employees feel that their efforts are valued, but they will also have something tangible to motivate them in the future.

All the different levels of management should have plans that work together to accomplish the organization's purpose. The plans of the top-, middle-, and first-level managers of an organization should work together to achieve the main goal.

All managers plan basically the same way, but the kinds of plans they develop and the amount of time they spend on planning vary. Here are some examples:

- Top-level managers are concerned with longer time periods and with plans for larger organizational units. Their planning includes developing the mission for the organizational units, the organizational objective, and major policy areas. These goals are called *strategic* goals or objectives.
- Middle-level managers' planning responsibilities center on translating broad objectives of top-level management into more specific goals for work units. These goals are called *tactical* goals or objectives.
- First-level managers are involved in day-to-day plans, such as scheduling work hours, deciding what work will be done and by whom, and developing structures to reach these goals. These goals are called *operational* goals or objectives.

If a first-level manager develops a set of plans that contradicts that of a middle-level manager, conflicts will result. Therefore, all managers must work together when planning their activities and the activities of others.

Detailing Types of Plans

Plans commit individuals, departments, organizations, and the resources of each to specific actions for the future. Effectively designed organizational goals fit into a hierarchy so that the achievement of goals at low levels permits the attainment of high-level goals. This process is called a **means-ends chain** because low-level goals lead to accomplishment of high-level goals.

Three major types of plans can help managers achieve their organization's goals: strategic, tactical, and operational. Operational plans lead to the achievement of tactical plans, which in turn lead to the attainment of strategic plans. In addition to these three types of plans, managers should also develop a contingency plan in case their original plans fail.

Operational plans

The specific results expected from departments, work groups, and individuals are the **operational goals.** These goals are precise and measurable. "Process 150 sales applications each week" or "Publish 20 books this quarter" are examples of operational goals.

An **operational plan** is one that a manager uses to accomplish his or her job responsibilities. Supervisors, team leaders, and facilitators develop operational plans to support tactical plans (see the next section). Operational plans can be a single-use plan or an ongoing plan.

- **Single-use plans** apply to activities that do not recur or repeat. A one-time occurrence, such as a special sales program, is a single-use plan because it deals with the who, what,

where, how, and how much of an activity. A budget is also a single-use plan because it predicts sources and amounts of income and how much they are used for a specific project.

- **Continuing or ongoing plans** are usually made once and retain their value over a period of years while undergoing periodic revisions and updates. The following are examples of ongoing plans:
- A **policy** provides a broad guideline for managers to follow when dealing with important areas of decision making. Policies are general statements that explain how a manager should attempt to handle routine management responsibilities. Typical human resources policies, for example, address such matters as employee hiring, terminations, performance appraisals, pay increases, and discipline.
- A **procedure** is a set of step-by-step directions that explains how activities or tasks are to be carried out. Most organizations have procedures for purchasing supplies and equipment, for example. This procedure usually begins with a supervisor completing a purchasing requisition. The requisition is then sent to the next level of management for approval. The approved requisition is forwarded to the purchasing department. Depending on the amount of the request, the purchasing department may place an order, or they may need to secure quotations and/or bids for several vendors before placing the order. By defining the steps to be taken and the order in which they are to be done, procedures provide a standardized way of responding to a repetitive problem.
- A **rule** is an explicit statement that tells an employee what he or she can and cannot do. Rules are “do” and “don't” statements put into place to promote the safety of employees and the uniform treatment and behavior of employees. For example, rules about tardiness and absenteeism permit supervisors to make discipline decisions rapidly and with a high degree of fairness.

Tactical plans

A **tactical plan** is concerned with what the lower level units within each division must do, how they must do it, and who is in charge at each level. Tactics are the means needed to activate a strategy and make it work.

Tactical plans are concerned with shorter time frames and narrower scopes than are strategic plans. These plans usually span one year or less because they are considered short-term goals. Long-term goals, on the other hand, can take several years or more to accomplish. Normally, it is the middle manager's responsibility to take the broad strategic plan and identify specific tactical actions.

A **strategic plan** is an outline of steps designed with the goals of the entire organization as a whole in mind, rather than with the goals of specific divisions or departments. Strategic planning begins with an organization's mission.

Strategic plans look ahead over the next two, three, five, or even more years to move the organization from where it currently is to where it wants to be. Requiring multilevel

involvement, these plans demand harmony among all levels of management within the organization. Top-level management develops the directional objectives for the entire organization, while lower levels of management develop compatible objectives and plans to achieve them. Top management's strategic plan for the entire organization becomes the framework and sets dimensions for the lower level planning.

Contingency plans

Intelligent and successful management depends upon a constant pursuit of adaptation, flexibility, and mastery of changing conditions. Strong management requires a "keeping all options open" approach at all times — that's where contingency planning comes in.

Contingency planning involves identifying alternative courses of action that can be implemented if and when the original plan proves inadequate because of changing circumstances.

Keep in mind that events beyond a manager's control may cause even the most carefully prepared alternative future scenarios to go awry. Unexpected problems and events frequently occur. When they do, managers may need to change their plans. Anticipating change during the planning process is best in case things don't go as expected. Management can then develop alternatives to the existing plan and ready them for use when and if circumstances make these alternatives appropriate

Identifying Barriers to Planning

Various barriers can inhibit successful planning. In order for plans to be effective and to yield the desired results, managers must identify any potential barriers and work to overcome them. The common barriers that inhibit successful planning are as follows:

- **Inability to plan or inadequate planning.** Managers are not born with the ability to plan. Some managers are not successful planners because they lack the background, education, and/or ability. Others may have never been taught how to plan. When these two types of managers take the time to plan, they may not know how to conduct planning as a process.
- **Lack of commitment to the planning process.** The development of of a plan is hard work; it is much easier for a manager to claim that he or she doesn't have the time to work through the required planning process than to actually devote the time to developing a plan. (The latter, of course, would save them more time in the long run!) Another possible reason for lack of commitment can be fear of failure. As a result, managers may choose to do little or nothing to help in the planning process.

- **Inferior information.** Facts that are out-of-date, of poor quality, or of insufficient quantity can be major barriers to planning. No matter how well managers plan, if they are basing their planning on inferior information, their plans will probably fail.
- **Focusing on the present at the expense of the future.** Failure to consider the long-term effects of a plan because of emphasis on short-term problems may lead to trouble in preparing for the future. Managers should try to keep the big picture — their long-term goals — in mind when developing their plans.
- **Too much reliance on the organization's planning department.** Many companies have a planning department or a planning and development team. These departments conduct studies, do research, build models, and project probable results, but they do not implement plans. Planning department results are aids in planning and should be used only as such. Formulating the plan is still the manager's responsibility.
- **Concentrating on controllable variables.** Managers can find themselves concentrating on the things and events that they can control, such as new product development, but then fail to consider outside factors, such as a poor economy. One reason may be that managers demonstrate a decided preference for the known and an aversion to the unknown.

The good news about these barriers is that they can all be overcome. To plan successfully, managers need to use effective communication, acquire quality information, and solicit the involvement of others.

An effective management goes a long way in extracting the best out of employees and make them work as a single unit towards a common goal.

The term Management by Objectives was coined by Peter Drucker in 1954.

What is Management by Objective ?

The process of setting objectives in the organization to give a sense of direction to the employees is called as Management by Objectives.

It refers to the process of setting goals for the employees so that they know what they are supposed to do at the workplace.

Management by Objectives defines roles and responsibilities for the employees and help them chalk out their future course of action in the organization.

Management by objectives guides the employees to deliver their level best and achieve the targets within the stipulated time frame.

Need for Management by Objectives (MBO)

- The Management by Objectives process helps the employees to understand their duties at the workplace.

- KRAs are designed for each employee as per their interest, specialization and educational qualification.
- The employees are clear as to what is expected out of them.
- Management by Objectives process leads to satisfied employees. It avoids job mismatch and unnecessary confusions later on.
- Employees in their own way contribute to the achievement of the goals and objectives of the organization. Every employee has his own role at the workplace. Each one feels indispensable for the organization and eventually develops a feeling of loyalty towards the organization. They tend to stick to the organization for a longer span of time and contribute effectively. They enjoy at the workplace and do not treat work as a burden.
- Management by Objectives ensures effective communication amongst the employees. It leads to a positive ambience at the workplace.
- Management by Objectives leads to well defined hierarchies at the workplace. It ensures transparency at all levels. A supervisor of any organization would never directly interact with the Managing Director in case of queries. He would first meet his reporting boss who would then pass on the message to his senior and so on. Every one is clear about his position in the organization.
- The MBO Process leads to highly motivated and committed employees.
- The MBO Process sets a benchmark for every employee. The superiors set targets for each of the team members. Each employee is given a list of specific tasks.

Limitations of Management by objectives Process

- It sometimes ignores the prevailing culture and working conditions of the organization.
- More emphasis is being laid on targets and objectives. It just expects the employees to achieve their targets and meet the objectives of the organization without bothering much about the existing circumstances at the workplace. Employees are just expected to perform and meet the deadlines. The MBO Process sometimes do treat individuals as mere machines.
- The MBO process increases comparisons between individuals at the workplace. Employees tend to depend on nasty politics and other unproductive tasks to outshine their fellow workers. Employees do only what their superiors ask them to do. Their work lacks innovation, creativity and sometimes also becomes monotonous.

MODEL CASE STUDY WITH SUGGESTED ANSWERS

SUBJECT: MANAGEMENT PRINCIPLES FOR LOGISTICIANS

The Marketing manager of AMK Enterprises, Roopali Deshmukh (Deshmukh) stepped out of the conference hall in a pensive mood after an important meeting called by the CEO. The meeting was

attended by the heads of various departments in the company and was convened to discuss the targets

for the coming assessment year. Deshmukh had a formidable sales target to achieve and wondered how

she would be able to meet those seemingly impossible goals. This fear was further aggravated by the

fact that the productivity levels of employees in the company had been falling. Deshmukh was under

tremendous pressure from the management to improve the performance of her team. She also had to

deal with the decreasing levels of employees' morale in her 24-member team. As a first step, Deshmukh

informed her team members about a meeting that she planned to hold the next day. She then drafted a

plan of action that she intended to discuss with her team.

The next day, Deshmukh began the meeting by informing her team members about the corporate

meeting she had attended. She then said, "We have a difficult task ahead for this year, and your

participation and involvement is essential to achieve the goals". She then invited suggestions from her

team members regarding the role to be played by each of them. The meeting then progressed on to

setting of individual targets for by each team member as, it was felt that this would help in

accomplishing the organizational goals. Specific goals were, therefore, set and agreed upon by all the

team members. The team aimed to increase the organizational profits by 18% over the next six months.

They sketched out a plan of action to achieve the targets set for the team and decided that they would

meet once every two months to monitor their progress.

Two months later, the team met again and received their progress. Deshmukh also gave a feedback on

the performance of every member of the team. The team then collectively identified the areas of

improvement and decided upon the measures they would take to overcome their deficiencies. This

continued for the rest of the year. The final review meeting was held just before the yearly corporate

meeting attended by the top management. The team was surprised to see that they had achieved their

targets.

Thus, effective planning and control mechanisms helped the team achieve their short term goals, and

this in turn, helped in the achievement of the organizational objectives. Besides, the employees were

also motivated as the management gave adequate recognition to their involvement and participation in

achieving team goals. The target to be achieved by the team was highly challenging. This further

motivated the team members as they had better opportunities to prove their problems solving skills.

Thus, the outstanding performance of the sales team helped the organization achieve in the long term.

Questions for Discussions:

1. Roopali Deshmukh followed the practice of management by objectives (MBO) while setting

goals for team members. Discuss the various phases of the MBO process that helped her team

achieve its goals. 2. Explain briefly the process of MBO and the various advantages of implementing MBO in

organizations.

SUGGESTED ANSWERS:

1. Roopali Deshmukh followed the practice of management by objectives (MBO) while setting

goals for team members. Discuss the various phases of the MBO process that helped her team achieve its goals.

ANSWER:

Roopali Deshmukh implemented the MBO process as an intervention to improve the productivity of her sales team. She successfully implemented the process by following a sequence of effective planning, control and development. The following are the various phases of the MBO process that led to its success:

The MBO program was initiated by the top management which set the overall organizational goals and communicated them to the people down the hierarchy. However, the management did not interfere much with the means of achieving the objectives. In other words, it gave adequate autonomy to its employees to implement the progress.

Deshmukh then drafted a plan of action to achieve the targets decided by the management for the year.

She invited employee participation in various aspects of implementation of the program. She encouraged her team members to decide the role each one would play in role to achieve the team's target. She sought their suggestions to play in order to achieve the team targets that each individual would achieve. These short term targets were in line with the team's long term goals and objectives.

Deshmukh also set specific time frames specific time frames for the accomplishments of the targets. Thus the goals were not only specific but also time bound.

Deshmukh closely monitored the performance of all the team members without actually interfering in their job. She also offered positive feedback to her subordinates and this helped them overcome their shortcomings and perform effectively.

Thus the MBO program implemented in the sales team proved to be beneficial to both the employees and the management

2. Explain briefly the process of MBO and the various advantages of implementing MBO in organizations.

ANSWER:

Management by objectives is a goal-setting tool where goals are set by employees in collaboration with the management. The aim of management by objectives is the achievement of organizational goals. MBO involves setting up short-term goals for employees in line with the long term objectives of the organization. MBO is thus an effective tool for planning, control nad development.

Most organizations use MBO as a control mechanism to ensure that there is no deviation between employee performance and organizational objectives. Organizations also use MBO as a performance measurement tool. Since MBO is a bottom-up approach, the organization gains from the participation of employees in the establishment and achievement of employee goals. Since individual goals are set collaboratively by employees and employers and are closely linked to the organization's mission and objectives, achievement of individual goals results in accomplishment of organization's objectives. Thus an effective MBO program not only motivate employee to achieve their individual goals but also helps in attaining organizational goals.

Case study on Planning and Strategy

Firm - Mercedes-Benz

Introduction:-

Mercedes - a Spanish girls name meaning “The Brand”.
Mercedes-Benz is a well known brand of luxury cars. These are German made cars with classy European styling. Also it ranks as the world’s second most famous brand (after Coca Cola). Daimler-Motoren-Gesellschaft (DMG) delivered its first Mercedes on 22 December 1900. After that the company started a dynamic development culminating in the inception of the global company DaimlerChrysler AG in the late 20th century. Today Mercedes-Benz is the most successful premium brand. Its technical perfection, quality standards, innovative impact and numerous car legends such as the 300 SL Gullwing are unique .

The Founders
Gottlieb Daimler and Carl-Benz are the founders of the famous luxury cars - Mercedes’-Benz. His first four-wheeler, the Victoria, was built in 1893. The first production car was the 1894 Benz Velo which participated in the first recorded car race, the Paris-Rouen race. In 1895, Benz built his first truck.

Growth of Company
Mercedes-Benz launched their biggest and most prestigious car to date in 1930. The 770 Grosser was powered by an 8 cylinder, 7.6 litre engine. A car for the truly wealthy of the world, it was quite an automobile for showing off in a world economy still reeling from the Wall Street Crash of 1929.The cars of the 1930s produced great racing success for Mercedes-Benz.
Now Mercedes - Benz has many models in the market ranging from $ 34,995.00 to $151,150.00.

Mercedes-Benz posts strongest August 2013 performance ever with 18.7% growth, Last month, Mercedes-Benz sold 108,417 vehicles, which is more than in any other month of September to date. Since the start of the year, the brand grew its unit sales by 9.3%, reaching a new record of 919,644 units.

Products of Mercedes-Benz Company

1. Passenger cars: safety and comfort from A to S class.

2. MPV

3. Vans

4. Camper Vans : Viano MARCO POLO and Sprinter JAMES COOK

5. Trucks

6. Unimog

7. Buses: Medio, Sprinter Classic, Citaro, Citaro G etc.

What is a marketing plan of Mercedes-Benz

A business needs to set its overall direction for the company through a **business plan**. This plan sets out how the company is to achieve its aims. The aims and objectives of a business inform and shape its business plan. A vital part of the overall business plan is the marketing plan. The relationship between the two plans is shown in the diagram.

Marketing involves identifying, anticipating and satisfying customer needs. A marketing plan takes the stated aims and objectives and then puts in place a series of marketing activities to ensure those objectives are achieved. Marketing plans can cover any time period, but normally set out activities for the next one to five years at either a business or brand level.

The main sections of the plan cover:

Mercedes Benz understands that its customers are not simply buying a car to get from point A to point B, so before they actually sell a car they must first sell an idea about that car. Mercedes Benz sells their ideas through promotion and advertising. Mercedes Benz wants to change the perception of their brand at the personal level and reposition their brand so that they are more appealing to young professional men of all ethnicities. Secondly, Mercedes Benz is communicating to its target market the idea that they are a more approachable, personal, fun, and energetic brand. This new message was evident in the Janus Joplin advertisement, in the sponsoring of the Elton John concert in New York, and the sponsoring of professional tennis. In the summer of 2003 Mercedes Benz launched an marketing event in 16 cities across the United States to promote the new C- Class to younger buyers. The campaign gave potential buyers a chance to test drive the C-Class product line on courses that simulated real life driving conditions and gain information from current Mercedes Benz owners in attendance.

Mercedes has decided to stress safety over luxury in its new marketing campaign. As the tables have turned in the economic downturn, so have consumer priorities. It is becoming more popular to brag about how little you just spent on a new car as opposed to telling your friends how ridiculously expensive your new car was.

According to plan of Mercedes-Benz the market Assessments are as follows: -

The first step in devising a marketing plan is to conduct an evaluation of the business, so mercedes- Benz foes not need required any kind of recognization from customer.It's only foremost and important thing is to retain existing customer and create new once which will create more opportunities to it's position in market in future as well. So in order to do so it takes **SWOT analysis** help to assess the current as well as future market. This takes a detailed look at the internal strengths and weaknesses of the business, as well as external opportunities and threats in the marketplace.

Strengths:
Strengths of the Mercedes company are as follows:
1. Famous brand name.
2. Dynamic strategies for the success in the market.
3. Introduction of low-priced luxury cars for middle income level consumers.

Weaknesses:
The main weaknesses of the company are:
1. High price of cars that is not affordable by all income level consumers.
2. Lack of sporty look in the cars as many consumers now like cars having sporty look.
3. High cost of maintenance and high cost of spare parts.

Opportunities:
Mercedes have new opportunities in the following areas of market:
1. Mercedes has new opportunities in the market if it designs cars according to the young consumers also as they do not like big, mature looking cars and they like sporty looking cars.
2. Easy availability of spare parts in the market
3. Special designer cars for women.

Threats:
1. Availability of low cost and more efficient domestic and Japanese cars in the market

Objective setting:-

A successful marketing plan relies on setting clear and relevant objectives. These must relate directly to the businesses overall aims and objectives. In other words, the marketing plan must fit with the overall company strategy that is set out in the business plan. following are the major objectives of Mercedes-Benz:

- To become a No-1 manufacturer in most of countries
- By creating new and relevant, economical models
- Commitment to Excellence
- Providing all the support to customer satisfaction and fulfil their requirements
- To create ecofriendly cars and other products which does not cause damage to environment

Marketing strategies: -

Market Strategy: The market of cars is growing and not yet saturated. Mercedes-Benz seeks to expand the sales of its present products in its present markets through more intense distribution, aggressive promotion and competitive pricing. The company tries to increase its sales by attracting non-users and competitor's customers and raising the usage rate among current customers.
Product Development Strategy: These days, many new cars with latest technology and designs are coming into market. These new cars are good on gas, more comfortable, more reliable and have stylish look. Mercedes-Benz company is also developing new and modified products to appeal the present markets. It is stressing on new models, better quality and other minor innovations to attract the new customers as well as to maintain the old customers.

Marketing four P's are: Product, Place, Promotion and Prize. These variables are also known as marketing mix. They are the variables that marketing managers can control in order to best satisfy customers in the target market.

1. **Product**: Mercedes cars are high quality luxury cars. Main products of Mercedes are: B-Class, C-Class, S-Class, E-Class, SLK Class, SL Class, CLK Class, R-Class, G-Class, Vans, MPV, Camper Vans and Trucks. Mercedes now have high price as well as low price products with big model cars to small sporty looking cars. It also has service stations at approachable locations.
2. **Place**: Mercedes-Benz is a well known brand of luxury cars in the world. The products of the company are available at almost everywhere in the world.
3. **Promotion**: Mercedes do promotion of its products by advertisement, public relations and personal selling.
4. **Price**: Initially Mercedes-Benz was known to be an expensive luxury car that was out of range for middle class and lower class consumers. But now Mercedes have introduced low-priced luxury cars also in the market. Company also offers special gifts with the purchase of a car.

Conclusion - evaluating the plan: -

The marketing plan is a cycle that begins and ends with evaluation. The final stage in the marketing plan is to measure the outcomes of the marketing activities against the original objectives and targets. Continuous evaluation helps the marketing team to focus on modifying or introducing new activities to achieve objectives.

1) Mercedes-Benz has been a leader in the market for 125 years by innovating their products, testing all of their cars and parts, and making sure they build a safe, reliable, luxurious car that has demand and is unique to the area in which it is being sold.
2) Mercedes-Benz hold the belief that "Part of being a successful company is giving back to our community." The company is involved in many efforts of community service on large scale and small-scale basis including having employees participate in charitable, educational, and cultural initiatives. They are also committed to producing products that have as little impact as possible on the environment.
3) Mercedes-Benz fosters a sense of community among its employees. Team driving contests and other such team building exercises help build individual potential and teamwork skills, and create a sense of community within the employees.

Discussion Questions

1. what is planning?

Planning is a process of selecting the objectives & determining the course of action required to achieve these objectives.

2. Important observations subjected about planning?

1. Planning is obtaining a future course of action in order to achieve an objective.
2. Planning is looking ahead.
3. Planning is getting ready to do something tomorrow.
4. Plan is a trap laid down to capture the future.

3. Define mission?

Mission may be defines as a statement which defines the role that an organization plays in the society.

4. Define policies?

Policies are general statement or understanding which provides guidance in decisions making to various managers.

5. Explain in brief about the two approaches in which the hierarchy of objectives can be explained?

There are two approaches in which the hierarchy can be explained.

1. top-down approach

2. bottom-up approach

in the top-down approach, the total organization is directed through corporate objective provided by the top-level management. In the bottom up approach, the top level management needs to have information from lower level in the form of objectives.

6. Advantages of objectives:

1. Unified planning
2. Defining an organization
3. Direction
4. Individual motivation
5. Basis for decentralization
6. Basis for control
7. Co-ordination

7. Steps involved in MBO process:

1. setting preliminary objectives
2. fixing key result areas
3. setting subordinates objectives
4. matching resources with objectives
5. recycling objectives
6. Periodic resources with objectives.
7. Appraisal

8. features of MBO:

1. MBO tries to combine the long range goals of organization with short range of organization.
2. MBO involves participation of subordinate managers in the goal setting process.
3. MBO increase the organization capability of achieving goals.
4. MBO'S emphasis is not only on goals but also on effective performance.

9. Definitions of MBO:

According to GEORGE ODIORNE,"MBO is a process where by the superior and the subordinates managers of an enterprise jointly identify its common goals, define each

individuals major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members".

KOONTZ &WEIHRICH have defines MBO as follows:

"MBO is comprehensive managerial system that integrates many key managerial activities in a systematic manner & that is consciously directed towards the effective and efficient achievement of organizational and individual objectives.

10. Define strategy?

A strategy may be defined as special type of plan prepared for meeting the challenges posted by the activities o competitors and other environment forces.

11. Steps involved in strategic planning:

1. Mission and objectives.
2. Environmental analysis
3. Corporate analysis
4. Identification of alternatives.
5. Strategic decision making
6. Implementations review & control.

12. State the characteristic of a sound policy?

1. Relationship to organizational objectives.
2. Clarity of policy
3. A policy is a guide to thinking in decision making
4. Policies should be written
5. Communication of policies
6. Balance of policies.
7. Planned formulation.

13. List out the steps involved in formulation of policies:

1. Defining the policy area
2. Defining of policy alternatives.
3. Evaluation of policy alternatives.
4. Choice of policy
5. Communication of policy
6. Implementation of policy
7. Review of policy

14. Name the classification of planning premises?

1. Internal and external
2. Tangible and intangible premises.

Controllable and uncontrollable premises

Chapter 4:- Organizing

Definition:-

The second function of management is organizing. After a manager has a plan in place, she can structure her teams and resources. This important step can profoundly affect an organization's success. Not only does a business's organizational structure help determine how well its employees make decisions, but it also reflects how well they respond to problems. These responses, over time, can make or break an organization. In addition, the organizational structure influences employees' attitudes toward their work. A suitable organizational structure can minimize a business's costs, as well as maximize its efficiency, which increases its ability to compete in a global economy. For these reasons, many businesses have tinkered with their organizational structures in recent years in efforts to enhance their profits and competitive edge. Once managers have their plans in place, they need to organize the necessary resources to accomplish their goals. **Organizing,** the second of the universal management functions, is the process of establishing the orderly use of resources by assigning and coordinating tasks. The organizing process transforms plans into reality through the purposeful deployment of people and resources within a decision-making framework known as the organizational structure.

The organizational structure is defined as:-

- The set of formal tasks assigned to individuals and departments
- The formal reporting relationships, including lines of authority, decision responsibility, number of hierarchical levels, and span of managerial control
- The design of systems to ensure effective coordination of employees across departments

The organizational structure provides a framework for the hierarchy, or *vertical structure,* of the organization. An **organizational chart** is the visual representation of this vertical structure

Nature / Characteristics of Organizing: From the study of the various definitions given by different management experts we gather following information about the characteristics or nature of organization,

1. **Division of Work:** Division of work is the basis of an organization. In other words, there can be no organization without division of work. Under division of work the entire work of business is divided into many departments .The work of every department is further sub-divided into sub-works. In this way each individual has to do the saran work repeatedly which gradually makes that person an expert.
2. **Coordination:** Under organizing different persons are assigned different works but the aim of all these persons happens to be the some - the attainment of the objectives of the enterprise. Organization ensures that the work of all the persons depends on each other's work even though it happens to be different. The work of one person starts from where the work of another person ends. The non-completion of the work of one person affects the work of everybody. Therefore, everybody completes his work in time and does not hinder the work

of others. It is thus, clear that it is in the nature of an organization to establish coordination among different works, departments and posts in the enterprise.

3. **Plurality of Persons:** Organization is a group of many persons who assemble to fulfill a common purpose. A single individual cannot create an organization.
4. **Common Objectives:** There are various parts of an organization with different functions to perform but all move in the direction of achieving a general objective.
5. **Well-defined Authority and Responsibility:** Under organization a chain is established between different posts right from the top to the bottom. It is clearly specified as to what will be the authority and responsibility of every post. In other words, every individual working in the organization is given some authority for the efficient work performance and it is also decided simultaneously as to what will be the responsibility of that individual in case of unsatisfactory work performance.
6. **Organization is a Structure of Relationship:** Relationship between persons working on different posts in the organization is decided. In other words, it is decided as to who will be the superior and who will be the subordinate. Leaving the top level post and the lowest level post everybody is somebody's superior and somebody's subordinate. The person working on the top level post has no superior and the person working on the lowest level post has no subordinate.
7. **Organization is a Machine of Management:** Organization is considered to be a machine of management because the efficiency of all the functions depends on an effective organization. In the absence of organization no function can be performed in a planned manner. It is appropriate to call organization a machine of management from another point of view. It is that machine in which no part can afford tube ill-fitting or non-functional. In other words, if the division of work is not done properly or posts are not created correctly the whole system of management collapses.
8. **Organization is a Universal Process:** Organization is needed both in business and non-business organizations. Not only this, organization will be needed where two or mom than two people work jointly. Therefore, organization has the quality of universality. (9) Organization is a Dynamic Process: Organization is related to people and the knowledge and experience of the people undergo a change. The impact of this change affects the various functions of the organizations. Thus, organization is not a process that can be decided for all times to come but it undergoes changes according to the needs. The example in this case can be the creation or abolition of a new post according to the need.

Importance of Organizing:

1. **Specialization -** Organizational structure is a network of relationships in which the work is divided into units and departments. This division of work is helping in bringing specialization in various activities of concern.
2. **Well defined jobs -** Organizational structure helps in putting right men on right job which can be done by selecting people for various departments according to their qualifications, skill and experience. This is helping in defining the jobs properly which clarifies the role of every person.
3. **Clarifies authority -** Organizational structure helps in clarifying the role positions to every manager (status quo). This can be done by clarifying the powers to every manager and the way he has to exercise those powers should be clarified so that misuse of powers do not take place. Well defined jobs and responsibilities attached helps in bringing efficiency into managers working. This helps in increasing productivity.

4. **Co-ordination -** Organization is a means of creating co- ordination among different departments of the enterprise. It creates clear cut relationships among positions and ensure mutual co- operation among individuals. Harmony of work is brought by higher level managers exercising their authority over interconnected activities of lower level manager.

   Authority responsibility relationships can be fruitful only when there is a formal relationship between the two. For smooth running of an organization, the co- ordination between authority- responsibilities is very important. There should be co- ordination between different relationships. Clarity should be made for having an ultimate responsibility attached to every authority. There is a saying, "Authority without responsibility leads to ineffective behavior and responsibility without authority makes person ineffective." Therefore, co- ordination of authority- responsibility is very important.

5. **Effective administration -** The organization structure is helpful in defining the jobs positions. The roles to be performed by different managers are clarified. Specialization is achieved through division of work. This all leads to efficient and effective administration.

6. **Growth and diversification -** A company's growth is totally dependant on how efficiently and smoothly a concern works. Efficiency can be brought about by clarifying the role positions to the managers, co-ordination between authority and responsibility and concentrating on specialization. In addition to this, a company can diversify if its potential grow. This is possible only when the organization structure is well- defined. This is possible through a set of formal structure.
7. **Sense of security -** Organizational structure clarifies the job positions. The role assigned to every manager is clear. Co- ordination is possible. Therefore, clarity of powers helps automatically in increasing mental satisfaction and thereby a sense of security in a concern. This is very important for job- satisfaction.
8. **Scope for new changes -** Where the roles and activities to be performed are clear and every person gets independence in his working, this provides enough space to a manager to develop his talents and flourish his knowledge. A manager gets ready for taking independent decisions which can be a road or path to adoption of new techniques of production. This scope for bringing new changes into the running of an enterprise is possible only through a set of organizational structure.

The Organizational Process:-

Organizing, like planning, must be a carefully worked out and applied process. This process involves determining what work is needed to accomplish the goal, assigning those tasks to individuals, and arranging those individuals in a decision-making framework (organizational structure). The end result of the organizing process is an **organization** — a whole consisting of unified parts acting in harmony to execute tasks to achieve goals, both effectively and efficiently. A properly implemented organizing process should result in a work environment where all team members are aware of their responsibilities. If the organizing process is not conducted well, the results may yield confusion, frustration, loss of efficiency, and limited effectiveness.

Organizing process consists of five steps as follows:-

1. **Review plans and objectives.**
   Objectives are the specific activities that must be completed to achieve goals. Plans shape the activities needed to reach those goals. Managers must examine plans initially and continue to do so as plans change and new goals are developed.
2. **Determine the work activities necessary to accomplish objectives.**

Although this task may seem overwhelming to some managers, it doesn't need to be. Managers simply list and analyze all the tasks that need to be accomplished in order to reach organizational goals.

3. **Classify and group the necessary work activities into manageable units.**
   A manager can group activities based on four models of departmentalization: functional, geographical, product, and customer.
4. **Assign activities and delegate authority.**
   Managers assign the defined work activities to specific individuals. Also, they give each individual the authority (right) to carry out the assigned tasks.
5. **Design a hierarchy of relationships.**
   A manager should determine the vertical (decision-making) and horizontal coordinating) relationships of the organization as a whole. Next, using the organizational chart, a manager should diagram the relationships.

Concepts of Organizing:-
The working relationships — vertical and horizontal associations between individuals and groups — that exist within an organization affect how its activities are accomplished and coordinated. Effective organizing depends on the mastery of several important concepts: work specialization, chain of command, authority, delegation, span of control, and centralization versus decentralization. Many of these concepts are based on the principles developed by Henri Fayol.

Work specialization:-
One popular organizational concept is based on the fundamental principle that employees can work more efficiently if they're allowed to specialize. Work specialization, sometimes called division of labor, is the degree to which organizational tasks are divided into separate jobs. Employees within each department perform only the tasks related to their specialized function.

When specialization is extensive, employees specialize in a single task, such as running a particular machine in a factory assembly line. Jobs tend to be small, but workers can perform them efficiently. By contrast, if a single factory employee built an entire automobile or performed a large number of unrelated jobs in a bottling plant, the results would be inefficient.

Despite the apparent advantages of specialization, many organizations are moving away from this principle. With too much specialization, employees are isolated and perform only small, narrow, boring tasks. In addition, if that person leaves the company, his specialized knowledge may disappear as well. Many companies are enlarging jobs to provide greater challenges and creating teams so that employees can rotate among several jobs.

Chain of command:-
The **chain of command** is an unbroken line of authority that links all persons in an organization and defines who reports to whom. This chain has two underlying principles: unity of command and scalar principle.

- **Unity of command:** This principle states that an employee should have one and only one supervisor to whom he or she is directly responsible. No employee should report to two or more people. Otherwise, the employee may receive conflicting demands or priorities from several supervisors at once, placing this employee in a no-win situation.

  Sometimes, however, an organization deliberately breaks the chain of command, such as when a project team is created to work on a special project. In such cases, team members report to their immediate supervisor and also to a team project leader. Another example is when a sales representative reports to both an immediate district supervisor and a marketing specialist, who is coordinating the introduction of a new product, in the home office.

  Nevertheless, these examples are exceptions to the rule. They happen under special circumstances and usually only within a special type of employee group. For the most part, however, when allocating tasks to individuals or grouping assignments, management should ensure that each has one boss, and only one boss, to whom he or she directly reports.

- **Scalar principle:** The scalar principle refers to a clearly defined line of authority that includes all employees in the organization. The classical school of management suggests that there should be a clear and unbroken chain of command linking every person in the organization with successively higher levels of authority up to and including the top manager. When organizations grow in size, they tend to get taller, as more and more levels of management are added. This increases overhead costs, adds more communication layers, and impacts understanding and access between top and bottom levels. It can greatly slow decision making and can lead to a loss of contact with the client or customer.

Authority:-

Authority is the formal and legitimate right of a manager to make decisions, issue orders, and allocate resources to achieve organizationally desired outcomes. A manager's authority is defined in his or her job description.

Organizational authority has three important underlying principles:

- Authority is based on the organizational position, and anyone in the same position has the same authority.
- Authority is accepted by subordinates. Subordinates comply because they believe that managers have a legitimate right to issue orders.
- 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.

In addition, authority comes in three types:

- **Line authority** gives a manager the right to direct the work of his or her employees and make many decisions without consulting others. Line managers are always in charge of essential activities such as sales, and they are authorized to issue orders to subordinates down the chain of command.

- **Staff authority** supports line authority by advising, servicing, and assisting, but this type of authority is typically limited. For example, the assistant to the department head has staff authority because he or she acts as an extension of that authority. These assistants can give advice and suggestions, but they don't have to be obeyed. The department head may also give the assistant the authority to act, such as the right to sign off on expense reports or memos. In such cases, the directives are given under the line authority of the boss.

- **Functional authority** is authority delegated to an individual or department over specific activities undertaken by personnel in other departments. Staff managers may have functional authority, meaning that they can issue orders down the chain of command within the very narrow limits of their authority. For example, supervisors in a manufacturing plant may find that their immediate bosses have line authority over them, but that someone in corporate headquarters may also have line authority over some of their activities or decisions.
  Why would an organization create positions of functional authority? After all, this authority breaks the unity of command principle by having individuals report to two bosses. The answer is that functional authority allows specialization of skills and improved coordination. This concept was originally suggested by Frederick Taylor. He separated "planning" from "doing" by establishing a special department to relieve the laborer and the foreman from the work of planning. The role of the foreman became one of making sure that planned operations were carried out. The major problem of functional authority is overlapping relationships, which can be resolved by clearly designating to individuals which activities their immediate bosses have authority over and which activities are under the direction of someone else.

Delegation:-

A concept related to authority is **delegation.** Delegation is the downward transfer of authority from a manager to a subordinate. Most organizations today encourage managers to delegate authority in order to provide maximum flexibility in meeting customer needs. In addition, delegation leads to empowerment, in that people have the freedom to contribute ideas and do their jobs in the best possible ways. This involvement can increase job satisfaction for the individual and frequently results in better job performance. Without delegation, managers do all the work themselves and underutilize their workers. The ability to delegate is crucial to managerial success. Managers need to take four steps if they want to successfully delegate responsibilities to their teams.

1. **Specifically assign tasks to individual team members.**
   The manager needs to make sure that employees know that they are ultimately responsible for carrying out specific assignments.

2. **Give team members the correct amount of authority to accomplish assignments.**

Typically, an employee is assigned authority commensurate with the task. A classical principle of organization warns managers not to delegate without giving the subordinate the authority to perform to delegated task. When an employee has responsibility for the task outcome but little authority, accomplishing the job is possible but difficult. The subordinate without authority must rely on persuasion and luck to meet performance expectations. When an employee has authority exceeding responsibility, he or she may become a tyrant, using authority toward frivolous outcomes.

3. **Make sure that team members accept responsibility.**
   Responsibility is the flip side of the authority coin. Responsibility is the duty to perform the task or activity an employee has been assigned. An important distinction between authority and responsibility is that the supervisor delegates authority, but the responsibility is shared. Delegation of authority gives a subordinate the right to make commitments, use resources, and take actions in relation to duties assigned. However, in making this delegation, the obligation created is not shifted from the supervisor to the subordinate — it is shared. A supervisor always retains some responsibility for work performed by lower-level units or individuals.

4. **Create accountability.**
   Team members need to know that they are accountable for their projects. **Accountability** means answering for one's actions and accepting the consequences. Team members may need to report and justify task outcomes to their superiors. Managers can build accountability into their organizational structures by monitoring performances and rewarding successful outcomes. Although managers are encouraged to delegate authority, they often find accomplishing this step difficult for the following reasons:

   - Delegation requires planning, and planning takes time. A manager may say, "By the time I explain this task to someone, I could do it myself." This manager is overlooking the fact that the initial time spent up front training someone to do a task may save much more time in the long run. Once an employee has learned how to do a task, the manager will not have to take the time to show that employee how to do it again. This improves the flow of the process from that point forward.
   - Managers may simply lack confidence in the abilities of their subordinates. Such a situation fosters the attitude, "If you want it done well, do it yourself." If managers feel that their subordinates lack abilities, they need to provide appropriate training so that all are comfortable performing their duties.
   - Managers experience dual accountability. Managers are accountable for their own actions and the actions of their subordinates. If a subordinate fails to perform a certain task or does so poorly, the manager is ultimately responsible for the subordinate's failure. But by the same token, if a subordinate succeeds, the manager shares in that success as well, and the department can be even more productive.
   - Finally, managers may refrain from delegating because they are insecure about their value to the organization. However, managers need to realize that they become more valuable as their teams become more productive and talented.

Despite the perceived disadvantages of delegation, the reality is that a manager can improve the performance of his or her work groups by empowering subordinates through effective delegation. Few managers are successful in the long term without learning to delegate effectively.

So, how do managers learn to delegate effectively? The following additional principles may be helpful for managers who've tried to delegate in the past and failed:

- **Principle 1: Match the employee to the task.** Managers should carefully consider the employees to whom they delegate tasks. The individual selected should possess the skills and capabilities needed to complete the task. Perhaps even more important is to delegate to an individual who is not only able to complete the task but also willing to complete the task. Therefore, managers should delegate to employees who will view their accomplishments as personal benefits.

- **Principle 2: Be organized and communicate clearly.** The manager must have a clear understanding of what needs to be done, what deadlines exist, and what special skills are required. Furthermore, managers must be capable of communicating their instructions effectively if their subordinates are to perform up to their expectations.

- **Principle 3: Transfer authority and accountability with the task.** The delegation process is doomed to failure if the individual to whom the task is delegated is not given the authority to succeed at accomplishing the task and is not held accountable for the results as well. Managers must expect employees to carry the ball and then let them do so. This means providing the employees with the necessary resources and power to succeed, giving them timely feedback on their progress, and holding them fully accountable for the results of their efforts. Managers also should be available to answer questions as needed.

- **Principle 4: Choose the level of delegation carefully.** Delegation does not mean that the manager can walk away from the task or the person to whom the task is delegated. The manager must maintain some control of both the process and the results of the delegated activities. Depending upon the confidence the manager has in the subordinate and the importance of the task, the manager can choose to delegate at several levels.

Span of control:-

Span of control (sometimes called span of management) refers to the number of workers who report to one manager. For hundreds of years, theorists have searched for an ideal span of control. When no perfect number of subordinates for a manager to supervise became apparent, they turned their attention to the more general issue of whether the span should be wide or narrow.

A wide span of management exists when a manager has a large number of subordinates. Generally, the span of control may be wide when

- The manager and the subordinates are very competent.
- The organization has a well-established set of standard operating procedures.
- Few new problems are anticipated.

A narrow span of management exists when the manager has only a few subordinates. The span should be narrow when

- Workers are located far from one another physically.
- The manager has a lot of work to do in addition to supervising workers.
- A great deal of interaction is required between supervisor and workers.
- New problems arise frequently.

Keep in mind that the span of management may change from one department to another within the same organization.

Centralization versus decentralization:-

The general pattern of authority throughout an organization determines the extent to which that organization is centralized or decentralized.

A **centralized organization** systematically works to concentrate authority at the upper levels. In a **decentralized organization,** management consciously attempts to spread authority to the lower organization levels.

A variety of factors can influence the extent to which a firm is centralized or decentralized. The following is a list of possible determinants:

- **The external environment in which the firm operates.** The more complex and unpredictable this environment, the more likely it is that top management will let low-level managers make important decisions. After all, low-level managers are closer to the problems because they are more likely to have direct contact with customers and workers. Therefore, they are in a better position to determine problems and concerns.

- **The nature of the decision itself.** The riskier or the more important the decision, the greater the tendency to centralize decision making.

- **The abilities of low-level managers.** If these managers do not have strong decision-making skills, top managers will be reluctant to decentralize. Strong low-level decision-making skills encourage decentralization.

- **The organization's tradition of management.** An organization that has traditionally practiced centralization or decentralization is likely to maintain that posture in the future.

In principle, neither philosophy is right or wrong. What works for one organization may or may not work for another. Kmart Corporation and McDonald's have both been very successful — both practice centralization. By the same token, decentralization has worked very well for General Electric and Sears. Every organization must assess its own situation and then choose the level of centralization or decentralization that works best.

The Informal Organization:-
In addition to formal organizational structures, an organization may also have a hidden side that doesn't show up on its organizational chart. This hidden *informal organization* is defined by the patterns, behaviors, and interactions that stem from personal rather than official relationships.

In the informal organization, the emphasis is on people and their relationships; in the formal organization, the emphasis is on official organizational positions. The leverage, or clout, in the informal organization is informal power that's attached to a specific individual. On the other hand, in the formal organization, formal authority comes directly from the position. An individual retains formal authority only so long as he or she occupies the position. Informal power is personal; authority is organizational.

Firmly embedded within every informal organization are informal groups and the notorious grapevine; the following list offers descriptions of each:

- **Informal groups.** Workers may create an informal group to go bowling, form a union, discuss work challenges, or have lunch together every day. The group may last for several years or only a few hours.

  Sometimes employees join these informal groups simply because of its goals. Other times, they simply want to be with others who are similar to them. Still others may join informal groups simply because they want to be accepted by their coworkers.

- **The grapevine.** The grapevine is the informal communications network within an organization. It is completely separate from — and sometimes much faster than — the organization's formal channels of communication.

  Formal communication usually follows a path that parallels the organizational chain of command. By contrast, information can be transmitted through the grapevine in any direction — up, down, diagonally, or horizontally across the organizational structure. Subordinates may pass information to their bosses, an executive may relay something to a maintenance worker, or employees in different departments may share tidbits.

  Grapevine information may be concerned with topics ranging from the latest management decisions to the results of today's World Series game to pure gossip. The information may be important or of little interest. By the same token, the information on the grapevine may be highly accurate or totally distorted.

The informal organization of a firm may be more important than a manager realizes. Although managers may think that the informal organization is nothing more than rumors that are spread among the employees, it is actually a very important tool in maintaining company-wide information flow. Results of studies show that the office grapevine is 75 percent to 90 percent accurate and provides managers and staff with better information than formal communications.

Rather than ignore or try to suppress the grapevine, managers should make an attempt to tune in to it. In fact, they should identify the people in the organization who are key to the information flow and feed them information that they can spread to others. Managers should make as big an effort to know who their internal disseminators of information are as they do to find the proper person to send a press release. Managers can make good use of the power of the informal organization and the grapevine.

Bureaucracy Basics:-

In the past, organizations were commonly structured as bureaucracies. A *bureaucracy* is a form of organization based on logic, order, and the legitimate use of formal authority. Bureaucracies are meant to be orderly, fair, and highly efficient. Their features include a clear-cut division of labor, strict hierarchy of authority, formal rules and procedures, and promotion based on competency.

Today, many people view bureaucracies negatively and recognize that bureaucracies have their limits. If organizations rely too much on rules and procedures, they become unwieldy and too rigid—making them slow to respond to changing environments and more likely to perish in the long run.

But management theory doesn't view all bureaucratic structures as inevitably flawed. Instead, they ask these critical questions:

- When is a bureaucracy a good choice for an organization?
- What alternatives exist when a bureaucracy is not a good choice?

Research, conducted in England by Tom Burns and George Stalker in the early 1960s, attempted to answer these questions. Burns and Stalker studied industrial firms to determine how the nature of each firm's environment affected the way the firm was organized and managed. They believed a stable, unchanging environment demanded a different type of organization than a rapidly changing one. Although a stable environment worked well under a bureaucracy, managers in constantly changing, innovative environments needed an organizational structure that allowed them to be responsive and creative.

As a result, two distinct frameworks, the mechanistic and organic structures, were identified.

The mechanistic structure:-

The **mechanistic structure**, sometimes used synonymously with bureaucratic structure, is a management system based on a formal framework of authority that is carefully outlined and

precisely followed. An organization that uses a mechanistic structure is likely to have the following characteristics:

- Clearly specified tasks
- Precise definitions of the rights and obligations of members
- Clearly defined line and staff positions with formal relationships between the two
- Tendency toward formal communication throughout the organizational structure

Perhaps the best example of a mechanistic structure is found in a college or university. Consider the very rigid and formal college entrance and registration procedures. The reason for such procedures is to ensure that the organization is able to deal with a large number of people in an equitable and fair manner. Although many individuals do not like them, regulations and standard operating procedures pretty much guarantee uniform treatment. But those same rules and procedures, with their time-consuming communication and decision-making processes, tend to bog down organizations.

Mechanistic organizations are appropriate when the external environment is fairly stable. The biggest drawback to the mechanistic structure is its lack of flexibility, which may cause an organization to have trouble adjusting to change and coping with the unexpected.

The organic structure:-
The organic structure tends to work better in dynamic environments where managers need to react quickly to change. An **organic structure** is a management system founded on cooperation and knowledge-based authority. It is much less formal than a mechanistic organization, and much more flexible. Organic structures are characterized by

- Roles that are not highly defined.
- Tasks that are continually redefined.
- Little reliance on formal authority.
- Decentralized control.
- Fast decision making.
- Informal patterns of both delegation and communication.

Because the atmosphere is informal and the lines of authority may shift depending on the situation, the organic structure requires more cooperation among employees than does a bureaucracy.

One example of an organic structure is the Salvation Army. Although branches are located throughout the nation, the organization does not have a complex structure; it encourages different units to take on new challenges. The Salvation Army does not rely heavily on written rules and procedures. Therefore, this organization can create the procedures that work best as different situations arise. The Salvation Army's ability to take on new tasks and to fulfill its mission regardless of the circumstances it faces is one reason why it's a hallmark of organic organizations.

Factors Affecting Organizational Design:-

Although many things can affect the choice of an appropriate structure for an organization, the following five factors are the most common: size, life cycle, strategy, environment, and technology.

Organizational size:-
The larger an organization becomes, the more complicated its structure. When an organization is small — such as a single retail store, a two-person consulting firm, or a restaurant — its structure can be simple.

In reality, if the organization is very small, it may not even have a formal structure. Instead of following an organizational chart or specified job functions, individuals simply perform tasks based on their likes, dislikes, ability, and/or need. Rules and guidelines are not prevalent and may exist only to provide the parameters within which organizational members can make decisions. Small organizations are very often organic systems.

As an organization grows, however, it becomes increasingly difficult to manage without more formal work assignments and some delegation of authority. Therefore, large organizations develop formal structures. Tasks are highly specialized and detailed rules and guidelines dictate work procedures. Interorganizational communication flows primarily from superior to subordinate, and hierarchical relationships serve as the foundation for authority, responsibility, and control. The type of structure that develops will be one that provides the organization with the ability to operate effectively. That's one reason larger organizations are often mechanistic—mechanistic systems are usually designed to maximize specialization and improve efficiency.

Organization life cycle:-
Organizations, like humans, tend to progress through stages known as a life cycle. Like humans, most organizations go through the following four stages: birth, youth, midlife, and maturity. Each stage has characteristics that have implications for the structure of the firm.

- **Birth:** In the birth state, a firm is just beginning. An organization in the birth stage does not yet have a formal structure. In a young organization, there is not much delegation of authority. The founder usually "calls the shots."
- **Youth:** In this phase, the organization is trying to grow. The emphasis in this stage is on becoming larger. The company shifts its attention from the wishes of the founder to the wishes of the customer. The organization becomes more organic in structure during this phase. It is during this phase that the formal structure is designed, and some delegation of authority occurs.
- **Midlife:** This phase occurs when the organization has achieved a high level of success. An organization in midlife is larger, with a more complex and increasingly formal structure. More levels appear in the chain of command, and the founder may have difficulty remaining in control. As the organization becomes older, it may also become more mechanistic in structure.

- **Maturity:** Once a firm has reached the maturity phase, it tends to become less innovative, less interested in expanding, and more interested in maintaining itself in a stable, secure environment. The emphasis is on improving efficiency and profitability. However, in an attempt to improve efficiency and profitability, the firm often tends to become less innovative. Stale products result in sales declines and reduced profitability. Organizations in this stage are slowly dying. However, maturity is not an inevitable stage. Firms experiencing the decline of maturity may institute the changes necessary to revitalize.

Although an organization may proceed sequentially through all four stages, it does not have to. An organization may skip a phase, or it may cycle back to an earlier phase. An organization may even try to change its position in the life cycle by changing its structure.

As the life-cycle concept implies, a relationship exists between an organization's size and age. As organizations age, they tend to get larger; thus, the structural changes a firm experiences as it gets larger and the changes it experiences as it progresses through the life cycle are parallel. Therefore, the older the organization and the larger the organization, the greater its need for more structure, more specialization of tasks, and more rules. As a result, the older and larger the organization becomes, the greater the likelihood that it will move from an organic structure to a mechanistic structure.

Strategy:-
How an organization is going to position itself in the market in terms of its product is considered its strategy. A company may decide to be always the first on the market with the newest and best product (differentiation strategy), or it may decide that it will produce a product already on the market more efficiently and more cost effectively (cost-leadership strategy). Each of these strategies requires a structure that helps the organization reach its objectives. In other words, the structure must fit the strategy.

Companies that want to be the first on the market with the newest and best product probably are organic, because organic structures permit organizations to respond quickly to changes. Companies that elect to produce the same products more efficiently and effectively will probably be mechanistic.

Environment:-
The environment is the world in which the organization operates, and includes conditions that influence the organization such as economic, social-cultural, legal-political, technological, and natural environment conditions. Environments are often described as either stable or dynamic.

