Introduction to Management and Organizations

The 21st century has brought with it a new workplace, one in which everyone must adapt to a rapidly hanging society with constantly shifting demands and opportunities. The economy has become global and is driven by innovations and technology and organizations have to transform themselves to serve new customer expectations. Today's economy presents challenging opportunities as well as dramatic uncertainty. The new economy has become knowledge based and is performance driven. The themes in the present context area 'respect', participation, empowerment, teamwork and self management. In the light of the above challenges a new kind of leader is needed to guide business through turbulence. Managers in organizations do this task.

A manager is someone who coordinates and oversees the work of other people so that organizational goals can be accomplished. It is not about personal achievement but helping others do their job. Managers may also have additional work duties not related to coordinating the work of others.

Managers can be classified by their level in the organization, particularly in traditionally structured organizations—those shaped like a pyramid

1) **First-line managers** (often called supervisors) are located on the lowest level of management.
2) **Middle managers** include all levels of management between the first-line level and the top level of the organization.
3) **Top managers** include managers at or near the top of the organization who are responsible for making organization-wide decisions and establishing plans and goals that affect the entire organization.

The changing nature of organizations and work often requires employees in formerly nonmanagerial jobs to perform managerial activities. Non managerial jobs are those where one works directly on a job and had no one reporting to him.

Mary Parker Follet defines management as, "The art of getting things done through people"

Management involves coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively.

1) Coordinating and overseeing the work of others is what distinguishes a managerial position from a nonmanagerial one.
2) **Efficiency** is getting the most output from the least amount of inputs in order to minimize resource costs. Efficiency is often referred to as "doing things right" **Effectiveness** is completing activities so that organizational goals are attained and is often described as "doing the right things"

No two managers' jobs are exactly alike. All managers perform certain function, enact certain roles and display a set of skills in their jobs.

Management Functions

According to the functions approach managers perform certain activities to efficiently and effectively coordinate the work of others. They can be classified as

1) **Planning** involves defining goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities.
2) **Organizing** involves arranging and structuring work to accomplish the organization's goals.
3) **Leading** involves working with and through people to accomplish organizational goals.
4) **Controlling** involves monitoring, comparing, and correcting work performance.

Since these four management functions are integrated into the activities of managers throughout the workday, they should be viewed as an ongoing process and they need not the done in the above sequence.

Management Roles

In the late 1960s, Henry Mintzberg conducted a precise study of managers at work. He concluded that managers perform 10 different roles, which are highly interrelated.

Management roles refer to specific categories of managerial behavior. Overall there are ten specific roles performed by managers which are included in the following three categories.

1) **Interpersonal roles** include figurehead, leadership, and liaison activities.
2) **Informational roles** include monitoring, disseminating, and spokesperson activities.
3) **Decisional roles** include entrepreneur, disturbance handler, resource allocator, and negotiator.

Although the functions approach represents the most useful way to describe the manager's job, Mintzberg's roles give additional insight into managers' work. Some of the ten roles do not fall clearly into one of the four functions, since all managers do some work that is not purely managerial.

Management Skills

Managers need certain skills to perform the challenging duties and activities associated with being a manager. Robert L. Katz found through his research in the early 1970s that managers need three essential skills

1) **Technical skills** are job-specific knowledge and techniques needed to proficiently perform specific tasks.
2) **Human skills** are the ability to work well with other people individually and in a group.
3) **Conceptual skills** are the ability to think and to conceptualize about abstract and complex situations.

These skills reflect a broad cross-section of the important managerial activities that are elements of the four management functions

Significant changes in the internal and external environments have a measurable impact on management. Security threats, corporate ethics scandals, global economic and political uncertainties, and technological advancements have had a great impact on the manager's job.
Two significant changes facing today's managers are importance of customers to the manager's job and Importance of innovation to the manager's job

Organizations need managers. An **organization** is a deliberate arrangement of people to accomplish some specific purpose. Organizations share three common characteristics:
(1) Each has a distinct purpose (2) Each is composed of people (3) Each develops some deliberate structure so members can do their work. Although these three characteristics are important in defining *what* an organization is, the concept of an organization is changing. The characteristic of new organizations of today include: flexible work arrangements, employee work teams, open communication systems, and supplier alliances. Organizations are becoming more open, flexible, and responsive to changes. Organizations are changing because the world around them has changed and is continuing to change. These societal, economic, global, and technological changes have created an environment in which successful organizations must embrace new ways of getting their work done.

The importance of studying management in today's dynamic global environment can be explained by looking at the universality of management, the reality of work, and the rewards and challenges of being a manager.

The **Universality of Management:** Management is needed in all types and sizes of organizations, at all organizational levels, and in all organizational work areas throughout the world.

The Reality of Work: All employees of an organization either manage or are managed.

Rewards and Challenges of Being a Manager

Challenges

a) Managers may have difficulty in effectively blending the knowledge, skills, ambitions, and experiences of a diverse group of employees.
b) A manager's success typically is dependent on others' work performance.

Rewards

a) Managers have an opportunity to create a work environment in which organizational members can do their work to the best of their ability and help the organization achieve its goals.
b) Managers often receive recognition and status in the organization and in the larger community; influence organizational outcomes; and receive appropriate compensation.
c) Knowing that their efforts, skills, and abilities are needed by the organization gives many managers great satisfaction.

The manager of today must integrate management skills with new approaches that emphasize the human touch, enhance flexibility, and involve employees.

Chapter 2

Management Yesterday and Today

Organizations and managers have existed for thousands of years. The Egyptian pyramids and the Great Wall of China were projects of tremendous scope and magnitude, and required good management. Regardless of the titles given to managers throughout history, someone has always had to plan what needs to be accomplished, organize people and materials, lead and direct workers, and impose controls to ensure that goals were attained as planned.

Two historical events significant to the study of management are work of Adam Smith, in his book,' *The Wealth of Nations'*, in which he argued brilliantly for the economic advantages of **division of labor** (the breakdown of jobs into narrow, repetitive tasks). The **Industrial Revolution** is second important pre-twentieth-century influence on management. The introduction of machine powers combined with the division of labor made large, efficient factories possible. Planning, organizing, leading, and controlling became necessary activities.

