Introduction to Management

Managing in a Dynamic Environment

An organisation is <u>NOT</u> the building/factory/office/procedures.

Critical to any organisations are:
- People and relationships
- Interaction and communication

An organisation does NOT exist in a vacuum (closed system).

An organisation MUST interact with its environment (open system)
- Customers/suppliers/competitors, etc…
- Some even strike joint ventures or alliances with competitors!
  E.g.: Apple generates profit from the iPhone. However, it does not manufacture the phones but get more profit from them than google, amazon, etc… They subcontract their manufacturing.

Back then, we had personnel management, i.e. using workers as a tool for a particular skill. Now, we've shifted to a **strategic management**, i.e. <u>people are constantly trained in order to keep themselves skilled in a dynamic environment.</u>

Before every transaction, there is a social transaction.

Rationalise Competition

E.g.: Facebook's Messenger could not keep up with its competitor, WhatsApp, therefore, it bought WhatsApp.

Microsoft bought skype

Whirlpool was not that well-known and although it was made in North America, their market was taken over by the European imports. Whirlpool could discount its prices to make people buy more and see that the product is good. However, price and quality are proportionate, meaning low prices may translate low quality. Therefore, they had an alliance with Philips and for several years, Europe marketed its products as ‘Philips Whirlpool’. Now, ‘Whirlpool’ stands on its own two feet without Philips.

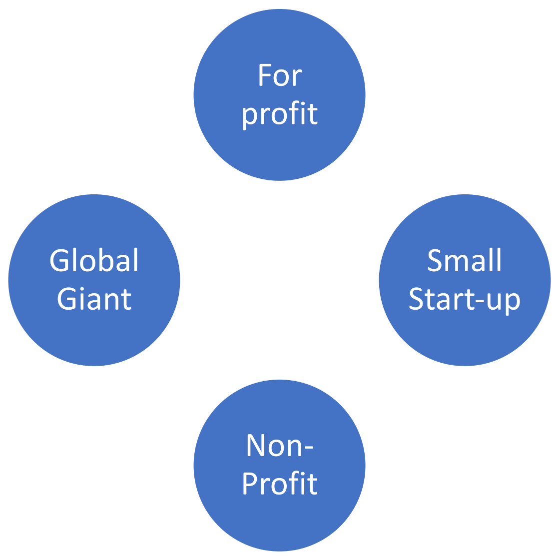
An organisation is not necessarily a business of course… It can be a business operating <u>for profit</u> to maximise shareholders wealth.

It can be a non-profit organisation:

- National health service
- World health organisation
- University… (MUS?)
- Government

- Greenpeace
- Vatican
- BBC/PBS… (CNN?)
- Political party

- SPCA
- Caritas
- Hospice
- Local council



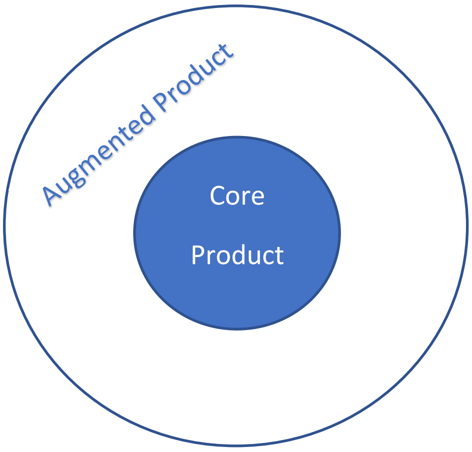
Organisations could be offering either products and/or services.

E.g.: Although Google and Samsung have their dynamics, Samsung depends on Google (Android). Apple had its own operating system -> iOS

Sometimes, you may be competing and at each other's throats, however they do have a customer-supplier relationship. Apple is a customer to Samsung (Samsung sells apple its microchips).

UOM is a limited liability company

You can have small corner shops or new entrepreneurial start-ups but the importance of management holds for both profit and not-for-profit organisations.



The key distinction is the service offered.

Challenges represented by services:

- Services are intangible, therefore it's hard for you to have an idea of how and what you are expecting before you try/buy it.
  E.g.: Car (you are given a test drive in order to have an idea of what the product offers)
- You go to a psychiatrist/hairdresser and he is not able to provide you with that service anymore. Although there are other psychiatrists/hairdressers, they're not the same because you would have gotten used to their service
- Service delivery relies on people, thus inducing challenges

Intangibility

- You cannot see or touch it
- It's not something physical

- If you want to cut your hair, you have to cut it to see the outcome and can't have a sample to test it out beforehand and then try it another time. Once your hair is cut, it's cut

In a traditional manufacturing entity, you may not have a high demand of a particular service, however, it will be demanded next season (summer) -> Stock piling

Inseparability

- It's not separate from its owners
- E.g.: You cannot separate the lecturer form the lecture.
- No lecturer = no lecture
- In other words, you cannot separate the service from the service provider

Variability

- Something that changes
- It all depends on the service provider
- E.g.: My hairdresser's service is different than that of others
- Service delivery relies on human interaction

Services are very often single-used

Perishability

- You cannot replace it
- If you have an aircraft that it 20%, you cannot bring back those empty seats once the plane has departed

All organisations have goals which they are trying to achieve as efficiently and effectively as possible.

Who needs management?

Griffin Explains:
"Any group of two or more people working together to achieve a goal – having human, material, financial and informational resources at their disposal require the practice of management."

Therefore, management is essential in businesses, charities, sports, etc…

The Need of Effective Management

Profit-seeking organisations

- **Large businesses**: Many employees
E.g.: Walmart employs over 2 million workers

- **Big market share**

- **Capital** (Market Capitalisation – Apple is he largest company in terms of capital)

- **Revenues** (Then Apple is not the largest company in terms of revenue)

E.g.: Farsons and Magro Brothers -> Big production facilities

Profit-Making Organisations

- **Small businesses and start-ups**
  - Management is different in context (different than that of large companies) but still has to be effective

- **International Management**
  - Increase complexity
  - China: foreign exchange risks, advertising and regulatory requirements might have to be different, diverse banking/ financial services, different time zones
  E.g.: KFC's "Finger liking good" literally translates "Eat your fingers\2 in Chinese.

Not-for-profit Organisations

- **Governmental organisations**
  - They take care of taxes, check how much money is spent on education, social services, etc…
- **Educational organisations**
  - The larger the institution, the more complex it is
- **Healthcare**
  - People's lives are at stake
  - Statistics of how many people die due to misdiagnosis
- **Non-traditional settings**
  - Religious organisations and charitable institutions need to be managed effectively

The Need of Effective Management

PROFIT-SEEKING ORGANISATIONS	NOT-FOR-PROFIT SEEKING ORGANISATIONS
Large Businesses	Government
Small businesses and start-ups	Education
International	Healthcare
	Traditional Settings

Management is a set of <u>activities</u> (planning, organising, leading and controlling) directed to an organisation's <u>resources</u> (human, material, financial, informational) aiming to achieve organisational goals <u>efficiently</u> and <u>effectively</u>.

Efficiency: Doing more with less – Do things wisely. Squeezing the full/maximum capacity from limited resources. Using resources wisely and without waste (waste of time, movement, etc…)

Effectiveness: Doing things successfully and realising desired results – Reaching your goal/objective.

Is it possible to be effective and not efficient and vice-versa? – YES

E.g.: You have enough financial resources for advertising, however it is not reaching your target audience once you have published your adverts.