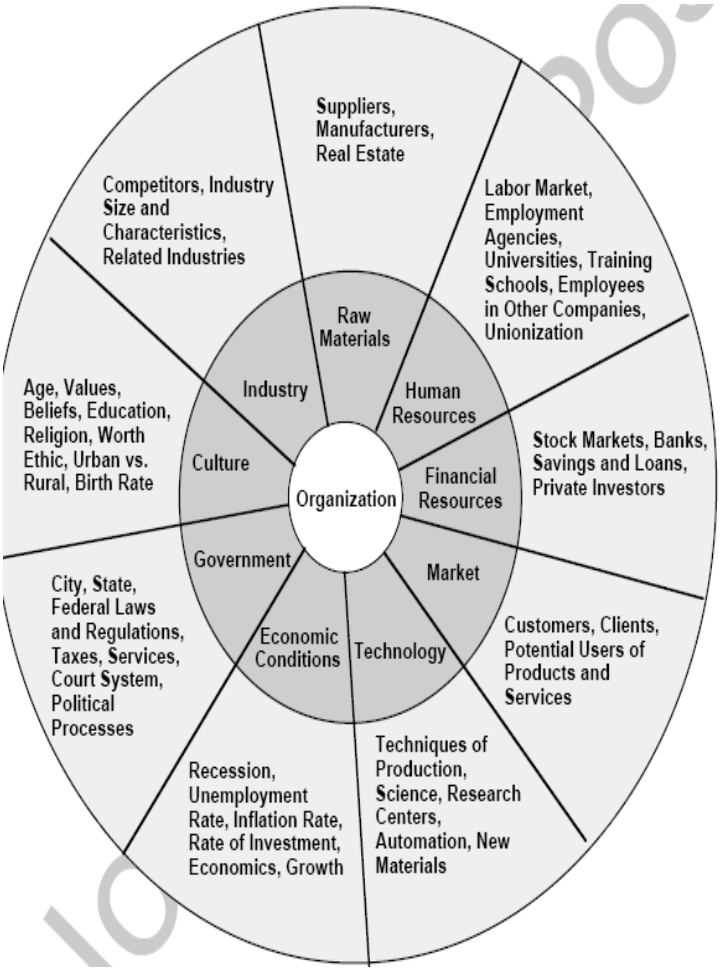
- In a **stable environment,** the customers' desires are well understood and probably will remain consistent for a relatively long time. Examples of organizations that face relatively stable environments include manufacturers of staple items such as detergent, cleaning supplies, and paper products.
- In a **dynamic environment,** the customers' desires are continuously changing—the opposite of a stable environment. This condition is often thought of as turbulent. In addition, the technology that a company uses while in this environment may need to be

continuously improved and updated. An example of an industry functioning in a dynamic environment is electronics. Technology changes create competitive pressures for all electronics industries, because as technology changes, so do the desires of consumers.

In general, organizations that operate in stable external environments find mechanistic structures to be advantageous. This system provides a level of efficiency that enhances the long-term performances of organizations that enjoy relatively stable operating environments. In contrast, organizations that operate in volatile and frequently changing environments are more likely to find that an organic structure provides the greatest benefits. This structure allows the organization to respond to environment change more proactively.

Ways of describing the external environment

• **Dynamic** - High rate of environmental change and uncertainty.	vs	• **Stable** - Regular cycles of activity, steady changes in supply of inputs, predictable
• **Complex** - Many environmental elements to monitor.		• **Simple** - Few environmental elements to monitor and consider.
• **Diverse** -Great variety of products or services.		• **Integrated** - One product or service.
• **Hostile** - resource scarcity and competition.		• **Munificent** - Plentiful resources and limited competition.



Technology:-

Advances in technology are the most frequent cause of change in organizations since they generally result in greater efficiency and lower costs for the firm. Technology is the way tasks are accomplished using tools, equipment, techniques, and human know-how.

In the early 1960s, Joan Woodward found that the right combination of structure and technology were critical to organizational success. She conducted a study of technology and structure in more than 100 English manufacturing firms, which she classified into three categories of core-manufacturing technology:

- **Small-batch production** is used to manufacture a variety of custom, made-to-order goods. Each item is made somewhat differently to meet a customer's specifications. A print shop is an example of a business that uses small-batch production.
- **Mass production** is used to create a large number of uniform goods in an assembly-line system. Workers are highly dependent on one another, as the product passes from stage to stage until completion. Equipment may be sophisticated, and workers often follow detailed instructions while performing simplified jobs. A company that bottles soda pop is an example of an organization that utilizes mass production.
- Organizations using **continuous-process production** create goods by continuously feeding raw materials, such as liquid, solids, and gases, through a highly automated system. Such systems are equipment intensive, but can often be operated by a relatively small labor force. Classic examples are automated chemical plants and oil refineries.

Woodward discovered that small-batch and continuous processes had more flexible structures, and the best mass-production operations were more rigid structures.

Once again, organizational design depends on the type of business. The small-batch and continuous processes work well in organic structures and mass production operations work best in mechanistic structures.

Human Resources*:* -

The final factor affecting organizational structure.

- Higher skilled workers who need to work in teams usually need a more flexible structure.
- Higher skilled workers often have professional norms (CPA's, physicians).

Departmentation by Different Strategies

Departmentation refers to the process of grouping activities into departments. Departmentation is the process of grouping of work activities into departments, divisions, and other homogenous units.

Key Factors in Departmentation

- It should facilitate control.
- It should ensure proper coordination.
- It should take into consideration the benefits of specialization.
- It should not result in excess cost.
- It should give due consideration to Human Aspects. Departmentation takes place in various patterns like departmentation by functions, products, customers, geographic location, process, and its combinations.

a) Functional Departmentation

Functional departmentation is the process of grouping activities by functions performed. Activities can be grouped according to function (work being done) to pursue economies of scale by placing employees with shared skills and knowledge into departments for example human resources, finance, production, and marketing. Functional departmentation can be used in all types of organizations.

Advantages:

- Advantage of specialization
- Easy control over functions
- Pinpointing training needs of manager
- It is very simple process of grouping activities.

Disadvantages:

- Lack of responsibility for the end result
- Overspecialization or lack of general management
- It leads to increase conflicts and coordination problems among departments.

b) Product Departmentation

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Disadvantages:

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- Overspecialization or lack of general management
- It leads to increase conflicts and coordination problems among departments.

b) Product Departmentation

Product departmentation is the process of grouping activities by product line. Tasks can also be grouped according to a specific product or service, thus placing all activities related to the product or the service under one manager. Each major product area in the corporation is under the authority of a senior manager who is specialist in, and is responsible for, everything related to the product line. Dabur India Limited is the India's largest Ayurvedic medicine manufacturer is an example of company that uses product departmentation. Its structure is based on its varied product lines which include Home care, Health care, Personal care and Foods.

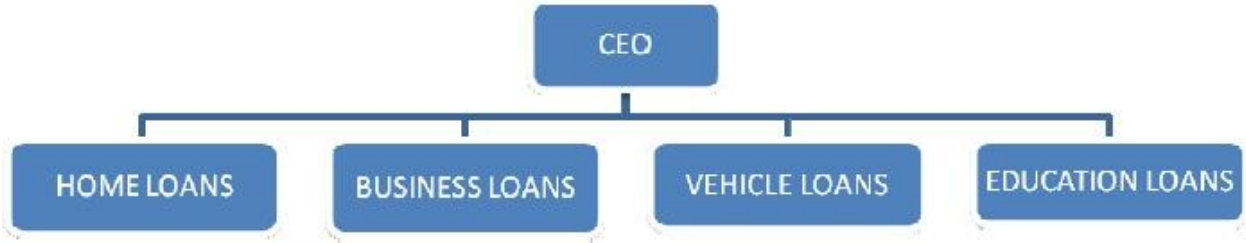
Advantages

- It ensures better customer service
- Unprofitable products may be easily determined
- It assists in development of all around managerial talent
- Makes control effective
- It is flexible and new product line can be added easily.

Disadvantages

- It is expensive as duplication of service functions occurs in various product divisions
- Customers and dealers have to deal with different persons for complaint and information of different products.

c) Customer Departmentation



Customer departmentation is the process of grouping activities on the basis of common customers or types of customers. Jobs may be grouped according to the type of customer served by the organization. The assumption is that customers in each department have a common set of problems and needs that can best be met by specialists. UCO is the one of the largest commercial banks of India is an example of company that uses customer departmentation. Its structure is based on various services which includes Home loans, Business loans, Vehicle loans and Educational loans.

Advantages

- It focused on customers who are ultimate suppliers of money
- Better service to customer having different needs and tastes
- Development in general managerial skills

Disadvantages

- Sales being the exclusive field of its application, co-ordination may appear difficult between sales function and other enterprise functions.
- Specialized sales staff may become idle with the downward movement of sales to any specified group of customers.

d)Geographic Departmentation

Disadvantages

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- Specialized sales staff may become idle with the downward movement of sales to any specified group of customers.

d)Geographic Departmentation

Geographic departmentation is the process of grouping activities on the basis of territory. If an organization's customers are geographically dispersed, it can group jobs based on geography. For example, the organization structure of Coca-Cola Ltd has reflected the company's operation in various geographic areas such as Central North American group, Western North American group, Eastern North American group and European group

Advantages:

- Help to cater to the needs of local people more satisfactorily.
- It facilitates effective control
- Assists in development of all-round managerial skills

Disadvantages:

- Communication problem between head office and regional office due to lack of means of communication at some location
- Coordination between various divisions may become difficult.
- Distance between policy framers and executors
- It leads to duplication of activities which may cost higher.

e) Process Departmentation

Geographic departmentation is the process of grouping activities on the basis of product or service or customer flow. Because each process requires different skills, process departmentation allows homogenous activities to be categorized. For example, Bowater Thunder Bay, a Canadian company that harvests trees and

processes wood into newsprint and pulp. Bowater has three divisions namely tree cutting, chemical processing, and finishing (which makes newsprint).

Departmentation by process: -

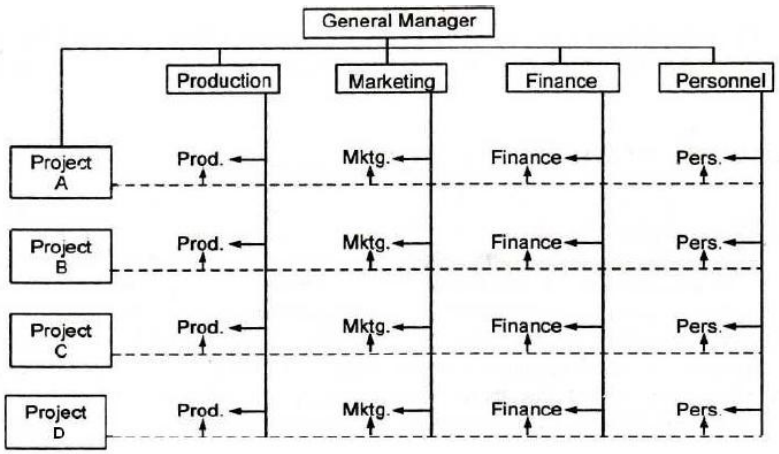
Advantages

- Oriented towards end result.
- Professional identification is maintained.
- Pinpoints product- profit responsibility.

Disadvantage

- Conflict in organization authority exists.
- Possibility of disunity of command.
- Requires managers effective in human relation

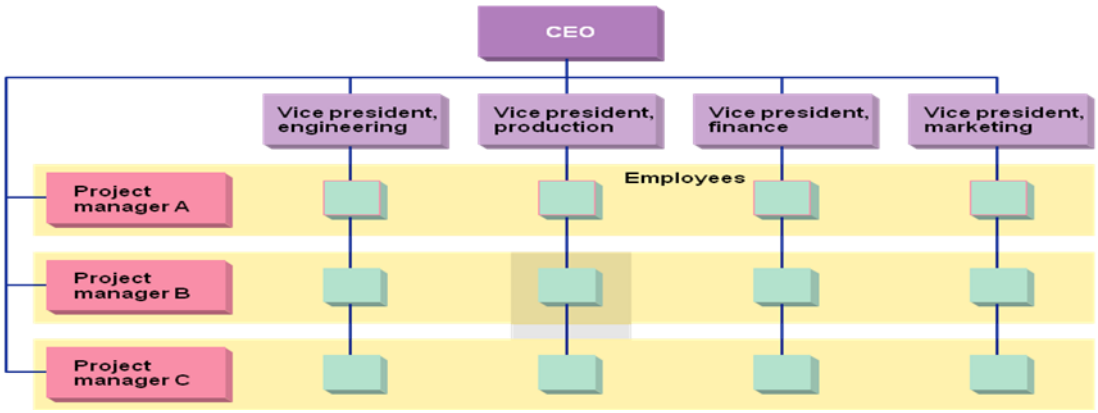
f) Martix Departmentation



In actual practice, no single pattern of grouping activities is applied in the organization structure with all its levels. Different bases are used in different segments of the enterprise. Composite or hybrid method forms the common basis for classifying activities rather than one particular method,. One of the mixed forms of organization is referred to as matrix or grid organization's According to the situations, the patterns of Organizing varies from case to case. The form of structure must reflect the tasks, goals and technology if the originations the type of people employed and the environmental conditions that it faces. It is not unusual to see firms that utilize the function and project organization combination. The same is true for process and project as well as other combinations. For instance, a large hospital could have an accounting department, surgery department, marketing department, and a satellite center project team that make up its organizational structure.

Matrix structure:-

The matrix structure combines functional specialization with the focus of divisional structure (see Figure). This structure uses permanent cross-functional teams to integrate functional expertise with a divisional focus.



Employees in a matrix structure belong to at least two formal groups at the same time—a functional group and a product, program, or project team. They also report to two bosses—one within the functional group and the other within the team.This structure not only increases employee motivation, but it also allows technical and general management training across functional areas as well.

Potential advantages include:-

- Better cooperation and problem solving.
- Increased flexibility.
- Better customer service.
- Better performance accountability.
- Improved strategic management.

Predictably, the matrix structure also has potential disadvantages. Here are a few of this structure's drawbacks:

- The two-boss system is susceptible to power struggles, as functional supervisors and team leaders vie with one another to exercise authority.
- Members of the matrix may suffer task confusion when taking orders from more than one boss.
- Teams may develop strong team loyalties that cause a loss of focus on larger organization goals.
- Adding the team leaders, a crucial component, to a matrix structure can result in increased costs.

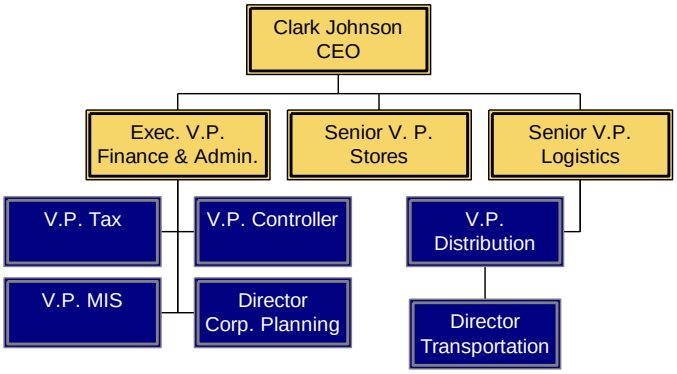
Five Approaches to Organizational Design (Types of organizational structure):-

Managers must make choices about how to group people together to perform their work. Five common approaches — functional, divisional, matrix, team, and networking—help managers determine departmental groupings (grouping of positions into departments). The five structures

are basic organizational structures, which are then adapted to an organization's needs. All five approaches combine varying elements of mechanistic and organic structures. For example, the organizational design trend today incorporates a minimum of bureaucratic features and displays more features of the organic design with a decentralized authority structure, fewer rules and procedures, and so on.

Functional structure:-

The **functional structure** groups positions into work units based on similar activities, skills, expertise, and resources (see Figure for a functional organizational chart). Production, marketing, finance, and human resources are common groupings within a functional structure.



As the simplest approach, a functional structure features well-defined channels of communication and authority/responsibility relationships. Not only can this structure improve productivity by minimizing duplication of personnel and equipment, but it also makes employees comfortable and simplifies training as well.

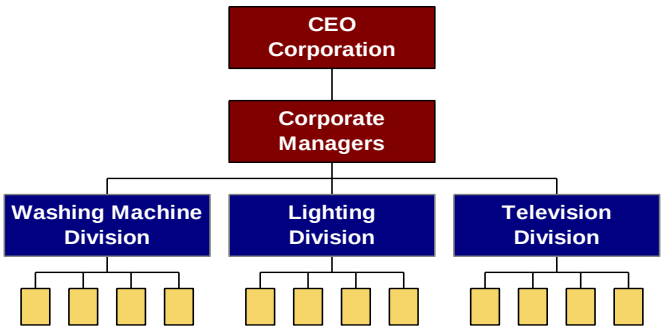
But the functional structure has many downsides that may make it inappropriate for some organizations. Here are a few examples:

- The functional structure can result in narrowed perspectives because of the separateness of different department work groups. Managers may have a hard time relating to marketing, for example, which is often in an entirely different grouping. As a result, anticipating or reacting to changing consumer needs may be difficult. In addition, reduced cooperation and communication may occur.
- Decisions and communication are slow to take place because of the many layers of hierarchy. Authority is more centralized.
- The functional structure gives managers experience in only one field—their own. Managers do not have the opportunity to see how all the firm's departments work together and understand their interrelationships and interdependence. In the long run, this

specialization results in executives with narrow backgrounds and little training handling top management duties.

Divisional structure:-

Because managers in large companies may have difficulty keeping track of all their company's products and activities, specialized departments may develop. These departments are divided according to their organizational outputs or products. Examples include departments created to distinguish among production, customer service, and geographical categories. This grouping of departments is called divisional structure. These departments allow managers to better focus their resources and results. Divisional structure also makes performance easier to monitor. As a result, this structure is flexible and responsive to change.



However, divisional structure does have its drawbacks. Because managers are so specialized, they may waste time duplicating each other's activities and resources. In addition, competition among divisions may develop due to limited resources.

Team structure:-

Team structure organizes separate functions into a group based on one overall objective. These **cross-functional teams** are composed of members from different departments who work together as needed to solve problems and explore opportunities. The intent is to break down functional barriers among departments and create a more effective relationship for solving ongoing problems.

The team structure has many potential advantages, including the following:

- Intradepartmental barriers break down.
- Decision-making and response times speed up.
- Employees are motivated.
- Levels of managers are eliminated.
- Administrative costs are lowered.

The disadvantages include:

- Conflicting loyalties among team members.
- Time-management issues.
- Increased time spent in meetings.

Managers must be aware that how well team members work together often depends on the quality of interpersonal relations, group dynamics, and their team management abilities.

Network structure:-
The network structure relies on other organizations to perform critical functions on a contractual basis (see Figure below). In other words, managers can contract out specific work to specialists.

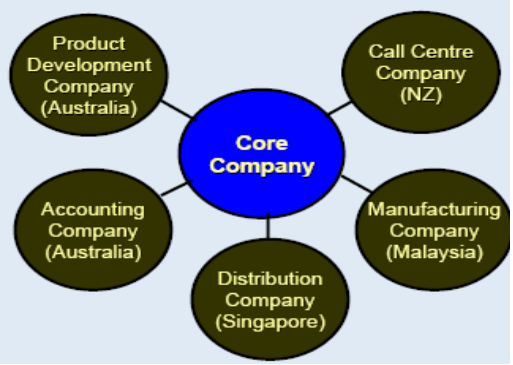


Figure The network structure.

This approach provides flexibility and reduces overhead because the size of staff and operations can be reduced. On the other hand, the network structure may result in unpredictability of supply and lack of control because managers are relying on contractual workers to perform important work.

Organizational culture is a system of shared beliefs & attitudes that develop within an organization & guides the behavior of its members. It is also known as "corporate culture", & has a major impact on the performance of organization & especially on the quality of work life experienced by the employees. Organizational culture "consists of the norms, values & rules of conduct of an organization as well as management styles, priorities, beliefs & inter-personal behaviors. Together they create a climate that influences how well people communicate, plan & make decisions".

CONCEPT OF ORGANIZATIONAL CULTURE: - Culture consists of beliefs & behavior. It is cultivated behavior in the sense that it is learnt from the other members of the society. Organizational culture is the totality of beliefs, customs, traditions & values shared by the members of the organization. Organizational culture stress on sharing of norms & values that guide the organizational members' behavior. These norms & values are clear guidelines as to how employees are to behave within the organization& their expected code of conduct outside the organization.

NATURE OF ORGANIZATIONAL CULTURE:- The main features of organizational culture are as follows:-

1. Like an individual, every organization has its own personality.
2. The personality of the organization defines the internal environment of an organization.
3. It differentiates an organization from the others.
4. It is relatively enduring or stable over time.
5. It exercises a significant influence on the attitudes, behavior & performance of organizational members.

Organizational culture is a set of beliefs, assumptions, values, shared feelings & perceptions which influence the actions & decisions taken by the organizational members. For e.g., if the culture encourages innovativeness, any problem will make people take initiative & risks, & try out new ways of doing things. On the other hand, if the organizational culture is security oriented, the same problem situation would cause people to start looking for rules, procedures as a mode of response.

"Organizational Climate" is different from "Organizational Culture". According to Stephen P. Robbins "Organizational culture is a relatively uniform perception held by the organization, it has common characteristics, it is descriptive, it can distinguish one organization from another & it integrates individual, group & organization system variables". Each & every organization has a culture that influences the behavior of the employees toward colleagues, supervisors, subordinates, clients, competitors, etc. Internal environment of an organization is often referred to organizational climate. This makes one organization unique; such differences are found in various kinds of employees in terms of personal characteristics of members such as their values, needs, attitudes, expectations, stay in organization. When considered collectively, the actions of the individuals become more meaningful for viewing the total impact upon the climate & determining the stability of the work environment. It should be noted that the climate is to be viewed from a total system perspective. While there may differences in climates within departments these will be integrated to a certain extent to denote overall organizational climate.

ELEMENTS OF ORGANIZATIOAL CULTURE:- Following are the elements of organizational culture:-

1. INDIVIDUAL AUTONOMY:- In this the individuals have responsibility, freedom & opportunities of exercising initiative that an individual has in the organization.
2. STRUCTURE:- In this the organization creates objectives, performance expectations & authority relationships.

3. MANAGEMENT SUPPORT:- In this the managers provide clear communication, assistance, warmth & support to their subordinates.
4. IDENTITY:- In this the members identify with the organization as a whole rather than with their particular work group or field of professional expertise.
5. PERFORMANCE REWARD SYSTEM:- Reward system of an organization include increase in salary, promotions etc., is based on employee performance rather than on seniority & favoritism.
6. RISK TOLERANCE:- In this employees are encouraged to be innovative, aggressive & risk taking.

ROLE & SIGNIFICANCE OF ORGANIZATIONAL CULTURE:- Each organization is recognized by its culture. Whenever people name an organization, the culture attached to the organization is immediately recalled. One organization is different from other organizations because of cultural values, beliefs & norms. Following are the functions performed by organizational culture:-

1. Organizational culture creates the boundary beyond which no employees are allowed to go. They automatically observe the organizational standards & norms of behavior.
2. An organization is well recognized by its culture. The culture of an organization provides its stability. People like to continue with the organization. Employees, customers, financers & other related persons like to remain with the organization.
3. The social recognition of the organizational culture makes the organization grow & develop in all ways.
4. Organizational culture acts as a motivator that guides & controls the employees. Satisfied employees get more spirit & enthusiasm for performing their jobs.
5. The attitude & behavior of the employees are directed towards the achievement of goals through a sound culture. Disciplined employees make other employees disciplined & well-behaved.
6. Culture gives rise to a positive attitude & behavior which are again an addition to culture. Culture leads to good behavior & good behavior makes good culture which is useful for better behavior. Both employees & the organization enjoy culture.

A strong culture ensures better performance. Culture enhances organizational commitment & increases the consistency of employee behavior.

TYPES OF ORGANIZATIONAL CULTURES:- Following are the types of organizational cultures:-

1. AUTHORITARIAN & PARTICIPATIVE CULTURE:- In the authoritarian culture there is centralization of power with the leader & obedience to orders & discipline are stressed. Any obedience is punished severely to set an example to others. The basic assumption is that the leader knows what is good for the organization & he always acts in its interests.

2. MECHANISTIC & ORGANIC CULTURES:- The mechanistic organizational culture has the values of bureaucracy & so is also called "Bureaucratic Culture". Organizational jobs are created around narrow specializations & people think of their careers mainly within these specialization. There is a great deal of departmental loyalty. This sort of culture resists change & innovation. In organic culture formal hierarchy of authority, departmental boundaries, formal rules & regulations & prescribed channels of communications are found. Emphasis is on task accomplishment, team work, free flow of communication – formal & informal. There is a understanding within the staff like at the of problems, threats & opportunities the organization is facing & willingness to take part in solving the problems. The cultures stresses flexibility, consultation, change & innovation.
3. SUB-CULTURE & DOMINANT CULTURE:- Each department of an organization may have its own culture representing a sub-culture of the system. An organizational culture takes place when there is an integration of all the departments. Within any given unit the tendency for integration & consistency will be assumed to be present, but it is perfectly possible for coexisting units of a larger system to have cultures that are independent & even in conflict with each other.

CREATION OF CULTURE:- Organization culture provides the members with a sense of organizational identity & generates a commitment. Though ideas that become part of culture can come from anywhere within the organization, an organization's culture generally beings with the leader who implements particular ideas & values as a vision, philosophy or business strategy. When these ideas & values lead to success, they become institutionalized & give shape to an organizational culture.

Creation of an organization culture is a very lengthy & complicated process. Culture has 3 levels. Namely:-

1. Artifacts.
2. Beliefs & Values.
3. Assumptions.

1. OBSERVABLE ARTIFACTS:- These are the symbols of culture in the physical & social work environment & are most visible. Following are the things found in artifacts:-

(i). ORGANIZATIONAL HEROES:- As a reflection of the organization's philosophy, concerns the behavior of top executives & their leadership styles. These leaders become the role models of an organization's culture. They represent what the company stands for & reinforce the values of the culture.

(ii). CEREMONIES & RITES:- Ceremonies & rites tell about activities that are done on important occasions. Members of the organization who have achieved success are recognized & rewarded on such occasions. Annual convocations at colleges & universities where degrees, diplomas & medals are distributed to the students are reflections of culture in

educational institutions. These ceremonies bond organization members together. Such ceremonies as company picnics, retirement dinners, encourage interpersonal communication & togetherness.

(iii). STORIES:- Stories about organization's heroes are powerful tools to reinforce cultural values throughout the organization. These stories tell about cultural network & remind employees as to why we do things in a certain way.

(iv). CULTURAL SYMBOLS:- Symbols tell about organizational culture. Certain code of dress or company's logo can reflect its values. Some of the material artifacts created by an organization might also speak of its cultural orientation.

2. SHARED VALUES:- Values are reflected in the way individuals actually behave. Values reflect an organization's beliefs as to what should be & what should not be. Values are those principles & qualities that shape our thinking & behavior. Values can be of 2 types. Namely:-

(i). INSTRUMENTAL VALUES:- Are beliefs that certain behaviors are appropriate at all times irrespective of the objectives or outcomes.

(ii). TERMINAL VALUES:- Are beliefs that certain more tangible objectives are worth striving for & the objectives become more important than the behavior in achieving such objectives.

Values are emotionally charged. For example, Mahatma Gandhi in promoting hand-woven khadi as against textiles produced by technologically sophisticated machinery, expressed values of human survival.

3. COMMON ASSUMPTIONS:- Assumptions are the most fundamental level of an organization's culture. These are deeply held beliefs which are not objectively observed. For example, an organization may establish values based on 3 basic assumptions. Namely:-

(i). People are basically good. This assumption is reflected in the company's emphasis on trust.

(ii). People are willing to learn, grow & achieve if they are given proper opportunities. This assumption is reflected in the company's extensive training programs.

(iii). People are motivated by the challenging work. This assumption is reflected by the process of common goal setting & goal achievement by participation of members.

MAINTAINING A CULTURE:- Following are the practices that help to maintain the culture:-

1. SELECTION PROCESS:- The main purpose of selection process is to select right type of person for the right job. When for a given job 2 or more candidates with identical skills & abilities are available then the final selection is influenced by how well the candidate fits into the organization. It is by selecting the candidates who can match the organizational culture, the management can think of maintaining organizational culture.
2. ACTIONS OF TOP MANAGEMENT:- Besides managerial vision the actions of the top executives also have a major impact on the organizational culture. Through what they say & how they behave, senior executives establish norms that help the organization to take risks, how much freedom managers should allow their subordinates, what actions will pay off during promotions & other rewards.

CONCEPT OF ORGANIZATIONAL CLIMATE:- Just as every individual has a personality that makes him/her unique, each organization has an organizational climate that distinguishes its personality from other organizations. The concept of organizational climate was introduced by human relations in the late 1940s. Now it has become very useful for thinking & describing the social system.

Organizational climate is the summary perception which people have about an organization. It is a global expression of what the organization is. Organization climate helps to tell about the attitude of the organizational members towards the organization itself.

FEATURES OF ORGANIZATIONAL CLIMATE:- Following are the features of organizational climate:-

1. Organizational climate is an abstract & intangible concept. But it causes an impact on the behavior & performance of organizational members.
2. It gives distinct identity to organization & differentiates it from other organizations.
3. It is a total expression of what the organization is. It is the summary which people have about the organization.
4. It is a multi-dimensional concept. It consists of all organizational factors, e.g., authority pattern, leadership pattern, communication pattern, control, etc.

ELEMENTS OF ORGANIZATIONAL CLIMATE:- Following are the elements of organizational climate:-

1. INDIVIDUAL AUTONOMY:- It allows the employees to feel free to manage themselves, have decision making power & are not continuously accountable to the higher management. It means that individual have the freedom to exercise responsibility.

2. POSITION STRUCTURE:- In this the objectives of the job & methods for accomplishing it are established & communicated to the employees. In other words it means the extent of direct supervision, formalization & centralization in an organization.
3. REWARD ORIENTATION:- It means an organization rewards individuals for hard work or achievement. Reward orientation is high when organizations ask people to perform better & rewards them for doing so.
4. TASK ORIENTATION:- If the management is task oriented, the leadership style will be autocratic. The employees will have to seed up the pace of work to please their bosses.
5. RELATIONS ORIENTATION OR CONSIDERATION:- The organizational climate will be considerate & supportive if the managers are relations oriented while dealing with the workers. The needs of the workers will be given due importance. This will produce team spirit in the organization.
6. JOB SATISFACTION:- The satisfaction the workers get on their jobs is also an important part of organizational climate. The workers feel happy if the jobs are designed to allow the workers to use their innovative skills.

ORGANIZATIONAL CLIMATE & EFFECTIVENESS:- Every organization requires organizational climate to realize its objectives. The study of the climate is necessary because it helps in communication, co-operation, creativity, employee satisfaction & morale. All these determine the effectiveness of the organization. An organization can be more effective if there are 2 way communication & employees are co-operative & have better knowledge of the organization. Such employees have higher job satisfaction & feel committed to the organization. Their productivity will also be higher. Thus, good organization climate helps in employee satisfaction, better human relations & higher productivity.

Organizational climate influences satisfaction & performance through change in behavior in different ways:-

1. It influences behavior through evaluation of the self & others such evaluation is based on different physiological variables.
2. It causes problem upon individual freedom of choice & decision making. The behavior is influenced by attaching different rewards & punishments.
3. It influences the behavior of the employee towards the whole organization & of his own ability. Ability is influenced by the nature & clarity of the job, degree of freedom, extent of authority, scope of responsibility, supervisory support, training, safety, physical working conditions & previous experience.

EMPLOYEE MORALE:- Morale means extent to which individual needs are satisfied & the extent to which the individual gets satisfaction is from his job. Morale is direct & indirect satisfaction & need fulfillment through work. Morale is based on both individual & group. In group high morale is reflected in good team work & team spirit. In high morale situation people have few grievances, frustration & complaints. They are clear about the goals & tasks – both organizational & individual & interactions between them. Morale is sometimes

regarded as the effect of a complex of personality & situational variables. Job content, nature of job, quality of supervision, types of rewards, family circumstances, culture, working & living conditions have a positive influence on morale.

NATURE OF MORALE:- Morale is multi-dimensional in nature in the sense that it is complex mixture of several elements. It recognizes the influence of job situation on attitudes of individuals & also includes the role of human needs as motivational forces. Morale is mostly regarded as a long-term process. Raising morale to a higher level & maintaining long-run & continuous process which can't be achieved through short-run measures such as contests. Managers cannot establish high morale once & then forget about it for years. High morale is to be built & maintained by continuous efforts.

IMPORTANCE OF MORALE:- Morale is important for any organizational success because it reflects the attitudes & sentiments of organizational members towards the organization, its objectives & policies. These attitudes & sentiments affect productivity & the satisfaction of individuals. Morale is the total satisfaction of a person derives from his job, his work-group, his boss, his organization & his environment.

TYPES OF MORALE:- Following are the types of morale:-

1. HIGH MORALE:- It exists when employees attitude is favorable towards their fellow workers – favorable to total situation of the group & to the attainment of its objectives. Employees with high morale like their jobs & co-operate fully with the management towards the achievement of goals of the organization. It results in job satisfaction & increases job enthusiasm. High morale of employees leads to the following benefits:-

(i). Willing co-operation towards objectives of the organization.

(ii). Loyalty to the organization & its leadership.

(iii). Good discipline i.e., voluntary conformity to rules & regulations.

(iv). High degree of employee's interest in the job & the organization.

(v). Pride in the organization.

(vi). Reduction of rates of absenteeism & labor turnover.

2. LOW MORALE:- It indicates the presence of mental unrest. The mental unrest not only hampers production but also leads to ill-health of the employees. Low morale exists when

doubt & suspicion are common & when individuals are depressed & discouraged, i.e., there is a lot of mental tension. Such a situation will have the following consequences:-

(i). Higher rates of absenteeism & labor turnover.

(ii). Excessive complaints & grievances.

(iii). Frustration among the workers.

(iv). Friction among the workers.

(v). Lack of discipline.

MEASUREMENT OF ORGANIZATIONAL CLIMATE & MORALE:- Following are measurement of organizational climate & morale:-

1. OBSERVATION METHODS:- A manager can measure the morale of his subordinates by observing their attitudes & behavior towards the management, co-workers & the work. Normally there is direct relationship between morale & productivity. But it is possible that low productivity is associated with high morale. Overall behavior of the employees should be observed to determine the level of their morale.
2. MORALE SURVEY:- This is a formal method of knowing the morale of the employees. A questionnaire maybe drafted & the employees maybe asked to provide answers about their attitudes towards supervision, peers, management & work. The data maybe compiled & classified to draw interferences about the state of morale of the employees.
3. STUDY OF MORALE INDICATORS:- The attitudes of the workers can be known by studying a large number of factors which reflect their behavior. Some of these factors are as follows:-

(i). PRODUCTIVITY:- Generally low level of productivity is associated with low degree of morale.

(ii). ABSENTEEISM:- Greater rate of absenteeism reflects a low morale. But exceptions maybe there due to sickness, etc.

(iii). JOB SATISFACTION:- If the workers are satisfied with their jobs, their morale will be higher.

(iv). RELATIONS WITH OTHER EMPLOYEES:- The morale of the workers is high, if they feel belongingness & togetherness among themselves.

(v). NUMBER OF ACCIDENTS:- Generally, low morale leads to more accidents.

(vi). NUMBER OF GRIEVANCES:- If the number of grievances increases, there will be low morale of the workers.

(vii). EMPLOYEE TURNOVER:- If there is higher employee turnover due to avoidable causes, there will be low morale.

BUILDING SOUND ORGANIZATIONAL CLIMATE & MORALE:- Sound organizational climate can be developed over a long period of time. The type of climate that an organization seeks is contingent upon its members, its technology & other variables. Organizational climate should represent the philosophy & goals those who have created & who run the organization. In order to develop a sound organizational climate, managers must understand their people in the organization. Their efforts should be to develop an organizational climate. This will also build up the morale of the employees.

It is a very complex job to build & maintain high morale in a work-group. It is a continuous process which cannot be stopped. Following are the techniques which help to maintain high morale of workforce:-

1. INCENTIVE SYSTEM:- There should be a proper incentive system in the organization to ensure monetary & non-monetary rewards to the employees to motivate them. Morale has been found to be low in organizations where economic needs of the workforce are not met adequately.
2. WELFARE MEASURES:- Management must provide for employees welfare measures like canteens, credit facilities, sports clubs, education facilities for their children. Management's concern for workers welfare will increase the goodwill of the management in front of the workers.
3. EFFECTIVE COMMUNICATION SYSTEM:- There should be 2 way communication between the management & the workers to influence on morale. The workers should be kept informed about the organization's policies & programs through conferences, bulletins & informal discussions with the workers. They should be allowed to ask questions & satisfy themselves about their doubts.
4. SOCIAL ACTIVITIES:- Management should encourage social group activities by the workers. This will help to develop greater groups which can be used by the management for building high morale.
5. WORKERS PARTICIPATION:- There should be industrial democracy in the organization. Management should allow workers participation in management. Whenever a change is to be introduced which will affect the workers, they must be consulted & taken into confidence. Workers must be allowed to put forward their suggestions on the matters affecting their work life to the top management.

Case 5: Creating a high performance culture

Introduction

The culture of an organization is a way of describing the typical way in which that organization operates. It is something that is created over time by the organization and the people that work for it. Siemens is built on a high performance culture. This means that everyone share one shares the same vision and, values and busts each other's contribution.

Siemens is a global electronics business with a turnover of around £60 billion a year. Its global headquarters are based in Germany but has sites around the world including around 100 in the UK with its UK HQ in Berkshire. Siemens products touch all our ranging
from kitchen equipment to power generation and from traffic lights to hospital scanners.

HR development

Siemens is committed to helping its employees to develop and fulfill themselves at work. They may want more training, more interesting jobs or just a better work-life balance. Siemens knows that to maintain and develop the excellent workforce that, it has Good people management. It believes that its human resources should be actively involved (called 'engagement') in its activities. This is a key plank of Siemens' business strategy.

People Excellence

This is the name given to the part of the strategy that relates to people management. It consists of four main elements:

* achieving a high performance culture
* increasing the global talent pool
* strengthening expert careers
* Siemens Leadership Excellence Programmer (SLE).

At its heart is the building of a high performance culture. Employees know that they are valued and busted and this helps to motivate them. Siemens uses a number of ways to make sure that it shows its appreciation of employees. This all helps them to feel part of a successful team and helps Siemens compete more effectively.

Creating the culture

The high performance culture is based on teamwork. Targets are set for the business and these

are related to individual and team targets. In this way, everyone is working towards better results. As team performance improves over time, so does the business.

Talent management

Siemens makes sure that all of its employees, not just the high fliers, are supported to reach their potential. It matches individuals' talents with tasks. Talent management allows for:

* Job enrichment. Where extra tasks or responsibility can make a job more rewarding and

* Job enlargement, where the scope of a job is widened and extra skills developed.

Talent management is applied to the business globally as a key par! The business strategy. It is closely linked to performance management. Performance management is used to monitor progress and set objectives for employees. It allows an honest dialogue to take place so everyone knows how well they are performing and how they might improve. This feeds directly into the high performance culture.

Conclusion

The success of an organization can be traced back to its people. Siemens demonstrates thins well. Its high performance culture supports people and helps them to reach their potential. This helps Siemens to be competitive.

Issues for Discussion

1. How does Siemens seek to provide good career opportunities for employees?

2. Describe one of the systems that Siemens has created which provides development opportunities for employees at work.

3. How important is the appraisal system in helping to create shared understandings the objectives of the organization and personal objectives of individual employees?

4. How effective do you think the Siemens approach to people management will be 2 in creating great results?

Discussion Questions:

1. Define Organising?

Organising is an activity involves in analyzing the nature of job to be performed grouping them, dividing into departments, divisions selections and that can be assigned to various individuals and delicate authority to carry out the task.

2. Define Decentralisation?

The tendency to discuss the decision making in an organisation structure. The fundamental aspect of Decentralisation is delectation of authority.

3. Advantages of Decentralisation?

1. It is a big relief to top managers.
2. It encourages the decision making.
3. It promotes the development of general manager.
4. Facilitates product diversification.

4. Define Scalar Principle:-

The clear the line of authority from the ultimate management position in an enterprise to every subordinate position the clear will be the responsibility for decision making and the more will be effective will be the organisation communication.

5. Define Policy

Policy of Decentralisation affects all area of management and it can be looked upon an essential element of managerial system. Managers could not use the discursion to handle the ever changing situation they face.

6. What is Organisation Structure?

In organisation structure simply by means the systematic arrangement of people working for the organisation. The organisation is concerned with establishment of positions and relationship between positions. The organisation structure has two dimensions.

1. Horizontal
2. Vertical

7. Benefits of Decentralization:-

1. Gives managers more freedom and independence in decision making.
2. It encourages decision making and assumption of authority and responsibility.
3. Aids in adoption to fast changing environment.
4. Promotes development of general managers.
5. Facilitates product Diversification.
6. Promotes establishment and use of broad controls which may increase motivation.

8. What are the types of Departmentation?

1. Departmentation by simple numbers.
2. Departmentation by Time.
3. Departmentation by Enterprise function.
4. Departmentation by Territory or Geography.
5. Customer Departmentation.
6. Process or Equipment Departmentation.
7. Departmentation by product.

9. Advantages of Organisational Chart:-

1. It shows the overview of staffing in organisation.
2. The manager ready for promotion can be identified.
3. Helps to predict future internal supply of managers.

Helps in transfer of manager internally to strengthen weak area

10. Uses of Organisation Chart

1. The organisation chart pinpoints the weakness of an organisation. This will helps to overcome the short coming of organisation.
2. It tells quickly who is responsible for particular function.
3. It is useful in showing nature of an organisation and changes if any in the existing staff and new comers.

Chapter 5:- Decision Making

What is Decision making?

Decision making is the act of choosing one alternative from among a set of alternatives. Quite literally, organizations operate by people making decisions. A manager plans, organizes, staffs, leads, and controls her team by executing decisions. The effectiveness and quality of those decisions determine how successful a manager will be.

Managers are constantly called upon to make decisions in order to solve problems. Decision making and problem solving are ongoing processes of evaluating situations or problems, considering alternatives, making choices, and following them up with the necessary actions. Sometimes the decision-making process is extremely short, and mental reflection is essentially instantaneous. In other situations, the process can drag on for weeks or even months. The entire decision-making process is dependent upon the right information being available to the right people at the right times.

Types of Decisions:-

- ***Programmed Decisions****:* routine, almost automatic process.
  - Managers have made decision many times before.
  - There are rules or guidelines to follow.
  - *Example: Deciding to reorder office supplies.*
- ***Non-programmed Decisions****:* unusual situations that have not been often addressed.
  - No rules to follow, since the decision is new.
  - These decisions are made based on information, and a manger's intuition, and judgment.
  - *Example: Should the firm invest in a new technology?*

Decision making process:-

The decision-making process involves the following steps:

1. Define the problem.
2. Identify limiting factors.
3. Develop potential alternatives.
4. Analyze the alternatives.
5. Select the best alternative.
6. Implement the decision.
7. Establish a control and evaluation system.

Define the problem

The decision-making process begins when a manager identifies the real problem. The accurate definition of the problem affects all the steps that follow; if the problem is inaccurately defined, every step in the decision-making process will be based on an incorrect starting point. One way that a manager can help determines the true problem in a situation is by identifying the problem separately from its symptoms.

The most obviously troubling situations found in an organization can usually be identified as symptoms of underlying problems. These symptoms all indicate that something is wrong with an

organization, but they don't identify root causes. A successful manager doesn't just attack symptoms; he works to uncover the factors that cause these symptoms.

TABLE 1 Symptoms and Their Real Causes

Symptoms	Underlying Problem
Low profits and/or declining sales	Poor market research
High costs	Poor design process; poorly trained employees
Low morale	Lack of communication between management and subordinates
High employee turnover	Rate of pay too low; job design not suitable
High rate of absenteeism	Employees believe that they are not valued

Identify limiting factors

All managers want to make the best decisions. To do so, managers need to have the ideal resources — information, time, personnel, equipment, and supplies — and identify any limiting factors. Realistically, managers operate in an environment that normally doesn't provide ideal resources. For example, they may lack the proper budget or may not have the most accurate information or any extra time. So, they must choose to **satisfice** — to make the best decision possible with the information, resources, and time available.

Develop potential alternatives

Time pressures frequently cause a manager to move forward after considering only the first or most obvious answers. However, successful problem solving requires thorough examination of the challenge, and a quick answer may not result in a permanent solution. Thus, a manager should think through and investigate several alternative solutions to a single problem before making a quick decision.

One of the best known methods for developing alternatives is through **brainstorming,** where a group works together to generate ideas and alternative solutions. The assumption behind brainstorming is that the group dynamic stimulates thinking — one person's ideas, no matter how outrageous, can generate ideas from the others in the group. Ideally, this spawning of ideas is contagious, and before long, lots of suggestions and ideas flow. Brainstorming usually requires 30 minutes to an hour. The following specific rules should be followed during brainstorming sessions:

- **Concentrate on the problem at hand.** This rule keeps the discussion very specific and avoids the group's tendency to address the events leading up to the current problem.
- **Entertain all ideas.** In fact, the more ideas that come up, the better. In other words, there are no bad ideas. Encouragement of the group to freely offer all thoughts on the subject is important. Participants should be encouraged to present ideas no matter how ridiculous they seem, because such ideas may spark a creative thought on the part of someone else.

- **Refrain from allowing members to evaluate others' ideas on the spot.** All judgments should be deferred until all thoughts are presented, and the group concurs on the best ideas.

Although brainstorming is the most common technique to develop alternative solutions, managers can use several other ways to help develop solutions. Here are some examples:

- **Nominal group technique.** This method involves the use of a highly structured meeting, complete with an agenda, and restricts discussion or interpersonal communication during the decision-making process. This technique is useful because it ensures that every group member has equal input in the decision-making process. It also avoids some of the pitfalls, such as pressure to conform, group dominance, hostility, and conflict, that can plague a more interactive, spontaneous, unstructured forum such as brainstorming.
- **Delphi technique.** With this technique, participants never meet, but a group leader uses written questionnaires to conduct the decision making.

No matter what technique is used, group decision making has clear advantages and disadvantages when compared with individual decision making.

The following are among the advantages:

- Groups provide a broader perspective.
- Employees are more likely to be satisfied and to support the final decision.
- Opportunities for discussion help to answer questions and reduce uncertainties for the decision makers.

These points are among the disadvantages:

- This method can be more time-consuming than one individual making the decision on his own.
- The decision reached could be a compromise rather than the optimal solution.
- Individuals become guilty of *groupthink* — the tendency of members of a group to conform to the prevailing opinions of the group.
- Groups may have difficulty performing tasks because the group, rather than a single individual, makes the decision, resulting in confusion when it comes time to implement and evaluate the decision.

The results of dozens of individual-versus-group performance studies indicate that groups not only tend to make better decisions than a person acting alone, but also that groups tend to inspire star performers to even higher levels of productivity.

So, are two (or more) heads better than one? The answer depends on several factors, such as the nature of the task, the abilities of the group members, and the form of interaction. Because a manager often has a choice between making a decision independently or including others in the decision making, she needs to understand the advantages and disadvantages of group decision making.

Analyze the alternatives

The purpose of this step is to decide the relative merits of each idea. Managers must identify the advantages and disadvantages of each alternative solution before making a final decision. Evaluating the alternatives can be done in numerous ways. Here are a few possibilities:

- Determine the pros and cons of each alternative.

- Perform a cost-benefit analysis for each alternative.
- Weight each factor important in the decision, ranking each alternative relative to its ability to meet each factor, and then multiply by a probability factor to provide a final value for each alternative.

Regardless of the method used, a manager needs to evaluate each alternative in terms of its

- **Feasibility** — Can it be done?
- **Effectiveness** — How well does it resolve the problem situation?
- **Consequences** — What will be its costs (financial and nonfinancial) to the organization?

Select the best alternative

After a manager has analyzed all the alternatives, he or she must decide on the best one. The best alternative is the one that produces the most advantages and the fewest serious disadvantages. Sometimes, the selection process can be fairly straightforward, such as the alternative with the most pros and fewest cons. Other times, the optimal solution is a combination of several alternatives.

Sometimes, though, the best alternative may not be obvious. That's when a manager must decide which alternative is the most feasible and effective, coupled with which carries the lowest costs to the organization. Probability estimates, where analysis of each alternative's chances of success takes place, often come into play at this point in the decision-making process. In those cases, a manager simply selects the alternative with the highest probability of success.

Implement the decision

Managers are paid to make decisions, but they are also paid to get results from these decisions. Positive results must follow decisions. Everyone involved with the decision must know his or her role in ensuring a successful outcome. To make certain that employees understand their roles, managers must thoughtfully devise programs, procedures, rules, or policies to help aid them in the problem-solving process.

Establish a control and evaluation system

Ongoing actions need to be monitored. An evaluation system should provide feedback on how well the decision is being implemented, what the results are, and what adjustments are necessary to get the results that were intended when the solution was chosen.

In order for a manager to evaluate his decision, he needs to gather information to determine its effectiveness. Was the original problem resolved? If not, is he closer to the desired situation than he was at the beginning of the decision-making process?

If a manager's plan hasn't resolved the problem, he needs to figure out what went wrong.

A manager may accomplish this by asking the following questions:

- **Was the wrong alternative selected?** If so, one of the other alternatives generated in the decision-making process may be a wiser choice.

- **Was the correct alternative selected, but implemented improperly?** If so, a manager should focus attention solely on the implementation step to ensure that the chosen alternative is implemented successfully.
- **Was the original problem identified incorrectly?** If so, the decision-making process needs to begin again, starting with a revised identification step.
- **Has the implemented alternative been given enough time to be successful?** If not, a manager should give the process more time and re-evaluate at a later date.

Rational Decision making model:-

Step	Detail	Example
1. Recognizing and defining the decision situation	Some stimulus indicates that a decision must be made. The stimulus may be positive or negative.	A plant manager sees that employee turnover has increased by 5 percent.
2. Identifying alternatives	Both obvious and creative alternatives are desired. In general, the more important the decision, the more alternatives should be considered.	The plant manager can increase wages, increase benefits, or change hiring standards.
3. Evaluating alternatives	Each alternative is evaluated to determine its feasibility, its satisfactoriness, and its consequences.	Increasing benefits may not be feasible. Increasing wages and changing hiring standards may satisfy all conditions.
4. Selecting the best alternative	Consider all situational factors, and choose the alternative that best fits the manager's situation.	Changing hiring standards will take an extended period of time to cut turnover, so increase wages.
5. Implementing the chosen alternative	The chosen alternative is implemented into the organizational system.	The plant manager may need permission from corporate headquarters. The human resource department establishes a new wage structure.
6. Following up and evaluating the results	At some time in the future, the manager should ascertain the extent to which the alternative chosen in step 4 and implemented in step 5 has worked.	The plant manager notes that, six months later, turnover has dropped to its previous level.

Conditions that Influence Decision Making:-

Managers make problem-solving decisions under three different conditions: certainty, risk, and uncertainty. All managers make decisions under each condition, but risk and uncertainty are common to the more complex and unstructured problems faced by top managers.

Certainty

Decisions are made under the condition of certainty when the manager has perfect knowledge of all the information needed to make a decision. This condition is ideal for problem solving. The challenge is simply to study the alternatives and choose the best solution.

When problems tend to arise on a regular basis, a manager may address them through standard or prepared responses called programmed decisions. These solutions are already available from past experiences and are appropriate for the problem at hand. A good example is the decision to reorder inventory automatically when stock falls below a determined level.

Today, an increasing number of programmed decisions are being assisted or handled by computers using decision-support software. Structured problems are familiar, straightforward, and clear with respect to the information needed to resolve them. A manager can often anticipate these problems and plan to prevent or solve them. For example, personnel problems are common in regard to pay raises, promotions, vacation requests, and committee assignments, as examples. Proactive managers can plan processes for handling these complaints effectively before they even occur.

Risk
In a risk environment, the manager lacks complete information. This condition is more difficult. A manager may understand the problem and the alternatives, but has no guarantee how each solution will work. Risk is a fairly common decision condition for managers.

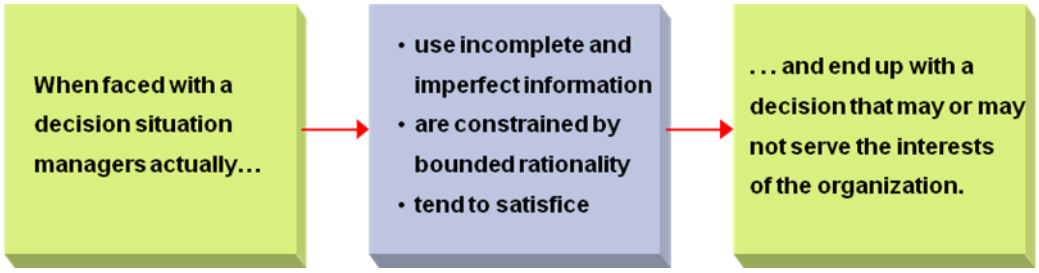
When new and unfamiliar problems arise, nonprogrammed decisions are specifically tailored to the situations at hand. The information requirements for defining and resolving nonroutine problems are typically high. Although computer support may assist in information processing, the decision will most likely involve human judgment. Most problems faced by higher-level managers demand nonprogrammed decisions. This fact explains why the demands on a manager's conceptual skills increase as he or she moves into higher levels of managerial responsibility.