There are six major approaches to management. They are explained as follows

1) SCIENTIFIC MANAGEMENT

Scientific management is defined as the use of the scientific method to determine the "one best way" for a job to be done. The most important contributor in this field was Frederick W. Taylor who is known as the "father" of scientific management. Using his principles of scientific management, Taylor was able to define the "one best way" for doing each job.

Frank and Lillian Gilbreth were inspired by Taylor's work and proceeded to study and develop their own methods of scientific management. They devised a classification scheme to label 17 basic hand motions called **therbligs** in order to eliminate wasteful motions

Guidelines devised by Taylor and others to improve production efficiency are still used in today's organizations. However, current management practice is not restricted to scientific management practices alone. Elements of scientific management still used include:

1. Using time and motion studies
2. Hiring best qualified workers
3. Designing incentive systems based on output

2) GENERAL ADMINISTRATIVE THEORISTS

This group of writers, who focused on the entire organization, developed more general theories of what managers do and what constitutes good management practice.

Henri Fayol and Max Weber were the two most prominent proponents of the general administrative approach. Fayol focused on activities common to all managers. He described the practice of management as distinct from other typical business functions.

He stated 14 **principles of management** which are as follows:

1. Division of Work
2. Authority
3. Discipline
4. Unity of Command
5. Unity of Direction
6. Subordination of individual interest to group interest
7. Remuneration
8. Centralization
9. Scalar Chain
10. Order
11. Equity
12. Stability
13. Initiative
14. Espirit de corps

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

Some current management concepts and theories can be traced to the work of the general administrative theorists. The functional view of a manager's job relates to Henri Fayol's concept of management. Weber's bureaucratic characteristics are evident in many of today's large organizations—even in highly flexible organizations that employ talented professionals. Some bureaucratic mechanisms are necessary in highly innovative organizations to ensure that resources are used efficiently and effectively.

3) QUANTITATIVE APPROACH TO MANAGEMENT

The **quantitative approach** to management**,** sometimes known as *operations research* or *management science*, uses quantitative techniques to improve decision making. This approach includes applications of statistics, optimization models, information models, and computer simulations. The quantitative

approach originated during World War II as mathematical and statistical solutions to military problems were developed for wartime use.

The relevance of quantitative approach today is that it has contributed most directly to managerial decision making, particularly in planning and controlling. The availability of sophisticated computer software programs has made the use of quantitative techniques more feasible for managers.

4) ORGANIZATIONAL BEHAVIOR

The field of study concerned with the actions (behaviors) of people at work is **organizational behavior**. Organizational behavior (OB) research has contributed much of what we know about human resources management and contemporary views of motivation, leadership, trust, teamwork, and conflict management.

The early advocates of OB approach were Robert Owen, Hugo Munsterberg, Mary Parker Follett, and Chester Barnard. Their ideas served as the foundation for employee selection procedures, motivation programs, work teams, and organization-environment management techniques. The **Hawthorne Studies** were the most important contribution to the development of organizational behavior.

This series of experiments conducted from 1924 to the early 1930s at Western Electric Company's Hawthorne Works in Cicero, Illinois, were initially devised as a scientific management experiment to assess the impact of changes in various physical environment variables on employee productivity.

After Harvard professor Elton Mayo and his associates joined the study as consultants, other experiments were included to look at redesigning jobs, make changes in workday and workweek length, introduce rest periods, and introduce individual versus group wage plans.

The researchers concluded that social norms or group standards were key determinants of individual work behavior.

Although not without criticism (concerning procedures, analyses of findings, and the conclusions), the Hawthorne Studies stimulated interest in human behavior in organizational settings.

In the present day context behavioral approach assists managers in designing jobs that motivate workers, in working with employee teams, and in facilitating the flow of communication within organizations. The behavioral approach provides the foundation for current theories of motivation, leadership, and group behavior and development.

5) THE SYSTEMS APPROACH

During the 1960s researchers began to analyze organizations from a systems perspective based on the physical sciences. A **system** is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. The two basic types of systems are open and closed. A **closed system** is not influenced by and does not interact with its environment. An **open system** interacts with its environment.

Using the systems approach, managers envision an organization as a body with many interdependent parts, each of which is important to the well-being of the organization as a whole. Managers coordinate the work activities of the various parts of the organization, realizing that decisions and actions taken in one organizational area will affect other areas.

The systems approach recognizes that organizations are not self-contained; they rely on and are affected by factors in their external environment.

6) THE CONTINGENCY APPROACH

The contingency approach recognizes that different organizations require different ways of managing. The contingency approach to management is a view that the organization recognizes and responds to situational variables as they arise.

CURRENT TRENDS AND ISSUES

The following are the current concepts and practices are changing the way managers do their jobs today.

Globalization: Organizational operations are no longer limited by national borders. Managers throughout the world must deal with new opportunities and challenges inherent in the globalization of business.

Ethics: Cases of corporate lying, misrepresentations, and financial manipulations have been widespread in recent years. Managers of firms such as Enron, ImClone, Global Crossing, and Tyco International have placed their own self-interest ahead of other stakeholders' welfare. While most managers continue to behave in a highly ethical manner, abuses suggest a need to "upgrade" ethical standards. Ethics education is increasingly emphasized in college curricula today. Organizations are taking a more active role in creating and using codes of ethics, ethics training programs, and ethical hiring procedures.

Workforce diversity: It refers to a workforce that is heterogeneous in terms of gender, race, ethnicity, age, and other characteristics that reflect differences. Accommodating diverse groups of people by addressing different lifestyles, family needs, and work styles is a major challenge for today's managers.

.

Entrepreneurship: It is the process whereby an individual or group of individuals use organized efforts to pursue opportunities to create value and grow by fulfilling wants and needs through innovation and uniqueness, no matter what resources the entrepreneur currently has.

Three important themes stand out in this definition:

a. The pursuit of opportunities
b. Innovation
c. Growth

Entrepreneurship will continue to be important to societies around the world.

.

Managing in an E-Business World: E-business (electronic business) is a comprehensive term describing the way an organization does its work by using electronic (Internet-based) linkages with its key constituencies in order to efficiently and effectively achieve its goals.