You can have a car with a good gallon of miles/hour, however you completely drove in the wrong direction.

Note that <u>all resources are finite and limited</u>, no matter how abundant they are.

There are many different types of managers:

- **Department**
- **Product**
- **Account**
- **Plant**
- **Brand**
- **Division**
- **District**
- **Task force**

<u>What do they all have in common?</u>

- Responsibilities
- Have a team of subordinates to lead
- All of them have to manage their resources
- They have to plan, lead, organise and control

A manager doesn't need to be called a "manager":

- Chief executive officer
- Vice president

- Supervisor
- Coach

What about:

- Accountants
- Lawyers
- Stockbrokers
- Journalists
- Architects
- Programmers

Are they managers?
- They could be managers e.g.: CEO could be a highly qualified accountant

Accountants, lawyers, etc… are all essential to achieving their organisation's goals. However, they contribute through own individual work NOT by directing others.

So what do managers have in common?
- Responsibility for the efforts of a group of people who share common goals and resources in pursuing their goal

Differences between managers and individual contributors:
- Managers are evaluated on the performance of the people they direct.

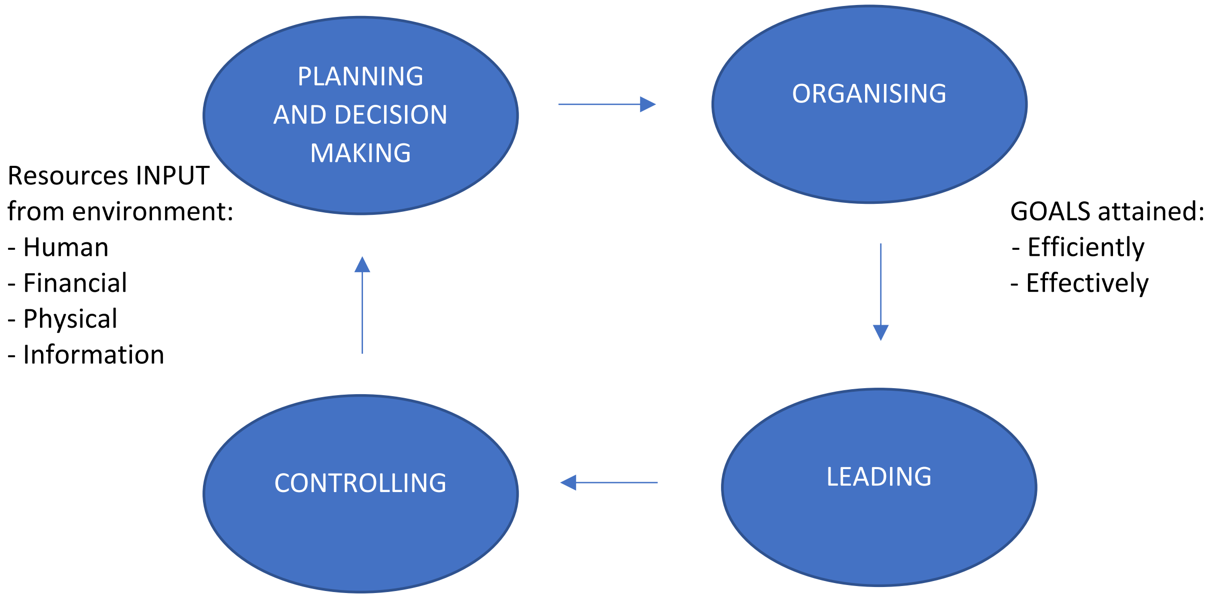
Managers achieve goals by enabling people to do, their jobs effectively and efficiently, NOT by performing all the tasks themselves.

Perspiration: Sweating – Not giving up
E.g.: Thomas Edison & Albert Einstein

Defining What Managers Do

The basic managerial functions are first defined by Fayol and still stand:

- Planning
- Organising
- Leading
- Controlling

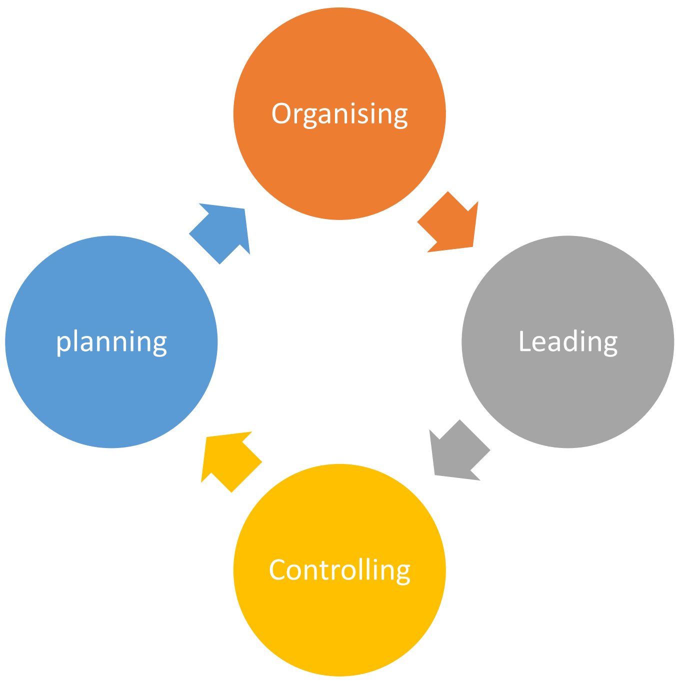


It's a circle – It never ends. You are never done with management. Nothing and nobody is perfect. Once you achieve something, you will somehow have to adjust due to changes in tastes, technology, competitors, etc…

E.g.: A furniture-manufacturing company

INPUT	PROCESS	OUTPUT
Raw Materials Labour, paints, Wood, glue, etc…	The wood is dried, polished, etc…	The final Product

Basic Managerial Functions



Do some of these characteristics have more importance than others?

It depends on:

- The level of organisation
- The human's character/behaviour
- The needs and tasks of the organisation

As humans, we all have our personal predispositions. Some people are born as leaders, or others prefer planning rather than organising. However, you don't have to be born with these skills. You can be nurtured and trained to becoming a leader, controller, etc…

Planning would be the first thing to start with, especially if you have just step up a new business.

Planning

Defining organisational goals and proposing ways to reach them.

- To establish an overall direction for the future
- To identify and commit resources to achieving organisation's goals
- To decide which tasks must be done to reach these goals

The vision is the end – our destination

Where do you want to go? How do you want to get there?

Organising

Creating a structure of relationships to enable employees to carry out management's plans and meet its goals.

- Through effective organisation, management can better co-ordinate human, material and information resources.
- An organisation's success depends largely on management's ability to utilise those resources efficiently and effectively.

E.g.: Airbus is a multinational company. It's true that its shareholders are German and French, but they have sold their shares worldwide.

Leading

Motivating staff to work in the best interests of the organisation. -
The managerial function of communicating with and motivating others to perform the tasks necessary to reach the organisation's goals.

Controlling

The process by which a person, group or organisation consciously monitors feedback and performance and takes corrective action.

