Chapter 2: Management Theory

- Five Practical Reasons for Studying this Chapter
    - Understanding of the Present
    - Guide to Action
    - Source of New Ideas
    - Clues to Meaning of your Manager's Decisions
    - Clues to Meaning of Outside Events
- Studying Management History helps your Conceptual Skills
    - Does not happen in a vacuum:
        - Social Forces- influence of culture that guides people and relationships
        - Political Forces- influence of political and legal institutions
        - Economic Forces- the availability, production, and distribution of resources

  As the environment changes, so does the need for ever evolving management practices
- Theory's Role in the Evolution of Management
    - Definition: Theory is a conceptual framework for organizing knowledge and providing a blueprint for action
        - Examples:
            - Any company that uses assembly lines is drawing on theories driven by scientific management

- Companies that have policies to improve employee satisfaction and motivation draw from research done in the behavioral perspective
- Companies like Target or Publix use quantitative management perspectives such as operation management to manage and monitor how many check-out lines should be open

KEY PREMISE:

- ❖ Evidence Based Management
  - Utilize Scientific Methods
    - Observe events and gather facts
    - Pose a possible solution or explanation based on those facts
    - Make a prediction based on those facts
    - Test the predictions under systematic conditions
  - Translate principles learned from these tests into organizational process/procedures
  - Example: Subway station- test if more or less people take the stairs instead of the escalator if a fun aspect was added (where the stairs is a piano- makes different noise with every step you take)

- Two Overarching Perspectives about Management

Historical Perspective	Contemporary Perspective
• Classical • Behavioral • Quantitative	• Systems • Contingency • Quality-Management

- Historical Perspective
  - Classical Viewpoint- Emphasis on ways to manage work more efficiently
    - Scientific Management: Emphasized scientific study of work methods to improve productivity of individual workers (Proponents- Frederick W. Taylor and Frank and Lillian Gilbreth)
    - Administrative Management: Concerned with managing the total organization (Proponents- Henri Fayol and Max Weber)
  - Behavioral Viewpoint- Emphasis on importance of understanding human behavior and motivating and encouraging employees toward achievement
    - Early Behaviorists: (Proponents- Hugo Munsterberg, Mary Parker Follett, and Elton Mayo)
    - Human Relations Movement: Proposed better human relations could increase worker productivity (Proponents- Abraham Maslow and Douglas McGregor)
    - Behavioral Science Approach: Relies on scientific research for developing theory to provide practical management tools

- Quantitative Viewpoint- Applies quantitative techniques to management
  - Management Science: Focuses on using mathematics to aid in problem solving and decision making
  - Operations Management: Focuses on managing the production and delivery of an organization's products or services more effectively

❖ Classical Viewpoint

- Emerged during the 19th and early 20th centuries
  - Rise of the factory system
    - Agricultural → Industrial
  - Issues regarding structure, training, and employee satisfaction
- Large, complex organizations required new approaches to coordination and control
- Two subfields: Scientific Management and Administrative Management

➢ Scientific Management: Pioneered by Taylor and the Gilbreths

Principles of Scientific Management

- Scientifically study each part of the task
- Carefully select workers with the right abilities
- Give workers the training and incentives to do the task
- Use scientific principles to plan the work methods

- Pioneers of Scientific Management

        - Improve efficiency and labor productivity through scientific methods
            - Frederick Winslow Taylor proposed that workers "could be retooled like machines"
        - Management decisions would be based on precise procedures based on study
            - The Gilbreths pioneered time and motion studies to promote efficiency
    - Scientific Management and Organizational Processes
        - General Approach
            - Developed standard method for performing each job
            - Selected workers with appropriate abilities for each job
            - Trained workers in standard methods
            - Supported works by planning their work and eliminating interruptions
            - Provided wage incentives for increased output
        - Contributions
            - Demonstrated importance of compensation for performance
            - Initiative careful study of tasks/jobs
            - Demonstrated importance of personnel selection and training
        - Drawbacks
            - Influence of social context of work and higher needs of workers