Knowledge Management and Learning Organizations: Change is occurring at an unprecedented rate. To be successful, today's organization must become a **learning organization**—one that has developed the capacity to continuously learn, adapt, and change. **Knowledge management** involves cultivating a learning culture where organizational members systematically gather knowledge and share it with others in the organization so as to achieve better performance.

Quality Management: Quality management is a philosophy of management that is driven by continual improvement and response to customer needs and expectations. The objective of quality management is to create an organization committed to continuous improvement in work

Chapter 3

Organization Culture and Environment: The Constraints

The components of an organization's culture are as complex as the different aspects of an individual's personality. Today's managers must understand how the forces of an organization's internal and external environment influence, and sometimes constrain, its productivity. Managers must realize that organizational culture and organizational environment have important implications for the way an organization is managed.

Two perspectives concerning the role that managers play in an organization's success or failure have been proposed.

The **omnipotent view of management** maintains that managers are directly responsible for the success or failure of an organization. This view of managers as being omnipotent is consistent with the stereotypical picture of the "take-charge" executive who can overcome any obstacle in carrying out the organization's objectives. When organizations perform poorly, someone must be held accountable and according to the omnipotent view, that "someone" is management.

The **symbolic view of management** upholds the view that much of an organization's success or failure is due to external forces outside managers' control. The influence that managers **do** have is seen mainly as a symbolic outcome. Organizational results are influenced by factors outside of the control of managers, including the economy, market changes, governmental policies, competitors' actions, the state of the particular industry, the control of proprietary technology, and decisions made by previous managers in the organization. The manager's role is to create meaning out of randomness, confusion, and ambiguity. According to the symbolic view, the actual part that management plays in the success or failure of an organization is minimal.

Reality suggests a synthesis; managers are neither helpless nor all powerful. Instead, the more logical approach is to see the manager as operating within constraints imposed by the organization's culture and environment

THE ORGANIZATION'S CULTURE

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

Organizational culture is the shared values, principles, traditions, and ways of doing things that influence the way organizational members act. This definition implies:

- Individuals perceive organizational culture based on what they see, hear, or experience within the organization.

- Organizational culture is shared by individuals within the organization.
- Organizational culture is a descriptive term. It **describes**, rather than evaluates.

Seven dimensions of an organization's culture have been proposed

a. Innovation and risk taking (the degree to which employees are encouraged to be innovative and take risks)
b. Attention to detail (the degree to which employees are expected to exhibit precision, analysis, and attention to detail)
c. Outcome orientation (the degree to which managers focus on results or outcomes rather than on the techniques and processes used to achieve those outcomes)
d. People orientation (the degree to which management decisions take into consideration the effect on people within the organization)
e. Team orientation (the degree to which work activities are organized around teams rather than individuals)
f. Aggressiveness (the degree to which people are aggressive and competitive rather than easygoing and cooperative)
g. Stability (the degree to which organizational activities emphasize maintaining the status quo in contrast to growth)

Strong versus Weak Cultures

Strong cultures are found in organizations where key values are intensely held and widely shared. Whether a company's culture is strong, weak, or somewhere in between depends on organizational factors such as size, age, employee turnover rate, and intensity of original culture. A culture has increasing impact on what managers do as the culture becomes stronger.

Most organizations have moderate-to-strong cultures. In these organizations, high agreement exists about what is important and what defines "good" employee behavior.

.

Culture is transmitted and learned by employees principally through stories, rituals, material symbols, and language.

An innovative culture should have these characteristics:

- Challenge and involvement
- Freedom
- Trust and openness
- Idea time
- Playfulness/humor
- Conflict resolution
- Debates
- Risk taking

The Organization's Environment

The **general environment** includes these broad external conditions that may affect the organization: economic, political/legal, sociocultural, demographic, technological, and global conditions.

- Economic conditions include interest rates, inflation rates, changes in disposable income, stock market fluctuations, and the general business cycle.
- Political/legal conditions include the general political stability of countries in which an organization does business and the specific attitudes that elected officials have toward business.
- Sociocultural conditions include the changing expectations of society. Societal values, customs, and tastes can change, and managers must be aware of these changes.
- Demographic conditions, including physical characteristics of a population (e.g., gender, age, level of education, geographic location, income, composition of family) can change, and managers must adapt to these changes.
- Technological conditions, which have changed more rapidly than any other element of the general environment.
- Global factors include global competitors and global consumer markets.

Environments differ in their amount of **environmental uncertainty**, which relates to (1) the degree of change in an organization's environment and (2) the degree of complexity in that environment

Degree of change is characterized as being dynamic or stable. In a dynamic environment, components of the environment change frequently. If change is minimal, the environment is called a stable environment.

The degree of **environmental complexity** is the number of components in an organization's environment and the extent of an organization's knowledge about those components. If the number of components and the need for sophisticated knowledge is minimal, the environment is classified as simple. If a number of dissimilar components and a high need for sophisticated knowledge exist, the environment is complex.

As uncertainty is a threat to organizational effectiveness, managers try to minimize environmental uncertainty.

Chapter 4

Managing in a Global Environment

Managers in all types and sizes of organizations must constantly monitor changes and consider the particular characteristics of their own location as they plan, organize, lead, and control in this dynamic environment.

Managers might have one of three perspectives or attitudes toward international business

1. An **ethnocentric attitude** is the parochialistic belief that the best work approaches and practices are those of the home country (the country in which the company's headquarters are located).
2. A **polycentric attitude** is the view that the managers in the host country (the foreign country where the organization is doing business) know the best work approaches and practices for running their business.
3. A **geocentric attitude** is a world-oriented view that focuses on using the best approaches and people from around the globe. To be a successful global manager, an individual needs to be sensitive to differences in national customs and practices

Several significant forces are reshaping today's global environment. Important features of the global environment include regional trading alliances and different types of global organizations.

A. Regional Trading Alliances

Regional trading alliances are reshaping global competition. Competition is no longer limited to country versus country, but region versus region.