Control Procedures:

- Remove things that hinder you from achieving your goals
- Know your strengths and weaknesses (Abilities)
- Keep a record of what you've achieved so far
- Be able to know your limit – set standards. Remember, you have to know where you want to go and how you're going to get there

1 – Sets standards for performance

2 – Measures current performance against set standards

3 – Takes action to correct deviations

4 – Adjusts the standards if necessary

In order to achieve your goals, you have to be S.M.A.R.T:

Specific

Measurable

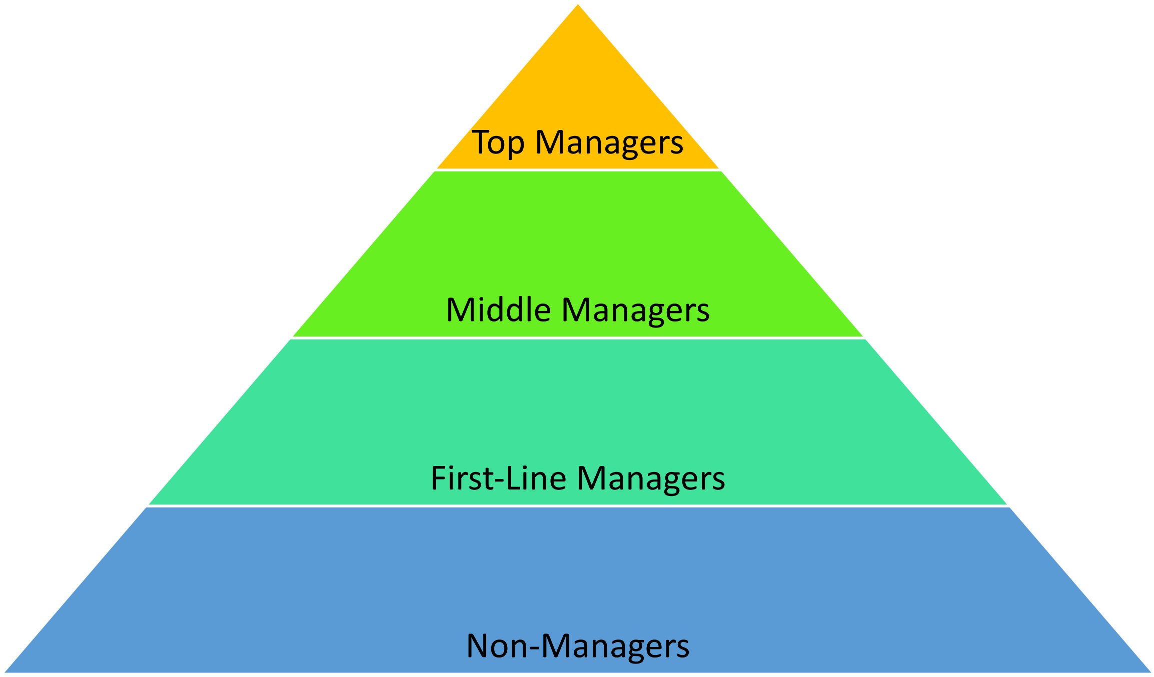
Attainable

Results-oriented

Time-based/timely

We compare against historical performance

Levels of Management



Top managers are responsible for overall direction, strategy and operations of an organisation. They are the ones to establish long-term company-wide goals. E.g.: President/ Vice-president/ CEO/ Managing Director

- Smallest Management group
- Develop goals, policies and strategies for the entire organisation (what markets to operate in, joint ventures, acquisitions)
- Set the goals which eventually cascade (imtarrag) down the hierarchy, therefore reaching all workers
- Spend over 75% of their time <u>planning</u> and <u>leading</u> (mostly with key people and others from outside)
- Pressures can be intense (tight schedules, travelling, meetings, entertaining day and night)
- Often represent the organisations in community/social occasions
- Increasing public relations (PR) duties (maintaining organisation's image)

Middle Managers receive broad strategies/policies from top management and translate them into specific goals/plans for first-line management to implement.

- Possibly largest management group in most organisations
- In large organisations, some focus on coordinating employees, determining what products or services to provide, deciding on marketing, etc… (E.g.: Head of department/ Plant Manager/ Director of Finance)

- Direct and co-ordinate first-line managers as well as (at times) non-managerial staff, clerks, etc…
- Major difference to first-line managers is <u>the management of group performance and resource allocation</u>

First-Line Managers

Are <u>directly responsible for the production of goods or services</u>
e.g.: Sales Managers/ Section Heads/ Production Supervisors

- This level of management is the link between the operations of each department and the rest of the organisation
- Employees reporting to these managers to do production work – goods and services
- Spend little time with higher management and people from outside the company
- Most time spent with the people they supervise and other first-line managers. Hectic and lots of pressure
- Little time planning and organising, most time is spent on <u>leading</u> (directing) and <u>controlling</u> (inspecting)
  Planning and organising is already done by higher levels of management – decisions have already been taken
- Strong on technical expertise to teach and supervise subordinates

Small Business Managers

In large organisations, managers at each level are responsible for different types of tasks.

In small companies, <u>one person</u> (usually a founder/owner) often carries the whole load – "Jack of all trades".

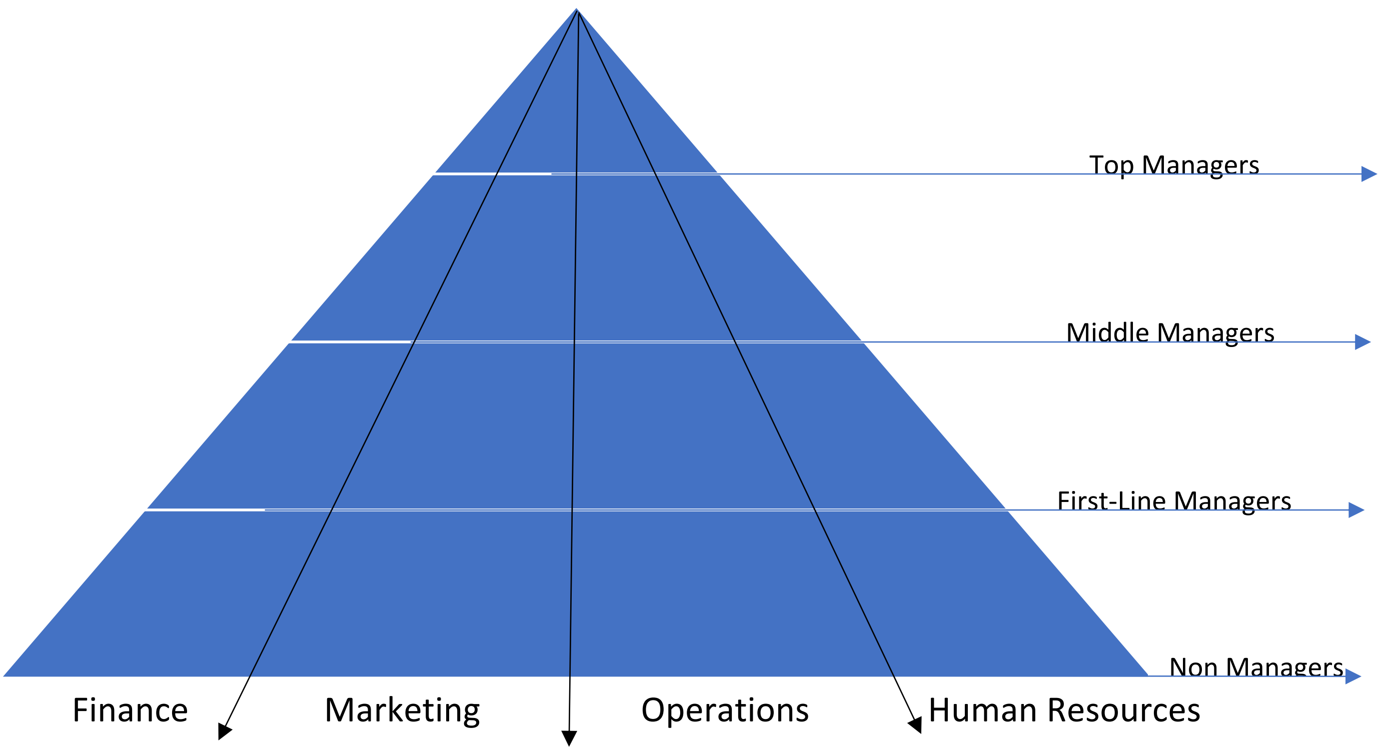
- There is no differentiation between levels of management
- With growth this must change, however. Concentrating on certain tasks only and hiring managers. Possible problems with "relinquishing" control (maybe in the future, 'cloning' may be an option!)
- In growth delegation is vitally important. The owner should focus on a particular competency

Regardless of what level they operate in, managers may work in various specialised functional areas within an organisation.