A **crisis problem** is an unexpected problem that can lead to disaster if it's not resolved quickly and appropriately. No organization can avoid crises, and the public is well aware of the immensity of corporate crises in the modern world. The Chernobyl nuclear plant explosion in the former Soviet Union and the *Exxon Valdez* spill of years past are a couple of sensational examples. Managers in more progressive organizations now anticipate that crises, unfortunately, will occur. These managers are installing early-warning crisis information systems and developing crisis management plans to deal with these situations in the best possible ways.

Uncertainty
When information is so poor that managers can't even assign probabilities to the likely outcomes of alternatives, the manager is making a decision in an uncertain environment. This condition is the most difficult for a manager. Decision making under conditions of uncertainty is like being a pioneer entering unexplored territory. Uncertainty forces managers to rely heavily on creativity in solving problems: It requires unique and often totally innovative alternatives to existing processes. Groups are frequently used for problem solving in such situations. In all cases, the responses to uncertainty depend greatly on intuition, educated guesses, and hunches — all of which leave considerable room for error.
These unstructured problems involve ambiguities and information deficiencies and often occur as new or unexpected situations. These problems are most often unanticipated and are addressed reactively as they occur. Unstructured problems require novel solutions. Proactive managers are

sometimes able to get a jump on unstructured problems by realizing that a situation is susceptible to problems and then making contingency plans. For example, at the Vanguard Group, executives are tireless in their preparations for a variety of events that could disrupt their mutual fund business. Their biggest fear is an investor panic that overloads their customer service system during a major plunge in the bond or stock markets. In anticipation of this occurrence, the firm has trained accountants, lawyers, and fund managers to staff the telephones if needed.

The Administrative Model of Decision Making (Herbert Simon):-



Concepts in rational decision making:-

- **Bounded Rationality:-**
  - The concept that decision makers are limited by their values and unconscious reflexes, skills, and habits. The manager thus makes the most logical decisions they can within the constraints of limited information and ability.

- **Satisfying :-**
  - The tendency to search for alternatives only until one is found that meets some minimum standard of sufficiency to resolve the problem.

- **Heuristics:-**
  - A heuristic is a rule of thumb to deal with complex situations. If the heuristic is wrong, however, then poor decisions result from its use. E.g. Loan officers may assume that people can not spend more than 35% of their income on housing.

- **Intuition**:-
  - An innate belief about something without conscious consideration.

- **Escalation of Commitment:-**
  - A decision maker is staying with a decision even when it appears to be wrong.

- **Risk Propensity:-**
  - The extent to which a decision maker is willing to gamble when making a decision.

Group Decision Making:-

Sometimes in organizational settings, decisions are made in a group. The pros and cons of group decision making is as below:-

Advantages	Disadvantages
1. More information and knowledge is available. 2. More alternatives are likely to be generated. 3. More acceptance of the final decision is likely. 4. Enhanced communication of the decision may result. 5. Better decisions generally emerge.	1. The process takes longer than individual decision making, so it is costlier. 2. Compromised decisions resulting from indecisiveness may emerge. 3. One person may dominate the group. 4. Groupthink may occur.

Techniques of group decision making:-

Brainstorming:-
Another option for decision-making is brainstorming. When brainstorming, group members are encouraged to generate as many ideas about a particular topic as they can. For instance, group members may use brainstorming to generate as many solutions as they can in step four of the standard agenda. Group members should be encouraged to say anything that comes to mind when brainstorming. Every idea is written down and judgments about ideas are saved until later, when the group returns to all of the ideas and selects those that are most useful.

Nominal Group Technique:-
Nominal group technique is a group decision-making tool used when the group must rank order a set of options. In order to use the nominal group technique, group members work individually to list all alternatives to a problem or issue. Sometimes, nominal group technique is used after a brainstorming session is held. Then, the group facilitator asks each group member to individually rank all of the options from lowest to highest priority. Finally, the facilitator computes an average score for each idea. The lowest score is the highest priority for the group.
For example, if six group members were discussing problems on campus and they assigned parking the scores of 1, 1, 2,2,1,1, it would have an average score of 1.3. Another problem, lack of activities, may have received ranks of 2, 2, and 1,1,2,3. Its score would be 1.8. Parking would be the most important priority. Nominal group technique is a good way to have all of the group members voice their opinions and discussion is not dominated by a few vocal group members

Delphi groups:-
Delphi groups are sometimes used for developing a consensus of expert opinion from a panel of experts who individually contribute through a moderator

Devil's Advocacy: one member of the group acts as the devil's advocate and critiques the way the group identified alternatives. The member points out problems with the alternative selection.

Dialectical inquiry: two different groups are assigned to the problem and each group evaluates the other group's alternatives. Top managers then hear each group present their alternatives and each group can critique the other.

Personal Decision-Making Styles

Managerial decision making depends on many factors, including the ability to set priorities and time decisions correctly. However, the most important influence on managerial decision making is a manager's personal attributes or his or her own decision-making approach. The three most common decision models are as follows:

- Rational/logical
- Intuitive
- Predisposed

Regardless of the model favored by a manager, understanding personal tendencies and moving toward a more rational model should be the manager's goal. The best decisions are usually a result of a blend of the decision maker's intuition and the rational step-by-step approach.

Rational/Logical decision model

This approach uses a step-by-step process, similar to the seven-step decision-making process. The rational/logical decision model focuses on facts and reasoning. Reliance is on the steps and decision tools, such as payback analysis, decision tree, and research.

Through the use of quantitative techniques, rationality, and logic, the manager evaluates the alternatives and selects the best solution to the problem.

Intuitive decision model

The managers who use this approach avoid statistical analysis and logical processes. These managers are "gut" decision makers who rely on their feelings about a situation. This definition could easily lead one to believe that intuitive decision making is irrational or arbitrary. Although intuition refers to decision making without formal analysis or conscious reasoning, it is based on years of managerial practice and experience. These experienced managers identify alternatives quickly without conducting systematic analyses of alternatives and their consequences. When making a decision using intuition, the manager recognizes cues in the situation that are the same as or similar to those in previous situations that he or she has experienced; the cues help the manager to rapidly conduct subconscious analysis. Then a decision is made.

Predisposed decision model

A manager who decides on a solution and then gathers material to support the decision uses the predisposed decision model approach. Decision makers using this approach do not search out all possible alternatives. Rather, they identify and evaluate alternatives only until an acceptable

decision is found. Having found a satisfactory alternative, the decision maker stops searching for additional solutions. Other, and potentially better, alternatives may exist, but will not be identified or considered because the first workable solution has been accepted. Therefore, only a fraction of the available alternatives may be considered due to the decision maker's information-processing limitations. A manager with this tendency is likely to ignore critical information and may face the same decision again later.

Case 2: Using aims and objectives to create a business strategy

Introduction

Kellogg is the world's leading supplier of breakfast cereal. It has 39 brands and a 42% share of the UK market. Kellogg makes a range of products for the various segments of the UK's market. The market is worth 1.1 billion a year. Kellogg's success is achieved through careful planning. It sets clear aims and objectives. It then uses the strength of its brands to help it reach them. Kellogg ensures that each brand has a unique place in the minds of its customers. This is called product positioning.

Developing aims

Kellogg's managers set aims. These must match what consumers want. In recent years, consumers have shown that they want to lead more healthy lives. Kellogg wanted to be part of this debate. It promotes the message 'Get the Balance Right'. It also wanted to show that it corporate responsibility. This means showing that it is a company that cares for both its consumers and the environment. An aim is a broad statement of where a business wants to be. Kellogg's aim was therefore to reinforce the idea of a healthy lifestyle.

Objectives

Once a broad aim is put in place, objectives can then be set. These should be SMART. This stands for:

• . Specific:
• Measurable:
• Achievable:
• Realistic and
• Time related.

They were set in three main areas

* promoting physical activity for health
* using packaging to promote a balanced lifestyle
* using food labeling to help consumers make healthy choices.

Strategy

A strategy is a set of' plans designed to reach the aims set. Kellogg's strategy included helping people become active. It has worked with the Amateur Swimming Association (ASA) since 1997. The ASA's want everyone to 'enjoy swimming as part of' a healthy, lit style'. These closely match those of Kellogg. Swimming, is also a family activity and a skill for life'. Kellogg became the main sponsor of swimming in the UK, providing over 1.8 million per The link with the ASA also helped Kellogg to support active lit styles in other ways. It linked with Sustains, which promotes sustainable transport. This led Kellogg to develop a cycling based promotion. It also encourages walking. A free pedometer given away with All Bran inspired people to walk further. Kellogg has also sponsored other walking events. Kellogg uses symbols on its packs to show healthy Guideline Daily Amounts of ingredients such as salt, sugar and fat. This helps consumers to make choices.

Communication

Kellogg's success in reaching its aims is due to the clear ways by which it conveys them to customers. It uses cartoon characters to advise children and parents about exercise. It has also produced leaflets. These can be obtained from its website. Internally, Kellogg uses its in-house magazine to promote the message.

Conclusion

Kellogg knows from research that a balanced diet and regular exercise help people stay Healthy. It is communicating this message through its brands and promotions.

Issues for Discussion
* Explain what is meant by a premium brand.
* Describe the difference between an aim and an objective.
* Outline the purpose of Kellogg's work with the ASA.
* Using examples to support your dialogue, evaluate how Kellogg communicates and discuss how this enables it to position its brand.

Case 4 : Managing risk through effective. Team-based decision making

Introduction

RWE npower is an integrated energy company. It is the third largest supplier of electricity, through its npower brand and one of the largest electricity generators. It is part of the RWE Group, which is one of the largest European energy Utilities. Energy Companies have a responsibility to maintain supplies of energy 24/7. This means that they have to be aware of and manage risk. There is a risk involved in all business activity. Managing risk successfully means striking a balance between risk, cost and returns.

Importance

RWE npower is an important contributor to the economy. It provides jobs, helps people maintain and increase their standard of living by supplying energy and invests in large capital projects. The most visible face of the business is its huge power stations but it is also involved in developing alternative forms of energy such as biomass plants and wind farms. It seeks green or sustainable solutions to problems wherever possible.

Types of problems

There are different types of business problems and therefore different solutions to them.
• Deviation problems are where targets are not hewing met. Problem solving in this case is centered on closing the gaps.
• Improvement problems. Here Solutions need to address how the business can become for example more efficient or greener.
• Open-ended problems where conventional solutions will not work. Solutions are generally linked to the idea of 'thinking outside the box' i.e. coming up with new and untried ideas.

Engineers at RWE npower have to handle these problems all the time. In the first two cases, there are often proven techniques and solutions which can be worked out in teams. Team work brings together engineers with different skills and experience. Teamwork encourages team members to bounce ideas off each other so can be fun as well as leading to solutions have saved RWE npower millions.

Creative problem-solving.

This is linked to open-ended problems. New solutions mean new risks, however, and engineers need to understand these. They have to take into account possible costs and health and safety issues along with the technical aspects of the solution. Solutions must take into account the needs of the customer. For example, small defects in turbine blades in power stations are inevitable during their working life. When these are reported, managers need weigh up the various options repair, up the various options (shutdown, repair, replace etc.), The first priority is health and safety, but then they consider commercial criteria, including cost and customer needs.

Graduates

RWE npower employs graduate engineers straight from university. They are trained and
Have a good career path in the company. They are encouraged to think for themselves and solutions to problems. Some solutions can save the company millions so as its investment in graduates is worthwhile.
Develop creative solutions to problems. Some solutions can save the company millions so RWE npower knows its investment in graduates is worthwhile.

Conclusion

RWE and power needs good engineers to be able to fulfill its commitment to supply energy 24/7. These engineers need to be not Just skilled at their specialisms, but able to solve. Problems in a creative way.

Issues for Discussion

1. What do you understand by the term, 'thinking outside the box'? Give an example of how this can be applied to engineers working for RWE npower.

2. How does encouraging thinking outside the box help RWE npower to make improvements in the way in which it operates?

3. Explain how encouraging engineers at RWE npower to think outside the box has led to increased motivation for these employees.

4. Recommend wavy in which another organization of your choice might improve its employees to think in creative ways about work. Results through encouraging its employees to think in creative ways about work-related problems.

Questions

1. Define Decision Making

Decision Making is defined as selection of a course of action from among alternatives. It is a core of planning. A plan cannot be said to exist unless a decision – a commitment of resources, direction or reputation has been made. Until that point, there is only planning studies and analysis.

2. What are the three approaches in selecting an alternative?

1. Experience
2. Experimentation
3. Research and Analysis

3. Define Decision trees?

The best way to analyze a decision is by means of decision trees. In a decision tree, the various chance events, decision points and probabilities involved in various courses that might be undertaken are represented in the form of a ‘tree’. The decision tree approach makes it possible to see the major alternatives and facts that subsequent decision may depend upon.

4. What are the three basic approaches to select among alternatives?

1. Experience
2. Experimentation
3. Research and Analysis

Experience:

Relying on post experience, the choice among alternatives is selected to avoid mistakes.

Experimentation:

A firm may test a new product in a certain market before expanding its sale nationwide.

Research and Analysis:

The trend in research and analysis is simulation i.e. to develop mathematical tools.

5. What is cost Effectiveness Analysis?

Cost effectiveness Analysis is a technique for choosing the best plan when the objectives are less specific than sales costs or profits. It means finding the least costly way of reaching an objective or getting the greatest value for giving experiences. It is also called as Cost Benefit Analysis.

Case in Point: Newell Rubbermaid Leverages Cost Controls to Grow

Newell Company grew to be a diversified manufacturer and marketer of simple household items, cookware, and hardware. In the early 1950s, Newell Company's business consisted solely of manufactured curtain rods that were sold through hardware stores and retailers like Sears. Since the 1960s, however, the company has diversified extensively through acquisitions of businesses for paintbrushes, writing pens, pots and pans, hairbrushes, and the like. Over 90% of its growth can be attributed to these many small acquisitions, whose performance Newell improved tremendously through aggressive restructuring and its corporate emphasis on cost cutting and cost controls. Usually within a year of the acquisition, Newell would bring in new leadership and install its own financial controller in the acquired unit. Then, three standard sets of controls were introduced: an integrated financial accounting system, a sales and order processing and tracking system, and a flexible manufacturing system. Once these systems were in place, managers were able to control costs by limiting expenses to those previously budgeted. Administration, accounting, and customer-related financial accounting aspects of the acquired business were also consolidated into Newell's corporate headquarters to further reduce and control costs.

While Newell Company's 16 different lines of business may appear quite different, they all share the common characteristics of being staple manufactured items sold primarily through volume retail channels like Wal-Mart, Target, and Kmart. Because Newell operates each line of business autonomously (separate manufacturing, research and development [R&D], and selling responsibilities for each), it is perhaps best described as pursuing a related, linked diversification strategy. The common linkages are both internal (accounting systems, product merchandising skills, and acquisition competency) and external (distribution channel of volume retailers). Beyond its internal systems and processes, Newell was also able to control costs through outcome controls. That is, business managers were paid a bonus based on the profitability of their particular unit—in fact, the firm's strategy is to achieve profits, not simply growth at the expense of profits. Newell managers could expect a base salary equal to the industry average but could earn bonuses ranging from 35% to 100% based on their rank and unit profitability.

In 1999, Newell acquired Rubbermaid, a U.S.-based manufacturer of flexible plastic products like trash cans, reheatable and freezable food containers, and a broad range of other plastic storage containers designed for home and office use. While Rubbermaid was highly innovative (over 80% of its growth has come from internal new product development), it had difficulty controlling costs and was losing ground against powerful customers like Wal-Mart. Newell believed that the market power it wielded with retailers like Wal-Mart would help it turn Rubbermaid's prospects around. The acquisition deal between these two companies resulted in a single company that was twice as big and became known as Newell Rubbermaid Inc. (NYSE: NWL). In 2010, *Fortune* named Newell Rubbermaid the number 7 "Most Admired Company" in the home equipment and furnishings category.

DISCUSSION QUESTIONS

The controlling facet of the P-O-L-C framework introduces you to a variety of controls. What do other organizations you are familiar with do with regard to control that is similar to or different from what we see in the case of Newell?

What types of controls does Newell use?

Does Newell use behavioral controls? What are some examples?

Does Newell use outcome controls? What are some examples?

How do the controls Newell uses fit its strategy?

At the end of the case, how has Newell adjusted its strategy? What changes in controls has it made as a result?

Organizational Control Objectives

Simply put, *organizational control* is the process of assigning, evaluating, and regulating resources on an ongoing basis to accomplish an organization's goals. To successfully control an organization, managers need to not only know what the performance standards are, but also figure out how to share that information with employees.

Control can be defined narrowly as the process a manager takes to assure that actual performance conforms to the organization's plan, or more broadly as anything that regulates the process or activity of an organization. The following content follows the general interpretation by defining *managerial control* as monitoring performance against a plan and then making adjustments either in the plan or in operations as necessary.

The six major purposes of controls are as follows:

- **Controls make plans effective.** Managers need to measure progress, offer feedback, and direct their teams if they want to succeed.
- **Controls make sure that organizational activities are consistent.** Policies and procedures help ensure that efforts are integrated.
- **Controls make organizations effective.** Organizations need controls in place if they want to achieve and accomplish their objectives.
- **Controls make organizations efficient.** Efficiency probably depends more on controls than any other management function.
- **Controls provide feedback on project status.** Not only do they measure progress, but controls also provide feedback to participants as well. Feedback influences behavior and is an essential ingredient in the control process.
- **Controls aid in decision making.** The ultimate purpose of controls is to help managers make better decisions. Controls make managers aware of problems and give them information that is necessary for decision making.

Many people assert that as the nature of organizations has changed, so must the nature of management controls. New forms of organizations, such as self-organizing organizations, self-managed teams, and network organizations, allow organizations to be more responsive and adaptable in today's rapidly changing world. These forms also cultivate empowerment among employees, much more so than the hierarchical organizations of the past.
Some people even claim that management shouldn't exercise any form of control whatsoever, and should only support employee efforts to be fully productive members of organizations and communities. Along those same lines, some experts even use the word "coordinating" in place of "controlling" to avoid sounding coercive. However, some forms of controls must exist for an organization to exist. For an organization to exist, it needs some goal or purpose, or it isn't an organization at all. Individual behaviors, group behaviors, and all organizational performance must be in line with the strategic focus of the organization.

The Organizational Control Process

The control process involves carefully collecting information about a system, process, person, or group of people in order to make necessary decisions about each. Managers set up control systems that consist of four key steps:

1. **Establish standards to measure performance.** Within an organization's overall strategic plan, managers define goals for organizational departments in specific, operational terms that include standards of performance to compare with organizational activities.
2. **Measure actual performance.** Most organizations prepare formal reports of performance measurements that managers review regularly. These measurements should be related to the standards set in the first step of the control process. For example, if sales growth is a target, the organization should have a means of gathering and reporting sales data.
3. **Compare performance with the standards.** This step compares actual activities to performance standards. When managers read computer reports or walk through their plants, they identify whether actual performance meets, exceeds, or falls short of standards. Typically, performance reports simplify such comparison by placing the performance standards for the reporting period alongside the actual performance for the same period and by computing the variance—that is, the difference between each actual amount and the associated standard.
4. **Take corrective actions.** When performance deviates from standards, managers must determine what changes, if any, are necessary and how to apply them. In the productivity and quality-centered environment, workers and managers are often empowered to evaluate their own work. After the evaluator determines the cause or causes of deviation, he or she can take the fourth step—corrective action. The most effective course may be prescribed by policies or may be best left up to employees' judgment and initiative.

These steps must be repeated periodically until the organizational goal is achieved

Types of Organizational Controls:

Control can focus on events before, during, or after a process. For example, a local automobile dealer can focus on activities before, during, or after sales of new cars. Careful inspection of new

cars and cautious selection of sales employees are ways to ensure high quality or profitable sales even before those sales take place. Monitoring how salespeople act with customers is a control during the sales task. Counting the number of new cars sold during the month and telephoning buyers about their satisfaction with sales transactions are controls after sales have occurred. These types of controls are formally called feedforward, concurrent, and feedback, respectively.

- **Feedforward controls,** sometimes called preliminary or preventive controls, attempt to identify and prevent deviations in the standards before they occur. Feedforward controls focus on human, material, and financial resources within the organization. These controls are evident in the selection and hiring of new employees. For example, organizations attempt to improve the likelihood that employees will perform up to standards by identifying the necessary job skills and by using tests and other screening devices to hire people with those skills.

- **Concurrent controls** monitor ongoing employee activity to ensure consistency with quality standards. These controls rely on performance standards, rules, and regulations for guiding employee tasks and behaviors. Their purpose is to ensure that work activities produce the desired results. As an example, many manufacturing operations include devices that measure whether the items being produced meet quality standards. Employees monitor the measurements; if they see that standards are not being met in some area, they make a correction themselves or let a manager know that a problem is occurring.

- **Feedback controls** involve reviewing information to determine whether performance meets established standards. For example, suppose that an organization establishes a goal of increasing its profit by 12 percent next year. To ensure that this goal is reached, the organization must monitor its profit on a monthly basis. After three months, if profit has increased by 3 percent, management might assume that plans are going according to schedule.

Effective Organizational Control Systems

The management of any organization must develop a control system tailored to its organization's goals and resources. Effective control systems share several common characteristics. These characteristics are as follows:

- **A focus on critical points.** For example, controls are applied where failure cannot be tolerated or where costs cannot exceed a certain amount. The critical points include all the areas of an organization's operations that directly affect the success of its key operations.
- **Integration into established processes.** Controls must function harmoniously within these processes and should not bottleneck operations.

- **Acceptance by employees.** Employee involvement in the design of controls can increase acceptance.

- **Availability of information when needed.** Deadlines, time needed to complete the project, costs associated with the project, and priority needs are apparent in these criteria.

Costs are frequently attributed to time shortcomings or failures.

- **Economic feasibility.** Effective control systems answer questions such as, “How much does it cost?” “What will it save?” or “What are the returns on the investment?” In short, comparison of the costs to the benefits ensures that the benefits of controls outweigh the costs.

- **Accuracy.** Effective control systems provide factual information that's useful, reliable, valid, and consistent.

- **Comprehensibility.** Controls must be simple and easy to understand.

Organizational Control Techniques

Control techniques provide managers with the type and amount of information they need to measure and monitor performance. The information from various controls must be tailored to a specific management level, department, unit, or operation.

To ensure complete and consistent information, organizations often use standardized documents such as financial, status, and project reports. Each area within an organization, however, uses its own specific control techniques, described in the following sections.

Financial controls:

After the organization has strategies in place to reach its goals, funds are set aside for the necessary resources and labor. As money is spent, statements are updated to reflect how much was spent, how it was spent, and what it obtained. Managers use these financial statements, such as an income statement or balance sheet, to monitor the progress of programs and plans.

Financial statements provide management with information to monitor financial resources and activities. The **income statement** shows the results of the organization's operations over a period of time, such as revenues, expenses, and profit or loss. The *balance sheet* shows what the organization is worth (assets) at a single point in time, and the extent to which those assets were financed through debt (liabilities) or owner's investment (equity).

Financial audits, or formal investigations, are regularly conducted to ensure that financial management practices follow generally accepted procedures, policies, laws, and ethical guidelines. Audits may be conducted internally or externally. **Financial ratio analysis** examines the relationship between specific figures on the financial statements and helps explain the significance of those figures:

- **Liquidity ratios** measure an organization's ability to generate cash.
- **Profitability ratios** measure an organization's ability to generate profits.
- **Debt ratios** measure an organization's ability to pay its debts.
- **Activity ratios** measure an organization's efficiency in operations and use of assets.

In addition, *financial responsibility centers* require managers to account for a unit's progress toward financial goals within the scope of their influences. A manager's goals and responsibilities may focus on unit profits, costs, revenues, or investments.

Budget controls

A budget depicts how much an organization expects to spend (expenses) and earn (revenues) over a time period. Amounts are categorized according to the type of business activity or account, such as telephone costs or sales of catalogs. Budgets not only help managers plan their finances, but also help them keep track of their overall spending.

A budget, in reality, is both a planning tool and a control mechanism. Budget development processes vary among organizations according to who does the budgeting and how the financial resources are allocated. Some budget development methods are as follows:

- **Top-down budgeting.** Managers prepare the budget and send it to subordinates.
- **Bottom-up budgeting.** Figures come from the lower levels and are adjusted and coordinated as they move up the hierarchy.
- **Zero-based budgeting.** Managers develop each new budget by justifying the projected allocation against its contribution to departmental or organizational goals.
- **Flexible budgeting.** Any budget exercise can incorporate flexible budgets, which set "meet or beat" standards that can be compared to expenditures.

Marketing controls

Marketing controls help monitor progress toward goals for customer satisfaction with products and services, prices, and delivery. The following are examples of controls used to evaluate an organization's marketing functions:

- **Market research** gathers data to assess customer needs—information critical to an organization's success. Ongoing market research reflects how well an organization is meeting customers' expectations and helps anticipate customer needs. It also helps identify competitors.
- **Test marketing** is small-scale product marketing to assess customer acceptance. Using surveys and focus groups, test marketing goes beyond identifying general requirements and looks at what (or who) actually influences buying decisions.
- **Marketing statistics** measure performance by compiling data and analyzing results. In most cases, competency with a computer spreadsheet program is all a manager needs. Managers look at *marketing ratios,* which measure profitability, activity, and market shares, as well as *sales quotas,* which measure progress toward sales goals and assist with inventory controls.

Unfortunately, scheduling a regular evaluation of an organization's marketing program is easier to recommend than to execute. Usually, only a crisis, such as increased competition or a sales drop, forces a company to take a closer look at its marketing program. However, more regular evaluations help minimize the number of marketing problems.

Human resource controls

Human resource controls help managers regulate the quality of newly hired personnel, as well as monitor current employees' developments and daily performances.

On a daily basis, managers can go a long way in helping to control workers' behaviors in organizations. They can help direct workers' performances toward goals by making sure that goals are clearly set and understood. Managers can also institute policies and procedures to help guide workers' actions. Finally, they can consider past experiences when developing future strategies, objectives, policies, and procedures.
Common control types include performance appraisals, disciplinary programs, observations, and training and development assessments. Because the quality of a firm's personnel, to a large degree, determines the firm's overall effectiveness, controlling this area is very crucial.

Computers and information controls
Almost all organizations have confidential and sensitive information that they don't want to become general knowledge. Controlling access to computer databases is the key to this area. Increasingly, computers are being used to collect and store information for control purposes. Many organizations privately monitor each employee's computer usage to measure employee performance, among other things. Some people question the appropriateness of computer monitoring. Managers must carefully weigh the benefits against the costs—both human and financial—before investing in and implementing computerized control techniques.
Although computers and information systems provide enormous benefits, such as improved productivity and information management, organizations should remember the following limitations of the use of information technology:

- **Performance limitations.** Although management information systems have the potential to increase overall performance, replacing long-time organizational employees with information systems technology may result in the loss of expert knowledge that these individuals hold. Additionally, computerized information systems are expensive and difficult to develop. After the system has been purchased, coordinating it—possibly with existing equipment—may be more difficult than expected. Consequently, a company may cut corners or install the system carelessly to the detriment of the system's performance and utility. And like other sophisticated electronic equipment, information systems do not work all the time, resulting in costly downtime.

- **Behavioral limitations.** Information technology allows managers to access more information than ever before. But too much information can overwhelm employees, cause stress, and even slow decision making. Thus, managing the quality and amount of information available to avoid information overload is important.

- **Health risks.** Potentially serious health-related issues associated with the use of computers and other information technologies have been raised in recent years. An example is carpal tunnel syndrome, a painful disorder in the hands and wrists caused by repetitive movements (such as those made on a keyboard).

Regardless of the control processes used, an effective system determines whether employees and various parts of an organization are on target in achieving organizational objectives.

Discussion Questions

1. What do you mean by Control?

Control is intended to ensure and make possible performance of planned activities and to achieve the predetermined goals and results.

2) Define Budgetary Control?

According to ICMA, England "Budgetary Control is the establishment of budgets relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with the budget to provide a basis for its revision.

3. List out the various kinds of budget?

1) Functional Budget

2) Master Budget

3) Fixed Budget

4) Flexible Budget

5) Zero-base Budget

4. What do you mean by Master Budget?

A Master Budget is the summary budget incorporating all functional budgets. It is prepared with a view to coordinate the activities of various functional departmental.

5. What do you mean by Zero-base budgeting?

Zero-base budgeting is the latest technique aimed at cost reduction and optimum realization of resources.

6. What is Feed Forward Control?

Feed Forward Control involves evaluation of input and corrective measures before a particular sequence of operation is completed. It is based on timely and accurate information about changes in the environment.

7. What is Concurrent Control?

Concurrent Control is also known as "real-time" or steering" control. It provides for taking corrective actions or making adjustments while the programmes is still in operation and before any major damage occurs.

8. List out the important features of controlling?

a) Function of Management.

b) Continuous function

c) Future -oriented and

d) Action-oriented.

9. What is Flexible Budget?

Flexible Budget is one which is designed to change in accordance with the level of activity actually attained. It is suitable when the estimation of demand is uncertain and the enterprise works under conditions of lack of material and labor power.

10. What are the benefits of control?

1. Control eliminates actions which deviate or which is not in conformity with the cherished goals of the firm.
2. It offers enough information for future planning and Organising.

11. List out the characteristics of Control function?

1) Functional Management

2) Continuous function

3) Future-oriented

4) Action-oriented

5) Measuring the performance and

6) Planning the control

12. What are the basic steps involved in the process of controlling?

1 establishment of standards

2 measurement of performance

3 comparing performance with the slandered

4 taking corrective action

Chapter 7:- Human Resource Management

Staffing as a Management Function:

After an organization's structural design is in place, it needs people with the right skills, knowledge, and abilities to fill in that structure. People are an organization's most important resource, because people either create or undermine an organization's reputation for quality in both products and service.

In addition, an organization must respond to change effectively in order to remain competitive. The right staff can carry an organization through a period of change and ensure its future success. Because of the importance of hiring and maintaining a committed and competent staff, effective human resource management is crucial to the success of all organizations.

Human resource management (HRM), or *staffing*, is the management function devoted to acquiring, training, appraising, and compensating employees. In effect, all managers are human resource managers, although human resource specialists may perform some of these activities in large organizations. Solid HRM practices can mold a company's workforce into a motivated and committed team capable of managing change effectively and achieving the organizational objectives.

What is HRM?

Human Resource Management ("HRM") is a way of management that links people-related activities to the strategy of a business or organisation. HRM is often referred to as "strategic HRM".

It has several goals:

- To meet the needs of the business and management (rather than just serve the interests of employees);
- To link human resource strategies / policies to the business goals and objectives;
- To find ways for human resources to "add value" to a business;
- To help a business gain the commitment of employees to its values, goals and objectives

The link between Human Resources and Business Strategy:

All elements of the business strategy have implications for human resources, as illustrated in the table below. The challenge for management is to identify and respond to these HR challenges:

Examples of Key Strategy Issues	Possible Human Resource Implications

What markets should the business compete in?	What expertise is required in these markets? Do existing management and employees have the right experience and skills
Where the business should be located to compete optimally?	Where do we need our people? How many do we need?
How can we achieve improvements in our unit production costs to remain competitive?	How productive is the workforce currently? How does this compare with competitors? What investment in the workforce (e.g. training, recruitment) and their equipment is required to achieve the desired improvement in productivity?
How can the business effect cultural change?	What are the current values of the workforce. How can the prevailing culture be influenced/changed to help implement a change programme?
How can the business respond to rapid technological change in its markets?	What technological skills does the business currently possess? What additional skills are needed to respond to technological change? Can these skills be acquired through training or do they need to be recruited?

An important part of HRM is the **Human Resources Plan**. The purpose of this plan is to analyse the strategic requirements of the business in terms of manpower - and then to find a way of meeting the required demand for labour. This is the subject of a separate revision note.

Human resource planning:
The first step in the staffing process involves human resource planning. Human resource planning begins with a **job analysis** in which descriptions of all jobs (tasks) and the qualifications needed for each position are developed.

A **job description** is a written statement of what a jobholder does, how it's done, and why it's done. It typically portrays job content, environment, and conditions of employment. The job specification states the minimum acceptable qualifications an incumbent must possess to perform a given job successfully. It identifies the knowledge, skills, and abilities needed to do the job effectively.

Job analysis is then followed by a human resource inventory, which catalogs qualifications and interests. Next, a human resource forecast is developed to predict the organization's future needs for jobs and people based on its strategic plans and normal attrition. The forecast is then compared to the inventory to determine whether the organization's staffing needs will be met with existing personnel or whether managers will have to recruit new employees or terminate existing ones.

Human Resource Management - Workforce Planning:-

Objective of Workforce Planning:

Workforce planning is one of the most important activities in a business.

It starts with analysis of the strategic position of the business. The results of this analysis then feed into a forecast of the required demand for labour by the business and how this is likely to be supplied. The final stage involves the creation and implementation of a human resources plan which aims to deliver the right number of the right people for the business.

How strategy feeds into the workforce plan:

The strategic position and needs of the business have the most important influence on workforce planning: for example:

- **Labour environment**: what is happening to the size of the labour force? What key population and employment trends (e.g. the increasing number of women seeking part-time work; increasing numbers of people working on temporary or short-term contracts) affect the ability of the business to recruit staff? What provision needs to be made for employee pensions (particularly in the light of falling stock market values); what employment legislation

- **Business objectives and scope of activities**: what are the objectives of each business unit? What products are to be sold, in which markets; using what kind of distribution?

- **Business location** - where is the business located? How are the various business units, divisions, functions distributed across the various locations? What specialist skills are essential in each location? What are the workforce implications of decisions on business location?

- **Timetables** - to what extent does the strategic needs of the business require short-term changes in the workforce - or can change be achieved over a longer period. For example, are new retailing or distribution locations to be opened in the next 12 months that require staff?

Forecasting Workforce Demand:

Putting a good Human Resources plan together requires a business to make a reasonably accurate forecast of workforce size.

Key factors to consider in this forecast are:

- Demand for existing and new products
- Business disposals and product closures
- Introduction of new technology (e.g. new production equipment)

- Cost reduction programmes (most usually involve a reduction in staff numbers somewhere within the business)
- Changes to the business organizational structure
- Business acquisitions, joint ventures, strategic partnerships

Forecasting Workforce Supply

The starting point for estimating supply is the existing workforce: a business should take account of:

- Scheduled changes to the composition of the existing workforce (e.g. promotions; job rotation)
- Normal loss of workforce - e.g. through retirement, "normal" labour turnover
- Potential exceptional factors - e.g. actions of competitors that create problems of staff retention

By comparing the forecast workforce demand and supply - it is possible to compile a forecast of net workforce size. This then needs to be compared with the strategic requirements for the business. The result is the "workforce gap" (which is a forecast of too few or too many workers). The role of HRM is to close the gap!

HRM - Policies to Close the Workforce Gap

The key HRM activities to manage the workforce gap comprise:

- Recruitment plans (how many people, where, what type, how)
- Training plans
- Redundancy plans
- Staff Retention Plans (how the business intends to keep the staff it wants to retain)

What is recruitment?

Recruitment is an important part of a business' human resource planning.

In all businesses, people are a vital resource - and they need to be managed as such.

The overall aim of the recruitment and selection process is to obtain the number and quality of employees that are required in order for the business to achieve its objectives.

There are three main stages in recruitment:

(1) Identify and define the requirements. This involves the preparation of job descriptions, job specifications and person specifications

(2) Attract potential employees - there are various methods for doing this - which are described in a separate revision note

(3) Select and employ the appropriate people from the job applicants

It is important to appreciate that recruitment is a continuous process - because of:

- Staff departures (e.g. retirements, sackings, resignations)

- Changes in business requirements (e.g. new products, markets, expanded operations)
- Changes in business location (a relocation often triggers the need for substantial recruitment)
- Promotions

Recruitment is becoming more and more important in business. In particular, this reflects the increasing need for a well-motivated and flexible workforce that requires less management supervision.

Recruitment - Job Analysis:

The management of a business need to determine what work needs to be done. Job analysis is a key part of this need. Job analysis concentrates on what job holders are expected to do. It provides the basis for a job description, which in turn influences decisions taken on recruitment, training, performance appraisal and reward systems.

What is contained in a job analysis?

A job analysis would typically contain:

Job purpose	What is the job meant to do - and how does this related to other parts of the business?
Job content	Duties and responsibilities
Accountabilities	What results / outputs is the job holder responsible for?
Performance criteria	How will the job holder's performance be measured?
Resource requirements	E.g. equipment, location

How is a job analysis carried out?

Several techniques should be used to complete an effective job analysis:

- Research business documents - e.g. procedures manuals
- Ask relevant managers about the requirements and purpose of the job; what are the key activities; what relationships does the job have with other posts. Develop a comprehensive profile through these discussions
- Interview the existing job holder (if the job already exists) -e.g. ask store managers in retail stores and build a profile from asking those who actually do the job
- Observe the job holders to see what they really do

The key information that needs to be collected includes:

- Job title
- Main duties and tasks
- Targets and performance standards that the job holder is required to achieve
- The amount of supervision that is normally given / freedom of decision-making in the job
- Skills and/or qualifications needed for the job (including personal skills)

What is a job description?
A job description sets out the purpose of a job, where the job fits into the organisation structure, the main accountabilities and responsibilities of the job and the key tasks to be performed.

Why is a job description important?
A job description has four main uses:

Organisation - it defines where the job is positioned in the organisation structure. Who reports to whom?

Recruitment - it provides essential information to potential recruits (and the recruiting team) so that they can determine the right kind of person to do the job (see person specification)

Legal - the job description forms an important part of the legally-binding contract of employment

Appraisal of performance - individual objectives can be set based on the job description

Contents of a Job Description:
The main contents of a job description are:
- **Job Title**: this indicates the role/function that the job plays within an organization, and the level of job within that function (e.g. Finance Director would be a more senior position than Financial Accountant - although both jobs are in the "finance department")
- **Reporting responsibilities**: who is the immediate boss of the job holder?
- **Subordinates**; who reports directly TO the job holder?
- **Main purpose** - who is involved in the job overall
- **Main tasks and accountabilities**: description of the main activities to be undertaken and what the job holder is expected to achieve (e.g. in the case of the Management Accountant, this might include "Complete monthly management accounts by 10th working day of each month and prepare report on all key performance variances")
- **Employment conditions**

Selection Process:-

Having the right people on staff is crucial to the success of an organization. Various selection devices help employers predict which applicants will be successful if hired. These devices aim to be not only valid, but also reliable. *Validity* is proof that the relationship between the selection device and some relevant job criterion exists. *Reliability* is an indicator that the device measures the same thing consistently. For example, it would be appropriate to give a keyboarding test to a candidate applying for a job as an administrative assistant. However, it would not be valid to give a keyboarding test to a candidate for a job as a physical education teacher. If a keyboarding test is given to the same individual on two separate occasions, the results should be similar. To be effective predictors, a selection device must possess an acceptable level of consistency.

Application forms:
For most employers, the application form is the first step in the selection process. Application forms provide a record of salient information about applicants for positions, and also furnish data for personnel research. Interviewers may use responses from the application for follow-up questions during an interview.

These forms range from requests for basic information, such as names, addresses, and telephone numbers, to comprehensive personal history profiles detailing applicants' education, job experience skills, and accomplishments.

Managers should make sure that their application forms do not ask questions that are irrelevant to job success, or these questions may create an adverse impact on protected groups. For example, employers should not ask whether an applicant rents or owns his or her own home, because an applicant's response may adversely affect his or her chances at the job. Minorities and women may be less likely to own a home, and home ownership is probably unrelated to job performance.

On the other hand, asking about the CA exam for an accounting position is appropriate, even if only one-half of all female or minority applicants have taken the exam versus nine-tenths of male applicants.

Testing:
Testing is another method of selecting competent future employees. These tests must be valid and reliable. A manager needs to make sure that the test measures only job-relevant dimensions of applicants.

Most tests focus on specific job-related aptitudes and skills, such as math or motor skills. Typical types of exams include the following:

- **Integrity tests** measure factors such as dependability, carefulness, responsibility, and honesty. These tests are used to learn about the attitudes of applicants toward a variety of job-related subjects. Since the passage of the Employee Polygraph Protection Act in 1988, polygraph (lie detector) tests have been effectively banned in employment situations. In their place, attitude tests are being used to assess attitudes about honesty and, presumably, on-the-job behaviors.

- **Personality tests** measure personality or temperament. These tests are among the least reliable. Personality tests are problematic and not very valid, because little or no relationship exists between personality and performance.
- **Knowledge tests** are more reliable than personality tests because they measure an applicant's comprehension or knowledge of a subject. A math test for an accountant and a weather test for a pilot are examples. Human relations specialists must be able to demonstrate that the test reflects the knowledge needed to perform the job. For example, a teacher hired to teach math should not be given a keyboarding test.
- **Performance simulation tests** are increasing in popularity. Based on job analysis data, they more easily meet the requirement of job relatedness than written tests. Performance simulation tests are made up of actual job behaviors. The best-known performance simulation test is known as work sampling, and other credible simulation processes are performed at assessment centers.
- An *assessment* is a selection technique that examines candidates' handling of simulated job situations and evaluates a candidate's potential by observing his or her performance in experiential activities designed to simulate daily work.
    - **Assessment centers,** where work sampling is often completed, utilize line executives, supervisors, or trained psychologists to evaluate candidates as they go through exercises that simulate real problems that these candidates would confront on their jobs. Activities may include interviews, problem-solving exercises, group discussions, and business-decision games. Assessment centers have consistently demonstrated results that accurately predict later job performance in managerial positions.
    - **Work sampling** is an effort to create a miniature replica of a job, giving applicants the chance to demonstrate that they possess the necessary talents by actually doing the tasks.

Interviews:

Another widely used selection technique is the *interview,* a formal, in-depth conversation conducted to evaluate an applicant's acceptability. In general, the interviewer seeks to answer three broad questions:

1. Can the applicant do the job?
2. Will the applicant do the job?
3. How does the applicant compare with others who are being considered for the job?

Interviews are popular because of their flexibility. They can be adapted to unskilled, skilled, managerial, and staff employees. They also allow a two-way exchange of information where interviewers can learn about the applicant and the applicant can learn about the employer. Interviews do have some shortcomings, however. The most noticeable flaws are in the areas of reliability and validity. Good reliability means that the interpretation of the interview results does not vary from interviewer to interviewer. Reliability is improved when identical questions are asked. The validity of interviews is often questionable because few departments use standardized questions.

Managers can boost the reliability and validity of selection interviews by planning the interviews, establishing rapport, closing the interview with time for questions, and reviewing the interview as soon as possible after its conclusion.

Other selection techniques:-
Reference checking and health exams are two other important selection techniques that help in the staffing decision.

- **Reference checking** allows employers to verify information supplied by the candidate. However, obtaining information about potential candidates is often difficult because of privacy laws and employer concerns about defamation lawsuits.
- **Health exams** identify health problems that increase absenteeism and accidents, as well as detecting diseases that may be unknown to the applicant.

Training - Introduction
Training and personal development is an important method for a business to improve the performance of employees.

Training starts with a strategy:
It is important that a business provides training that is consistent with the business strategy. The main steps in developing a training strategy are to:
- Identify the skills and abilities needed by employees;
- Draw up an action plan to show how investment in training and development will help meet business goals and objectives;
- Implement the plan, monitoring progress and training effectiveness

Benefits of training to a business:
The main benefits to a business of a well-trained workforce are:

- Better productivity (and, therefore, lower production / operating costs)
- Higher quality
- More flexibility - training helps employees develop a variety of skills. Multi-skilling is only possible if the workforce is well trained
- Less supervision - lower supervision and management costs if employees can get on with their jobs. This might also improve motivation - through greater empowerment
- More successful recruitment and employee retention - businesses with a good reputation for training are likely to find it easier to attract good quality staff - and then keep them
- Help in achieving change - businesses with strong training systems and culture find it easier to implement change programmes

What training cannot solve
it is tempting to think that training is the solution to many if not all business problems. However, there are some things that training can rarely solve: these include:
- Poor management (although management training might help!)
- Poor job design
- Ineffective or inefficient equipment, production organisation
- Recruitment

If training is so important, why do some businesses invest so little in it?

Ideally training should be seen as an investment in the future of the business. it takes time for the effects of training to impact business performance.

Some businesses are reluctant to spend on training because:

- They fear employees will be poached by competitors (who will then benefit from the training)
- A desire to minimise short-term costs
- They cannot make a justifiable investment case

Orientation and Training Programs:

Once employees are selected, they must be prepared to do their jobs, which is when orientation and training come in. **Orientation** means providing new employees with basic information about the employer. Training programs are used to ensure that the new employee has the basic knowledge required to perform the job satisfactorily.

Orientation and training programs are important components in the processes of developing a committed and flexible high-potential workforce and socializing new employees.

In addition, these programs can save employers money, providing big returns to an organization, because an organization that invests money to train its employees results in both the employees and the organization enjoying the dividends.

Unfortunately, orientation and training programs are often overlooked. A recent U.S. study, for example, found that 57 percent of employers reported that although employees' skill requirements had increased over a three-year period, only 20 percent of employees were fully proficient in their jobs.

Orientation:

Orientation programs not only improve the rate at which employees are able to perform their jobs but also help employees satisfy their personal desires to feel they are part of the organization's social fabric. The HR department generally orients newcomers to broad organizational issues and fringe benefits. Supervisors complete the orientation process by introducing new employees to coworkers and others involved in the job. A buddy or mentor may be assigned to continue the process.

Training needs:

Simply hiring and placing employees in jobs does not ensure their success. In fact, even tenured employees may need training, because of changes in the business environment. Here are some changes that may signal that current employees need training:

- Introduction of new equipment or processes
- A change in the employee's job responsibilities
- A drop in an employee's productivity or in the quality of output
- An increase in safety violations or accidents
- An increased number of questions
- Complaints by customers or coworkers

Once managers decide that their employees need training, these managers need to develop clear training goals that outline anticipated results. These managers must also be able to clearly communicate these goals to employees.

Keep in mind that training is only one response to a performance problem. If the problem is lack of motivation, a poorly designed job, or an external condition (such as a family problem), training is not likely to offer much help.

Types of training:
After specific training goals have been established, training sessions should be scheduled to provide the employee an opportunity to meet his or her goals. The following are typical training programs provided by employers:

- **Basic literacy training.** Ninety million American adults have limited literacy skills, and about 40 million can read little or not at all. Because most workplace demands require a tenth- or eleventh-grade reading level (and about 20 percent of Americans between the ages of 21 and 25 can't read at even an eighth-grade level), organizations increasingly need to provide basic literacy training in the areas of reading and math skills to their employees.
- **Technical training.** New technology and structural designs have increased the need to upgrade and improve employees' technical skills in both white-collar and blue-collar jobs.
- **Interpersonal skills training.** Most employees belong to a work team, and their work performance depends on their abilities to effectively interact with their coworkers. Interpersonal skills training help employees build communication skills.
- **Problem-solving training.** Today's employees often work as members of self-managed teams who are responsible for solving their own problems. Problem-solving training has become a basic part of almost every organizational effort to introduce self-managed teams or implement Total Quality Management (TQM).
- **Diversity training.** As one of the fastest growing areas of training, diversity training increases awareness and builds cultural sensitivity skills. Awareness training tries to create an understanding of the need for, and meaning of, managing and valuing diversity. Skill-building training educates employees about specific cultural differences in the workplace.

Training methods:
Most training takes place on the job due to the simplicity and lower cost of **on-the-job** training methods. Two popular types of on-the-job training include the following:

- **Job rotation.** By assigning people to different jobs or tasks to different people on a temporary basis, employers can add variety and expose people to the dependence that one job has on others. Job rotation can help stimulate people to higher levels of contributions, renew people's interest and enthusiasm, and encourage them to work more as a team.

- **Mentoring programs.** A new employee frequently learns his or her job under the guidance of a seasoned veteran. In the trades, this type of training is usually called an apprenticeship. In white-collar jobs, it is called a coaching or mentoring relationship. In each, the new employee works under the observation of an experienced worker.

Sometimes, training goals cannot be met through on-the-job training; the employer needs to look to other resources. *Off-the-job training* can rely on outside consultants, local college faculty, or in-house personnel. The more popular off-the-job training methods are classroom lectures, videos, and simulation exercises. Thanks to new technologies, employers can now facilitate some training, such as tutorials, on the employees' own computers, reducing the overall costs. Regardless of the method selected, effective training should be individualized. Some people absorb information better when they read about it, others learn best by observation, and still others learn better when they hear the information. These different learning styles are not mutually exclusive. When training is designed around the preferred learning style of an employee, the benefits of training are maximized because employees are able to retain more of what they learn.

In addition to training, employers should offer **development plans,** which include a series of steps that can help employees acquire skills to reach long-term goals, such as a job promotion. Training, on the other hand, is immediate and specific to a current job.

What is induction training?
Induction training is training given to new employees. The purpose of the induction period (which may be a few hours or a few days) is to help a new employee settle down quickly into the job by becoming familiar with the people, the surroundings, the job and the business.
It is important to give a new employee a good impression on the first day of work. However, the induction programme should not end there. It is also important to have a systematic induction programme, spread out over several days, to cover all the ground in the shortest effective time.

Devising an effective induction training programme
The induction programme should be drawn up in consultation with all those involved. Depending on the size and complexity of the business this may include:

- Senior management (including directors)
- Supervisors or line managers
- Personnel officers
- Health and Safety managers
- Employee or trade union representatives

What induction training involves:
Usually induction involves the new employee meeting and listening to different people talk about aspects of the business. Other methods include written information, audio visual aids and group discussion.
The following items should be covered in an effective induction programme:

- Introduction to the business/department and its personnel/management structure
- Layout of the buildings (factory / offices)
- Terms and conditions of employment (explaining the contract of employment)

- Relevant personnel policies, such as training, promotion and health and safety
- Business rules and procedures
- Arrangements for employee involvement and communication
- Welfare and employee benefits or facilities

Training - On the Job:-

As the name implies, on the job training involves employees training at their place or work.
The most common methods of on the job training are:

- Demonstration / instruction; showing the trainee how to do the job
- Coaching - a more intensive method of training that involves a close working relationship between an experienced employee and the trainee
- Job rotation - where the trainee is given several jobs in succession, to gain experience of a wide range of activities (e.g. a graduate management trainee might spend periods in several different departments)
- Projects - employees join a project team - which gives them exposure to other parts of the business and allow them to take part in new activities. Most successful project teams are "multi-disciplinary"

Advantages of on the job training:-

- Generally more cost effective
- Less disruptive to the business - i.e. employees are not away from work
- Training an employee in their own working environment, with equipment they are familiar with and people they know can help they gain direct experience to a standard approved by the employer
- Employees may find that they have more confidence if they are supervised and guided as they feel they are doing the job right
- Employees may feel more at ease being taught or supervised by people they know rather than complete strangers at an external training course
- Managers or supervisors can assess improvement and progress over a period of time and this makes it easier to identify a problem intervene and resolve problems quickly
- On the job training is also productive, as the employee is still working as they are learning
- As training progresses and the employee begins to feel more confident, this confidence would allow them to work at a higher standard and ultimately be more productive
- Training "on-the-job" provides an opportunity to get to know staff they might not normally talk to

Disadvantages of on the job training

- Teaching or coaching is a specialist skill in itself; unless the trainer has the skills and knowledge to train, this would mean that the training will not be done to a sufficient standard
- The trainer may not be given the time to spend with the employee to teach them properly, which would mean substandard training has been achieved and learning has only been half done
- The trainer may possess bad habits and pass these on to the trainee

Training - off the job:-
Off the job training involves employees taking training courses away from their place of work. This is often also referred to as "formal training". Off the job training courses might be run by the business' training department or by external providers.