1. The **European Union (EU)** is a union of 25 European nations created as a unified economic and trade entity
   a. The primary motivation for the creation of the EU in February 1992 was to allow member nations to reassert their position against the industrial strength of the United States and Japan.
   b. All member states of the EU participate in the EMU (Economic and Monetary Union). The EMU consists of three stages for coordinating economic policy. Twelve member states of the European Union have entered the third stage of the EMU, in which participating countries share a single currency, the **euro**.
   c. In 2004 the EU added 10 new members (Cyprus, Malta, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. Two additional counties may join the EU by the year 2007.

2. The **North American Free Trade Agreement (NAFTA)** is an agreement among the Mexican, Canadian, and U.S. governments in which barriers to trade have been eliminated.
   a. NAFTA went into effect on January 1, 1994.
   b. The signing of NAFTA was both criticized and supported.
   c. Eliminating barriers to free trade (tariffs, import licensing requirements, customs user fees) has resulted in a strengthening of the economic power of all three countries.
   d. Colombia, Mexico, and Venezuela signed an economic pact eliminating import duties and tariffs in 1994.
   e. Thirty-four countries in the Western Hemisphere continue to negotiate a Free Trade Area of the Americas (FTAA) agreement. FTAA was to have been in effect no later than 2005, but has not yet become operational; its future is still undetermined.

3. The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Asian nations
   a. In the future, the Southeast Asian region promises to be one of the fastest-growing and increasingly influential economic regions of the world.
   b. The future economic impact of the Southeast Asian region could rival that of both NAFTA and the EU.
4. Other Trade Alliances

   The 53-nation African Union came into existence in July 2002. Members plan to achieve greater economic development and unity among Africa's nations.

B. **The World Trade Organization (WTO)**

Formed in 1995 and evolving from GATT, the WTO is the only global organization dealing with the rules of trade among nations.

1. Membership consists of 149 countries and 32 observer governments as of January 2006.
2. The WTO appears to play an important role even though critics are vocal and highly visible.

Different Types of Global Organizations

Business has been conducted internationally for many years Multinational corporations did not become popular until the mid-1960s. Global organizations can be classified in the following categories:

1. The term **multinational corporation (MNC)** is a broad term that refers to any and all types of international companies that maintain operations in multiple countries.
2. A **transnational corporation (TNC),** sometimes called a **borderless organization**, is a type of international company in which artificial geographical barriers are eliminated.

Stages of Internationalization

An organization that goes international typically progresses through three stages. Companies that go international may begin by using **global sourcing** (also called **global outsourcing**). In this stage of going international, companies purchase materials or labor from around the world, wherever the materials or labor are least expensive. Beyond the stage of global sourcing, each successive stage to become more international involves more investment and risk.

In the next stage, companies may go international by **exporting** (making products domestically and selling them abroad) or **importing** (acquiring products made abroad and selling the products domestically). Both exporting and importing require minimal investment and risk.

In the early stages of going international, managers may also use **licensing** (giving another organization the right to make or sell its products using its technology or product specifications) or **franchising** (giving another organization the right to use its name and operating methods

After an organization has done international business for a period of time, managers may decide to make more of a direct investment in international markets by forming a **strategic alliance**, which is a partnership between an organization and a foreign company partner(s). In a strategic alliance, partners share resources and knowledge in developing new products or building production facilities.

A **joint venture** (a specific type of strategic alliance) may be undertaken to allow partners to form a separate, independent organization for some business purpose.

Managers may decide to make a direct investment in a foreign country by establishing a **foreign subsidiary**, in which a company sets up a separate and independent production facility or office. Establishing a foreign subsidiary involves the greatest commitment of resources and the greatest risk of all of the stages in going international.

Managing in a global environment entails the following challenges.

The Legal-Political Environment: The legal-political environment does not have to be unstable or revolutionary to be a challenge to managers. The fact that a country's political system differs from that of the United States is important to recognize.

The Economic Environment: The economic environment also presents many challenges to foreign-based managers, including fluctuations in currency rates, inflation, and diverse tax policies. In a **market economy**, resources are primarily owned by the private sector. In a **command economy,** all economic decisions are planned by a central government.

The Cultural Environment: Countries have different cultures, just as organizations do.

National culture is the values and attitudes shared by individuals from a specific country that shape their behavior and their beliefs about what is important.

A framework developed by Geert Hofstede serves as a valuable framework for understanding differences between national cultures.

1. Hofstede studied **individualism** versus **collectivism**. Individualism is the degree to which people in a country prefer to act as individuals rather than as members of groups. Collectivism is characterized by a social framework in which people prefer to act as members of groups and expect others in groups of which they are a part (such as a family or an organization) to look after them and to protect them.
2. Another cultural dimension is **power distance,** which describes the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally.
3. **Uncertainty avoidance** describes a cultural measure of the degree to which people tolerate risk and unconventional behavior.
4. Hofstede identified the dimension of **achievement** versus **nurturing**. Achievement is the degree to which values such as assertiveness, the acquisition of money and material goods, and competition prevail. Nurturing emphasizes sensitivity in relationships and concern for the welfare of others.
5. **Long-term and short-term orientation**. People in countries having long-term orientation cultures look to the future and value thrift and persistence. Short-term orientation values the past and present and emphasizes a respect for tradition and social obligations.
6. Countries have different rankings on Hofstede's cultural dimensions, and managers should be aware of the cultural differences present in countries in which they do business

The Global Leadership and Organizational Behavior Effectiveness (GLOBE) research program is an assessment that updates Hofstede's studies. GLOBE began in 1993 and identified nine dimensions on which national cultures differ: Assertiveness, future orientation, gender differentiation, uncertainty avoidance, power distance, individualism / collectivism, in-group collectivism, performance orientation, and humane orientation.

In today's world the openness that is necessary to conduct business successfully in a global environment poses great challenges. The increased threat of terrorism, economic interdependence of trading countries, and significant cultural create a complicated environment in which to manage. Successful global managers need to have great sensitivity and understanding. Managers must adjust leadership styles and management approaches to accommodate culturally diverse views.

Chapter 5

Social Responsibility and Managerial Ethics

This chapter discusses issues involving social responsibility and managerial ethics and their effect on managerial decision making. Both social responsibility and ethics are responses to a changing environment and are influenced by organizational culture

Managers regularly face decisions that have dimensions of social responsibility. Examples include employee relations, philanthropy, pricing, resource conservation, product quality, and doing business in countries that violate human rights

SOCIAL RESPONSIBILITY

Two opposing views of social responsibility are presented:
The **classical view** is the view that management's only social responsibility is to maximize profits. The **socioeconomic view** is the view that management's social responsibility goes beyond the making of profits to include protecting and improving society's welfare.