Typical functional areas include:

- **Marketing**
- **Finance**
- **Operations**
- **Human resources**

… and increasingly **I.T**



Marketing Manager

Often in the "sales and marketing" department, the word "marketing" is a misnomer!

Identifying current and potential customers' needs and preferences and developing goods and services that will satisfy them.

Focus on the 4P's:

- **Product** development
- **Pricing**

- **Promotion**
- **Place** and distribution

Finance Manager

Concerned with managing the flow of funds into and out of the organisation.

Help determine how funds can be most effectively used.

Responsible for:
- Granting and using organisation's **credit**
- Investing the organisation's **funds**
- Safeguarding the organisation's **assets**
- Keeping track of **financial health**
- Preparing **budgets** (financial planning)

Concerned with creating and managing systems that create the organisation's products and services.

Perform operations needed to:
- Manufacture an item
- Provide a service

Especially manufacturing in:
- Controlling inventory levels and deliveries
- Determining factory layout
- Scheduling production
- Maintaining equipment
- Meeting quality requirements

Human Resources Manager

Responsible for building and maintaining a competent and stable workforce

- Human Resource Planning
- Recruitment and Selection
- Training and Development
- Performance Appraisal
- Reward/Motivation systems
- Overseeing relations with unions within legal regulations

Information Technology Manager

Responsible for developing information systems as a strategic tool for the organisation and its employees.

Information is a value-added resource derived from data.

Knowledge is used by individuals to create, store, share and apply information.

From real-time communications networks, basic managerial functions are:

- Dramatically changing
- Rapidly improving
- Quickly becoming more closely linked

Key important and interrelated information technologies are:

- Internet
- Decision support systems
- Intranet/Extranet
- Expert systems

What Makes a Good Manager?

To become a successful manager one must acquire necessary skills. These skills are achieved through a combination of:

- **Education**
- **Experience**

Education
Sound educational-base;
Continued life-long educational
Experiences

Experience
Initial job experiences,
contributed experiences
through a variety of job
assignments

Management Skills

Successful acquisition and utilisation of basic management skills

There are 6 key competencies necessary for effective management:

Dimensions of Communication Competency

Most fundamental competent necessary for the deployment of all other competencies. Effective transfer of information and understanding between manager and others.

- **Informative Communication**
  e.g.: Writes clearly, concisely and effectively using traditional as well as electronic media, has presence, high impact, persuasive, etc…

- **Negotiation**
  e.g.: Skilled at developing relationships and exercising influence up, down and laterally, negotiates on behalf of team for limited resources

Dimensions of Teamwork Competencies

Accomplishing goals through small groups who are collectively responsible and whose work is interdependent. A supportive environment is necessary. Teams must be empowered to act and decide on their 'best judgement'. Teams must be fully supported by management.

- **Designing Teams**
  e.g.: formulates clear objectives that inspire team members and motivate commitment, measures progress and performance

- **Creating Supportive Environment**
  e.g.: acts as a coach, counsellor, and mentor, being patient with team members as they learn, reward 'teamwork' <u>not</u> individuals

- **Managing Team Dynamics**
  e.g.: brings conflict and dissent into the open and uses it to enhance the quality of decisions, understands strengths and weaknesses of individuals, facilitates open communication

Dimensions of Strategic Action Competency

Understanding the overall mission and values of the organisation. Ensuring that actions are aligned with the company mission and values.

- **Understanding the Industry**
  e.g.: know industry history and evolution, informed of the actions of competitors and strategic partners, analysis of trends and future implications

- **Understanding the Organisation**
  e.g.: balance shareholders' concerns, understand strengths and weaknesses of various strategies, know organisation's core competencies of the organisation, reinforces culture

- **Taking Strategic Actions**
  e.g.: considers the long-term implications of actions in order to sustain and further develop the organisation, plans with cross-functional knowledge, decisions consistent with mission

Dimensions of Global Awareness Competency

Work entailing resources (HR, financial, material, information, etc…) form multiple countries and serving markets spanning multiple countries (Boeing – Airbus, NASA – ESA, US – EU)

- **Cultural Knowledge and Understanding**
  - e.g.: stays informed of political, social and economic trends and events around the world
  - Recognizes the impact of global events on the organisation
  - Understands, reads and speaks more than 1 language (mobility)

- **Cultural Openness and Sensitivity**
  - e.g.: recognises variation within culture and avoids stereotyping
  - Understands how own cultural background affects own attitudes and behaviours
  - Can emphasize and see form different perspectives while still retaining self-confidence and determination.

Dimensions of Self-Management Competency

Taking responsibility for life at work and beyond. Not blaming difficulties on personal situations or on others.

- **Integrity and Ethical Conduct**
  - e.g.: maintains integrity and ethical conduct in all situations
  - Accepts responsibility for own actions

- **Personal Drive and Resilience**
  - e.g.: shows perseverance in the face of obstacles and bounces back from failure, ambitious and motivated to reach objectives
  - Never set your limitations. If you put your mind to it and work hard, you can accomplish great things.

- **Balancing Work and Life Issues**
  - e.g.: strikes a reasonable balance between work and other life activities, able to reduce stress and tension

- **Self-Awareness and Development**
  - e.g.: has clear personal and career goals and knows own values, feelings and areas of strengths and weaknesses
  - Analyses and learns from work and life experiences, willing to unlearn and relearn and acquire new skills

Therefore…

A 'manager' is responsible for using skills and competencies to engage in:

- Planning
- Organising
- Leading
- Controlling

Recall the fundamental importance of communication.

It is very important that an organisation's goals are:

- Communicated
- Clearly defined
- Fully understood

at all levels.

➢ The message must be cascaded down the organisation

??The Biota exhibited 100% mortality response??

??Pulchritude is only evinced at the dermal level??

- Beauty is only skin-deep

Keep it simple. Especially if you are in top management.

What is 'Strategy'?

Strategy is derived from the Greek work 'Stratos'

Stratos = army

Its origins lie in planning and conducting military campaigns:

- Displacing enemy powers
- Gaining advantage and supremacy
- Defining one's position

Strategy is like a flag in the battle; something around which people can rally – a unified objective, a driving force.

The *'flag'* must be seen… otherwise the 'battle' is lost!

All the organisation's employees must know

- <u>Where</u> they are going
- <u>How</u> they can best get there

An organisation needs to have a clear and <u>well-communicated strategy</u> to survive long-term

Without defining goals and a viable plan to achieve them an organisation will gradually come apart.