The main types of off the job training courses are:

- Day release (where the employee takes time out from normal working hours to attend a local college or training centre)
- Distance learning / evening classes
- Revision courses (e.g. in the accountancy profession, student employees are given blocks of around 5-6 weeks off on pre-exam courses)
- Block release courses - which may involve several weeks at a local college
- Sandwich courses - where the employee spends a longer period of time at college (e.g. six months) before returning to work
- Sponsored courses in higher education
- Self-study, computer-based training (an increasingly popular option - given that attendance at external courses can involve heavy cost)

Advantages of off-the-job training:

- Use of specialist trainers and accommodation
- Employee can focus on the training - and not be distracted by work
- Opportunity to mix with employees from other businesses

Disadvantages of off-the-job training:

- Employee needs to be motivated to learn
- May not be directly relevant to the employee's job
- Costs (transport, course fees, examination fees, materials, accommodation)

Evaluating Employee Performance:
Employee performance should be evaluated regularly. Employees want feedback—they want to know what their supervisors think about their work. Regular performance evaluations not only provide feedback to employees, but also provide employees with an opportunity to correct deficiencies. Evaluations or reviews also help in making key personnel decisions, such as the following:

- Justifying promotions, transfers, and terminations
- Identifying training needs
- Providing feedback to employees on their performance
- Determining necessary pay adjustments

Most organizations utilize employee evaluation systems; one such system is known as a **performance appraisal.** A performance appraisal is a formal, structured system designed to measure the actual job performance of an employee against designated performance standards. Although performance appraisals systems vary by organizations, all employee evaluations should have the following three components:

- Specific, job-related criteria against which performance can be compared
- A rating scale that lets employees know how well they're meeting the criteria
- Objective methods, forms, and procedures to determine the rating

Traditionally, an employee's immediate boss conducts his or her performance appraisal. However, some organizations use other devices, such as peer evaluations, self-appraisals, and even customer evaluations, for conducting this important task.

The latest approach to performance evaluation is the use of 360-degree feedback. The *360-degree feedback appraisal* provides performance feedback from the full circle of daily contacts that an employee may have. This method of performance appraisal fits well into organizations that have introduced teams, employee involvement, and TQM programs.

Employee Appraisal - 360 Degree Feedback:

In the revision note on appraisal and performance review we concentrated on the assessment of employees by managers. But how should management be assessed? After all, key management have a vital impact on the performance of a business – and they too will have development and training needs. One increasingly popular method of managerial assessment is 360-degree feedback.

360-degree feedback is an assessment process used to improve managerial effectiveness by providing the manager with a more complete assessment of their effectiveness, and their performance and development needs. The process involves obtaining feedback from the manager's key contacts. These would normally include:

- The manager him/herself
- Subordinates (employees who work for the manager)
- Peers (fellow managers)
- Manager (senior management)
- Customers
- Suppliers

Feedback is normally obtained by using a questionnaire which asks participants to rate the individual according to observed behaviours - usually managerial or business-specific competencies. The 360-degree process will not suit all companies. You should assess how well it would fit with your current culture before launching a scheme and a pilot scheme is worth

building into your programme. Communicating the scheme, it's purpose and benefits to all those involved will be a key factor in reducing the participants' fears and gaining their commitment to any new scheme. Presenting the results of the appraisal to managers in a constructive way is critical to the success of the process. All feedback, positive and critical, should be presented, with the aim of highlighting and acting on areas for development.

Results can be aggregated to give you some feedback on organisational strengths and weaknesses in relation to your business objectives and training strategy

Compensating Employees:-

Employee **compensation** refers to all work-related payments, including wages, commissions, insurance, and time off.

Wages and salaries are the most obvious forms of compensation and are based on job evaluations that determine the relative values of jobs to the organization. Under the hourly wage system, employees are paid a fixed amount for each hour they work. The system is generally used for lower skilled occupations. Salaried employees receive a fixed sum per week or month, no matter how many hours they work. Most professional positions are salaried; the reality is that these jobholders typically work in excess of a "minimum" 40-hour workweek. Some occupations are compensated through incentive pay programs. Salespeople typically receive commissions based upon the quantities of goods they sell. Some sales compensation plans contain elements of both a salary and commission. A production worker's pay may be based upon some combination of an hourly wage and an incentive for each "piece" he or she makes. Some employees are offered merit awards as a reward for sustained superior performance.

Employee benefits are supplements to wages or pay. Some benefits, such as unemployment and worker's compensation, are legally mandated. Other benefits are optional and help build employee loyalty to an organization, including the following:

- Health insurance
- Pension plans
- Employee discounts
- Vacation, sick, and personal days
- Bonuses (incentive money paid to employees in addition to their regular compensation)
- Profit-sharing (money from a portion of the company profits used to supplement regular compensation)
- Stock options (a plan that permits employees to buy shares of stock in the employee's firm at or below the present market value)

A top management executive is given benefits unique to his or her status. Additional executive benefits are termed perquisites (perks).

Sexual Harassment

Steve, Vice President of Production and Paula's Manager

Richard, Paula's coworker and a Manager in Production

Paula, a recent college graduate, is a newly hired manager in the Production Department of a medium-sized US. company. The first woman selected for this production training position, Paula takes her work very seriously. She has been with the organization for three months. For the first two months, she performed her duties very well, but during the last month, Steve, her boss, has noticed a change in Paula. She seems more tense and uneasy and is not concentrating on her work as conscientiously as she previously did

During the last month, Paula has been continually harassed by Richard, a coworker. At first she tried ignoring his jokes and sexual banter. However, his persistence has caused Paula to have very uncomfortable feelings while she is at work and at home as well. Paula looked into the employee's handbook concerning sexual harassment policies and found none. She really did not know what to do.

Finally, after noticing her continually declining work, Steve asked her what was bothering her. She told him the problem and showed him information concerning the EEOC laws dealing with sexual harassment in the workplace she had found in a human resources textbook from college. She also said that she was considering taking action against Richard if his actions continued.

Steve told her he was totally unaware of the problem but agreed something should be done. He asked her to investigate what the organization needed to do to stop this from occurring now and also to anyone else in the future. He also thanked Paula for her patience and honesty and also promised her that something would be done.

A Good Team Player

Topic: Leadership

Characters: Steven, Assistant Department Manager

Kristin, Newly appointed supervisor of Steven's work section

Having done well as a staff accountant in the accounts payable section of a major industrial firm for several years since his graduation from college, Steven felt that he had learned much about the “ins” and “outs” of survival in an intensely bureaucratic organization. It is thus not surprising that he was relaxed and unconcerned about his circumstances at the company as he entered the employee lounge to attend the late-afternoon welcoming reception for his new supervisor.

The new manager of accounts payable, Kristin, had been transferred to Steven’s division from a similar position in another subsidiary of the company because of her proven talent for organizing and improving the efficiency of operations there. A no-nonsense type of manager, Kristin was experienced and determined to perform her new assignment with the same vigor that had brought her so much success throughout her career.

At the reception, Kristin circulated through the room, introducing herself to her new subordinates and asking each of them if they had any suggestions that would help make the payables section a better place to work. When she approached Steven, he told her about something that had been on his mind lately: that people seemed to him to gain promotions and be given opportunities to work overtime based on who liked them, and not on the quality of their work. In reply, Kristin politely stated that she would do everything that she could to see that whatever it was he was referring to would have no place in the team she would lead.

Upon his arrival at work the next day, Steven received a phone call from Kristin’s secretary asking that he meet with his new boss later that morning. He had barely entered her office for the meeting when she looked him straight in the eye and said, “I will not tolerate individuals in this organization who are not good team players. Yesterday afternoon you led

me to believe that there are people in this office who are not acting in the best interests of the company, and I want to know who. I want you to tell me the names of the managers you were referring to note, and keep me informed if you see anyone hurting this company, or I've got to think that maybe you're part of the problems around here." Stunned by both the tone and content of her statement, Steven quickly tried to think of a way to respond.

Discussion Questions

1. State the importance of HRM?

1. To achieve competitive advantage over other organisation.
2. To improve the efficiency of the organisation.
3. For the fuller utilization of available resources.
4. Cost effective administration.

2. State the importance of staffing:-

1. It helps to make use of the Organisational resources.
2. It provides effective and efficient personals to the organisation.
3. Helps to discover talented and competent persons.
4. Helps to ensure uninterrupted flow of business.

3. Cross Relationship

It arises because of mutual interaction of subordinates working under common superior normally they are assuming this to be 6.

4. Scalar Principle

The clear the line of authority from the ultimate management position in an enterprise to every subordinate position, the clearer will be responsibility for decision making and the more effective will be the organisation communication.

5. Functional Authority

It is the right which is delegated to an individual or a department to control specified processes practices, policies or other matters relating to activities, undertaken by persons in other departments.

6. Limitations of staff:-

1. Danger of undertaking line authority
2. Lack of staff responsibility
3. Thinking in a vacuum
4. Managerial problems

7. What is job enrichment?

Job enrichment is therefore based on the assumption that in order to motivate personnel, the job itself must provide opportunities for the achievement, recognition, responsibility, advancement and growth.

8. What are the limitations of job enrichment?

1. Job enrichment is based on the assumption that workers want more responsibility. But, in practice, most of the workers may prefer less responsible jobs with good social interaction. Such workers may show feelings of inadequacy and fear of failure to job enrichment.
2. Some jobs cannot be enriched beyond a certain point.

9. Give the required guidelines to make effective job enrichment.

1. Use job enrichment selectively after taking into account situational variables such as job characteristics, personal characteristics of employees, Organisational level etc.
2. Provide a supportive climate for innovation and change.

Chapter 8:- Leadership

Leadership Defined:-

Leadership is the process where a person exerts influence over others and inspires, motivates and directs their activities to achieve goals. Effective leadership increases the firm's ability to meet new challenges.

Leader and Leadership: - The distinction between leader and leadership is important, but potentially confusing. The leader is an individual; leadership is the function or activity this individual performs.

Leadership and Management:-

The word leader is often used interchangeably with the word manager to describe those individuals in an organization who have positions of formal authority, regardless of how they actually act in those jobs. But just because a manager is supposed to be a formal leader in an organization doesn't mean that he or she exercises leadership.

An issue often debated among business professionals is whether leadership is a different function and activity from management. Harvard's John Kotter says that management is about coping with complexity, and leadership, in contrast, is about coping with change. He also states that leadership is an important part of management, but only a part; management also requires planning, organizing, staffing, and controlling. Management produces a degree of predictability and order. Leadership produces change. Kotter believes that most organizations are under-led and over-managed. He sees both strong leadership and strong management as necessary for optimal organizational effectiveness.

Leader v/s Manager:-

Manager Characteristics	Leader Characteristics
• Administers • A copy • Maintains • Focuses on systems and structures • Relies on control • Short range view • Asks how and when • Eye on bottom line • Imitates • Accepts the status quo • Classic good soldiers • Does things right	• Innovates • An original • Develops • Focuses on people • Inspires trust • Long range perspective • Asks what and why • Eye on horizon • Originates • Challenges the status quo • Own person • Does the right thing

Traits theory of leadership:-

Trait theory assumes that people inherit certain qualities and traits that make them better suited

to leadership. Trait theories often identify particular personality or behavioral characteristics shared by leaders. But if particular traits are key features of leadership, how do we explain people who possess those qualities but are not leaders? This question is one of the difficulties in using trait theories to explain leadership.

Assumptions

People are born with inherited traits.
Some traits are particularly suited to leadership.
People who make good leaders have the right (or sufficient) combination of traits.

Description

Early research on leadership was based on the psychological focus of the day, which was of people having inherited characteristics or traits. Attention was thus put on discovering these traits, often by studying successful leaders, but with the underlying assumption that if other people could also be found with these traits, then they, too, could also become great leaders. Stogdill (1974) identified the following traits and skills as critical to leaders.

Traits	Skills
• Adaptable to situations • Alert to social environment • Ambitious and achievement-orientated • Assertive • Cooperative • Decisive • Dependable • Dominant (desire to influence others) • Energetic (high activity level) • Persistent • Self-confident • Tolerant of stress • Willing to assume responsibility	• Clever (intelligent) • Conceptually skilled • Creative • Diplomatic and tactful • Fluent in speaking • Knowledgeable about group task • Organised (administrative ability) • Persuasive • Socially skilled

McCall and Lombardo (1983) researched both success and failure identified four primary traits by which leaders could succeed or 'derail':

- *Emotional stability and composure*: Calm, confident and predictable, particularly when under stress.

- *Admitting error*: Owning up to mistakes, rather than putting energy into covering up.
- *Good interpersonal skills*: Able to communicate and persuade others without resort to negative or coercive tactics.
- *Intellectual breadth*: Able to understand a wide range of areas, rather than having a narrow (and narrow-minded) area of expertise.

A number of traits that appear regularly in leaders include ambition, energy, the desire to lead, self-confidence, and intelligence. Although certain traits are helpful, these attributes provide no guarantees that a person possessing them is an effective leader. Underlying the trait approach is the assumption that some people are natural leaders and are endowed with certain traits not possessed by other individuals. This research compared successful and unsuccessful leaders to see how they differed in physical characteristics, personality, and ability.

A recent published analysis of leadership traits (S.A. Kirkpatrick and E.A. Locke, *"Leadership: Do Traits Really Matter?"* Academy of Management Executive 5 [1991]) identified six core characteristics that the majority of effective leaders possess:

- **Drive.** Leaders are ambitious and take initiative.
- **Motivation.** Leaders want to lead and are willing to take charge.
- **Honesty and integrity.** Leaders are truthful and do what they say they will do.
- **Self-confidence.** Leaders are assertive and decisive and enjoy taking risks. They admit mistakes and foster trust and commitment to a vision. Leaders are emotionally stable rather than recklessly adventurous.
- **Cognitive ability.** Leaders are intelligent, perceptive, and conceptually skilled, but are not necessarily geniuses. They show analytical ability, good judgment, and the capacity to think strategically.
- **Business knowledge.** Leaders tend to have technical expertise in their businesses.

Traits do a better job at predicting that a manger may be an effective leader rather than actually distinguishing between an effective or ineffective leader. Because workplace situations vary, leadership requirements vary. As a result, researchers began to examine what effective leaders do rather than what effective leaders are.

Leadership skills:-

Whereas traits are the characteristics of leaders, skills are the knowledge and abilities, or *competencies*, of leaders. The competencies a leader needs depends upon the situation. These competencies depend on a variety of factors:

- The number of people following the leader
- The extent of the leader's leadership skills
- The leader's basic nature and values

- The group or organization's background, such as whether it's for profit or not-for-profit, new or long established, large or small
- The particular culture (or values and associated behaviors) of whomever is being led

To help managers refine these skills, leadership-training programs typically propose guidelines for making decisions, solving problems, exercising power and influence, and building trust.

Peter Drucker, one of the best-known contemporary management theorists, offers a pragmatic approach to leadership in the workplace. He believes that consistency is the key to good leadership, and that successful leaders share the following three abilities which are based on what he refers to as good old-fashioned hard work:

- **To define and establish a sense of mission.** Good leaders set goals, priorities, and standards, making sure that these objectives not only are communicated but maintained.
- **To accept leadership as a responsibility rather than a rank.** Good leaders aren't afraid to surround themselves with talented, capable people; they do not blame others when things go wrong.
- **To earn and keep the trust of others.** Good leaders have personal integrity and inspire trust among their followers; their actions are consistent with what they say.

In Drucker's words, "Effective leadership is not based on being clever; it is based primarily on being consistent."

Very simply put, leading is establishing direction and influencing others to follow that direction. Keep in mind that no list of leadership traits and skills is definitive because no two successful leaders are alike. What is important is that leaders exhibit some positive characteristics that make them effective managers at any level in an organization.

Power versus authority:-
Effective leaders develop and use power, or the ability to influence others. The traditional manager's power comes from his or her position within the organization. Legitimate, reward, and coercive are all forms of power used by managers to change employee behavior and are defined as follows:

- **Legitimate power** stems from a formal management position in an organization and the authority granted to it. Subordinates accept this as a legitimate source of power and comply with it.

- **Reward power** stems from the authority to reward others. Managers can give formal rewards, such as pay increases or promotions, and may also use praise, attention, and recognition to influence behavior.
- **Coercive power** is the opposite of reward power and stems from the authority to punish or to recommend punishment. Managers have coercive power when they have the right to fire or demote employees, criticize them, withhold pay increases, give reprimands, make negative entries in employee files, and so on.

Keep in mind that different types of position power receive different responses in followers. Legitimate power and reward power are most likely to generate compliance, where workers obey orders even though they may personally disagree with them. Coercive power most often generates resistance, which may lead workers to deliberately avoid carrying out instructions or to disobey orders.

Unlike external sources of position power, personal power most often comes from internal sources, such as a person's special knowledge or personality characteristics. Personal power is the tool of a leader. Subordinates follow a leader because of respect, admiration, or caring they feel for this individual and his or her ideas. The following two types of personal power exist:

- **Expert power** results from a leader's special knowledge or skills regarding the tasks performed by followers. When a leader is a true expert, subordinates tend to go along quickly with his or her recommendations.
- **Referent power** results from leadership characteristics that command identification, respect, and admiration from subordinates who then desire to emulate the leader. When workers admire a supervisor because of the way he or she deals with them, the influence is based on referent power. Referent power depends on a leader's personal characteristics rather than on his or her formal title or position, and is most visible in the area of charismatic leadership.

The most common follower response to expert power and referent power is commitment. Commitment means that workers share the leader's point of view and enthusiastically carry out instructions. Needless to say, commitment is preferred to compliance or resistance. Commitment helps followers overcome fear of change, and it is especially important in those instances.

Keep in mind that the different types of power described in this section are interrelated. Most leaders use a combination of these types of power, depending on the leadership style used. Authoritarian leaders, for example, use a mixture of legitimate, coercive, and reward powers to dictate the policies, plans, and activities of a group. In comparison, a participative leader uses mainly referent power, involving all members of the group in the decision-making process.

Leadership styles:-
No matter what their traits or skills, leaders carry out their roles in a wide variety of styles. Some leaders are autocratic. Others are democratic. Some are participatory, and others are hands off. Often, the leadership style depends on the situation, including where the organization is in its life cycle.

The following are common leadership styles:

- **Autocratic.** The manager makes all the decisions and dominates team members. This approach generally results in passive resistance from team members and requires continual pressure and direction from the leader in order to get things done. Generally, this approach is not a good way to get the best performance from a team. However, this style may be appropriate when urgent action is necessary or when subordinates actually prefer this style.

- **Participative.** The manager involves the subordinates in decision making by consulting team members (while still maintaining control), which encourages employee ownership for the decisions.

  A good participative leader encourages participation and delegates wisely, but never loses sight of the fact that he or she bears the crucial responsibility of leadership. The leader values group discussions and input from team members; he or she maximizes the members' strong points in order to obtain the best performance from the entire team. The participative leader motivates team members by empowering them to direct themselves; he or she guides them with a loose rein. The downside, however, is that a participative leader may be seen as unsure, and team members may feel that everything is a matter for group discussion and decision.

- **Laissez-faire** (also called free-rein). In this hands-off approach, the leader encourages team members to function independently and work out their problems by themselves, although he or she is available for advice and assistance. The leader usually has little control over team members, leaving them to sort out their roles and tackle their work assignments without personally participating in these processes. In general, this approach leaves the team floundering with little direction or motivation. Laissez-faire is usually only appropriate when the team is highly motivated and skilled, and has a history of producing excellent work.

Many experts believe that overall leadership style depends largely on a manager's beliefs, values, and assumptions. How managers approach the following three elements—motivation, decision making, and task orientation—affect their leadership styles:

- **Motivation.** Leaders influence others to reach goals through their approaches to motivation. They can use either positive or negative motivation. A positive style uses praise, recognition, and rewards, and increases employee security and responsibility. A negative style uses punishment, penalties, potential job loss, suspension, threats, and reprimands.
- **Decision making.** The second element of a manager's leadership style is the degree of decision authority the manager grants employees—ranging from no involvement to group decision making.
- **Task and employee orientation.** The final element of leadership style is the manager's perspective on the most effective way to get the work done. Managers who favor task orientation emphasize getting work done by using better methods or equipment,

controlling the work environment, assigning and organizing work, and monitoring performance. Managers who favor employee orientation emphasize getting work done through meeting the human needs of subordinates. Teamwork, positive relationships, trust, and problem solving are the major focuses of the employee-oriented manager.

Keep in mind that managers may exhibit both task and employee orientations to some degree.

The behavioral theories of leadership:-

Michigan Studies (Rensis Likert):-

Identified two forms of leader behavior

1) ***Job-centered behavior***—managers who pay close attention to subordinates' work, explain work procedures, and are keenly interested in performance.
2) ***Employee-centered behavior***—managers who focus on the development of cohesive work groups and employee satisfaction.
3) The two forms of leader behaviors were considered to be at opposite ends of the same continuum.

Ohio Studies:-

A famous series of studies on leadership were done in Ohio State University, starting in the 1950s. They found two critical characteristics either of which could be high or low or were independent of one another.

Consideration:

Consideration is the degree to which a leader acts in a friendly and supportive manner towards his or her subordinates.

Initiating Structure:

This is the degree to which a leader defines and structures his or her role and the roles of the subordinates towards achieving the goals of the group.

The Managerial Grid Model:-

The managerial grid model developed by Robert Blake and Jane Mouton is a behavioral leadership model. On the grid, concern for production is represented on one to nine scale on the horizontal axis (x-axis). Concern for people is represented on one to nine scale on the vertical axis (y-axis). This model identifies five leadership styles with varying concerns for people and production:

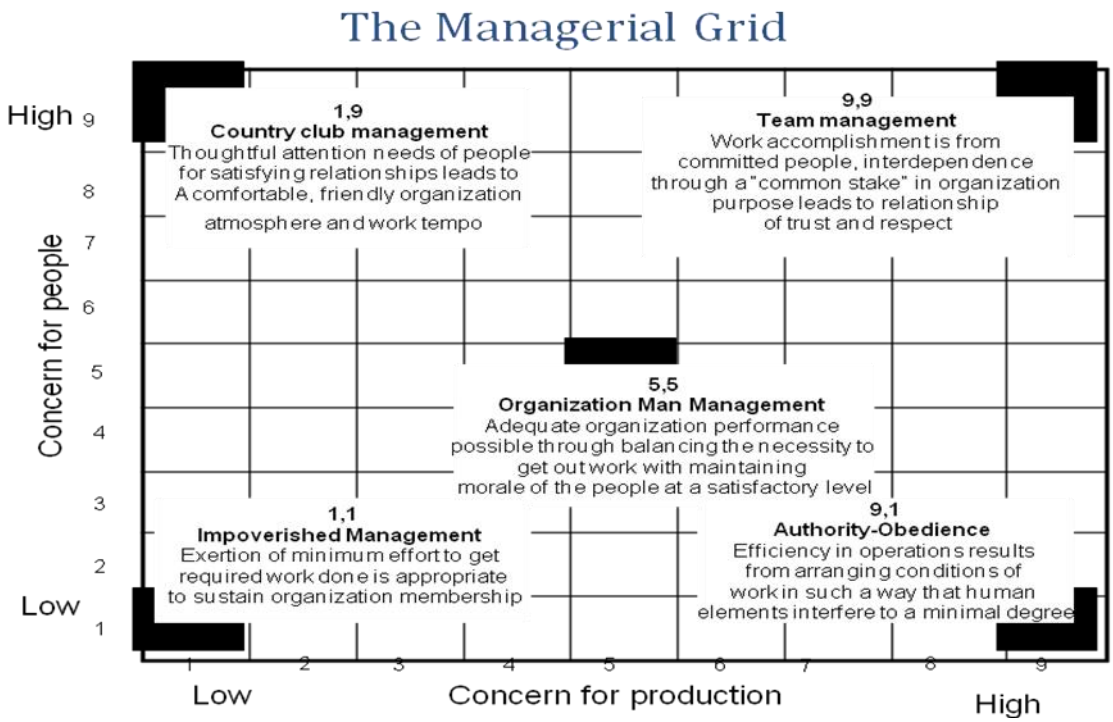


Figure 1 Blake-Mouton Managerial Grid.

- The **impoverished style,** located at the lower left-hand corner of the grid, point (1, 1), is characterized by low concern for both people and production; its primary objective is for managers to stay out of trouble. This style results in disorganization, dissatisfaction and disharmony due to lack of effective leadership.
- The **country club style,** located at the upper left-hand corner of the grid, point (1, 9), is distinguished by high concern for people and a low concern for production; its primary objective is to create a secure and comfortable atmosphere where managers trust that subordinates will respond positively. The manager is almost incapable of employing the more punitive, coercive and legitimate powers. This inability results from fear that using such powers could jeopardize relationships with the other team members.
- The **authoritarian style,** located at the lower right-hand corner of the grid, point (9,1), is identified by high concern for production and low concern for people; its primary objective is to achieve the organization's goals, and employee needs are not relevant in this process. He provides employee with money and expects performance back. There is a little or no allowance for cooperation or collaboration. He uses a coercive and legitimate power to a great degree. This style may achieve high output in the short run but may result in high labor turnover and employee dissatisfaction.
- The **middle-of-the-road style,** located at the middle of the grid, point (5, 5), maintains a balance between workers' needs and the organization's productivity goals; its primary objective is to maintain employee morale at a level sufficient to get the organization's work done. This results in compromises in which neither the production schedules are maintained nor the people needs are fully met.

- The **team style,** located at the upper right-hand of the grid, point (9, 9), is characterized by high concern for people and production; its primary objective is to establish cohesion and foster a feeling of commitment among workers. The manager encourages teamwork and commitment among employees. This style emphasizes making employees feel part of the company-family, and involving them in understanding organizational purpose and determining production needs. This style results in team environment based on trust and respect, which leads to high satisfaction and motivation and high production.

Situational Approaches to Leadership:-
The theme in early approaches to understanding leadership was the desire to identify traits or behaviors that effective leaders had in common. A common set of characteristics proved to be elusive, however. Researchers were continually frustrated by the lack of consistent support for their findings and conclusions. As a result, research began to focus on what style of leadership was most effective in a particular situation. **Contingency** or **situational theories** examine the fit between the leader and the situation and provide guidelines for managers to achieve this effective fit.

The theorists in this section believe that managers choose leadership styles based on leadership situations. Managers adjust their decision-making, orientation, and motivational approaches based upon a unique combination of factors in their situations: characteristics of employees, types of work, organizational structures, personal preferences, and upper-level management's influences.

The following sections describe the three most well-known situational theories.

Fiedler's contingency theory:-
Fred E. Fiedler's contingency theory centers on the belief that there is no best way for managers to lead. Different situations create different leadership style requirements for managers. The style that works in one environment may not work in another.

Fiedler looked at three elements that dictate a leader's situational control. These elements are:

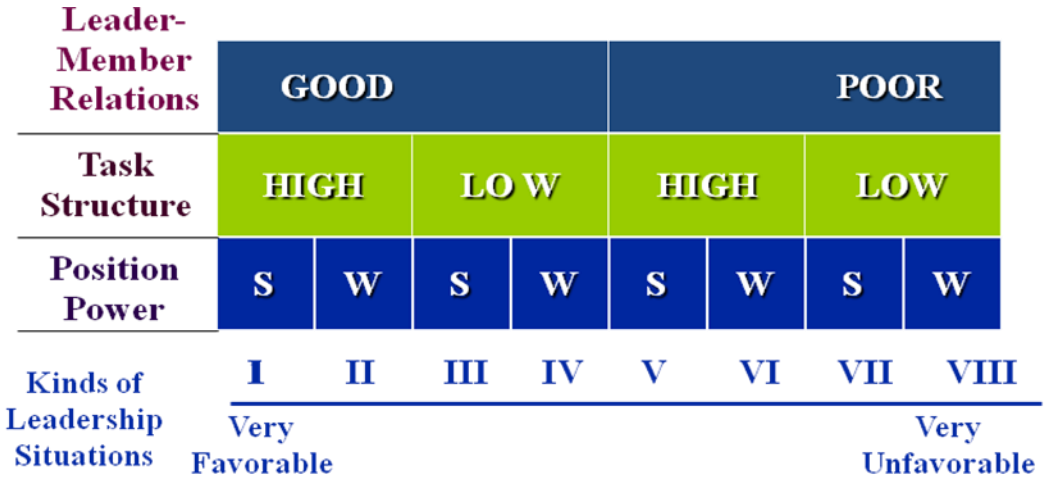
- **Task structure.** Is the job highly structured, fairly unstructured, or somewhere in between? The spelling out in detail (favorable) of what is required of subordinates affects task structure.
- **Leader/member relations.** This element applies to the amount of loyalty, dependability, and support that a leader receives from his or her employees. In a favorable relationship, a manager has a highly formed task structure and is able to reward and/or punish employees without any problems. In an unfavorable relationship, the task structure is usually poorly formed, and the leader possesses limited authority.
- **Positioning power.** Positioning power measures the amount of power or authority a manager perceives the organization has given him or her for the purpose of directing,

rewarding, and punishing subordinates. Positioning powers of managers depends on the taking away (favorable) or increasing (unfavorable) of the decision-making power of employees.

Fiedler then rated managers as to whether they were relationship oriented or task oriented. Task-oriented managers tended to do better in situations with good leader/member relationships, structured tasks, and either weak or strong position power. They also did well when the tasks were unstructured but position power was strong, as well as when the leader/member relations were moderate to poor and the tasks were unstructured. Relationship-oriented managers, on the other hand, do better in all other situations.

The task-motivated style leader experiences pride and satisfaction in task accomplishment for his or her organization, while the relationship-motivated style leader seeks to build interpersonal relations and extend extra help for team development in his or her organization.

Judging whether a leadership style is good or bad can be difficult. Each manager has his or her own preferences for leadership. Task-motivated leaders are at their best when their teams perform successfully—such as achieving new sales records or outperforming major competitors. Relationship-oriented leaders are at their best when greater customer satisfaction is gained and positive company images are established.



Relationship-oriented managers most effective in IV, V, VI, VII.
Task-oriented managers most effective in I, II, III or VIII.

Hersey-Blanchard's situational model:-
The Hersey-Blanchard Model of Situational Leadership, shown in Figure below, is based on the amount of direction (task behavior) and amount of socioemotional support (relationship behavior) a leader must provide given the situation and the level of maturity of the followers.

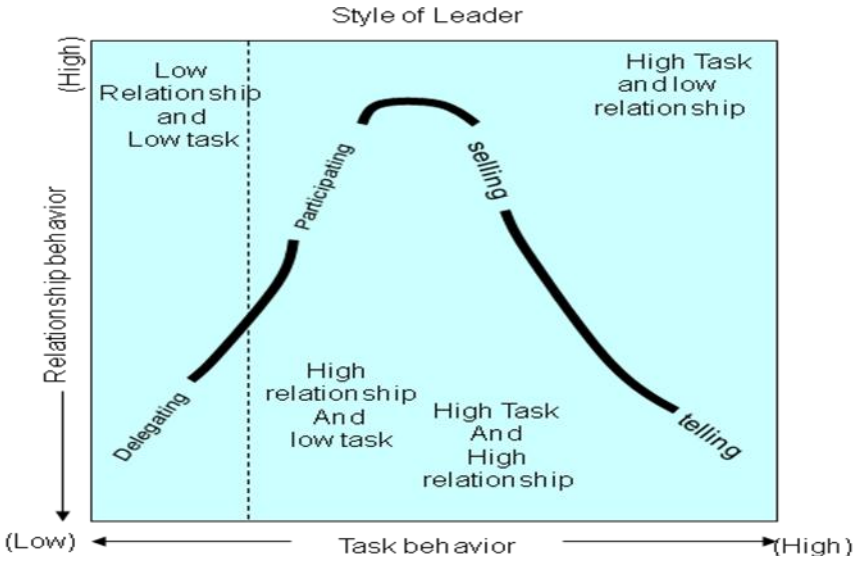


Figure :- Hersey-Blanchard's Model of Situational Leadership.

Task behavior is the extent to which the leader engages in spelling out the duties and responsibilities to an individual or group. This behavior includes telling people what to do, how to do it, when to do it, and where to do it. In task behavior, the leader engages in one-way communication.

Relationship behavior, on the other hand, is the extent to which the leader engages in two-way or multiway communications. This behavior includes listening to, facilitating, and supporting employees. And *maturity* is the willingness and ability of a person to take responsibility for directing his own behavior. Employees tend to have varying degrees of maturity, depending on the specific tasks, functions, or objectives that they attempt to accomplish.

To determine the appropriate leadership style to use in a given situation, a leader must first determine the maturity levels of his or her followers in relationship to the specific task. As employee maturity levels increase, a leader should begin to reduce task behavior and increase relationship behavior until his or her followers reach moderate maturity levels. As the employees move into above-average maturity levels, the leader should decrease not only task behavior but also relationship behavior.

Once maturity levels are identified, a manager can determine the appropriate leadership style: telling, selling, participating, or delegating.

- **Telling.** This style reflects high task/low relationship behavior (S1). The leader provides clear instructions and specific direction. Telling style is best matched with a low follower readiness level.

- **Selling.** This style reflects high task/high relationship behavior (S2). The leader encourages two-way communication and helps build confidence and motivation on the

part of the employee, although the leader still has responsibility and controls decision making. Selling style is best matched with a moderate follower readiness level.

- **Participating.** This style reflects high relationship/low task behavior (S3). With this style, the leader and followers share decision making and no longer need or expect the relationship to be directive. Participating style is best matched with a moderate follower readiness level.
- **Delegating.** This style reflects low relationship/low task behavior (S4). Delegating style is appropriate for leaders whose followers are ready to accomplish a particular task and are both competent and motivated to take full responsibility. This style is best matched with a high follower readiness level.

House's path-goal theory:

The path-goal theory, developed by Robert House, is based on the expectancy theory of motivation. A manager's job is to coach or guide workers to choose the best paths for reaching their goals. Based on the goal-setting theory, leaders engage in different types of leadership behaviors depending on the nature and demands of a particular situation.

A leader's behavior is acceptable to subordinates when viewed as a source of satisfaction. He or she is motivational when need satisfaction is contingent on performance; this leader facilitates, coaches, and rewards effective performance. Path-goal theory identifies several leadership styles:

- **Achievement-oriented.** The leader sets challenging goals for followers, expects them to perform at their highest levels, and shows confidence in their abilities to meet these expectations. This style is appropriate when followers lack job challenges.
- **Directive.** The leader lets followers know what is expected of them and tells them how to perform their tasks. This style is appropriate when followers hold ambiguous jobs.
- **Participative.** The leader consults with followers and asks them for suggestions before making a decision. This style is appropriate when followers are using improper procedures or are making poor decisions.
- **Supportive.** The leader is friendly and approachable. He or she shows concern for the followers' psychological well-being. This style is appropriate when followers lack confidence.

Path-goal theory assumes that leaders are flexible and that they can change their styles as situations require. This theory proposes two contingency variables that moderate the leader behavior-outcome relationship:

- **Environment** characteristics are outside the control of followers, task structure, authority system, and work group. Environmental factors determine the type of leader behavior required if follower outcomes are to be maximized.

- **Follower** characteristics are the locus of control, experience, and perceived ability. Personal characteristics of subordinates determine how the environment and leader behavior are interpreted.
- Effective leaders clarify the path to help their followers achieve their goals, and make their journeys easier by reducing roadblocks and pitfalls. Research demonstrates that employee performance and satisfaction are positively influenced when leaders compensate for shortcomings in either their employees or the work settings

Figure: - The Path-Goal framework

Transactional and Transformational leadership:
Transformational leadership blends the behavioral theories with a little dab of trait theories. Transactional leaders, such as those identified in contingency theories, guide followers in the direction of established goals by clarifying role and task requirements. However, transformational leaders, who are charismatic and visionary, can inspire followers to transcend their own self-interest for the good of their organizations.

Transformational leaders appeal to followers' ideals and moral values and inspire them to think about problems in new or different ways. These leaders influence followers through vision, framing, and impression management.

Vision is the ability of the leader to bind people together with an idea. Framing is the process whereby leaders define the purpose of their movements in highly meaningful terms. Impression management is an attempt to control the impressions that others form of a leader by practicing behaviors that make him or her more attractive and appealing to others.

A transformational leader instills feelings of confidence, admiration, and commitment in his or her followers. This type of leader is charismatic, creating a special bond with followers and articulating a vision with which his or her followers identify and for which these followers are willing to work. Each follower is coached, advised, and delegated some authority. The transformational leader stimulates followers intellectually, arousing them to develop new ways to think about problems. This leader uses contingent rewards to positively reinforce performances that are consistent with his or her wishes. Management is by exception. Transformational leaders take initiative only when problems occur and are not actively involved when things are going well. He or she commits people to actions and converts followers into leaders.

Research indicates that transformational, as compared to transactional, leadership is more strongly correlated with lower turnover rates, higher productivity, and higher employee satisfaction.

Transformational leaders are relevant to today's workplace because they are flexible and innovative. Although it is important to have leaders with the appropriate orientation defining tasks and managing interrelationships, it is even more important to have leaders who can bring organizations into futures they have not yet imagined. Transformational leadership is the essence of creating and sustaining competitive advantage.

Case Study:

Tom (who works for Blocks Ltd.), and Deirdre, (who works for Fones Ltd.), are employed as production managers. Last night, both of them attended a staff development meeting organised by a Production Management Institute (a professional body), of which they are members. During the tea-break, Tom and Deirdre discussed the various leadership styles that they were following in their respective organisations.Tom told Deirdre that he had a friendly personality and was optimistic that he will get on well with the workers in the factory. He went on to say that a total of fifty workers are employed, with 40 of them having been employed with the business for over 20 years. The others, mostly unskilled, tend to be younger workers who stay for a year or so and then move on, since Tom thinks that they are harder to motivate.

Tom is aware that new Health & Safety regulations are due to be implemented and this will require discipline in the workforce. He is thinking of adopting a more autocratic leadership style.Deirdre told Tom that she was newly appointed to the role, and was relatively inexperienced. She pointed out that she manages a team of forty workers, grouped into project teams with highly skilled and experienced staff in each team. Deirdre mentioned that her predecessor was unpopular with the workforce since he adopted an autocratic style of leadership. At one stage, the Labour Relations Agency were asked to mediate in a dispute regarding management/employee relations. In view of this, she had been thinking of adopting a democratic leadership style.

Activities:

- Explain the key functions of management within organisations such as Blocks Limited and Fones Limited.
- Discuss whether or not Tom and Deirdre should adopt their proposed new leadership styles within their respective organisations.
- With reference to each organisation (Blocks Limited and Fones Limited), discuss the role of management in motivation.

Discussion Questions

1. Who is a leader?

Leader is one who makes his subordinates to do willingly what he wants.

2. Define Leadership

Leadership is the process of influencing the behaviour of others towards the accomplishment of goals in a given situation.

3. Mention the importance of Leadership

1. Motivating Employees
2. Leader develops team work
3. Better utilization of manpower
4. Creating confidence to followers
5. Directing group activities
6. Building morale
7. Maintaining discipline

4. State something about weakness of trait theory

1. There is no universal list of traits of successful leaders. It is therefore; very difficult to indicate what mix of traits is necessary to make an affective leader. Individuals who never achieve leadership also possess some of the traits as successful leader.
2. Researchers simply provide the list of qualities. They fail to give the scale to measure the qualities. It is not clear how high a score a person must achieve an a given trait to make it effective.

5. State House's path – goal approach

Leaders are effective because of the influence on followers motivation, ability to perform and their satisfaction.

6. Name the various leadership styles.

1. Autocratic or Dictatorial leadership
2. Participative or Democratic leadership
3. Laissez – faire or Free – rein leadership

7. What are the advantages of democratic leadership?

1. The subordinates are motivated by participation in decision – making process. This will also increase job satisfaction
2. Absence of leader does not affect output
3. Labour absenteeism and turn – over will be minimum
4. The quality of decision is improved
5. The leader multiplies his abilities through the contribution of his followers

8. What is Laissez – faire?

Complete freedom is given to the subordinates so that they plan, motivate, control and otherwise be responsible for their own actions.

Communication

The Communication Process

The goal of communication is to convey information—and the understanding of that information—from one person or group to another person or group. This communication process is divided into three basic components: A *sender* transmits a message through a *channel* to the *receiver*. (Figure shows a more elaborate model.) The sender first develops an idea, which is composed into a message and then transmitted to the other party, who interprets the message and receives meaning. Information theorists have added somewhat more complicated language. Developing a message is known as *encoding.* Interpreting the message is referred to as *decoding.*

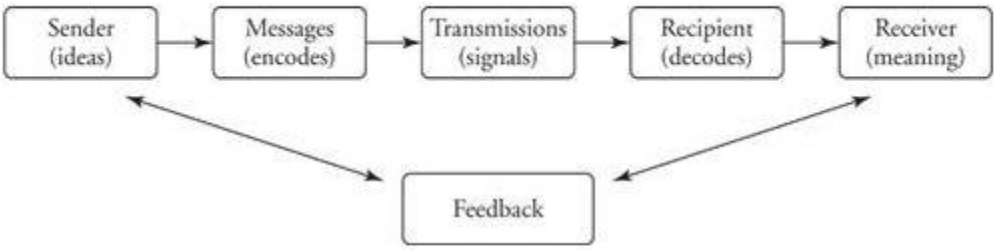


Figure 1 Communication model.

The other important feature is the feedback cycle. When two people interact, communication is rarely one-way only. When a person receives a message, she responds to it by giving a reply. The feedback cycle is the same as the sender-receiver feedback noted in Figure . Otherwise, the sender can't know whether the other parties properly interpreted the message or how they reacted to it. Feedback is especially significant in management because a supervisor has to know how subordinates respond to directives and plans. The manager also needs to know how work is progressing and how employees feel about the general work situation.

The critical factor in measuring the effectiveness of communication is common understanding. Understanding exists when all parties involved have a mutual agreement as to not only the information, but also the meaning of the information. Effective communication, therefore, occurs

when the intended message of the sender and the interpreted message of the receiver are one and the same. Although this should be the goal in any communication, it is not always achieved.

The most efficient communication occurs at a minimum cost in terms of resources expended. Time, in particular, is an important resource in the communication process. For example, it would be virtually impossible for an instructor to take the time to communicate individually with each student in a class about every specific topic covered. Even if it were possible, it would be costly. This is why managers often leave voice mail messages and interact by e-mail rather than visit their subordinates personally.

However, efficient time-saving communications are not always effective. A low-cost approach such as an e-mail note to a distribution list may save time, but it does not always result in everyone getting the same meaning from the message. Without opportunities to ask questions and clarify the message, erroneous interpretations are possible. In addition to a poor choice of communication method, other barriers to effective communication include noise and other physical distractions, language problems, and failure to recognize nonverbal signals.

Sometimes communication is effective, but not efficient. A work team leader visiting each team member individually to explain a new change in procedures may guarantee that everyone truly understands the change, but this method may be very costly on the leader's time. A team meeting would be more efficient. In these and other ways, potential tradeoffs between effectiveness and efficiency occur.

The Significance of Communication

Organizations are totally reliant on **communication,** which is defined as the exchange of ideas, messages, or information by speech, signals, or writing. Without communication, organizations would not function. If communication is diminished or hampered, the entire organization suffers. When communication is thorough, accurate, and timely, the organization tends to be vibrant and effective.

Communication is central to the entire management process for four primary reasons:

- **Communication is a linking process of management.** Communication is the way managers conduct the managerial functions of planning, organizing, staffing, directing, and controlling. Communication is the heart of all organizations

- **Communication is the primary means by which people obtain and exchange information.** Decisions are often dependent upon the quality and quantity of the information received. If the information on which a decision is based is poor or incomplete, the decision will often be incorrect.
- **The most time-consuming activity a manager engages in is communication.** Managers spend between 70 to 90 percent of their time communicating with employees and other internal and external customers.
- **Information and communication represent power in organizations.** An employee cannot do anything constructive in a work unit unless he or she knows what is to be done, when the task is to be accomplished, and who else is involved. The staff members who have this information become centers of power.

The ability to communicate well, both orally and in writing, is a critical managerial skill and a foundation of effective leadership. Through communication, people exchange and share information with one another and influence one another's attitudes, behaviors, and understandings. Communication allows managers to establish and maintain interpersonal relationships, listen to others, and otherwise gain the information needed to create an inspirational workplace. No manager can handle conflict, negotiate successfully, and succeed at leadership without being a good communicator.

Methods of Communication

The standard methods of communication are speaking or writing by a sender and listening or reading the receiver. Most communication is oral, with one party speaking and others listening.

However, some forms of communication do not directly involve spoken or written language.**Nonverbal communication** (body language) consists of actions, gestures, and other aspects of physical appearance that, combined with facial expressions (such as smiling or frowning), can be powerful means of transmitting messages. At times, a person's body may be "talking" even as he or she maintains silence. And when people do speak, their bodies may sometimes say different things than their words convey. A *mixed message* occurs when a person's words communicate one message, while nonverbally, he or she is communicating something else.

Although technology such as e-mail has lessened the importance of nonverbal communication, the majority of organizational communication still takes place through face-to-face interaction. Every verbal message comes with a nonverbal component. Receivers interpret messages by taking in meaning from everything available. When nonverbal cues are consistent with verbal

messages, they act to reinforce the messages. But when these verbal and nonverbal messages are inconsistent, they create confusion for the receiver.

The actions of management are especially significant because subordinates place more confidence in what managers do than what they say. Unless actions are consistent with communication, a feeling of distrust will undermine the effectiveness of any future social exchange.

Oral communication skills

Because a large part of a manager's day is spent conversing with other managers and employees, the abilities to speak and listen are critical to success. For example, oral communication skills are used when a manager must make sales presentations, conduct interviews, perform employee evaluations, and hold press conferences.

In general, managers prefer to rely on oral communication because communication tends to be more complete and thorough when talking in person. In face-to-face interactions, a person can judge how the other party is reacting, get immediate feedback, and answer questions. In general, people tend to assume that talking to someone directly is more credible than receiving a written message. Face-to-face communication permits not only the exchange of words, but also the opportunity to see the nonverbal communication.

However, verbal communicating has its drawbacks. It can be inconsistent, unless all parties hear the same message. And although oral communication is useful for conveying the viewpoints of others and fostering an openness that encourages people to communicate, it is a weak tool for implementing a policy or issuing directives where many specifics are involved.

Here are two of the most important abilities for effective oral communication:

- **Active listening.** Listening is making sense of what is heard and requires paying attention, interpreting, and remembering sound stimuli. Effective listening is active, requiring the hearer to "get inside the head" of the speaker so that he or she can understand the communication from the speaker's point of view. Effective listeners do the following:

    - Make eye contact.
- Schedule sufficient, uninterrupted time for meetings.
- Genuinely seek information.
- Avoid being emotional or attacking others.
- Paraphrase the message you heard, especially to clarify the speaker's intentions.
- Keep silent. Don't talk to fill pauses, or respond to statements in a point-counterpoint fashion.
- Ask clarifying questions.

- Avoid making distracting gestures.

- **Constructive feedback.** Managers often do poor jobs of providing employees with performance feedback. When providing feedback, managers should do the following:

    - Focus on specific behaviors rather than making general statements
- Keep feedback impersonal and goal-oriented
- Offer feedback as soon after the action as possible
- Ask questions to ensure understanding of the feedback
- Direct negative feedback toward behavior that the recipient can control

Written communication skills

Written communication has several advantages. First, it provides a record for referral and follow-up. Second, written communication is an inexpensive means of providing identical messages to a large number of people.

The major limitation of written communication is that the sender does not know how or if the communication is received unless a reply is required.

Unfortunately, writing skills are often difficult to develop, and many individuals have problems writing simple, clear, and direct documents. And believe it or not, poorly written documents cost money.

How much does bad writing cost a company annually? According to a Canadian consulting and training firm, one employee who writes just one poorly worded memo per week over the course of a year can cost a company $4,258.60.

Managers must be able to write clearly. The ability to prepare letters, memos, sales reports, and other written documents may spell the difference between success and failure. The following are some guidelines for effective written communication:

- Use the P.O.W.E.R. Plan for preparing each message: plan, organize, write, edit, and revise
- Draft the message with the readers in mind
- Give the message a concise title and use subheadings where appropriate
- Use simple words and short, clear, sentences and paragraphs
- Back up opinions with facts
- Avoid “flowery” language, euphemisms, and trite expressions
- Summarize main points at the end and let the reader know what he must do next

Interpersonal Communication

Interpersonal communication is real-time, face-to-face or voice-to-voice conversation that allows immediate feedback. Interpersonal communication plays a large role in any manager's daily activities, but especially in organizations that use teams.

Managers must facilitate interpersonal communication within teams and reduce barriers to interpersonal communications. Common barriers to interpersonal communication include the following:

- **Expectations of familiarity** (or hearing what one is expected to hear). After hearing the beginning comments, employees may not listen to the remainder of the communication because they think they already know what a manager's going to say.
- **Preconceived notions.** Many employees ignore information that conflicts with what they "know." Often referred to as *selective perception,* it's the tendency to single out for attention those aspects of a situation or person that reinforce or appear consistent with one's existing beliefs, value, or needs. Selective perception can bias a manager's and employee's view of situations and people.

- **Source's lack of credibility.** Some employees may negatively size up or evaluate the sender based on stereotypes. *Stereotyping* is assigning attributes commonly associated with a category, such as age group, race, or gender to an individual. *Classifying* is making assumptions about an individual based on a group he or she fits into. Characteristics commonly associated with the group are then assigned to the individual. Someone who believes that young people dislike authority figures may assume that a younger colleague is rebellious.

- **Differing perceptions caused by social and cultural backgrounds.** The process through which people receive and interpret information from the environment is called **perception.** Perception acts as a screen or filter through which information must pass before it has an impact on communication. The results of this screening process vary, because such things as values, cultural background, and other circumstances influence individual perceptions. Simply put, people can perceive the same things or situations very differently. And even more important, people behave according to their perceptions.

- **Semantics and diction.** The choice and use of words differ significantly among individuals. A word such as "effectiveness" may mean "achieving high production" to a

factory superintendent and "employee satisfaction" to a human resources specialist. Many common English words have an average of 28 definitions, so communicators must take care to select the words that accurately communicate their ideas.

- **Emotions that interfere with reason.** Tempers often interfere with reason and cause the roles of sender and receiver to change to that of opponent and adversary.

Noise or interference. Noise does not allow for understanding between sender and receiver.

Organizational Communication

The formal flow of information in an organization may move via upward, downward, or horizontal channels. Most *downward communications* address plans, performance feedback, delegation, and training. Most *upward communications*concern performance, complaints, or requests for help. *Horizontal communications*focus on coordination of tasks or resources.

Organizational structure creates, perpetuates, and encourages formal means of communication. The chain of command typifies vertical communication. Teamwork and interactions exemplify lateral or horizontal efforts to communicate. Coordinating efforts between colleagues or employees of equal rank and authority represent this channel of communication. Feedback from subordinate to superior is indicative of upward communication. For example, status reports to inform upper levels of management are originated in the lower or mid-range of most organizations.

The marriage of people to electronic communication equipment and databases that store information is a *formal network.* Formal communication networks provide the electronic links for transferring and storing information through formal organizational channels.
Informal channels, known as the grapevine, carry casual, social, and personal messages through the organization. The **grapevine** is an informal, person-to-person communication network of employees that is not officially sanctioned by the organization. The grapevine is spontaneous, quick, and hard to stop; it can both help and hinder the understanding of information. For these reasons, managers need to stay in touch with the grapevine and counteract rumors.

Like interpersonal communication, organizational communication can be blocked by barriers, such as the following:

- Information overload
- Embellished messages
- Delays in formal communications
- Lack of employee trust and openness

- Different styles of change
- Intimidation and unavailability of those of rank or status
- Manager's interpretations
- Electronic noises

Improving Communications

Communication touches everything that takes place in an organization and is so intermingled with all other functions and processes that separating it for study and analysis is difficult. Because communication is the most time-consuming activity that a manager engages in, improving management strongly depends on improving communication. One way researchers are trying to improve communication skills for organizations is through instruments that assess managers' writing and speaking effectiveness.

The responsibility to strengthen and improve communication is both individual and organizational. Senders should define the purpose behind their message, construct each message with the reader in mind, select the best medium, time each transmission thoughtfully, and seek feedback. Receivers must listen actively, be sensitive to the sender, recommend an appropriate medium for messages, and initiate feedback efforts.

Motivation

Defining Motivation

Many people incorrectly view motivation as a personal trait—that is, some people have it, and others don't. But *motivation* is defined as the force that causes an individual to behave in a specific way. Simply put, a highly motivated person works hard at a job; an unmotivated person does not.

Managers often have difficulty motivating employees. But motivation is really an internal process. It's the result of the interaction of a person's needs, his or her ability to make choices about how to meet those needs, and the environment created by management that allows these needs to be met and the choices to be made. Motivation is not something that a manager can "do" to a person.

Motivation Theories: Individual Needs

Motivation is a complex phenomenon. Several theories attempt to explain how motivation works. In management circles, probably the most popular explanations of motivation are based on the needs of the individual.

