

IS 68

YMAN DEMIREL UNIVERSITY

Faculty of Economics

Lecture Book

INTRODUCTION TO MANAGEMENT

Yelena Smirnova

UNREGISTERED COPY OF SCANPAPYRUS



65
I

16076

Introduction to
management

UNREGISTERED COPY OF SCANPAPYRUS

УДК 005(075.8)
ББК 65.290-2я73
S68

Recommended for publishing by Educational Advisory Board of
Süleyman Demirel University

Lecture Book Compiled by
Smirnova Yelena Valerievna, MBA
for

Faculty of Economics,
Süleyman Demirel University

Reviewers:
PHD Mesut Yilmaz
PHD Vaishali Saple

UNREGISTERED COPY OF SCANPAPYRUS

S68 **Smirnova Y.V.**

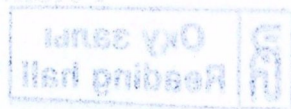
Introduction to Management: Lecture Book. – Almaty: Suleyman Demirel
University, 2010. – 220 pp.

ISBN 9965-792-42-9

The tutorial is the collection of lectures on management including practical exercises, homework, and case studies. It has been designed in accordance with the requirements of government for studying management in universities of Kazakhstan.

The subject Management in the modern context appeared in universities of Kazakhstan in 1990s. The tutorial covers main topics and discloses important questions which are vital for managing organizations today.

The lecture book is intended to be used by students to prepare for seminars, tests and examinations, and it also may be useful for college students, teachers, educators and anyone who is interested in management.



УДК 005(075.8)
ББК 65.290-2я73

ISBN 9965-792-42-9

© Smirnova Y.V., 2010

© Suleyman Demirel University, 2010

SULEYMAN DEMIREL UNIVERSITY

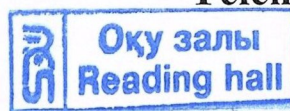
Faculty of Economics

Lecture Book

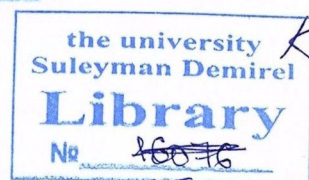
INTRODUCTION TO MANAGEMENT

UNREGISTERED COPY OF SCANPAPYRUS

Yelena Smirnova



Almaty, 2010



CONTENTS

CHAPTER 1:	INTRODUCTION TO MANAGEMENT AND ITS FUNCTIONS	5
CHAPTER 2:	THE ENVIRONMENT AND CORPORATE CULTURE	20
CHAPTER 3:	ENTREPRENEURSHIP, SMALL BUSINESS AND GLOBALIZATION	32
CHAPTER 4:	MANAGERIAL ETHICS AND CORPORATE SOCIAL RESPONSIBILITY	49
CHAPTER 5:	PLANNING AND STRATEGIC MANAGEMENT	68
CHAPTER 6:	MANAGERIAL DECISION MAKING AND ORGANIZING	89
CHAPTER 7:	LEADERSHIP IN ORGANIZATIONS	103
CHAPTER 8:	MOTIVATION IN ORGANIZATIONS	118
CHAPTER 9:	TEAMWORK IN ORGANIZATIONS	135
CHAPTER 10:	COMMUNICATION AND CONFLICT MANAGEMENT	146
CHAPTER 11:	MANAGERIAL AND QUALITY CONTROL	166
APPENDIX A:	GUIDELINES FOR WRITING BUSINESS PLAN	175
APPENDIX B:	BUSINESS PLAN TITLE PAGE	178
APPENDIX C:	SAMPLE BUSINESS PLAN	179
	DICTIONARY OF MANAGEMENT TERMS	203

PREFACE

In light of the dramatic and far-reaching events of the early twenty-first century, the central theme being discussed in the field of management is the frequency of turbulent change and its impact on organizations. The world in which most students will work as managers is undergoing a tremendous upheaval. The emergence of crisis management, ethical turmoil, e-business, rapidly changing technologies, globalization, outsourcing, global virtual teams, knowledge management, and other changes place demands on managers that go beyond the techniques and ideas traditionally taught in management courses. Managing in today's turbulent times requires the full breadth of management skills and the new competencies needed in turbulent environment characterized by economic turmoil, political confusion, and general uncertainty for the future.

The traditional world of work assumed the purpose of management was to control and limit people, enforce rules and regulations seek stability and efficiency, design a top-down hierarchy to direct people, and they do it in the best way possible. To make creative solutions and achieve high performance, however, managers need different skills to engage workers' hearts and minds as well as take advantage of their physical labor. The new workplace asks that managers focus on leading change, on harnessing people's creativity and enthusiasm, on finding shared visions and values, and on sharing information and power. Teamwork, collaboration, participation, and learning are guiding principles that help managers and employees maneuver the difficult terrain of today's turbulent business environment. Managers focus on developing, not controlling, people adapt to new technologies and extraordinary environmental shifts, and thus achieve high performance and total corporate effectiveness.

CHAPTER 1: INTRODUCTION TO MANAGEMENT AND ITS FUNCTIONS

Managers in all organizations are continually dealing with uncertainty and unexpected events, whether they are something as small as the loss of a key employee or something as large and dramatic as a plant explosion. Moreover, the frequency and intensity of crises have increased over the past couple of decades, with a sharp increase in the rate of intentional acts such as product tampering, workplace violence, or terrorism.

The nature of management is to cope with diverse and far-reaching challenges. Managers have to keep pace with advancing technology, find ways to incorporate the Internet and e-business into their strategies and business models, and remain competitive in the face of increasingly tough global competition, uncertain environments, cutbacks in personnel and resources, and massive worldwide economic, political, and social shifts. The growing diversity of the workforce creates other dynamics: How can managers maintain a strong corporate culture and successfully manage a multicultural workforce? This and coping with conflicting demands of all employees wanting a fair shot at power and responsibility? New ways of working, such as virtual teams and telecommuting, put additional demands on today's managers.

Management is the effective and efficient attainment of organizational goals through planning, organizing, leading, and controlling organizational resources.

Two important ideas are in this definition: (1) the four functions of planning, organizing, leading, and controlling and (2) the attainment of organizational goals in an effective and efficient manner. Managers use a multitude of skills to perform these functions. Management's conceptual, human, and technical skills are discussed later in the chapter.

The formal definition of an organization is the following:

Organization is a goal-directed and deliberately structured social entity. *Goal-directed* means designed to achieve some outcome, such as make a profit, meet spiritual needs (Methodist church), or provide

social satisfaction (college). *Deliberately structured* means that tasks are divided and responsibility for their performance is assigned to organization members. *Social entity* means being made up of two or more people. These definitions apply to all organizations, including profit and not-for-profit. Small, innovative, and not-for-profit organizations are more numerous than large, visible corporations and are as important to society.

Based on our definition of management, the manager's responsibility is to coordinate resources effectively and efficiently to accomplish the organization's goals.

Organizational effectiveness is the degree to which the organization achieves a *stated goal* or succeeds in accomplishing what it tries to do. Organizational effectiveness means providing a product or service that customers value. If the organization achieves its stated goals within a specified time period then such organization is effective.

Organizational efficiency refers to the amount of resources used to achieve an organizational goal. It is based on how much raw material, money, and people are necessary for producing a given output volume. If the organization uses minimum resources to produce maximum output then such organization is efficient.

UNREGISTERED COPY OF SCANPAPYRUS

Four Functions of Management

Planning means defining goals and tasks & resources needed to achieve them. A lack of planning or poor planning can hurt the organization's performance. For example, one company may set a goal of increasing sales this year but not think about making an innovation while other companies are already introducing new products to the market.

Organizing involves the distribution of tasks, grouping employees into departments, the assignment of authority and allocation of resources. Organizing typically reflects how the organization tries to accomplish the plan.

Leading is the use of influence to motivate employees to achieve organizational goals. Leading means creating a shared culture and values, communicating goals to employees throughout the organization, and filling employees with the desire to perform at a high level. Leading involves motivating individuals and even entire departments.

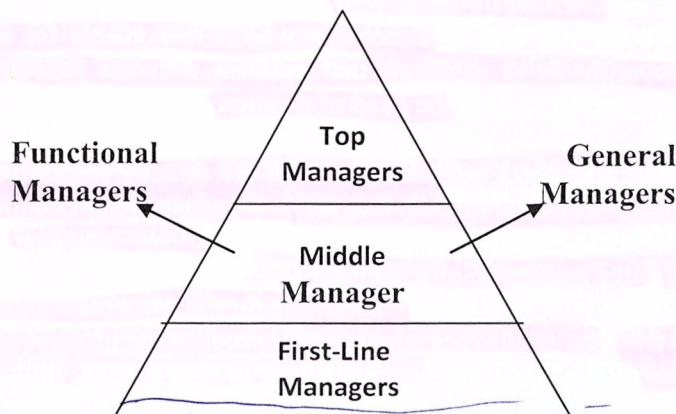
Controlling means monitoring employees' activities, determining whether the organization is in the right way to achieving its goals and making corrections if necessary. Managers must ensure that the organization is moving toward its goals.

Management Types

Managers use conceptual, human, and technical skills to perform the four management functions of planning, organizing, leading, and controlling in all organizations whether they are large and small, manufacturing and service, profit and nonprofit, traditional and Internet-based. But managers' jobs differ. Managers are responsible for different departments, work at different levels in the hierarchy, and meet different requirements for achieving high performance.

In organizations, there are typically three levels of management: top-level, middle-level, and first-level. These three main levels of managers form a hierarchy, in which they are ranked in order of importance (Figure 1.1). In most organizations, the number of managers at each level is such that the hierarchy resembles a pyramid, with many first-level managers, fewer middle managers, and the fewest managers at the top level. Each of these management levels is described below in terms of their possible job titles and their primary responsibilities and the paths taken to hold these positions.

Figure 1.1 – Hierarchical Levels of Management



1) **Top managers** are managers who are responsible for the entire organization.

Top-level managers, or top managers, are also called **senior management or executives**. These individuals are at the top one or two levels in an organization, and hold titles such as: Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operational Officer (COO), Chief Information Officer (CIO), Chairperson of the Board, President, and Vice president. Top-level managers make decisions affecting the entirety of the firm. Top managers do not direct the day-to-day activities of the firm; rather, they set goals for the organization and direct the company to achieve them.

2) **Middle managers** are managers who are responsible for the work of major divisions and departments.

Middle managers' job titles include: general manager, plant manager, regional manager, project manager, head of division, and head of department (functional manager). Middle-level managers are responsible for carrying out the goals set by top management. They do so by setting goals for their departments and other business units. Middle managers can motivate and assist first-line managers to achieve business objectives.

UNREGISTERED COPY OF SCANPAPYRUS

✓ **Functional manager** – a manager who is responsible for the department that performs a single functional task and has employees with similar training and skills (advertising, sales, human resources, manufacturing, accounting). In other words, this is the head of department.

✓ **General manager** – a manager who is responsible for several departments or divisions that perform different functions. In other words, this is the head of division.

3) **First-line managers** are managers who are directly responsible for the production of goods and services and non-management employees. These managers have job titles such as: office manager, shift supervisor, line manager, store manager.

First-line managers are responsible for the daily management of line workers—the employees who actually produce the product or offer the service. There are first-line managers in every work unit in the organization. Although first-level managers typically do not set goals

for the organization, they have a very strong influence on the company. These are the managers that most employees interact with on a daily basis, and if the managers perform poorly, employees may also perform poorly, may lack motivation, or may leave the company.

Managers at different levels of the organization engage in different amounts of time on the four managerial functions of planning, organizing, leading, and controlling.

Planning is choosing appropriate organizational goals and the correct directions to achieve those goals. Organizing involves determining the tasks and the relationships that allow employees to work together to achieve the planned goals. With leading, managers motivate and coordinate employees to work together to achieve organizational goals. When controlling, managers monitor and measure the degree to which the organization has reached its goals.

Top managers do considerably more planning, organizing, and controlling than do managers at any other level. However, they do much less leading. Most of the leading is done by first-line managers. The amount of planning, organizing, and controlling decreases down the hierarchy of management; leading increases as you move down the hierarchy of management.

UNREGISTERED COPY OF SCANPAPYRUS

Management Skills

A manager's job is complex and multidimensional and requires a range of skills. Though some management theorists propose a long list of skills, the necessary skills for managing a department or an organization can be summarized in three categories: conceptual, human, and technical.

Conceptual skills – a manager's ability to see the organization as a whole and to see it in the long run. It involves understanding how organizational units work together and how the organization fits into its competitive environment. Conceptual skill is crucial for top managers, whose ability to see "the big picture" can have major repercussions on the success of the business. However, conceptual skill is still necessary for middle and supervisory managers, who must use this skill to envision, for example, how work units and teams are best organized.

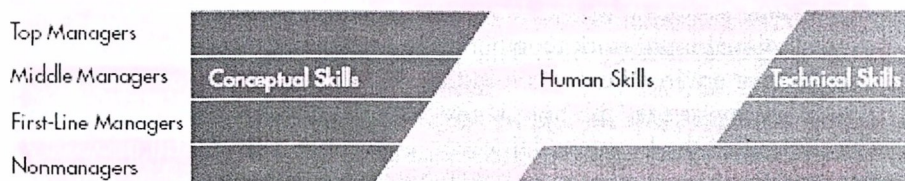
Human (interpersonal) skills – a manager's ability to interact effectively with organizational members and establish human relations. Communication is a critical part of interpersonal skill, and an inability to communicate effectively can prevent career progression for managers. Managers who have excellent technical skill, but poor interpersonal skill are unlikely to succeed in their jobs. This skill is critical at all levels of management.

Technical skills involve understanding and demonstrating proficiency in the performance of particular tasks. Technical skills are things such as using a computer word processing program, creating a budget, operating a piece of machinery, or preparing a presentation. The technical skills used will differ in each level of management. First-level managers may engage in the actual operations of the organization; they need to have an understanding of how production and service occur in the organization in order to direct and evaluate line employees. Additionally, first-line managers need skill in scheduling workers and preparing budgets. Middle managers use more technical skills related to planning and organizing, and top managers need to have skill to understand the complex financial workings of the organization.

UNREGISTERED COPY OF SCANPAPYRUS

As illustrated in Figure 1.2, the application of these skills changes as managers move up in the organization. Though the degree of each skill necessary at different levels of an organization may vary, all managers must possess skills in each of these important areas to perform effectively. From the diagram below we see that conceptual skills are more important for top managers, and first-line managers need technical skills in a greater extent. Human skills are equally important to all management types.

Figure 1.2 – The Importance of Skills for Managers



Manager Activities

One of the most interesting findings about managerial activities is how busy managers are and how chaotic the average workday can be. Managerial activity is characterized by variety, fragmentation, and brevity. The manager's involvements are so widespread and voluminous that little time remains for quiet reflection. The average time spent on any one activity is fewer than nine minutes. Managers shift works quickly. One example of two typical hours for general manager, Janet Howard, follows below. Note the frequent interruptions and the brevity and variety of tasks.

- 7:30 A.M.** Janet arrives at work and begins to plan her day.
- 7:37 A.M.** A subordinate, Morgan Cook, stops in Janet's office to discuss a dinner party the previous night and to review the cost-benefit analysis for a proposed enterprise resource planning (ERP) system.
- 7:45 A.M.** Janet's secretary, Pat, calls her over the telephone. "Janet, they had serious water damage at the downtown office last night. A pipe broke, leaving about \$50,000 damage. Everything will be back in shape in three days. I thought you should know."
- 8:00 A.M.** Pat brings in the mail. She asks instructions for formatting a report Janet gave her yesterday.
- 8:14 A.M.** Janet gets a phone call from the accounting manager, who is returning a call from the day before. They talk about an accounting problem.
- 8:25 A.M.** Mr. Nance complains that a sales manager mistreats his employees and something must be done. Janet rearranges her schedule to investigate this claim.
- 9:00 A.M.** Janet returns to the mail. One letter is from an irritated customer. Janet types out a helpful, restrained reply. Pat brings in phone messages.
- 9:15 A.M.** Janet receives an urgent phone call from Larry Baldwin. They discuss lost business, unhappy subordinates, and a potential promotion.

Managers' work is fast paced and requires great energy. The managers processed several dozens of mail each day, attend five-eight meetings, and take a tour through the building or plant. Technology such as e-mail, instant messaging, cell phones, and laptops have intensified the pace. Managers commonly receive hundreds of e-mail messages a day. As soon as a manager's daily calendar is set, unexpected disturbances erupt. New meetings are required. During time away from the office, executives catch up on work-related reading, paperwork, and e-mails.

Managing Crises and Unexpected Events

Many managers may dream of working in an organization and a world where life seems relatively calm, orderly, and predictable, but their reality is one of increasing turbulence and disorder. Today's managers and organizations face various levels of crisis every day, everything from the loss of computer data, charges of racial discrimination, a factory fire, to workplace violence. However, these organizational crises have been complicated by crises on a more global level. Dealing with the unexpected has always been part of the manager's job, but our world has become so fast, interconnected, and complex that unexpected events happen more frequently and often with greater and more painful consequences. Crisis management places further demands on today's managers. Some of the most recent thinking on crisis management suggests the importance of five leadership skills:

1. Stay calm. *Составляю спокойствие*
2. Be visible. *Быть видимым*
3. Put people before business.
4. Tell the truth. *Сказать*
5. Know when to get back to business.

Stay Calm. Leaders' emotions are transmittable, so leaders have to stay calm, focused, and optimistic about the future. Perhaps the most important part of a manager's job in a crisis situation is to absorb people's fears and uncertainties. Leaders have to suppress their own fears, doubts, and pain to encourage others. Though they acknowledge the difficulties, they must remain rock-steady and hopeful, which gives comfort, inspiration, and hope to others.

Be Visible. When people's worlds have become ambiguous and frightening, they need to feel someone is in control. Crisis is a time when leadership cannot be delegated.

Put People Before Business. The companies that weather a crisis best, whether the crisis is large or small, are those in which managers make people and human feelings their top priority.

Tell the Truth. Managers should get as much information from as many diverse sources as they can, do their best to determine the facts, and then be open and straightforward about what is going on.

Know When to Get Back to Business. Though managers should first deal with the physical and emotional needs of people, they need to get back to business as soon as possible. The company has to keep going, and there is a natural human tendency to want to rebuild and move forward. Business renovation is a sign of hope and an inspiration to employees. Moments of crisis present excellent opportunities for looking forward and using the emotional energy that has emerged to build a better company.

UNREGISTERED COPY OF SCANPAPYRUS

Key Terms

Conceptual skills	аналитические способности	Leading	управление
Controlling	контроль	Management	управление
Effectiveness	эффективность	Middle manager	средний менеджер
Efficiency	эффективность	Organization	организация
First-line manager	первоначальник	Organizing	организация
Functional manager	функциональный менеджер	Planning	планирование
General manager	генеральный менеджер	Technical skills	технические навыки
Human skills	человеческие навыки	Top manager	высший менеджер

Discussion Questions

1. What similarities do you see among the four management functions of planning, organizing, leading, and controlling? Do you think these

functions are related – that is, is a manager who performs well in one function likely to perform well in the others?

2. What is the difference between efficiency and effectiveness? Which is more important for performance? Can managers improve both simultaneously?

3. How do you feel about having a manager's responsibility in today's world characterized by uncertainty, ambiguity, and sudden changes or threats from the environment? Describe some skills and qualities important to managers under these conditions.

Experiential Exercises

TEST 1: Tolerance for Ambiguity Scale

Read each of the following statements. Rate each of them in terms of the extent to which you agree with the statement using the following scale:

1 2 3 4 5 6 7

Completely Disagree Neither Agree nor Disagree Completely Agree

Place the number that best describes your degree of agreement in the blank to the left of each statement.

1. An expert who does not come up with a definite answer probably does not know much.	
2. I would like to live in a foreign country for a while.	
3. The sooner everyone acquires similar values and ideals the better.	
4. A good teacher makes you wonder about your way of looking at things.	
5. I like parties where I know most of the people more than ones where all or most of the people are complete strangers.	
6. Teachers or supervisors who hand out vague assignments give a chance for one to show initiative and originality.	
7. A person who leads an even, regular life, in which few	

surprises or unexpected happenings arise, has a lot to be grateful for.	
8. Many of our most important decisions are based upon insufficient information.	
9. All problems can be solved.	
10. People who fit their lives to a schedule probably miss most of the joy of living.	
11. A good job is one where what is to be done and how it is to be done are clear.	
12. It is more fun to tackle a complicated problem than to solve a simple one.	
13. In the long run, it is possible to get more done by tackling small, simple problems rather than large and complicated ones.	
14. Often, the most interesting and stimulating people are those who do not mind being different and original.	
15. What we are used to is always preferable to what is unfamiliar.	

UNREGISTERED COPY OF SCANPAPYRUS

For odd-numbered questions, add the total points. For even-numbered questions, use reverse scoring (7 minus the score), and add the total points. Your score is the total of the even-numbered and odd-numbered questions.

TEST 2: Management Aptitude Questionnaire

Rate each of the following questions according to the following scale:

1. *I am never like this.*
2. *I am rarely like this.*
3. *I am sometimes like this.*
4. *I am often like this.*
5. *I am always like this.*

1. When I have a number of tasks or homework to do, I set priorities and organize the work around deadlines. **1 2 3 4 5**

2. Most people would describe me as a good listener. **1 2 3 4 5**
3. When I am deciding on a particular course of action (such as hobbies to pursue, languages to study, which job to take, special projects to be involved in), I typically consider the long-term (three years or more) implications of what I would choose to do. **1 2 3 4 5**
4. I prefer technical or quantitative courses rather than those involving literature, psychology, or sociology. **1 2 3 4 5**
5. When I have a serious disagreement with someone, I hang in there and talk it out until it is completely resolved. **1 2 3 4 5**
6. When I have a project or assignment, I get into the details rather than the “big picture” issues. **1 2 3 4 5**
7. I would rather sit in front of my computer than spend a lot of time with people. **1 2 3 4 5**
8. I try to include others in activities or when there are discussions. **1 2 3 4 5**
9. When I take a course, I relate what I am learning to other courses I have taken or concepts I have learned elsewhere. **1 2 3 4 5**
10. When somebody makes a mistake, I want to correct the person and let her or him know the proper answer or approach. **1 2 3 4 5**
11. Is better to be efficient with my time when talking with someone, rather than worry about the other person’s needs, so I can get on with my real work. **1 2 3 4 5**
12. I know my long-term vision of career, family, and other activities and have thought it over carefully. **1 2 3 4 5**
13. When solving problems, I would much rather analyze some data or statistics than meet with a group of people. **1 2 3 4 5**
14. When I am working on a group project and someone does not pull a fair share of the load, I am more likely to complain to my friends rather than confront the slacker. **1 2 3 4 5**
15. Talking about ideas or concepts can get me enthused or excited. **1 2 3 4 5**
16. The type of management course for which this book is used is a waste of time. **1 2 3 4 5**
17. It is better to be polite and not to hurt people’s feelings. **1 2 3 4 5**
18. Data or things interest me more than people. **1 2 3 4 5**

Scoring and Interpretation:

Subtract your scores for questions 6, 10, 14, and 17 from the number 6, and then add the total points for the following sections.

- 1, 3, 6, 9, 12, 15: Conceptual skills total score
- 2, 5, 8, 10, 14, 17: Human skills total score
- 4, 7, 11, 13, 16, 18: Technical skills total score

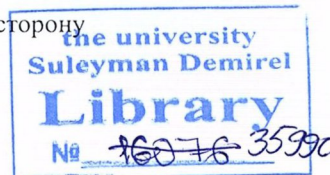
These skills are three abilities needed to be a good manager. Ideally, a manager should be strong (though not necessarily equal) in all three. Anyone noticeably weaker in any of the skills should take courses and read to build up that skill.

CASE STUDY: Elektra Products, Inc.

Barbara Russell, a manufacturing vice president, walked into the monthly companywide meeting with a light step and a hopefulness she had not felt in a long time. The company's new, dynamic CEO was going to announce a new era of employee involvement and empowerment at Elektra Products, an 80-year-old, publicly held company that had once been a leading manufacturer and retailer of electrical products and supplies. In recent years, the company experienced a host of problems: market share was declining in the face of increased foreign and domestic competition; new product ideas were few; departments such as manufacturing and sales hardly spoke to one another; morale was at an all-time low, and many employees were actively seeking other jobs. Everyone needed a dose of hope.

Martin Griffin, who had been hired to revive the failing company, opened the meeting with a challenge: "As we face increasing competition, we need new ideas, new energy, and new spirit to make this company great. And the source for this change is you, each one of you." He then went on to explain that under the new empowerment campaign, employees would be getting more information about how the company was run and would be able to work with their fellow employees in new and creative ways. Martin proclaimed a new era of trust and cooperation at Elektra Products. Barbara felt the excitement, but as she looked around the room, she saw many of the other employees, including her friend Simon, rolling their eyes¹. "Just

¹ *Rolling one's eyes* — водить глазами из стороны в сторону



another pile² of corporate crap³,” Simon said later. “One minute they try downsizing, the next reengineering. Then they experiment with restructuring. Now Martin wants to push empowerment. Garbage like empowerment is not a substitute for hard work and a little faith in the people who have been with this company for years. We made it great once, and we can do it again. Just get out of our way.” Simon had been a manufacturing engineer with Elektra Products for more than 20 years. Barbara knew he was loyal to the company, but he – and a lot of others like him – were going to be an obstacle⁴ to the empowerment efforts⁵.

Top management assigned selected managers to several problem-solving teams to come up with ideas for implementing the empowerment campaign. Barbara loved her assignment as team leader of the manufacturing team and working on ideas to improve how retail stores got the merchandise they needed when they needed it. The team thrived⁶, and trust blossomed⁷ among the members. They even spent nights and weekends working to complete their report. They were proud of their ideas, which they believed were innovative but easily achievable: permit a manager to follow a product from design through sales to customers; make information available to salespeople about future products; swap⁸ sales and manufacturing information for short periods to let them get to know one another's jobs.

When the team presented report to department heads, Martin Griffin was enthusiastic. But shortly into the meeting he had to excuse himself because of a late-breaking deal with a major hardware store chain. With Martin absent, the department heads rapidly formed a wall of resistance. The director of human resources complained that the ideas for personnel changes would destroy the crafted job categories that had just been completed. The legal department warned that providing information to salespeople about future products would invite industrial spying.

The team members were shocked. As Barbara thought over the latest turn of events, she considered her options: keep her mouth shut;

² *Pile* – куча, груда

³ *Crap* – ерунда

⁴ *Obstacle* – препятствие, помеха

⁵ *To thrive* – благоденствовать, преуспевать, процветать

⁶ *To blossom* – преуспеть, добиться успеха

⁷ *Swap* – менять, обменивать, обмениваться

take a chance and confront Martin about her sincerity in making empowerment work; push slowly for reform and work for gradual support from the other teams; or look for another job and leave a company she cared about. Barbara realized there would be no easy choices and answers.

Source: Based on Lawrence R. Rothstein, "The Empowerment Effort that Came Undone," Harvard Business Review (January–February 1995): 20–31.

Questions:

1. How might top management have done a better job changing Elektra Products into a new kind of organization? What might they do now to get the empowerment process back on track?
2. Can you think of ways Barbara could have avoided the problems her team faced in the meeting with department heads?
3. If you were Barbara Russell, what would you do now? Why?

- 1) What were the problems Elektra Products faced in recent years?
- 2) What ideas for implementing the empowerment campaign did Barbara Russell's team offer?

UNREGISTERED COPY OF SCANPAPYRUS

CHAPTER 2: THE ENVIRONMENT AND CORPORATE CULTURE

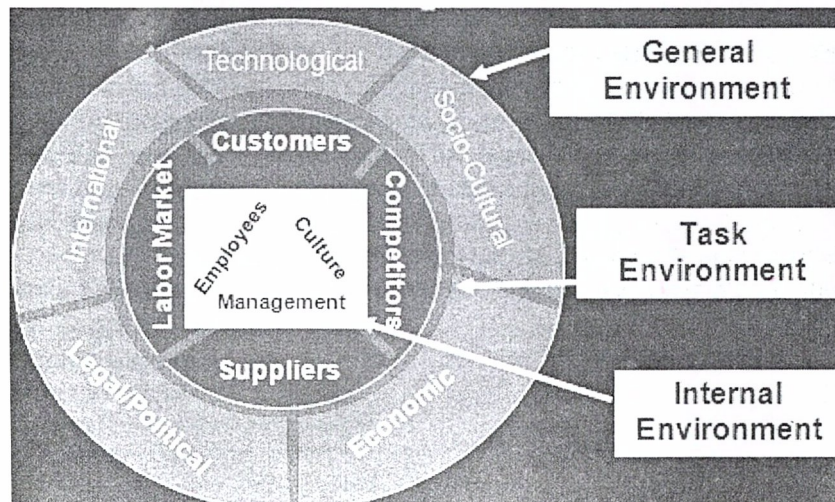
Globalization and worldwide societal turbulence affect companies in new ways. Even for those companies that try to operate solely on the domestic stage, events that have the greatest impact typically originate in the external environment. To be effective managers must monitor and respond to the environment – an open systems view.

The tremendous and far-reaching changes occurring in today's world can be understood by defining and examining components of the external environment. The **external organizational environment** includes all the elements existing outside the organization's boundaries that affect the organization. The environment includes competitors, resources, technology, and economic conditions that influence the organization. It does not include those events so far removed from the organization that their impact is not perceived.

The organization's external environment can be further divided

UNREGISTERED COPY OF SCANPAPYRUS

Figure 2.1 – Organization's General, Task, and Internal Environments



General environment is the outer layer that affects the organization indirectly. It includes socio-cultural, technological, economic, legal/political, and international dimensions that influence all organizations equally.

Task environment is closer to organization and includes the elements that directly affect the organization. It is generally considered to include customers, competitors, suppliers, and labor market.

The organization also has an **internal environment**, which includes the elements within the organization's boundaries. It comprises current employees, management, organization structure, technology used by the organization, and especially corporate culture, which defines employee behavior in the internal environment and how well the organization will adapt to the external environment.

General Environment

The general environment represents an outer layer of the environment. The dimensions of the general environment include technological, socio-cultural, economic, legal, and political.

International dimension includes opportunities for companies to enter and operate in international markets.

The international environment provides new competitors, customers, and suppliers and shapes socio-cultural, technological, and economic trends. Today, every company has to compete on a global basis. When operating globally, managers have to consider legal, political, socio-cultural, and economic factors not only in their home country but in various countries as well. For example, international dimension opens opportunities for local companies such as buying cheaper raw material, using cheaper and more qualified labor force, more customers. Chapter 2 describes how today's businesses are operating in an increasingly borderless world and examines in detail how managing in a global environment differs from the management of domestic operations.

Technological dimension includes scientific and technological advancements in a specific industry as well as in society.

In recent years, because of technology advancements many organizations had to make a lot of changes. For example, twenty years ago, many organizations didn't even use desktop computers. Today, computer networks, Internet access, videoconferencing capabilities, cell phones, fax machines, and laptops are practically taken for granted as the minimum tools for doing business. Technological advancements that make the Internet accessible to nearly everyone have changed the nature of competition and of organization's relationship to customers. Many companies are adopting sophisticated e-business methods; communications and computing devices are getting smaller, more powerful, and more affordable.

Advances in *nanotechnology*, which refers to seeing and manipulating matter at the level of molecules and atoms, will enable scientists to create amazing new materials – electronic, structural, biological, and medicinal. Examples already in use include “smart gels” that mold on human needs to cue, self-repairing optical coatings, and cleansers that repair a surface at the molecular level while cleaning it.

UNREGISTERED COPY OF SCANPAPYRUS
Political dimension includes government regulations as well as policies designed to influence company behavior.

Managers must recognize a variety of pressure groups formed by government that can influence companies to behave in socially responsible ways. For example: prohibition of the advertisement of alcoholic beverages, facilitation of anti-smoking actions.

Socio-cultural dimension represents the demographic characteristics (population density, age, and education levels) as well as the norms, customs, and values of population.

Today's demographic profiles are the foundation of tomorrow's workforce and customers. Forecasts see increased globalization of both consumer markets and the labor supply, with increasing diversity both within organizations and consumer markets.

Recent socio-cultural trends that are affecting many companies include the trend toward no smoking, the greater purchasing power of young children, and the increased diversity of consumers. For example: Many people in India will never buy beef; bicycles in Kazakhstan are not as popular as in China or in Europe.

Economic dimension represents general economic health of the country or region in which the organization operates.

Consumer purchasing power, unemployment rate, and interest rates are part of the organization's economic environment. Because organizations today are operating in a global environment, the economic dimension has become exceedingly complex and creates enormous uncertainty for managers. The economies of countries are more closely tied together now. For instance, crisis in US (2007) affected a lot of other countries, including our country.

In order to survive in unstable environment many companies create mergers and joint ventures.

Merger occurs when two or more organizations combine to become one. (Bank TuranAlem)

Joint venture involves a strategic alliance or a program by two or more organizations (short-term or long-term). This typically occurs when the project is too complex, expensive or uncertain for one firm to do alone (SonyEricsson).

UNREGISTERED COPY OF SCANPAPYRUS

The task environment includes those sectors that have a direct working relationship with the organization, among them customers, competitors, suppliers, and the labor market.

Customers – those people or organizations in the environment who acquire goods and services from the organization. As recipients of the organization's output, customers are important because they determine the organization's success. For example, patients are customers of hospitals, students are customers of universities and schools, and travelers are customers of airlines and tour agencies.

Competitors – other organizations in the same industry that provide goods and services to the same set of customers. Each industry is characterized by specific competitive issues. For example, steel industry differs from pharmaceutical industry. Competition in the steel industry, especially from international producers, caused some companies to go bankrupt. Companies in the pharmaceutical industry are highly profitable because it is difficult for new firms to enter it. But

in some industries competitors cooperate to achieve common goals. For instance, Apple and Compaq, two companies from computer industry, were cooperating to break Microsoft Corporation's domination of software industry.

Suppliers – people or organizations that provide raw materials the organization uses to produce its output. For example, a restaurant may use many suppliers to provide it with different products. But many companies are now using fewer suppliers and trying to build good relationships with them so that they receive high-quality parts at low prices. Cooperation is a key to saving money, maintaining quality, and speeding products to market.

Labor market – people in the environment who can be hired to work for the organization. Every organization needs a supply of trained, qualified personnel. Unions, employee associations, and the availability of certain classes of employees can influence the organization's labor market. The labor market lacks specialists in chemistry, physics, and other scientific fields.

Internal Environment: Corporate Culture

UNREGISTERED COPY OF SCANPAPYRUS
The internal environment within which managers work includes the following elements:

- ✓ Employees
- ✓ Management
- ✓ Corporate culture
- ✓ Organization structure
- ✓ Technology

The concept of culture has been of growing concern to managers since the 1980s. The concept of culture helps managers understand the hidden, complex aspects of organizational life. Culture is a pattern of shared values and assumptions about how things are done within the organization. This pattern is learned by members as they cope with external and internal problems.

Corporate Culture – set of key values, beliefs, understandings, and norms shared by members of an organization.

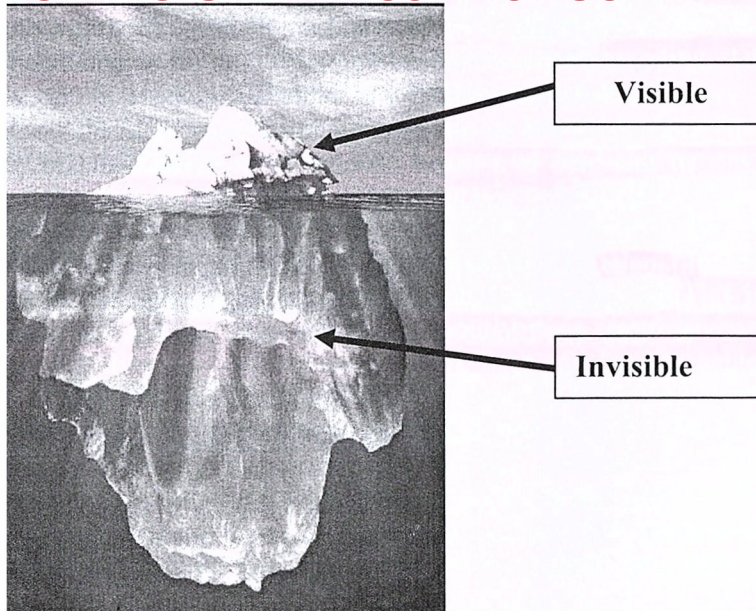
Corporate culture is like an iceberg in the ocean. Only the smallest part of it is visible but the greatest part is invisible from the surface (Figure 2.2).

The *visible level* of corporate culture includes such things as manner of dress, patterns of behavior, physical symbols, and organizational ceremonies, office design – these are things that anyone can see, hear, or observe.

Physical Symbols. Imagine there is a company that sells real estate. Managers of the organization can make a prototype of the building and represent it as a symbol to employees. Every month the best salesperson will be awarded with this building. The person will keep the symbol for one month and then will transfer to another best salesperson of the month.

Organizational Ceremonies. Mary Kay Cosmetics Company has annual awards ceremony, presenting diamonds, furs, and

Figure 2.2 – The Iceberg of Visible and Invisible Culture



- ✓ luxury cars to high-achieving sales consultants. The setting is typically held in a large hall in front of audience, and everyone dresses on glamorous evening clothes. The most successful consultants are introduced by film clips for the nomination.

Invisible level of corporate culture includes unwritten rules, values, and beliefs, which are not observable. These are deeper values that members of the organization hold at a conscious level. They can be interpreted from the stories, heroes, and slogans.

- ✓ **Stories.** UPS is an American delivery company. Once a salesperson in this company ordered an extra airplane without permission of his boss in order to escape untimely delivery. Instead of punishing this employee, managers rewarded his initiative. By telling this story, UPS workers explain that the company stands for commitment to work and customer service.
- ✓ **Heroes.** Heroes show how to do the right thing in the organization. One engineer in 3M Corporation invented a new product and went to the top manager with his idea. But the manager rejected it by telling "That's a stupid idea. Stop!" Then the engineer insisted and the manager fired him. But this devoted person continued coming to the office and developing new ideas without salary. Eventually, he was rehired, the idea succeeded and he was promoted to a vice-president. The lesson of this hero is a major element of the culture in 3M tells to persist at what you believe in.
- ✓ **Slogans.** Many organizations use slogans to motivate the employees. For example, the slogan of one American company is "You don't have to please the boss; you have to please the customer".

Types of Corporate Culture

A big influence on internal corporate culture is the external environment. Cultures can vary widely across organizations; however, organizations within the same industry often reveal similar

characteristics because they are operating in similar environments. If the external environment requires extraordinary customer service, the culture should encourage good service; if it calls for careful technical decision making, cultural values should reinforce managerial decision making.

Adaptability culture – a culture used by companies that operate in a quickly changing industry.

Adaptability culture requires fast response and high-risk decision making. Employees have autonomy to make decisions and act freely to meet customers' needs. Managers actively create change by encouraging and rewarding creativity, experimentation, and risk taking. Most companies in electronic industry, as well as those involved in e-commerce, cosmetics, and fashion, use adaptability culture because they must quickly respond to a rapidly changing environment. For example, Nokia – the best manufacturer of mobile phones – is constantly innovating.

Involvement culture – a culture that focuses on meeting the needs of employees in order to increase productivity.

The organization may be characterized by caring and family-like atmosphere. Managers emphasize such values as cooperation, consideration of both employees and customers, and avoiding status differences. For example, IBM has involvement corporate culture.

Achievement culture – a culture that focuses on the achievement of results rather than on satisfaction of employees' needs.

Achievement culture is suitable to organizations that are concerned with serving specific customers in the external environment but without the strong need for flexibility and rapid change. This is a result-oriented culture that values competitiveness, aggressiveness, personal initiative, and willingness to work long and hard to achieve results.