- Does not acknowledge variance among individuals
- Tended to regard workers as drones

- Administrative Management: Focused on the entire organization
  - Henri Fayol, a French mining engineer, was a major contributor
    - Identified five functions of management: planning, organizing, commanding, coordinating, and controlling
    - 14 general principles of management; many still used today:
      - Unity of command
      - Division of work
      - Unity of direction
      - Scalar chain
  - Max Weber
    - German Sociologist
    - Rationality of Bureaucracy
      - A well-defined hierarchy of authority
      - Formal rules and procedures
      - A clear division of labor
      - Impersonality
      - Careers based on merit
  - Administrative Management and Organizational Processes
    - General Approach
      - Separation of Management and Ownership

- Clearly Defined Hierarchy
  - ➢ Blueprint of Authority/Responsibility
- Formal Recordkeeping

▪ Contributions
- Managers subject to rules and procedures that ensure reliable, predictable behavior
- Hierarchical Division of Labor through organizational structure
  - ➢ Power drives outcome not personality
- Importance of Technical Qualification
  - ➢ Merit base advancement

▪ Drawback
- Too mechanistic

❖ Behavioral Viewpoint: Behaviorism, Human Relations, & Behavioral Science

○ Behavioral Viewpoint
- ▪ Emphasized the importance of understanding human behavior and of motivating employees toward achievement
- ▪ Developed over three phases:
  1) Early Behaviorism
  2) The Human Relations Movement
  3) Behavioral Science

○ Early Behaviorism: Pioneered by Munsterberg, Follett, & Mayo
- ▪ Hugo Munsterberg
  - ▪ Father of Industrial Psychology

1. Study jobs and determine which people are best suited to specific jobs
2. Identify the psychological conditions under which employees do their best work
3. Devise management strategies to influence employees to follow management's interests

- Mary Parker Follett
  - Social Worker and Social Philosopher

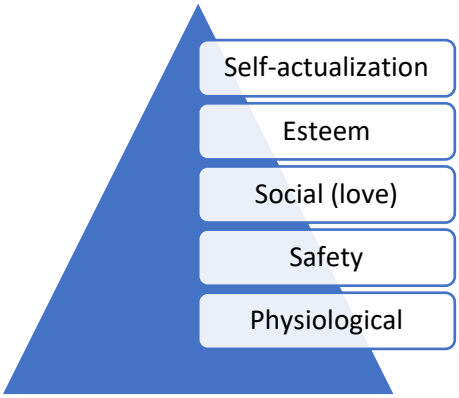
1. Organizations should be operated as "communities"
2. Conflicts should be resolved by having managers and workers talk over differences and find solutions that would satisfy both parties
3. The work process should be under control of workers with relevant knowledge

- Hawthorne Effect
  - Employees worked harder if they received added attention, thought that managers cared about their welfare and that supervisors paid special attention to them
  - Elton Mayo
- Note:
  - Scientific methods and sociology, psychology, anthropology, economics…
    - Builds on prior advances- time and motion studies- impact on productivity but different drivers

- The Human Relations Movement: Pioneered by Maslow & McGregor

- Human Relations Movement
  - Proposed that better human relations could increase worker productivity
  - Abraham Maslow and Douglas McGregor

Maslow's Hierarchy of Needs



- McGregor's Theory X vs. Theory Y
  - Assumptions of Theory X
    - Average human being has an inherent dislike of work and will avoid it if possible
    - Because of the human characteristic of dislike for work, most people must be coerced, controlled, directed, or threatened with punishment to get them to put forth adequate effort toward the achievement of organizational objectives
    - Average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition, and wants security above all
  - Assumptions of Theory Y

- Expenditure of physical and mental effort in work is as natural as play or rest; the average human being does not inherently dislike work
- External control and the threat of punishment are not the only means for bringing about effort toward organizational objectives; a person will exercise self-direction and self-control in the service of objectives to which he or she is committed
- Average human being learns, under proper conditions, not only to accept but to seek responsibility
- Capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population
- Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized

