

Principles of Management (POLC)

Hammond/Gehrett

Principles of Management (Hammond/Gehrett)

Instructors/Authors: Jamie Hammond (Business Management), and Mabel Gehrett (Human Resource Management, and Business Management)

Together, we developed the new Principles of Management course to be used in the Business Management program at Western Technical College. This course is designed to introduce students to the POLC framework as well as basic business concepts. Each concept will be covered in more detail in subsequent classes in the program.

This project has great potential to eliminate unnecessary costs and time to students by offering them an overview of business in general, as well as an overview of what's to come in the program. Students will learn the basics while preparing to go more in depth as the program progresses.

While creating this course, Jamie and I enjoyed collaborating with one another while making individual contributions to this course. We were able to incorporate additional exercises and teaching methods while having a second set of eyes reviewing and providing feedback on our materials.

Overall, this project has been a great experience for us. We hope to hear positive feedback from faculty and students.

TABLE OF CONTENTS

Licensing

1: Module 1 - Roles and Responsibilities of Managers

- 1.1: Key Ideas
- 1.2: Managing and Performing
 - 1.2.1: What Do Managers Do?
 - 1.2.2: The Roles Managers Play
 - 1.2.3: Major Characteristics of the Manager's Job
 - 1.2.4: Summary
 - 1.2.5: Introduction
- 1.3: WATCH- What Do Managers Really Do?
- 1.4: READ and WATCH- The Roles Managers Play
- 1.5: WATCH- How to Break Bad Management Habits

2: Module 2 - Evolution of Management

- 2.1: Key Ideas
- 2.2: The History of Management
 - 2.2.1: Introduction to The History of Management
 - 2.2.2: The Early Origins of Management
 - 2.2.3: The Italian Renaissance
 - 2.2.4: The Industrial Revolution
 - 2.2.5: Taylor-Made Management
 - 2.2.6: Administrative and Bureaucratic Management
 - 2.2.7: Human Relations Movement
 - 2.2.8: Contingency and System Management
 - 2.2.9: Summary
- 2.3: WATCH- What was the Industrial Revolution
- 2.4: WATCH- Classical Management Theory
- 2.5: WATCH and REVIEW - The GANTT Chart
- 2.6: WATCH - Basic Functions of Management
- 2.7: WATCH- The Human Relations Movement

3: Module 3 - Decision-Making

- 3.1: Key Ideas
- 3.2: WATCH - 3 Steps to Better Decision-Making
- 3.3: Managerial Decision-Making
 - 3.3.1: Introduction to Managerial Decision Making
 - 3.3.2: Overview of Managerial Decision-Making
 - 3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems
 - 3.3.4: Programmed and Nonprogrammed Decisions
 - 3.3.5: Barriers to Effective Decision-Making
 - 3.3.6: Improving the Quality of Decision-Making
 - 3.3.7: Group Decision-Making
 - 3.3.8: Summary
- 3.4: WATCH - Emotional Intelligence

- 3.5: WATCH - Decision-Making Strategies

4: Module 4 - The Organizational Environment

- 4.1: Key Ideas
- 4.2: REVIEW - Internal and External Environments Graphic
- 4.3: External and Internal Organizational Environments and Corporate Culture
 - 4.3.1: Introduction to External and Internal Organizational Environments and Corporate Culture
 - 4.3.2: The Organization's External Environment
 - 4.3.3: External Environments and Industries
 - 4.3.4: Organizational Designs and Structures
 - 4.3.5: The Internal Organization and External Environments
 - 4.3.6: Corporate Cultures
 - 4.3.7: Organizing for Change in the 21st Century
 - 4.3.8: Summary
- 4.4: WATCH - Centralization vs. Decentralization
- 4.5: WATCH - Organizational Structure
- 4.6: WATCH - SWOT Analysis
- 4.7: WATCH - SWOT Example Starbucks
- 4.8: WATCH - SWOT Example Tesla

5: Module 5 - Strategic Analysis

- 5.1: Key Ideas
- 5.2: Strategic Analysis - Understanding a Firm's Competitive Environment
 - 5.2.1: Introduction to Strategic Analysis
 - 5.2.2: Gaining Advantages by Understanding the Competitive Environment
 - 5.2.3: Using SWOT for Strategic Analysis
 - 5.2.4: A Firm's External Macro Environment - PESTEL
 - 5.2.5: A Firm's Micro Environment- Porter's Five Forces
 - 5.2.6: The Internal Environment
 - 5.2.7: Competition, Strategy, and Competitive Advantage
 - 5.2.8: Strategic Positioning
 - 5.2.9: Summary
- 5.3: REVIEW - SWOT Analysis (attachment)
- 5.4: WATCH - PESTEL Analysis
- 5.5: WATCH - The 5 Forces Analysis Explained
- 5.6: WATCH - Porter's 5 Forces
- 5.7: WATCH - Porter's 5 Forces Example (TESLA)
- 5.8: WATCH - Resources and Capabilities Analysis
- 5.9: REVIEW - Competitive Advantage (Graphic)

6: Module 6 - Organizational Effectiveness

- 6.1: Key Ideas
- 6.2: Organizational Planning and Controlling
 - 6.2.1: Is Planning Important?
 - 6.2.2: The Planning Process
 - 6.2.3: Types of Plans
 - 6.2.4: Goals or Outcome Statements
 - 6.2.5: Formal Organizational Planning in Practice
 - 6.2.6: Employees' Responses to Planning
 - 6.2.7: Management by Objectives- A Planning and Control Technique

- [6.2.8: The Control- and Involvement-Oriented Approaches to Planning and Controlling](#)
- [6.2.9: Summary](#)
- [6.3: WATCH - Personal Best with PDCA](#)
- [6.4: WATCH - The Gap Between Planning and Doing](#)
- [6.5: REVIEW and WATCH - The MBO Process \(attachments\)](#)

[7: Module 7 - Functions of Management Key Assessment](#)

- [7.1: Review Questions](#)

[Index](#)

[Glossary](#)

[Detailed Licensing](#)

[Detailed Licensing](#)

Licensing

A detailed breakdown of this resource's licensing can be found in [Back Matter/Detailed Licensing](#).

CHAPTER OVERVIEW

1: Module 1 - Roles and Responsibilities of Managers

1.1: Key Ideas

1.2: Managing and Performing

1.2.1: What Do Managers Do?

1.2.2: The Roles Managers Play

1.2.3: Major Characteristics of the Manager's Job

1.2.4: Summary

1.2.5: Introduction

1.3: WATCH- What Do Managers Really Do?

1.4: READ and WATCH- The Roles Managers Play

1.5: WATCH- How to Break Bad Management Habits

1: Module 1 - Roles and Responsibilities of Managers is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

1.1: Key Ideas

Module 1: Key Ideas

- 4 Functions of Management
 - Management roles
 - Managerial responsibilities
 - Levels of Management within an organization
-

1.1: Key Ideas is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

SECTION OVERVIEW

1.2: Managing and Performing

Learning Objectives

After reading this chapter, you should be able to answer these questions:

1. What do managers do to help organizations achieve top performance?
2. What are the roles that managers play in organizations?
3. What are the characteristics that effective managers display?

1.2.1: What Do Managers Do?

1.2.2: The Roles Managers Play

1.2.3: Major Characteristics of the Manager's Job

1.2.4: Summary

1.2.5: Introduction

This page titled [1.2: Managing and Performing](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

1.2.1: What Do Managers Do?

Learning Objectives

1. Understand what managers do to help organizations achieve top performance

Managers are in constant action. Virtually every study of managers in action has found that they “switch frequently from task to task, changing their focus of attention to respond to issues as they arise, and engaging in a large volume of tasks of short duration.”³ Mintzberg observed CEOs on the job to get some idea of what they do and how they spend their time. He found, for instance, that they averaged 36 written and 16 verbal contacts per day, almost every one of them dealing with a distinct or different issue. Most of these activities were brief, lasting less than nine minutes.⁴

Kotter studied a number of successful general managers over a five-year period and found that they spend most of their time with others, including subordinates, their bosses, and numerous people from outside the organization. Kotter’s study found that the average manager spent just 25% of his time working alone, and that time was spent largely at home, on airplanes, or commuting. Few of them spent less than 70% of their time with others, and some spent up to 90% of their working time this way.⁵

Kotter also found that the breadth of topics in their discussions with others was extremely wide, with unimportant issues taking time alongside important business matters. His study revealed that managers rarely make “big decisions” during these conversations and rarely give orders in a traditional sense. They often react to others’ initiatives and spend substantial amounts of time in unplanned activities that aren’t on their calendars. He found that managers will spend most of their time with others in short, disjointed conversations. “Discussions of a single question or issue rarely last more than ten minutes,” he notes. “It is not at all unusual for a general manager to cover ten unrelated topics in a five-minute conversation.”⁶ More recently, managers studied by Sproull showed similar patterns. During the course of a day, they engaged in 58 different activities with an average duration of just nine minutes.⁷

Interruptions also appear to be a natural part of the job. Stewart found that the managers she studied could work uninterrupted for half an hour only nine times during the four weeks she studied them.⁸ Managers, in fact, spend very little time by themselves. Contrary to the image offered by management textbooks, they are rarely alone drawing up plans or worrying about important decisions. Instead, they spend most of their time interacting with others—both inside and outside the organization. If casual interactions in hallways, phone conversations, one-on-one meetings, and larger group meetings are included, managers spend about two thirds of their time with other people.⁹ As Mintzberg has pointed out, “Unlike other workers, the manager does not leave the telephone or the meeting to get back to work. Rather, these contacts are his work.”¹⁰

The interactive nature of management means that most management work is conversational.¹¹ When managers are in action, they are talking and listening. Studies on the nature of managerial work indicate that managers spend about two-thirds to three-quarters of their time in verbal activity.¹² These verbal conversations, according to Eccles and Nohria, are the means by which managers gather information, stay on top of things, identify problems, negotiate shared meanings, develop plans, put things in motion, give orders, assert authority, develop relationships, and spread gossip. In short, they are what the manager’s daily practice is all about. “Through other forms of talk, such as speeches and presentations,” they write, “managers establish definitions and meanings for their own actions and give others a sense of what the organization is about, where it is at, and what it is up to.”¹³

Concept Check

1. What do managers do to help organizations achieve top performance?

References

3. Hannaway, J. (1989). *Managers Managing: The Workings of an Administrative System*. New York: Oxford University Press, P. 39; and Kotter, J. P. (1982). *The General Managers*. New York: The Free Press.
4. Mintzberg, H. (1973). *The Nature of Managerial Work*. New York: Harper & Row. P. 37.
5. Kotter, J. P. (1999). “What Effective General Managers Really Do,” *Harvard Business Review*, March–April 1999, pp. 145–159.
6. Kotter, J. P. (1999). “What Effective General Managers Really Do,” *Harvard Business Review*, March–April 1999, pp. 145–159.

7. Sproull, L. S. (1984). "The Nature of Managerial Attention," in L. S. Sproull (ed.), *Advances in Information Processing in Organizations*. Greenwich, CT: JAI Press.
8. Stewart, R. (1967). *Managers and Their Jobs*. London: Macmillan.
9. Eccles, R. G. & Nohria, N. (1992). *Beyond the Hype: Rediscovering the Essence of Management*. Boston: The Harvard Business School Press, p. 47.
10. Mintzberg, H. (1973). *The Nature of Managerial Work*. New York: Harper & Row. P. 37.
11. Pondy, L. R. (1978). "Leadership Is a Language Game," in M. W. McCall, Jr. and M. M. Lombardo (eds.), *Leadership: Where Else Can We Go?* Durham, NC: Duke University Press.
12. Mintzberg, H. (2009). *Managing*. San Francisco, Berrett-Kohler Publishers. P. 26-28.
13. Eccles, R. G. & Nohria, N. (1992). *Beyond the Hype: Rediscovering the Essence of Management*. Boston: The Harvard Business School Press, pp. 47-48.

This page titled [1.2.1: What Do Managers Do?](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [1.2: What Do Managers Do?](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

1.2.2: The Roles Managers Play

Learning Objectives

1. What are the roles that managers play in organizations?

In Mintzberg's seminal study of managers and their jobs, he found the majority of them clustered around three core management roles.

Interpersonal Roles

Managers are required to interact with a substantial number of people in the course of a workweek. They host receptions; take clients and customers to dinner; meet with business prospects and partners; conduct hiring and performance interviews; and form alliances, friendships, and personal relationships with many others. Numerous studies have shown that such relationships are the richest source of information for managers because of their immediate and personal nature.¹⁴

Three of a manager's roles arise directly from formal authority and involve basic interpersonal relationships. First is the **figurehead role**. As the head of an organizational unit, every manager must perform some ceremonial duties. In Mintzberg's study, chief executives spent 12% of their contact time on ceremonial duties; 17% of their incoming mail dealt with acknowledgments and requests related to their status. One example is a company president who requested free merchandise for a handicapped schoolchild.¹⁵

Managers are also responsible for the work of the people in their unit, and their actions in this regard are directly related to their role as a leader. The influence of managers is most clearly seen, according to Mintzberg, in the **leader** role. Formal authority vests them with great potential power. Leadership determines, in large part, how much power they will realize.¹⁶

Does the leader's role matter? Ask the employees of Chrysler Corporation (now DaimlerChrysler). When Lee Iacocca took over the company in the 1980s, the once-great auto manufacturer was in bankruptcy, teetering on the verge of extinction. He formed new relationships with the United Auto Workers, reorganized the senior management of the company, and—perhaps most importantly—convinced the U.S. federal government to guarantee a series of bank loans that would make the company solvent again. The loan guarantees, the union response, and the reaction of the marketplace were due in large measure to Iacocca's leadership style and personal charisma. More recent examples include the return of Starbucks founder Howard Schultz to reenergize and steer his company, and Amazon CEO Jeff Bezos and his ability to innovate during a downturn in the economy.¹⁷



Figure 1.2.2.1 Howard Schultz, executive chairman of Starbucks Corporation, speaks after receiving the Distinguished Business Leadership Award during the Atlantic Council's Distinguished Leadership Awards dinner in Washington, D.C. The awards recognize pillars of the transatlantic relationship for their achievement in the fields of politics, military, business, humanitarian, and artistic leadership. (Credit: Chairman of the Joint Chief of Staff/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Popular management literature has had little to say about the **liaison** role until recently. This role, in which managers establish and maintain contacts outside the vertical chain of command, becomes especially important in view of the finding of virtually every study of managerial work that managers spend as much time with peers and other people outside of their units as they do with their

own subordinates. Surprisingly, they spend little time with their own superiors. In Rosemary Stewart's study, 160 British middle and top managers spent 47% of their time with peers, 41% of their time with people inside their unit, and only 12% of their time with superiors. Guest's (1956) study of U.S. manufacturing supervisors revealed similar findings.¹⁸

Informational Roles

Managers are required to gather, collate, analyze, store, and disseminate many kinds of information. In doing so, they become information resource centers, often storing huge amounts of information in their own heads, moving quickly from the role of gatherer to the role of disseminator in minutes. Although many business organizations install large, expensive management information systems to perform many of those functions, nothing can match the speed and intuitive power of a well-trained manager's brain for information processing. Not surprisingly, most managers prefer it that way.

As **monitors**, managers are constantly scanning the environment for information, talking with liaison contacts and subordinates, and receiving unsolicited information, much of it as a result of their network of personal contacts. A good portion of this information arrives in verbal form, often as gossip, hearsay, and speculation.

In the **disseminator** role, managers pass privileged information directly to subordinates, who might otherwise have no access to it. Managers must not only decide who should receive such information, but how much of it, how often, and in what form. Increasingly, managers are being asked to decide whether subordinates, peers, customers, business partners, and others should have direct access to information 24 hours a day without having to contact the manager directly.

In the **spokesperson** role, managers send information to people outside of their organizations: an executive makes a speech to lobby for an organizational cause, or a supervisor suggests a product modification to a supplier. Increasingly, managers are also being asked to deal with representatives of the news media, providing both factual and opinion-based responses that will be printed or broadcast to vast unseen audiences, often directly or with little editing. The risks in such circumstances are enormous, but so too are the potential rewards in terms of brand recognition, public image, and organizational visibility.

Decisional Roles

Ultimately, managers are charged with the responsibility of making decisions on behalf of both the organization and the stakeholders with an interest in it. Such decisions are often made under circumstances of high ambiguity and with inadequate information. Often, the other two managerial roles—interpersonal and informational—will assist a manager in making difficult decisions in which outcomes are not clear and interests are often conflicting.

In the role of **entrepreneur**, managers seek to improve their businesses, adapt to changing market conditions, and react to opportunities as they present themselves. Managers who take a longer-term view of their responsibilities are among the first to realize that they will need to reinvent themselves, their product and service lines, their marketing strategies, and their ways of doing business as older methods become obsolete and competitors gain advantage.

While the entrepreneur role describes managers who initiate change, the **disturbance** or **crisis handler** role depicts managers who must involuntarily react to conditions. Crises can arise because bad managers let circumstances deteriorate or spin out of control, but just as often good managers find themselves in the midst of a crisis that they could not have anticipated but must react to just the same.

The third decisional role of **resource allocator** involves managers making decisions about who gets what, how much, when, and why. Resources, including funding, equipment, human labor, office or production space, and even the boss's time are all limited, and demand inevitably outstrips supply. Managers must make sensible decisions about such matters while still retaining, motivating, and developing the best of their employees.



Figure 1.2.2.2: Thomas F. Prendergast, the president of the Metropolitan Transit Authority of New York State, updates media on today's labor negotiations with the LIRR unions. In his role negotiating a new contract with the union, he must take on several managerial roles. (Credit: Metropolitan Transit Authority of New York State/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

The final decisional role is that of **negotiator**. Managers spend considerable amounts of time in negotiations: over budget allocations, labor and collective bargaining agreements, and other formal dispute resolutions. In the course of a week, managers will often make dozens of decisions that are the result of brief but important negotiations between and among employees, customers and clients, suppliers, and others with whom managers must deal.¹⁹ A visual interpretation of the roles managers play is illustrated in Figure 1.2.2.3

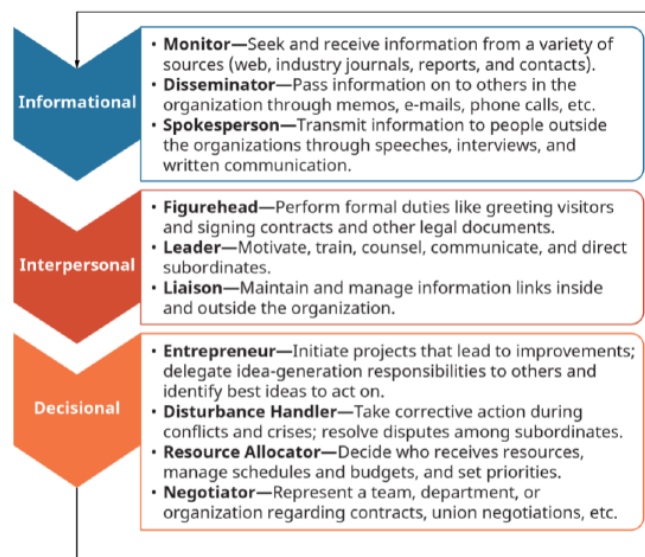


Figure 1.2.2.3: The Roles Managers Play (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

References:

14. Mintzberg, H. (1990). "The Manager's Job: Folklore and Fact." *Harvard Business Review*, March–April 1990, pp. 166–167.
15. Mintzberg, H. (1990). "The Manager's Job: Folklore and Fact." *Harvard Business Review*, March–April 1990, p. 167.
16. Mintzberg, H. (1990). "The Manager's Job: Folklore and Fact." *Harvard Business Review*, March–April 1990, p. 168.
17. McGregor, J. (2008). "Bezos: How Frugality Drives Innovation," *BusinessWeek*, April 28, 2008, pp. 64–66.
18. Stewart, R. (1967). *Managers and Their Jobs*. London: Macmillan.
19. Mintzberg, H. (1990). "The Manager's Job: Folklore and Fact." *Harvard Business Review*, March–April 1990.

This page titled [1.2.2: The Roles Managers Play](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **1.3: The Roles Managers Play** by OpenStax is licensed CC BY 4.0. Original source: <https://openstax.org/details/books/principles-management>.

1.2.3: Major Characteristics of the Manager's Job

Learning Objectives

1. Understand the characteristics that effective managers display

Time is fragmented. Managers have acknowledged from antiquity that they never seem to have enough time to get all those things done that need to be done. In the latter years of the twentieth century, however, a new phenomenon arose: demand for time from those in leadership roles increased, while the number of hours in a day remained constant. Increased work hours was one reaction to such demand, but managers quickly discovered that the day had just 24 hours and that working more of them produced diminishing marginal returns. According to one researcher, “Managers are overburdened with obligations yet cannot easily delegate their tasks. As a result, they are driven to overwork and forced to do many tasks superficially. Brevity, fragmentation, and verbal communication characterize their work.”²⁰

Values compete and the various roles are in tension. Managers clearly cannot satisfy everyone. Employees want more time to do their jobs; customers want products and services delivered quickly and at high quality levels. Supervisors want more money to spend on equipment, training, and product development; shareholders want returns on investment maximized. A manager caught in the middle cannot deliver to each of these people what each most wants; decisions are often based on the urgency of the need and the proximity of the problem.

The job is overloaded. In recent years, many North American and global businesses were reorganized to make them more efficient, nimble, and competitive. For the most part, this reorganization meant decentralizing many processes along with the wholesale elimination of middle management layers. Many managers who survived such downsizing found that their number of direct reports had doubled. Classical management theory suggests that seven is the maximum number of direct reports a manager can reasonably handle. Today, high-speed information technology and remarkably efficient telecommunication systems mean that many managers have as many as 20 or 30 people reporting to them directly.

Efficiency is a core skill. With less time than they need, with time fragmented into increasingly smaller units during the workday, with the workplace following many managers out the door and even on vacation, and with many more responsibilities loaded onto managers in downsized, flatter organizations, efficiency has become the core management skill of the twenty-first century.

What Varies in a Manager's Job?

The Entrepreneur role is gaining importance. Managers must increasingly be aware of threats and opportunities in their environment. Threats include technological breakthroughs on the part of competitors, obsolescence in a manager's organization, and dramatically shortened product cycles. Opportunities might include product or service niches that are underserved, out-of-cycle hiring opportunities, mergers, purchases, or upgrades in equipment, space, or other assets. Managers who are carefully attuned to the marketplace and competitive environment will look for opportunities to gain an advantage.

So is the leader role gaining importance. Managers must be more sophisticated as strategists and mentors. A manager's job involves much more than simple caretaking in a division of a large organization. Unless organizations are able to attract, train, motivate, retain, and promote good people, they cannot possibly hope to gain advantage over the competition. Thus, as leaders, managers must constantly act as mentors to those in the organization with promise and potential. When organizations lose a highly capable worker, all else in their world will come to a halt until they can replace that worker. Even if they find someone ideally suited and superbly qualified for a vacant position, they must still train, motivate, and inspire that new recruit, and live with the knowledge that productivity levels will be lower for a while than they were with their previous employee.

Managerial Responsibilities

An important question often raised about managers is: What responsibilities do managers have in organizations? According to our definition, managers are involved in planning, organizing, directing, and controlling. Managers have described their responsibilities that can be aggregated into nine major types of activity. These include:

1. Long-range planning. Managers occupying executive positions are frequently involved in strategic planning and development.
2. Controlling. Managers evaluate and take corrective action concerning the allocation and use of human, financial, and material resources.

3. Environmental scanning. Managers must continually watch for changes in the business environment and monitor business indicators such as returns on equity or investment, economic indicators, business cycles, and so forth.
4. Supervision. Managers continually oversee the work of their subordinates.
5. Coordinating. Managers often must coordinate the work of others both inside the work unit and out.
5. Customer relations and marketing. Certain managers are involved in direct contact with customers and potential customers.
6. Community relations. Contact must be maintained and nurtured with representatives from various constituencies outside the company, including state and federal agencies, local civic groups, and suppliers.
7. Internal consulting. Some managers make use of their technical expertise to solve internal problems, acting as inside consultants for organizational change and development.
8. Monitoring products and services. Managers get involved in planning, scheduling, and monitoring the design, development, production, and delivery of the organization's products and services.

As we shall see, not every manager engages in all of these activities. Rather, different managers serve different roles and carry different responsibilities, depending upon where they are in the organizational hierarchy. We will begin by looking at several of the variations in managerial work.

Variations in Managerial Work

Although each manager may have a diverse set of responsibilities, including those mentioned above, the amount of time spent on each activity and the importance of that activity will vary considerably. The two most salient perceptions of a manager are (1) the manager's level in the organizational hierarchy and (2) the type of department or function for which he is responsible. Let us briefly consider each of these.

Management by Level

We can distinguish three general levels of management: executives, **middle management**, and **first-line management** (see Exhibit 1.3). **Executive managers** are at the top of the hierarchy and are responsible for the entire organization, especially its strategic direction. Middle managers, who are at the middle of the hierarchy, are responsible for major departments and may supervise other lower level managers. Finally, first-line managers supervise rank-and-file employees and carry out day-to-day activities within departments.²¹

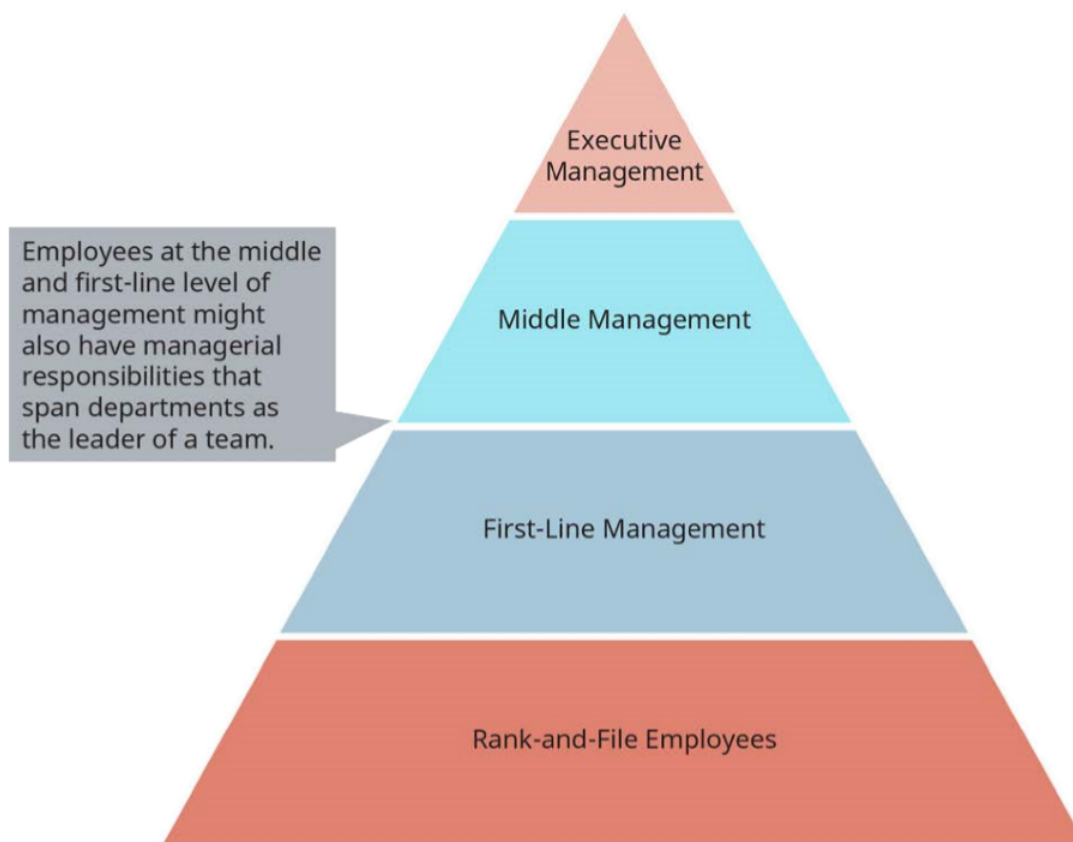


Exhibit 1.5 Levels in the Management Hierarchy (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Exhibit 1.5 shows differences in managerial activities by hierarchical level. Senior executives will devote more of their time to conceptual issues, while front-line managers will concentrate their efforts on technical issues. For example, top managers rate high on such activities as **long-range planning**, monitoring business indicators, coordinating, and internal consulting. Lower-level managers, by contrast, rate high on supervising because their responsibility is to accomplish tasks through rank-and-file employees. Middle managers rate near the middle for all activities. We can distinguish three types of managerial skills:

1. Technical skills. Managers must have the ability to use the tools, procedures, and techniques of their special areas. An accountant must have expertise in accounting principles, whereas a production manager must know operations management. These skills are the mechanics of the job.
2. Human relations skills. Human relations skills involve the ability to work with people and understand employee motivation and group processes. These skills allow the manager to become involved with and lead his group.
3. Conceptual skills. These skills represent a manager's ability to organize and analyze information in order to improve organizational performance. They include the ability to see the organization as a whole and to understand how various parts fit together to work as an integrated unit. These skills are required to coordinate the departments and divisions successfully so that the entire organization can pull together.

As shown in Exhibit 1.6, different levels of these skills are required at different stages of the managerial hierarchy. That is, success in executive positions requires far more conceptual skill and less use of technical skills in most (but not all) situations, whereas first-line managers generally require more technical skills and fewer conceptual skills. Note, however, that human relations skills, or people skills, remain important for success at all three levels in the hierarchy.

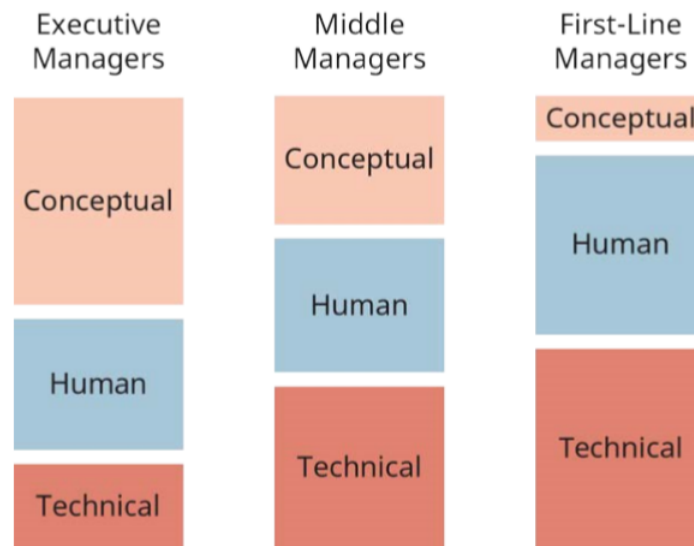


Exhibit 1.6 Difference in Skills Required for Successful Management According to Level in the Hierarchy (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Management by Department or Function

In addition to level in the hierarchy, managerial responsibilities also differ with respect to the type of department or function. There are differences found for quality assurance, manufacturing, marketing, accounting and finance, and human resource management departments. For instance, manufacturing department managers will concentrate their efforts on products and services, controlling, and supervising. Marketing managers, in comparison, focus less on planning, coordinating, and consulting and more on customer relations and external contact. Managers in both accounting and human resource management departments rate high on long-range planning, but will spend less time on the organization's products and service offerings. Managers in accounting and finance are also concerned with controlling and with monitoring performance indicators, while human resource managers provide consulting expertise, coordination, and external contacts. The emphasis on and intensity of managerial activities varies considerably by the department the manager is assigned to.

At a personal level, knowing that the mix of conceptual, human, and technical skills changes over time and that different functional areas require different levels of specific management activities can serve at least two important functions. First, if you choose to become a manager, knowing that the mix of skills changes over time can help you avoid a common complaint that often young employees want to think and act like a CEO before they have mastered being a first-line supervisor. Second, knowing the different mix of management activities by functional area can facilitate your selection of an area or areas that best match your skills and interests.

In many firms managers are rotated through departments as they move up in the hierarchy. In this way they obtain a well-rounded perspective on the responsibilities of the various departments. In their day-to-day tasks they must emphasize the right activities for their departments and their managerial levels. Knowing what types of activity to emphasize is the core of the manager's job. In any event, we shall return to this issue when we address the nature of individual differences in the next chapter.

Concept Check

1. Describe and explain the different levels of management.
2. Describe and explain the three types of managerial skills and how they relate to each level of management.

References:

20. Mintzberg, H. (1990). "The Manager's Job: Folklore and Fact." *Harvard Business Review*, March–April 1990, p. 167.
21. Katz, Robert L., (1974). "Skills of an Effective Administrator." *Harvard Business Review*, September–October 1974.

This page titled [1.2.3: Major Characteristics of the Manager's Job](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **1.4: Major Characteristics of the Manager's Job** by OpenStax is licensed CC BY 4.0. Original source: <https://openstax.org/details/books/principles-management>.

1.2.4: Summary

Key Terms

Decisional role

One of the three major roles that a manager assumes in the organization.

Executive Managers

Generally, a *team* of individuals at the highest level of management of an organization.

First-line Managers

The level of management directly managing nonmanagerial employees.

Informational Role

One of the three major roles that a manager assumes in the organization.

Interpersonal Role

One of the three major roles that a manager assumes in the organization.

Middle Management

The managers in an organization at a level just below that of senior executives.

Summary of Learning Outcomes

1.2 What Do Managers Do?

1. What do managers do to help organizations achieve top performance?

Managers perform a variety of functions in organizations, but amongst one of the most important functions they perform is communicating with direct reports to help their organizations achieve and exceed goals.

1.3 The Roles Managers Play

2. What do managers do to help organizations achieve top performance?

Managers perform a variety of roles in organizations, but amongst one of the most important functions they perform is communicating with direct reports to help their organizations achieve and exceed goals. Managers perform three major types of roles within organizations, interpersonal roles, informational roles, and decisional roles. the extent of each of these roles depends on the manager's position within the organizational hierarchy.

1.4 Major Characteristics of the Manager's Job

3. What are the characteristics that effective managers display?

Management is the process of planning, organizing, directing, and controlling the activities of employees in combination with other resources to accomplish organizational goals. Managerial responsibilities include longrange planning, controlling, environmental scanning, supervision, coordination, customer relations, community relations, internal consulting, and monitoring of products and services. These responsibilities differ by level in the organizational hierarchy and by department or function. The twenty-first-century manager will differ from most current managers in four ways. In essence, he will be a global strategist, a master of technology, a good politician, and a premier leader-motivator.

Chapter Review Questions

1. What are the characteristics and traits that you possess that are common to all successful managers?
2. Why should management be considered an occupation rather than a profession?
3. How do managers learn how to perform the job?
4. Explain the manager's job according to Henry Mintzberg.

5. What responsibilities do managers have towards people within the organization? How do they express these responsibilities?
6. How do managers perform their job according to John Kotter?
7. How do managers make rational decisions?
8. How does the nature of management change according to one's level and function in the organization?
9. Discuss the role of management in the larger societal context. What do you think the managers of the future will be like?
10. Identify what you think are the critical issues facing contemporary management. Explain.

Management Skills Application Exercises

1. During this and your other courses, there will likely be products of your and team-based assignments that can illustrate specific competencies such as the ability to prepare a spreadsheet application, write programming code, or show your communication abilities that demonstrate your skills in a video. It is a good practice to catalog and save these artifacts in a portfolio that will be useful in demonstrating your skills in future job interviews.
2. Time management is an important skill that will impact your future as a manager. You can categorize the time that you spend as either required or discretionary. You can assess your time management skills by keeping track of your time using a schedule calendar and breaking down the time devoted to each activity over a week. After a week of logging the activity, note whether each activity was required or discretionary and whether the time was used productively or unproductively using a 10-point scale in which 10 is very productive and 1 is completely unproductive. Now write up a plan on how to manage your time by coming up with a list of what to start doing and stop doing and what you can do to manage your discretionary time more productively.

Managerial Decision Exercises

1. You are a manager at a local convenience store that has been the victim of graffiti. Identify the roles you will undertake with both internal employees and others.
2. Here are three job titles. Rank which job would devote the most of its time to conceptual, human, and technical skills.
 - Vice president of finance at a Fortune 100 company
 - Coding for a video game producer
 - General manager at a local McDonald's franchise

Critical Thinking Case

New Management Challenges for the New Age

Today's news is littered with scandals, new allegations of sexual assault, and tragedy. Since 2017 and the #metoo Movement, stemming from the Harvey Weinstein scandal, more and more public figures have been put into the spotlight to defend themselves against allegations from women around the globe.

Not only publically, but privately in companies around the world, there have been firings, and investigations into misconduct from co-workers, managers, and CEOs. It is a relevant topic that is getting long overdue publicity and encouraging more men and women to come forward to discuss openly rather than hide the events and injustices of the past. Other events showcase the tumultuous and on-edge society we are living in, such as the Charlottesville, VA attack, that left 1 dead and 19 injured when a person drove a car through a crowd of protestors during a white nationalist gathering.

With events on a daily basis, it is important for companies to take a stand against racial hatred, harassment of any kind, and have firm policies when such events occur. Take Netflix for example, who in July of 2018 fired chief communications officer for saying the "N-word" in full form. This event occurred during an internal meeting, not directing the slur at anyone specific, but claimed it was being made as an emphatic point about offensive words in comedy programming. The "Netflix way", the culture that is built around radical candor and transparency was put to the test during this occurrence.

The offender, Jonathan Friedland attempted to apologize for his misdeed, hoping it would fade away and his apology would be accepted. However, it didn't work that way, instead the anger was palpable between coworkers, and eventually led to the firing of Friedland after a few months of inaction.

Netflixers are given a high level of freedom and responsibility within their "Netflix way" culture. Blunt feedback is encouraged, trust and discretion is the ultimate gate keeper, as employees have access to sensitive information, and are ultimately trusted for how they expense items and take vacation time.

Between the insanely fast-paced streaming services industry, it is hard to keep this culture at a premium, but it is imperative for the success of the company overall. “As you scale a company to become bigger and bigger how do you scale that kind of culture?” said Colin Estep, a former senior engineer who left voluntarily in 2016. “I don’t know that we ever had a good answer.”

In order to keep up, sometimes the company is seen as harsh in their tactics to keep the best of the best. “I think we’re transparent to a fault in our culture and that can come across as cutthroat,” said Walta Nemariam, an employee in talent acquisition at Netflix, in the video.

Netflix has stayed true to their cultural values despite the pressures and sometimes negative connotations associated with this “cutthroat” environment. Their ability to remain agile, while displaying no tolerances for societal injustices makes them at the forefront of new age companies. It is a difficult pace to stay in line with, but it seems that they are keeping in stride and remaining true to who they are, for now.

Questions:

1. How have the current cultural environment of our country shaped the way that companies are looking at their own corporate cultural standards?
2. What are the potential downfalls and positive influences of the “Netflix way”?
3. How does Netflix’s internal culture negatively or positively affect their ability to stay competitive and deliver cutting edge content?

Sources: B. Stelter, "The Weinstein Effect: Harvey Weinstein scandal sparks movements in Hollywood and beyond," CNN Business, October 20, 2017, money.cnn.com/2017/10/20/med...rveyweinstein/; www.washingtonpost.com/; L. Hertzler, " Talking #MeToo, one year after bombshell Weinstein allegations," Penn Today, October 30, 2018, penntoday.upenn.edu/news/tal...one-year-later/; S. Ramachandaran and J. Flint, " At Netflix, Radical Transparency and Blunt Firings Unsettle the Ranks," Wall Street Journal, October 25, 2018, www.wsj.com/articles/at-netf...nks-1540497174

This page titled [1.2.4: Summary](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [1.5: Summary](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

1.2.5: Introduction



(Credit: Steve Bowbrick/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

✓ Exploring Managerial Careers: You

So, you're in this course and you may have pondered, or discussed with others, what this course will be about. You probably have some preconceptions of what management is all about. You must manage your time, deciding on how much study time you will devote to your management and accounting classes, for instance. You may have had a summer or part-time job where you had a manager whom you had to report to. You may have followed news reports on successful managers like Jeff Bezos of Amazon or Sheryl Sandberg of Facebook and want to learn what made them successful so you can emulate their practices in your business career. You may have the impression (not an accurate one) that management is basically just common sense and that you really don't need to take this course except that you must meet your degree requirement.

You may be an accounting or marketing major who is taking this class because it is required for completion of your degree requirements, but you don't think that you will ever require what you learn in this class during your career since you don't plan on applying for HR jobs upon graduation. If you're believing this, you could not be more mistaken. Regardless of where you are in your career, be it as an individual contributor, project leader, or middle or senior manager, what you will get out of this course will be valuable. If your first job out of college is as an accountant, sales representative, or another entry-level position, you will appreciate the roles that your managers, both direct and senior level, play in an organization and the behaviors and actions that will get you recognized and appreciated. Best of luck!

Most management textbooks would say, as does this one, that managers spend their time engaged in planning, organizing, staffing, directing, coordinating, reporting, and controlling. These activities, as Hannaway found in her study of managers at work, "do not, in fact, describe what managers do."¹ At best they seem to describe vague objectives that managers are continually trying to accomplish. The real world, however, is far from being that simple. The world in which most managers work is a "messy and hectic stream of ongoing activity."²

References

1. Hannaway, J. (1989). *Managers Managing: The Workings of an Administrative System*. New York: Oxford University Press, P. 39.
2. Eccles, R. G. & Nohria, N. (1992). *Beyond the Hype: Rediscovering the Essence of Management*. Boston: The Harvard Business School Press, p. 47.

This page titled [1.2.5: Introduction](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **1.1: Introduction** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

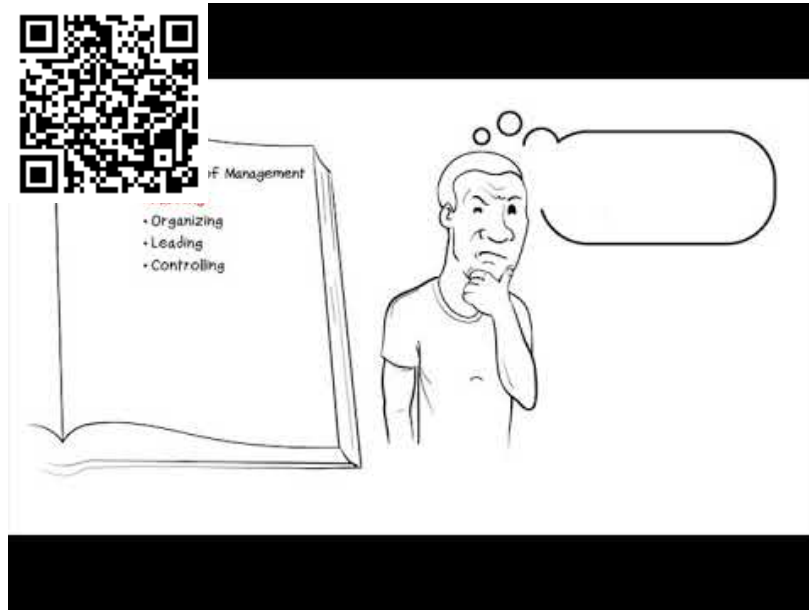
1.3: WATCH- What Do Managers Really Do?

Notes:

Good management is essential to the success of an organization!

There are four primary functions of management that we will focus on throughout this course. They include: Planning, Organizing, Leading, and Controlling.

Watch this 2:23 video, which provides a good introduction to the four functions:



1.3: WATCH- What Do Managers Really Do? is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

1.4: READ and WATCH- The Roles Managers Play

Notes:

As you learned from the textbook reading, effective managers fulfill roles in three distinct areas. Take some time to review the three core areas and the identified roles.

- First, review the following document: — [Roles Managers Play.pdf](#)
- Then, watch the following 4:10 video, which provides additional insights on these varied roles that managers must play:



Then, take some time to consider how you would apply the roles in the organization you work for, one you have worked for in the past, or one you hope to work for in the future.

1.4: READ and WATCH- The Roles Managers Play is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

1.5: WATCH- How to Break Bad Management Habits

Notes:

Habits can be both difficult to adopt and hard to break. Think about some of the positive habits you have worked to create in your life. Also, think about some of the bad habits you are working to break (or have worked to break in the past). This concept applies to the role of the manager, as well. It is important, as new managers, that you consider not only your own habits, but those of the managers you have experienced in the past.

Watch the following 12:04 video from leadership expert, Elizabeth Lyle:



Finally, consider how the pitfalls discussed by Lyle would apply to the nine major activities performed by managers that you learned about in your textbook:

1. Long-range planning
2. Controlling
3. Environmental scanning
4. Supervision
5. Coordinating
6. Customer relations and marketing
7. Community relations
8. Internal consulting
9. Monitoring products and services

1.5: WATCH- How to Break Bad Management Habits is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

CHAPTER OVERVIEW

2: Module 2 - Evolution of Management

2.1: Key Ideas

2.2: The History of Management

2.2.1: Introduction to The History of Management

2.2.2: The Early Origins of Management

2.2.3: The Italian Renaissance

2.2.4: The Industrial Revolution

2.2.5: Taylor-Made Management

2.2.6: Administrative and Bureaucratic Management

2.2.7: Human Relations Movement

2.2.8: Contingency and System Management

2.2.9: Summary

2.3: WATCH- What was the Industrial Revolution

2.4: WATCH- Classical Management Theory

2.5: WATCH and REVIEW - The GANTT Chart

2.6: WATCH - Basic Functions of Management

2.7: WATCH- The Human Relations Movement

2: Module 2 - Evolution of Management is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

2.1: Key Ideas

Module 2: Key Ideas

- Management theories
 - Impact management theories have on employees
 - Influence on modern management
 - Application of 4 functions of management
-

2.1: Key Ideas is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

SECTION OVERVIEW

2.2: The History of Management

Learning Objectives

1. Be able to answer these questions:
2. Describe management in the ancient world.
3. How did the Italian Renaissance affect the progression of management theory?
4. How did the Industrial Revolution affect the progression of management theory?
5. How did Frederick Winslow Taylor influence management theory, and how did efficiency in management affect current management theory?
6. How do bureaucratic and administrative management complement scientific management?
7. How did Elton Mayo influence management theory, and how did the human relations movement affect current management theory?
8. How did contingency and systems management transform management thought?

2.2.1: Introduction to The History of Management

2.2.2: The Early Origins of Management

2.2.3: The Italian Renaissance

2.2.4: The Industrial Revolution

2.2.5: Taylor-Made Management

2.2.6: Administrative and Bureaucratic Management

2.2.7: Human Relations Movement

2.2.8: Contingency and System Management

2.2.9: Summary

This page titled [2.2: The History of Management](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

2.2.1: Introduction to The History of Management

✓ Exploring Managerial Careers

Michael Porter: Harvard Professor and Management Consultant, The Monitor Group Michael Porter is the Bishop William Lawrence University Professor at Harvard Business School and one of the foremost scholars and consultants in business strategy. Dubbed the first “Lord of Strategy,” he is one of the most influential management thinkers of all time. Porter’s primary contribution is in the field of competition, specifically the question of why some companies profit while others do not. Porter first became interested in competition due to his enthusiasm competing in youth sports (baseball, football, and basketball). Porter was born in 1947 and graduated from Princeton in 1969 with a degree in aerospace and mechanical engineering. He went on to receive his MBA from Harvard Business School in 1971 and his PhD in business economics from Harvard University in 1973. His book *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (published in 1980) was deemed the ninth most influential work of the 20th century by the Fellows of the Academy of Management. Porter, writing during a period of great economic competition between the United States and Japan, was able to gain a wide and vast audience for his work.



Exhibit 3.2 Michael Porter Michael E. Porter leads a conversation with three leading public and private investors, Jin-Yong Cai, Tony O. Elumelu, and Arif Naqvi, on the panel “Investing in Prosperity: A Conversation with Global Leaders” at the Shared Value Leadership Summit. (Shared Value Initiative/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

In his 1979 *Harvard Business Review* article “How Competitive Forces Shape Strategy,” Porter presented his game management idea that five forces help determine the level of profitability. The five forces are competition in the industry, potential of new entrants into the industry, power of suppliers, power of customers, and threat of substitute products. An unattractive industry is one in which the five forces align themselves to produce a purely competitive industry. In this type of industry, normal profit levels are the highest a firm can expect, which means that the firm can cover its costs and make the owner a profit but cannot make excess profits. Once a firm identifies the five forces in its industry, it can choose between one of three generic strategies for success focus, differentiation, or cost leadership. Depending on where a firm is positioned within the market, the marketplace will determine what strategy it can take. This “five forces, three strategies” framework explains how McDonald’s, Morton’s Steakhouse, Subway, Wendy’s, and TGIF can all be in the same industry and still be profitable. They offer different types of products to different types of customers. These products compete on price, differentiation, focus, or a combination of these. In addition to the five forces model, Porter developed the value-chain model, which describes the unique activities that a corporation performs to make its products valuable to its customers. Porter has also contributed to health-care management, environmental regulation, international competition, and industry-level profits.

Porter’s five forces framework is intuitive and has provided managers with an approach to develop actual strategies. His ideas became popular because business leaders wanted to know how their companies could compete. Prior to Porter, management scholars stressed the idiosyncratic nature of business, stressing how each situation faced by each business was different. Other scholars offered business strategy models, but they were not as useful or practical as Porter’s. Through his use of industrial-

organizational economics and his training in the case method, Porter bridged the gap between theoretical frameworks and the reality of the competitive business world and became one of the most important thinkers on business in the world.

Sources: Bedeian, Arthur G and Wren, Daniel A. (Winter 2001). "Most Influential Management Books of the 20th Century" (PDF). *Organizational Dynamics*. 29 (3): 221–225; Kiechel, Walter (2010). *The Lords of Strategy: The Secret Intellectual History of the New Corporate World*. Harvard Business Review Press; Magretta, Joan (2011). *Understanding Michael Porter: The Essential Guide to Competition and Strategy*. Harvard Business Review Press; and Mathews, J.(2013-02-01). The Competitive Advantage of Michael Porter. In *The Oxford Handbook of Management Theorists: Oxford University Press*.

While you may think that management is a relatively new field, it actually has its roots in the ancient world. In fact, whenever and wherever there has been commerce, there has been management and those thinking about how to do it better. For example, the Seven Wonders of the Ancient World, including the Colossus of Rhodes, the Hanging Gardens of Babylon, and the Great Pyramid, could only have been constructed through the work of a great many people. The size and complexity of these structures suggest that there must have been people (managers) who coordinated the labor and resources needed to execute the construction plans. Similarly, the Romans and the ancient Chinese could not have managed their vast empires without management, nor could the Phoenicians and the Greeks have dominated oceangoing trade without management.

Because management has been around for a while, it makes sense that the study of management is old. This idea is supported by the many managerial insights we can find in political, diplomatic, and military history and in philosophy, poetry, economics, and literature. Anyone familiar with Shakespeare's *King Lear* would recognize the present-day management problem of succession planning! Modern managers have been influenced by the works of Chinese military strategist and philosopher Sun Tzu, Roman general and politician Julius Caesar, and even Genghis Kahn, Mongolian conqueror and ruler of what became the largest land empire in all of history.¹ Mark Zuckerberg² of Facebook is a modern admirer of the Caesars and has said that he bases some of his management style on his classical education.

Despite its ancient roots, modern management is less than 150 years old. In fact, a comparison of management before and after the Industrial Revolution shows that the former is only a shadowy comparison to the latter. Prior to the Industrial Revolution, work was performed, with exceptions, mostly in home and on farms by forced labor (slaves or indentured servants) or family members, and the output they produced was often for employers', local, or family consumption. Over the centuries, economics and morality shifted, and laborers could choose where and for whom to work. These changes, in turn, would bring about many changes in how labor and other resources were employed in production.

The two developments that transformed management were the revolutions in how and where goods were sold and the Industrial Revolution. The events combined led to the selling of a wider variety of goods to a wider variety of customers in more distant locations. These events also led to the establishment of vast companies. Competition required the development of economies of scale (i.e., increased production lowering costs) and required coordination and specialization in the use of resources. The combination of coordination and specialization problems encouraged the development of management study as a distinct field.

In this chapter, we trace the evaluation of management from its origins in the ancient world to its form as a modern profession. Understanding how management came to be helps us to understand its principles in a richer, more thorough context and to understand how each concept we discuss is based on evidence produced by a wide range of scholars over many years in the fields of engineering, economics, psychology, sociology, and anthropology.

References

1. Jackson, Eric, "Sun Tzu's 31 Best Pieces Of Leadership Advice", Forbes, May 23, 2014. www.forbes.com/sites/ryanhol...sgenghis-khan/; www.forbes.com/sites/ericjac.../#124ac8a05e5e
2. <https://www.newyorker.com/magazine/2...ce-of-facebook>

This page titled [2.2.1: Introduction to The History of Management](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [3.1: Introduction to The History of Management](#) by OpenStax is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.2.2: The Early Origins of Management

Learning Objectives

1. Be able to describe management in the ancient world.

Table 3.1 traces the development of management thought from the ancient world until the 19th century's Industrial Revolution.

Sumer, located in what is today southern Iraq and the first urban-based civilization, contained the genesis of management. Sumer had a flourishing merchant culture in which goods such as grains, livestock, perfumes, and pottery were sold to customers. Rather than bartering (using one good or service, not money, to pay for another good or service), the ancient Sumerians used ancient clay coins to pay. The sizes and shapes of coins represented different amounts of currency and signaled the types of goods for which they could be exchanged.³

What made this level of trade and economic activity possible? The introduction of writing made it possible for merchants to keep track of various trades. And the development of a basic form of coins allowed for increased trade because a person wanting to obtain a good or service no longer had to find another person who wanted exactly the good or service he produced. Coordinating the activities of those who provided goods and those who wanted to purchase them often required coordination, one of the main functions of a manager.

Early Contributor	Outcome
Sumerians	Writing and trade
Hamurabi	Written commands and controls
Nebuchadnezzar	Incentives
Ancient Egyptians	Division of labor, coordination and span of control
Sun Tzu	Division of labor, communication and coordination
Han Dynasty (206 BC-220AD)	Development of bureaucracy
Ancient Greeks	Division of labor
Romans	Standardization
Italians	Accounting, corporations, multinational corporations
John Florio	Management to English language

Source: Adapted from George (1972) and Wren & Bedeian (2009)

Table 3.1(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Two additional contributions to the early development of management came from the Middle East. The idea of written laws and commands comes from the Babylonian king **Hammurabi** (1810 BC–1750 BC).⁴ The Code of Hammurabi was a listing of 282 laws that regulated a wide variety of behaviors, including business dealings, personal behavior, interpersonal relations, and punishments. Law 104 was one of the first instances of accounting and of the need for formal rules for managers and owners. The code also set wages for doctors, bricklayers, stonemasons, boatmen, herdsmen, and other labors. The code did not, however, include the concept of incentive wages because it set wages at a fixed amount. The idea of incentives would come from another, much later, Babylonian king, **Nebuchadnezzar** (605 BC–c. 562 BC),⁵ who gave incentives to cloth weavers for production. Weavers were paid in food, and the more cloth they produced, the more food they were given.

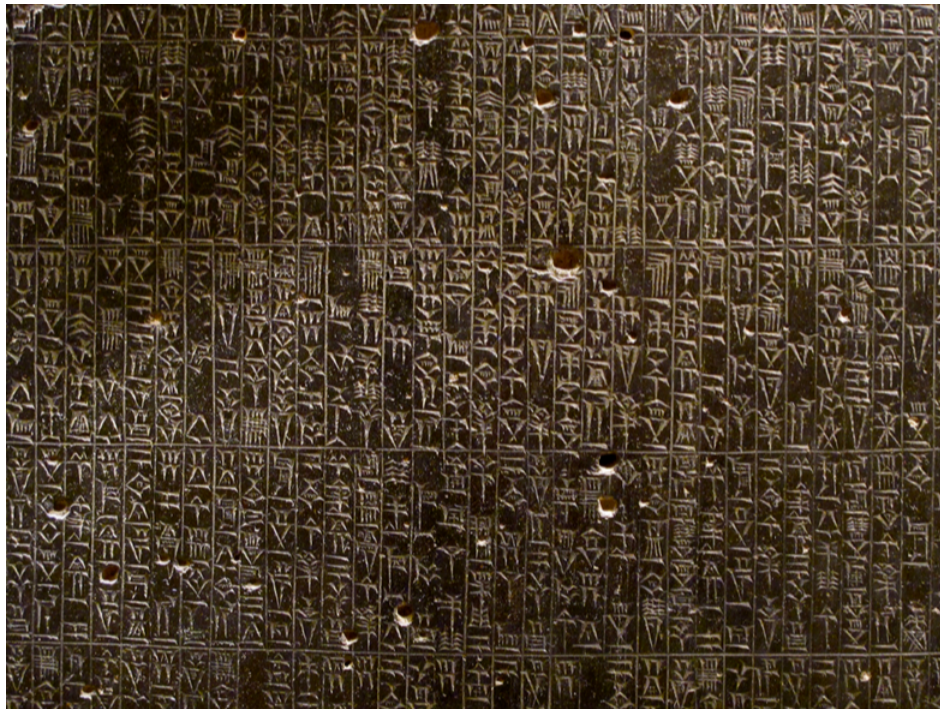


Exhibit 3.3 Hammurabi The Code of Hammurabi is a well-preserved ancient law code, created between 1810 BC and 1750 BC in ancient Babylon. It's a listing of 282 laws that regulated conduct on a wide variety of behaviors, including business dealings, personal behavior, interpersonal relations, and punishments. Law 104 was one of the first instances of accounting and the need for formal rules for owners and managers. (Gabrielle Barni / flickr/ Attribution 2.0 Generic (CC BY 2.0))

The ancient Egyptians made great strides in the building of the great pyramids. The ancient Egyptians were exceptional builders of canals, irrigation projects, and the pyramids, royal tombs whose size and complexity exceeded what the Greeks and Romans⁶ were able to build in later centuries. Although we are still uncertain about exactly how the pyramids were constructed, we have some idea that the process required a great number and wide range of slave laborers to construct them. Each laborer would have a different task. Some of the laborers were stonecutters; others were required to push and pull gigantic blocks of stone; still others were required to grease the stones to reduce friction. In this process, we see the management principals of division of labor, coordination, and specialization. These groups of workers were supervised by one individual. In figuring out how best to handle the huge numbers of workers engaged in pyramid building, the ancient Egyptians also pioneered the concept of span of control, that is, the number of workers that a manager controls directly. Anticipating research on this issue in the far, far distant future, Egyptians found the ideal number of workers per supervisor to be ten. In addition, there were various overseers, who had the responsibility to compel workers to produce.

In Asia, the Chinese began to develop the idea of bureaucracy. Bureaucracy has roots in the early dynasties but only became fully developed during the Han dynasty (206 BC–220 AD).⁷ The idea was to train scholars in Confucian teachings and use those teachings to make decisions. Unlike modern bureaucracies, this system was not formal but relied upon the discretion of the scholars themselves. Another important development was the idea of meritocracy because selection for and then promotion within a bureaucracy was based on a test of Confucian teaching.

The Greeks (800 BC–400 BC) and Romans (500 BC–476 AD) added a number of important steps in the development of management. Although neither empire was commercially oriented, both Greeks and the Romans undertook a wide range of industrial projects, such as roads and aqueducts, and established various guilds and societies that encouraged trade. The Greeks continued to develop the idea of division of labor based on Plato's recognition of human diversity. The great Greek philosopher Socrates stressed the development of managerial skills such as creating an atmosphere of information sharing and analysis. The Romans' contribution to management was standardization. Because the Romans needed to administer a vast empire, they needed standardization of measures, weights, and coins. Romans also saw the birth of the corporation, in that many Roman companies sold stocks to the public.

Both Greece and Rome saw the continued pestilence of slavery, but due to economic changes that made slavery financially unfeasible, workers were gaining some degree of freedom. They still had masters who determined at what jobs they could work and how those jobs should be done. After the collapse of the Roman Empire, there was a decline in European trade. Scholars refer to

this time as the Dark or Middle Ages (500 AD–1000 AD), due its location between the classical world of the Greeks and Romans and the world of the Renaissance. While there was little trade or economic development in Europe during this period, trade flourished in the Muslim and Chinese worlds. Various travelers, such as 13th-century Italian merchant and explorer Marco Polo, provided readers with tales and goods from those booming societies.

? Concept Check

1. What were the contributions of the following groups to modern management: Sumerians, Babylonians, Egyptians, Chinese, Greeks, and Romans?

References

3. George, Claude S. (1972). *History of Management Thought*. Prentice Hall, Englewood Cliffs New Jersey.
4. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.
5. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.
6. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.
7. Fairbank, J.K. (1991). *China: a New History*. Harvard University Press. Cambridge.

This page titled [2.2.2: The Early Origins of Management](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [3.2: The Early Origins of Management](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.2.3: The Italian Renaissance

Learning Objectives

1. Understand how the Italian Renaissance affected the progression of management theory.

In the 11th, 12th, and 13th centuries, Europeans went on a series of military expeditions to recover the Holy Land from the Muslims. These expeditions, called the Crusades, brought wealth and technological advances into Europe from the Muslim world.⁸

In the 14th century, a movement of cultural change and astounding achievements in all spheres of life began in northern Italy. The **Italian Renaissance** saw the reintroduction of classical knowledge and the emergence of new knowledge and learning, much of which had economic and business implications. The emergence of the basic printing press allowed for these ideas and knowledge to spread throughout Europe. The combination of these factors led to the creation of new wealth as a new emphasis on trade and wealth creation developed. In Italy, we see the emergence of modern enterprise and the emergence of the need for people to run these new enterprises. As Muldoon and Marin⁹ write:

Their industrious countrymen were improving mining operations and developing the shipping and banking industries, which created the underlying conditions for the migration of the Italian Renaissance's commercial and intellectual culture from its native Italian soil (Haynes, 1991). The increasing scope and complexity of these commercial activities may well have prompted such inventions as double-entry bookkeeping and motivated companies to hire business managers to coordinate and direct their operations (Witzel, 2002).

Organizations called corporations developed to carry out these commercial activities, not only within a country, but among many countries. The first multinational corporations were located in Italy but had branches across Europe. The Florence Company of Bardi was a multinational bank that provided loans to various kings, including Edward III of England.¹⁰ As their commercial enterprises flourished, the Italians provided manuals for merchants, which spread the ideas of commerce throughout Europe.

Concept Check

1. What was the Italian Renaissance?
2. What managerial legacy did it leave?

References

8. Ruggiero, Guido. *The Renaissance in Italy: A Social and Cultural History of the Rinascimento* (Cambridge University Press, 2015).
9. Muldoon, J., & Marin, D. B. (2012). John Florio and the introduction of management into the English vocabulary. *Journal of Management History*, 18(2), 129-136.
10. Haynes, M.S. (1991), *The Italian Renaissance and Its Influence on Western Civilization*, University Press of America, New York, NY.

This page titled **2.2.3: The Italian Renaissance** is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **3.3: The Italian Renaissance** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.2.4: The Industrial Revolution

Learning Objectives

1. Understand how the Industrial Revolution affected the progress of management theory.

The Renaissance and its ideals came to England, a backwater power at the time, during the reign of the Tudors (1485–1603).¹¹ It was during this time that the word *management* came into the English language from Italy through translations by John Florio,¹² an Anglo-Italian member of Queen Elizabeth's court.

The emergence of British power would spawn the third major advance in management, the **Industrial Revolution**. As the British Empire's power grew, so did opportunities for trade. The 18th century saw the emergence of various international corporations, such as the Hudson's Bay Company¹³ and the East India Company,¹⁴ which conducted business globally. The Hudson's Bay Company orchestrated fur trade in Canada where pelts were produced and then shipped to England for trade in any part of the globe.

This further development of trade led to the establishment of the marketplace as a dominant means of organizing the exchange of goods. The market would coordinate the actions and activities of various participants, thus allowing resources to flow to their most efficient uses. One of the major intellectual leaders of this period was the economist and moral philosopher **Adam Smith**.¹⁵ In his masterpiece, *The Wealth of Nations*,¹⁶ Smith proposed the idea of specialization and coordination within corporations as a source of economic growth. Specialization and division of labor were Smith's major contributions to management thought. The division of labor meant that a worker specialized in performing one task that was part of a larger series of tasks, at the end of which a product would be produced. The idea of specialization of labor had several important outcomes. Firstly, specialization drastically reduced the cost of goods. Secondly, it drastically reduced the need for training. Instead of learning every aspect of a task, workers needed to learn one portion of it. Thirdly, the need to coordinate all these different tasks required a greater emphasis on management.

Another significant part of the Industrial Revolution involved the development of the steam engine, which played a major role in improving the transportation of goods and raw materials. The steam engine lowered production and transportation costs, thus lowering prices and allowing products to reach more distant markets.¹⁷ All of these factors played a role in the Industrial Revolution, which occurred between 1760 and 1900.¹⁸ The Industrial Revolution saw the emergence of the modern corporation, in which work, usually in a factory setting, was specialized and coordinated by managers.

Prior to the Industrial Revolution, goods and services lacked standardization and were produced at home in small batches.¹⁹ The Industrial Revolution saw work shift from family-led home production to factory production. These factories could employ hundreds and even thousands of workers who produced mass batches of standardized goods more cheaply than they could be produced in homes.

Factory sizes ranged from sections of cities and towns to whole cities, such as Lowell, Massachusetts, which consisted primarily of textile mills. As the Industrial Revolution progressed, small factories transformed into larger ones. In 1849, Harvester in Chicago employed 123 workers and was the largest factory in the United States. McCormick plant by the mid-1850s had 250 workers who made 2,500 reapers per year. After the Great Chicago Fire, McCormick built a new plant with 800 workers and sales well above \$1 million. In 1913, Henry Ford's plant in Dearborn employed up to 12,000 workers.²⁰ As factories grew in size, they provided chances for personnel fulfillment. Not only was the Hawthorne plant in Cicero, Illinois, a place of business, but it also featured sports teams and other social outlets.²¹

The Industrial Revolution shifted from England across the globe and eventually found its way into the United States. The United States starting seeing several notable industrial revolutions from the 1820s until the 1860s. The transportation revolution included the construction of canals and, later, railroads that connected the different parts of the continent. The emergence of a telegraph system allowed for faster communication between various parts of the United States. Previously, it would take weeks to get information from New York to Boston; with the telegraph, it took minutes.²² The United States also saw the emergence of the Market Revolution. Previously to the Market Revolution, the U.S. economy had been based on small, self-subsistent yeoman farmers who would produce mostly homemade batches. Around 1830, the existence of easy credit and improved transportation established a broad Market Revolution. This spawned a wide variety of corporations that needed managers to coordinate various company offices.²³

After the period of the American Civil War, which ended in 1865, society witnessed the emergence of gigantic corporations that spanned the continent and factories that were like small cities.²⁴ Various problems emerged due to the change of production

(similar to some of the issues we face today with the change from a manufacturing economy to an information economy). For example, how do you motivate workers? When families controlled labor, it was very easy to motivate workers due to the fact that if family members did not produce, the family may not survive.²⁵ Yet in the factory, it was possible for workers to avoid work or even destroy machines if they disliked management's ideas. Each worker did the job in a different fashion, workers seemed to be selected without regard to whether they were suited for a particular job, management seemed to be whimsical, and there was little standardization of equipment.