For example, Siebel Systems, which sells complex software systems, is focused on achievement culture. Professionalism and aggressiveness are core values. Employees are forbidden to eat at their desks or to decorate with more than one or two personal photographs. People who succeed at Siebel are focused, competitive, and driven to

- ✓ luxury cars to high-achieving sales consultants. The setting is typically held in a large hall in front of audience, and everyone dresses on glamorous evening clothes. The most successful consultants are introduced by film clips for the nomination.

Invisible level of corporate culture includes unwritten rules, values, and beliefs, which are not observable. These are deeper values that members of the organization hold at a conscious level. They can be interpreted from the stories, heroes, and slogans.

- ✓ **Stories.** UPS is an American delivery company. Once a salesperson in this company ordered an extra airplane without permission of his boss in order to escape untimely delivery. Instead of punishing this employee, managers rewarded his initiative. By telling this story, UPS workers explain that the company stands for commitment to work and customer service.
- ✓ **Heroes.** Heroes show how to do the right thing in the organization. One engineer in 3M Corporation invented a new product and went to the top manager with his idea. But the manager rejected it by telling "That's a stupid idea. Stop!" Then the engineer insisted and the manager fired him. But this devoted person continued coming to the office and developing new ideas without salary. Eventually, he was rehired, the idea succeeded and he was promoted to a vice-president. The lesson of this hero is a major element of the culture in 3M tells to persist at what you believe in.
- ✓ **Slogans.** Many organizations use slogans to motivate the employees. For example, the slogan of one American company is "You don't have to please the boss; you have to please the customer".

Types of Corporate Culture

A big influence on internal corporate culture is the external environment. Cultures can vary widely across organizations; however, organizations within the same industry often reveal similar

characteristics because they are operating in similar environments. If the external environment requires extraordinary customer service, the culture should encourage good service; if it calls for careful technical decision making, cultural values should reinforce managerial decision making.

Adaptability culture – a culture used by companies that operate in a quickly changing industry.

Adaptability culture requires fast response and high-risk decision making. Employees have autonomy to make decisions and act freely to meet customers' needs. Managers actively create change by encouraging and rewarding creativity, experimentation, and risk taking. Most companies in electronic industry, as well as those involved in e-commerce, cosmetics, and fashion, use adaptability culture because they must quickly respond to a rapidly changing environment. For example, Nokia – the best manufacturer of mobile phones – is constantly innovating.

Involvement culture – a culture that focuses on meeting the needs of employees in order to increase productivity.

The organization may be characterized by caring and family-like atmosphere. Managers emphasize such values as cooperation, consideration of both employees and customers, and avoiding status differences. For example, IBM has involvement corporate culture.

Achievement culture – a culture that focuses on the achievement of results rather than on satisfaction of employees' needs.

Achievement culture is suitable to organizations that are concerned with serving specific customers in the external environment but without the strong need for flexibility and rapid change. This is a result-oriented culture that values competitiveness, aggressiveness, personal initiative, and willingness to work long and hard to achieve results.

For example, Siebel Systems, which sells complex software systems, is focused on achievement culture. Professionalism and aggressiveness are core values. Employees are forbidden to eat at their desks or to decorate with more than one or two personal photographs. People who succeed at Siebel are focused, competitive, and driven to

win. Those who perform and meet stringent goals are generously rewarded; those who don't are fired. Other examples include auditing companies, some restaurants, hotels, shops, etc.

Consistency culture – a culture that focuses on rationality, discipline, and order of doing things while operating in a stable environment.

In today's fast-changing world, few companies operate in a stable environment, and most managers are shifting toward cultures that are more flexible. This structure is very suitable for bureaucratic organizations such as government organizations and embassies.

Adaptability and involvement cultures are very flexible, but *achievement and contingency cultures* are rigid, with many rules and regulations. Each of these four cultures can be successful. In addition, organizations usually have values that fall into more than one category. The relative emphasis on various cultural values depends on the needs of the environment and the organization's focus.

Environmental Uncertainty

Organizations must manage environmental uncertainty to be effective. **Uncertainty** implies that managers do not have sufficient information about environmental factors to understand and predict environmental changes. When external factors change rapidly, the organization experiences very high uncertainty; examples are the electronics and aerospace industries. Firms must make efforts to adapt these changes. When the organization deals with only a few external factors and these factors are relatively stable, such as for soft-drink bottlers and food processors, managers experience low uncertainty and can devote less attention to external issues.

Any organization that wants to cope with high environmental uncertainty must adapt to changes in the environment.

Key Terms

Achievement culture	культура дост.	International dimension	конкурен
Adaptability culture	приспособлен	Involvement culture	вовлечение
Competitors	конкур.	Joint venture	совм.
Consistency culture	устойчивость	Labor market	рынок труда
Corporate culture	корпоративная	Legal-political dimension	социально-политическая
Customers	клиент.	Merger	слияние
Economic dimension	экон. сфера	Socio-cultural dimension	социально-культурная
External environment	внешняя среда	Suppliers	постав.
General environment	общая среда	Task environment	конкретная среда
Internal environment	внутренняя	Technological dimension	технологическая

Discussion Questions

1. Some scientists predict major changes in the earth's climate, including a temperature rise of 8°F over the next 60 years. Should any company be paying attention to this long-term environmental trend?
Explain.
2. Would the task environment for a bank contain the same elements as that for a government organization? Discuss.
3. What forces influence organizational uncertainty? Would such forces typically originate in the task environment or the general environment?
4. Define corporate culture and explain its importance for managers.
5. How are symbols important to a corporate culture? Do stories, heroes, slogans, and ceremonies also have symbolic value? Discuss.
6. How does the culture of a football team differ from the university culture?
7. Do you think a corporate culture with strong values is better for organizational effectiveness than a culture with weak values? Are there times when a strong culture might reduce effectiveness? Discuss.
8. Find more examples of symbols, ceremonies, heroes, stories, and slogans in internet.

Ex.

CASE STUDY: Society of Equals

Ted Shelby doesn't make very many mistakes, but... "Hey Stanley", says Ted Shelby, entering the door, "you got a minute? I've just restructured my office. Come on and take a look. I've been implementing some great new concepts!"

Stanley is always interested in Ted Shelby's new ideas, for if there is anyone Stanley wants to do as well as, it is Edward W. Shelby IV. Stanley follows Ted back to his office and stops, confused.

Restructured is right! Gone are Ted's (Junior Exec.) walnut¹ desk and furniture, and his telephone table. In fact, the room is practically empty save for a large, round white cafeteria table and half-dozen padded² vinyl chairs that surround it.

"Isn't it a beauty! As far as I know, I'm the first executive in the plant to innovate this. The shape is a crucial factor here – no front or rear³, no status problems. We all sit there and communicate more effectively."

We? Communicate? Effectively? Well, it seems that Ted has been attending a series of Executive Development Seminars given by Dr. Faust. The theme of the seminars was – you guessed it – **UNREGISTERED COPY OF SCANPAPYRUS** managing the top. Edward W. Shelby has always liked to think of himself as truly democratic person.

"You see, Stanley," says Ted, managing his best sincere attitude, "the main thing wrong with current mainstream management practice is that the principal communication channel top-down. We on the top send our messages down to you people, but we neglect the feedback potential. But just because we have more status and responsibility doesn't mean that we are necessarily better than the people below us. So, as I see the situation, what is needed is a two-way communication network: top-down and bottom-up."

"That's what the cafeteria table is for?" Stanley says.

"Yes!" says Ted. "We management people don't have all the answers, and I don't know why I never realized it before that seminar. Why... let's take an extreme example... the people who run those

¹ *Walnut* – древесина орехового дерева

² *Padded* – обитый

³ *No front or rear* – нет задней или передней стороны

machines there. I'll bet that any one of them knows a thing or two that I've never thought of. I've transformed my office into a full-feedback communication net."

"That certainly is an innovation around here," says Stanley.

A few days later Stanley passed by Ted Shelby's office and was surprised that Ted's desk, furniture, and telephone table were back where they used to be. Stanley, curious about the unrestructuring, went to Bonnie for clarification. "What," he asked, "happened to Shelby's round table?"

"That table we were supposed to sit around and input things?" she said. "All I know is, about two days after he had it put in, Mr. Drake came walking through there. He looked in that office, and then he sort of stopped and went back – and he looked in there for a long time. Then came over to me, and you know how his face gets red when he's really mad? Well, this time he was so mad that his face was absolutely white. And when he talked to me, I don't think he actually opened his mouth; and I could barely hear him, he was talking so low. Have Mr. Shelby's furniture put back in his office. Have Mr. Shelby see me."

You would think that Ted would have known better, wouldn't you? But then, by now you should have a pretty firm idea of just why those offices are set up as they are.

Source: Daft R. The New Era of Management, Indian edition, 2007. pp.110-111.

Questions:

1. How would you characterize the culture in this company? What are the dominant values?
2. Why did Ted Shelby's change experiment fail? To what extent did Ted use the appropriate change tools to increase employee communication and participation?
3. What would you recommend Ted do to change his relationship with subordinates? Is it possible for a manager to change cultural values if the rest of the organization, especially top management, does not agree?

CHAPTER 3: ENTREPRENEURSHIP, SMALL BUSINESS, AND GLOBALIZATION

Most people dream of having their own business. But running a small business is quite difficult and risky as it requires entrepreneur's entire investment and great efforts. According to statistics, about 34% of businesses fail within two years and 50% close after three years.

Entrepreneurship – the process of initiating a business venture, organizing necessary resources, and assuming the associated risks and rewards.

Entrepreneur is a person who creates his own business or company in the face of risk and uncertainty. His purpose is to achieve high profits and growth.

Who Can Be Entrepreneurs?

Actually, everyone has the potential to become an entrepreneur. Let's consider different possible cultural groups of entrepreneurs.

UNREGISTERED COPY OF SCANPAPYRUS

1. *Young entrepreneurs*: 30% entrepreneurs – at age of 50 and younger,
2. *Women entrepreneurs*: 72% of women-owned businesses are concentrated in retailing and services such as beauty parlors, chemical cleaning, fashion houses.
3. *Minority entrepreneurs*: national minority groups are very likely to become entrepreneurs (Chinese restaurant, Indian restaurant)
4. *Immigrant entrepreneurs*
5. *Home-based business*: there are several advantages of home-based businesses (crafts, sewing, cooking, design, arts)
 - ✓ operating a business from home keeps start-up and operating costs to a minimum
 - ✓ flexible life-style and work-style
 - ✓ technology allows to conduct many business operations from homes (internet banking)
6. *Family business*: includes two or more members of the family. 90% of businesses are family owned and managed. Family business tends to fail often, the primary reason of that is conflicts between family members.

7. *Copreneurs*: couples that work together as co-owners of their business. But in some cases, managing a small business together may be a reason of divorce and in other cases it may lead to successful business.

Small Business

Small Business is an enterprise which has (1) a small number of employees, (2) low volume of sales, (3) small amount of assets and limited impact on the market.

In Kazakhstan small business must suit the following parameters:

- 1) Number of employees should not exceed 50;
- 2) Company's assets should not exceed 60,000 monthly settlement parameters (MSP)
- 3) ¹, i.e. \$580,685².
1 MSP = 1413 tenge (2010)

Most entrepreneurs start from retailing, manufacturing, or service. Additional types: construction, communications, finance, and real estate.

Five Types of Small Business Owners

Successful entrepreneurs have different motivations, and they measure rewards in different ways. One study classified small business owners in five different categories, illustrated in Figure 3.1.

Idealists – people who like the idea of working on something that is new, creative, or personally meaningful.

Optimizers – people who get satisfaction of being business owners because it gives them power.

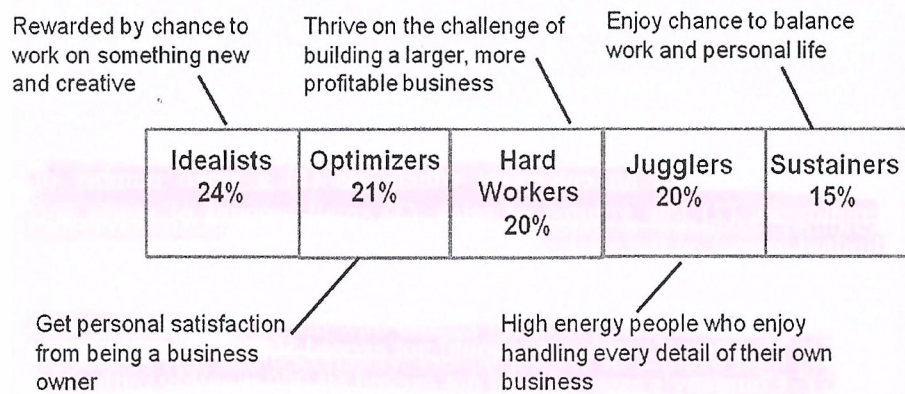
Hard workers – people who enjoy working long hours and want their business to grow larger and more profitable.

Sustainers – people who want to balance work and personal life and often don't want the business grow too large, they like stability.

¹ Also called Monthly Calculated Index (MCI)

² \$1 = KZT146

Figure 3.1 – Five Personality Types of Small Business Owners



Jugglers – high energy, high risk people who like the chance a small business gives them to handle everything themselves, they feel independent.

Starting an Entrepreneurial Firm

UNREGISTERED COPY OF SCANPAPYRUS

There are several ways an entrepreneur can become a business owner:

- ✓ start a new business
- ✓ buy an existing business
- ✓ buy a franchise
- ✓ become a partner

How to Start a New Business?

STEP 1: Come up with the new business idea

To some people, the idea for a new business is the easy part. Other people decide they want to run their own business and start looking for an idea or opportunity.

Figure 3.2 shows the most important reasons that people start a new business and the source of new-business ideas. Note that 37% of business founders got their idea from an in-depth understanding of the

industry, primarily because of past job experience. Interestingly, almost 36% spotted a market niche that wasn't being filled.

STEP 2: Choose the form of ownership

Before entrepreneurs have found a business they must choose an appropriate legal structure for the company. The three basic choices are proprietorship, partnership, or corporation.

1) Sole proprietorship – a business owned and managed by one individual.

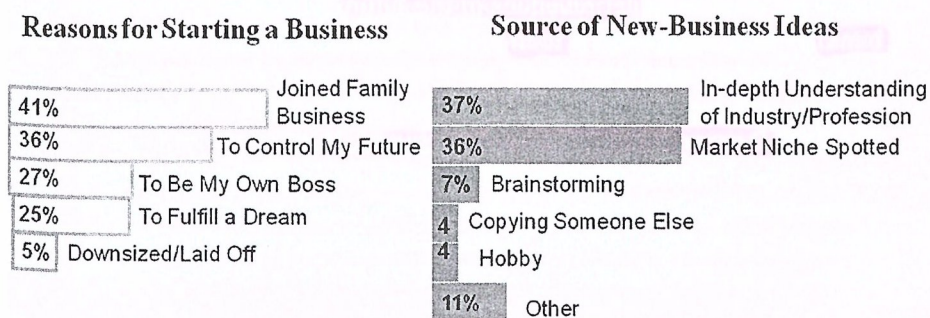
This form of ownership is popular because it is easy and cheap to start and it has few legal requirements. A proprietor has total ownership and control of the company and he can make all decision without consulting anyone. However, this form of ownership also has drawbacks. The owner has unlimited liability for the business, and also it is difficult for a proprietor to attract capital.

2) Partnership – two or more people who co-own a business for the purpose of making profits.

Partnership, like sole proprietorship, is relatively easy and cheap to start. In partnership, co-owners (partners) share business's assets, liabilities, and profits according to the terms of partnership agreement.

Partnership agreement – a legal document that states all the terms of operating the partnership and protects each partner involved. Every partnership should be based on such written agreement.

Figure 3.2 – Sources of Entrepreneurial Motivation and New-Business Ideas



3) Corporation – a legal entity created by the state and existing apart of its owners

Because life of a corporation is independent of its owners, the shareholders can sell their shares without affecting its continuation. Corporations are creations of the state. When a corporation is founded, it accepts regulations and restrictions of the state in which it incorporated and any other state in which it chooses to operate. Corporation operating in the state in which it was incorporated is a domestic corporation. When a corporation operates in another state, the state considers it to be a foreign corporation. (Basis-A)

STEP 3: Write the business plan

Here it is important to understand the difference between strategic plan and business plan. Typically, business plan includes strategic plan, but business plan is created only when a company is going to be started or expanded and strategic plan is written and refreshed periodically for company's internal use.

Strategic plan is a document that is primarily intended to be used internally by the organization, to guide itself. In some cases, in fact, in many cases the strategic plan is never seen by anyone outside the organization. It often contains information about organizational strategy that a company might not want in the hands of its competitors.

Business plan, on the other hand, is usually meant to be used to show others. For example, if a company wishes to attract investors, the investors may demand certain information about the company before they commit to investing. They certainly would like financial information to be present, and they may be interested to know how the company expects to get revenues in the future, its market, and so on. A bank looking at giving a loan to an organization may wish to have similar information.

STEP 4: Determine sources of financing

One of the main problems that an entrepreneur faces is financing of his business. An investment is usually required to acquire labor and raw materials and perhaps a building and equipment. The financing decision usually involves two options – whether to obtain

loans that must be repaid (debt financing) or whether to share ownership (equity financing). But still the primary resources for entrepreneurs are their own resources, but they often have to mortgage their home, to borrow money from the bank.

Debt financing – borrowing money that has to be repaid at a later date in order to start a business

Usually entrepreneurs borrow from family, friends, and banks. Sometimes entrepreneurs can obtain money from a finance company, wealthy individuals, or potential customers.

Equity financing – any money invested by owners or by those who purchase stock in a corporation.

If you are going to establish a corporation or at least partnership you can raise funds through selling your company's stocks.

Globalization

Many companies today recognize that business is becoming a unified, global field as trade barriers fall, communication becomes faster and easier, and e-commerce is everywhere. Computing and cellular phones converge. Companies that think globally have a competitive edge. In addition, domestic markets are saturated for many companies. The only potential for significant growth lies overseas. The reality of today's borderless companies also means consumers can no longer tell from which country they are buying.

International management – a management of business operations conducted in more than one country.

The basic management functions of planning, organizing, leading, and controlling are the same whether the company operates domestically or internationally. However, managers face greater difficulties and risks when performing these management functions on an international scale. When managers start comparing one country with another they must consider differences in economic, legal-political, and socio-cultural aspects of these countries. For example, when many African people go to the market to buy some products, they look at what is drawn on the can or on the bottle because their literacy level is low. According to them, what they see on the picture is inside.

When Nestle started selling baby food in Africa, it failed because white babies were depicted on the cans. Africans thought why should we eat meat of white babies?

Stages of Globalization

Corporations can participate in the international arena in a variety of levels. The process of globalization typically passes through four distinct stages.

1. Domestic Stage: a company produces and sells goods and services at home. For example, it can be any local company which has all marketing and production facilities located at home.

2. International Stage: a company produces at home and sells at home and abroad, exports increase.

At this stage a company usually adopts a multidomestic strategy, meaning that competition is handled for each country independently. Product design, marketing, and advertising are adapted to the specific needs of each country, requiring high level of sensitivity to local values and interests. Typically, these companies use an international division to deal with the marketing of products in several countries.

For example, Mattel is a manufacturer of toys for kids. Mattel makes toys based on the idea that kids in different countries have different interests and want different toys. The many Barbie dolls sold in Japan have Asian features, black hair, and Japanese style of clothing.

3. Multinational Stage: a company produces and sells in many countries, with more than 1/3rd of its sales outside the home country.

At the multinational stage a company uses globalization strategy, meaning they focus on similar product to multiple countries. Product design, marketing, and advertising strategies are standardized throughout the world.

For example, Coca-Cola, Adidas, and McDonald's operate at multinational stage using globalization strategy. Mattel is also going to enter this stage of globalization in several years because of changes in toy-buying patterns. Company managers realized that children in Japan also like blond-haired, blue-eyed Barbie dolls.

4. Global (or Stateless) Stage: a company operates in a global fashion, locating functions (departments) anywhere in the world, based on the lower cost, right skills and favorable environment.

At this stage, ownership, control, and top management are dispersed among several nationalities. Different departments may be located in absolutely different countries. At this stage a company uses *transnational strategy* – a combination of multidomestic strategy and globalization strategy.

For example: Nestle is a global company with 99% of sales and 97% of employees outside their home country. Nestle has 8000 brands.

- ✓ Company: Nestle (Swiss)
- ✓ CEO Peter Brabeck–Letmathe (Austrian)
- ✓ Half of general managers (non-Swiss)

Getting Started Internationally

Small and medium-sized companies have a couple of ways to become involved internationally. One is to seek cheaper sources of supply offshore, which is called outsourcing. Another is to develop markets for finished products outside their home countries, which may include exporting, licensing, and joint investment. These are called market entry strategies because they represent alternative ways to sell products and services in foreign markets. Most firms begin with exporting and work up to direct investment. Figure 3.3 shows the strategies companies can use to enter foreign markets.

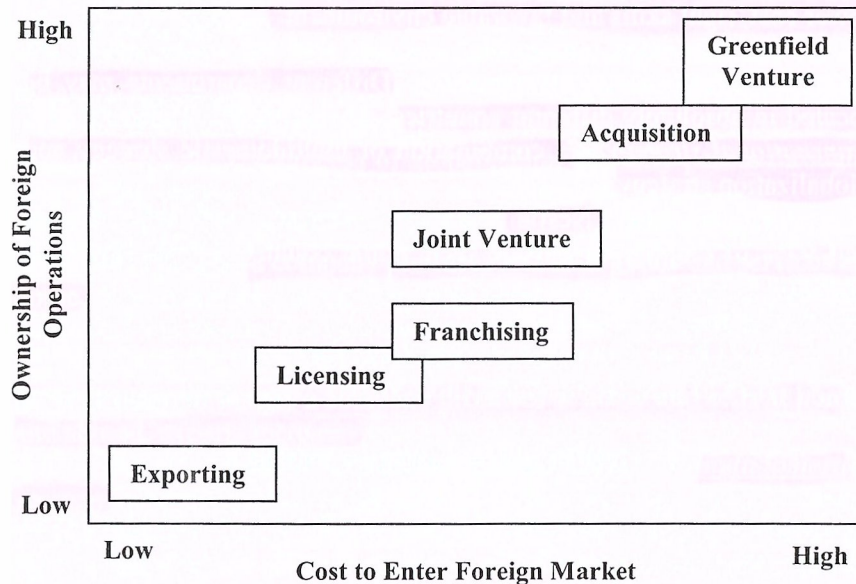
Market Entry Strategies:

1. Outsourcing (Global Outsourcing) – an entry strategy in which a company creates manufacturing division in a foreign country with the purpose of using its cheaper labor and raw materials.

For example, some U.S. companies build plants in the territory of Mexico where they can use cheap Mexican labor. The low-cost and high-quality Mexican workforce has also attracted manufacturers from other countries, firms such as Nissan, Renault, and Volkswagen.

Jacobson – American manufacturer of ties – has designers in California, but products are manufactured in Thailand.

Figure 3.3 – Strategies for Entering International Markets



UNREGISTERED COPY OF SCANPAPYRUS
 Exporting is a strategy in which a company trades goods and services within the borders of its country but sells them abroad.

Exporting allows a country to market its products in other countries at modest resource cost and with limited risk. Exporting brings many problems due to government regulations of a foreign country, foreign currencies, and cultural differences, but it is cheaper to export than to build plants in host countries (taxes for foreign producers are higher). Small companies benefit more from exporting than from building plants in foreign countries.

A form of exporting is called **countertrade** – a barter of products for other products rather than their sale for currency. This form of exporting is usually used to less-developed countries because many less-developed countries have products to exchange but they don't have foreign currency. Approximately 20% of world trade is countertrade.

3. Licensing – an entry strategy in which a licensor sells technology, brand or trademark to a licensee to produce similar products in his country.

Franchising – a form of licensing in which a franchisor sells the right to the franchisee to produce and sell products same in his country.

Here the franchisee has to use everything: equipment, technology, products, product ingredient, trademark, name, management system, and standardized operating system of a franchisor. A franchisee has to take the name and systems of the franchisor. Most franchisees are affiliates of parent companies (franchisors). Whereas in licensing, a licensee generally keeps its own company name and systems.

For example, Coca-Cola Bottlers sells franchise; McDonald's and Burger King sell franchise.

Licensing and franchising offer a business a relatively easy access to international markets at low cost, but they limit its participation and control over the development of those markets.

4. Direct Investing – an entry strategy in which a company is directly involved in managing its productive assets in a foreign country.

The three wide-spread forms of direct investment are joint ventures, acquisitions, and greenfield ventures.

Joint venture involves a strategic alliance or a program by two or more organizations (short-term or long-term).

In joint venture, a company shares costs and risks with another firm in the host country to develop new products, build a manufacturing plant, or set up distribution network. Joint venture is also called partnership. For example, Nestle and L'Oreal engaged in a joint venture to produce the nutritional supplement Inneov, which is designed to improve the health of skin.

Acquisition of a foreign affiliate occurs when a company buys affiliate from another company in a foreign country.

Direct acquisition of an affiliate may provide cost savings over exporting by shortening distribution channels and reducing storage and transportation costs. For example, Wall-Mart purchased a part of Germany Wertkauf hypermarket chain.

Greenfield Venture occurs when a company builds a subsidiary from scratch in a foreign country.

The advantage is that the subsidiary is exactly what the company wants and has the potential to be highly profitable. The disadvantage is that the company has to acquire all market knowledge, materials, people, and know-how in a different culture, and mistakes are possible. An example of a Greenfield venture is the Mercedes-Benz plant in Vance, Alabama. This was the first time a company built a plant outside Germany. The venture was very risky because the new plant was building a new product (sport-utility vehicle) with a new workforce, to be sold in a foreign country.

The main difference between outsourcing and Greenfield venture is that in outsourcing the company just creates a manufacturing department (factory, plant), and in Greenfield venture the company creates a subsidiary with all functions from scratch.

Key Terms

UNREGISTERED COPY OF SCANPAPYRUS

Acquisition	приобретение	International management	межн.
Business plan	бизнес план	Joint venture	совместное пред.
Copreneurs	исполнители или компаньоны	Jugglers	жонглер
Corporation	корпорация	Licensing	лицензия
Countertrade	бартер	Multidomestic strategy	многонац.
Debt financing	денежное финансирование	Optimizers	оптимизаторы
Direct investing	прямые инвестиции	Outsourcing	аутсорсинг
Entrepreneur	предприниматель	Partnership	товарищество
Entrepreneurship	предпринимательство	Partnership agreement	договор
Equity financing	акционерное финанс.	Small business	малый биз.
Exporting	экспорт	Sole proprietorship	с/п
Franchising	при франшизе	Start-up	начало дела
Globalization strategy	стратегия глоб.	Strategic plan	страт. план
Greenfield venture	зеленое поле	Sustainers	защитники
Hard-workers	тяжелотрудники	Transnational strategy	транснац.
Idealists	идеалисты		

Discussion Questions

1. What do you think are the most important contributions of small business to our economy?
2. Why would small-business ownership have great appeal to immigrants, women, and minorities?
3. Why is purchasing an existing business or franchise less risky than starting a new business?
4. If you were to start a new business, would you have to search for an idea, or do you already have an idea to try? Explain.
5. What is the difference between debt financing and equity financing? What are common sources of each type?
6. What are the advantages of going internationally?
7. Why do you think international businesses traditionally prefer to operate in industrialized countries?
8. What considerations in recent years have led international businesses to expand their activities into less-developed countries?
9. What does it mean to say that the world is "borderless"? That large companies are "stateless"?
10. What market entry strategies would you recommend to an entrepreneurial business wanting to do business in Europe?
11. What steps could a company take to avoid making product design and marketing mistakes when introducing a new product into a foreign country?
12. Compare the advantages and disadvantages associated with the foreign-market entry strategies of exporting, licensing, and wholly owned subsidiaries.

CASE STUDY: Nestle Strategy

Introduction

Nestlé is one of the oldest of all companies. The company was founded in Switzerland in 1866 by Heinrich Nestlé, who established Nestlé to distribute "milk food," a type of infant food he had invented that was made from powdered milk, baked food, and sugar.

From its very early days, the company looked to other countries for growth opportunities, establishing its first foreign offices in London

in 1868. In 1905, the company merged with the Anglo Swiss Condensed Milk, thereby broadening the company's product line to include both condensed milk and infant formulas. Forced by Switzerland's small size to look outside its borders for growth opportunities, Nestlé established condensed milk and infant food processing plants in the United States and Great Britain in the late 19th century and in Australia, South America, Africa, and Asia in the first three decades of the 20th century.

In 1929, Nestlé moved into the chocolate business when it acquired a Swiss chocolate maker. This was followed in 1938 by the development of Nestlé's most revolutionary product, Nescafe, the world's first soluble coffee drink. After World War II, Nestlé continued to expand into other areas of the food business, primarily through a series of acquisitions that included Maggi (1947), Cross & Blackwell (1960), Findus (1962), Libby's (1970), Stouffer's (1973), Carnation (1985), Rowntree (1988), and Perrier (1992).

By the late 1990s, Nestlé had 500 factories in 76 countries and sold its products in a 193 nations – almost every country in the world. In 1998, the company generated sales of close to \$51 billion, only 1% of which occurred in its home country.

Similarly, only 5% of its 210,000 employees were located in Switzerland. Nestlé was the world's biggest maker of infant formula, powdered milk, chocolates, instant coffee, soups, and mineral waters. It was number two in ice cream, breakfast cereals, and pet food. Roughly 38% of its food sales were made in Europe, 32% in America, and 20% in Africa and Asia.

A Growth Strategy for the 21st Century: Despite its undisputed success, Nestlé realized by the early 1990s that it faced significant challenges in maintaining its growth rate. The large Western European and North American markets were saturated. In several countries, population growth had stagnated and in some there had been a small decline in food consumption. The retail environment in many Western nations had become increasingly challenging, and the balance of power was shifting away from the large-scale manufacturers of branded foods and beverages and toward nationwide supermarket and discount chains. Increasingly, retailers found themselves in the unfamiliar position of playing off against each other manufacturers of branded foods, thus

bargaining down prices. Particularly in Europe, this trend was strengthened by the successful introduction of private-label brands by several of Europe's leading supermarket chains. The results included increased price competition in several key segments of the food and beverage market, such as cereals, coffee, and soft drinks.

At Nestlé, one response has been to look toward emerging markets in Eastern Europe, Asia, and Latin America for growth possibilities. In general, the company's strategy has been to enter emerging markets early—before competitors—and build a substantial position by selling basic food items that appeal to the local population base, such as infant formula, condensed milk, noodles, and tofu. By narrowing its initial market focus to just several strategic brands, Nestlé claims it can simplify life, reduce risk, and concentrate its marketing resources and managerial effort on a limited number of key niches. The goal is to build a commanding market position in each of these niches. By pursuing such a strategy, Nestlé has taken as much as 85 percent of the market for instant coffee in Mexico, 66 percent of the market for powdered milk in the Philippines, and 70 percent of the market for soups in Chile. As income levels rise, the company progressively moves out from these niches, introducing more profitable items, such as mineral water, chocolate, cookies and prepared foodstuffs.

Although the company is known worldwide for several key brands, such as Nescafe, it uses local brands in many markets. The company owns 8,500 brands, but only 750 of them are registered in more than one country, and only 80 are registered in more than 10 countries.

While the company will use the same "global brands" in multiple developed markets, in the developing world it focuses on trying to optimize ingredients and processing technology to local conditions and then using a brand name that accepted locally. Customization rather than globalization is the key to the company's strategy in emerging markets.

Executing the Strategy: Successful execution of the strategy for developing markets requires a degree of flexibility, an ability to adapt in often unforeseen ways to local conditions, and a long-term perspective that puts building a sustainable business before short-term profitability. In Nigeria, for example, a broken road system, aging

trucks, and the danger of violence forced the company to rethink its traditional distribution methods. Instead of operating a central warehouse, as is its preference in most nations, the company built a network of small warehouses around the country.

With little opportunity for typical Western-style advertising on television or billboards, the company hired local singers to go to towns and villages offering a mix of entertainment and product demonstrations.

China provides another interesting example of local adaptation and a long-term focus. After 13 years of talks, Nestlé was formally invited into China in 1987 by the government of Heilongjiang province. Nestlé opened a plant to produce powdered milk and infant formula there in 1990, but quickly realized that the local rail and road infrastructure was inadequate and restrained the collection of milk and delivery of finished products. Rather than make do with the local infrastructure, Nestlé established its own distribution network, known as milk roads, between 27 villages in the region and factory collection points, called chilling centers.

Farmers brought their milk—often on bicycles or carts—to the centers where it was weighed and analyzed. Unlike the government, Nestlé paid the farmers promptly. Suddenly the farmers had an incentive to produce milk, and many bought a second cow, increasing the cow population in the district by 3,000, to 9,000, in 18 months. Area managers then organized a delivery system that used dedicated vans to deliver the milk to Nestlé's factory.

Although at first glance this might seem to be a very costly solution; Nestlé calculated that the long-term benefits would be substantial. Nestlé's strategy is similar to that undertaken by many European and American companies during the first waves of industrialization in those countries. Companies often had to invest in infrastructure that we now take for granted to get production off the ground. Once the infrastructure was in place in China, Nestlé's production took off. In 1990, 316 tons of powdered milk and infant formula were produced. By 1994, output exceeded 10,000 tons, and the company decided to triple capacity. Based on this experience, Nestlé decided to build another two powdered milk factories in China and was aiming to generate sales of \$700 million by 2000.

Nestlé is pursuing a similar long-term bet in the Middle East, an area in which most multinational food companies have little presence. Collectively, the Middle East accounts for only about 2 percent of Nestlé's worldwide sales, and the individual markets are very small. However, Nestlé's long-term strategy is based on the assumption that regional conflicts will be settled down and intraregional trade will expand as trade barriers between countries in the region come down. Once that happens, Nestlé's factories in the Middle East should be able to sell throughout the region, thereby realizing scale economies. In anticipation of this development, Nestlé has established a network of factories in five countries in hopes that each will someday supply the entire region with different products. The company currently makes ice cream in Dubai, soups and cereals in Saudi Arabia, yogurt and bouillon in Egypt, chocolate in Turkey, and ketchup and instant noodles in Syria. For the present, Nestlé can survive in these markets by using local materials and focusing on local demand. The Syrian factory, for example, relies on products that use tomatoes, a major local agricultural product. Syria also produces wheat, which is the main ingredient in instant noodles. Even if trade barriers don't come down soon, Nestlé has indicated it will remain committed to the region. By using local inputs and focusing on local consumer needs, it has earned a good rate of return in the region, even though the individual markets are small.

Despite its successes in places such as China and parts of the Middle East, not all of Nestlé's moves have worked out so well. Like several other Western companies, Nestlé has had its problems in Japan, where a failure to adapt its coffee brand to local conditions meant the loss of a significant market opportunity to another Western company, Coca-Cola. For years, Nestlé's instant coffee brand was the dominant coffee product in Japan. In the 1960s, cold canned coffee (which can be purchased from soda vending machines) started to gain a following in Japan. Nestlé released the product as just a coffee-flavored drink, rather than the real thing, and declined to enter the market. Nestlé's local partner at the time, Kirin Beer, was so disappointed at Nestlé's refusal to enter the canned coffee market that it broke off its relationship with the company. In contrast, Coca-Cola entered the market with Georgia, a product developed specifically for this segment of the Japanese market. By leveraging its existing distribution channel, Coca-Cola captured a

40% share of the \$4 billion a year market for canned coffee in Japan. Nestlé, which failed to enter the market until the 1980s, has only a 4% share.

While Nestlé has built businesses from the ground up in many emerging markets, such as Nigeria and China, in others it will purchase local companies if suitable candidates can be found. The company pursued such a strategy in Poland, which it entered in 1994 by purchasing Goplana, the country's second largest chocolate manufacturer. With the collapse of communism and the opening of the Polish market, income levels in Poland have started to rise and so has chocolate consumption. Once a scarce item, the market grew by 8% a year throughout the 1990s. To take advantage of this opportunity, Nestlé has pursued a strategy of evolution, rather than revolution. It has kept the top management of the company staffed with locals—as it does in most of its operations around the world—and carefully adjusted Goplana's product line to better match local opportunities. At the same time, it has pumped money into Goplana's marketing, which has enabled the unit to gain share from several other chocolate makers in the country. Still, competition in the market is intense. Eight companies, including several foreign-owned enterprises, such as the market leader, Wedel, which is owned by PepsiCo, are competing for market share, and this has depressed prices and profit margins, despite the healthy volume growth.

Source: http://highered.mcgraw-hill.com/sites/dl/free/0072873957/121268/Hill4e_506_509.pdf

Questions:

1. Does it make sense for Nestlé to focus its growth efforts on emerging markets? Why?
2. What is the company's strategy with regard to business development in emerging markets? Does this strategy make sense?
3. What market entry strategies did Nestle use? *How?*
4. How would you describe Nestlé's strategic posture at the corporate level; is it pursuing a globalization strategy, a multidomestic strategy, or a transnational strategy?
5. Does this overall strategic posture make sense given the markets and countries that Nestlé participates in? Why?

CHAPTER 4: MANAGERIAL ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

Ethics is difficult to define in a precise way. In general sense, **[ethics is the code of moral principles and values that governs the behavior of people with respect to what is right or wrong.]** Ethics sets standards to what is good or bad in conduct and decision making. Ethics deals with internal values that are a part of corporate culture and shapes decisions concerning social responsibility with respect to the external environment. An ethical issue is present in a situation when the actions of a person or organization may harm or benefit others.

Because ethical standards are not codified, disagreements and dilemmas about proper behavior often occur. **Ethical dilemma arises in a situation when each alternative choice or behavior is undesirable** because of potentially negative ethical consequences. Right or wrong cannot be clearly identified. And a person who must make an ethical choice in an organization is the moral agent. For example, suppose the teacher discovered that you and your friend have absolutely same homework. Just a few minutes before the lesson you rewrote homework from your friend. The teacher wants to know who was cheating from whom. But you both keep silence because you are friends and, as result, the teacher gives F for homework to both of you because you are both guilty. Is it ethical from your side not to confess?

Business Ethics

[Business ethics is the behavior that a business brings to its daily dealings with the world. The ethics of a particular business can be diverse.] They apply not only to how the business interacts with the world at large, but also to their one-on-one dealings with a single customer.

Many businesses have gained a bad reputation just by being in business. To some people, businesses are interested in making money, and that is the bottom line. But making money is not wrong in itself. It is the manner in which some businesses conduct themselves to get this money that brings up the question of ethical behavior.

Good business ethics should be a part of every business. There are many factors to consider. When a company does business with

another that is considered unethical, does this make the first company unethical by association? Most people would say yes, the first business has a responsibility and it is now a link in the chain of unethical businesses.

Many global businesses, including most of the major brands that the public use, can be seen not to think too highly of good business ethics. Many major brands have been fined millions for breaking ethical business laws. Money is the major deciding factor.

If a company does not follow business ethics and breaks the laws, they usually end up being fined. Many companies have broken anti-trust, ethical and environmental laws and received fines worth millions. The problem is that the amount of money these companies are making outweighs the fines applied. Billion dollar profits blind the companies to their lack of business ethics, and the dollar sign wins.

A business may be a multi-million seller, but does it use good business ethics and do people care? There are popular soft drinks and fast food restaurants that have been fined time and time again for unethical behavior. Business ethics can be applied to everything from the trees cut down to make the paper that a business sells to allow importing coffee from certain countries.

In the end, it may be up to the public to make sure that a company follows correct business ethics. If the company is making large amounts of money, they may not wish to pay too close attention to their ethical behavior. There are many companies that pride themselves in their correct business ethics, but in this competitive world, they are becoming very few and far between.)

Unethical Behavior - It's Impact on Today's Workplace

It is a sad truth that the employees of just about every business will occasionally encounter team members who are taking part in unethical behaviors. Such unethical behaviors include a wide variety of different activities. Among the most common unethical business behaviors of employees are making long-distance calls on business lines, duplicating software for use at home, falsifying the number of hours worked, or much more serious and illegal practices, such as stealing money from the business, or falsifying business records.