A four stage model shows how social responsibility progresses in organizations Social responsibility may progress from the stance of obeying all laws and regulations while caring for stockholders' interests (Stage 1) to the point of demonstrating responsibility to society as a whole (Stage 4), which characterizes the highest socioeconomic commitment.

Social Obligations to Responsiveness to Responsibility: **Social obligation** occurs when a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities. **Social responsiveness** is seen when a firm engages in social actions in response to some popular social need. **Social responsibility** is a business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society

The Greening of Management

A number of highly visible ecological problems and environmental disasters (e.g., Exxon *Valdez* oil spill, mercury poisoning in Japan, Three Mile Island, Chernobyl) brought about a new spirit of environmentalism. Recognizing the close link between an organization's decisions and activities and its impact on the natural environment is called the **greening of management**.

Values-based management is an approach to managing in which managers are guided by the organization's shared values in their management practices. Purposes of Shared Values are:

1) They act as guideposts for managerial decisions and actions.

2) Shared values serve to shape employee behavior and to communicate what the organization expects of its members.
3) Shared corporate values can influence an organization's marketing efforts.
4) Shared values are a way to build team spirit in organizations.

MANAGERIAL ETHICS

The term **ethics** refers to principles, values, and beliefs that define what is right and wrong behavior.

Factors That Affect Employee Ethics

1. **Stages of Moral Development**. Research confirms three levels of moral development. Each level has two stages.
   a) The first level is called *preconventional*. At this level, the individual's choice between right or wrong is based on personal consequences involved.
   b) At the second stage, which is labeled *conventional*, moral values reside in maintaining expected standards and living up to the expectations of others.
   c) The third level—the *principled* level—the individual makes a clear effort to define moral principles apart from the authority of the groups to which the person belongs.
   d) Research on the stages of moral development indicates that people proceed sequentially through the six stages of these three levels, with no guarantee of continued development at any stage. The majority of adults are at Stage 4. The higher the stage an employee reaches, the more likelihood that he or she will behave ethically.

2. **Individual Characteristics:** A person joins an organization with a relatively entrenched set of values.
   a. **Values** are basic convictions about what is right and wrong. Values are broad and cover a wide variety of issues.
   b. **Ego strength** is a personality measure of the strength of a person's convictions. Individuals who score high on ego strength are likely to resist impulses to act unethically and are likely do what they think is right.
   c. **Locus of control** is a personality attribute that measures the degree to which people believe they control their own fate. Individuals with an internal locus of control think that they control their destiny, while persons with an external locus of control are less likely to take personal responsibility for the consequences of their behavior and are more likely to rely on external forces. Externals believe that what happens to them is due to luck or chance.

3. A third factor influencing managerial ethics is **structural variables**. The existence of structural variables such as formal rules and regulations, job descriptions, written codes of ethics, performance appraisal systems, and reward systems can strongly influence ethical behavior.

4. The content and strength of an **organization's culture** influences ethical behavior.
   a. An organizational culture most likely to encourage high ethical standards is one that is high in risk tolerance, control, and conflict tolerance.
   b. A strong culture exerts more influence on managers than does a weak one.
   c. However, in organizations with weak cultures, work groups and departmental standards strongly influence ethical behavior.

5. Finally, the **intensity of an issue** can affect ethical decisions. Six characteristics determine issue intensity
   a. Greatness of harm
   b. Consensus of wrong
   c. Probability of harm
   d. Immediacy of consequences
   e. Proximity to victim
   f. Concentration of effect

Improving Ethical Behavior

Organizations can take a number of actions to cultivate ethical behavior among members. Some of those are"

1) The selection process for bringing new employees into organizations should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.
2) A **code of ethics** is a formal statement of an organization's primary values and the ethical rules it expects employees to follow. In addition, decision rules can be developed to guide managers in handling ethical dilemmas in decision making.
3) Top management's leadership and commitment to ethical behavior is extremely important since the cultural tone for an organization is established by its top managers
4) Employees' job goals should be tangible and realistic, because clear and realistic goals reduce ambiguity and motivate rather than punish. Job goals are usually a key issue in the performance appraisal process.
5) If an organization wants employees to uphold high ethical standards, this dimension must be included in the appraisal process. Performance appraisals should include this dimension, rather than focusing solely on economic outcomes.
6) Ethics training should be used to help teach ethical problem solving and to present simulations of ethical situations that could arise. At the least, ethics training should increase awareness of ethical issues.
7) Independent social audits evaluate decisions and management practices in terms of the organization's code of ethics and can be used to deter unethical behavior.
8) Organizations can provide formal protective mechanisms so that employees with ethical dilemmas can do what is right without fear of reprisal.

Social Entrepreneurship: A **social entrepreneur** is an individual or organization who seeks out opportunities to improve society by using practical, innovative, and sustainable approaches.

Social impact management: Managers are increasingly expected to act responsibly in the way they conduct business. Managers using a social impact management approach examine the social impacts of their decisions and actions. When they consider how their actions in planning, organizing, leading and controlling will work in light of the social context within which business operates, managers become more aware of whether they are leading in a responsible manner.

Chapter 6

Decision Making: The Essence of the Manager's Job

Everyone in an organization makes decisions, but decision making is particularly important in a manager's job. Decision making is such an important part of all four managerial functions that decision making is said to be synonymous with managing.

The Decision-Making Process

A **decision** is a choice made from two or more alternatives. The **decision-making process** is a set of eight steps that include the following:

- **Identifying a problem:** A **problem** is a discrepancy between an existing state and a desired state of affairs. In order to identify a problem, a manager should be able to differentiate the problem from its symptom; he should be under pressure to taken action and must have the authority and resources to take action.

- **Identifying decision criteria:** Decision criteria are criteria that define what is relevant in a decision.

- **Allocating weights to the criteria:** The criteria identified in the previous step of the decision-making process may not have equal importance. So he decision maker must assign a weight to each of the items in order to give each item accurate priority in the decision.