Because production quantity remained an unknown to both management and the worker, management did not explain how they determined what should be produced. Workers believed that management determined what should be produced in haphazard ways.²⁶ Workers believed that if too much were produced, management would eliminate workers because they believed that there was a finite amount of work in the world. Workers would control production by punishing those workers who produced too much. For example, if a worker produced too much, his equipment would be damaged, or he would be brutalized by his coworkers. Methods of production were similarly haphazard. For example, if you learned how to shovel coal or cut iron, you learned multiple ways to perform the job, which did little for efficiency. Due to managerial inefficiency, various reformers in engineering urged for the establishment of management as a distinct field of study so that some order and logic could be brought to bear on how work was performed. Although this period witnessed enormous changes in technology, management was still lagging behind.²⁷

? Concept Check

1. Why was Adam Smith's specialization of labor so important?
2. What was the economic and managerial legacy of the Industrial Revolution? What were the challenges?

References

11. Bridgen, S. (2001), *New Worlds, Lost Worlds: The Rule of the Tudors, 1485-1603*, Viking Penguin, New York, NY.
12. Muldoon, J., & Marin, D. B. (2012). John Florio and the introduction of management into the English vocabulary. *Journal of Management History*, 18(2), 129-136.
13. Bryce, George (1968). *The Remarkable History of Hudson's Bay Company*. New York: B. Franklin.
14. Williams, Roger (2015). *London's Lost Global Giant: In Search of the East India Company*. London: Bristol Book Publishing.
15. Ross, Ian Simpson (2010). *The Life of Adam Smith* (2 ed.). Oxford University Press.
16. Smith, Adam (1977) [1776]. *An Inquiry into the Nature and Causes of the Wealth of Nations*. University of Chicago Press
17. Ashton, Thomas S. (1948). *"The Industrial Revolution (1760–1830)"*. Oxford University Press.
18. Landes, David (1999). *The Wealth and Poverty of Nations*. W. W. Norton & Company.
19. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley
20. Lacey, Robert. *Ford: The Men and the Machine* Little, Brown, 1986.
21. Hassard, J. S. (2012). Rethinking the Hawthorne Studies: The Western Electric research in its social, political and historical context. *Human Relations*, 65(11), 1431-1461.
22. Howe, D. W. (2008). *What God Hath Wrought*. New York Oxford University Press.
23. Bendickson, J., Muldoon, J., Liguori, E., & Davis, P. E. (2016). Agency theory: the times, they are a-changin'. *Management Decision*, 54(1), 174-193.
24. Bendickson, J., Muldoon, J., Liguori, E.W. and Davis, P.E. (2016), "Agency theory: background and epistemology", *Journal of Management History*, Vol. 22 No. 4, pp. 437-449
25. Bendickson, J., Muldoon, J., Liguori, E.W. and Davis, P.E. (2016), "Agency theory: background and epistemology", *Journal of Management History*, Vol. 22 No. 4, pp. 437-449
26. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.
27. Wren, D.A. (2005), *The History of Management Thought*, 5th ed., John Wiley and Sons, Hoboken, NJ

This page titled [2.2.4: The Industrial Revolution](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **3.4: The Industrial Revolution** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.2.5: Taylor-Made Management

Learning Objectives

1. Understand how Frederick Winslow Taylor influenced management theory, and how efficiency in management affects current management theory.

The economic upheaval of the Industrial Revolution also witnessed tremendous social upheavals. The U.S. professional classes (lawyers, administrators, doctors) had numerous concerns.²⁸ Because more and more people were now working in factories, there was the potential for creating a permanent underclass of poorly educated workers struggling to make a living. Many reformers felt that workers could be radicalized and actively try to better their working conditions, pay, and so on, thus disrupting the status quo of the labor markets, leading to strikes, riots, violence. There were also concerns that money, influence, and pressure from big business were corrupting politics and overriding the will of the people.

The working class had many concerns about their work life. As mentioned earlier, there was a deep fear that work would disappear because of overproduction. There were also concerns over wages, job tenure, and workplace justice. And there was little in the way of standardization when it came to how tasks were to be accomplished.²⁹ When Frank Gilbreth, a pioneer in scientific management, was apprenticed as a bricklayer in 1885, he noted that he was taught three ways to lay bricks even though there was no need for more than one method.

In the factories, there was little concern for the workers' physical or mental health, and there were no breaks.³⁰ Management and the workforce were in vicious contention with each other. Management would set the rate of work expected for the day, and in response, workers would band together to limit production. This action, called "soldiering," was a deliberate reduction of productivity on the part of the worker. Those workers who either over- or underproduced could expect that their equipment would be destroyed or that they themselves would be physically harmed. There were very few, if any, incentives provided by management. When managers sought to motivate workers, they did so through physical beatings and other punishments.³¹ Neither side had a reason to trust or cooperate with the other.

Compounding management problems, there was now a demand for managers, but there were very few of them to fill this demand, as there was little training provided. Prior to the Industrial Revolution, companies were largely in the hands of a family or a single owner/manager. As companies were getting larger and more complex and the exchange of goods was taking place across more and more regions, most business owners no longer had the expertise to run such vast geographic and financial enterprises.³² Yet there was little in the way of management training or education. There were no established scholarly journals, such as the *Academy of Management Journal*, or practitioner journals, such as the *Harvard Business Review*. Nor were there business schools until 1881, when the Wharton School of Business at the University of Pennsylvania was established. Business education at this time consisted mostly of classes that taught secretarial work. Allied fields, such as psychology and sociology, were in their infancy. Any management education that did exist was mostly learned from lessons of history and literature. Although there were numerous examples of both excellent and terrible management, this education was anecdotal and not systematic.

The second phase of the Industrial Revolution commenced with the establishment of management as a distinct discipline of knowledge. Management's birth was not in Great Britain, but in the United States.³³ According to management consultant and educator Peter Drucker, the development of management was one of the United States' primary contributions to the world, along with the Declaration of Independence.³⁴ At the same time management was getting established, sociology and psychology were developing, and the studies of history and economics were becoming more scientific and formal. Management also became formalized as a field of study using the scientific method. Drucker stated that the development of management was one of the factors that held off the development of radicalism in the United States because it increased productivity, lowered prices, and increased wages for workers. The success of scientific management lifted workers into the middle class. This crucial development has been attributed to one person in particular: **Frederick Winslow Taylor**.

Frederick Winslow Taylor (1856–1915) is known as the father of scientific management. He was born to the Quaker aristocracy of Pennsylvania, and initially he planned to go to Harvard and become a lawyer or an executive until he suffered an eye injury that prevented him from reading.³⁵ With Harvard no longer an option, Taylor went to work at a family friend's factory, the Midvale Steel Company. Taylor took to the work and was promoted quickly from pattern maker to foreman and then to chief engineer. During this time, he witnessed many acts aimed at limiting or reducing production—including having his tools destroyed—and it was he who coined the term *soldiering* to describe this deliberate act.³⁶ Rather than stand by and see such senseless acts affect the

business he worked for, Taylor decided to take action. First, he went to Stevens Institute of Technology to gain a background in engineering. Then he took this knowledge and applied it to his work.

It is important to note that Taylor was not an original thinker. Many of his ideas came from other thinkers, especially the Englishman Charles Babbage (1791–1871).³⁷ Taylor's contribution was that he advanced a total system of management by uniting the ideas and philosophies of many others. While he may not have invented the scientific study of management, Taylor contributed to the use and synthesis of management by pioneering the use of time studies, division of labor based on function, cost-control systems, written instruction for workers, planning, and standardized equipment. Taylorism is still the basis of modern management, including the use of incentives. For example, Taylor stressed piecework production, meaning that workers were paid for how much they produced. Taylor also stressed the idea of differential piecework, meaning that if workers produced more than a certain amount, they would be paid more. Some compensation systems, such as sales commissions (i.e., being paid for how much you sell), have their bases in Taylor's work.

Taylor's major contribution was that he prized knowledge and science over tradition and rules of thumb. He broke down each act of production into its smallest parts and watched the best workers perform their jobs. Using a stopwatch to time the workers' actions, Taylor determined the most effective and efficient way to accomplish a given task. After breaking down each job into its component parts, Taylor then reconstructed them as they should be done. Taylor also developed time management studies to break down a person's workday into a series of activities. He then timed the execution of each activity to see which way was the quickest. He would rebuild the job using only the most efficient ways possible and then train workers to perform the task. And by allowing workers to have rest periods throughout the day, he was able to get workers to work faster and better without making them tired.³⁸

Another one of Taylor's significant contributions to the practice and profession of management was the concept of first-class work. When Taylor developed the notion of first-class work, he did so with the idea that workers should do as much work as they are physically and mentally capable of doing. Those who were not physically or mentally capable of keeping up with production and job demands were sent to different areas in the plant where they could work most effectively. First-class work was based not on physical strain or bursts of activity, but on what a worker could realistically be expected to do.

Taylor also developed a task management system that allowed work to occur more efficiently and allowed for breaking up a supervisor's work so that he could function within a discrete area of activities. This focus allowed supervisors to better plan and control the activities for which their workers were responsible. Taylor believed that managers would become better at and more suited to analyzing their specific area of expertise, with authority that came from knowledge and skill and not simply from position or power. He also developed a cost-accounting method that became an integral part of daily planning and control, not something that was applied only to long-term analysis.

Taylorism was based on **four principles of management** illustrated in Table 3.2.

Principle 1: A manager should develop a rule of science for each aspect of a job. Following this principal ensures that work is based on objective data gathered through research rather than rules of thumb. For example, many people believed that allowing workers to take breaks would limit how much work could be done. After all, how could a worker produce if he was not working? Taylor changed this attitude through research that demonstrated the benefits of breaks during the workday. Due to Taylor's research, we now enjoy coffee breaks.

Principle 2. Scientifically select and train each worker. When you get to the chapter on human resource management, you will see that Taylor's ideas still hold. Prior to Taylor's work, the selection of workers was made based on favoritism, nepotism, or random choice. Taylor got his job at Midvale because the owner was his father's friend. Likewise, workers were usually selected for a particular job with little consideration of whether they were physically or mentally fit to perform it. Taylor changed this viewpoint by using research to find the best worker for the job.

Principle 3. Management and the workforce should work together to ensure that work is performed according to the principles of management. Taylor's observation went against the long-established principles of both management and the worker who believed that each was the other's enemy. Rather than enmity, Taylor stressed cooperation and the need for the work relationship to be mutually beneficial.

Principle 4. Work and responsibility should be equally divided between management and workers. Previously, management set the directives, and workers obeyed or blocked them. Taylor believed that management and workers had joint responsibilities to each other. Management's responsibility was to scientifically select the quantity of output for the day and provide a fair wage. In return, workers were to provide a fair day's work.

Principles of Scientific Management

First. They develop a science for each element of a man's work, which replaces the old rule-of-thumb method.

Second. They scientifically select and then train, teach, and develop the workman, whereas in the past he chose his own work and trained himself as best he could.

Third. They heartily cooperate with the men so as to ensure all of the work being done in accordance with the principles of the science which has been developed.

Fourth. There is an almost equal division of the work and the responsibility between the management and the workmen. The management take over all work for which they are better fitted than the workmen, while in the past almost all of the work and the greater part of the responsibility were thrown upon the men.

Table 3.2(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Taylor's Acolytes

In addition to his groundbreaking work on scientific management, Taylor attracted a wide variety of talented individuals who aided him in his research. The first important individual was the mathematician **Carl G. Barth** (1860–1939). Barth made two notable contributions. The first was his work on employee fatigue. He attempted to find what aspects made a worker tired. The second was his use of the slide rule for calculating how much steel to cut. A slide rule is a ruler with a sliding central strip. It makes it possible to perform calculations rapidly and accurately. Barth developed one for cutting steel. Before Barth's work, workers were required to make difficult calculations to determine how much steel to cut. Usually, they guessed, which led to a lot of errors and waste. With the slide rule, however, the number of errors decreased, as did the costs associated with them.

Another notable contributor to Taylor's methods was **Henry Gantt** (1861–1919), who developed the Gantt chart, which allowed for greater and more precise control over the production process. The Gantt chart, illustrated in Exhibit 3.4, tracked what was supposed to be done versus what was actually done. Gantt gives two principles for his charts: First, measure the amount of time needed to complete an activity. Second, use the space on the chart to visually represent how much of an activity should have been completed in that given time. Today, the closest thing to a Gantt chart is a scheduling system. These charts allowed management to see how projects were progressing, take steps to see if they were on schedule, and monitor budget concerns.³⁹ Gantt also pioneered the employee bonus system, in which employees were given a bonus if they completed the task they were assigned.

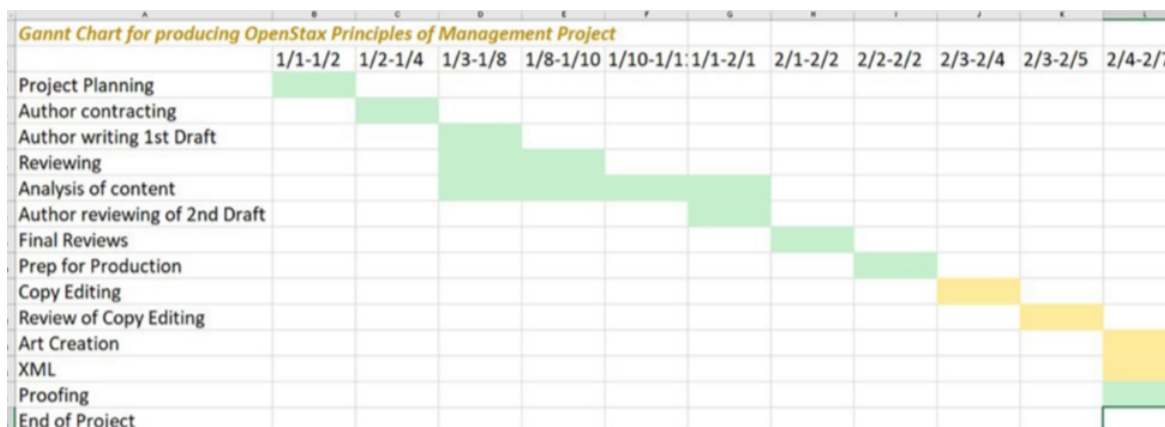


Exhibit 3.4 Gantt Chart Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license

The next key contributors to Taylor's system of scientific management were **Frank**(1868–1924) and **Lillian Gilbreth**(1878–1972),⁴⁰ a couple that sometimes competed with and sometimes worked with Taylor. Frank Gilbreth was a bricklayer who, before who he heard of Taylor, began to find ways to limit his fatigue and more efficiently lay down more bricks. Unlike Taylor, Gilbreth was concerned with **motion studies**, in which he would film various motions while someone worked on the job. To determine the most efficient way to perform a task, for example, Gilbreth reduced all motions of the hand into some combination of 17 basic motions. Gilbreth would then calculate the most efficient way of carrying out a job. Gilbreth filmed workers performing a wide variety of jobs, including bricklaying, secretarial duties, and even a baseball game.

When working in construction, Gilbreth developed a management system that included rules about no smoking on the job, a ten-dollar prize for the best suggestion in how to improve labor, and a new system of training so that workers were taught only the best

way to perform a task. He developed a rule that all accident sites be photographed for use in future lawsuits. Gilbreth also prepared employees for their present and future positions by introducing a plan for promotion, training, and development. This system required charting promotion paths and record keeping for performance appraisals. He wanted to impress upon both workers and managers an understanding of fatigue and of how to improve pay. In his research, Gilbreth realized that monotony came not from the job itself, but from a worker's lack of interest in the job.

Lillian Gilbreth may not have been the originator of the industrial psychology movement, but she brought a human element into the study and practice of management with her training and insight. She stated that to understand how to work better, we must understand the worker. Under scientific management, for example, understanding the worker became a fundamental principle in selecting workers for particular tasks and providing workers with incentives. The object was to develop each person to his fullest potential by strengthening his personal traits, special abilities, and skills. After Frank Gilbreth died, Lillian Gilbreth shifted her focus to increasing domestic efficiency and, in the process, designed the modern kitchen.

Taylor's Shortcomings

Taylor was a monomaniac on a mission to convert as many people to scientific management as possible. Yet despite his conviction and zealotry, Taylor's ideas were poorly understood, and he attracted more enemies than followers.⁴¹ Taylor attracted enmity from unions because he was against them; he believed that unions separated workers from management. Taylor attracted enmity from the workers because he compared them to apes and other beasts of burden. And Taylor gained the distrust and enmity of management because he criticized them for their previous management failures. Taylor had a difficult personality and angered just about everyone.

Additionally, Taylor made several mistakes. Taylorism, despite its claims, was not an overall theory of management, but a management system designed for frontline managers, those immediately supervising. He generally ignored strategy and implementation and thought of workers as machine tools to be manipulated rather than as human beings. Although he was aware of group pressures, he believed that monetary incentives could overcome group pressures. This oversight made him ignore the human aspects of handling workers, those that involved emotions, personality, and attitudes.

While Taylor was certainly a flawed individual, these criticisms do not diminish his great contributions. Taylor dramatically changed management practices and created the modern management world. Future researchers did not replace Taylor, but complemented him. What is remarkable about Taylor was not that he was right in his time and place, but that his vision continues to have meaning and consequence even today.⁴² Management was truly Taylor-made.

✓ Concept Check

1. List the contributions from Taylor and his associates.
2. How did Taylor change management?

28. McGerr, Michael. *A Fierce Discontent: The Rise and Fall of the Progressive Movement in America, 1870–1920* (2003)

29. Wiebe, Robert. *The Search For Order, 1877–1920* (1967)

30. Kanigel, Robert (1997) *The one best way : Frederick Winslow Taylor and the enigma of efficiency* (London : Little, Brown)

31. Kanigel, Robert (1997) *The one best way : Frederick Winslow Taylor and the enigma of efficiency* (London : Little, Brown)

32. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.

33. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.

34. Drucker, P.F. 1954: *The Practice of Management* (New York: Harper & Brothers)

35. Kakar, Sudhir (1970). *Frederick Taylor: a study in personality and innovation*. Cambridge: University of Wisconsin Press.

36. Spencer Klaw, "Frederick Winslow Taylor: The Messiah of Time and Motion." *American Heritage*, 1979, 30(5), 26-39.

37. Charles D. Wrege and Ronald G. Greenwood, *Frederick W. Taylor: The Father of Scientific Management* (Homewood, IL: Business One Irwin, 1991), 253-260.

38. *The Principles of Scientific Management*. New York and London, Harper & brothers

39. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.

40. Krenn, M. (2011). From Scientific Management to homemaking: Lillian M. Gilbreth's contributions to the development of management thought. *Management & Organizational History*, 6(2), 145-161.
41. Charles D. Wrege and Ronald G. Greenwood, Frederick W. Taylor: The Father of Scientific Management (Homewood, IL: Business One Irwin, 1991), 253-260.
42. Edwin A. Locke, "The Ideas of Frederick W. Taylor: An Evaluation." *Academy of Management Review*, 1982, 7, 14-24

This page titled [2.2.5: Taylor-Made Management](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [3.5: Taylor-Made Management](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.2.6: Administrative and Bureaucratic Management

Learning Objectives

1. Understand how bureaucratic and administrative management complement scientific management.

Writing at the same time as Taylor, **Henri Fayol** (1841–1925) and **Max Weber** (1864–1920) wrote complementary contributions to Taylor’s four principles of scientific management framework. Whereas Taylor focused on frontline managers, those who handle workers, Fayol focused on top managers, who set strategy, and Weber focused on middle managers, who implement strategy. Although Taylor, Fayol, and Weber viewed management from different perspectives, each stressed the need for logical, rational systems to coordinate and control various types of enterprises.

Henri Fayol was a French mining executive who did the majority of his scholarly work after the Franco-Prussian War of 1870–1871.⁴³ Fayol sought to develop a theory of administrative theory in order to increase efficiency in order to make the French economy stronger. Like Taylor, Fayol prized knowledge and experience over tradition. Unlike Taylor, however, Fayol focused on overall management of the corporation rather than on individual tasks involved in carrying out a firm’s business. Fayol focused on the overall social interactions [between or within what? a company and between companies? or just within a company?] the company. An explanation for this difference is that Taylor was concerned with worker behavior and performance, the domain of the frontline manager. Fayol’s focus was on the direction and coordination of the whole organization, which is the domain of the top manager.⁴⁴ Another notable difference between the two men was that Taylor emphasized monetary compensation while Fayol recognized that people work for things other than money. Fayol’s greatest contribution was that he sought to develop an approach that would aid top managers in setting the direction of their company.

Fayol presented three principal ideas about management.⁴⁵ First, Fayol stressed the need for **unity of command**, that is, that a company’s management should speak with only voice. Too often under the Taylor system, a worker could have up to eight managers telling him how to perform a single task. Fayol stressed flexibility and recognized that authority must have responsibility attached to it. Accordingly, he stressed that management should maintain a unity of command, which ensured that each supervisor would explain to each of the employees in his group or division what aspect of his job to focus on. Each supervisor receives direction and information from the managers above him and passes that information down the chain of command.

Fayol’s second notable contribution was his recognition that workers focused on the social aspects of their jobs as well as on the monetary compensation they received for doing the job. Taylor was well aware of the social aspects and pressures of work, but he sought to limit them. Fayol sought to use them for the business’s benefit by stressing the development of an *esprit de corps* among workers. *Esprit de corps* refers to the cohesion of workers in a given unit or department, to their commitment to their individual goals and to their coworkers even in the face of adversity, and to the pride that one feels by being a member of the organization. Fayol stressed communication as a means of creating *esprit de corps* and building commitment between personal goals and organizational goals.

A third important aspect of Fayol’s work was his emphasis on the notion of justice within an organization and on the idea that an organization must decide issues fairly and equitably. In this way, managers could limit the ways in which their biases and personal feelings could influence their decisions.

Taken as a whole, Fayol’s ideas became what we call today Fayolism, or administrative theory. Fayolism consists of the **14 principles of management**. The 14 principles articulate the types of tasks that managers are supposed to do. These 14 principles are still used today, but how they are used varies with a firm’s use of technology and its culture. For example, a society that stresses individual outcomes will have different compensation systems than those that are focused on collective or group outcomes.

Fayol’s 14 Principles of Management are:

1. Division of Work
2. Authority
3. Discipline
4. Unity of Command
5. Unity of Direction
6. Subordination of Individual Interest
7. Remuneration
8. Centralization

9. Scalar Chain
10. Order
11. Equity
12. Stability of Tenure of Personnel
13. Initiative—Employees should be given the necessary level of freedom to create and carry out plans.
14. Esprit de Corps

In addition to the 14 principles, Fayol identified the **five functions of management**:

1. Planning
2. Organizing
3. Staffing
4. Controlling
5. Directing

Each of these functions describes what managers should do on a day-to-day basis. The functions of management have changed over the years but have built upon Fayol's structure. Fayol fully described what a manager does and how each activity builds off of the others.

Max Weber was a German sociologist who made significant complementary contributions to Taylor's management system as well as to the disciplines of economics and sociology. Weber did the majority of his work in the early 1890s and then after 1904 when he started writing again. Sociologists hold Weber in such esteem that they regard him as a father of the field.

Weber⁴⁶ stressed that social scientists could only understand collectives by understanding the actions of individuals. One of the individual behaviors that Weber did research was the types of leadership, identifying three types of leadership: charismatic domination (familial and religious) traditional domination (patriarchs, patrimonialism, and feudalism) and legal domination (modern law, state, and bureaucracy). Weber's contribution to management is the development and understanding of the legal rationalism model of leadership, which stressed the idea that leaders should make decisions based on law, precedent, and rule, rather than whim. Weber went further than previous scholars and described why we saw the emergence of bureaucracies and other responses to industrialization.

According to Weber, both the industrialization and transportation revolutions allowed for the expanse of territories to be managed. The demands placed on managing larger and larger amounts of territory as well as people facilitated the need for bureaucracy, which is a system of fixed rules that are impartially administered. The expanding market economy required administration that is more efficient. At the same time, the emergence of communication and transportation improvements made improved administration possible.

The most notable contribution Weber provided to modern management was the creation of the **modern bureaucracy**. Weber's principles of the ideal bureaucracy are shown. Although the ancient Chinese had the first bureaucracy, the notable difference of Weber's bureaucracy is that decisions were made on a formal basis, rather than what a manager felt was correct. Weber stressed that knowledge, not birth circumstances, should be the basis of hiring and promotion within a bureaucracy. This attitude stood in sharp contrast to the policies and practices of the time in both Europe and the United States, which stressed birth circumstances. Weber also stressed that bureaucrats need to make decisions based on rules rather than whims. The word *bureaucracy* has negative connotations in the mind of the modern reader, but it was a vast improvement over what had occurred previously. Prior to Weber, management did not have to provide justification for why they made particular decisions, nor did they have to make decisions based on rules. Hiring and promotion were based on nepotism, very different from the modern meritocracy of today.

Principles of the Ideal Bureaucracy:

- Specialized roles
- Recruitment based on merit
- Uniform principles of placement, promotion, and transfer
- Careerism with systematic salary structure
- Hierarchy, responsibility, and accountability
- Subjection of official conduct to strict rules of discipline and control
- Supremacy of abstract rules
- Impersonal authority (i.e., office bearer does not bring the office with him)

There was, however, a downside to this new managerial approach. A bureaucracy could shield bureaucrats from personal responsibility and initiative. Even worse, it could make them willing participants in criminal activities. American sociologist Robert K. Merton noted that in a bureaucracy, rules could become more important than actual goals. Merton wrote:

An effective bureaucracy demands reliability of response and strict devotion to regulations. (2) Such devotion to the rules leads to their transformation into absolutes; they are no longer conceived as relative to a set of purposes. (3) This interferes with ready adaptation under special conditions not clearly envisaged by those who drew up the general rules. (4) Thus, the very elements which conduce toward efficiency in general produce inefficiency in specific instances. Full realization of the inadequacy is seldom attained by members of the group who have not divorced themselves from the meanings which the rules have for them. These rules in time become symbolic in cast, rather than strictly utilitarian.⁴⁷

Another particular issue was that bureaucracy placed so much emphasis on legal authority that it ignored several important factors. The first factor is that bureaucratic laws are often incomplete due to problems in communication and understanding. Contracts tend to be abandoned rather than completed. No contract or law can consider every outcome or event. The second issue is that bureaucratic organizations ignored interpersonal authority and often relied only on reason and logic for decision-making. Often people followed their managers because they personally liked them rather than the legal aspect of authority. Managers that only use legal authority to gain performance are going to be really limited in the performance they will be able to garner (please see the chapter on leadership).

Both Fayol and Weber made significant contributions to management. Fayol's ideas are the basis of modern strategy, as he attempted to understand what activities managers should do. His ideas inform management thoughts in terms of the various roles that managers need to undertake to ensure the cooperation of workers. Likewise, Weber's ideas can be seen very clearly in human resource management in that managers should make decisions based on policy rather than whim. We can see that both men's ideas about structure and the line of authority continue to have great influence in management today.

? Concept Check

1. What were the contributions of Fayol and Weber?
2. How did their work compare to Taylor's?
3. What is the idea of line of authority and structure?

References

43. Pryor, J.L.; Guthrie, C. (2010). "The private life of Henri Fayol and his motivation to build a management science". *Journal of Management History*.
44. Daniel A. Wren, Arthur G. Bedeian, John D. Breeze, (2002) "The foundations of Henri Fayol's administrative theory", *Management Decision*, Vol. 40 Iss: 9, pp.906 - 918
45. *Industrial and General Administration*. Translated by J.A. Coubrough, London: Sir Isaac Pitman & Sons.
46. Max Weber, "Ideal Bureaucracy" in *The Theory of Social and Economic Organizations* (ed. & trans. Talcott Parsons & Alexander H. Henderson). (New York: Oxford University Press, 1922/1947)
47. Robert K. Merton, "Bureaucratic Structure and Personality." *Social Forces*, 1940, 18, 500-508.

This page titled [2.2.6: Administrative and Bureaucratic Management](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [3.6: Administrative and Bureaucratic Management](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.2.7: Human Relations Movement

Learning Objectives

- Understand how Elton Mayo influenced management theory, and how the human relations movement affects current management theory.

The human relations movement was a natural response to some of the issues related to scientific management and the under-socialized view of the worker that ignored social aspects of work. The key uniting characteristics of Taylor, Weber, and Fayol were the ideas of efficiency produced through either operational, legal, or administrative improvements. One of the principal assumptions was an emphasis on rationality.⁴⁸ According to scientific management, there was a logic to actions, and formal and knowledge authority were the principal catalysts of workplace motivation. Scientific management tended to downplay the effects of social pressures on human interactions.⁴⁹ The human relations movement enhanced scientific management because it acknowledged that peoples' attitudes, perceptions, and desires play a role in their workplace performance. With this acknowledgement, for example, managers began to realize that settling disputes was more difficult than the scientific management approach described.

The major difference between scientific management and human relations theory was that human relations theory recognized that social factors were a source of power in the workplace. While Taylor recognized the existence of social pressures in an organization, he sought to diminish them through pay, that is, compensating workers for production even though social pressure forced workers to reduce production. Fayol recognized the existence of social issues as well, but he emphasized commitment to the organization as a management technique rather than commitment of workers to each other or to their supervisor. Weber placed emphasis on the rule of law and believed that laws and regulations would guide society and corporations. Yet he did not spend enough energy recognizing the outcomes that happen when rules break down. Fayol and Weber did not recognize the role of corporate culture in an organization and did not examine more closely why workers do not follow orders. The human relations movement added more of the social element to the study and theory of work.⁵⁰

Perhaps no research studies have been as misunderstood as the Hawthorne studies. The Hawthorne studies are the most influential, misunderstood, and criticized research experiment in all of the social sciences. The legend goes that **Elton Mayo** (1880–1949) researched, theorized, and developed human relations theory based on a 1924–1932 experiment he conducted at the Hawthorne plant of the Western Electric Company in Cicero Illinois. However, there is very little of the legend that is true. The truth is more complicated and difficult to understand. Most textbooks claim that Mayo researched and conducted the studies. Yet this is fiction. The studies were commenced by scholars from the Massachusetts Institute of Technology. Mayo did not become involved until 1927. Nevertheless, it is Mayo's vision of Hawthorne that has come to dominate the literature.

The first phase of the Hawthorne studies was called the illumination study, and it sought to measure the impact of light upon productivity. The study was inconclusive because there were too many variables other than light that could have affected worker productivity. The researchers had difficulty understanding why productivity increased. The second phase of the study was called the relay-assembly-test-oom, and these experiments were carried out in a room where researchers tested the effect that working conditions such as breaks, length of the workday, company-provided lunches, and payment method had on productivity. They selected six young female workers to be part of a team that produced a phone relay switch. Each woman was young and unlikely to be married any time soon. One woman was assigned to gather the parts to make the switch, and each of the other five women was assigned to assemble one component of the phone relay. The researchers found that production increased regardless of what variable was manipulated. Nevertheless, soldiering still occurred during the experiment. After two workers were fired for a health issue and getting married, production increased even more. The results were surprising to the researchers: they had expected to see a reduction but instead saw a consistent increase.

The Hawthorne executives turned to Elton Mayo, an Australian psychologist from Harvard University, to explain the puzzling results. Most of the controversy regarding the Hawthorne studies stems from Mayo's involvement. Mayo observed that production could be increased if management understood the role of individual workers' attitudes toward work and also took into account how group attitudes affected behavior. Mayo theorized that social issues and attention paid by the supervisor to these issues played a role in increasing production. The Hawthorne women were granted freedoms at work, including the ability to make suggestions regarding their work conditions. Many of the Hawthorne women felt that they were special and that if they performed well on the relay assembly task, they would be treated better by the company's management. Additionally, the Hawthorne women became very

friendly with each other. Their connection as a team and increased satisfaction in their work appeared to drive the women to greater performance. Yet the study found that financial incentives were a clear driver of performance as well.

A third study, called the bank wiring room study, was conducted between 1931 and 1932. Rather than being selected to form a new group, participants in the bank wiring room study consisted of an already existing group, one that had a number of bad behaviors. Regardless of financial incentives, group members decided that they would only produce 6,000 to 6,600 connections a day. Workers who produced more were ostracized or hit on the arm to lower production. George Homans summarized the difference in the results of the relay assembly and the bank wiring room experiments:

“Both groups developed an informal social organization, but while the Bank Wiremen were organized in opposition to management, the Relay Assemblers were organized in cooperation with management in the pursuit of a common purpose. Finally, the responses of the two groups to their industrial situation were, on the one hand, restriction of output and, on the other, steady and welcome increase of output. These contrasts carry their own lesson.”

Researchers found that cliques were formed that placed informal rules on the workers within a group. According to Homans, the workers also made a connection with one of the managers to control production. The discovery that management could ally themselves with the workforce to limit production was a notable contribution to management thought at the time. It suggests that managerial authority can break down if the manager disagrees with management’s policy toward the workers.



Exhibit 3.5 The Hawthorne Electric Plant The Hawthorne studies examined the effects that differences in working conditions (such as the timing and frequency of breaks) had on productivity. The term got its name from the experiments conducted at the Western Electric Hawthorne plant, illustrated here, located in Cicero, Illinois. These studies made popular the idea that attitudes affect performance. Credit: (public domain / flickr / This work is in the public domain in the United States because it was published in the United States between 1923 and 1977 without a copyright notice.)

What did the studies mean? On some level, they were meaningless because they proved little. Indeed, they have been called scientifically worthless. There were too many variables being manipulated; the sample size was too small; observations were collected at random; the Hawthorne researchers viewed the experiments through their own ideological lenses. They made mistakes in assuming that the wage was insignificant to the workers, when in reality the wage was a significant driving force. Yet these criticisms ignore two major facts about the Hawthorne studies. The first is that the Hawthorne studies were the first to focus on the actual work life of the workers. This was a notable change in sociological research. The second fact is that the studies were intended to generate future research, and future research did discover that attitudes play a major role in determining workplace outcomes. Another important finding concerned the role of the supervisor. Many worker behaviors, attitudes, and emotions have their genesis in their supervisor’s actions. Stress and fatigue can be the result of interactions with supervisors and coworkers; they are not just a response to less-than-ideal physical conditions. Finally, the Hawthorne studies showed that work motivation is a function of a wide variety of factors, including pay, social relationships, meaning, interests, and attitudes.

Barnard and the “Zone of Indifference”

Chester Barnard (1886–1961) was president of the New Jersey Bell Telephone Company.⁵¹ As president, he was given an unusual amount of time to conduct research. Barnard had been a student at Harvard, and through his connections there, he found out about some of the industrial research going on. His notable contribution was a book called *The Functions of the Executive*.⁵² Barnard argued that an executive’s purpose is to gain resources from members within the organization by ensuring that they perform their jobs and that cooperation exists between various groups within the organization. The other notable function of an executive is to hire and retain talented employees. Barnard defined a formal organization as consciously coordinated activities

between two or more people but noted that such coordination is not likely to last for very long, a factor that may explain why many companies do not survive for long periods of time.

Barnard believed that executives best exerted authority through communication and the use of incentives. Communication within an organization should include definite channels of communication, and workers should have access to knowledge and information. Communication should be clear, direct, and honest so that members of an organization understand what is expected of them.

Barnard stressed several important outcomes regarding incentives. Some of his incentives reflected the human relations movement's occupation with social outcomes but tempered that movement's emphasis with an understanding that workers labored for pay. The first incentive was that there should be monetary and other material inducements to encourage better performance and production. The second incentive was that there should be nonmaterial incentives, such as recognition. The third incentive was that working conditions should be desirable. The fourth and final incentive was that workers should find pride and meaning in the work they do. Barnard believed that a combination of these elements would ensure cooperation and contributions from organizational members.

While his findings on executive functions, communication, and incentives were significant, Barnard's largest contribution to the study of management involved what he called the "**zone of indifference**." The idea behind the zone of indifference is that workers will comply with orders if they are indifferent to them. This does not mean they have to agree with or support the orders. Rather the zone of indifference suggests that workers need merely to be indifferent to an order to follow it and that workers will follow orders due to an individual's natural tendency to follow authority. The zone of indifference must be reached through the following factors. First, the workers must have the ability to comply with the order. Second, workers must understand the order. Third, the order must be consistent with organizational goals. For both management and the worker to cooperate, their interests must be aligned. Fourth, the order must not violate an individual's personal beliefs. Barnard provided an explanation for why workers do not always obey orders.

Follett and Conflict Resolution

Mary Parker Follett (1868–1933) found a way to use the tenets of the human relations movement to solve some of the problems with the scientific management framework. Follett was a political scientist from Harvard. (Her work on the Speaker of the House remains the classic in the field.) After graduating from Harvard, given the limited opportunities for women, she wound up in the field of social work. She continued to publish works on philosophy and political science, but, based on her social work connections, she soon found herself drifting over to the Taylor Society, a group dedicated to the principles of scientific management. Later in her career, she turned toward business. As Wren and Bedeian note, chronologically she belonged to the scientific management era, but intellectually she belonged to the human relations movement era.⁵³

Follett's work was largely ignored for years either because it was too original or because she was a woman; it is likely both factors played a role.⁵⁴ Her ideas found little acceptance during the period because in her time, management saw workers only as tools. Her focus was on how to reduce conflict. Follett's contribution was that she pointed out that management should take social concerns into account when dealing with workers.

She asked questions of management: How do we create unity of action? How do we help workers live fuller, richer lives? How do we contribute to group success? Her argument was that individual behavior is affected by and affects others in the group.⁵⁵ Accordingly, she argued for the need of the principle of coordination to have a continuous interaction of all factors. What she meant was that both management and the worker should be able to understand the other's viewpoint. She sought to have both management and the worker share power with each other, rather than have power over one another. In addition, unlike Weber and more in line with Taylor, she believed that power should be based on knowledge and expertise.

Follett also argued that there are several ways to resolve conflicts. The first is to have one party dominate the other. In **dominance**, one party dictates the terms of the arrangement. Follett recognized that very few situations in life allow this to be possible and that, for many companies, this approach is impossible without incurring social costs in terms of a disaffected workforce. The second solution is **compromise**. In a compromise, neither side gets exactly everything it wants, and the best each side can do is obtain a result that each can agree too. The problem with this approach is that both sides give up what they really want and settle on what they can agree on. In a compromise, neither side is happy. The third way to solve conflict is **integration**, which occurs when each party states its preferences and attempts to reach an agreement. Follett provided an example of integration:

In the Harvard Library one day, in one of the smaller rooms, someone wanted the window open. I wanted it shut. We opened the window in the next room where no one was sitting.⁵⁶

It would appear that this situation is a compromise. But closely look at it; Follett wanted the window closed, and her study partner wanted a window open. It just did not have to be in that room. Because they rearranged the problem, they came up with a solution that was satisfactory to both of them.

? Concept Check

What did the Hawthorne studies, Barnard, and Fayol contribute to management thought?

What did the works of Follett and Mayo contribute to management thought?

References

48. Jeffrey A. Sonnenfeld, "Shedding Light on the Hawthorne Studies." *Journal of Occupational Behavior*, 1985, 6, 111-130.
49. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.
50. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.
51. Gehani, R. Ray (2002) "Chester Barnard's "executive" and the knowledge-based firm", *Management Decision* 40(10): 980 - 991.
52. Chester I. Barnard, *The Functions of the Executive* (Cambridge: Harvard University Press, 1938),
53. Wren, D. A., & Bedeian, A. G. 2009. *The evolution of management thought*. (6th ed.), New York: Wiley.
54. Mary P. Follett: *Creating Democracy, Transforming Management*, Tonn, Joan C., New Haven: Yale University Press, 2003
55. Mary P. Follett: *Creating Democracy, Transforming Management*, Tonn, Joan C., New Haven: Yale University Press, 2003
56. Follett, M. P. (1926). *The psychological foundations: Constructive conflict in Henry metcalf*. *Scientific Foundations of Business administration*, Baltimore, MD, The Williams & Wilkins Company pg. 116.

This page titled [2.2.7: Human Relations Movement](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [3.7: Human Relations Movement](#) by OpenStax is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.2.8: Contingency and System Management

Learning Objectives

1. Understand how contingency and systems management transformed management thought.

The 1950s and 1960s saw the establishment of two schools that competed with and complemented the scientific management and human relations approaches. The first school of thought was the systems school. Some of the leaders of the systems school were Kenneth Boulding, Daniel Katz, Robert Kahn, and Ludwig von Bertalanffy. These men came from diverse disciplines (psychology, economics, sociology, and even biology) and attempted to explain how external factors determine managerial outcomes.⁵⁷ The major purpose behind systems school research was to understand the external conditions that organizations face and how to handle these conditions. The major overview of the systems theorists was that firms were an **open system**, that is, a system that interacts with its environment. In this case, the environment interacts with the firm in that it provides and accepts valued resources from the firm. For instance, the raw components of an iPhone are gathered by Apple. Through knowledge, procedures, tools, and resources, Apple takes these components and creates something of value for its customers, after which the consumer purchases the final product. In addition to providing financial resources to the firm, customers provide the firm with information—namely whether they like the product enough to purchase it.

The issue that systems management raises is that the managers' actions are the products of outside factors. For example, if you are a human resource manager, the actions you take are determined by employment law. The law requires corporations to have tests that are both consistent and reliable. When a manager violates this law, the firm can expect a lawsuit. Likewise, the laws of supply and demand determine the salary range that a firm will offer to job applicants. If the firm pays above market, they can expect their pick of the best candidates; below market, they may have a difficult time finding quality workers. From a strategic perspective, how firms compete against each other will be determined, in part, by the general external environment. For example, Apple's ability to sell iPhones is constricted by outside factors, including technology, suppliers, customers, and competitors. Every Android phone sold limits how many iPhones Apple can sell.

The other school that made a contribution to management thought during this time was the contingency school. Prior to the development of the **contingency school**, management scholars sought the one best way of managing. The contingency school changed this by proposing that there are no universal rules in management. External and internal factors create unique situations, and each situation requires a different response. What is the most appropriate response in one situation may not work in another. The key statement of the contingency school is "it depends." One of the major theorists in this school is **Joan Woodward**, a British scholar who did her work in the 1950s and 1960s.⁵⁸ She argued that contingencies, such as technology, play a role in how much training workers should receive. For instance, one of the major themes in management today is that workers should be well-trained. Woodward would argue that for low-tech jobs, this might not be the case but that for jobs requiring quite bit of technology, training would be a necessity.

Modern Management

From the 1970s to the present, we have seen the various management schools of thought interwoven. One of the major approaches in modern management is the development of managerial theories. When people hear the word theory, they usually assume that it refers to something impractical and disconnected from real life. The reality is that theory is a prediction and an explanation. Since the 1970s, the concept of theory has entered into the management literature and has led to more rigorous research.⁵⁹ The body of knowledge explored in this book about concepts such as strategy, organizational behavior, human resource management, and organizational theory has many roots from the 1970s. For example, when you get to job design, you will learn about the Hackman and Oldham model of job design, which was first proposed in 1975. Management has been enriched over the last 40 years by the contributions from researchers in allied fields such as economics, psychology, and sociology.

Based on the theoretical research of the last 40 or so years, scholars such as Stanford University's Jeffrey Pfeffer have now proposed the idea for evidence-based management.⁶⁰ The idea is to recommend managerial practices that have been tested. In many ways, this brings us back to Taylor and the need for science-based management. Once again, management thinkers are seeking to use formalized research to eliminate bad management techniques that have been recommended over the last several years.

Exhibit 3.6 indicates how each of the thinkers we discussed in this chapter relates to the others. From Taylor and others, we learned about the basic outcomes of human resource management, control, and some aspects of motivation. From Fayol and Barnard, we

began to develop concepts related to strategic management and authority. Mary Parker Follett provided insights into leadership. Elton Mayo and his colleagues launched the field of organizational behavior, and their work continues to have an impact on the fields of motivation, stress, and job design. Weber gave us the start of organizational design and the importance of authority.

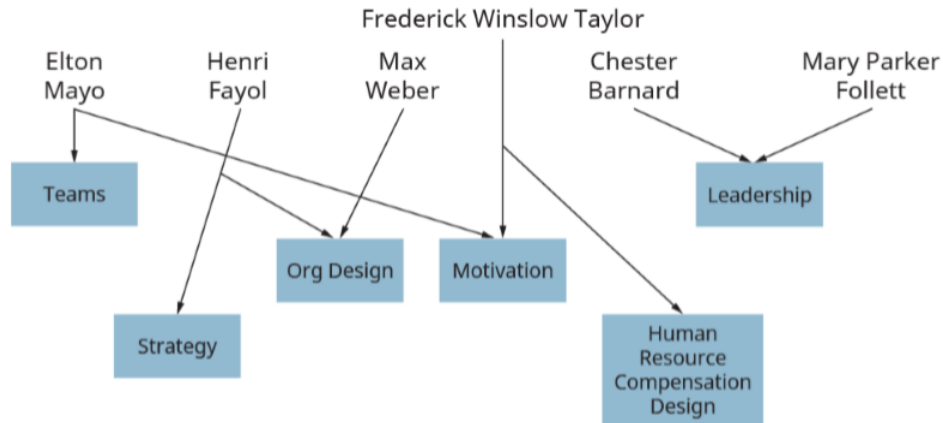


Exhibit 3.6 The Development of Management Thought (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

? Concept Check

1. What is the going contribution of systems and contingency management thought?
2. What is the idea of evidence-based management?

References

57. Kenneth E. Boulding, "General Systems Theory C The Skeleton of Science." *Management Science*, 1956, 2, 197-208.
58. Woodward, J. 1970. *Industrial organization: Behavior and control*. London: Oxford University Press.
59. Sutton, R., & Staw, B. (1995). What theory is not. *Administrative Science Quarterly*, 40, 371-384.
60. Pfeffer, J. and Sutton, R.I. (2006). *Harvard Business Review*, 84 (1) 62-74.; and Pfeffer, J. and Sutton, R.I. (2006). *Hard Facts, Dangerous Half-Truths and Total Nonsense: Profiting From Evidence-Based Management*. Cambridge: Harvard Business School Press.

This page titled [2.2.8: Contingency and System Management](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [3.8: Contingency and System Management](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.2.9: Summary

✓ Example 2.2.9.1

14 principles of management

Created by Henri Fayol.

Adam Smith

Adam Smith proposed the ideas of division of labor, specialization, and coordination within a corporation.

Carl G. Barth

Carl G. Barth (1860–1939), mathematician, developed a slide rule for calculating how much steel to cut.

Chester Barnard

Chester Barnard (1886–1961) argued that the executive purpose was to gain resources from members within the organization by ensuring that they perform their jobs and that cooperation exists between various groups within the organization.

Compromise

In a compromise, neither side gets what it wants. The best each side could get is what each can agree to.

Contingency school

The contingency school explained that there were no universal laws in management, due to a wide variety of variables that influence relationships and create unique situations, and that each situation required a different response.

Dominance

In dominance, one dictates the terms of the arrangement.

Elton Mayo

Elton Mayo (1880–1949) researched, theorized, and developed human relations theory based on an experiment at the Hawthorne plant on how to manage workers and to improve production.

Five functions of management

Created by Henri Fayol: planning, organizing, staffing, controlling, and directing.

Frank and Lillian Gilbreth

Their major contribution was **motion studies**.

Frederick Winslow Taylor

Taylor is known as the father of scientific management.

Hammurabi

The Code of Hammurabi was a listing of 282 laws that regulated conduct on a wide variety of behaviors, including business dealings, personnel behavior, interpersonal relations, punishments and a wide variety of other outcomes.

Henri Fayol

Fayol's administrative theory was the first general statement on management theory.

Henry Gantt

Henry Gantt (1861–1919) developed the Gantt chart, which allowed for the process of control to occur.

Industrial Revolution

The Industrial Revolution occurred between roughly 1760 and 1900 and saw the emergence of the modern factory.

Integration

In integration, both parties state their preferences and attempt to reach an agreement.

Italian Renaissance

The Italian Renaissance was a major leap of knowledge and learning that had economic and business implications.

Joan Woodward

A British scholar who did her work in the 1950s and 1960s. She argued that contingencies, such as technology, play a role in how much training workers should receive.

Mary Parker Follett

Mary Parker Follett (1868–1933) found a way to utilize the tenets of the human relations movement to solve some of the issues with scientific management.

Max Weber

Weber developed the idea that organizations should be formalized and legalistic in their operations.

Modern bureaucracy

Decisions should be made on a formal basis, rather than what a bureaucrat felt was correct. Weber stressed that knowledge, not birth circumstances, should be the basis of hiring and promotion within a bureaucracy.

Motion studies

Film studies of work.

Nebuchadnezzar

Nebuchadnezzar (605 BC–c. 562 BC) was a pioneer in the development of incentives in that he gave greater rewards to workers who were productive.

Open system

An open system interacts with the environment to gain resources.

Sun Tzu

Sun Tzu developed subdivisions, various rankings of authority, and the use of colors as coordination between units.

Unity of command

Unity of command stresses that each worker should have only one supervisor.

Zone of indifference

Workers would comply with orders if they were indifferent to them. This does not mean they have to agree with the orders. Rather the zone of indifference suggests that workers need merely to be indifferent to an order to follow it.

Summary of Learning Outcomes

3.2 The Early Origins of Management

1. Describe management in the ancient world.

We can track the concept of management from its development under the Sumerians. The Sumerians provided the concepts of writing and record keeping that allowed for an urban economy to develop, which in turn led to the establishment of small businesses. The Egyptians helped to pioneer the ideas of specialization of labor, span of control, and hierarchy of command. Sun

Tzu developed subdivisions, various rankings of authority, and coordination. The Greeks and Romans built forerunners of the modern corporation and guilds.

3.3 The Italian Renaissance

2. How did the Italian Renaissance affect the progression of management theory?

The Crusades and various travelers brought new knowledge from both the Muslim and Chinese societies. In addition, there was a rediscovery of trade throughout Europe. These factors led to the establishment of the Renaissance that took place initially in Italy. The development of the printing press saw a distribution of these ideas across Europe. The Renaissance saw a reemergence of trade. The Renaissance also saw the development of the idea of the corporation and double-entry accounting. In fact, some of the first multinational corporations have their genesis in the Italian Renaissance.

3.4 The Industrial Revolution

3. How did the Industrial Revolution affect the progression of management theory?

The Industrial Revolution was a product of a combination of factors, including the spread of learning from the Italian Renaissance, the improvement of transportation, the Market Revolution, and technology. In addition, scholars such as Adam Smith provided support for the ideas of division of labor, specialization, and coordination within a corporation, allowing for the development of factories. This economic shift created the need for managers.

3.5 Taylor-Made Management

4. How did Frederick Winslow Taylor influence management theory, and how did efficiency in management affect current management theory?

Taylor was the man that added the scientific method to management. He developed the four principles of scientific management and the notion of time study. Henry Gantt developed his famous chart, which allowed managers to track what was done versus supposed to be done. Frank and Lillian Gilbreth added motion study to Taylor's time management.

3.6 Administrative and Bureaucratic Management

5. How do bureaucratic and administrative management complement scientific management?

Henri Fayol and Max Weber made notable contributions to the development of management thought. Fayol focused on top managers, and Weber focused on middle managers. Fayol's administrative theory was the first general statement on management theory. He stressed the need for collective action and vision from top management. Weber developed the idea that organizations should be formalized and legalistic in their operations.

3.7 Human Relations Movement

6. How did Elton Mayo influence management theory, and how did the human relations movement affect current management theory?

Elton Mayo noted the role of non-monetary motivators and attitudes in terms of the workplace. Barnard developed the idea of the zone of indifference. Follett developed ways to resolve conflict without the use of compromise or domination.

3.8 Contingency and System Management

7. How did contingency and systems management transform management thought?

Systems management developed the concept that management is an open system in that organizations interact with the environment to gain resources. Since organizations require resources from the environment, this constrains what managers can do. The contingency school explained that there were no universal laws in management, due to a wide variety of variables that influence relationships. Modern management is based on theory.

? Chapter Review Questions

1. What contributions did ancient civilizations make to management thought?
2. Describe the role of the Renaissance in shaping management thought.
3. How did the Industrial Revolution change business and the economy?
4. Describe scientific management. How was scientific management different from management techniques that came before it?

5. Who were the key contributors to scientific management?
6. Describe the Hawthorne studies. Was Elton Mayo a humanist?
7. What is the zone of indifference?
8. Describe Follett's concept of conflict resolution.
9. What does open systems say about management?
10. What is contingency management?

Managerial Decision Exercises

1. Which management scholar do you find to be the most influential and important, and how would you incorporate their approach into your managerial approach?
2. Based on the reading in this chapter, defend or attack this statement that would be stated by a direct report: Management is unethical because it is about manipulating workers.
3. Which management scholar matches your viewpoints on the role of management?

This page titled [2.2.9: Summary](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [3.9: Summary](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

2.3: WATCH- What was the Industrial Revolution

Notes:

Within your textbook this week, you were introduced to the evolution of management theory. The third major advance in the history of management is known as the Industrial Revolution.

Watch this 6:44 video that provides an animated depiction of the Industrial Revolution:



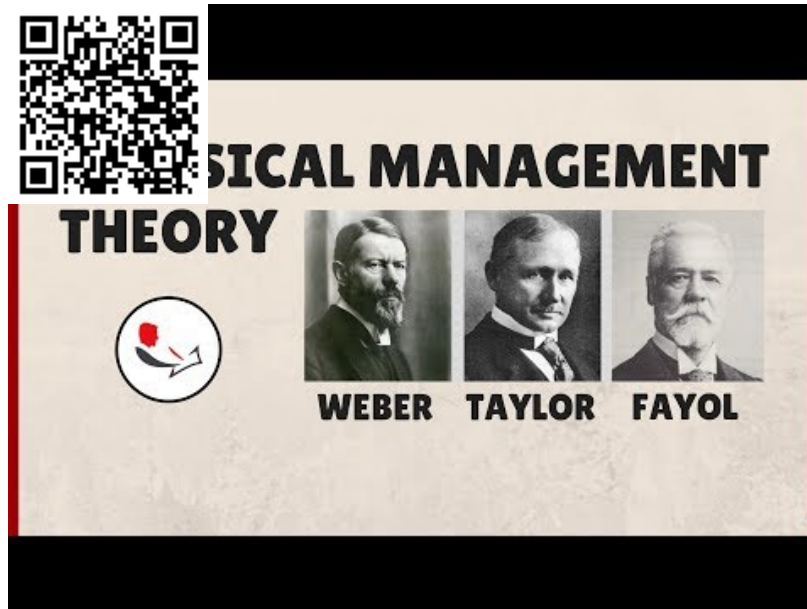
2.3: WATCH- What was the Industrial Revolution is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

2.4: WATCH- Classical Management Theory

Notes:

The Industrial Revolution brought about three management theories that are collectively referred to as "Classical Management Theory". Watch the 10:48 video to learn more:

After watching the video, take some time to think about organizations that you have worked at or that you frequent. What aspects of classical management theory are they using?



2.4: [WATCH- Classical Management Theory](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

2.5: WATCH and REVIEW - The GANTT Chart

Notes:

As discussed in your textbook, Henry Gantt developed the Gantt chart to manage the production process. In business today, Gantt charts are used extensively to manage projects and processes. The following is an example of a sample Gantt chart that was presented in your textbook:



Exhibit 3.4 Gantt Chart Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license

To learn more about how they are used, watch the following 1:43 video:



2.5: WATCH and REVIEW - The GANTT Chart is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

2.6: WATCH - Basic Functions of Management

Notes:

Last week, you were introduced to the four primary functions of management: Planning, Organizing, Leading, and Controlling. Within Section 3.5 of your textbook this week, you learned that these functions were originally identified by Henri Fayol, in addition to a fifth function: Staffing.

Staffing is still an important component of management and aspects of it are considered in the four primary functions that we will focus on. To review the four functions, watch the following 3:01 video:



Then, read the attached, which provides more insight into each of the four functions: [The Four Functions - Planning, Organizing, Leading, Controlling.pdf](#)

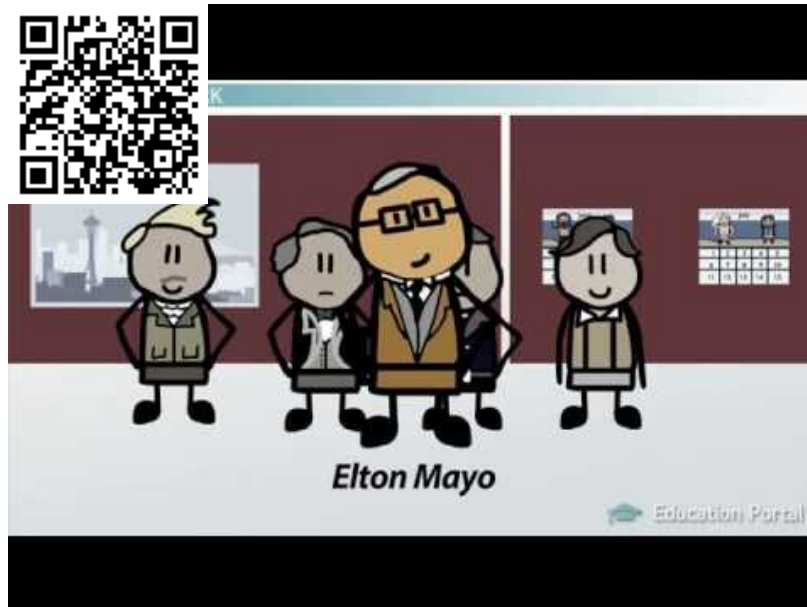
2.6: WATCH - Basic Functions of Management is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

2.7: WATCH- The Human Relations Movement

Notes:

As you have learned in the previous learning materials, the human relations movement was a natural reaction/response to issues that resulted from previous theories of management.

Watch the following 4:29 video for additional insights into the movement that you were introduced to in Section 3.6 of your textbook:



After watching the video, can you identify aspects of the human relations movement that you have experienced within organizations that you have worked at or that you frequent?

2.7: WATCH- The Human Relations Movement is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

CHAPTER OVERVIEW

3: Module 3 - Decision-Making

3.1: Key Ideas

3.2: WATCH - 3 Steps to Better Decision-Making

3.3: Managerial Decision-Making

3.3.1: Introduction to Managerial Decision Making

3.3.2: Overview of Managerial Decision-Making

3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems

3.3.4: Programmed and Nonprogrammed Decisions

3.3.5: Barriers to Effective Decision-Making

3.3.6: Improving the Quality of Decision-Making

3.3.7: Group Decision-Making

3.3.8: Summary

3.4: WATCH - Emotional Intelligence

3.5: WATCH - Decision-Making Strategies

3: Module 3 - Decision-Making is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

3.1: Key Ideas

Module 3: Key Ideas

- Types of decisions
 - Decision-making steps
 - Barriers to decision-making
 - Emotional Intelligence
 - Group decision-making
-

3.1: Key Ideas is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

3.2: WATCH - 3 Steps to Better Decision-Making

Notes:

Earlier in this course, you learned about the roles managers play, with one of the core roles involving decision-making. As managers, we make TONS of decisions each day. This week, we will delve more deeply into the decision-making role.

Begin by watching the following 12:53 video, which serves as a good primer for the content this week:



3.2: WATCH - 3 Steps to Better Decision-Making is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

SECTION OVERVIEW

3.3: Managerial Decision-Making

3.3.1: Introduction to Managerial Decision Making

3.3.2: Overview of Managerial Decision-Making

3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems

3.3.4: Programmed and Nonprogrammed Decisions

3.3.5: Barriers to Effective Decision-Making

3.3.6: Improving the Quality of Decision-Making

3.3.7: Group Decision-Making

3.3.8: Summary

This page titled [3.3: Managerial Decision-Making](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [Jamie Hammond](#) and [Mabel Gehrett](#) and [Western Technical College \(OpenStax\)](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

3.3.1: Introduction to Managerial Decision Making

This page titled [3.3.1: Introduction to Managerial Decision Making](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [Jamie Hammond and Mabel Gehrett and Western Technical College \(OpenStax\)](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

3.3.2: Overview of Managerial Decision-Making

Learning Objectives

1. Understand the basic characteristics of decision making

Decision-making is the action or process of thinking through possible options and selecting one.

It is important to recognize that managers are continually making decisions, and that the quality of their decision-making has an impact—sometimes quite significant—on the effectiveness of the organization and its stakeholders. Stakeholders are all the individuals or groups that are affected by an organization (such as customers, employees, shareholders, etc.).

Members of the top management team regularly make decisions that affect the future of the organization and all its stakeholders, such as deciding whether to pursue a new technology or product line. A good decision can enable the organization to thrive and survive long-term, while a poor decision can lead a business into bankruptcy. Managers at lower levels of the organization generally have a smaller impact on the organization's survival, but can still have a tremendous impact on their department and its workers. Consider, for example, a first-line supervisor who is charged with scheduling workers and ordering raw materials for her department. Poor decision-making by lower-level managers is unlikely to drive the entire firm out of existence, but it can lead to many adverse outcomes such as:

- reduced productivity if there are too few workers or insufficient supplies,
- increased expenses if there are too many workers or too many supplies, particularly if the supplies have a limited shelf life or are costly to store, and
- frustration among employees, reduced morale, and increased turnover (which can be costly for the organization) if the decisions involve managing and training workers.

Deciding When to Decide

While some decisions are simple, a manager's decisions are often complex ones that involve a range of options and uncertain outcomes. When deciding among various options and uncertain outcomes, managers need to gather information, which leads them to another necessary decision: how much information is needed to make a good decision? Managers frequently make decisions without complete information; indeed, one of the hallmarks of an effective leader is the ability to determine when to hold off on a decision and gather more information, and when to make a decision with the information at hand. Waiting too long to make a decision can be as harmful for the organization as reaching a decision too quickly. Failing to react quickly enough can lead to missed opportunities, yet acting too quickly can lead to organizational resources being poorly allocated to projects with no chance of success. Effective managers must decide when they have gathered enough information and must be prepared to change course if additional information becomes available that makes it clear that the original decision was a poor one. For individuals with fragile egos, changing course can be challenging because admitting to a mistake can be harder than forging ahead with a bad plan. Effective managers recognize that given the complexity of many tasks, some failures are inevitable. They also realize that it's better to minimize a bad decision's impact on the organization and its stakeholders by recognizing it quickly and correcting it.

What's the Right (Correct) Answer?

It's also worth noting that making decisions as a manager is not at all like taking a multiple-choice test: with a multiple-choice test there is always one right answer. This is rarely the case with management decisions. Sometimes a manager is choosing between multiple good options, and it's not clear which will be the best. Other times there are multiple bad options, and the task is to minimize harm. Often there are individuals in the organization with competing interests, and the manager must make decisions knowing that someone will be upset no matter what decision is reached.

What's the Right (Ethical) Answer?

Sometimes managers are asked to make decisions that go beyond just upsetting someone—they may be asked to make decisions in which harm could be caused to others. These decisions have ethical or moral implications. Ethics and morals refer to our beliefs about what is right vs. wrong, good vs. evil, virtuous vs. corrupt. Implicitly, ethics and morals relate to our interactions with and impact on others—if we never had to interact with another creature, we would not have to think about how our behaviors affected other individuals or groups. All managers, however, make decisions that impact others. It is therefore important to be mindful about whether our decisions have a positive or a negative impact. “Maximizing shareholder wealth” is often used as a rationalization for

placing the importance of short-term profits over the needs of others who will be affected by a decision—such as employees, customers, or local citizens (who might be affected, for example, by environmental decisions). Maximizing shareholder wealth is often a short-sighted decision, however, because it can harm the organization's financial viability in the future.¹ Bad publicity, customers boycotting the organization, and government fines are all possible long-term outcomes when managers make choices that cause harm in order to maximize shareholder wealth. More importantly, increasing the wealth of shareholders is not an acceptable reason for causing harm to others.

As you can see from these brief examples, management is not for the faint of heart! It can, however, be incredibly rewarding to be in a position to make decisions that have a positive impact on an organization and its stakeholders. We see a great example of this in the Sustainability and Responsible Management box.

✓ Sustainability and Responsible Management: Brewing Sustainable Success

The focus of a manager or a business owner is often primarily on doing well (making a profit). Sometimes, though, organizational leaders choose to pursue two big goals at once: doing well, and simultaneously doing good (benefiting society in some way). Why? Generally because they think it's an important thing to do. The business provides an opportunity to pursue another goal that the founders, owners, or managers are also passionate about. In the case of New Belgium Brewing, the company's cofounders, Jeff Lebesch and Kim Jordan, were passionate about two things: making great beer and environmental stewardship. So it should come as no surprise that their brewery is dedicated to reducing its environmental footprint. The brewery has created a culture that fosters sustainability in a wide range of ways, such as by giving employees a bicycle on their one-year anniversary as a way to encourage them to ride bicycles to work. The organization is also active in advocacy efforts, such as the "Save the Colorado" (river) campaign, and it works hard to promote responsible decision-making when it comes to environmental issues. In fact, in 1999, following an employee vote, the brewery began to purchase all of its electricity from wind power, even though it was more expensive than electricity from coal-burning power plants (which meant reduced profitability and less money for employee bonuses).

While the brewery still relies primarily on wind power, it also now generates a portion of its electricity onsite—some from rooftop solar panels, and even more from biogas, the methane gas byproduct that is created by microbes in the brewery's water treatment plant. The company cleans the wastewater generated from beer production, and in doing so it generates the biogas, which is captured and used for energy to help run the brewery.

Brewing is water intensive, so New Belgium works hard to reduce water consumption and to recycle the water that it does use. The company also reduces other types of waste by selling used grain, hops, and yeast to local ranchers for cattle feed. The company, which has been employee owned since 2013, also works with the local utility through a Smart Meter program to reduce their energy consumption at peak times.

All of these efforts at doing good must come at a cost, right? Actually, research shows that companies that are committed to sustainability have superior financial performance, on average, relative to those that are not. In coming up with creative ways to reduce, reuse, and recycle, employees often also find ways to save money (like using biogas). In addition, organizations that strive to do good are often considered attractive and desirable places to work (especially by people who have similar values) and are also valued by the surrounding communities. As a result, employees in those organizations tend to be extremely committed to them, with high levels of engagement, motivation, and productivity. Indeed, it seems clear that the employees at the New Belgium Brewery are passionate about where they work and what they do. This passion generates value for the organization and proves that it is, in fact, possible to do well while having also made the decision to do good. And in the case of New Belgium Brewery, that means working to protect the environment while also making delicious beer.

Discussion Questions

1. What challenges does New Belgium Brewery face in pursuing environmental goals?
2. Can you think of any other examples of companies that try to "do good" while also doing well?
3. Would you like to work for an organization that is committed to something more than just profitability, even if it meant your salary or bonus would be smaller?

Sources: Karen Crofton, "How New Belgium Brewery leads Colorado's craft brewers in energy," *GreenBiz*, August 1, 2014, <https://www.greenbiz.com/>. Darren Dahl, "How New Belgium Brewing Has Found Sustainable Success," *Forbes*, February 8, 2016, <https://www.forbes.com/>. Jenny Foust, "New Belgium Brewing Once Again Named Platinum-Level Bicycle Friendly Business by the League of American Bicyclists," *Craft Beer.com*, February 18, 2016. Robert G. Eccles, Ioannis Ioannou, &

George Serafeim, “The Impact of Corporate Sustainability on Organizational Processes and Performance,” *Management Science*, 60, 2014, doi.org/10.1287/mnsc.2014.1984. New Belgium Brewery Sustainability web page, www.newbelgium.com/sustainability, accessed September 18, 2017.

Concept Check

1. What are some positive outcomes of decision-making for an organization? What are some possible negative outcomes?
2. How is managerial decision-making different from a multiple-choice test?
3. In addition to the owners of a business, who are some of the other stakeholders that managers should consider when making decisions?