Though there is sometimes a difference between behaviors that are unethical and activities that are actually illegal, it is up to the business itself to decide how it deals with unethical behavior – legal or not. Many employees find that discovering unethical behavior among co-workers actually tests their own values and ethical behaviors. After all, unethical behavior that is not illegal frequently falls in a grey area between right and wrong that make it difficult to decide what to do when it is discovered. Furthermore, different people have different views regarding what is ethical and what is unethical. For example, some people feel that it is alright to tell a little "white lie", or to make one long distance call on the company's phone line, as long as they can justify it in their mind.

When employees discover other employees doing something that they know is wrong by the company's standards, their own sense of what is right and what is wrong instantly comes into question. That employee needs to consider is how s/he feels about that particular activity, as well as informing about that activity, or turning a blind eye.

Even by deciding to do something about it, the employee who has discovered the unethical behavior is presented with a number of difficult choices. Should the employee speak to the individual directly, or should the employee head directly to a company supervisor?

To make this decision a bit easier, many companies have adopted several techniques that allow for the management of unethical activities. The first step is to create a company policy, in writing, that is read and signed by each employee. This erases most feelings of ambiguity when it comes to deciding what to do after witnessing an unethical behavior.

The second is to give a clear outline of what is expected of the person who has discovered the unethical behavior. It should include the person who should be contacted, and how to go about doing it. With clear instructions, there will be less hesitation in reporting unethical activities, and then they can be dealt with quickly and relatively easily, before they develop into overwhelming issues.

Furthermore, the consequences of unethical behaviors should be clearly stated. This way, both the person doing the activity, and the witness to the activity will be well aware of the way that things will be dealt with, and there won't be any risk of someone not reporting unethical behavior because they're afraid that the guilty person will be

unfairly treated. Communication is a key in the proper management of unethical behavior in today's workplace.

Criteria for Ethical Decision Making

Most ethical dilemmas involve a conflict between the needs of the part and the whole – the individual versus the organization or the organization versus society as a whole. Managers use 4 ethical approaches as criteria for ethical decision making: utilitarian approach, individualism approach, moral-rights approach, and justice approach.

1. **Utilitarian Approach** implies that behavior is moral if it produces the greatest utility for the greatest number of people.

Under this approach, a decision maker while making his decision should choose the best alternative that will satisfy the greatest number of people. In crisis situation, utilitarian approach is often used. For example, the CEO of the company may face an ethical dilemma to fire 50% of staff or decrease salary of all employees and leave everyone with the organization. An ethical decision from the utilitarian point of view is to decrease salary of all employees in order to keep at work as many people as possible. The greatest number of people will benefit from this decision.

Medical company may use utilitarian approach for ethical decision making in the following way: it may refuse from conducting expensive operations in order to provide cheaper services for a larger number of people, but those who need expensive operations may suffer and even die.

2. **Individualism Approach** implies that behavior is moral if it serves individual's long-term interests, which eventually leads to the greater good.

This approach is an opposite of the utilitarian approach. Here it is implied that a decision maker while making his decision should choose the best alternative that will satisfy individuals to a larger degree. Individualism is believed to lead to honesty and integrity because that works best in the long run. Individualism finally leads to behavior toward others that fits standards of behavior people want toward themselves.

For example, the CEO of one company stopped providing all employees with fringe benefits such as compensation for lunch and petrol when he found out that the child of one of his subordinates had cancer and needed money for treatment. No one in the organization resisted this decision although they all lost benefits. This money could save life of a child. In this way individualism approach was used that produced the greatest utility for one individual in the long run.

3. Moral-Rights Approach implies that behavior is moral if it does not violate the rights of people.

Each individual has his own moral rights: right to privacy, the right of freedom, the right of free speech, the right to life and safety. So to make ethical decisions managers must avoid interfering with the basic moral rights of others.

To make ethical decisions, managers need to avoid interfering with the fundamental rights of others. For example, eavesdropping violates the right to privacy.

4. Justice Approach implies that behavior is moral if it is based on standards of equity and fairness.

Individuals must be treated equally from moral rights point of view. If individuals are treated differently according to their sex and qualifications, they should not receive different salary for performing similar tasks, and individuals should not be responsible for the tasks over which they do not have control. For example, men and women should not receive different salaries if they are performing the same job, but more qualified and experienced individuals should receive higher salary than those with less expertise. Most laws that are guiding human resource management are based on the justice approach.

Three Levels of Personal Moral Development

When managers are accused of lying, cheating, or stealing, the blame is usually placed on the individual. Individuals choose whether to steal or not to steal, whether to cheat or not to cheat. But actually individual moral principles and individual personality are not the only factors that affect their behavior. These are organizational values, attitudes, beliefs, norms, and behavioral patterns or briefly saying

organizational culture that can affect individual's moral behavior. Each manager brings specific personality and behavioral traits to the job. Personal needs, family influence, and religious background all shape a manager's value system. Specific personality characteristics, such as ego strength, self-confidence, and a strong sense of independence, may enable managers to make ethical decisions.

One important personal trait is the stage of moral development. A simplified version of one model of personal development is shown in Figure 4.1. Managers can make decisions at three levels: preconventional, conventional, and postconventional.

Preconventional level: managers are mostly concerned with themselves; they blindly follow the rules to avoid punishment, and they act in their own interest in order to get rewards. What is important for managers here is just task accomplishment.

Conventional level: managers try to satisfy expectations of other people; they want to seem good to other people. If their colleagues, family, friends, and society think that such kind of behavior is good, they behave in that way. So here it is important group cooperation.

Postconventional level: managers are guided by their internal values and beliefs, and they disobey rules and laws that violate their interests. Their internal values for them are more important and they will act in

Figure 4.1 – Three Levels of Personal Moral Development

Level 3: Postconventional		
Level 2: Conventional		Follow 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.
Level 1: Preconventional	Lives up to expectations of others. Fulfills duties and obligations of social system. Upholds laws.	
Follows rules to avoid punishment. Acts in own interest. Obedience for its own sake.		

an ethical way regardless of expectations from others inside and outside the organization. Here managers empower employees so that they can fully participate in management of organization (servant leadership – employee leadership).

The great majority of managers operate at level two. A few have not advanced beyond level one. Only about 20% of adults reach the level-three stage of moral development. People at level three are able to act in an independent, ethical manner regardless of expectations from others inside or outside the organization. Managers at level three of moral development will make ethical decisions whatever the organizational consequences for them.

Corporate Social Responsibility (CSR)

Now let's turn to the issue of social responsibility. In one sense, the concept of corporate social responsibility, like ethics, is easy to understand: it means distinguishing right from wrong and doing right. It means being a good corporate citizen

UNREGISTERED COPY OF SCANPAPYRUS
Corporate social responsibility is the obligation of an organization to make such decisions and actions that will contribute to the welfare and interests of society as well as the organization.

Corporate social responsibility can be a difficult concept to understand, because different people have different beliefs as to which actions improve society's welfare. For example, is it socially responsible for the stronger corporation to drive the weaker one into bankruptcy? No, it's unethical. Employees of the bankrupt company will lose their jobs; society will not get products/services that were produced by that organization. Or consider companies such as Chiquita, Kmart, or Global Crossing, all of which declared bankruptcy – which is perfectly legal – to avoid financial obligations to suppliers, customers, government, and employees. It is completely unethical to avoid financial obligations.

One reason for the difficulty understanding social responsibility is that managers must answer the question, "Responsibility to whom?" "Responsibility to stakeholders."

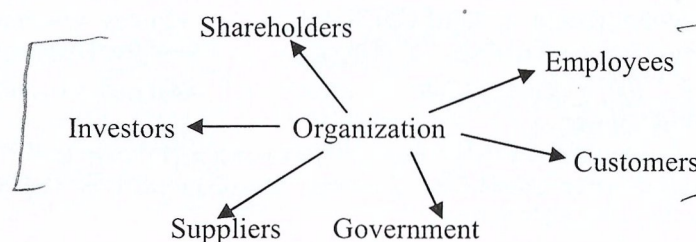
2011/11/11 14:00:00
[**Stakeholder** – any person or group within or outside the organization that has a stake in the organization's performance.]

Each stakeholder has a different interest in the organization. For example, Wal-Mart uses aggressive tactics with suppliers so that it is able to provide low prices for customers. Some stakeholders see this as responsible corporate behavior because it benefits customers and forces suppliers to be more efficient. Others, however, argue that the aggressive tactics are unethical and socially irresponsible because they force U.S. manufacturers to lay off workers, close factories, and outsource from low-wage countries. For instance, Wal-Mart now purchases nearly 10% of all Chinese imports to the United States. One supplier said clothing is being sold so cheaply at Wal-Mart that many U.S. companies could not compete even if they paid their employees nothing.

Most organizations are influenced by a variety of stakeholder groups. Investors and shareholders, employees, customers, suppliers, and government are considered primary stakeholders, without whom the organization cannot survive (Figure 4.2).

- [**UNREGISTERED COPY OF SCANAPYRUS**
Each stakeholder has a different interest in the organization.]
- *employees* expect work satisfaction, good salary, and good treatment;
 - *investors, shareholders, and suppliers* expect managerial efficiency and effectiveness to achieve profits;
 - *customers* expect quality, safety and availability of goods and services;
 - *government* expects compliance with the law (consumer protection, environment protection laws)

Figure 4.2 – Primary Organizational Stakeholders



If any of these stakeholders is dissatisfied then it will threaten organization's performance. Socially responsible organizations consider the effects of their actions on all stakeholder groups.

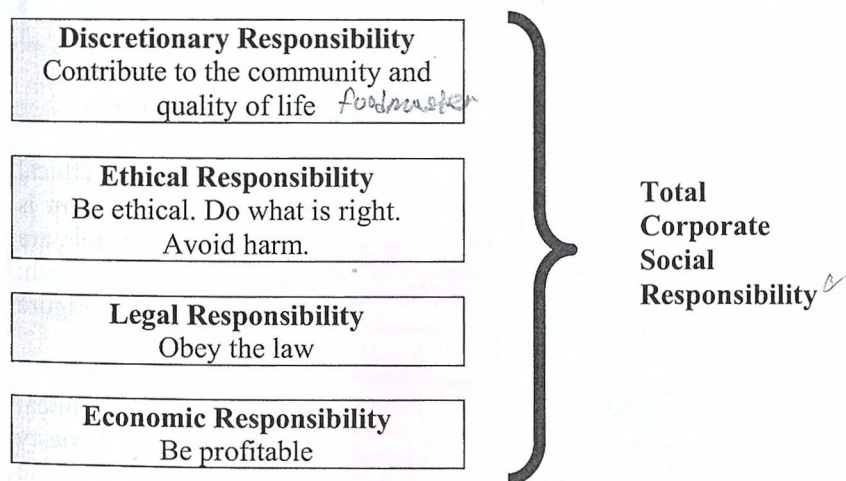
Evaluating Corporate Social Performance

A model for evaluating corporate social performance is presented in Figure 4.3. The model indicates that total corporate social responsibility can be subdivided into four primary criteria – economic, legal, ethical, and discretionary responsibilities. These four criteria fit together to form the whole of a company's responsiveness. Managers and organizations are typically involved in several issues at the same time, and a company's ethical and discretionary responsibilities are increasingly considered as important as economic and legal issues.

Economic Responsibility: the first criterion of social responsibility is economic responsibility. The business institution is the basic economic unit of society. Its responsibility is to produce goods and services that society wants and generate profits for owners and shareholders. Economic responsibility is called the profit-maximizing view.

UNREGISTERED COPY OF SCANPAPYRUS

Figure 4.3 – Total Corporate Social Responsibility



Legal Responsibility: all modern societies have rules, laws, and regulations that businesses are expected to follow. Legal responsibility defines what society believes important with respect to appropriate corporate behavior. Businesses are expected to fulfill their economic goals with the legal framework. Organizations that knowingly break the law are poor performers in this category. Internationally manufacturing defective goods or billing a client for work not done is illegal.

Ethical Responsibility: it includes behaviors that are not necessarily codified into law and may not serve the corporation's direct economic interests. As described earlier in this chapter, to be ethical, organization decision makers should act with equity, fairness, and impartiality, respect the rights of individuals, and provide different treatment of individuals only when relevant to the organization's goals and tasks. *Unethical* behavior occurs when decisions enable an individual or company to gain at the expense of other people or society as a whole.

Discretionary Responsibility: this responsibility is purely voluntary and is guided by a company's desire to make social contributions not mandated by economics, law, or ethics. Discretionary activities include generous contributions that offer no payback to the company and are not expected, for example, charity and sponsorship. Discretionary responsibility is the highest criterion of social responsibility, because it goes beyond social expectations to contribute to the community's welfare.

Building Ethical and Socially Responsible Company

Many managers are concerned with improving the ethical climate and social responsiveness of their companies. Management is responsible for creating and sustaining conditions in which people are likely to behave themselves. Ethical business practices depend on both: managers and the organization's values, policies, and practices. Figure 4.4 illustrates the three pillars that support an ethical organization.

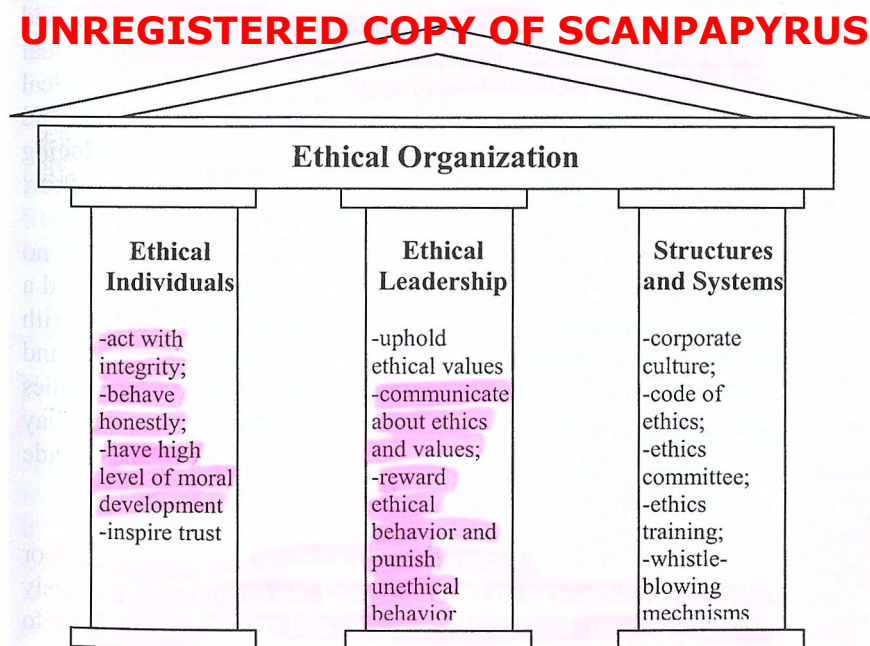
1. **Ethical Individuals:** managers who are essentially ethical individuals make up the first pillar. These individuals possess honesty and integrity, which is reflected in their behavior and decisions. People

inside and outside the organization trust them because they can be relied upon to follow the standards of fairness, treat people right, and be ethical in their dealings with others. Ethical individuals strive for a high level of moral development, as discussed earlier in the chapter.

However, being a moral person and making ethical decisions is not enough. Ethical managers also encourage the moral development of others. They try to focus the entire organization's attention on ethical values and create an organizational environment that encourages, guides, and supports the ethical behavior of all employees. Two additional pillars are needed to provide a strong foundation for an ethical organization: ethical leadership and organizational structures and systems.

2. Ethical Leadership: the primary way in which leaders set the tone for an organization's ethics is through their own behavior. If people don't hear about values from top management, they get the idea that

Figure 4.4 – The Three Pillars of an Ethical Organization



ethical values are not important in the organization. Using performance reviews and rewards effectively is a powerful way for managers to signal that ethics is important. Continuously rewarding ethical behavior and punishing unethical conduct at all levels of the company is a critical component of providing ethical leadership.

3. Organizational Structures and Systems: the third pillar of ethical organizations is the set of tools that managers use to shape values and promote ethical behavior throughout the organization. Three of these tools are codes of ethics, ethical structures, and mechanisms for supporting whistle-blowers.

✓ **Code of Ethics** – a formal statement of the company's values concerning ethics and social issues; it communicates to employees what the company stands for. Codes of ethics state the values or behaviors that are expected and those that will not be tolerated, supported by management's actions.

✓ **Ethical Structures** represent the various systems, positions, and programs a company can undertake to implement ethical behavior. **Ethics training programs** also help employees deal with ethical questions and translate the values stated in a code of ethics into a written code of ethics. For example, Boeing requires all employees to go through ethics training each year; at Boeing, senior managers get at least five hours annually.

A strong ethics program is important, but it has no guarantee against mistakes. For example, Enron implemented a well-developed ethics program, but managers failed to live with it. Enron's problems sent a warning to other managers and organizations. It is not enough to have an impressive ethics program. The ethics program must be merged with day-to-day operations, encouraging ethical decisions to be made throughout the company.

✓ **Whistle-Blowing** – employee disclosure of illegal, immoral, or illegitimate practices to the employer. No organization can rely exclusively on codes of conduct and ethical structures to

prevent unethical behavior.] Holding organizations accountable depends to some degree on individuals who are willing to blow the whistle when they detect illegal, dangerous, or unethical activities. Whistle-blowers often report wrongdoing to outsiders, such as regulatory agents, senators, or newspaper reporters. Some firms have instituted innovative programs and confidential hotlines to encourage and support internal whistle-blowing. For this to be an effective ethical safeguard, however, companies must view whistle-blowing as benefit to the company and make dedicated efforts to protect whistle-blowers. When there are no protective measures, whistle-blowers suffer. Although whistle-blowing has become widespread in recent years, it is still risky for employees, who can lose their jobs, be ostracized by coworkers, or be transferred to lower-level positions.

Key Terms

UNREGISTERED COPY OF SCANPAPYRUS

Code of ethics	Individualism approach
Corporate social responsibility	Justice approach
Discretionary responsibility	Legal responsibility
Economic responsibility	Moral-rights approach
Ethical responsibility	Stakeholder
Ethical structure	Utilitarian approach
Ethics	Whistle-blowing

Discussion Questions

1. Compare and contrast the utilitarian approach with the moral-rights approach to ethical decision making. Which do you believe is the best for managers to follow? Why?
2. Imagine yourself in a situation of being encountered to inflate your expense account. Do you think your choice would be most affected by individual moral development or by the cultural values of the company for which you worked? Explain.

3. Is it socially responsible for organizations to undertake political activity or join with others in a trade association to influence the government? Discuss.
4. From where do managers derive ethical values? What can managers do to help define ethical standards for the corporation?
5. Have you ever experienced an ethical dilemma? Evaluate the dilemma with respect to its impact on other people.
6. Lincoln Electric considers customers and employees to be more important stakeholders than shareholders. Is it appropriate for management to define some stakeholders as more important than others? Should all stakeholders be considered equal?

Practical Exercise: Ethical Dilemmas

What would you do? (Try to find the most ethical solution)

1) A top employee at your small company tells you that he needs some time off because he has AIDS. You know the employee needs the job as well as the health insurance benefits. Providing self-insurance has already stretched the company's budget. You know that the court has supported the right of an employer to modify health plans by putting a limit to AIDS benefits. Should you investigate whether this is a legal possibility for your company not to pay extra benefits to your employee?

2) You are the accounting manager of a division that is \$15,000 below profit targets. Approximately \$20,000 of office supplies were delivered on December 21. The accounting rule is to pay expenses when incurred. The division manager asks you not to record the invoice until February. What would you do?

3) As a sales manager for a major pharmaceutical company, you've been asked to promote a new drug that costs \$2,500 per dose. You've read the reports saying the drug is only 1% more effective than an alternate drug that costs 25% less. Can you in good conscience aggressively promote the \$2,500-per-dose drug? If you don't, could lives be lost that might have been saved with that 1% increase in effectiveness?

4) Your company is hoping to build a new overseas manufacturing plant. You could save about \$5 million by not installing standard pollution control equipment that is required by law. The plant will employ many local workers in a poor country where jobs are scarce. Your research shows that pollutants from the factory could potentially damage the local fishing industry. Yet building the factory with the pollution control equipment will likely make the plant too expensive to build.

5) You have been collaborating with a fellow manager on an important project. One afternoon, you walk into his office a bit earlier than scheduled and see sexually explicit images on his computer monitor. The company has a zero-tolerance sexual harassment policy, as well as strict guidelines regarding personal use of the Internet. However, your colleague was in his own office and not bothering anyone else.

CASE STUDY: Business Ethics and Corporate Social Responsibility



UNREGISTERED COPY OF SCANPAPYRUS is one of the world's leading mining companies. It is a UK public limited company and operates on a global scale.

Anglo American operates throughout the world. It has extensive operations in Africa, where 76% of its employees live. It is also a major employer in Europe. As a primary producer, Anglo American plays an important role in the world economy. Anglo American produces five main types of raw material.

Anglo American Products				
Base Metals	Ferrous Metals	Platinum	Coal	Industrial Materials
These include copper, zinc and nickel. Copper is used in wires, cables, tubes and pipes.	Iron ore, used to make steel.	Used in jewelry and products such as auto-catalysts. These reduce the pollution from vehicle emissions.	Used to generate about 40% of the world's electricity.	Tarmac produces aggregates and asphalt used in road building as well as ready-mixed concrete.

Mining operations can have a big impact on the environment and on the societies where they work. Since most mineral resources belong to nation states, mining companies largely depend upon a license to operate from governments. This allows them to extract and process minerals in return for investment and the payment of taxes and royalties. Increasingly it is also important to get the consent of local communities to mining development – a ‘social license’ to operate.

The company believes that it has an important role to play in building the capabilities of the communities where it works. Issues such as combating corruption and promoting revenue transparency are high on the company’s business agenda. This case study shows how Anglo American seeks to make ethical choices in its business practice.

Business ethics: business ethics refers to moral principles that guide the way a business behaves. The same principles that determine an individual’s actions also apply to business. Acting in an ethical way involves distinguishing between ‘right’ and ‘wrong’ and then making the ‘right’ choice. It is relatively easy to identify unethical business practices. For example, companies should not use child labor. They should not unlawfully use copyrighted materials and processes. They should not engage in bribery. However, it is not always easy to create similar hard-and-fast definitions of good ethical practice. A company must make a competitive return for its shareholders and treat its employees fairly. However a company also has wider responsibilities. It should minimize any harm to the environment and work in ways that do not damage the communities in which it operates. This is known as corporate social responsibility.

Codes of behavior: The law is the key starting point for any business. Most leading businesses also have their own statement of Business Principles which set out their core values and standards. In Anglo American’s case, this is called ‘Good Citizenship’. A business should also follow relevant codes of practice that cover its sector. Many companies have created voluntary codes of practice that regulate practices in their industrial sector. These are often drawn up in consultation with governments, employees, local communities and other stakeholders.

All companies need to make a profit. However, Anglo American recognizes that this objective must take account of ethics as shown in its statement on corporate responsibility:

'Though providing strong returns for our shareholders remains our prime objective, we do not believe that these can or should be achieved at the expense of social, environmental and moral considerations. Indeed a long-term business such as ours will only thrive if it also takes into account the needs of other stakeholders such as governments, employees, suppliers, communities and customers.'



Stakeholders: An important process used by Anglo American is that of stakeholder engagement. This enables it better to understand the perspectives and priorities of external groups that are affected by its activities and to factor them into its decision-making processes.

Recently Anglo American has had to undertake two such relocations in South Africa at the villages of Ga Pila and Motlhotlo. These were undertaken with the support of the provincial government and after consultation with local people lasting for several years leading to agreement with each householder. New villages have been built with better houses and infrastructure and more land for farming. The relocation program was voluntary. The relocation programme at Motlhotlo is still under way but at Ga Pila 98% of those living in the old village took up the offer to move to the new village.

Social and economic issues: Businesses have great potential to transform people's lives and to alleviate poverty through generating economic growth. They produce goods and services that customers want and they create jobs. Through paying taxes, they contribute to government revenue that can finance schools, hospitals and other public services. However, a business must keep in tune with the wishes of the

societies it serves or it runs the risk of alienating its shareholders, stakeholders and customers. This would be bad for business, reducing growth and potentially affecting profit. Anglo American has to deal with many different levels of interest when setting up a new project. This includes, for example, the owners of the land and the people and services in the area.

Governments in the developing world face many challenging social and economic problems. They need companies that are ready to be part of the solution. Anglo American believes that it can support governments in reducing poverty and inequality and in improving health and welfare.

In South Africa, the company has been a major campaigner for AIDS education. It was the first major company in South Africa to announce that it would provide free anti-retroviral drugs to its HIV-positive employees. It now has the largest workplace HIV/AIDS education, voluntary testing and treatment program in the world. After running the program for five years studies have shown that the program has become self-financing through reducing deaths and the attendant loss of skills and cutting absenteeism rates by boosting the health of infected workers.

Most business activity incurs financial costs such as equipment and labor. Non-financial costs include noise and impact on the environment. There is a financial cost to acting ethically. To engage stakeholders takes time and money. Mining in ways that minimize environmental impacts is more expensive than extracting resources regardless of impact. An ethical business also recognizes its responsibility for minimizing the non-financial costs.

There are enormous benefits of ethical behavior. Anglo American establishes goals each year for sustainable development. These goals include:

- ✓ working without fatal accidents
- ✓ eliminating occupational diseases
- ✓ increasing diversity in the workplace
- ✓ increasing the benefits of mining for local communities
- ✓ increasing energy efficiency

By working towards these goals, Anglo American hopes to gain a competitive advantage. By demonstrating a more caring and sustainable approach, the company is able to differentiate itself from rival mining

companies. It makes Anglo American more likely to be the partner of choice for many governments and communities in the developing world. This puts the company in a stronger position. All stakeholders benefit – shareholders, employees, governments, local communities and suppliers.

Source: <http://www.thetimes100.co.uk/case-study--business-ethics-corporate-social-responsibility--65-332-6.php>

Questions: ✓ note

1. What is business ethics? Give two examples of business practices that stakeholders would regard as ethical and two that might be considered unethical.
2. The benefits of ethical business behavior affect the business itself and the wider community. Taking an example of an Anglo American business project, identify the benefits to each company's shareholder.
3. How is Anglo American's reputation enhanced by engaging with local communities in decision-making? Why is it important for this engagement to be an ongoing process?
4. Some business decisions involve a careful balance of social, economic and environmental considerations. Evaluate how Anglo American achieves that balance, using examples from the case study.

UNREGISTERED COPY OF SCANPAPYRUS

CHAPTER 5: PLANNING AND STRATEGIC MANAGEMENT

One of the primary responsibilities of managers is to decide where the organization should go in the future and how to get it there. But how do managers plan for the future in a constantly changing environment? In some organizations, typically small ones, planning is informal. In others, managers follow a well-defined planning framework. The company establishes a basic mission and develops formal goals and strategic plans for carrying it. Companies such as Royal Dutch/Shell, IBM, and United Way undertake strategic planning each year by reviewing their missions, goals, and plans to meet environmental changes or the expectations of stakeholders. Many of these companies develop contingency plans for unexpected circumstances and disaster recovery plans for what the organization would do in the event of major disaster such as a hurricane, earthquake, or terrorist attack.

Of the four management functions – planning, organizing, leading, and controlling – described in Chapter 1, planning is considered the most fundamental. Everything else starts from planning.

UNREGISTERED COPY OF SCANPAPYRUS

Hierarchy of Goals and Plans

- ✓ **Goal** – a future state that the organization wants to achieve.
- ✓ **Plan** – a set of actions a company will take to achieve this goal.

Goals usually refer to profitability, productivity, growth, efficiency, markets, organizational structure, employee welfare, and social responsibility. A plan specifies the necessary resource allocations, schedules, tasks, and other actions. Goals specify future ends; plans specify today's means. The word planning usually incorporates both ideas; it means determining the organization's goals and defining the means for achieving them.

For example, a company may have the following goal and plan:

Goal: to increase market share by 5% in 3 years

Plan:
→ to improve customer service;
→ to improve quality of products;
→ to open a new affiliate in Southern Kazakhstan;
→ to hire qualified marketers for marketing research.

Figure 5.1 - Hierarchy of Goals and Plans in the Organization

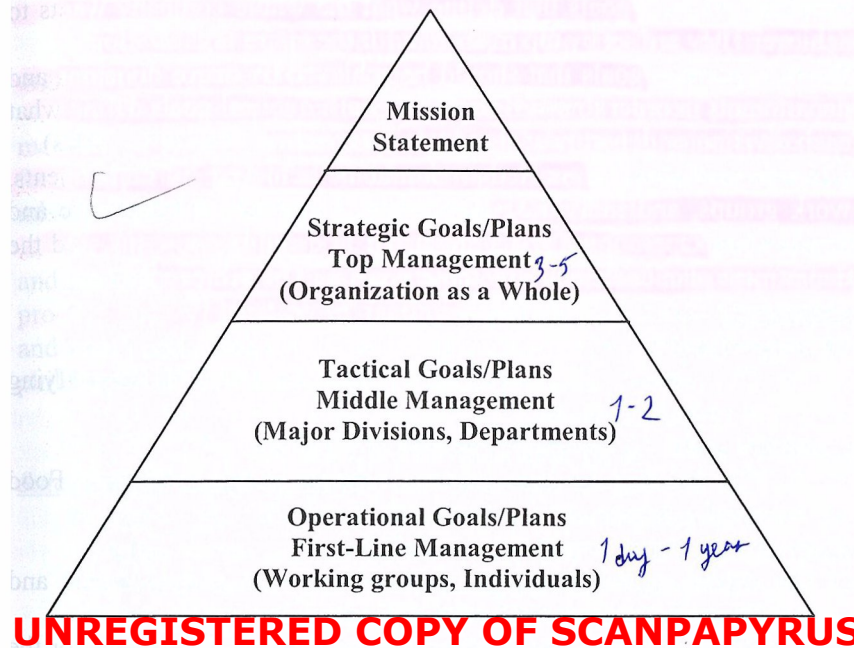


Figure 5.1 illustrates the levels of goals and plans in an organization. The planning process starts with a formal mission that defines the basic purpose of the organization, especially for external audiences. The mission is the basis for the strategic (company) level of goals and plans, which in turn shapes the tactical (divisional) level and the operational (departmental, individual) level. Top managers are typically responsible for establishing strategic goals and plans that reflect a commitment to both organizational efficiency and effectiveness. Tactical goals and plans are the responsibility of middle managers, such as the heads of major divisions or functional units. A division manager will formulate tactical plans that focus on the major actions the division must undertake to fulfill its part in the strategic plan set by top management. Operational plans identify the specific procedures or processes needed at lower levels of the organization, such as individual departments and employees. First-line managers and supervisors develop operational plans that focus on specific tasks and processes to meet tactical and strategic goals.

Definitions:

- ✓ **Strategic goals** – goals that define what the whole company wants to achieve. They are set by top managers for the entire organization.
- ✓ **Tactical goals** – goals that should be achieved by major divisions and departments in order to attain strategic goals. Tactical goals define what each division or department should do (accounting, marketing, sales).
- ✓ **Operational goals** – goals that should be achieved by departments, work groups, and individuals. Operational goals must be precise and measurable. Operational goals are stated in quantitative terms, and the department plan describes how these goals will be achieved.

Examples:

Strategic Goal:

- To increase sales in the next 5 years by 100% by diversifying into new products.

Tactical Goal:

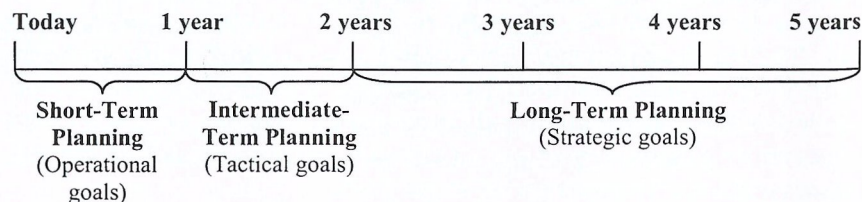
- To develop a new product within 2 years (Frozen Food Division)

Operational Goals:

- To complete marketing research about customer needs and wants in 2 months (Marketing Department)
- To attract new qualified candidates to R&D department for the new product development (HR department)

Planning Time Horizon

Organizational goals are associated with specific time horizons. The time horizons are long term, intermediate term, and short term. Long-term planning includes strategic goals and may extend as far as 5 years and more into the future. Intermediate-term planning includes tactical goals and has a time horizon of 1-2 years. Short-term planning includes operational goals for specific departments and individuals and has time horizon of 1 year and less.



Organizational Mission and Vision

At the top of the goal hierarchy is the mission. **Mission** – the organization's reason for existence.

The mission describes the organization's values, purpose, and means used to achieve this purpose. A well-defined mission is the basis for the development of all subsequent goals and plans. Without a clear mission, goals and plans may be developed incorrectly.

The content of a mission statement often focuses on the market and customers. Some mission statements describe corporate values, product quality, location of facilities, and attitude toward employees and other stakeholders. Mission statements often reveal company's philosophy as well as purpose.

Examples of Mission Statements

Suleyman Demirel University

- Suleyman Demirel University is a privately supported, co-educational institution with a worldwide mission. Its major commitments are quality programs of undergraduate instruction, continuing education, research and public service provided at the most reasonable cost to students. The University's programs are particularly responsive to the needs of individuals, public groups, and agencies in the community; all are rapidly adjusting themselves to quickly changing social, political and economical environment of the country.

The University aims to develop and pursue its programs in a manner to ensure that eligible students who desire to develop and expand their scholastic skills for personal, occupational, or professional growth have the opportunity to do so, regardless of socio-economic status. Respect for the intellectual potential and dignity of students, as individual human beings, without regard for racial, ethnic, or cultural background, shall be paramount.

McDonald's

- McDonald's exists to offer the fast food to customers. The food is prepared in the same high-quality manner world-wide, tasty and reasonably priced, delivered in a consistent, low-key décor and friendly atmosphere

Practical Exercise:

Try to guess which type of business the following mission statements belong to:

- 1) _____ *"To create a profitable restaurant with an exciting atmosphere, great food, and excellent service where people truly enjoy coming to eat. To provide a safe, healthy, and rewarding workplace for our employees"*
- 2) _____ *"With the power of direct and Dell's team of talented people, we are able to provide customers with superb value; high-quality, relevant technology; customized systems; superior service and support; and products and services that are easy to buy and use".*
- 3) _____ *"To provide high quality products that combine performance with value pricing, while establishing a successful relationship with our customers and our suppliers. To constantly strive to meet or exceed our customer needs and expectations of price, service, and selection. To this end, we will perform periodic reviews of the marketplace to improve our offerings. To stay ahead of the competition by innovating new products and services based on the needs of our customers and markets."*
- 4) _____ *"To be a profitable provider of high quality software solutions and services that provide strategic value to our customers and create a company that can attract, recruit and retain smart and talented employees. "*
- 5) _____ *"To provide high quality education and to graduate good specialists who will contribute to the welfare of society"*
- 6) _____ *"Our company's mission is to extend and enhance human life by providing the highest-quality pharmaceutical and related health care products."*

Vision – defines where the company wants to be in the future and how to get there.

While a mission statement answers the questions about why the organization exists, what business it is in, and what values guide it, a vision statement answers the question, "what will success look like?"

Examples of Vision Statements:

- 1) *"Within ten years, support and process ten million risk and error free investment transactions per year for a million customers"* (Bank)

- 2) *"Year after year, Kiwi Golf Tours will be widely recognized as the premier provider of innovative golf tours and services for Korean golf tourists."* (Kiwi Golf Tours)
- 3) *"To be established as one of the top hospitality trainer in the country by means of recognition well within and outside the company with constant technical & psychological development by higher education and greater exposure"* (Training Center)
- 4) *"McDonald's vision is to be the world's best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile."* (McDonald's)

Strategic Management

Strategic management is considered one specific type of planning. The final responsibility for strategy rests with top managers and the chief executive. For an organization to succeed, the CEO must be actively involved in making the rough choices and trade-offs that define an organization's strategy. However, some organizations such as General Electric, 3M Corp., and Johnson & Johnson want middle-managers and lower-level managers to think strategically. Some companies are finding ways to get operational workers involved in strategic thinking and planning. Strategic thinking means to take the long-term view and to see the big picture, including the organization and the competitive environment, and to consider how they fit together. Understanding the strategy concept, the levels of strategy, and strategy formulation versus implementation is an important start toward strategic thinking.

Strategic management – a process of formulating and implementing strategies within an organization that determine the long-run performance of a corporation.

It is the process of identifying the organization's mission, vision and objectives, developing and implementing policies and plans which are designed to achieve these objectives.

Strategic management helps the organization to answer such questions as "Where is the organization now? Where does the organization want to be in the future? What changes are occurring in

the competitive environment? What actions will help to achieve organizational goals?"

Answers to these questions help managers make choices about how to position their organizations in the environment with respect to rival companies. Superior organizational performance is not a matter of luck. It is determined by the choices that managers make. Top executives use strategic management to define an overall direction for the organization, which is the firm's grand strategy. Usually that grand strategy is one of growth, stability, or retrenchment.

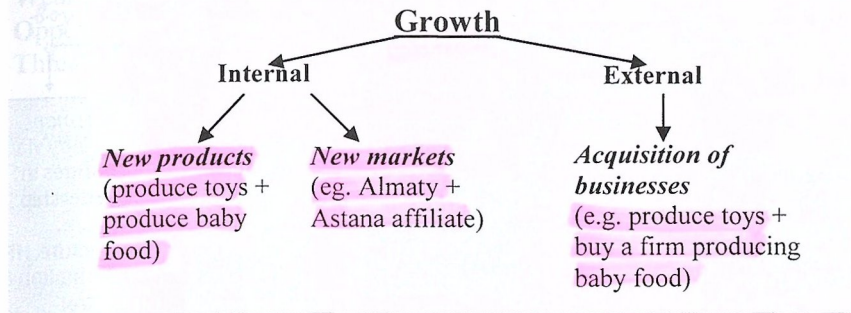
Grand Strategy

✓ **Grand strategy** – the general plan of actions that a company will take.

Types of grand strategies:

- ✓ **Growth:** growth can be promoted internally by investing in expansion or externally by acquiring additional businesses. Internal growth includes development of new or changed products, or expansion of current products into new markets. External growth typically involves diversification, which means the acquisition of businesses that are related to current product lines or that take corporation in new areas. For example, production of toys => production of clothes for children. A common strategy for international growth is the formation of a joint venture or acquisition (Figure 5.2).
- ✓ **Stability:** stability, sometimes called pause strategy, means that the organization wants to remain the same size or grow slowly and in controlled fashion. This strategy is usually used at the resource maturity stage after the organization has undergone a period of rapid growth.
- ✓ **Retrenchment:** retrenchment means that the organization goes through a period of forced decline by either selling off current business units or liquidating the entire business. Retrenchment may happen because of decrease in demand for company's products or services. Liquidation means selling off the business and its assets, thus terminating its existence.

Figure 5.2 – Internal and External Company Growth

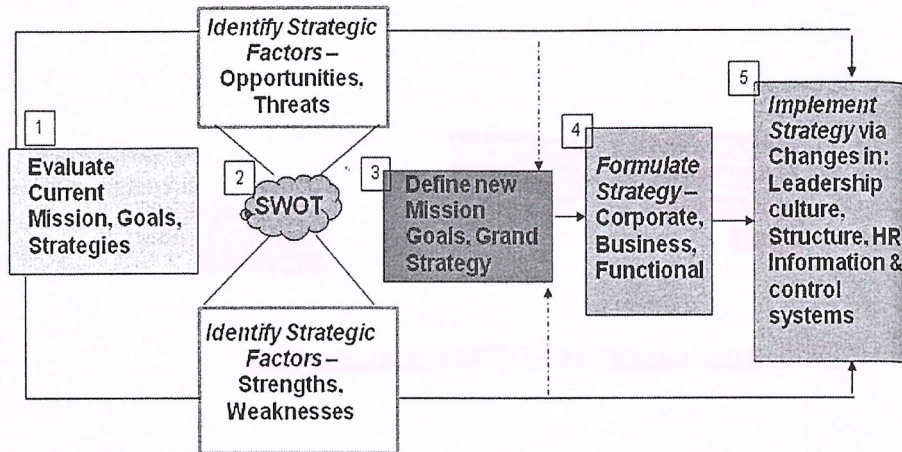


The Strategic Management Process

The overall strategic management process is illustrated in Figure 5.3. It begins when the executives evaluate their current position with respect to mission, goals, and strategies. Then, they scan the organization's internal and external environments and identify strategic factors that might require change. Internal or external events might indicate a need to redefine the mission or goals or to formulate a new strategy at the corporate, business, or functional level. The final stage in the strategic management process is implementation of the new strategy.