- **Developing alternatives***:* The decision maker should then identify viable alternatives that could resolve the problem.

- **Analyzing alternatives**: Each of the alternatives are then critically analyzed by evaluating it against the criteria established in Steps 2 and 3.

- **Selecting an alternative***:* The next step is to select the best alternative from among those identified and assessed. If criteria weights have been used, the decision maker would select the alternative that received the highest score in Step 5.

- **Implementing the alternative:** The selected alternative is implemented by effectively communicating the decision to the individuals who would be affected by it and their commitment to the decision is acquired.

- **Evaluating decision effectiveness:** The last step in the decision-making process is to assess the result of the decision in order to determine whether or not the problem has been resolved.

Managers can make decisions on the basis of rationality, bounded rationality, or intuition.

1. **Rational decision making**. Managerial decision making is assumed to be rational—that is, making choices that are consistent and value-maximizing within specified constraints. A rational manager would be *completely* logical and objective. Rational decision making assumes that the manager is making decisions in the best interests of the *organization*, not in his/her own interests. The assumptions of rationality can be met if the manager is faced with a simple problem in which (1) goals are clear and alternatives limited, (2) time pressures are minimal and the cost of finding and evaluating alternatives is low, (3) the organizational culture supports innovation and risk taking, and (4) outcomes are concrete and measurable.

2. **Bounded rationality**. As the *perfectly* rational model of decision making isn't realistic, managers tend to operate under assumptions of bounded rationality, which is decision-making behavior that is rational, but limited (bounded) by an individual's ability to process information.
   Under bounded rationality, managers make **satisficing** decisions, in which they accept solutions that are "good enough." Managers' decision making may be strongly influenced by the organization's culture, internal politics, power considerations, and by a phenomenon called **escalation of commitment**—an increased commitment to a previous decision despite evidence that it may have been wrong.

3. **Intuitive decision making**. Managers also regularly use their intuition. Intuitive decision making is a subconscious process of making decisions on the basis of experience and accumulated judgment. Although intuitive decision making will not replace the rational decision-making process, it does play an important role in managerial decision making.

Types of Problems and Decisions

Managers encounter different types of problems and use different types of decisions to resolve them. Problems can be structured problems or unstructured problems and decisions can be programmed decisions or nonprogrammed decisions.

Structured problems are straightforward, familiar, and easily defined. In dealing with structured problems, a manager may use a **programmed decision,** which is a repetitive decision that can be handled by a routine approach. Managers rely on three types of programmed decisions:

a. A **procedure** is a series of interrelated sequential steps that can be used to respond to a structured problem.
b. A **rule** is an explicit statement that tells managers what they can or cannot do.
c. A **policy** is a guideline for making decisions.

Unstructured problems are problems that are new or unusual and for which information is ambiguous or incomplete. These problems are best handled by a **nonprogrammed decision** that is a unique decision that requires a custom-made solution.

At higher levels in the organizational hierarchy, managers deal more often with difficult, unstructured problems and make nonprogrammed decisions in attempting to resolve these problems and challenges. Lower-level managers handle routine decisions, using programmed decisions.

Decision-Making Conditions

Decision can be made under conditions of certainty, uncertainty and risk.
Certainty is a situation in which a manager can make accurate decisions because all outcomes are known. Few managerial decisions are made under the condition of certainty.

More common is the situation of **risk,** in which the decision maker is able to estimate the likelihood of certain outcomes.

Uncertainty is a situation in which the decision maker is not certain and cannot even make reasonable probability estimates concerning outcomes of alternatives. In such a situation, the choice of alternative is influenced by the limited amount of information available to the decision maker. It's also influenced by the psychological orientation of the decision maker.

1) An optimistic manager will follow a ***maximax*** choice, maximizing the maximum possible payoff.
2) A pessimistic manager will pursue a ***maximin*** choice, maximizing the minimum possible payoff.
3) The manager who desires to minimize the maximum regret will opt for a ***minimax*** choice.

Decision-Making Styles: Managers have different styles in making decisions and solving problems. One perspective proposes that people differ along two dimensions in the way they approach decision making. One dimension is an individual's *way of thinking*—rational or intuitive. The other is the individual's *tolerance for ambiguity*—low or high. Diagramming these two dimensions lead to a matrix showing four different decision-making styles.

a. The **directive style** is characterized by low tolerance for ambiguity and a rational way of thinking.
b. The **analytic style** is one characterized by a high tolerance for ambiguity and a rational way of thinking.

c. The **conceptual style** is characterized by a high tolerance for ambiguity and an intuitive way of thinking.
d. The **behavioral style** is characterized by a low tolerance for ambiguity and an intuitive way of thinking.

In reality, most managers have both a dominant style and alternate styles, with some managers relying almost exclusively on their dominant style and others being more flexible, depending on the particular situation.

Decision-Making Biases and Errors: Managers use different styles and "rules of thumb" (**heuristics**) to simply their decision making. Some of decision making biases and errors are:

1. *Overconfidence bias* occurs when decision makers tend to think that they know more than they do or hold unrealistically positive views of themselves and their performance.
2. *Immediate gratification bias* describes decision makers who tend to want immediate rewards and avoid immediate costs.
3. The *anchoring effect* describes when decision makers fixate on initial information as a starting point and then, once set, fail to adequately adjust for subsequent information.
4. *Selective perception bias* occurs when decision makers selectively organize and interpret events based on their biased perceptions.
5. *Confirmation bias* occurs when decision makers seek out information that reaffirms their past choices and discount information that contradicts their past judgments.
6. *Framing bias* occurs when decision makers select and highlight certain aspects of a situation while excluding others.
7. *Availability bias* is seen when decision makers tend to remember events that are the most recent and vivid in their memory.
8. Decision makers who show *representation bias* assess the likelihood of an event based on how closely it resembles other events or sets of events.
9. *Randomness bias* describes the effect when decision makers try to create meaning out of random events.
10. The s*unk costs error* is when a decision maker forgets that current choices cannot correct the past. Instead of ignoring sunk costs, the decision maker cannot forget them. In assessing choices, the individual fixates on past expenditures rather than on future consequences.
11. *Self-serving bias* is exhibited by decision makers who are quick to take credit for their successes and blame failure on outside factors.
12. *Hindsight bias* is the tendency for decision makers to falsely believe, once the outcome is known, that they would have accurately predicted the outcome.