This page titled [3.3.2: Overview of Managerial Decision-Making](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [2.2: Overview of Managerial Decision-Making](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems

Learning Objectives

1. Understand the two systems of decision-making in the brain

The human brain processes information for decision-making using one of two routes: a reflective system and a reactive (or reflexive) system.^{2,3} The **reflective system** is logical, analytical, deliberate, and methodical, while the **reactive system** is quick, impulsive, and intuitive, relying on emotions or habits to provide cues for what to do next. Research in neuropsychology suggests that the brain can only use one system at a time for processing information [Darlow & Sloman] and that the two systems are directed by different parts of the brain. The prefrontal cortex is more involved in the reflective system, and the basal ganglia and amygdala (more primitive parts of the brain, from an evolutionary perspective) are more involved in the reactive system.⁴

Reactive Decision-Making

We tend to assume that the logical, analytical route leads to superior decisions, but whether this is accurate depends on the situation. The quick, intuitive route can be lifesaving; when we suddenly feel intense fear, a fight-or-flight response kicks in that leads to immediate action without methodically weighing all possible options and their consequences. Additionally, experienced managers can often make decisions very quickly because experience or expertise has taught them what to do in a given situation. These managers might not be able to explain the logic behind their decision, and will instead say they just went with their “gut,” or did what “felt” right. Because the manager has faced a similar situation in the past and has figured out how to deal with it, the brain shifts immediately to the quick, intuitive decision-making system.⁵

Reflective Decision-Making

The quick route is not always the best decision-making path to take, however. When faced with novel and complex situations, it is better to process available information logically, analytically, and methodically. As a manager, you need to think about whether a situation requires not a fast, “gut” reaction, but some serious thought prior to making a decision. It is especially important to pay attention to your emotions, because strong emotions can make it difficult to process information rationally. Successful managers recognize the effects of emotions and know to wait and address a volatile situation after their emotions have calmed down. Intense emotions—whether positive or negative—tend to pull us toward the quick, reactive route of decision making. Have you ever made a large “impulse” purchase that you were excited about, only to regret it later? This speaks to the power our emotions exert on our decision-making. Big decisions should generally not be made impulsively, but reflectively.

The Role of Emotions

Being aware of the role emotions play in decision-making does not mean that we should ignore them. Emotions can serve as powerful signals about what we should do, especially in situations with ethical implications. You can read more about this particular type of decision-making in the *Ethics in Practice* box later in this chapter. Thinking through how we feel about the possible options, and why we feel that way, can greatly enhance our decision-making.⁶ Effective decision-making, then, relies on both logic *and* emotions. For this reason, the concept of emotional intelligence has become popular as a characteristic of effective managers. **Emotional intelligence** is the ability to recognize, understand, pay attention to, and manage one’s own emotions and the emotions of others. It involves self-awareness and self-regulation—essentially, this is a toggling back and forth between emotions and logic so that we analyze and understand our own emotions and then exert the necessary control to manage them as appropriate for the situation. Emotional intelligence also involves empathy—the ability to understand other peoples’ emotions (and an interest in doing so). Finally, emotional intelligence involves social skills to manage the emotional aspects of relationships with others. Managers who are aware of their own emotions can think through what their emotions mean in a given situation and use that information to guide their decision-making. Managers who are aware of the emotions of others can also utilize that information to help groups function more effectively and engage in better group decision-making. While emotional intelligence seems to come easily to some people, it is something that we can develop and improve on with practice. A model of emotional intelligence is presented in Exhibit 2.2.



Exhibit 2.2 Emotional Intelligence (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

? Concept Check

1. Explain the two systems used by the brain in decision-making.
2. What is emotional intelligence, and why is it important for decision-making?

References

2. Peter A. Facione & Noreen C. Facione. 2007. Thinking and Reasoning in Human Decision Making: The Method of Argument and Heuristic Analysis, Millbrae, CA: The California Academic Press.
3. Matthew D. Lieberman. 2003. "Reflexive and reflective judgment processes: A social cognitive neuroscience approach." In (Eds.) Joseph P. Forgas, Kipling D. Williams, & William von Hippel's: Social judgments: Implicit and explicit processes, 44-67. Cambridge, UK: Cambridge University Press.
4. Adam L. Darlow & Steven A. Sloman. 2010. "Two systems of reasoning: Architecture and relation to emotion," WIREs Cognitive Science, 1: 382-392.
5. Malcolm Gladwell. 2005. Blink: The Power of Thinking Without Thinking. New York: Back Bay Books.
6. Jennifer M. George. 2000. "Emotions and leadership: The role of emotional intelligence." Human Relations, 53, 1027-1055

This page titled [3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [2.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems](#) by [OpenStax](#) is licensed [CC BY 4.0](#).
Original source: <https://openstax.org/details/books/principles-management>.

3.3.4: Programmed and Nonprogrammed Decisions

Learning Objectives

1. Understand the difference between programmed and nonprogrammed decisions

Because managers have limited time and must use that time wisely to be effective, it is important for them to distinguish between decisions that can have structure and routine applied to them (called programmed decisions) and decisions that are novel and require thought and attention (nonprogrammed decisions).

Programmed Decisions

Programmed decisions are those that are repeated over time and for which an existing set of rules can be developed to guide the process. These decisions might simple, or they could be fairly complex, but the criteria that go into making the decision are all known or can at least be estimated with a reasonable degree of accuracy. For example, deciding how many raw materials to order should be a programmed decision based on anticipated production, existing stock, and anticipated length of time for the delivery of the final product. As another example, consider a retail store manager developing the weekly work schedule for part-time employees. The manager must consider how busy the store is likely to be, taking into account seasonal fluctuations in business. Then, she must consider the availability of the workers by taking into account requests for vacation and for other obligations that employees might have (such as school). Establishing the schedule might be complex, but it is still a programmed decision: it is made on a regular basis based on well understood criteria, so structure can be applied to the process. For programmed decisions, managers often develop **heuristics**, or mental shortcuts, to help reach a decision. For example, the retail store manager may not know how busy the store will be the week of a big sale, but might routinely increase staff by 30% every time there is a big sale (because this has been fairly effective in the past). Heuristics are efficient—they save time for the decision maker by generating an adequate solution quickly. Heuristics don't necessarily yield the optimal solution—deeper cognitive processing may be required for that. However, they generally yield a good solution. Heuristics are often used for programmed decisions, because experience in making the decision over and over helps the decision maker know what to expect and how to react. Programmed decision-making can also be taught fairly easily to another person. The rules and criteria, and how they relate to outcomes, can be clearly laid out so that a good decision can be reached by the new decision maker. Programmed decisions are also sometimes referred to as *routine* or *low-involvement* decisions because they don't require in-depth mental processing to reach a decision. High- and low-involvement decisions are illustrated in Exhibit 2.3.

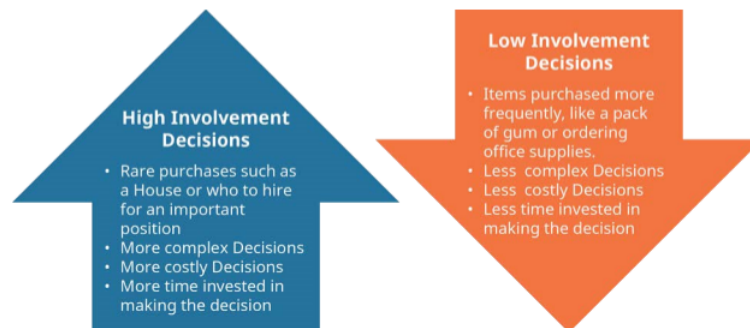


Exhibit 2.3 High-Involvement and Low-Involvement Decisions. (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Nonprogrammed Decisions

In contrast, **nonprogrammed** decisions are novel, unstructured decisions that are generally based on criteria that are not well-defined. With nonprogrammed decisions, information is more likely to be ambiguous or incomplete, and the decision maker may need to exercise some thoughtful judgment and creative thinking to reach a good solution. These are also sometimes referred to as *nonroutine* decisions or as *high-involvement* decisions because they require greater involvement and thought on the part of the decision maker. For example, consider a manager trying to decide whether or not to adopt a new technology. There will always be unknowns in situations of this nature. Will the new technology really be better than the existing technology? Will it become widely accepted over time, or will some other technology become the standard? The best the manager can do in this situation is to gather

as much relevant information as possible and make an educated guess as to whether the new technology will be worthwhile. Clearly, nonprogrammed decisions present the greater challenge.

The Decision-Making Process While decisions makers can use mental shortcuts with programmed decisions, they should use a systematic process with nonprogrammed decisions. The decision-making process is illustrated in Exhibit 2.4 and can be broken down into a series of six steps, as follows:

1. Recognize that a decision needs to be made.
2. Generate multiple alternatives.
3. Analyze the alternatives.
4. Select an alternative.
5. Implement the selected alternative.
6. Evaluate its effectiveness.

While these steps may seem straightforward, individuals often skip steps or spend too little time on some steps. In fact, sometimes people will refuse to acknowledge a problem (Step 1) because they aren't sure how to address it. We'll discuss the steps more later in the chapter, when we review ways to improve the quality of decision-making.

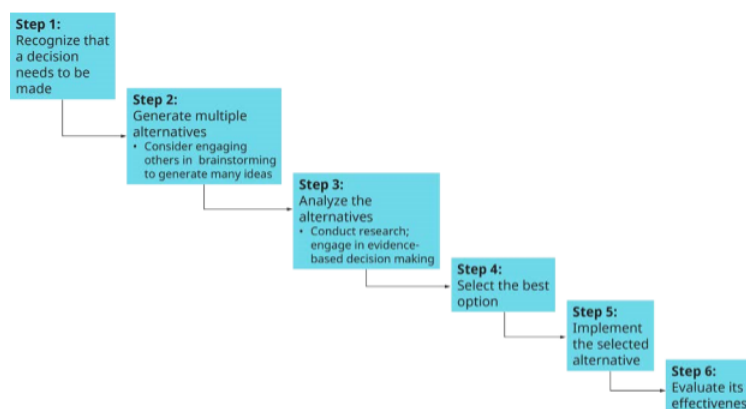


Exhibit 2.4 The Decision-Making Process. (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

You may notice similarities between the two systems of decision-making in our brains and the two types of decisions (programmed and nonprogrammed). Nonprogrammed decisions will generally need to be processed via the reflective system in our brains in order for us to reach a good decision. But with programmed decisions, heuristics can allow decision makers to switch to the quick, reactive system and then move along quickly to other issues.

? concept Check

1. Give an example of a programmed decision a manager might face.
2. Give an example of a nonprogrammed decision.
3. What are heuristics, and why are they helpful?
4. How are programmed and nonprogrammed decisions connected to the reflective and reactive systems in the brain?

This page titled 3.3.4: Programmed and Nonprogrammed Decisions is shared under a CC BY 4.0 license and was authored, remixed, and/or curated by OpenStax via source content that was edited to the style and standards of the LibreTexts platform.

- 2.4: Programmed and Nonprogrammed Decisions by OpenStax is licensed CC BY 4.0. Original source: <https://openstax.org/details/books/principles-management>.

3.3.5: Barriers to Effective Decision-Making

Learning Objectives

1. Understand the barriers that exist that make effective decision making difficult.

There are a number of barriers to effective decision-making. Effective managers are aware of these potential barriers and try to overcome them as much as possible.

Bounded Rationality

While we might like to think that we can make completely rational decisions, this is often unrealistic given the complex issues faced by managers. Nonrational decision-making is common, especially with nonprogrammed decisions. Since we haven't faced a particular situation previously, we don't always know what questions to ask or what information to gather. Even when we have gathered all the possible information, we may not be able to make rational sense of all of it, or to accurately forecast or predict the outcomes of our choice. **Bounded rationality** is the idea that for complex issues we cannot be completely rational because we cannot fully grasp all the possible alternatives, nor can we understand all the implications of every possible alternative. Our brains have limitations in terms of the amount of information they can process. Similarly, as was alluded to earlier in the chapter, even when managers have the cognitive ability to process all the relevant information, they often must make decisions without first having time to collect all the relevant data—their information is incomplete.

Escalation of Commitment

Given the lack of complete information, managers don't always make the right decision initially, and it may not be clear that a decision was a bad one until after some time has passed. For example, consider a manager who had to choose between two competing software packages that her organization will use on a daily basis to enhance efficiency. She initially chooses the product that was developed by the larger, more well-established company, reasoning that they will have greater financial resources to invest in ensuring that the technology is good. However, after some time it becomes clear that the competing software package is going to be far superior. While the smaller company's product could be integrated into the organization's existing systems at little additional expense, the larger company's product will require a much greater initial investment, as well as substantial ongoing costs for maintaining it. At this point, however, let's assume that the manager has already paid for the larger company's (inferior) software. Will she abandon the path that she's on, accept the loss on the money that's been invested so far, and switch to the better software? Or will she continue to invest time and money into trying to make the first product work? **Escalation of commitment** is the tendency of decision makers to remain committed to poor decision, even when doing so leads to increasingly negative outcomes. Once we commit to a decision, we may find it difficult to reevaluate that decision rationally. It can seem easier to "stay the course" than to admit (or to recognize) that a decision was poor. It's important to acknowledge that not all decisions are going to be good ones, in spite of our best efforts. Effective managers recognize that progress down the wrong path isn't really progress, and they are willing to reevaluate decisions and change direction when appropriate.

Time Constraints

Managers often face time constraints that can make effective decision-making a challenge. When there is little time available to collect information and to rationally process it, we are much less likely to make a good nonprogrammed decision. Time pressures can cause us to rely on heuristics rather than engage in deep processing. While heuristics save time, however, they don't necessarily lead to the best possible solution. The best managers are constantly assessing the risks associated with acting too quickly against those associated with not acting quickly enough.

Uncertainty

In addition, managers frequently make decisions under conditions of uncertainty—they cannot know the outcome of each alternative until they've actually chosen that alternative. Consider, for example, a manager who is trying to decide between one of two possible marketing campaigns. The first is more conservative but is consistent with what the organization has done in the past. The second is more modern and edgier, and might bring much better results . . . or it might be a spectacular failure. The manager making the decision will ultimately have to choose one campaign and see what happens, without ever knowing what the results would have been with the alternate campaign. That uncertainty can make it difficult for some managers to make decisions, because committing to one option means forgoing other options.

Personal Biases

Our decision-making is also limited by our own biases. We tend to be more comfortable with ideas, concepts, things, and people that are familiar to us or similar to us. We tend to be less comfortable with that which is unfamiliar, new, and different. One of the most common biases that we have, as humans, is the tendency to like other people who we think are similar to us (because we like ourselves).⁷ While these similarities can be observable (based on demographic characteristics such as race, gender, and age), they can also be a result of shared experiences (such as attending the same university) or shared interests (such as being in a book club together). This “similar to me” bias and preference for the familiar can lead to a variety of problems for managers: hiring less-qualified applicants because they are similar to the manager in some way, paying more attention to some employees’ opinions and ignoring or discounting others, choosing a familiar technology over a new one that is superior, sticking with a supplier that is known over one that has better quality, and so on.

It can be incredibly difficult to overcome our biases because of the way our brains work. The brain excels at organizing information into categories, and it doesn’t like to expend the effort to re-arrange once the categories are established. As a result, we tend to pay more attention to information that confirms our existing beliefs and less attention to information that is contrary to our beliefs, a shortcoming that is referred to as **confirmation bias**.⁸

In fact, we don’t like our existing beliefs to be challenged. Such challenges feel like a threat, which tends to push our brains towards the reactive system and prevent us from being able to logically process the new information via the reflective system. It is hard to change people’s minds about something if they are already confident in their convictions. So, for example, when a manager hires a new employee who she really likes and is convinced is going to be excellent, she will tend to pay attention to examples of excellent performance and ignore examples of poor performance (or attribute those events to things outside the employee’s control). The manager will also tend to trust that employee and therefore accept their explanations for poor performance without verifying the truth or accuracy of those statements. The opposite is also true; if we dislike someone, we will pay attention to their negatives and ignore or discount their positives. We are less likely to trust them or believe what they say at face value. This is why politics tend to become very polarized and antagonistic within a two-party system. It can be very difficult to have accurate perceptions of those we like and those we dislike. The effective manager will try to evaluate situations from multiple perspectives and gather multiple opinions to offset this bias when making decisions.

Conflict

Finally, effective decision-making can be difficult because of conflict. Most individuals dislike conflict and will avoid it when possible. However, the best decision might be one that is going to involve some conflict. Consider a manager who has a subordinate who is often late to work, causing others to have to step away from their responsibilities in order to cover for the late employee. The manager needs to have a conversation with that employee to correct the behavior, but the employee is not going to like the conversation and may react in a negative way. Both of them are going to be uncomfortable. The situation is likely to involve conflict, which most people find stressful. Yet, the correct decision is still to have the conversation even if (or especially if) the employee otherwise is an asset to the department.



Exhibit 2.5 Dante Disparte Dante Disparte is the founder and CEO of Risk Cooperative and also coauthor of *Global Risk Agility and Decision Making*. He suggests that unforeseen and unanticipated risks are becoming more frequent and less predictable and are having a greater impact on more people at one time. Credit (New America/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

If the bad behavior is not corrected, it will continue, which is going to cause more problems in the workplace in the long run. Other employees may recognize that this behavior is allowed, and they may also start coming to work late or engaging in other negative behaviors. Eventually, some employees may become sufficiently frustrated that they look for another place to work. It's worth noting that in this situation, the best employees will find new jobs the most quickly. It's important for managers to recognize that while conflict can be uncomfortable (especially in the short-term), there are times when it is necessary for the group, department, or organization to function effectively in the long run.

It is also helpful to think about conflict in terms of process conflict or relationship conflict.⁹ **Process conflict**, conflict about the best way to do something, can actually lead to improved performance, as individuals explore various options together in order to identify superior solutions. **Relationship conflict** is conflict between individuals that is more personal and involves attacks on a person rather than an idea. This kind of conflict is generally harmful and should be quelled when possible. The harm from relationship conflict arises at least in part because feeling personally attacked will cause an individual to revert to the reactive system of the brain.

Effective managers should be particularly aware of the possibility of relationship conflict when giving feedback and should keep feedback focused on behaviors and activities (how things are done) rather than on the individual. Being aware of and dealing with relationship conflict points to why emotional intelligence and empathy are beneficial in organizational leaders. Such leaders are more likely to be attentive to the harmful consequences of relationship conflict. The “Managerial Leadership” segment shows how one CEO encourages empathetic collaboration and how that effort is proving beneficial.

✓ Managerial Leadership

Satya Nadella's Transformation of Microsoft

When Satya Nadella became the CEO of Microsoft in 2014, he set in motion a major transformation of the organization's culture. He wanted it to shift from a culture that valued “know-it-alls” to one that values “learn-it-all.” Instead of employees feeling the need to prove that they were the smartest person in the room, he wanted them to become curious and effective listeners, learners, and communicators. Only through continual learning and collaboration with one another, and with customers, would Microsoft remain able to develop and provide great technology solutions.

One of Nadella's first mandates as CEO was to ask all the members of the top management team to read the book *Nonviolent Communication* by Marshall Rosenberg. The primary focus of the book is on empathetic communication—a kinder, gentler approach than Microsoft employees were accustomed to. Nadella believes that developing empathy leads to a heightened understanding of consumer needs and wants and an enhanced ability to develop better products and services through collaboration.

Nadella has also embraced diversity and inclusion initiatives, though he readily acknowledges that there is more to be done. This is, in part, an extension of his focus on empathy. However, it's also good business, because increasing the diversity of perspectives can help to drive innovation.

This cultural shift is reflected in Microsoft's new mission statement: "To empower every person and every organization on the planet to achieve more." Empowering every person includes Microsoft's own employees. Achieving diversity is particularly a challenge in an industry that is male dominated, and Nadella admits that he has made mistakes based on his own biases. At a Women in Computing conference early in his tenure as CEO, Nadella suggested that women did not need to ask for raises when they deserved them; the system, he said, would work it out. He later admitted that he was wrong and used the mistake as a platform for making greater strides in this arena.

Senior management team meetings at Microsoft have apparently changed dramatically as a result of the culture change driven by Nadella. Previously, members felt the need to constantly prove that they knew all the right answers at team meetings. Nadella has established different norms; he seeks out honest opinions from team members and gives positive feedback on a regular basis. By moving the focus away from always being right and toward a focus of continual learning, the culture at Microsoft has become more collaborative, and employees are more willing to take risks to create something amazing. The culture shift seems to be paying off: Microsoft's products are being described as "cool" and "exciting," its cloud-computing platform is outperforming the competition, and its financial performance has improved dramatically. Transforming the culture of an organization is a massive undertaking, but Nadella's leadership of Microsoft clearly shows that it's a decision that can pay off.

Discussion Questions

1. Do you think a culture focused on learning makes sense for Microsoft? Why or why not?
2. What are the advantages of a culture that emphasizes empathetic communication? Can you think of any disadvantages?
3. The job of CEO means making big decisions that impact the entire organization—like deciding to change the culture. How do you think you prepare for that job?

Sources: Kendall Baker, "Confirmed: Microsoft is a legit threat to Apple," *The Hustle*, March 16, 2017. Bob Evans, "10 Powerful examples of Microsoft CEO Satya Nadella's Transformative Vision," *Forbes*, July 26, 2017. Harry McCracken, "Satya Nadella Rewrites Microsoft's Code," *Fast Company*, September 18, 2017, www.fastcompany.com/40457458...icrosofts-code. Annie Palmer, "Microsoft has been reborn under CEO Satya Nadella," *The Street*, September 20, 2017.

✓ Concept Check

1. Explain the concept of confirmation bias.
2. List and describe at least three barriers to effective decision-making.
3. When is conflict beneficial, and when is it harmful? Why?

References

7. Christopher L. Aberson, Michael Healy, & Victoria Romero. 2000. Ingroup Bias and Self-Esteem: A Meta-Analysis. *Personality and Social Psychology Review*, 4: 157-173.
8. Elizabeth Kolbert. 2017. Why Facts Don't Change our Minds. *The New Yorker*, February 27, 2017.
9. Karen A. Jehn & Elizabeth A. Mannix. 2001. The Dynamic Nature of Conflict: A Longitudinal Study of Intragroup Conflict and Group Performance. *Academy of Management Journal*, 44: 238-251.

This page titled [3.3.5: Barriers to Effective Decision-Making](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [2.5: Barriers to Effective Decision-Making](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

3.3.6: Improving the Quality of Decision-Making

Learning Objectives

1. Understand how a manager can improve his or her individual decision making.

Managers can use a variety of techniques to improve their decision-making by making better-quality decisions or making decisions more quickly. Table 2.1 summarizes some of these tactics.

Type of Decision	Technique	Benefit
Programmed Decisions	Heuristics (mental shortcuts)	Saves Time
	Satisficing (choosing first acceptable solution)	Saves Time
Nonprogrammed Decisions	Systematically go through the six steps of the decision-making process	Improves quality
	Talk to other people	Improves quality; generates more options, reduces bias
	Be creative	Improves quality; generates more options
	Conduct research; engage in evidence based decision-making	Improves quality
	Engage in critical thinking	Improves quality
	Think about the long term implications	Improves quality
	Consider the ethical implications	Improves quality

Table 2.1(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The Importance of Experience

An often overlooked factor in effective decision-making is experience. Managers with more experience have generally learned more and developed greater expertise that they can draw on when making decisions. Experience helps managers develop methods and heuristics to quickly deal with programmed decisions and helps them know what additional information to seek out before making a nonprogrammed decision.

Techniques for Making Better Programmed Decisions

In addition, experience enables managers to recognize when to minimize the time spent making decisions on issues that are not particularly important but must still be addressed. As discussed previously, heuristics are mental shortcuts that managers take when making programmed (routine, low-involvement) decisions. Another technique that managers use with these types of decisions is **satisficing**. When satisficing, a decision maker selects the first *acceptable* solution without engaging in additional effort to identify the *best* solution. We all engage in satisficing every day. For example, suppose you are shopping for groceries and you don't want to overspend. If you have plenty of time, you might compare prices and figure out the price by weight (or volume) to ensure that every item you select is the cheapest option. But if you are in a hurry, you might just select generic products, knowing that they are cheap enough. This allows you to finish the task quickly at a reasonably low cost.

Techniques for Making Better Nonprogrammed Decisions

For situations in which the quality of the decision is more critical than the time spent on the decision, decision makers can use several tactics. As stated previously, nonprogrammed decisions should be addressed using a systematic process. We therefore discuss these tactics within the context of the decision-making steps. To review, the steps include the following:

1. Recognize that a decision needs to be made.

2. Generate multiple alternatives.
3. Analyze the alternatives.
4. Select an alternative.
5. Implement the selected alternative.
6. Evaluate its effectiveness.

Step 1: Recognizing That a Decision Needs to Be Made

Ineffective managers will sometimes ignore problems because they aren't sure how to address them. However, this tends to lead to more and bigger problems over time. Effective managers will be attentive to problems and to opportunities and will not shy away from making decisions that could make their team, department, or organization more effective and more successful.

Step 2: Generating Multiple Alternatives

Often a manager only spends enough time on Step 2 to generate two alternatives and then quickly moves to Step 3 in order to make a quick decision. A better solution may have been available, but it wasn't even considered. It's important to remember that for nonprogrammed decisions, you don't want to rush the process. Generating many possible options will increase the likelihood of reaching a good decision. Some tactics to help with generating more options include talking to other people (to get their ideas) and thinking creatively about the problem.

Talk to other people

Managers can often improve the quality of their decision-making by involving others in the process, especially when generating alternatives. Other people tend to view problems from different perspectives because they have had different life experiences. This can help generate alternatives that you might not otherwise have considered. Talking through big decisions with a mentor can also be beneficial, especially for new managers who are still learning and developing their expertise; someone with more experience will often be able to suggest more options.

Be creative

We don't always associate management with creativity, but creativity can be quite beneficial in some situations. In decision-making, creativity can be particularly helpful when generating alternatives. **Creativity** is the generation of new or original ideas; it requires the use of imagination and the ability to step back from traditional ways of doing things and seeing the world. While some people seem to be naturally creative, it is a skill that you can develop. Being creative requires letting your mind wander and combining existing knowledge from past experiences in novel ways. Creative inspiration may come when we least expect it (in the shower, for example) because we aren't intensely focused on the problem—we've allowed our minds to wander. Managers who strive to be creative will take the time to view a problem from multiple perspectives, try to combine information in new ways, search for overarching patterns, and use their imaginations to generate new solutions to existing problems. We'll review creativity in more detail in Chapter 18.

Step 3: Analyzing Alternatives

When implementing Step 3, it is important to take many factors into consideration. Some alternatives might be more expensive than others, for example, and that information is often essential when analyzing options. Effective managers will ensure that they have collected sufficient information to assess the quality of the various options. They will also utilize the tactics described below: engaging in evidence-based decision-making, thinking critically, talking to other people, and considering long-term and ethical implications.

Do you have the best-quality data and evidence?

Evidence-based decision-making is an approach to decision-making that states that managers should systematically collect the best evidence available to help them make effective decisions. The evidence that is collected might include the decision maker's own expertise, but it is also likely to include external evidence, such as a consideration of other stakeholders, contextual factors relevant to the organization, potential costs and benefits, and other relevant information. With evidence-based decision-making, managers are encouraged to rely on data and information rather than their intuition. This can be particularly beneficial for new managers or for experienced managers who are starting something new. (Consider all the research that Rubio and Korey conducted while starting Away).

Talk to other people

As mentioned previously, it can be worthwhile to get help from others when generating options. Another good time to talk to other people is while analyzing those options; other individuals in the organization may help you assess the quality of your choices. Seeking out the opinions and preferences of others is also a great way to maintain perspective, so getting others involved can help you to be less biased in your decision-making (provided you talk to people whose biases are different from your own).

Are you thinking critically about the options?

Our skill at assessing alternatives can also be improved by a focus on **critical thinking**. Critical thinking is a disciplined process of evaluating the quality of information, especially data collected from other sources and arguments made by other people, to determine whether the source should be trusted or whether the argument is valid.

An important factor in critical thinking is the recognition that a person's analysis of the available information may be flawed by a number of *logical fallacies* that they may use when they are arguing their point or defending their perspective. Learning what those fallacies are and being able to recognize them when they occur can help improve decision-making quality. See Table 2.2 for several examples of common logical fallacies.

Name	Description	Examples	Ways to Combat This Logical Fallacy
Non sequitur (does not follow)	The conclusion that is presented isn't a logical conclusion or isn't the only logical conclusion based on the argument(s).	Our biggest competitor is spending more on marketing than we are. They have a larger share of the market. Therefore, we should spend more on marketing. The unspoken assumption: They have a larger share of the market BECAUSE they spend more on marketing	<ul style="list-style-type: none"> Examine all the arguments. Are they reasonable? Look for any assumptions that are being made in the argument sequence. Are they reasonable? Try to gather evidence that supports or refutes the arguments and/or assumptions. <p>In this example, you should ask: Are there any other reasons, besides their spending on marketing, why our competitor has a larger share of the market?</p>
False cause	Assuming that because two things are related, one caused the other	"Our employees get sick more when we close for holidays. So we should stop closing for holidays."	<p>This is similar to non sequitur; it makes an assumption in the argument sequence.</p> <ul style="list-style-type: none"> Ask yourself whether the first thing really causes the second, or if something else may be the cause. <p>In this case, most holidays for which businesses close are in the late fall and winter (Thanksgiving, Christmas), and there are more illnesses at this time of year because of the weather, not because of the business being closed.</p>

Ad hominem (attack the man)	Redirects from the argument itself to attack the person making the argument	<p>“You aren’t really going to take John seriously, are you? I heard his biggest client just dropped him for another vendor because he’s all talk and no substance.”</p> <p>The goal: if you stop trusting the person, you’ll discount their argument.</p>	<ul style="list-style-type: none"> Does the second person have something to gain, a hidden agenda, in trying to make you distrust the first person? If the first person’s argument came from someone else, would it be persuasive?
Genetic fallacy	You can’t trust something because of its origins	<p>“This was made in China, so it must be low quality.”</p> <p>“He is a lawyer, so you can’t trust anything he says.”</p>	<p>This fallacy is based on stereotypes. Stereotypes are generalizations; some are grossly inaccurate, and even those that are accurate in SOME cases are never accurate in ALL cases. Recognize this for what it is—an attempt to prey on existing biases.</p>
Appeal to tradition	If we have always done it one particular way, that must be the right or best way	<p>“We’ve always done it this way.” “We shouldn’t change this; it works fine the way it is.”</p>	<ul style="list-style-type: none"> Consider whether the situation has changed, calling for a change in the way things are being done. Consider whether new information suggests that the traditional viewpoint is incorrect. Remember, we used to think that the earth was flat.
Bandwagon approach	If the majority of people are doing it, it must be good.	<p>“Everybody does it.”</p> <p>“Our customers don’t want to be served by people like that.”</p>	<ul style="list-style-type: none"> Remember that the majority is sometimes wrong, and what is popular isn’t always what is right. Ask yourself whether “following the pack” is going to get you where you want to be. Remember that organizations are usually successful by being better than their competitors at something . . . so following the crowd might not be the best approach to success
Appeal to emotion	Redirects the argument from logic to emotion	<p>“We should do it for [recently deceased] Steve; it’s what he would have wanted.”</p>	<ul style="list-style-type: none"> Develop your awareness of your own emotions, and recognize when someone is trying to use them. Ask yourself whether the argument stands on its own without the appeal to your emotions.

Table 2.2(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Have you considered the long-term implications?

A focus on immediate, short-term outcomes—with little consideration for the future—can cause problems. For example, imagine that a manager must decide whether to issue dividends to investors or put that money into research and development to maintain a pipeline of innovative products. It's tempting to just focus on the short-term: providing dividends to investors tends to be good for stock prices. But failing to invest in research and development might mean that in five years the company is unable to compete effectively in the marketplace, and as a result the business closes. Paying attention to the possible long-term outcomes is a crucial part of analyzing alternatives.

Are there ethical implications?

It's important to think about whether the various alternatives available to you are better or worse from an ethical perspective, as well. Sometimes managers make unethical choices because they haven't considered the ethical implications of their actions. In the 1970s, Ford manufactured the Pinto, which had an unfortunate flaw: the car would easily burst into flames when rear-ended. The company did not initially recall the vehicle because they viewed the problem from a financial perspective, without considering the ethical implications.¹⁰ People died as a result of the company's inaction. Unfortunately, these unethical decisions continue to occur—and cause harm—on a regular basis in our society. Effective managers strive to avoid these situations by thinking through the possible ethical implications of their decisions. The decision tree in Exhibit 2.6 is a great example of a way to make managerial decisions while also taking ethical issues into account.

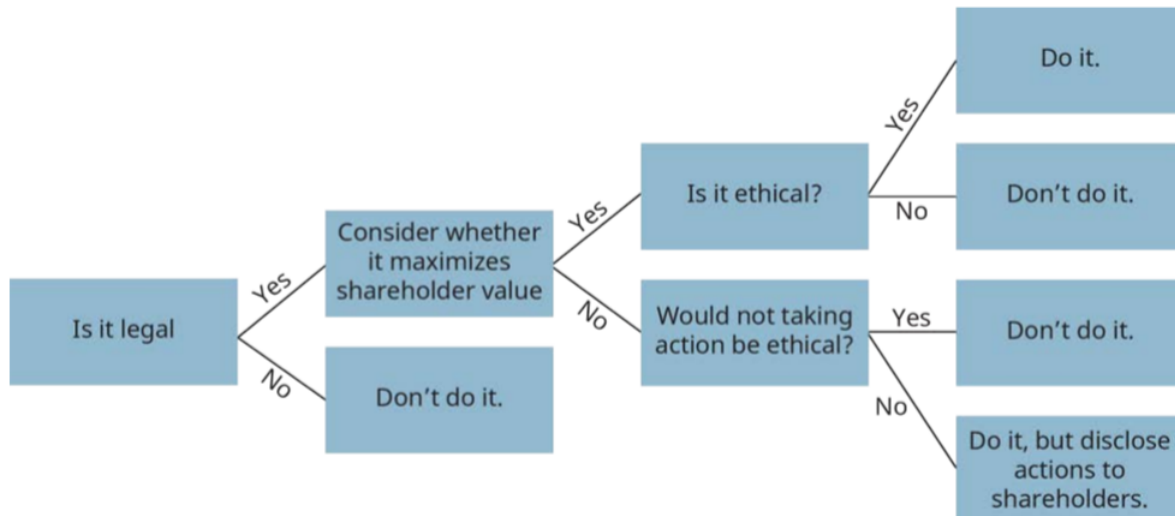


Exhibit 2.6 Ethical Decision Tree (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Thinking through the steps of ethical decision-making may also be helpful as you strive to make good decisions. James Rest's ethical decision-making model¹¹ identifies four components to ethical decision making:

1. Moral sensitivity—recognizing that the issue has a moral component;
2. Moral judgment—determining which actions are right vs. wrong;
3. Moral motivation/intention—deciding to do the right thing; and
4. Moral character/action—actually doing what is right.

Note that a failure at any point in the chain can lead to unethical actions! Taking the time to identify possible ethical implications will help you develop moral sensitivity, which is a critical first step to ensuring that you are making ethical decisions.

Once you have determined that a decision has ethical implications, you must consider whether your various alternatives are right or wrong—whether or not they will cause harm, and if so, how much and to whom. This is the moral judgment component. If you aren't sure about whether something is right or wrong, think about how you would feel if that decision ended up on the front page of a major newspaper. If you would feel guilty or ashamed, don't do it! Pay attention to those emotional cues—they are providing important information about the option that you are contemplating.

The third step in the ethical decision-making model involves making a decision to do what is right, and the fourth step involves following through on that decision. These may sound, but consider a situation in which your boss tells you to do something that

you know to be wrong. When you push back, your boss makes it clear that you will lose your job if you don't do what you've been told to do. Now, consider that you have family at home who rely on your income. Making the decision to do what you know is right could come at a substantial cost to you personally. In these situations, your best course of action is to find a way to persuade your boss that the unethical action will cause greater harm to the organization in the long-term.

Step 4: Selecting an Alternative

Once alternative options have been generated and analyzed, the decision maker must select one of the options. Sometimes this is easy—one option is clearly superior to the others. Often, however, this is a challenge because there is not a clear “winner” in terms of the best alternative. As mentioned earlier in the chapter, there may be multiple good options, and which one will be best is unclear even after gathering all available evidence. There may not be a single option that doesn't upset some stakeholder group, so you will make someone unhappy no matter what you choose. A weak decision maker may become paralyzed in this situation, unable to select among the various alternatives for lack of a clearly “best” option. They may decide to keep gathering additional information in hopes of making their decision easier. As a manager, it's important to think about whether the benefit of gathering additional information will outweigh the cost of waiting. If there are time pressures, waiting may not be possible.

Recognize that perfection is unattainable

Effective managers recognize that they will not always make optimal (best possible) decisions because they don't have complete information and/or don't have the time or resources to gather and process all the possible information. They accept that their decision-making will not be perfect and strive to make good decisions overall. Recognizing that perfection is impossible will also help managers to adjust and change if they realize later on that the selected alternative was not the best option.

Talk to other people

This is another point in the process at which talking to others can be helpful. Selecting one of the alternatives will ultimately be your responsibility, but when faced with a difficult decision, talking through your choice with someone else may help you clarify that you are indeed making the best possible decision from among the available options. Sharing information verbally also causes our brains to process that information differently, which can provide new insights and bring greater clarity to our decision-making.

Step 5: Implementing the Selected Alternative

After selecting an alternative, you must implement it. This may seem too obvious to even mention, but implementation can sometimes be a challenge, particularly if the decision is going to create conflict or dissatisfaction among some stakeholders. Sometimes we know what we need to do but still try to avoid actually doing it because we know others in the organization will be upset—even if it's the best solution. Follow-through is a necessity, however, to be effective as a manager. If you are not willing to implement a decision, it's a good idea to engage in some self-reflection to understand why. If you know that the decision is going to create conflict, try to think about how you'll address that conflict in a productive way. It's also possible that we feel that there is no good alternative, or we are feeling pressured to make a decision that we know deep down is not right from an ethical perspective. These can be among the most difficult of decisions. You should always strive to make decisions that you feel good about—which means doing the right thing, even in the face of pressures to do wrong.

Step 6: Evaluating the Effectiveness of Your Decision

Managers sometimes skip the last step in the decision-making process because evaluating the effectiveness of a decision takes time, and managers, who are generally busy, may have already moved on to other projects. Yet evaluating effectiveness is important. When we fail to evaluate our own performance and the outcomes of our decisions, we cannot learn from the experience in a way that enables us to improve the quality of our future decisions.

Attending fully to each step in the decision-making process improves the quality of decision-making and, as we've seen, managers can engage in a number of tactics to help them make good decisions. Take a look at the *Ethics in Practice* box to see an example of how one particular manager puts these techniques into practice to make good decisions.

✓ Ethics In Practice

Rob Ault, Project Manager, Bayside Community Church

Bradenton, Florida

When it comes to decision-making, ethical dilemmas require particular care. Because managers make many decisions, it should not be surprising that some of those decisions will have ethical implications. With multiple stakeholders to consider, sometimes what is best for one group of stakeholders is not what is best for others. I talked to Rob Ault about his experiences with ethical dilemmas over the course of his career. Rob has been in managerial roles for over 25 years, since he was 19 years old. He told me that he had experienced a number of ethical dilemmas in that time.

Rob has spent most of his career working for for-profit organizations, and for about half of that time he has worked in a union environment. What he has found most frustrating, regardless of environment, was when it was clear to him what was right, but what was right conflicted with what his boss was telling him to do. This included a situation in which he felt an employee should be fired for misbehavior (but wasn't), as well as situation in which he was asked to fire someone undeservedly. What we mostly talked about, though, was his process. How did he go about making decisions in these challenging situations?

Rob clearly stated that his approach to these situations has changed with experience. What he did early in his career is not necessarily what he would do now. He said that it takes experience and some maturity to recognize that, as a leader, the decisions you make affect other people's lives. He also explained that a starting point for the decision-making process is always a recognition of the fact that you have been hired to generate a benefit for your company. So a manager's decisions need to come from the perspective of what is going to be in the best long-term interest of the organization (in addition to what is morally right). This isn't always easy, because short-term consequences are much easier to observe and predict.

I asked Rob who he talked to prior to making decisions in situations with an ethical component. Rob told me that he felt one of the most important things you should do as a leader is to intentionally create and build relationships with people you trust in the organization. That way you have people you know you can talk to when difficult situations come up. He was very clear that you should always talk to your boss, who will tend to have a broader understanding of what is going on in the context of the larger organization. He also told me that he liked to talk to his father, who happened to work in human resource management for a large Fortune 500 organization. His father was always helpful in providing the perspective of how things were likely to play out long-term if one person was allowed to bend the rules. Rob realized eventually that the long-term consequences of this were almost always negative: once one person is allowed to misbehave, others find out about it and realize that they can do the same thing without repercussions. Rob also seeks out the opinions of other individuals in the organization before reaching decisions with an ethical component; he told me that when he worked in a union environment, he tried to make sure he had a good relationship with the union steward, because it was helpful to get the perspective of someone who was committed to the side of the employee.

The biggest ethical dilemma Rob faced was one that he actually couldn't talk to me about. He disagreed with what he was being asked to do, and when it was clear that he had no other choice in the matter, he quit his job rather than do something he felt wasn't right. He accepted a severance package in exchange for signing a nondisclosure agreement, which is why he can't share any details . . . but it was clear from our conversation that he feels he made the right choice. That particular ethical dilemma makes it clear how challenging managerial decision-making can sometimes be.

Discussion Questions

1. If you were faced with an ethical dilemma, from whom would you seek advice?
2. Describe some decisions that might be good for an organization's profitability in the short-term, but bad for the organization in the long-term.
3. What factors would you take into consideration if you were thinking about leaving your job rather than do something unethical?

? Concept Check

1. Explain what satisficing is and when it may be a good strategy.
2. What are the six steps in the decision-making process?
3. What are the four steps involved in ethical decision-making?

References

10. Linda K. Trevino & Michael E. Brown. 2004. Managing to be ethical: Debunking five business ethics myths. *Academy of Management Executive*, 18: 69-81.

11. James R. Rest. 1986. *Moral development: Advances in research and theory*. Praeger Publishers.

This page titled [3.3.6: Improving the Quality of Decision-Making](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **2.6: Improving the Quality of Decision-Making** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

3.3.7: Group Decision-Making

Learning Objectives

1. Understand the advantages and disadvantages of group decision-making, and how managers can improve the quality of group decision-making

Involving more people in the decision-making process can greatly improve the quality of a manager's decisions and outcomes. However, involving more people can also increase conflict and generate other challenges. We turn now to the advantages and disadvantages of group decision-making.

Advantages of Group Decisions

An advantage to involving groups in decision-making is that you can incorporate different perspectives and ideas. For this advantage to be realized, however, you need a diverse group. In a diverse group, the different group members will each tend to have different preferences, opinions, biases, and stereotypes. Because a variety of viewpoints must be negotiated and worked through, group decision-making creates additional work for a manager, but (provided the group members reflect different perspectives) it also tends to reduce the effects of bias on the outcome. For example, a hiring committee made up of all men might end up hiring a larger proportion of male applicants (simply because they tend to prefer people who are more similar to themselves). But with a hiring committee made up of an equal number of men and women, the bias should be cancelled out, resulting in more applicants being hired based on their qualifications rather than their physical attributes.

Having more people involved in decision-making is also beneficial because each individual brings unique information or knowledge to the group, as well as different perspectives on the problem. Additionally, having the participation of multiple people will often lead to more options being generated and to greater intellectual stimulation as group members discuss the available options. **Brainstorming** is a process of generating as many solutions or options as possible and is a popular technique associated with group decision-making.

All of these factors can lead to superior outcomes when groups are involved in decision-making. Furthermore, involving people who will be affected by a decision in the decision-making process will allow those individuals to have a greater understanding of the issues or problems and a greater commitment to the solutions.

Disadvantages of Group Decisions

Group decision-making is not without challenges. Some groups get bogged down by conflict, while others go to the opposite extreme and push for agreement at the expense of quality discussions. **Groupthink** occurs when group members choose not to voice their concerns or objections because they would rather keep the peace and not annoy or antagonize others. Sometimes groupthink occurs because the group has a positive team spirit and camaraderie, and individual group members don't want that to change by introducing conflict. It can also occur because past successes have made the team complacent.

Often, one individual in the group has more power or exerts more influence than others and discourages those with differing opinions from speaking up (**suppression of dissent**) to ensure that only their own ideas are implemented. If members of the group are not really contributing their ideas and perspectives, however, then the group is not getting the benefits of group decision-making.

How to Form a Quality Group

Effective managers will try to ensure quality group decision-making by forming groups with diverse members so that a variety of perspectives will contribute to the process. They will also encourage everyone to speak up and voice their opinions and thoughts prior to the group reaching a decision. Sometimes groups will also assign a member to play the **devil's advocate** in order to reduce groupthink. The devil's advocate intentionally takes on the role of critic. Their job is to point out flawed logic, to challenge the group's evaluations of various alternatives, and to identify weaknesses in proposed solutions. This pushes the other group members to think more deeply about the advantages and disadvantages of proposed solutions before reaching a decision and implementing it.



Exhibit 2.7 The Devils Advocate At a meeting of McDonald’s franchise owners, attorney Brian Schnell was placed in the audience as a devil’s advocate and often would strongly disagree with franchisee attorney Bob Zarco that the National Labor Relations Board (NLRB)’s jointemployer ruling on McDonald’s is a boon for franchisees. He would raise his hand often and vehemently, which Zarco had asked him to do before the meeting. In that way, the franchisors’ articulate arguments could be heard by all franchisee leaders in attendance, and rebutted. Credit (Mr. Blue MauMau/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

The methods we’ve just described can all help ensure that groups reach good decisions, but what can a manager do when there is too much conflict within a group? In this situation, managers need to help group members reduce conflict by finding some common ground—areas in which they can agree, such as common interests, values, beliefs, experiences, or goals. Keeping a group focused on a common goal can be a very worthwhile tactic to keep group members working with rather than against one another. Table 2.3 summarizes the techniques to improve group decision-making.

Type of Decision	Technique	Benefit
Group decisions	Have diverse members in the group.	Improves quality: generates more options, reduces bias
	Assign a devil’s advocate.	Improves quality: reduces groupthink
	Encourage everyone to speak up and contribute.	Improves quality: generates more options, prevents suppression of dissent
	Help group members find common ground.	Improves quality: reduces personality conflict

Table 2.3(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Conclusion

Decision-making is a crucial daily activity for managers. Decisions range from small and simple, with straightforward answers, to big and complex, with little clarity about what the best choice will be. Being an effective manager requires learning how to successfully navigate all kinds of decisions. Expertise, which develops gradually through learning and experience, generally improves managerial decision-making, but managers rarely rely solely on their own expertise. They also conduct research and collect information from others; they pay attention to their own biases and to ethical implications; and they think critically about the information that they have received to make decisions that will benefit the organization and its stakeholders.

? Concept Check

1. Explain why group decision-making can be more effective than individual decision-making.
2. What are some things that can prevent groups from making good decisions?
3. As a manager, what can you do to enhance the quality of group decision-making?

This page titled [3.3.7: Group Decision-Making](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **2.7: Group Decision-Making** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

3.3.8: Summary



Key Terms

Bounded rationality

The concept that when we make decisions, we cannot be fully rational because we don't have all the possible information or the cognitive processing ability to make fully informed, completely rational decisions.

Brainstorming

A process of generating as many ideas or alternatives as possible, often in groups.

Confirmation Bias

The tendency to pay attention to information that confirms our existing beliefs and to ignore or discount information that conflicts with our existing beliefs.

Creativity

The generation of new or original ideas.

Critical Thinking

A disciplined process of evaluating the quality of information, especially by identifying logical fallacies in arguments.

Decision-making

The action or process of thinking through possible options and selecting one.

Devil's Advocate

A group member who intentionally takes on the role of being critical of the group's ideas in order to discourage groupthink and encourage deep thought and discussion about issues prior to making decisions.

Emotional Intelligence

The ability to understand and manage emotions in oneself and in others.

Escalation of Commitment

The tendency of decision makers to remain committed to poor decision, even when doing so leads to increasingly negative outcomes.

Evidence-based Decision-making

A process of collecting the best available evidence prior to making a decision.

Groupthink

The tendency of a group to reach agreement very quickly and without substantive discussion.

Heuristics

Mental shortcuts that allow a decision maker to reach a good decision quickly. They are strategies that develop based on prior experience.

Nonprogrammed Decisions

Decisions that are novel and not based on well-defined or known criteria.

Process conflict

Conflict about the best way to do something; conflict that is task-oriented and constructive, and not focused on the individuals involved.

Programmed Decision

Decisions that are repeated over time and for which an existing set of rules can be developed.

Reactive System

System of decision-making in the brain that is quick and intuitive.

Reflective System

System of decision-making in the brain that is logical, analytical, and methodical.

Relationship Conflict

Conflict between individuals that is based on personal (or personality) differences; this type of conflict tends to be destructive rather than constructive.

Satisficing

Choosing the first acceptable solution to minimize time spent on a decision.

Stakeholders

Individuals or groups who are impacted by the organization. These include owners, employees, customers, suppliers, and members of the community in which the organization is located.

Suppression of Dissent

When a group member exerts his or her power to prevent others from voicing their thoughts or opinions.

Summary of Learning Outcomes

2.2 Overview of Managerial Decision-Making

1. What are the basic characteristics of managerial decision-making?

Managers are constantly making decisions, and those decisions often have significant impacts and implications for both the organization and its stakeholders. Managerial decision-making is often characterized by complexity, incomplete information, and time constraints, and there is rarely one right answer. Sometimes there are multiple good options (or multiple bad options), and the manager must try to decide which will generate the most positive outcomes (or the fewest negative outcomes). Managers must weigh the possible consequences of each decision and recognize that there are often multiple stakeholders with conflicting needs and preferences so that it often will be impossible to satisfy everyone. Finally, managerial decision-making can sometimes have ethical implications, and these should be contemplated before reaching a final decision.

2.3 How the Brain Processes Information to Make Decisions: Reflective and Reactive Systems

2. What are the two systems of decision-making in the brain?

The brain processes information to make decisions using one of two systems: either the logical, rational (reflective) system or the quick, reactive system. The reflective system is better for significant and important decisions; these generally should not be rushed. However, the reactive system can be lifesaving when time is of the essence, and it can be much more efficient when based on developed experience and expertise.

2.4 Programmed and Nonprogrammed Decisions

3. What is the difference between programmed and nonprogrammed decisions?

Programmed decisions are those that are based on criteria that are well understood, while nonprogrammed decisions are novel and lack clear guidelines for reaching a solution. Managers can establish rules and guidelines for programmed decisions based on

known fact, which enables them to reach decisions quickly. Nonprogrammed decisions require more time to resolve; the decision maker may need to conduct research, collect additional information, gather opinions and ideas from other people, and so on.

2.5 Barriers to Effective Decision-Making

4. What barriers exist that make effective decision-making difficult?

There are numerous barriers to effective decision-making. Managers are limited in their ability to collect comprehensive information, and they are limited in their ability to cognitively process all the information that is available. Managers cannot always know all the possible outcomes of all the possible options, and they often face time constraints that limit their ability to collect all the information that they would like to have. In addition, managers, like all humans, have biases that influence their decision-making, and that can make it difficult for them to make good decisions. One of the most common biases that can confound decision-making is confirmation bias, the tendency for a person to pay attention to information that confirms her existing beliefs and ignore information that conflicts with these existing beliefs. Finally, conflict between individuals in organizations can make it challenging to reach a good decision.

2.6 Improving the Quality of Decision-Making

5. How can a manager improve the quality of her individual decision-making?

Managers tend to get better at decision-making with time and experience, which helps them build expertise. Heuristics and satisficing can also be useful techniques for making programmed decisions quickly. For nonprogrammed decisions, a manager can improve the quality of her decision-making by utilizing a variety of other techniques. Managers should also be careful to not skip steps in the decision-making process, to involve others in the process at various points, and to be creative in generating alternatives. They should also engage in evidence-based decision-making: doing research and collecting data and information on which to base the decision. Effective managers also think critically about the quality of the evidence that they collect, and they carefully consider long-term outcomes and ethical implications prior to making a decision.

2.7 Group Decision-Making

6. What are the advantages and disadvantages of group decision-making, and how can a manager improve the quality of group decision-making?

Groups can make better decisions than individuals because group members can contribute more knowledge and a diversity of perspectives. Groups will tend to generate more options as well, which can lead to better solutions. Also, having people involved in making decisions that will affect them can improve their attitudes about the decision that is made. However, groups sometimes fail to generate added value in the decision-making process as a result of groupthink, conflict, or suppression of dissent.

Managers can improve the quality of group decision-making in a number of ways. First, when forming the group, the manager should ensure that the individual group members are diverse in terms of knowledge and perspectives. The manager may also want to assign a devil's advocate to discourage groupthink. Managers should also encourage all group members to contribute their ideas and opinions, and they should not allow a single voice to dominate. Finally, they should not allow personality conflicts to derail group processes.

? Chapter Review Questions

1. What are some of the factors that enabled Jen Rubio and Stephanie Korey to make good decisions when they established their luggage company, Away?
2. What are the two systems that the brain uses in decision-making? How are they related to programmed and nonprogrammed decisions?
3. What is a heuristic, and when would it be appropriate to use a heuristic for decision-making?
4. What is confirmation bias? Explain how it can be a barrier to effective decision-making.
5. What is a logical fallacy?
6. What are the two types of conflict? Which one is constructive, and which is destructive?
7. What are the steps in the decision-making process? Which ones do people tend to skip or spend insufficient time on?
8. What can individuals do to improve the quality of their decision-making?
9. What can groups or group leaders do to improve the quality of group decision-making?
10. What are the benefits of decision-making in a group, instead of individually?

Management Skills Application Exercises

1. If you wanted to buy a new car, what research would you do first to increase the likelihood of making a good decision? As a manager, do you think you would engage in more research or less research than that prior to making big decisions for the organization?
2. Think about a big decision that you have made. What impact did your emotions have on that decision? Did they help or hinder your decision-making? Would you make the same decision again?
3. If you were faced with an ethical dilemma at work, who would you want to talk to for advice prior to reaching a decision?
4. Which would be better to involve a group with, a programmed or a nonprogrammed decision? Why?
5. If you were manager of a group with a lot of personality conflict, what would you do?

Managerial Decision Exercises

1. Imagine that you are a manager and that two of your employees are blaming one another for a recent project not going well. What factors would you consider in deciding whom to believe? Who else would you talk to before making a decision? What would you do to try to reduce the likelihood of this happening again?
2. You have been asked whether your organization should expand from selling its products only in North America to selling its products in Europe as well. What information would you want to collect? Who would you want to discuss the idea with before making a decision?
3. You have a colleague who decided the organization should pursue a new technology. Nine months into the project of transitioning to the new technology, based on new information you are convinced that the new technology is not going to work out as anticipated. In fact, you expect it to be a colossal failure. However, when you try to talk to your colleague about the issue, she won't listen to your arguments. She is adamant that this new technology is the correct direction for your organization. Why do you think she is so resistant to seeing reason? Given what you learned in this chapter, what could you do to persuade her?
4. Your manager has asked you to take the lead on a new and creative project. She has encouraged you to create your own team (from existing employees) to work with you on the project. What factors would you want to consider in deciding who should join your project team? What would you want to do as the team leader to increase the likelihood that the group will be successful?
5. Identify the logical flaw(s) in this argument:
 - We want to have effective leaders in this organization.
 - Taller individuals tend to be perceived as more leader-like.
 - Men are usually taller than women.
 - So, we should only hire men to be managers in our organization.

Critical Thinking Case

Vinyl Records Make a Comeback

The music industry has seen a series of innovations that have improved audio quality—vinyl records sales were eventually surpassed by compact discs in the 1980s, which were then eclipsed by digital music in the early 2000s. Both of the newer technologies boast superior sound quality to vinyl records. Vinyl should be dead . . . yet it's not. Some say this is simply a result of nostalgia—people love to harken back to older times. However, some audiophiles say that vinyl records produce a “warm” sound that can't be reproduced in any other format. In addition, a vinyl record is a tangible product (you can feel it, touch it, and see it when you own the physical record) and is more attractive, from an aesthetic perspective, than a CD. It is also a format that encourages listening to an entire album at once, rather than just listening to individual tracks, which can change the listening experience.

Whatever the reasons, vinyl is making an impressive comeback. Sales growth has been in the double digits for the last several years (over 50% in 2015 and again in 2016) and is expected to exceed \$5 billion in 2017. Sony, which hasn't produced a vinyl record since 1989, recently announced that it is back in the vinyl business.

One of the biggest challenges to making vinyl records is that most of the presses are 40+ years old. In the record-making process, vinyl bits are heated to 170 degrees, and then a specialized machine exerts 150 tons of pressure to press the vinyl into the shape of the record. About a dozen new vinyl record manufacturers have sprung up in the last decade in the United States. Independent Record Pressing, a company based in New Jersey, began producing vinyl records in 2015 using old, existing presses. Their goal upon starting up was to produce over a million records a year. Even at that level of production, though, demand far outstrips the

company's capacity to produce because of the limited number of presses available. They could run their machines nonstop, 24 hours a day, and not catch up with demand.

The big question is what the future holds for this industry. Will this just be a passing fad? Will the vinyl record industry remain a small niche market? Or is this the renaissance, the rebirth of a product that can withstand the test of time and alternative technologies? If it's a rebirth, then we should see demand continue to grow at its recent rapid pace . . . and if demand remains strong, then investing in new presses may well be worthwhile. If this is just a short-lived nostalgic return to an outdated media, however, then the large capital investment required to purchase new presses will never be recouped. Even with the recent growth, vinyl records still accounted for only 7% of overall music industry sales in 2015. That may be enough to get old presses running again, but so far it hasn't been enough to promote a lot of investment in new machines. The cost of a new press? Almost half a million dollars.

At least one manufacturer is optimistic about the future of vinyl. GZ Media, based in Czechoslovakia, is currently the world's largest producer of vinyl records. President and owner Zdenek Pelc kept his record factory going during the lean years when vinyl sales bottomed out. He admits that the decision was not wholly logical; he continued in part because of an emotional attachment to the media. After demand for vinyl records practically disappeared, Pelc kept just a few of the presses running to meet the demand that remained. His intention was to be the last remaining manufacturer of vinyl records. Pelc's emotional attachment to vinyl records seems to have served him well, and it's a great example of why basing decisions on pure logic doesn't always lead to the best results. Consumers make purchasing decisions in part based on the emotional appeal of the product, so it shouldn't be surprising that consumers also feel an emotional attachment to vinyl records, as Pelc did.

When demand for vinyl records was low, Pelc stored the company's presses that were no longer in use so that they could be cannibalized for parts as needed. When sales began to grow again in 2005, he started pulling old machines out of storage and even invested in a few new ones. This has made GZ Media not only the largest vinyl record producer in the world, but also one of the only ones with new factory equipment. GZ Media produces over 20 million vinyl records a year, and Pelc is excited to continue that trend and to remain a major manufacturer in what is currently still considered a niche market.

Critical Thinking Questions

1. Why do you think vinyl records are appealing to customers?
2. Do you think the sales growth will continue to be strong for vinyl sales? Why or why not?
3. What research would you want to conduct prior to making a decision to invest in new presses?

Sources: Lee Barron, "Back on record – the reasons behind vinyl's unlikely comeback," *The Conversation*, April 17, 2015, <https://theconversation.com/back-on-...comeback-39964>. Hannah Ellis-Peterson, "Record sales: vinyl hits 25-year high," *The Guardian*, January 3, 2017, www.theguardian.com/music/20...tripsstreaming. Allan Kozinn, "Weaned on CDs, They're Reaching for Vinyl," *The New York Times*, June 9, 2013. Rick Lyman, "Czech company, pressing hits for years on vinyl, finds it has become one," *The New York Times*, August 6, 2015. Alec Macfarlane and Chie Kobayashi, "Vinyl comeback: Sony to produce records again after 28-year break," *CNN Money*, June 30, 2017, money.cnn.com/2017/06/30/news...rds/index.html. Kate Rogers, "Why millennials are buying more vinyl records," *CNBC.com*, November 6, 2015. <https://www.cnbc.com/2015/11/06/why-...l-records.html>. Robert Tait, "In the groove: Czech firm tops list of world's vinyl record producers," *The Guardian*, August 18, 2016.

This page titled [3.3.8: Summary](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **2.8: Summary** by OpenStax is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

3.4: WATCH - Emotional Intelligence

Notes:

Within Section 2.2 of your textbook, you learned about emotional intelligence. In 1995, Dr. Daniel Goleman, introduced the concept via his book called Emotional Intelligence.

Watch the following 5:31 video where Dr. Goleman answers a variety of questions relative to the topic:



3.4: WATCH - Emotional Intelligence is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

3.5: WATCH - Decision-Making Strategies

Notes:

Within Section 2.3 of your textbook, you learned that objectivity is important when making non-programmed decisions. The following 4:25 video provides some additional insight into how you can objectively evaluate potential options:



3.5: [WATCH - Decision-Making Strategies](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

CHAPTER OVERVIEW

4: Module 4 - The Organizational Environment

4.1: Key Ideas

4.2: REVIEW - Internal and External Environments Graphic

4.3: External and Internal Organizational Environments and Corporate Culture

4.3.1: Introduction to External and Internal Organizational Environments and Corporate Culture

4.3.2: The Organization's External Environment

4.3.3: External Environments and Industries

4.3.4: Organizational Designs and Structures

4.3.5: The Internal Organization and External Environments

4.3.6: Corporate Cultures

4.3.7: Organizing for Change in the 21st Century

4.3.8: Summary

4.4: WATCH - Centralization vs. Decentralization

4.5: WATCH - Organizational Structure

4.6: WATCH - SWOT Analysis

4.7: WATCH - SWOT Example Starbucks

4.8: WATCH - SWOT Example Tesla

4: Module 4 - The Organizational Environment is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

4.1: Key Ideas

Module 4: Key Ideas

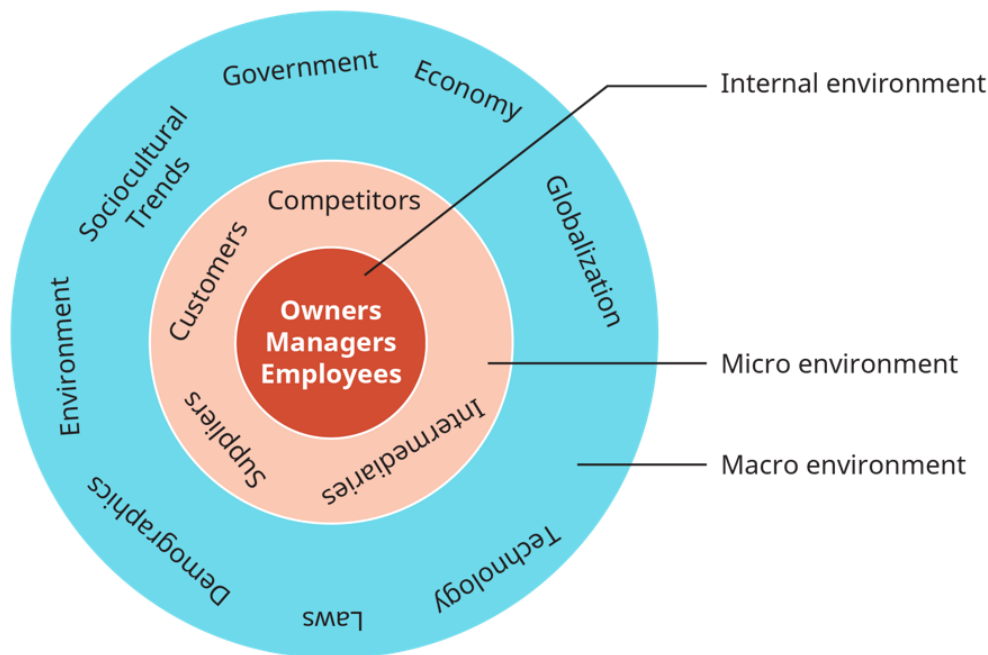
- Internal and external environments
 - Types of organizational structures
 - PESTEL Analysis
 - SWOT Analysis
-

4.1: Key Ideas is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

4.2: REVIEW - Internal and External Environments Graphic

Internal and External Business Environments

This week, you will be introduced to an organization's internal and external environments. Spend some time reviewing the following image to get a sense of what is included in each:



(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

4.2: REVIEW - Internal and External Environments Graphic is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

SECTION OVERVIEW

4.3: External and Internal Organizational Environments and Corporate Culture

Learning Objectives

After this chapter, you should be able to understand these statements:

1. Define the external environment of organizations.
2. Identify contemporary external forces pressuring organizations.
3. Identify different types of organizational structures and their strengths and weaknesses.
4. Explain how organizations organize to meet external market threats and opportunities.
5. Identify the fit between organizational cultures and the external environment.
6. Identify environmental trends, demands, and opportunities facing organizations.

4.3.1: Introduction to External and Internal Organizational Environments and Corporate Culture

4.3.2: The Organization's External Environment

4.3.3: External Environments and Industries

4.3.4: Organizational Designs and Structures

4.3.5: The Internal Organization and External Environments

4.3.6: Corporate Cultures

4.3.7: Organizing for Change in the 21st Century

4.3.8: Summary

This page titled [4.3: External and Internal Organizational Environments and Corporate Culture](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

4.3.1: Introduction to External and Internal Organizational Environments and Corporate Culture

✚ EXPLORING MANAGERIAL CAREERS

Jeff Bezos of Amazon

Amazon's market value was estimated at \$1 trillion USD dollars in 2018. The company was recognized as the most innovative company in Fast Company's 2017 list, accounting for 44 percent of all U.S. ecommerce that year—approximately 4 percent of the U.S.'s total retail sales. Amazon market value is greater than the sum of the market capitalizations of Walmart, Target, Best Buy, Nordstrom, Kohl's, JCPenney, Sears, and Macy's. Jeff Bezos, founder and leader, has creatively accomplished what most large companies fail at: meshing size, scale, and external opportunities with agility. Sales figures reached \$100 billion in 2015 while the stock price climbed over 300% in the past five years. The company plans on creating over 50,000 new jobs starting in 2018. Bezos has blended his strategy of virtually reaching unlimited numbers of online customers while maintaining land-based distribution centers using Prime's \$99-per-year—\$119 in 2018—membership. Stephenie Landry, an Amazon's vice president, stated that Prime has reached 49 cities in seven countries. Over 100 million people in 2018 subscribe to the Prime service. She noted that the business has only to answer two questions from customers: "Do you have what I want, and can you get it to me when I need it?" The answer seems to be yes, especially with Bezos's strategy of having high-tech robots already working side by side with human employees—resembling a "factory of the future."

Bezos's digital commerce strategy has led the firm to become the leader of retail commerce. Amazon's digital strategy uses Prime memberships that are supplied and supported by land-based distribution centers; Prime takes in reaching about 60% of the total dollar value of all merchandise sold on the site. That accounts for 60 million customers in the United States who use Prime and who spend \$2,500 on Amazon annually. A study of 3,000 independent businesses, half of whom were retailers, listed competition from Amazon as their primary concern. Industry after industry is being disrupted, some replaced, by Bezos's strategy. He has said, "Everybody wants fast delivery. Low prices. I'm serious about this. Our job is to provide a great customer experience, and that is something that is universally desired all over the world".