Strategy formulation includes the planning and decision making that leads to the establishment and the development of a specific strategic plan. *Strategy formulation* may include assessing the external environment and internal problems and integrating results into goals and strategy. This is in contrast to *strategy implementation*, which is the use of managerial and organizational tools to direct resources toward accomplishing strategic results. *Strategy implementation* is the administration and execution of the strategic plan. Managers may use persuasion, new equipment, or changes in organization structure to ensure that employees and resources are used to make formulated strategy a reality.

Figure 5.3 – The Strategic Management Process



Situation Analysis

UNREGISTERED COPY OF SCANPAPYRUS

✓ **Situation analysis** – SWOT analysis – analysis of company's strengths, weaknesses, opportunities, and threats that affect organizational performance.

Situation analysis is important to all companies but is crucial to those considering globalization because of the diverse environments in which they operate. External information about opportunities and threats may be obtained from various sources, including customers, government reports, professional journals, suppliers, bankers, friends in other organizations, consultants, or association meetings. Many firms hire special scanning organizations to provide them with newspaper clippings, internet research, and analysis of relevant domestic and global trends. Executives require information about internal strengths and weaknesses from various reports, including budgets, financial ratios, profit and loss statements, and surveys of employee attitudes and satisfaction. Through frequent face-to-face discussions and meetings with people at all hierarchical levels, executives build an understanding of the company's internal strengths and weaknesses.

What can be organizational strengths and weaknesses?

- | | |
|-------------------------------|---------------------------------|
| ✓ access to raw materials | ✓ leadership |
| ✓ advertising | ✓ location |
| ✓ board of directors | ✓ management |
| ✓ company reputation | ✓ organizational structure |
| ✓ computer information system | ✓ physical facilities/equipment |
| ✓ control systems | ✓ product differentiation |
| ✓ costs | ✓ promotion |
| ✓ decision making | ✓ quality control |
| ✓ distribution | ✓ research and development |
| ✓ financial resources | ✓ selling |
| ✓ human resources | ✓ technology |
| ✓ labor relations | ✓ inventory management |

What can be external factors that contribute to opportunities and threats?

Competitive factors, technological factors, socio-cultural factors, economic factors, and legal-political factors. These factors or forces have a direct impact on markets in which companies are operating.

UNREGISTERED COPY OF SCANPAPYRUS

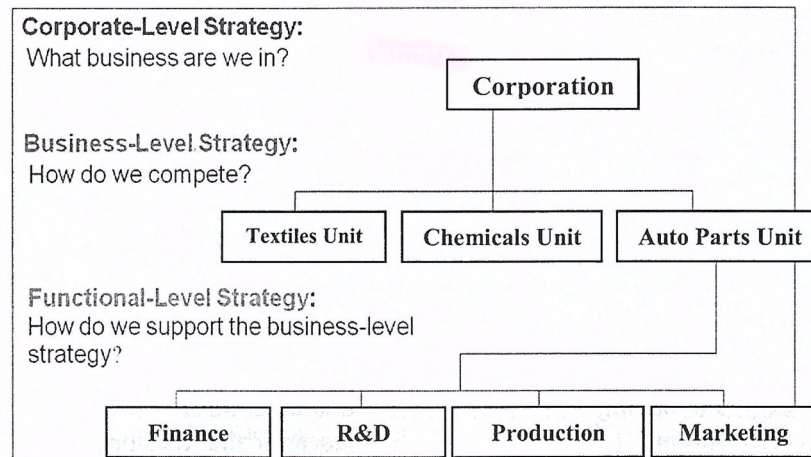
Formulating Strategy

The strategic management process is typically concerned with development of strategies at three levels: corporate-level strategy, business-level strategy, and functional-level strategy.

Let's consider Corporation X as an example. The corporation has three strategic business units (divisions). Each business unit includes four departments: finance, research and development (R&D), manufacturing, and marketing. We will see the process of developing the strategy for the whole corporation, each division, and each department (Figure 5.4).

Corporate-level strategy focuses on the organization as a whole.

Figure 5.4 – Levels of Strategies in the Organization



Business-level strategy focuses on each business unit (division) or product line.

Functional-level strategy focuses on major functional departments within a business unit.

UNREGISTERED COPY OF SCANPAPYRUS

1. Formulating Corporate-Level Strategy

In order to formulate a strategy at the corporate level, it is necessary to make portfolio analysis using the BCG matrix (Figure 5.5)

Portfolio analysis – evaluation of SBUs (strategic business units) and product lines that make up an organization.

Strategic business unit (SBU) – a division of the organization that has a separate mission, product line, competitors and markets relative to other divisions in the same organization.

A company classifies all its divisions according to the growth-share matrix. Business growth rate shows how rapidly the entire industry is increasing. Market share shows whether the business unit has a larger or smaller share than competitors.

Stars have large market share and operate in a rapidly growing industry.

Cash cows exist in a mature, slow-growth industry but are dominant businesses in the industry, with a large market share.

Figure 5.5 – The BCG Matrix (Boston Consulting Group).

		MARKET SHARE	
		High	Low
BUSINESS GROWTH RATE	High	STARS Generate considerable income due to rapid growth and expansion. <u>Strategy:</u> invest more funds for future growth.	QUESTION MARKS New ventures. Risky – few become stars, others are divested (liquidate, stop). <u>Strategy:</u> Either invest more funds to encourage growth or consider divestment.
	Low	CASH COWS Generate strong cash flow. <u>Strategy:</u> Milk; use profits to finance growth of stars and question marks.	DOGS Generate little or no profits. <u>Strategy:</u> Retain if profitable; otherwise consider divestment.

UNREGISTERED COPY OF SCANPAPYRUS

Question marks exist in a new, rapidly growing industry but have only a small market share.

Dogs are poor performers and they have only a small market share in a slow-growth industry.

It is easy to choose the grand strategy for the company and formulate business-level strategy by looking at the BCG matrix. If the majority of company's business units were classified as stars and/or question marks, the best grand strategy for the company is growth. If the majority of business units are cash cows – stability; if dogs – retrenchment.

2. Formulating Business-Level Strategy

One model for formulating business-level strategy is Michael E. Porter's competitive strategies, which provide a framework for business unit's competitive action. Porter suggests that a company can adopt one of three strategies: differentiation, cost leadership, and focus.

Companies can use the Internet to support and strengthen the strategic approach they choose.

✓ **Porter's Competitive Strategies:**

✓ 1. **Differentiation strategy** – a competitive strategy in which a company positions its products or services in a unique or different manner than its competitors do.

In other words, the firm strives to be better at something that customers value. Differentiation involves an attempt to distinguish the firm's products or services from others in the industry. The organization may use advertising, distinctive product features, exceptional service, or new technology to achieve a product perceived as unique. The differentiation strategy can be profitable because customers are loyal and will pay high prices for the product. Examples of products that have benefited from a differentiation strategy include Mercedes-Benz automobiles, Maytag appliances, and Tommy Hilfiger clothing which are perceived as distinctive in their markets.

Companies that pursue a differentiation strategy typically need strong marketing abilities, a creative talent, and a reputation for leadership. A differentiation strategy can reduce rivalry with competitors if buyers are loyal to a company's brand. In addition, differentiation creates entry barriers in the form of customer loyalty that a new entrant into the market would have difficulty overcoming. Consider the example of eBay. Rather than cutting prices when Amazon.com and other rivals entered the online auction business, eBay focused on building a distinctive community, offering customers such services and experiences they could not get on other sites. Customers stayed loyal to eBay rather than switch to low-cost rivals.

2. **Cost leadership strategy** – a competitive strategy in which a company strives to be the low-cost producer relative to its competitors in the industry.

With a cost leadership strategy, the organization aggressively seeks efficient facilities, pursues cost reductions, and uses tight cost controls to produce products more efficiently than competitors. A low-cost position means that a company can undercut competitors' prices and still offer comparable quality and earn a reasonable profit. Comfort

Inn and Motel 6 are low-priced alternatives to Holiday Inn and Ramada Inn. Enterprise Rent-a-car is a low-priced alternative to Hertz.

For example, the most efficient, low-cost company is in the best position to succeed a price war while still making a profit. Low-cost leader Dell Computers declared a cruel price war just as the PC industry entered its worst slump ever. The result? Dell racked up \$361 million in profits while the rest of the industry reported losses of \$1.1 billion.

3. Focus strategy – a competitive strategy in which a company selects one or more market segments, identifies customer special needs, wants, and interests, and designs a new good or service to meet these needs, wants, and interests.

With a focus strategy, the organization concentrates on a specific regional market or buyer group. The company will use differentiation or low-cost approach, but only for a narrow target market. Low-cost leader Southwest Airlines, for example, was founded in 1971 to serve only three cities – Dallas, Houston, and San Antonio – and did not fly outside of Texas for the first eight years of history. Managers aimed for controlled growth, gradually moving into new geographic areas where Southwest could provide short-haul service from city to city. By using a focus strategy, Southwest was able to grow rapidly and expand to other markets. It is now second only to Delta Airlines in domestic passenger share.

Managers consider which strategy will provide their company with its competitive advantage. In his studies, Porter found that some businesses did not consciously adopt one of these three strategies and were stuck with no strategic advantage. Without a strategic advantage, business earned below-average profits compared with those that used differentiation, cost leadership, or focus strategies. Similarly, a recent five-year study of management practices in hundreds of businesses found that a clear strategic direction was a key factor that distinguished winners from losers.

In addition, because the Internet is having such a profound impact on the competitive environment in all industries, it is more important than ever that companies distinguish themselves through careful strategic positioning in the marketplace. The Internet tends to increase the cost leadership and differentiation advantages by providing

new tools for managing costs and giving consumers greater access to comparison shopping. However, managers can find ways to incorporate the Internet into their strategic approaches in a way that provides unique value to customers in an efficient way.

3. Formulating Functional-Level Strategy

Functional-level strategies are the action plans adopted by major departments to support the execution of business-level strategy. Major organizational functions include marketing, production, finance, human resources, and research and development.

For example, if the company has adopted differentiation strategy and is introducing new products and these products are expected to experience a rapid growth, the human resources department should adopt a strategy appropriate for growth, which involves recruiting additional personnel and training middle managers for movement into new positions. The marketing department should undertake marketing research and aggressive advertising campaigns. The finance department should adopt plans to borrow money, handle large cash investments, and authorize construction of new production facilities.

A company with mature products or cost leadership strategy: the human resources department should develop strategies for retaining and developing a stable workforce, including transfers and promotions. Marketing should stress brand loyalty and the development of established, reliable channels. Production should maintain cost reduction. Finance should focus on positive cash balances.

Example: Textile division issues a new product:

Differentiation Strategy:

Recruit additional personnel;	}	<i>HR Department</i>
Train middle managers for new positions;		
Market research;	}	<i>Marketing Department</i>
Aggressive advertising campaign;		
Adopt plans to borrow money;	}	<i>Finance Department</i>
Handle large cash investments;		
Money for construction of production facilities.		

Cost Leadership Strategy:

Retain and develop existing workforce; } HR Department
Stress brand loyalty; } Marketing Department
Develop established reliable channels of distribution; } Department
Maintain cost reduction } Production Department
Focus on positive cash balances } Finance Department

Key Terms

Business-level strategy	Plan - план
Cash cows	Portfolio analysis
Corporate-level strategy	Question marks
Cost leadership strategy	Retrenchment strategy
Differentiation strategy	Situation analysis
Dogs	Stability strategy
External growth	Stars
Focus strategy	Strategic business unit (SBU)
Functional-level strategy	Strategic goals
Grand strategy	Strategic management
Growth strategy	Strategy formulation
Internal growth	Strategy implementation
Mission	SWOT analysis
Operational goals	Tactical goals
	Vision

Discussion Questions

1. Assume you are the general manager of a local hotel and have formulated a strategy of renting banquet facilities to corporations for big events. At a monthly management meeting, your sales manager informs the head of food operations that a big reception in one week will require converting a large hall from a meeting room to a banquet facility in only 60 minutes – a difficult, but doable operation that will require precise planning and extra help. The food operations manager is angry about not being informed earlier. What is wrong here?

2. Perform a situation (SWOT) analysis for the university you attend. Do you think university administrators consider these factors when devising their strategy?
3. Which type of grand strategies do the majority of companies adopt during crisis? Explain your point of view.
4. What is the difference between strategy formulation and strategy implementation?
5. Explain why it is important to develop strategy starting from corporate-level through business-level to functional-level, but not vice versa?
6. Using Porter's competitive strategies, how would you describe strategies of Wal-Mart, Arzan, and Sputnik? Explain.
7. Pepsi-Cola Company has 5 SBUs: Frito-Lay, Pizza Hut, Taco Bell, N.A. Van Lines, and Sporting goods. Put these SBUs into the BCG matrix and explain which strategy should be used for each.

	<i>Frito-Lay</i>	<i>Pizza Hut</i>	<i>Taco Bell</i>	<i>Van Lines</i>	<i>Sporting</i>
<i>Market Share</i>	20%	23%	5%	3%	4%
<i>Mkt Growth Rate</i>	17%	10%	15%	5%	10%

UNREGISTERED COPY OF SCANPAPYRUS

Homework

1. Suppose you have your own business. Write mission and vision statements for your imaginary company. You may choose among the following:

✓ Bookshop	✓ Retailer of autos
✓ Flower shop	✓ Perfume shop
✓ Restaurant	✓ Branded clothes shop
✓ Private school	✓ Ice cream producer
✓ Retailer of shoes	✓ Carpets producer
✓ Bakery	✓ Food for kids
2. Write examples of tactical goals, strategic goals, and operational goals. They must be related to each other.

SWOT Analysis: Case of “French House”, Almaty

Strengths +

- ✓ Huge assortment of well-known global brands of the luxury class;
- ✓ Differentiated products: French perfume and cosmetics, prêt-a-porter apparel, and accessories;
- ✓ Leading position in Kazakhstan market of perfume and cosmetics;
- ✓ Strong corporate culture and values;
- ✓ Individual approach to every customer and exclusive brand consultations;
- ✓ Good reputation of the company among customers as well as suppliers;
- ✓ Huge trading space area (50 sq.m. – 700sq.m.)
- ✓ Excellent design of external and internal space
- ✓ 23 shops on 11 cities of Kazakhstan
- ✓ Partner relations with more than 70 dealers;
- ✓ “French House” acts as a retail agent and at the same time as a distributor;
- ✓ Excellent advertising campaign;
- ✓ Excellent website;
- ✓ Publishing of own magazine “Revue” which is distributed free-of-

UNREGISTERED COPY OF SCANPAPYRUS

Weaknesses

- ✓ Poor customer service;
- ✓ High prices compared to other shops;
- ✓ Obsolete showcases and furniture;
- ✓ Weak control of regional affiliates.

Opportunities

- ✓ Decrease in the rate of euro relative to tenge positively affects “French House” because the company purchases its products in France;
- ✓ The stores are currently trading in 11 cities of our country. Therefore there are opportunities for future business expanding in few more cities;
- ✓ To take over, merge with, or form strategic alliances with other retailers of perfume and cosmetics in Kazakhstan, focusing on specific markets such as mass market;
- ✓ Opportunities exist for “French House” to continue with its current strategy of a market leader in retailing and distribution of perfume and cosmetics.

Threats	
✓	Financial crisis is a threat to “French House” company because higher unemployment arises and many enterprises are downsizing, laying off their employees, people have less money in their pockets and demand for products decreases;
✓	Because “French House” imports almost all of its products from Europe, there is a threat that appreciation of euro will lead decrease in profits of the company, they will purchase products at higher prices;
✓	The increase in tariff on import of products from Europe and transportation costs force the company to raise prices on all products;
✓	It is quite easy to enter the market of perfume and cosmetics in Kazakhstan; barriers to enter and exit are insignificant;
✓	“Mon Amie” is a very successful independent company that sells perfume and cosmetics to mass market. There is a threat that this firm may try to strengthen its position in the market and attack “French House”.
✓	There is a threat that other companies from Russia or Europe may enter the market to distribute their product line and capture part of the share that belongs to “French House”.
✓	There is a threat that other retailers and distributors will set a price lower than that of “French House” because the latter sells them French perfume and cosmetics at the wholesale prices.

UNREGISTERED COPY OF SCANPAPYRUS

CASE STUDY: Starbucks Coffee

Beginning nine Seattle stores in 1987, Starbucks CEO Howard Schultz has exported the company’s fashionable cafes throughout the country. Service is anything but fast, and the price of a cup of coffee could make the crowd faint¹, but each week almost two million Americans visited Starbucks to drink lattes² or mochas³.

Despite a slowdown in sales from established stores, Starbucks is pursuing rapid expansion. It made its first acquisition in 1994, buying The Coffee Connection Inc., a 23-store Boston rival. With more than

¹ *To faint* – падать в обморок

² *Latte* – coffee made with hot milk

³ *Mochas* – a strongly flavored dark brown coffee originally imported from Arabia

400 stores in place, Schultz plans to open 200 more within a year and has announced plans to team up with foreign partners to open stores in Asia and Europe. In addition, Starbucks has entered into a venture with PepsiCo to develop a new bottled coffee drink. Schultz's strategies are risky, but some analysts think Starbucks has the flexibility and management strength to succeed.

Many managers at Starbucks have years of experience from such companies as Burger King, Taco Bell, Wendy's, and Blockbuster. Schultz believes a CEO should "hire people smarter than you are and get out of their way". Equally crucial to the success of Starbucks are the "baristas"⁴ who prepare coffee drinks. Starbucks recruits its workers from colleges and community groups and gives 24 hours of training in coffee making and lore⁵ – a key to creating the company's stylish image and quality service. To maintain quality control, Starbucks cooks all its coffee in-house. The company also has turned down profitable alternatives such as franchising and supermarket distribution.

A computer network links the expanding Starbucks empire, and Schultz hired a top information-technology specialist from McDonald's to design a point-of sale system⁶ to enable managers to track sales. Every night, computers from all 400-plus stores send information to headquarters in Seattle so that executives can see regional buying trends.

For Schultz, a man who has already changed America's coffee-drinking habits, the risks Starbucks is taking is just another challenge.

Source: R. Daft, D. Marcic. Management: The New Workplace. International Student Edition. 2007. p. 201

Questions:

1. Which of Porter's competitive strategies is Starbucks using?

⁴ *Barista* – бариста (специалист по приготовлению кофе)

⁵ *Lore* – практические или профессиональные знания в какой-либо области

⁶ *Point-of-sale system* -- система терминалов в местах продажи (система терминалов для осуществления безналичных платежей в магазинах и иных местах торговли товарами или услугами; в зависимости от системы, клиент может оплачивать покупку, совершать переводы, подтверждать подлинность чеков, получать краткосрочный кредит и т. д.)

2. Discuss how Schultz is using leadership, structure, information and control systems, and human resources to implement strategy at Starbucks.
3. What challenges may Schultz face in trying to expand Starbucks internationally?

UNREGISTERED COPY OF SCANPAPYRUS

CHAPTER 6: MANAGERIAL DECISION MAKING AND ORGANIZING

Managers often are referred to as decision makers. Though many of their important decisions are strategic, managers make decisions about every other aspect of an organization, including structure, control systems, responses to the environment, and human resources. Good decision making is a vital part of good management because decisions determine how the organization solves its problems, allocates resources, and accomplishes its goals.

The business world is full of evidence of good and bad decisions. For example, Nokia became a \$10 billion leader in the cell phone industry because managers at the company decided to sell off unrelated businesses such as paper, tires, and aluminum and concentrate the company's resources on electronics. On the other hand, Boeing's decision to increase airplane production at the same time when the factory was switching to a new automated manufacturing system was a fiasco. The massive assembly lines nearly broke down and the plant had to stop two lines so workers could catch up, costing the company \$2.6 billion. From the examples given above, we see that decision making is difficult and many factors should be considered during decision making process.

Decision making – the process of identifying problems and opportunities and then resolving them.

Decision making involves effort before and after the actual choice. For example, the decision to select Sveta, Assel, or Rinat requires the accounting manager to determine if a new junior auditor is needed, evaluate the availability of potential job candidates, interview candidates to acquire necessary information, select one candidate, and follow up with the socialization of the new employee into the organization to ensure the decision's success.

Programmed vs. Nonprogrammed Decisions

Management decisions typically fall into one of two categories: programmed and nonprogrammed.

Programmed decisions – decisions that have been made before and they have certain outcome.

Programmed decisions are made in response to recurring organizational problems. The decision to reorder paper and other office supplies when inventories drop to a certain level is a programmed decision. Other programmed decisions concern the types of skills required to fulfill certain jobs, the reorder of manufacturing inventory, selection of freight routes for product deliveries, etc.

Nonprogrammed decisions – new, novel, and complex decisions that have never been made before and they have uncertain outcome.

The most difficult decisions tend to be nonprogrammed, and they demand creative approaches. Many nonprogrammed decisions involve strategic planning, because uncertainty is great and decisions are complex. Decisions to build a new factory, develop a new product or service, enter a new geographical market, or relocate headquarters to another city are all nonprogrammed decisions (Table 6.1).

Table 6.1 – Examples of Programmed and Nonprogrammed Decisions

	Programmed Decisions:	Nonprogrammed Decisions:
Business Firm:	Periodic reorders of inventory.	Diversification into new products and markets
Health Care:	Procedures for admitting patients.	Purchase of experimental equipment.
University:	Necessary grade-point average for good academic standing (rank, status).	Construction of new classroom facilities (amenities, conveniences).

Decision-Making Steps

1. Identification of the problem or opportunity: The first step in the decision-making process is to recognize that the problem or opportunity exists and must be solved. Problems are barriers to the achievement of organizational goals. A problem occurs when organizational accomplishment is less than established goals. Some aspect of performance is unsatisfactory. An opportunity exists when managers see the possibility of increasing performance beyond current levels.

2. Diagnosis and analysis of causes: after the problem/opportunity identification you have to determine the causes of it. When did it occur? Where did it occur? How did it occur? What were the reasons? For example, if your company faces a problem of decreased sales by 10% - this is a problem. And what can be the reasons? Poor customer service, low quality of goods, untimely delivery, or anything else?

3. Development of alternatives: once a problem has been recognized, the next step is to develop numerous solutions. For programmed decisions, it is easy to identify many solutions because they are already available within the organization's rules and procedures. However, nonprogrammed decisions require development of solutions that are absolutely new for the organization. A decision maker has to apply all his creativity to finding solutions. One of the techniques used for generating ideas is called brainstorming.

Brainstorming – a process in which a small group of people interact with each other with the goal of producing a large quantity of novel and imaginative ideas.

The goal is to create an open atmosphere that allows members of the group to express their ideas. Participants should suggest any ideas that come to mind without evaluating or criticizing them. For a brainstorming process to be successful, a leader should follow these guidelines:

- ✓ keep the group small – 5 to 8 members;
- ✓ have a well-defined problem;
- ✓ limit the session to 40-60 minutes;
- ✓ appoint someone to be the recorder;
- ✓ encourage all ideas from the team, even wild and extreme ones;
- ✓ establish a goal of quantity of ideas over the quality of ideas;
- ✓ forbid evaluation or criticism of any idea;

4. Evaluation and selection of the best alternative: now you have many solutions, you have to evaluate them and to choose the best alternative. What will be the best alternative? That alternative which best fits organizational goals and achieves the desired result using minimum organization's resources.

5. Implementation of the decision: the implementation stage involves the use of managerial and administrative abilities. The success of the chosen alternative depends on whether it can be translated into action. Communication, motivation, and leadership skills must be used to see that the decision is carried out.

6: Evaluation and feedback: in the evaluation stage of the decision process, decision makers gather information that tells them how the decision was implemented and whether it was effective in achieving its goals. Feedback is important because decision making is a continuous process. Decision making is not completed when directors vote yes or no. The decision may fail, thus generating a new analysis of the problem, evaluation of alternatives, and selection of a new alternative. Many big problems are solved by trying several alternatives in sequence. Feedback is a part of monitoring that assesses whether a new decision needs to be made.

Organization Structure

Organizing is defined as the distribution of tasks and allocation of resources to departments and individuals in order to achieve stated organizational goals.

The organizing process leads to the creation of organization structure, which defines how tasks are divided and resources are allocated. Organization structure shows the tasks assigned to individuals and departments, formal reporting relationships, number of hierarchical levels, and span of managers' control. The characteristics of structure are usually depicted in the *organization chart*, which is the visual representation of an organization's structure.

Chain of command – the line of authority that links all persons in the organization and shows who reports to whom

Span of management – the number of employees who report to the supervisor. Sometimes called the span of control, this characteristic of structure determines how closely a supervisor can monitor subordinates. Traditional views of organization design recommended a span of management of about seven subordinates per manager.

However, many lean organizations today have spans of management of 30, 40 and more. For example, at Consolidated Diesel's team-based engine assembly plant, the span of management is 100. Generally, when supervisors must be closely involved with subordinates, the span should be small; when supervisors need little involvement with subordinates, it can be large.

The average span of control used in the organization determines whether the structure is tall or flat.

Tall structure is characterized by narrow span of control and relatively large number of hierarchical levels (Figure 6.1).

Flat structure is characterized by broad span of control and few hierarchical levels (Figure 6.2).

Centralization vs. Decentralization

Centralization and decentralization refers to the hierarchical level at which decisions are made.

Centralization means that decision authority is located near the top of the organization.

Decentralization means that decision authority is pushed down to lower hierarchical levels.

Organizations may have to experiment to find the correct hierarchical level at which to make decisions. Decentralization is believed to relieve the burden on top managers, make greater use of employee's skills and abilities, ensure decisions are made close to the action by well-informed people, and permit more rapid response to external changes. However, this does not mean that every organization should decentralize all decisions. Managers should diagnose the organizational situation and select the decision-making level that will best meet the organization's needs.

Departmentalization

Departmentalization – the basis on which employees are grouped into departments and departments are grouped into total organization.

Figure 6.1 – Tall Structure with a Narrow Span of Management

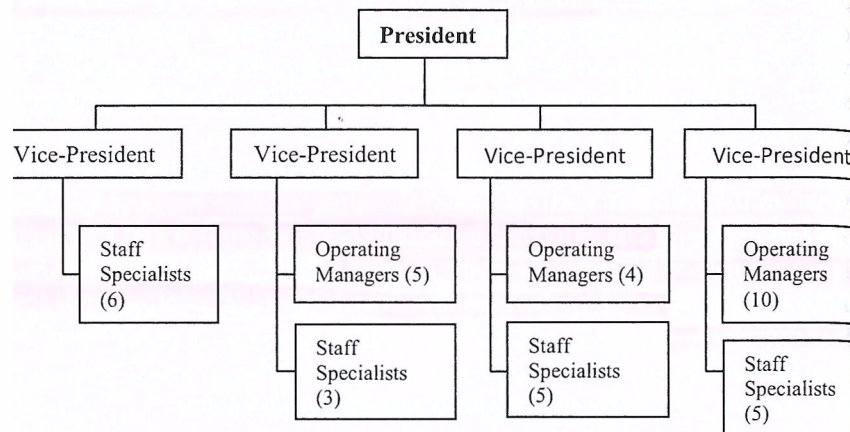
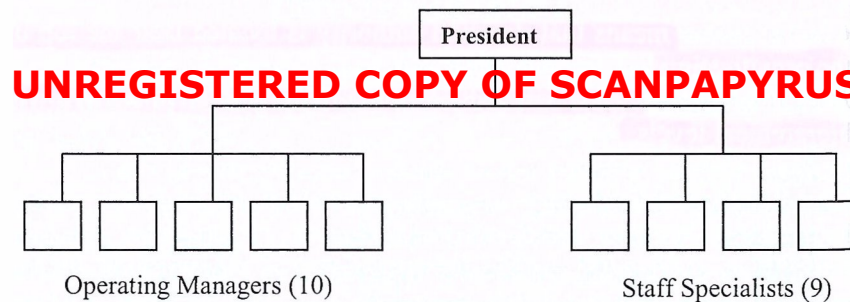


Figure 6.2 – Flat Structure with a Broad Span of Management



Five types of departmentalization:

- ✓ Functional departmentalization
- ✓ Divisional departmentalization
- ✓ Matrix departmentalization
- ✓ Team departmentalization
- ✓ Network departmentalization

Each type of departmentalization has advantages and disadvantages. The basic difference among structures is in the way in which employees are departmentalized and whom they report.

1. Functional Departmentalization

Functional Departmentalization implies that employees are grouped together into departments based on common skills and work activities, such as engineering department and accounting department (see Figure 6.3).

Figure 6.3 – Functional Departmentalization

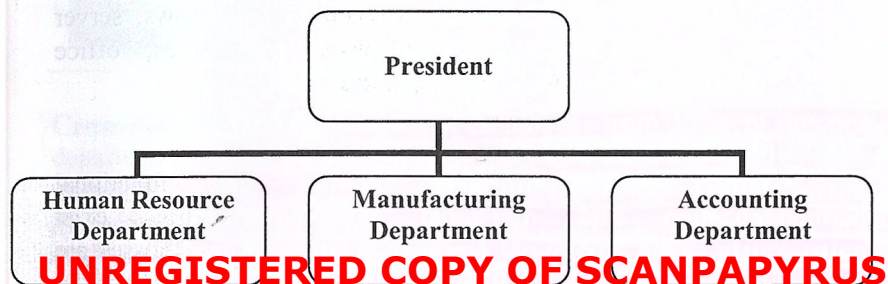
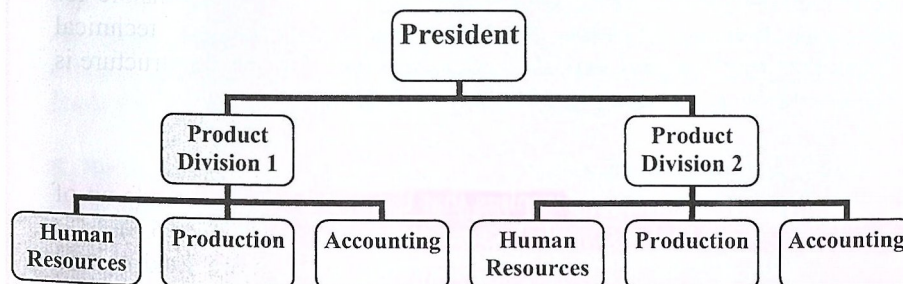


Figure 6.4 – Divisional Departmentalization



2. Divisional Departmentalization

Divisional Departmentalization implies that departments are grouped together into separate divisions based on a common product, project, or geographical region (Figure 6.4).

In large companies, divisional structure is essential. Most large corporations have separate business divisions that perform different tasks, serve different clients, or use different technologies. When a huge organization produces products for different markets, the divisional structure works because each division is an autonomous business. Thus, the divisional structure encourages decentralization. Decision making is pushed down to lower management levels, freeing the president and other top managers for strategic planning.

For example: Microsoft has 7 product divisions – Windows, server software, mobile software, office software, videogames, office software, MSN Internet service. Pepsi Cola has 5 divisions.

3. Matrix Departmentalization

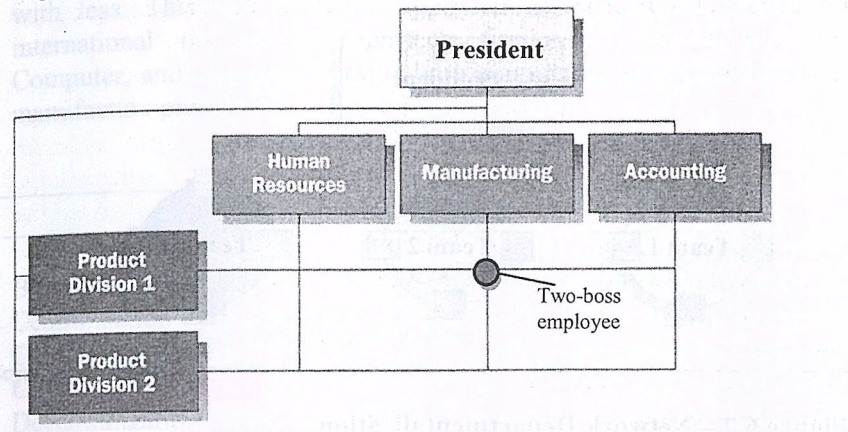
Matrix Departmentalization implies that functional departmentalization and divisional departmentalization exist simultaneously, some employees report to 2 bosses. These bosses are functional boss who is the head of department, and divisional boss who is the head of division. They are called **matrix bosses**. For example, the senior engineer in the manufacturing department is called a **two-boss employee** because he reports to two bosses simultaneously (Figure 6.5). The functional boss is responsible for technical and personnel issues, such as quality standards, providing technical training, assisting technical personnel to projects. The divisional boss is responsible for program issues, schedule deadlines, and coordinating technical specialists from several functions (departments). The matrix structure is often used by global corporations, e.g. Unilever.

4. Team Departmentalization

Team Departmentalization implies that the organization is made up of horizontal teams that accomplish organizational goals (Figure 6.6).

This approach enables organizations to be more flexible and responsive to the environmental changes. There are two ways to think about using teams in organizations:

Figure 6.5 – Matrix Departmentalization



✓ **Cross-functional team** consists of employees from different functional departments who are responsible to meet as a team and resolve mutual problems. Team members typically report to their functional departments, but they also report to the team leader. Cross-functional teams are frequently used for changing projects, such as new product or service innovation.

Permanent team consists of employees from different departments who are brought together as a formal department. Teams may consist only of 20 to 30 members, each bringing a functional specialty to the team. Emphasis is put on horizontal communication and information sharing because representatives from all functions are coordinating their work and skills to complete a specific organizational task. Authority is pushed down to lower levels, and front-line employees are often given freedom to make decisions and take actions on their own. Example: IBM uses permanent teams in its structure.

5. Network Departmentalization

Network Departmentalization is used for small organizations, where central office is electronically connected to other organizations that perform important functions. These companies can be located anywhere in the world (Figure 6.7).

Rather than manufacturing, engineering, sales, and accounting being housed under one roof, these services are provided by separate

Figure 6.6 – Team Departmentalization

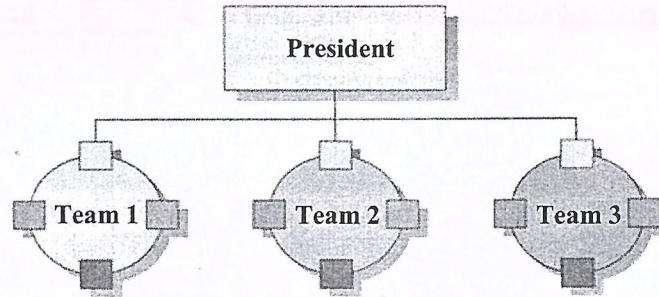


Figure 6.7 – Network Departmentalization



organizations working under contract and connected electronically to the central office. Networked computer systems, collaborative software, and the Internet enable organizations to exchange data and information so rapidly and smoothly that a loosely connected network of suppliers, manufacturers, assemblers, and distributors can look and act like one company. The idea behind networks is that a company can concentrate on what it does best and contract out other activities with distinctive

competence in those specific areas. This enables a company to do more with less. This organizational approach is especially powerful for international operations. High-tech firms such as Apple, Dell Computer, and Sony are working with contractors around the world to manufacture products.

Key Terms

Brainstorming	мозговой штурм	Matrix departmentalization	матричные департаментализация
Centralization	централизация	Network departmentalization	сетевая структурно-оптимизация
Chain of command	цепочка командования	Nonprogrammed decisions	непрограммируемые решения
Cross-functional team	кросс-функциональная команда	Organization chart	структурная схема
Decentralization	децентрализация	Permanent team	постоянная команда
Decision making	принятие решений	Programmed decisions	запрограммированные решения
Departmentalization	департаментализация	Span of management	сфера контроля
Divisional departmentalization	дивизиональная департаментализация	Tall structure	высокая структура
Flat structure	плоская структура	Team departmentalization	командная департаментализация
Functional departmentalization	функциональная департаментализация	Two-boss employee	два босса
Matrix	матрица		

UNREGISTERED COPY OF SCANPAPYRUS

Discussion Questions

- ✓ 1. Why is decision making considered a fundamental part of management effectiveness?
- ✓ 2. Analyze 2 decisions you have made for the past 6 months. Which of these were programmed and which were nonprogrammed?
- ✓ 3. Which of the six steps in the decision-making process do you think is most likely to be ignored by a manager? Explain.
- 4. You are a busy partner in a legal firm, and an experienced secretary complains of continuous headaches, drowsiness, dry throat, and occasional spells of fatigue and flu. She tells you she believes air quality in the building is bad and would like something done. How would you respond?
- ✓ 5. Many experts note that organizations have been making greater use of teams in recent years. What factors might account for this trend?

- 6. An organizational consultant was heard to say, “Some aspect of functional structure appears in every organization.” Do you agree? Explain.
- ✓ 7. The divisional structure is often considered almost the opposite of a functional structure. Do you agree? Briefly explain the major differences in these two approaches to departmentalization.
- ✓ 8. What is network approach to structure? Is the use of authority and responsibility different compared with other forms of departmentalization? Explain.
- ✓ 9. Why are divisional structures frequently used in large corporations?
- 10. Carnival Cruise Lines provides pleasure cruises to the masses. Carnival has several ships and works on high volume/low price rather than offering luxury cruises. What would you predict about the organization structure of a Carnival Cruise ship?

CASE STUDY: Tucker Company

In 1979, the Tucker Company underwent an extensive reorganization that divided the company into three major divisions. These new divisions represented Tucker's three principal product lines. Mr. Harnett, Tucker's president, explained the basis for the new organization in a memo to the board of directors as follows:

The diversity of our products requires that we organize along our major product lines. Toward this end I have established three new divisions: commercial jet engines¹, military jet engines, and utility turbines. Each division will be headed by a new vice president who will report directly to me. I believe that this new approach will improve our performance through the commitment of individual managers. It should also help us to identify unprofitable areas where the special attention of management may be required.

For the most part, each division will be able to operate independently. This is, each will have its own engineering, manufacturing, accounting departments, etc. In some cases, however, it will be necessary for a division to use the services of other divisions or

¹ Jet engine -- реактивный двигатель

departments. This is necessary because complete servicing with individual division staffs would result in unnecessary additional staffing and facilities.

The old companywide laboratory was one such service department. Functionally, it continued to support all of the major divisions. Administratively, however, the manager of the laboratory reported to the manager of manufacturing in the military jet division.

From the time the new organization was initiated until February 1988, when the laboratory manager Mr. Garfield retired, there was little evidence of interdepartmental or interdivisional conflict. His replacement, Mr. Hodge, unlike Mr. Garfield, was always willing to gain the attention of management. Many of Hodge's peers perceived him as an empire builder who was interested in his own advancement rather than the company's well-being. After about six months in the new position, Hodge became involved in several interdepartmental conflicts over work that was being conducted in his laboratory.

Historically, the engineering departments had used the laboratory as a testing facility to determine the properties of materials selected by the design engineers. Hodge felt that the laboratory should be more involved in the selection of these materials and in the design of experiments and subsequent evaluation of the experimental data. Hodge discussed this with Mr. Franklin of the engineering department of the utility turbine division. Franklin offered to consult with Hodge but stated that the final responsibility for the selection of materials was charged to his department.

In the months that followed, Hodge and Franklin had several disagreements over the implementation of the results. Franklin told Hodge that, because of his position at the testing lab, he was unable to evaluate the detailed design considerations that affected the final decision on materials selection. Hodge claimed that Franklin lacked the materials expertise that he, as metallurgist, had.