Chapter 7

Foundations of Planning

Planning is one of the four functions of management. **Planning** involves defining the organization's goals, establishing an overall strategy for achieving these goals, and developing plans for organizational work activities. The term *planning* as used in this chapter refers to *formal* planning.

Purposes of Planning

Planning serves a number of significant purposes.

1. Planning gives direction to managers and nonmanagers of an organization.
2. Planning reduces uncertainty.
3. Planning minimizes waste and uncertainty.
4. Planning establishes goals or standards used in controlling.

Planning and Performance

Although organizations that use formal planning do not *always* outperform those that do not plan, most studies show positive relationships between planning and performance. Effective planning and implementation play a greater part in high performance than does the amount of planning done. Studies have shown that when formal planning has *not* led to higher performance, the external environment is often the reason.

The Role of Goals and Plans in Planning

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

Goals (often called objectives) are desired outcomes for individuals, groups, or entire organizations.

Types of goals

a. **Financial goals versus strategic goals**
   Financial goals related to the financial performance of the organization while **strategic goals** are related to other areas of an organizations performance.

b. **Stated goals versus real goals**

Stated goals are official statements of what an organization *says* and what it wants its various stakeholders to believe its goals are. **Real goals** are those that an organization actually pursues, as defined by the *actions* of its members.

Types of Plans

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

- On the basis of **Breadth** plans can be **Strategic or operational plans**. **Strategic plans** (long-term plans) are plans that apply to the entire organization, establish the organization's overall goals, and seek to position the organization in terms of its environment. **Operational plans** (short-term plans) are plans that specify the details of how the overall goals are to be achieved.

- On the basis of **Time frame** plans can be **Short-term or long-term plans**. **Short-term plans** are plans that cover one year or less. **Long-term plans** are plans with a time frame beyond three years.

- On the basis of **Specificity** plans can be **Specific or directional plans**. **Specific plans** are plans that are clearly defined and leave no room for interpretation. **Directional plans** are flexible plans that set out general guidelines.

- On the basis of **Frequency of use** plans can be **Single-use or standing plans**. A **single-use plan** is a one-time plan specifically designed to meet the needs of a unique situation. **Standing plans** are ongoing plans that provide guidance for activities performed repeatedly.

Approaches to Establishing Goals

Goals can be established through the process of traditional goal setting or through MBO (management by objectives).

Traditional goal setting is an approach to setting goals in which goals are set at the top level of the organization and then broken into subgoals for each level of the organization.

Traditional goal setting assumes that top managers know what is best because of their ability to see the "big picture." Employees are to work to meet the goals for their particular area of responsibility.

This traditional approach requires that goals must be made more specific as they flow down to lower levels in the organization. In striving to achieve specificity, however, objectives sometimes lose clarity and unity with goals set at a higher level in the When the hierarchy of organizational goals *is* clearly defined, it forms an integrated **means-end chain**—an integrated network of goals in which the accomplishment of goals at one level serves as the means for achieving the goals, or ends, at the next level.

Management by objectives (MBO) is a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance. Studies of actual MBO programs

confirm that MBO can increase employee performance and organizational productivity. However, top management commitment and involvement are important contributions to the success of an MBO program. The following steps are involved in a typical MBO program:

- The organizations overall objectives and strategies are formulated
- Major objectives are allocated among divisional and departmental units.
- Unit managers collaboratively set specific objectives for their units with their managers
- Specific objectives are collaboratively set with all department members
- Action plans, defining how objectives are to be achieved, are specified and agreed upon by managers and employee
- The action plans are implemented
- Progress toward objectives is periodically reviewed, and feedback is provided
- Successful achievement of objectives is reinforced by performance based rewards

Whether an organization uses a more traditional approach to establishing objectives, uses some form of MBO, or has its own approach, managers must define objectives before they can effectively and efficiently complete other planning activities.

Characteristics of Well-Designed Goals

1 Written in terms of outcomes
2. Measurable and quantifiable
3. Clear as to a time frame
4. Challenging, but attainable
5. Written down
6. Communicated to all organizational members

Five Steps in Goals Setting

1. Review the organization's **mission** (the purpose of the organization).
2. Evaluate available resources.
3. Determine the goals individually or with input from others
4. Write down the goals and communicate them to all who need to know.
5. Review results and whether goals are being met. Make changes as needed.

Developing Plans

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

Three Contingency Factors in Planning are

- **Manager's level in the organization:** *Operational* planning usually dominates the planning activities of *lower*-level managers. As managers move up through the levels of the organization, their planning becomes more strategy oriented.
- **Degree of environmental uncertainty**: The greater the environmental uncertainty, the more directional plans should be, with emphasis placed on the short term. When uncertainty is high, plans should be specific, but flexible. Managers must be prepared to rework and amend plans, or even to abandon their plans if necessary.
- **Length of future commitments:** According to the commitment concept, plans should extend far enough to meet those commitments made today. Planning for too long or for too short a time period is inefficient and ineffective.

Approaches to Planning

In the traditional approach, planning was done entirely by top-level managers who were often assisted by a **formal planning department**.

Another approach to planning is to involve more members of the organization in the planning process. In this approach, plans are not handed down from one level to the next, but are developed by organizational members at various levels to meet their specific needs.

Criticisms of Planning

Although planning is an important managerial function with widespread use, five major arguments have been directed against planning:

- Planning may create rigidity.
- Plans can't be developed for a dynamic environment.
- Formal plans can't replace intuition and creativity.
- Planning focuses managers' attention on today's competition, not on tomorrow's survival.
- Formal planning reinforces success, which may lead to failure.

The external environment is constantly changing. Therefore managers should develop plans that are specific, but flexible. Managers must also recognize that planning is an *ongoing* process, and they should be willing to change directions if environmental conditions warrant. Flexibility is particularly important. Managers must remain alert to environmental changes that could impact the effective implementation of plans, and they must be prepared to make changes as needed.