Still, Amazon faces such challenges as high shipping cost (over \$11 billion annually), pressures on employees (especially those working in warehouses that have been criticized for poor working conditions), shipping contractors who go on strike demanding higher wages and reduced workloads, and the possibilities of more governmental regulation (especially with regard to adding drones as a delivery method), as well as pressures to pay more taxes. Bezos has countered these arguments by adding more full-time jobs in different cities, promising to improve working conditions, supporting public spaces for the public, and most importantly, contributing to the U.S. economy.

Sources: <https://www.bloomberg.com/news/artic...past-microsoft>. Noah Robischon, (2017). Why Amazon Is The World's Most Innovative Company Of 2017, www.fastcompany.com/3067455/...ompany-of-2017; L. Thomas, (2018). Amazon grabbed 4 percent of all US retail sales in 2017, new study says, www.cnn.com/2018/01/03/amaz...-newstudy.html

Organizations and industries are again at a crossroads when confronting new and challenging external environmental demands. Exceptional companies such as Amazon, in the opening case, Apple, Netflix, and Google/Alphabet Inc. exemplify evolving business models that combine strategic innovation, technological prowess, and organizational cultural agility that not only meet external environmental demands, but also shape them.

Many businesses with traditional business models, however, have failed or are not succeeding strategically, operationally, and organizationally by not realizing and/or adapting to changing external environments. Such firms that were once successful but did not anticipate and then adapt to such changes include Blockbuster, Toys R Us, Borders, Sun Microsystems, Motorola, Digital Equipment Corporation, Polaroid, and Kodak, to name only a few. A sample of contemporary external environmental trends and forces that currently challenge organizations' survival and effectiveness includes:

- *Digital technologies and artificial intelligence (AI)*: Extensions of AI help automate a firm's value chain, thus speeding up and increasing efficient operations and service to customers—as Amazon exemplifies. A current survey showed that 59% of organizations are collecting information to develop AI strategies, while others are moving forward in piloting and/or adopting AI solutions to compete faster and at less cost.¹ However, there are also risks that accompany firms that incorporate new digital and online technologies without adequate security measures. For example, some newer online technologies can expose

operational systems to cyberattacks and large-scale manipulation. Hacking is now both an illegal and ongoing “profession” for those who are able to paralyze organizations from accessing their data unless they pay a ransom. While hacking is not new, it is more widespread and lethal, to the point of even threatening national security. Emerging evidence from the U.S. presidential election between Donald Trump and Hillary Clinton suggests that international hackers affected online U.S. election processes. Still, the future of most businesses is using some type of digital and AI technologies.

- The advent of *blockchain* technologies that are interrupting new industry practices. Blockchain is not a single technology; it is “an architecture that allows disparate users to make transactions and then creates an unchangeable record of those transactions.” It is “a public electronic ledger—similar to a relational database—that can be openly shared among disparate users and that creates an unchangeable record of their transactions, each one time-stamped and linked to the previous one.”² These technological inventions will continue to affect almost every business process from procurement to legal management. The banking industry is already using it. It increases speed, security, and accuracy of transactions.
- *Sharing-economy cultural and economic value-added business models* that use information technologies to gain competitive advantage. Companies such as Airbnb and Uber have ushered in new business models that have already disrupted real estate, hotel, taxi, and other industries. Taking out the middle layer of management in transactions to increase efficiencies and customer satisfaction while cutting costs through the use of information and social media technologies will continue. This trend has already had both positive and disruptive effects on companies. Many customers are likely benefitted; businesses with outdated and ineffective business models have either failed or struggle to adapt.
- *Shifts in learning and learning credentials*. Identifying, recruiting, and retaining talent is crucial to organizations. An evolving crisis for the current generation—future talent—is the continued rise in higher educational institutions’ tuitions, student debt, and the changing nature of jobs. With the advent of online resources, prospective students’ inability to pay creates both a crisis and opportunity for traditional higher educational institutions. While bachelor’s degrees remain a requirement for many companies hiring needed higher-level talent, online resources such as Khan Academy, Udacity, and Coursera are gaining recognition and legitimacy toward providing financially challenged students opportunities for entry-level jobs. While many higher-skilled students and professionals may not presently be included in this trend, companies seeking to pay lower wages while offering flexible working conditions are attracting students.³ Again, how higher educational private, not-for-profit, and even for-profit educational institutions adapt, innovate, and manage their external environments is yet to be seen.
- *Ethics, corporate social responsibility (CSR), and sustainability*. Corruption, lying, and fraud have been and continue to be part of the landscape of governments and public- and private-sector corporations. However, public awareness through social and online media has awakened consumers and corporations to the impending dangers and drawbacks of illegal and unethical activities of certain large corporations. And external environmental problems, created in part by humans, such as pollution and climate change pressure companies to be responsible for their share of the costs associated with these problems.

This small sample of powerful external forces illustrates the continuing pressure companies encounter to innovate in their industries. Basic theories, concepts, and principles are presented in this chapter to help explain elements of external environments and how organizations and corporations can organize and are organizing to survive and thrive in the 21st century.

References

1. Panetta, Kasey, “Gartner Top 10 Strategic Technology Trends for 2018”, Gartner, October 3, 2017. <https://www.gartner.com/smarterwithg...ends-for-2018/>
2. Mearian, Lucas, “What is blockchain? The most disruptive technology in decades”, Computerworld, May 31, 2018. <https://www.computerworld.com/articl...n-decades.html>; www.forbes.com/sites/theyec/.../#6b6c3524583f
3. Young Entrepreneurship Council, “23 Trends That Will Shake the Business World in 2018”, Forbes, January 10, 2018. www.forbes.com/sites/theyec/.../#6b6c3524583f

This page titled [4.3.1: Introduction to External and Internal Organizational Environments and Corporate Culture](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [4.1: Introduction to External and Internal Organizational Environments and Corporate Culture](#) by OpenStax is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

4.3.2: The Organization's External Environment

Learning Objectives

1. Be able to define the external environment of organizations.

To succeed and thrive, organizations must adapt, exploit, and fit with the forces in their external environments. Organizations are groups of people deliberately formed together to serve a purpose through structured and coordinated goals and plans. As such, organizations operate in different external environments and are organized and structured internally to meet both external and internal demands and opportunities. Different types of organizations include not-for-profit, for-profit, public, private, government, voluntary, family owned and operated, and publicly traded on stock exchanges. Organizations are commonly referred to as companies, firms, corporations, institutions, agencies, associations, groups, consortiums, and conglomerates.

While the type, size, scope, location, purpose, and mission of an organization all help determine the external environment in which it operates, it still must meet the requirements and contingencies of that environment to survive and prosper. This chapter is primarily concerned with how organizations fit with their external environments and how organizations are structured to meet challenges and opportunities of these environments. Major takeaways for readers of this chapter include the following: 1) Be able to identify elements in any organization's external—and internal—environment that may interest or affect you as an employee, shareholder, family member, or observer. 2) Gain insights into how to develop strategies and tactics that would help you (and your organization) navigate ways to cope with or try to dominate or appeal to elements (e.g., market segments, stakeholders, political/social/economic/technological issues) in the environment.

The big picture of an organization's **external environment**, also referred to as the *general environment*, is an inclusive concept that involves all outside factors and influences that impact the operation of a business that an organization must respond or react to in order to maintain its flow of operations.⁴ Exhibit 4.2 illustrates types of general macro environments and forces that are interrelated and affect organizations: sociocultural, technological, economic, government and political, natural disasters, and human-induced problems that affect industries and organizations. For example, economic environmental forces generally include such elements in the economy as exchange rates and wages, employment statistics, and related factors such as inflation, recessions, and other shocks—negative and positive. Hiring and unemployment, employee benefits, factors affecting organizational operating costs, revenues, and profits are affected by global, national, regional, and local economies. Other factors discussed here that interact with economic forces include politics and governmental policies, international wars, natural disasters, technological inventions, and sociocultural forces. It is important to keep these dimensions in mind when studying organizations since many if not most or all changes that affect organizations originate from one or more of these sources—many of which are interrelated.

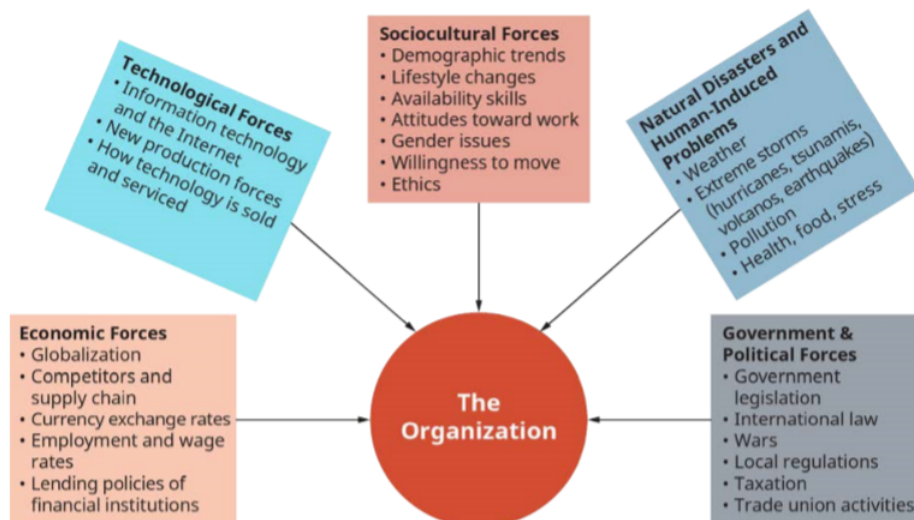


Exhibit 4.2 Macro Forces and Environments (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Globalization is a combination of external forces shaping environments of organizations. Defined as the development of an integrated global economy and characterized by free trade, capital flows, communications, and cheaper foreign labor markets, the processes of globalization underlie the forces in the general international economic environment. This dimension continues to

present opportunities and pressures to companies operating locally as well as globally. Globalization continues to affect industries and companies in ways that benefit some and not others. Amazon, for example, is thriving. The firm sells low-end products through its brand AmazonBasics. The company has individual retail websites for the United States, the United Kingdom and Ireland, France, Canada, Germany, Italy, Spain, the Netherlands, Australia, Brazil, Japan, China, India, and Mexico. Uber and Airbnb represent some of the larger sharing-economy companies that operate internationally and have to date prospered in the so-called new but fragmenting global economy.



Exhibit 4.3 Bezos Jeff Bezos' digital commerce strategy has led the firm to become the leader of retail commerce, and forced traditional retailers like Toys R Us to close their operations, and retailers like Walmart, Target, and Sears to reassess their business environment. Amazon's digital strategy uses Prime memberships that are supplied and supported by land-based distribution centers; Prime takes in reaching about 60% of the total dollar value of all merchandise sold on the site. (Credit: Sam Churchill/flickr/ Attribution 2.0 Generic (CC BY 2.0))

In general, countries that have gained from globalization include Japan, South Korea, Taiwan, Malaysia, Singapore, Hong Kong, Thailand, and China. China's markets and growing economic prowess have particularly been noticed. China's GDP (gross domestic product) is estimated at \$13.2 trillion in 2018, outpacing the \$12.8 trillion combined total of the 19 countries that use the euro.⁵ Corporations worldwide, large and small, online and land-based, strive to gain access to sell in China's vast markets. Moreover, China at the beginning of 2018 owns \$1.168 trillion of the United States' debt.⁶ Japan, in second place, owes \$1.07 trillion of this debt. Any instability politically and economically with China could result in increasing inflation and interest rates in the U.S. economy that could, in turn, negatively affect U.S. businesses.

Economic forces

Economically, "The strategic challenge of the next decade is navigating a world that is simultaneously integrating and fragmenting. Stock markets have set new records and economic volatility has fallen to historic lows, while political shocks on a scale unseen for generations have taken place. Seemingly contradictory realities do co-exist."⁷ Overall, while economic data indicates that globalization has had a positive effect on the world economy, a dark side also shows that two-thirds of all households in 25 advanced-economy countries had incomes stagnate and/or decline between 2005 and 2014. Moreover, the U.K. and U.S. witnessed falling wages. Wealth distribution in these countries continues to decline. Income inequality globally is also rising. Other trends that also affect the global, regional, and local economies are discussed in this chapter as well as below.

Technological forces are another ubiquitous environmental influence on organizations. Speed, price, service, and quality of products and services are dimensions of organizations' competitive advantage in this era. Information technologies and social media powered by the Internet and used by sharing-economy companies such as Airbnb and Uber have democratized and increased, if not leveled, competition across several industries, such as taxis, real estate rentals, and hospitality services. Companies across industry sectors cannot survive without using the Internet, social media, and sophisticated software in R&D (research and development), operations, marketing, finance, and sales. To manage and use big data in all these functional areas, organizations rely on technology.

Government and political forces also affect industries and organizations. Recent events that have jarred the global economy—and are too early to predict the long-term outcomes of—are the United Kingdom's exit from the European Union, President Trump's nationalistic policies echoed by other presidents in Chile and Argentina,⁸ wars in the Middle East, policies that question and disrupt

free trade, health-care reform, and immigration—all of which increase uncertainty for businesses while creating opportunities for some industries and instability in others.

Sociocultural forces

Sociocultural environmental forces include different generations' values, beliefs, attitudes, customs and traditions, habits, and lifestyles. More specifically, other aspects of societal cultures are education, language, religion, law, politics, and social organizations. The millennial (ages 20 to 35) workforce, for example, generally seeks work that engages and interests them. Members of this generation are also health conscious and eager to learn. Since this and the newer generation (Generation Z) are adept and accustomed to using technology—social media in particular—organizations must be ready and equipped to provide wellness, interesting, and a variety of learning and work experiences to attract and retain new talent. Millennials are also estimated to be the United States' largest living adult generation in 2019. This generation numbered about 71 million compared with 74 million baby boomers (ages 52 to 70) in 2016. By 2019, an estimated 73 million millennials and 72 million boomers are projected. Because of immigration, millennials are estimated to increase until 2036.⁹

Other general sociocultural trends occurring in the United States and internationally that affect organizations include the following: (1) Sexual harassment at work in the era of #MeToo has pressured organizations to be more transparent about relationships between owners, bosses, and employees. Related to this trend, some surveys show new difficulties for men in workplace interactions and little effect on women's career opportunities taking place in the short term.¹⁰ (2) While fewer immigrants have been entering the United States in recent years, diversity in the U.S. workplace continues. For example, 20 million Asian Americans trace their roots to over 20 countries in East and Southeast Asia and the Indian subcontinent—"each with unique histories, cultures, languages and other characteristics. The 19 largest origin groups together account for 94% of the total Asian population in the U.S."¹¹ (3) Young adults in the United States are living at home longer. "In 2016, 15% of 25- to 35-year-old Millennials were living in their parents' home. This is 5 percentage points higher than the share of Generation Xers who lived in their parents' home in 2000 when they were the same age (10%), and nearly double the share of the Silent Generation who lived at home in 1964 (8%)."¹² (4) While women have made gains in the workplace, they still comprise a small share of top leadership jobs—across politics and government, academia, the nonprofit sector, and business. Women comprised only about 10% of CEOs (chief executive officers), CFOs (chief financial officers), and the next three highest-paid executives in U.S. companies in 2016–17.¹³ A 2018 study by McKinsey & Company "reaffirms the global relevance of the link between diversity—defined as a greater proportion of women and a more mixed ethnic and cultural composition in the leadership of large companies—and company financial outperformance."¹⁴ These and other related sociocultural trends impact organizational cultures and other dimensions involving human talent and diverse workforces.

Natural disasters and human-related problems

Natural disaster and human induced environmental problems are events such as high-impact hurricanes, extreme temperatures and the rise in CO₂ emissions as well as 'man-made' environmental disasters such as water and food crises; biodiversity loss and ecosystem collapse; large-scale involuntary migration are a force that affects organizations. The 2018 Global Risks Report identified risks in the environmental category that also affect industries and companies—as well as continents and countries. These risks were ranked higher than average for both likelihood and impact over a 10-year horizon. The report showed that 2017 was characterized by high-impact hurricanes, extreme temperatures, and the first rise in carbon dioxide emissions in four years; "man-made" environmental disasters; water and food crises; biodiversity loss and ecosystem collapse; and large-scale involuntary migration to name a few. Authors of this study noted that "Biodiversity is being lost at mass-extinction rates, agricultural systems are under strain and pollution of the air and sea has become an increasingly pressing threat to human health."¹⁵ Most vulnerable to rising seas are low-lying islands in the Indian and Pacific Oceans. The Republic of the Marshall Islands has more over 1,100 low-lying islands on 29 atolls that include island nations with hundreds of thousands of people. Predictions indicate that rising sea levels could reach 3 feet worldwide by 2300 or sooner. One report stated that in your child's lifetime, Miami, Florida, could be underwater.¹⁶ Large sections of Louisiana's marshes separating the ocean from the coastline are submerging. Oil producers and other related corporations are being sued by that state, claiming that fossil fuel emissions have contributed to natural disasters such as climate change. Many new companies in the United States are already constructing buildings to withstand increasing flooding and predicted rising water levels.

? Concept Check

1. Define the components of the internal and the external business environments.
2. What factors within the economic environment affect businesses?
3. Why do demographic shifts and technological developments create both challenges and new opportunities for business?

References

4. This is a broad definition which has been used in different forms. The source here is “What is an External Environment in Business” Chapter 5, *study.com*, Accessed October 15, 2018. <https://study.com/academy/lesson/wha...s-factors.html>
5. Jamrisko, Michelle, “China’s Economy to Overtake Euro Zone This Year”, *Bloomberg*, March 6, 2018. <https://www.bloomberg.com/news/artic...area-this-year>
6. China Owns US Debt, but How Much? | *Investopedia*, April 6, 2018. www.investopedia.com/articles/investing/080615/china-owns-us-debt-how-much.asp#ixzz5DcHG4d7k
7. Rawlinson, Paul, “A prediction for globalization in 2018”, *World Economic Forum*, January 22, 2018. <https://www.weforum.org/agenda/2018/...lization-2018/>
8. Bersin, Josh and Mazor, Art, “Culture Engagement and Beyond”, *Deloitte Insights*, February 28, 2017. www2.deloitte.com/insights/u...ngagement.html?id=us:2ps:3gl:confidence:eng:cons::na:LlxmKVLK:1079836504:244787795449:b:RLSA_Human_Capital_Trends::nb
9. Cilluffo, Anthony and Cohen, D’Vera, “10 demographic trends shaping the U. S. and the World in 2017”, *Pew Research Center*, April 27, 2017. www.pewresearch.org/fact-tank...world-in-2017/
10. Graf, Nikki, Sexual Harassment at work in the Era of #MeToo”, *Pew Research Center*, April 4, 2018. <http://www.pewsocialtrends.org/2018/...-era-of-metoo/>
11. The Global Risks Report 2018 13th Edition. (2018). *The World Economic Forum*, http://www3.weforum.org/docs/WEF_GRR18_Report.pdf, p. 6. Also see <http://reports.weforum.org/global-ri...andscape-2018/>
12. Fry, Richard, “It’s becoming more common for young adults to live at home for longer stretches”, *Pew Research Center*, May 5, 2017. www.pewresearch.org/fact-tank...ger-stretches/
13. DeSilver, Drew, “Women scarce at the top of U.S. business- and in the job that lead there”, *Pew Research Center*, April 30, 2018. www.pewresearch.org/fact-tank...at-lead-there/
14. Hunt, Vivian et al, “Delivering Through Diversity”, *McKinsey*, January 2018. www.mckinsey.com/~media/McK...ur%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx
15. The Global Economic Report, 13th Edition, *World Economic Forum*, 2018. http://www3.weforum.org/docs/WEF_GRR18_Report.pdf
16. Rice, Doyle, “Thousands of low-lying islands may become 'uninhabitable' within decades as seas rise”, *USA Today*, April 25, 2018. <https://www.usatoday.com/story/news/...ise/550659002/>

This page titled [4.3.2: The Organization's External Environment](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [4.2: The Organization's External Environment](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

4.3.3: External Environments and Industries

Learning Objectives

1. Identify contemporary external forces pressuring organizations.

Industry and organizational leaders monitor environments to identify, predict, and manage trends, issues, and opportunities that their organizations and industries face. Some corporations, such as Amazon, anticipate and even create trends in their environments. Most, however, must adapt. External environments, as identified in the previous section, can be understood by identifying the uncertainty of the environmental forces. Exhibit 4.4 illustrates a classic and relevant depiction of how scholars portray environment-industry-organization “fit,” that is, how well industries and organizations align with and perform in different types of environments.

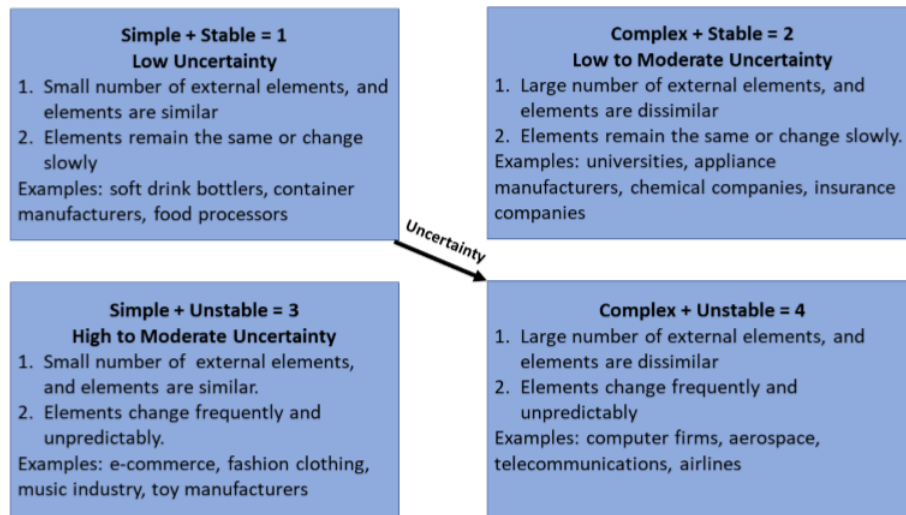


Exhibit 4.4 Company Industry Fit Adapted from: Duncan, R. (1972). Characteristics of organizational environments of uncertainty. *American Science Quarterly*, 17(September), 313-327; Daft, R. *Organizational Theory and Design*, 12th edition, p. 151, Mason, OH, Cengage Learning.

The two dimensions of this figure represent “environmental complexity” (i.e., the number of elements in the environment, such as competitors, suppliers, and customers), which is characterized as either simple or complex, and “environmental change,” described as stable or unstable. How available monetary and financial resources are to support an organization’s growth is also an important element in this framework.¹⁷ Certain industries—soft drink bottlers, beer distributors, food processors, and container manufacturers—would, hypothetically, fit and align more effectively in a stable (i.e., relative unchanging), simple, and low-uncertainty (i.e., has mostly similar elements) external environment—cell 1 in Exhibit 4.4. This is referred to when organizations are in a **simple-stable environment**. Of course unpredicted conditions, such as global and international turmoil, economic downturns, and so on, could affect these industries, but generally, these alignments have served as an ideal type and starting point for understanding the “fit” between environment and industries. In a stable but complex, low- to moderate-uncertainty environment, cell 2 in Exhibit 4.4, universities, appliance manufacturers, chemical companies, and insurance companies would generally prosper. This is referred to when organizations are in a **complex-stable environment**. When the external environment has simple but high to moderate uncertainty, cell 3 of Exhibit 4.4, e-commerce, music, and fashion clothing industries would operate effectively. This is referred to when organizations are in a **simple-unstable environment**. Whereas in cell 4 of Exhibit 4.4, an environment characterized by a high degree of uncertainty with complex and unstable elements, industries and firms such as computer, aerospace, airlines, and telecommunications firms would operate more effectively. This is referred to when organizations are in a **complex-unstable environment**.

Exhibit 4.4 is a starting point for diagnosing the “fit” between types of external environments and industries. As conditions change, industries and organizations must adapt or face consequences. For example, educational institutions that traditionally have been seen to operate best in low- to moderate-uncertainty environments, cell 4 of Exhibit 4.4, have during this past decade experienced more high to moderate uncertainty (cell 2)—and even high uncertainty (cell 1). For example, for-profit educational institutions such as the University of Phoenix and others—as compared to not-for-profit universities and colleges, such as public state institutions,

community colleges, and private nonprofit ones—have undergone more unstable and complex forces in the external environment over the past decade. Under the Obama administration, for-profit universities faced greater scrutiny regarding questionable advertising, graduation rates, and accreditation issues; lawsuits and claims against several of these institutions went forward, and a few of the colleges had to close. The Trump administration has shown signs of alleviating aggressive governmental control and monitoring in this sector. Still, higher educational institutions in general currently face increasingly complex and unstable environments given higher tuition rates, increased competition from less-expensive and online programs, fewer student enrollments, and an overabundance of such institutions. Several private, not-for-profit higher educational institutions have merged and also ceased to exist. Adapting to increasingly rapid external change has become a rallying call for most industries and organizations as the 21st century evolves.

Organizational Complexity

It is important to point out here that external (and internal) organizational complexity is not often as simple as it may seem. It has been defined as “...the amount of complexity derived from the environment where the organisation operates, such as the country, the markets, suppliers, customers and stakeholders; while internal complexity is the amount of complexity that is internal to the organisation itself, i.e. products, technologies, human resources, processes and organisational structure. Therefore, different aspects compose internal and external complexities.”¹⁸

The dilemma that organizational leaders and managers sometimes face is how to deal with external, and internal, complexity? Do you grow and nurture it or reduce it? Some strategies call for reducing and managing it at the local level while nurturing it at the global level—depending on the organization’s size, business model, and the nature of the environments. Without going into complicated detail, it is fair to say at the beginning of the chapter that you may want to read through the chapter first, then return here afterward.

In the meantime, here are some simple rules from organizational practitioners De Toni and De Zan to keep in mind for managing high levels of complexity from the external environment, internally, after you have diagnosed the nature of the external complexity—as we discuss throughout in this chapter: first, assemble “...a set of self-managing teams or autonomous business units,[known as modularized units] with an entrepreneurial responsibility to the larger organization.” These focused self-organizing teams use creative methods to deal with the diversity to the advantage of the organization. A second method when facing high external environmental complexity when you want to gain value from it is to find and develop “...simple rules to drive out creativity and innovation ... to keep the infrastructure and processes simple, while permitting complex outputs and behaviours.” An example offered is found in the rules of the Legos company: “(1) does the proposed product have the Lego look? (2) Will children learn while having fun? (3) Will parents approve? (4) Does the product maintain high quality standards? (5) Does it stimulate creativity?”¹⁹

A third strategy for dealing with external complexity involves companies’ building on their own capabilities manage too much complexity, which otherwise lead to chaos. Some of those strategies include creating open networks internal and outside the organization to promote cooperation and integration and to develop brand and reputation. Also, sharing “...values, vision, strategy, organizational processes and knowledge, through the development of trust and incorporation and promotion of leaders at all levels” can help internal teams exploit external complexity to the organization’s advantage. Keep these ideas in mind as you read through the chapter and think about how leaders, managers, employees, and you can learn to read external environmental clues that organizations can use to creatively and proactively use organizational resources to be more competitive, effective, and successful.

? Concept Check

1. What factors within the economic environment affect businesses?
2. Why do change and shifts and technological developments create both challenges and new opportunities for business?

References

17. Felice De Toni, A. and G. De Zan. (2016), The complexity dilemma, Three tips for dealing with complexity in organizations, *Practitioner*, Dec. 31, journal.emergentpublications.com/complexitydilemma/
18. Eisenhardt, K. M., & Sull, D. N. (2001). “Strategy as simple rules”, *Harvard Business Review*, 79(1): 106-119
19. Ibid

This page titled [4.3.3: External Environments and Industries](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **4.3: External Environments and Industries** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

4.3.4: Organizational Designs and Structures

Learning Objectives

1. Identify different types of organizational structures and their strengths and weaknesses.

A 2017 Deloitte source asked, before answering, “Why has organizational design zoomed to the top of the list as the most important trend in the Global Human Capital Trends survey for two years in a row?”²⁰ The source continued, “The answer is simple: The way high-performing organizations operate today is radically different from how they operated 10 years ago. Yet many other organizations continue to operate according to industrial-age models that are 100 years old or more.”²¹

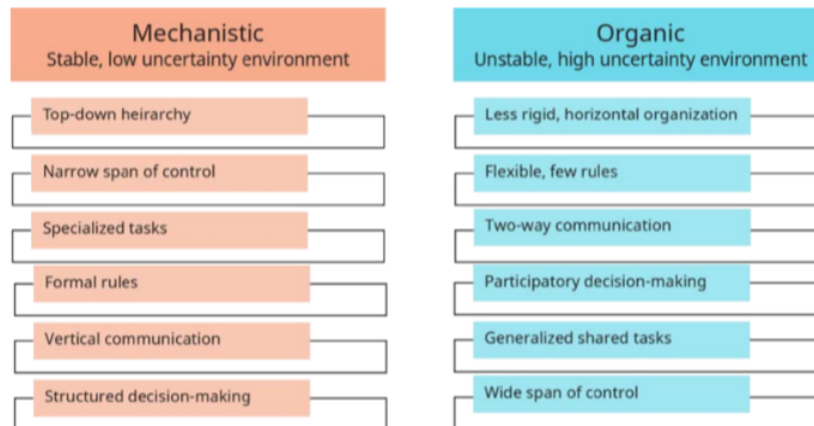


Exhibit 4.5 Mechanistic and Organic Organizations (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Early organizational theorists broadly categorized **organizational structures** and systems as either mechanistic or organic.²² This broad, generalized characterization of organizations remains relevant. **Mechanistic organizational structures** (Exhibit 4.5) are best suited for environments that range from stable and simple to low-moderate uncertainty (Exhibit 4.4) and are characterized by top-down hierarchies of control that are rule-based. The chain of command is highly centralized and uses formal authority; tasks are clearly defined and differentiated to be executed by specific specialized experts. Bosses and supervisors have fewer people working directly under them (i.e., a narrow span of control), and the organization is governed by rigid departmentalization (i.e., an organization is divided into different departments that perform specialized tasks according to the departments’ expertise). This form of organization represents a traditional type of structure that evolved in environments that were, as noted above, stable with low complexity. Historically, the U.S. Postal Service and other manufacturing types of industries (Exhibit 4.4) were mechanistic. Again, this type of organizational design may still be relevant, as Exhibit 4.4 suggests, in simple, stable, low-uncertainty environments.

Organic organizational structures and systems, however, have opposite characteristics from mechanistic ones. As Exhibit 4.4 shows, these organizational forms work best in unstable, complex, changing environments. Their structures are flatter, with participatory communication and decision-making flowing in different directions. There is more fluidity and less-rigid ways of performing tasks; there may also be fewer rules. Tasks are more generalized and shared; there is a wider span of control (i.e., more people reporting to managers). Exhibit 4.5 offers examples of organically structured industries, such as high tech, computer, aerospace, and telecommunications industries, that must deal with change and uncertainty. Contemporary corporations and firms engaged in fast-paced, highly competitive, rapidly changing, and turbulent environments are becoming more organic in different ways, as we will discuss in this chapter. However, not every organization or every part of most organizations may require an organic type of structure. Understanding different organizational designs and structures is important to discern when, where, and under what circumstances a type of mechanistic system or part of an organization would be needed. The following section discusses five types of structures with variations.

Types of Organizational Structures

Within the context of mechanistic versus organic structures, specific types of organizational structures in the United States historically evolved over at least three eras, as we discuss here before explaining types of organizational designs. During the first era, the mid-1800s to the late 1970s, organizations were mechanistic self-contained, top-down pyramids.²³ Emphasis was placed

on internal organizational processes of taking in raw materials, transforming those into products, and turning them out to customers.

Early organizational structures were focused on internal hierarchical control and separate functional specializations in order to adapt to external environments. Structures during this era grouped people into functions or departments, specified reporting relationships among those people and departments, and developed systems to coordinate and integrate work horizontally and vertically. As will be explained, the **functional structure** evolved first, followed by the divisional structure and then the matrix structured.

The second era started in the 1980s and extended through the mid-1990s. More-complex environments, markets, and technologies strained mechanistic organizational structures. Competition from Japan in the auto industry and complex transactions in the banking, insurance, and other industries that emphasized customer value, demand and faster interactions, quality, and results issued the need for more organic organizational designs and structures.

Communication and coordination between and among internal organizational units and external customers, suppliers, and other stakeholders required higher levels of integration and speed of informational processing. Personal computers and networks had also entered the scene. In effect, the so-called “horizontal organization” was born, which emphasized “reengineering along workflow processes that link organizational capabilities to customers and suppliers.”²⁴ Ford, Xerox Corp., Lexmark, and Eastman Kodak Company are examples of early adopters of the **horizontal organizational design**, which, unlike the top-down pyramid structures in the first era, brought flattened hierarchical, hybrid structures and cross-functional teams.

The third era started in the mid-1990s and extends to the present. Several factors contributed to the rise of this era: the Internet; global competition—particularly from China and India with low-cost labor; automation of supply chains; and outsourcing of expertise to speed up production and delivery of products and services. The so-called silos and walls of organizations opened up; everything could not be or did not have to be produced within the confines of an organization, especially if corporations were cutting costs and outsourcing different functions of products to save costs. During this period, further extensions of the horizontal and organic types of structures evolved: the divisional, matrix, global geographic, modular, team-based, and virtual structures were created.

In the following discussion, we identify major types of structures mentioned above and discuss the advantages and disadvantages of each, referenced in Exhibit 4.6. Note that in many larger national and international corporations, there is a mix and match among different structures used. There are also advantages and disadvantages of each structure. Again, organizational structures are designed to fit with external environments. Depending on the type of environments from our earlier discussion in which a company operates, the structure should facilitate that organization’s capability to achieve its vision, mission, and goals.

Exhibit 4.6 offers a profile of different structures that evolved in our discussion above.

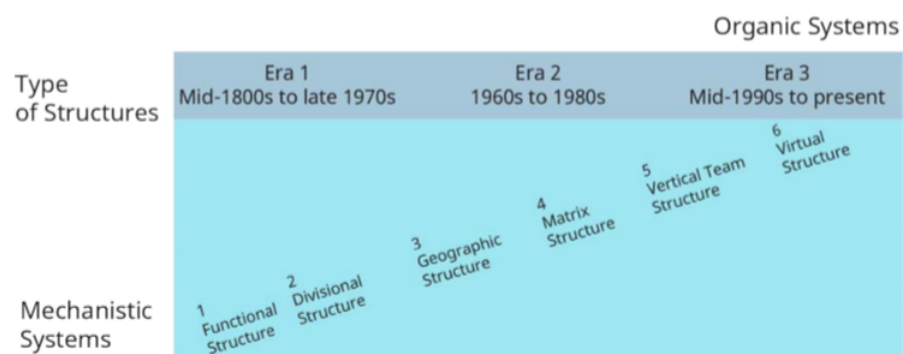


Exhibit 4.6 Evolution of Organizational Structure Adapted from: Daft, R., 2016, Organization Theory and Design, 12th edition, Cengage learning, Chapter 3; Warren, N., “Hitting the Sweet Spot Between Specialization and Integration in Organizational Design”, People and Strategy, 34, No. 1, 2012, pp. 24-30.

Note the continuum in Exhibit 4.6, showing the earliest form of organizational structure, functional, evolving with more complex environments to divisional, matrix, team-based, and then virtual. This evolution, as discussed above, is presented as a continuum from mechanistic to organic structures—moving from more simple, stable environments to complex, changing ones, as illustrated in Exhibit 4.6. The six types of organizational structures discussed here include functional, divisional, geographic, matrix, networked/team, and virtual.²⁵

The functional structure, shown in Exhibit 4.7, is among the earliest and most used organizational designs. This structure is organized by departments and expertise areas, such as R&D (research & development), production, accounting, and human resources. Functional organizations are referred to as pyramid structures since they are governed as a hierarchical, top-down control system.

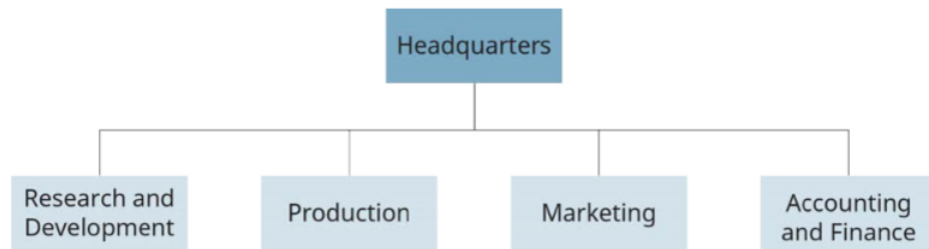


Exhibit 4.7 Functional Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Small companies, start-ups, and organizations working in simple, stable environments use this structure, as do many large government organizations and divisions of large companies for certain tasks.

The functional structure excels in providing for a high degree of specialization and a simple and straightforward reporting system within departments, offers economies of scale, and is not difficult to scale if and when the organization grows. Disadvantages of this structure include isolation of departments from each other since they tend to form “silos,” which are characterized by closed mindsets that are not open to communicating across departments, lack of quick decision-making and coordination of tasks across departments, and competition for power and resources.

Divisional structures, see Exhibit 4.8, are, in effect, many functional departments grouped under a division head. Each functional group in a division has its own marketing, sales, accounting, manufacturing, and production team. This structure resembles a product structure that also has profit centers. These smaller functional areas or departments can also be grouped by different markets, geographies, products, services, or other whatever is required by the company’s business. The market-based structure is ideal for an organization that has products or services that are unique to specific market segments and is particularly effective if that organization has advanced knowledge of those segments.

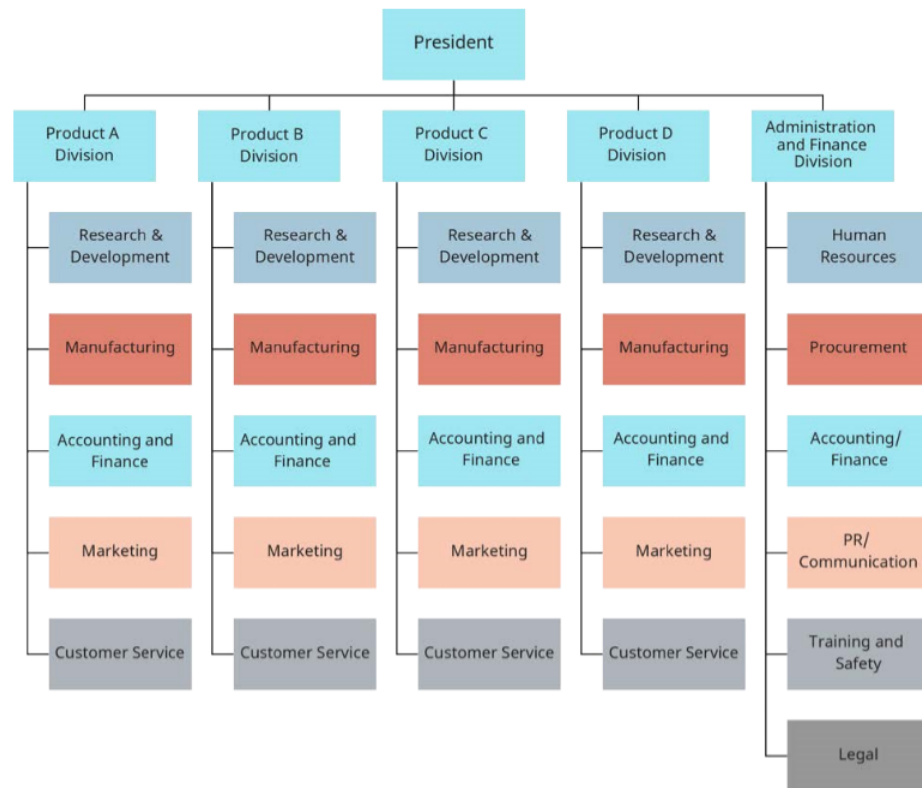


Exhibit 4.8 Divisional Organization Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The advantages of a divisional structure include the following: each specialty area can be more focused on the business segment and budget that it manages; everyone can more easily know their responsibilities and accountability expectations; customer contact and service can be quicker; and coordination within a divisional grouping is easier, since all the functions are accessible. The divisional structure is also helpful for large companies since decentralized decision-making means that headquarters does not have to micromanage all the divisions. The disadvantages of this structure from a headquarters perspective are that divisions can easily become isolated and insular from one another and that different systems, such as accounting, finance, sales, and so on, may suffer from poor and infrequent communication and coordination of enterprise mission, direction, and values. Moreover, incompatibility of systems (technology, accounting, advertising, budgets) can occur, which creates a strain on company strategic goals and objectives.

A **geographic structure**, Exhibit 4.9, is another option aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves. This structure evolved as companies became more national, international, and global. Geographic structures resemble and are extensions of the divisional structure.

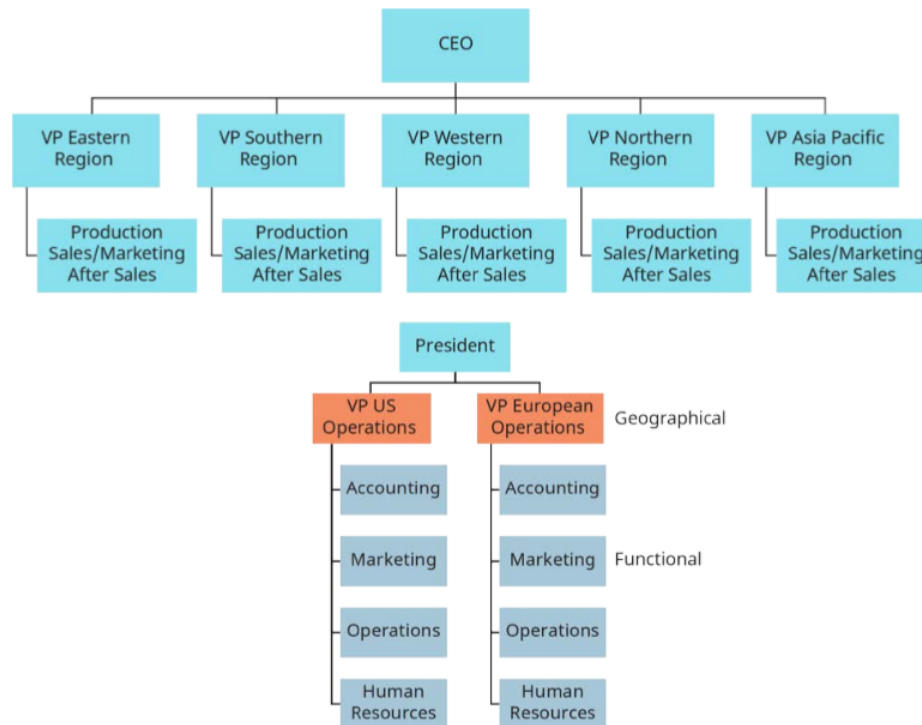


Exhibit 4.9 Geographic Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Organizing geographically enables each geographic organizational unit (like a division) the ability to understand, research, and design products and/or services with the knowledge of customer needs, tastes, and cultural differences. The advantages and disadvantages of the geographic structure are similar to those of the divisional structure. Headquarters must ensure effective coordination and control over each somewhat autonomous geographically self-contained structure.

The main downside of a geographical organizational structure is that it can be easy for decision-making to become decentralized, as geographic divisions (which can be hundreds if not thousands of miles away from corporate headquarters) often have a great deal of autonomy.



Exhibit 4.10 IBM China IBM has chosen a geographic structure which is aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves. This structure evolved as companies became more national, international, and global. Geographic structures resemble and are extensions of the divisional structure. (Credit: Cory Denton/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Matrix structures, illustrated in Exhibit 4.6 and depicted in Exhibit 4.11, move closer to organic systems in an attempt to respond to environmental uncertainty, complexity, and instability. The matrix structure actually originated at a time in the 1960s when U.S. aerospace firms contracted with the government. Aerospace firms were required to “develop charts showing the structure of the project management team that would be executing the contract and how this team was related to the overall management structure of the organization.” As such, employees would be required to have dual reporting relationships—with the government and the aerospace company.²⁶ Since that time, this structure has been imitated and used by other industries and companies since it provides flexibility and helps integrate decision-making in functionally organized companies.

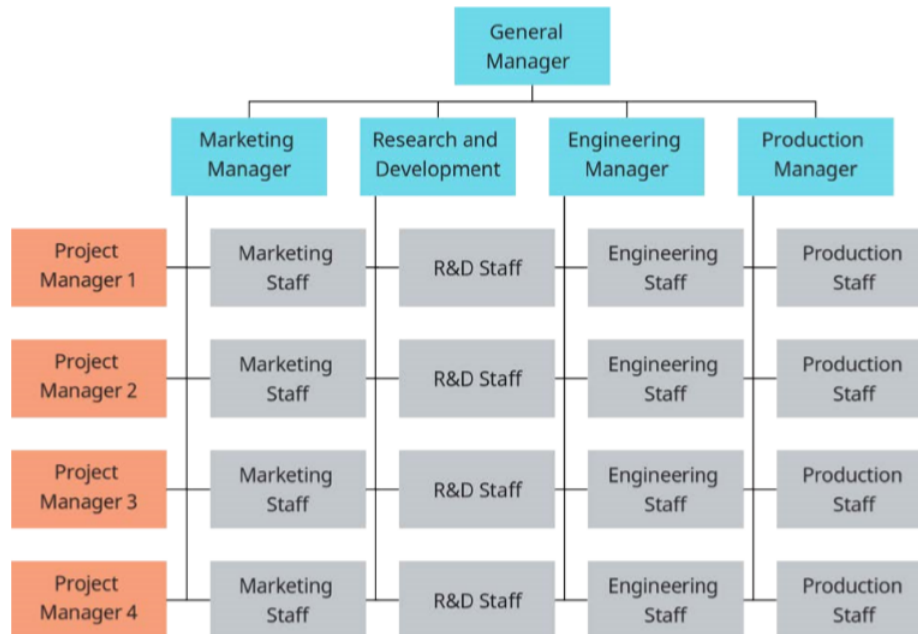


Exhibit 4.11 Matrix Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Matrix designs use teams to combine vertical with horizontal structures. The traditional functional or vertical structure and chain of command maintains control over employees who work on teams that cut across functional areas, creating horizontal coordination that focuses projects that have deadlines and goals to meet within and often times in addition to those of departments. In effect, matrix structures initiated horizontal team-based structures that provided faster information sharing, coordination, and integration between the formal organization and profit-oriented projects and programs.

A Deloitte source based on the 2017 Global Human Capital Trend study stated that as organizations continue to transition from vertical structures to more organic ones, networked global designs are being adapted to larger companies that require more reach and scope and quicker response time with customers: “Research shows that we spend two orders of magnitude more time with people near our desk than with those more than 50 meters away. Whatever a hierarchical organization chart says, real, day-to-day work gets done in networks. This is why the organization of the future is a ‘network of teams.’”³²

Advantages of networked organizations are similar to those stated earlier with regard to organic, horizontal, and matrix structures. Weaknesses of the networked structure include the following: (1) Establishing clear lines of communication to produce project assignments and due dates to employees is needed. (2) Dependence on technology—Internet connections and phone lines in particular—is necessary. Delays in communication result from computer crashes, network traffic errors and problems; electronic information sharing across country borders can also be difficult. (3) Not having a central physical location where all employees work, or can assemble occasionally to have face-to-face meetings and check results, can result in errors, strained relationships, and lack of on-time project deliverables.³³

Virtual structures and organizations emerged in the 1990s as a response to requiring more flexibility, solution-based tasks on demand, fewer geographical constraints, and accessibility to dispersed expertise.³⁴ Virtual structures are depicted in Exhibit 4.13. Related to so-called modular and digital organizations, virtual structures are dependent on information communication technologies (ICTs).

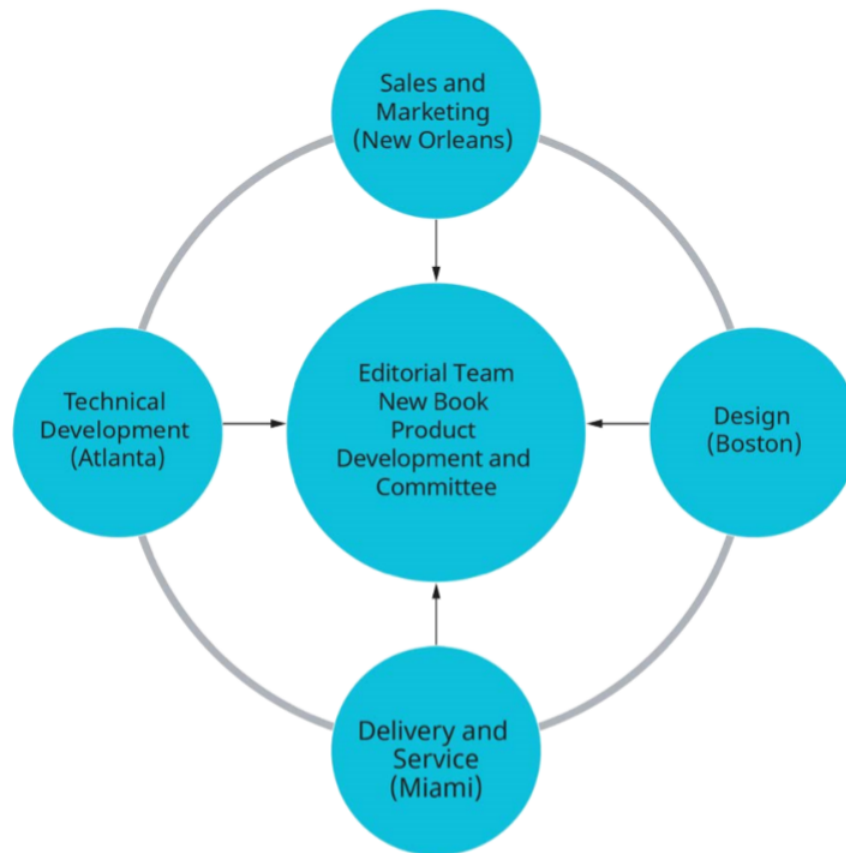


Exhibit 4.13 Virtual Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

These organizations move beyond network team structures in that the headquarters or home base may be the only or part of part of a stable organizational base. Otherwise, this is a “boundaryless organization.” Examples of organizations that use virtual teams are Uber, Airbnb, Amazon, Reebok, Nike, Puma, and Dell. Increasingly, organizations are using different variations of virtual structures with call centers and other outsourced tasks, positions, and even projects.



Exhibit 4.14 Using Technological Disruption Information technologies and social media powered by the internet and used by sharing economy companies such as Airbnb and Uber have democratized and increased, if not leveled, competition across several industries such as taxis, real estate rentals, and hospitality services. (Credit: Grid Engine/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Advantages of virtual teams and organizations include cost savings, decreased response time to customers, greater access to a diverse labor force not encumbered by 8-hour workdays, and less harmful effects on the environment. “The telecommuting policies of Dell, Aetna, and Xerox cumulatively saved 95,294 metric tons of greenhouse gas emissions last year, which is the equivalent of taking 20,000 passenger vehicles off of the road.”³⁵ Disadvantages are social isolation of employees who work virtually, potential for lack of trust among employees and between the company and employees when communication is limited, and reduced collaboration among separated employees and the organization’s officers due to lack of social interaction.

In the following section, we turn to internal organizational dimensions that complement structure and are affected by and affect external environments.

? Concept Check

1. Why does the matrix structure have a dual chain of command?
2. How does a matrix structure increase power struggles or reduce accountability?
3. What are advantages of a formal committee structure? Disadvantages?

References

20. Bersin, Josh, et al, “2017 Global Human Capital trends”, *Deloitte Insights*, February 28, 2017. <https://www2.deloitte.com/insights/u...he-future.html>
21. Ibid.
22. Burns, T. & Stalker, G. M. (1961), *The Management of Innovation*, Tavistock, London; Mintzberg, H. 1979. *The structuring of organizations*. Englewood Cliffs, NJ:Prentice-Hall; Emery, Fred E. and Eric L. Trist, (1965), "The Causal Texture of Organizational Environments", pp 21-32 in *Human Relations*, February 1965
23. Anand, N. and R. Daft. (2007). What is the Right Organization Design? *Organizational Dynamics*, Vol. 36, No. 4, pp. 329–344.
24. Ibid.
25. This section draws on a number of scholarly and practitioner sources, including the following: R. Daft. (2016). *Organization Theory & Design*, 12th ed. *Cengage Learning*, Boston, MA; <https://blog.hubspot.com/marketing/team-structure-diagrams>; Burton and Obel. (2018). *Journal of Organization Design* Vol. 7, Issue 5, Devaney, Erik, “7 types of organizational Structure & Whom They’re Suited For [Diagrams], Hubspot, accessed November 18, 2018. <https://doi.org/10.1186/s41469-018-0029-2>; “Matrix Teams”, *Global Integration*, accessed November 18, 2018. <http://www.global-integration.com/gl.../matrix-teams/>; and Bersin, josh,

- “The organization of the Future: Arriving Now”, 2017 Global Human Capital Trends, Deloitte Insights, February 28, 2017. <https://www2.deloitte.com/insights/u...thefuture.html>
26. Brent Durbin. Matrix organization, *Encyclopedia Britannica*, <https://www.britannica.com/topic/matrixorganization>
27. “Matrix Teams”, *Global Integration*, accessed November 18, 2018. <http://www.global-integration.com/glossary/matrix-teams/>
28. *ibid.*
29. G. Satell. (June 8, 2015). What Makes an Organization “Networked”, *Harvard Business Review*, <https://hbr.org/2015/06/what-makes-a...tion-networked>
30. Satell, Greg, “The Story of Networks”, *Digital Tonto*, September 26, 2010. <https://www.digitaltonto.com/2010/the-story-of-networks/>; and “Networked Organizations”, *Global Integration*, accessed November 18, 2018. <http://www.global-integration.com/gl.../matrix-teams/> <http://www.global-integration.com/glossary/networked-organization/>
31. J. Bersin, T. McDowell, A. Rahnema, and Yves Van Durme. (February 28, 2017), “The organization of the future: Arriving now, 2017” Global Human Capital Trends, Deloitte. <https://www2.deloitte.com/insights/us/en/focus/human-capital-trends/2017/organization-of-the-future.html>
32. Lister, Jonathan, “The Disadvantages of Network-based organizational Structure”, *Chron*, accessed November 18, 2018. <http://smallbusiness.chron.com/disad...ure-35988.html>
33. Sources in this section include the following: C. Handy. (May–June 1995). Trust and the Virtual Organization, *Harvard Business Review*, <https://hbr.org/1995/05/trust-and-th...l-organization>; M. Ahuja and K. Carley. (1999), Network Structure in Virtual Organizations, *Organization Science*, Volume 10, Issue 6, June, pp. 741 – 757; <http://www.yourarticlelibrary.com/or...nd-types/35533>
34. D. Onley. (Apr 29, 2015), *Environment*, <https://www.shrm.org/ResourcesAndToo...cs/technology/Pages/How-Telecommuting-Helps-the-Environment.aspx>
35. I. McCarthy, T. Lawrence, B. Wixted, and B. Gordon. (2010). A Multidimensional Conceptualization of Environmental Velocity, *Academy of Management Review* 34, no. 4, pp. 604-626

This page titled [4.3.4: Organizational Designs and Structures](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **4.4: Organizational Designs and Structures** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

4.3.5: The Internal Organization and External Environments

Learning Objectives

1. Explain how organizations organize to meet external market threats and opportunities.

At a basic level of understanding how internal organizations respond to environments, consider the theory of Open Systems, which the organizational theorists Katz and Kahn³⁶ and Bertalanffy introduced.³⁷

Exhibit 4.15 illustrates this theory's view of organizations as open systems that take in resources and raw materials at the “input” phase from the environment in a number of forms, depending on the nature of the organization, industry, and its business. Whatever the input resources are—information, raw materials, students entering a university—to be transformed by the internal processes of the organization. The internal organizational systems then process and transform the input material, which is called “through-put” phase, and move the changed material (resources) to the “outputs” and back into the environment as products, services, graduates, etc.

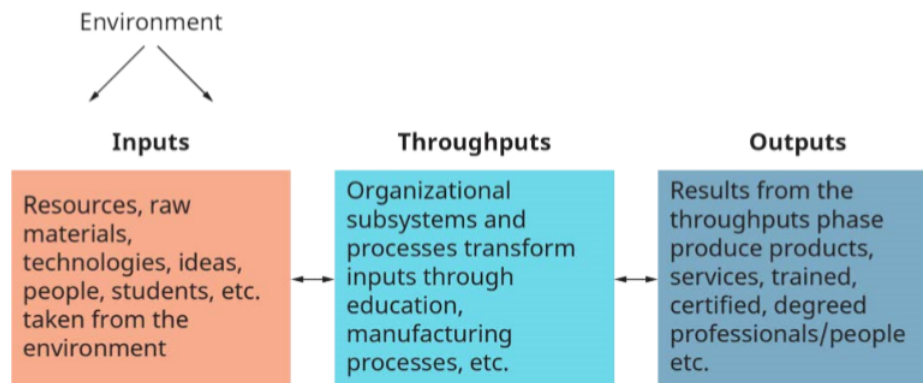


Exhibit 4.15 Open System Model of an Organization (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The open systems model serves as a feedback loop continually taking in resources from the environment, processing and transforming them into outputs that are returned to the environment. This model explains organizational survival that emphasizes long-term goals. Organizations according to this theory are considered as either Open or Closed systems, (or relatively opened or closed) depending on the organization's sensitivity to the environment. Closed systems are less sensitive to environmental resources and possibilities, and open systems are more responsive and adaptive to environmental changes. For example, during the 1980's the then Big 3 U.S. auto manufacturers (Ford, General Motors and Chrysler) were pressured by Japanese auto manufacturers' successful 4-cylinder car sales that hit the U.S. like a shock wave. The Detroit producers experienced slumping sales, plant closures, and employee lay-offs in response to the Japanese wave of competition. It seemed that the U.S. auto makers had become closed or at least insensitive to changing trends in cars during that time and were unwilling to change manufacturing processes. Similarly, Amazon's business model, discussed earlier, has and continues to pressure retailers to innovate and change processes and practices to compete in this digital era.

Organizations respond to external environments not only through their structures, but also by the domains they choose and the internal dimensions and capabilities they select. An organization defines itself and its niche in an environment by the choice of its **domain**, i.e., what sector or field of the environment it will use its technology, products, and services to compete in and serve. Some of the major sectors of a task environment include marketing, technology, government, financial resources, and human resources.

Presently, several environmental domains that once were considered stable have become more complex and unstable—e.g., toys, public utilities, the U.S. Postal Service, and higher education. And even domains are changing. For example, as referred to earlier, the traditionally stable and somewhat unchanging domain of higher education has become more complex with the entry of for-profit educational institutions, MOOCs (massive open online courses), internal company “universities,” and other certification and degree programs outside traditional private institutions. Sharing-economy companies such as Uber and Airbnb have redefined the transportation domain in which taxis operate and the hospitality domain in which hotels and bed and breakfasts serve. New business models that use mobile phones, ICTs (information communication technologies), and apps remove middle management layers in traditional organizations and structures.

With a chosen domain in which to operate, owners and leaders must organize internal dimensions to compete in and serve their markets. For example, hierarchies of authority and chain of command are used by owners and top-level leaders to develop and implement strategic and enterprise decisions; managers are required to provide technologies, training, accounting, legal, and other infrastructure resources; and cultures still count to establish and maintain norms, relationships, legal and ethical practices, and the reputation of organizations.



Exhibit 4.16 Internal Organization (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Exhibit 4.16 shows internal organizational dimensions. These dimensions and systems include leadership, strategy, culture, management, goals, marketing, operations, and structure. Relationships, norms, and politics are also included in the informal organization. There are other internal functions not listed here, such as research and development, accounting and finance, production, and human resources. Another popular depiction of internal organizational dimensions is the **McKinsey 7-S model**, shown in Exhibit 4.17. Similarly, *strategy, structure, systems, skills, staff, and style* all revolve around and are interconnected with *shared values* (or culture) in an organization.

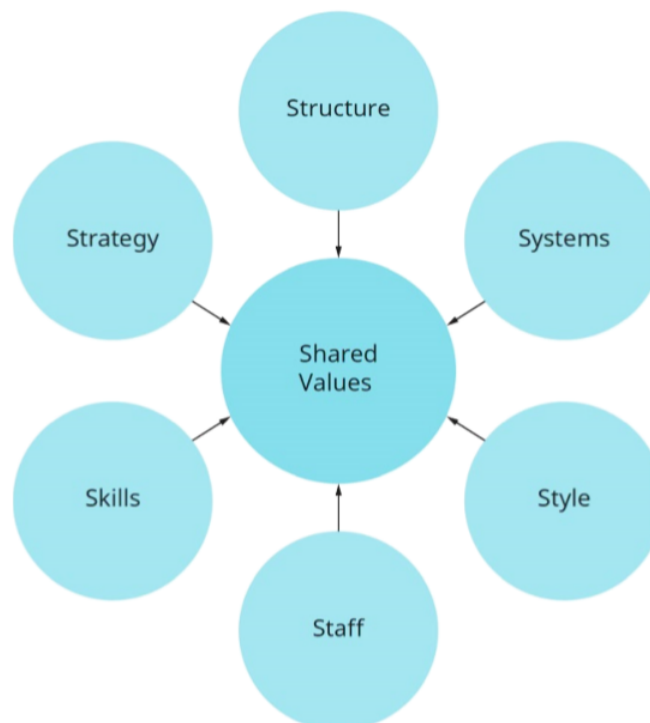


Exhibit 4.17 The McKinsey 7-S Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A unifying framework shown in Exhibit 4.18, developed by Arie Lewin and Carroll Stephens,³⁸ illustrates the integration of internal organizational dimensions and how these work in practice to align with the external environment. Note that it is the CEO and other top-level leaders who scan the external environment to identify uncertainties and resources before using a SWOT

analysis (identifying strengths, weaknesses, opportunities, and threats) to confirm and update the domain of an organization and then to define the vision, mission, goals, and strategies. Once the enterprise goals and strategies are developed, the organizational culture, structure, and other systems and policies can be established (human resources, technologies, accounting and finance, and so on).

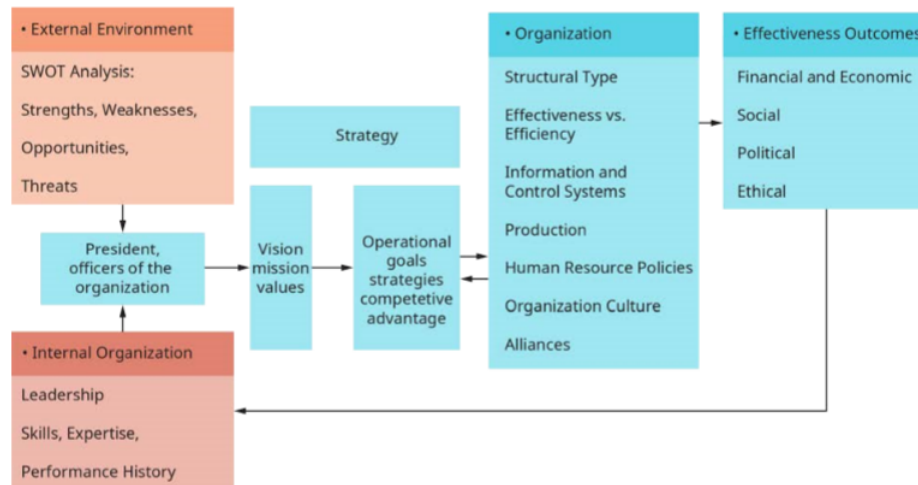


Exhibit 4.18 The Internal Organization and External Environment (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

As Exhibit 4.18 shows, after a CEO and the top-level team identify opportunities and threats in the environment, they then determine the domain and purpose of the organization from which strategies, organizational capabilities, resources, and management systems must be mobilized to support the enterprise's purpose.³⁹ The company McDonald's has, for example, successfully aligned its enterprise with the global environments it serves, which is "1% of the world's population—more than 70 million customers—every day and in virtually every country across the world." The major operating goal of the firm driving its internal alignment is a "fanatical attention to the design and management of scalable processes, routines, and a working culture by which simple, stand-alone, and standardized products are sold globally at a predictable, and therefore manageable, volume, quality, and cost."⁴⁰ A more detailed SWOT analysis of McDonald's operations can be found in endnote.



Exhibit 4.19 McDonald's Processes McDonalds, major operating goal of the firm driving its internal alignment is a "Fanatical attention to the design and management of scalable processes, routines, and a working culture by which simple, stand-alone, and standardized products are sold globally at a predictable, and therefore manageable, volume, quality, and cost." Here employees are reminded of the time that the ingredients should stay on a secondary shelf. (Credit: Walter Lim/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

In practice, no internal organizational alignment with its external environment is perfect or permanent. Quite the opposite. Companies and organizations change leadership and strategies and make structural and systems changes to meet changing competition, market forces, and customers and end users' needs and demands. Even Amazon continues to develop, expand, and change. With a mission statement as bold and broad as Amazon's, change is a constant: "Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online" (Amazon.com, Apr 15, 2018).