- The Behavioral Science Approach
  - Behavioral Science
    - Relies on scientific research for developing theories about human behavior that can be used to provide practical tools for managers
    - The disciplines of behavioral science include psychology, sociology, anthropology, and economics
  - Behavioral Perspective is Important
    - General Approach

        - Relies on scientific research for developing theories about human behavior that can be used to provide practical tools for managers
    - Contributions
        - Helps managers understand how their beliefs affect their behavior
        - Managers can be more effective by considering how their behavior is shaped by their expectations about human nature
        - It is critical to recognize the human relations behind a company
    - Drawbacks
        - Nature vs. Nurture Argument
        - Generalization is issue
            - Flawed in that it ignored external elements, assuming that the outside environment was static
            - Variety of Inputs, circumstances are rarely equivalent

❖ Quantitative Viewpoints: Management Science & Operations Research

- Quantitative Management
    - Application to management of quantitative techniques, such as statistics and computer simulations
    - Management science, operations management
- Management Science: Using Mathematics to Solve Management Problems
    - Management Science

            - Stresses the use of rational, science-based techniques and mathematical models to improve decision making and strategic planning
        - Using an airline as an example, a management scientist would be concerned with building computer models to decide the best:
            - Flight schedule
            - Routing of planes
            - Assignment of pilots and crews to specific flights
            - Flight-gate assignments
            - Number of planes to own and operate
            - Cities to fly to, cities to use as major hubs
            - Airport- terminal layout
        - Simulation Based Evidence
    - Operations Management: Helping Organizations Deliver Products or Services More Effectively
        - Operations Management
            - Focuses on managing the production and delivery of an organization's products or services more effectively
            - Work scheduling, production planning, facilities location and design
            - Example: Airline Catering
        - Quantitative Viewpoint
            - General Approach
                - Use of mathematical modeling to find the best solutions to problems

- Contributions
    - Rational, science-based techniques/models to improve planning and decision making
    - Rational management of resources and distribution of goods/services focuses on efficiency and effectiveness
    - Directly to manager decision making in the areas of planning and control
- Drawback
    - Not suited for every industry
        - Mathematical Models need assumptions that are rarely fully realistic
    - Human element- not always predictable

- Contemporary Perspective
    - The Systems Viewpoint- Regards the organization as systems of interrelated parts that operate together to achieve a common purpose
        - Quality Control: Strategy for minimizing errors by managing each state of production (Proponents- Walter Shewart)
    - The Contingency Viewpoint- Emphasizes that a manager's approach should vary according to- i.e., be contingent on- the individual and environmental situation