The basic needs model, referred to as **content theory** of motivation, highlights the specific factors that motivate an individual. Although these factors are found within an individual, things outside the individual can affect him or her as well.

In short, all people have needs that they want satisfied. Some are *primary needs*, such as those for food, sleep, and water—needs that deal with the physical aspects of behavior and are considered unlearned. These needs are biological in nature and relatively stable. Their influences on behavior are usually obvious and hence easy to identify.

Secondary needs, on the other hand, are psychological, which means that they are learned primarily through experience. These needs vary significantly by culture and by individual. Secondary needs consist of internal states, such as the desire for power, achievement, and love. Identifying and interpreting these needs is more difficult because they are demonstrated in a variety of ways. Secondary needs are responsible for most of the behavior that a supervisor is concerned with and for the rewards a person seeks in an organization.

Several theorists, including Abraham Maslow, Frederick Herzberg, David McClelland, and Clayton Alderfer, have provided theories to help explain needs as a source of motivation.

Abraham Maslow's hierarchy of needs theory

Abraham Maslow defined **need** as a physiological or psychological deficiency that a person feels the compulsion to satisfy. This need can create tensions that can influence a person's work attitudes and behaviors. Maslow formed a theory based on his definition of need that proposes that humans are motivated by multiple needs and that these needs exist in a hierarchical order. His premise is that only an unsatisfied need can influence behavior; a satisfied need is not a motivator.
Maslow's theory is based on the following two principles:

- **Deficit principle:** A satisfied need no longer motivates behavior because people act to satisfy deprived needs.
- **Progression principle:** The five needs he identified exist in a hierarchy, which means that a need at any level only comes into play after a lower-level need has been satisfied.

In his theory, Maslow identified five levels of human needs. Table 1 illustrates these five levels and provides suggestions for satisfying each need.

TABLE 1 Maslow's Hierarchy of Human Needs

Higher Level Needs	**To Satisfy, Offer:**
Self-actualization needs	Creative and challenging work
Participation in decision making	
	Job flexibility and autonomy
Esteem needs	Responsibility of an important job
	Promotion to higher status job
	Praise and recognition from boss
Lower Level Needs	***To Satisfy, Offer:***
Social needs	Friendly coworkers
	Interaction with customers
	Pleasant supervisor
Safety needs	Safe working conditions
	Job security
	Base compensation and benefits
Physiological needs	Rest and refreshment breaks
	Physical comfort on the job
	Reasonable work hours

Although research has not verified the strict deficit and progression principles of Maslow's theory, his ideas can help managers understand and satisfy the needs of employees.

Herzberg's two-factor theory:-
Frederick Herzberg offers another framework for understanding the motivational implications of work environments.
In his **two-factor theory,** Herzberg identifies two sets of factors that impact motivation in the workplace:

- **Hygiene factors** include salary, job security, working conditions, organizational policies, and technical quality of supervision. Although these factors do not motivate employees, they can cause dissatisfaction if they are missing. Something as simple as adding music to the office place or implementing a no-smoking policy can make people less dissatisfied with these aspects of their work. However, these improvements in hygiene factors do not necessarily increase satisfaction.
- **Satisfiers** or **motivators** include such things as responsibility, achievement, growth opportunities, and feelings of recognition, and are the key to job satisfaction and motivation. For example, managers can find out what people really do in their jobs and make improvements, thus increasing job satisfaction and performance.

Following Herzberg's two-factor theory, managers need to ensure that hygiene factors are adequate and then build satisfiers into jobs.

Alderfer's ERG theory:-
Clayton Alderfer's **ERG (Existence, Relatedness, Growth) theory** is built upon Maslow's hierarchy of needs theory. To begin his theory, Alderfer collapses Maslow's five levels of needs into three categories.

- **Existence needs** are desires for physiological and material well-being. (In terms of Maslow's model, existence needs include physiological and safety needs)
- **Relatedness needs** are desires for satisfying interpersonal relationships. (In terms of Maslow's model, relatedness correspondence to social needs)
- **Growth needs** are desires for continued psychological growth and development. (In terms of Maslow's model, growth needs include esteem and self-realization needs)

This approach proposes that unsatisfied needs motivate behavior, and that as lower level needs are satisfied, they become less important. Higher level needs, though, become more important as they are satisfied, and if these needs are not met, a person may move down the hierarchy, which Alderfer calls the *frustration-regression principle.* What he means by this term is that an already satisfied lower level need can become reactivated and influence behavior when a higher level need cannot be satisfied. As a result, managers should provide opportunities for workers to capitalize on the importance of higher level needs.

McClelland's acquired needs theory:-

David McClelland's acquired needs theory recognizes that everyone prioritizes needs differently. He also believes that individuals are not born with these needs, but that they are actually learned through life experiences. McClelland identifies three specific needs:

- **Need for achievement** is the drive to excel.
- **Need for power** is the desire to cause others to behave in a way that they would not have behaved otherwise.
- **Need for affiliation** is the desire for friendly, close interpersonal relationships and conflict avoidance.

McClelland associates each need with a distinct set of work preferences, and managers can help tailor the environment to meet these needs.

High achievers differentiate themselves from others by their desires to do things better. These individuals are strongly motivated by job situations with personal responsibility, feedback, and an intermediate degree of risk. In addition, high achievers often exhibit the following behaviors:

- Seek personal responsibility for finding solutions to problems
- Want rapid feedback on their performances so that they can tell easily whether they are improving or not
- Set moderately challenging goals and perform best when they perceive their probability of success as 50-50

An individual with a high need of power is likely to follow a path of continued promotion over time. Individuals with a high need of power often demonstrate the following behaviors:

- Enjoy being in charge
- Want to influence others
- Prefer to be placed into competitive and status-oriented situations
- Tend to be more concerned with prestige and gaining influence over others than with effective performance

People with the need for affiliation seek companionship, social approval, and satisfying interpersonal relationships. People needing affiliation display the following behaviors:

- Take a special interest in work that provides companionship and social approval
- Strive for friendship
- Prefer cooperative situations rather than competitive ones
- Desire relationships involving a high degree of mutual understanding
- May not make the best managers because their desire for social approval and friendship may complicate managerial decision making

Interestingly enough, a high need to achieve does not necessarily lead to being a good manager, especially in large organizations. People with high achievement needs are usually interested in how well they do personally and not in influencing others to do well. On the other hand, the best managers are high in their needs for power and low in their needs for affiliation

Motivation Theories: Behavior

Process theories explain how workers select behavioral actions to meet their needs and determine their choices. The following theories each offer advice and insight on how people actually make choices to work hard or not work hard based on their individual preferences, the available rewards, and the possible work outcomes.

Equity theory:-
According to the equity theory, based on the work of J. Stacy Adams, workers compare the reward potential to the effort they must expend. Equity exists when workers perceive that rewards equal efforts (see Figure).

Condition	Person		Referent	Example
Equity	$\frac{\text{Outcomes}}{\text{Inputs}}$	=	$\frac{\text{Outcomes}}{\text{Inputs}}$	Worker contributes more inputs but also gets more outputs than referent
Underpayment Equity	$\frac{\text{Outcomes}}{\text{Inputs}}$	<	$\frac{\text{Outcomes}}{\text{Inputs}}$	Worker contributes more inputs but also gets the same outputs as referent
Overpayment Equity	$\frac{\text{Outcomes}}{\text{Inputs}}$	>	$\frac{\text{Outcomes}}{\text{Inputs}}$	Worker contributes same inputs but also gets more outputs than referent

Figure 1 The equity theory.

But employees just don't look at their potential rewards, they look at the rewards of others as well. Inequities occur when people feel that their rewards are inferior to the rewards offered to other persons sharing the same workloads.

Employees who feel they are being treated inequitably may exhibit the following behaviors:

- Put less effort into their jobs
- Ask for better treatment and/or rewards
- Find ways to make their work seem better by comparison
- Transfer or quit their jobs

The equity theory makes a good point: People behave according to their perceptions. What a manager thinks is irrelevant to an employee because the real issue is the way an employee perceives his or her situation. Rewards perceived as equitable should have positive results on job satisfaction and performance; those rewards perceived as inequitable may create job dissatisfaction and cause performance problems.

Every manager needs to ensure that any negative consequences from equity comparisons are avoided, or at least minimized, when rewards are allocated. Informed managers anticipate

perceived negative inequities when especially visible rewards, such as pay increases or promotions, are allocated. Instead of letting equity concerns get out of hand, these managers carefully communicate the intended values of rewards being given, clarify the performance appraisals upon which these rewards are based, and suggest appropriate comparison points.

Expectancy theory:-
Victor Vroom introduced one of the most widely accepted explanations of motivation. Very simply, the **expectancy theory** says that an employee will be motivated to exert a high level of effort when he or she believes that:

1. Effort will lead to a good performance appraisal.
2. A good appraisal will lead to organizational rewards.
3. The organizational rewards will satisfy his or her personal goals.

The key to the expectancy theory is an understanding of an individual's goals and the relationships between effort and performance, between performance and rewards, and finally, between the rewards and individual goal satisfaction. When an employee has a high level of expectancy and the reward is attractive, motivation is usually high.

Therefore, to motivate workers, managers must strengthen workers' perceptions of their efforts as both possible and worthwhile, clarify expectations of performances, tie rewards to performances, and make sure that rewards are desirable.

Reinforcement theory:-
The reinforcement theory, based on E. L. Thorndike's law of effect, simply looks at the relationship between behavior and its consequences. This theory focuses on modifying an employee's on-the-job behavior through the appropriate use of one of the following four techniques:

- **Positive reinforcement** rewards desirable behavior. Positive reinforcement, such as a pay raise or promotion, is provided as a reward for positive behavior with the intention of increasing the probability that the desired behavior will be repeated.
- **Avoidance** is an attempt to show an employee what the consequences of improper behavior will be. If an employee does not engage in improper behavior, he or she will not experience the consequence.
- **Extinction** is basically ignoring the behavior of a subordinate and not providing either positive or negative reinforcement. Classroom teachers often use this technique when they ignore students who are “acting out” to get attention. This technique should only be used when the supervisor perceives the behavior as temporary, not typical, and not serious.
- **Punishment** (threats, docking pay, suspension) is an attempt to decrease the likelihood of a behavior recurring by applying negative consequences.

The reinforcement theory has the following implications for management:

- Learning what is acceptable to the organization influences motivated behavior.

- Managers who are trying to motivate their employees should be sure to tell individuals what they are doing wrong and be careful not to reward all individuals at the same time.
- Managers must tell individuals what they can do to receive positive reinforcement.
- Managers must be sure to administer the reinforcement as closely as possible to the occurrence of the behavior.
- Managers must recognize that failure to reward can also modify behavior. Employees who believe that they deserve a reward and do not receive it will often become disenchanted with both their manager and company.

Goal-setting theory:-
The goal-setting theory, introduced in the late 1960s by Edwin Locke, proposed that intentions to work toward a goal are a major source of work motivation. Goals, in essence, tell employees what needs to be done and how much effort should be expanded. In general, the more difficult the goal, the higher the level of performance expected.

Managers can set the goals for their employees, or employees and managers can develop goals together. One advantage of employees participating in goal setting is that they may be more likely to work toward a goal they helped develop.

No matter who sets the goal, however, employees do better when they get feedback on their progress. In addition to feedback, four other factors influence the goals-performance relationship:

- The employee must be committed to the goal.
- The employee must believe that he is capable of performing the task.
- Tasks involved in achieving the goal should be simple, familiar, and independent.
- The goal-setting theory is culture bound and is popular in North American cultures.

If the goal-setting theory is followed, managers need to work with their employees in determining goal objectives in order to provide targets for motivation. In addition, the goals that are established should be specific rather than general in nature, and managers must provide feedback on performance.

Motivation Strategies:-
To some extent, a high level of employee motivation is derived from effective management practices. To develop motivated employees, a manager must treat people as individuals, empower workers, provide an effective reward system, redesign jobs, and create a flexible workplace.
Empowering employees:
Empowerment occurs when individuals in an organization are given autonomy, authority, trust, and encouragement to accomplish a task. Empowerment is designed to unshackle the worker and to make a job the worker's responsibility.

In an attempt to empower and to change some of the old bureaucratic ideas, managers are promoting corporate intrapreneurships. **Intrapreneurship** encourages employees to pursue new

ideas and gives them the authority to promote those ideas. Obviously, intrapreneurship is not for the timid, because old structures and processes are turned upside down.

Providing an effective reward system:
Managers often use rewards to reinforce employee behavior that they want to continue. A *reward* is a work outcome of positive value to the individual. Organizations are rich in rewards for people whose performance accomplishments help meet organizational objectives. People receive rewards in one of the following two ways:

- **Extrinsic rewards** are externally administered. They are valued outcomes given to someone by another person, typically a supervisor or higher level manager. Common workplace examples are pay bonuses, promotions, time off, special assignments, office fixtures, awards, verbal praise, and so on. In all cases, the motivational stimulus of extrinsic rewards originates outside the individual.
- **Intrinsic rewards** are self-administered. Think of the "natural high" a person may experience after completing a job. That person feels good because she has a feeling of competency, personal development, and self-control over her work. In contrast to extrinsic rewards, the motivational stimulus of intrinsic rewards is internal and doesn't depend on the actions of other people.

To motivate behavior, the organization needs to provide an effective reward system. An effective reward system has four elements:

- Rewards need to satisfy the basic needs of all employees.
- Rewards need to be included in the system and be comparable to ones offered by a competitive organization in the same area.
- Rewards need to be available to people in the same positions and be distributed fairly and equitably.
- The overall reward system needs to be multifaceted. Because all people are different, managers must provide a range of rewards—pay, time off, recognition, or promotion. In addition, managers should provide several different ways to earn these rewards.

This last point is worth noting. With the widely developing trend toward empowerment in American industry, many employees and employers are beginning to view traditional pay systems as inadequate. In a traditional system, people are paid according to the positions they hold, not the contributions they make. As organizations adopt approaches built upon teams, customer satisfaction, and empowerment, workers need to be paid differently. Many companies have already responded by designing numerous pay plans, designed by employee design teams, which base rewards on skill levels.

Rewards demonstrate to employees that their behavior is appropriate and should be repeated. If employees don't feel that their work is valued, their motivation will decline.

Redesigning jobs:
Many people go to work every day and go through the same, unenthusiastic actions to perform their jobs. These individuals often refer to this condition as burnout. But smart managers can do

something to improve this condition before an employee becomes bored and loses motivation. The concept of *job redesign,* which requires a knowledge of and concern for the human qualities people bring with them to the organization, applies motivational theories to the structure of work for improving productivity and satisfaction

When redesigning jobs, managers look at both job scope and job depth. Redesign attempts may include the following:

- **Job enlargement.** Often referred to as *horizontal job loading,* job enlargement increases the variety of tasks a job includes. Although it doesn't increase the quality or the challenge of those tasks, job enlargement may reduce some of the monotony, and as an employee's boredom decreases, his or her work quality generally increases.
- **Job rotation**. This practice assigns people to different jobs or tasks to different people on a temporary basis. The idea is to add variety and to expose people to the dependence that one job has on other jobs. Job rotation can encourage higher levels of contributions and renew interest and enthusiasm. The organization benefits from a cross-trained workforce.
- **Job enrichment.** Also called *vertical job loading*, this application includes not only an increased variety of tasks, but also provides an employee with more responsibility and authority. If the skills required to do the job are skills that match the jobholder's abilities, job enrichment may improve morale and performance.

Creating flexibility:
Today's employees value personal time. Because of family needs, a traditional nine-to-five workday may not work for many people. Therefore, **flextime,** which permits employees to set and control their own work hours, is one way that organizations are accommodating their employees' needs. Here are some other options organizations are trying as well:

- A **compressed workweek** is a form of flextime that allows a full-time job to be completed in less than the standard 40-hour, five-day workweek. Its most common form is the 4/40 schedule, which gives employees three days off each week. This schedule benefits the individual through more leisure time and lower commuting costs. The organization should benefit through lower absenteeism and improved performance. Of course, the danger in this type of scheduling is the possibility of increased fatigue.
- **Job sharing** or **twinning** occurs when one full-time job is split between two or more persons. Job sharing often involves each person working one-half day, but it can also be done on weekly or monthly sharing arrangements. When jobs can be split and shared, organizations can benefit by employing talented people who would otherwise be unable to work full-time. The qualified employee who is also a parent may not want to be in the office for a full day but may be willing to work a half-day. Although adjustment problems sometimes occur, the arrangement can be good for all concerned.
- **Telecommuting,** sometimes called *flexiplace,* is a work arrangement that allows at least a portion of scheduled work hours to be completed outside of the office, with work-at-home as one of the options. Telecommuting frees the jobholder from needing to work fixed hours, wearing special work attire, enduring the normal constraints of commuting, and having direct contact with supervisors. Home workers often demonstrate increased productivity, report fewer distractions, enjoy the freedom to be their own boss, and

appreciate the benefit of having more time for them.

Of course, when there are positives, there are also negatives. Many home workers feel that they work too much and are isolated from their family and friends. In addition to the feelings of isolation, many employees feel that the lack of visibility at the office may result in the loss of promotions.

Case 1: Motivating through Total Reward

Introduction

The Royal Bank of' Scotland Group (RBS) is one of the largest financial services companies in the world. It provides a range of services including banking and insurance. The RBS` Group operates in Europe, the US and Asia, serving more than 36 million customer's world-wide. It employs more than 140,000 people.

Roles

As a major company, RBS needs to recruit the best employees it can. RBS is a leading employer and therefore offers a range of great job opportunities. People can start their working life by joining from school or from university. There are many types of job available, for example. Working in a branch of the bank, or at head office in roles like marketing or sales.

Motivation

What is it that makes people want to work harder than others? Some key theories are:

* Taylor and 'scientific management'. This theory said that every job could be measured by the amount of work done or the number of pieces made (this is known as the 'piece rate'). Workers would work harder because they would earn more.

* Herzberg and the 'two factors'. Herzberg's theory showed that certain motivation flews needed to be in place first. These were called Wed 'hygiene' Wtors, for example, a clean work place and good bade pay. Only once these were in place could other factors be brought in to motivate workers. RBS uses a number of factors to motivate its people. These include recognition for a job well done, promotion and other rewards.

* Maslow and the hierarchy of needs'. This theory showed that workers had to have their basic needs, such as feeling safe and secure, met first. Only then could they move on to be motivated by other things. However, RBS believes that meeting these higher needs, for example, by recognizing achievement, will motivate employees and help the company to grow. It has put in place a number of benefits to meet these needs.

Total Reward

RBS has a special benefits scheme called Total Reward. At the one of the scheme is good basic pay. RBS also provides many flexible benefits in areas like health cover, pensions and childcare. It uses this as part of its strategy to motivate employees. In addition to these benefits, every employee is set targets. These are measured to see how well he or she is doing. Employees can earn a bonus if their targets are reached. There is also a profit-sharing scheme. All employees are paid a bonus of 10% if the company as a whole does well. RBS also supports community projects and charities that is people care about, for example, the NSPCC and youth charities. It does this by trebling any money the employees raise.

Work-Life Balance

RBS knows that it is important to have a good work-life balance. This is the trade off between time spent at work and spent outside of work. RBS employees have the opportunity to work more flexibly. The RBS "Your Time" programme also helps by recognising that employees may need time off work for reasons other than sickness. They may want to spend more time with their family or perhaps take a career break to go travelling.

Conclusion

RBS knows its employees are its future and rewards and encourages them. It provides a world-class employment package of benefits for every employee, at every level. In RBS, motivation theory comes to life.

Issues for Discussion
1. Name two motivating factors at RBS.
2. Describe the differences between the theories of Taylor and Maslow.
3. How does RBS' Total Reward package fulfill Maslow's higher levels of?
motivation?
4. How does Total Reward contribute to RBS' overall strategy?

Q. Define motivation and its characteristics
"Motivation is the act of stimulating someone or oneself to get desired course of action, to push right button to get desired reactions."

The following are the features of motivation :
- **Motivation is an act of managers**
- **Motivation is a continuous process**
- **Motivation can be positive or negative**
- **Motivation is goal oriented**
- **Motivation is complex in nature**
- **Motivation is an art**
- **Motivation is system-oriented**
- **Motivation is different from job satisfaction**

Q Discuss the various motivational and non motivational factors

MOTIVATIONAL FACTORS

There are several factors that motivate a person to work. The motivational factors can be broadly divided into two groups:

I. MONETARY FACTORS:

™ Salaries or wages:

Salaries or wages is one of the most important motivational factors. Reasonable salaries must be paid on time. While fixing salaries the organization must consider such as :

- **Cost of living**
- **Company ability to pay**
- **Capability of company to pay etc,**

™ Bonus:

It refers to extra payment to employee over and above salary given as an incentive. The employees must be given adequate rate of bonus.

™ Incentives:

The organization may also provide additional incentives such as medical allowance, educational allowance, hra ,allowance, etc.

™ Special individual incentives:

The company may provide special individual incentives. Such incentives are to be given to deserving employees for giving valuable suggestions.

II. NON MONETARY FACTORS:

™ Status or job title:

By providing a higher status or designations the employee must be motivated. Employees prefer and proud of higher designations.

™ Appreciation and recognition:

Employees must be appreciated for their services. The praise should not come from immediate superior but also from higher authorities.

™ Delegation of authority:

Delegation of authority motivates a subordinate to perform the tasks with dedication and commitment. When authority is delegated, the subordinate knows that his superior has placed faith and trust in him.

™ Working conditions :

Provision for better working conditions such as air-conditioned rooms, proper plant layout, proper sanitation, equipment, machines etc, motivates the employees.

™ Job security:

Guarantee of job security or lack of fear dismissal, etc can also be a good way to motivate the employees. Employees who are kept temporarily for a long time may be frustrated and may leave the organization.

™ Job enrichment:
Job enrichment involves more challenging tasks and responsibilities. For instance an executive who is involved in preparing and presenting reports of performance, may also asked to frame plans.
Good superiors: Subordinates want their superiors to be intelligent, experienced, matured, and having a good personality. In fact, the superior needs to have superior knowledge and skills than that of his subordinates. The very presence of superiors can motivate the subordinates.

™ Other factors:
There are several other factors of motivating the employees:
• Providing training to the employees.
• Proper job placements.
• Proper promotions and transfers.
• Proper performance feed back.
• Proper welfare facilities.
• Flexible working hours.

q. Mention the need and importance of motivation
Need and importance of motivation

Motivation offers several importance to he organization and to the employees:

™ Higher efficiency
™ Reduce absenteeism.
™ Reduces employee turn over.
™ Improves a corporate image.
™ Good relations.
™ Improved morale.
™ Reduced wastages and breakages.
™ Reduced accidents.
™ Facilitates initiative and innovation

Q. Expectancy theory is considered to be one of the most widely accepted explanations of motivation. Many managers use this understanding to great advantage since they realize that employee expectations are somehow tied to their own goals and those of the organization. Identify and briefly describe the three relationships of expectancy theory. To illustrate how this theory might apply to the work situation, provide examples of things that managers can do to increase employee motivation.

Chapter 9:- Strategic Management

Strategic Management Concepts:-

Essentially strategic management answers the questions of "where do you want your business to go" (goals), "how is your business going to get there" (strategy) and "how will you know when you get there" (evaluation). A strategic management analogy is taking a trip during your vacation. First you decide where you want to go – the natural beauty of Yellowstone or the bright lights of Las Vegas. Then you develop a strategy of how to get there – take an airplane (which flights), drive your car (which highways), etc. This will be influenced by the amount of money, time and other resources you have available. Then you monitor your trip to see if your strategy takes you to your destination and how your strategy worked (missed Flights, poor road conditions, etc.).

Defining Planning

Of the five management functions — planning, organizing, staffing, leading and controlling — planning is the most fundamental. All other functions stem from planning. However, planning doesn't always get the attention that it deserves; when it does, many managers discover that the planning process isn't as easy as they thought it would be — or that even the best-laid plans can go awry.

Before a manager can tackle any of the other functions, he or she must first devise a plan. A **plan** is a blueprint for goal achievement that specifies the necessary resource allocations, schedules, tasks, and other actions.

A *goal* is a desired future state that the organization attempts to realize. Goals are important because an organization exists for a purpose, and goals define and state that purpose. Goals specify future ends; plans specify today's means.

The word **planning** incorporates both ideas: It means determining the organization's goals and defining the means for achieving them. Planning allows managers the opportunity to adjust to the environment instead of merely reacting to it. Planning increases the possibility of survival in business by actively anticipating and managing the risks that may occur in the future.

In short, planning is preparing for tomorrow, today. It's the activity that allows managers to determine what they want and how they will achieve it.

Not only does planning provide direction and a unity of purpose for organizations, it also answers six basic questions in regard to any activity:

- What needs to be accomplished?
- When is the deadline?
- Where will this be done?
- Who will be responsible for it?
- How will it get done?
- How much time, energy, and resources are required to accomplish this goal?

Recognizing the Advantages of Planning:

The military saying, “If you fail to plan, you plan to fail,” is very true. Without a plan, managers are set up to encounter errors, waste, and delays. A plan, on the other hand, helps a manager organize resources and activities efficiently and effectively to achieve goals.
The advantages of planning are numerous. Planning fulfills the following objectives:

- **Gives an organization a sense of direction.** Without plans and goals, organizations merely react to daily occurrences without considering what will happen in the long run. For example, the solution that makes sense in the short term doesn't always make sense in the long term. Plans avoid this drift situation and ensure that short-range efforts will support and harmonize with future goals.
- **Focuses attention on objectives and results.** Plans keep the people who carry them out focused on the anticipated results. In addition, keeping sight of the goal also motivates employees.
- **Establishes a basis for teamwork.** Diverse groups cannot effectively cooperate in joint projects without an integrated plan. Examples are numerous: Plumbers, carpenters, and electricians cannot build a house without blueprints. In addition, military activities require the coordination of Army, Navy, and Air Force units.
- **Helps anticipate problems and cope with change.** When management plans, it can help forecast future problems and make any necessary changes up front to avoid them. Of course, surprises — such as the 1973 quadrupling of oil prices — can always catch an organization short, but many changes are easier to forecast. Planning for these potential problems helps to minimize mistakes and reduce the “surprises” that inevitably occur.
- **Provides guidelines for decision making.** Decisions are future-oriented. If management doesn't have any plans for the future, they will have few guidelines for making current decisions. If a company knows that it wants to introduce a new product three years in the future, its management must be mindful of the decisions they make now. Plans help both managers and employees keep their eyes on the big picture.
- **Serves as a prerequisite to employing all other management functions.** Planning is primary, because without knowing what an organization wants to accomplish, management can't intelligently undertake any of the other basic managerial activities: organizing, staffing, leading, and/or controlling.

Types of Plans:-
Three major types of plans can help managers achieve their organization's goals: strategic, tactical, and operational. Operational plans lead to the achievement of tactical plans, which in turn lead to the attainment of strategic plans. In addition to these three types of plans, managers should also develop a contingency plan in case their original plans fail.

Operational plans:
The specific results expected from departments, work groups, and individuals are the **operational goals.** These goals are precise and measurable. “Process 150 sales applications each week” or “Publish 20 books this quarter” are examples of operational goals.

An **operational plan** is one that a manager uses to accomplish his or her job responsibilities. Supervisors, team leaders, and facilitators develop operational plans to support tactical plans (see the next section). Operational plans can be a single-use plan or an ongoing plan.

- **Single-use plans** apply to activities that do not recur or repeat. A one-time occurrence, such as a special sales program, is a single-use plan because it deals with the who, what, where, how, and how much of an activity. A budget is also a single-use plan because it predicts sources and amounts of income and how much they are used for a specific project.
- **Continuing or ongoing plans** are usually made once and retain their value over a period of years while undergoing periodic revisions and updates. The following are examples of ongoing plans:
    - A **policy** provides a broad guideline for managers to follow when dealing with important areas of decision making. Policies are general statements that explain how a manager should attempt to handle routine management responsibilities. Typical human resources policies, for example, address such matters as employee hiring, terminations, performance appraisals, pay increases, and discipline.
    - A **procedure** is a set of step-by-step directions that explains how activities or tasks are to be carried out. Most organizations have procedures for purchasing supplies and equipment, for example. This procedure usually begins with a supervisor completing a purchasing requisition. The requisition is then sent to the next level of management for approval. The approved requisition is forwarded to the purchasing department. Depending on the amount of the request, the purchasing department may place an order, or they may need to secure quotations and/or bids for several vendors before placing the order. By defining the steps to be taken and the order in which they are to be done, procedures provide a standardized way of responding to a repetitive problem.
    - A **rule** is an explicit statement that tells an employee what he or she can and cannot do. Rules are “do” and “don't” statements put into place to promote the safety of employees and the uniform treatment and behavior of employees. For example, rules about tardiness and absenteeism permit supervisors to make discipline decisions rapidly and with a high degree of fairness.

Tactical plans:

A **tactical plan** is concerned with what the lower level units within each division must do, how they must do it, and who is in charge at each level. Tactics are the means needed to activate a strategy and make it work.

Tactical plans are concerned with shorter time frames and narrower scopes than are strategic plans. These plans usually span one year or less because they are considered short-term goals. Long-term goals, on the other hand, can take several years or more to accomplish. Normally, it is the middle manager's responsibility to take the broad strategic plan and identify specific tactical actions.

Strategic plans:

A **strategic plan** is an outline of steps designed with the goals of the entire organization as a whole in mind, rather than with the goals of specific divisions or departments. Strategic planning begins with an organization's mission.

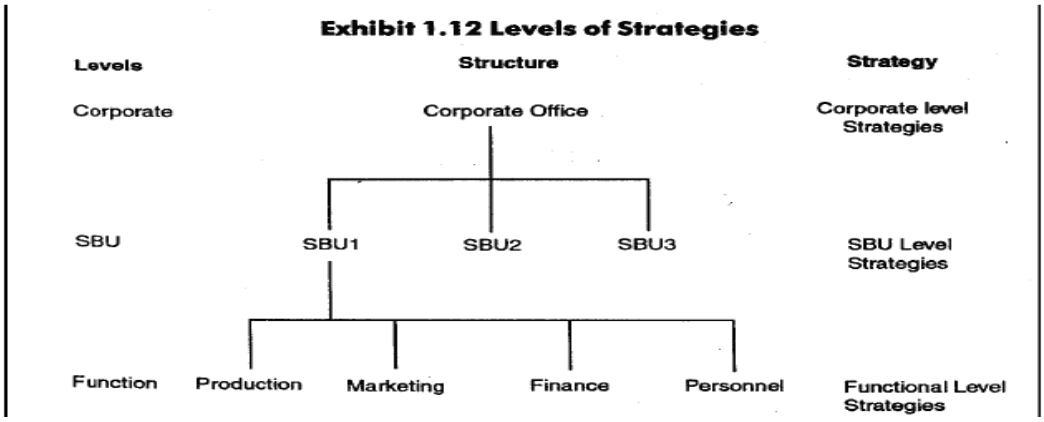
Strategic plans look ahead over the next two, three, five, or even more years to move the organization from where it currently is to where it wants to be. Requiring multilevel

involvement, these plans demand harmony among all levels of management within the organization. Top-level management develops the directional objectives for the entire organization, while lower levels of management develop compatible objectives and plans to achieve them. Top management's strategic plan for the entire organization becomes the framework and sets dimensions for the lower level planning.

Contingency plans:
Intelligent and successful management depends upon a constant pursuit of adaptation, flexibility, and mastery of changing conditions. Strong management requires a "keeping all options open" approach at all times — that's where contingency planning comes in.

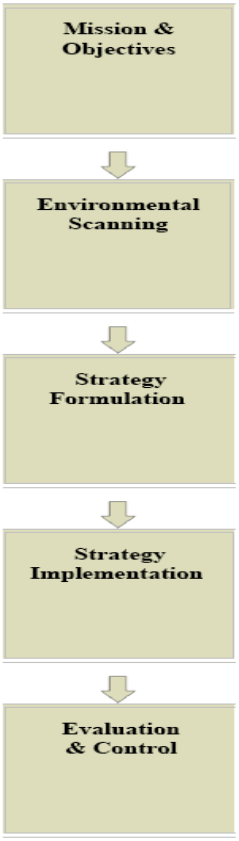
Contingency planning involves identifying alternative courses of action that can be implemented if and when the original plan proves inadequate because of changing circumstances. Keep in mind that events beyond a manager's control may cause even the most carefully prepared alternative future scenarios to go awry. Unexpected problems and events frequently occur. When they do, managers may need to change their plans. Anticipating change during the planning process is best in case things don't go as expected. Management can then develop alternatives to the existing plan and ready them for use when and if circumstances make these alternatives appropriate.

Types of Corporate Strategy:



Strategic Planning Process:-
In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. The firm must engage in strategic planning that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track.

A simplified view of the strategic planning process is shown by the following diagram:



- **Setting business vision, mission and objectives:-**
  The mission statement describes the company's business vision, including the unchanging values and purpose of the firm and forward-looking visionary goals that guide the pursuit of future opportunities.

  Guided by the business vision, the firm's leaders can define measurable financial and strategic objectives. Financial objectives involve measures such as sales targets and earnings growth. Strategic objectives are related to the firm's business position, and may include measures such as market share and reputation.

- **Environmental Scan :-**
  The environmental scan includes the following components:

  · Internal analysis of the firm
  · Analysis of the firm's industry (task environment)
  · External microenvironment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis

An industry analysis can be performed using a framework developed by Michael Porter known as Porter's five forces (discussed later). This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.

- **Strategy Formulation:-**
  Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its weaknesses and external threats.
  To attain superior profitability, the firm seeks to develop a competitive advantage over its rivals. A competitive advantage can be based on cost or differentiation. Michael Porter identified three industry-independent generic strategies from which the firm can choose.

- **Strategy Implementation :-**
  The selected strategy is implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives.
  The way in which the strategy is implemented can have a significant impact on whether it will be successful. In a large company, those who implement the strategy likely will be different people from those who formulated it. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if lower-level managers resist its implementation because they do not understand why the particular strategy was selected.

- **Evaluation & Control**

The implementation of the strategy must be monitored and adjustments made as needed. Evaluation and control consists of the following steps:

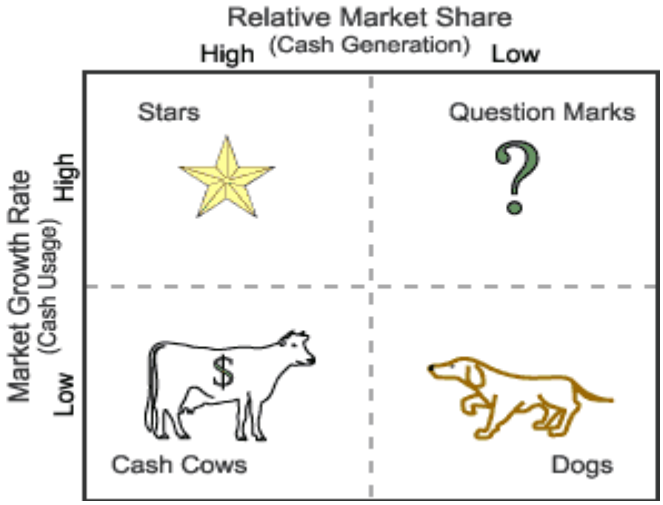
1. Define parameters to be measured
2. Define target values for those parameters
3. Perform measurements
4. Compare measured results to the pre-defined standard
5. Make necessary changes

BCG Growth-Share Matrix (Portfolio Management):-

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing a portfolio of different business units (or major product lines). The BCG growth-share matrix displays the various business units on a graph of the market growth rate vs. market share relative to competitors:

BCG Growth-Share Matrix

Resources are allocated to business units according to where they are situated on the grid as follows:



- **Cash Cow**:-A business unit that has a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be used to invest in other business units.

- **Star** - A business unit that has a large market share in a fast growing industry. Stars may generate cash, but because the market is growing rapidly they require investment to maintain their lead. If successful, a star will become a cash cow when its industry matures.

- **Question Mark (or Problem Child)** - A business unit that has a small market share in a high growth market. These business units require resources to grow market share, but whether they will succeed and become stars is unknown.

- **Dog** - A business unit that has a small market share in a mature industry. A dog may not require substantial cash, but it ties up capital that could better be deployed elsewhere. Unless a dog has some other strategic purpose, it should be liquidated if there is little prospect for it to gain market share.

The BCG matrix provides a framework for allocating resources among different business units and allows one to compare many business units at a glance. However, the approach has received some negative criticism for the following reasons:

• The link between market share and profitability is questionable since increasing market share can be very expensive.
• The approach may overemphasize high growth, since it ignores the potential of declining markets.
• The model considers market growth rate to be a given. In practice the firm may be able to grow the market.

These issues are addressed by the GE / McKinsey Matrix, which considers market growth rate to be only one of many factors that make an industry attractive, and which considers relative market share to be only one of many factors describing the competitive strength of the business unit.

The GE Business Screen:-

– A method of evaluating business in a diversified portfolio along two dimensions, each of which contains multiple factors:
  - Industry attractiveness.
  - Competitive position (strength) of each firm in the portfolio.
– In general, the more attractive the industry and the more competitive a business is, the more resources an organization should invest in that business.

Competitive Advantage:-

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage.

Michael Porter identified two basic types of competitive advantage:

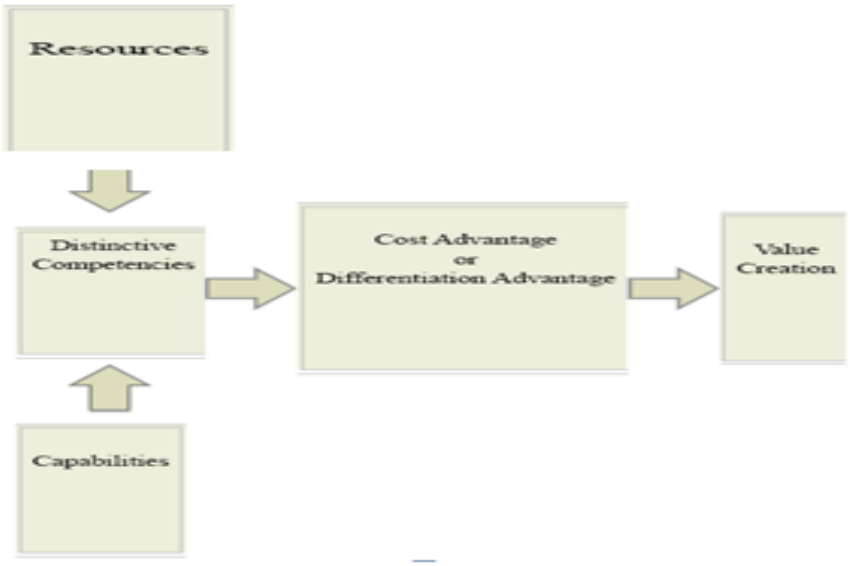
• Cost advantage
• Differentiation advantage

A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (**cost advantage**), or deliver benefits that exceed those of competing products (**differentiation advantage**). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation.
A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation.

The following diagram combines the resource-based and positioning views to illustrate the concept of competitive advantage:

A Model of Competitive Advantage:-



Resources and Capabilities:-

According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear.

Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. The following are some examples of such resources:

- Patents and trademarks
- Proprietary know-how
- Installed customer base
- Reputation of the firm
- Brand equity

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors.

Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate.

The firm's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

Value Creation:-

The firm creates value by performing a series of activities that Porter identified as the value chain. In addition to the firm's own value-creating activities, the firm operates in a value system of vertical activities including those of upstream suppliers and downstream channel members.

To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors.

Superior value is created through lower costs or superior benefits to the consumer (differentiation).

Without core competencies, a large corporation is just a collection of discrete businesses. Core competencies serve as the glue that bonds the business units together into a coherent portfolio.

Developing Core Competencies:-
According to Prahalad and Hamel, core competencies arise from the integration of multiple technologies and the coordination of diverse production skills. Some examples include Philip's expertise in optical media and Sony's ability to miniaturize electronics.

There are three tests useful for identifying a core competence. A core competence should:
1. Provide access to a wide variety of markets, and
2. Contribute significantly to the end-product benefits, and
3. be difficult for competitors to imitate.

Core competencies tend to be rooted in the ability to integrate and coordinate various groups in the organization. While a company may be able to hire a team of brilliant scientists in a particular technology, in doing so it does not automatically gain a core competence in that technology. It is the effective coordination among all the groups involved in bringing a product to market that result in a core competence.

It is not necessarily an expensive undertaking to develop core competencies. The missing pieces of a core competency often can be acquired at a low cost through alliances and licensing agreements. In many cases an organizational design that facilitates sharing of competencies can result in much more effective utilization of those competencies for little or no additional cost.

Core Products:-
Core competencies manifest themselves in core products that serve as a link between the competencies and end products. Core products enable value creation in the end products.

Examples of firms and some of their core products include:

- 3M - substrates, coatings, and adhesives
- Black & Decker - small electric motors
- Canon - laser printer subsystems
- Matsushita -VCR subsystems, compressors
- NEC - semiconductors
- Honda - gasoline powered engines

The core products are used to launch a variety of end products. For example, Honda uses its engines in automobiles, motorcycles, lawn mowers, and portable generators.

Because firms may sell their core products to other firms that use them as the basis for end user products, traditional measures of brand market share are insufficient for evaluating the success of core competencies. Prahalad and Hamel suggest that core product share is the appropriate metric.

While a company may have a low brand share, it may have high core product share and it is this share that is important from a core competency standpoint.

Once a firm has successful core products, it can expand the number of uses in order to gain a cost advantage via economies of scale and economies of scope.

Hierarchical Levels of Strategy:-
Strategy can be formulated on three different levels:

- Corporate level
- Business unit level
- Functional or departmental level.

While strategy may be about competing and surviving as a firm, one can argue that products, not corporations compete, and products are developed by business units. The role of the corporation then is to manage its business units and products so that each is competitive and so that each contributes to corporate purposes.

Consider Textron, Inc., a successful conglomerate corporation that pursues profits through a range of businesses in unrelated industries. Textron has four core business segments:

- Aircraft - 32% of revenues
- Automotive - 25% of revenues
- Industrial - 39% of revenues
- Finance - 4% of revenues.

While the corporation must manage its portfolio of businesses to grow and survive, the success of a diversified firm depends upon its ability to manage each of its product lines. While there is no single competitor to Textron, we can talk about the competitors and strategy of each of its business units. In the finance business segment, for example, the chief rivals are major banks providing commercial financing. Many managers consider the business level to be the proper focus for strategic planning.

Corporate Level Strategy:-
Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses.

Corporate level strategy is concerned with:

• **Reach -defining the issues that are corporate responsibilities**; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.

• **Competitive Contact -defining** where in the corporation competition is to be localized. Take the case of insurance: In the mid-1990's, Aetna as a corporation was clearly identified with its commercial and property casualty insurance products. The conglomerate Textron was not. For Textron, competition in the insurance markets took place specifically at the business unit level,

through its subsidiary, Paul Revere. (Textron divested itself of The Paul Revere Corporation in 1997.)

• **Managing Activities and Business Interrelationships** -Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities. Igor Ansoff introduced the concept of synergy to corporate strategy.

• **Management Practices** -Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

Business Unit Level Strategy:-
A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm.

At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation phase deals with:

- positioning the business against rivals
- anticipating changes in demand and technologies and adjusting the strategy to accommodate them
- influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Michael Porter identified three generic strategies (cost leadership, differentiation, and focus) that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces.

Differentiation strategy:-
An organization seeks to distinguish itself from competitors through the quality of its products or services.
Overall cost leadership strategy:-

An organization attempts to gain competitive advantage by reducing its costs below the costs of competing firms.

Focus strategy:-

An organization concentrates on a specific regional market, product line, or group of buyers.

Functional Level Strategy:-

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively.

Functional units of an organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher level strategies can be based. Once the higher-level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish for the strategy to succeed.

Horizontal Integration:-

The acquisition of additional business activities at the same level of the value chain is referred to as horizontal integration. This form of expansion contrasts with vertical integration by which the firm expands into upstream or downstream activities. Horizontal growth can be achieved by internal expansion or by external expansion through mergers and acquisitions of firms offering similar products and services. A firm may diversify by growing horizontally into unrelated businesses.

Some examples of horizontal integration include:

- The Standard Oil Company's acquisition of 40 refineries.
- An automobile manufacturer's acquisition of a sport utility vehicle manufacturer.
- A media company's ownership of radio, television, newspapers, books, and magazines.

Advantages of Horizontal Integration :-

The following are some benefits sought by firms that horizontally integrate:

- •Economies of scale -achieved by selling more of the same product, for example, by geographic expansion.
- Economies of scope -achieved by sharing resources common to different products; commonly referred to as "synergies."
- Increased market power (over suppliers and downstream channel members)
- Reduction in the cost of international trade by operating factories in foreign markets.

Sometimes benefits can be gained through customer perceptions of linkages between products. For example, in some cases synergy can be achieved by using the same brand name to promote

multiple products. However, such extensions can have drawbacks, as pointed out by Al Ries and Jack Trout in their marketing classic, Positioning.

Pitfalls of Horizontal Integration:-
Horizontal integration by acquisition of a competitor will increase a firm's market share. However, if the industry concentration increases significantly then anti-trust issues may arise.

Aside from legal issues, another concern is whether the anticipated economic gains will materialize. Before expanding the scope of the firm through horizontal integration, management should be sure that the imagined benefits are real. Many blunders have been made by firms that broadened their horizontal scope to achieve synergies that did not exist, for example, computer hardware manufacturers who entered the software business on the premise that there were synergies between hardware and software. However, a connection between two products does not necessarily imply realizable economies of scope.

Finally, even when the potential benefits of horizontal integration exist, they do not materialize spontaneously. There must be an explicit horizontal strategy in place. Such strategies generally do not arise from the bottom-up, but rather, must be formulated by corporate management.

PEST Analysis :-
A scan of the external macro-environment in which the firm operates can be expressed in terms of the following factors:
· Political
· Economic
· Social
· Technological

The acronym PEST (or sometimes rearranged as "STEP") is used to describe a framework for the analysis of these macro environmental factors. A PEST analysis fits into an overall environmental scan as shown in the following diagram:

Political Factors:
Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include:
· tax policy
· employment laws
· environmental regulations
· trade restrictions and tariffs
· political stability

Economic Factors :
Economic factors affect the purchasing power of potential customers and the firm's cost of capital. The following are examples of factors in the macroeconomy:
· economic growth

· interest rates
· exchange rates
· inflation rate

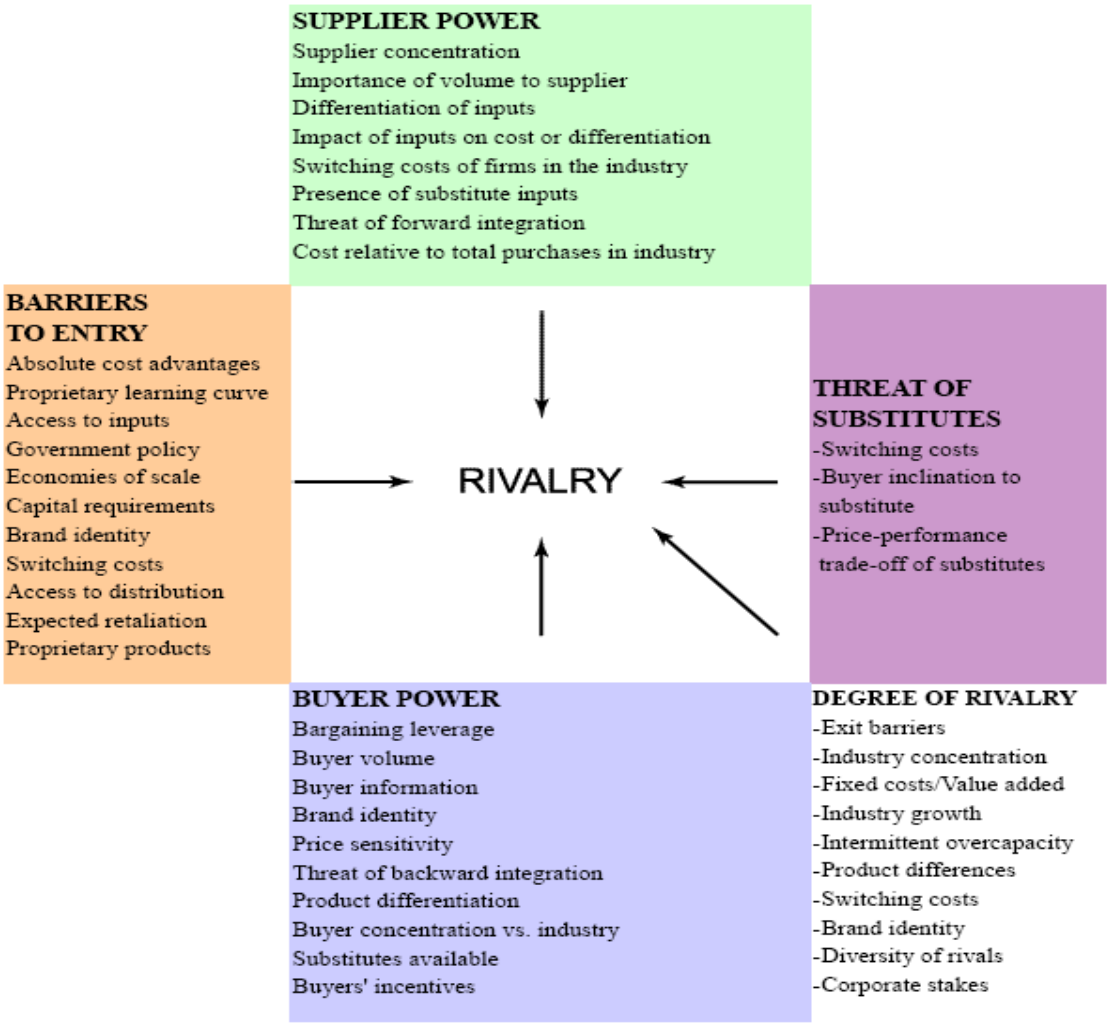
Social Factors :-
Social factors include the demographic and cultural aspects of the external macro environment. These factors affect customer needs and the size of potential markets. Some social factors include:
· health consciousness
· population growth rate
· age distribution
· career attitudes
· emphasis on safety

Technological Factors:-
Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include:
· R&D activity · automation · technology incentives · rate of technological change etc

A MODEL FOR INDUSTRY ANALYSIS (Porter's Five Forces):-
The model of pure competition implies that risk-adjusted rates of return should be constant across firms and industries. However, numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure.

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.

Diagram of Porter's 5 Forces



I. Rivalry

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

Economists measure rivalry by indicators of industry concentration. The Concentration Ratio (CR) is one such measure. The Bureau of Census periodically reports the CR for major Standard Industrial Classifications (SIC's). The CR indicates the percent of market share held by the four largest firms (CR's for the largest 8, 25, and 50 firms in an industry also are available). A high concentration ratio indicates that a high concentration of market share is held by the largest firms the industry is concentrated. With only a few firms holding a large market share, the competitive landscape is less competitive (closer to a monopoly). A low concentration ratio indicates that the industry is characterized by many rivals, none of which has a significant market share. These fragmented markets are said to be competitive. The concentration ratio is not the

only available measure; the trend is to define industries in terms that convey more information than distribution of market share.

If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the industry's history of competition, the role of a leading firm, or informal compliance with a generally understood code of conduct. Explicit collusion generally is illegal and not an option; in low-rivalry industries competitive moves must be constrained informally. However, a maverick firm seeking a competitive advantage can displace the otherwise disciplined market.

When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage.

In pursuing an advantage over its rivals, a firm can choose from several competitive moves; Changing prices - raising or lowering prices to gain a temporary advantage.

- Improving product differentiation -improving features, implementing innovations in the manufacturing process and in the product itself.

- Creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry. For example, with high-end jewelry stores reluctant to carry its watches, Timex moved into drugstores and other non-traditional outlets and cornered the low to mid-price watch market.

- Exploiting relationships with suppliers -for example, from the 1950's to the 1970's Sears, Roebuck and Co. dominated the retail household appliance market. Sears set high quality standards and required suppliers to meet its demands for product specifications and price.

The intensity of rivalry is influenced by the following industry characteristics:

1. A larger number of firms increase rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.

2. Slow market growth causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.

3. High fixed costs result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.

4. High storage costs or highly perishable products cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.

5. Low switching costs increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.

6. Low levels of product differentiation is associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.

7. Strategic stakes are high when a firm is losing market position or has potential for great gains. This intensifies rivalry.