Amazon has a functional organizational structure that focuses on business functions for determining the interactions among the different parts of the company. Amazon's corporate structure is best characterized as global function-based groups (most significant feature), a global hierarchy, and geographic divisions, as Exhibit 4.20 shows. This structure seems to fit with the size of Amazon's business—43% of 2016 retail sales were in the United States.⁴¹ Seven segments, including information technology, human resources and legal operations, and heads of segments, report to Amazon's CEO. "Senior management team include two CEOs, three Senior Vice Presidents and one Worldwide Controller, who are responsible for various vital aspects of the business reporting directly to Amazon CEO Jeff Bezos."⁴² The strategic goal underlying this structure is to facilitate Amazon.com to successfully implement e-commerce operations management throughout the entire organization.⁴³

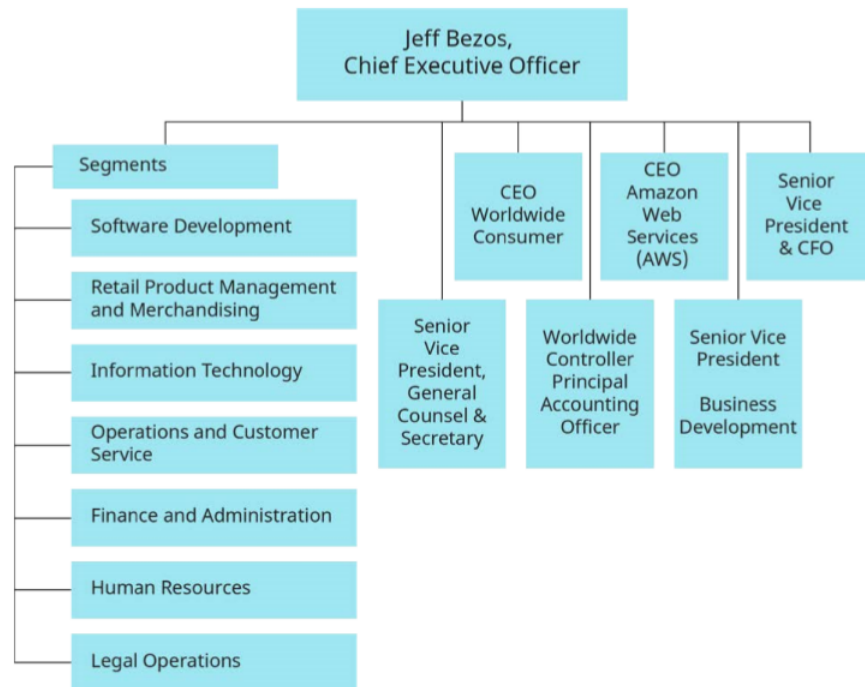


Exhibit 4.20 Amazon's Corporate Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Despite the company's exponential growth and success to date, as noted earlier in the section on organizational structures, a disadvantage of structures such as Amazon's, and in this case Amazon's, is that it has limited flexibility and responsiveness even with its current growth. "The dominance of the global function based groups and global hierarchy characteristics reduces the capacity of Amazon to rapidly respond to new issues and problems encountered in the e-commerce business."⁴⁴ Still, Amazon's most outstanding success factor remains its CEO, Jeff Bezos—his ingenuity, vision and foresight, and ability to sustain and even extend the company's competitive advantages. Amazon customers value these factors—customer purchase criteria (CPC) that include price, fast delivery, and reliable service. "Consumers choose Amazon because it does better than its competition on these CPC."⁴⁵

? Concept Check

1. Identify the six major organizational structures.
2. Explain the McKinsey 7-S model.

References

36. Katz, D. & Kahn R. L. (1966). The social psychology of organizations, *John Wiley*, New York, N.Y.
37. Bertalanffy, L. (1968). General System Theory, *George Braziller*, publisher, New York.
38. Adapted from Arie Y. Lewin and Carroll U. Stephens, "CEO Attributes as Determinants of Organization Design: An integrated Model," *Organization Studies* 15, no. 2 (1994): 183-212
39. J. Trevor and B. Varcoe. (2017). How Aligned Is Your Organization? *Harvard Business Review*, February, <https://hbr.org/2017/02/how-aligned-...r-organization>
40. Dalavagas, Iason, "McDonald's Corp: A Short SWOT Analysis, *Value line*, May 11, 2015. <http://www.valueline.com/Stocks/High...x#.WyqOj1VKiig>
41. "Amazon accounts for 43% of US online retail sales" *Business Insider*, February 3, 2017. <http://www.businessinsider.com/amazo...l-sales-2017-2>
42. Dudovskiy, John, "Amazon Organizational Structure", *Research Methodology*, August 1, 2018 <https://research-methodology.net/ama...l-structure-2/>

43. Meyer, Pauline, “Amazon.com Inc.’s Organizational Structure Characteristics (An Analysis)”, *Panmore Institute*, September 8, 2018 panmore.com/amazon-com-inc-or...isticsanalysis

44. Ibid.

45. Cohan, Peter, “3 Reasons Amazon Is the World’s Best Business”, *Forbes*, February 2, 2018. www.forbes.com/sites/peterco.../#563e86e63565

This page titled [4.3.5: The Internal Organization and External Environments](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [4.5: The Internal Organization and External Environments](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

4.3.6: Corporate Cultures

Learning Objectives

1. Identify the fit between organizational cultures and the external environment.

Organizational culture is considered one of the most important **internal dimensions of an organization's** effectiveness criteria. Peter Drucker, an influential management guru, once stated, "Culture eats strategy for breakfast."⁴⁶ He meant that **corporate culture** is more influential than strategy in terms of motivating employees' beliefs, behaviors, relationships, and ways they work since culture is based on values. Strategy and other **internal dimensions of organization** are also very important, but organizational culture serves two crucial purposes: first, culture helps an organization adapt to and integrate with its external environment by adopting the right values to respond to external threats and opportunities; and secondly, culture creates internal unity by bringing members together so they work more cohesively to achieve common goals.⁴⁷ Culture is both the personality and glue that binds an organization. It is also important to note that organizational cultures are generally framed and influenced by the top-level leader or founder. This individual's vision, values, and mission set the "tone at the top," which influences both the ethics and legal foundations, modeling how other officers and employees work and behave. A framework used to study how an organization and its culture fit with the environment is offered in the Competing Values Framework.

The **Competing Values Framework (CVF)** is one of the most cited and tested models for diagnosing an organization's cultural effectiveness and examining its fit with its environment. The CVF, shown in Exhibit 4.21, has been tested for over 30 years; the effectiveness criteria offered in the framework were discovered to have made a difference in identifying organizational cultures that fit with particular characteristics of external environments.⁴⁸

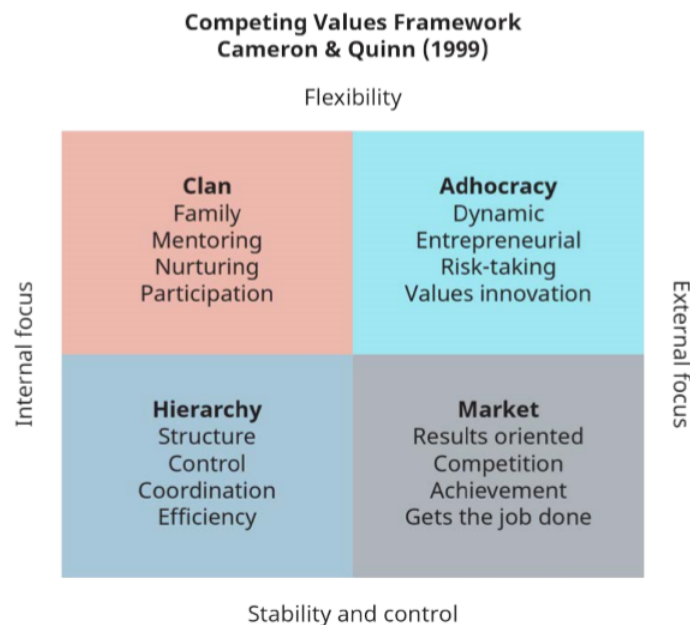


Exhibit 4.21 The Competing Values Framework Source: Adapted from K. Cameron and R. Quinn, 1999. Diagnosing and Changing Organizational Culture, Addison-Wesley, p. 32.

The two axes in the framework, external focus versus internal focus, indicate whether or not the organization's culture is externally or internally oriented. The other two axes, flexibility versus stability and control, determine whether a culture functions better in a stable, controlled environment or a flexible, fast-paced environment. Combining the axes offers four cultural types: (1) the dynamic, entrepreneurial **Adhocracy Culture**—an external focus with a flexibility orientation; (2) the people-oriented, friendly **Clan Culture**—an internal focus with a flexibility orientation; (3) the process-oriented, structured **Hierarchy Culture**—an internal focus with a stability/control orientation; and (4) the results-oriented, competitive **Market Culture**—an external focus with a stability/control orientation.

The orientation of each of these cultural types is summarized as follows. The **Adhocracy Culture** profile of an organization emphasizes creating, innovating, visioning the future, managing change, risk-taking, rulebreaking, experimentation,

entrepreneurship, and uncertainty. This profile culture is often found in such fastpaced industries as filming, consulting, space flight, and software development. Facebook and Google's cultures also match these characteristics.⁴⁹ It should be noted, however, that larger organizations may have different cultures for different groupings of professionals, even though the larger culture is still dominant. For example, a different subculture may evolve for hourly workers as compared to PhD research scientists in an organization.

The **Clan Culture** type focuses on relationships, team building, commitment, empowering human development, engagement, mentoring, and coaching. Organizations that focus on human development, human resources, team building, and mentoring would fit this profile. This type of culture fits Tom's of Maine, which has strived to form respectful relationships with employees, customers, suppliers, and the physical environment.

The **Hierarchy Culture** emphasizes efficiency, process and cost control, organizational improvement, technical expertise, precision, problem solving, elimination of errors, logical, cautious and conservative, management and operational analysis, and careful decision-making. This profile would suit a company that is bureaucratic and structured, such as the U.S. Postal Service, the military, and other similar types of government agencies.

The **Market Culture** focuses on delivering value, competing, delivering shareholder value, goal achievement, driving and delivering results, speedy decisions, hard driving through barriers, directive, commanding, and getting things done. This profile suits a marketing-and-sales-oriented company that works on planning and forecasting but also getting products and services to market and sold. Oracle under the dominating, hardcharging executive chairman Larry Ellison characterized this cultural fit.

Amazon illustrates a company that can have a mix of cultures and be effective. For example, Amazon blends a high-performance Adhocracy Culture with regard to its external expansion and Bezos's leadership style; at the same time, Amazon resembles a Hierarchy Culture internally with regard to its tight control over employees at lower levels. The company propelled its domain from an "online bookstore" "to selling everything online to being the pioneering in adopting cloud computing with AWS . . . to adopting the latest robotics in its warehouses to improve productivity . . . to thinking and testing disruptive technologies like drones and so on."⁵⁰ It has been criticized, at the same time, for its "toxic cut-throat work environment," asserting that Jeff Bezos is overly demanding and sets very high standards for Amazon employees, as well as for himself. This type of culture extends down to the warehouse employees. Amazon employees have complained that "Work came first, life came second, and trying to find the balance came last." This criticism peaked with an alleged suicide attempt in 2017 of a disgruntled employee who requested a transfer to a different department within in the company but was placed on an employee improvement plan—"a step that could result in his termination from Amazon if his performance didn't improve."⁵¹ Amazon has since changed many of its working rules and regulations for warehouse employees.

? Concept Check

1. How can employee diversity give a company a competitive advantage?
2. Explain the concept of hiring for fit as it relates to corporate culture.
3. What are some organizational issues that must be addressed when two large firms merge or grow rapidly like Amazon?

References

46. Hyken, Shep, "Drucker said Culture Eats Strategy for Breakfast", *Forbes*, December 5, 2015. www.forbes.com/sites/shephyk.../#7a7572822749
47. Ed Schein. (2010). *Organizational Culture and Leadership*, 4th ed., San Francisco, CA: Jossey-Bass; J.W. Weiss. (2014). *An Introduction to Leadership*, 2nd ed., Bridgepoint Education, Inc.C
48. This discussion of the CVF is based on these sources: K. Cameron, R. Quinn, J. Degraff, and A. Thakor, (2014). *Competing Values Leadership*, 2nd ed., *New Horizons in Management*, Northampton, MA; K. Cameron and R. Quinn (2006). *Diagnosing and Changing Organizational Culture: Based on the Competing Values Framework*, San Francisco, CA: Jossey-Bass; and <http://www.ocai-online.com/blog/201...ontrol-Compete>
49. T. Yu and N. Wu. (2009). "A Review of Study on the Competing Values Framework", *International Journal of Business Management*, Vol.4, No. 7, July, pp. 47-42.
50. Nocera, Joe, "Jeff Bezos and The Amazon way", *The New York Times*, August 21, 2015. www.nytimes.com/2015/08/22/o...amazon-way.html

51. Farber, Madeline, “Amazon Employee Attempts Suicide After Sending Email to Colleagues”, *Fortune*, November 29, 2016. <http://fortune.com/2016/11/29/amazon...icide-attempt/>

This page titled [4.3.6: Corporate Cultures](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [4.6: Corporate Cultures](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

4.3.7: Organizing for Change in the 21st Century

Learning Objectives

1. Identify environmental trends, demands, and opportunities facing organizations.

The 2018 annual Global Risks Perception Survey (GRPS) predicts the following trends in the external environment: (1) persistent inequality and unfairness, (2) domestic and international political tensions, (3) environmental dangers, and (4) cyber vulnerabilities. With this context, authors in this report suggest that complex organizations approach their futures with the “nine resilience lens”—i.e., the capacity of a company or other organization to adapt and prosper in the face of high-impact, low-probability risks.⁵² The nine lenses are grouped into three categories. First, structural resilience considers the systemic dynamics within the organization itself. The author calls for “system modularity,” i.e., structures and designs that are “loosely coupled,” which is another way of saying that rigid, mechanistic hierarchies will not function as well in these high-impact environments. Secondly, integrative resilience underlines complex interconnections with the external context. Here the author suggests that organizations must be part of and aware of their contexts: geographically and the health of “individuals, families, neighborhoods, cities, provinces, and countries” that are affected. Relatedly, the author notes that organizations must rely on their social cohesion—such as the social capital an organization has to fall back on in times of crisis—which is a strong source of resilience. Third, transformative resilience requires that mitigating some risks requires transformation. Important to organizations here is the need “to proactively change or it will end up being changed by external circumstances.” This process requires organizational foresight, not forecasting. Organizations need to apply different search, environmental scanning, and new discovery techniques “to engage with the uncertainty of multiple futures.” They do this through innovation and experimentation. In practice, Google, Amazon, Facebook, SpaceX, Tesla, Airbnb, Uber, and the resilience of other industry and organizational pioneering will be required.

Another trend on the horizon is that “[o]rganizations are no longer judged only for their financial performance, or even the quality of their products or services. Rather, they are being evaluated on the basis of their impact on society at large—transforming them from business enterprises into social enterprises.”⁵³ A recent survey showed that 65 percent of CEOs rated “inclusive growth” as a “top-three strategic concern, more than three times greater than the proportion citing ‘shareholder value.’”⁵⁴ Deloitte researchers noted that “[a] social enterprise is an organization whose mission combines revenue growth and profit-making with the need to respect and support its environment and stakeholder network. This includes listening to, investing in, and actively managing the trends that are shaping today’s world. It is an organization that shoulders its responsibility to be a good citizen (both inside and outside the organization), serving as a role model for its peers and promoting a high degree of collaboration at every level of the organization.”⁵⁵

References

52. The Global Economic Report, 13th Edition, *World Economic Forum*, 2018. http://www3.weforum.org/docs/WEF_GRR18_Report.pdf, p. 8 and pp. 54-57.

53. Agarwal, Dimple, “Introduction: The Rise of the Social Enterprise”, *Deloitte Insights*, March 28, 2018.? <https://www2.deloitte.com/insights/u...roduction.html>

54. Ibid.

55. Ibid.

This page titled 4.3.7: Organizing for Change in the 21st Century is shared under a CC BY 4.0 license and was authored, remixed, and/or curated by OpenStax via source content that was edited to the style and standards of the LibreTexts platform.

- 4.7: Organizing for Change in the 21st Century by OpenStax is licensed CC BY 4.0. Original source: <https://openstax.org/details/books/principles-management>.

4.3.8: Summary



Key Terms

Adhocracy culture

Creates an environment of innovating, visioning the future, accepting of managing change, and risk taking, rule-breaking, experimentation, entrepreneurship, and uncertainty.

Clan culture

Focuses on relationships, team building, commitment, empowering human development, engagement, mentoring, and coaching.

Competing Values Framework

Developed by Kim Cameron and Robert Quinn this model is used for diagnosing an organization's cultural effectiveness and examining its fit with its environment.

Complex-Stable environments

Environments that have a large number of external elements, and elements are dissimilar and where elements remain the same or change slowly.

Complex-Unstable environments

Environments that have a large number of external elements, and elements are dissimilar and where elements change frequently and unpredictably

Corporate culture

Defines how motivating employees' beliefs, behaviors, relationships, and ways they work creates a culture that is based on the values the organization believes in.

Divisional structure

An organizational structure characterized by functional departments grouped under a division head.

Domain

The purpose of the organization from which its strategies, organizational capabilities, resources, and management systems are mobilized to support the enterprise's purpose.

Functional structure

The earliest and most used organizational designs.

Geographic structure

An Organizational option aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves.

Government and political environment forces

The global economy and changing political actions increase uncertainty for businesses, while creating opportunities for some industries and instability in others.

Hierarchy culture

Emphasizes efficiency, process and cost control, organizational improvement, technical expertise, precision, problem solving, elimination of errors, logical, cautious and conservative, management and operational analysis, careful decision making.

Horizontal organizational structures

A “flatter” organizational structure often found in matrix organizations where individuals relish the breath and development that their team offers.

Internal dimensions of organizations

How an organization’s culture affects and influences its strategy.

Market culture

Focuses on delivering value, competing, delivering shareholder value, goal achievement, driving and delivering results, speedy decisions, hard driving through barriers, directive, commanding, competing and getting things done

Matrix structure

An organizational structure close in approach to organic systems that attempt to respond to environmental uncertainty, complexity, and instability.

McKinsey 7-S model

A popular depiction of internal organizational dimensions.

Mechanistic organizational structures

Best suited for environments that range from stable and simple to low-moderate uncertainty and have a formal “pyramid” structure.

Natural disaster and human induced environmental problems

Events such as high-impact hurricanes, extreme temperatures and the rise in CO₂ emissions as well as ‘man-made’ environmental disasters such as water and food crises; biodiversity loss and ecosystem collapse; large-scale involuntary migration are a force that affects organizations.

Networked-team structure

A form of the horizontal organization.

Organic organizational structures

The opposite of a functional organizational form that works best in unstable, complex changing environments.

Organizational structures

A broad term that covers both mechanistic and organic organizational structures.

Simple-Stable environments

Environments that have a small number of external elements, and elements are similar, and the elements remain the same or change slowly.

Simple-Unstable environments

Environments that have a small number of external elements, and elements are similar and where elements change frequently and unpredictably.

Socio-cultural environment forces

Include different generations’ values, beliefs, attitudes and habits, customs and traditions, habits and lifestyles.

Technological forces

Environmental influence on organizations where speed, price, service, and quality of products and services are dimensions of organizations’ competitive advantage in this era.

Virtual structure

A recent organizational structure that has emerged in the 1990's and early 2000's as a response to requiring more flexibility, solution based tasks on demand, less geographical constraints, and accessibility to dispersed expertise.

Summary of Learning Outcomes

4.2 The Organization's External Environment

1. Define the external environment of organizations

Organizations must react and adapt to many forces in their internal and external environments. The context of the firms such as size and geographic location impact how environmental forces affect each organization differently. An understanding of the forces and they currently affecting organizations and pressuring structural change is crucial.

4.3 External Environments and Industries

2. Identify contemporary external forces pressuring organizations

An understanding of the various industries and organizations 'fit' with different types of environment is crucial. There are small and large organizations that face environments that are either stable or unstable and managing the organization by recognizing their environment is a crucial skill.

4.4 Organizational Designs and Structures

3. Identify different types of organizational structures, and their strengths and weaknesses

An understanding of Mechanistic vs Organic Structures and Systems and how they differ and how these major concepts help classify different organizational structures is crucial to recognizing organizational structures. Finally, the issue of organizational complexity and its impact on organizational structure needs to be understood.

You should be able to discuss the evolution of different types of Organizational Structures. You should understand and identify the six types of organizational structures, and the advantages and disadvantages of each: Functional, Divisional, Matrix, Geographic, Networked Team, and Virtual.

4.5 The Internal Organization and External Environments

4. Explain how organizations organize to meet external market threats and opportunities

You should understand and identify the six types of organizational structures, and the advantages and disadvantages of each structure:

- Functional
- Divisional
- Matrix
- Geographic
- Networked Team
- Virtual

You should also understand why the internal dimensions of an organization matter with regard to how it fits with its external environment.

4.6 Corporate Cultures

5. Identify the fit between organizational cultures and the external environment

You should be able to identify and differentiate between the four types of organizational cultures and the fit of each with the external environment and describe the CVP framework. Finally, you can identify the internal dimensions of organizations, the interconnection among the dimensions, and how these affect the 'fit' with external environments.

4.7 Organizing for Change in the 21st Century

6. Identify environmental trends, demands, and opportunities facing organizations.

Among the trends in the external environment: (1) persistent inequality and unfairness, (2) domestic and international political tensions, (3) environmental dangers, and (4) cyber vulnerabilities. Another trend is that organizations will no longer solely be

judged only for their financial performance, or even the quality of their products or services. Rather, they will be evaluated on the basis of their impact on society at large—transforming them from business enterprises into social enterprises.

? Exercise 4.3.8.1

1. Explain how several current environmental forces are affecting and will affect organizations and organizational structures' effectiveness and efficiency in the near future?
2. What are ways to classify and describe how industries and organizations fit and do not fit with their external environments?
3. What are a few industries and/or organizations that are fitting well with their current environments? What are a few that are not? Why?
4. What are some major differences between organic and mechanistic organizational structures and systems?
5. Which organization would you work best in, an organically or mechanistically structured one, and why?
6. What are some advantages and disadvantages of functional structures?
7. Do you think it's true that every organization has a hidden functional structure in it? Explain your answer.
8. Why have functional structures been criticized for not accommodating new changes in the environment?
9. What are some advantages and disadvantages of divisional structures?
10. How is a product structure one type of a divisional structure? Explain.
11. What are some disadvantages in working in a matrix structure and why?
12. What advantages do matrix structures have compared to functional structures?
13. What advantages do geographic structures have compared to a functional structure?
14. What are issues that working in a networked team structure present?
15. In what ways is a virtual organization and structure different from the other ones discussed in the chapter?
16. What major trends discussed at the end of this chapter are different from previous external environments and the ways organizations were organized?
17. What purposes does an organization's culture serve when considering the external environment?
18. How does Exhibit 4.16 facilitate an understanding of how the internal organization functions with external environments?

Management Skills Application Exercises

1. You have just been assigned to lead a functionally structured organization. Explain what types of skills you would need to best perform this function.
2. What types of problems would you expect to have managing a divisionally structured organization? What skills would you need to excel in this undertaking?
3. If you were assigned to work in a matrix team structure, explain the issues and benefits you might expect to experience and why. What skills would help you in this function?
4. You have just been assigned to work with a strategy team in an organization to predict issues and opportunities that might be expected for the next 2 years. Using this chapter, explain what information you would provide to this team?
5. Use Exhibit 4.21, "The Competing Values Framework," to identify the type of organizational culture at IKEA, Home Depot, and Best Buy.

Managerial Decision Exercises

1. You are a manager working in a functionally structured organization. A disgruntled employee is complaining about problems she is having in that structure. Outline a way you would find out more about her complaints with regard to her being in this type of structure and some ways to assist her.
2. You are a manager working in a networked team structured organization. A disgruntled employee is complaining about problems he is having in that structure. Outline a way you would find out more about his complaints with regard to his being in this type of structure and some ways to assist him.
3. You have been selected to lead a team to decide on a different type of structure in your organization to better serve customers who are complaining about poor service that is slow, impersonal, and not meeting their needs to be heard. Presently, the functional structure isn't working well. Outline some information from your knowledge using this chapter that would help the team in its assignment.
4. You witness a senior executive at your firm engaging in overly aggressive methods of pressuring employees to increase their sales quotas beyond reasonable means. You are in a networked team structure that is partly a matrix. You are uncertain about whom to discuss this issue with. What would you do?

5. As a new graduate, you have been hired to help a medium-sized company come into the 21st century. Products need revamping, people aren't sharing information, and customers are gradually leaving. The firm has a traditional top-down managed, vertical hierarchy. It is believed that the firm has very good potential to sell its products, but new markets may be needed. Outline an agenda you would work on to research and make suggestions with regard to this chapter's focus and content.

Critical Thinking Case

Wells Fargo, Crisis and Scandal

The recent widespread scandal at Wells Fargo jolted and shocked the corporate world. How could such internal corrupt and outrageously illegal and unethical activities by professionals have occurred? Wells Fargo is "an American multinational financial services company headquartered in San Francisco, California" with offices nationwide and "the world's second-largest bank by market capitalization and the third largest bank in the U.S. by total assets." In September 2016 it was discovered that the company was continuing to create fake customer accounts to show positive financial activity and gains. 5,000 salespeople had created 2 million fake customer accounts to meet high-pressure internal sales goals, including a monthly report called the "Motivator."

The out-of-control sales leadership pressured sales employees to meet unrealistic, outrageous sales targets. Dramatically unrealistic sales goals propelled by continuous pressure from management coerced employees to open accounts for customers who didn't want or need them. "Some Wells Fargo bankers impersonated their customers and used false email addresses like noname@wellsfargo.com, according to a 2015 lawsuit filed by the city of Los Angeles."

The "abusive sales practices claimed in a lawsuit that Wells Fargo employees probably created 3.5 million bogus accounts" starting in May 2002. Wells Fargo is awaiting final approval to settle that case for \$142 million. However, regulators and investigations found that the misconduct was far more "pervasive and persistent" than had been realized. "The bank's culture of misconduct extended well beyond the original revelations." For example, regulators found that the company was (1) "overcharging small businesses for credit card transactions by using a 'deceptive' 63-page contract to confuse them." (2) The company also charged at least 570,000 customers for auto insurance they did not need. (3) The firm admitted that it found 20,000 customers who could have defaulted on their car loans from these bogus actions; (4) The company also had created over 3.5 million fake accounts attributed to customers who had no knowledge of such accounts.

Wells Fargo has had to testify before Congress over these charges, which have amounted to \$185 million dollars, and more recently the company has been ordered by regulators to return \$3.4 million to brokerage customers who were defrauded. The CEO and management team have been fired and had millions of dollars withheld from their pay.

In the aftermath of the scandal, even though Wells Fargo executives were not imprisoned for the extensive consumer abuses committed by the company, the CFPB (Consumer Financial Protection Bureau) and Office of the Comptroller of the Currency (OCC) imposed a \$1 billion fine on Wells Fargo for consumer-related abuses regarding auto loan and mortgage products. The OCC also forced the company to allow regulators the authority to enforce several actions to prevent future abuses, such as and including "imposing business restrictions and making changes to executive officers or members of the bank's board of directors." The new president of the company, Tim Sloan, stated, "What we're trying to do, as we make change in the company and make improvements, is not just fix a problem, but build a better bank, transform the bank for the future."

Sources: https://en.Wikipedia.org/wiki/Wells_Fargo; Pasick, Adam, "Warren Buffett Explains the Wells Fargo Scandal," *Quartz*, May 6, 2017. <https://qz.com/977778/warren-buffett...fargo-scandal/> <https://qz.com/977778/warren-buffett...fargo-scandal/>; Bloomberg, "The Wells Fargo Fake Accounts Scandal Just Got a Lot Worse," *Fortune*, August 21, 2017. fortune.com/2017/08/31/wells-...ount-estimate/; Horowitz, Julia, "'huge, huge, huge error' in Wells Fargo Handling of Ethics Line Calls," *CNN*, May, 6, 2017. money.cnn.com/2017/05/06/inv...ing/index.html; <http://money.cnn.com/2018/02/05/news...argo-timeline/index.html>; Wattles, Jackie, Grier, Ben, and Egan, Matt, "Wells Fargo's 17 Month Nightmare," *CNN Business*, February 5, 2018. <https://money.cnn.com/2018/02/05/new...ine/index.html>. Hudson, Caroline, "Wells Fargo Stocks Still Struggling in Wake of Scandal," *Charlotte Business Journal*, April 2, 2018. <https://www.bizjournals.com/charlott...in-wakeof.html>

Critical Thinking Questions

1. What happened at Wells Fargo with regard to past activities that led to this major scandal?
2. What internal dimensions of the company were part of the problems that occurred?
3. How might the organizational structure of the company have been part of the problems that occurred?
4. Identify and use relevant concepts from this chapter as well as your own thoughts and analysis to diagnose the scandal at Wells Fargo. How could such a scandal have occurred in the first place? Who and what was at fault?

5. Suggest some solution paths the company might consider, using knowledge from this chapter and your own thoughts/research, to avoid such a scandal from reoccurring.

This page titled [4.3.8: Summary](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [4.8: Summary](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

4.4: WATCH - Centralization vs. Decentralization

Notes:

Within Section 4.3 of your textbook, you were introduced to types of organizational structures. Watch the 6:14 video:



- Did you notice how the terms 'centralization' and 'decentralization' correlated to the 'mechanistic' and 'organic' structures discussed in your textbook?
- Which structure do you think best suits you? Why?

4.4: WATCH - Centralization vs. Decentralization is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

4.5: WATCH - Organizational Structure

Notes:

Within each organization that you work, you will be part of an organizational structure. While no one structure is best for all organizations, some structures are better suited for specific internal and external environments. It is important that you have a good understanding of organizational structures and begin to consider which you may prefer, and where you may need to build additional skills to work effectively in each.

Watch the following 4:50 video to learn more about a variety of structures:



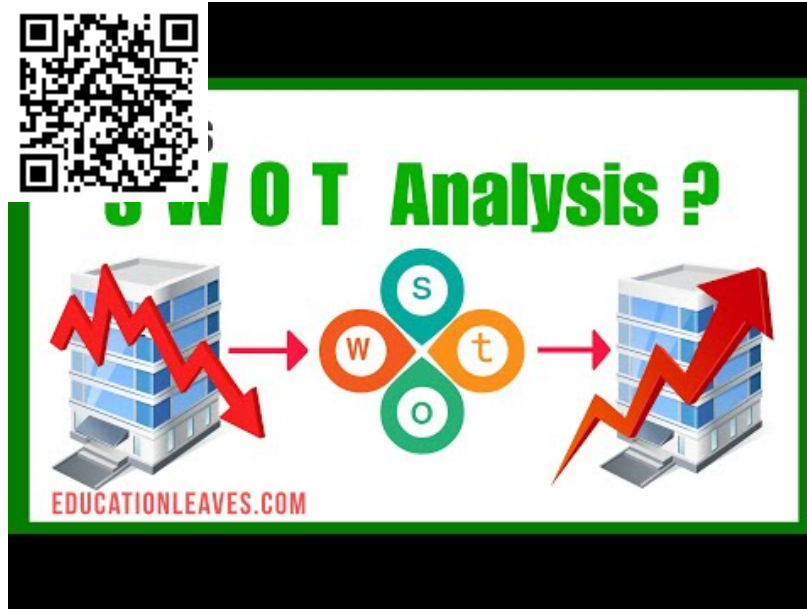
- Do you have experience working within any of these structures?
- Which is most appealing to you and why?

4.5: [WATCH - Organizational Structure](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

4.6: WATCH - SWOT Analysis

Notes:

Within Section 4.4 of your textbook, you were introduced to SWOT, which is often used to analyze the internal environment of an organization (i.e. strengths and weaknesses), as well as external factors (i.e. opportunities and threats) relative to the organization's industry. Watch the 3:34 video, which provides good insight into the development of a SWOT:



4.6: [WATCH - SWOT Analysis](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

4.7: WATCH - SWOT Example Starbucks

Notes:

When learning a new tool, it can be helpful to see some examples. Watch the following videos, which demonstrate the application of the SWOT Analysis for two well-known organizations. As you watch each of the videos, can you think of any factors that should be modified or included?

- The first (3:36) video uses SWOT to analyze Starbucks.



4.7: WATCH - SWOT Example Starbucks is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

4.8: WATCH - SWOT Example Tesla

SWOT Analysis: Tesla

- The second (11:09) video uses SWOT to analyze Tesla.



4.8: WATCH - SWOT Example Tesla is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

CHAPTER OVERVIEW

5: Module 5 - Strategic Analysis

- 5.1: Key Ideas
- 5.2: Strategic Analysis - Understanding a Firm's Competitive Environment
 - 5.2.1: Introduction to Strategic Analysis
 - 5.2.2: Gaining Advantages by Understanding the Competitive Environment
 - 5.2.3: Using SWOT for Strategic Analysis
 - 5.2.4: A Firm's External Macro Environment - PESTEL
 - 5.2.5: A Firm's Micro Environment- Porter's Five Forces
 - 5.2.6: The Internal Environment
 - 5.2.7: Competition, Strategy, and Competitive Advantage
 - 5.2.8: Strategic Positioning
 - 5.2.9: Summary
- 5.3: REVIEW - SWOT Analysis (attachment)
- 5.4: WATCH - PESTEL Analysis
- 5.5: WATCH - The 5 Forces Analysis Explained
- 5.6: WATCH - Porter's 5 Forces
- 5.7: WATCH - Porter's 5 Forces Example (TESLA)
- 5.8: WATCH - Resources and Capabilities Analysis
- 5.9: REVIEW - Competitive Advantage (Graphic)

5: Module 5 - Strategic Analysis is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

5.1: Key Ideas

Module 5: Key Ideas

- Competitive advantage
 - Micro environment
 - SWOT Analysis
 - PESTEL Analysis
 - Porter's Five Forces
 - Resources and capabilities
-

5.1: Key Ideas is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

SECTION OVERVIEW

5.2: Strategic Analysis - Understanding a Firm's Competitive Environment

Learning Objectives

After reading this chapter, you should be able to answer these questions:

1. What is strategic analysis and why do firms need to analyze their competitive environment?
2. What is a SWOT analysis and what can it reveal about a firm?
3. What makes up a firm's external macro environment, and what tools do strategists use to understand it?
4. What makes up a firm's external micro environment, and what tools do strategists use to understand it?
5. How and why do managers conduct an internal analysis of their firms?
6. What does it mean to compete with other firms in a business environment, what does it mean when a firm has a competitive advantage over its rivals, and what generic strategies can a firm implement to gain advantage over its rivals?
7. What elements go into determining a firm's strategic position?

5.2.1: Introduction to Strategic Analysis

5.2.2: Gaining Advantages by Understanding the Competitive Environment

5.2.3: Using SWOT for Strategic Analysis

5.2.4: A Firm's External Macro Environment - PESTEL

5.2.5: A Firm's Micro Environment- Porter's Five Forces

5.2.6: The Internal Environment

5.2.7: Competition, Strategy, and Competitive Advantage

5.2.8: Strategic Positioning

5.2.9: Summary

This page titled [5.2: Strategic Analysis - Understanding a Firm's Competitive Environment](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

5.2.1: Introduction to Strategic Analysis

✓ Exploring Managerial Careers: Lauri Goodman Lampson (Planning Design Research Corporation)

Lauri Goodman Lampson is president and CEO of Planning Design Research Corporation,¹ a firm that analyzes work environments to understand how employees work and what kind of spaces and facilities they need to do their best, most productive work. Lampson was hired by Accenture, a consulting firm, to evaluate and improve its location in Houston. Accenture's Houston office was a three-story, 66,000-square-foot building that served 800 employees.² Accenture employees are consultants themselves, and they typically spend up to two-thirds of their working time away from the office serving clients.

Lampson worked with Accenture director of workplaces Dan Johnson and Steelcase, an office furniture manufacturer, to study how Accenture was using its Houston space. Lampson's "focus is on gaining a deep understanding of the business and its strategy for success and then developing strategic workplace solutions that enable those goals."³ To achieve this outcome, Lampson and Steelcase analyzed employee demographics and expectations and studied how employees actually interacted with each other and performed tasks in the workplace. Accenture wanted to have a workspace that fostered its corporate goals of: worker innovation, collaboration, and flexibility.⁴



Exhibit 8.2 American General Center The American General Center is a complex of several office buildings in Houston, Texas, and home offices for Accenture. (Credit: Ken Luncl/ flickr/ Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0))

Understanding a firm's strengths is an important step in strategic analysis, and Lampson's focus on supporting those strengths in the workplace environment led to Workplace 2.0, Accenture's reimagined facility. Not only does the new workspace provide better physical and technological support for collaboration among Accenture employees, but Lampson and Steelcase were able to identify opportunities for Accenture to significantly reduce the size of its offices. Accenture saves money by using less space (it was able to downsize to a single floor of 25,000 square feet to serve the same number of workers) and supports worker interaction and engagement by providing a more effective workspace. You can watch a video of this transformation here: <https://www.youtube.com/watch?v=y4ollY3HJfo>

References

1. PDR (2016). Lauri Goodman Lampson, President + CEO. www.pdrcorp.com/lauri-goodman-lampson/ Accessed July 28, 2017.
2. Steelcase, (n.d.). Accenture Relocation Aids Collaboration. <https://www.steelcase.com/research/articles/topics/real-estate-optimization/accenture/> Accessed July 28, 2017.
3. PDR (2016). Lauri Goodman Lampson President + CEO. www.pdrcorp.com/lauri-goodman-lampson/ Accessed July 28, 2017.
4. Steelcase (2011). Accenture Case Study. <https://www.youtube.com/watch?v=y4oIIY3HJfo&t=219s> Accessed July 28, 2017.

This page titled [5.2.1: Introduction to Strategic Analysis](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **8.1: Introduction to Strategic Analysis** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.2.2: Gaining Advantages by Understanding the Competitive Environment

Learning Objectives

1. What is strategic analysis, and why do firms need to analyze their competitive environment?

Strategic analysis is the process that firms use to study and understand the many different layers and aspects of their competitive environment. Why do firms spend time and money trying to understand what is going on around them? Firms do not operate in a vacuum. They are impacted by forces and factors from inside their organizations and outside in the world at large. Understanding these forces and factors is crucial to achieving success as a business. For example, the growth in the Spanish-speaking population in the United States has led many firms to change the signage in their stores and labels on their products to include Spanish, in order to make their stores easier to shop in and their products easier to identify for this growing market. The external environment is continually changing, and the most successful firms are able to prepare for and adapt to environmental changes because they have done their homework and understand how external forces impact their operations.

To react to change more easily and develop products consumers want, managers and consultants engage in **environmental scanning**—the systematic and intentional analysis of both a firm's internal state and its external, competitive environment. From a local coffee shop to an international corporation, firms of all sizes benefit from strategic analysis. Let's examine some important strategic factors in more detail.

The Competitive Environment

A firm's **competitive environment** includes components inside the firm and outside the firm. **External factors** are things in the global environment that may impact a firm's operations or success, examples are a rise in interest rates, or a natural disaster. External factors cannot be controlled, but they must be managed effectively and to understand them so that the firm can be as successful. For example, the unemployment rate will affect a firm's ability to hire qualified employees at a reasonable rate of pay. If unemployment is high, meaning that a lot of people are looking for jobs, then a firm will probably have a lot of applicants for any positions it needs to fill. It will be able to choose more highly qualified applicants to hire and may be able to hire them at a lower pay rate because the employee would rather work for a lower pay rate than not have a job at all. On the other hand, when unemployment is low, meaning that not many people are looking for jobs, firms may have to offer higher pay or settle for lower qualifications to find someone to fill a position.

Internal factors are characteristics of the firm itself. To plan to compete against other firms, a firm needs to understand what physical, financial, and human resources it has, what it is good at, and how it is organized. For example, Walmart has a sophisticated IT system that tracks inventory and automatically orders products before they run out, by calculating how long it will take for the new product to arrive and comparing that to the rate at which the product is selling off the shelves. The system orders new product so that it will arrive just as the product on the shelves is running out, so that Walmart stores do not need to have storage space for inventory. All Walmart inventory is on the store shelves, ready to be sold to customers. How does this system benefit Walmart? It does not have to spend money on storing or keeping track of inventory, all products in the store can generate revenue because they are available for customers to buy, and when the system is working optimally, the store never runs out of items customers want.

Concept Check

1. Why do managers use strategic analysis?
2. How are internal factors different from external factors in a firm's competitive environment?

This page titled [5.2.2: Gaining Advantages by Understanding the Competitive Environment](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [8.2: Gaining Advantages by Understanding the Competitive Environment](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.2.3: Using SWOT for Strategic Analysis

Learning Objectives

1. What is a SWOT analysis, and what can it reveal about a firm?

You may already have heard of one very common tool firms use to analyze their strategic and competitive situations: SWOT, which is an acronym for strengths, weaknesses, opportunities, and threats. Firms use SWOT analysis to get a general understanding of what they are good or bad at and what factors outside their doors might present chances for success or difficulty. Let's take a look at SWOT analysis piece by piece (Exhibit 8.3).

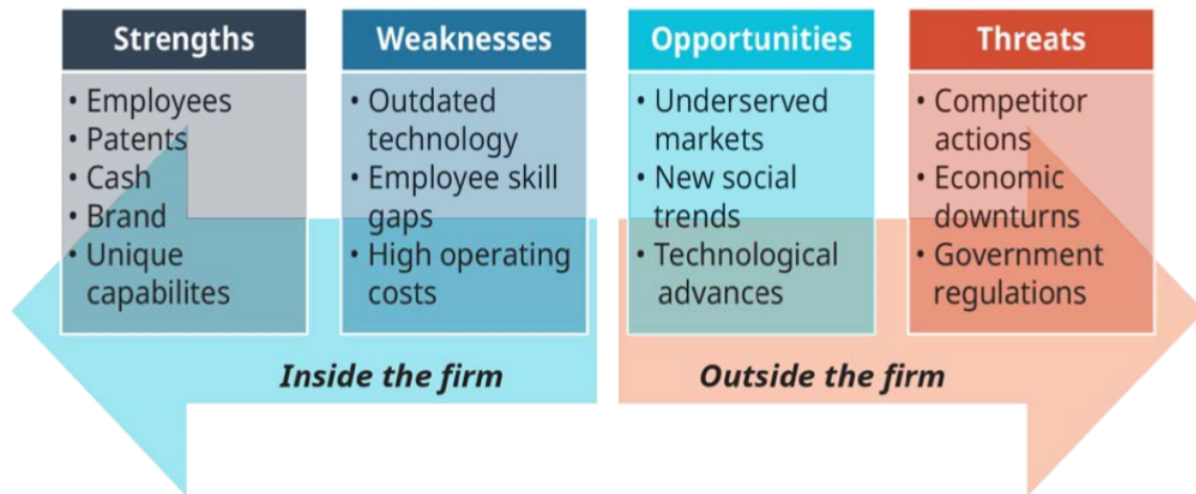


Exhibit 8.3 The Components of SWOT (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Strengths

A firm's **strengths** are, to put it simply, what it is good at. Nike is good at marketing sports products, McDonald's is good at making food quickly and inexpensively, and Ferrari is good at making beautiful fast cars. When a firm analyzes its strengths, it compiles a list of its capabilities and assets. Does the firm have a lot of cash available? That is a strength. Does the firm have highly skilled employees? Another strength. Knowing exactly what it is good at allows a firm to make plans that exploit those strengths. Nike can plan to expand its business by making products for a sport it doesn't currently serve. Its sports marketing expertise will help it successfully launch that new product line.

Weaknesses

A firm's **weaknesses** are what it is not good at—things that it does not have the capabilities to perform well. Weaknesses are not necessarily faults—remember that not all firms can be great at all things. When a firm understands its weaknesses, it will avoid trying to do things it does not have the skills or assets to succeed in, or it will find ways to improve its weaknesses before undertaking something new. A firm's weaknesses are simply gaps in capabilities, and those gaps do not always have to be filled within the firm.

SWOT analysis alerts firms to the gaps in their capabilities so they can work around them, find help in those areas, or develop capabilities to fill the gaps. For example, Paychex is a firm that handles payroll for over 600,000 firms.⁵ Paychex processes hours, pay rates, tax and benefits deductions, and direct deposit for firms that would rather not have to perform those tasks themselves. A large firm would need to have a team of employees dedicated to fulfilling that task and equip that team with software systems to do the job efficiently and accurately. For Paychex, these capabilities are a company strength—that's what it does. Other companies that do not have the resources to develop this capability or may not be interested in doing so can hire Paychex to do the job for them.

Opportunities

While strengths and weaknesses are internal to an organization, but opportunities and threats are always external. An **opportunity** is a potential situation that a firm is equipped to take advantage of. Think of opportunities in terms of things that happen in the market. Opportunities offer positive potential, however sometimes a firm is not equipped to take advantage of an opportunity which is why considering the entire SWOT is important before deciding what to do. For example, as cities are becoming more populated, parking is becoming scarcer. Younger consumers who live in cities are starting to question whether it makes sense to own a car at all, when public transportation is available and parking is not. Sometimes, however, a person might need a car to travel outside the city or transport a special purchase. Daimler, the manufacturer of Mercedes-Benz and Smart cars, started a car-sharing service in Europe, North America, and China called Car2Go to offer cars to this new market of part-time drivers. By establishing Car2Go, Daimler has found a way to sell the use of its products to people who would not buy them outright.

Threats

When a manager assesses the external competitive environment, she labels anything that would make it harder for her firm to be successful as a **threat**. A wide variety of situations and scenarios can threaten a firm's chances of success, from a downturn in the economy to a competitor launching a better version of a product the firm also offers. A good threat assessment looks thoroughly at the external environment and identifies threats to the firm's business so it can be prepared to meet them. Opportunities and threats can also be a matter of perspective or interpretation: the Car2Go service that Daimler developed to serve young urban customers who don't own cars could also be cast as a defensive response to the trend away from car ownership in this customer group. Daimler could have identified decreasing sales among young urban professionals as a threat and developed Car2Go as an alternative way to gain revenue from these otherwise lost customers.

The Limitations of SWOT Analysis

Although a SWOT analysis can identify important factors and situations that affect a firm, it only works as well as the person doing the analysis. SWOT can generate a good evaluation of the firm's internal and external environments, but it is more likely to overlook key issues because it is difficult to identify or imagine everything that could, for example, be a threat to the firm. That's why the remainder of this chapter will present tools for developing a strategic analysis that is more thorough and systematic in examining both the internal and external environments that firms operate in.

? concept Check

1. Explain the elements of a SWOT analysis.
2. What information does a SWOT analysis provide managers? What information might it miss?

References

5. Paychex (2017). Company History. <https://www.paychex.com/corporate/history.aspx> Accessed July 28, 2017.

This page titled [5.2.3: Using SWOT for Strategic Analysis](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [8.3: Using SWOT for Strategic Analysis](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.2.4: A Firm's External Macro Environment - PESTEL

Learning Objectives

1. What makes up a firm's external macro environment, and what tools do strategists use to understand it?

The world at large forms the **external environment** for businesses. A firm must confront, adapt to, take advantage of, and defend itself against what is happening in the world around it to succeed. To make gathering and interpreting information about the external environment easier, strategic analysts have defined several general categories of activities and groups that managers should examine and understand. Exhibit 8.4 illustrates layers and categories found in a firm's environment.

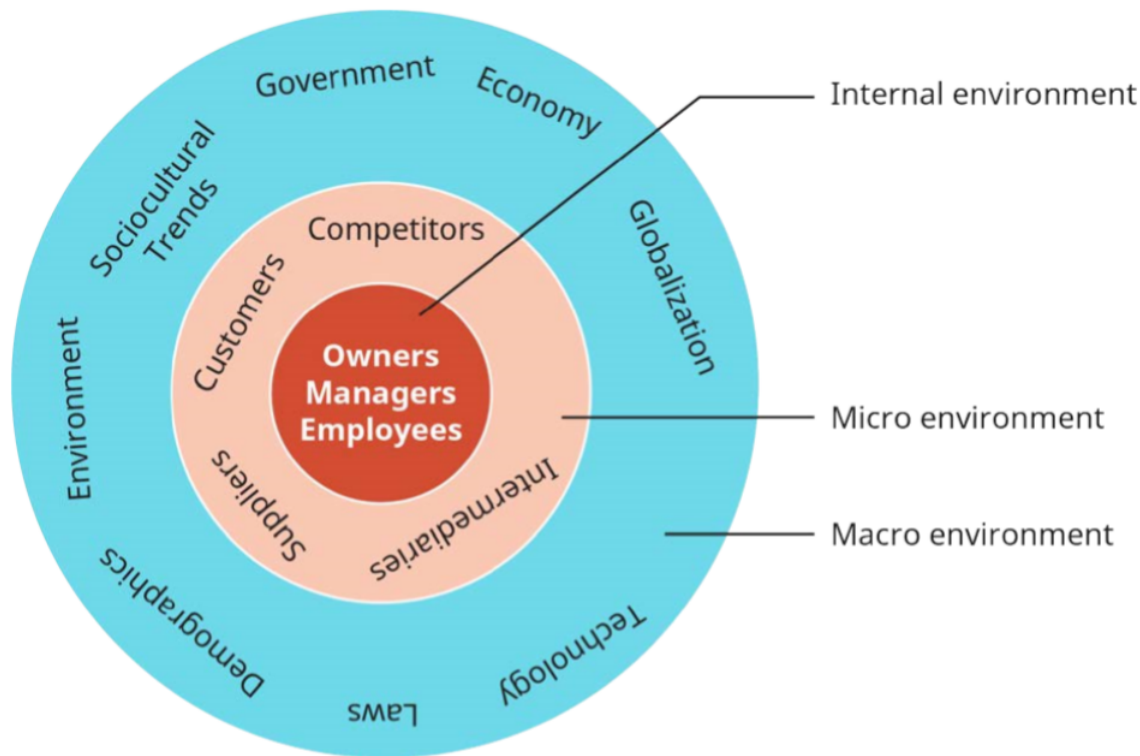


Exhibit 8.4 Components of a Firm's Environment (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A firm's **macro environment** contains elements that can impact the firm but are generally beyond its direct control. These elements are characteristics of the world at large and are factors that all businesses must contend with, regardless of the industry they are in or type of business they are. In the Exhibit 8.4, the macro environment is indicated in blue. Note that the terms contained in the blue ring are all “big-picture” items that exist independently of business activities. That is not to say that they do not affect firms or that firm activities cannot affect macro environmental elements; both can and do happen, but firms are largely unable to directly change things in the macro environment.

Strategists study the macro environment to learn about facts and trends that may present opportunities or threats to their firms. However, they do not usually just think in terms of SWOT. Strategists have developed more discerning tools to examine the external environment.

PESTEL

PESTEL is a tool that reminds managers to look at several distinct categories in the macro environment. Like SWOT, PESTEL is an acronym. In this case, the letters represent the categories to examine: political factors, economic factors, sociocultural factors, technological factors, environmental factors, and legal factors. When using PESTEL to analyze a specific firm's situation, overlap between different categories of PESTEL factors can sometimes happen just as it can with SWOT.

Remember our earlier example: When urban millennials decide that car ownership is no longer attractive, car manufacturers' sales are threatened. However, those same manufacturers might be able to adapt their sales methods to offer millennials car-sharing

services, taking advantage of the opportunity to earn revenue from millennials who want access to cars for vacations or big shopping trips. PESTEL can also reveal multiple impacts from a single element in the external environment. For example, decreasing interest in car ownership among urban millennials would be a sociocultural trend. However, the technological connectedness of those same urban millennials is exactly what makes it possible for ride-sharing services such as Uber and Lyft to thrive: their services are app based and provide convenience both by connecting drivers and passengers quickly and by making transactions cashless.

Exhibit 8.5 illustrates the components of PESTEL, which will be discussed individually below.

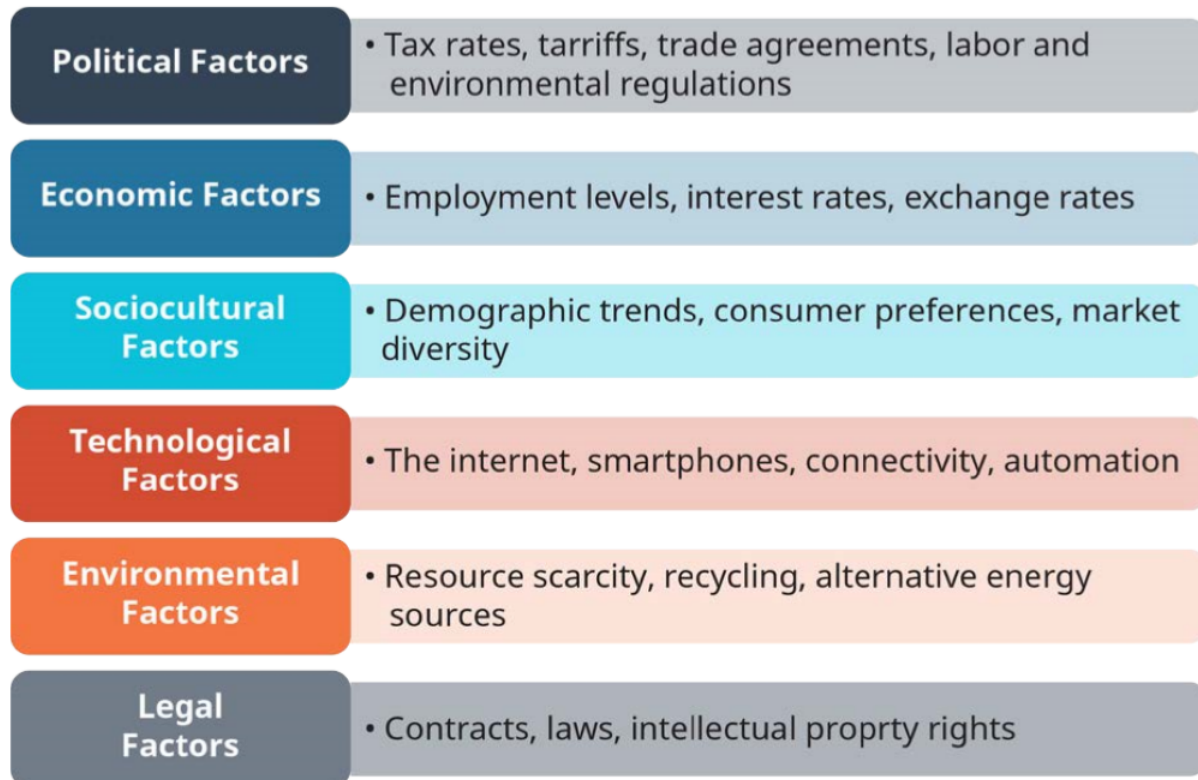


Exhibit 8.5 The PESTEL Model for External Environmental Analysis (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Political Factors

Political factors in the macro environment include taxation, tariffs, trade agreements, labor regulations, and environmental regulations. Note that in PESTEL, factors are not characterized as opportunities or threats. They are simply things that a firm can take advantage of or treat as problems, depending on its own interpretation or abilities. American Electric Power, a large company that generates and distributes electricity, may be negatively impacted by environmental regulations that restrict its ability to use coal to generate electricity because of pollution caused by burning coal. However, another energy firm has taken advantage of the government's interest in reducing coal emissions by developing a way to capture the emissions while producing power. The Petra Nova plant, near Houston, was developed by NRG and JX Nippon, who received Energy Department grants to help fund the project.⁶ Although firms do not directly make government policy decisions, many industries and firms invest in lobbying efforts to try to influence government policy development to create opportunities or reduce threats.

Economic Factors

All firms are impacted by the state of the national and global economies. The increased interdependence of individual country economies has made evaluating the **economic factors** in a firm's macro environment more complex. Firms analyze economic indicators to make decisions about entering or exiting geographic markets, investing in expansion, and hiring or laying off employees. As discussed earlier in this chapter, employment rates impact the quantity, quality, and cost of employees available to firms. Interest rates impact sales of bigticket items that consumers normally finance, such as appliances, cars, and homes. Interest rates also impact the cost of capital for firms that want to invest in expansion. Exchange rates present risks and opportunities to all

firms that operate across national borders, and the price of oil impacts many industries, from airlines and transportation companies to solar panel producers and plastic recycling companies. Once again, any scenario can be a threat to one firm and an opportunity to another, so economic forces should not be assumed to be intrinsically good or bad.

Sociocultural Factors

Quite possibly the largest category of macro environmental factors an analyst might examine are **sociocultural factors**. This broad category encompasses everything from changing national demographics to fashion trends and many things in between. **Demographics**, a subset of this category, includes facts about income, education levels, age groups, and the ethnic and racial composition of a population. All of these facts present market challenges and possibilities. Firms can target products to specific market segments by studying the needs and preferences of demographic groups, such as working women (they might need daycare services but not watch daytime television), college students (who would be interested in affordable textbooks but couldn't afford to buy new cars), or the elderly (who would be willing to pay for lawn-mowing services but might not be interested in adventure tourism).

Changes in people's values and interests are also included in this category. Environmental awareness has spurred demand for solar panels and electric and hybrid cars. A general interest in health and fitness has created industries in gyms, home gym equipment, and organic food. The popularity of social media has created an enormous demand for instant access to information and services, not to mention smartphones. Values and interests are constantly changing and vary from country to country, creating new market opportunities as well as communication challenges for companies trying to enter unfamiliar new markets.

Technological Factors

The rise of the Internet may be the most disruptive technological change of the last century. The globe has become more interconnected and interdependent because of the fast, low-cost communications the Internet provides. Customer service agents in India can serve customers in Kansas because technology has advanced to the point that the customer's account information can be instantly accessed by the service provider in India. Entrepreneurs around the world can reach customers anywhere through companies such as eBay, Alibaba, and Etsy, and they can get paid, regardless of their customers' currency, through PayPal. The Internet has enabled Jeff Bezos, who started an online bookselling company called Amazon in 1994, to transform how consumers shop for goods.

How else have **technological factors** impacted business? The Internet is not the only technological advance that has transformed how businesses operate. Automation has increased efficiency for manufacturers. MRP (materials requirement planning) systems have changed how companies and their suppliers work together, and global-positioning technology has helped construction engineers manage large projects more accurately. Consumers and firms have nearly unlimited access to information, and this access has empowered consumers to make more-informed buying decisions and challenged firms to develop ways to analyze the large amounts of data their businesses generate.

Environmental Factors

The physical environment, which provides natural resources for manufacturing and energy production, has always been a key part of human business activity. As resources become scarcer and more expensive, **environmental factors** impact businesses more every day. Firms are developing technology to operate more cleanly and using fewer resources. Political pressure on businesses to reduce their impact on the natural environment has increased globally and dramatically in the 21st century. In 2017, London, Barcelona, and Paris announced their plans to ban cars with internal combustion engines over the next few decades, in order to combat air-quality issues.⁷

This external environment category often overlaps with others in PESTEL because concern for the environment is also a sociocultural trend, as more consumers look for recycled products and buy electric and hybrid cars. On the political front, firms are facing increased regulation around the world on their carbon emissions and natural resource use. Although SWOT would characterize these factors as either opportunities or threats, PESTEL simply identifies them as aspects of the external environment that firms must consider when planning for their futures.

Legal Factors

Legal factors in the external environment often coincide with political factors because laws are enacted by government entities. This does not mean that the categories identify the same issues, however. Although labor laws and environmental regulations have deep political connections, other legal factors can impact business success. For example, in the streaming video industry, licensing

fees are a significant cost for firms. Netflix pays billions of dollars every year to movie and television studios for the right to broadcast their content. In addition to the legal requirement to pay the studios, Netflix must consider that consumers may find illegal ways to view the movies they want to see, making them less willing to pay to subscribe to Netflix. Intellectual property rights and patents are major issues in the legal realm.

Note that some external factors are difficult to categorize in PESTEL. For instance tariffs can be viewed as either a political or economic factor while the influence of the internet could be viewed as either a technological or social factor. While some issues can overlap two or more PESTEL areas, it does not diminish the value of PESTEL as an analytical tool.

? Concept Check

1. Describe a firm's macro environment.
2. What does PESTEL stand for? How do managers use PESTEL to understand their firm's macro environment?

✓ Ethics in Practice

Sustainability and Responsible Management: Can LEGO Give up Plastic?

"In 2012, the LEGO Group first shared its ambition to find and implement sustainable alternatives to the current raw materials used to manufacture LEGO products by 2030. The ambition is part of the LEGO Group's work to reduce its environmental footprint and leave a positive impact on the planet our children will inherit."⁸

Danish toy company LEGO announced in 2015 that it would invest almost \$160 million dollars into its efforts to meet the goal it announced in 2012. You know LEGO—they are the colored plastic bricks that snap together to make toys ranging from Harry Potter castles to Star Wars fighter craft. The family-owned company was founded in 1932 by Ole Kirk Christiansen and has since grown to be the world's number one toy brand.⁹

Given that LEGO and plastic seem to go hand in hand, why would the company want to give up on the material that makes their toys so successful? LEGO's manufacturing process relies on plastic to make highly precise plastic bricks that always fit together securely and easily. Replacing the plastic with another material that is durable, can be brightly colored, and can be molded as precisely is a difficult task. LEGO's leadership has decided that a strategic position based on fossil fuels is not sustainable and is making plans now to transition to a more environmentally friendly material to manufacture its products.

Switching from oil-based plastic might make economic sense as well. Manufacturers who rely on petroleum-based products must weather volatile oil prices. LEGO's raw materials costs could skyrocket overnight if the price of oil climbs again as it did in 2011. That price spike was due to conflict in Libya and other parts of the Arab world,¹⁰ something entirely beyond the control of any business.

Technological innovations in bio-based plastics may be the answer for LEGO,¹¹ which is working with university researchers around the globe to find a solution to its carbon-footprint problem.

Sources: Trangbæk, Roar Rude (2016). "LEGO Group to invest 1 Billion DKK Boosting Search for Sustainable Materials." <https://www.lego.com/en-us/aboutus/news/terials-centre>. Accessed July 29, 2017; Brand Finance (2017). "Toys 25 2016." brandfinance.com/images/upload/brand_finance_toys_25_2017_report_locked.pdf Accessed July 29, 2017; Holodny, Elena (2016). **TIMELINE:** The tumultuous 155-year history of oil prices. Business Insider. <http://www.businessinsider.com/timeline-prices-2016-12> Accessed July 29, 2017; and Peters, Adele (2015). "Why LEGO is Spending Millions to Ditch Oil-Based Plastic." Fast Company. www.fastcompany.com/3048017/...-based-plastic Accessed July 29, 2017.

Critical Thinking Questions

1. How would you approach this issue if you were the manager in charge of sourcing raw materials for LEGO? How would PESTEL analysis inform your actions?
2. What PESTEL challenges is LEGO trying to address by changing the raw materials used in its products?
3. Explain what favorable PESTEL factors support LEGO's efforts.

References

6. Chris Mooney (January 10, 2017). “America’s first ‘clean coal’ plant is now operational — and another is on the way.” *The Washington Post*. [www.washingtonpost.com/news/...wp/2017/01/10/ americas-first-clean-coal-plant-is-now-operational-and-another-is-on-the-way/?utm_term=.0020d0987631](http://www.washingtonpost.com/news/energy-environment/wp/2017/01/10/americas-first-clean-coal-plant-is-now-operational-and-another-is-on-the-way/?utm_term=.0020d0987631) Accessed July 28, 2017.
7. Smith, Geoffrey (2017). “Paris Wants to Ban the Combustion Engine by 2030.” *Fortune*. Oct. 12, 2017. [http://fortune.com/2017/10/12/paris-...on-engine-ban/](http://fortune.com/2017/10/12/paris-on-engine-ban/)
8. Trangbæk, Roar Rude (2016). “LEGO Group to invest 1 Billion DKK Boosting Search for Sustainable Materials.” [https://www.lego.com/en-us/aboutus/n...terials-centre](https://www.lego.com/en-us/about-us/news/lego-materials-centre). Accessed July 29, 2017.
9. Brand Finance (2017). “Toys 25 2016.” [brandfinance.com/images/upload/ brand_finance_toys_25_2017_report_locked.pdf](http://brandfinance.com/images/upload/brand_finance_toys_25_2017_report_locked.pdf) Accessed July 29, 2017.
10. Holodny, Elena (2016). TIMELINE: The tumultuous 155-year history of oil prices. *Business Insider*. [http://www.businessinsider.com/timel...prices-2016-12](http://www.businessinsider.com/timeline-oil-prices-2016-12) Accessed July 29, 2017.
11. Peters, Adele (2015). “Why LEGO is Spending Millions to Ditch Oil-Based Plastic.” *Fast Company*. [www.fastcompany.com/3048017/...-based-plastic](http://www.fastcompany.com/3048017/why-lego-is-spending-millions-to-ditch-oil-based-plastic) Accessed July 29, 2017.

This page titled [5.2.4: A Firm's External Macro Environment - PESTEL](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [8.4: A Firm's External Macro Environment - PESTEL](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.2.5: A Firm's Micro Environment- Porter's Five Forces

Learning Objectives

1. What makes up a firm's external micro environment, and what tools do strategists use to understand it?

A firm's **micro environment** is illustrated in the green circle in Exhibit 8.4. These entities are all directly connected to the firm in some way, and firms must understand the micro environment in order to successfully compete in an industry. All firms are part of an **industry**—a group of firms all making similar products or offering similar services, for example automobile manufacturers or airlines. Firms in an industry may or may not compete directly against one another, as we'll discuss shortly, but they all face similar situations in terms of customer interests, supplier relations, and industry growth or decline.

Harvard strategy professor Michael Porter developed an analysis tool to evaluate a firm's micro environment. **Porter's Five Forces** is a tool used to examine different micro-environmental groups in order to understand the impact each group has on a firm in an industry (Exhibit 8.6). Each of the forces represents an aspect of competition that affects a firm's potential to be successful in its industry. It is important to note that this tool is different than Porter's generic strategy typology that we will discuss later.

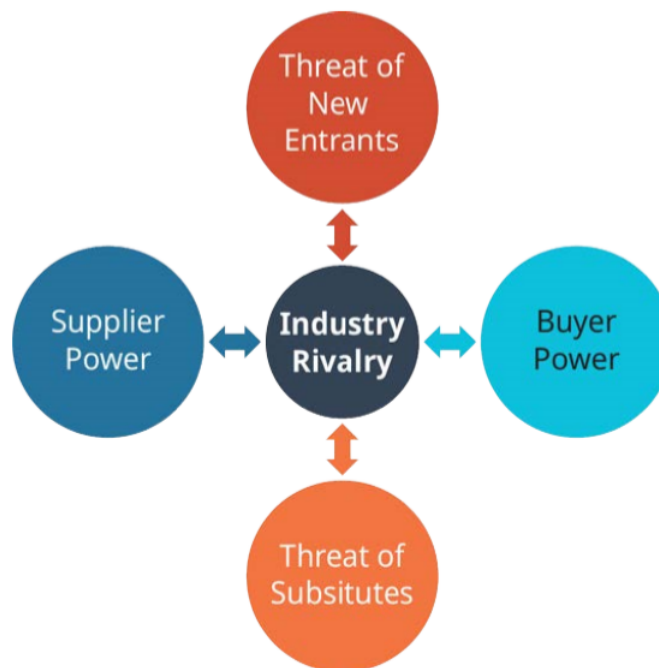


Exhibit 8.6 Porter's Five Forces Model of Industry Competition (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Industry Rivalry

Industry rivalry, the first of Porter's forces, is in the center of the diagram. Note that the arrows in the diagram show two-way relationships between rivalry and all of the other forces. This is because each force can affect how hard firms in an industry must compete against each other to gain customers, establish favorable supplier relationships, and defend themselves against new firms entering the industry.

When using Porter's model, an analyst will determine if each force has a strong or weak impact on industry firms. In the case of rivalry, the question of strength focuses on how hard firms must fight against industry rivals (competitors) to gain customers and market share. Strong rivalry in an industry reduces the profit potential for all firms because consumers have many firms from which to purchase products or services and can make at least part of their purchasing decisions based on prices. An industry with weak rivalry will have few firms, meaning that there are enough customers for everyone, or will have firms that have each staked out a unique position in the industry, meaning that customers will be more loyal to the firm that best meets their particular needs.

The Threat of New Entrants

In an industry, there are incumbent (existing) firms that compete against each other as rivals. If an industry has a growing market or is very profitable, however, it may attract **new entrants**. These either are firms that start up in the industry as new companies or are firms from another industry that expand their capabilities or target markets to compete in an industry that is new to them.

Different industries may be easier or harder to enter depending on **barriers to entry**, factors that prevent new firms from successfully competing in the industry. Common barriers to entry include cost, brand loyalty, and industry growth. For example, the firms in the airline industry rarely face threats from new entrants because it is very expensive to obtain the equipment, airport landing rights, and expertise to start up a new airline.

Brand loyalty can also keep new firms from entering an industry, because customers who are familiar with a strong brand name may be unwilling to try a new, unknown brand. Industry growth can increase or decrease the chances a new entrant will succeed. In an industry with low growth, new customers are scarce, and a firm can only gain market share by attracting customers of other firms. Think of all the ads you see and hear from competing cell phone providers. Cell phone companies are facing lower industry growth and must offer consumers incentives to switch from another provider. On the other hand, high-growth industries have an increasing number of customers, and new firms can successfully appeal to new customers by offering them something existing firms do not offer. It is important to note that barriers to entry are not always external, firms often lobby politicians for regulations that can be a barrier to entry. These types of barriers will be covered in greater depth in more upper level courses.