Strategy provides organisations with:

- Focus and rationale for ordering and deploying resources
- Helps determine what actions/processes promote or obstruct progress
- Helps measure progress… anything not measured doesn't get done
- Possibly promotes creativity and innovation towards a central purpose

<u>No strategy = no vision and no direction</u>

"If you don't know where you're going, any road will take you there"

Important for an organisation's long-term survival in **flexibility**.

- The need to be aware of what's happening in the environment
- The need to anticipate change and be proactive with alternatives
- The need to be adaptable to change in the market-place

If an organisation had been around for long, it's probably shown some adaptability, flexibility – adapting to change is essential for survival

“It is not the strongest of the species that survive, but those that are most adaptable to change”

True for the turtles of the Galapagos as well as for organisations!

The Changing Context of Managerial Work

The realm of management is constantly changing

Management is dynamic:

- The environment changes
- People change
- Conditions and rules change
- Technologies change

Management evolves.

New theories and practices are developed in the light of new challenges.

The dynamic, fast-changing environment has given rise to:

- The restructuring of organisations
- A changing workforce
- Changing technology
- Globalisation

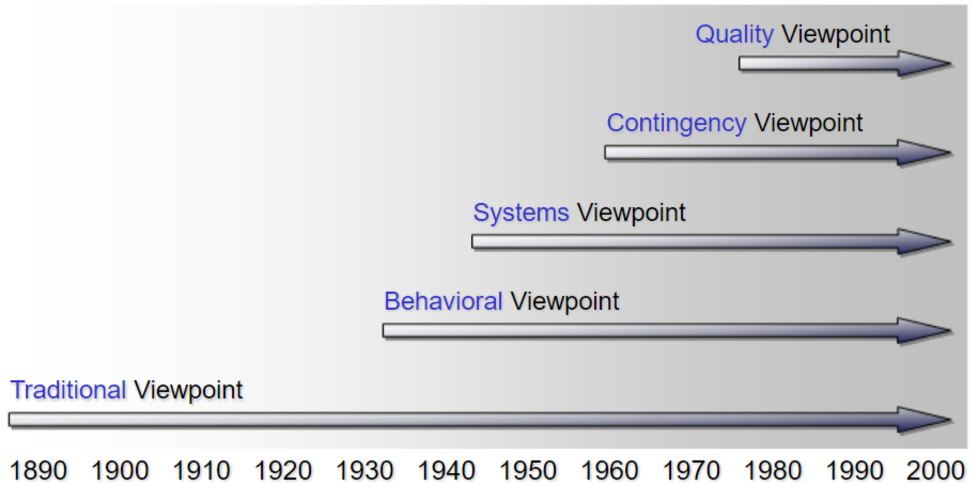
The Evolution of Management

Management began when earliest humans banded together in clans and tribes.

Survival depended on effective hunting and gathering needing skilled individuals and cooperative efforts.

Though not formalised as a discipline, systems for effective management existed!

History of Management Thought



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Traditional of Classical Management Theory

Focuses on:

- Finding the “one best way” to perform and manage tasks
- The manager’s role in a strict hierarchy
- Efficient and consistent job performance

Classical management theory has 3 schools of thought:

- Bureaucratic management

- Administrative management

- Scientific management

The industrial revolution has revolutionised the way organisations work through the process of mass production.

How did this mass production affect organisations?

- People started to move away from farmland into cities – there was high employment in the industry. There wasn't comfort in these big factories:
  - ❖ there was no such thing as minimum wage
  - ❖ Hard manual work/labour
  - ❖ No unionisation
  - ❖ People were treated as part of the equipment
  - ❖ All they wanted to do is squeeze maximum value out of its employees

Bureaucratic Management

Focuses on the <u>whole organisation</u>

Bureaucracy was brought about to increase <u>efficiency</u>.

Bureaucratic management is a system relying on rules, hierarchy, clear division of labour and detailed rules and procedures.

<u>Max Weber</u> (1864 – 1920) was concerned with socio-economic issues

The bureaucratic school of thought prescribes 7 characters for effective managerial operation:

1. **Rules**
2. **Impersonality**
3. **Division of Labour**
4. **Hierarchical Structure**
5. **Authority Structure**
6. **Lifelong Career Commitment**
7. **Rationality**

Pros of Classical Bureaucracy

- ❖ Efficiency
- ❖ Consistency

Cons of Classical Bureaucracy

- Rigid adherence to rules for their own sake (inflexible)
- Managerial focus on authority not employee productivity
- Slow decision making
- Incompatible with changing technology – inflexibility
- Incompatible with professional values of:
  - Advancing knowledge
  - Serving clients and customers
  - Finding innovative solutions

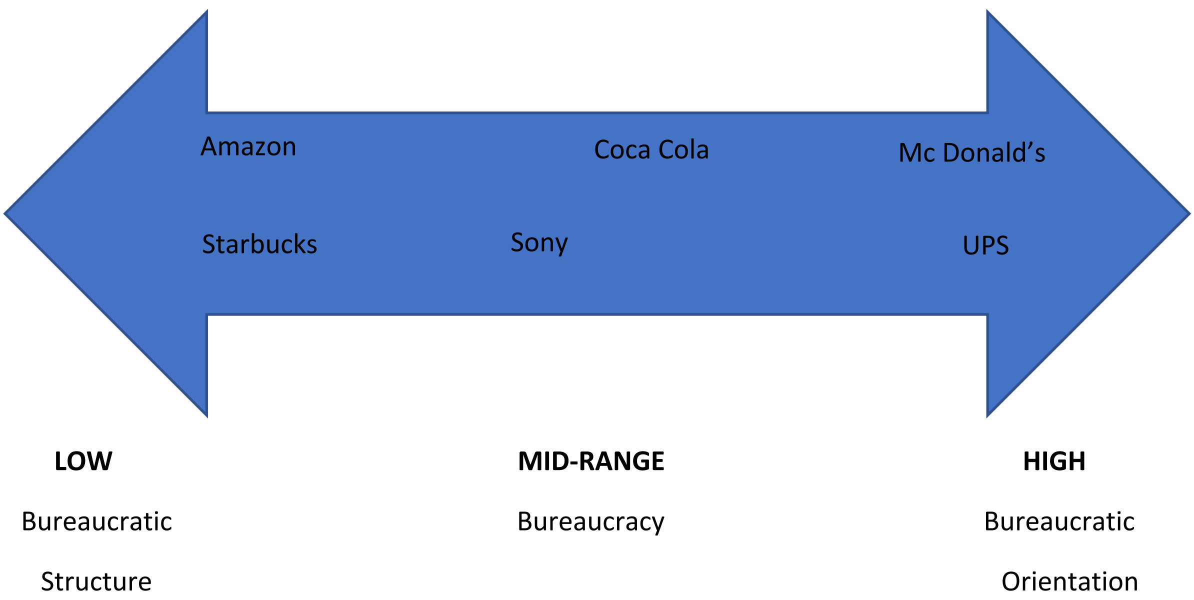
Assessing Classical Bureaucratic Management

Bureaucratic management is still widely and successfully used today.