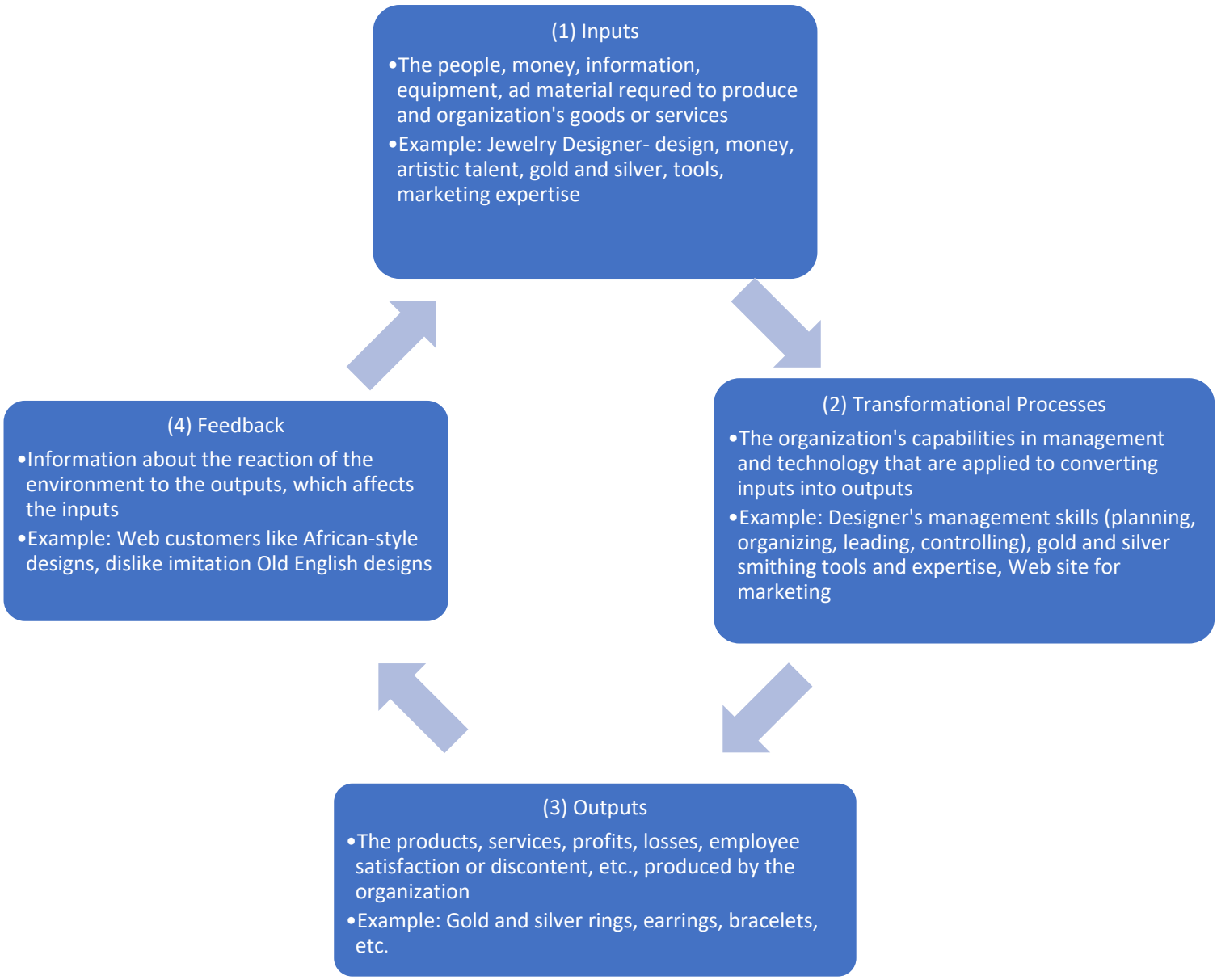
        - Quality Assurance: Focuses on the performance of workers, urging employees to strive for “zero defects”
    - The Quality- Management Viewpoint- Three Approaches
        - Total Quality Management: Comprehensive approach dedicated to continuous quality improvement, training, and customer satisfaction (Proponents- W. Edwards Deming and Joseph M. Juran)

❖ System Viewpoint

- Premise
    - A system is a set of interrelated parts that function as a whole to achieve a common purchase
- Subsystems are parts of the system that are all interconnected
    - The ability to see the distinct elements of a situation as well as the complexities
- The relationship among the parts form the whole system
    - Can be open (interacts with environment) or closed (doesn’t)
    - Synergy- the whole is greater than the sum of its parts

Managers must understand subsystem interdependence and synergy

- The Four Parts of a System



❖ Contingency Viewpoint

- Premise:
  - Contingency theory is guided by the general orienting hypothesis that organizations whose internal features best match the demands of their environments will achieve the best adaptation

- Contingency Viewpoint
  - Emphasized that a manager's approach should vary according to the individual and the environmental situation
  - Most practical because it addresses problems on a case-by-case basis
  - Effective management styles and organizational structures are influenced by various aspects of the environment: the contingency factors
    - Situational based determinants drive effectiveness
- Note:
  - Contingency theory is an outgrowth of systems design and behavioral theories

❖ The Learning Organization: Handling Knowledge & Modifying Behavior

- Premise:
  - Learning organizations actively create, acquire, and transfer knowledge within themselves and are able to modify their behavior to reflect new knowledge
- Building a learning organization
  1) Build a commitment to learning
  2) Work to generate ideas with impact
  3) Work to generalize ideas with impact
- Example: Toyota