Franklin also noted that the handling of his requests, which had been prompt under Garfield's management, was taking longer and longer under Hodge's management. Hodge explained that military jet engine divisional problems had to be assigned first priority because of his administrative reporting structure. He also said that if he were more involved in Franklin's problems, he could perhaps evaluate when a true sense of urgency existed and could revise priorities.

The tensions between Franklin and Hodge reached a peak when one of Franklin's critical projects failed to receive the scheduling that he considered necessary. Franklin phoned Hodge to discuss the need for a schedule change. Hodge suggested that they have a meeting to review the need for the work. Franklin then told Hodge that this was not a matter of his concern and that his function was merely to perform the tests as required. He further stated that he was not satisfied with the low-priority rating that his division's work received. Hodge reminded Franklin that when Hodge had suggested a means for resolving this problem, Franklin was not receptive. At this point, Franklin lost his temper and hung up² on Hodge.

Source: R. Daft, D. Marcic. Management: The New Workplace. International Student Edition. 2007. pp. 288-289

Questions:

1. Sketch out a simple organization chart showing Tucker Company's three divisions, including the location of the laboratory. Why would the laboratory be located in the military jet engine division?
2. Analyze the conflict between Mr. Hodge and Mr. Franklin. Do you think the conflict is based on personalities or on the way in which the organization is structured?
3. Sketch out a new organization chart showing how you would restructure Tucker Company so that the laboratory would provide equal services to all divisions. What advantages and disadvantages do you see in the new structure compared to the previous one?

² *To hang up* – повесить телефонную трубку

CHAPTER 7: LEADERSHIP IN ORGANIZATIONS

There is probably no topic more important today than leadership. Leadership is one of the most commonly discussed topics today. Leadership occurs among people and it involves the use of influence. It also involves the use of power.

Leadership – the ability to positively influence people towards the achievement of organizational goals through motivation, communication and creation of corporate culture.

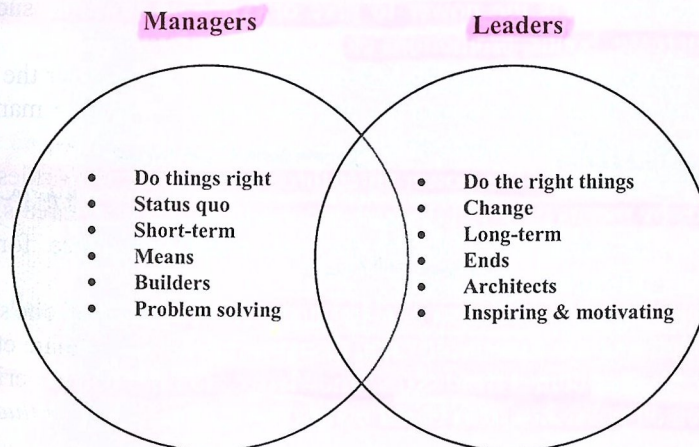
Leadership vs. Management

Management and leadership are both important to organizations. Effective managers have to be leaders, too, because there are distinctive qualities associated with management and leadership that provide different strengths for the organization. We can definitely say that not all managers are leaders and not all leaders are managers. Figure 7.1 illustrates differences between managers and leaders.

Managers generally act with their **mind** and **leaders** act with their **soul**.

✓ Whom should the organization prefer? A manager or a leader?
A manager who is also a leader.

Figure 7.1 – Differences between Managers and Leaders



Power of Leaders and Managers

Managers and leaders usually use power in order to affect employees.

Power – the ability of a person to influence other people behavior. Sometimes the terms power and influence are used synonymously, but there are distinctions between the two. Basically, **influence** is the effect a person's actions have on the attitudes, values, beliefs, or behavior of others. Whereas power is the capacity to cause a change in a person, influence may be thought of as the degree of actual change.

Types of power that managers exercise within the organization:

- | | |
|---------------------|-------------------------|
| 1. Legitimate power | } Position Power |
| 2. Reward power | |
| 3. Coercive power | |
| 4. Expert power | } Personal Power |
| 5. Referent power | |

^{законность}
[1] **Legitimate power** arises as a result of the position that a person holds in the organization. The person possessing this power has the ability to punish or reward his subordinates. ^{Compliance}
UNREGISTERED COPY OF SCANPAPYRUS
^{For example,} the dean of the university has the power to dismiss a student from the university if his attendance falls below 50% for all subjects. Similarly, a manager has the power to promote his subordinate if his/her performance is excellent.

[2] **Reward power** is the power to give or withhold rewards, such as salary increase, bonus, promotions etc. ^{Compliance}
^{For example,} a manager declares 10% of the basic pay for the next month as New Year bonus for the employees. Here, the manager has exercised reward power.

^{принуждение}
[3] **Coercive power** is the power to enforce compliance with rules and standards by means of psychological, emotional or physical threats. ^{заставление compliance} It is based on the influencer's ability to punish the influencee for not meeting requirements. ^{Resistance}

^{For example,} punishment can be in the form of loss of one's job, withholding the announced hike, disciplining the subordinate etc.

[4] **Expert power** comes from skills, knowledge, abilities and experience that a person possesses. It is based on the perception that the influencer

has some relevant experience, special knowledge or skill that the *influencee* does not have. *Commitment*

For example, doctors, lawyers, engineers etc. influence others, because they possess certain specialized knowledge. When a leader is a true expert, subordinates will go along with recommendations because of his or her superior knowledge.

(5) *Referent power* refers to a person who possesses desirable resources and/or personal traits of a leader. *Commitment*

For example, it is the personal power that accrues to an individual based on identification, imitation, loyalty or charisma. People or groups are highly influenced by such powerful personalities.

The use of different types of power produces different responses of followers.

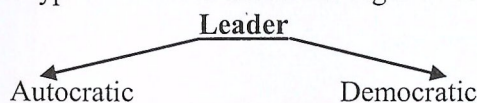
Legitimate power and reward power are most likely to generate follower compliance. *Compliance* means that workers will obey orders and carry out instructions, although they may personally disagree with them and might not be enthusiastic.

Coercive power most often generates resistance. *Resistance* means that workers will deliberately try to avoid carrying out instructions or will attempt to disobey orders.

The follower reaction most often generated by expert power and referent power is commitment. *Commitment* means that workers will share the leader's point of view and enthusiastically carry out instructions.

Types of Leaders

There can be two types of leaders within the organization:



[*Autocratic leader* – a leader who tends to centralize authority and relies on legitimate, reward, and coercive power to manage subordinates.]

[*Democratic leader* – a leader who delegates authority to others, encourages participation, and relies on expert and referent power to manage subordinates.]

Leadership Theories

Ohio State Studies

Ohio State University has long been a leading-edge authority on management and leadership. The Ohio State studies were begun in 1945 to identify the dimensions of leadership behavior. The staff of Ohio State created a **Leader Behavior Description Questionnaire (LBDQ)** which was designed to discover how leaders carry out their activities.

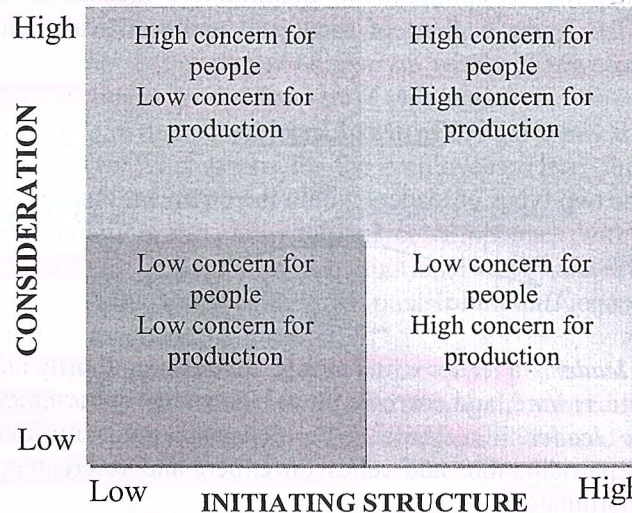
Researchers at the Ohio State University identified two major behaviors of leaders directed to improve employees' performance, called consideration and initiating structure (Figure 7.2).

[**Consideration behavior** – a type of leader behavior that describes the extent to which a leader is sensitive to subordinates, respects their ideas and feelings, and establishes mutual trust.]

Example: orientation of new employees

UNREGISTERED COPY OF SCANPAPYRUS

Figure 7.2 – Ohio State Studies



[**Initiating structure behavior** – a type of leader behavior that describes the extent to which a leader is task oriented and directs subordinates' work activities toward goal achievement.] Leaders with this style typically give instructions, spend time planning, emphasize deadlines, and provide explicit schedules of work activities.
Example: measuring production output.

[An important finding of the Ohio State studies was that these two dimensions are independent. This means that *consideration for workers* and *initiating structure* exist simultaneously and in different amounts.] A matrix was created that showed the various combinations and quantities of the elements.

The Leadership Grid

Blake and Mouton of the University of Texas proposed a two-dimensional leadership theory called the leadership grid that builds on the work of The Ohio State and Michigan studies (Figure 7.3). Each axis on the grid is a nine-point scale, with 1 meaning low concern and 9 meaning high concern.

[**Leadership Grid** – a two-dimensional leadership theory that measures a leader's concern for people and concern for production]

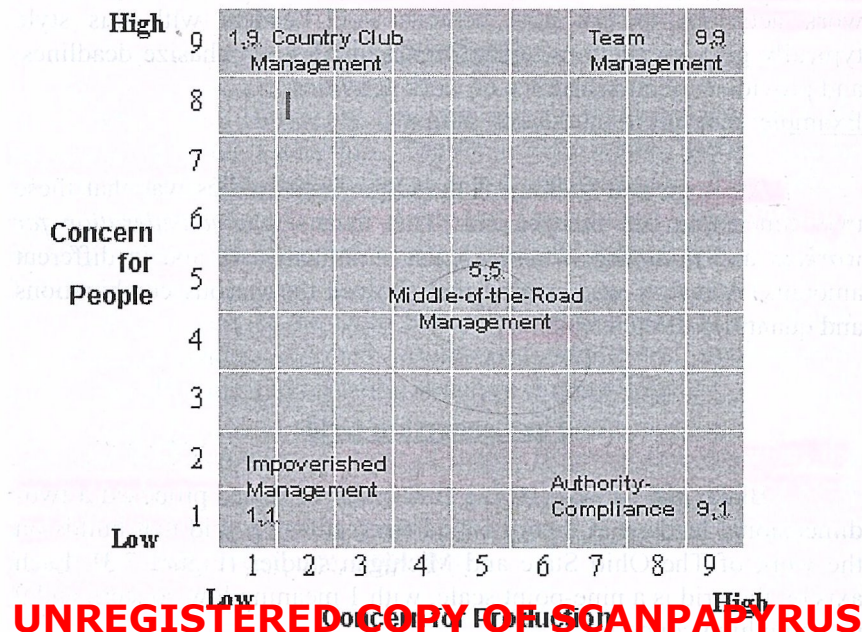
1) Impoverished Management Style (1,1) ———

In this style, managers worry little about both people and production. Managers use this style to avoid getting into trouble. The manager doesn't want to be held responsible for any mistakes, protects himself by not being noticed by others, and tries to stay in the same position for a long time.

2) Country Club Management Style (1,9) ———

Managers using this style care a lot about people and little about production. Managers pay much attention to the security and comfort of the employees, in hopes that this would increase performance. The resulting atmosphere is usually friendly, but not necessarily that productive.

Figure 7.3 – The Leadership Grid



3) *Authority-Compliance Management Style (9,1)* —

With a high concern for production, and a low concern for people, managers using this style find employee needs unimportant; they provide their employees with money and expect performance back. Managers using this style also pressure their employees through rules and punishments to achieve the company goals. This dictatorial style is based on Theory X of Douglas McGregor, and is commonly applied by companies on the edge of real or perceived failure. This is used in case of crisis management.

4) *Middle-of-the-Road Management Style (5,5)* —

Managers using this style try to balance between company goals and workers' needs. By giving some concern to both people and production, managers who use this style hope to achieve suitable performance but doing so gives away a bit of each concern so that neither production nor people needs are met.

5) *Team Management Style (9,9)* —

In this style, managers take care a lot about both people and production. As suggested by the propositions of Theory Y, managers choosing to use this style encourage teamwork and commitment among employees. This method relies heavily on making employees feel as a part of the company.

The Leadership Grid Case Study:

When Pamela Forbes Lieberman learned that her subordinates called her the dragon lady, she hung a watercolor of a dragon in her office. Lieberman makes no apologies for her hand-driving leadership style. Her emphasis on ambitious goals, tough standards, and bottom-line results has brought renewed health and strength to hardware cooperative TruServ, which supplies inventory to True Value hardware stores. As soon as Lieberman became CEO, she began cutting costs and setting tough performance targets. "If people succeed, they will be rewarded, but if they don't, then we're going to have to look for new people sitting in their chairs", Lieberman says.

Compare Lieberman's leadership approach to that of Tom Gegax, who calls himself the head coach of Tires Plus, a fast growing chain of retail tire stores. Gegax believes that you cannot manage people like you manage fixed assets. His emphasis on treating employees just as well as they are expected to treat their customers. Gegax personally leads classes at Tires Plus University, where employees learn not just about changing tires but about how to make their whole lives better. Gegax also makes sure stores are clean, bright, and airy, so that employees have a pleasant work environment. He believes all this translates into better service. Employees, as well as customers, like the approach. "The last thing the world needs is another chain of stores," Gegax says. "What it does need is a company with a new business model — one that treats customers and employees as whole people".

The leadership style of Pamela Lieberman is characterized by high concern for tasks and production (task-oriented behavior) and low-to-moderate concern for people (people-oriented behavior). Tom Gegax, in contrast, is high on concern for people and moderate concern for production. Both leaders are successful, although they display very different leadership styles, because of their different situations.

Hersey and Blanchard's Situational Theory

The main idea: match the leader's style with the task readiness and competence of subordinates.

Subordinates vary in readiness level. People that are low in task readiness, because of the little ability or training, or insecurity, need a different leadership style than those who are high in readiness and have a good ability, skills, confidence, and willingness to work.

The matrix in Figure 7.4 indicates four different styles of leader's behavior, which is based on a combination of leader's supportive behavior and directive behavior. The bell-shaped curve is called *prescriptive curve*, because it indicates when each leader style should be used. The 4 styles – telling (S1), selling (S2), participating (S3), and delegating (S4) – depend on the readiness of subordinates, indicated in the lower part.

Leadership Behavior of the Leader

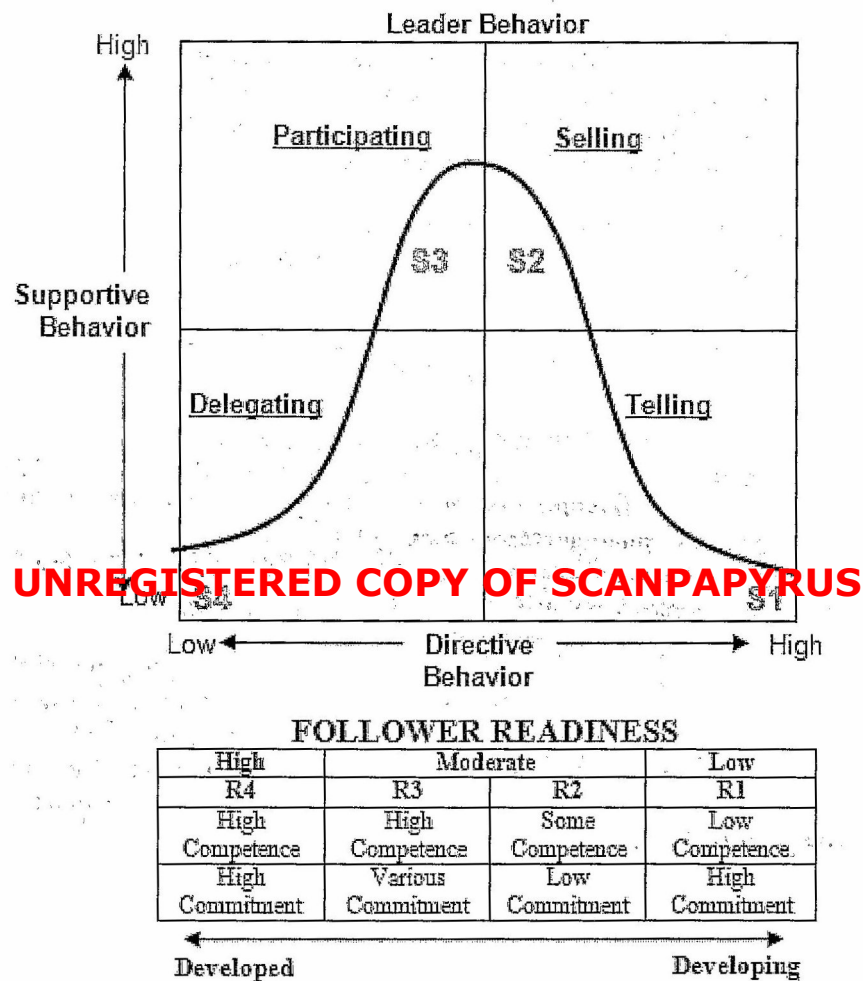
S1 – Telling / Directing: Leaders define the roles and tasks of the 'follower', and supervise them closely. Decisions are made by the leader and announced so communication is largely one-way. Telling is used for people who lack competence but are enthusiastic and committed. They need direction and supervision.

S2 – Selling / Coaching: Leaders still define roles and tasks but seek ideas from the follower. Communication is much more two-way. Selling is used for people who have some competence but lack commitment. They still need direction and supervision because they are still relatively inexperienced. They also need support and praise to build self-confidence.

S3 – Participating / Supporting: Leaders pass day-to-day decisions to the follower. This style is used for people who have competence, but lack confidence and motivation. They do not need much direction because of their skills, but support is necessary to increase their confidence and motivation.

S4 – Delegating: Leaders are still involved in decisions and problem-solving, but control is with the follower. The follower decides when and how the leader will be involved. It is used for people who have both competence and commitment. They are able and willing to work on a project by themselves with little supervision or support.

Figure 7.4 – Hersey and Blanchard's Situational Theory of Leadership



Readiness (Development) Level of the Follower

R1 – Low Competence, High Commitment: The follower is generally lacking the specific skills required for the job, but has the confidence and / or motivation to get it.

R2 – Some Competence, Low Commitment: the follower may have some relevant skills, but won't be able to do the job without help. The task or the situation may be new to them.

R3 – High Competence, Variable Commitment: He is experienced and capable, but may lack the confidence or the motivation to do it well.

R4 – High Competence, High Commitment: The follower is experienced at the job, and comfortable with his own ability to do it well. May even be more skilled than the leader.

Implications for Managers: Matching leader's style and follower's readiness: S1 → R1; S2 → R2; S3 → R3; S4 → R4.

Key Terms

Authority-compliance management	властное управ., Leadership management
Autocratic leader	авторитарный лидер, Leadership grid, "менеджер"
Coercive power	принудительная сила, Legitimate power
Commitment	Middle-of-the-road management
Compliance	Personal power
Consideration behavior	Position power
Country club management	Power
Democratic leader	Prescriptive curve
Expert power	Referent power
Impoverished management	Resistance
Initiating structure behavior	Reward power
	Team management

Discussion Questions

1. Rob Martin became manager of a forklift assembly plant and believed in participative management, even when one supervisor used Rob's delegation to replace two competent line managers with his own friends. What would you say to Rob about his leadership style in this situation?
2. Suggest some personal traits that you believe would be useful to a leader. Are these traits more valuable in some situations than others?

3. Would you prefer working for a leader who has a consideration or an initiating-structure leadership style? Discuss the reasons for your answer.
4. Consider Fiedler's theory. How often do very favorable, intermediate, or very unfavorable situations occur in real life? Discuss.
5. Do you think leadership style is fixed and unchangeable for a leader or flexible and adaptable? Discuss.

Homework

Identify 4 situations, either real or hypothetical, that you could be faced with in your current (future or previous) job, in which each of the 4 styles would be most appropriate: S1 – “Telling”, S2 – “Selling”, S3 – “Participating”, and S4 – “Delegating”

Experiential Exercise

UNREGISTERED COPY OF SCANPAPYRUS

Some leaders deal with general directions, leaving details to subordinates. Other leaders focus on specific details with the expectation that subordinates will carry out orders. Depending on the situation, both approaches may be effective. The important issue is the ability to identify relevant dimensions of the situation and behave accordingly. Through this questionnaire, you can identify your relative emphasis on two dimensions of leadership: task orientation (T) and people orientation (P). These are not opposite approaches, and an individual can rate high or low on either or both.

Instructions: The following items describe aspects of leadership behavior. Respond to each item according to the way you would most likely act if you were the leader of a work group. Circle whether you would most likely behave in the desired way: always (A), frequently (F), occasionally (O), seldom (S), or never (N).

1. I would most likely act as a A F O S N
spokesperson of the group.

2. I would encourage overtime¹ work.

A F O S N

3. I would allow members complete freedom in their work.

A F O S N

4. I would encourage the use of uniform procedures.

A F O S N

5. I would permit members to use their own judgment in solving problems.

A F O S N

6. I would stress being ahead of competing groups.

A F O S N

7. I would speak as a representative of the group.

A F O S N

⑧ I would needle members for greater effort.

A F O S N

9. I would try out my ideas in the group.

A F O S N

10. I would let members do their work the way they think best.

A F O S N

11. I would be working hard for a promotion.

A F O S N

⑫ I would tolerate postponement and uncertainty.

A F O S N

13. I would speak for the group if there were visitors present.

A F O S N

14. I would keep the work moving at a rapid pace.

A F O S N

15. I would turn the members loose on the job and let them go to it.

A F O S N

16. I would settle conflicts when they occur in the group.

A F O S N

⑬ I would get swamped by details.

A F O S N

⑭ I would represent the group at outside meetings

A F O S N

⑮ I would be reluctant to allow the members any freedom of action.

A F O S N

20. I would decide what should be done and how it should be done.

A F O S N

21. I would push for increased production.

A F O S N

22. I would let some members have authority which I could keep.

A F O S N

23. Things would usually turn out as I had predicted.

A F O S N

24. I would allow the group a high degree of initiative.

A F O S N

UNREGISTERED COPY OF SCANPAPYRUS

25. I would assign group members to particular tasks.

A F O S N

26. I would be willing to make changes.

A F O S N

27. I would ask the members to work harder.

A F O S N

28. I would trust the group members to exercise good judgment.

A F O S N

(30) I would refuse to explain my actions.

A F O S N

31. I would persuade others that my ideas are to their advantage.

A F O S N

32. I would permit the group to set its own pace.

A F O S N

33. I would urge the group to beat its previous record.

A F O S N

(34) I would act without consulting the group.

A F O S N

(35) I would ask that group members follow standards and regulations.

A F O S N

The T-P Leadership Questionnaire is scored as follows:

UNREGISTERED COPY OF SCANPAPYRUS

- Write the number 1 in front of *a circled item number* if you responded S (seldom) or N (never) to that item.
- Also write a number 1 in front of *item numbers not circled* if you responded A (always) or F (frequently).
- Circle the number 1s that you have written in front of the following items: 3, 5, 8, 10, 15, 18, 19, 22, 24, 26, 28, 30, 32, 34, and 35.
- Count the circled number 1s. This is your score for concern for people. Record the score in the bank following the letter P at the end of the questionnaire.
- Count uncircled number 1s. This is your score for concern for task. Record this number in the blank following the letter T.

T 11 P 7

When DGL International, a manufacturer of refinery equipment¹, brought in John Terrill to manage its Technical Services division, company executives informed him of the urgent situation. Technical Services, with 20 engineers, was the highest-paid, best-educated, and least-productive division in the company. The instructions to Terrill: Turn it around. Terrill called a meeting of engineers. He showed great concern for their personal welfare and asked: "What's the problem? Why can't we produce? Why does this division have such turnover?"

Without hesitation, employees launched a hail of complaints. "I was hired as an engineer, not a pencil pusher". "We spend over half our time writing silly reports in triplicate for top management, and no one reads the reports."

After two-hour discussion, Terrill concluded he had to get top management off the engineers' backs. He promised the engineers, "My job is to stay out of your way so you can do your work, and I'll try to keep top management off your backs too." He called for the day's reports and issued an order immediately that the originals be turned in daily to his office rather than mailed to headquarters. For three weeks technical reports piled up on his desk. By month's end, the stack was nearly three feet high. During that time no one called for the reports. When other managers entered his office and saw the stack, they usually asked, "What's all this?" Terrill answered, "Technical reports." No one asked to read them.

Finally, at month's end, a secretary from finance called and asked for the monthly travel and expense report. Terrill responded, "Meet me in the president's office tomorrow morning."

The next morning the engineers cheered as Terrill walked through the department pushing a cart² loaded with the enormous stack of reports. They knew the slowdown had come.

Terrill entered the president's office and placed the stack of reports on his desk. The president and other senior executives looked bewildered³.

¹ *Refinery equipment* – нефтеочистительное оборудование

² *Cart* - телега

“This,” Terrill announced “is the reason for the lack of productivity in the Technical Service division. These are reports you people require every month. The fact that they sat on my desk all month shows that no one reads this material. I suggest that engineers’ time could be used in a more productive manner, and that one brief monthly report from my office will satisfy the needs of other departments.”
(Source: *Management*, R. Daft, 2007, p. 690)

Questions

1. What leadership style did John Terrill use? What do you think was his primary source of power? *consideration*
2. Based on the Hersey-Blanchard theory, should Terrill have been less participative? Should he have initiated more task structure for engineers? Explain. *3*
3. What leadership approach would you have taken in this situation?

UNREGISTERED COPY OF SCANPAPYRUS

³ *Look bewildered* – выглядеть смущенно

CHAPTER 8: MOTIVATION IN ORGANIZATIONS

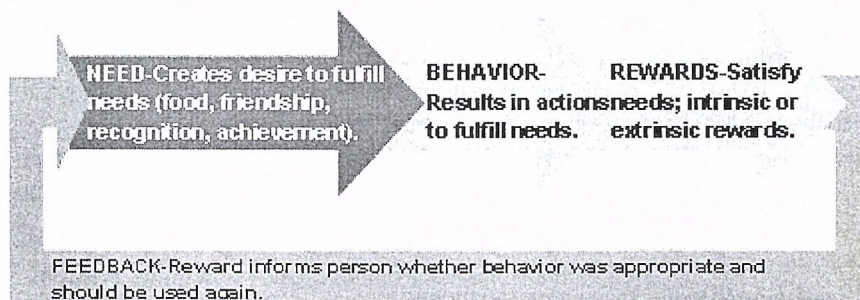
Most of us get up in the morning, go to school or work, and behave in ways that are predictably our own. We respond to our environment and the people in it with little thought as to why we work hard or enjoy certain classes. All these behaviors are motivated by something. Motivation is what we experience every day. What does motivate you to study hard? The idea that you will receive good marks or that you will not be left for the summer school. What does motivate you to work hard? The possibility of rewards in terms of higher salary or bonuses, promotion or acceptance by your colleagues. As a result, employee motivation can help to increase satisfaction and it directly affects productivity. The more motivated employee will be, the better he will be working, and the higher will be his productivity.

Motivation – internal and external forces that drive an individual to perform certain actions.

Model of Motivation

This model states that people have basic needs, such as for food, achievement, or money. These needs are translated into certain behavior of people to fulfill the need. To the extent the behavior is successful, the person is rewarded. The reward also informs the person whether behavior was appropriate and can be used in the future. Managers can use this model to satisfy employees' needs and simultaneously increase work performance and productivity (Figure 8.1).

Figure 8.1 – A Simple Model of Motivation



Rewards can be of two types: intrinsic and extrinsic.

✓ **Intrinsic reward** – satisfaction a person receives in the process of performing a particular action. For example, once you complete the project, it will bring you intrinsic reward, you will be satisfied.]

✓ **Extrinsic reward** – a reward given by another person. For example, if you have accomplished a particular task successfully, a manager can promote you or increase your salary.]

Although extrinsic rewards are important, good managers strive to help people achieve intrinsic rewards, as well. Today's managers are finding that the most talented and innovative employees are no longer motivated only by rewards such as money and benefits, or even praise and recognition. Instead, they seek satisfaction from the work itself.

Foundations of Motivation

Traditional Approach: the study of employee motivation began with the work of Frederick W. Taylor, a scientific management theorist. According to Taylor, rewards are provided to employees for high performance; and people would work harder for higher pay. This approach led to the development of incentive pay systems in which people were paid strictly on the quality and quantity of their outputs.

Contemporary Motivation Theories:

- 1) **Motivation Content Theories** study needs of people in organizations and help managers understand how needs can be satisfied in the workplace.
 - a) Hierarchy of Needs Theory
 - b) ERG Theory
 - c) Two-Factor Theory
 - d) Acquired Needs Theory
- 2) **Motivation Process Theories** focus on how people behave in organizations to fulfill their needs.
 - a) Equity Theory
 - b) Expectancy Theory

3) **Motivation Reinforcement Theories** study how to change employees' on-the-job behavior through the appropriate use of punishments and rewards.

(1) Motivation Content Theories

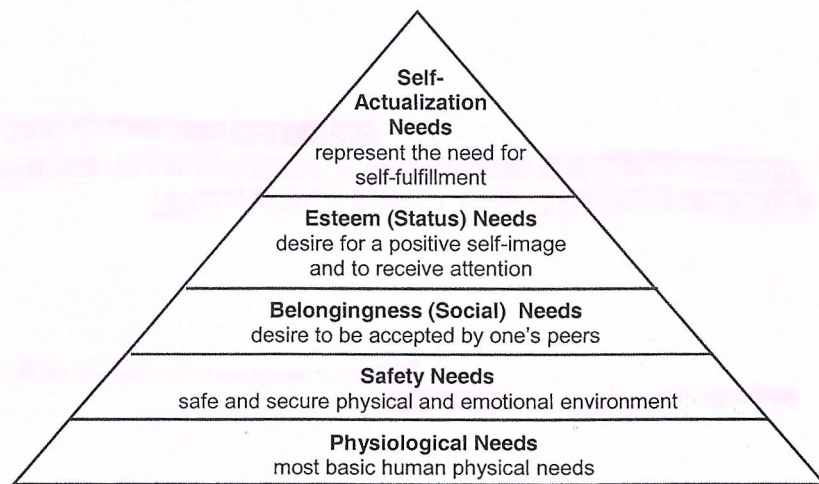
Motivation Content Theories – a group of theories that focus on the needs that motivate people to behave. At any point in time, people have basic needs such as those for food, achievement, or monetary reward. These needs translate into internal drive that motivates behaviors in an attempt to fulfill the needs. To the extent that managers understand worker needs, the organization can design reward systems to meet these needs and reinforce employees for directing energies and priorities toward achievement of organizational goals.

a) Hierarchy of Needs Theory

Hierarchy of Needs Theory implies that people are motivated by 5 basic human needs – physiological, safety, social, status, and self-actualization – that exist in a hierarchical order (Figure 8.2).

UNREGISTERED COPY OF SCANPAPYRUS

Figure 8.2 – Abraham Maslow's Hierarchy of Needs



Application of Maslow's hierarchy of needs to the organization:

1) *Physiological needs*: adequate heat, air, lunch, base salary to ensure survival.

2) *Safety needs*: needs for safe work, fringe (additional) benefits, and job security.

3) *Social (belongingness) needs*: desire for good relationships with coworkers and supervisors, participation in a work group.

4) *Status (esteem) needs*: desire for recognition, appreciation from others, an increase in responsibility, high status.

5) *Self-actualization (self-expression) needs*: opportunity to grow, be creative, and acquire training for advancement.

[Implications for managers: According to Maslow's theory, lower-level needs take priority – they must be satisfied before higher-level needs are activated. The needs are satisfied in sequence: physiological needs come before safety needs, safety needs before social needs, and so on.] A person desiring physical safety will devote his or her efforts to securing a safer environment and will not be concerned with esteem needs or self-actualization needs. Once a need is satisfied, it declines in importance and the next higher need is activated.

UNREGISTERED COPY OF SCANPAPYRUS

d) Acquired Needs Theory

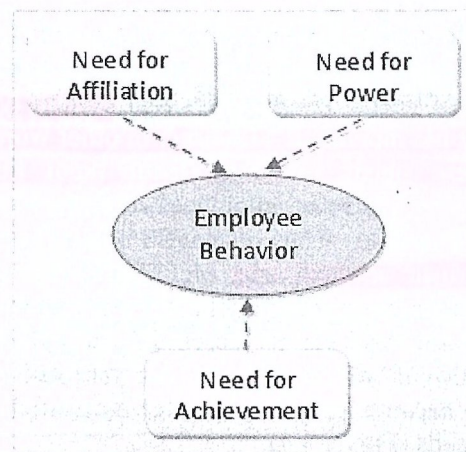
David McClelland developed the Acquired Needs Theory. Like Maslow, McClelland kept to the idea that human behavior is driven by different types of needs. He proposes that certain types of needs are acquired during the individual's lifetime. In other words, people are not born with these needs but may learn them through their life experiences. He believed that employees could be motivated externally and motivated internally. Thus, managers should exploit two kinds of motivation: intrinsic and extrinsic. McClelland classified money as an extrinsic motivator; however, he believed that money could also be an intrinsic motivator because it represents an indication of success. According to David McClelland intrinsic motivation should be paid more attention because people are better motivated by the following three general needs (Figure 8.4):

- ✓ *[Need for Achievement: ^{McClelland} desire to accomplish something difficult, attain a high standard of success, master complex tasks, and surpass others.]*
- ✓ *[Need for Affiliation: desire to form close personal relationships, avoid conflict, and establish warm friendships.]*
- ✓ *[Need for Power: desire to influence or control others, be responsible for others, and have authority over others.]*

The theorist postulated that one of these needs can affect an individual and his or her behavior more than others. Depending on what motivates an individual, there are three categories of seekers:

1. *Achievement Seekers.* Ability to achieve goals is crucial for some employees. Achievers need frequent recognition of how well they are doing. Need for achievement is satisfied by successful performance of the individual, active and effective participation in decision making and implementation of a project, and ability to take responsibility. At the same time, people with predominant need for achievement avoid high risks where there is a significant chance of failure.

UNREGISTERED COPY OF SCANPAPYRUS
Figure 8.4 – McClelland's Acquired Needs Theory



2. Power Seekers. There are people who enjoy having an impact on others. Employees who place a need for power among the primary desires need neither recognition nor approval of others. They mainly seek for agreement and compliance. Nevertheless, the need for power is not an indicator of ambition; it shows that a person can work at different organizational levels. So, such people should be adequately trained and promoted to executives.

3. Affiliation Seekers. Need for affiliation is an indicator of human desire to build up harmonious relations with others. Affiliation seekers usually tend to do the accepted things and never distinguish themselves. Approval is more important for such employees than recognition.

Implications for managers: Many companies apply the Acquired Needs Theory by D. McClelland. They invite psychologists who perform testing. The most common test to discover tendencies toward the three needs described by McClelland is a Thematic Apperception Test (TAT). The test represents a set of black-and-white pictures illustrating different types of emotionally powerful situations. Employees are shown one picture at a time and asked to narrate a story based on the picture presented in a card. Based on the employees' stories, a specialist decides which of the three groups of seekers the person belongs to. Later on, information is delivered to managers. By using this information, managers can satisfy the most sensitive needs of their employees and thus stimulate the right behavior of their staff. To motivate achievement seekers, managers challenge by setting individual goals and schedules. To stimulate affiliation seekers, safety and approval are offered. Power seekers are shown sufficient power of their manager and persuaded that this manager will help them achieve their power.

(2) Motivation Process Theories

[**Motivation Process Theories** – a group of theories that explain how employees select behavioral actions to meet their needs and determine whether their choices were successful.] There are two basic process theories: equity theory and expectancy theory.

a) Equity Theory

Equity theory focuses on individuals' perceptions of how fairly they are treated compared with others. The Adams' Equity Theory is named for John Stacey Adams, a workplace and behavioral psychologist, who developed this job motivation theory in 1963. Much like many of the more prevalent theories of motivation (theories by Maslow's Hierarchy of Needs, Herzberg's Theory, etc.), the Adams' Equity Theory acknowledges that subtle and variable factors affect an employee's assessment and perception of their relationship with their work and their employer.

Adams' Equity Theory calls for a fair balance between an employee's inputs (hard work, skill level, tolerance, enthusiasm, etc.) and an employee's outcomes (salary, benefits, intangibles such as recognition, etc.). According to the theory, finding this fair balance serves to ensure a strong and productive relationship is achieved with the employee, with the overall result being motivated employees. For example, Equity Theory explains why people can be happy and motivated by their situation one day, and yet with no change to their terms and working conditions can be made very unhappy and demotivated, if they learn for example that a colleague is enjoying a better reward-to-effort ratio. It also explains why giving one person a promotion or pay rise can have a demotivating effect on others.

The theory is built on the belief that employees become demotivated, both in relation to their job and their employer, if they feel that their inputs are greater than the outputs. Adams called personal efforts and rewards and other similar 'give and take' issues at work respectively 'inputs' and 'outcomes'. Inputs are logically what we give or put into our work. Outcomes are everything we take out in return. These terms help emphasize that what people put into their work includes many factors besides working hours, and that what people receive from their work includes many things aside from money.

Inputs typically include effort, loyalty, hard work, commitment, skill, ability, adaptability, flexibility, tolerance, determination, heart and soul, enthusiasm, trust in our boss and superiors, support of colleagues and subordinates, personal sacrifice, etc.

Outcomes are typically all financial rewards – pay, salary, expenses, perks, benefits, pension arrangements, bonuses and

commission – plus intangibles – recognition, reputation, praise and thanks, interest, responsibility, stimulus, travel, training, development, sense of achievement and advancement, promotion, etc.

People need to feel that there is a fair balance between inputs and outcomes. Crucially fairness is measured by comparing one's own balance or ratio between inputs and outcomes with the ratio enjoyed by relevant others ('referents'). Adams used the term 'referent' others to describe the reference points or people with whom we compare our own situation, which is a crucial part of the theory. If we feel that our ratio of outputs to inputs is less beneficial than the ratio enjoyed by referent others, then we become demotivated in relation to our job and employer.

— **Components of Equity Theory:**

- ✓ Inputs – employee contributions to the organization (education, experience, effort, ability, etc.)
- ✓ Outcomes – rewards employees receive from the organization (pay, recognition, benefits, promotions, etc.)
- ✓ Referents – others with whom people compare themselves

UNREGISTERED COPY OF SCANPAPYRUS

✓ **Outcome/Input Ratios**

✓ 1) **Equity**

$$\frac{OUTCOMES_{self}}{INPUTS_{self}} = \frac{OUTCOMES_{referent}}{INPUTS_{referent}} \rightarrow \text{satisfaction, motivation}$$

2) **Inequity**

➤ **Underreward:**

$$\frac{OUTCOMES_{self}}{INPUTS_{self}} < \frac{OUTCOMES_{referent}}{INPUTS_{referent}} \rightarrow \text{anger, frustration}$$

e.g. If inputs are the same, but outcomes of a referent are higher than yours ➔ a referent has higher salary (promotion, recognition, bonuses, etc.)

➤ **Overreward:**

$$\frac{OUTCOMES_{self}}{INPUTS_{self}} > \frac{OUTCOMES_{referent}}{INPUTS_{referent}} \rightarrow \text{guilt}$$

e.g. If inputs are the same, but outcomes of a referent are lower than yours → you have higher salary (promotion, recognition, bonuses, etc)

Implications for managers: Adams' Equity Theory of motivation states that positive outcomes and high levels of motivation can be expected only when employees perceive their treatment to be fair. People respond to a feeling of inequity in different ways. Generally the extent of demotivation is proportional to the perceived disparity with other people or inequity, but for some people just the smallest indication of negative disparity between their situation and other people's is enough to cause massive disappointment and a feeling of considerable injustice, resulting in demotivation, or worse, open hostility.

The idea behind Adams' Equity Theory is to set a healthy balance here, with outputs on one side of the scale; inputs on the other – both weighing in a way that seems reasonably equal. If the balance is too far in favor of the employer, some employees may work to bring balance between inputs and outcomes on their own, by asking for more compensation or recognition. Some employees will be demotivated to work hard, and still others will seek alternative employment or job.

b) Expectancy Theory

Expectancy theory states that motivation depends on individuals' expectations about their ability to perform tasks and receive desired rewards.