Threat of Substitutes

In the context of Porter's model, a **substitute** is any other product or service that can satisfy the same need for a customer as an industry's offerings. Be careful not to confuse substitutes with rivals. Rivals offer similar products or services and directly compete with one another. Substitutes are completely different products or services that consumers would be willing to use instead of the product they currently use. For example, the fast food industry offers quickly prepared, convenient, low-cost meals. Customers can go to McDonald's, Wendy's, Burger King, or Taco Bell—all of these firms compete against each other for business. However, their customers are really just hungry people. What else could you do if you were hungry? You could go to the grocery store and buy food to prepare at home. McDonald's does not directly compete against Kroger for customers, because they are in different industries, but McDonald's does face a threat from grocery stores because they both sell food. How does McDonald's defend itself from the threat of Kroger as a substitute? By making sure their food is already prepared and convenient to purchase—your burger or salad is ready to eat and available without even getting out of your car.



Exhibit 8.7 McDonalds A drive-through menu at this McDonald's is designed to help customers choose their meal quickly and have it ready for pickup at the drive-through window. (Credit: Caribb/ flickr/ Public Domain)

Supplier Power

Virtually all firms have suppliers who sell parts, materials, labor, or products. **Supplier power** refers to the balance of power in the relationship between firms and their suppliers in an industry. Suppliers can have the upper hand in a relationship if they offer specialized products or control rare resources. For example, when Sony develops a new PlayStation model, it often works with a single supplier to develop the most advanced processor chip it can for their game console. That means its supplier will be able to command a fairly high price for the processors, an indication that the supplier has power. On the other hand, a firm that needs commodity resources such as oil, wheat, or aluminum in its operations will have many suppliers to choose from and can easily switch suppliers if price or quality is better from a new partner. Commodity suppliers usually have low power.

Buyer Power

The last of Porter's forces is **buyer power**, which refers to the balance of power in the relationship between a firm and its customers. If a firm provides a unique good or service, it will have the power to charge its customers premium prices, because those customers have no choice but to buy from the firm if they need that product. In contrast, when customers have many potential sources for a product, firms will need to attract customers by offering better prices or better value for the money if they want to sell their products. One protection firms have against buyer power is **switching costs**, the penalty consumers face when they choose to use a particular product made by a different company. Switching costs can be financial (the extra price paid to choose a different product) or practical (the time or hassle required to switch to a different product). For example, think about your smartphone. If you have an iPhone now, what would be the penalty for you to switch to a non-Apple smartphone? Would it just be the cost of the new phone? Smartphones are not inexpensive, but even when cell phone service providers offer free phones to new customers, many people still don't switch. The loss of compatibility with other Apple products, the need to transfer apps and phone settings to another system, and the loss of favorite iPhone features, such as iMessage, are enough to keep many people loyal to their iPhones.

? Concept Check

1. Describe each of Porter's Five Forces. What information does each provide a manager trying to understand her firm's micro environment?

This page titled [5.2.5: A Firm's Micro Environment- Porter's Five Forces](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **8.5: A Firm's Micro Environment- Porter's Five Forces** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.2.6: The Internal Environment

Learning Objectives

1. How and why do managers conduct an internal analysis of their firms?

A firm's internal environment is illustrated in Exhibit 8.4 by the innermost orange circle. The **internal environment** consists of members of the firm itself, investors in the firm, and the assets a firm has. Employees and managers are good examples; they are firm members who have skills and knowledge that are valuable assets to their firms. Evaluating a firm's internal environment is not just a matter of counting heads, however. Successful firms have a wide range of resources and capabilities that they can use to maintain their success and grow into new ventures. A thorough analysis of a firm's internal situation provides a manager with an understanding of the resources available to pursue new initiatives, innovate, and plan for future success.

Resources and Capabilities

A firm's resources and capacities are the unique skills and assets it possesses. **Resources** are things a firm has to work with, such as equipment, facilities, raw materials, employees, and cash. **Capabilities** are things a firm can do, such as deliver good customer service or develop innovative products to create value. Both are the building blocks of a firm's plans and activities, and both are required if a firm is going to compete successfully against its rivals. Firms use their resources and leverage their capabilities to create products and services that have some advantage over competitors' products. For example, a firm might offer its customers a product with higher quality, better features, or lower prices. Not all resources and capabilities are equally helpful in creating success, though. Internal analysis identifies exactly which assets bring the most value to the firm.

The Value Chain

Before examining the role of resources and capabilities in firm success, let's take a look at the importance of how a firm uses those factors in its operations. A firm's **value chain** is the progression of activities it undertakes to create a product or service that consumers will pay for. A firm should be adding value at each of the chain of steps it follows to create its product. The goal is for the firm to add enough value so that its customers will believe that the product is worth buying for a price that is higher than the costs the firm incurs in making it. As an example, Exhibit 8.8 illustrates a hypothetical value chain for some of Walmart's activities.

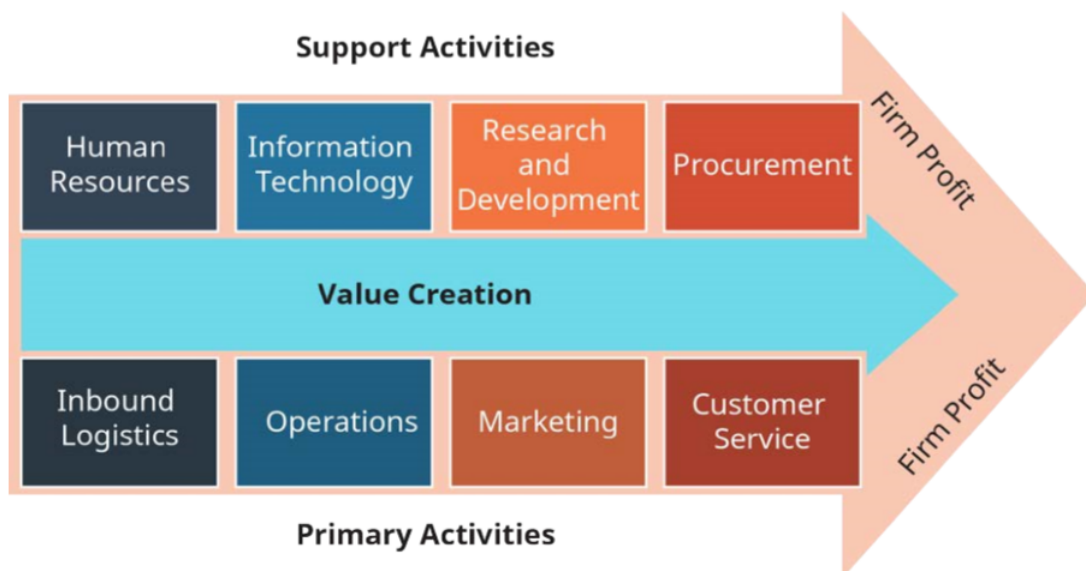


Exhibit 8.8 A Value Chain Example (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

In this example, note that value increases from left to right as Walmart performs more activities. If it adds enough value through its efforts, it will profit when it finally sells its services to customers. By working with product suppliers (procurement), getting those products to store locations efficiently (inbound logistics), and automatically keeping track of sales and inventory (information technology), Walmart is able to offer its customers a wide variety of products in one store at low prices, a service customers value.

Primary activities, the ones across the bottom half of the diagram, are the actions a firm takes to directly provide a product or service to customers. **Support activities**, the ones across the top of the diagram, are actions required to sustain the firm that are not directly part of product or service creation.

Using Resources and Capabilities to Build an Advantage over Rivals

A firm's resources and capabilities are not just a list of equipment and things it can do. Instead, resources and capabilities are the distinctive assets and activities that separate firms from each other. Firms that can amass critical resources and develop superior capabilities will succeed in competition over rivals in their industry. Strategists evaluate firm resources and capabilities to determine if they are sufficiently special to help the firm succeed in a competitive industry.

Using VRIO

The analytical tool used to assess resources and capabilities is called **VRIO**. As usual, this is an acronym developed to remind managers of the questions to ask when evaluating their firms' resources and capabilities. The four questions of VRIO, which focus on value, rarity, imitation, and organization, are illustrated in Exhibit 8.9.

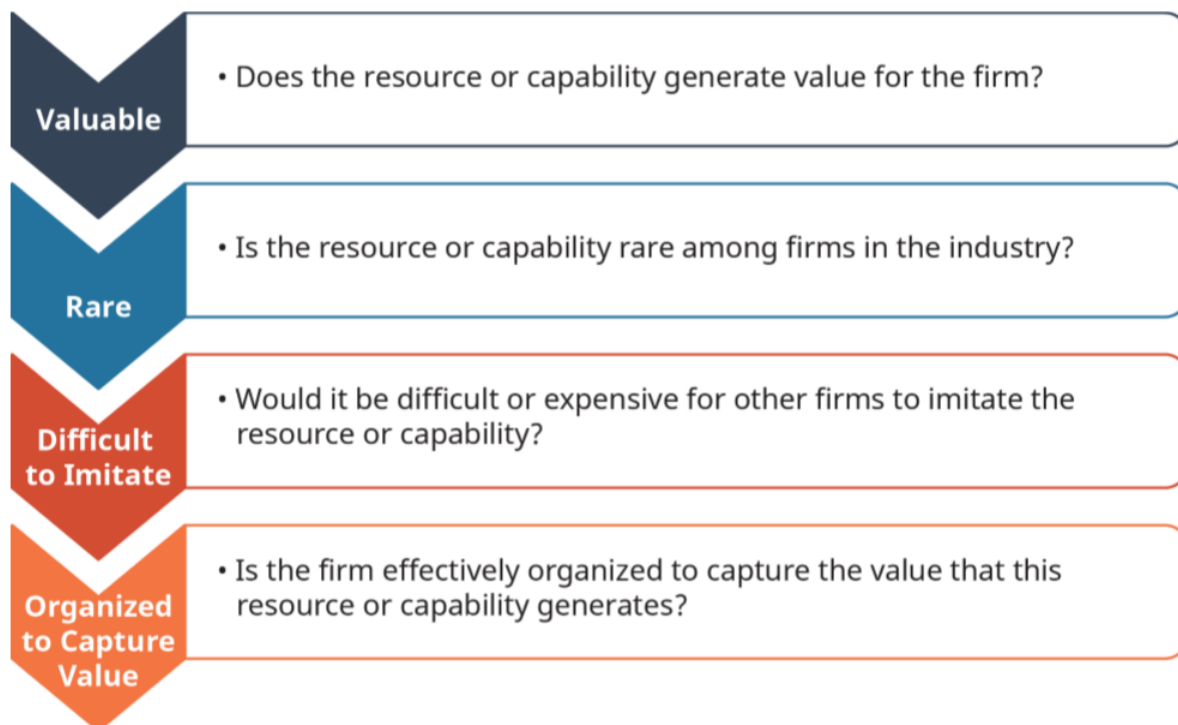


Exhibit 8.9 VRIO, a Tool for Evaluating Firm Resources and Capabilities (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

If each question can be answered with a “yes,” then the resource or capability being evaluated can be the source of a competitive advantage for the firm. An example will help you better understand the VRIO process.

Imagine that you are a top manager for Starbucks and you want to understand why you are able to be successful against rivals in the coffee industry. You make a list of some of Starbucks' resources and capabilities and use VRIO to determine which ones are key to your success. These are shown in Table 8.1.

Starbucks' Resources and Capabilities	
Resources	Capabilities
Brand name	Making quality coffee drinks
Thousands of locations worldwide	Delivering excellent customer service
Cash	Training excellent staff

Loyal customers	Paying above-average wages
Well-trained employees	Retaining quality employees

Table 8.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

You look at your list and decide to pick a few of the entries to evaluate with VRIO (Table 8.2):

Evaluating Starbucks' VRIO					
Resource/ Capability	Is it valuable?	Is it rare?	Is it difficult to imitate?	Is Starbucks organized to capture its value?	Can it be a basis for competitive advantage?
Brand Name	Yes	Yes	Yes	Yes	Yes
Delivering excellent customer service	Yes	Yes	Yes	Yes	Yes
Thousands of locations worldwide	Yes	No	No	Yes	Yes

Table 8.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

According to the evaluation above, Starbucks' brand helps it compete and succeed against rivals, as does its excellent customer service. However, simply having a lot of locations globally isn't enough to beat rivals—McDonald's and Subway also have thousands of worldwide locations, and both serve coffee. Starbucks succeeds against them because of their brand and customer service.

? Concept Check

1. What are firm resources and capabilities?
2. Describe a value chain and what the activities in the chain represent.
3. What is VRIO? What questions do the letters stand for, and how does using VRIO help a manager make decisions?

✓ ManaginG Change

Technology and Innovation: Uber, Lyft, and the Self-Driving Car: The Transportation of the Future Is Coming Soon

Although the ride-sharing industry is still relatively new, it has seen explosive growth, and its two main rivals, Uber and Lyft, are looking for ways to increase their capacity to serve riders. Both firms, and rivals like them, operate in basically the same way. A person needing a ride uses a smartphone app to alert a nearby person with a car of their location. The driver, usually an independent contractor for the service (meaning they are just a person with a car that has signed up to provide rides in exchange for a portion of the fare the customer pays), picks up the customer and drives them to their destination. Paying for the ride is also handled through the app, and the driver receives about 75–80% of the fare, with Uber or Lyft keeping the balance.¹²



Exhibit 8.10 Rideshare pickup area The ride-share pickup area at Pierre Elliott Trudeau Airport in Montreal. Due to the popularity of ride sharing with companies such as Uber and Lyft, municipalities and airports have had to accommodate the changing demands of customers. (Credit: Quinn Dombroski/ flickr/ Attribution-ShareAlike2.0 Generic (CC BY-NC 2.0))

The popularity of ride-sharing services has soared, and both companies are constantly recruiting more drivers. However, both companies have also explored alternatives to independent drivers: self-driving cars. Uber and Lyft have taken different paths to develop this capability. Uber has worked to internally develop its own software technology and self-driving car technology, while Lyft has focused on software interfaces that can accommodate other companies' self-driving cars.¹³ Lyft's partnerships with firms such as Google and GM that are already developing self-driving cars has put it ahead of Uber in the race to get driverless vehicles into its ride-sharing network, and it was able to test self-driving cars in Boston by partnering with NuTonomy in 2017.¹⁴ Lyft offered a demonstration to journalists at the Consumer Electronics Show in Las Vegas in 2018, offering rides in self-driving cars developed by Aptiv.¹⁵ Uber had been testing similar technology in Pittsburgh but suspended its self-driving car program after a fatal pedestrian accident in Arizona.¹⁶

Sources: Ridester (2017). "How Much do Uber Drivers Actually Make? The Inside Scoop."Ridester.com. <https://www.ridester.com/how-much-do...-drivers-make/> Accessed July 29, 2017; Bensinger, Greg (2017). "Lyft Shifts Gears With New Driverless-Car Division; San Francisco company to hire hundreds of engineers and open new Silicon Valley office."The Wall Street Journal. July 21, 2017; Edelstein, Stephen (2017). "Lyft Finally Launches Its Boston Self-Driving Car Pilot Program."The Drive. Dec. 17, 2017. <http://www.thedrive.com/tech/16779/lyft-pilot-program>; O'Kane, Sean (2018). "I took a gamble by riding in a self-driving Lyft in Las Vegas."The Verge. January 8, 2018. <https://www.theverge.com/2018/1/8/16...vegas-cs-2018>; and Korosec, Kristen (2018). "Uber self-driving cars back on public roads, but in manual mode/"Tech Crunch. July 24, 2018. techcrunch.com/2018/07/24/uber-self-driving-cars-back-on-public-roads-but-in-manual-mode/.

Critical Thinking Questions

1. What resource or capability challenges have Uber and Lyft faced because their fast company growth?
2. What PESTEL factors do you think are contributing to the popularity of ride-sharing services?
3. What industry challenges (think of Porter's Five Forces) does the use of self-driving cars address?

References

12. Ridester (2017). "How Much do Uber Drivers Actually Make? The Inside Scoop."Ridester.com. <https://www.ridester.com/how-much-do...-drivers-make/> Accessed July 29, 2017.
13. Bensinger, Greg (2017). "Lyft Shifts Gears With New Driverless-Car Division; San Francisco company to hire hundreds of engineers and open new Silicon Valley office."The Wall Street Journal. July 21, 2017.

14. Edelstein, Stephen (2017). "Lyft Finally Launches Its Boston Self-Driving Car Pilot Program."The Drive. Dec. 17, 2017. <http://www.thedrive.com/tech/16779/1...-pilot-program>
15. O'Kane, Sean (2018). "I took a gamble by riding in a self-driving Lyft in Las Vegas."The Verge. January 8, 2018. <https://www.theverge.com/2018/1/8/16...vegas-ces-2018>
16. Korosec, Kristen (2018). "Uber self-driving cars back on public roads, but in manual mode/"Tech Crunch. July 24, 2018. techcrunch.com/2018/07/24/ub...in-manualmode/

This page titled [5.2.6: The Internal Environment](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **8.6: The Internal Environment** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.2.7: Competition, Strategy, and Competitive Advantage

Learning Objectives

1. What does it mean to compete with other firms in a business environment, what does it mean when a firm has a competitive advantage over its rivals, and what generic strategies can a firm implement to gain advantage over its rivals?

Now that you understand more about the environment that businesses operate in, let's take a deeper look at exactly how they operate. Businesses exist to make profits by offering goods and services in the marketplace at prices that are higher than the costs they incurred creating those goods and services. Businesses rarely exist alone in an industry; **competition** is usually a key part of any marketplace. This means that businesses must find ways to attract customers to their products and away from competitors' products. **Strategy** is the process of planning and implementing actions that will lead to success in competition.

The analytical tools we discuss here are part of the strategic planning process. Managers cannot successfully plan to compete in an industry if they don't understand its competitive landscape. It is also unlikely that a firm planning to launch a new product they are not equipped to make will be successful.

Competition

Porter's Five Forces model is centered around rivalry, a synonym for competition. In any industry, multiple firms compete against each other for customers by offering better or cheaper products than their rivals. Firms use PESTEL to understand what consumers are interested in and use VRIO to evaluate their own resources and capabilities so that they can figure out how to offer products and services that match those consumer interests and that are better in quality and price than the products offered by their competitors.

A firm is described as having a **competitive advantage** when it successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do. A firm achieves a competitive advantage by adding value to its products and services or reducing its own costs more effectively than its rivals in the industry.

Generic Business-Level Competitive Strategies

When discussing business strategy, a business is a firm or a unit of a firm that centers its activities around one primary type of product or service line. Business-level strategy is the general way that a business organizes its activities to compete against rivals in its product's industry. Michael Porter (the same Harvard professor who developed the Five Forces Model) defined three **generic business-level strategies** that outline the basic methods of organizing to compete in a product market. He called the strategies "generic" because these ways of organizing can be used by any firm in any industry.

Cost Leadership

When pursuing a **cost-leadership strategy**, a firm offers customers its product or service at a lower price than its rivals can. To achieve a competitive advantage over rivals in the industry, the successful cost leader tightly controls costs throughout its value chain activities. Supplier relationships are managed to guarantee the lowest prices for parts, manufacturing is conducted in the least expensive labor markets, and operations may be automated for maximum efficiency. A cost leader must spend as little as possible producing a product or providing a service so that it will still be profitable when selling that product or service at the lowest price. Walmart is the master of cost leadership, offering a wide variety of products at lower prices than competitors because it does not spend money on fancy stores, it extracts low prices from its suppliers, and it pays its employees relatively low wages.

Differentiation

Not all products or services in the marketplace are offered at low prices, of course. A **differentiation strategy** is exactly the opposite of a cost-leadership strategy. While firms do not look to spend as much as possible to produce their output, firms that differentiate try to add value to their products and services so they can attract customers who are willing to pay a higher price. At each step in the value chain, the differentiator increases the quality, features, and overall attractiveness of its products or services. Research and development efforts focus on innovation, customer service is excellent, and marketing bolsters the value of the firm brand. These efforts guarantee that the successful differentiator can still profit even though its production costs are higher than a cost leader's. Starbucks is a good example of a differentiator: it makes coffee, but its customers are willing to pay premium prices for a cup of Starbucks coffee because they value the restaurant atmosphere, customer service, product quality, and brand.

Porter's typology assumes that firms can succeed through either cost leadership or differentiation. Trying to combine these two, Porter suggests, can lead to a firm being stuck in the middle.

Focus

Porter's third generic competitive strategy, **focus**, is a little different from the other two. A firm that focuses still must choose one of the other strategies to organize its activities. It will still strive to lower costs or add value. The difference here is that a firm choosing to implement a focused strategy will concentrate its marketing and selling efforts on a smaller market than a broad cost leader or differentiator. A firm following a focus-differentiation strategy, for example, will add value to its product or service that a few customers will value highly, either because the product is specifically suited to a particular use or because it is a luxury product that few can afford. For example, Flux is a company that offers custom-made bindings for your snowboard. Flux is a focus differentiator because it makes a specialized product that is valued by a small market of customers who are willing to pay premium prices for high-quality, customized snowboarding equipment.

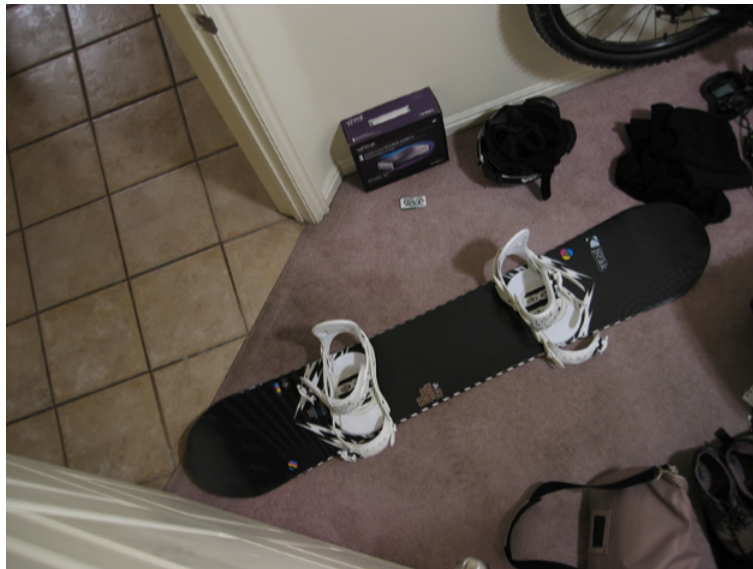


Exhibit 8.11 Snowboard bindings The Flux premium bindings on this snowboard are an example of a product on a focus-driven company. Snowboard bindings are the only products Flux markets. (Credit: Ted and dani Percival/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Strategic Groups

When managers analyze their competitive environment and examine rivalry within their industry, they are not confronted by an infinite variety of competitors. Although there are millions of businesses of all sizes around the globe, a single business usually competes mainly against other businesses offering similar products or services and following the same generic competitive strategy. Groups of businesses that follow similar strategies in the same industry are called **strategic groups**, and it is important that a manager know the other firms in their strategic group. Rivalry is fiercest within a strategic group, and the actions of one firm in a group will elicit responses from other group members, who don't want to lose market share in the industry. Take a look at Exhibit 8.12: although all of the firms shown are in the retail industry, they don't all compete directly against one another.

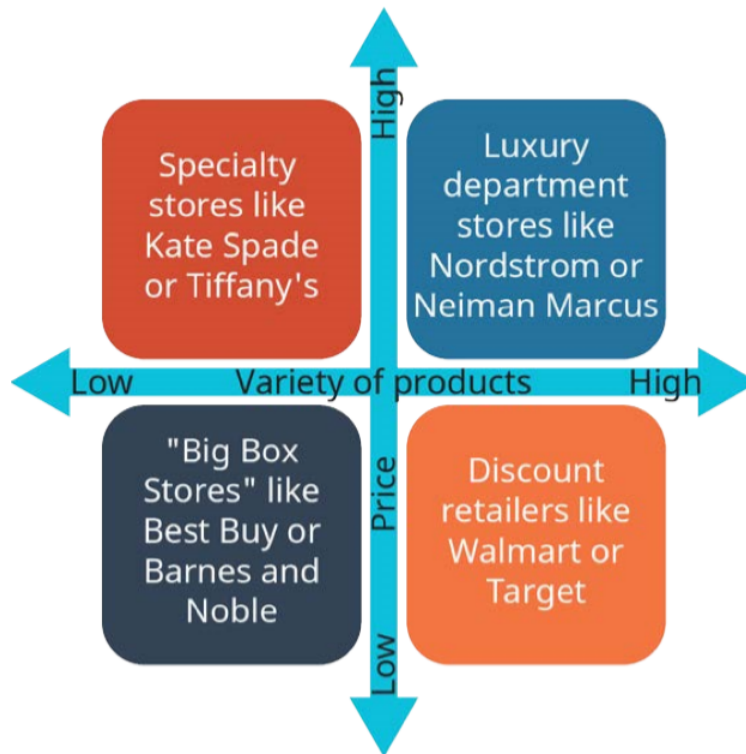


Exhibit 8.12 Strategic Groups in the Retail Industry (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Although some cross competition can occur (for example, you could buy a Kate Spade wallet at Nordstrom), firms in different strategic groups tend to compete more with each other than against firms outside their group. Although Walmart and Neiman Marcus both offer a wide variety of products, the two firms do not cater to the same customers, and their managers do not lose sleep at night wondering what each might do next. On the other hand, a Walmart manager would be concerned with the products or prices offered at Target; if laundry detergent is on sale at Target, the Walmart manager might lose sales from customers who buy it at Target instead, and so the Walmart manager might respond to Target's sale price by discounting the same detergent at Walmart.

? Concept Check

1. What is competition, and what is the role of strategy in competition?
2. When does a firm have a competitive advantage over its rivals?
3. Explain the differences between the three business-level generic competitive strategies.

This page titled [5.2.7: Competition, Strategy, and Competitive Advantage](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [8.7: Competition, Strategy, and Competitive Advantage](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.2.8: Strategic Positioning

Learning Objectives

1. What elements go into determining a firm's strategic position?

A manager who has done all of the analysis described so far in this chapter has some decisions to make based on all of the information the analysis has revealed. A firm's decisions on how to serve customers and compete against rivals is called **strategic positioning**. In order to develop its position, a firm combines its understanding of the competitive environment, including the firm's own resources and capabilities, its industry situation, and facts about the macro environment. A strategic position includes a choice of generic competitive strategy, which a firm selects based on its own capabilities and in response to the positions already staked out by its industry rivals. The firm also determines which customers to serve and what those customers are willing to pay for. A strategic position also includes decisions about what geographic markets to participate in.

Most importantly, a firm's strategic position should try to be unique in some way that competitors cannot imitate quickly or easily. Competitive advantage is achieved when a firm attracts more customers or makes more profit than rivals. This cannot happen unless the firm organizes its activities to provide customers with better value than rivals.

Concept Check

1. How does strategic analysis help a firm develop its own strategic position?

This page titled [5.2.8: Strategic Positioning](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **8.8: Strategic Positioning** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.2.9: Summary

Key Terms

Barriers to Entry

Industry factors (such as high start-up costs) that can prevent new firms from successfully launching new operations in that industry.

Buyer Power

In the relationship between a firm and its customers, buyers with high power can negotiate product price or features, while buyers with low power cannot.

Capabilities

A firm's skill at coordinating and leveraging resources to create value.

Competition

Business actions a firm undertakes to attract customers to its products and away from competitors' products.

Competitive Advantage

When a firm successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do.

Competitive Environment

Factors and situations both inside the firm and outside the firm that have the potential to impact its operations and success.

Cost-leadership Strategy

A generic business-level strategy in which a firm tightly controls costs throughout its value chain activities in order to offer customers low-priced goods and services at a profit.

Demographics

Part of PESTEL that includes facts about the income, education, age, and ethnic and racial composition of a population.

Differentiation Strategy

A generic business-level strategy in which firms add value to their products and services in order to attract customers who are willing to pay a higher price.

Economic Factors

PESTEL category that includes facts (such as unemployment rates, interest rates, and commodity prices) about the state of the local, national, or global economy.

Environmental Factors

PESTEL category that examines a firm's external situation with respect to the natural environment, including pollution, natural resource availability and preservation, and alternative energy.

Environmental Scanning

The systematic and intentional analysis of a firm's internal state and its external environment.

External Environment

The aspects of the world at large and of a firm's industry that can impact its operations

External Factors

Things in the world or industry environments that may impact a firm's operations or success, such as the economy, government actions, or supplier power. Strategic decisions can be made in response to these things but normally cannot directly influence or change them.

Focus Strategy

A generic business-level competitive strategy that firms use in combination with either a cost-leadership or differentiation strategy in order to target a smaller demographic or geographic market with specialized products or services.

Generic Business-Level Strategies

Basic methods of organizing firm value chain activities to compete in a product market that can be used by any sized firm in any industry

Industry

A group of firms all offering products or services in a single category, for example restaurants or athletic equipment.

Industry Rivalry

One of Porter's Five Forces; refers to the intensity of competition between firms in an industry.

Internal Environment

Innermost layer of a firm's competitive environment, including members of the firm itself (such as employees and managers), investors in the firm, and the resources and capabilities of a firm.

Internal Factors

Characteristics of a firm itself, such as resources and capabilities, that the firm can use to successfully compete against its rivals.

Legal Factors

In PESTEL, the laws impacting business, such as those governing contracts and intellectual property rights and illegal activities, such as online piracy.

Macro Environment

The outermost layer of elements in a firm's external environment that can impact a business but are generally beyond the firm's direct control, such as the economy and political activity.

Micro Environment

The middle layer of elements in a firm's external environment, primarily concerned with a firm's industry situation.

New Entrants

One of Porter's Five Forces, the threat of new entrants assesses the potential that a new firm will start operations in an industry.

Opportunity

A situation that a firm has the resources and capabilities to take advantage of.

PESTEL

A strategic analysis tool that examines several distinct categories in the macro environment: **p**olitical, **e**conomic, **s**ociocultural, **t**echnological, **e**nvironmental, and **l**egal.

Political Factors

PESTEL factor that identifies political activities in the macro environment that may be relevant to a firm's operations.

Porter's Five Forces

Evaluates the interconnected relationships between various actors in an industry, including competing firms, their suppliers, and their customers, by examining five forces: industry rivalry, threat of new entrants, threat of substitutes, supplier power, and buyer power.

Primary Activities

Firm activities on the value chain that are directly responsible for creating, selling, or servicing a product or service, such as manufacturing and marketing.

Resources

Things a firm has, such as cash and skilled employees, that it can use to create products or services.

Sociocultural Factors

PESTEL category that identifies trends, facts, and changes in society's composition, tastes, and behaviors, including demographics.

Strategic Analysis

Process that firms use to study and understand their competitive environment.

Strategic Group

Businesses offering similar products or services and following the same generic competitive strategy.

Strategic Positioning

Firm's decisions on how to organize its actions and operate to effectively serve customers and compete against rivals.

Strategy

Process of planning and implementing actions that will lead to success in competition.

Strengths

Resources and capabilities of a firm; what it is good at.

Substitutes

One of Porter's Five Forces; products or services outside a firm's industry that can satisfy the same customer needs as industry products or services can.

Supplier Power

One of Porter's Five Forces; describes the balance of power in the relationship between firms in an industry and their suppliers.

Support Activities

Value chain activities that a firm performs to sustain itself; do not directly create a product or service but are necessary to support the firm's existence, such as accounting and human resources.

Switching Costs

Penalty, financial or otherwise, that a consumer bears when giving up the use of a product currently being used to select a competing product or service.

SWOT

Strategic analysis tool used to examine a firm's situation by looking at its strengths, weaknesses, opportunities, and threats

Technological Factors

PESTEL category that includes factors such as the Internet, social media, automation, and other innovations that impact how businesses compete or how they manufacture, market, or sell their goods or services.

Threat

Anything in the competitive environment that would make it harder for a firm to be successful.

Value Chain

Sequence of activities that firms perform to turn inputs (parts or supplies) into outputs (goods or services).

VRIO

analytical tool that evaluates a firm's resources and capabilities to determine whether or not it can support an advantage for the firm in the competitive environment: **v**alue, **r**arity, **i**mitation, and **o**rganization.

Weaknesses

Things that a firm does not have good capabilities to perform or gaps in firm resources.

Summary of Learning Outcomes

8.2 Gaining Advantages by Understanding the Competitive Environment

1. What is strategic analysis, and why do firms need to analyze their competitive environment?

Strategic analysis is a systematic evaluation of a firm's situation, both internally and with respect to what is happening in the outside world. This analysis examines what the firm itself is good or bad at, how rivals in its industry are competing against it for customers, and what factors in the world environment, such as economic indicators or demographic changes, might impact the firm's ability to be successful.

Firms need to conduct this analysis in order to be aware of and prepared for changes in their competitive environment and to maximize their chance of successfully competing against rivals and sustaining their profitability and market share in their industry.

8.3 Using SWOT for Strategic Analysis

2. What is a SWOT analysis, and what can it reveal about a firm?

SWOT is a traditional analytical tool that identifies a firm's strengths, weaknesses, opportunities, and threats (SWOT is an acronym of these four factors). It is useful for conducting a quick look at the internal capabilities (strengths and weaknesses) and external events and situations (opportunities and threats) a firm is facing.

SWOT is not a comprehensive analytical tool, because the four categories for analysis are too broad and will not necessarily identify all of the factors important to a firm's success that a more thorough analysis would.

8.4 A Firm's External Macro Environment: PESTEL

3. What makes up a firm's external macro environment, and what tools do strategists use to understand it?

The external environment of a firm is composed of two primary layers: the macro environment and the micro environment. The macro environment includes facts and situations that a firm must be aware of but cannot always influence. The macro environment is analyzed using the PESTEL analytical tool that considers a firm's political and legal aspects, economic indicators, sociocultural trends, demographic facts, technological changes, and environmental aspects.

8.5 A Firm's Micro Environment: Porter's Five Forces

4. What makes up a firm's external micro environment, and what tools do strategists use to understand it?

The second layer of a firm's external environment is its micro environment, which includes the components of a firm's industry, such as competitors, suppliers, and customers. Porter's Five Forces of industry competition (industry rivalry, threat of new entrants, threat of substitutes, supplier power, and buyer power) capture the dynamic relationships between these components.

8.6 The Internal Environment

5. How and why do managers conduct an internal analysis of their firms?

Managers cannot lead their firms to success without understanding what the firm is able to do. An analysis of the firm's resources and capabilities, as well as its gaps, is essential in determining the best path forward for the firm. A good strategy for competitive

advantage capitalizes on a firm's key resources and capabilities, as identified and evaluated using the VRIO (value,rarity,imitation, andorganization) analytical tool.

Resources and capabilities that satisfy VRIO criteria are the key things that a firm is best at, and these should be leveraged so the firm can compete against rivals.

8.7 Competition, Strategy, and Competitive Advantage

6. What does it mean to compete with other firms in a business environment, and what does it mean when a firm has a competitive advantage over its rivals and what generic strategies can a firm implement to gain advantage over its rivals?

Competition is the battle for customers. Firms compete against rivals offering similar products and services and try to attract customers by making sure their product or service is a little better or less expensive than those of their competitors. The firm that is most successful in this battle, measured in terms of profitability or in terms of market share, has a competitive advantage.

Generic competitive strategies are the basic templates for organizing firm activities in order to achieve competitive advantage in an industry. A firm will perform value chain activities, such as marketing and research and development, in order to support the overall competitive strategy it has chosen.

Following a generic cost-leadership strategy requires that a firm try to save money throughout the value chain so that it can offer customers low-priced goods and services. In contrast, differentiators add value to their products and services while performing value chain activities so that they can charge premium prices to consumers.

A third generic competitive strategy, focus, is chosen in combination with one of the other two strategies by firms who decide to target smaller geographic or demographic customer groups.

8.8 Strategic Positioning

7. What elements go into determining a firm's strategic position?

A firm develops a strategic position in response to the factors present in its competitive environment. Strategic analysis is essential in identifying and understanding the factors that a strategic position must address. The choice of strategic position factors in a firm's key resources and capabilities when choosing a generic competitive strategy, product or service to be offered, target market, and geographic reach to compete successfully against rivals in an industry. To be successful in allowing a firm to achieve a competitive advantage in its industry, a firm's strategic position should be different from its competitors' positions in the same industry and should be hard for competitors to copy so that the firm's competitive advantage lasts.

? Chapter Review Questions

1. Why do managers use strategic analysis?
2. What information does a SWOT analysis provide managers? What information might it miss?
3. Describe a firm's macro environment and how managers use PESTEL to understand it.
4. What is a firm's micro environment, and why is it important?
5. What is an industry, and how do Porter's Five Forces help a manager trying to understand a firm's industry environment?
6. What are firm resources and capabilities, and what information does VRIO provide about them?
7. When does a firm have a competitive advantage over its rivals?
8. What are generic competitive strategies, and how are they implemented in a firm's value chain activities?
9. What do strategic group members have in common with each other? What impact do firms outside a strategic group have on those in that group?
10. How does strategic analysis help a firm develop its own strategic position? Why should that position be unique?

Management Skills Application Exercises

1. (Analytical Skills) Assume that you have been hired by a local small-business consulting firm. You have been asked by your boss to review a proposal from a client who is considering opening a new Pilates and yoga studio in a trendy part of town. Because you know SWOT analysis, you have been asked to group the following attributes about the proposed business into a SWOT analysis:

- a. The proposed location is on the same street corner as the main subway line station and three blocks from a ferry terminal that commuters use go to work.

- b. The proposed location has a vestibule and a new HVAC system.
 - c. The street that the location is situated on has many small shops, restaurants, and bars and is a popular gathering place.
 - d. There are many historic structures that are in need of updates, but some owners are reluctant to invest in these aging structures.
 - e. The area has become gentrified over the past decade, and there is more disposable income than in the past.
 - f. In addition to the young professionals, a large number of 55 and over retirees who are now empty nesters have been moving into the neighborhood.
 - g. With the young professionals and empty nesters, this area has one of the lowest birth rates in the nation.
 - h. The two-year lease is affordable for the business plan, but there is no guarantee of renewal after the term.
 - i. There is a rumor of a spin studio opening two blocks away.
 - j. The building has been updated with ramps and restrooms to accommodate disabled patrons.
 - k. The local paper has interviewed the client and will be running a “Pilates Craze” feature in the upcoming weekend newspaper.
2. (Interpersonal Skills) Your instructor may assign you to a small group, and you will receive either a “Team A” or “Team B” assignment. Team A groups will need to meet for 15 minutes in a face-to-face setting, while Team B members will meet electronically either by setting up a meeting via Skype or using text messaging on their cell phones. Team A members will need to set up a time and location for their meeting while Team B members will need to share their contact information with a team leader. Your instructor will assign a company to discuss and report on. Team A will discuss a firm’s internal environment while team B will discuss the firm’s external environment. In class, each team will report its conclusions about its assignment and report on the benefits and challenges that meeting in person or electronically posed.
3. (Communication) Set up an interview with a manager at a local business who is involved in the strategic planning process at her company. Ask her what type of planning she is involved in (strategic, operational). Discover if she involves the employees who report to her in the planning process and how planning is tied to goal setting. Write a report on your findings. The interview should take no more than 15 minutes.

Managerial Decision Exercises

1. Select three different businesses from different industries, such as a hospitality business (hotel, restaurant, fitness center), a manufacturing company, and a not-for-profit business. Perform a SWOT analysis for each business.
2. Perform a quick PESTEL analysis of the companies listed below. What is the largest risk for each of the companies? Assume that you had \$100,000 to invest in one of more of these companies. Explain how you would allocate your investment and why you chose this particular allocation.
 - Uber
 - Tesla
 - General Motors
3. Technology has the ability to disrupt industries. You are involved in an industry that is undergoing change and disruption by taking this class. The traditional textbook industry is being disrupted by the availability of digital textbooks, and free textbooks such as this one are further impacting traditional textbook publishers. Place the following statements into Porter’s Five Forces model.
 - a. Students have access to the material at a greatly reduced cost.
 - b. Authorship is funded through philanthropic donations rather than royalties paid from textbook sales revenue.
 - c. More students have access to the Internet than ever before.
 - d. Companies, governments, and students invest large sums of money in their education.
 - e. Traditional public educational institutions are adapting their delivery models for online learning.

- f. Private companies such as Apollo (University of Phoenix) are offering lower-cost education options.
- g. Bookstores now offer traditional textbooks as well as used and rental options.
- h. Government legislation is urging faculty to consider lower-cost options.

Critical Thinking Case

Tesla Aims for the Mass Market

Elon Musk cofounded Tesla in 2003 with the vision of making electric cars that could rival, and even replace, traditional gas-engine cars in the consumer marketplace. At the start of the 21st century, the external environment was beginning to show favorable signs for the development of electric cars: people were becoming more concerned about the environment and their carbon footprints, and gas prices were beginning a steep climb that had already spurred the sales of hybrid gas-electric cars such as the Toyota Prius.

The automobile industry was not responding to these environmental trends, instead relying on the fact that trucks such as the Ford F-150 and Chevrolet Silverado were still the two top-selling vehicles in America in 2003. Musk saw a different future for vehicles, and Tesla introduced the all-electric Roadster in 2008. Four years later, the more practical Model S was introduced, and Tesla sales began to climb.

As a new entrant in the automobile industry, though, Tesla faced several challenges. Manufacturing and distribution in this industry are extremely expensive, and Tesla had to develop the capability of efficiently manufacturing large quantities of cars. Tesla also had to establish dealerships for its cars, although it also decided to sell cars online, taking advantage of tech-savvy consumers' comfort with online shopping. Perhaps Tesla's greatest challenge was convincing consumers to trust the new technology of all-electric cars. Range anxiety became an actual term, describing people's fear that their car batteries would run out before they reached their destinations. To combat this, Tesla developed an extensive network of charging stations so consumers could be confident that they could charge their cars conveniently.

Elon Musk has been a master of raising money to fund Tesla's efforts to successfully enter the mainstream automobile manufacturing industry; so far, Tesla's entry has cost billions of dollars. Tesla has also taken advantage of tax incentives to develop its charging stations and to sell its cars, because Tesla customers receive tax credits for the purchase of their cars. Tesla cars are not inexpensive, however, and that has limited their marketability. Most Americans cannot afford the Model S or more recent Model X's high prices (up to and exceeding \$100,000).

In 2017, Tesla launched the Model 3, designed to transform the car industry by being its first mass-market, affordable model. The company started taking "reservations" for the model in 2016, promising that it would arrive with a \$35,000 price tag. By mid-2017, the reservations list had reached half a million customers, creating a new problem for Tesla. How could it possibly manufacture that many cars when production levels for all of 2016 were less than 84,000 cars?



Exhibit 8.13 Tesla 3 The Tesla Model 3. (Credit: Brian Doyle/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Critical Thinking Questions

1. What PESTEL factors supported Tesla's success? Which factors posed challenges?
2. How has Tesla's strategic position changed since it was founded in 2003?
3. What kind of responses would you expect from Tesla's rivals in the automobile manufacturing industry to the Model 3's popularity?

Sources: Tesla company website: www.tesla.com/ and investor relations site: ir.tesla.com/; Edmunds, "Top 10 Best Selling Cars in 2003." www.edmunds.com/car-reviews/...s-in-2003.html (updated May 12, 2009); Bill Vlasic, "In Pivotal Moment, Tesla Unveils its First Mass Market Sedan." New York Times, July 29, 2017, www.nytimes.com/2017/07/29/b...l?ref=business.


This page titled [5.2.9: Summary](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [8.9: Summary](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

5.3: REVIEW - SWOT Analysis (attachment)

Review:

Last week, you were introduced to the SWOT Analysis tool. It was reviewed again in Section 8.2 of your textbook this week.

- Review the following, which depicts the components of SWOT with examples: [SWOT Analysis.pdf](#)
 - Recall that strengths and weaknesses refer to factors within the organization, while opportunities and threats refer to factors that are outside the organization.

I encourage you to review the SWOT videos that you watched last week to refresh your memory on how this important tool is utilized in business.

5.3: REVIEW - SWOT Analysis (attachment) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

5.4: WATCH - PESTEL Analysis

Notes:

Within Section 8.3 of your textbook, you learned more about the an organization's external macro environment. A common tool used to analyze the macro environment is referred to as PESTEL.

Watch the following 9:48 video, which provides good insight into this method of analysis:



5.4: WATCH - PESTEL Analysis is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

5.5: WATCH - The 5 Forces Analysis Explained

Notes:

Within Section 8.4 of your textbook reading this week, you were introduced to Porter's Five Forces, which is a tool that is commonly used to analyze an organization's industry, i.e. their micro environment.

For more insight into this tool and steps for completing the analysis, watch this 5:04 video:



5.5: WATCH - The 5 Forces Analysis Explained is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

5.6: WATCH - Porter's 5 Forces

Notes:

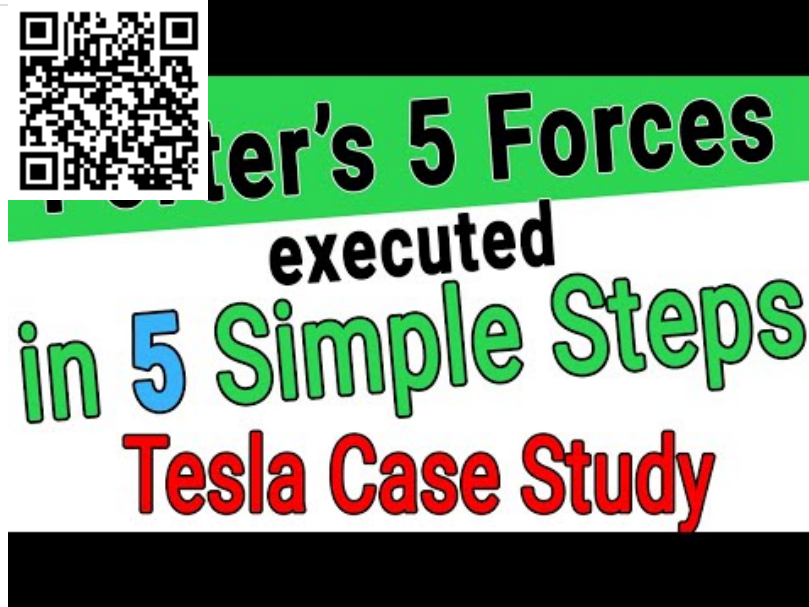
Now, let's explore how Porter's 5 Forces Model can be used in practice. Watch the following videos for examples on how the tool can be applied:

- The first (16:39) video applies the model to the airline industry.
- The second (9:52) video applies the model to the auto industry.



5.6: WATCH - Porter's 5 Forces is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

5.7: WATCH - Porter's 5 Forces Example (TESLA)



5.7: WATCH - Porter's 5 Forces Example (TESLA) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

5.8: WATCH - Resources and Capabilities Analysis

Notes:

Within Section 8.5 of your textbook reading this week, resources and capabilities were discussed. For more insight into the analysis of these concepts, watch this 2:19 video:



5.8: WATCH - Resources and Capabilities Analysis is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

5.9: REVIEW - Competitive Advantage (Graphic)

Notes:

Recall the explanation of a competitive advantage from Section 8.6 of your textbook:

A firm is described as having a **competitive advantage** when it successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do. A firm achieves a competitive advantage by adding value to its products and services or reducing its own costs more effectively than its rivals in the industry. Source: <https://openstax.org/books/principles-management/pages/8-6-competition-strategy-and-competitive-advantage>

Then, review the graphic below to help visualize how the generic business-level strategies, discussed in the chapter, relate to an organization's competitive advantage.

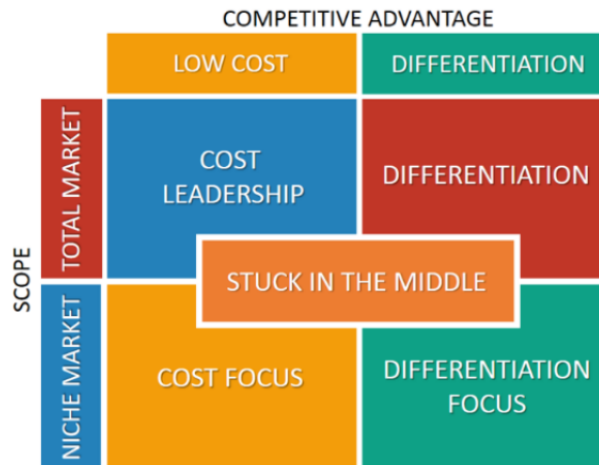


Figure 1: Porter's Generic Strategies: Cost Leadership, Differentiation and Focus

Image Source: "Porter's Generic Strategies: Differentiation, Cost Leadership and Focus," B2U (Website)

5.9: REVIEW - Competitive Advantage (Graphic) is shared under a CC BY 4.0 license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

CHAPTER OVERVIEW

6: Module 6 - Organizational Effectiveness

6.1: Key Ideas

6.2: Organizational Planning and Controlling

6.2.1: Is Planning Important?

6.2.2: The Planning Process

6.2.3: Types of Plans

6.2.4: Goals or Outcome Statements

6.2.5: Formal Organizational Planning in Practice

6.2.6: Employees' Responses to Planning

6.2.7: Management by Objectives- A Planning and Control Technique

6.2.8: The Control- and Involvement-Oriented Approaches to Planning and Controlling

6.2.9: Summary

6.3: WATCH - Personal Best with PDCA

6.4: WATCH - The Gap Between Planning and Doing

6.5: REVIEW and WATCH - The MBO Process (attachments)

6: Module 6 - Organizational Effectiveness is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

6.1: Key Ideas

Module 6: Key Ideas

- Planning process
 - Organizational goals
 - Impact of environment on the planning process
 - Monitoring goal performance
 - Continuous improvement processes
-

6.1: Key Ideas is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

SECTION OVERVIEW

6.2: Organizational Planning and Controlling



Figure 6.2.1: (Credit: marcusrg/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Learning Objectives

After reading this chapter, you should be able to answer these questions:

1. Understand the importance of planning and why organizations need to plan and control.
2. Outline the planning and controlling processes.
3. Identify different types of plans and control systems employed by organizations.
4. Explain the individual and organizational effects associated with goal setting and planning.
5. Understand how planning occurs in today's organizations.
6. Discuss the impact that control has on organizational members.
7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.
8. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

EXPLORING MANAGERIAL CAREERS

Elizabeth Charbonnier: ChezPastis.com

ChezPastis.com, the brainchild of Elisabeth Charbonnier, specializes in selling French and other gourmet foods online. Before starting ChezPastis.com, Elisabeth and her partners were professional chefs, and their goal for their company is to make gourmet products available to the world. ChezPastis.com began with a bang, and before long Elisabeth and her partners were too busy to plan for the future and were just trying to survive. After six months, ChezPastis.com experienced growing pains similar to other Internet start-ups.

One of the partners, Zack Fortuna, was online one day trying to order some books for his daughter's birthday. The message he got after attempting to place his order was frustrating: "Sorry! The items you have requested are currently on backorder and will not be available for two months." Zack needed the books in two weeks, not two months. He decided to drive to the bookstore and buy books that were in stock rather than waste time online searching for items that might not be in stock. Suddenly, Zack realized that ChezPastis.com frequently runs out of items as well and this delays customer orders. Perhaps ChezPastis.com's growing pains have something to do with their supply problems.

Question: Are ChezPastis.com's inventory problem attributable to poor planning, poor control, or both? How can Elisabeth, Zack, and the other partners improve the situation?

"If you are good enough, it isn't necessary to set aside time for formal planning. After all, 'planning time' takes away from 'doing time.'" Managers often make such statements, possibly as a way of rationalizing their lack of a formal planning program. These claims are simply not valid—planning *does* influence the effectiveness of the entire organization.

Some years ago, the Calico Candy Company developed and produced a highly successful saltwater taffy Santa Claus. Buoyed by this success, the company planned and manufactured a saltwater taffy Easter Bunny and produced the Santa at Christmas again. This time, however, Calico got stuck with its taffy through faulty planning. Market research clearly showed that consumer preferences had shifted from taffy to chocolate. Rather than plan its products to meet this new preference, the company stayed with what had worked in the past and lost a "ton of money." Yes, planning is important.

Outcome: Zack comes to work the next day excited about his insight. The partners know that inventory has been an ongoing trouble spot but hadn't realized the effect it could be having on potential customers who get frustrated with delayed orders and go elsewhere. After collecting data on customer requests and backorders, the partners discover that they fill customer orders immediately only 50 percent of the time! Jolted by this thunderbolt, the partners decide to hold regular strategic planning meetings where they will view the big picture and plan for the future. The first things they decide to do are install better control systems over their inventory process and collect data on customer online experiences with ChezPastis.com.

Elisabeth proposes setting a goal of never having to tell a customer that requested items are on backorder. Zack agrees that this is an admirable goal; however, he thinks they should set a daring but reachable goal of immediately filling customer orders 80 percent of the time. After all, they are a small business in an unpredictable environment, and they don't want to frustrate employees with a potentially impossible goal.

The essence of planning is to see opportunities and threats in the future and, respectively, exploit or combat them as the case may be. . . . Planning is a philosophy, not so much in the literal sense of that word but as an attitude, a way of life.¹

6.2.1: Is Planning Important?

6.2.2: The Planning Process

6.2.3: Types of Plans

6.2.4: Goals or Outcome Statements

6.2.5: Formal Organizational Planning in Practice

6.2.6: Employees' Responses to Planning

6.2.7: Management by Objectives- A Planning and Control Technique

6.2.8: The Control- and Involvement-Oriented Approaches to Planning and Controlling

6.2.9: Summary

This page titled [6.2: Organizational Planning and Controlling](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

6.2.1: Is Planning Important?

Learning Objectives

1. Understand the importance of planning and why organizations need to plan and control.

Planning is the process by which managers establish goals and specify how these goals are to be attained. Plans have two basic components: outcome or goal statements and action statements. Outcome or goal statements represent the *end* state—the targets and outcomes managers hope to attain. Action statements reflect the *means* by which organizations move forward to attain their goals. British prime minister Theresa May is determined to change the way that public companies' boards are comprised of advocating that employees be part of every board. As a part of her action statement, she advocated putting an employee representative in every boardroom, just like Mick Barker, a railway worker since the 1970s, has been quietly helping to shape decision-making as a member of the board of directors at the top of transport giant First Group.²

Planning is an intellectual activity.³ It is difficult to see managers plan because most of this activity unfolds in the mind of those doing the planning. While planning, managers have to think about what has to be done, who is going to do it, and how and when they will do it. Planners think both retrospectively (about past events) and prospectively (about future opportunities and impending threats). Planning involves thinking about organizational strengths and weaknesses, as well as making decisions about desired states and ways to achieve them.⁴

Planning for organizational events, whether in the internal or external environment, should be an ongoing process—part of a manager's daily, weekly, and monthly duties and a routine task for all members of high-involvement organizations. Plans should be continually monitored. Managers and other organizational members should check to see if their plans need to be modified to accommodate changing conditions, new information, or new situations that will affect the organization's future. Plans need to be administered with flexibility, as organizations learn about new and changing conditions. Clearly, the Calico Candy Company failed to monitor its plans in this way. By thinking of planning as a continuous activity, methods can be formulated for handling emerging and unforeseen opportunities and threats. Planning is one process through which organizational activity can be given meaning and direction.

Why Should Managers Plan?

Managers have several reasons for formulating plans for themselves, their employees, and various organizational units: (1) to offset uncertainty and change; (2) to focus organizational activity on a set of objectives; (3) to provide a coordinated, systematic road map for future activities; (4) to increase economic efficiency; and (5) to facilitate control by establishing a standard for later activity.

Several forces contribute to the necessity for organizational planning. First, in the internal environment, as organizations become larger and more complex, the task of managing becomes increasingly complex. Planning maps out future activities in relation to other activities in the organization. Second, as the external environment becomes increasingly complex and turbulent, the amount of uncertainty faced by a manager increases. Planning enables organizations to approach their environment systematically.

A study out of Cornell University and Indiana University found that absenteeism costs companies \$40 billion per year; the absence of planning was one of the biggest problems businesses face. Firms that follow a clearly defined plan in their day-to-day operations will be more successful than those that do not. The authors state, “organizational controlled consequences that would tend to deter absenteeism.” Interestingly, this may be as simple as inspecting the organizational policies that provide the “rules” for employee absenteeism.⁵

Do Managers Really Plan?

Managers should plan formally, but do they? Some observers contend that managers typically are too busy to engage in a regular form of systematic planning. McGill University management professor Henry Mintzberg notes:

*When managers plan, they do so implicitly in the context of daily actions, not in some abstract process reserved for two weeks in the organization's mountain retreat. The plans of the chief executives I have studied seemed to exist only in their heads—as flexible, but often specific, intentions. . . . The job of managing does not breed reflective planners; the manager is a real-time responder to stimuli.*⁶

Others disagree. After reviewing a number of studies focused on the degree to which planning and other managerial activities are inherent parts of managing, management professors J. Carroll and J. Gillen state that “the classical management functions of Fayol, Urwick, and others are not folklore as claimed by some contemporary management writers but represent valid abstractions of what managers actually do and what managers should do.”⁷ Barbara Allen, president of Sunbelt Research Associates, notes that she did a considerable amount of planning before launching her new business. Now that she is operating successfully, she reviews and updates her plans periodically.⁸

Managers often are very busy people. Some act without a systematic plan of action; however, many managers do plan systematically.⁹ For example, many managers develop systematic plans for how their organization will react to a crisis. United Airlines, for example, created a crisis planning group. The group developed United’s crisis contingency plan book, which specifies what the airline’s crisis management team should do in the event of a crisis. Keri Calagna, principal, Deloitte Risk and Financial Advisory, Deloitte & Touche LLP, comments that up to 20.7% of a firm’s value resides in reputation but that CEOs and 77% of the board of directors members identified reputation risk as the area about which they felt most vulnerable and that only 39% had a plan to address it.¹⁰

The question about whether managers really plan and the observation that many times they are simply too busy to retreat to the mountaintop and reflect on where the organization should be going and how it should get there misses the point: there are different types of planning.



Figure 6.2.1.1: Theresa May The United Kingdom may have voted to leave the European Union (EU), a move known as “Brexit,” but if Prime Minister Theresa May gets her way, British companies might look a little more like those in EU countries such as Germany and France. Theresa May favors an overhaul of corporate governance, including appointing employee representatives to boards of directors. (Credit: Arno Mikkor/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

? concept check

1. What is the process where managers establish goals and outline how these goals will be met called?
2. How do the internal and external environments of the organization and its strengths and weaknesses impact the planning process?
3. Why should managers plan?

This page titled [6.2.1: Is Planning Important?](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **17.1: Is Planning Important?** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.2.2: The Planning Process

Learning Objectives

1. Outline the planning and controlling processes.

Planning is a process. Ideally, it is future-oriented, comprehensive, systematic, integrated, and negotiated.¹¹ It involves an extensive search for alternatives and analyzes relevant information, is systematic in nature, and is commonly participative.¹² The planning model described in this section breaks the managerial function of planning into several steps, as shown in Figure 17.2.1. Following this step-by-step procedure helps ensure that organizational planning meets these requirements.

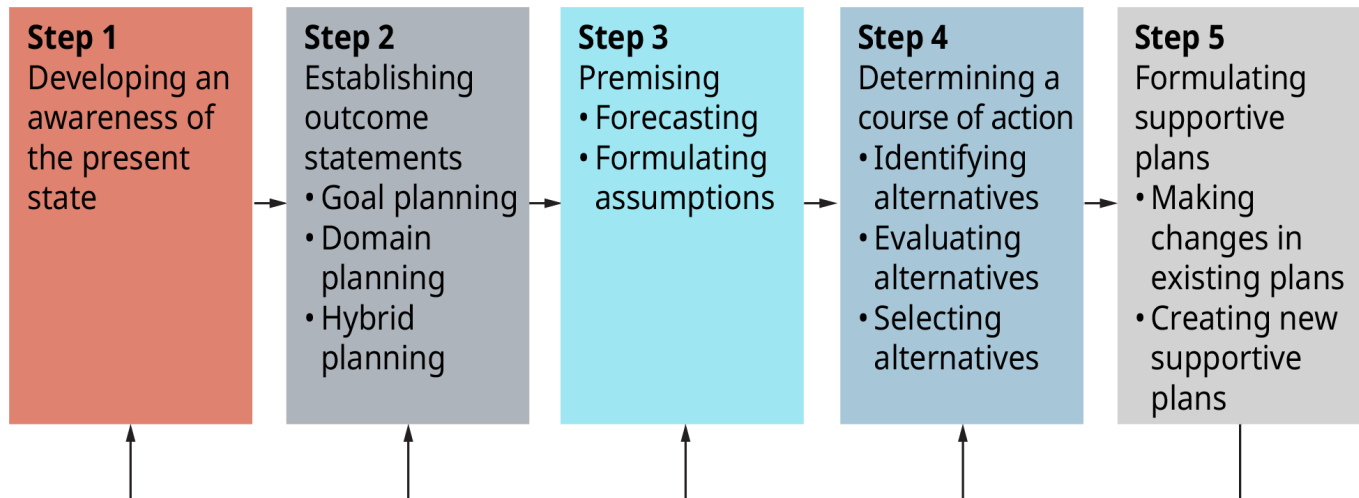


Figure 6.2.2.1: The Planning Process Source: Adapted from H. Koontz and C. O'Donnell, 1972. *Principles of management: An analysis of managerial functions*. New York: McGraw-Hill, 113.

Step 1: Developing an Awareness of the Present State

According to management scholars Harold Koontz and Cyril O'Donnell, the first step in the planning process is awareness.¹³ It is at this step that managers build the foundation on which they will develop their plans. This foundation specifies an organization's current status, pinpoints its commitments, recognizes its strengths and weaknesses, and sets forth a vision of the future. Because the past is instrumental in determining where an organization expects to go in the future, managers at this point must understand their organization and its history. It has been said—"The further you look back, the further you can see ahead."¹⁴

Step 2: Establishing Outcome Statements

The second step in the planning process consists of deciding "where the organization is headed or is going to end up." Ideally, this involves establishing goals. Just as your goal in this course might be to get a certain grade, managers at various levels in an organization's hierarchy set goals. For example, plans established by a university's marketing department curriculum committee must fit with and support the plans of the department, which contribute to the goals of the business school, whose plans must, in turn, support the goals of the university. Managers, therefore, develop an elaborate network of organizational plans, such as that shown in Figure 17.2.2, to achieve the overall goals of their organization.

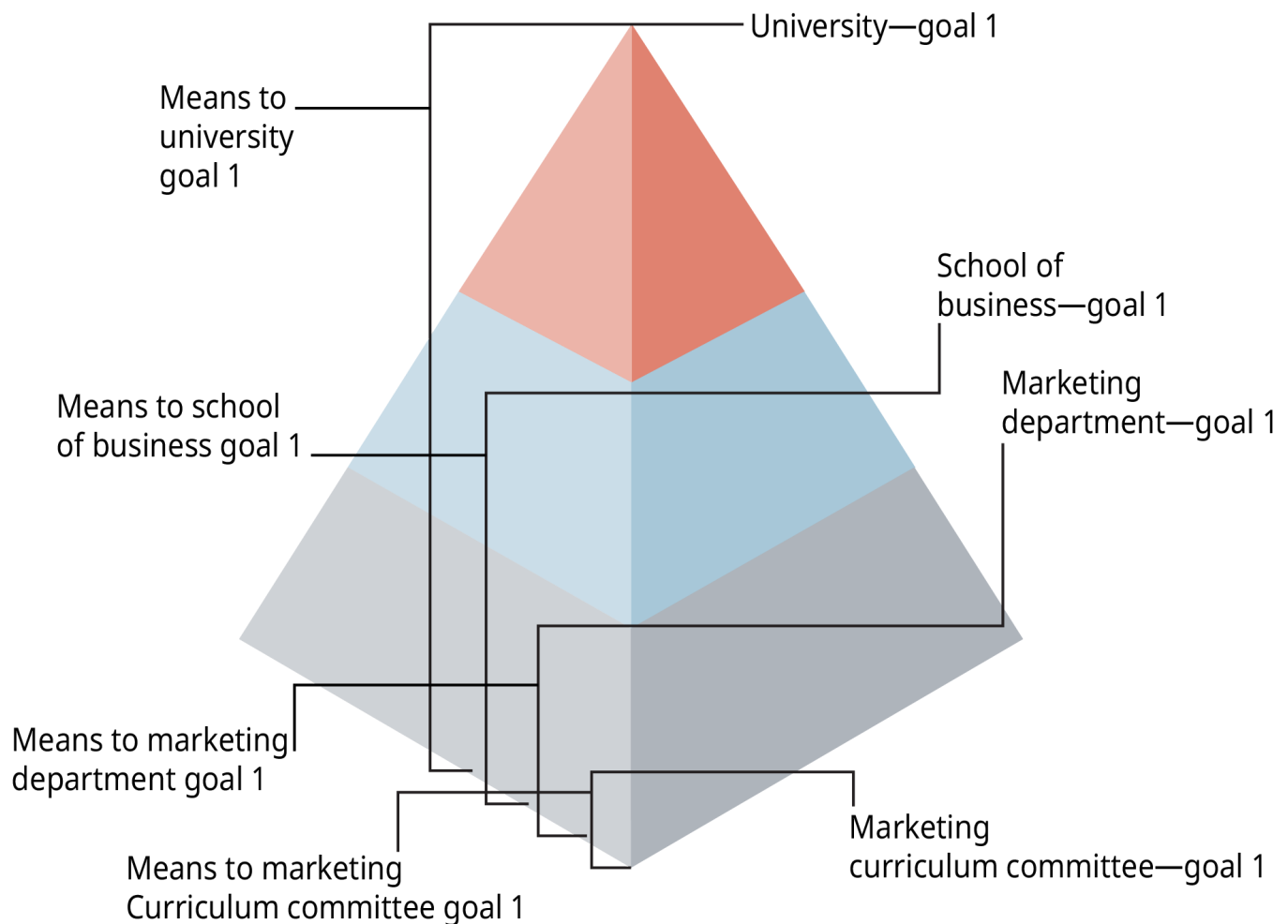


Figure 6.2.2.2 Network of Organization Plans (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Goal vs. Domain Planning

Outcome statements can be constructed around specific goals or framed in terms of moving in a particular direction toward a viable set of outcomes. In **goal planning**, people set specific goals and then create action statements.¹⁵ For example, freshman Kristin Rude decides that she wants a bachelor of science degree in biochemistry (the goal). She then constructs a four-year academic plan that will help her achieve this goal. Kristin is engaging in goal planning. She first identifies a goal and then develops a course of action to realize her goal.

Another approach to planning is domain/directional planning, in which managers develop a course of action that moves an organization toward one identified domain (and therefore away from other domains).¹⁶ Within the chosen domain may lie a number of acceptable and specific goals. For example, high-school senior Neil Marquardt decides that he wants to major in a business-related discipline in college. During the next four years, he will select a variety of courses from the business school curriculum yet never select a major. After selecting courses based on availability and interest, he earns a sufficient number of credits within this chosen domain that enables him to graduate with a major in marketing. Neil never engaged in goal planning, but in the end, he will realize one of many acceptable goals within an accepted domain.