Recent Trends: Impact of Technology

➢ Open innovation is a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to advance their technology- Chesbrough 2011

- Co-opetition vs. competition is a new fact of life
- Example: GE Ecomagination Challenge, a $200 million innovation experiment where businesses, entrepreneurs, innovators, and students share their best ideas on how to improve our energy future

Management Perspectives over Time
Classical Perspective (1890-1945)
Humanistic Perspective (1930-1998)
Quantitative (Management Science) Perspective (1942-2000)
Systems Thinking (1952-2003)
Contingency View 1967-2001)
Total Quality Management (1978-2002)
The Technology-Driven Workplace (1995-2011)
Open (Collaborative) Innovation (2000-2011)

Evidence-Based Management

- Translating principles based on best evidence into organizational practice, and bringing rationality to the decision-making process
- Research should follow the scientific method
    - Observe events and gather facts
    - Pose a possible solution or explanation based on those facts
    - Make a prediction of future events
    - Test the prediction under systematic conditions

Key Takeaway

- Management ideas trace their roots to historical perspectives
- New ideas continue to emerge to meet the changing needs and difficult times
    - Combination of “old” ideas merged with new knowledge to form new organizational best practices
- The shelf life of trends is getting shorter and new ideas peak in fewer than three years

Chapter 3: The Manager's Changing Work Environment & Ethical Responsibilities

- Role of Stakeholders
    - To whom should a company be responsible?
        - Managers operate in two organizational environments
            - Internal
                - BOD, Owners, Employees
            - External
                - People whose interests are affected by the organization
                - Task Environment
                    - 11 Groups
                - General Environment
                    - 6 Forces
- Stakeholder Analysis
    1) Identify who your stakeholders are
    2) Work out their power, influence, and interest
    3) Develop a good understanding of the most important stakeholder
    4) Create a Stakeholder Map to plan how you will communicate with each stakeholder
- The Community of Stakeholders Inside the Organization
    - Owners
        - Consist of all those who can claim the organization as their legal property
    - Board of Directors