How much are you motivated by your expectations? If people expect a positive and desirable outcome, they'll usually work hard to perform at the level expected of them.

For example, Bill is a university student with a strong desire for a **B** in calculus course. Bill has a **C+** average and one more exam to take. Bill's motivation to study for that last exam will be influenced by:

- (1) the expectation that hard study will lead to an **A** on the exam, and
- (2) the expectation that an **A** on the exam will result in a **B** for the course.

If Bill believes he cannot get an **A** on the exam or that receiving **A** will not lead to a **B** for the course, he will not be motivated to study hard.

Expectancy theory is based on the relationship among the individual's *effort*, the individual's *performance*, and the desirability of *outcomes* associated with high performance.

E → P expectancy means that putting effort into a task will lead to high performance.

For example, for Bill to get **B** in calculus course, the $E \rightarrow P$ expectancy is high if Bill truly believes that with hard work he can get **A** on the final exam. If Bill believes he has neither the ability nor the opportunity to achieve high performance, the expectancy will be low, and so will be his motivation.

P → O expectancy means that successful performance of a task will lead to the desired outcome.

For example, if an **A** on the final exam is likely to produce a **B** in calculus course, then Bill's $P \rightarrow O$ expectancy will be high. Bill may talk to the professor to see whether an **A** will be sufficient to earn him the **B** in the course. If no, he will be less motivated to study hard for the final exam.

Implications for managers: Managers must try to find a match between a subordinate's skills and abilities and the job demands. To increase motivation, managers can clarify individuals' needs, define the outcomes available from the organization, and ensure that each individual has the ability and support needed to attain outcomes.

Motivating people should come down to three things:

- ✓ ☐ Effort – encouraging the belief that making more effort will improve performance.
- ✓ ☐ Performance – encouraging the belief that a high level of performance will bring a good reward.
- ✓ ☐ Outcome – making sure that the reward is attractive.

When these variables are high, we expect motivation to be high.

Job Design for Motivation

Job in an organization is a unit of work that a single employee within the organization is responsible for performing. Jobs are important because performance of their components may provide rewards that meet employees' needs. Managers need to know what aspects of a job provide motivation as well as how to compensate routine tasks that have little inherent satisfaction.

Job design is work arrangement (or rearrangement) aimed at reducing or overcoming job dissatisfaction and employee frustration arising from repetitive and mechanistic tasks.

Through job design, organizations try to raise productivity levels by offering non-monetary rewards such as greater satisfaction from a sense of personal achievement in meeting the increased challenge and responsibility of one's work. Job enlargement, job enrichment, job rotation, and job simplification are the various techniques used in a job design process (Figure 8.5).

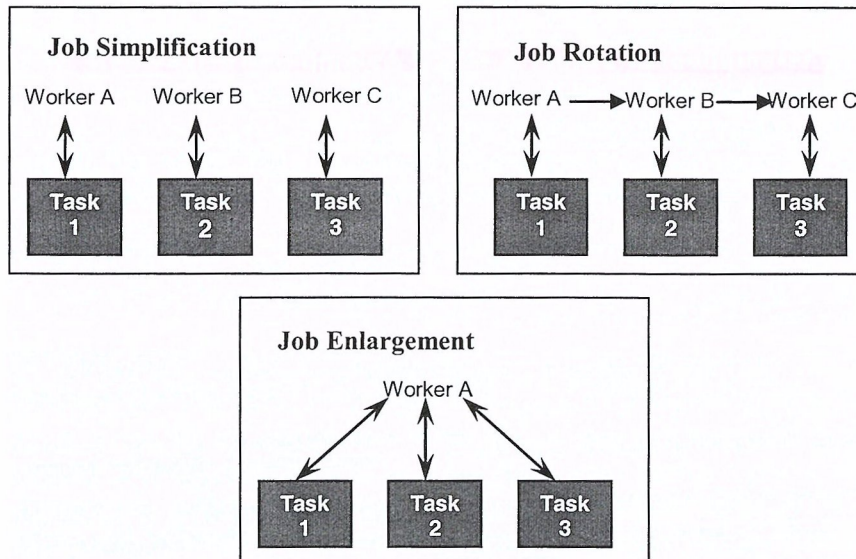
Job simplification – job design technique in which jobs are broken into relatively simple tasks. It aims to raise productivity by reducing application of mental and/or physical effort.

Job Rotation – job design technique in which employees are moved between two or more jobs in a planned manner. The objective is to expose the employees to different experiences and wider variety of skills to increase job satisfaction and to cross-train them.

Job Enlargement – job design technique in which the number of tasks associated with a job is increased and appropriate training provided to add greater variety to activities, thus reducing monotony. It is a horizontal restructuring method in that the job is enlarged by adding related tasks. Job enlargement may also result in greater workforce flexibility.

Job Enrichment – job design technique that is a variation of job enlargement concept. Job enrichment adds new sources of job satisfaction by increasing the level of responsibility of the employee. It is a vertical restructuring method in that it gives the employee additional authority, autonomy, and control over the way the job is accomplished. Also called job enhancement or vertical job expansion.

Figure 8.5 – Types of Job Design



UNREGISTERED COPY OF SCANPAPYRUS

Theory X and Theory Y for Motivation

Douglas McGregor formulated two theories of human behavior: Theory X and Theory Y are summarized in Table 8.1.

Douglas McGregor's Theory X assumes that people are lazy, they don't want to work, and it is the job of the manager to force or coerce them to work. McGregor's Theory X makes three basic assumptions: (1) The average human being dislikes work and will do anything to get out of it; (2) most people must be coerced, controlled, directed, and threatened or punished to get them to work toward organizational objectives; and (3) the average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition, and places job security above ambition.

According to this theory, responsibility for demonstrating initiative and motivation lies with the employee and failure to perform is his or her fault. Employees are motivated by extrinsic rewards such as money, promotions, and tenure.

Table 8.1 – Assumptions of Theory X and Theory Y

Assumptions of Theory X	Assumptions of Theory Y
Employees dislike work and will avoid it if it is possible	Employees like work
Employees must be controlled, directed, and punished to make them work	Employees are self-controlled, self-motivated, and self-directed
Employees want to escape responsibility	Employees seek responsibility, they are creative and innovative

Theory Y suggests employees would behave differently if treated differently by managers. Theory Y assumes that higher-order needs dominate individuals. The set of assumptions for Theory Y is (1) the average human likes work and it is as natural as play; (2) people will exercise self-direction and self-control in order to achieve objectives; (3) the average human being not only accepts but also seeks responsibility; (4) human beings are creative and imaginative in solving organizational problems. If productivity is low and employees are not motivated, this is considered failure on the manager's part.

A few companies still use Theory X management, but many are trying Theory Y techniques. These human relations and behavioral approaches added important contributions to the study of management and organizations.

CASE STUDY: Theory Z

William Ouchi studied management practices in the United States and Japan and developed Theory Z. Theory Z combines elements of both U.S. and Japanese management styles and is sometimes called Japanese Management. It assumes that the best management style involves employees at all levels of the organization. Specific characteristics included in Theory Z are long-term employment, less specialized career paths, informal control, group decision making, and concern for the individual rises above work-related issues. This theory satisfies both lower order and higher order needs.

Looking out for employees' well being satisfies the lower-level needs. Incorporating group processes in decision making satisfies middle-level needs and encouraging employees to take responsibility for their work and decisions satisfy higher-level needs. Many firms are increasing productivity by placing more emphasis on group decision-making and teams. Firms are also showing more concern for family-related issues like childcare, flexible work schedules, and telecommuting.

Key Terms

Extrinsic reward <i>посильные - внешние стимулы</i>	Job simplification <i>упрощение работ</i>
Hierarchy of Needs Theory <i>теория иерархии потребностей</i>	Motivation <i>мотивация</i>
Intrinsic reward <i>внутреннее вознаграждение</i>	Motivation content theories <i>содержательные теории мотивации</i>
Job <i>работа</i>	Motivation process theories <i>процессуальные теории мотивации</i>
Job design <i>распределение работ</i>	Motivation reinforcement theories <i>теории усиления мотивации</i>
Job enlargement <i>увеличение объема работ</i>	Referent <i>ссылочный</i>
Job rotation <i>ротация рабочих мест</i>	Theory X
	Theory Y

UNREGISTERED COPY OF SCANPAPYRUS

Discussion Questions

1. Low-paid service workers represent a motivational problem for many companies. Consider the ill-trained and poorly motivated X-ray machine operators trying to detect weapons in airports. How might these people be motivated to reduce boredom and increase their attention?
2. One small company recognizes an employee of the month, who is given a parking spot next to the president's space near the front door. What theories would explain the positive motivation associated with this policy?
3. Campbell Soup Company reduces accidents with a lottery. Each worker who works 30 days or more without losing a day for a job-

related accident is eligible to win prizes in a lottery. Why has this program been successful?

4. If an experienced secretary discovered that she made less money than a newly hired janitor, how would she react? What inputs and outputs might she evaluate to make this comparison?

5. Would you rather work for a supervisor high in need for achievement, need for affiliation, or need for power? Why? What are the advantages and disadvantages of each?

6. Many organizations use sales contests and motivational speakers to motivate salespeople to overcome frequent rejections and turndowns. How would these devices help motivate salespeople?

7. What characteristics of individuals determine the extent to which work redesign will have a positive impact on work satisfaction and work effectiveness?

Experiential Exercise

TEST 1: Theory X and Theory Y Scale

UNREGISTERED COPY OF SCANPAPYRUS
The following are various types of behavior that a manager may engage in when relating to subordinates. Read each statement and rate each one in terms of the extent to which you would use that behavior, according to the following scale.

1. Make a Great Effort to Do This
2. Tend to Do This
3. Tend to Avoid Doing This
4. Make a Great Effort to Avoid This

1. Closely supervise my subordinates to get better work from them.
1 2 3 4
2. Set the goals and objectives for my subordinates and sell them on the merits of my plans. **1 2 3 4**
3. Set up controls to assure my subordinates are getting the job done.
1 2 3 4
4. Encourage my subordinates to set their own goals and objectives.
1 2 3 4

5. Make sure that my subordinates' work is planned out for them.
1 2 3 4
6. Check with my subordinates daily to see if they need any help.
1 2 3 4
7. Step in as soon as reports indicate that the job is slipping. 1 2 3 4
8. Push my people to meet schedules if necessary. 1 2 3 4
9. Have frequent meetings to keep in touch with what is going on.
1 2 3 4
10. Allow subordinates to make important decisions.
1 2 3 4

Scoring:

Subtract each of your scores for Questions 4 and 10 from the number 5. Then, add the total points and mark your score on the scale below.

CASE STUDY: Bloomingdale's

Bloomingdale's is at the forefront of a quiet revolution in department store retailing. Thousands of hourly sales employees are being converted to commission pay. Bloomingdale's hopes to use commissions to motivate employees to work harder, to attract better salespeople, and to enable them to earn more money. For example, under the old plan, a Bloomingdale's salesperson in women's wear would earn about \$16,000 a year, based on \$7 per hour and 0.5% commission on \$500,000 sales. Under the new plan, the annual pay would be \$25,000 based on 5% commission on \$500,000 sales.

John Palmerio, who works in the men's shoe saloon, is enthusiastic about the changeover. His pay has increased an average of \$175 per week. But in women's lingerie, employees are less enthusiastic. A target of \$1,600 in sales per week is difficult to achieve but is necessary for salespeople to earn their previous salary and even to keep their jobs. In previous years, the practice of commission pay was limited to big-ticket items such as furniture, appliances, and men's suits. The move into small-item purchases may not work as well, but Bloomingdale's and other stores are trying anyway.

One question is whether Bloomingdale's can create more customer-oriented salespeople when they work on commission. They

may be unwilling to handle complaints, make returns, and clean shelves, preferring instead to chase customers. Moreover, it cost Bloomingdale's about \$1 million per store to install the commission system because of training programs, computer changes, and increased pay in many departments. If the overall impact on service is negative, the increased efficiency may not seem worthwhile.

Source: R. Daft, D. Marcic. Management: The New Workplace. International Student Edition/ 2007. p. 509

Questions:

1. What theories about motivation underlie the switch from salary to commission pay?
2. Are high-level needs met under the commission system?
3. As a customer, would you prefer to shop where employees are motivated to make commission?

UNREGISTERED COPY OF SCANPAPYRUS

CHAPTER 9: TEAMWORK IN ORGANIZATIONS

Teams are powerful management tools, because they involve and empower employees. Teams can be created within organizations in different ways. Thus, workers are more satisfied, and higher productivity and product quality typically result. Teams are an important aspect of organizational life, and the ability to manage them is an important component of manager and organization success.

What is a Team?

[*Team* – 2 or more people who interact and coordinate their work to accomplish a specific goal.]

This definition has 3 components:

- 1) 2 or more people are required. Teams can be quite large, running to as many as 75 people, although most have less than 15 people.
- 2) People in a team have regular interaction. People who do not interact do not compose a team.
- 3) People in a team share a performance goal, whether it is to design a new product or write a textbook.

UNREGISTERED COPY OF SCANPAPYRUS

The Difference between Groups and Teams:

Although a team is a group of people, two terms are not interchangeable.

Team = Group, but Group $\neq$ Team

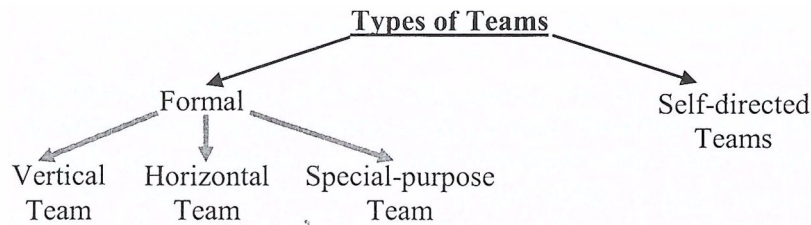
For example, a coach can put together a group of people but he may never build a team. The team concept implies the sense of shared mission and collective responsibility.

Group

- Designated leader
- Individual accountability
- Individual work products
- Runs efficient meetings
- Discusses, decides, delegates work to individuals

Team

- Shares/rotates leadership role
- Accountable to each other
- Collective work products
- Encourages open-ended discussions
- Discusses, decides, shares work



Formal Teams:

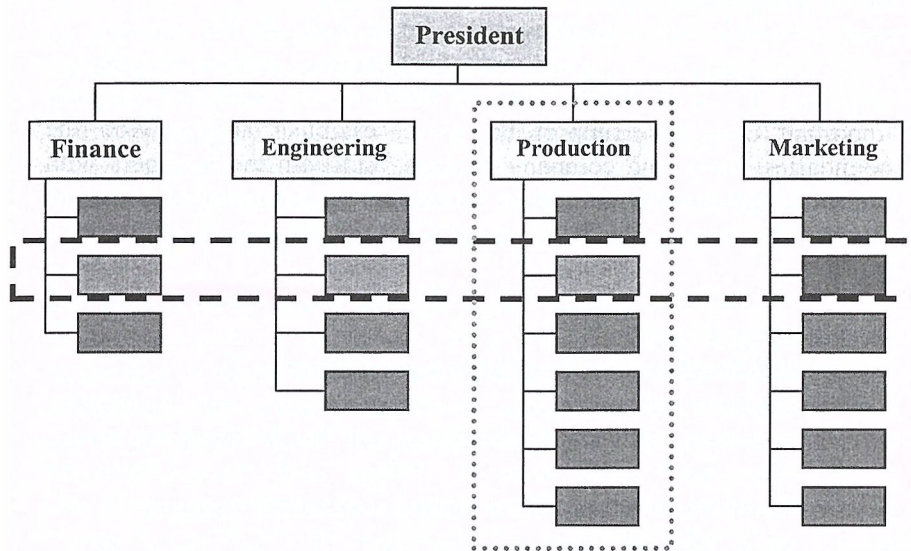
[*Formal teams* are created by the organization as part of the formal organization structure. Two common types of formal teams are vertical and horizontal] illustrated in Figure 9.1. A third type of team is a special-purpose team.

[1] *Vertical team* – a formal team that is composed of a manager and his subordinates from one department; sometimes called *functional* or *command team*. Vertical teams include employees from different hierarchical levels. So, each department in the organization is a vertical team. A financial analysis department, a quality control department, an accounting department, and a human resource department are all command teams. Each is created by the organization to attain specific goals through members' joint activities and interactions.

[2] *Horizontal team* – a formal team that is composed of employees from the same hierarchical level but from different departments. A horizontal team is drawn from several departments, is given a specific task, and may be dismissed after the task is completed. Such teams are also called *cross-functional teams*.

3) [*Special-purpose team* – a team that is created for special projects and dismissed once a project is completed. Special-purpose team may comprise employees only from marketing and production departments for developing a new product line. A special-purpose team is still part of the formal organization and has its own reporting structure, but members perceive themselves as a separate entity. Special-purpose team is also called *project team*.

Figure 9.1 – Horizontal and Vertical Teams in Organizations



UNREGISTERED COPY OF SCANPAPYRUS

Self-Directed Teams:

Self-Directed Team – a group of people, usually employees in a company, who combine different skills and talents to work without the usual managerial supervision toward a common purpose or goal. Typically, a self-directed team has somewhere between two and 25 members. An optimal team is said to be between five and nine members.

Members of self-directed teams use their company's mission statement to develop their purpose, which must be meaningful and beneficial to the company. Purposes might include problem solving, increasing sales and productivity, career training, and product improvement.

Team members must decide how they want to work together. Because a manager or boss does not lead, they must agree on the rules and deadlines for accomplishing their purpose. Some teams create a charter or set of rules that describe what is expected of each member. If

problem arises during the course of a project, the team members work together to provide a solution.

In order for a self-directed team to succeed, the company or organization must provide a meaningful mission statement to the team, empower the team to do what it needs to do including making important decisions, support the team, establish and provide the boundaries, rules, and company policies, and train the members with the skills and knowledge needed to accomplish their purpose. But, in the end, the team is held accountable for the success or failure of a project.

Self-directed teams are typically permanent teams that include the following elements:

- ✓ Employees with several skills and functions
- ✓ Given access to various resources – information, equipment, machinery, and supplies needed to perform the complete task
- ✓ Empowered with decision making authority, select new members, solve problems, spend money, monitor results, and make plans for future

UNREGISTERED COPY OF SCANPAPYRUS

Characteristics of Teams

Managers are trying to design teams for greater effectiveness. They have to take into consideration team characteristics which affect team dynamics and performance. These characteristics include: **Size**, **Diversity**, and **Member roles**.

1) Team Size:

- ✓ [Ideal size is thought to be 7 members;]
- ✓ [Variations of teams from 5 to 12 members typically are associated with good team performance;]
- ✓ [Small teams (2-4 members) show more agreement, ask more questions, exchange more opinions. Team members want to get along with one another. Small teams have more satisfaction and enter into more personal discussions.]
- ✓ [Large teams (12 or more) tend to have more disagreements and differences of opinion, form subgroups, conflicts among them often occur. Large teams tend to be less friendly, turnover and absenteeism are higher.]

2) *monotone* Diversity:

Since teams require a variety of skills, knowledge, and experience, it seems likely that diversified teams would be more effective than homogeneous ones.

Diversified teams tend to:

- ✓ Produce more innovative solutions to problems;
- ✓ Become a source of creativity;
- ✓ Functional, racial, national, gender diversity have a positive impact on work team performance

3) Team Member Roles:

For a team to be successful over the long run, it must be structured so as to both maintain its members' social well-being and accomplish its task. In successful teams, the requirements for task performance and social satisfaction are met by the emergence of two types of roles.

Figure 9.2 illustrates task specialist and socioemotional roles in teams. When most individuals in a team play a social role, the team is socially oriented. Members do not criticize or disagree with one another and do not forcefully offer opinions or try to accomplish team tasks, because their primary interest is to keep the team happy. Teams with mostly socioemotional roles can be very satisfying, but they also can be unproductive.

Socioemotional role – a role in which the individual provides support for team members' emotional needs.

At the other extreme, a team made up primarily of task specialists will tend to have a single concern for task accomplishment. This team will be effective for a short period of time but will not be satisfying for members over the long run. Task specialists convey little emotional concern for one another, are unsupportive, and ignore team members' social and emotional needs. The task-oriented team can be humorless and unsatisfying.

Task specialist role – a role in which the individual spends personal time and energy helping the team to reach its goal.

As Figure 5.2 illustrates, some team members may play a dual role. Such people often become team leaders.

Dual role – a role in which the individual both contributes to the team's task and supports members' emotional needs.

Figure 9.2 – Team Member Roles

Member Task Behavior	High	<u>Task Specialist Role</u> • Focuses on task accomplishment over human needs. • Important role, but if adopted by everyone, team's social needs won't be met.	<u>Dual Role</u> • Focuses on task and people. May be a team leader. • Important role, but not essential if members adopt task specialist and socioemotional roles.
	Low	<u>Nonparticipator Role</u> • Contributes little to either task or people needs of team. • Not an important role-if adopted by too many members, team will disband.	<u>Socioemotional Role</u> • Focuses on people needs of team over task. • Important role, but if adopted by everyone, team's tasks won't be accomplished.
		Low	High
		Member Social Behavior	

The last type of role is called nonparticipator role. Nonparticipators typically are held in low esteem by the team.

Nonparticipator role – a role in which the individual contributes little to the task and interferes socially and emotionally.

The most important thing for managers to remember is that effective teams must have people in both task specialist and socioemotional roles. Humor and social concern are as important to team effectiveness as are facts and problem solving. Managers also should remember that some people perform better in one type of role.

Stages of Team Development

After a team has been created, there are distinct stages through which it develops (Figure 9.3). New teams are different from mature teams. Recall a time when you were a member of a new team to do class assignment. Over time the team changed. In the beginning, team members had to get to know one another, establish roles and norms, divide the labor, and clarify the team's task. In this way, each team member became part of an operating team. The challenge for leaders is to understand the stages of team development and take action that will help the group improve its functioning.

1) **Forming** is characterized by orientation and acquaintance. Members are getting acquainted, test each other for friendship and task orientation. Uncertainty is high at this stage, and members usually accept whatever power or authority is offered by either formal or informal leaders.

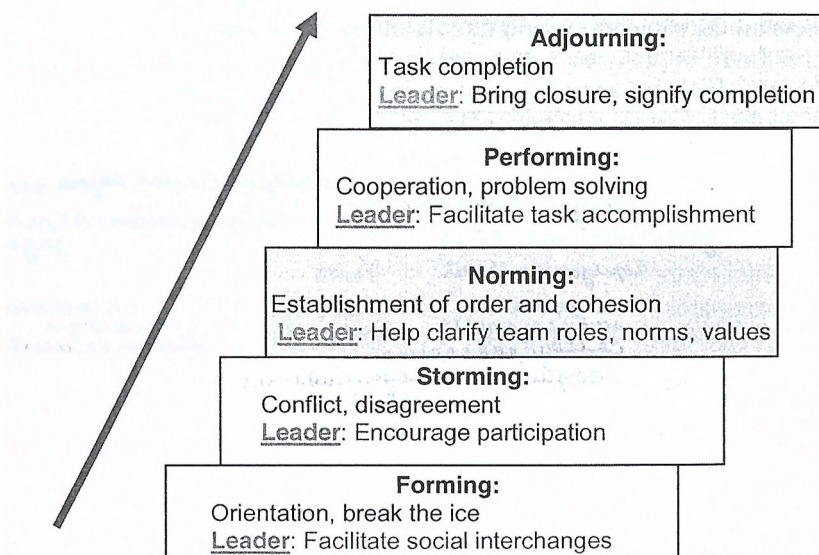
2) **Storming** is the stage of team development in which individual personalities, roles, and resulting conflicts emerge. One subgroup may disagree with another over the total team's goals or how to achieve them.

3) **Norming** is a stage in which conflicts developed during the storming stage are resolved and team harmony and unity emerge. Members come to accept and understand one another and they develop a sense of team cohesion. This stage typically is of short duration.

4) **Performing** is a stage in which members focus on problem solving and accomplishment of the team's task. Members are committed to the team's mission. During this stage, the leader should concentrate on managing high task performance. Both socioemotional and task specialists should contribute.

Figure 9.2: Stages of Team Development

UNREGISTERED COPY OF SCANPAPYRUS



5) *Adjourning* is a stage in which members prepare for the team's disbandment. Task performance is no longer a top priority. Members may feel strong cohesiveness, depression or even regret over the team's disbandment. They may feel happy about mission accomplishment and sad about the loss of friendship and associations. At this stage the leader may give rewards for the task accomplishment.

Team Cohesiveness

Team cohesiveness – extent to which team members are attracted to the team and motivated to remain in it.

Members of highly cohesive teams are committed to team activities, attend meetings, and are happy when the team succeeds. Members of less cohesive teams are less concerned about team's welfare. High cohesiveness is normally considered an attractive feature of teams.

The outcome of team cohesiveness can fall into two categories – morale and productivity. As a general rule, morale is higher in cohesive teams because of increased communication among members, a friendly team climate, maintenance of membership, because of commitment to the team, loyalty, and member participation in team decisions and actions. High cohesiveness has almost uniformly good effects on the satisfaction and morale of team members.

Key Terms

Adjourning stage	стадия распада	специальное задание	Special-purpose team
Dual role	двойственная роль	специалист по ремонту	Task specialist role
Horizontal team	горизонтальный	задача	Team
Nonparticipator role	сторонний наблюдатель		Team cohesiveness
Self-directed team	самонаправляемая		Vertical team
Socioemotional role	социально-эмоциональная		

Discussion Questions

- ✓ 1. Volvo went to self-directed teams to assemble cars because of the need to attract and keep workers in Sweden, where pay raises are not motivator and many other jobs are available. Is it a good reason for using team approach? Discuss. ?
- ✓ 2. What are the five stages of team development? What happens during each stage?
3. When you are a member of a team, do you adopt a task specialist role or socioemotional role? Which role is more important for team's effectiveness? Discuss.
- ✓ 4. Once a company had 40% of its workers and 20% of its managers resign during the first year after reorganizing into teams. What might account for this dramatic turnover? How might managers ensure a smooth transition to teams? ?

Homework

UNREGISTERED COPY OF SCANPAPYRUS

Role playing: show to your team, with separate Business Plan, passes through stages of team development. All team members must participate. A leader must show his behavior in each stage. Each team must prepare colorful posters (you may use paints, markers, or computer printouts) of A4 format where names of each stage are supposed to be written. You should assign the color to each stage which, in your opinion, best corresponds to it. Maximum time that a team may spend for the role playing is 5 minutes (i.e. 1 stage = 1 minute, not more). Be creative!

CASE STUDY: Team Development at Hyundai

Learning and development company True North has been helping staff at Hyundai Car UK to develop closer and more effective working relationships. Hyundai Car UK's import teams are based at Tilbury Docks and handle over 33,000 cars every year. The teams do everything from unloading the vehicles through to pre-delivery

inspections and the fitting of special items such as alarms and music systems.

Managers at Tilbury wanted to improve the collaboration, and help their staff each get a better understanding of others' roles and daily pressures. Staff at Tilbury is split over three areas – (1) office, administration and managers; (2) workshop staff; (3) and drivers. Although these three groups of people work together, their roles are separate so there was little understanding or empathy¹ with colleagues' daily issues. Rob Gearing – import operations manager at Tilbury, called in learning and development company True North, to help.

Andy Parker, True North's managing director, recalls: "I went to Tilbury and discussed the teamworking issues in detail, listening to Rob and his team to understand how we could affect some meaningful change; something that would deliver real business benefits. We discussed how team issues affect the business, and what the best possible outcomes would be from some kind of learning event. Rob wanted to develop more of a sense of team, get people to really understand each other and work together better. Like many businesses, the sheer pace² of the working day doesn't always give time for people to appreciate each other as people – you often only get time to do that when you meet outside of the working environment. We decided that this was the solution."

True North was engaged to develop a team building day. Although the day wasn't going to be a 'corporate jolly'³, it was decided that it should have a strong fun element, as a reward for the team hitting its car-processing target.

True North developed a series of team building activities, which were all designed to get people interacting on more than a superficial level, so that they would learn how to better collaborate. Some of the lighter activities included a 'racing challenge' where teams of people are pitted against each other⁴ via a series of networked games – creating some healthy competition, while building team awareness. "Even the fun activities allow us to get people to think about

¹ *Empathy* – эмпатия; сочувствие; сопереживание

² *Sheer pace* -- rapid speed

³ *Corporate jolly* -- корпоративная радость

⁴ *To be pitted against each other* -- быть сраженными против друг друга

themselves and others and give us a means of promoting key messages," said Parker. True North also ran three facilitated sessions, each using two professional coaches, to get people to think and talk about how things worked in the workplace, and what it would take to make the workplace better.

Participation during this kind of session is the key to success – the coaches help people openly explore issues and collaborate to propose solutions. "This really allows people to communicate their issues – and to get others to understand and empathize with them," said Parker. "It also enables everyone to work as a team, to create their own solution. It's this kind of thing that really changes the way that people work - they carry this back to the workplace and then act on it."

The day was held off-site, away from the distractions of the business, and had an almost 100% attendance rate. "We got some fantastic feedback," said Parker. "People were telling us that it's the best event of this type that they've been to. And, what's more important, it has had a real impact on the business. So many of these types of events are a waste of money, or just embarrassing to attend. We've all seen how painful they can be, from episodes of The Office! But properly run, with defined goals and professionally managed sessions, they can really get people thinking and changing how they work for the better, resulting in a stronger team and a more effective business."

Clive Beer, Hyundai's Operations Planning & Development Manager commented, "It was really pleasing to see everybody, without exception, joining in and getting involved. There was good co-operation across all the different departments and the challenge for everybody at Tilbury now is to ensure that the good work is carried forward."

(Source: <http://www.trainingreference.co.uk/news/gn041217.htm>)

Questions:

1. What were the problems faced by Hyundai Car UK? Discuss.
2. How did Andy Parker manage these problems?
3. What techniques would you recommend except those used by the director of True North?

CHAPTER 10: COMMUNICATION AND CONFLICT MANAGEMENT

How important is communication? Communication is extremely important in organizations. For example, when managers perform the planning function, they gather information; write letters, memos, and reports; and then meet with each other to explain the plan. When managers lead, they communicate with subordinates to motivate them. When managers organize, they gather information about the state of the organization and communicate a new structure to others.

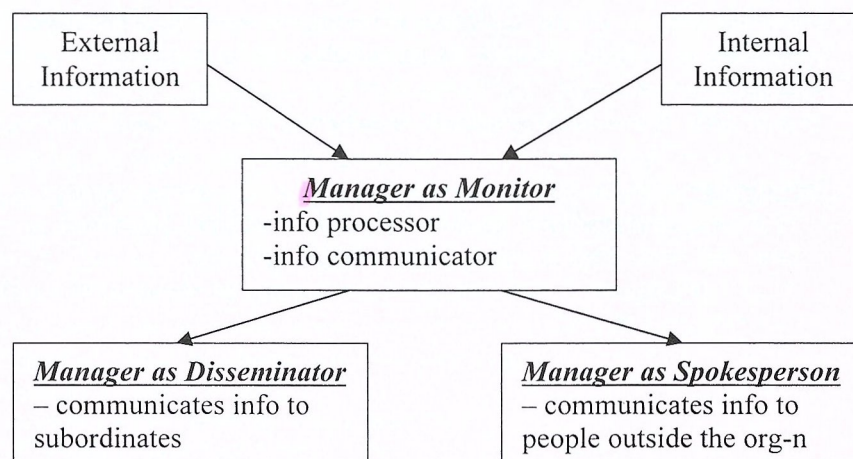
What is Communication?

Communication – a process by which information is exchanged and understood by people, usually with the intent to motivate or influence behavior.

- Manager spends 80% of every working day in direct communication with others – 48 min/hour
- Manager spends 20% of every working day in communication in the form of reading and writing – 12 min/hour

Figure 10.1 illustrates the crucial role of managers in the communication process. Managers gather important information from

Figure 10.1 – Manager's Role in the Communication Process



both inside and outside the organization and then distribute appropriate information to others who need it. Effective managers use many communication methods, including selecting rich channels of communication, facilitating upward, downward, and horizontal communication, understanding and using nonverbal communication, and building informal communication networks that cross organizational boundaries.

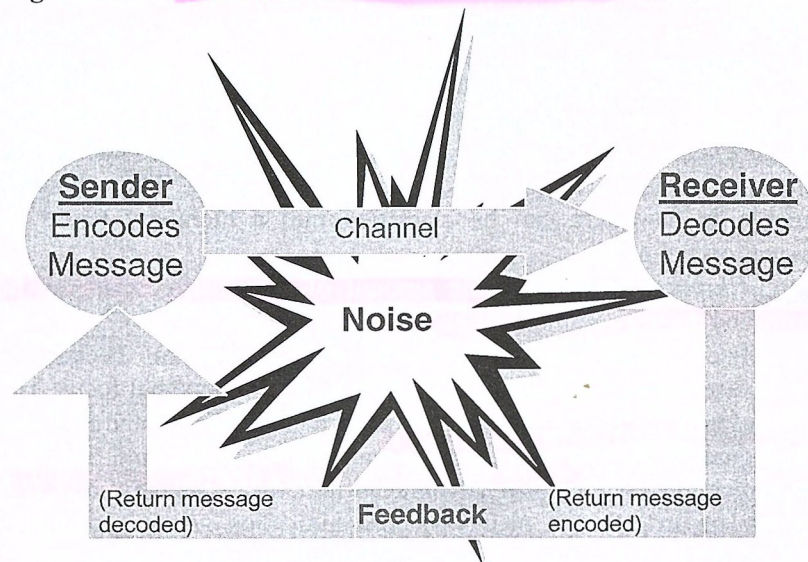
Communication Process Model

Many people think communication is simple. After all, we communicate every day without even thinking about it. However, communication is usually complex, and opportunities for sending or receiving the wrong message are innumerable. No doubt, you have heard someone say, "But that's not what I meant!" Figure 10.2 depicts how communication process occurs.

Encoding – selection of symbols with which to compose a message. *coding sent*

Decoding – translation of the symbols used in a message for the purpose of interpreting its meaning

UNREGISTERED COPY OF SCANPAPYRUS
Figure 10.2 – A Model of the Communication Process



Two common elements in every communication situation are the sender and the receiver. The sender is anyone who wishes to communicate an idea to others. The receiver is the person to whom the message is sent. The sender encodes the idea by selecting symbols (words, letters, body language, voice tone, etc.) with which to compose a message. The message is sent through a channel. The channel can be a formal report, a telephone call, or a face-to-face meeting. The receiver decodes the symbols to interpret the meaning of the message. Encoding and decoding are potential sources of communication errors, because knowledge, attitudes and background act as filters and create “noise” when translating symbols to meaning. Finally, the feedback occurs when the receiver responds to the sender’s communication with a return message. Without feedback, the communication is *one-way*; with feedback, it is *two-way*. Feedback is very important because it enables the sender to determine whether the receiver correctly interpreted the message.

Communications can break down if sender and receiver do not encode or decode language in the same way. The selection of communication channels can determine whether the message is distorted by noise and interference.

UNREGISTERED COPY OF SCANPAPYRUS

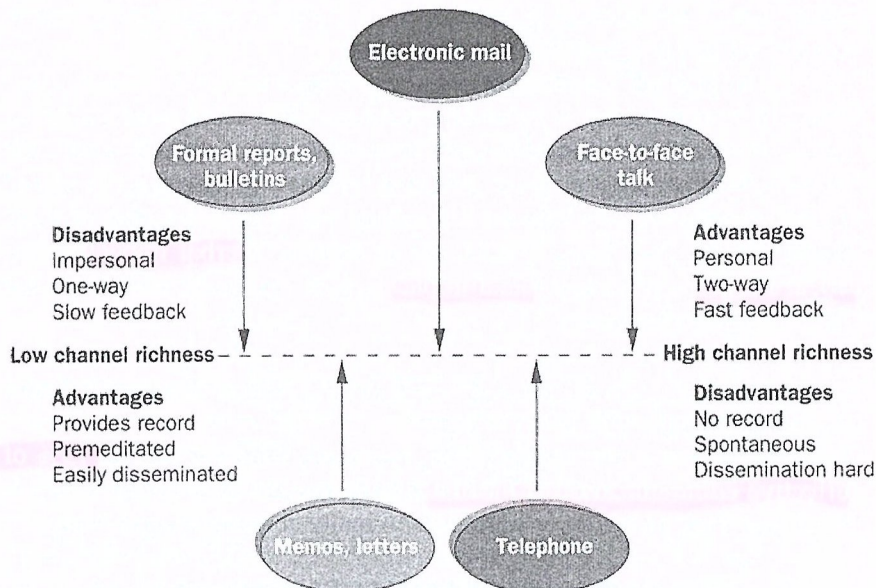
Communication Channels

Managers have a choice of many communication channels through which to communicate to other managers or employees. Managers can communicate through formal reports, memos and letters, electronic mail, telephone, and face-to-face talks. The channels available to managers can be classified into a hierarchy based on information richness.

repetitive **Channel richness** – the amount of information that can be transmitted during communication.

Face-to-face discussion is the richest medium, because it permits direct experience, immediate feedback, and personal focus. The key point here for manager is to choose a channel that fits the message best (Figure 10.3). It is important for managers to understand that each communication channel has advantages and disadvantages, and that each can be an effective means of communication in the appropriate circumstances. Channel selection depends on whether the message is

Figure 10.3 – Channel Richness



UNREGISTERED COPY OF SCANPAPYRUS

routine or nonroutine. Nonroutine messages typically are ambiguous, concern novel events, and impose great potential for misunderstanding. They often are characterized by time pressure and surprise. Managers can communicate nonroutine messages only by selecting rich channels. Routine messages are simple and straightforward. They convey data or statistics or simply put into words what managers already agree on and understand. Routine messages can be effectively communicated through a channel lower in richness. Written communication also should be used when the audience is widely dispersed or when the communication is official and a permanent record is required.

Nonverbal Communication

Nonverbal communication – a communication transmitted through actions and behaviors rather than through words.

Most of us have heard the saying “actions speak louder than words”. Indeed, we communicate without words all the time, whether we realize it or not.

Managers should learn that words themselves carry little meaning. Major parts of the shared understanding from communication come from the nonverbal messages of facial expression, gestures, voice, mannerisms, posture, and dress.

Nonverbal communication occurs mostly face-to-face. One researcher found three sources of communication cues during face-to-face communication: the verbal, which are the actual spoken words; the vocal, which include the pitch, tone, and timbre of a person's voice; and facial expressions. According to this study, the relative weights of these factors in message interpretation are as follows: **verbal impact** – 7%, **vocal impact** – 38%, and **facial impact** – 55%. To some extent, we are all natural face readers.

A good manager should not only share information with others but also he should be able to listen to others.

Listening requires attention, energy, and skill. Although about 75% of effective communication is listening, most people spend only 30 to 40 % of their time listening, which leads to many communication errors.

UNREGISTERED COPY OF SCANPAPYRUS

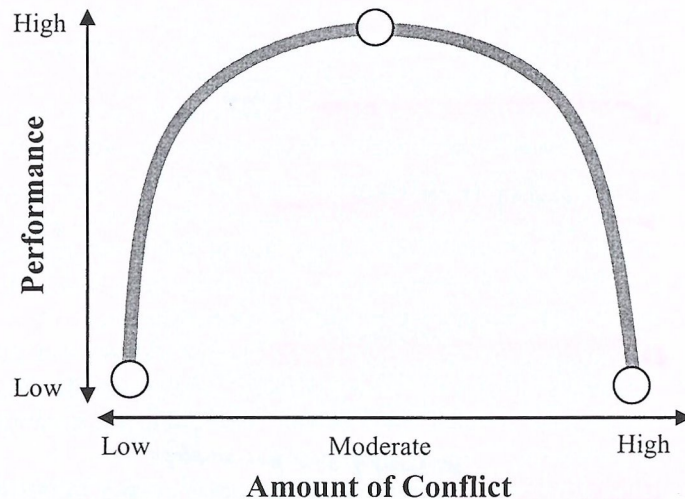
Conflict – rival interaction in which one party attempts to contradict the intentions or goals of another.