8. High exit barriers place a high cost on abandoning the product. The firm must compete. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable. A common exit barrier is asset specificity. When the plant and equipment required for manufacturing a product is highly specialized, these assets cannot easily be sold to other buyers in another industry. Litton Industries' acquisition of Ingalls Shipbuilding facilities illustrates this concept. Litton was successful in the 1960's with its contracts to build Navy ships. But when the Vietnam War ended, defense spending declined and Litton saw a sudden decline in its earnings. As the firm restructured, divesting from the shipbuilding plant was not feasible since such a large and highly specialized investment could not be sold easily, and Litton was forced to stay in a declining shipbuilding market.

9. A diversity of rivals with different cultures, histories, and philosophies make an industry unstable. There is greater possibility for mavericks and for misjudging rival's moves. Rivalry is volatile and can be intense. The hospital industry, for example, is populated by hospitals that historically are community or charitable institutions, by hospitals that are associated with religious organizations or universities, and by hospitals that are for-profit enterprises. This mix of philosophies about mission has lead occasionally to fierce local struggles by hospitals over who will get expensive diagnostic and therapeutic services. At other times, local hospitals are highly cooperative with one another on issues such as community disaster planning.

10. Industry Shakeout. A growing market and the potential for high profits induces new firms to enter a market and incumbent firms to increase production. A point is reached where the industry becomes crowded with competitors, and demand cannot support the new entrants and the resulting increased supply. The industry may become crowded if its growth rate slows and the market becomes saturated, creating a situation of excess capacity with too many goods chasing too few buyers. A shakeout ensues, with intense competition, price wars, and company failures. BCG founder Bruce Henderson generalized this observation as the Rule of Three and Four: a stable market will not have more than three significant competitors, and the largest competitor will have no more than four times the market share of the smallest. If this rule is true, it implies that:

- If there is a larger number of competitors, a shakeout is inevitable

- Surviving rivals will have to grow faster than the market
- Eventual losers will have a negative cash flow if they attempt to grow
- All except the two largest rivals will be losers
- The definition of what constitutes the "market" is strategically important.

Whatever the merits of this rule for stable markets, it is clear that market stability and changes in supply and demand affect rivalry. Cyclical demand tends to create cutthroat competition. This is true in the disposable diaper industry in which demand fluctuates with birth rates, and in the greeting card industry in which there are more predictable business cycles.

II. Threat of Substitutes

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products -as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

The competition engendered by a Threat of Substitute comes from products outside the industry. The price of aluminum beverage cans is constrained by the price of glass bottles, steel cans, and plastic containers. These containers are substitutes, yet they are not rivals in the aluminum can industry. To the manufacturer of automobile tires, tire retreads are a substitute. Today, new tires are not so expensive that car owners give much consideration to retreading old tires. But in the trucking industry new tires are expensive and tires must be replaced often. In the truck tire market, retreading remains a viable substitute industry. In the disposable diaper industry, cloth diapers are a substitute and their prices constrain the price of disposables.

While the treat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing the threat of substitutes. Consider the substitutability of different types of TV transmission: local station transmission to home TV antennas via the airways versus transmission via cable, satellite, and telephone lines. The new technologies available and the changing structure of the entertainment media are contributing to competition among these substitute means of connecting the home to entertainment. Except in remote areas it is unlikely that cable TV could compete with free TV from an aerial without the greater diversity of entertainment that it affords the customer.

III. Buyer Power

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a monopsony -a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers. The following tables outline some factors that determine buyer power.

IV. Supplier Power

A producing industry requires raw materials -labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. The following tables outline some factors that determine supplier power.

V. Barriers to Entry / Threat of Entry

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are barriers to entry.

Barriers to entry are more than the normal equilibrium adjustments that markets typically make. For example, when industry profits increase, we would expect additional firms to enter the market to take advantage of the high profit levels, over time driving down profits for all firms in the industry. When profits decrease, we would expect some firms to exit the market thus restoring market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. Firms also may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs. These are normal accommodations to market conditions. But if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such entry-deterring pricing establishes a barrier.

Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage. Barriers to entry arise from several sources:

1. **Government creates barriers**. Although the principal role of the government in a market is to preserve competition through anti-trust actions, government also restricts competition through the granting of monopolies and through regulation. Industries such as utilities are considered natural monopolies because it has been more efficient to have one electric company provide power to a locality than to permit many electric companies to compete in a local market. To restrain utilities from exploiting this advantage, government permits a monopoly, but regulates the industry. Illustrative of this kind of barrier to entry is the local cable company. The franchise to a cable provider may be granted by competitive bidding, but once the franchise is awarded by a community a monopoly is created. Local governments were not effective in monitoring price gouging by cable operators, so the federal government has enacted legislation to review and restrict prices. The regulatory authority of the government in restricting competition is historically evident in the banking industry. Until the 1970's, the markets that banks could enter were limited by state governments. As a result, most banks were local commercial and retail banking facilities. Banks competed through strategies that emphasized simple marketing devices such as awarding toasters to new customers for opening a checking account. When banks were deregulated, banks were permitted to cross state boundaries and expand their markets. Deregulation of banks intensified rivalry and created uncertainty for banks

as they attempted to maintain market share. In the late 1970's, the strategy of banks shifted from simple marketing tactics to mergers and geographic expansion as rivals attempted to expand markets.

2. **Patents and proprietary knowledge serve to restrict entry into an industry**. Ideas and knowledge that provide competitive advantages are treated as private property when patented, preventing others from using the knowledge and thus creating a barrier to entry. Edwin Land introduced the Polaroid camera in 1947 and held a monopoly in the instant photography industry. In 1975, Kodak attempted to enter the instant camera market and sold a comparable camera. Polaroid sued for patent infringement and won, keeping Kodak out of the instant camera industry.

3. **Asset specificity inhibits entry into an industry**. Asset specificity is the extent to which the firm's assets can be utilized to produce a different product. When an industry requires highly specialized technology or plants and equipment, potential entrants are reluctant to commit to acquiring specialized assets that cannot be sold or converted into other uses if the venture fails. Asset specificity provides a barrier to entry for two reasons: First, when firms already hold specialized assets they fiercely resist efforts by others from taking their market share. New entrants can anticipate aggressive rivalry. For example, Kodak had much capital invested in its photographic equipment business and aggressively resisted efforts by Fuji to intrude in its market. These assets are both large and industry specific. The second reason is that potential entrants are reluctant to make investments in highly specialized assets.

4. **Organizational (Internal) Economies of Scale**. The most cost efficient level of production is termed Minimum Efficient Scale (MES). This is the point at which unit costs for production are at minimum -i.e., the most cost efficient level of production. If MES for firms in an industry is known, then we can determine the amount of market share necessary for low cost entry or cost parity with rivals. For example, in long distance communications roughly 10% of the market is necessary for MES. If sales for a long distance operator fail to reach 10% of the market, the firm is not competitive. The existence of such an economy of scale creates a barrier to entry.
The greater the difference between industry MES and entry unit costs, the greater the barrier to entry. So, industries with high MES deter entry of small, start-up businesses. To operate at less than MES there must be a consideration that permits the firm to sell at a premium price -such as product differentiation or local monopoly.

Barriers to exit work same as barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry -unable to leave the industry, a firm must compete.

Some of an industry's entry and exit barriers can be summarized as follows:

Easy to Enter if there is:	**Difficult to Enter if there is:**
• Common technology • Little brand franchise	• Patented or proprietary know-how • Difficulty in brand switching

• Access to distribution channels • Low scale threshold	• Restricted distribution channels • High scale threshold
Easy to Exit if there are: • Salable assets • Low exit costs • Independent businesses	**Difficult to Exit if there are:** • Specialized assets • High exit costs • Interrelated businesses

DYNAMIC NATURE OF INDUSTRY RIVALRY:-

Our descriptive and analytic models of industry tend to examine the industry at a given state. The nature and fascination of business is that it is not static. While we are prone to generalize, for example, list GM, Ford, and Chrysler as the "Big 3" and assume their dominance, we also have seen the automobile industry change. Currently, the entertainment and communications industries are in flux. Phone companies, computer firms, and entertainment are merging and forming strategic alliances that re-map the information terrain. Schumpeter and, more recently, Porter have attempted to move the understanding of industry competition from a static economic or industry organization model to an emphasis on the interdependence of forces as dynamic, or punctuated equilibrium, as Porter terms it.

Porter's Five Forces In Action: Coca-Cola

Since its introduction in 1979, Michael Porter's Five Forces has become the de facto framework for industry analysis. The five forces measure the competitiveness of the market deriving its attractiveness. The analyst uses conclusions derived from the analysis to determine the company's risk from in its industry (current or potential). The five forces are (1) Threat of New Entrants, (2) Threat of Substitute Products or Services, (3) Bargaining Power of Buyers, (4) Bargaining Power of Suppliers, (5) Competitive Rivalry Among Existing Firms.

The following is a Five Forces analysis of The Coca-Cola Company in relationship to its Coca-Cola brand.

Threat of New Entrants/Potential Competitors: Medium Pressure

- Entry barriers are relatively low for the beverage industry: there is no consumer switching cost and zero capital requirement. There is an increasing amount of new brands appearing in the market with similar prices than Coke products
- Coca-Cola is seen not only as a beverage but also as a brand. It has held a very significant market share for a long time and loyal customers are not very likely to try a new brand.

Threat of Substitute Products: Medium to High pressure

- There are many kinds of energy drink s/soda/juice products in the market. Coca-cola doesn't really have an entirely unique flavor. In a blind taste test, people can't tell the difference between Coca-Cola and Pepsi.

The Bargaining Power of Buyers: Low pressure

- The individual buyer no pressure on Coca-Cola
- Large retailers, like Wal-Mart, have bargaining power because of the large order quantity, but the bargaining power is lessened because of the end consumer brand loyalty.

The Bargaining Power of Suppliers: Low pressure

- The main ingredients for soft drink include carbonated water, phosphoric acid, sweetener, and caffeine. The suppliers are not concentrated or differentiated.
- Coca-Cola is likely a large, or the largest customer of any of these suppliers.

Rivalry Among Existing Firms: High Pressure

- Currently, the main competitor is Pepsi which also has a wide range of beverage products under its brand. Both Coca-Cola and Pepsi are the predominant carbonated beverages and committed heavily to sponsoring outdoor events and activities.
- There are other soda brands in the market that become popular, like Dr. Pepper, because of their unique flavors. These other brands have failed to reach the success that Pepsi or Coke have enjoyed.

Case Study-SWOT Analysis Wal-Mart

Strengths

- Wal-Mart is a powerful retail brand. It has a reputation for value for money, convenience and a wide range of products all in one store.
- Wal-Mart has grown substantially over recent years, and has experienced global expansion (for example its purchase of the United Kingdom based retailer ASDA).
- The company has a core competence involving its use of information technology to support its international logistics system. For example, it can see how individual products are performing country-wide, store-by-store at a glance. IT also supports Wal-Mart's efficient procurement.
- A focused strategy is in place for human resource management and development. People are key to Wal-Mart's business and it invests time and money in training people, and retaining a developing them.

Weaknesses

- Wal-Mart is the World's largest grocery retailer and control of its empire, despite its IT advantages, could leave it weak in some areas due to the huge span of control.
- Since Wal-Mart sell products across many sectors (such as clothing, food, or stationary), it may not have the flexibility of some of its more focused competitors.
- The company is global, but has has a presence in relatively few countries Worldwide.

Opportunities

- To take over, merge with, or form strategic alliances with other global retailers, focusing on specific markets such as Europe or the Greater China Region.
- The stores are currently only trade in a relatively small number of countries. Therefore there are tremendous opportunities for future business in expanding consumer markets, such as China and India.
- New locations and store types offer Wal-Mart opportunities to exploit market development. They diversified from large super centers, to local and mall-based sites.
- Opportunities exist for Wal-Mart to continue with its current strategy of large, super centers.

Threats

- Being number one means that you are the target of competition, locally and globally.
- Being a global retailer means that you are exposed to political problems in the countries that you operate in.
- The cost of producing many consumer products tends to have fallen because of lower manufacturing costs. Manufacturing cost has fallen due to outsourcing to low-cost regions of the World. This has lead to price competition, resulting in price deflation in some ranges. Intense price competition is a threat.

'Wal-Mart Stores, Inc. is the world's largest retailer, with $256.3 billion in sales in the fiscal year ending Jan. 31, 2004. The company employs 1.6 million associates worldwide through more than 3,600 facilities in the United States and more than 1,570 units . . .

Case Study-SWOT Analysis Starbucks

Strengths

- Starbucks Corporation is a very profitable organization, earning in excess of $600 million in 2004.The company generated revenue of more than $5000 million in the same year.
- It is a global coffee brand built upon a reputation for fine products and services. It has almost 9000 cafes in almost 40 countries.
- Starbucks was one of the *Fortune Top 100 Companies to Work For* in 2005. The company is a respected employer that values its workforce.
- The organization has strong ethical values and an ethical mission statement as follows, *'Starbucks is committed to a role of environmental leadership in all facets of our business.'*

Weaknesses

- Starbucks has a reputation for new product development and creativity. However, they remain vulnerable to the possibility that their innovation may falter over time.
- The organization has a strong presence in the United States of America with more than three quarters of their cafes located in the home market. It is often argued that they need to look for a portfolio of countries, in order to spread business risk.
- The organization is dependant on a main competitive advantage, the retail of coffee. This

could make them slow to diversify into other sectors should the need arise.

Opportunities

- Starbucks are very good at taking advantage of opportunities.
- In 2004 the company created a CD-burning service in their Santa Monica (California USA) cafe with Hewlett Packard, where customers create their own music CD.
- New products and services that can be retailed in their cafes, such as Fair Trade products.
- The company has the opportunity to expand its global operations. New markets for coffee such as India and the Pacific Rim nations are beginning to emerge.
- Co-branding with other manufacturers of food and drink, and brand franchising to manufacturers of other goods and services both have potential.

Threats

- Who knows if the market for coffee will grow and stay in favor with customers, or whether another type of beverage or leisure activity will replace coffee in the future?
- Starbucks are exposed to rises in the cost of coffee and dairy products.
- Since its conception in Pine Place Park, Seattle in 1971, Starbucks' success has lead to the market entry of many competitors and copy cat brands that pose potential threats.

'Starbucks' mission statement is *'Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow.'*

Understanding TOWS Matrix

Why use the tool?

TOWS Analysis is an effective way of combining a) internal strengths with external opportunities and threats, and b) internal weaknesses with external opportunities and threats to develop a strategy.

How to use tool:

To carry out a TOWS Analysis, consider the following combinations:

Strengths/Opportunities:

Consider all strengths one by one listed in the SWOT Analysis with each opportunity to determine how each internal strength can help you capitalize on each external opportunity.

Strength/Threats:

Consider all strengths one by one listed in the SWOT Analysis with each threat to determine how each internal strength can help you avoid every external threat.

Weaknesses/Opportunities:

Consider all weaknesses one by one listed in the SWOT Analysis with each opportunity to determine how each internal weakness can be eliminated by using each external opportunity.

Weaknesses/Threats:

Consider all weaknesses one by one listed in the SWOT Analysis with each threat to determine both can be avoided.

Global Trends

As the summary "Top Trends" suggests, we are living in exciting times, and you're at the forefront of it. The world is changing in dramatic ways, and as a manager, you're in the best position to take advantage of these changes. Let's look at 10 major ways in which the world is changing; we'll characterize the first five as challenges and the next five as solutions.

Top Trends

Top 5 Challenge Trends

1. Increasing Concern for the Environment
2. Greater Personalization and Customization
3. Faster Pace of Innovation
4. Increasing Complexity
5. Increasing Competition for Talent

Top 5 Solution Trends

1. Becoming More Connected
2. Becoming More Global
3. Becoming More Mobile
4. Rise of the Creative Class
5. Increasing Collaboration

Top 5 Challenge Trends

Increasing Concern for the Environment

We all seem to believe that the weather has been getting weirder in recent decades, and analysis by the National Oceanic and Atmospheric Administration (NOAA) suggests that there have been more catastrophic weather events in recent years than 10–20 years ago. People are seeing the growing threat of global warming, which is leading to failing crops, rising sea levels, shortages of drinking water, and increasing death tolls from disease outbreaks such as malaria and dengue fever. Currently, 175 nations have signed the Kyoto Protocol on climate change and pledged to begin the long process of reducing greenhouse gas emissions. According to McKinsey's Global Survey of Business Executives, executives across the world believe that business plays a wider role in society and has responsibility to address issues such as environmental concerns beyond

just following the letter of the law to minimize pollution. More and more companies now watch the "triple bottom line"—the benchmark of how they benefit, not just (1) profits but also (2) employees and (3) the environment as a whole. Companies realize they have to take bold steps to minimize their carbon footprint, create environmentally friendly products, and manage the company for more than just the next quarter's profits. Managers can't simply "greenwash" (pretend to be green through tiny steps and heavy advertising).

Greater Personalization and Customization

We're no longer happy with cookie-cutter products. Consumers are demanding more say in products and services. One size no longer fits all, and that means tailoring products and services to meet specific customer preferences. And as companies sell their products globally, that tailoring has to meet vastly different needs, cultural sensitivities, and income levels. Even something simple such as Tide laundry detergent can come in hundreds of potential variants in terms of formulations (powders, liquids, tablets), additives (whiteners, softeners, enzymes), fragrances (unscented, mountain fresh, floral), and package sizes (from single-load laundromat sizes to massive family/economy sizes). Customization and the growing numbers of products mean managing more services and more products.. Managing for mass production won't suffice in the future.

Faster Pace of Innovation

We all want the next new thing, and we want it now. New models, new products, and new variations—companies are speeding new products to market in response to customer demands. The Finland-based mobile phone maker Nokia sells 150 different devices, of which 50–60 are newly introduced each year. The new variations are tailored to local languages, case colors, carriers, add-ons, and content. David Glazer, engineering director at Google, explained how his company adapts to this fast pace: "Google has a high tolerance for chaos and ambiguity. When we started OpenSocial [a universal platform for social-network applications], we didn't know what the outcome was going to be." So Google started running a bunch of experiments. "We set an operational tempo: when in doubt, do something," Glazer said, "If you have two paths and you're not sure which is right, take the fastest path."

Increasing Complexity

Because we want more sustainability, more customization, and more innovation, companies face growing complexity. Nokia's 50–60 new phone models a year all have 300–400 components, some of which contain millions or hundreds of millions of transistors. Those components have to arrive at the right manufacturing location (Nokia has 10 worldwide) from whichever country they originated and arrive just in time to be manufactured.

Increasing Competition for Talent

We need people who can solve all these tough problems, and that's a challenge all by itself. According to McKinsey's global survey of trends, business executives think that this trend, among all trends, will have the greatest effect on their companies in the next five years. Jobs are also getting more complex. Consider people who work in warehouses doing shipping and receiving. At Intel, these workers were jokingly called "knuckle-dragging box pushers" and known for using their brawn to move boxes. Now, the field of transportation and shipping has become known as "supply chain management" and employees need brains as well as brawn—they need to know science and advanced math. They're called on to do mathematical models of transportation networks to find the most efficient trucking routes (to minimize environmental impact) and to load the truck for balance (to minimize fuel use) and for speed of unloading at each destination. Intel now acknowledges the skills that supply chain people need. The company created a career ladder leading to "supply chain master" that recognizes employees for developing expertise in supply chain modeling, statistics, risk management, and transportation planning. Overall, demand will grow for new types of talent such as in the green energy industry. At the same time, companies face a shrinking supply of seasoned managers as baby boomers retire in droves. Companies will have to deal with shortages of specific skills.

Top 5 Solution Trends

Becoming More Connected

We can now use the Internet and World Wide Web to connect people with people as never before. By mid-2008, more than 1.4 billion people were online, and that number continues to increase each year as the developing world catches up with the developed world on Internet usage.Retrieved October 7, 2000, from http://www.internetworldstats.com/stats.htm. Through over a 100 million Web sites, we can access information, words, sounds, pictures, and video with an ease previously unimaginable.

Becoming More Global

We can now tap into more global suppliers and global talent. Whatever problem a manager faces, someone in the world probably has the innovative products, the knowledge, or the talent to address the problem. And the Internet gives managers to the tools to help problems find solutions, customers find suppliers, and innovators find markets. The global problems we face will require people to work together to solve them. Ideas need to be shaped and implemented. Moving ideas around the world is a lot less costly and generates less greenhouse gases than moving people and products around the world. Organizations and social movements alike are using social networking to help people find others with the skills and talents to solve pressing problems.

Becoming More Mobile

We can now reach employees, suppliers, and customers wherever they are. By the end of 2008, 60% of the world's population—4 billion people—were using mobile phones.And, like Internet use, mobile phone adoption continues to grow. The penetration of mobile phones is changing the way we do business because people are more connected and able to share more information. Two-way, real-time dialogue and collaboration are available to people anytime, anywhere. The low cost of phones compared with computers puts them in the hands of more people around the world, and the increasing sophistication of software and services for the phone expands its use in business settings. Phones are not just a voice communication device—they can send text as well as be a connective device to send data. The fastest mobile phone growth is in developing countries, bringing connectivity to the remotest regions. Fisherman off the coast of southern India can now call around to prospective buyers of their catch before they go ashore, which is increasing their profits by 8% while actually lowering the overall price consumers have to pay for fish by 4%.

In South Africa, 85% of small black-owned businesses rely solely on mobile phones. Nokia has 120,000 outlets selling phones in India, where half the population lives in rural areas, not cities.

Rise of the Creative Class

With blogs, Flickr, and YouTube, anyone can post their creative efforts. And with open source and wikis, anyone can contribute ideas and insights. We have ubiquitous opportunities for creativity that are nurturing a new creative class. For example, *OhmyNews*, a popular newspaper, is written by 60,000 contributing "citizen reporters." It has become one of South Korea's most influential news sources, with more than 750,000 unique users a day.

The demand for workers and ability for workers to work from anywhere may lead to an "e-lance economy." Workers may become free agents, working temporarily on one project and then moving to another when that project is done. Mobile connectivity means these new workers can live anywhere in the world and can work from anywhere in their community. For you as a manager, this means managing workers who might be in a cubicle in Columbus, Ohio, an apartment in Amsterdam, or an Internet café in Bangalore.

Increasing Collaboration

These solution trends combine to foster a rise in collaboration across space and time. We can now bring more people together to solve more problems more quickly. To design new products quickly—and make sure they meet consumer needs—companies are now looking beyond their four walls for innovation. Google, for example, identifies itself as an organization that believes in open, decentralized innovation. "Google can't do everything. And we shouldn't," said Andy

Rubin, senior director of Mobile Platforms. “

While the handset alliance is about open cell phones (i.e., phones that aren’t tied to any particular phone company and can be programmed by users just like Apple or Palm’s “apps”), collaboration means much more than communications. People can now not just communicate but actually collaborate, building coalitions, projects, and products. –

Groups self-organize on the Web. For example, the MIT-based Vehicle Design Summit is virtual, so students from around the world can participate. The goal is to make a low-cost, 200-mpg four-seater for the Indian market; in 2008, about 200 students participated in this international open-source project.

Globalization and Cross-Cultural Lessons

Despite the growing importance of global business, *Fortune* 500 companies have reported a shortage of global managers with the necessary skills.

It’s easy to understand the problem: communicating and working with people from different countries can be a challenge—not just because of language issues but also because of different cultural norms. For example, in the United States, we tend to be direct in our communication. If you ask a U.S. manager a question, you’ll tend to get a direct answer. In other cultures, particularly in southern Europe and Japan, the answer to a question begins with background and context—not the bottom line—so that the listener will understand how the person arrived at the conclusion. Similarly, in some cultures, it is considered rude to deliver bad news or say “no” to a request—instead, the speaker would give a noncommittal answer like “we’ll see” or “we’ll try.”

Country-by-country differences are so prevalent that a worldwide team of scholars proposed to create and validate a theory of the relationship between culture and societal, organizational, and leadership effectiveness. Called the GLOBE Project, it included 170 researchers working together for 10 years to collect and analyze data on cultural values and practices and leadership attributes from more than 17,000 managers in 62 societal cultures. In its 2006 report, GLOBE identified the following nine dimensions of culture.

Performance Orientation

Should you reward people for performance improvement and excellence? In countries like the United States and Singapore, the answer is yes. Organizations in these countries use employee training and development to help people improve their skills and performance. In countries like Russia and Greece, however, family and background count for more than performance.

Uncertainty Avoidance

Life often brings unpredictable events, and with them anxiety. **Uncertainty avoidance** reflects the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty. Should you establish rules, procedures, and social norms to help your employees deal with uncertainty? In countries where uncertainty avoidance is high, like Brazil and Switzerland, the answer is yes. People in such societies want strict rules, laws, and policies to eliminate or control the unexpected. Employees in these countries tend to seek order, consistency, and structure. Countries with low uncertainty avoidance, in contrast, are less rule-oriented. They tolerate a variety of opinions and are open to change and taking risks. Countries with low uncertainty avoidance include Hong Kong and Malaysia.

Assertiveness

How assertive, confrontational, or aggressive should you be in relationships with others? In highly assertive countries like the United States and Austria, competition between individuals and groups is encouraged. Managers may set up incentives that reward the best idea, even it it's contrary to established practices. People in less assertive countries, like Sweden and New Zealand, prefer harmony in relationships and emphasize loyalty and solidarity.

Power Distance

Power distance reflects the extent to which the less powerful members of institutions and organizations expect and accept that power is distributed unequally. Should you distribute decision-making power equally among the group? In high-power-distance countries like Thailand, Brazil, and France, the answer is no. People in these societies expect unequal power distribution and greater stratification, whether that stratification is economic, social, or political. People in positions of authority in these countries expect (and receive) obedience. Decision making is hierarchical with limited participation and communication. Australia, in contrast, has a power distance rating that is much lower than the world average. The Australian view reinforces cooperative interaction across power levels and stresses equality and opportunity for everyone.

Gender Egalitarianism

Should you promote men rather than women? Counties with low gender egalitarianism are male dominated. Men hold positions of power to a much greater extent in low-gender-egalitarianism countries like Egypt and South Korea. Companies operating in more gender-egalitarian countries such as the Nordic countries, Germany, and the Netherlands encourage tolerance for diversity of ideas and roles regardless of gender.

Institutional Collectivism

Institutional collectivism refers to the extent to which people act predominantly as a member of

a lifelong group or organization. Should you reward groups rather than individuals? In countries with high institutional collectivism such as Sweden, the answer is yes. Countries with low institutional collectivism, such as in the United States, emphasize individual achievement and rewards.

Humane Orientation

Should you reward people for being fair, altruistic, generous, and kind to others? In countries such as Malaysia, this practice is more prevalent and encouraged than in low-humane-orientation countries such as Germany.

Future Orientation

Will your employees favor activities that involve planning and investing in the future for long-term payoff? Or do they want to see short-term results? **Future orientation** is defined as one's expectations and the degree to which one is thoughtful about the future. It is a multifaceted concept that includes planning, realism, and a sense of control. Companies in countries with high future orientation, such as China and Singapore, will have a longer-term planning horizon, and they will be more systematic about planning. Corporations in countries that are the least future-oriented, such as Argentina and Russia, will be more opportunistic and less systematic. At the same time, they'll be less risk averse.

Global Ventures Gone Awry

When Corning proposed a joint venture with a Mexican glass manufacturer, Vitro, the match seemed made in heaven. But just two years later, the venture was terminated. What happened? Cultural clashes eroded what could have been a lucrative partnership. To start, American managers were continually frustrated with what they perceived to be slow decision making by Mexican managers. Mexico ranks higher on the power distance dimension than the United States—company structures are hierarchical, and decisions are made only by top managers. Loyalty to these managers is a high priority in Mexico, and trying to work around them is a big taboo. Mexicans also have a less urgent approach to time. They see time as more abundant than their U.S. counterparts. As a result, Mexicans thought that Americans wanted to move too fast on decisions, and they perceived American directness in communication as aggressive.

Additional vignettes on managing across borders are shared next.

Managing Across Borders

Lines on the Map Miss the Real Story

Diversity is deeper than variations between countries. Sometimes those differences appear in different regions of the same country. For example, some parts of Mexico don't use Spanish as the primary language. Wal-Mart's Mexico's Juchitan store, therefore, conducts business in the local Zapotec tongue, encourages female employees to wear traditional Zapotec skirts, and does the morning company cheer in Zapotec.

Talent Abroad

With so much variation across countries, it's no surprise that countries vary in level of talent and the supply of managerial, skilled, and unskilled labor. Companies shouldn't assume that emerging market countries offer inferior labor pools. GM, for instance, found that 50% of its assembly-line workers in India have college degrees—a ratio much higher than in other countries.

Local Solutions by People Who Understand Local Needs

Nokia uses local designers to create country-specific handset models. The models designed in India for Indians are dust resistant and have a built-in flashlight. The models designed in China for the Chinese have a touch screen, stylus, and Chinese character recognition. Local designers are more likely to understand the needs of the local population than headquarters-located designers do.

Strategic Management in Summary:-

1) Strategic management involves deciding what is important for the long-range success of your business and focusing on it.
2) Strategic management asks, "How should I position my business to meet management and business goals?"
3) A business strategy is a series of business decisions that lead to achieving a business goal.
4) Strategic management involves the "big picture" of your business.
5) Strategic management involves planning, analyzing and implementing a business strategy.
6) Strategic management is most effective if you can step back far enough and say "all things are possible."
7) The essence of strategic management is matching business resources to market opportunities.
8) Strategic management involves seeking and identifying opportunities and threats in the market and industry and the outside world in general.
9) Strategic management is based on the premise that "all businesses are not the same."
10) Strategic management involves assessing the strengths and weaknesses of your business.
11) When assessing strengths and weaknesses, personal skills and abilities are likely to be more important than business assets.
12) Strategic management involves looking into the future rather than dwelling on the past.

13) Strategic management is proactive rather than reactive.
14) Strategic management involves anticipating change and taking advantage of it.
15) Strategic thinking involves assessing how decisions made today will affect my business in the future.
16) Strategic management is more of a state-of mind than a rigid process.
17) A military connotation of strategic management is “it hasn’t won every war, but it has avoided a lot of ambushes.”
18) Strategic management is most useful for businesses with unique or differentiated products for niche, specialty or differentiated product Markets.
19) Strategic planning comes before business planning. Strategic planning is used to identify and assess alternative business strategies. Business planning is used to implement a business strategy.
20) Strategic planning is more words and less numbers than business planning.
21) A strategic plan is a “living” document that changes as your goals and resources evolve.

Chapter 10: Mental Conditioning

ENTREPRENEUR VS PROFESSIONAL MANAGERS

Introduction

Entrepreneurs and professional managers are the two sides of the coin. Their individual itineraries will make the difference between success and failure for the enterprise.

An effective entrepreneurial strategy should be an integral part of an enterprise's competitive positioning. The progressive development in the size of business and the separation of ownership and management in enterprises has made management a distinct profession. Although both strive to achieve the similar goals they are said to distinguish themselves in varied measures.

According to the Sachar Committee on Company Law "A professional manager is an individual who

i. belongs to the profession of law, accountancy, medicine, engineering or architecture, or

ii. is a member of a recognised professional body or institutional body exercising supervisory jurisdiction over its members, or

iii. is a holder of a degree or diploma in management from any recognised university and possesses not less than five years experience in an executive capacity in a company, corporation or in the government"; or possesses minimum of ten years' experience in the same capacity and in the same institutions mentioned in the third category.

A professional manager is one who specializes in the work of planning, organizing, leading and controlling the efforts of others by the systematic used of classified knowledge and

principles. He subscribes to the standards of practice and code of ethics established by a recognized body. To be a professional manager he should

i. have an insight of his job requirements;

ii. carry out continuous updating of his learning to fulfill his job requirements;

iii. have a performance-oriented relationship with his subordinates, super-ordinates and colleagues based on mutual respect to facilitate team work for collective contribution to the organization;

iv. have a relationship based on long-term mutual benefit approach with customers, suppliers and other members of the public, and

v. have communication with colleagues to improve the standard contribution and the prestige managerial profession.

Professional Management

The progressive development in the size of business and the separation of ownership and management in the corporate enterprises have contributed to the emergence of management as a distinct profession. A management can be professional not, by hiring professional managers but by adopting the style of professional management. Professional management organizes managerial functions by setting long- term objectives, formulating policies and strategies, developing formal communication network and evaluation system to deal with the emergence of business problems.

The characteristics of professional management are as follows:

Body of Knowledge: Management theory has a philosophy of its own. It is based on systematic and scientific studies. Precisely, the management of knowledge is' the passport to enter the world of entrepreneurship.

Management Tools: Tools of management such as accounting, business law, psychology, statistics and data processing have been developed to enhance the practical utility of the science of management.

Specialization: There is a growing tendency to select and appoint highly qualified, trained and experienced persons to manage the business in each functional area of management. This has created greater demand for professionals.

Separate Discipline: Management studies in many universities and institutions of higher learning are recognized as a separate discipline. Seminars, special courses, and training programmes have become essential in management areas like export management, personnel management, production management, marketing management, financial' management, etc.

Code of Conduct: Business management is regarded as a social institution. It has social. responsibilities towards customers, employees' and the society on the whole. Consumer-oriented marketing concept is an important corporate code of conduct. Pressure of consumerism, trade unionism, public opinion and legislation are definitely inducing the management to evolve a code of ethics for consumer satisfactions and. holding a major market share.

Professional Association: In our country too, business management associations have' been formed. They mainly aim at spreading the ethics of business management and build up a sound public image of the managerial profession.

A professional manager is required to possess specific management knowledge relating to (a) Technical processes, products, materials, equipment and procedures; (b) Economic knowledge about the basic objective of the entrepreneurs and its position in the economic and social system within which it is operating; (c) Human knowledge about employee motivation, moral and delegation of authority; and (d) Administrative knowledge about application and analysis of data. This will facilitate him to deal with various problems of the organisation in an effective manner.

A person can become a professional manager by the acquisition of knowledge through formal education. . An owner-manager can achieve success due to his personal cultural traits.

Many great entrepreneurs are self-made, for they were not handicapped by their lack of formal education but came out as successful entrepreneurs due to their skill

and intelligence. One can easily identify such an entrepreneur manager in any profession, may it be bide or aggravate manufacturing, polishing or grinding, retailing or wholesaling.

Managers and Entrepreneurs

Both managers and entrepreneurs are answerable for producing results. The results are, of course, different. In their respective result areas, the buck stops with them. While they can delegate, they are finally accountable.

Both have to produce results through people working with them though they deal with different sets of people. They are not effective in the long run, if they are

loners.

Both are decision-makers but the decisions are different as their tasks vary. Both have to operate under constraints, which are understandably different.

To be effective in their respective roles, both have to follow sound principles of management like planning, staffing, delegation and control. The focus of these management tools may vary depending upon the ultimate purpose.

Similarities between Managers and Entrepreneurs

. • To produce results

. • To produce results through people

. • To take decisions

. • To cooperate under constraints

. • To follow sound principles of management

A successful organisation needs both entrepreneurship and management. The Chief Executive and his team of top-level executives, the managerial role by the middle- level and joint-level executives may play the entrepreneurial role;

A Management Tool

The efficiency of professional management lies in the managerial approach, which does not suffer from dogmatic, ideological and political trappings. It is an approach which trackless the problem as a 'whole' and not in 'fractions.'

The professional manager brings into operation planning, organising, staffing, motivating, controlling and coordinating the work of technocrats and professional aspects to achieve predetermined goals. The professional manager must possess a desire to achieve, to expand, to build and to grow. His goal should be to produce the best results in the shortest time and at least cost. The manager, who has had to benefit of management education and has exposed to the managerial tools and techniques of achieving the profit- cum-growth, will be in a position to deliver the goods to in developing economy like ours.

It is characteristic of an established profession that its members accept the obligation to contribute to the advancement of standards and to the education of the future aspirants. The more eminent the member, the more readily he recognizes the obligation. 'It is quite likely that his personal contribution to teaching may be small but it will be of high quality. This is the task facing the professional managers of the future.

The entrepreneur may be a, manager but a paid manager cannot acquire the position of an entrepreneur.

An entrepreneur has great motivation to manage his business successfully. He is keen towards developing business through innovation, and is satisfied when his efforts give him positive results. He is the investor, risk-bearer, manager and controller. The

entrepreneur may appoint a manager and delegate some of his functions. However, manager even after performing his assigned duties cannot substitute the entrepreneur.

The entrepreneur lays down a broad policy for business, assumes risk and makes the business a concern. The main factors, which distinguish an entrepreneur from a professional manager as shown below:

Distinctive Features of Entrepreneurs and Professional Manager

Professional Manager

1. Setting of objectives
2. Policy formulation
3. Strategic Planning
4. Formal communication
5. Organising
6. Motivating

7 Controlling

8. Administrator
9. Skilled, knowledgeable
10. Confident
11. Specialist
12. Loyal
13. Planner
14. Implementer

Entrepreneur

1. Perception of an/opportunity
2. Risk-taking

3. Tactical Planning

4. Interpersonal communication

5. Negotiating

6. Troubleshooting

7. Making it a growing concern

8. Innovator

9. Motivator

10. Determined

11. Idealist

12. Committed

13. Visionary

14. Planner

Entrepreneur vs. Manager: The, entrepreneur is a person who is motivated satisfy a high need for achievement in innovative and creative activities. His creative behaviour and innovative spirit. which forms a process of an endless chain is termed as entrepreneurship. It is not enough for the entrepreneur to build up the process, but equally important task for him is to manage the business. He performs entrepreneurial vis-à-vis managerial functions. The entrepreneur enters at a transitional stage in which what is initially with innovation becomes a routine., for him the transition from entrepreneurship to management. Also, the emphasis switches from techniques and analytical methods to insight and to involvement with people. The entrepreneur perceives and exploits opportunity, and the subsequent steps necessary for organization and pertinent to management.

The entrepreneur differs from the professional manager in that he undertakes a venture for his personal gratification. As such he cannot live within the framework of occupational behaviour set by others. He may engage professional manager to perform some of his

functions such as setting of objectives, policies, procedures, rules, strategies and formal communication network. However; the entrepreneurial functions of innovation? Assumption of business risk and commitment to his vision cannot be delegated to the' professional manager. Failure to the professional executive may mean a little more than locating a new job perhaps even at a higher salary, whereas failure of an entrepreneur in his efforts would mean a devastating loss to his career. The professional manager has to work within the framework of policy guidelines laid down by the entrepreneur.

Entrepreneur and Enterprises

Entrepreneur is the fourth factor of enterprise. According to Noah Webster, "entrepreneur is one who assumes the risk and management of business."

The enterprise is the basic unit of an economic organisation. It produces goods and services worth more than the resources used. Thus, any effort for it to bear fruit ultimately affect directly or indirectly individual enterprise. Enterprise is an undertaking, which involves activity, courage, and energy. It involves the willingness to assume risks and decision making, in undertaking an economic activity. It also involves innovation. Thus, entrepreneur and enterprise are inter-linked, enterprise being the offshoot of an entrepreneur. Its success is dependent on the entrepreneur. Peter Drucker has observed, "Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being practiced."

Intrapreneurs

Of late, a new breed of corporate entrepreneurs has come to the fore in large organizations. They are called "intrapreneurs." They are entrepreneurs who catch hold of a new idea for a product, service, or process and work to bring this idea to fruition within the framework of the organisation. Intrapreneurs with their innovations and dedicated effort are perceived as a valuable asset by the organisation, inspiring others. He serves as a champion to others in the organisation. In America, a number of intrapreneurs are leaving their jobs to start their own ventures. Many such intrapreneurs have become exceedingly successful in their new

ventures and, what is more, they are causing a threat to the companies they left a few years ago.

Entrepreneur vs. Administrator

Management in a small business organisation is performed quite differently from the management process in large companies In fact, the role of entrepreneurs is quite different "from the' role of professional administrators in large organisations. A person in effective control of a business unit underlines the adaptive nature of managerial processes in a small firm. Entrepreneurship has connotations of enterprise, opportunism, individuality, in contrast to the. Connotations of the terms "manager" and "administration", which are associated with notions of organisation, planning, professionalism, rationality and. predictive management processes.

The administrator in a large firm is primarily concerned with those activities relevant to predictive management processes, that is, with activities related to prediction

and control On the other hand, the owner-manager of a small business organisation needs primarily to perform activities relevant to adaptive management process, activities that enable him to exploit the advantages he has in being a small enterprise. An entrepreneur puts emphasis on the entrepreneurial activities of management process, so he would hold attitudes related to entrepreneurial orientation, while the administrator of a large organisation would hold attitudes related to the administrative.

Owner-Manager vs. Professional-Manager

The owner-manager is identified with individuality, flair, strong motivation to achieve success and the urge to grow while the professional manager conjures up a picture of organising, planning, motivating and controlling. The owner-manager exhibits a strong desire for independence, which he demonstrates through the building of an organisation. The owner-manager assumes all business risks and stands to lose not only his capital but reputation and prestige in the event of failure of business, whereas the professional manager is not exposed to such risks.

The differences between an owner-manager and a professional manager are much deeper which can be studied with respect to the function, business philosophy, and the characteristic skills which each incorporates.

"When entrepreneurs and investors come together to pool resources, they form a team. When employees and self employed specialists come together to network, they form a union." – Robert Kiyosaki

Sometimes, both of them are mistaken as being the same but they are not. However, both entrepreneurs and managers are needed for the growth of any business. One cannot do without the other. So without much ado, below are 12 differences between entrepreneurs and managers.

Entrepreneurs vs. Managers: What's the big difference?

1. The Job of an Entrepreneur Begins Before Even the Business is Created
An entrepreneur will perceive an opportunity, assemble a team, locate resources for his new business idea, raise the needed capital and start the business while the manager comes in only after the foundation has been laid and the business established. What this mean in essence is that the job of a manager begins only after the entrepreneur has done the ground work. Without entrepreneurs, the managers will have no business to manage.

2. Entrepreneurs are more concerned with the launching and sustainability of a business in the face of uncertainty while managers are more concerned with the effective and efficient operation of an on-going business.

3. Managers are specialists; business management specialist to be precise. They are focused on managing and growing a business. On the other hand, entrepreneurs are generalist. They need to know a little about everything. An entrepreneur must know a little about product development and design, business law, accounting, communication and public speaking, investing, leadership, business systems, finance and insurance, marketing and sales, raising capital and so on. An entrepreneur's cup must never be full.
"A cup that is full is useless." – Chinese proverb

4. Entrepreneurs are street smarts; they learn by trial and error, they learn from their own mistakes and the business mistakes of others. An entrepreneur starts with whatever is on ground and learns the hard way. That's why most of the successful entrepreneurs of the world are school drop out billionaires. On the other hand, managers are thoroughly trained in school in the area of business management. That's why they are refered to as MBAs. Entrepreneurs get their education from the streets.

"Business and financial intelligence are not picked up within the four walls of school. You pick them up on the streets. In school, you are taught how to manage other people's money. On the streets, you are taught how to make money." – Ajaero Tony Martins

5. Financial freedom is the utmost priority of entrepreneurs. Freedom to do what they want, freedom to live the kind of life they love and freedom to make a choice. To managers, security is the utmost priority. Security comes in the form of a steady paycheck, pension, gratuity, pay raises, job titles, promotions, bonuses and entitlements.
6. An entrepreneur owns the business; a manager is simply an employee that works in the entrepreneur's business. In essence, a manager owns a job. A manager is paid to run the entrepreneur's business.

7. The reward of entrepreneurs come in the form of capital gains, asset acquisition, cash flow, and dividend while the managers reward come in form of salaries, pay offs, promotion, job title, bonus and incentives.

8. Entrepreneurs thrive on risk and uncertainty. To entrepreneurs, risk and uncertainty are part of the game of entrepreneurship; risk is what makes the game exciting. Managers on the other hand are conservative and detest risk; they simply avoid it.
"Without the element of uncertainty, the bringing off of even, the greatest business triumph would be dull, routine and eminently unsatisfying." – J. Paul Getty
"You must take risks, both with your own money or with borrowed money. Risk taking is essential to business growth." – J. Paul Getty

9. Entrepreneurs see mistakes as an avenue to learn something; they learn more from their business mistakes. Managers avoid mistakes because it will cost them their job. Besides; that is why they are being paid; to avoid mistakes. That is where the word "*professionalism*" comes in.

10. When entrepreneurs come together to pool resources or network, they form a team but when managers who are usually employees come together to work towards a common goal, they form a union.

11. Entrepreneurs are primarily motivated by the need to build a business that solves a problem or provide a need, while providing them cash flow and freedom. Managers on the other hand are motivated by the next paycheck, bonus, incentive, pay off, job title and promotion.

12. Entrepreneurs are committed to the business from its inception till they achieve their goal. Managers on the other hand are committed till the next paycheck; delay or cut their paycheck and they are gone.

"I'm not afraid of turning 80 and I have lots of things to do. I don't have time for dying." – Ingvar Kamprad
As a final note; the successful entrepreneurs and business leaders of the business world are *Henry Ford, Andrew Carnegie, Henry Ross Perot, Bill Gates, Oprah Winfrey, Larry Ellison and Aliko Dangote*; the richest black man in the world. On the other hand, the renowned corporate managers of the business world are *Alfred P. Sloan, Jack Welch and Lee Iacocca*.

Innovation & Creativity in Organizations

Introduction: Innovation is the spark that makes good companies great. It's not just invention but also a style of corporate behavior comfortable with new ideas and risk. Companies that know how to innovate don't necessarily throw money into R.& D. Instead they cultivate a new style of corporate behavior that is comfortable with new ideas, change, risk and even failure, according to "Americas most Admired Companies," fortune, March 3, 1997.

Joseph V. Anderson has defined creativity as "nothing more than going beyond the current boundaries, whether those are boundaries of technology, knowledge, current practices, social norms, or beliefs. Creativity is nothing more than seeing and acting on new relationships thereby bringing them to life. While there are many definitions of innovation, it is defined here very simply: using creativity to add value. Value can be economic, social, psychological, or aesthetic.

Creativity is not a personality trait available to only a few. Research has shown everyone has some creativity, but it has been stifled by Freud's thinking that artistry and creativity are associated with mental illness and the scientific emphasis on materialism and analytical thinking.

There are 120 different, special, and measurable aspects of creative thinking which particularly distinguish humans from other species. These wide-ranging creative faculties have been, and continue to be, critical to mankind's ability to adapt to changing situations, environments, and systems. Extensive studies of creative thinking have firmly established that individuals exhibiting higher than average scores in creative thinking also exhibit higher than average scores in areas of mental emotional health course of instruction is applied imagination produce significant gains in personality traits such as confidence, self-reliance, persuasiveness, initiative, and persuasiveness, initiative, and leadership. The challenge is to create an environment that will bring out the creativity of everyone and make those who have demonstrated creativity even more creative.

The social can most definitely affect intrinsic motivation. A study has identified six factors of environmental stimulants to creativity (freedom, positive challenge, supervisory encouragement, work group supports, organizational encouragement and sufficient resources) and two environmental obstacles to creativity (organizational roadblocks and excessive workload pressure).A creative environment requires more than providing intrinsic rewards. It requires rethinking organizational designs. We have made organizations fit Newtonian mechanical models by putting responsibilities into functions and people into roles with boundaries and a secure sense of control.

The Newtonian model of the world is characterized by reductionism, determinism, predictability, equilibrium, and control.

The new model challenges us to accept that organizations are fluid, chaotic, and subject to unseen fields of energy, present concepts of leadership must change. Gone is the heretical model with the person at the top controlling everyone by holding all information? No one person possesses all of the knowledge or skills to control a fluid, rapidly evolving system. Leading gives way to facilitating relationships in a system where knowledge and skill are networked.Leadership in the new organization consists of facilitating shared values. This facilitatorship must take place in an environment that has relationships that freely share ownership, information, and ideas. Facilitation and sharing are basic to creative problem solving. Creative problem solving is needed to transform an organization into a continuously innovative one.

The steps to integrate creativity into a decisive decision involves many steps. Listed in order of development:

1. Vision
2. Goals
3. Situation analysis
4. Macro
5. Micro
6. Opportunities, problems, causes
7. Alternative – Solutions

8. Resources required
9. Evaluation of alternatives
10. selection
11. Action plan
12. Implementation
13. Measure results

Taking innovation one-step further the Osborn –Parnes model stresses four critical rules that must apply to each stage: Withholding judgment, freewheeling, generating a quantity of ideas, and hitchhiking on the ideas of other.Judging more than any other event will shut down idea generation. Judging is a psychological threat. Unfortunately, our culture has taught us that large doses of judgment are perquisites for extrinsic rewards.

Hitchhiking creates ideas that combine the best ideas of everyone on the team. It can also help during implementation if all members see a piece of their idea in the final solution.

Creating an environment that is tolerant of mistakes is difficult. It must be made clear that mistakes are acceptable if they are based on solid thinking, enhance learning of what will not work, and are caught early before damage is severe. There must be support for the people who were on the team of the project that failed.

The Kirton Adapter – Innovator (KAI) inventory measures preferred styles for problem-solving. The adaptor prefers to be creative within the present system. The innovator wants to create new definitions of the problem and new systems. Thus, both types are creative, but their styles are different. Adapters include bank managers, accountants, production managers, and programmers. Innovators include persons in marketing, finance, and fashion buyers.

Thomas Edison had all the characteristics of a risk taker innovator. He was a divergent thinker, making observations about the natural world. He was not afraid of failure. The lessons learned in one of his failures led to success in another project. In addition to the light bulb, his 1,093 patents included familiar ones such as the microphone & batteries.

Creative leadership must facilitate positive relationships in organizations to produce profitable growth through innovation. We now know that creativity is not a personality trait that is available for geniuses. Everyone has unique knowledge and

experiences that can be tapped, given the proper environment. This environment must be free flowing and non-judging to take people through the mental block they learned in early childhood. These blocks are associated with the risk of being wrong.

The motivation for innovating comes largely from the joy of doing something that has never been done before. It is like going on an expedition and risking everything to be the first person to climb a mountain or sail around the world. It taps the same drive that exists within a composer or an artist who wishes to create something forever.

What seems to stop the flow of creativity and innovations within organizations?

We've all experienced meetings where we've asked our staffs for their thoughts and ideas. We needed their creativity, innovation, and insight to resolve problems or to take advantage of opportunities. Their response or lack thereof, was very discouraging.

We ask ourselves why does this happen? Many factors come into play.

Fear. This discourages idea sharing. No one likes to look stupid in front of peers. Ideas are very personal. Presenting an idea in public puts the ideas creator in a glaring spotlight.

When we were young, we became conditioned. The humiliation we experienced when we gave the "wrong" answer to the teacher's question in front of all of our classmates. The fear of public humiliation is enough to keep the most innovative person quiet.

Self-assessment. Before we will ever state an idea out long, we play it over and over in our heads. We look for different ways to discredit our own ideas, and we eventually discard the thought. Too often, we believe we have nothing of merit to provide because we didn't work directly within an issue or in a specific area.We tend to keep our thought to ourselves if they pertain to areas we are unfamiliar with.

On one hand, the silence could be an issue of reciprocating turf protection. Then again, it could simply be motivated by slightly tilted dedication to common courtesy. If the problem isn't directly with the scope of our assigned duties and responsibilities, we might hold back. When the hope that our colleagues will do the same down the road when something comes up in our area.

The remedies to these situations are really quite simple. The first thing you and your managers must do is to keep solicit ting ideas. Never stop asking what your staff are thinking, what opportunities they see that you and others might have missed. Give them a safe environment for sharing. No boundaries. All ideas are good ideas. It's simply a matter of some ideas being more doable then others.

It's extremely important to your staff's development to be continually challenged by what they do. Boredom and routine kill creative thinking and problem solving. The mind, like other muscles, needs to be exercised regularly.

The work we once did with our hands is done increasingly in our heads. The United States is transitioning into an idea economy where innovation is replacing industrialization, and creativity is the key to selling products and services.

Employees with a creative side are leading the way into the idea economy. About 38 million workers, roughly 30 percent of the work force are employed in creative professions, and the numbers keep growing.Today, highly skilled workers see themselves as artists who need space to think and create. Heavy-handed management just gets in the way of the creative process.To manage the creative enterprise is as much as art as science. Creative people are driven by exciting work more than by a paycheck, and they need to express themselves through their work. A mind set foreign to many employers.

To manage creative people, feedback is important because creative employees are more emotionally involved with their work. The brainstorming and planning process is the desirable process for a creative mind. A manager should articulate the vision and goals to the creative employee and then let him go and create. It is important not to over manage.

Creative people are not the best time managers. Time management is not their strong suit. therefore a manager must set perimeters from the beginning of the project.