It is most effective when:

- Large amounts of standard information must be processed
- Efficient processing methods have been found
- Customer's needs are known and aren't likely to change
- Technology is routine and stable
- Many employees are delivering a standardised production

Continuum of Bureaucratic Orientation



Scientific Management

Focuses on

- Individual worker-machine relationships (the employee)
- Getting work done on the factory floor
- Removing guesswork from management

Fred Taylor (1856-1951) – pioneered labour efficiency

At the time:

- Business was expanding
- Capital was available
- Labour was in short supply

Taylor used time-and-motion studies to analyse:

- Work flows
- Supervisory techniques
- Worker fatigue

Frank and Lillian Gilbreth (1878 – 1972)

- Used motion picture to redesign jobs for greater efficiency

Lillian championed:

- Standard working days
- Scheduled breaks: After a certain amount of time doing a job, you make more mistakes and productivity decreases. Therefore, scheduled breaks were introduced to reduce lack of productivity
- Child labour laws
- Safety issues

Henry Gantt (1861 – 1919) focused on:

- Production scheduling
- Quota systems and bonuses

Gantt charts are used to-date to visually plan, schedule and project timelines.

Pros of classical scientific management:

- ✓ Provides employees with skills and training
- ✓ Improves employee selection and seeks best way of performing tasks

Cons of classical scientific management:

- ✗ Social needs, working conditions and job satisfaction often more important than money [€/£/$]
- ✗ Limits workers' morale and participation affecting their performance

Assessing classical scientific management:

- *Scientific school* recommends that today's managers
  - Improve employee selection and training processes
  - Seek one best way to perform each task
- *Scientific school* ignores workers' social and self-esteem needs

Administrative Management

Focuses on the **manager** and managerial functions

Henri Fayol (1841-1925) defined key management functions: plan, organise, lead and control.

Emphasised formal structures and processes – how individual tasks are geared to meet defined objectives

Fayol's 14 principles managers must apply:

1. **Division of labour**
2. **Authority** – giving orders and getting things done
3. **Discipline** – respect for rules
4. **Unity of command** – One boss for each employee
5. **Unity of direction**
6. **Subordination for common good** – end-result of entire organisation is important
7. **Remuneration** – what you get paid: should be fair for the employee and organisation
8. **Centralisation** – decisions are taken in a centralised scale
9. **Scalar chain** – Bottom-up approach
10. **Order** – having the right training, materials in the right place at the right time
11. **Equity**
12. **Staff stability** – Labour turnover: how many people leave or come in the organisation

13. **Initiative** – Subordinates should be given some space to give their own opinions and have something to work on
14. **Esprit de Corps**

Pros of classical administrative management:
- ✓ Provides a clear structure
- ✓ Professionalisation of managerial roles

Cons of classical administrative management:
- ✗ Internal focus
- ✗ Overemphasises rational behaviour of managers

Traditional or classical theory is still applied effectively today.

Traditionalists concerned with:
- Formal relationships among departments
- Efficiency in tasks and processes

Behaviouralist Management Theory

It's all about understanding and modifying people's behaviour. Are people willing to change their habitual ways when shopping at the supermarket?

During great depression of 1930s government, regulating entities and unions started taking a greater role in the operation of organisations.

Focus of the behavioural movement:
- Dealing with human aspects in organisations
- Individual attitudes/behaviours and group processes
- How managers lead and communicate with subordinates
- Claims that managers need to change assumptions about people if they want to lead high-performance teams and organisations

Mary Follett (1868 – 1933) suggests that:
- Management is a continuous process
- Employees should be involved in a problem solving

This contradicted the views of Classical Weber, Taylor and Fayol!!!

Follett emphasised the importance of **coordination**
- *Coordination among employees* – also decision-makers should be in direct contact

- *Coordination in planning and implementation* – also to address all factors in a situation
- *Coordination should be worked continuously*

Follett argued in favour of good working relations, proposing:

- **Communication**: managers should talk with others because they have useful information
- **Recognition**: managers acknowledge workers as unique individuals with feelings, beliefs and emotions

Chester Bernard (1886 – 1961) made two contributions:

1. Organisations are **social systems** requiring:
   - Employee cooperation to be effective
   - Continual communication
   - Analysis of organisation's external environment and alignment of its internal structure to maintain balance. [has to do with SWOT analysis – strengths, weakneses (internal), opportunities and threats (external)]
2. **Acceptance Theory** of authority
   Employees will follow management's orders if they:
   - Understand what is required
   - Believe the orders are considered are consistent with organisation's goals
   - See benefit to themselves in carrying them out

e.g. you're at work doing your job and you're doing fine, until one day a new co-worker/manager works with you and all hell breaks loose. Some managers may criticize you and demoralise you or wither praise you and encourage you even if you would have made a mistake.

The Hawthorne Contributions (1924 – 1933)

Illumination tests at Western Electric's Hawthorne (a place) plant by Professor Mayo contributed three observations:

1. **Failure of classical scientific management principles**
   - Scientific management failed to increase productivity
2. **Productivity – The Hawthorne Effect**

- Productivity was increased by receiving special attention NOT by physical changes (such as lighting levels, etc…)

3. **<u>Motivation</u>**
   - Motivation is based on social needs rather than economic needs

Pros of Behavioural Management

- Considers motivation, group dynamics and interpersonal processes
- Focuses on managerial attention on these processes
- Employees are not tools – they are valuable resources

Cons of Behavioural Management

- Individual complexity makes behaviour prediction difficult
- Many managers reluctant to practice such concepts

Assessing Behavioural Management:

- Employees motivated by social needs, a sense of identity
- Employees are more responsive to social forces exerted by peers (rather than management's financial incentives and rules)
- Employees respond to managers who help and satisfy their needs
- Managers need to apportion work democratically to improve efficiency

Systems Management Theory

Solving problems by diagnosing them within a framework of:

- Inputs
- Transformation process
- Outputs
- Feedback

Management's role is facilitating **transformation processes** through planning, organising, leading and controlling.

A **system** is an association of interrelated and interdependent parts.

An organisation in an **internal** system with employees, teams, departments and levels linked to achieve its goals.

An organisation is linked **externally** to suppliers, customers, shareholders, regulating bodies, etc…

Quantitative Management Theory

Developed in WWII era, 1940s

Government, scientists and managers help military deploy resources efficiently and effectively.

Experts' mathematical approaches applied to logistical problems – troop and armament deployment.

After war, companies began using same techniques.

Quantitative management theory is focused on:

- Decision making
- Mathematical models
- Alternatives based on economic criteria
- Computers essential

Quantitative management has two branches:

1. **Operations Management**
   Techniques for efficient production for goods and services
   Less mathematically sophisticated
   e.g.: Inventory minimum order quantity, queuing, breakeven analysis, etc…
2. **Management Science**
   Specific focus on developing mathematical models
   Equations as a representation of reality
   e.g.: Disclaimer – Chrysler use computer simulations to study collision damage to cars – giving better data and saving on costs

Pros of Quantitative Management

- ✓ Sophisticated decision-making techniques
- ✓ Models increase awareness of complex organisational processes

- ✓ Very useful in planning and controlling processes

Cons of Quantitative Management

- × Cannot fully explain and predict people's behaviour in organisations
- × Maths sophistication may come at expense of other skills
- × Models may require unrealistic/unfounded assumptions
- × Models cannot account for human/individual behaviour and attitudes

Assessing Quantitative Management:

- Used mainly in managing:
  - Transformation and change processes
  - Technical planning and decision making
- Not used to deal with human aspects of management

Contingency Management Theory

A **situational approach** proposing that management should be consistent with the:

- External environment
- Technology used in production
- Capabilities of employees

Managers analyse, diagnose and determine what action is more effective in a given situation.

The three other theories used independently or combined, as necessary in dealing with various situations.