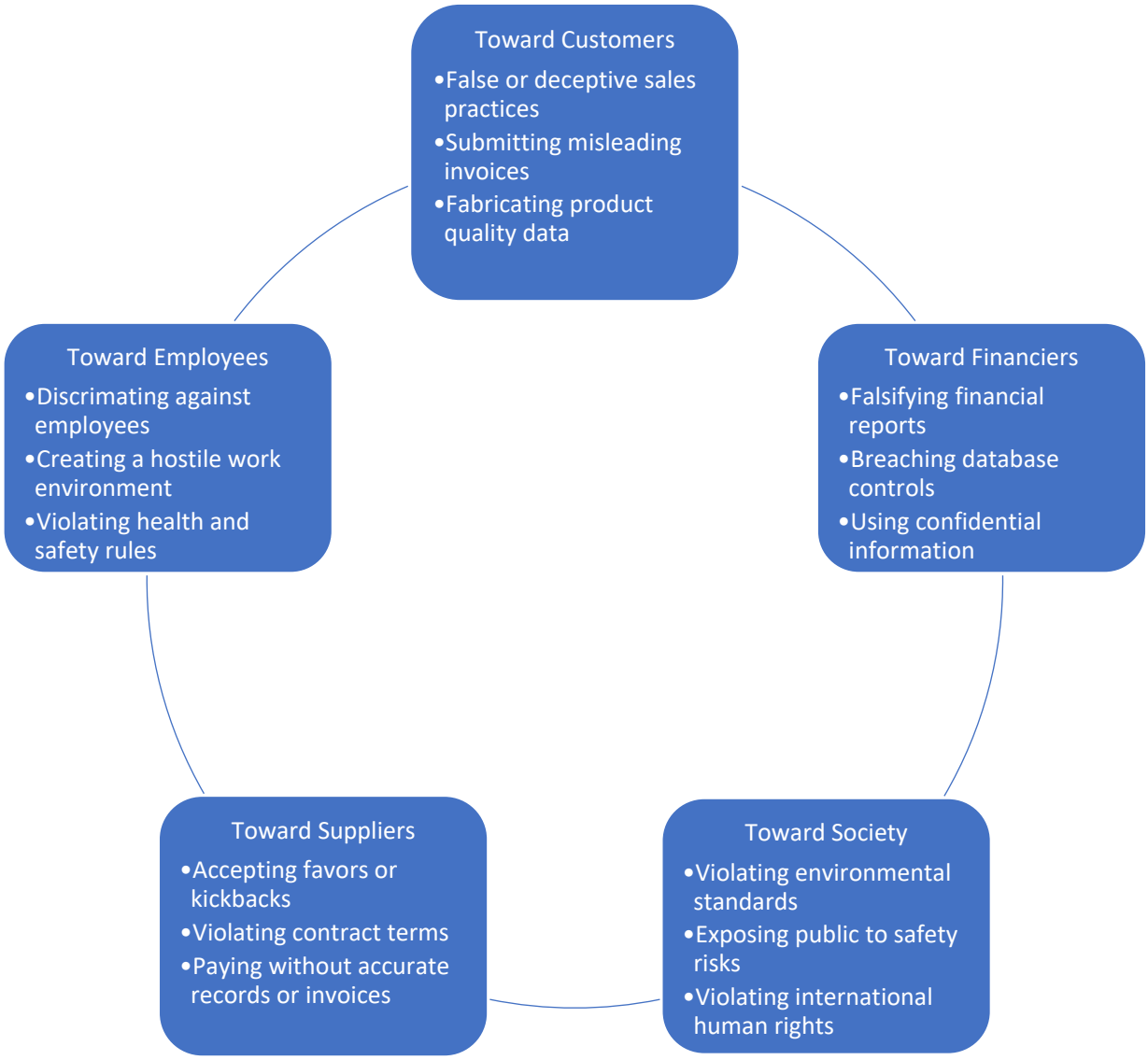
        - Members elected by the stockholders to see that the company is being run according to their interests
    - Employees
        - Consist of all those who work for the organization
- The Task Environment
    - Customers
        - Those who pay to use an organization's goods or services
    - Competitors
        - People or organizations that compete for customers or services
    - Suppliers
        - A person or organization that provides raw materials, services, equipment, labor, or energy to other organizations
    - Distributor
        - A person or organization that helps another organization sell its goods and services to customers
    - Strategic Allies
        - Describes the relationship of two organizations who join forces to achieve advantages neither can perform as well alone
    - Employee Organizations
        - Unions and Associations
    - Local Communities
    - Financial Institutions
    - Government Regulators
        - Regulatory agencies that establish ground rules under which organizations may operate
    - Special Interest Groups

        - Groups whose members try to influence specific issues
    - Mass Media
        - Social Media Role
- The General Environment
    - Economic Forces
        - Consist of the general economic conditions and trends- unemployment, inflation, interest rates, economic growth- that may affect an organization's performance
    - Technological Forces
        - New developments in methods for transforming resources into goods and services
    - Sociocultural Forces
        - Influences and trends originating in a country's, a society's, or a culture's human relationships and values that may affect an organization
    - Demographic Forces
        - Influences on an organization arising from changes in the characteristics of a population, such as age, gender, or ethnic origin
    - Political-Legal Forces
        - Changes in the way politics shape laws and laws shape the opportunities for and threats to an organization
    - International Forces
        - Subject of next Chapter
- Background: Managerial Ethics
    - Ethics- code of moral principles and values that govern the behavior of right or wrong
        - Standards about good/bad
        - Ethical issues can be complex

- People in organizations have divergent views about right/wrong
    - Why? Different Value Systems

- Values
    - Relatively permanent and deeply held underlying beliefs and attitudes that help determine a person's behavior