A manager should also be flexible with scheduling because creativity and innovative employees need to get away from the four walls to come up with new ideas. They need time to go somewhere they can get inspired and be creative, because that is what they are being paid for.On a larger perspective, for a nation, to be healthy and creative it must have the ability to renew itself constantly. This applies to companies, organizations and governments.

Innovation is risky not just for the individual but especially for large companies. Studies show that the probability of economic success from innovation is between 20% and 30%. It takes guts to live with risk, get creative and innovate!

As a 20% to 30% success rate, it becomes necessary to improve the chances of success. Leadership is of course the first key to success. Successful innovation requires a clear vision defined by the leadership of the organization as well as the creation of an environment where this vision can be shared by colleagues. This combination of vision and environment is called strategic context. Organizations rely on it to harness their creativity. Without a clear strategic context, creativity may blossom, but it will be misplaced. Strategic context gives purpose and direction, benchmarks and role models. It shows the way ahead.

The second key to success is to learn how to manage risk. This means that senior and junior players in an organization act as innovators and entrepreneurs, and that they can inspire others to do the same. Taking risks is not just about jumping in foolishly, but assessing in a cool and rational way what the risks are and preparing for them.

Innovation inevitably starts with creativity. Many of us have some creativity and it is the organizations role to provide an environment where we dare to be creative.

Innovation is essentially an “enterprise of enterprise”: it is a risky effort that must be borne by the whole organization. In order to implement innovation the whole organization has to take ownership of it.

Once innovation is in place then comes implementation. Edison once said that success is 2% inspiration and 98% perspiration. The best ideas can get lost in beau racy as well as in weighty details. This way, under situations of high uncertainty, project management is so vital. Managing the unknowable requires astute knowledge management, as well as being flexible and so on. Time is also a valuable resource and, to be innovative, speed in implementation must move along in a timely manner without compromising quality.

A last key to insure success is marketing. In a competitive world where complete originality and genius are rare, good marketing is the innovators most important key to insure success.

Chapter 11: Recent Trends in Management

Social Responsibilities of Management

The term social responsibilities can be defined as the obligation of management towards the society and others concerned.

Reason for Social Responsibilities**:** Business enterprises are creatures of society and should respond to the demands of society. If the management does not react to changes in social demands, the society will either force them to do so through laws or will not permit the enterprise to survive. Therefore the longterm interests of business are best served when management assume social responsibilities. The image of business organization liked with the quality of its products and customer service and the extent to which it fulfills the expectations of owners, employees, consumers, government and the community at large. For longterm success it matters a great deal if the firm has a favourable image in the public mind. Every business enterprise is a organ of society and its activities have impact on the social scene. Therefore, it is important for management to consider whether their policies and actions are likely to promote the public good, advances the basic values of society, and constitute to its stability,strength and harmony.

Increasing concern for the social responsibility of management, it is now recognized that besides taking care of the financial interest of owners, managers of business firms must also take into account the interest of various other groups such as employees, consumers, the government and the community as a whole. These interested groups are directly or indirectly affected by the pursuit of business activities and they are the stake-holders of the business enterprise.

Responsibility towards owners: The primary responsibilities of management is to assure a fair and reasonable rate of return on capital and fair return on investment can be determined on the basis of difference in the risks of business in different fields of activity. With the growth of business the shareholders can also expect appreciation in the value of their capital.

Responsibility towards employees: Management responsibility towards employees relate to the fair wages and salaries, satisfactory work environment, labour management relations and employee welfare. Fair wages should be fixed in the light of labor productivity, the prevailing wage rates in the same or neighbouring areas and relative importance of jobs. Managers salaries and allowances are expected to be linked with their responsibility, initiative and skill. But the spread between minimum wages and highest salaries should be reasonable. Employees are expected to build up and maintain harmonious relationships between superior and subordinates. Another aspect of responsibility towards employees is the provision of welfare amenities like safety and security of working conditions, medical facilities, housing, canteen, leave and retirement benefits.

Responsibility towards **consumers:** In a competitive market, serving consumers is supposed to be a prime concern of management. But in reality perfect competition does not prevail in all product markets. In the event of shortage of supply there is no automatic correction. Besides

consumers are often victims of unfair trade practices and unethical conduct of business. Consumer interests are thus protected to some extent with laws and pressure of organized consumer groups. Management should anticipate these developments, satisfy consumer needs and protect consumer interests. Goods must be of appropriate standard and quality and be available in adequate quantities at reasonable prices. Management should avoid resorting to hoarding or creating artificial scarcity as well as false and misleading advertisements.

Responsibility towards the Governments: As a part of their social responsibility, management must conduct business affair in lawful manner, honestly pay all the taxes and dues, and should not corrupt public officials for selfish ends. Business activities must also confirm to the economic and social policies of the government.

Responsibility **towards the community and society:** The socially responsible role of management in relation to the community are expected to be revealed by its policies with respect to the employment of handicapped persons, and weaker sections of the community, environmental protection, pollution control, setting up industries in backward areas, and providing relief to the victims of natural calamities etc.

Crisis Management - Introduction

Defining and categorising crises

A crisis is defined as

- An unexpected event that threatens the wellbeing of a company, or
- A significant disruption to the company and its normal operations which impacts on its customers, employees, investors and other publics

Crises can be categorised as

- Fairly predictable and quantifiable crises, or
- Totally unexpected crises

Types of crises

Natural disaster (so called acts of God)

- Physical destruction due to natural disaster e.g. flood
- Environmental disaster

Industrial accident

- Construction collapse
- Fire
- Toxic release

Product or service failure

- Product recall
- Communications failure
- Systems failure
- Machine failure causes massive reduction in capacity
- Faulty or dangerous goods
- Health scare related to the product of industry

Public relations

- Pressure group or unwelcome media attention.
- Adverse publicity in the media.
- Removal/loss of CEO or other key management

Business and management

- Hostile takeover
- Sudden strike by workforce or that of a key supplier
- Major customer withdraws its support
- Competitor launches new product
- Sudden shortfall in demand

Legal

- Product liability
- Health scare
- Employee or other fraud

Examples of crises

- Asian tsunami - crisis for the countries concerned and for the tourist industry
- Three Mile Island - US nuclear industry crisis in the 1980s
- Sudan 1 dyestuff in processed food
- Coca Cola's Dansani purified water –contained a carcenogen and as a result the European launch was abandoned
- Hurricane Katrina
- Johnson & Johnson –Tylenol Case Study

Case study - Exxon Valdez

- This oil tanker which got into trouble in Prince William Sound off Alaska caused an oil spillage amounting to 30m US gallons
- In addition to the loss of product and a major asset:
- The clean up took three years and cost Exxon $2.2 billion
- Legal settlement with the state and federal government amounted to $1billion

Case study - Buntsfield (2005)

In 2005 the oil storage depot at Buntsfield, Hemel Hempstead suffered major explosion and fire The result was:

- Loss of product
- Significant loss of capacity
- Disruption to supplies
- Loss of business
- Physical damage to neighbouring houses and commercial premises
- Possible environmental damage
- Damage to reputation
- Claims for compensation
- Legal action

Case study - a different type of disaster

- In 1991 Gerald Ratner, head of the chain of high street jewellers that bore his name, explained why his products were so inexpensive
- He said that a decanter sold in his shop was cheap because it was "total crap"
- He "sold a pair of earrings for under £1,which was cheaper than a prawn sandwich from M&S, but probably wouldn't last as last as long"
- The result: share values fell substantially, Mr Ratner left the company and it was sold

Change Management - Introduction

Change management is an important aspect of management that tries to ensure that a business**responds to the environment** in which it operates.

There are four key features of change management:

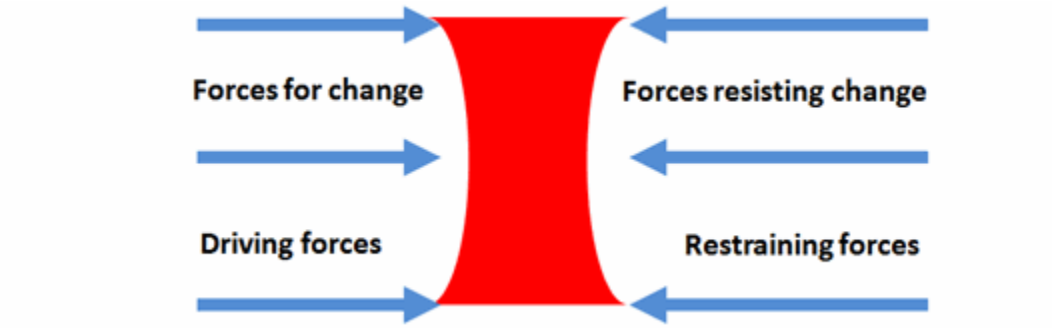
- Change is the result of dissatisfaction with present strategies
- It is essential to develop a **vision** for a better alternative
- Management have to develop strategies to **implement change**
- There will be **resistance** to change

Many factors drive change in a business. **Lewin** identified four forces:

In Lewin's model there are forces **driving change** and forces **restraining it**. Where there is equilibrium between the two sets of forces there will be no change. In order for change to occur the**driving force must exceed the restraining force** Lewin's analysis can be used to:

- Investigate the balance of power involved in an issue
- Identify the key stakeholders on the issue
- Identify opponents and allies
- Identify how to influence the target groups

Forces for change include:



Some examples of the forces that drive change include:

Internal forces

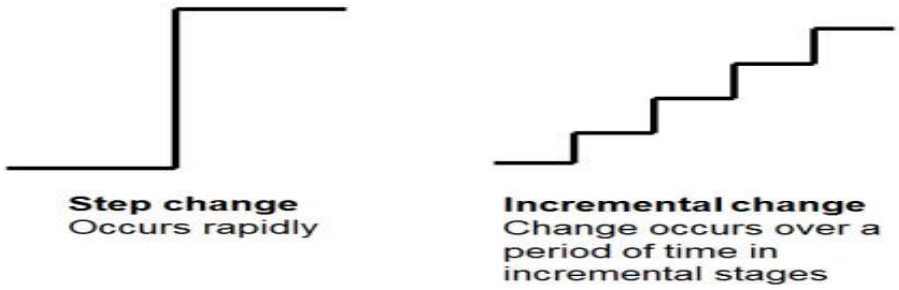
Desire to increase profitability Reorganisation to increase efficiency Conflict between departments To change organisational culture

External forces

Customer demand Competition Cost of inputs Legislation & taxes Political Ethics & social valuesTechnological change

Step change versus incremental change

Change can also be defined in terms of the significance and speed of change. A common distinction is made between **step** change and **incremental** change.



Step change

- Dramatic or radical change in one fell swoop
- Radical alteration in the business
- Gets it over with quickly
- May require some coercion

Incremental change

- Ongoing piecemeal change which takes place as part of an organisation's evolution and development
- Tends to more inclusive

Management of change issues

The motivation to change

Change can be a gradual evolution or a sudden transformation. The factors of change from the external environment include:

- ♦ Regulatory changes that organisations must comply with.
- ♦ Sudden economic shocks leading to transformational change.
- ♦ Social changes.
- ♦ Technological developments.

The internal forces that can bring about change include the following:

- ♦ There is a continuous reaction to historical changes.
- ♦ innovation - the company may develop a new product or a new manufacturing process.
- ♦ individual executives' ambition.
- ♦ the pursuit of growth.

Attitudes to change

The role of management is to anticipate the need for change, create an atmosphere of acceptance of change and manage the stages of introduction and implementation. Negative attitudes towards change can be due to the following:

- Lack of understanding of the need for change.
- Uncertainty of the effect that the change will have on their lives.
- Self interest - people may resist change because it could take away something they value.

The management of change

The organisation can create an atmosphere in which employees are willing to consider change by:

- setting simple and clear goals for what the change should achieve.
- creating an agenda for change (ie, state clearly what is going to be changed and when).
- creating a supportive organisational structure (ie, set up help desks to deal with concerns).
- selecting key people to lead change - chosen because of their position or influence.

Total Quality Management (TQM)

Total Quality Management (TQM) is a philosophy that says that uniform commitment to quality in all areas of an organization promotes an organizational culture that meets consumers' perceptions of quality.

The concept of TQM rests largely on five principles:

1. Produce quality work the first time.
2. Focus on the customer.
3. Have a strategic approach to improvement.
4. Improve continuously.
5. Encourage mutual respect and teamwork.

To be effective in improving quality, TQM must be supported at all levels of a firm, from the highest executive to the lowest-level hourly employee. TQM extends the definition of quality to

all functional areas of the organization, including production, marketing, finance, and information systems. The process begins by listening to customers' wants and needs and then delivering goods and services that fulfill these desires. TQM even expands the definition of customer to include any person inside or outside the company to whom an employee passes his or her work. In a restaurant, for example, the cooks' customers are the waiters and waitresses. This notion encourages each member of the organization to stay focused on quality and remain fully aware of his or her contribution to it and responsibility for it.

The TQM philosophy focuses on teamwork, increasing customer satisfaction, and lowering costs. Organizations implement TQM by encouraging managers and employees to collaborate across functions and departments, as well as with customers and suppliers, to identify areas for improvement, no matter how small. Teams of workers are trained and empowered to make decisions that help their organization achieve high standards of quality. Organizations shift responsibility for quality control from specialized departments to all employees. Thus, total quality management means a shift from a bureaucratic to a decentralized approach to control.

An effective TQM program has numerous benefits. Financial benefits include lower costs, higher returns on sales and investment, and the ability to charge higher rather than competitive prices. Other benefits include improved access to global markets, higher customer retention levels, less time required to develop new innovations, and a reputation as a quality firm. Only a small number of companies use TQM because implementing an effective program involves much time, effort, money, and patience. However, firms with the necessary resources may gain major competitive advantages in their industries by implementing TQM.

Major Contributors to TQM

Total quality management is a much broader concept than just controlling the quality of the product itself. Total quality management is the coordination of efforts directed at improving customer satisfaction, increasing employee participation, strengthening supplier partnerships, and facilitating an organizational atmosphere of continuous quality improvement. TQM is a way of thinking about organizations and how people should relate and work in them. TQM is not merely a technique, but a philosophy anchored in the belief that long-term success depends on a uniform commitment to quality in all sectors of an organization.

W. Edwards Deming

The concept of quality started in Japan when the country began to rebuild after World War II. Amidst the bomb rubble, Japan embraced the ideas of W. Edwards Deming, an American whose methods and theories are credited for Japan's postwar recovery. Ironically enough, Deming's ideas were initially scoffed at in the U.S. As a result, TQM took root in Japan 30 years earlier than in the United States. American companies took interest in Deming's ideas only when they began having trouble competing with the Japanese in the 1980s.

Deming's management system was philosophical, based on continuous improvement toward the perfect ideal. He believed that a commitment to quality requires transforming the entire organization. His philosophy is based on a system known as the Fourteen Points. These points express the actions an organization must take in order to achieve TQM:

1. **Create constancy of purpose for improvement of product and service.**Dr. Deming suggests a radical new definition of a company's role: A better way to make money is to stay in business and provide jobs through innovation, research, constant improvement, and maintenance.
2. **Adopt a new philosophy.** For the new economic age, companies need to change into "learning organizations." Furthermore, we need a new belief in which mistakes and negativism are unacceptable.
3. **Cease dependence on mass inspection.** Eliminate the need for mass inspection by building quality into the product.
4. **End awarding business on price.** Instead, aim at minimum total cost, and move towards single suppliers.
5. **Improve the system of production and service constantly.** Improvement is not a one-time effort. Management is obligated to continually look for ways to reduce waste and improve quality.
6. **Institute training.** Too often, workers learn their jobs from other workers who have never been trained properly.
7. **Institute leadership.** Leading consists of helping people to do a better job and to learn by objective methods.
8. **Drive out fear.** Many employees are afraid to ask questions or to take a position—even when they do not understand what their job is or what is right or wrong. The economic losses from fear are appalling. To assure better quality and productivity, it is necessary that people feel secure.
9. **Break down barriers between departments.** Often, company departments or units compete with each other or have goals that conflict. They do not work as a team; therefore they cannot solve or foresee problems. Even worse, one department's goal may cause trouble for another.
10. **Eliminate slogans, exhortations, and numerical targets for the workforce.** These never help anybody do a good job. Let workers formulate their own slogans; then they will be committed to the contents.
11. **Eliminate numerical quotas or work standards.** Quotas take into account only numbers, not quality or methods. They are usually a guarantee of inefficiency and high cost.
12. **Remove barriers that prevent workers from taking pride in their workmanship.** Too often, misguided supervisors, faulty equipment, and defective materials stand in the way of good performance. These barriers must be removed.

13. **Institute a vigorous program of education.** Both management and the work force will have to be informed of new knowledge and techniques.
14. **Take action to accomplish the transformation.** It will require a special top management team with a plan of action to carry out the quality mission. Workers cannot do it on their own, nor can managers. A critical mass of people in the company must understand the Fourteen Points.

Deming emphasized surveying customers, consulting production-line workers to help solve quality problems, and teamwork. His system was readily accepted in Japan, where workers and management were used to uniformity and allegiance to institutions. Japanese companies learned to collect data for the statistical monitoring and measuring of customer satisfaction. The goals of these companies were to produce many of the same consumer goods—better and cheaper—that were produced in the U.S. These Japanese companies succeeded, much to the chagrin of companies in the U.S.

Deming saw businesses as bedrock institutions in a society—much like churches and schools. Companies attain long-term success only if business leaders make their employees' contributions matter. If organizations use their employees' ideas, they will improve efficiency and productivity.

Most of the applications of Deming's ideas occurred in the 1950s and 1960s in Japan. In the United States, the desperation needed for executives to finally try a "radical" plan such as Deming's came from economic rather than wartime defeats. Most notably, in the 1980s, Japanese car manufacturers pushed their market share toward 25 percent, sending fear throughout Detroit. The Ford Motor Co. called on Deming after NBC featured his successes in a documentary, "If Japan Can, Why Can't We?" Deming took Ford's invitation as notice that his home country was finally ready for his program. He continued teaching seminars until his death, at age 93, in 1993.

Deming's system made such an impression that he is known at the Father of TQM.

Following are some other significant quality experts and their works:

- **Joseph M. Juran** wrote *The Quality Control Handbook.* Recognized in Japan with the Order of Sacred Treasure. Followers: DuPont, Monsanto, Mobil.
- **Armand V. Feigenbaum** wrote *Total Quality Control.* Argued that quality should be company-wide, not confined to the quality control departments.
- **Philip B. Crosby wrote** *Quality Is Free.*
- **Michael Hammer and James Champy** wrote *Reengineering the Corporation.*
- **James Champy** wrote *Reengineering Management.*

Peter Drucker wrote *Post-Capitalist Society.*

Although several individuals (mentioned above) contributed to the concept of TQM, the three mostly widely cited "masters" of quality are W. Edwards Deming (1900–1993), Joseph M. Juran, and Philip Crosby. Even though each has promoted the importance of quality emphasis, their ideas and backgrounds are not always consistent.

Joseph Juran

Joseph Juran started out professionally as an engineer in 1924. In 1951, his first Quality Control Handbook was published and led him to international prominence.

The Union of Japanese Scientists and Engineers (JUSE) invited Juran to Japan in the early 1950s. He arrived in 1954 and conducted seminars for top- and middle-level executives. His lectures had a strong managerial flavor and focused on planning, organizational issues, management's responsibility for quality, and the need to set goals and targets for improvement. He emphasized that quality control should be conducted as an integral part of management control.

Intrinsic to Juran's message is the belief that quality does not happen by accident; it must be planned. Juran sees quality planning as part of the quality trilogy of quality planning, quality control, and quality improvement. The key elements in implementing company-wide strategic quality planning are in turn seen as: identifying customers and their needs; establishing optimal quality goals; creating measurements of quality; planning processes capable of meeting quality goals under operating conditions; and producing continuing results in improved market share, premium prices, and a reduction of error rates in the office and factory.

Juran's formula for results is to establish specific goals to be reached, and then to establish plans for reaching those goals; assign clear responsibility for meeting the goals; and base the rewards on results achieved.

Juran believes that the majority of quality problems are the fault of poor management, not poor workmanship, and that long-term training to improve quality should start at the top with senior management.

Philip Crosby

Philip Crosby is another major contributor to the quality movement. In 1979, he left ITT (International Telephone and Telegraph) and wrote his book, *Quality is Free*, in which he argues that dollars spent on quality and the attention paid to it always return greater benefits than the costs expended on them. Whereas Deming and Juran emphasized the sacrifice required for a quality commitment, Crosby takes a less philosophical and more practical approach, asserting instead that high quality is relatively easy and inexpensive in the long run.

Crosby is the only American quality expert without a doctorate. He is responsible for the **zero defects** program, which emphasizes "doing it right the first time," (DIRFT) with 100 percent

acceptable output. Unlike Deming and Juran, Crosby argues that quality is always cost effective. Like Deming and Juran, Crosby does not place the blame on workers, but on management.

Crosby also developed a 14-point program, which is again more practical than philosophical. It provides managers with actual concepts that can help them manage productivity and quality. His program is built around four Absolutes of Quality Management:

1. Quality must be viewed as conformance to specifications. If a product meets design specifications, then it is a high-quality product.
2. Quality should be achieved through the prevention of defects rather than inspection after the production process is complete.
3. According to Crosby, the traditional quality control approach taken by American firms is not cost effective. Instead, production workers should be granted the authority and responsibility to ensure that quality goods or services are produced at every step of the process.
4. Managers need to demonstrate that a higher standard of performance can lead to perfection—to zero defects. Crosby believed that the company goal should be zero defects.
5. Quality should be measured by the price of nonconformity. Crosby contends that the costs associated with achieving quality should be part of a company's financial system.

The Implementation of TQM

The implementation of total quality management is similar to that of other decentralized control methods. In developing TQM, companies need to understand how consumers define quality in both the goods and services offered. If a company pays more attention to quality in its production process, fewer problems will occur later when the product is in the consumer's hands. One way to measure product performance and quality is through customer surveys, which can help managers identify design or manufacturing problems.

According to quality consultant Armand V. Feigenbaum, the end user best defines quality, which means that quality is open to subjective interpretations. Consumer perceptions have to be changed if a company wants to change a product's quality image. Extended service programs and improved warranties can help accomplish this feat. As examples, Whirlpool Corporation promises that parts for all models will be available for 15 years, and Mercedes-Benz provides technical roadside assistance after service hours.

Another means of ensuring a commitment to quality “after the sale” is via a product or service guarantee. Wal-Mart is known for its no-hassles return policy for any product—with or without a receipt. Mail-order house L. L. Bean will replace a pair of hunting boots purchased ten years earlier with new boots. Saturn automobile retailers provide total refunds for vehicles within 30

days if the customer is not fully satisfied. However, many companies are not willing to incur the short-run costs associated with such guarantees.

Commitment throughout the organization

To be effective, the TQM philosophy must begin at the top. From the board of directors to the hourly line employees, TQM must be supported at all levels if the firm is to realize any real improvements in quality. In addition to commitment from the top, the organization must meet these requirements if TQM is to succeed:

- A change in corporate culture about the importance of quality
- Forging of internal team partnerships to achieve quality, process, and project improvements, and the creation of external partnerships with customers and suppliers
- Audits to assure quality techniques
- Removal of obstacles to successful implementation, such as lack of time or money in the short run

Typically, two to ten years are needed to reap the benefits of a successful TQM program.

Stress Management

Introduction

College students have many sources of stress: school, jobs, relationships, money (the lack of it), etc. Perhaps there is no more important topic than how one can handle or cope with stress. This module hopes to offer some practical advice on how to understand and manage one's stress.

Some important questions to ask yourself prior to starting this unit are:

- What are the main stresses in my life right now?
- Are these stresses caused by people or things?
- How have you attempted to manage these stresses? By avoiding them? By confronting them? Using substances?
- Have you ever given any thought to developing several, positive methods for stress management that could be effectively and safely used when the need arises?

What is Stress?

Stress is commonplace in the lives of college students. Learning to deal with stress means learning to understand what stress is, identifying common sources, and then practicing some method of stress reduction on a regular basis.

Everyone has some method(s) for dealing with stress. Sometimes the methods we use for dealing with stress are productive: meditation, exercise, and listening to our favorite music would be examples. But sometimes the methods we choose are not so positive: alcohol abuse, smoking and

overeating would be examples. Though these negative stress management tools to tend to work in the short term, in the long term they will have other negative health effects. It is best to find stress management tools that will have beneficial, positive health effects in the long run and yet still effectively manage stress in the short term.

Definitions

Stress refers to how the body responds to any number of physical or emotional stimuli (i.e., stressors). Effects of this response are sometimes perceptible-such as an increased heart rate, respiratory rate, sweating, skin problems, or tense muscles. Other changes, though common, are not perceptible: increased blood pressure, metabolism, and changes in circulating fats. Continued exposure to stressors, especially of a negative type, will often lead to mental and physical symptoms such as anxiety, depression, heart palpitations, and muscular aches and pains. Eventually, if one cannot find a way to effectively regulate stress, various physical and mental disorders may develop which may be serious enough to cause disability and even death.

There are many kinds of stressors: burnt toast, crying kids, arguments with co-workers, exercise, a passionate kiss, loud sounds, productive work, viruses, bacteria, overexposure to the sun, and grief are all examples of stressors. While some of these stressors could be considered good, pleasant and/or beneficial, they nevertheless cause a similar generalized response in the body. For example, what does an argument with your boss have in common with jogging? Since they are both stressors, they will each cause increased heart rate, increased blood pressure, increased respiratory rate and muscle tension. Though your perception of these two stressors might be different, your body's reaction to them is pretty much the same. Therefore, it is important to note that stress is cumulative. It doesn't make any difference whether the stressor is good or bad, if you have enough stressors occurring in your life at the same time, the body will suffer the "wear and tear"."

NOTE: the degree of stress which any stressor will cause is dependent on:

1.) the degree to which the stressor is present. In other words, the more of the stressor, the greater the stress it produces . So, for example, if a small headache causes some stress, a large headache will cause more stress. If a small argument causes a small amount of stress, a huge argument will cause more stress.

2.) how the stressor is perceived (different people will view stressors differently). As a result, one stressor might produce distress in one person and eustress in another.

Eustress

Eustress can be defined as a pleasant or curative stress. We can't always avoid stress, in fact, sometimes we don't want to. Often, it is controlled stress that gives us our competitive edge in performance related activities like athletics, giving a speech, or acting (see Performance Stress Curve diagram).

The Stress Curve diagram illustrates the concept that, for any performance-related activity, there is an optimal amount of stress. If you are involved in an oral interview for a job, you will benefit from a certain amount of stress. It is stress that provides you with focus and gives you your "competitive edge" that will help you think quickly and clearly and express your thought in ways that will benefit your interview process.

Some stressors can cause both good and bad stress. Radiation, left uncontrolled, may cause cancer, and yet, if the radiation is controlled and pinpointed, it may serve to cure some cancers. Exercise is most often a good stressor. But overtraining can cause injury and illness. To continue to exercise when your body is fatigued or weak, can result in a variety of overuse injuries and predispose you to illness.

Distress

Distress is an unpleasant or disease-producing stress. Chronic, sustained, uncontrolled stress of a negative type may lead to a compromised immune system, illness, and even death. As a result, we all should become more aware of common or persistent distressors in our lives and initiate methods for managing them.

Measuring Stress

Jason is a second year college student and lives at home with his parents so that he can save money to go to a four-year college. He has been having some problems with his parents who want him to account for his every move and require strict rules about curfew, household chores, the kind of places he can go and with whom. At 19 years of age, he is feeling like they are not trusting him enough to make responsible decisions. They have all been arguing more lately and this is beginning to take its toll on the family life.

This scenario is a typical example of a kind of stress that effects college students. There are a variety of stressors involved. Stressors for Jason include his parents and their reactions toward him, and the rules and regulations that he perceives as too strict. For Jason's parents the stressors include Jason and how he reacts toward their rules and regulations. How do we become aware of the amount and types of stressors in our everyday lives? The next slide explains five easy methods for measuring stress that can be used at any time during the course of your typical day.

Five Quick Ways to Measure Stress

In order to effectively manage stress, you must become aware of the amount and types of stressors in your everyday life. One way of developing an awareness is to assess the frequency and amount of stress in your daily routine, and then trace the stress to its source (i.e., the stressor). Below is a list of five quick, easy ways of measuring stress in your daily life. These methods can be easily used any time and anywhere.

Check muscle tension by "Scanning"
When you scan, you are checking different muscles in your body as if you could X-ray each part and look for tension. Start at the top of your head and work your way down. Check your

forehead, eyes, jaws (are you clenching your teeth?). Then move to your neck and shoulders and check for tension or pain. Next your arms, chest and stomach. Check your breathing to see if it is rapid and shallow rather than slow and deep. Scan your upper legs, calves and your feet and toes.

Check hand temperature
Place your hand on the side of your neck just above your collar. If your hand is noticeably cooler than your neck, your hand temperature indicates that your body is probably stressed.

Check for nervous sweating
Many people perspire when they are tense. This is an involuntary stress response that is caused by the secretion of certain stress hormones. This is yet another simple indicator that your body is responding to some stressor.

Check for a rapid pulse rate (> 75 bpm)
At rest, most people will have a pulse rate in the 50s or 60s. However, if your pulse rate is higher than 75 bpm, it may indicate that your body is responding to a stressor.

Check for rapid, shallow breathing
When people are relaxed, they breath slowly and deeply with relaxed stomach muscles. When people are tense, they often tighten their stomach muscles and breathe through their chests. Since the chest is not as expandable as the stomach, one will exhibit rapid, shallow, chest breathing. One technique for managing stress, is to learn to breathe in a more relaxed fashion. Relax the stomach and breathe in slowly, filling the stomach first and then the chest. Relax again as you exhale and repeat.

Note that each of these methods for dealing with body stress utilizes a physical sign or symptom to assess stress levels. These signs may not always be perceptible however, becoming more aware of stress symptoms may reinforce healthy attitudes and practices in response to common stressors.

After you have used these methods to uncover the most stressful times and places in your day, then take some time to analyze these situations to see what seems to be causing the stress. For example, let's say that you have noticed that the most stressful time for you is at work. What do you think is causing such a stressful reaction? Perhaps it has to do with your workstation. A computer display terminal that is set too close to your face so that you experience eye strain, or a chair that is too high or too low. A keyboard that is too high or too low. Or, perhaps your problem is that you and your boss constantly disagree, or that he or she is putting extra pressure on you to perform tasks within unreasonable deadlines.

Once you are able to define your most stressful situations and what causes them, you will then be able to map out your strategy for managing these stresses.

Sources of Stress

In order to combat stress in your life, you need to become aware of common sources of stress. The next slide will categorize stress simply. While there are many sources of stress, the most important ones to you are the ones that you encounter frequently and that may serve as a source of distress with time.

Situational, Body and Mind Stress

There are many different ways that stress can be categorized. The three categories discussed below are just suggestions as to how you might view the sources of stress in your life. The important thing is whether your most common stressors would fall into any of the categories discussed below. If so, you will find several coping methods, which will be outlined later, that will be based on these categories of stress.

Situational Stress
Situational stress is caused by situational stressors in your immediate environment. An example would be sitting in an airplane as it is taxiing the runway for takeoff. You may be sitting, clutching the arm rests and hoping that you won't need to use the emergency instructions that the stewardess has just explained to you.

Your work environment, while you are working, is considered a situational stress. You are running back and forth, dealing with customers, counting change, answering phones, etc. When your workplace is real busy, you may experience a high level of situational stress. If your workplace is always busy, you may need some coping methods to help you function at high levels with the lowest possible negative reactions to the continual stress.

Body Stress
Body stress is stress that results in overt physical symptoms. Examples include abuse, such as consuming too much alcohol, abusing drugs, or exercising too much. On the other hand, some people neglect their bodies by not getting enough sleep or proper nutrition.

Many people view it as a simple hangover, but drinking too much alcohol is a stress to the body. It reduces the amount of REM or dream sleep that you experience and results in a series of problematic symptoms such as headache, fatigue and inability to concentrate. This is an example of body stress that is caused by abuse of alcohol. What is the solution to this kind of stressor. Not too much can be done about an aggressive hangover except to wait out the symptoms. The more serious problem facing you would be to ensure that this type of abuse does not become a regular feature of your life. Often, body stress is related to other sources of stress. For example, the reason that one abuses alcohol may very well have to do with stresses at work or with relationships. So, the abuse of alcohol and resulting body stress is really tied to a deteriorating relationship. In this case, your body stress is your first clue to look for other stress-related problems.

Mind Stress
Mind stress is caused by negatively perceiving life events. Some people have a tendency to exaggerate problems or even invent problems that don't exist. We sometimes say that these

people make "mountains out of molehills". Try to catch yourself being pessimistic, taking things personally or jumping to conclusions.

Mind stress is very common. You could be reading a book, listening to your teacher lecture or watching a movie, and suddenly you are no longer listening but instead you are thinking about something that happened earlier that morning or something that will be happening later that day. To the extent that you are worrying or fretting over these details is an example of mind stress. People who frequently allow themselves to mentally worry or think negative thoughts are the most prone to the negative long-term effects of mind stress.

How to Deal With Stress

Now that you have learned how to identify sources of stress in your life, and also how to measure the amount of stress you are experiencing, we can now talk about specific ways that you can use to counter the common stressors in your life.

Dealing with Situational Stress

The following interventions can be used to deal with stresses that result from your immediate surroundings.

Make changes in your surroundings
If you have a headache because you've been reading with poor light, move to another room where the lighting is better. Changing your surroundings can mean turning on lights, turning off loud music or raising or lowering your computer chair. Make a careful survey of the places where you spend a good deal of your time, your study place at home or your workplace for example. Check your surroundings carefully for potential situational stressors.

Caringly and Carefully Communicate
You need to learn to communicate with those with whom you are having problems. Sometimes your situational stress is caused by people. This is a more complicated potential source of stress. Whenever there are problems, you owe it to yourself and to the other person to reach a mutually acceptable solution to the problem. This involves communication in a caring and careful way.

Learn how and when to say "NO"
Sometimes your stress is caused by taking on too many responsibilities. Some people have a habit of always saying "yes" to requests for help by others. Pretty soon they not only have all their own problems and responsibilities to attend to-they have everyone else's too! You need to become more aware of your limits and learn when you have reached them. The next step is to practice saying "no". Remember, your first responsibility is to your own health. You are of little use to others if youare not healthy.

Learn techniques for time management
Situational stress often results from feeling like we don't have enough time to accomplish all we need to in a given day. In many cases it is not a lack of time that is the problem, but rather it is poor time management skills that lead us to this dilemma. Time management means different

things to different people. For some, it will be something as simple as making lists of "things to do". For others, learning to use daily planners and organizers will help them to better manage their time.

Delegate responsibilities
People with perfectionist tendencies have trouble delegating work. They have the attitude that, "If I want it done right, I have to do it myself". They fear that by letting someone else help them with a given task, that they are losing control and that something will probably go wrong. We need to learn that there is more than just, "my way" of doing things. Learning to delegate responsibilities when they become overwhelming, will help you build more trusting relationships and will relieve your burden of too many stressors.

Dealing with Body Stress

The following interventions can be used to deal with stresses that result from abusing or neglecting your body.

Practice relaxation training
Dealing with body stress often simply means dealing with the evident symptoms that are seen in the body. For example, when you see rapid, shallow chest breathing, you can counter that with the practice of more relaxed breathing technique. Or when you notice tense muscles in various parts of the body, you can practice systematically relaxing the muscles by consciously loosening the muscles that seem to be tense.

Avoid common stress-inducing substances

THE STRESS-PRONE DIET
There are several food items that are a regular part of the average American diet that may predispose one to stress and ultimately, a stress related physical disorder. With our current understanding of nutrition we conclude that the stress-prone diet is:

1. High in sugar- frequent choices of foods high in sugar cause what is known as 'reactive hypoglycemia', a situation where the blood sugar level temporarily elevates followed by a rapid decline below normal. We refer to the elevation as a "sugar high" and the decline as the "sugar blues". Our bodies respond to these cycles in ways very similar to a stress response. Symptoms include: dizziness, weakness, hunger, headaches, and irritability. Repeated cycles add to the rate of wear and tear of various body systems.

2. High in salt- Sodium is necessary for proper function of the nervous system, but too much salt causes improper function of both the nervous and skeletal muscle systems. Salt is also implicated in certain types of high blood pressure and edema, a condition of inflammation in and around the joints.

3. High in caffeine- Caffeine is a nervous system stimulant and as such causes a group of symptoms in the user that are characteristic of stimulant drugs: wakefulness, alertness, increased

energy etc. When the effect of the caffeine wears off the energy is replaced by fatigue, drowsiness, irritability and sometimes depression. Continual, heavy use of caffeine can lead to addiction and a series of mood swings that can play a role in increased stress levels.

4. Deficient in water-soluble vitamins- Vitamin C and the B complex which is comprised of several B vitamins are referred to as the 'water soluble' vitamins. The functions of these vitamins are too numerous to mention here but for the purpose of this discussion it is important to note that a properly functioning nervous system requires sufficient amounts of water soluble vitamins. Prolonged stress states deplete vitamin C while other energy yielding processes require B vitamins. Since water-soluble vitamins are not stored in great quantities in the body and since they are required for so many important processes, they should be included generously in ones daily diet.

5. High in alcoholHeavy alcohol consumption can lead to vitamin deficiencies. People who use alcohol may provide much of their daily energy (calorie) needs through alcohol consumption. Since alcohol and alcoholic beverages are deficient in "supporting nutrients" and since, the metabolism of alcohol in the body uses up several B vitamins the person who engages in this practice routinely may develop nutrient deficiencies.
6. High in nicotine- Nicotine is an addictive drug found in cigarette, cigar and smokeless tobacco. As a stimulant drug it causes increased heart rate and blood pressure. Cigarette smoking is associated with increased incidence of death from lung cancer and heart disease.

RECOMMENDATIONS

1. Decrease your intake of sugar especially refined sugar. Read labels.

2. Cut down your sources of salt to no more than 2200 mg/day. Fast, packaged, and canned foods are notoriously high in salt.

3. Drink no more than the equivalent of two cups of coffee per day (250 mg) or less.

4. Seek out and consume good sources of water-soluble vitamins and if you are unsure, take a vitamin supplement with amounts of the water-soluble vitamins equalling no more than 100% of the RDA.

5. Drink no more than the equivalent of two drinks of alcohol per day.

6. Don't smoke and if you do find a program to help you quit.

7. Get regular exercise.

Exercise regularly
It cannot be stated emphatically enough that exercise is an important way to reduce stress levels. Both physically and mentally, exercise can function to alleviate distress, and help lessen a person's susceptibility to stressors.

Practice stretching and/or yoga
Both of these activities provide a physical means for counterbalancing the physical stresses you are experiencing.

Dealing with Mind Stress

The following interventions can be used when your stresses result from negative thinking or from a tendency to mentally create problems or unrealistically exaggerate problems.

Develop and take "Star Treks"
A Star Trek is just another name for mental imagery, or visualization. Just as on TV when they "beam" people back and forth, you can mentally transport yourself to the most peaceful, relaxing place that you can think of. Imagine a beautiful beach scene or lying in an outdoor hot tub on a warm summer night. Whatever you imagine, be sure to pay attention to each detail. Take five or ten minutes out of your day for "Trekking".

Find health enhancing phrases and repeat them regularly
Write little notes to yourself which say, "Smile more today" or, "Don't take things too seriously", or whatever else might reinforce a relaxed state of mind. Post these little notes in places where you are likely to see them often (bathroom mirror, refrigerator door, etc.). Or perhaps, enlist the help of a friend. You can write these little notes to each other and leave them in places where they are sure to be found. This practice can help to remind you that you have a tendency toward mind stressing.

Practice meditation and/or prayer
In the West, the techniques of meditation are often extracted from their Eastern religious traditions and provide simple methods for focus and concentration. A by-product of this focus is stress reduction. Meditation techniques have been shown to be effective in reducing heart rate and blood pressure, two common indicators of stress. Prayer can be used by those who are comfortable in a religious context. Prayer also allows focus (on God or on specific words of wisdom) and, as a result, often leads to a reduction in stress levels.

International Management

Definition

The management of business operations for an organization that conducts business in more than one country. International management requires knowledge and skills above and beyond normal business expertise, such as familiarity with the business regulations of the nations in which the organization operates, understanding of local customs and laws, and the capability to conduct transactions that may involve multiple currencies**.**

Functions of the International Manager

Global competition has forced businesses to change how they manage at home and abroad. The increasing rate of change, technological advances, shorter product life cycles, and high-speed communications are all factors that contribute to these changes. The new management approach focuses on establishing a new communication system that features a high level of employee involvement. Organizational structures must also be flexible enough to change with changing market conditions. Ongoing staff development programs and design-control procedures, which are understandable and acceptable, are outcomes from this new approach. Management values are changing, and managers must now have a vision and be able to communicate the vision to everyone in the firm.

Although the international manager performs the same basic functions as the domestic manager, he must adjust to more variables and environments. Therefore, each of the five basic management functions must change when operating in a foreign market.

Planning

The first stage of international planning is to decide how to do business globally: whether to export, to enter into licensing agreements or joint ventures, or to operate as a multinational corporation with facilities in a foreign country.

To develop forecasts, goals, and plans for international activities, the manager must monitor environments very closely. Key factors include political instability, currency instability, competition from governments, pressures from governments, patent and trademark protection, and intense competition.

Organizing

International firms should be sure that their plans fit the culture of the host country. Typically, U.S. firms feel that long-term plans should be three to five years in length; but in some cultures, this time period is too short. Many countries must plan with the assistance of governmental agencies. And working through bureaucratic structures, policies, and procedures is often time-consuming.

International businesses must be organized so that they can adapt to cultural and environmental differences. No longer can organizations just put “carbon copies” or clones of themselves in

foreign countries. An international firm must be organized so that it can be responsive to foreign customers, employees, and suppliers. An entire firm may even be organized as one giant worldwide company that has several divisions. Above all, the new organization must establish a very open communication system where problems, ideas, and grievances can quickly be heard and addressed at all levels of management. Without this, employees will not get involved, and their insights and ideas are crucial to the success of the business.

As an organization extends its operations internationally, it needs to adapt its structure. When the organization increases its international focus, it goes through the following three phases of structural change:

1. Pre-international stage. Companies with a product or service that incorporates the latest technology, is unique, or is superior may consider themselves ready for the international arena. The first strategy used to introduce a product to a foreign market is to find a way to export the product. At this phase, the firm adds an export manager as part of the marketing department and finds foreign partners.
2. International division stage. Pressure may mount through the enforcement of host country laws, trade restrictions, and competition, placing a company at a cost disadvantage. When a company decides to defend and expand its foreign market position by establishing marketing or production operations in one or more host countries, it establishes a separate international division. In turn, foreign operations begin, and a vice president, reporting directly to the president or CEO, oversees the operations.
3. Global structure stage. A company is ready to move away from an international division phase when it meets the following criteria:

- The international market is as important to the company as the domestic market.
- Senior officials in the company possess both foreign and domestic experience.
- International sales represent 25 to 35 percent of total sales.
- The technology used in the domestic division has far outstripped that of the international division.

As foreign operations become more important to the bottom line, decision making becomes more centralized at corporate headquarters. A functional product group, geographic approach, or a combination of these approaches should be adopted. The firm unifies international activities with worldwide decisions at world headquarters.

Staffing

Because obtaining a good staff is so critical to the success of any business, the hiring and development of employees must be done very carefully. Management must be familiar with the country's national labor laws. Next, it must decide how many managers and personnel to hire from the local labor force and whether to transfer home-based personnel.

For example, U.S. firms are better off hiring local talent and using only a few key expatriates in most cases, because the costs of assigning U.S.–based employees to positions overseas can be quite expensive. Simply, expatriates (people who live and work in another country) are expensive propositions even when things go well. Adding up all the extras—higher pay, airfare for family members, moving expenses, housing allowances, education benefits for the kids, company car, taxes, and home leave—means that the first year abroad often costs the multinational company many times the expatriate's base salary. The total bill for an average overseas stay of four years can easily top $1 million per expatriate. In any case, managers need to closely examine how to select and prepare expatriates.

Directing

Cultural differences make the directing function more difficult for the international manager. Employee attitudes toward work and problem solving differ by country. Language barriers also create communication difficulties. To minimize problems arising from cultural differences, organizations are training managers in cross-cultural management. Cross-cultural management trains managers to interact with several cultures and to value diversity.

In addition, the style of leadership that is acceptable to employees varies from nation to nation. In countries like France and Germany, informal relations with employees are discouraged. In Sweden and Japan, however, informal relations with employees are strongly encouraged, and a very participative leadership style is used. Incentive systems also vary tremendously. The type of incentives used in the U.S. may not work in Europe or Japan, where stable employment and benefits are more important than bonuses.

Controlling

Geographic dispersion and distance, language barriers, and legal restrictions complicate the controlling function. Meetings, reporting, and inspections are typically part of the international control system.

Controlling poses special challenges if a company engages in multinational business because of the far-flung scope of operations and the differing influences of diverse environments. Controlling operations is nonetheless a crucial function for multinational managers. In many countries, bonuses, pensions, holidays, and vacation days are legally mandated and considered by many employees as rights. Particularly powerful unions exist in many parts of the world, and their demands restrict managers' freedom to operate.

The International Environment

International managers face intense and constant challenges that require training and understanding of the foreign environment. Managing a business in a foreign country requires managers to deal with a large variety of cultural and environmental differences. As a result,

international managers must continually monitor the political, legal, sociocultural, economic, and technological environments.

CliffsNotes article continues below

The political environment

The political environment can foster or hinder economic developments and direct investments. This environment is ever-changing. As examples, the political and economic philosophies of a nation's leader may change overnight. The stability of a nation's government, which frequently rests on the support of the people, can be very volatile. Various citizen groups with vested interests can undermine investment operations and opportunities. And local governments may view foreign firms suspiciously.

Political considerations are seldom written down and often change rapidly. For example, to protest Iraq's invasion of Kuwait in 1990, many world governments levied economic sanctions against the import of Iraqi oil. Political considerations affect international business daily as governments enact **tariffs** (taxes), **quotas**(annual limits), **embargoes** (blockages), and other types of restriction in response to political events.

Businesses engaged in international trade must consider the relative instability of countries such as Iraq, South Africa, and Honduras. Political unrest in countries such as Peru, Haiti, Somalia, and the countries of the former Soviet Union may create hostile or even dangerous environments for foreign businesses. In Russia, for example, foreign managers often need to hire bodyguards; sixteen foreign businesspeople were murdered there in 1993. Civil war, as in Chechnya and Bosnia, may disrupt business activities and place lives in danger. And a sudden change in power can result in a regime that is hostile to foreign investment; some businesses may be forced out of a country altogether. Whether they like it or not, companies are often involved directly or indirectly in international politics.

The legal enviroment

The American federal government has put forth a number of laws that regulate the activities of U.S. firms engaged in international trade. However, once outside U.S. borders, American organizations are likely to find that the laws of the other nations differ from those of the U.S. Many legal rights that Americans take for granted do not exist in other countries; a U.S. firm doing business abroad must understand and obey the laws of the host country.

In the U.S., the acceptance of bribes or payoffs is illegal; in other countries, the acceptance of bribes or payoffs may not be illegal—they may be considered a common business practice. In addition, some countries have copyright and patent laws that are less strict than those in the U.S., and some countries fail to honor these laws. China, for example, has recently been threatened with severe trade sanctions because of a history of allowing American goods to be copied or

counterfeited there. As a result, businesses engaging in international trade may need to take extra steps to protect their products because local laws may be insufficient to protect them.

The economic environment

Managers must monitor currency, infrastructure, inflation, interest rates, wages, and taxation. In assessing the economic environment in foreign countries, a business must pay particular attention to the following four areas:

- **Average income levels of the population.** If the average income for the population is very low, no matter how desperately this population needs a product or service, there simply is not a market for it.

- **Tax structures.** In some countries, foreign firms pay much higher tax rates than domestic competitors. These tax differences may be very obvious or subtle, as in hidden registration fees.

- **Inflation rates.** In the U.S., for example, inflation rates have been quite low and relatively stable for several years. In some countries, however, inflation rates of 30, 40, or even 100 percent per year are not uncommon. Inflation results in a general rise in the level of prices, and impacts business in many ways. For example, in the mid-1970s, a shortage of crude oil led to numerous problems because petroleum products supply most of the energy required to produce goods and services and to transport goods around the world. As the cost of petroleum products increased, a corresponding increase took place in the cost of goods and services. As a result, interest rates increased dramatically, causing both businesses and consumers to reduce their borrowing. Business profits fell as consumers' purchasing power was eroded by inflation. High interest rates and unemployment reached alarmingly high levels.

- **Fluctuating exchange rates.** The *exchange rate,* or the value of one country's currency in terms of another country's currency, is determined primarily by supply and demand for each country's goods and services. The government of a country can, however, cause this exchange rate to change dramatically by causing high inflation—by printing too much currency or by changing the value of the currency through devaluation. A foreign investor may sustain large losses if the value of the currency drops substantially.

When doing business abroad, businesspeople need to recognize that they cannot take for granted that other countries offer the same things as are found in industrialized nations. A country's level

of development is often determined in part by its infrastructure. The **infrastructure** is the physical facilities that support a country's economic activities, such as railroads, highways, ports, utilities and power plants, schools, hospitals, communication systems, and commercial distribution systems. When doing business in less developed countries, a business may need to compensate for rudimentary distribution and communication systems.

The sociocultural environment

Cultural differences, which can be very subtle, are extremely important. An organization that enters the international marketplace on virtually any level must make learning the foreign country's cultural taboos and proper cultural practices a high priority. If a business fails to understand the cultural methods of doing business, grave misunderstandings and a complete lack of trust may occur.

Management differences also exist. In China, a harmonious environment is more important than day-to-day productivity. In Morocco, women can assume leadership roles, but they are usually more self-conscious than American women. In Pakistan, women are not often found in management positions, if they're in the workplace at all.

In addition, the importance of work in employees' lives varies from country to country. For example, the Japanese feel that work is an important part of their lives. This belief in work, coupled with a strong group orientation, may explain the Japanese willingness to put up with things that workers in other countries would find intolerable.

Likewise, culture may impact what employees find motivating, as well as how they respond to rewards and punishments. For example, Americans tend to emphasize personal growth, accomplishment, and “getting what you deserve” for performance as the most important motivators. However, in Asian cultures, maintaining group solidarity and promoting group needs may be more important than rewarding individual achievements.

Finally, language differences are particularly important, and international managers must remember that not all words translate clearly into other languages. Many global companies have had difficulty crossing the language barrier, with results ranging from mild embarrassment to outright failure. For example, in regards to marketing, seemingly innocuous brand names and advertising phrases can take on unintended or hidden meanings when translated into other languages. Advertising themes often lose or gain something in translations. The English Coors beer slogan “get loose with Coors” came out as “get the runs with Coors” in Spanish. Coca-Cola's English “Coke adds life” theme translated into “Coke brings your ancestors back from the dead” in Japanese. In Chinese, the English Kentucky Fried Chicken slogan “finger-lickin' good” came out as “eat your fingers off.”

Such classic boo-boos are soon discovered and corrected; they may result in little more than embarrassments for companies. Managers should keep in mind that countless other, more subtle blunders may go undetected and damage product performance in less obvious ways.

The technological environment

The technological environment contains the innovations, from robotics to cellular phones, that are rapidly occurring in all types of technology. Before a company can expect to sell its product in another country, the technology of the two countries must be compatible.

Companies that join forces with others will be able to quicken the pace of research and development while cutting the costs connected with utilizing the latest technology. Regardless of the kind of business a company is in, it must choose partners and locations that possess an available work force to deal with the applicable technology. Many companies have chosen Mexico and Mexican partners because they provide a willing and capable work force. GM's plant in Arizpe, Mexico, rivals its North American plants in quality.

Consumer safety in a global marketplace

The United States leads the world in spending on research and development. As products and technology become more complex, the public needs to know that they are safe. Thus, government agencies investigate and ban potentially unsafe products. In the United States, the Federal Food and Drug Administration has set up complex regulations for testing new drugs. The Consumer Product Safety Commission sets safety standards for consumer products and penalizes companies that fail to meet them. Such regulations have resulted in much higher research costs and in longer times between new product ideas and their introduction. This is not always true in other countries.