Conflict is inevitable whenever people work together in teams. Conflict can arise among members within a team or between one team and another. Competition, which is rivalry among individuals or teams, can have healthy impact because it energizes people toward higher performance.

Some conflict can actually be beneficial to teams. A healthy level of conflict helps to prevent groupthink, in which people are so committed to a cohesive team that they are unwilling to express different opinions. When people in work teams go along simply for the sake of harmony, problems typically result. Thus, a degree of conflict leads to better decision making because multiple viewpoints are expressed. Among top management teams, for example, low levels of conflict have been found to be associated with poor decision making.

However, conflict that is too strong, that is focused on personal rather than work issues, or that is not managed appropriately can be

Figure 10.4 – The Relationship between Conflict and Performance



UNREGISTERED COPY OF SCANPAPYRUS

damaging to the team's morale and productivity. Too much conflict can be destructive, tear relationships apart, and interfere with the healthy exchange of ideas and information. Team leaders have to find the right balance between conflict and performance, as illustrated in Figure 10.4. Too little conflict can decrease team performance because the team doesn't benefit from a mix of opinions and ideas – even disagreements – that might lead to better solutions or prevent the team from making mistakes. At the other end of the spectrum, too much conflict outweighs the team's cooperative efforts and leads to a decrease in employee satisfaction and commitment, hurting performance. A moderate amount of conflict that is managed appropriately typically results in the highest levels of performance.

✓ Causes of Conflict

Several factors can cause people to engage in conflict:

- ✓ **Scarce Resources:** include money, information, and supplies. Individuals may wish to increase their resources, which throws them into a conflict.

- ✓ **Jurisdictional Ambiguities:** ^{boss} conflicts emerge when job boundaries and responsibilities are unclear. When task responsibilities are well defined and predictable, people know where they stand. When they are unclear, people may disagree about who has responsibility for specific task.
- ✓ **Communication Breakdown:** ^{language} poor communications result in misperceptions and misunderstandings of other people and teams.
- ✓ **Personality Clashes (Conflicts):** ^{saying in the class} a personality clash occurs when people simply do not get along or do not see eye-to-eye on any issue. Personality clashes are caused by basic differences in personality, values, and attitudes.
- ✓ **Power and Status Differences:** ^{accounts} occur when one party has disputable influence over another. People may engage in conflict to increase their power and influence in the team or organization.
- ✓ **Goal Differences:** ^{get salary and good employee} conflict often occurs simply because people are pursuing different goals. Goal differences are natural in organizations. For example, the sales department may have

focus sales and let with more of manufacturing

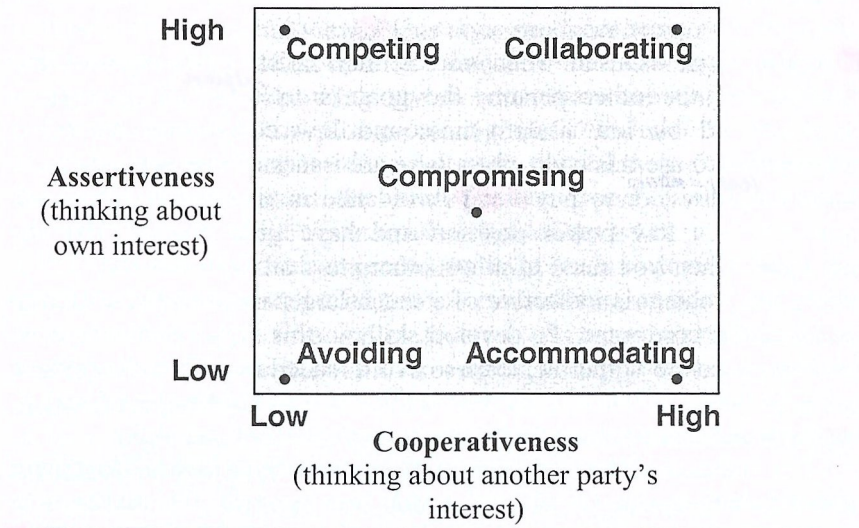
Styles to Handle Conflict

In any conflict a person will have one of three possible roles:

- ✓ **initiator** – ^{inform to someone} the person who confronts another person about a conflict with a view to resolving it
- ✓ **responder** – the person confronted by an initiator
- ✓ **mediator** – the person who brings conflicting parties together and helps them to resolve the dispute]

Teams as well as individuals develop specific styles for dealing with conflict, based on the desire to satisfy their own concern versus the other party's concern. A model that describes five styles of handling conflict is shown in Figure 10.5. The two major dimensions are the extent to which an individual is assertive versus cooperative in his or her approach to conflict.

Figure 10.5 – A Model of Styles to Handle Conflict



negotiation basics
Competing Style (Forcing Style) is used when you stress your position without considering other points of view. The goal is to win in the conflict. The competing style is used when a person has to take quick action, make unpopular decisions, or handle vital issues. To develop this style you must develop your ability to argue and debate, use your rank or position, assert your opinions and feelings, and learn to state your position and stand your ground.

Overuse of this style can lead to lack of feedback, reduced learning, and low empowerment. This can result in being surrounded by "Yes-Men". People who overuse the competing style often use provocative statements due to a lack of interpersonal skills training. When overuse is taken to an extreme, the person will create errors in the implementation of the task by withholding needed information, talking behind another person's back ("back-stabbing"), using eye motions and gestures designed to express disapproval, and creating distractions by fiddling or interrupting.

Underuse of the competing style leads to a lowered level of influence, indecisiveness, and slow action. When the competing style is underused some behaviors that people show include justifying the

behaviors, demanding allowance as a condition of working on the problem, threatening separation as a way of making others give in, and launching personal attacks.

Avoiding Style is used when you neither satisfy ^{your} interests nor interests of the other person, the goal is to ^{delay}. This style is characterized by low assertiveness and low cooperativeness. It is appropriate to use this style when there are issues of low importance, to reduce tensions, or to buy ^{from others} time. Avoidance is also appropriate when you are in a low power position and have little control over the situation, when you need to allow others to deal with the conflict, or when the problem is indicative of a much larger issue and you need to work on the core issue. To develop skills in this style use foresight in knowing when to withdraw, learn to avoid loaded questions or sensitive areas by using diplomacy, become skillful at creating a sense of timing, and practice leaving things unresolved.

Overuse of the avoidance style can result in a low level of input and allowing issues to worsen, which can produce a breakdown in communication between team members. This can restrain brainstorming sessions from being productive and can prevent the team from functioning. People who overuse avoidance feel they cannot speak frankly without fear of consequences. The overuse of conflict avoidance can often be a result of childhood experiences, past work-related incidents, and negative experiences with conflict resolution. Behaviors associated with the overuse of avoidance include being silent, sullen, and untruthful when asked if something is wrong being. A person also begins to be negative, critical and sarcastic. Other extreme avoidance behaviors include becoming passive aggressive by being late and not paying attention at meetings. It also lends a greater importance to this style as compared to the other styles because you have devoted such a disproportionate amount of time to the style.

Underuse of the avoidance style results in hostility and hurt feelings. In addition, work can become overwhelming because too many issues are taken seriously at once, resulting in an inability to prioritize and delegate.

Compromising Style is finding a middle point or ^{compromise} sacrificing some of your interests and giving to another person's interests. This style is

moderately assertive and moderately cooperative; the goal is to find middle ground. The compromising style is used with issues of moderate importance, when both parties are equally powerful and equally committed to opposing views. This style produces temporary solutions and is appropriate when time is a concern, and as a support for the competing and collaborating styles when they are unsuccessful in resolving the situation. Compromising skills include the ability to communicate and keep the dialogue open, the ability to find an answer that is fair to both parties, the ability to give up part of what you want, and the ability to assign value to all aspects of the issue.

Overuse of the compromising style leads to loss of long-term goals, a lack of trust, creation of a cynical environment, and being viewed as having no firm values. Overuse of compromise can result in making special consideration to keep people happy without resolving the original conflict.

Underuse leads to unnecessary disagreements, frequent power struggles, and ineffective negotiating.

Collaborating Style is used when a person wants to satisfy both sides. It is highly assertive and highly cooperative; the goal is to find a "win/win" solution. Appropriate uses for the collaborating style include integrating solutions, learning, merging perspectives, gaining commitment, and improving relationships. Using this style can support open discussion of issues, task proficiency, equal distribution of work among the team members, better brainstorming, and development of creative problem solving. This style is appropriate to use frequently in a team environment. Collaborating skills include the ability to use active or effective listening, confront situations in a non-threatening way, analyze input, and identify underlying concerns.

Overuse of the collaborating style can lead to spending too much time on insignificant matters, diffusion of responsibility, and being overloaded with work.

Underuse can result in using quick fix solutions, lack of commitment by other team members, disempowerment, and loss of innovation.

Accommodating Style is completely sacrificing your interests in order to satisfy the interests of others. This style is associated with low

assertiveness and high cooperativeness; the goal is to give up. The accommodating style is appropriate to use in situations when you want to show that you are reasonable, develop performance, create good will, keep peace, retreat, or for issues of low importance. Accommodating skills include the ability to sacrifice, the ability to be selfless, the ability to obey orders, and the ability to give up.

Overuse of the accommodating style results in ideas getting little attention, restricted influence, loss of contribution, and anarchy. People who overuse the accommodating style exhibit a lack of desire to change and usually demonstrate anxiety over future uncertainties. One of their main desires may be to keep everything the same. When accommodating is overused certain behaviors emerge. Some of these emergent behaviors include giving up personal space, making "me" or other victim statements, being overly helpful and then holding a grudge, and speaking in an extremely quiet almost unintelligible voice.

Underuse of the accommodating style can result in lack of rapport, low morale, and an inability to give up. When the accommodating style is underused a person may display apathy as a way of not addressing the anger or hurt, and make statements full of innuendo and double meanings.

UNREGISTERED COPY OF SCANPAPYRUS

Effective leaders vary their style of handling conflict to fit a specific situation. Each of these five styles is appropriate in certain cases. Table 10.1 shows when each style should be used.

Table 10.1 – The Use of Styles for Handling Conflict

Conflict Management Styles	Interpretations	Use this style when:
<i>Competing (Forcing) Style</i>	You lose, I win. "Might makes right."	- the conflict is about personal differences (e.g. values); - the maintenance of relationships is not important; - conflict resolution is urgent
<i>Avoiding Style</i>	You lose, I lose. "I'd rather not deal with it now."	- your interest in the issue is not high; - confrontation would seriously damage an important working

		relationship; - time allows avoidance
Accommodating Style	You win, I lose. "I don't care that much; have it your way."	- the maintainance of the relationship outweighs all other considerations; - the changes you agree to are not important to you; - the time to resolve the conflict is limited
Compromising Style	You win some, I win some. "Let's split the difference."	- the issues are complex and critical and there is no clear-cut solution; - all parties have a strong interest in different solutions; - time is short
Collaborating Style	You win, I win. "Two heads are better than one."	- the maintenance of relationships is important; - time is available; - the conflict is between peers (equal status, power)

UNREGISTERED COPY OF SCANPAPYRUS

Key Terms

приспособленческий	Decoding	расшифровка
Accommodating style	Disseminator	информатор
Avoiding style	Encoding	кодирование
Channel richness	Initiator	инициатор
Collaborating style	Mediator	посредник
Communication	Nonverbal communication	обмен невербальной информацией
Competing (Forcing) style	Responder	ответчик
Compromising style	Spokesperson	представитель.
Conflict		
Conflict management		управление конфликтами.

1. Describe the elements of the communication process. Give an example of each part of a model as it exists in the classroom between teacher and students.
2. Some senior managers believe they should rely on written information and computer reports because these yield more accurate data than do face-to-face communications. Do you agree?
3. Why is management by wandering around considered effective communication? Consider channel richness and nonverbal communications in formulating your answer.
4. Is speaking accurately or listening actively the more important communication skill for managers? Discuss.
5. Provide your own examples for each cause of conflict.
6. Assume that you are a part of student project team and one member is not doing his or her share. Which conflict resolution strategy would you use? Why? *Collaborating*
7. Do you think a moderate level of conflict might be healthy for an organization? Discuss.
8. What is the relationship between team cohesiveness and team performance? Explain. *positive*

UNREGISTERED COPY OF SCANPAPYRUS

Experiential Exercise

Test: Listening Self-Assessment

Instructions: Choose one response for each of the items below. Base your choice on what you usually do, not on what you think a person should do.

1. When you are going to lunch with a friend, you:
 - a. Focus your attention on the menu and then on the service provided;
 - b. Ask about events in your friend's life and pay attention to what's said;

- c. Exchange summaries of what is happening to each of you while focusing attention on the meal.
2. When someone talks nonstop, you:
 - a. Ask questions at an appropriate time in an attempt to help the person focus on the issue;
 - b. Make an excuse to end the conversation;
 - c. Try to be patient and understand what you are being told.
 3. If a group member complains about a fellow employee who, you believe, is disrupting the group, you:
 - a. Pay attention and withhold your opinions;
 - b. Share your own experiences and feelings about that employee;
 - c. Acknowledge the group member's feelings and ask the group member what options he or she has.
 4. If someone is critical of you, you:
 - a. Try not to react or get upset;
 - b. Automatically become curious and attempt to learn more;
 - c. Listen attentively and then back up your position.
 5. You are having a very busy day and someone tells you to change the way you are completing a task. You believe a person is wrong, so you:
 - a. Thank her or him for the input and keep doing what you were doing;
 - b. Try to find out why she or he thinks you should change;
 - c. Acknowledge that the other may be right, tell her or him you are very busy, and agree to follow up later.
 6. When you are ready to respond to someone else, you:
 - a. Sometimes will interrupt the person if you believe it is necessary;
 - b. Almost always speak before the other is completely finished talking;
 - c. Rarely offer your response until you believe the other has finished.

7. After a big argument with someone who you have to work with every day, you:
- Settle yourself and then try to understand the other's point of view before stating your side again;
 - Just try to go forward and let bygones be bygones;
 - Continue to press your position.
8. A colleague calls to tell you that he is upset about getting assigned to a new job. You decide to:
- Ask him if he can think of options to help him deal with the situation;
 - Assure him that he is good at what he does and that these things have a way of working out for the best;
 - Let him know you have heard how badly he feels.
9. If a friend always complains about her problems but never asks about yours, you:
- Try to identify areas of common interest;
 - Remain understanding and attentive, even if it becomes tedious;
 - Support her complaints and mention your own complaints.
10. The best way to remain calm in an argument is to:
- Continue repeat your position in a firm but even manner;
 - Repeat what you believe is the other person's position;
 - Tell the other person that you are willing to discuss the matter again when you are both calmer.

Score Each Item of Your Listening Self-Assessment

1.	(a)	0	(b)	10	(c)	5
2.	(a)	10	(b)	0	(c)	5
3.	(a)	5	(b)	0	(c)	5
4.	(a)	5	(b)	10	(c)	0
5.	(a)	0	(b)	10	(c)	5
6.	(a)	5	(b)	0	(c)	10
7.	(a)	10	(b)	5	(c)	0
8.	(a)	5	(b)	5	(c)	10

Add up your total score _____

Practical Exercise

Identify the most appropriate conflict management style as:

- a. avoiding*
- b. accommodating*
- c. forcing*

- d. compromising*
- e. collaborating*

1. You have joined a committee in order to meet people. Your interest in what the committee does is low. While serving on the committee, you make recommendation that is opposed by another member. You realize that you have the better idea. The other party is using a forcing style.
2. You are on a task force that has to select a new computer. The four alternatives will all do the job. It's the brand, price, and service that you disagree on.
3. You are a sales manager. Beth, one of your competent sales people, is trying to close a big sale. The two of you are discussing the next step she will make. You disagree on the strategy to use to close the sale.
4. You are late on your way to an important meeting. As you leave your office, at the other end of the work area you see Chris, one of your employees, goofing off instead of working.
5. You are over budget for labor this month. It's slow so you asked Kent, a part-time employee, to leave work early. Kent tells you he doesn't want to go because he needs the money.

UNREGISTERED COPY OF SCANPAPYRUS

Role Playing: Show the cause of the conflict at the workplace. One of you will be initiator of the conflict, the other one will be responder. Show how you can handle one conflict situation using two styles. Prepare colorful posters of A4 format where cause of conflict and conflict styles are supposed be written. Maximum time for role playing is 5 minutes (i.e. 1 scene = 2.5 minutes, not more). Be creative!

Team 1:

Conflict: Scarce Resources  1) Competing (Forcing) style
2) Accommodating style

Team 2:

Conflict: Jurisdictional Ambiguities  1) Collaborating style
2) Compromising style

Team 3:

Conflict: Communication Breakdown  1) Avoiding style
2) Accommodating

UNREGISTERED COPY OF SCANPAPYRUS

Conflict: Personality Clashes  1) Compromising style
2) Competing style

Team 5:

Conflict: Power and Status Differences  1) Avoiding style
2) Collaborating

Team 6:

Conflict: Goal Differences  1) Accommodating style
2) Compromising style

4

CASE STUDY: Workplace Conflict

Jennifer is a woman in her mid-thirties who is responsible for staging and scheduling events for a corporation in Fresno, California. She has been effective in her relationships with the public and with vendors for the events; however, she has not followed internal rules on booking families as carefully as she should have.

Steve, a mid-level manager in his forties, is responsible for the care, maintenance and supervision of the facilities. He's tired of Jennifer's failure to give him proper notification for scheduled events.

Jennifer came to him with an event that needs to use one of the buildings that Steve is responsible for; however, she missed the required two-week notification by one day, and Steve said, "No, too late. You needed to get that to me yesterday in order to make it happen on time." He was rude in his manner and made it clear that Jennifer had broken the rules for the last time.

Jennifer returned to her office told her story to all the clerical staff. She finally complained to her supervisor Dave that Steve was not supportive of the office goals and refused to talk to her. "He's inflexible, and doesn't understand that, when we are dealing with the public, we have to work with their time-table as well." Dave listened, and went to his boss, the division manager, Albert, who is Steve's boss as well. Dave communicated that Steve has "consistently" used a non-supportive style in his job, and that "it is high time that something is done about it." Albert listened carefully to Dave, and then sat with Jennifer to listen to her opinion.

One further problem complicates the issue. It emerges that Dave has had a long-standing dispute with Steve over a number of issues involving facilities and lack of support for the things Dave and his people are trying to do to enhance the program that the office offers. He sees Steve as far too controlling, and he takes this opportunity to solve the dispute with a "historical perspective" in which he cites all of the times that Steve has not come through as he should have. It's not a long list, but there appears at first glance to be a pattern of non-support from Steve towards Dave and his people.

By this time, Jennifer had made livelier the story of Steve's rude behavior and failure to be supportive. The office clerical staff had heard the story several times by then and were whispering to

themselves about Steve "going off the deep end" and "thinking he runs the whole program."

Finally, Albert met with Steve, and before saying anything about what he has heard, he listened to Steve's version of what occurred in the dispute with Jennifer. Steve talks of the "several times" that Jennifer had not made the deadline. On further questioning, it turns out there were two other occasions. Steve was tired of her not complying with simple rules, and so decided to make an issue of this one and "teach her a lesson that will cost her something with the public that she deals with." Steve knew that Jennifer had made the commitment for the program and that she will be embarrassed publicly if it failed to come off. Now he's angry that the whole office is talking about it, and that top management is now involved.

Questions:

1. What is the reason of conflict? Discuss. *personal conflict between Jen and Steve and Dave*
2. If you were Albert which conflict resolution style would you use to handle the situation? Explain. *Compromising*
3. What would you say to Jennifer, Steve, and Dave? *Jennifer do on time, Don't be angry, never negatively discuss.*

UNREGISTERED COPY OF SCANPAPYRUS

CASE STUDY: Inner-City Manufacturing, Inc.

The president of Inner-City Manufacturing Inc., Rich Langston, wanted to facilitate upward communication. He believed an open-door policy was a good place to start. He announced that his own door was open to all employees and encouraged senior managers to do the same. He felt this would give him a way to get early warning signals that would not be filtered through the formal chain of command. Langston found that many employees who used the open-door policy had been with the company for years and were comfortable talking to the president. Sometimes messages came through about inadequate policies and procedures. Langston would raise these issues and explain any changes at the next senior managers' meeting.

The most difficult complaints to handle were those from people who were not getting along with their bosses. One employee, Leroy, complained that his manager had overcommitted the department and put everyone under too much pressure. Leroy argued that long hours

and low morale were major problems. But he would not allow Rich Langston to bring the manager into discussion nor to seek out other employees to confirm the complaint. Although Langston suspected that Leroy might be right, he could not let the matter sit and blurted out, "Have you considered leaving the company?" This made Leroy realize that a meeting with his immediate boss was unavoidable.

Before the three-party meeting, Langston contacted Leroy's manager and explained what was going on. He insisted that the manager come to the meeting willing to listen and without hostility toward Leroy. During the meeting, Leroy's manager listened actively and displayed no ill will. He learned the problem from Leroy's perspective and realized he was over his head in his new job. After the meeting, the manager said he was relieved. He had been promoted into the job from a technical department just a few months earlier and had no management or planning experience. He welcomed Rich Langston's offer to help him do a better job of planning.

(Source: Management, R. Daft, 2007, p. 761)

Questions:

1. What techniques increased Rich Langston's communication effectiveness? Discuss. *Open door Policy*
2. Do you think that an open-door policy was the right way to improve upward communications? What other techniques would you suggest?
3. What problems do you think an open-door policy creates? Do you think many employees are reluctant to use it? Why?

- 2) Complain and suggests box, yes
- 3) They are afraid, relative.

CHAPTER 11: MANAGERIAL AND QUALITY CONTROL

Control is a critical issue facing every manager in every organization today. Control, including quality control, also involves office productivity, such as improved customer service, elimination of bottlenecks and reduction in paperwork mistakes. In addition, every organization needs basic systems for allocating financial resources, developing human resources, analyzing financial performance, and evaluating overall productivity.

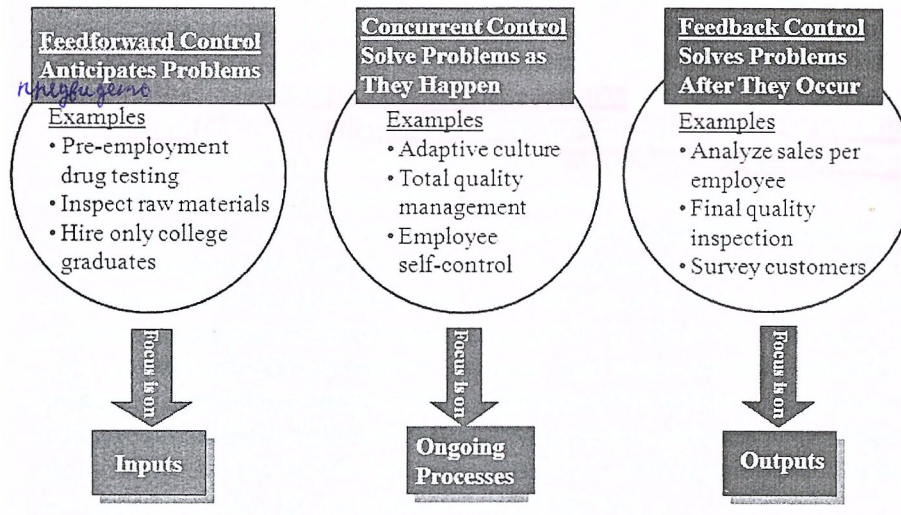
Organizational control is a systematic process in which managers regulate organizational activities to make them ^{not negotiable} consistent with established plans, targets, and standards of performance.]

To effectively control an organization, managers must plan and set performance standards, implement an information system that will provide knowledge of actual performance, and take actions to correct deviations from the standards. Managers need to decide what information is essential, how they will obtain that information (and share it with employees), and how they should respond to it. Having the correct data is essential. Managers have to decide which standards, measurements, and metrics are needed to effectively monitor and control the organization and set up systems for obtaining that information.

Types of Organizational Control

Control can focus on events before, during, or after a process. For example, a local automobile dealer can focus on activities before, during, or after sales of new cars. Careful inspection of new cars and cautious selection of sales employees are ways to ensure high quality or profitable sales even before those sales take place. Monitoring how salespeople act with customers would be considered control during the sales task. Counting the number of new cars sold during the month or telephoning buyers about their satisfaction with sales transactions would constitute control after sales have occurred. These three types of control are called *feedforward*, *concurrent*, and *feedback* as shown in Figure 11.1.

Figure 11.1 – Types of Organizational Control



1) **Feedforward control** – control that focuses on human, material, and financial resources flowing into the organization, also called **preventive control**. The purpose of this control is to ensure that input quality is sufficiently high enough to prevent problems when the organization performs its tasks. Example: careful inspection of new cars and cautious selection of sales employees.

Feedforward controls are evident in the selection and hiring of new employees. Organizations attempt to improve the likelihood that employees will perform up to standards by identifying the necessary skills, using tests and other screening devices to hire people who have those skills, and providing necessary training to upgrade important skills.

2) **Concurrent control** – control that consists of monitoring ongoing activities to ensure their consistency with established standards. It relies on performance standards and includes rules and regulations for guiding employee tasks and behaviors. Example: Monitoring how salespeople act with customers and providing rules and procedures for guiding the sales process.

Many manufacturing operations include devices that measure whether the items being produced meet quality standards. Employees

monitor the measurements; if they see that standards are not met in some area, they make a correction themselves or signal the appropriate person that the problem is occurring. Technology advancements are adding to the possibilities for concurrent control in services as well.

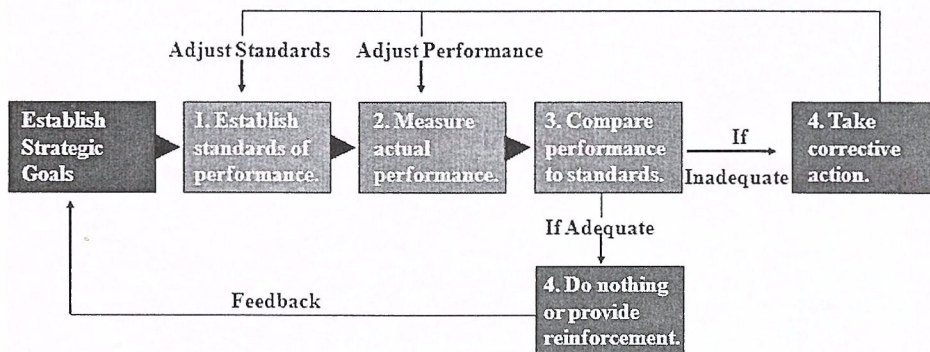
3) **Feedback control** – control that focuses on the organization's end product or service after the organization's task is completed; also called *postaction* or *output control*. Example: Counting the number of new cars sold during the month or telephoning buyers about their satisfaction with sales transactions.

Besides producing high-quality products and services, businesses need to earn a profit, and even nonprofit organizations need to operate efficiently to carry out their missions. Therefore, many feedback controls focus on financial measurements. Budgeting, for example, is a form of feedback control because managers monitor whether they have operated within their budget targets and make adjustments accordingly.

Control Model

Managers set up control systems that consist of the four key steps illustrated in Figure 11.2: establish standards, measure performance, compare performance to standards, and make corrections as necessary.

Figure 11.2 – Control Model



Within the organization's overall strategic plan, managers define goals for organizational departments that include a *standard of performance* against which to compare organizational activities. For example, "increase the corporation's return on investment to 7%".

Many organizations develop quantitative *measurements of performance* that can be reviewed on a daily, weekly, or monthly basis. In most companies, managers do rely only on quantitative measurements. They get out into the organization to see how things are going, especially for such goals as increasing employee participation and personal growth. Managers have to observe for themselves whether employees are participating in decision making and are being offered challenging opportunities for personal growth.

Then managers have to *compare performance to standards*. Managers read computer reports or walk through the plant and thereby compare actual performance to standards. In many companies, targeted performance standards are right on the computer printout along with the actual performance for the previous week and year.

Corrective action should follow changes in work activities in order to bring them back to acceptable performance standards. In a traditional top-down control approach, managers exercise their formal authority to make necessary changes. Managers may encourage employees to work harder, redesign the production process, or fire employees. Managers may also wish to provide positive reinforcement when performance meets or exceeds targets. They may reward a department that has exceeded its planned goals or congratulate employees for a job well done.

/ Open-Book Management

As we have discussed throughout this text, globalization, increased competition, rapid change, and uncertainty have resulted in new organizational structures and management methods that emphasize information sharing, employee participation, learning, and teamwork. These shifts have, in turn, led to some new approaches to control such as *open-book management*.

[*Open-book management* – sharing financial information and results with all employees in the organization.]

Open-book management allows employees to see themselves – through charts, computer printouts, meetings, and so forth – the financial condition of the company. Second, open-book management shows the individual employee how his or her job fits into the big picture and affects the financial future of the organization. With training in interpreting the financial data, employees can see the interdependence and importance of each function. If they are rewarded according to performance, they become motivated to take responsibility for their entire team or function, rather than merely their individual jobs.

The goal of open-book management is to get every employee thinking and acting like a business owner. To get employees to think like owners, management provides them with the same information owners have: what money is coming in and where it is going. Open-book management helps employees appreciate why efficiency is important to the organization's – and their own – success.

In some countries, managers have more trouble running an open-book company because prevailing attitudes and standards encourage confidentiality and even secrecy concerning financial results. Many businesspeople in countries such as China, Russia, and South Korea are not accustomed to publically disclosing financial details, which can present problems for multinational companies operating there. Table 11.1 lists countries by Opacity Index, developed by PriceWaterhouseCoopers, which indicates the degree to which various countries are open regarding economic matters. The higher the rating, the more opaque, or hidden, the economy of that country is.

China has the highest opacity rating at 87, and Singapore the lowest at 29. The United States has an opacity rating of 36, which is fairly low. In countries with higher ratings, financial figures are typically closely guarded and managers may be discouraged from sharing information with employees and the public. Globalization is beginning to have an impact on economic opacity in various countries by encouraging a convergence toward global accounting standards that support more accurate collection, recording, and reporting of financial information.

Table 11.1 – International Opacity Index: Which Countries Have the Most Secretive Economies?

Country	Opacity Rating
China	87
Russia	84
Indonesia	75
Turkey	74
South Korea	73
Czech Republic	71
Romania	71
Kenya	69
Ecuador	68
Thailand	67
Guatemala	65
India	64
Poland	64
Venezuela	63
Brazil	61
Pakistan	62
Argentina	61
Taiwan	61

Country	Opacity Rating
Colombia	60
Japan	60
South Africa	60
Egypt	58
Lithuania	58
Peru	58
Greece	57
Israel	53
Uruguay	53
Hungary	50
Italy	48
Mexico	48
Hong Kong	45
United Kingdom	38
China	36
United States	36
Singapore	29

UNREGISTERED COPY OF SCANPADYRUS

Key Terms

Concurrent control *параллельный* *управ. по принципу открытой кн*
 Feedback control *управление с обратной связью* Open-book management
 Feedforward control *предупреждающий* Organizational control *комплексный*
внутренний *относительный*

Discussion Questions

1. Why is it important for managers to understand the process of organizational control?

2. How might a public school system use feedforward control to identify the best candidates for its teaching positions?
3. How might the manager of a family-style restaurant use concurrent controls to ensure that the restaurant is providing customers with the highest quality food and service? What feedback controls would be useful?
4. Would you like to work for a company that uses open-book management? Why or why not?

CASE STUDY: Lincoln Electric

Imagine having a management system which is so successful so that people refer to it with capital letters – the Lincoln Management System – and other businesses benchmark¹ their own systems by it. For a number of years, other companies have tried to figure out Lincoln Electric's secret – how management induces maximum productivity and quality from its workers, even during difficult financial times.

Lincoln Electric is a leading manufacturer of welding products², welding equipment, and electric motors, with more than \$4 billion in sales and 6,000 workers worldwide. The company's products are used for cutting, manufacturing, and repairing other metal products. Although it is now a publicly traded company, members of the Lincoln family still own more than 60% of the stock.

Lincoln uses a different control approach. Tasks are rigidly defined, and individual employees must meet strict measurable standards of performance. However, the Lincoln system succeeds largely because of an organizational culture based on openness and trust, shared control, and a democratic spirit. Although the line between managers and workers at Lincoln is firmly drawn, managers respect the proficiency of production workers and value their contributions to many aspects of the business. The company has an open-door policy for

¹ **Benchmark** – сравнивать, брать пример, база сравнения, ориентир, эталон (процесс поиска новых и более совершенных процедур, осуществляемый путем сравнения собственных процедур с наилучшими из тех, которые используют другие)

² **Welding products** – сварочная продукция

all top executives, middle managers, and production workers, and regular face-to-face communication is encouraged. Workers are expected to challenge management if they believe practices or compensation management are unfair. Most workers are hired right out of high school, then trained and cross-trained to perform different jobs. Some eventually promoted to executive positions, because Lincoln believes in promoting from within. Many Lincoln workers stay with the company for life.

One of Lincoln's founders felt that organizations should be based on certain values, including honesty, trustworthiness, openness, self-management, loyalty, accountability, and cooperativeness. These values continue to form the core of Lincoln's culture, and management regularly rewards employees who reveal them. Because Lincoln so efficiently manages employees, they exercise a great degree of self-control on the job. Production workers are paid on a piece-rate system¹, plus merit pay system² based on their performance. Employees also receive annual bonuses which fluctuate according to the company's fortunes, and they participate in stock purchase plans. Bonuses are based on a number of factors, such as productivity, quality, dependability, and cooperation with others. Factory workers at Lincoln have been known to earn more than \$100,000 a year. However, there also are other, less tangible rewards. Pride of workmanship³, feelings of involvement and contribution are intrinsic rewards that flourish at Lincoln Electric. Cross-functional teams, empowered to make decisions, take responsibility for product planning, development, and marketing. Information about the company's operations and financial performance is openly shared with workers throughout the company.

Lincoln places emphasis on foreseeing and solving customer problems. Sales representatives are given the technical training they need to understand customer needs, help customers understand and use Lincoln's products, and solve problems. This customer focus is supported by attention to the production process through the use of strict accountability standards and formal measurements for

¹ *Piece-rate pay* - сдельная оплата

² *Merit pay system* - система оценки работника по профессиональным качествам или заслугам

³ *Workmanship* - искусство, мастерство, умение; квалификация

productivity, quality, and innovation for all employees. In addition, a software program called Rhythm is used to quicken the flow of goods and materials in the production process.

Lincoln's system has worked extremely well in the United States. The cultural values, open communication, and formal control and reward systems interact to align the goals of managers, workers, and the organization as well as encourage learning and growth. Now Lincoln is discovering whether this system can work overseas. Although most of Lincoln's profits come from domestic operations, top managers want to expand globally because foreign markets are growing much more rapidly than domestic markets. Thus far, Lincoln managers have not developed a strategic control plan for global operations, relying instead on duplicating the domestic Lincoln system.

(Source: Management, R. Daft, 2007, pp. 540-541)

Discussion Questions:

1. What types of control – feedforward, concurrent, or feedback – are illustrated in this case? Explain.
2. Based on what you've just read, what do you think makes the Lincoln System so successful? *OPEN door policy, Comm*
3. What changes might Lincoln managers have to make to adapt their management to overseas operations?

UNREGISTERED COPY OF SCANPAPYRUS

APPENDIX A: GUIDELINES FOR WRITING BUSINESS PLAN

Being able to write a comprehensive business plan is essential for every person. Any of you can become a business owner one day. You can see an example of a real business plan in the APPENDIX C which you can use as a background for writing your own business plan. Generally, business plans have no strict format but they have to include the information that investors want to know such as business description, marketing segment, start-up costs, and financial segment. For the purposes of management course, you will write a simplified business plan strictly following the standards below. All the data in your business plan must be realistic. Any information taken from external sources must be accompanied by footnotes on the relevant page.

Executive Summary

- summarize the whole business plan in few paragraphs. Also discuss on the role of your business and its contribution to society.

Hint: Complete this part after the finished business plan has been written

UNREGISTERED COPY OF SCANPAPYRUS

I. Business Description

- *Name of the business* (what will be the name of the business and what is its meaning?);
- *Nature of the business* (what are you going to do (produce, sell, or render service), describe products/services to be offered);
- *Unique or distinctive features of the business* (e.g. special offers);
- *Vision* (write your company's vision statement);
- *Mission statement*;
- *Assumed location and its advantages* (specifically cover the reasons of your choice, benefits that this location will bring to your business, determine whether you are going to buy, construct, or rent the building, estimate costs of the location)

II. Industry Profile and Overview

- *Industry analysis* (analyze recent trends in the industry such as the number of enterprises operating in the industry, industry growth rate, and future potential of the industry)

III. Business Strategy

- *Competitive strategy* (identify which Porter's competitive strategy you are going to use, why, and how)
- *Competitor analysis* (analyze all your direct competitors¹, briefly describe the uniqueness of each competitor², make comparative table where you will analyze prices, service, location, advertising campaign, and interiors of your competitors and your future business)
- *SWOT Analysis of your future company*
- Summarize this part by specifying how and why you are going to be better than your competitors.

IV. Marketing Segment

- *Disclose marketing studies concerning the industry* (if any available);
- *Target market* (who will be you customers, use market segmentation for the explanation, and calculate the potential number of customers by using population data from Statistical Agency of RK)
- *Pricing* (show how you will be setting prices, for this you need to know cost of products, and then add markup to the cost = price)
- *Advertising* (identify which advertising media you are going to use, find data, and calculate your monthly and yearly advertising expenses)

UNREGISTERED COPY OF SCANPAPYRUS

V. Management Segment

- *Form of ownership* (specifically cover its advantages and disadvantages in KZ). *Hint: it will be LLP as it is a team project.*
- *Provide names of owners, describe their qualifications;*
- *Construct organization chart* (identify which type of departmentalization you have chosen and explain why).

VI. Start-Up Segment

- *Needed facilities and equipment* (list the needs in terms of facilities (plant, building, storage, office, space) and equipment (machinery, furnishings, supplies), i.e. everything that you need to start a business);

¹ If you are going to have a small food shop, your *direct competitors* will be those food shops located in your neighborhood; if you are going to offer unique products/services you may look for direct competitors throughout the whole Almaty city. These competitors may provide similar products/services (substitutes).

² In order to do this you'd better visit and observe your potential competitors' stores/factories/shops.

- *Suppliers* (identify who will be your suppliers and what they will supply);
- *Salary Expenses* (identify total number of employees in your future company and their positions and calculate monthly and yearly salary expenses)
- *Estimates of start-up costs* (determine how much money you need to start your business; start-up costs include facilities, equipment, initial advertising and salary expenses)
- *Loan proposal* (how much money you and other owners are going to invest in owners' equity)

Hint: start-up capital for LLP in RK is minimum 120,000 tenge (2009);

VII. Financial Segment

- *Sales forecast* (analyze how many units you will be able to sell in each month and calculate total sales, also calculate cost of goods sold).
- *Projected (proforma) income statement* (for the next 3 years).
- *Projected (proforma) balance sheet* (for the 1st year ended)

Hint: For the preparation of financial statements, you must use all the numbers from the previous sections.

UNREGISTERED COPY OF SCANPAPYRUS

Advice: don't hesitate to consult your instructor especially in the preparation of financial statements!