The development of the Post-it® product by the 3M Corporation demonstrates how domain planning works. In the research laboratories at 3M, efforts were being made to develop new forms and strengths of cohesive substances. One result was cohesive material with no known value because of its extremely low cohesive level. A 3M division specialist, Arthur L. Fry, frustrated by page markers falling from his hymn book in church, realized that this material, recently developed by Spencer F. Silver, would stick to paper for long periods and could be removed without destroying the paper. Fry experimented with the material as page markers and note pads—out of this came the highly popular and extremely profitable 3M product Scotch Post-it®. Geoff Nicholson, the

driving force behind the Post-it® product, comments that rather than get bogged down in the planning process, innovations must be fast-tracked and decisions made whether to continue or move on early during the product development process.¹⁷



Figure 6.2.2.3 Post-it® notes, a 3M product, are often used to create and edit shared documents, such as a company strategic plan. How might technology that allows multiple people to share and edit documents such as Word or PowerPoint files affect the sales of Post-it® products? (Credit: Kevin Wen/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Situations in which managers are likely to engage in domain planning include (1) when there is a recognized need for flexibility, (2) when people cannot agree on goals, (3) when an organization's external environment is unstable and highly uncertain, and (4) when an organization is starting up or is in a transitional period. In addition, domain planning is likely to prevail at upper levels in an organization, where managers are responsible for dealing with the external environment and when task uncertainty is high. Goal planning (formulating goals compatible with the chosen domain) is likely to prevail in the technical core, where there is less uncertainty.

Hybrid Planning

Occasionally, the coupling of domain and goal planning occurs, creating a third approach, called hybrid planning. In this approach, managers begin with more general domain planning and commit to moving in a particular direction. As time passes, learning occurs, uncertainty is reduced, preferences sharpen, and managers are able to make the transition to goal planning as they identify increasingly specific targets in the selected domain. Movement from domain planning to goal planning occurs as knowledge accumulates, preferences for a particular goal emerge, and action statements are created.

Consequences of Goal, Domain, and Hybrid Planning

Setting goals not only affects performance directly, but also encourages managers to plan more extensively. That is, once goals are set, people are more likely to think systematically about how they should proceed to realize the goals.¹⁸ When people have vague goals, as in domain planning, they find it difficult to draw up detailed action plans and are therefore less likely to perform

effectively. When studying the topic of motivation, you will learn about goal theory. Research suggests that goal planning results in higher levels of performance than does domain planning alone.¹⁹

Step 3: Premising

In this step of the planning process, managers establish the premises, or assumptions, on which they will build their action statements. The quality and success of any plan depend on the quality of its underlying assumptions. Throughout the planning process, assumptions about future events must be brought to the surface, monitored, and updated.²⁰

Managers collect information by scanning their organization's internal and external environments. They use this information to make assumptions about the likelihood of future events. As Kristin considers her four-year pursuit of her biochemistry major, she anticipates that in addition to her savings and funds supplied by her parents, she will need a full-time summer job for two summers in order to cover the cost of her undergraduate education. Thus, she includes finding full-time summer employment between her senior year of high school and her freshman year and between her freshman and sophomore years of college as part of her plan. The other two summers she will devote to an internship and finding postgraduate employment—much to mom and dad's delight! Effective planning skills can be used throughout your life. The plan you develop to pay for and complete your education is an especially important one.

Step 4: Determining a Course of Action (Action Statements)

In this stage of the planning process, managers decide how to move from their current position toward their goal (or toward their domain). They develop an action statement that details what needs to be done, when, how, and by whom. The course of action determines how an organization will get from its current position to its desired future position. Choosing a course of action involves determining alternatives by drawing on research, experimentation, and experience; evaluating alternatives in light of how well each would help the organization reach its goals or approach its desired domain; and selecting a course of action after identifying and carefully considering the merits of each alternative.

Step 5: Formulating Supportive Plans

The planning process seldom stops with the adoption of a general plan. Managers often need to develop one or more supportive or derivative plans to bolster and explain their basic plan. Suppose an organization decides to switch from a 5-day, 40-hour workweek (5/40) to a 4-day, 40-hour workweek (4/40) in an attempt to reduce employee turnover. This major plan requires the creation of a number of supportive plans. Managers might need to develop personnel policies dealing with payment of daily overtime. New administrative plans will be needed for scheduling meetings, handling phone calls, and dealing with customers and suppliers.

Planning, Implementation, and Controlling

After managers have moved through the five steps of the planning process and have drawn up and implemented specific plans, they must monitor and maintain their plans. Through the controlling function (to be discussed in greater detail later in this chapter), managers observe ongoing human behavior and organizational activity, compare it to the outcome and action statements formulated during the planning process, and take corrective action if they observe unexpected and unwanted deviations. Thus, planning and controlling activities are closely interrelated (planning ➡ controlling ➡ planning...). Planning feeds controlling by establishing the standards against which behavior will be evaluated during the controlling process. Monitoring organizational behavior (the control activity) provides managers with input that helps them prepare for the upcoming planning period—it adds meaning to the awareness step of the planning process.

Influenced by total quality management (TQM) and the importance of achieving continuous improvement in the processes used, as well as the goods and services produced, organizations such as IBM-Rochester have linked their planning and controlling activities by adopting the Deming cycle (also known as the Shewhart cycle).

It has been noted on numerous occasions that many organizations that do plan fail to recognize the importance of continuous learning. Their plans are either placed on the shelf and collect dust or are created, implemented, and adhered to without a systematic review and modification process. Frequently, plans are implemented without first measuring where the organization currently stands so that future comparisons and evaluations of the plan's effectiveness cannot be determined. The Deming cycle, shown in Figure 17.2.4, helps managers assess the effects of planned action by integrating organizational learning into the planning process. The cycle consists of four key stages: (1) Plan—create the plan using the model discussed earlier. (2) Do—implement the plan. (3) Check—monitor the results of the planned course of action; organizational learning about the effectiveness of the plan

occurs at this stage. (4) Act—act on what was learned, modify the plan, and return to the first stage in the cycle, and the cycle begins again as the organization strives for continuous learning and improvement.

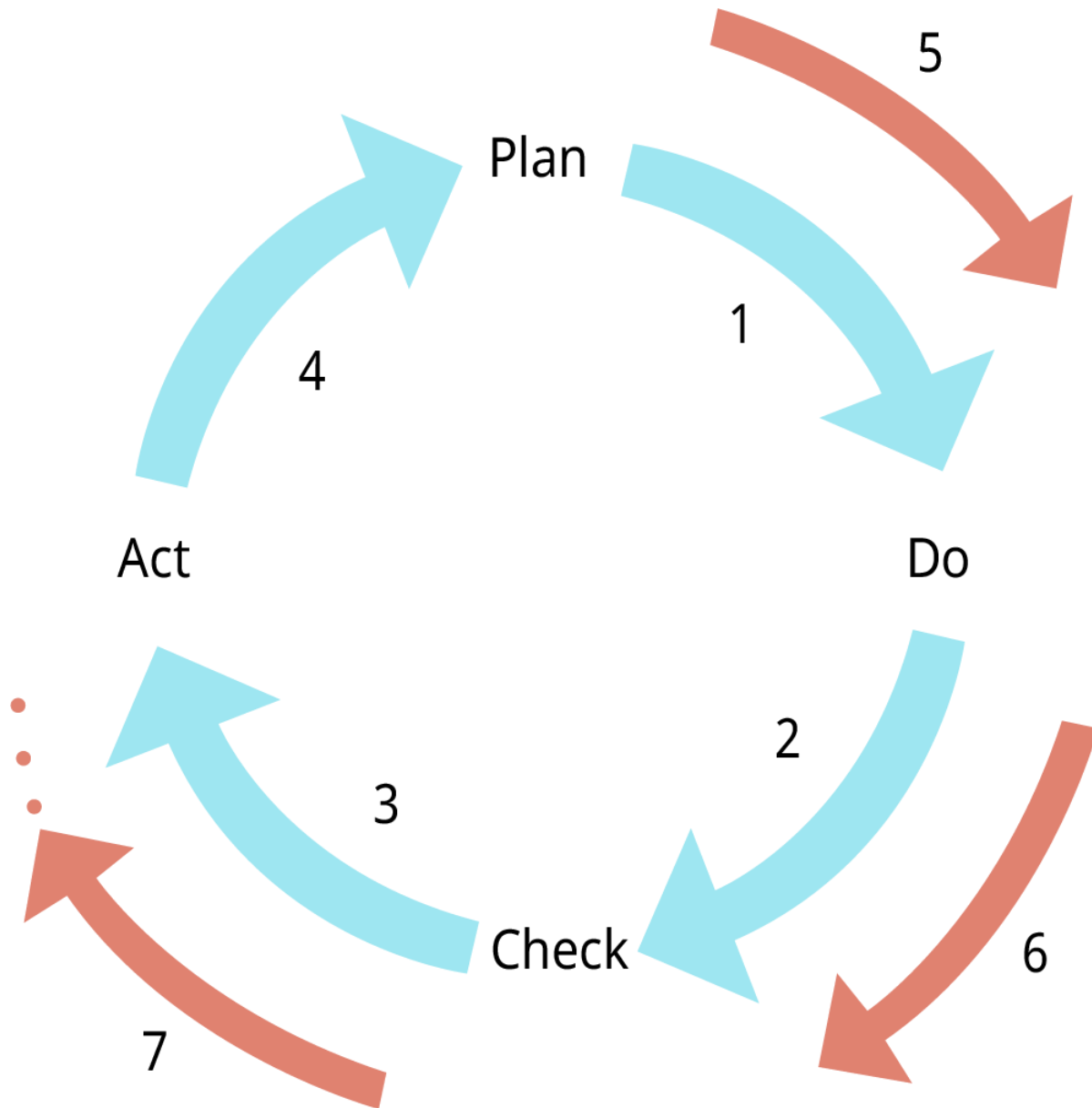


Figure 6.2.2.4 The Deming (Shewhart) Cycle (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

? concept check

1. What are the five steps in the planning process?
2. What is the difference between goal, domain, and hybrid planning?
3. How are planning, implementation, and controlling related?

This page titled [6.2.2: The Planning Process](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [17.2: The Planning Process](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.2.3: Types of Plans

Learning Objectives

1. Identify different types of plans and control systems employed by organizations.

From an activity perspective, organizations are relatively complex systems, as they are involved in numerous activities. Many of these activities require management's attention from both a planning and controlling perspective. Managers therefore create different types of plans to guide operations and to monitor and control organizational activities. In this section, we introduce several commonly used plans. The major categories are hierarchical, frequency-of-use (repetitiveness), time-frame, organizational scope, and contingency. Table 17.1 provides a closer look at many types of plans that fall in each of these categories.

Hierarchical Plans

Organizations can be viewed as a three-layer cake, with its three levels of organizational needs. Each of the three levels—institutional, administrative, and technical core—is associated with a particular type of plan. As revealed in Table 17.1, the three types of hierarchical plans are strategic, administrative, and operating (technical core). The three hierarchical plans are interdependent, as they support the fulfillment of the three organizational needs. In the organization's hierarchy, the technical core plans day-to-day operations.

Organizational Plans
Hierarchical Plans <ul style="list-style-type: none"> • Strategic plans (institutional)—define the organization's long-term vision; articulate the organization's mission and value statements; define what business the organization is in or hopes to be in; articulate how the organization will integrate itself into its general and task environments. • Administrative plans—specify the allocation of organizational resources to internal units of the organization; address the integration of the institutional level of the organization (for example, vision formulation) with the technical core (vision implementation); address the integration of the diverse units of the organization. • Operating plans (technical core)—cover the day-to-day operations of the organization.
Frequency-of-Use Plans
Standing Plans <ul style="list-style-type: none"> • Policies—general statements of understanding or intent; guide decision-making, permitting the exercise of some discretion; guide behavior (for example, no employee shall accept favors and/or entertainment from an outside organization that are substantial enough in value to cause undue influence over one's decisions on behalf of the organization). • Rules—guides to action that do not permit discretion in interpretation; specify what is permissible and what is not permissible. • Procedures—like rules, they guide action; specify a series of steps that must be taken in the performance of a particular task.
Single-Use Plans <ul style="list-style-type: none"> • Programs—a complex set of policies, rules, and procedures necessary to carry out a course of action. • Projects—specific action plans often created to complete various aspects of a program. • Budgets—plans expressed in numerical terms.
Time-Frame Plans <ul style="list-style-type: none"> • Short-, medium-, and long-range plans—differ in the distance into the future projected: <ul style="list-style-type: none"> ◦ Short-range—several hours to a year ◦ Medium-range—one to five years ◦ Long-range—more than five years
Organizational Scope Plans

Organizational Plans

- Business/divisional-level plans—focus on one of the organization’s businesses (or divisions) and its competitive position.
- Unit/functional-level plans—focus on the day-to-day operations of lower-level organization units; marketing, human resources, accounting, and operations plans (production).
- Tactical plans—division-level or unit-level plans designed to help an organization accomplish its strategic plans.

Contingency Plans

- Plans created to deal with events that might come to confront the organization (e.g., natural disasters, terrorist threats); alternative courses of action that are to be implemented if events disrupt a planned course of action.

Table 17.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Strategic Plans

Strategic management is that part of the management process concerned with the overall integration of an organization’s internal divisions while simultaneously integrating the organization with its external environment. Strategic management formulates and implements tactics that try to match an organization as closely as possible to its task environment for the purpose of meeting its objectives.

Strategic plans address the organization’s institutional-level needs. Strategic plans outline a long-term vision for the organization. They specify the organization’s reason for being, its strategic objectives, and its operational strategies—the action statements that specify how the organization’s strategic goals are to be achieved.

Part of strategic planning involves creating the organization’s mission, a statement that specifies an organization’s reason for being and answers the question “What business(es) should we undertake?” The mission and the strategic plan are major guiding documents for activities that the organization pursues. Strategic plans have several defining characteristics: They are long-term and position an organization within its task environment; they are pervasive and cover many organizational activities; they integrate, guide, and control activities for the immediate and the long term; and they establish boundaries for managerial decision-making.

Operating plans provide direction and action statements for activities in the organization’s technical core. Administrative plans work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization’s technical core.

Frequency-of-Use Plans

Another category of plans is frequency-of-use plans. Some plans are used repeatedly; others are used for a single purpose. Standing plans, such as rules, policies, and procedures, are designed to cover issues that managers face repeatedly. For example, managers may be concerned about tardiness, a problem that may occur often in the entire workforce. These managers might decide to develop a standing policy to be implemented automatically each time an employee is late for work. The procedure invoked under such a standing plan is called a standard operating procedure (SOP).

Single-use plans are developed for unique situations or problems and are usually replaced after one use. Managers generally use three types of single-use plans: programs, projects, and budgets. See Table 17.1 for a brief description of standing and single-use plans.

Time-Frame Plans

The organization’s need to address the future is captured by its time-frame plans. This need to address the future through planning is reflected in short-, medium-, and long-range plans. Given the uniqueness of industries and the different time orientations of societies—study Hofstede’s differentiation of cultures around the world in terms of their orientation toward the future—the times captured by short, medium, and long-range vary tremendously across organizations of the world. Konosuke Matsushita’s 250-year plan, which he developed for the company that bears his name, is not exactly typical of the long-range plans of U.S. companies!

Short-, medium-, and long-range plans differ in more ways than the time they cover. Typically, the further a plan projects into the future, the more uncertainty planners encounter. As a consequence, long-range plans are usually less specific than shorter-range plans. Also, long-range plans are usually less formal, less detailed, and more flexible than short-range plans in order to accommodate such uncertainty. Long-range plans also tend to be more directional in nature.

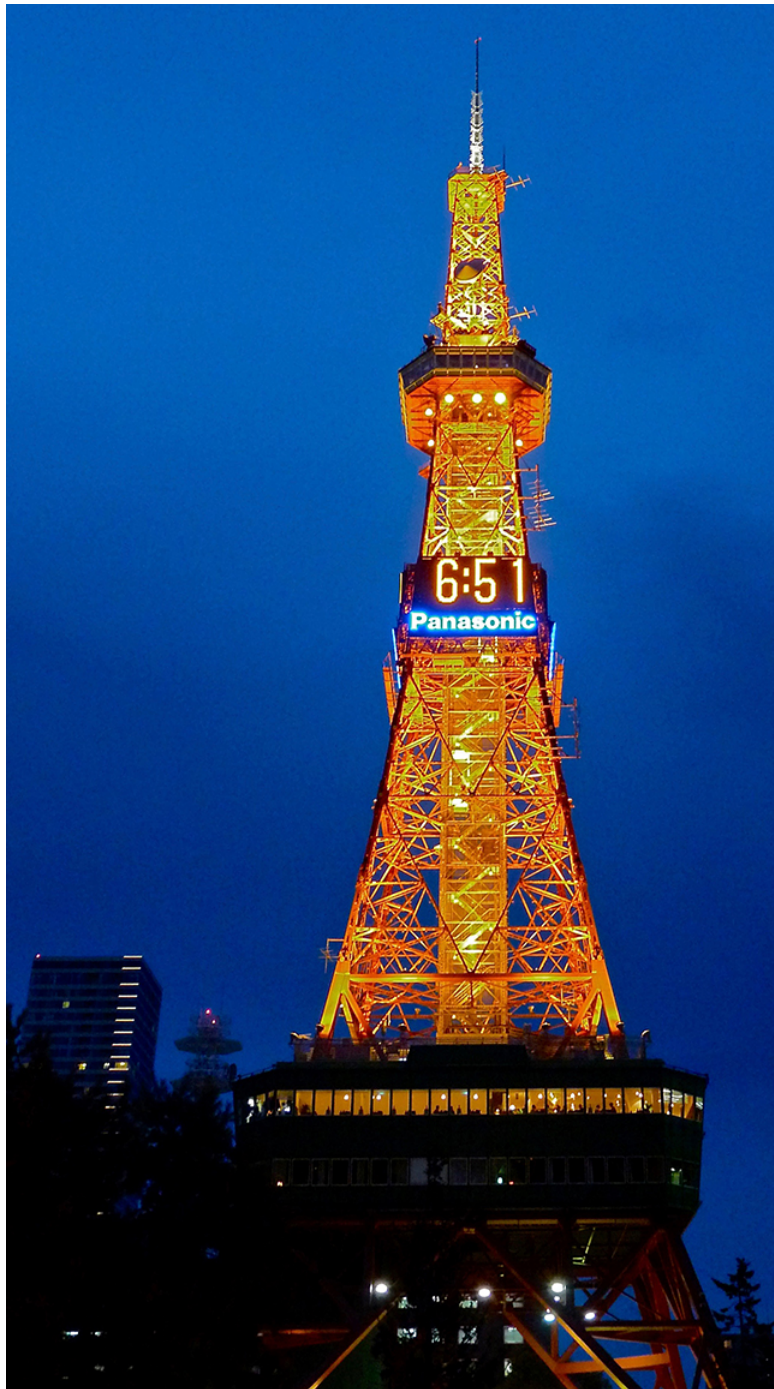


Figure 6.2.3.1: Digital clocks were installed on the Sapporo TV tower, which was donated by Matsushita Electric Industrial Company, a Japanese electronics manufacturer. This installation was suggested by the founder of the company, Konosuke Matsushita, who thought these digital clocks would draw great attention to the tower. Matsushita is revered as a management thought leader in Japan and favored long-term planning, including 250-year plans. (Credit: Arjan Richerter/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Organizational Scope Plans

Plans vary in scope. Some plans focus on an entire organization. For example, the president of the University of Minnesota advanced a plan to make the university one of the top five educational institutions in the United States. This strategic plan focuses

on the entire institution. Other plans are narrower in scope and concentrate on a subset of organizational activities or operating units, such as the food services unit of the university. For further insight into organizational scope plans, see Table 17.1.

Contingency Plans

Organizations often engage in contingency planning (also referred to as scenario or “what if” planning). You will recall that the planning process is based on certain premises about what is likely to happen in an organization’s environment. Contingency plans are created to deal with what might happen if these assumptions turn out to be wrong. Contingency planning is thus the development of alternative courses of action to be implemented if events disrupt a planned course of action. A contingency plan allows management to act immediately if an unplanned occurrence, such as a strike, boycott, natural disaster, or major economic shift, renders existing plans inoperable or inappropriate. For example, airlines develop contingency plans to deal with terrorism and air tragedies. Most contingency plans are never implemented, but when needed, they are of crucial importance.

? concept check

1. Define and describe the different types of plans defined in Table 17.1 and how organizations use them.

This page titled [6.2.3: Types of Plans](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [17.3: Types of Plans](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.2.4: Goals or Outcome Statements

Learning Objectives

1. Explain the individual and organizational effects associated with goal setting and planning.

Creating goals is an inherent part of effective managerial planning. There are two types of organizational goals that are interrelated—official and operational goals.²¹ Official goals are an organization's general aims as expressed in public statements, in its annual report, and in its charter. One official goal of a university, for example, might be to be “the school of first choice.” Official goals are usually ambiguous and oriented toward achieving acceptance by an organization's constituencies. Operational goals reflect management's specific intentions. These are the concrete goals that organization members are to pursue.²² For example, an operational goal for a hospital might be to increase the number of patients treated by 5 percent or to reduce readmission.

The importance of goals is apparent from the purposes they serve. Successful goals (1) guide and direct the efforts of individuals and groups; (2) motivate individuals and groups, thereby affecting their efficiency and effectiveness; (3) influence the nature and content of the planning process; and (4) provide a standard by which to judge and control organizational activity. In short, goals define an organizational purpose, motivate accomplishment, and provide a yardstick against which progress can be measured.

Goal Formulation—Where Do Organizational Goals Come From?

There are two different views about how organizational goals are formulated. The first view focuses on an organization and its external environment. You will recall that there are many stakeholders (e.g., owners, employees, managers) who have a vested interest in the organization. Organizational goals emerge as managers try to maintain the delicate balance between their organization's needs and those of its external environment.²³ The second view concentrates on the set of dynamics in the organization's internal environment. Internally, an organization is made up of many individuals, coalitions, and groups who continually interact to meet their own interests and needs.²⁴ They bargain, trade, and negotiate, and through these political processes, organizational goals eventually emerge.

Neither approach to goal formulation can alone provide for long-term organizational success. Goals must fit an organization into its external environment while satisfying the needs of external constituencies. In addition, goals must enable an organization's internal components to work in harmony. For example, the goals of its marketing department need to mesh with those of its production and finance departments. The challenge for managers is to balance these forces and preserve the organization.

Multiple Goals and the Goal Hierarchy

Consistent with the two views of goal emergence, Peter Drucker offers the perspective that organizations must simultaneously pursue multiple goals. A well-known management scholar, consultant, and writer, Drucker believes that to achieve organizational success, managers must try to achieve multiple goals simultaneously—namely, market standing, innovation, productivity, profitability; physical and financial resources, manager performance and development, employee performance and attitude, and public responsibility.²⁵ Reflecting his concerns, the Hewlett-Packard Corporation has established the seven corporate goals listed in Table 17.2. Sometimes units within organizations may pursue goals that actually conflict with the goals of other internal units. The innovation goal of a research and development department, for example, might conflict with the production department's goal of efficiency.²⁶ Managers must strive to integrate the network of goals and resolve internal conflicts when they arise.

Hewlett-Packard's Corporate Goals

Profit. To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.

Customers. To provide products and services of the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.

Field of Interest. To enter new fields only when the ideas we have, together with our technical, manufacturing and marketing skills, assure that we can make a needed and profitable contribution to the field.

Source: Adapted from Y. K. Shetty. 1979. New look at corporate goals. *California Management Review* 22(2): 71–79.

Hewlett-Packard's Corporate Goals

Growth. To let our growth be limited only by our profits and our ability to develop and produce technical products that satisfy real customer needs.

People. To help our own people share in the company's success, which they make possible: to provide job security based on their performance, to recognize their individual achievements, and to help them gain a sense of satisfaction and accomplishment from their work.

Management. To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.

Citizenship. To honor our obligations to society by being an economic, intellectual and social asset to each nation and each community in which we operate.

Source: Adapted from Y. K. Shetty. 1979. New look at corporate goals. *California Management Review* 22(2): 71–79.

Table 17.2

Broad organizational goals, such as productivity, innovation, and profitability, are likely to be broken into subgoals at various organizational levels. The complexities posed by many interrelated systems of goals and major plans can be illustrated by a goal hierarchy.²⁷ Thus, an organization sets organizational-level, divisional-level, departmental-level, and job-related goals. In the process, managers must make sure that lower-level goals combine to achieve higher-level goals.

? concept check

1. What is the difference between official and operational goals?
2. How do multiple goals fit into a goal hierarchy?

This page titled [6.2.4: Goals or Outcome Statements](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [17.4: Goals or Outcome Statements](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.2.5: Formal Organizational Planning in Practice

Learning Objectives

1. Understand how planning occurs in today's organizations.

Studies indicate that, in the 1950s, approximately 8.3 percent of all major U.S. firms (1 out of every 12) employed a full-time long-range planner. By the late 1960s, 83 percent of major U.S. firms used long-range planning. Today it is estimated that nearly all U.S. corporations with sales over \$100 million prepare formal long-range plans.²⁸ Most formal plans extend five years into the future, and about 20 percent extend at least ten years.

Encouraging Planning

In spite of the advantages to be gained by planning, many managers resist it. Some feel that there is not enough time to plan or that it is too complicated and costs too much. Others worry about the possible consequences of failing to reach the goals they set. Instead of preplanning, sometimes referred to as blueprint planning (that is, formulating outcome and action statements before moving forward), many managers simply fail to plan or at best engage in in-process planning (they read events and think about the next step just before acting). In-process planning works extremely well when individuals have a sense of what it is that they want to achieve and can improvise as they move forward in a sea of uncertainty and turbulence. This is much like skilled hockey players relying on their instincts, reading the defense, and improvising as they move up the ice and toward the opponent's net. This process often works better than attempting to implement a detailed preplan, as often characterizes plays in football.

In situations where we want to encourage preplanning, certain techniques facilitate the process:

- Develop an organizational climate that encourages planning.
- Top managers support lower-level managers' planning activities—for example, by providing such resources as personnel, computers, and funds—and serve as role models through their own planning activities.
- Train people in planning.
- Create a reward system that encourages and supports planning activity and carefully avoids punishment for failure to achieve newly set goals.
- Use plans once they are created.

In order for managers to invest the time and energy needed to overcome resistance to planning, they must be convinced that planning does, in fact, pay off.

Does Planning Really Pay Off?

Managers of organizations in complex and unstable environments may find it difficult to develop meaningful plans, yet it is precisely conditions of environmental complexity and instability that produce the greatest need for a good set of organizational plans. Yet the question remains, does planning really pay off?

We know from our earlier discussion that setting goals is an important part of the planning process. Today, much is known about what characterizes effective individual goals. (We discuss this issue in greater detail later in this chapter.) Although group and organizational goals have been studied less, it is probably safe to assume that most of our knowledge about individual goals also applies to group and organizational goals. The research suggests that effective organizational goals should (1) be difficult but reachable with effort, (2) be specific and clearly identify what is desired, (3) be accepted by and have the commitment of those who will help achieve them, (4) be developed by employees if such participation will improve the quality of the goals and their acceptance, and (5) be monitored for progress regularly.

While the evidence is not abundant, studies suggest that firms that engage in planning are more financially successful than those that do not.²⁹ For example, one study reports that the median return on investment for a five-year period is 17.1 percent for organizations engaged in strategic planning, versus 5.9 percent for those that do not.³⁰ Similarly, of 70 large commercial banks, those that had strategic planning systems outperformed those that did not.³¹

Although planning clearly has observable benefits, it can be expensive. The financial commitment can be large for organizations with formal planning staff. Even so, research suggests that planning is warranted.

The Location of the Planning Activity

Classical management thinking advocates a separation of “planning” and “doing.” According to this school of thought, managers plan for technical core employees and formulate most of the plans for the upper levels of the organization, with little participation from lower-level managers and workers. In contrast, behavioral management theorists suggest involving organization members in drawing up plans that affect them. Implementation of a management-by-objectives program (to be discussed later in this chapter), for example, is one means by which this participative planning can be realized. Researchers at the Tavistock Institute in England promote the idea of self-managed workgroups as a means of expanding the level of employee involvement. According to their socio-technical model, workgroups assume a major role in planning (as well as in organizing, directing, and controlling) the work assigned to them. Many organizations—for example, the John Lewis Partnership, Volvo, and Motorola—have had successful experiences with employee involvement in planning and controlling activities.³²

Planning Specialists

To keep pace with organizational complexity, technological sophistication, and environmental uncertainty, many organizations use planning specialists. Professional planners develop organizational plans and help managers plan. Boeing and Ford are among the many organizations with professional planning staff. Planning specialists at United Airlines developed United’s crisis management plan.

Organizations have planning specialists and planning departments in place for a variety of reasons. These specialized roles have emerged because planning is time-consuming and complex and requires more attention than line managers can provide. In rapidly changing environments, planning becomes even more complex and often necessitates the development of contingency plans, once again demanding time for research and special planning skills. At times, effective planning requires an objectivity that managers and employees with vested interests in a particular set of organizational activities cannot provide.

A planning staff’s goals are varied. Their primary responsibility is to serve as planning advisors to top management and to assist lower-level line managers in developing plans for achieving their many and varied organizational objectives. Frequently, they coordinate the complex array of plans created for the various levels within an organization. Finally, planning staff provides encouragement, support, and skill for developing formal organizational plans.

MANAGING CHANGE

Using Technology for a More Efficient Business

The need to control costs has been around since trade, buying and selling, began. Each new technology creates new possibilities in production and cost reduction. Recent technology isn’t any different. Leaps in connectivity and data management are creating as many start-ups and new ways of identifying and solving problems.

Innovu uses new technology to help small and start-up businesses control the costs of their health benefits. Most small companies and start-ups are self-insured; that is, the company pays any covered employee medical bills or finances any wellness programs directly. According to Diane Hess, the executive director of the Central Penn Business Group on Health, employers account for 30 percent of the \$2.9 trillion in health care spending in the United States, and workers’ compensation cost employers \$91 billion in 2014. These costs included \$31.4 billion for medical and \$30.9 in cash payments (Hess 2016). Innovu mines employee claims to find trends and also provides data on costs due to absenteeism, disability, and workers’ compensation (Mamula 2017). As employers move to wellness programs to improve productivity and reduce medical costs, Innovu helps employers “make sure there are improvements to justify the expenses”(Hess 2016 n.p.).

In a similar vein, Marsh & McLennan Agency Michigan LLC is moving from simply providing insurance and generic “wellness programs” to helping companies focus on improving employees’ overall well-being. While traditional wellness programs focus on physical health to improve productivity, the emerging trend is to help employees with family, social, and financial issues as well. The most comprehensive program from Marsh & McLennan is its MMA Michigan’s Wellbeing University, which works to expand traditional wellness programs into nontraditional support services. The comprehensive approach of the program helps midsize employers “attract and retain talent, encourage employee satisfaction and reduce absenteeism.” The move beyond simple wellness is a move toward investing in employees. Bret Jackson, president of Economic Alliance for Michigan, said, “If you have a happy and healthy employee, productivity increases” (Greene 2017 n.p.).

Branch Messenger is a novel idea to solve employee scheduling. Employees are able to view schedules, cover shifts, and ask for time off, all from an app on their phone. It integrates with existing company systems to allow data analysis, but perhaps more

importantly, it allows employees to connect. The start-up's program has been adopted by large companies, such as Target, McDonald's, and Walgreens, to allow employees to swap shifts simply by using an app on their cell phones. This process streamlines the process of swapping shifts by allowing employees to handle most of the leg work, "bridg[ing] the communication gap between workers and the companies that employ them." The application is free to employees and runs on both iOS and Android devices. It can also generate digital schedules from paper schedules and create messaging channels that are workplace-specific. Moving past simple shift flexibility, the application allows businesses to tap into an "on-demand" workforce that is more elastic. It also allows enterprises to "extend the value of existing workforce management systems without the need to switch costs" (Takahasi 2017 n.p.)

Allison Harden, a shift manager for a Pizza Hut in Tampa, Florida, likes the added connectivity of the program. "The messaging feature and the ability to share pictures and posts makes it really easy to stay connected with them," Allison says. "It's a way that I can do it outside a social network. Not everyone has Facebook and stuff like that—so it's good and work-friendly, safe for work" (Branch Messenger 2017 n.p.).

"Safe for work" can carry connotations of "oversharing" on social media, but during Hurricane Irma, Allison and her crew relied on Branch Messenger for storm preparation, allowing the manager to post a safety checklist and update shifts. Then during the storm itself and after, drivers were able to tell each other which gas stations actually had gas, who still had electricity, and who was safe (Branch Messenger 2017).

sources

Branch Messenger. 2017. "A Branch Customer Story: How A Tampa Pizza Hut Stayed in Contact During Hurricane Irma." blog.branchmessenger.com/a-br...urricane-irma/

Greene, Jay. 2017. "New course for Marsh & McLennan Agency as clients seek well-being." *Crain's Detroit Business*. <http://www.crainsdetroit.com/article...eek-well-being>

Hess, Diane. 2016. "Column: Using data to make business more efficient, employees more healthy." *Lancaster Online*, November 8, 2016. lancasteronline.com/business/...5cc57a478.html

Mamula, Kris B. 2017. "Station Square data analytics company to use \$6.5 million to grow." *Post-Gazette*, August 10, 2017. www.post-gazette.com/business...s/201708100025

Takahasi, Dean. 2017. "Branch Manager helps hourly workers swap shifts on mobile." *venturebeat.com*. <https://venturebeat.com/2017/08/02/b...ves-on-mobile/>

questions

1. What ethical problems could surface with data mining as it applies to employee health records?
2. What security risks would a company need to consider when utilizing smartphone apps for work?



Figure 6.2.5.1: Procter & Gamble, the maker of Tide Pods, has faced two issues with its popular new laundry product. Early after its introduction, reports came in that 180 children had visited hospitals after ingesting the colorful pods thinking that they were candy. P&G quickly reacted by making tamper-proof packaging making it more difficult for children to access, adding a nontoxic flavor that would dissuade children from swallowing the pods, and initiating a product information campaign aimed at informing parents about the dangers—overall, a well-orchestrated contingency plan. In 2017, however, P&G began receiving reports about teenagers intentionally swallowing the product in a “pods challenge” that went viral on social media. Whenever notified, P&G decided to contact the teens directly and contact tech companies such as Facebook and YouTube to remove these posts and videos but did not publicize this, fearing that it would only cause more teens to accept the challenge or challenge others. (Credit: Mike Mozart/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

? concept check

1. How do today's organizations approach planning?
2. Does planning pay off for today's organizations?
3. Which people in the organization should be involved in planning, and what are their roles?

This page titled [6.2.5: Formal Organizational Planning in Practice](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **17.5: Formal Organizational Planning in Practice** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.2.6: Employees' Responses to Planning

Learning Objectives

1. Discuss the impact that control has on organizational members.

Managers, of course, want their employees to work hard. However, effort alone is not enough; it must be directed toward the appropriate target and executed in a proper manner. The question we explore here is, do planning, goal setting, and the development of action statements have a favorable impact on employee motivation, performance, and job satisfaction?

We turn to goal theory for our answer. Research provides us with a clear and unequivocal picture of the effects of setting goals for organizational members. Goal theory specifies that certain types of goals motivate employee behavior and thereby contribute to the level of employee performance. Goal theory, while somewhat narrow in scope, is the most completely supported theory of motivation.³³ You have learned or will learn about the implications of goal setting as a fundamental part of the planning process and as a standard for the exercise of control when studying motivation. For goals to be effective, they must be difficult, specific, and accepted by the employee, and they must be met with feedback from management. Manufacturers often use production goals to motivate employees.

Characteristics of Goals That Motivate Performance

Goal theory (and the research related to it) highlights several important goal attributes—goal difficulty, goal specificity, goal acceptance and commitment, and goal feedback. As Figure 17.6.1 shows, workers who have a goal, even if it is quite general, usually perform better than those with no goals. Yet certain types of goals are more effective than others. Two primary characteristics of goals that enhance their motivating potential are goal specificity and goal difficulty.³⁴ With regard to goal specificity, a goal that states “improve your performance” or “do your best” is generally not very effective because it is too general. Weyerhaeuser, for example, observed that its truck drivers hauling logs significantly increased their performance level when they were instructed to load their trucks to 94 percent of legal weight capacity, as opposed to simply “doing their best.” The drivers found the specific goal to be motivating, and they often competed with one another to achieve the prescribed goal. In the first nine months following the introduction of the 94 percent target, Weyerhaeuser estimated its savings to be approximately \$250,000.

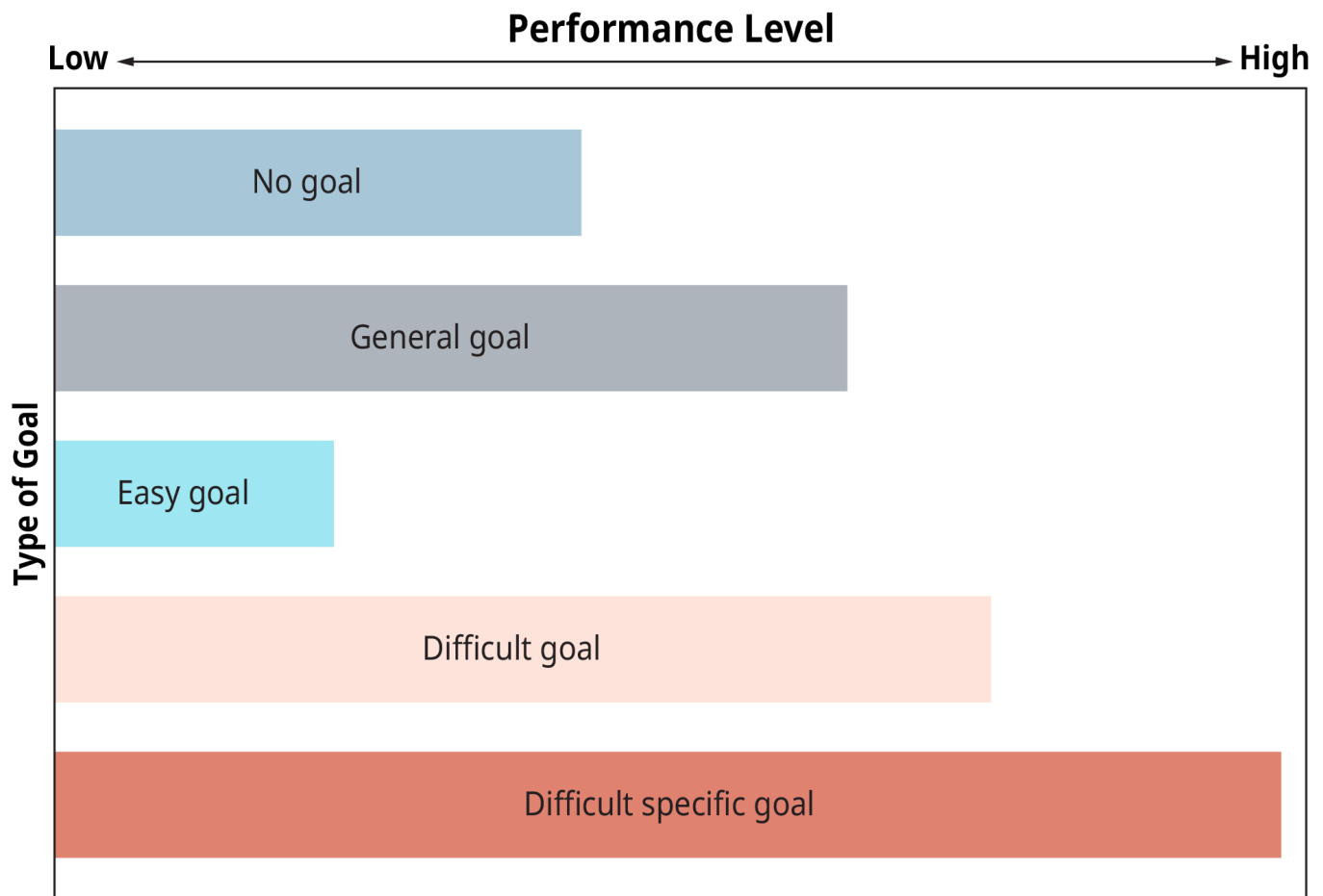


Figure 6.2.6.1: The Effects of Goals on Performance (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The second component of an effective goal is goal difficulty. People with difficult goals perform better than those with easy goals (note the third and fourth bars in Figure 17.6.1). If goals are perceived as too difficult or impossible, however, they lose their motivating effectiveness. Ideally, goals will be both specific and difficult. Thus, setting specific and challenging goals contributes more to planning effectiveness and organizational performance than does working under “no-goal” or “do your best” goal conditions.³⁵

Even a goal that is both difficult and specific, however, is not going to be effective unless it is accepted by the person who is expected to achieve it.³⁶ Goal acceptance is the degree to which people accept a goal as their own (“I agree that this report must be finished by 5 p.m.”).³⁷ Goal commitment is more inclusive, referring to our level of attachment to or determination to reach a goal (“I want to get that report done on time”).³⁸ Goals sometimes fail to motivate people when managers assign them without making sure that workers have accepted or committed to the goals. Figure 17.6.2 summarizes the conditions necessary to maximize goal-directed effort (motivation 5 direction 1 intensity), a major contributor to subsequent performance, while Figure 17.6.3 summarizes the three sets of factors that facilitate goal commitment.³⁹

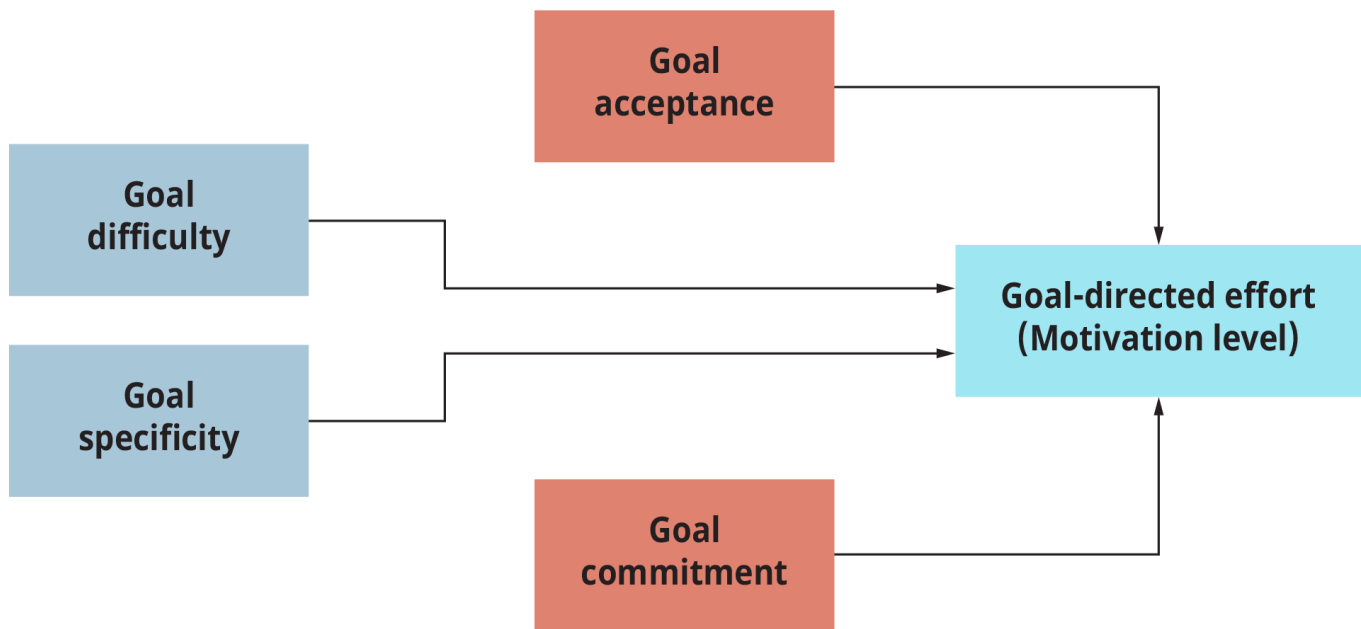


Figure 6.2.6.2 A Model of Goal Setting

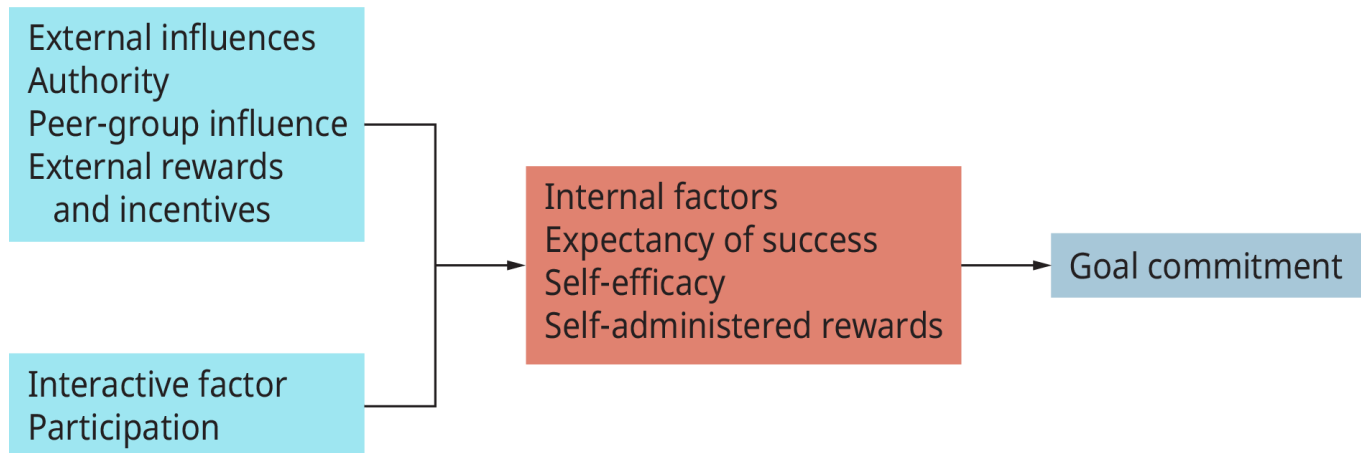


Figure 6.2.6.3 Determinants of Goal Commitment Source: Adapted from E. A. Locke, G. P. Latham, and M. Erez. 1988. The determinants of goal commitment. *Academy of Management Review* 13:28. Copyright 1998 by Academy of Management. Reproduced with permission of Academy of Management in the format Textbook via Copyright Clearance Center; and from E. Erez and P. C. Earley. 1987. Comparative analysis of goal setting across cultures. *Journal of Applied Psychology* 72:658–665.

Goal feedback is the last important goal attribute. Goal feedback provides us with knowledge about the results of our efforts. This information can come from a variety of sources, such as supervisors, peers, subordinates, customers, inanimate performance monitoring systems, and self-assessment. Regardless of the source, the right kind of feedback serves two important functions: directional and effort. Directionally, good feedback tells employees whether they are on the right path and on target or suggests the need for redirection. In addition, it should provide information that suggests the adequacy or inadequacy of the employee's level of effort. Thus, feedback is of critical importance!

The Negative Side of Goals

There is, however, a negative side to goal setting. Total quality management (TQM) pioneer W. Edwards Deming fears that goals tend to narrow the performer's vision and invite people to slack off once the goal is achieved. TQM is also oriented more toward process (means) than toward success (goals, outcomes). Organizational learning and continuous improvement, a central component of TQM, is oriented toward continually finding problems in the production process that when eliminated will result in performance

increases.⁴⁰ Performance goals, on the other hand, generally focus the performer's attention on successfully achieving a specified level of accomplishment at some future point.

Evidence also reveals a negative side to an employee's commitment to difficult goals. When organizational members are strongly committed to achieving difficult goals, their involvement in acts of good organizational citizenship is likely to decline.⁴¹ This negative relationship is unfortunate because organizations operating in highly turbulent, competitive, and uncertain environments are extremely fragile social systems. They need the commitment and the sense of ownership that propel organizational members to spontaneously engage in behaviors that are not specified in their job descriptions but that are important to the organization's success and well-being.

There are several other negative effects associated with goals: The methods and means created to accomplish organizational goals may themselves become the goal (means-ends inversion). Organizational goals may be in conflict with personal or societal goals. Goals that are too specific may inhibit creativity and innovation. Ambiguous goals may fail to provide adequate direction, and goals and reward systems are often incompatible. For example, universities commonly encourage faculty members to be better teachers, but their reward systems primarily encourage good research.⁴²

Goal Setting and Employee Job Satisfaction

The statement "goal-setting enhances job satisfaction" is not exactly accurate.⁴³ The relationship between goal setting and planning and job satisfaction is somewhat more complex. Goal setting, and therefore planning, impacts job satisfaction by working through the employee's level of performance and level of aspiration. Job satisfaction (or dissatisfaction) is most likely determined by the level of performance and not by the goals that have been set.

An employee's affective reaction to performance is determined not by the performance level itself but by the level of performance in relation to his aspiration level.⁴⁴ Job satisfaction, therefore, stems from the employee's evaluation of his actual performance in comparison to his aspiration level (or performance goal). In cases (see Figure 17.6.4) where performance reaches or passes the level aspired to, a positive emotion (job satisfaction) is likely to be produced. Performance that fails to reach aspirations causes a negative emotion (job dissatisfaction). In addition, if performance is valued by the employee because of the extrinsic rewards tied to it, high performance will create job satisfaction only if achieving the performance goal leads to the receipt of these valued extrinsic rewards.⁴⁵ Thus, goal setting is indirectly and contingently related to job satisfaction. If goal setting contributes to employees reaching their performance aspirations and/or the outcomes that are associated with that performance, job satisfaction is a likely by-product.

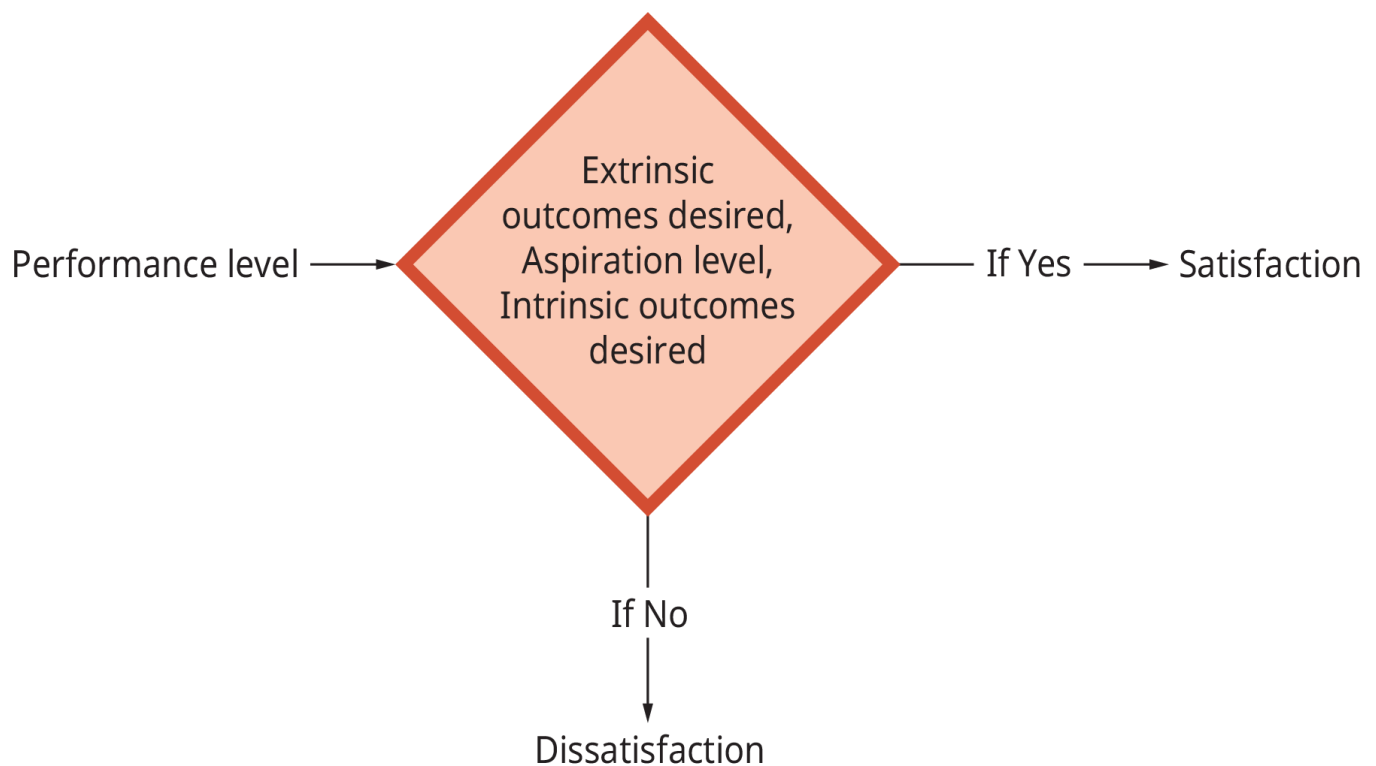


Figure 6.2.6.4 Performance, Aspiration Level, and Satisfaction (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Managing through Goal Setting

What can managers do to motivate employees through goal setting? First, it is important to encourage goal acceptance and commitment. This can be accomplished by working with organizational members to set difficult, specific, and reasonable goals and to make certain that members perceive them as reasonable. If necessary, provide training and other support needed to make the goals attainable. Offer feedback that lets people know when they are approaching the goal. Avoid using threats. Feedback that criticizes without providing insight into ways to contribute to performance improvements is both frustrating and unlikely to be effective. One of Deming's concerns about goal setting is that it creates fear in employees—fear of the failure to reach the goal. He sees fear as a serious disease that contributes to poor organizational performance.⁴⁶ Instead, a positive, success-oriented approach is almost always more effective. If and when negative feedback is needed to correct errors, a manager's criticisms of an employee should be credible, constructive, and objective. In addition, it is important to recall that feedback that simply criticizes, without providing insight into how to make the needed corrections, will produce few if any positive results. Finally, keep in mind that, whereas goal acceptance occurs before people work on a task and can be encouraged through promises of reward, goal commitment can be nurtured throughout the performance period as workers receive rewards for progress.

Encourage the development of work-group norms that contribute to goal commitment. Use legitimate authority to encourage the setting of specific and difficult goals. Stimulate workers to develop a sense of ownership in goals, thus producing goal acceptance and commitment. There are those who believe goal acceptance and commitment can be nurtured when workers come together as members of a family working toward the common goal of proving their worth.⁴⁷

Controlling as an Organizational Activity

A few years ago, the Duluth Police Department found itself struggling with employee morale. The summer had passed, and the department discovered that it had allowed too much vacation time given the volume of summer activity facing the department. As it developed its staffing plans for the upcoming summer, it would have to grant fewer requests for summer vacations. Management soon learned that there would actually be more requests for summer vacation than the previous summer. Conflict between management and the police union appeared inevitable.

The department turned to creative problem-solving. In the process, it came up with the idea of moving from a seven-day week to an eight-day week. Under the old schedule, a police officer worked a traditional five days a week, eight hours a day, 40 hours, with two days off each week. Under the new schedule, officers would work 12 hours a day and 48 hours a week. In addition, officers would work four days and then have four days off. This would in effect give officers half the upcoming summer off without taking a single day of vacation. The plan was endorsed by both the police union and the city council. Following the endorsement of the new staffing plan, the department developed a plan for monitoring the effectiveness of this new schedule and collected baseline data so that subsequent assessment of the schedule could be compared to previous work schedules.⁴⁸

In January, the new compressed work schedule was implemented. This was accompanied by a control system that would monitor the effectiveness of the new schedule. The department was particularly concerned about the impact of the schedule on stress levels, job satisfaction, and the overall effectiveness of its policing function. That is, would the 12-hour workday negatively affect performance? Periodically during the next couple of years, the department monitored the consequences of its new work schedule. There were several positive results. The level of stress appeared to decline along with the increases in hours worked and leisure time satisfaction, without any negative performance effects. Now, several years later, there is virtually no desire to return to the old, more traditional work schedule.

In effective organizations, the activities of planning and controlling are intricately interwoven. For each plan deemed important to the functioning of the organization, a system to monitor the plan's effectiveness must be designed and implemented. In the remainder of this chapter, we explore the nature of control, the control process, and its effects on the organization and its members.

Controlling and the Control Process

Controlling is a managing activity. Controlling is defined as the process of monitoring and evaluating organizational effectiveness and initiating the actions needed to maintain or improve effectiveness. Thus, managers who engage in the controlling activity watch, evaluate, and when needed, suggest corrective action.

Like the managerial functions of planning, organizing, and directing, controlling is a complex activity that is performed at many organizational levels. Upper-level managers, for example, monitor their organization's overall strategic plans, which can be implemented only if middle-level managers control the organization's divisional and departmental plans, which, in turn, rely on lower-level managers' control of groups and individual employees (see our earlier discussion of the goal hierarchy).

The Need for Control

Although there is a continual and universal need for control in organizations, the importance, amount, and type of control vary across organizational situations. Probably the most important influence on the nature of an organization's control systems is the amount of environmental change and complexity it faces.

Organizations that operate with relatively stable external environments usually need to change very little, so managers eventually are able to control their organizations by using a set of routine procedures. With greater levels of environmental change and the accompanying uncertainty, however, controlling requires continual attention from managers. Routines and rigid control systems are simply not adequate for such conditions.

Environmental complexity also affects the nature of control systems. Simple environments contain a limited number of highly similar components that are relatively easy to control through common sets of rules and procedures. The same bureaucratic control system, for example, can be used at most branch offices of a large bank. As complexity increases through organizational growth, product diversification, and so on, managers' needs for up-to-date information and coordination among organizational activities intensify. The complexity that calls for increased control, however, also requires open, organic systems that can respond quickly and effectively to complex environments. In such complicated situations, organizations often specify the development of flexible systems as a means goal: "To allow us to manage the complexities of our organization, we must remain flexible and open." Other control activities shift to ends goals, such as "We want to increase market share 10 percent in each of our divisions." Flexibility allows substantial choice as to how ends goals will be met: "Each division may decide how to achieve its 10 percent increase in market share." Figure 17.6.5 shows the level of control organizations need under different environmental conditions.

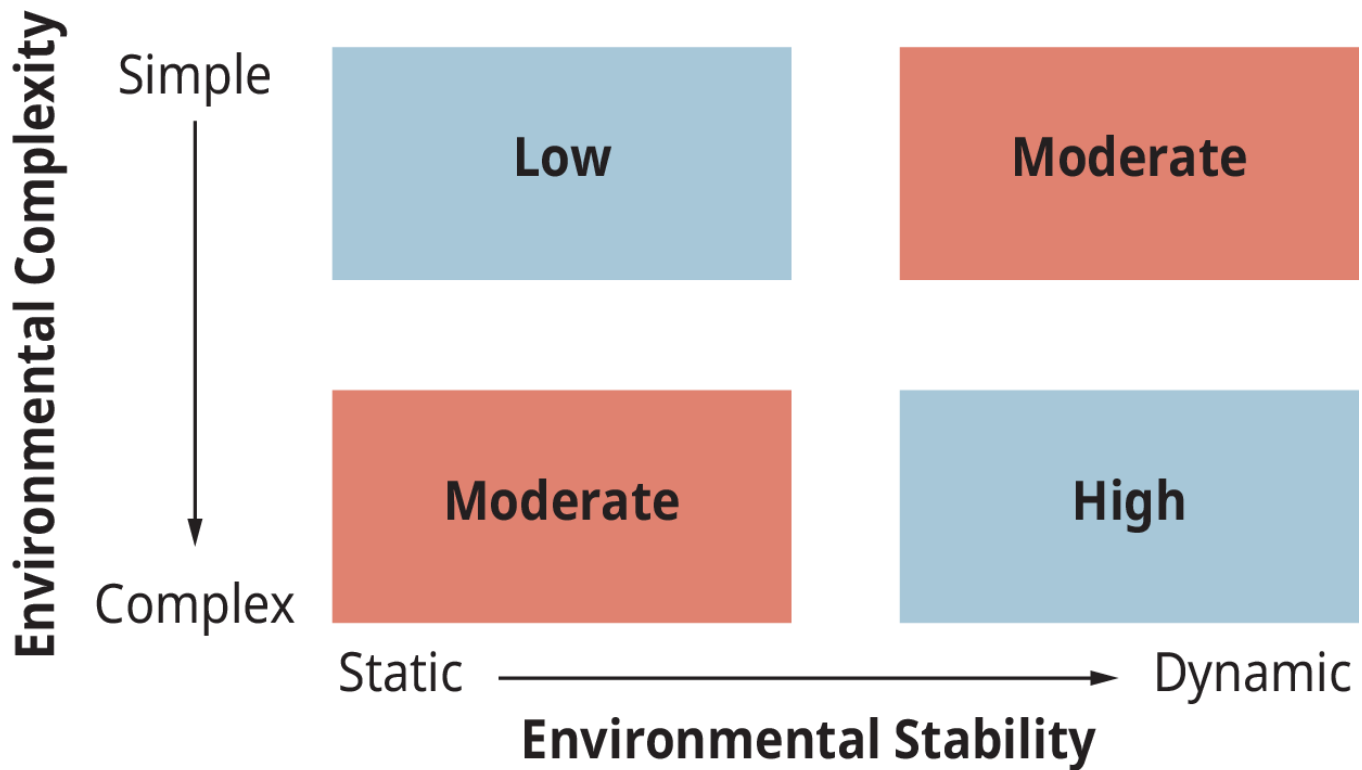


Figure 6.2.6.5 Need for Control (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A Control Model

In essence, control affects every part of an organization. Among some of the major targets of the organization's control efforts are the resources it receives, the output it generates, its environmental relationships, its organizational processes, and all managerial activities. Especially important targets of control include the functional areas of operations, accounting, marketing, finance, and human resources.

Traditional control models (see Figure 17.6.6) suggest that controlling is a four-step process.

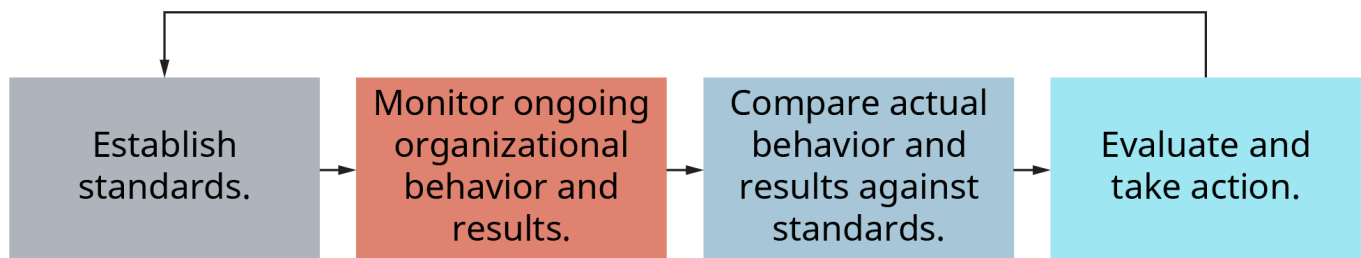


Figure 6.2.6.6 The Traditional Control Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

1. *Establish standards.* Standards are the ends and means goals established during the planning process; thus, planning and controlling are intricately interwoven. Planning provides the basis for the control process by providing the standards of performance against which managers compare organizational activities. Subsequently, the information generated as a part of the control process (see the subsequent steps in the control model) provides important input into the next planning cycle.
2. *Monitor ongoing organizational behavior and results.* After determining what should be measured, by whom, when, and how, an assessment of what has actually taken place is made.
3. *Compare actual behavior and results against standards.* Ongoing behavior is compared to standards. This assessment involves comparing actual organizational accomplishments relative to planned ends (what an organization is trying to accomplish) and means (how an organization intended for actions to unfold). The outcome of this comparison provides managers with the information they will evaluate in the final step.

4. *Evaluate and take action.* Using their comparative information, managers form conclusions about the relationships found between expectations and reality and then decide whether to maintain the status quo, change the standard, or take corrective action.

Variations in Control Systems

Although all good control systems follow the process described above, this doesn't mean that all control systems are identical. Control systems differ in terms of the degree to which they are self-managing, as opposed to externally managed, and by the point in the process at which control is exercised.

Cybernetic and Non-Cybernetic Systems

Control systems differ in the amount of outside attention required for them to operate effectively. Systems using cybernetic control are based on self-regulating procedures that automatically detect and correct deviations from planned activities and effectiveness levels. Few organizational control systems are totally cybernetic, but some come close. The control system for a coal-fired electrical generating station at Detroit Edison, for example, uses computers to monitor the flow of pulverized coal into the burning chamber. The computers speed up or reduce the flow as necessary to maintain adequate fuel supplies.

Merely automating a work system does not necessarily mean that the control system is cybernetic. The drone submarine sent to explore and photograph the sunken *Titanic* was fully automated, but humans on the surface monitored the effectiveness of the sub's operations and its adherence to the planned mission. To be classified as a cybernetic system, a work system must have built-in automatic control capabilities, although the built-in control need not be machine-based. A group of workers who control their own activities without outside assistance constitute a cybernetic system.

Control systems that are operated completely independently from the work system itself involve non-cybernetic control. They rely on external monitoring systems in much the same way that a manufacturing company uses a separate quality assurance department to monitor and enforce quality standards rather than allowing production crews to perform this activity. Cybernetic control systems automatically detect and correct deviations, but automating a control system does not mean it is cybernetic. This technician is adjusting the mixture in the vat, so this system is not self-regulating and thus is not cybernetic.

Time Perspectives

Organizations can introduce the control activity at three stages in the work process: prior to, during, or after the performance of a work activity.⁴⁹ In practice, most managers use a hybrid control system that incorporates control at each of these intervals so that managers can prepare for a job, guide its progress, and assess its results.

Managers use precontrols (or preaction controls) to prevent deviation from a desired plan of action before work actually begins. For example, Butch Ledworowski, owner of Lil' America Building Contractors, inspects all construction materials to see that they meet industry standards. Managers can use two types of concurrent controls (steering and screening control) to prevent deviation from the planned course of action while work is in progress. Steering controls are reactive concurrent controls; they occur after work has begun but before it is completed. At Lil' America, for instance, Butch visits each construction site and watches his carpenters, offering advice and instruction as they work. Screening controls (also referred to as yes/no, go/no-go controls) are preventive concurrent controls. As activity at a critical stage is completed, managers use screening controls to assess work performed to that point and to judge whether progress is adequate. If it is, a yes decision is made to proceed to the next stage. At Lil' America, for example, Butch always inspects carpentry work after walls have been framed. Unless he approves the work, electricians cannot begin wiring the structure.

Managers use postaction controls after the product or service is complete to examine the output. After each remodeling job, Butch assesses the work to determine whether it meets specifications, was completed on time, and came in at or under budget. Postaction controls play an important role in future planning, but their primary function is to provide feedback by describing the degree to which previous activities have succeeded.

Characteristics of Effective Control Systems

Successful control systems have certain common characteristics. First, a good control system follows the prescriptions in the control model (see Figure 17.6.6) and adequately addresses each organizational target. Next, to the extent possible, an effective control system takes a hybrid approach so that precontrol, concurrent, and postaction control systems can be used to monitor and correct activities at all points in an organization's operations. Other characteristics of a good control system include its treatment of information, its appropriateness, and its practicality.⁵⁰

The control process itself and, certainly, all effective control systems are based on information. Without good information, managers cannot assess whether ends and means goals are met. They cannot determine the relationship between them or provide feedback to planners. To be effective, information must be accurate, objective, timely, and distributed to organization members who need it. High-involvement organizations work to make sure that virtually all organizational information is accessible by any employee who needs it in order to make quality decisions. Oticon, a Danish manufacturer of hearing aids, for example, scans all company communications and places them in its information system that all employees can access.