Managing Across Cultures Case Studies & Examples

For years Renault, the French auto giant manufactured a narrow product line that sold primarily in France. Because of this limited geographic market and the fact that its cars continued to have quality related problems, the company's performance was at best mediocre. Several years ago however, Renault made a number of strategic decisions that dramatically changed the way it did business. Among other things it bought controlling stakes in Nissan Motor of Japan, Samsung Motors of South Korea and Dacia the Romanian auto maker. The company also built a $1 billion factory in Brazil to produce its successful Megane Sedan and acquired an idle factory near Moscow to manufacture Renaults for the Eastern European market. Today Renault is a multinational automaker with operations on four continents.

Warner Lambert has manufacturing facilities in Belgium, France, Germany, Italy, Ireland, Spain and the UK. Each plant is specialised and produces a small number of products for the entire European market; in this way each can focus on tailoring products for the unique demands of the various markets.

Marketers sell toothpaste as a cosmetic product in Spain and Greece but as a cavity fighter in the Netherlands and the US. Soap manufacturers market their product as a cosmetic item in Spain but as a functional commodity in Germany.

Germany want advertising that is factual and rational; they fear being manipulated by the hidden persuader.

The French avoid reasoning and logic. Their advertising is predominantly emotional, dramatic and symbolic.

The British value laughter above all else. The typical broad, self-deprecating British commercial amuses by mocking both the advertiser and the consumer.

In some cases however both the product and the marketing message are similar worldwide. This is particularly true for high end products where the lifestyles and expectations of the market niche are similar regardless of the country. Heineken beer, Hennessey brandy, Porsche cars and the financial Times all appeals to consumer niches that are fairly homogenous regardless of geographic locale.

The same is true at the lower end of the market for goods that are impulse buys, novel products or fast foods such as Coca cola's soft drinks, Levi's jeans, pop music and ice cream bars,

Advertising in the US should target individual achievement, be expressive and direct and appeal to US values of success through personal hard work. On the other hand the focus in chine and other Asian countries should be much more indirect and subtle, emphasising group references, shared responsibility and interpersonal trust.

Cultural highlights that affect doing business in China can be summarised as follows: o

The Chinese place values and principles above money and expediency.

Business meetings typically start with pleasantries such as tea and a general conversation about the guest's trip to the country, local accommodations and family. In most cases the host has already been briefed on the background of the visitor.

Once the Chinese decide what is best they tend to stick with these decisions. Therefore they may be slow in formulating a plan of action but once they get started they make fairly good progress.

In negotiations reciprocity is important. If the Chinese give concessions they expect some in return. Additionally it is common to find them slowing down negotiations to take advantage of Westerners desire to conclude arrangements as quickly as possible. The object of this tactic is to extract further concessions. Another common ploy used by the Chinese is to pressure the other party during final arrangements by suggesting that this counterpart has broken the spirit of

friendship in which the business relationship originally established. Again, through this ploy, the Chinese are trying to gain additional concessions.

Because negotiating can involve a loss of face, it is common to find Chinese carrying out the whole process through intermediaries. This allows them to convey their ideas without fear of embarrassment.

During negotiations it is important not to show excessive emotion of any kind. Anger or frustration is viewed as antisocial and unseemly.

When a meeting is ready to begin the Chinese host will give that appropriate indication. Similarly when the meeting is over, the host will indicate that it is time for the guest to leave.

Negotiation should be viewed with a long term perspective. Those who will do best are the ones who realise that are investing in a long term relationship.

Consider business ethics. Ethical behaviour in the US is not always the same as in Russia. For example in Russia it is traditional to give gifts to those with whom one wants to transact business , an approach that may often be regarded as bribery in the US.

Be patient. In order to get something done in Russia it often takes months of waiting. Those who are in a hurry to make a quick deal are often sorely disappointed .

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Directing

Cultural differences make the directing function more difficult for the international manager. Employee attitudes toward work and problem solving differ by country. Language barriers also create communication difficulties. To minimize problems arising from cultural differences, organizations are training managers in cross-cultural management. Cross-cultural management trains managers to interact with several cultures and to value diversity.

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Controlling

Geographic dispersion and distance, language barriers, and legal restrictions complicate the controlling function. Meetings, reporting, and inspections are typically part of the international control system.

Controlling poses special challenges if a company engages in multinational business because of the far-flung scope of operations and the differing influences of diverse environments. Controlling operations is nonetheless a crucial function for multinational managers. In many countries, bonuses, pensions, holidays, and vacation days are legally mandated and considered by many employees as rights. Particularly powerful unions exist in many parts of the world, and their demands restrict managers' freedom to operate.

Personal Challenges for Global Managers

Building an internationally competent workforce whose members know the business and are flexible and open-minded can take years. Multinational organizations can no longer rely on just a few managers with multicultural experience or a few experts on a particular country to succeed. In short, all employees must have some minimal level of international expertise and be able to recognize cultural differences that may affect daily business communications and working relationships.

In general, overseas managers share common traits with their domestic counterparts. Wherever a manager is hired, he or she needs the technical knowledge and skills to do the job, and the intelligence and people skills to be a successful manager. Selecting managers for expatriate assignments means screening them for traits that predict success in adapting to what may be dramatically new environments.

Beyond the obvious job-specific qualifications, an organization needs to consider the following qualities and circumstances when selecting expatriates for positions in foreign countries:

- A willingness to communicate, form relationships with others, and try new things
- Good cross-cultural communication and language skills
- Flexibility and open-mindedness about other cultures
- The ability to cope with the stress of new situations
- The spouse's career situation and personal attributes
- The existence of quality educational facilities for the candidate's children
- Enthusiasm for the foreign assignment and a good track record in previous foreign and domestic moves

Of course, the factors that predict a successful expatriate assignment are not identical for everyone. These differences—which reflect variations in the expatriate's home culture, his or her company's human resource management practices, and the labor laws specific to the foreign country—must also be factored into the selection process.

Even if these complexities are taken into account in the selection process, a person chosen for a foreign assignment may decide not to accept the job offer. The financial package needs to be reasonably attractive. In addition, family issues may be a concern. Most candidates, after a position is offered, also want information about how the foreign posting will impact their careers.

If a potential candidate accepts the job offer, he or she should be aware of the potential for *cultural shock*—the confusion and discomfort a person experiences when in an unfamiliar culture. In addition, *ethnocentrism,* or the tendency to view one's culture as superior to others, should be understood and avoided.

The Meanings and Dimensions of Culture Case Studies & Examples

- Toyota Case Study
    - Toyota's focus on Kaizen (continuous improvement) helped Toyota become the number one seller of automobiles in the world.
    - In January 2010 Toyota announced a recall of approximately 2.3 million vehicles to correct sticking accelerator plans and an additional 4.2 million vehicles would have an on-going recall for a floor mat pedal entrapment issue.
    - By February 2010 Toyota had recalled "about 8.5 million vehicles for problems related to gad pedals and brakes" – CNN
    - Jeff Kingston of Temple University Japan estimated the recall cost Toyota over $2 billion.
    - The way Toyota managed the crisis was even worse:
        - The president of the company (Akio Toyoda) did not appear publicly for two weeks after the recall announcement.
        - When he did appear he took the path of minimising the problem – citing software issues rather than a defect as the source of the pedal problems.
    - Jeff Kingston asserted that Toyota's failure to be forthcoming on critical safety issues has out "the trust of its consumers worldwide" in jeopardy.
    - How Japanese Culture Influenced Toyota
        - In his Wall Street Journal article, Kingston explained the cultural roots of Toyota's woes.
        - He indicated that a culture of deference in Japanese firms "makes it hard for those lower in the hierarchy to question their superiors or inform them about problems".
        - In addition, the Japanese tend to focus on the consensus which can be difficult "to challenge what has been decided or designed".
        - In Japan Kingston noted that "employee's identities are closely tied to their company image and loyalty to the firm overrides concerns about consumers".
        - One can deduce how Toyota's problems arose in this cultural environment. If subordinates noticed a problem in vehicular accelerators, they would likely be hesitant to:
            - Report the problem to their superiors (culture of deference)
            - Criticise their team members who designed the accelerators (focus on consensus)
            - Request firm spend extra money to redesign the accelerators for greater consumer safety (loyalty to firm over concern for consumers)

- Kingston noted that Japanese corporations have a poor record when responding to consumer safety issues. He described the typical Japanese response as the following:
    - Minimisation of the problem
    - Reluctance to recall the product
    - Poor communication with the public about the problem
    - Too little compassion and concern for customers adversely affected by the product
- Kingston stated that Japanese firms usually respond this way because:
    - Compensation for product liability claims it is mostly derisory or non-existent. In other words Japanese corporations have little to lose by their minimal response.
    - Japan is "a nation obsessed with craftsmanship and quality". In such an environment there is significant "shame and embarrassment in owning up to product defects". Corporations may seek to deny their products have safety concerns in order to "save face".
    - Kingston told CNN that "Japanese companies are oddly disconnected with their consumers". In an article printed in the Wall Street Journal, Toyota president Akio Toyoda wrote "It is clear to me that in recent years we did not listen as carefully as we should – or respond as quickly as we must – to our consumer concerns".
- Cultural factors can explain another aspect of Toyota's problems – public relations. Toyota has received much less negative attention in the Japanese media as compared with the American media.
- Professor Johnson of St Mary's University stated "The American culture demands transparency and action, whereas the Japanese culture assumes that taking ownership of problems and apologies will suffice".
- Akio Toyoda publically apologised at press conferences for the inconvenience caused by the Toyota recall and took personal responsibility for the consumer safety issues. For the Japanese media, that was enough. But not for the America media.
- Professor Johnson explained that while American corporations are expected to be transparent about their problems, Japanese firms have adopted the business practice of keeping problems in house.

o Professor Johnson said that when "Toyota focused on the Kaizen culture, it was able to maintain closer links with its suppliers and ensure the quality of its components primarily because they were located in close proximity to Toyota's plants. However, when their expansion and growth strategies required them to build production facilities overseas and given intense competition in the auto industry, Toyota had to resort to a strategy where they forced suppliers to compete on price. Since it is difficult to pursue Kaizen because of geographic distance, Toyota may have inadvertently sacrificed quality for cost considerations."

- Kingston recommended that Toyota become more focused on the customer and improve corporate governance by appointing independent outside directors.

- Japan's culture has always been credited with creating high quality products that are the envy of the world. Sony, Canon and Toyota are cited as exemplars in their respective industries partly because they have leveraged some of the most productive aspects of Japanese culture.
- Reichel and Flynn examined the effects of US environment on the cultural values of Japanese managers working for Japanese firms in the United States. In particular they focused attention on such key organisational values as lifetime employment, formal authority, group orientation, seniority and paternalism:
  - Lifetime employment is widely accepted in Japanese culture, but the stateside Japanese managers did not believe that unconditional tenure in one organisation was of major importance. They did believe however that job security was important.
  - Formal authority, obedience and conformance to hierarchic position are very important in Japan, but the stateside managers did not perceive obedience and conformity to be very important and rejected the idea that one should not question superior. However, they did support the concept of formal authority.
  - Group orientation, cooperation, conformity and compromise are important organisational values in Japan. The stateside managers supported these values but also believed it was important to be an individual thus maintaining a balance between a group and a personal orientation.
  - In Japan, organisational personnel often are rewarded based on seniority, not merit. Support for this value was directly influenced by the amount of time the Japanese managers had been in the United States. The longer they had been there, the lower their support for this value.
  - Paternalism often measured by a manager's involvement in both personal and off the job problems of subordinates is very important in Japan. Stateside Japanese managers disagreed and this resistance was positively associated with the number of years they had been in the United States.
- There is increasing evidence that individualism in Japan is on the rise, indicating that Japanese values are changing – and not just among managers outside the country. The country's long economic slump has convinced many Japanese that they cannot rely on the large corporations of the government to ensure their future. They have to do it on their own and as a result a growing number of Japanese are starting to embrace what is being called the "era of personal responsibility".
- Instead of denouncing individualism as a threat to society they are proposing it as a necessary solution to many to many of the country's economic ills.
- A vice chairman of the nation's largest business lobby said at the opening of a recent conference on economic change "By establishing personal responsibility, we must return dynamism to the economy and revitalise society".
- Dutch researcher Geert Hofstede identified four cultural dimensions. His initial data was gathered from two questionnaire surveys with over 116,000 respondents from over 70 countries – making it

the largest organisationally based study ever conducted. The individuals in these studies all worked in the local subsidiaries of IBM. As a result Hofstede's research has been criticised because of its focus on just one company; however, he has countered this criticism. IBMers do not form representative samples from national populations. However, samples for cross national comparison need not be representative as long as they are functionally equivalent. IBM employees are a narrow sample but very well matched. Employees of multinational companies and IBM in particular form attractive sources of information for comparing national traits, because they are so similar in respects other than nationality; their employees, their kind of work and their level of education. The only thing that can account for systematic and consistent differences between national groups within such homogenous multinational population is nationality itself; the national environment in which people were brought up before they joined this employer. Comparing IBM subsidiaries therefore shows national culture differences with unusual clarity,

- In societies with high power distance, strict obedience is found even at the upper levels. For example Mexico, South Korea and India.
- Countries populated with people who do not like uncertainty tend to have a high need for security and a strong belief in experts and their knowledge. For example Germany, Japan and Spain.
- Cultures with low uncertainty avoidance include Denmark and Great Britain.
- Hofstede found that wealthy countries have higher individualism scores and high GNP. For example United States, Canada, Australia, Denmark and Sweden. Poorer countries have higher collectivism scores and low GNP. For examples Indonesia, Pakistan and a number of South American countries.
- Germany is a country with a high masculinity index. Norway is a country with a low masculinity index.
- In his early research Trompenaars found that in countries such as the United States, Germany, Sweden and the United Kingdom there was high universalism. However, countries such as Venezuela, the former Soviet union, Indonesia and Chine were high on particularism.
- The United States, formed Czechoslovakia, Argentina, the former Soviet Union and Mexico have high individualism.
- Japan and the United Kingdom are both high neutral cultures.
- Mexico, the Netherlands and Switzerland are examples of high emotional cultures.
- Austria, the United Kingdom, the United States and Switzerland are all specific cultures.
- Venezuela, China and Spain are diffuse cultures.
- Austria, the United Kingdom, the United States and Switzerland are all achievement cultures whilst Venezuela, Indonesia and China are ascription cultures.
- In the United States people tend to be guided by sequential time orientation and thus set a schedule and stick to it. Mexicans operate under more of a synchronous time orientation and thus tend to be much more flexible, often building slack into their schedules to allow for interruptions. The French are similar to the Mexicans and when making plans often determine the objectives they want to accomplish but leave open the timing and other factors that are beyond their control; this way they can modify their

approach as they go along. Trompenaars noted “For the French and Mexicans, what was important was that they get to the end, not the particular path or sequence by which that end was reached”.

- In countries such as the United States, Italy and Germany the future is more important than the past or present. In countries such as Venezuela, Indonesia and Spain the present is most important. In France and Belgium all three time periods are of approximately equal importance. Because different emphasise are given to different time periods, adjusting to these cultural differences can create challenges.

- In the United States managers strongly feel that they are masters of their own fate. This helps account for their dominant attitude towards the environment and discomfort when things seem to get out of control. Many Asian cultures do not share these views, they believe that things move in waves or natural shifts and that one must go with the flow so a flexible attitude, characterised by a willingness to compromise and maintain harmony with nature is important.

- According to the GLOBE analysis (1991) Brazilian managers are typically class and status conscious, rarely conversing with subordinates on a personal level within or outside of work. They are known for avoiding conflict within groups and risky endeavours and tend to exhibit group dynamics with regard to decision making processes. Managers in the United States, on the other hand do not focus intensely on different class or status levels. They are more likely to take risks, and while it appears as though they are more individualistic the GLOBE analysis graph implies a more tolerant attitude than direct single person decision making structure. While Americans value mutual respect and open dialogue, Brazilians may see this behaviour as unacceptable, even aggressive if discussion discloses a large amount of information and includes members from different positions. Family structures, including in group structures are very important to Brazilians, but the head of the household still has the last word. They stress short terms, risk aversive goals to maintain vision and interest in business proposals.

Case Studies

1 Case in Point: Doing Good as a Core Business Strategy

Goodwill Industries International (a nonprofit organization) has been an advocate of diversity for over 100 years. In 1902, in Boston, Massachusetts, a young missionary set up a small operation enlisting struggling immigrants in his parish to clean and repair clothing and goods to later sell. This provided workers with the opportunity for basic education and language training. His philosophy was to provide a "hand up," not a "hand out." Although today you can find retail stores in over 2,300 locations worldwide, and in 2009 more than 64 million people in the United States and Canada donated to Goodwill, the organization has maintained its core mission to respect the dignity of individuals by eliminating barriers to opportunity through the power of work. Goodwill accomplishes this goal, in part, by putting 84% of its revenue back into programs to provide employment, which in 2008 amounted to $3.23 billion. As a result of these programs, every 42 seconds of every business day, someone gets a job and is one step closer to achieving economic stability.

Goodwill is a pioneer of social enterprise and has managed to build a culture of respect through its diversity programs. If you walk into a local Goodwill retail store you are likely to see employees from all walks of life, including differences in gender and race, physical ability, sexual orientation, and age. Goodwill provides employment opportunities for individuals with disabilities, lack of education, or lack of job experience. The company has created programs for individuals with criminal backgrounds who might otherwise be unable to find employment, including basic work skill development, job placement assistance, and life skills. In 2008, more than 172,000 people obtained employment, earning $2.3 billion in wages and gaining tools to be productive members of their community. Goodwill has established diversity as an organizational norm, and as a result, employees are comfortable addressing issues of stereotyping and discrimination. In an organization of individuals with such wide-ranging backgrounds, it is not surprising that there are a wide range of values and beliefs.

Management and operations are decentralized within the organization with 166 independent community-based Goodwill stores. These regional businesses are independent, not-for-profit human services organizations. Despite its decentralization, the company has managed to maintain its core values. Seattle's Goodwill is focused on helping the city's large immigrant population and those individuals without basic education and English language skills. And at Goodwill Industries of Kentucky, the organization recently invested in custom software to balance daily sales at stores to streamline operations so managers can spend less time on paperwork and more time managing employees.

Part of Goodwill's success over the years can be attributed to its ability to innovate. As technology evolves and such skills became necessary for most jobs, Goodwill has developed training programs to ensure that individuals are fully equipped to be productive members of the workforce, and in 2008 Goodwill was able to provide 1.5 million people with career services. As an organization, Goodwill itself has entered into the digital age. You can now find Goodwill on Facebook, Twitter, and YouTube. Goodwill's business practices encompass the values of the triple bottom line of people, planet, and profit. The organization is taking advantage of new green initiatives and pursuing opportunities for sustainability. For example, at the beginning of 2010, Goodwill received a $7.3 million grant from the U.S. Department of Labor, which will provide funds to prepare individuals to enter the rapidly growing green industry of their choice. Oregon's Goodwill Industries has partnered with the Oregon Department of Environmental Quality and its Oregon E-Cycles program to prevent the improper disposal of electronics. Goodwill discovered long ago that diversity is an advantage rather than a hindrance.

DISCUSSION QUESTIONS

1. **How might the implications of the P-O-L-C framework differ for an organization like Goodwill Industries versus a firm like Starbucks?**

2. **What are Goodwill's competitive advantages?**

3. **Goodwill has found success in the social services. What problems might result from hiring and training the diverse populations that Goodwill is involved with?**

4. **Have you ever experienced problems with discrimination in a work or school setting?**

5. **Why do you think that Goodwill believes it necessary to continually innovate?**

2. Case in Point: SAS Institute Invests in Employees

Who are your best customers? Which customers are bringing you the most profits and which are the least profitable? Companies are increasingly relying on complicated data mining software to answer these and other questions. More than 92% of the top 100 companies on the *Fortune* Global 500 list are using software developed by SAS Institute Inc., the world's largest privately held software company, for their business intelligence and analytical needs. The Cary, North Carolina, company is doing extremely well by any measure. They have over 10,000 employees

worldwide, operate in over 100 countries, ranked number 1 on *Fortune*'s 2010 list of the "Best Companies to Work For," and reported $2.31 billion in revenue in 2009 (their 33rd consecutive year of growth and profitability). They reinvested 23% of their 2009 revenue into research and development (R&D) activities. The company is quick to attribute their success to the performance and loyalty of their workforce. This is directly correlated with how they treat their employees.

SAS has perfected the art of employee management. It has been ranked on *Fortune* magazine's best places to work list every year since the list was first published. Employees seem to genuinely enjoy working at SAS and are unusually attached to the company, resulting in a turnover rate that is less than 4% in an industry where 20% is the norm. In fact, when Google designed their own legendary campus in California, they visited the SAS campus to get ideas.

One thing SAS does well is giving its employees opportunities to work on interesting and challenging projects. The software developers have the opportunity to develop cutting-edge software to be used around the world. The company makes an effort to concentrate its business in the areas of analytics, which add the most value and help organizations best analyze disparate data for decision making, creating opportunities for SAS workers to be challenged. Plus, the company removes obstacles for employees. Equipment, policies, rules, and meetings that could impede productivity are eliminated.

SAS has treated employees well in bad times as well as in good times. CEO Jim Goodnight is quoted as saying, "For 2010, I make the same promise that I did last year—SAS will have no layoffs. Too many companies worldwide sacrificed employees and benefits to cut costs in 2009. SAS took the opposite stance, and we have been rewarded in employee loyalty and overall success of the business. Maintaining this position throughout the downturn puts us in the best position to meet the expected market upturn."

In addition, the company has a reputation as a pioneer when it comes to the perks it offers employees, but these perks are not given with a mentality of "offer everything but the kitchen sink." There is careful thinking and planning behind the choice of perks the company offers. SAS conducts regular employee satisfaction surveys, and any future benefits and perks offered are planned in response to the results. The company wants to eliminate stressors and anything that dissatisfies from people's lives. To keep employees healthy and fit, there are athletic fields; a full gym; a swimming pool; and tennis, basketball, and racquetball courts on campus. Plus, the company offers free on-site health care for employees, covers dependents at their fully staffed primary medical care center, and offers unlimited sick leave. The company understands that employees have a life and encourages employees to work reasonable hours and then go home to their families. In fact, a famous motto in the company is, "If you are working for more than 8 hours, you are just adding bugs." SAS is truly one of the industry leaders in leveraging its treatment of people for continued business success.

DISCUSSION QUESTIONS

1. How would you translate SAS's art of employee management in terms of the P-O-L-C framework?

2. SAS is a global company. Do you think that the benefits offered and the strategy used to improve employee satisfaction vary from country to country?

3. If a company is unable to provide the benefits that SAS does, in what other ways might a firm create positive work attitudes?

1. What risks could be associated with giving workplace surveys, as was done at SAS?

2. What are some effective strategies to create a balanced work and home life? Is this more or less of a challenge when you are starting a new career?

3 .Case in Point: Xerox Motivates Employees for Success

As of 2010, Xerox Corporation (NYSE: XRX) is a $22 billion, multinational company founded in 1906 and operating in 160 countries. Xerox is headquartered in Norwalk, Connecticut, and employs 130,000 people. How does a company of such size and magnitude effectively manage and motivate employees from diverse backgrounds and experiences? Such companies depend on the productivity and performance of their employees. The journey over the last 100 years has withstood many successes and failures. In 2000, Xerox was facing bankruptcy after years of mismanagement, piles of debt, and mounting questions about its accounting practices.

Anne Mulcahy turned Xerox around. Mulcahy joined Xerox as an employee in 1976 and moved up the corporate ladder, holding several management positions until she became CEO in 2001. In 2005, Mulcahy was named by *Fortune* magazine as the second most powerful woman in business. Based on a lifetime of experience with Xerox, she knew that the company had powerful employees who were not motivated when she took over. Mulcahy believed that among other key businesses changes, motivating employees at Xerox was a key way to pull the company back from the brink of failure. One of her guiding principles was a belief that in order

to achieve customer satisfaction, employees must be treated as key stakeholders and become interested and motivated in their work. Mulcahy not only successfully saw the company through this difficult time but also was able to create a stronger and more focused company.

In 2009, Mulcahy became the chairman of Xerox's board of directors and passed the torch to Ursula Burns, who became the new CEO of Xerox. Burns became not only the first African American woman CEO to head a Standard & Poor's (S&P) company but also the first woman to succeed another woman as the head of an S&P 100 company. Burns is also a lifetime Xerox employee who has been with the company for over 30 years. She began as a graduate intern and was hired full time after graduation. Because of her tenure with Xerox, she has close relationships with many of the employees, which provides a level of comfort and teamwork. She describes Xerox as a nice family. She maintains that Mulcahy created a strong and successful business but encouraged individuals to speak their mind, to not worry about hurting one another's feelings, and to be more critical.

Burns explains that she learned early on in her career, from her mentors at Xerox, the importance of managing individuals in different ways and not intentionally intimidating people but rather relating to them and their individual perspectives. As CEO, she wants to encourage people to get things done, take risks, and not be afraid of those risks. She motivates her teams by letting them know what her intentions and priorities are. The correlation between a manager's leadership style and the productivity and motivation of employees is apparent at Xerox, where employees feel a sense of importance and a part of the process necessary to maintain a successful and profitable business. In 2010, Anne Mulcahy retired from her position on the board of directors to pursue new projects.

DISCUSSIO QUSTIONS

1. **In terms of the P-O-L-C framework, what values do the promotion and retention of Mulcahy and Burns suggest are important at Xerox? How might these values be reflected in its vision and mission statements?**

2. **How do you think Xerox was able to motivate its employees through the crisis it faced in 2000?**

3. **How do CEOs with large numbers of employees communicate priorities to a worldwide workforce?**

4. **How might Ursula Burns motivate employees to take calculated risks?**

5. **Both Anne Mulcahy and Ursula Burns were lifetime employees of Xerox. How does an organization attract and keep individuals for such a long period of time?**

4.Case in Point: Flat World Knowledge Transforms Textbook Industry

Two textbook publishing industry veterans, Jeff Shelstad and Eric Frank, started Flat World Knowledge (FWK), a privately held company, in 2007 to be a new and disruptive model for the college textbook market. Traditional business textbook publishers carry a portfolio of 5 to 10 titles per subject and charge premium prices for new textbooks, an average of $1,000 in textbooks for a college student's first year, according to a recent General Accounting Office (GAO) report. FWK's strategy aims to turn the traditional model on its head by providing online textbook access free to students. FWK earns revenues by selling students the digital textbooks in alternate formats, print and audio initially, and also by selling highly efficient and mobile study aids. Despite the fact that professors have rated the academic quality of FWK textbooks as equal to or higher than that of textbooks from traditional publishers, the cost to students is a fraction of current market prices due to the efficiencies of the FWK business model. Moreover, with FWK's open-source platform, instructors who adopt FWK books for their classes are able to pick and choose the material provided to their students, even if it is from earlier versions of textbooks that have since been revised.

Shelstad and Frank founded FWK because they believed that big publishers would continue to experiment and innovate, and enjoy the advantages of scale, capital, content, and brand. But the FWK founders also believed that the pace and nature of change by the big publishers of the textbook industry would remain modest and marginal, held back by an inflexible go-to market strategy, with a reflexive (and shortsighted) exercise of pricing power, outdated business models, intransigent channel partners, existing contracts, and a fear of price cannibalization, as well as the traditional culture and organizational barriers.

To seize this perceived market opportunity, FWK designed a strategy based on publishing textbooks around the three main pillars of books that are (1) free, (2) open, and (3) authored by highly respected authors. Ultimately students (or parents) pay for books. Between a publisher and the student is a gatekeeper—the instructor. The first step to revenue is to convince the gatekeeper to assign ("adopt") an FWK textbook instead of other choices. Only then does FWK establish a relationship with the gatekeeper's students and earn the opportunity to monetize those relationships through the sale of print books, study aids, user-generated content, and corporate sponsorship. FWK's strategy, therefore, aims to provide a compelling value proposition to instructors to maximize adoptions and, thus, student relationships.

How is FWK's strategy working so far? Through the start of 2010, the FWK strategy has proven effective. New customers and books come online daily and the growth trends are positive. Its first term (fall of 2009), FWK had 40,000 students using its textbooks. This has continued to rise. Several new projects are under way in international business, entrepreneurship, legal environment, and mathematical economics. Media attention to the fledgling FWK has generally been favorable. Social media experts also gave the company accolades. For example, Chris Anderson devoted a page to the FWK business model in his bestselling book *Free*. Moreover, early user reviews of the product were also very positive. For instance, an instructor who adopted *Principles of Management*noted, "I highly recommend this book as a primary textbook for…business majors. The overall context is quite appropriate and the search capability within the context is useful. I have been quite impressed [with] how they have highlighted the key

areas." At the same time, opportunities to improve the Web interface still existed, with the same reviewer noting, "The navigation could be a bit more user friendly, however." FWK uses user input like this to better adjust the strategy and delivery of its model. This type of feedback led the FWK design squad to improve its custom Web interface, so that instructors can more easily change the book. Only time will tell if the $11 million invested in FWK by 2010 will result in the establishment of a new titan in textbook publishing or will be an entrepreneurial miss.

Discussion Questions

- Planning is a key component to the P-O-L-C framework. What type of planning do you think the founders of Flat World Knowledge engaged in?
- What competitive advantages does Flat World Knowledge possess?
- What are Flat World Knowledge's key strengths, weaknesses, opportunities, and threats?
- How might the extensive textbook industry experience the Flat World Knowledge founders possess help or hinder their strategy formulation and ultimate success or failure?
- Based on Porter's strategies summarized in the figure below, which type of strategy do you see Flat World Knowledge employing? Support your response.

5. Case in Point: Nucor Aligns Company Goals With Employee Goals

Manufacturing steel is not a glamorous job. The industry is beset by many problems, and more than 40 steel manufacturers have filed for bankruptcy in recent years. Most young employees do not view working at a steel mill as their dream job. Yet, one company distinguished itself from all the rest by remaining profitable for over 130 quarters and by providing an over 350% return on investment (ROI) to shareholders. The company is clearly doing well by every financial metric available and is the most profitable in its industry.

How do they achieve these amazing results? For one thing, every one of Nucor Corporation's (NYSE: NUE) 12,000 employees acts like an owner of the company. The overarching goal is "take care of our customers." Employees are encouraged to fix the things they see as wrong and have real power on their jobs. When there is a breakdown in a plant, a supervisor does not have to ask employees to work overtime; employees volunteer for it. In fact, the company is famous for its decentralized structure and for pushing authority and responsibility down to lower levels in the hierarchy. Tasks that previously belonged to management are performed by line workers. Management listens to lower level employees and routinely implements their new ideas.

The reward system in place at Nucor is also unique, and its employees may be the highest paid steelworkers in the world. In 2005, the average Nucor employee earned $79,000, followed by a $2,000 bonus decided by the company's annual earnings and $18,000 in the form of profit sharing. At the same time, a large percentage of these earnings are based on performance. People

have the opportunity to earn a lot of money if the company is doing well, and there is no upward limit to how much they can make. However, they will do much worse than their counterparts in other mills if the company does poorly. Thus, it is to everyone's advantage to help the company perform well. The same incentive system exists at all levels of the company. CEO pay is clearly tied to corporate performance. The incentive system penalizes low performers while increasing commitment to the company as well as to high performance.

Nucor's formula for success seems simple: align company goals with employee goals and give employees real power to make things happen. The results seem to work for the company and its employees. Evidence of this successful method is that the company has one of the lowest employee turnover rates in the industry and remains one of the few remaining nonunionized environments in manufacturing. Nucor is the largest U.S. minimill and steel scrap recycler.

DISCUSSION QUESTIONS

- How do goals and objectives at NUCOR relate to the planning facet of the P-O-L-C framework?
- What negative consequences might arise at Nucor Corporation as a result of tying pay to company performance?
- What effects do penalizing low performers have on Nucor employees?
- What other ways can a company motivate employees to increase productivity, in addition to monetary incentives?
- How might the different reward systems at Nucor, individual empowerment and economic incentives, motivate people differently? Or do they have the same effect?
- How would unionization at Nucor impact the dynamic of the organization?

6.Toyota Struggles With Organizational Structure

Toyota Motor Corporation (TYO: 7203) has often been referred to as the gold standard of the automotive industry. In the first quarter of 2007, Toyota (NYSE: TM) overtook General Motors Corporation in sales for the first time as the top automotive manufacturer in the world. Toyota reached success in part because of its exceptional reputation for quality and customer care. Despite the global recession and the tough economic times that American auto companies such as General Motors and Chrysler faced in 2009, Toyota enjoyed profits of $16.7 billion and sales

growth of 6% that year. However, late 2009 and early 2010 witnessed Toyota's recall of 8 million vehicles due to unintended acceleration. How could this happen to a company known for quality and structured to solve problems as soon as they arise? To examine this further, one has to understand about the Toyota Production System (TPS).

TPS is built on the principles of "just-in-time" production. In other words, raw materials and supplies are delivered to the assembly line exactly at the time they are to be used. This system has little room for slack resources, emphasizes the importance of efficiency on the part of employees, and minimizes wasted resources. TPS gives power to the employees on the front lines. Assembly line workers are empowered to pull a cord and stop the manufacturing line when they see a problem.

However, during the 1990s, Toyota began to experience rapid growth and expansion. With this success, the organization became more defensive and protective of information. Expansion strained resources across the organization and slowed response time. Toyota's CEO, Akio Toyoda, the grandson of its founder, has conceded, "Quite frankly, I fear the pace at which we have grown may have been too quick."

Vehicle recalls are not new to Toyota; after defects were found in the company's Lexus model in 1989, Toyota created teams to solve the issues quickly, and in some cases the company went to customers' homes to collect the cars. The question on many people's minds is, how could a company whose success was built on its reputation for quality have had such failures? What is all the more puzzling is that brake problems in vehicles became apparent in 2009, but only after being confronted by United States transportation secretary Ray LaHood did Toyota begin issuing recalls in the United States. And during the early months of the crisis, Toyota's top leaders were all but missing from public sight.

The organizational structure of Toyota may give us some insight into the handling of this crisis and ideas for the most effective way for Toyota to move forward. A conflict such as this has the ability to paralyze productivity but if dealt with constructively and effectively, can present opportunities for learning and improvement. Companies such as Toyota that have a rigid corporate culture and a hierarchy of seniority are at risk of reacting to external threats slowly. It is not uncommon that individuals feel reluctant to pass bad news up the chain within a family company such as Toyota. Toyota's board of directors is composed of 29 Japanese men, all of whom are Toyota insiders. As a result of its centralized power structure, authority is not generally delegated within the company; all U.S. executives are assigned a Japanese boss to mentor them, and no Toyota executive in the United States is authorized to issue a recall. Most information flow is one-way, back to Japan where decisions are made.

Will Toyota turn its recall into an opportunity for increased participation for its international manufacturers? Will decentralization and increased transparency occur? Only time will tell.

DISCUSSION QUESTIONS

- What changes in the organizing facet of the P-O-L-C framework might you make at Toyota to prevent future mishaps like the massive recalls related to brake and accelerator failures?
- Do you think Toyota's organizational structure and norms are explicitly formalized in rules, or do the norms seem to be more inherent in the culture of the organization?
- What are the pros and cons of Toyota's structure?
- What elements of business would you suggest remain the same and what elements might need revising?
- What are the most important elements of Toyota's organizational structure?

7. Case- Google Creates Unique Culture

Google (NASDAQ: GOOG) is one of the best-known and most admired companies around the world, so much so that "googling" is the term many use to refer to searching information on the Web. What started out as a student project by two Stanford University graduates—Larry Page and Sergey Brin—in 1996, Google became the most frequently used Web search engine on the Internet with 1 billion searches per day in 2009, as well as other innovative applications such as Gmail, Google Earth, Google Maps, and Picasa. Google grew from 10 employees working in a garage in Palo Alto to 10,000 employees operating around the world by 2009. What is the formula behind this success?

Google strives to operate based on solid principles that may be traced back to its founders. In a world crowded with search engines, they were probably the first company that put users first. Their mission statement summarizes their commitment to end-user needs: "To organize the world's information and to make it universally accessible and useful." While other companies were focused on marketing their sites and increasing advertising revenues, Google stripped the search page of all distractions and presented users with a blank page consisting only of a company logo and a search box. Google resisted pop-up advertising, because the company felt that it was annoying to end-users. They insisted that all their advertisements would be clearly marked as "sponsored links." This emphasis on improving user experience and always putting it before making more money in the short term seems to have been critical to their success.

Keeping their employees happy is also a value they take to heart. Google created a unique work environment that attracts, motivates, and retains the best players in the field. Google was ranked as the number 1 "Best Place to Work For" by *Fortune* magazine in 2007 and number 4 in 2010. This is not surprising if one looks closer to how Google treats employees. On their Mountain View, California, campus called the "Googleplex," employees are treated to free gourmet food options including sushi bars and espresso stations. In fact, many employees complain that once they started working for Google, they tend to gain 10 to 15 pounds! Employees have access to

gyms, shower facilities, video games, on-site child care, and doctors. Google provides 4 months of paternal leave with 75% of full pay and offers $500 for take-out meals for families with a newborn. These perks create a place where employees feel that they are treated well and their needs are taken care of. Moreover, they contribute to the feeling that they are working at a unique and cool place that is different from everywhere else they may have worked.

In addition, Google encourages employee risk taking and innovation. How is this done? When a vice president in charge of the company's advertising system made a mistake costing the company millions of dollars and apologized for the mistake, she was commended by Larry Page, who congratulated her for making the mistake and noting that he would rather run a company where they are moving quickly and doing too much, as opposed to being too cautious and doing too little. This attitude toward acting fast and accepting the cost of resulting mistakes as a natural consequence of working on the cutting edge may explain why the company is performing much ahead of competitors such as Microsoft and Yahoo! One of the current challenges for Google is to expand to new fields outside of their Web search engine business. To promote new ideas, Google encourages all engineers to spend 20% of their time working on their own ideas.

Google's culture is reflected in their decision making as well. Decisions at Google are made in teams. Even the company management is in the hands of a triad: Larry Page and Sergey Brin hired Eric Schmidt to act as the CEO of the company, and they are reportedly leading the company by consensus. In other words, this is not a company where decisions are made by the senior person in charge and then implemented top down. It is common for several small teams to attack each problem and for employees to try to influence each other using rational persuasion and data. Gut feeling has little impact on how decisions are made. In some meetings, people reportedly are not allowed to say "I think…" but instead must say "the data suggest…." To facilitate teamwork, employees work in open office environments where private offices are assigned only to a select few. Even Kai-Fu Lee, the famous employee whose defection from Microsoft was the target of a lawsuit, did not get his own office and shared a cubicle with two other employees.

How do they maintain these unique values? In a company emphasizing hiring the smartest people, it is very likely that they will attract big egos that may be difficult to work with. Google realizes that its strength comes from its "small company" values that emphasize risk taking, agility, and cooperation. Therefore, they take their hiring process very seriously. Hiring is extremely competitive and getting to work at Google is not unlike applying to a college. Candidates may be asked to write essays about how they will perform their future jobs. Recently, they targeted potential new employees using billboards featuring brain teasers directing potential candidates to a Web site where they were subjected to more brain teasers. Each candidate may be interviewed by as many as eight people on several occasions. Through this scrutiny, they are trying to select "Googley" employees who will share the company's values, perform at high levels, and be liked by others within the company.

Will this culture survive in the long run? It may be too early to tell, given that the company was only founded in 1998. The founders emphasized that their initial public offering (IPO) would not change their culture and they would not introduce more rules or change the way things are done in Google to please Wall Street. But can a public corporation really act like a start-up? Can a global giant facing scrutiny on issues including privacy, copyright, and censorship maintain its culture rooted in its days in a Palo Alto garage? Larry Page is quoted as saying, "We have a mantra: don't be evil, which is to do the best things we know how for our users, for our customers, for everyone. So I think if we were known for that, it would be a wonderful thing."

DISCUSSION QUESTIONS :QUESTIONS

- Culture is an essential element of organizing in the P-O-L-C framework. Do you think Google has a strong culture? What would it take to make changes in that culture, for better or for worse?
- Do you think Google's unique culture will help or hurt Google in the long run?
- What are the factors responsible for the specific culture that exists in Google?
- What type of decision-making approach has Google taken? Do you think this will remain the same over time? Why or why not?
- Do you see any challenges Google may face in the future because of its emphasis on having a risk-taking culture?

8.Case Networking Powers Relationships

Networking has the potential to open doors and create possibilities for jobs and partnerships. Networking establishes connections between individuals and access to information that one might not normally have access to. Reaching out to strangers can be an intimidating and nerve-racking experience. In business, the more central you are, the more power you have. Creating connections and ties to other people affords you the opportunity for power and the ability to more closely control your future, so while at times networking might feel awkward and uncomfortable, it is a necessary and important part of establishing and maintaining a career.

Online social networking sites play an important role in this networking process for individuals both professionally and personally. With 1,200 employees in 2010, Facebook has 350 million users around the world, and LinkedIn has over 60 million members in over 200 countries. A new member joins LinkedIn every second, and about half of the members are outside the United States. These online sites have created new opportunities for networking and allow individuals to

branch out beyond their normal world of industry, school, and business. The key is to avoid costly missteps as employers have begun to search online for information about prospective and current employees. In 2009, 8% of companies reported that they had fired an employee for misuse of social media.

Many of these online sites have become a tool for business. For example, LinkedIn targets working professionals and provides them a way to maintain lists of business connections and to use those connections to gain introduction to people using mutual contacts. Unlike other social networking sites, LinkedIn is almost entirely used by professionals. The power of social networking flows in both directions. Employers can screen applicants through their online accounts and recruiters more than ever are using these sites to view background information, individual skill sets, and employment history, which can be cross-referenced with submitted applications. Job seekers can review the profiles of those at top management firms and search for mutual contacts. LinkedIn also provides statistics about firms, which can be useful information for individuals looking at potential employers.

Networking is about building your brand and managing relationships. Using social networks as a vehicle to market one's self and make professional connections is becoming increasingly common, as well as using loose ties or connections through others to open doors and land jobs. In an increasingly high-tech and digital world, it is important to be aware and conscience of the digital footprint that we create. But with careful cultivation these online networks can present many opportunities.

DISCUSSION QUESTIONS

- If social networks are an essential element of the organizing facet of the P-O-L-C framework, should employers track the use of LinkedIn or Facebook among their employees? Why or why not?
- How is online networking different from or similar to in-person networking? Please describe your experience with both.
- What are the downfalls and benefits of social networking?
- In what ways are indirect ties as powerful and important as direct ties?
- To what extent have you built your own brand? Is this something that you have ever considered before?

9.Indra Nooyi Draws on Vision and Values to Lead

She is among the top 100 most influential people according to *Time* magazine's 2008 list. She has also ranked number 4 in *Forbes*'s "Most Influential Women in the World" (2010), number 1 in*Fortune*'s "50 Most Powerful Women" (2006 through 2009), and number 22 in *Fortune*'s "25 Most Powerful People in Business" (2007). The lists go on and on. To those familiar with her work and style, this should come as no surprise: Even before she became the CEO of PepsiCo Inc. (NYSE: PEP) in 2006, she was one of the most powerful executives at PepsiCo and one of the two candidates being groomed for the coveted CEO position. Born in Chennai, India, Nooyi graduated from Yale's School of Management and worked in companies such as the Boston Consulting Group Inc., Motorola Inc., and ABB Inc. She also led an all-girls rock band in high school, but that is a different story.

What makes her one of the top leaders in the business world today? To start with, she has a clear vision for PepsiCo, which seems to be the right vision for the company at this point in time. Her vision is framed under the term "performance with purpose," which is based on two key ideas: tackling the obesity epidemic by improving the nutritional status of PepsiCo products and making PepsiCo an environmentally sustainable company. She is an inspirational speaker and rallies people around her vision for the company. She has the track record to show that she means what she says. She was instrumental in PepsiCo's acquisition of the food conglomerate Quaker Oats Company and the juice maker Tropicana Products Inc., both of which have healthy product lines. She is bent on reducing PepsiCo's reliance on high-sugar, high-calorie beverages, and she made sure that PepsiCo removed trans fats from all its products before its competitors. On the environmental side, she is striving for a net zero impact on the environment. Among her priorities are plans to reduce the plastic used in beverage bottles and find biodegradable packaging solutions for PepsiCo products. Her vision is long term and could be risky for short-term earnings, but it is also timely and important.

Those who work with her feel challenged by her high-performance standards and expectation of excellence. She is not afraid to give people negative feedback—and with humor, too. She pushes people until they come up with a solution to a problem and does not take "I don't know" for an answer. For example, she insisted that her team find an alternative to the expensive palm oil and did not stop urging them forward until the alternative arrived: rice bran oil.

Nooyi is well liked and respected because she listens to those around her, even when they disagree with her. Her background cuts across national boundaries, which gives her a true appreciation for diversity, and she expects those around her to bring their values to work. In fact, when she graduated from college, she wore a sari to a job interview at Boston Consulting, where she got the job. She is an unusually collaborative person in the top suite of a *Fortune* 500 company, and she seeks help and information when she needs it. She has friendships with three ex-CEOs of PepsiCo who serve as her informal advisors, and when she was selected to the top position at PepsiCo, she made sure that her rival for the position got a pay raise and was given influence in the company so she did not lose him. She says that the best advice she received was from her father, who taught her to assume that people have good intentions. Nooyi notes that

expecting people to have good intentions helps her prevent misunderstandings and show empathy for them. It seems that she is a role model to other business leaders around the world, and PepsiCo is well positioned to tackle the challenges the future may bring.

DISCUSSION QUESTIONS

- How might a leader like Nooyi influence PepsiCo's use of P-O-L-C tools beyond her obvious role in the leadership dimension?
- Do you think Indra Nooyi's vision of "performance with purpose" has been effective? Why or why not?
- How does charisma relate to leadership? Do you think the CEO of PepsiCo possesses this characteristic?
- What makes Indra Nooyi so successful at her job? Is it her level of authority, or is it something else?
- What do the types of advisors that Indra Nooyi relies on tell you about her values?
- How much passion does Indra Nooyi seem to bring to her role as CEO of PepsiCo?

10.Bernard Ebbers Creates Biased Decision Making at WorldCom

You could argue that Bernard Ebbers, of the now defunct WorldCom, created a culture of poor decision making. As CEO, Ebbers avoided internal company conflict at all costs, and he ultimately avoided the reality that WorldCom, once the dominant company in the telecommunications industry, was in serious economic trouble. Notorious for his temper, employees were reluctant to present Ebbers with company information that he didn't like. A 2002 *Economist* article describes Ebbers as "parochial, stubborn, preoccupied with penny-pinching.…Mr. Ebbers was a difficult man to work for." Under Ebbers, WorldCom's $9 billion accounting fraud grew in order to avoid facing its worsening economic reality.

WorldCom's roots stem from a Mississippi telecom company called LDDS where Ebbers was CEO. Growing to over 80,000 employees through multiple acquisitions of other telecom businesses, WorldCom became the overwhelming industry leader. However, many of WorldCom's executives had worked with Ebbers since his start as CEO 2 decades before. Ebbers, who was regularly seen in cowboy boots and a 10-gallon hat, led his close-knit staff in a "shoot from the hip" style. He was resistant to new technology and famously refused to use e-mail to communicate with his employees. A well-known company mantra was "That's the way we did it at LDDS." Ebbers lead WorldCom through over 60 acquisitions over a period of 15

years. He grew annual revenues from $1 million in 1984 to over $17 billion in 1998. However, Ebbers had little regard for long-term plans and avoided making larger strategic decisions as his company accumulated increasing debt.

As WorldCom acquired new companies, its accounting procedures, computer systems, and customer service issues became increasingly more complex, and industry experts note that WorldCom struggled to keep up with the growth. Company employees who tried to bring initial problems to Ebbers's attention were discouraged; Ebbers made it clear he only wanted to hear good news and then based decisions on this good news. This avoidance of factoring in potential problems during decision making created a company culture that demanded success at all costs. That ultimately included falsifying financial reports. For example, former employees admitted to registering "rolling revenue" to inflate earnings, recording a single sale multiple times. Another 2002 *Economist* article reports that this and other dishonest techniques were "endemic in the sales hierarchy of WorldCom.…Increasing reported revenues came above all else."

Despite efforts to inflate the books, WorldCom's stock prices dramatically declined, and Ebbers left the company in 2002 after pressure from WorldCom's board of directors. What came to light after his departure, however, highlighted the significant problems he avoided confronting. Under new CEO John Sidgmore, internal auditor Cynthia Cooper uncovered multiple instances of financial dishonesty and illegal activity overseen by CFO Scott Sullivan, a close confidant of Ebbers. A 2002*Wall Street Journal* article reports, "As she pursued the trail of fraud, Ms. Cooper time and again was obstructed by fellow employees, some of whom disapproved of WorldCom's accounting methods but were unwilling to contradict their bosses or thwart the company's goals."

Ultimately Cooper's investigation revealed the fraud that took place under Sullivan and Ebbers. Sullivan later admitted to having booked $3.8 billion of costs as capital expenditures and that five quarters' worth of profits should have been recorded as losses. Ebbers's refusal to honestly face the harsh economic truth for WorldCom was ultimately highlighted to be a source of WorldCom's financial problems. In 2005, he was found guilty of fraud, conspiracy, and filing false documentation. WorldCom was purchased for $7.6 billion and subsequently integrated into Verizon (NYSE: VE) in 2006, and Ebbers began serving a 25-year jail sentence in 2005.

DISCUSSION QUESTIONS

- Decision making is a key component of the leading facet of the P-O-L-C framework. What decision-making traps might WorldCom's board have succumbed to? Why might the concept of groupthink be especially relevant to boards?
- What potential causes of poor decision making existed at WorldCom during Bernard Ebbers' administration?

- What might have happened if Ebbers had been prone to a different conflict-handling style, such as compromise or collaboration?
- How did having a small "inner circle" of leadership affect the decision-making culture at WorldCom?
- What key decisions did Cynthia Cooper make?
- What responsibility did the board of directors have to detect and confront the decision-making problems at WorldCom?

11.Case in Point: Edward Jones Communicates Caring

Because of the economic turmoil that most financial institutions find themselves in today, it might come as a surprise that an individual investment company came in at number 2 on *Fortune*magazine's "100 Best Companies to Work For" list in 2010, behind software giant SAS Institute Inc. Edward Jones Investments (a limited partnership company) was originally founded in St. Louis, Missouri, where its headquarters remain today. With more than 10,000 offices across the United States and Canada, they are able to serve nearly 7 million investors. This is the 10th year Edward Jones has made the Best Companies list. In addition, Edward Jones ranked highest with client satisfaction among full-service investment firms, according to an annual survey released by J. D. Power and Associates in 2009. How has Edward Jones maintained this favorable reputation in the eyes of both its employees and its customers?

It begins with the perks offered, including profit sharing and telecommuting. But if you ask the company's CEO, Tim Kirley, he will likely tell you that it goes beyond the financial incentives, and at the heart of it is the culture of honest communication that he adamantly promotes. Kirley works with senior managers and team members in what makes up an open floor plan and always tries to maintain his approachability. Examples of this include direct communication, letters to staff and video, and Internet-posted talks. In addition, regular meetings are held to celebrate achievements and reinforce the firm's ethos. Staff surveys are frequently administered and feedback is widely taken into consideration so that the 10,000 employees feel heard and respected.

According to *Fortune*'s managing editor, Hank Gilman, "The most important considerations for this year's list were hiring and the ways in which companies are helping their employees weather the recession." Edward Jones was able to persevere through the trauma of the recent financial crisis with no layoffs and an 8% one-year job growth. While a salary freeze was enacted, profit sharing continued. Kirley insists that the best approach to the recent economic downturn is to remain honest with his employees even when the news he is delivering is not what they want to hear.

Edward Jones was established in 1922 by Edward D. Jones Sr., and long ago, the company recognized the importance of a satisfied workforce and how that has the ability to translate into customer satisfaction and long-term growth. The company's internal policy of open communication seems to carry over to how advisors value their relationship with individual customers. Investors are most likely to contact their advisor by directly visiting them at a local branch or by picking up the phone and calling them. Edward Jones's managing partner, Jim Weddle, explains it best himself: "We are able to stay focused on the long-term because we are a partnership and we know who we are and what we do. When you respect the people who work here, you take care of them—not just in the good times, but in the difficult times as well."

DISCUSSION QUESTIONS

- Communication is a key part of the leading facet of the P-O-L-C framework. What other things could Edward Jones do to increase its effectiveness in the area of communications?
- As an organization, what qualities do you think Edward Jones looks for when hiring new financial advisors? How do you think that affects its culture over time?
- With its success in North America, why do you think Edward Jones has not expanded across the Pacific or Atlantic Oceans?
- How has technology enabled Edward Jones to become more effective at communicating with its employees and customers?
- What types of customer service policies do think Edward Jones has in place? How do these relate to its culture over time?