Chapter 8

Strategic Management

The present day news is filled with examples of changing organizational strategies like Mergers, Strategic alliances, Downsizing, Spin-offs and Global expansion. This chapter examines the strategic management process as it relates to the planning function.

Managers must carefully consider their organization's internal and external environments as they develop strategic plans. They should have a systematic means of analyzing the environment, assessing their organization's strengths and weaknesses, identifying opportunities that would give the organization a competitive advantage, and incorporating these findings into their planning. The value of *thinking strategically* has an important impact on organization performance.

Strategic management is what managers do to develop the organization's strategies. Strategic management involves all four of the basic management functions—planning, organizing, leading, and controlling.

Strategic management has a is important for organizations as it has a significant impact on how well an organization performs. In today's business world, organizations of all types and sizes must manage constantly changing situations. Today's companies are composed of diverse divisions, units, functions, and work activities that must be coordinated. Strategic management is involved in many of the decisions that managers make.
The **strategic management process** is a six-step process that encompasses strategic planning, implementation, and evaluation.

- **Identifying the Organization's Current Mission, Objectives, and Strategies:** Every organization needs a **mission,** which is a statement of the purpose of an organization. The mission statement addresses the question: What is the organization's reason for being in business? The organization must identify its current objectives and strategies, as well.

- **External Analysis:** Managers in every organization need to conduct an external analysis. Influential factors such as competition, pending legislation, and labor supply are included in the external environment. After analyzing the external environment, managers must assess what they have learned in terms of opportunities and threats. **Opportunities** are positive trends in external environmental factors; **threats** are negative trends in environmental factors. Because of different resources and capabilities, the same external environment can present opportunities to one organization and pose threats to another

- **Internal Analysis:** Internal analysis should lead to a clear assessment of the organization's resources and capabilities. Any activities the organization does well or any unique resources that it has are called **strengths**. **Weaknesses** are activities

the organization does not do well or resources it needs but does not possess. The organization's major value-creating skills and capabilities that determine its competitive weapons are the organization's **core competencies**. Organizational culture is important in internal analysis; the company's culture can promote or hinder its strategic actions. **SWOT analysis** is an analysis of the organization's strengths, weaknesses, opportunities, and threats.

- **Formulating Strategies:** After the SWOT, managers develop and evaluate strategic alternatives and select strategies that are appropriate. Strategies need to be established for corporate, business, and functional levels.

- **Implementing Strategies**

- **Evaluating Results** to know how effective the strategies have been and if any adjustments are necessary.

Types of Organizational Strategies
Strategic planning takes place on three different and distinct levels: corporate, business, and functional

Corporate strategy
It is an organizational strategy that determines what businesses a company is in, should be in, or wants to be in, and what it wants to do with those businesses. There are three main types of corporate strategies:

a. A **growth strategy** is a corporate strategy that is used when an organization wants to grow and does so by expanding the number of products offered or markets served, either through its current business) or through new businesses.
b. A **stability strategy** is a corporate strategy characterized by an absence of significant change in what the organization is currently doing.
c. A **renewal strategy** is a corporate strategy designed to address organizational weaknesses that are leading to performance declines. Two such strategies are retrenchment strategy and turnaround strategy.

Corporate Portfolio Analysis is used when an organization's corporate strategy involves a number of businesses. Managers can manage this portfolio of businesses using a corporate portfolio matrix, such as the BCG matrix. The **BCG matrix** is a strategy tool that guides resource allocation decisions on the basis of market share and growth rate of Strategic Business Units (SBUs).

Business (Competitive) Strategy
A **business strategy** (also known as a competitive strategy) is an organizational strategy focused on how the organization will compete in each of its businesses. Competitive advantage plays an important role in formulating the business strategy. A **competitive advantage** is what sets an organization apart, that is, its distinctive edge. An organization's competitive advantage can come from its core competencies.

If implemented properly, **quality** can be one way for an organization to create a sustainable competitive advantage. An organization must be able to sustain its competitive advantage; it must keep its edge despite competitors' action and regardless of major changes in the organization's industry.

Michael Porter's work explains how managers can create and sustain a competitive advantage that will give a company above-average profitability**. Industry analysis** is an important step in Porter's framework. He says there are five competitive forces at work in an industry; together, these five forces determine industry attractiveness and profitability. Porter proposes that the following five factors can be used to assess an industry's attractiveness:

i. ***Threat of new entrants***. How likely it is that new competitors will come into the industry? Managers should assess barriers to entry, which are factors that determine how easy or difficult it would be for new competitors to enter the industry.
ii. **Threat of substitutes**. How likely is it that products of other industries could be substituted for a company's products?
iii. **Bargaining power of buyers**. How much bargaining power do buyers (customers) have?
iv. **Bargaining power of suppliers**. How much bargaining power do a company's suppliers have?
v. **Current rivalry**. How intense is the competition among firms that are currently in the industry?

According to Porter, managers must choose a strategy that will give their organization a competitive advantage. Porter identifies three generic competitive strategies. Which strategy managers select depends on the organization's strengths and core competencies and the particular weaknesses of its competitor(s). Based on the above analysis, only three types of generic strategies are available to organizations to choose from. They are:

a. A **cost leadership strategy** is a business or competitive strategy in which the organization competes on the basis of having the *lowest costs* in its industry.

b. A **differentiation strategy** is a business or competitive strategy in which a company offers *unique products* that are widely valued by customers.

c. A **focus strategy** is a business or competitive strategy in which a company pursues a cost or differentiation advantage in a *narrow industry segment*.

An organization that has been not been able to develop either a low cost or a differentiation competitive advantage is said to be "**stuck in the middle**."

Functional Strategy

These are strategies used by an organization's various functional departments to support the business or competitive strategy

New Directions in Organizational Strategies

- **E-Business Strategies**. Using the Internet, companies have created knowledge bases that employees can tap into anytime, anywhere. E-business as a strategy can be used to develop a sustainable competitive advantage; it can also be used to establish a basis for differentiation or focus.

- **Customer Service Strategies**. These strategies give customers what they want, communicate effectively with them, and provide employees with customer service training.

- **Innovation Strat**egies. These strategies focus on breakthrough products and can include the application of existing technology to new uses.

Global Chartered Accountants
www.gcaofficial.org