Assessing contingency management:

- Most, intuitively use this approach in everyday life
- Makes sense to change viewpoint depending on situation
- Managers must diagnose contingency variable for each situation

Total Quality Management

W. E. Deming (1900 – 1993), father of the quality movement

Accepted in US only after his ideas helped rebuild Japan after WWII!

Deming's Methods:

- Poor **Q** is unacceptable
- Measure **Q** throughout production [SPC] (prevention less costly)
- Rely on few **Q** suppliers (not on delivery sampling)
- Train employees for **Q** and empower them to decide and report on **Q**
  Q – quality

TQM (total quality management) **concept**:

- Continuous process ensuring all aspects of production build product quality
- Quality = how well product/service does what it is supposed to do
- Customer quality defines quality in the marketplace

The quality control process:

Focuses on measuring:

- Inputs
- Transformation operations
- Outputs

Enabling managers and employees make decisions about product quality at each stage of the process.

Input →	Quality control of raw materials and parts in line with customer expectations and requirements
Process →	Quality control with the goal of eliminating defects and waste…

- Waste of overproduction/surges
- Waste in transportation
- Waste of extra stock-in-hand
- Waste of time-on-hand/waiting
- Waste in processing itself
- Waste of movement

- Waste if making defective products

Output →

Quality control and assessment of finished goods or services

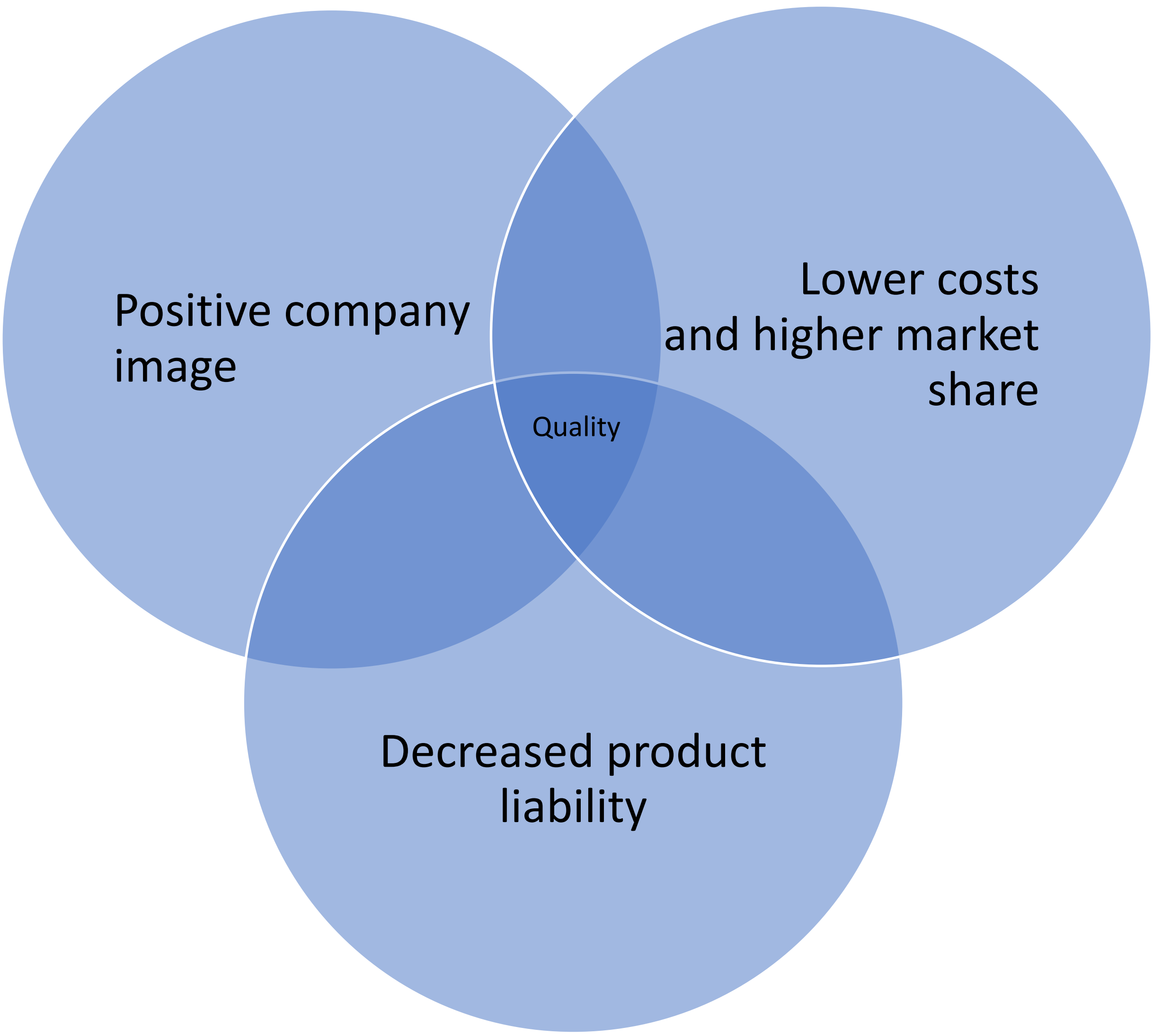
- Measure by **VARIABLE**

Assess quantifiable product characteristics
e.g.: length, diameter, weight, etc…

- Measure by **ATTRIBUTE**

Evaluates product as acceptable or unacceptable to the customer.

Importance of Quality



The 9 Dimensions of quality:

(find them online)

Environmental Forces

To whom should the organisation be responsible?

- The owners (shareholders)
- The employees
- The suppliers
- The environment

Social responsibility refers to he extent to which organisations should strive to add value or quality of life to relevant segments of society.

MANAGERIAL CAPITALISM

Classic view of social responsibility that a firm's purpose is to maximise shareholders' wealth.

STAKEHOLDER THEORY

Opposing view that organisations owe social responsibility to all stakeholders affected by its decisions.

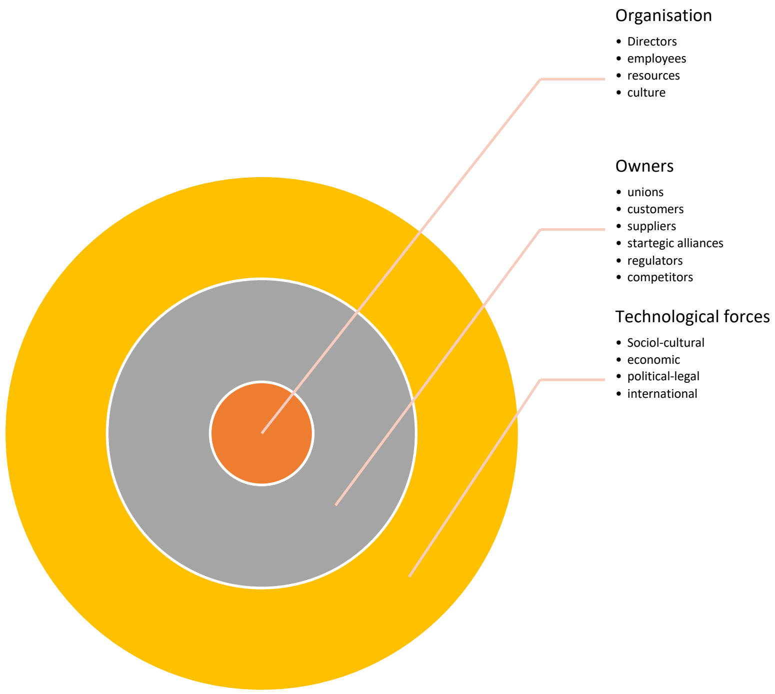
Stakeholders are individuals or groups that **directly** or **indirectly** affect and are affected by the organisation.