Examples of Unethical and Illegal Behaviors



- General Observations About Ethical Behavior
    - Individuals have personal beliefs about EB- Is it ever OK to lie?
        - UEB may be rationalized based on situation
    - Ethical Dilemma
        - Decision to pursue a course of action that may benefit you or your organization but is unethical or illegal
- The Ethical Responsibilities Required of You as a Manager
    - Ethical Dilemma
    - Classic Example- Runaway Trolley [Utilitarianism]
        - Out-of-control Trolley and you can only switch between narrow tracks- a lone man works on one track and the other has 4 men oblivious to the danger- steering onto any track will definitely kill whoever is in the way
- Four Approaches to Deciding Ethical Dilemmas
    - Utilitarian
        - Guided by what will result in the greatest good for the greatest number of people
    - Individual
        - Guided by what will result in the individual's best long-term interest, which ultimately are in everyone's best interest
    - Moral-Rights
        - Guided by respect for the fundamental rights of human beings
    - Justice
        - Guided by respect for impartial standards of fairness and equity
- Values and Ethics
    - Organizations may have two value systems that conflict:

        - The value system stressing financial performance vs
        - The value system stressing cohesion and solidarity in employee relationships
    - What role does the stakeholders dilemma play in managerial ethics?
- How do People Learn Ethics? Three Levels of Personal Moral Development
    - Level 1: Preconventional (Resembles bottom 3 levels in Social Responbility Pyramid)
        - Follows rules to avoid punishment; Acts In own interest; Obedience for its own sake
        - Self-Interest
        - Leader Style: Autocratic/Coercive
        - Employee Behavior: Task Accomplishment
    - Level 2: Conventional (Resembles bottom 3 levels in Social Responbility Pyramid)
        - Lives up to expectations of others; Fulfills duties and obligations of social system; Upholds laws
        - Societal Expectations
        - Leader Style: Guiding/encouraging, team-oriented
        - Employee Behavior: Work Group Collaboration
    - Level 3: Postconventional (Resembles Philanthropic level in Social Responsibility Pyramid)
        - Follows self-chosen principles of justice and right; Aware that people hold different values and seeks creative solutions to ethical dilemmas; Balances concern for individual with concern for common good
        - Internal Values
        - Leader Style: Transforming or Servant Leadership
        - Employee Behavior: Empowered employees, Full participation
- How Organizations Can Promote Ethics

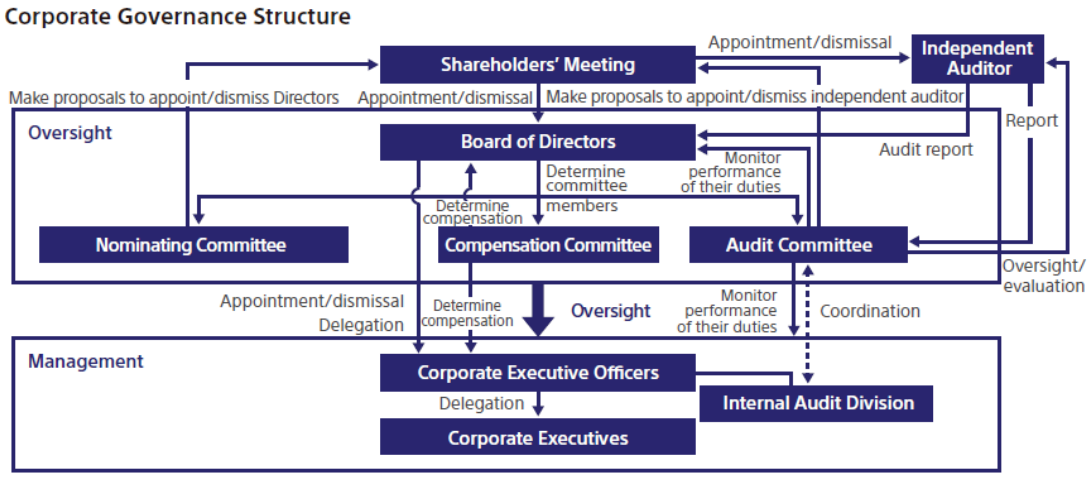
    - (1) Creating of a strong ethical climate
    - (2) Screening prospective employees
    - (3) Instituting ethics codes and training programs
    - (4) Rewarding ethical behavior: Protecting whistle-blowers