Figure 6.2.6.7: As a management control procedure, Oticon, the Danish manufacturer of hearing aids, scans all company communications and places them in its information system that all employees can access. (Credit: News Oresund/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Another characteristic of a good control system is its focus on issues of importance to the organization. Managers who develop control procedures for virtually all work activities and outcomes waste resources and, as will be discussed later in this chapter, risk creating a control system that produces negative feelings and reactions.

A final characteristic of a good control system is its practicality. Something that works well for another organization or looks wonderful in print still has to fit *your* organization to work well there. Some practical considerations to look for in a control system include feasibility, flexibility, the likelihood that organization members will accept it, and the ease with which the system can be integrated with planning activities.

The Impact of Control on Organizational Members

Thus far, you have been learning about the importance of the controlling function. Consider now what the controlling function does for—or to—the organization’s members. If designed well, control systems have many positive effects both for organizations and for the people who work in them (see Table 17.3).⁵¹ Unfortunately, sometimes control systems can produce a number of negative effects.

The Impact of Control on Organization Members	
Potential Positive Effects of Control	
Clarifies expectations	
Reduces ambiguity	

The Impact of Control on Organization Members
Provides feedback
Facilitates goal setting
Enhances satisfaction
Enhances performance
Potential Negative Effects of Control
Consumes resources
Creates feelings of frustration and helplessness
Creates red tape
Creates inappropriate goals
Fosters inappropriate behavior
Decreases satisfaction
Increases absenteeism
Increases turnover
Creates stress

Table 17.3 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Positive Effects

Organizational control systems can provide many positive effects for organization members in terms of motivation, performance, and satisfaction. This occurs by providing adequate structure, appropriate feedback, and effective goal-setting programs.

When workers want clarification of what they are expected to do, a leader can improve both their performance and satisfaction by providing structure. The guidance provided by both precontrol and concurrent control systems can likewise be received favorably. Another potential and related benefit for employees with an uncertainty avoidance or low tolerance for ambiguity personality is that the structure of a good control system reduces the uncertainty of a work situation.

A good control system also provides constructive feedback. Most employees react quite favorably to the timely provision of accurate feedback about their effectiveness.⁵² Feedback helps workers correct ineffective behaviors. Perhaps more importantly, feedback can be very rewarding. People who have a need to succeed (individuals with a high need for achievement) are gratified when feedback tells them that they are, in fact, succeeding. Feedback can improve job performance if workers use it to adjust their goals, approach, or effort levels appropriately. Both concurrent and postaction controls provide employees with feedback about the appropriateness of their behavior and the degree to which their work is producing successful results.

You have already seen that goal setting can be an important contributor to effective management. A good control system is very useful for identifying appropriate goals. Consider the control system used by the sales company where Maria Castro works. It specifies an expected sales approach (means goal) that helps her work toward a specific, difficult sales goal (ends goal). Precontrols help her understand how to achieve the desired sales level by providing such means goals as specific sales calls to make and promotional specials to offer. Concurrent controls and postcontrols provide feedback that helps Maria monitor her progress. The combined effects of goal setting and feedback about goal progress are particularly powerful.

Negative Effects

Unfortunately, control systems don't always function well. Excessive controls are a waste of money and energy. Donald Pemble, for example, needs a larger travel budget because he must personally inspect bridges under his new control system. His inspectors spend the time they could have used to inspect bridges in logging entries, painting numbers, and griping about the unfairness of the situation. Not only do excessive controls waste money because they fail to enhance effectiveness, but they can also create additional problems. For example, Shannon and her coworkers have changed from good corporate citizens who kept accurate records and conducted comprehensive inspections into harried workers who falsify log entries. Worse, unsuspecting motorists travel over what might be unsafe bridges.

The vast amount of paperwork and documentation called for by an excessive control system can also cause frustration and helplessness. The red tape created by many universities' control systems, for example, wastes students' time. Standing in lines for hours, they wait to pay dorm fees, purchase meal tickets, rent parking spaces, pay tuition, and register for classes. Their frustration and dissatisfaction are mirrored by many university employees who question the competence, the reasonableness, and perhaps even the intelligence of supervisors who insist on maintaining excessive control.

Another dysfunctional result of poor control systems can be seen in their effect on goal-setting programs. Whereas a good control system can help design and monitor valuable goal-setting programs, a poor control system can accomplish quite the opposite. A control system focused on unreasonable ends and means goals can motivate workers to establish inappropriate individual goals. For instance, the ends goal Donald Pemble established of having all bridges inspected within two years was unreachable, and his monthly inspection quotas (means goals) were unobtainable. Donald's insistence on maintaining these inappropriate goals was evident in his reactions when the inspectors failed to meet them. Consequently, Shannon and her coworkers focused on preserving their jobs as a primary goal, rather than on conducting quality inspections.

In addition to encouraging the formation of inappropriate goals, poor control systems emphasize and reward behaviors that, although not necessarily inappropriate, may hinder more productive behavior. Managers who concentrate on workers' attendance, for example, may not promote such desirable behaviors as creativity, cooperation, and team building.⁵³ Although there is nothing wrong with encouraging attendance, a control system that fosters attendance (by punishing tardiness) because it is easier to measure than creativity encourages rigid, uncreative behavior (on the part of employees who are almost always at work). An advertising agency that controls attendance but not creativity, for example, would soon be in serious trouble.

Even when control systems help identify appropriate goals and encourage appropriate behavior, rigid adherence to narrow goals can create problems. A large number of specific, concrete goals, for example, can inhibit creativity. The vast amount of time organization members must spend tending to concrete goals leaves them little time or energy to create. It is not only creativity that suffers, however. Every minute used taking attendance in a classroom is one less minute available for teaching. Every hour a police officer spends completing paperwork is one less hour available for public service. Managers should use only the goals they need, no more.

The Need for Personal Control

Organizations clearly have a need to control their members and operations, but individuals also have a need for personal control, a need to believe that they have the "ability to effect a change, in a desired direction, on the environment."⁵⁴ Sometimes organizations, through their structures and management processes, make people feel they have too little control. For example, managers can execute the control function by designing and demanding strict adherence to organizational rules and standard operating procedures. Colleges and universities, for example, tell students which classes they are allowed to take and when, what grades they have to maintain, how to behave outside the classroom, and so on. Companies tell employees when to come to work, how many hours to work, what to wear, when to take breaks, how to perform their jobs, and many other things. The challenge facing managers is to strike a balance between the amount of control their organization needs and the amount of personal control needed by its members. Studies suggest that, when this balance is reached, both the satisfaction and performance of organization members can be enhanced.⁵⁵ In addition, evidence reveals that a number of other organizationally undesirable consequences can result from low or less than desired levels of personal control, such as withdrawal and health-related effects (stress, frustration, and depression).⁵⁶

Finding the optimal balance between organizational and personal control is not an easy task, however, because most employees desire more personal control than their organizations allow. People will strive to gain greater control "in spite of (and frequently because of) the barriers and constraints the organization places on the attainment of personal control."⁵⁷ Repeated failures to gain personal control may cause workers to develop what has been called learned helplessness.⁵⁸ People who learn that they are helpless to influence their work environment are likely to be the source of low productivity, low quality, high absenteeism, dissatisfaction, and turnover. They tend to react with depression, anxiety, stress, frustration, hostility, anger, and alienation. Furthermore, once helplessness has been learned, people often continue to behave helplessly, even if the environment changes to permit them greater control. Managers must thus prevent employees from developing learned helplessness because reversing it is very difficult. They should allow workers to control the aspects of their work lives that they can adequately control and use only the necessary amount of organizational control.

In Search of Balance

At this point, it might seem that managers should just accede to workers' persistent demands for greater control. Research shows, however, that indiscriminately giving employees larger amounts of control actually causes performance to suffer if such control exceeds their capacity to use it.⁵⁹

If a control system that is too excessive does not work, and if giving workers all of the personal control they desire is not effective, what do managers do to achieve the proper balance? First, people need to possess personal control; therefore, give them the amount of control they are able to handle. Second, make certain that workers given control believe they can use it effectively. Help them translate their effort into successful performance. Third, recognize that organizational control systems influence the personal control perceptions of organizational members. These, in turn, change behavior and attitudes.

By interviewing and/or surveying employees, managers can learn more about employees' needs for control. Through organizational scans, managers can determine the amount and location of control already existing in the organization, as well as the areas needing control. The objective then becomes one of achieving the best possible match between employees and their work environment.

? concept check

1. How is goal theory used in the planning process?
2. What are the organizational downsides to goals?
3. How is goal setting tied to job satisfaction and performance?

This page titled [6.2.6: Employees' Responses to Planning](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **17.6: Employees' Responses to Planning** by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.2.7: Management by Objectives- A Planning and Control Technique

Learning Objectives

1. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.

When people are personally committed to their organization's plans, those plans are more likely to be accomplished. This truism is the philosophy underlying management by objectives.

Management by objectives (MBO) is a philosophy of management, a planning and controlling technique, and an employee-involvement program.⁶⁰ As a management philosophy, MBO stems from the human resource model and Theory Y's assumption that employees are capable of self-direction and self-control. MBO also is anchored in Maslow's need theory. The reasoning is that employee involvement in the planning and control processes provides opportunities for the employee to immerse the self in work-related activities, to experience work as more meaningful, and to satisfy higher-order needs (such as self-esteem), which leads to increased motivation and job performance (see Figure 17.7.1). It is hypothesized that, through involvement, employee commitment to a planned course of action will be enhanced and job satisfaction will be increased.

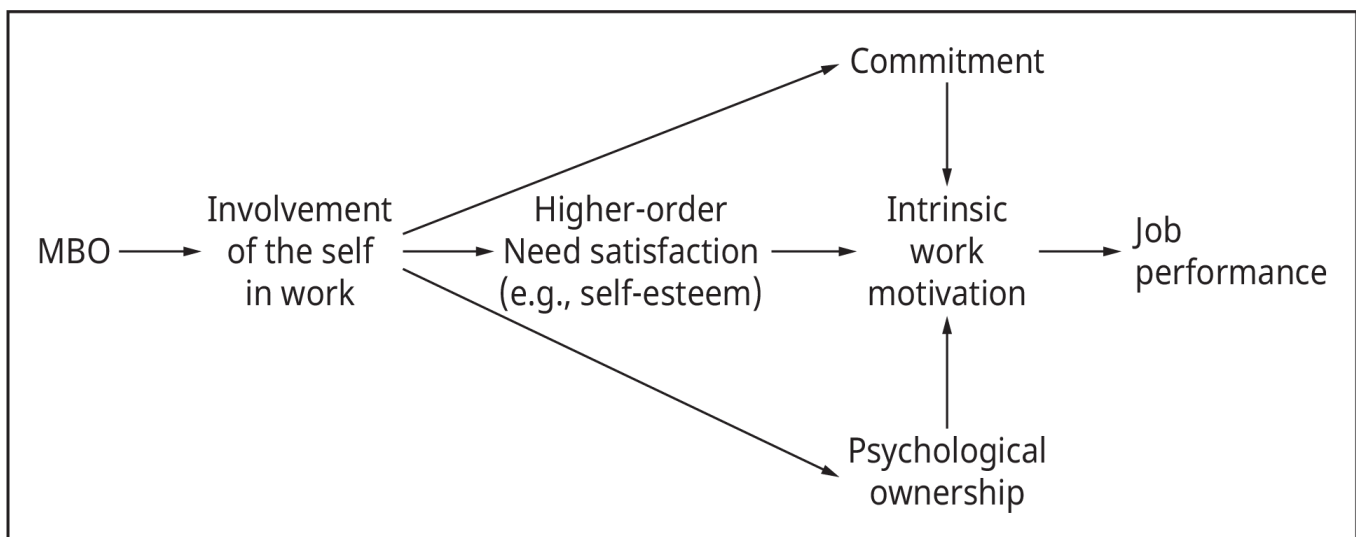


Figure 6.2.7.1: MBO and Its Effect on Employees (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Although there are many variations in the practice of MBO, it is basically a process by which an organization's goals, plans, and control systems are defined through collaboration between managers and their employees. Together they identify common goals, define the results expected from each individual, and use these measurements to guide the operation of their unit and to assess individual contributions.⁶¹ In this process, the knowledge and skills of many organizational members are used. Rather than managers telling workers "These are your goals"—the approach of classical management philosophy—managers ask workers to join them in deciding what their goals should be.

After an acceptable set of goals has been established for each employee through a give-and-take, collaborative process, employees play a major role in developing an action plan for achieving these goals. In the final stage in the MBO process, employees develop control processes, monitor their own performance, and recommend corrections if unplanned deviations occur. At this stage, the entire process begins again. Figure 17.7.2 depicts the major stages of the MBO process.

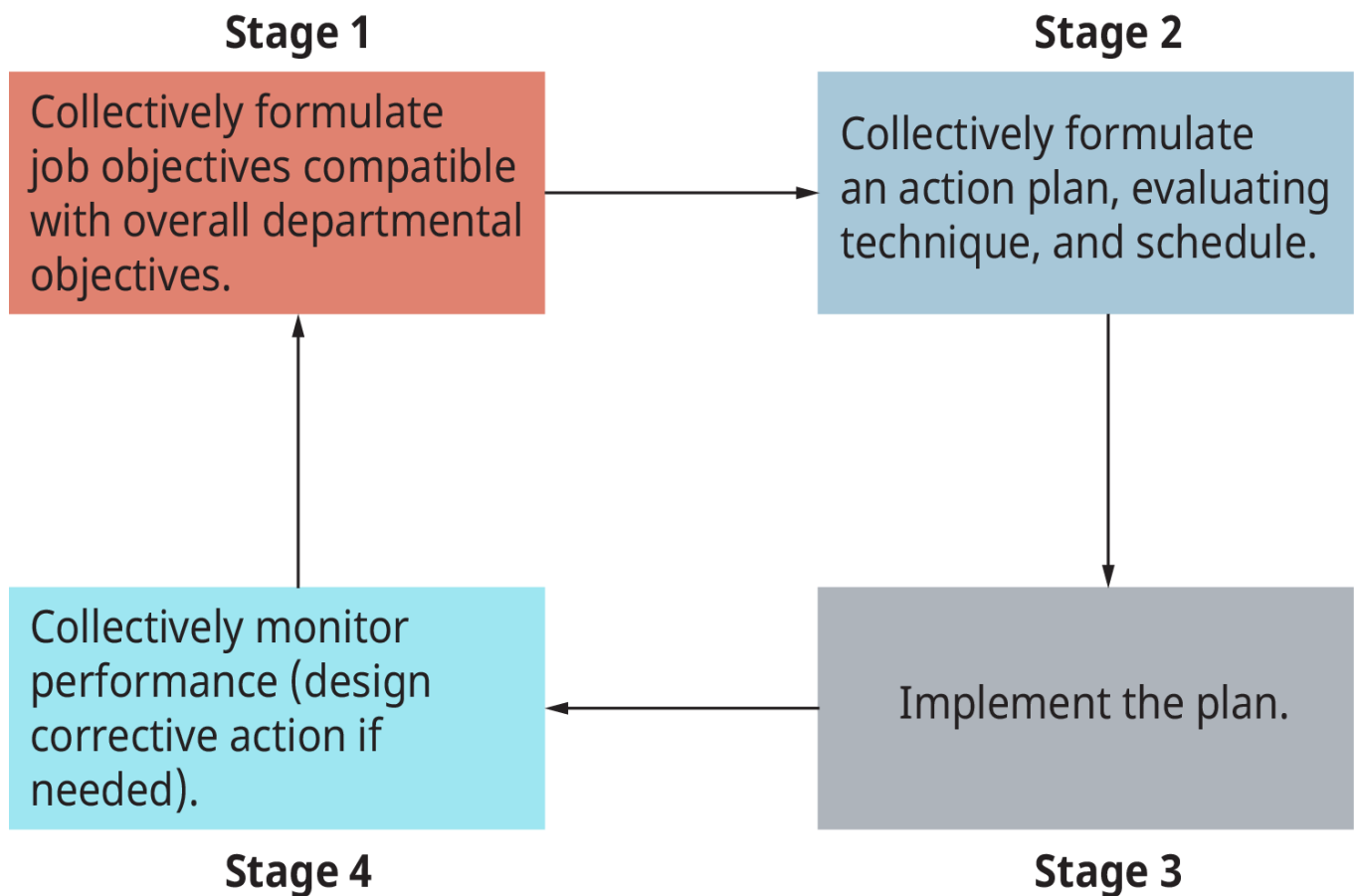


Figure 6.2.7.2 The Management by Objective (MBO) Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The Theory of MBO

MBO has the potential to enhance organizational effectiveness. The following four major components of the MBO process are believed to contribute to its effectiveness: (1) setting specific goals; (2) setting realistic and acceptable goals; (3) joint participation in goal setting, planning, and controlling; and (4) feedback.⁶² First, as we saw earlier, employees working with goals outperform employees working without goals. Second, it is assumed that participation contributes to the setting of realistic goals for which there is likely to be goal acceptance and commitment. Setting realistic and acceptable goals is an important precondition for successful outcomes, especially if the goals are difficult and challenging in nature. Finally, feedback plays an important role. It is only through feedback that employees learn whether they should sustain or redirect their efforts in order to reach their goal, and it is only through feedback that they learn whether or not they are investing sufficient effort.

Thus, from a theoretical perspective, there are several reasons why MBO should produce a positive impact on employee performance, motivation, commitment, and job satisfaction. In the next section, we briefly look at what the research tells us about the effectiveness of MBO programs.

The Evidence

In both the public and private sectors, MBO is a widely employed management tool. A recent review of the research on MBO provides us with a clear and consistent view of the effects of these programs. In the 70 cases studied by Robert Rodgers and John Hunter, 68 showed increased productivity gains, and only 2 showed losses.⁶³ In addition, the increases in performance were significant. Rodgers and Hunter report that the mean increase exceeded 40 percent.

While the results are generally positive in nature, differences in performance effects appear to be associated with the level of top management commitment. In those cases where top management is emotionally, intellectually (that is, top management espouses the value and importance of MBO), and behaviorally (top management actually uses MBO themselves) committed, the

performance effects tend to be the strongest. The weakest MBO effects appear when top management does very little to “talk the value/importance of MBO” and they don’t use the system themselves, even as they implement it for others.⁶⁴ This evidence tells us that “the processes” used to implement MBO may render a potentially effective program ineffective. Thus, not only should managers pay attention to the strategies used to facilitate planning and controlling (like MBO), they should also be concerned with how they go about implementing the plans. MBO requires top management commitment, and it should be initiated from the top down.⁶⁵

Research shows that an MBO program can play a meaningful role in achieving commitment to a course of action and improving performance. In fact, research clearly documents instances where MBO programs have increased organizational effectiveness. Still, there have been failures. After reviewing 185 studies of MBO programs, one researcher concluded that they are effective under some circumstances but not all.⁶⁶ For example, MBO tends to be more effective in the short term (less than two years), in the private sector, and in organizations removed from direct contact with customers. These factors also affect the success of an MBO program:

- The intensity of upper-level managers’ commitment: Half-hearted commitment to an MBO system is associated with a higher failure rate.
- The time element: Is there enough time for employees to learn how to participate in an MBO process, that is, to learn how to set meaningful goals, develop good action statements, and develop effective monitoring systems? Is there enough time for employees to learn how to assume responsibility in a new context? Is there enough time for employees and managers to collaborate in a joint planning and controlling process?
- The legitimacy of the system: Is it integrated into an overall philosophy of management? Or does it seem like a gimmick to seduce employees into being more productive?
- The integration of employees’ goals: Are goals for each employee integrated well enough into the goals of their larger work unit?

To be truly effective over the long haul, MBO programs probably need to be coupled with some type of gainsharing program (that is, programs whereby organizations share some of the financial gains accrued from the ideas, productivity improvements, and cost savings that stem from employee participation). Based on his extensive observation of involvement-oriented organizations, Edward E. Lawler III notes that information, knowledge, power, and rewards are four key components of an effective and sustained high involvement.⁶⁷ Typically, MBO systems don’t provide mechanisms through which employees share in the economic gains that may accrue to the organization as a result of their expanded role and responsibility. In light of the conditions that influence the effectiveness of MBO programs, management is challenged to provide an appropriate context for the design and maintenance of an effective MBO system.

? concept check

1. What is management by objectives?

This page titled [6.2.7: Management by Objectives- A Planning and Control Technique](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [17.7: Management by Objectives- A Planning and Control Technique](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.2.8: The Control- and Involvement-Oriented Approaches to Planning and Controlling

Learning Objectives

1. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

Planning and controlling are approached with distinctive differences under control-oriented and involvement-oriented approaches to management. In the mechanistic organization, both activities tend to be lodged with management in the organizational hierarchy, often above the point in the organization where the plans are being carried out. The hierarchy plays an active role in both the planning and controlling process, and the employee is often a passive player carrying out the planning directives and the target of the control activity.

The organic organization, with its involvement-oriented management practices, places the employee as an active player in both the planning and controlling activity. Management's role becomes one of a consultant, facilitator, enabler, philosopher, teacher, coach, and resource provider as employees take on active roles in planning and controlling and in assuming responsibility for the execution of both activities.

Upper-level managers assume responsibility for planning and controlling their units while employees assume the right and responsibility for planning and controlling at their job level. As upper-level managers carry out their planning and controlling activities, they do so by soliciting input from those below them in the organizational hierarchy.

Systems such as MBO are much more likely to characterize the planning and controlling process in involvement-oriented organizations than in control-oriented organizations. Control in high-involvement organizations is diffused through many groups and is commonly focused on task accomplishment and overcoming obstacles, with a de-emphasis on fixing blame with a particular individual for performance failures. In many control-oriented management systems, the reins of control are firmly held by the hierarchy, and the activities of individuals are carefully controlled. Performance failures, therefore, tend to become focused on the individual who fails to perform.

Finally, mechanistic organizations are more likely to create large planning departments and to centralize the planning function with specialists. As organizations confront increasing environmental or technology-induced uncertainty, rapid environmental change, and turbulence, planning and controlling move closer to the point in the organization where the plans are implemented and carried out on a day-to-day basis. In place of hierarchy-based control, organizations rely more on professional employees and groups of employees to control their own actions as they execute organizational plans.



Figure 6.2.8.1: A new blockchain solution from IBM and Maersk will help manage and track the paper trail of tens of millions of shipping containers across the world by digitizing the supply chain process. (Credit: Kees Torn/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

MANAGING CHANGE

Blockchain and Managing Currency Fluctuations

When a business goes from being local, even if local is defined as a whole country, to being a global business, a whole new set of constraints is presented and must be controlled and planned. Traditionally, currency fluctuations can be one of the more interesting if not daunting elements of global business. Modern technology, however, has taken that challenge one step further.

The impact of currency fluctuations on profitability is discussed in economics, finance, and various accounting texts. What currency should be used to buy inventory? To sell inventory? How do puts and calls mitigate currency fluctuations? Is the added expense worth covering the potential loss? These are all questions businesses must consider when moving into a global market. When Tata Consultancy Services, India's largest software services exporter, reported first-quarter results that were below expectations in the first quarter of 2017, much of the blame was laid on currency fluctuations, which accounted for 80 basis points of the drop in profitability (Alawadhi 2017).

But starting in 2009, financial transactions, including global financial transactions, became a little more complicated. Or did they? Bitcoin emerged in 2009 from an unknown source only known as Satoshi Nakamoto (The Economist Explains 2015). Built on what is called blockchain technology, Bitcoin and other cryptocurrencies (jargon for digital assets that are secured by cryptography) are a technological unknown in the future of exchange and financing. The technology behind blockchain and the resulting assets is complicated but not necessary to understand the potential effects of the technology. Effectively, Bitcoin is a "peer-to-peer electronic cash system that uses a distributed ledger to bypass central control systems for transactions" (Pepijn 2017). As peer-to-peer transactions, cryptocurrencies bypass the normal channels, such as banks and credit card processors. Theoretically, this lowers transaction costs for both the buyer and the seller. Blockchain, which can include assets beyond currency, also allows firms to raise funds directly from investors, bypassing investment bankers and venture capitalists. According to the *Financial Post*, "High levels of encryption protect the transaction by validating the parties involved and by preventing hacking, erasure or amendments" (Francis 2017).

Bitcoin uses blockchain technology to maintain a record of its currency ecosystem. The viability of blockchain technology as a thing in itself should not be confused with Bitcoin's price volatility, which has seen its price increase (and decrease) by several orders of magnitude. Shady bitcoin exchanges and a shifting regulatory landscape, a result of governments attempting to regulate the very concept of a means of exchange, have produced enormous swings up and down (Crypto Investor 2017).

But however volatile the new currencies, blockchain technology is seeing other, relatively sane applications. Isabel Cooke at Barclays has already used “distributed ledger technology,” or blockchain technology, to process a trade finance transaction in the real world: “Our pilot trade brought the sign-off time from ten days to four hours. It reduced costs, added transparency, decreased risk and looked to improve the customer experience” (Why blockchain is ‘difficult and exciting’ 2017). With an immutable, public ledger to work from, “Creating a really clear audit trail across organizations provides real value – whether that’s with land registration or trade finance. If we have a shared view of data on ledgers, we can then build business logic on top of that, and that can apply to interest rates swaps or smart contracts within the investment bank” (Crypto Investor 2017).

So are blockchains and cryptocurrencies the wave of the future or just a modern financial bubble or threat to global financial security? Some industry writers say that the decentralization and lower costs of the technology are necessary and will launch even more industries (Pepijn 2017). Even governments and central banks are looking at the potential benefits and costs savings of an electronic currency. According to investment banker Alex Tapscott, if the Bank of England replaced 30 percent of the traditional British currency with digital money, he thinks it would add 3 percent to British GDP. The expectation is that digital currency would lower consumer prices and increase sellers’ profits. And the encryption technology would prevent counterfeiting, fraud, or tampering (Francis 2017).

In a perfect world, exchanges in a global currency, such as the blockchain-based cryptocurrencies, could sidestep currency fluctuations. In the real world, however, the wild value fluctuations of cryptocurrencies mean blockchain technology has a way to go before delivering on that possibility, if it ever does.

sources

- Alawadhi, Neha. 2017. “Currency fluctuations and BFSI, retail sluggishness hurt TCS’s Q1 show.” Moneycontrol.com. <http://www.moneycontrol.com/news/bus...w-2325575.html>
- Crypto Investor. 2017. “Bitcoin: Three Ways the Bubble Could Pop.” Medium.com, September 15, 2017. medium.com/@Truth_Investor/b...p-40678ce11698
- Economist Explains, The. 2015. “Who is Satoshi Nakamoto?” The Economist, November 2, 2015. <https://www.economist.com/blogs/econ...ist-explains-1>
- Francis, Diane. 2017. “Why the smart money is betting on blockchain.” Financial Post. business.financialpost.com/di...-on-blockchain
- Pepijn, Daan. 2017. “With smart controls and contracts, blockchain tech is bridging the real and virtual worlds.” The Next Web. thenextweb.com/contributors/...#.tnw_oDCnSKF2
- “Why blockchain is ‘difficult and exciting.’” 2017. Barclays, May 16, 2017. www.home.barclays/news/2017/...lockchain.html

questions

1. What other applications can you see for blockchain technology? Would they reduce costs?
2. What drawbacks or potentials risks do you see in blockchain technology?
3. Do you think blockchain technology could be used to offset currency fluctuations? Would this likely increase or decrease the risk?
4. Why would governments be suspicious of cryptocurrencies and consider regulating or outlawing them? Have any governments done so to date?

concept check

1. Describe the execution of the planning and controlling activities under control- and involvement-oriented management practices.

This page titled [6.2.8: The Control- and Involvement-Oriented Approaches to Planning and Controlling](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [17.8: The Control- and Involvement-Oriented Approaches to Planning and Controlling](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.2.9: Summary

key terms

action statements

The means by which an organization moves forward to attain its goals.

outcome or goal statements

End states—the targets and outcomes that managers hope to attain.

Deming cycle

A planning model directed toward attaining continuous improvement by integrating organizational learning into the planning process (plan, do, check, act).

domain/directional planning

The development of a course of action that moves an organization toward one domain or direction (and, therefore, away from other domains or directions).

goal planning

Development of action statements to move toward the attainment of a specific goal.

hybrid planning

The coupling of domain and goal planning.

planning

The process by which managers establish goals and specify how these goals are to be attained.

contingency plans

Plans that deal with alternative courses of action.

single-use plans

Plans developed for unique situations or problems and one-time use.

standing plans

Rules, policies, and procedures about how to deal with issues that managers face repeatedly.

strategic plans

Hierarchical plans that address an organization's institutional-level needs and attempt to position it advantageously within its task environment.

operating plans

Direction and action statements for activities in the organization's technical core.

administrative plans

Plans that work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.

goal hierarchy

The interrelationship among an organization's job-, department-, divisional-, and organizational-level goals.

official goals

The aims of an organization that are expressed in highly abstract and general terms, generally employed for the organization's external constituents.

operational goals

The aims of an organization that reflect management's specific intentions.

concurrent controls

Controls intended to prevent deviation from a planned course of action while work is in progress.

controlling

Monitoring the behavior of organizational members and the effectiveness of the organization itself to determine whether organizational goals are being achieved and taking corrective action if necessary.

cybernetic control

Self-regulating control procedures.

hybrid control system

Control system that exercises control prior to, during, and after the performance of a work activity.

noncybernetic control

Control systems that operate independently from the work system that is being monitored; a monitoring system that is external to the target of control.

postaction controls

Controls employed after a product or service is complete.

precontrols

Controls designed to prevent deviation from a desired plan of action before work actually begins.

management by objectives (MBO)

A philosophy of management, a planning and controlling technique, and an employee involvement program.

17.1 Is Planning Important

1. Understand the importance of planning and why organizations need to plan and control.

Planning is the process through which managers establish goals and detail how these goals will be attained.

17.2 The Planning Process

1. Outline the planning and controlling processes.

There are five major stages in the planning process. First, an organization establishes its preplanning foundation, which reviews past events and describes the current situation. In the second step, the organization sets forth goals based on the preplanning foundation. In the third step, managers forecast what is likely to happen in the organization's internal and external environments in order to develop alternative courses of action. Then, managers identify possible courses of action for meeting their objectives, evaluate each alternative, and select a course of action. Finally, planners develop the supportive plans necessary to accomplish the organization's major plan of action. Once implemented, that plan is monitored and controlled so that it meets the goals established in the second step.

17.3 Types of Plans

1. Identify different types of plans and control systems employed by organizations.

Managers create many types of plans based on hierarchical level, frequency of use, time frame, and organizational scope. Contingency plans to be used in case of unexpected events or wrong assumptions are critical for effective management in highly turbulent environments.

17.4 Goals or Outcome Statements

1. Explain the individual and organizational effects associated with goal setting and planning.

Goal development is an important part of the planning process. Goals developed for employees, for departments, and for entire organizations greatly enhance organizational effectiveness. Evidence reveals that performance is higher when organizations, as well as individuals, operate under difficult (but attainable), specific goals.

17.5 Formal Organizational Planning in Practice

1. Understand how planning occurs in today's organizations.

Plans reduce uncertainty and risk, focus attention on goals, and enhance understanding of the external environment. Although most major organizations engage in formal planning, many managers fail to plan appropriately. Lack of time, uncertainty about the future, and fear of failure are among the reasons given by managers for their failure to plan.

17.6 Employees' Responses to Planning

1. Discuss the impact that control has on organizational members.

The primary purposes of the controlling function are to monitor the extent to which an organization's plans are being followed and their effectiveness and to identify when and where it is necessary to take corrective action. To accomplish these ambitious tasks, managers construct control systems that touch most aspects of an organization's functional areas, its relationship with the external and internal environments, and its relationships across different hierarchical levels.

The control process consists of four steps. In Steps 1 and 2, managers create standards and monitor ongoing organizational behavior. In Step 3, they examine the degree to which ongoing activity is consistent with their goals and means objectives and the relationship between the two. In Step 4, managers develop prescriptions to correct problems, to maintain strengths, and to provide feedback to an organization's planners.

Whereas all control systems have the same general purposes, they differ in their specifics. Some are self-managing cybernetic systems; non-cybernetic systems require regular external supervision to be effective. Other variations in control systems include the point at which control activities are applied: before the work has begun (precontrols), while work is in progress (concurrent controls), and after work has been completed (postaction controls). A hybrid control system engages a variety of control activities at many points in time.

Although there are variations in control systems, all good systems have characteristics that enable them to work well in a given organization. Managers evaluating a control system might thus gauge its adequacy in providing accurate, timely, objective information to appropriate people in the organization. They also should examine whether the system focuses on the most critical aspects of their organization's conditions in a feasible, flexible manner that will be accepted by organizational members. Because of the importance of the information it provides, a good control system should also be integrated with planning activities.

Any control system can produce both positive and negative effects. If it is well designed, a control system provides needed structure and feedback and facilitates the development and execution of effective goal-setting programs. The result can be a satisfied, motivated, and productive workforce. Inappropriate control systems, however, can cause frustration, dissatisfaction, and poor performance. Being aware of a control system's potential effects on organization members helps managers capitalize on its positive aspects, reduce the impact of negative effects, and promote workers' acceptance of the system.

The effort to maintain control is not restricted to managers. All employees have a need for personal control, a need that sometimes conflicts with their organization's need to maintain control. To achieve effectiveness, managers must balance the control needs of both the organization and its members.

17.7 Management by Objectives: A Planning and Control Technique

1. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.

Management by objectives (MBO), with its emphasis on goal setting, participation, and feedback, frequently contributes to increased employee goal commitment, motivation, and performance. If performance matches the employee's aspirations, job satisfaction is likely to be an important by-product of the organization's planning and controlling activities.

17.8 The Control- and Involvement-Oriented Approaches to Planning and Controlling

1. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

Planning and controlling are approached with distinctive differences under control-oriented and involvement-oriented approaches to management. In the mechanistic organization, both activities tend to be lodged with management in the organizational hierarchy, often above the point in the organization where the plans are being carried out. The hierarchy plays an active role in both the planning and controlling process, and the employee is often a passive player carrying out the planning directives and the target of the control activity.

? chapter review questions

1. Define managerial planning and controlling.
2. Discuss the relationship between the two managerial functions of planning and controlling.
3. Identify and briefly describe each stage in the planning and controlling processes.
4. Compare and contrast three different types of planning.
5. What are multiple goals? What is a goal hierarchy? How are these concepts related?
6. Briefly describe the two views of the goal formulation process, and explain how they differ.
7. Describe the MBO process, the philosophy behind it, and its relationship with performance.
8. Distinguish between cybernetic and noncybernetic control and between pre, concurrent, and postaction control systems.
9. Identify and discuss three positive and three negative effects often associated with control systems.
10. How does the desire for personal control affect managers, and how can they balance it with organizational control systems?

? management skills application exercises

1. Use the tools described in this chapter to write a plan that will help you set goals, plans on how to achieve them (e.g., achieve an A average in all of my core concentration courses and A– in all courses I am taking). Also account for personal time and other activities you are involved in and goals that you have for these, such as keeping physically fit, etc.
2. You are managing a small manufacturing operation that involved the final assembly of Children sippy cups. There are two components to the sippy cup: the cup, a lid, and a straw as well as the box that will hold the product. You have 2 direct reports who you can assign to assemble the product. You also have a dotted-line report with the purchasing agent for the company that procures the components of the product (a dotted-line report is where one employee must work for and report to more than one manager) as well as the boxes and material needed (e.g., plastic that is used on the shrink-wrapping machine) to complete the product for sale. You have been given the following metrics.
 - a. You have been given a goal of producing 2,300 units per week.
 - b. It takes 1 minute to assemble the sippy cup.
 - c. It takes 45 seconds to place the sippy cup in the box and shrink-wrap the product.
 - d. It takes 15 seconds to examine the product for meeting quality, and you expect that 99.5% of the products will meet or exceed expectations.
 - e. The employees work for 8 hours per day.

Write up a plan that has achievable goals for your two direct reports and your dotted-line report. Also prepare a memo to your supervisor about how you plan on achieving your goal.

3. You and another student will engage in a role-play exercise. One will be the manager, and one will be an employee who is not happy with the aggressive goals that he has been given. After a 10-minute discussion, you both report on what was resolved, what was not, and how this would affect job satisfaction and performance for the employee.

? managerial decision exercises

1. You are a manager, and your direct report is complaining about not being involved in the planning process. How do you respond?
2. You are a sales manager and have reviewed the monthly sales goals and conclude that the targets can't be achieved without additional hires or paying employees overtime to secure additional orders. Also, you think that the product could have an 8% price increase without hindering sales units. You review the operational plans and want to provide an alteration of the plans to your boss. What should you do to plan that discussion?

Critical Thinking Case

How Do Amazon, UPS, and FedEx Manage Peak Seasons?

Typically, the day after Thanksgiving (Black Friday) marks the beginning of the holiday shopping season in the United States. Holiday sales, typically defined as sales occurring in November and December, account for roughly 30 percent of annual sales for U.S. retailers (Holiday Forecasts and Historical Sales 2015). For 2016, total online sales from November 10 to December 31 amounted to 91.7 billion dollars. And the top retailers for this period were eBay, Amazon, Walmart, and Target (Tasker 2016). The growth in online sales appears inevitable, but how do the top shippers, UPS and FedEx, manage the sudden upsurge?

Not always so well. In 2013, both FedEx and UPS underestimated holiday demand, and with bad weather conditions as well, struggled to deliver packages as promised. Since then, both carriers have worked hard to keep adequate resources available to handle the end-of-year upsurge. But in 2014, UPS overcompensated and had too much capacity, once again damaging profitability (Livengood 2017).

Matching retailer expectations to reality is a challenge, and not just for the shipping companies. Although retailers would prefer to know how much to expect in sales, forecasts will be inaccurate, sometimes wildly so. In preparing its forecast for the 2017 peak season, Logistics Management examined economic factors, such as GDP, job growth, retail sales, and inventory levels. It also looked at imports. An informal survey of logistical professionals found that 93.5 percent expect the 2017 season to be the same as 2016 (35.5 percent) or more active (58 percent) (Berman 2017).

In June 2017, UPS announced that it would be adding a surcharge to some peak season rates. According to the UPS website, “During the 2016 holiday season, the company’s average daily volume exceeded 30 million packages on more than half of the available shipping days. In contrast, on an average nonpeak day, the company ships more than 19 million packages” (UPS Establishes New Peak Shipping Charge 2017). The rate for the 2017 peak season would apply to select services and to oversize shipments, primarily (UPS Establishes New Peak Shipping Charge 2017). Analysts see the surcharge as a signal that UPS is the rate setter in parcel delivery. Such an assessment is not surprising given that the increase in parcel delivery as an outcome of increased e-commerce is seen as a core driver of earnings for UPS (Franck 2017).

Second-ranked FedEx, in contrast, announced that it would not follow suit but instead would “forgo most holiday surcharges on home deliveries this year” (Schlangenhein 2017). The surcharges levied by UPS are aimed primarily at small shippers, not the larger contract shippers. By not adding a seasonal surcharge, FedEx might hope to capture sales from individuals and small businesses that are deterred by the UPS surcharge (Schlangenhein 2017).

Kevin Sterling, a Seaport Global Holdings analyst, believes that FedEx has the existing capacity to absorb additional ground shipments. “[FedEx is] going to let UPS be Scrooge at Christmas” (Schlangenhein 2017). UPS already has a contract with Amazon, the de facto behemoth of online shopping, for normal shipping, leaving room for FedEx to pick up the slack during the holiday rush (Schlangenhein 2017).

In contrast, UPS reports that the additional charge is needed to offset the costs of additional resources necessary to achieve expected upsurges in capacity. UPS spokesperson Glenn Zaccara commented, “UPS’s peak season pricing positions the company to be appropriately compensated for the high value we provide at a time when the company must double daily delivery volume for six to seven consecutive weeks to meet customer demands” (Schlangenhein 2017).

With or without surcharges, price structures at both companies strive to discourage shipment of heavy, odd-sized, or oversized packages because such packages won’t flow through either company’s sorting systems and require special handling. All the same, FedEx has seen a 240 percent increase in such shipments over the last 10 years, which make up roughly 10 percent of all packages shipped using its ground services. And although FedEx is not adding a holiday surcharge, per se, it has added charges for packages that require extra handling, particularly shipments between November 20 through December 24 (Schlangenhein 2017).

? critical thinking questions

1. What do you think are some of the difficulties of adding 25 percent more employees for the holiday season? What kind of planning do you think would be needed?
2. China effectively shuts down for two weeks each year and celebrates the lunar new year. How does that resemble (or not) peak season in Western countries?
3. The case focuses on U.S. markets. How are European markets affected by holiday shopping?

4. Have your own shopping habits changed with the ease of online shopping? If so, how? Do you expect them to change when you graduate and have more disposable income?

sources

Berman, Jeff. 2017. "Prospects for Peak Season appear to be cautiously optimistic." *Logistics Management*. http://www.logisticsmgmt.com/article...sly_optimistic

Franck, Thomas. 2017. "UPS set to make a boatload on its new surcharges during holiday season, Citi predicts." CNBC. <https://www.cnbc.com/2017/08/08/ups-...-predicts.html>

Holiday Forecasts and Historical Sales. 2015. National Retail Federation. <https://nrf.com/resources/holiday-he...storical-sales>

Livengood, Anna. 2017. "UPS' Peak Season Surprise." Veriship Resource Center. <https://veriship.com/resources/ups-p...ason-surprise/>

Schlangenstein, Mary. 2017. "FedEx Will Shun Most Home Holiday Fees, Unlike UPS." *Transport Topics*. <http://www.ttnews.com/articles/fedex...ees-unlike-ups>

Tasker, Becky. 2016. "2016 Holiday Shopping: Up-To-The-Minute Data From ADI." CMO.com. <http://www.cmo.com/adobe-digital-ins...-from-adi.html>

UPS Establishes New Peak Shipping Charge." 2017. UPS Pressroom. www.pressroom.ups.com/pressr...7873904827-900

This page titled [6.2.9: Summary](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [OpenStax](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [17.9: Summary](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-management>.

6.3: WATCH - Personal Best with PDCA

Notes:

Within Section 17.2 of your textbook, you were introduced to the Deming cycle that consists of four key stages: (1) Plan, (2) Do, (3) Check, (4) Act.

The following 5:51 video provides you with more insight into this cycle and illustrates how it can be used:



6.3: WATCH - Personal Best with PDCA is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

6.4: WATCH - The Gap Between Planning and Doing

Notes:

Within Section 17.6 of your textbook, goal theory was examined from a planning and controlling perspective.

Within the following 13:41 video, the gap that often exists between what we know needs to be done and what we actually do is explored:



6.4: WATCH - The Gap Between Planning and Doing is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by LibreTexts.

6.5: REVIEW and WATCH - The MBO Process (attachments)

Notes:

In Section 17.7 of your textbook, you were introduced to Management by Objectives (MBO), which explores the benefits of involving employees in the planning and controlling processes.

First, take a moment to review the four major stages of the MBO process via the following link: — [MBO Process Stages.pdf](#)

Then, watch the following 30:21 video that highlights five stories about successful goal achievement under challenging circumstances:



6.5: REVIEW and WATCH - The MBO Process (attachments) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

CHAPTER OVERVIEW

7: Module 7 - Functions of Management Key Assessment

[7.1: Review Questions](#)

[7: Module 7 - Functions of Management Key Assessment](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

7.1: Review Questions

Review:

1. This is the fourth step in the Deming cycle, a model directed towards attaining continuous improvement. Once completed, managers should return to the first stage in the cycle.
2. The process of generating as many ideas as possible in a group.
3. A firm is described as having this when it successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do.
4. This type of bias involves the tendency to pay attention to information that confirms our existing beliefs and to ignore or discount information that conflicts with our existing beliefs.
5. This function of management involves monitoring performance and making adjustments to ensure goals are met.
6. This is one of the three main roles that managers play, whereby managers are charged with the responsibility of making decisions.
7. Type of intelligence with the ability to understand and manage emotions in oneself and in others.
8. This is part of the Decisional Role that managers play, whereby managers initiate projects that lead to improvements.
9. This type of organizational structure is one of the earliest and most used organizational designs. It is organized by departments and expertise areas.
10. This chart was developed by Henry Gantt to manage the production process.
11. This movement was a natural reaction/response to issues that resulted from previous theories of management.
12. A group of firms all offering products or services in a single category, for example restaurants or athletic equipment.
13. This is the innermost layer of a firm's competitive environment, including members of the firm itself, such as owners, managers, and employees.
14. This is part of the Interpersonal Role that managers play, whereby managers motivate, train, counsel, communicate, and direct subordinates.
15. This is a planning and controlling technique, whereby managers and their employees work collaborative to identify goals, define expected results, and assess contributions.
16. This organizational structure is best suited for environments that have a formal "pyramid" structure. A narrow span of control and formal rules are common.
17. Porter's Five Forces is a tool that is commonly used to analyze an organization's industry, which is referred to as their _____ environment.
18. This function of management involves developing an organizational structure and allocating human resources to ensure the objectives are met.
19. The function of management involves setting objectives and determining the course of action for achieving those objectives.
20. Things a firm has, such as cash and skilled employees, that it can use to create products or services.
21. Individuals or groups who are impacted by the organization & include owners, employees, customers, suppliers, and members of the community.
22. These plans address the organization's institutional-level needs. They outline a long-term vision for the organization.
23. Strategic analysis tool used to examine a firm's situation by looking at its strengths, weaknesses, opportunities, and threats.
24. Part of PESTEL that includes factors such as the Internet, social media, automation, and other innovations.
25. This component of SWOT is used to identify what an organization is not good at or does not have the capabilities to perform well.

7.1: Review Questions is shared under a [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license and was authored, remixed, and/or curated by Jamie Hammond and Mabel Gehrett and Western Technical College.

Index

B

Bounded rationality

- 3.3.5: Barriers to Effective Decision-Making

C

consumer surplus

- 1.3: WATCH- What Do Managers Really Do?
- 1.4: READ and WATCH- The Roles Managers Play
- 1.5: WATCH- How to Break Bad Management

Habits

- 2.3: WATCH- What was the Industrial Revolution
- 2.4: WATCH- Classical Management Theory
- 2.5: WATCH and REVIEW - The GANTT Chart
- 2.6: WATCH - Basic Functions of Management
- 2.7: WATCH- The Human Relations Movement
- 4.4: WATCH - Centralization vs. Decentralization
- 4.5: WATCH - Organizational Structure
- 4.6: WATCH - SWOT Analysis
- 4.7: WATCH - SWOT Example Starbucks
- 4.8: WATCH - SWOT Example Tesla
- 5.4: WATCH - PESTEL Analysis
- 5.5: WATCH - The 5 Forces Analysis Explained
- 5.6: WATCH - Porter's 5 Forces
- 5.7: WATCH - Porter's 5 Forces Example (TESLA)
- 5.8: WATCH - Resources and Capabilities Analysis
- 6.3: WATCH - Personal Best with PDCA
- 6.4: WATCH - The Gap Between Planning and

Doing

- 6.5: REVIEW and WATCH - The MBO Process (attachments)

D

deadweight loss

- 1.3: WATCH- What Do Managers Really Do?
- 1.4: READ and WATCH- The Roles Managers Play
- 1.5: WATCH- How to Break Bad Management

Habits

- 2.3: WATCH- What was the Industrial Revolution
- 2.4: WATCH- Classical Management Theory
- 2.5: WATCH and REVIEW - The GANTT Chart
- 2.6: WATCH - Basic Functions of Management
- 2.7: WATCH- The Human Relations Movement
- 4.4: WATCH - Centralization vs. Decentralization
- 4.5: WATCH - Organizational Structure
- 4.6: WATCH - SWOT Analysis
- 4.7: WATCH - SWOT Example Starbucks
- 4.8: WATCH - SWOT Example Tesla
- 5.4: WATCH - PESTEL Analysis
- 5.5: WATCH - The 5 Forces Analysis Explained
- 5.6: WATCH - Porter's 5 Forces
- 5.7: WATCH - Porter's 5 Forces Example (TESLA)
- 5.8: WATCH - Resources and Capabilities Analysis
- 6.3: WATCH - Personal Best with PDCA
- 6.4: WATCH - The Gap Between Planning and

Doing

- 6.5: REVIEW and WATCH - The MBO Process (attachments)

E

economic surplus

- 1.3: WATCH- What Do Managers Really Do?
- 1.4: READ and WATCH- The Roles Managers Play
- 1.5: WATCH- How to Break Bad Management

Habits

- 2.3: WATCH- What was the Industrial Revolution
- 2.4: WATCH- Classical Management Theory
- 2.5: WATCH and REVIEW - The GANTT Chart
- 2.6: WATCH - Basic Functions of Management
- 2.7: WATCH- The Human Relations Movement
- 4.4: WATCH - Centralization vs. Decentralization
- 4.5: WATCH - Organizational Structure
- 4.6: WATCH - SWOT Analysis
- 4.7: WATCH - SWOT Example Starbucks
- 4.8: WATCH - SWOT Example Tesla
- 5.4: WATCH - PESTEL Analysis
- 5.5: WATCH - The 5 Forces Analysis Explained
- 5.6: WATCH - Porter's 5 Forces
- 5.7: WATCH - Porter's 5 Forces Example (TESLA)
- 5.8: WATCH - Resources and Capabilities Analysis
- 6.3: WATCH - Personal Best with PDCA
- 6.4: WATCH - The Gap Between Planning and

Doing

- 6.5: REVIEW and WATCH - The MBO Process (attachments)

emotional intelligence

- 3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems

H

heuristics

- 3.3.4: Programmed and Nonprogrammed Decisions

P

PESTEL

- 5.2.4: A Firm's External Macro Environment - PESTEL

producer surplus

- 1.3: WATCH- What Do Managers Really Do?
- 1.4: READ and WATCH- The Roles Managers Play
- 1.5: WATCH- How to Break Bad Management

Habits

- 2.3: WATCH- What was the Industrial Revolution
- 2.4: WATCH- Classical Management Theory
- 2.5: WATCH and REVIEW - The GANTT Chart
- 2.6: WATCH - Basic Functions of Management
- 2.7: WATCH- The Human Relations Movement
- 4.4: WATCH - Centralization vs. Decentralization
- 4.5: WATCH - Organizational Structure
- 4.6: WATCH - SWOT Analysis
- 4.7: WATCH - SWOT Example Starbucks
- 4.8: WATCH - SWOT Example Tesla
- 5.4: WATCH - PESTEL Analysis
- 5.5: WATCH - The 5 Forces Analysis Explained
- 5.6: WATCH - Porter's 5 Forces
- 5.7: WATCH - Porter's 5 Forces Example (TESLA)
- 5.8: WATCH - Resources and Capabilities Analysis
- 6.3: WATCH - Personal Best with PDCA
- 6.4: WATCH - The Gap Between Planning and

Doing

- 6.5: REVIEW and WATCH - The MBO Process (attachments)

programmed decisions

- 3.3.4: Programmed and Nonprogrammed Decisions

R

reactive system

- 3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems

reflective system

- 3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems

S

social surplus

- 1.3: WATCH- What Do Managers Really Do?
- 1.4: READ and WATCH- The Roles Managers Play
- 1.5: WATCH- How to Break Bad Management

Habits

- 2.3: WATCH- What was the Industrial Revolution
- 2.4: WATCH- Classical Management Theory
- 2.5: WATCH and REVIEW - The GANTT Chart
- 2.6: WATCH - Basic Functions of Management
- 2.7: WATCH- The Human Relations Movement
- 4.4: WATCH - Centralization vs. Decentralization
- 4.5: WATCH - Organizational Structure
- 4.6: WATCH - SWOT Analysis
- 4.7: WATCH - SWOT Example Starbucks
- 4.8: WATCH - SWOT Example Tesla
- 5.4: WATCH - PESTEL Analysis
- 5.5: WATCH - The 5 Forces Analysis Explained
- 5.6: WATCH - Porter's 5 Forces
- 5.7: WATCH - Porter's 5 Forces Example (TESLA)
- 5.8: WATCH - Resources and Capabilities Analysis
- 6.3: WATCH - Personal Best with PDCA
- 6.4: WATCH - The Gap Between Planning and

Doing

- 6.5: REVIEW and WATCH - The MBO Process (attachments)

Detailed Licensing

Overview

Title: Principles of Management (Hammond and Gehrett)

Webpages: 106

All licenses found:

- [CC BY 4.0](#): 99.1% (105 pages)
- [Undeclared](#): 0.9% (1 page)

By Page

- [Principles of Management \(Hammond and Gehrett\) - CC BY 4.0](#)
 - [Front Matter - CC BY 4.0](#)
 - [TitlePage - CC BY 4.0](#)
 - [InfoPage - CC BY 4.0](#)
 - [Table of Contents - Undeclared](#)
 - [Licensing - CC BY 4.0](#)
 - [1: Module 1 - Roles and Responsibilities of Managers - CC BY 4.0](#)
 - [1.1: Key Ideas - CC BY 4.0](#)
 - [1.2: Managing and Performing - CC BY 4.0](#)
 - [1.2.1: What Do Managers Do? - CC BY 4.0](#)
 - [1.2.2: The Roles Managers Play - CC BY 4.0](#)
 - [1.2.3: Major Characteristics of the Manager's Job - CC BY 4.0](#)
 - [1.2.4: Summary - CC BY 4.0](#)
 - [1.2.5: Introduction - CC BY 4.0](#)
 - [1.3: WATCH- What Do Managers Really Do? - CC BY 4.0](#)
 - [1.4: READ and WATCH- The Roles Managers Play - CC BY 4.0](#)
 - [1.5: WATCH- How to Break Bad Management Habits - CC BY 4.0](#)
 - [2: Module 2 - Evolution of Management - CC BY 4.0](#)
 - [2.1: Key Ideas - CC BY 4.0](#)
 - [2.2: The History of Management - CC BY 4.0](#)
 - [2.2.1: Introduction to The History of Management - CC BY 4.0](#)
 - [2.2.2: The Early Origins of Management - CC BY 4.0](#)
 - [2.2.3: The Italian Renaissance - CC BY 4.0](#)
 - [2.2.4: The Industrial Revolution - CC BY 4.0](#)
 - [2.2.5: Taylor-Made Management - CC BY 4.0](#)
 - [2.2.6: Administrative and Bureaucratic Management - CC BY 4.0](#)
 - [2.2.7: Human Relations Movement - CC BY 4.0](#)
 - [2.2.8: Contingency and System Management - CC BY 4.0](#)
 - [2.2.9: Summary - CC BY 4.0](#)
 - [2.3: WATCH- What was the Industrial Revolution - CC BY 4.0](#)
 - [2.4: WATCH- Classical Management Theory - CC BY 4.0](#)
 - [2.5: WATCH and REVIEW - The GANTT Chart - CC BY 4.0](#)
 - [2.6: WATCH - Basic Functions of Management - CC BY 4.0](#)
 - [2.7: WATCH- The Human Relations Movement - CC BY 4.0](#)
 - [3: Module 3 - Decision-Making - CC BY 4.0](#)
 - [3.1: Key Ideas - CC BY 4.0](#)
 - [3.2: WATCH - 3 Steps to Better Decision-Making - CC BY 4.0](#)
 - [3.3: Managerial Decision-Making - CC BY 4.0](#)
 - [3.3.1: Introduction to Managerial Decision Making - CC BY 4.0](#)
 - [3.3.2: Overview of Managerial Decision-Making - CC BY 4.0](#)
 - [3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems - CC BY 4.0](#)
 - [3.3.4: Programmed and Nonprogrammed Decisions - CC BY 4.0](#)
 - [3.3.5: Barriers to Effective Decision-Making - CC BY 4.0](#)
 - [3.3.6: Improving the Quality of Decision-Making - CC BY 4.0](#)
 - [3.3.7: Group Decision-Making - CC BY 4.0](#)
 - [3.3.8: Summary - CC BY 4.0](#)
 - [3.4: WATCH - Emotional Intelligence - CC BY 4.0](#)
 - [3.5: WATCH - Decision-Making Strategies - CC BY 4.0](#)
 - [4: Module 4 - The Organizational Environment - CC BY 4.0](#)
 - [4.1: Key Ideas - CC BY 4.0](#)

- 4.2: REVIEW - Internal and External Environments Graphic - CC BY 4.0
- 4.3: External and Internal Organizational Environments and Corporate Culture - CC BY 4.0
 - 4.3.1: Introduction to External and Internal Organizational Environments and Corporate Culture - CC BY 4.0
 - 4.3.2: The Organization's External Environment - CC BY 4.0
 - 4.3.3: External Environments and Industries - CC BY 4.0
 - 4.3.4: Organizational Designs and Structures - CC BY 4.0
 - 4.3.5: The Internal Organization and External Environments - CC BY 4.0
 - 4.3.6: Corporate Cultures - CC BY 4.0
 - 4.3.7: Organizing for Change in the 21st Century - CC BY 4.0
 - 4.3.8: Summary - CC BY 4.0
- 5: Module 5 - Strategic Analysis - CC BY 4.0
 - 5.1: Key Ideas - CC BY 4.0
 - 5.2: Strategic Analysis - Understanding a Firm's Competitive Environment - CC BY 4.0
 - 5.2.1: Introduction to Strategic Analysis - CC BY 4.0
 - 5.2.2: Gaining Advantages by Understanding the Competitive Environment - CC BY 4.0
 - 5.2.3: Using SWOT for Strategic Analysis - CC BY 4.0
 - 5.2.4: A Firm's External Macro Environment - PESTEL - CC BY 4.0
 - 5.2.5: A Firm's Micro Environment- Porter's Five Forces - CC BY 4.0
 - 5.2.6: The Internal Environment - CC BY 4.0
 - 5.2.7: Competition, Strategy, and Competitive Advantage - CC BY 4.0
 - 5.2.8: Strategic Positioning - CC BY 4.0
 - 5.2.9: Summary - CC BY 4.0
 - 5.3: REVIEW - SWOT Analysis (attachment) - CC BY 4.0
 - 5.4: WATCH - PESTEL Analysis - CC BY 4.0
 - 5.5: WATCH - The 5 Forces Analysis Explained - CC BY 4.0
 - 5.6: WATCH - Porter's 5 Forces - CC BY 4.0
 - 5.7: WATCH - Porter's 5 Forces Example (TESLA) - CC BY 4.0
 - 5.8: WATCH - Resources and Capabilities Analysis - CC BY 4.0
 - 5.9: REVIEW - Competitive Advantage (Graphic) - CC BY 4.0
- 6: Module 6 - Organizational Effectiveness - CC BY 4.0
 - 6.1: Key Ideas - CC BY 4.0
 - 6.2: Organizational Planning and Controlling - CC BY 4.0
 - 6.2.1: Is Planning Important? - CC BY 4.0
 - 6.2.2: The Planning Process - CC BY 4.0
 - 6.2.3: Types of Plans - CC BY 4.0
 - 6.2.4: Goals or Outcome Statements - CC BY 4.0
 - 6.2.5: Formal Organizational Planning in Practice - CC BY 4.0
 - 6.2.6: Employees' Responses to Planning - CC BY 4.0
 - 6.2.7: Management by Objectives- A Planning and Control Technique - CC BY 4.0
 - 6.2.8: The Control- and Involvement-Oriented Approaches to Planning and Controlling - CC BY 4.0
 - 6.2.9: Summary - CC BY 4.0
 - 6.3: WATCH - Personal Best with PDCA - CC BY 4.0
 - 6.4: WATCH - The Gap Between Planning and Doing - CC BY 4.0
 - 6.5: REVIEW and WATCH - The MBO Process (attachments) - CC BY 4.0
- 7: Module 7 - Functions of Management Key Assessment - CC BY 4.0
 - 7.1: Review Questions - CC BY 4.0
- Back Matter - CC BY 4.0
 - Index - CC BY 4.0
 - Glossary - CC BY 4.0
 - Detailed Licensing - CC BY 4.0
 - Detailed Licensing - CC BY 4.0

Detailed Licensing

Overview

Title: Principles of Management (Hammond and Gehrett)

Webpages: 106

All licenses found:

- [CC BY 4.0](#): 99.1% (105 pages)
- [Undeclared](#): 0.9% (1 page)

By Page

- [Principles of Management \(Hammond and Gehrett\) - CC BY 4.0](#)
 - [Front Matter - CC BY 4.0](#)
 - [TitlePage - CC BY 4.0](#)
 - [InfoPage - CC BY 4.0](#)
 - [Table of Contents - Undeclared](#)
 - [Licensing - CC BY 4.0](#)
 - [1: Module 1 - Roles and Responsibilities of Managers - CC BY 4.0](#)
 - [1.1: Key Ideas - CC BY 4.0](#)
 - [1.2: Managing and Performing - CC BY 4.0](#)
 - [1.2.1: What Do Managers Do? - CC BY 4.0](#)
 - [1.2.2: The Roles Managers Play - CC BY 4.0](#)
 - [1.2.3: Major Characteristics of the Manager's Job - CC BY 4.0](#)
 - [1.2.4: Summary - CC BY 4.0](#)
 - [1.2.5: Introduction - CC BY 4.0](#)
 - [1.3: WATCH- What Do Managers Really Do? - CC BY 4.0](#)
 - [1.4: READ and WATCH- The Roles Managers Play - CC BY 4.0](#)
 - [1.5: WATCH- How to Break Bad Management Habits - CC BY 4.0](#)
 - [2: Module 2 - Evolution of Management - CC BY 4.0](#)
 - [2.1: Key Ideas - CC BY 4.0](#)
 - [2.2: The History of Management - CC BY 4.0](#)
 - [2.2.1: Introduction to The History of Management - CC BY 4.0](#)
 - [2.2.2: The Early Origins of Management - CC BY 4.0](#)
 - [2.2.3: The Italian Renaissance - CC BY 4.0](#)
 - [2.2.4: The Industrial Revolution - CC BY 4.0](#)
 - [2.2.5: Taylor-Made Management - CC BY 4.0](#)
 - [2.2.6: Administrative and Bureaucratic Management - CC BY 4.0](#)
 - [2.2.7: Human Relations Movement - CC BY 4.0](#)
 - [2.2.8: Contingency and System Management - CC BY 4.0](#)
 - [2.2.9: Summary - CC BY 4.0](#)
 - [2.3: WATCH- What was the Industrial Revolution - CC BY 4.0](#)
 - [2.4: WATCH- Classical Management Theory - CC BY 4.0](#)
 - [2.5: WATCH and REVIEW - The GANTT Chart - CC BY 4.0](#)
 - [2.6: WATCH - Basic Functions of Management - CC BY 4.0](#)
 - [2.7: WATCH- The Human Relations Movement - CC BY 4.0](#)
 - [3: Module 3 - Decision-Making - CC BY 4.0](#)
 - [3.1: Key Ideas - CC BY 4.0](#)
 - [3.2: WATCH - 3 Steps to Better Decision-Making - CC BY 4.0](#)
 - [3.3: Managerial Decision-Making - CC BY 4.0](#)
 - [3.3.1: Introduction to Managerial Decision Making - CC BY 4.0](#)
 - [3.3.2: Overview of Managerial Decision-Making - CC BY 4.0](#)
 - [3.3.3: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems - CC BY 4.0](#)
 - [3.3.4: Programmed and Nonprogrammed Decisions - CC BY 4.0](#)
 - [3.3.5: Barriers to Effective Decision-Making - CC BY 4.0](#)
 - [3.3.6: Improving the Quality of Decision-Making - CC BY 4.0](#)
 - [3.3.7: Group Decision-Making - CC BY 4.0](#)
 - [3.3.8: Summary - CC BY 4.0](#)
 - [3.4: WATCH - Emotional Intelligence - CC BY 4.0](#)
 - [3.5: WATCH - Decision-Making Strategies - CC BY 4.0](#)
 - [4: Module 4 - The Organizational Environment - CC BY 4.0](#)
 - [4.1: Key Ideas - CC BY 4.0](#)

- 4.2: REVIEW - Internal and External Environments Graphic - CC BY 4.0
- 4.3: External and Internal Organizational Environments and Corporate Culture - CC BY 4.0
 - 4.3.1: Introduction to External and Internal Organizational Environments and Corporate Culture - CC BY 4.0
 - 4.3.2: The Organization's External Environment - CC BY 4.0
 - 4.3.3: External Environments and Industries - CC BY 4.0
 - 4.3.4: Organizational Designs and Structures - CC BY 4.0
 - 4.3.5: The Internal Organization and External Environments - CC BY 4.0
 - 4.3.6: Corporate Cultures - CC BY 4.0
 - 4.3.7: Organizing for Change in the 21st Century - CC BY 4.0
 - 4.3.8: Summary - CC BY 4.0
- 5: Module 5 - Strategic Analysis - CC BY 4.0
 - 5.1: Key Ideas - CC BY 4.0
 - 5.2: Strategic Analysis - Understanding a Firm's Competitive Environment - CC BY 4.0
 - 5.2.1: Introduction to Strategic Analysis - CC BY 4.0
 - 5.2.2: Gaining Advantages by Understanding the Competitive Environment - CC BY 4.0
 - 5.2.3: Using SWOT for Strategic Analysis - CC BY 4.0
 - 5.2.4: A Firm's External Macro Environment - PESTEL - CC BY 4.0
 - 5.2.5: A Firm's Micro Environment- Porter's Five Forces - CC BY 4.0
 - 5.2.6: The Internal Environment - CC BY 4.0
 - 5.2.7: Competition, Strategy, and Competitive Advantage - CC BY 4.0
 - 5.2.8: Strategic Positioning - CC BY 4.0
 - 5.2.9: Summary - CC BY 4.0
- 5.3: REVIEW - SWOT Analysis (attachment) - CC BY 4.0
- 5.4: WATCH - PESTEL Analysis - CC BY 4.0
- 5.5: WATCH - The 5 Forces Analysis Explained - CC BY 4.0
- 5.6: WATCH - Porter's 5 Forces - CC BY 4.0
- 5.7: WATCH - Porter's 5 Forces Example (TESLA) - CC BY 4.0
- 5.8: WATCH - Resources and Capabilities Analysis - CC BY 4.0
- 5.9: REVIEW - Competitive Advantage (Graphic) - CC BY 4.0
- 6: Module 6 - Organizational Effectiveness - CC BY 4.0
 - 6.1: Key Ideas - CC BY 4.0
 - 6.2: Organizational Planning and Controlling - CC BY 4.0
 - 6.2.1: Is Planning Important? - CC BY 4.0
 - 6.2.2: The Planning Process - CC BY 4.0
 - 6.2.3: Types of Plans - CC BY 4.0
 - 6.2.4: Goals or Outcome Statements - CC BY 4.0
 - 6.2.5: Formal Organizational Planning in Practice - CC BY 4.0
 - 6.2.6: Employees' Responses to Planning - CC BY 4.0
 - 6.2.7: Management by Objectives- A Planning and Control Technique - CC BY 4.0
 - 6.2.8: The Control- and Involvement-Oriented Approaches to Planning and Controlling - CC BY 4.0
 - 6.2.9: Summary - CC BY 4.0
 - 6.3: WATCH - Personal Best with PDCA - CC BY 4.0
 - 6.4: WATCH - The Gap Between Planning and Doing - CC BY 4.0
 - 6.5: REVIEW and WATCH - The MBO Process (attachments) - CC BY 4.0
- 7: Module 7 - Functions of Management Key Assessment - CC BY 4.0
 - 7.1: Review Questions - CC BY 4.0
- Back Matter - CC BY 4.0
 - Index - CC BY 4.0
 - Glossary - CC BY 4.0
 - Detailed Licensing - CC BY 4.0
 - Detailed Licensing - CC BY 4.0