Stakeholders are important to an organisation's **survival** and **success**.

Major Stakeholders

- employees
- Customers
- Social and political groups
- competitors
- Trade and industry associsations
- Governments
- Media
- Suppliers
- Communities
- Shareholders
- Unions

The Organisation and its Environments (find online)



Yellow = External general environment

Grey = External task environment

Orange = Internal environment

The External Environment

External forces exert influence on organisations

Organisations also influence the external environment

In a bread sense, the external environment is infinite

Organisations must respond to be sensitive to elements in the external environment to survive.

"… it is not the strongest of the species that survive, nor the most intelligent, but those that are most adaptable to change."

Political/Legal Processes

Government regulation of organisations.

General relationship: <u>business</u> ←→ <u>government</u>

Legal system, regulations and agreements among governments and companies defines what an organisation **can** or **cannot** do

- Pro/anti-business government
- Foreign trade relationships
- Communities/EU
- Laws:
    - Pollution
    - Equality
    - Consumer
    - Employment
    - Competition
    - Safety
    - Disclosure

Economic Forces

The overall health of economic system

Focus on trends in how groups or countries:

- Produce,
- Distribute,
- Purchase,
- Use

goods and services

State of the economy:
- Recession
- Recovery
- Boom
- Depression

Important issues: levels of…

- Taxes
- Wages
- Interest rates
- Standard of living
- Government spending
- Demand
- Tariffs
- Unemployment
- Inflation
- Personal spending/saving
- Business spending and profits
- Prices

Socio-Cultural Forces

Customs, trends and demographic characteristics of the society in which the organisation functions.

Demographics:

- Age
- Gender
- Race
- Ethnic origin
- Education level

Socio-cultural forces determine **products/services** and **standards** that the society will value.

Technological Forces

The methods available for converting resources into products and services.

The combined effects of:

- Processes
- Materials
- Knowledge
- And other discoveries resulting from research and development

Breakthroughs in technology influence:

- operating efficiency

- competitiveness

- quality of goods/services

Trends in the New VS the Old Economy

OLD	NEW
Size of the organisation matters: ***manufacturing is key***	Value matters: ***Information is key***
Defined market segments: ***Demographics***	New markets: ***Distance vanquished***
Customers for a lifetime: ***Loyal, repeat businesses***	Customers by activities not products: ***A click away***
Physical and capital assets: ***Tangible assets***	Human Capital: ***Rise of the knowledge worker***

Task Environment

Also called **collective** environment.

External factors <u>DIRECTLY</u> and often <u>IMMEDIATELY</u> influencing an organisation's operations, growth, success and survival.

These entities normally include:

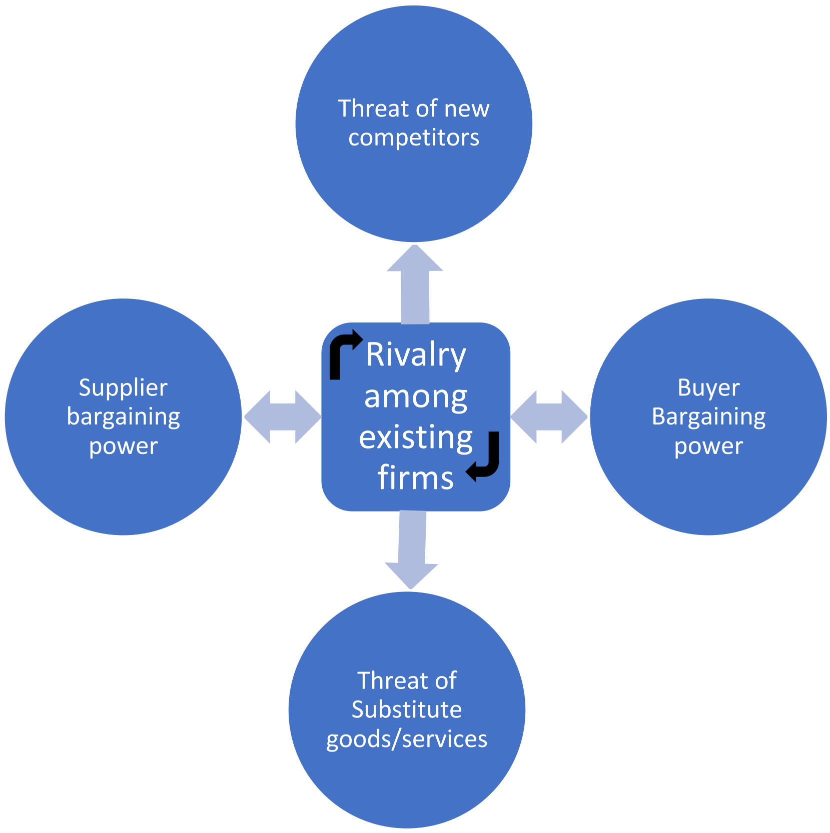
- Customers
- Owners/shareholders
- Government/regulators
- Strategic allies
- Suppliers
- Competitors
- Unions/labour
- Pressure groups

Competitive Forces – Porter's Five Forces

Organisations in any industry are directly affected by at least 5 competitive forces in the task environment:

1. **<u>Threat of new entrants</u>**
   Depends on the relative ease with which new firms can compete with established firms.
2. **<u>Threat of substitute products/services</u>**
   Products and services which may be alternatives to those supplied by the firm
3. **<u>Buyer bargaining power</u>**
   Try to force down prices, obtain more and higher quality products, and also increase competition among sellers by playing them against each other.
4. **<u>Supplier bargaining power</u>**
   Often control how much they can raise prices above costs, or reduce the quality of goods they provide before losing customers.
5. **<u>Rivalry amongst existing competitors</u>**
   Apart from customers, competitors are the most important day-to-day force.

Competitive Forces in the Task Environment



Effect of the 5 Competitive Forces

The effect of the 5 forces on organisations may vary depending on the firm's strength, the nature of the sector and the product.

<u>Potential entrants may be deterred by</u>:

- Economies of scale achieved by existing firms
- Entrenched customer loyalty
- Capital costs of entry (e.g. plant and equipment)
- Poor access to distribution channels
- Cost disadvantages and government policy (e.g. licenses)

<u>Substitutes</u>:

The number of perceived substitutes deters existing firms from increasing prices and profits:

- Switching costs
- Relative price/performance of substitutes

Buyers' influence is greater if:

- They are large customers (in volume or spend)
- Many substitute products exist
- Good access to product information
- Profit margins are low
- Buyers decide to manufacture own supplies (backward integration)

Suppliers are powerful if:

- They are well grouped and integrated (e.g. a cartel)
  Cartel – e.g. OPEC
- They supply small customers
- Their group products are differentiated
- They integrate forward

Rivalry and Competition:

Rivalry may increase where the competitor(s) is/are under threat. E.g.:

- Industry growth
- High exit barriers
- Information stability
- Product differences
- Switching costs
- Price wars
- Brand identity

Initially, where an innovative product is launched, there is enough for everyone, but as market growth starts to slow down (it plateaus), then competition intensifies. Therefore, you won't have an increase in customers → you will end up having to steal customers from other competitors.