- Managing Company Ethics and Social Responsibility
    - Social Responsibility
        - Manager's duty to take actions that will benefit the interests of society as well as of the organization
- Social Media and CSR
    - Key Points:
        - Social media is driving CSR by creating world of "radical transparency"
            - Can get lots of info; anyone can start a movement
        - Companies don't have a choice but to be more socially responsible
            - We now live in "Age of Damage" where people can affect bottom lines of "bad" co.'s
        - Perfection not ultimate goal; trying, transparency most important
- The Business Case for Ethics and Social Responsibility
    - Ethics and social responsibility are important business issues
    - Stakeholders are pushing more initiatives and issues
    - The connection between ethics and financial performance has been widely debated
    - What do you think??

Carroll's Global Corporate Social Responsibility Pyramid

- What is Corporate Governance?
    - Corporate Governance refers to the system by which corporations are directed and controlled
    - Good corporate governance practices involve:
        - The corporate governance framework should protect shareholders rights
        - The corporate governance framework should ensure the equitable treatment of all shareholders
        - Disclosure and transparency is critical
        - The board of directors should be monitored and held accountable for what guidance it gives
- Agency Theory
    - The desires or goals of the principal and agent conflict and it is difficult or expensive for the principal to verify
        - Example: Overdiversification
            - Because increased product diversification leads to lower employment risk for managers and greater compensation
        - Solution: Principals engage in incentive-based performance contracts, monitoring mechanisms such as the board of directors and enforcement

mechanisms such as the managerial labor market to mitigate the agency problem



- Governance Example: Sony 2012

- White-Collar Crime, SarbOx, and Ethical Training
  - Sarbanes-Oxley of 2002
  - Why?
    - Enron, Tyco, WorldCom
      - Cost shareholders billions
      - Shook confidence in nation's securities markets
  - Example of SarbOx Key Provisions
    - Section 302
      - Periodic Certifications of Financial Reports
    - Section 303
      - Improper Influence on Conduct Audits
    - Section 401
      - Disclosures in Period Report of Off-Balance Sheet Items
    - Section 404
      - Assessment of Internal Controls
        - Internal and External Auditor

Chapter 4: Global Management

- Globalization: The Collapse of Time and Distance
    - Global Village
        - The “shrinking” of time and space as air travel and the electronic media have made it much easier for the people of the globe to communicate with one another
    - Technology is a Key Driver
        - Low cost communications networks help create electronic global marketplaces
        - Low cost transportation enables firms to create global markets, and facilitate the movement of people from country to country promoting a convergence of consumer tastes and preferences
- One Big World: The Global Economy
    - Global Economy- the increasing tendency of the economies of the world to interact with one another as one market instead of many national markets
- Cross-Border Business: Megamergers & Mini-firms Worldwide
    - Impact of Technology on Globalization
        - When competing on global scale, size matters
        - Dichotomy
            - Huge firms will become larger
            - Rise of small, fast moving firms
                - Technology levels some costs

        - Nimbleness has advantages with dealing time/distance (e.g. Titanic vs. little Rowboat)
- Is an Interdependent Global Economy a Good Thing?
    - Supporters believe that increased trade and cross-border investment mean
        - Lower prices for goods and services
        - Greater economic growth
        - Higher consumer income and more jobs
    - Critics worry that globalization will cause
        - Job losses
        - Environmental degradation
        - The cultural imperialism of global media and MNEs
        - Social Dumping
- Globalization, Jobs, and Income
    - Critics claim jobs in advanced economies are being lost to low-wage nations
    - Supporters claim while some jobs may be lost, the economy as a whole is better off
        - Free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently, and that in doing so, all countries will gain
            - Ricardian principle of comparative advantage
- Globalization, Labor Policies, and the Environment