Useful Websites:

www.stat.kz

www.yellow-pages.kz

APPENDIX B: BUSINESS PLAN TITLE PAGE

Sulayman Demirel University
Faculty of Economics
Department of Finance/Economics/Marketing
(Times New Roman, 16pt)

(Times New Roman, 36pt, bold)
BUSINESS PLAN
for
“XXXXXX” Computer Shop
(Times New Roman, 22pt)

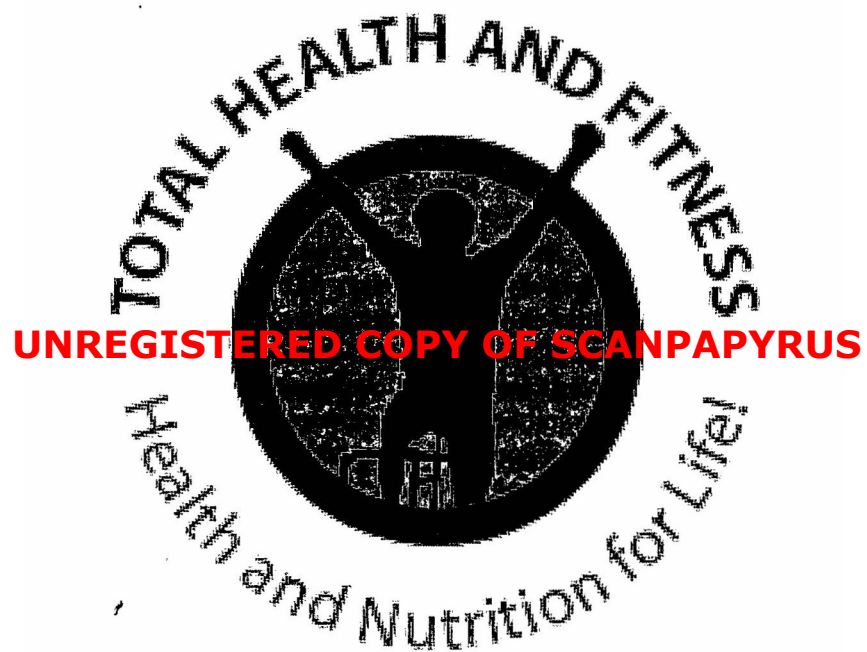
(Times New Roman, 14pt)
Prepared by: Student 1
Student 2
Student 3
Student 4
Subject: Management

(Times New Roman, 14pt)
Alanya, 2010

UNREGISTERED COPY OF SCANPAPYRUS

APPENDIX C

SAMPLE BUSINESS PLAN



Josh Sudbury, Founder

Executive Summary

Total Health and Fitness will operate for improving the community by promoting and providing the lifelong commitment to personal health and fitness that every American needs in a comfortable and convenient atmosphere.

This business is multifaceted, combining the health benefits of a calorie-conscious restaurant, dietary counseling, and personal fitness training. All three of these concepts will be located under one roof to maximize customer convenience and to allow for onsite cross-promotion. Many professionals living today's fast-paced American lifestyle end up neglecting their health because their busy schedules force them to work long hours and to give up healthy, home-cooked meals in favor of fast food or restaurant portions that are simply too large or too fatty. This lack of time also causes many working parents and business professionals to lose motivation and stray from their workout routines. This has led to an increasingly obese population, which has driven health care costs up for businesses and individuals and takes away from the everyday enjoyment of life.

The Total Health and Fitness concept will eliminate this time-loss problem. We will offer full dietary counseling to clients on a biweekly basis. These clients will receive from our licensed professional dieticians a full body-fat percentage analysis, sample meal plans, and sound advice on how to achieve their fitness goals. They can also purchase personal training from our professional personal trainers in our 4,000-square-foot fitness facility.

After a good workout and some healthy eating tips, clients can walk next door and pick up a healthy, professionally prepared meal for themselves or even the entire family. This one-stop fitness shop will provide everything for the involved parent or busy professional who still wants to look good and feel great.

Total Health and Fitness will locate in the Cool Springs area of Williamson County, Tennessee. This area is the commercial and retail center for Brentwood and Franklin, two affluent suburbs just south of Nashville. This area is perfect for a business such as this because it boasts a high median household income of more than \$75,000.

Furthermore, businesses in the fitness club industry can benefit greatly from a large population between the ages of 18 and 54 years.

Brentwood and Franklin are both home to more than 30,000 people in that age bracket.

Customer service and quality nutritional and dietary advice will serve as the foundation of our marketing strategy. This business relies heavily on repeat customers, and the best way to retain customers is through expedient and accurate customer service. Our trainers and dieticians will be helpful, courteous, and informative. By keeping up to date on the latest clinical studies and other fitness information through medical journals, Total Health and Fitness can succeed at staying on top of an ever-changing industry.

For this business, I am seeking debt financing in the amount of \$130,000 for start-up costs and initial working capital. I will be investing \$30,000 of my own money with the goal of remaining the sole owner and operator of Total Health and Fitness.

Vision

We seek to build a healthier community by giving people the opportunity to make the right fitness choices. We understand that maintaining a proper physical fitness regimen is difficult in today's fast-paced lifestyle. Total Health and Fitness combines fun and convenience with the benefits of staying healthy.

Mission Statement

Total Health and Fitness is in the business of promoting healthy choices among its community by offering the benefits of a first-class health and fitness club alongside an enjoyable restaurant that offers nothing but the most nutritious foods for its customers. Total Health and Fitness is in the business of improving the lives of its customers by saving them the time it takes to get to the gym, exercise, run home, and slave in the kitchen to prepare a healthy meal for their families. Total Health and Fitness combines convenience with health in an upbeat environment.

Company Values

We will operate on the basic principle of service to the customer above all else. Because we depend on our customers for

business, we must ensure that they enjoy every aspect of each visit to our facility. As a health and fitness club, we must capitalize on every opportunity to keep up with the changing trends in the fitness industry by offering the best equipment and environment while avoiding the pitfalls of “burning out.” We must continually renew ourselves in order to give the customers a new experience each time they return.

Competitive Advantage

This business is unique because it combines a health club with a healthy restaurant to bring about the utmost convenience for the on-the-go American. Our competitive advantage will be the convenience we offer. We must focus on selling the convenience of our products and services in order to differentiate ourselves from the competition.

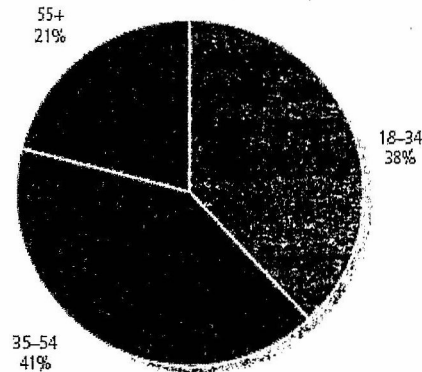
Industry Profile and Overview

Industry Analysis

The fitness industry has been in full swing since the early 1980s. It is heavily marketed by influential members of society—from Hollywood to Capitol Hill. Since 1987 the percentage of Americans who are members of a health club has risen from 17% to 32.8 % – a 90% increase in the percentage of memberships among the U.S. population. Almost one of every seven Americans older than five years is a member of some type of athletic or fitness center. Although the fitness industry caters to all ages, the main customer groups can be broken down into age and income, as shown in Figure 1.

With the aging of the baby boomers, the growth rates of the top two age brackets from 1987 to 2000 were 143% and 350%, respectively. Ages 18 to 34 saw a miniscule growth rate in comparison at only 34%, whereas the under-18 group increased by 187%. Likewise, memberships by annual household income paint a familiar picture in that more than 46% of the health club members earn a household income of more than \$75,000. Those ranging from incomes of \$50,000 to \$74,999 constituted 23%, and those with incomes from \$25,000 to \$49,999 claimed 20% of memberships nationwide. More women join health clubs than men, but only by 2 %. Women also participate in more group-centered activities such as yoga classes and aerobics.

Figure 1 – Fitness Club Membership by Age



Regulatory Restrictions

I have yet to discover any significant regulations placed on the Health and Fitness Industry. In fact, Congress introduced legislation favorable to health clubs nationwide as recently as last year. In May 2005, several legislators banded together to introduce legislation that would allow companies to offer fitness memberships as a part of their benefits packages. Known as the Workforce Health Improvement Act (WHIP), it promoted physical fitness in the corporate world in order to trim down the ever-growing American public.

Significant Trends

The industry has continued to increase its health club memberships over the last two decades. However, the latest trend in the fitness industry is circumventing the health club altogether. Online personal trainers have become all the rage and offer many advantages to the market Total Health and Fitness will pursue: the on-the-go parent/professional. By allowing individuals to get their workouts in their own homes and at their convenience, the World Wide Web has the potential to cut out the normal fitness club by giving people the personal training experience at home, without having to join a club or leave their homes.

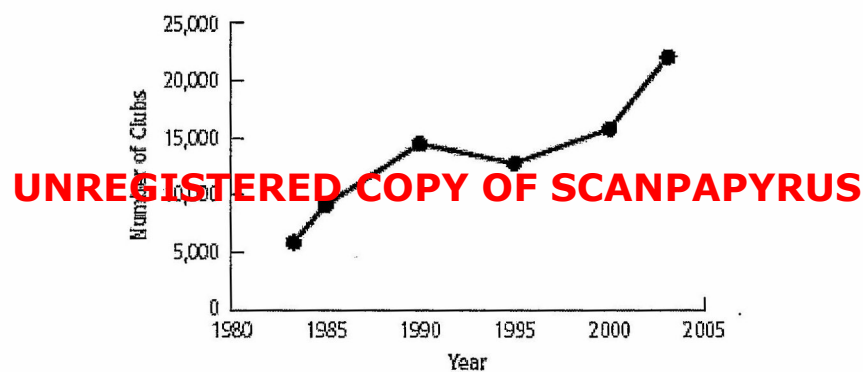
The primary drawback is the lack of a physical spotter who can assist the client with his or her form while exercising.

In addition to on-site trainers, Total Health and Fitness has another important competitive edge over these online trainers because of our members' ability to have a healthy meal prepared for them while they exercise. Having this combination allows the customer to get in a workout and grab dinner for the family all in the same place and still get home in less time than it would take an online trainee to do the same exercises, shower, and prepare dinner for the family.

Growth Rate

Despite a lull in growth during the 1990s, the number of health, racquet, and sports clubs in America has increased from 6,211 total clubs in 1982 to 22,031 total clubs in 2003 (Figure 2).

Figure 2 – Growth rate in the number of sports clubs in America



That represents a growth rate of 255% over the last 20 years and an average growth rate of nearly 13% per year. From 2000 to 2003, the total number of clubs jumped from 15,910 to 22,031, a total growth rate of 38%. This is clearly an industry on the rise.

In 2003, there were more than 36.3 million health club memberships nationwide, 110% more than the 17.3 million in 1987. In addition, the number of "core members," those who use their memberships more than 100 times a year, has steadily grown as well, climbing from 5.3 million in 1987 to 14.6 million in 2003, a growth rate of 175%. Not only is the industry growing overall, but members also are using their memberships more often.

Industry revenues also have grown steadily. From 1993 to 2002, total revenues increased from \$6.5 million to \$13.1 billion, an increase of more than 101%.

Furthermore, revenues never decreased from one year to another during this time span, meaning that the industry has seen a trend of steady growth over the last decade. The average yearly increase in revenues over the industry for the last decade was 11.3 percent.

Key Success Factors in the Industry

Three key factors are crucial for building a successful health and fitness club.

1. Effective, specialized workout programs designed to target individual members. Both World Gym and Bally Total Fitness specifically cite effective personal training as tenets of their mission statements. Similarly, Curves lays claim to the most effective 30-minute workout in the industry, specifically designed for women. Individualized exercise programs are a key component of Total Health and Fitness' strategy.

2. Membership in a community of people, not just a club. Successful chains in the exercise industry include in their advertisements that joining their club means joining a group of people all striving for the same goals: a better self-image through personal health and fitness. For instance, Curves makes direct connections with women by solidifying their claim to the "woman's health club" niche within the industry as a whole.

3. Real-world convenience. Although Bally Total Fitness and World Gym use their enormous size and multiple locations to help sign up members across the nation, Curves pushes the small investment of time it takes to complete their exercise regimen. By selling the idea of a "30-minute" workout, they cater to women who believe they are too busy and would waste money on a health club membership they wouldn't have the time to use.

Total Health and Fitness will focus on using these techniques within an already established community to achieve success. By offering specialized workout facilities and topnotch personal training, we can guarantee our customers that they will receive the most from

their memberships. Furthermore, by offering the expediency of a restaurant on the grounds that prepares food in a manner congruent with a healthy lifestyle and the nutritional needs of the members and their families, Total Health and Fitness possesses a type of real-world convenience not found at other health clubs.

Outlook for the Future

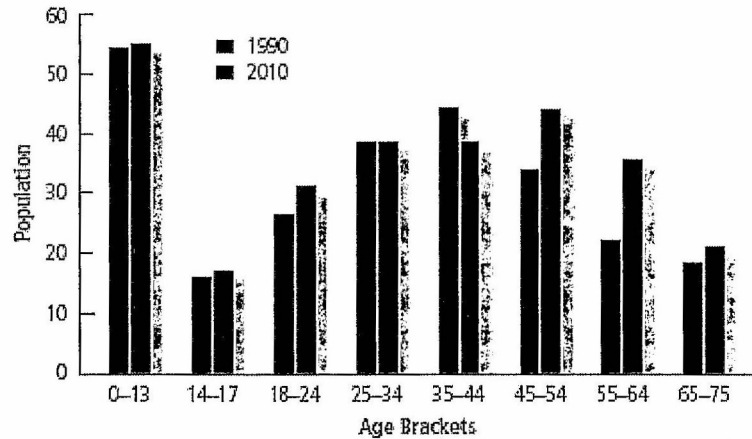
The future outlook of the health and fitness industry is optimistic. The rate of obesity in the United States continues to climb. The rapid decline in the health of so many Americans (as illustrated in the accompanying Table 1) both raises the importance of a regular fitness regiment for all Americans and increases the number of potential clients for fitness facilities in the future. The ultimate goal is to bring about a decline in obesity rates through proper diet and regular exercise, both of which are offered at Total Health and Fitness.

Table 1 – Increase in Prevalence (%) of Overweight, Obesity, and Severe Obesity among U.S. Adults

	Overweight	Obesity	Severe Obesity
1999–2000	64.5	30.5	4.7
1988–1994	56.0	23.0	2.9
1976–1980	46.0	14.4	No data

Specifically, a range of states from Texas to West Virginia (which encompasses Tennessee) have an obesity rate of more than 25%. Clearly, there is a need in the United States for more health and fitness facilities to facilitate the demand for weight loss programs and health initiatives. Moreover, the industry's two largest client bases, young adults 18 to 34 years, old and mature adults of age 55 years and over, are expected to grow rapidly in the near future (Figure 2). The industry is expected to grow in step with the steady growth in these demographic sectors. Twenty-one-year-olds are the most likely to join a club; however, aging baby-boomers will increase the mature adult share of the market as they begin to pass 50. The increase in these population segments will produce increases in membership across the industry, especially for those companies that offer what customers want.

Figure 2 – Projected U.S. Population Growth (millions)



Business Strategy

UNREGISTERED COPY OF SCANPAPYRUS
 Total Health and Fitness seeks to make a name for itself in the health club industry. We believe that we can garner a large share of the health club market in our target area by combining health food with the health club in a relaxed atmosphere.

Goals and Objectives

Goals: Total Health and Fitness strives to become the family fitness specialist in the local community by providing customized, state-of-the-art exercise facilities and healthy dining opportunities for its members. We strive to offer the best, most practical real-world training in the industry to accommodate the lifestyle demands of our clients. We will offer first-class service at a reasonable price and avoid inconveniencing our clients by overselling memberships and overcrowding our facility. We will offer the best training in the market by finding the most capable trainers and paying them adequately.

In addition to personal training, Total Health and Fitness will offer weekly and monthly nutritional meal plans for clients who want extra assistance in sticking to a proper weight-balancing program.

Clients will meet with our dieticians weekly for the first 6 weeks and monthly for the following 6 months to solidify a healthy meal plan that they can follow on their way to obtaining their desired body image. These clients will be able to conveniently purchase up to two of the meals on their meal plan a day at the in-house restaurant franchise.

To offer the healthiest and most nutritional foods to our clients, we must successfully recruit the right franchise for our restaurant. Restaurants such as T.G.I. Fridays, O'Charley's, Chili's, and Applebee's offer healthy menu items to attract a more health conscious customer. Total Health and Fitness will work with a franchise to create a full menu consisting only of healthier, better-balanced meals. The restaurant itself will operate independently of the fitness facility; however, the restaurant will sublease its space from Total Health and Fitness, and Total Health and Fitness will receive a percentage of all meals sold at the restaurant.

Objectives:

1. Each trainer at Total Health and Fitness will serve at least 20 clients a week, allowing for a total membership of more than 120 clients.
2. Using the concept of personal training rather than faceless memberships, Total Health and Fitness will maintain a one-on-one relationship with its clients, ensuring that no matter how large the company gets, each client will feel like a member of an intimate family.
3. Total Health and Fitness dieticians will build a weekly diet for willing clients to follow that is based on their personal fitness goals. Offering this to our clients will allow them to reach their greatest fitness potential if they so choose, maximizing the benefit they receive from working out, and having our company to thank for their results.

SWOT Analysis

Strengths

- ✓ Total Health and Fitness benefits greatly from the convenience it offers its clients by incorporating the restaurant in its scheme. This limits the need for customers to count calories and analyze their food intake. This will be a major point of differentiation for Total Health and Fitness from other health clubs in the area.
- ✓ The size of the facility and membership will be limited to maintain a close relationship with our customers. This closeness will allow

the owner and our staff to get feedback from our clients to learn about their personal fitness needs, ideas for improvement, suggestions, and complaints. Our goal is to maximize their enjoyment and the benefits they receive from their training experience.

- ✓ A personalized atmosphere allows women to exercise without feeling as though they are being watched and analyzed by other members, thus eliminating insecurities that take away from the potential of each workout. To achieve maximum individual concentration during workouts, Total Health and Fitness will introduce the home gym concept to our facility. By using individual rooms designed to feel like home gyms (equipped with adjustable dumbbell sets, benches, cardio machines, and video/audio systems), our customers can work out with a trainer or alone. Thus, they can receive the comforts of home, without the big investment.

Weaknesses

- ✓ Total Health and Fitness will be competing with larger companies that have established names in the industry with proven track records and larger advertising budgets.
- ✓ The concept of combining a restaurant with a workout facility is new. Total Health and Fitness would be the first company to implement this strategy.
- ✓ The investment needed to start this company is significant.

Opportunities

- ✓ There is no other business that operates in the niche that Total Health and Fitness plans to occupy. We can use this to establish a stronghold in the overall market.
- ✓ We have the opportunity to reach an upscale community and shape it in a healthier fashion. We plan to do our part by lowering the percentage of unhealthy and unfit members of the community.

Threats

- ✓ Larger rivals such as Gold's Gym and Bally's Total Fitness have deep pockets and may try to move into the market that Total Health and Fitness will establish.

Competitive Strategy

Total Health and Fitness seeks to use the differentiation approach to business strategy. We differentiate ourselves from our competitors by offering services that they do not or cannot offer. We will concentrate on customizing the health club experience to the needs of each person who chooses to become a member.

Competitor Analysis

By using the three key success factors in the health club industry identified earlier (specialized programs, community feel, and convenience), we can analyze just how Total Health and Fitness stacks up against its competition. Three direct competitors operate in the area and focus on personal fitness through training and a nutritional diet. Two larger companies, World Gym and Delta Clubs, operate facilities in the area. Chadwick's Personal Training, a smaller company, also has two locations near Franklin.

Chadwick's Personal Training is a local competitor operating in Franklin. This company offers personal training for its clients and their children. It has a small client base and it prides itself on the values it promotes through its fitness training and nutritional consulting.

World Gym is a national chain that has various classes and amenities for the customers such as nutritional consulting. Their primary advantage is that they are open 24 hours a day, thus allowing their clients to choose the best workout time for their individual needs. They also offer day care facilities so that parents can work out without leaving their children at home.

Delta Clubs offers four locations in the Nashville area, only one of which is located in our market area. Like World Gym, they offer day care, various fitness classes, and large facilities.

They also offer a smoothie bar, which affords their clients healthy refreshments after a workout. For all of their benefits, none of these businesses is targeting the market in the same way.

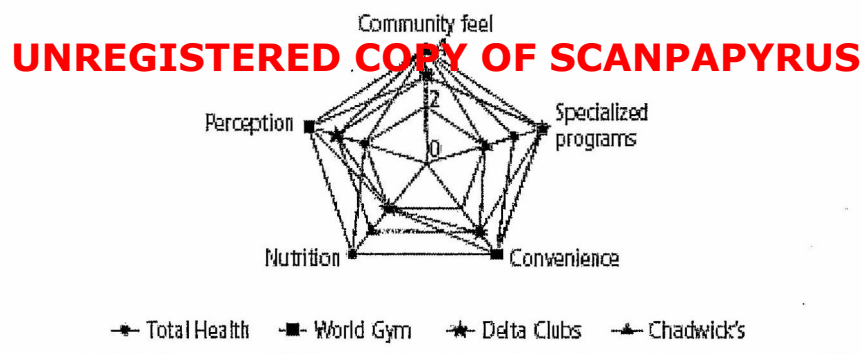
Total Health and Fitness will. Our company takes nutritional advice one step further: implementation. Our clients will also be afforded the individual attention of Chadwick's with the home-style accommodations that will make them feel comfortable while they enjoy

their fitness experience. The following competitive profile matrix (and accompanying graph) summarizes the competitive positions of Total Health and Fitness and its primary competitors.

Table 2 – Competitive Profile Matrix for Brentwood/Franklin Market

Key Success Factor	Weight	Total Health and Fitness		World Gym		Delta Clubs		Chadwick's	
		Score	Weighted Score	Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
Community Feel	0.20	4	0.8	3	0.6	3	0.6	4	0.8
Specialized Programs	0.15	3	0.45	4	0.6	4	0.6	2	0.3
Convenience	0.25	4	1	4	1	3	0.75	3	0.75
Nutrition	0.25	4	1	2	0.5	2	0.5	3	0.75
Perception	0.15	2	0.3	4	0.6	3	0.45	3	0.45
	1.00		3.55		3.3		2.9		3.05

Figure 3 – Competitive Profile Matrix Growth



Marketing Strategy

Target Market: Total Health and Fitness will target professionals and parents on the go. The primary age bracket of our target audience is 18 to 54 years, although we will not hesitate to accommodate potential members above or below our target demographics. The industry profile cites the growth of the upper portion of the 18- to 54-year age bracket

(34 to 54 years) as the second-fastest-growing age bracket in the industry, but the 18- to 34-year bracket remains the bedrock of our membership base. Customers have the motivation to buy memberships at Total Health and Fitness because we will be the only health club in the area with nutritional counseling and a restaurant on-site that is focused on providing the right type of meals for its customers.

Web Site: Total Health and Fitness will operate a Web site to offer clients and potential customers up-to-date information on deals and packages that the company will offer and the latest health and nutritional information. Our Web site will operate at the domain <http://www.total-health-and-fitness.com>. It is currently available for registration according to NetworkSolutions.com.

Pricing: Clients of Total Health and Fitness will pay for their training in blocks of 8 or 12 visits. Those choosing to visit twice a week will pay for 8 workouts per month, and those choosing to visit three times a week will pay for 12 workouts per month. The 8-workout block costs \$336 per month (at \$42 per visit), and the 12-workout block costs \$495 per month (at \$41.25 per visit).

UNREGISTERED COPY OF SCANPAPYRUS
Clients who choose to have a nutritional food plan constructed for them to follow will be billed at a six-month sign-on fee of \$400. For this fee, they will receive one meeting every two weeks with a registered dietician. At this meeting, clients will be weighed and measured and their progress will be assessed to determine their dietary and nutritional needs for the next training period. The following six months will be assessed at \$100, and meetings with the dietician will be monthly. A total yearly package can be purchased for \$800.

Market Analysis

The International Health, Racquet, and Sportsclub Association identify target customers by age and income. Figure 4 shows that majority of health club members are between 18 and 34 years, but a significant portion is in the 55-and-older category. Comparing this data to data compiled from the U.S. Census Bureau about the total number of potential clients in our targeted location of Brentwood/Franklin, Tennessee, reveals a good fit. The Brentwood/ Franklin area Club

Membership by Age boasts a large number of residents who fall into these age groups. We estimate that there are more than 70,000 potential customers for Total Health and Fitness in our trade area (Figure 5).

Figure 4 – Club Membership by Age

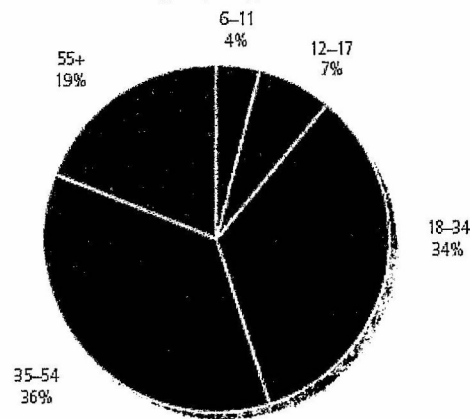
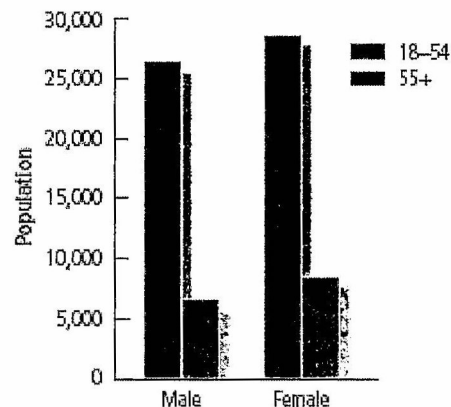


Figure 5 – Population by Age and Sex for Brentwood/Franklin TN



In addition, the median household income of the people who most frequently join health clubs is at least \$50,000 per year, but the largest proportion comes from the income bracket above \$75,000, as seen in Figure 6.

Figure 6 - Club Membership by Annual Household Income

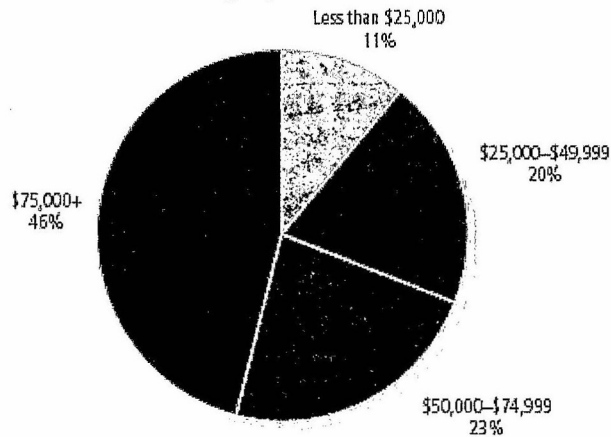
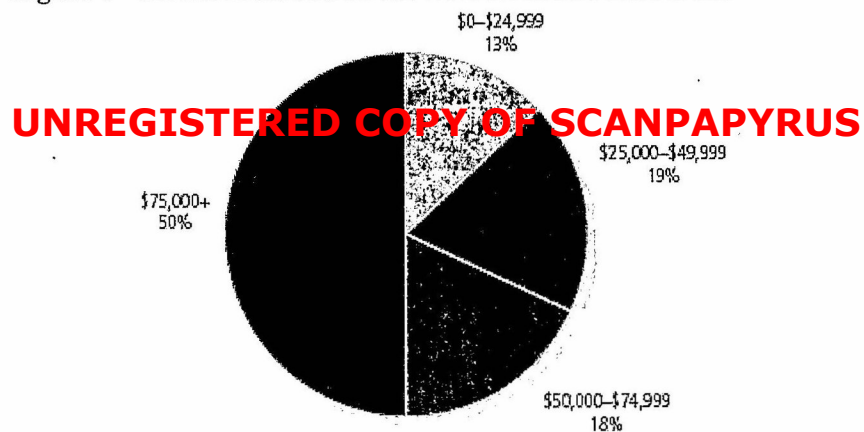


Figure 7 - Household Income for Brentwood/Franklin TN



Once again, the population in the Brentwood/Franklin area compares favorably with the industry's profile of the typical fitness center customer. The area boasts relatively high incomes, with 50 percent of its median household incomes above the \$75,000 mark. This market shows a high potential for establishing a solid customer base without having to resort to competing on the basis of low price.

Advertising: Total Health and Fitness will advertise in The Tennessean and its local satellite newspapers. Local newspapers are a perfect medium for us to use because they are regularly read by business professionals and more-mature customers, the markets on which our business is focused. The Tennessean has a total daily circulation of 173,304 and a total Sunday circulation of 241,017, all in the Nashville area. Williamson A.M., a local newspaper distributed in the target market, reaches more than 23,000 homes each weekday and more than 30,000 homes on Sundays. Added to these numbers are the daily newsstand purchase figures, which push weekday publication sales to more than 27,000.

Advertising rates in these publications are reasonable. Total Health and Fitness can place a 16-inch ad (the biggest size offered) in every edition for the first six months of business for just \$624. To place an 8-inch ad in the paper for the next six months costs \$336, making the total cost \$960. Other advertising will consist of radio ads on local talk radio stations such as the Steve Gill show, a popular conservative talk radio program, the host of which is a resident of Williamson County and a personal friend. The program airs on FM 99.7 and is owned by Cumulus Media. Steve and 99.7 FM have done many on-location promotions. These encourage the listeners to drop by and meet the on-air talent, and this brings them to the business. This is a marketing strategy I would pursue as part of our grand opening.

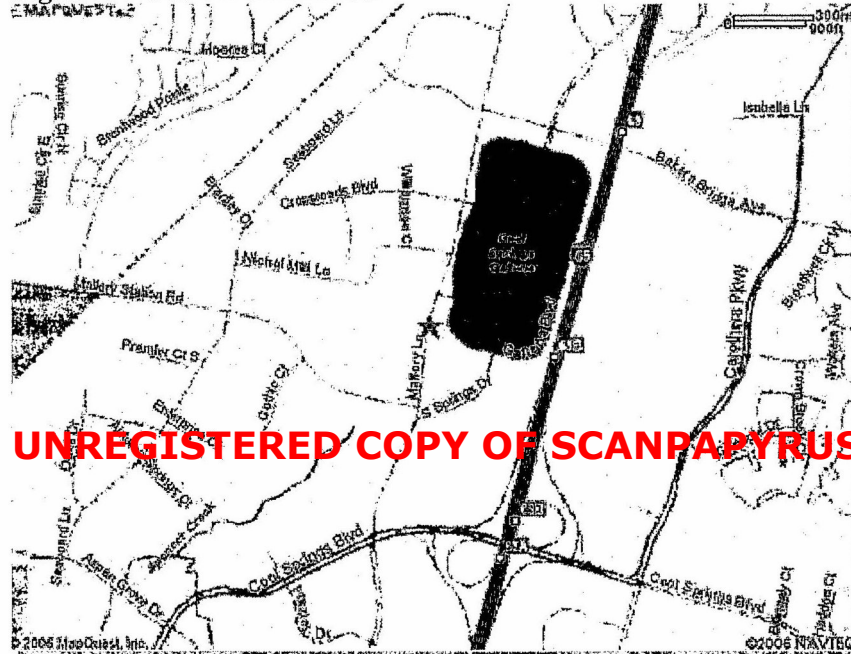
The station has more than 100,000 watts of power, boasting the largest listening audience in Tennessee. The listening audience is predominantly male and affluent, earning a median annual income of \$75,000 a year. This station broadcasts directly to my target market and is a perfect fit for Total Health and Fitness. The most basic advertising plans for this radio station start at just a few hundred dollars. I will budget anywhere from \$1,000 to \$2,000 per month at start-up for advertising on FM 99.7.

Location and Layout

Total Health and Fitness will be located in a major shopping and commercial district between the cities of Brentwood and Franklin known as Cool Springs. Cool Springs is the retail hub of Williamson County and is home to various office complexes, retail shops,

restaurants, and Cool Springs Galleria, a large and upscale shopping mall. These businesses serve the 93,000 people who live and work in the area. The area draws more than 11 million visitors annually and provides Franklin alone with more than \$1 million a month in sales tax revenue.

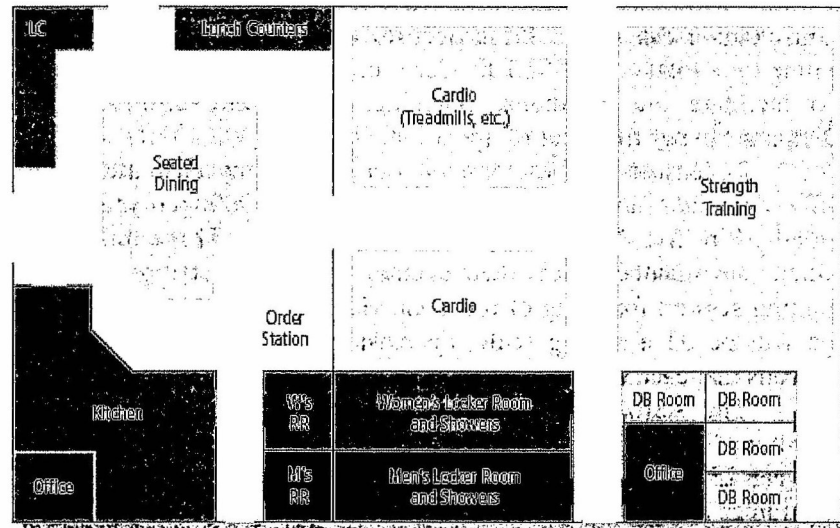
Figure 8 – Assumed Location



Total Health and Fitness will locate in the Cool Springs Center, located at 1945 Mallory Lane in Brentwood. This location offers our business the benefits of a strip-mall style shopping center such as high consumer traffic. Currently there is more than 4,000 square feet available for lease. This space is divisible and can also be sublet, which will allow Total Health and Fitness to sublease a portion of its space to a restaurant franchise in order to offer our customers the added convenience that comprises our competitive advantage.

The lease rate is \$14 per square foot, which is considered to be a bargain in the Brentwood/Franklin market. I will seek a three-year lease with an additional three-year option.

Figure 9 – Total Health and Fitness Layout



The location of Total Health and Fitness is indicated on the accompanying map. The close proximity to Cool Springs Galleria, the large shopping mall, places Total Health and Fitness in a high-traffic retail area, conducive to walk-in traffic.

Description of Management Team

At the time of the company's inception, Josh Sudbury will serve as the Chief Executive Officer and President of Total Health and Fitness. I will be a graduate of Presbyterian College with a degree in History and a minor in Business Administration. I have had prior experience in business as a salesman for G.C.P., Inc., a concrete manufacturing company located in Gallatin, Tennessee. Prior to holding this position, I obtained management experience as the night shift manager for the same company's shipping department. I will also build on the business experiences of my father, who owns his own business, and has held numerous sales and management positions throughout his near 30-year career as an entrepreneur.

Because of the restaurant aspect of the business, I will need a better understanding of a profession in the health and nutrition industry. In order to do so, I will become a licensed Nutrition and Wellness Consultant. I can obtain these licenses from an accredited institution online for a total cost of \$1,100. Certification will require three months. To facilitate the nutritional planning, I will hire two Registered Dietitians in my first year of operation.

To ensure the best possible service for my customers, I will offer dietitians an above-market wage of \$45,000 per year. I will initially hire five full-time trainers for my facility. These trainers will solicit and maintain their own clients. I will collect a fee for each training session for using of the Total Health and Fitness facility. This fee will be on a sliding scale, decreasing with the number of client sessions that each of the trainers performs in the previous month.

The starting fee will be \$15 and applies to trainers who complete 24 sessions or fewer a month. If the trainer completes between 25 and 35 sessions, the fee drops to \$14 per session. Finally, if the trainer completes more than 35 sessions in a single month, the fee drops to \$13. This plan gives trainers the incentive to increase the number of clients and the frequency of their visits, increasing revenues for Total Health and Fitness.

UNREGISTERED COPY OF SCANPAPYRUS

Company Structure

Total Health and Fitness will be organized as an S Corporation. This form of organization offers all the advantages of the corporation, such as continuity, easy transferability, and limited personal liability. The primary advantage of this form of organization is that its limited liability allows the owners and investors to avoid losing their personal assets should a member injure himself or herself in the facility and sue for damages. Over the course of the company's life, I will retain at least fifty-one percent ownership in Total Health and Fitness to maintain ultimate control over business decisions.

Financial Forecasts

The financial forecasts for Total Health and Fitness are located in Appendix A. Each projection contains an income statement compiled

for the first year and cash flow statements that span three years and are projected monthly. There is a balance sheet for the fiscal year 2007 based on start-up costs and total investment projections. (Note: To conserve space, some of the financial projections were omitted.)

Loan Proposal

I will be investing \$30,000 of my own money into Total Health and Fitness. These funds will be secured from the sale of my car through Auto Trader magazine. I will need a loan of \$150,000 to cover my projected start-up costs. I have added roughly \$25,000 to my loan in order to cover unexpected start-up costs and to have cash with which to operate on opening day.

UNREGISTERED COPY OF SCANPAPYRUS

Appendix C.A: Financial Forecasts

Total Health and Fitness
Balance Sheet
January 2007

Assets	
<u>Current Assets</u>	
Cash and Equivalents	\$ 30,000
Inventory	\$ 882
Miscellaneous	\$ 2,000
Total Current Assets	\$ 32,882
<u>Fixed Assets</u>	
Equipment	\$ 87,500
Building	\$ 73,000
Intangibles	\$ —
Signs	\$ 7,200
Computers and Other Noncurrent Assets	\$ 12,000
Total Fixed Assets	\$ 179,700
Total Assets	\$ 212,582
Liabilities	
<u>Current Liabilities</u>	
Notes Payable (Short Term)	\$ —
Loan	\$ 21,839
Total Current Liabilities	\$ 21,839
<u>Long-Term Liabilities</u>	
Notes Payable	\$ 138,904
Total Liabilities	\$ 160,743
Owner's Equity	\$ 30,000
Total Liabilities and Owner's Equity	\$ 212,582

UNREGISTERED COPY OF SCANPAPYRUS

Total Health and Fitness
Income Statement
Most Likely
January 2007–December 2007

Sales			
Training	\$	109,100	
Diet Counseling	\$	140,190	
Food Royalties	\$	7,913	
Water/Sports Drinks	\$	1,115	
Sublease (2000 Sq ft)	\$	30,000	
Net Sales Revenue	\$	288,318	
CGS	\$	836	
Gross Profit			\$ 287,482
<u>Operating Expenses</u>			
Lease			\$ 56,004
Advertising			\$ 18,750
Radio	\$	14,750	
Newspaper	\$	4,000	
Trade Association			\$ 950
Insurance			\$ 3,000
Depreciation			\$ 6,750
Equipment Expenses			\$ 1,800
Salaries			\$ 143,750
Taxes and Benefits			\$ 35,958
Cleaning Service			\$ 2,400
Utilities			\$ 12,480
Heat and A/C	\$	8,500	
Water	\$	1,520	
Cable	\$	300	
Telephone/Internet	\$	2,160	
Loan w/Interest			\$ 21,839
Legal and Accounting			\$ 3,000
Miscellaneous			\$ 9,000
Total Operating Expenses			\$ 315,680
<u>Net Income</u>			\$ (28,199)

UNREGISTERED COPY OF SCANPAPYRUS

Total Health and Fitness
Income Statement
Most Likely
January 2008–December 2008

Sales			
Training	\$	127,000	
Diet Counseling	\$	162,000	
Food Royalties	\$	9,100	
Water/Sports Drinks	\$	1,282	
Sublease (2000 Sq ft)	\$	30,000	
Net Sales Revenue	\$	329,382	
CGS	\$	962	
Gross Profit			\$ 328,421
<u>Operating Expenses</u>			
Lease			\$ 56,004
Advertising			\$ 21,000
Radio	\$	15,000	
Newspaper	\$	6,000	
Trade Association			\$ 500
Insurance			\$ 3,000
Depreciation			\$ 6,750
Equipment Leasing/Maintenance			\$ 1,000
Salaries			\$ 150,000
Taxes and Benefits			\$ 37,500
Cleaning Service			\$ 2,400
Utilities			\$ 13,100
Heat and A/C	\$	9,000	
Water	\$	1,600	
Cable	\$	300	
Telephone/Internet	\$	2,200	
Loan w/Interest			\$ 21,839
Legal and Accounting			\$ 3,000
Miscellaneous			\$ 9,000
Total Operating Expenses			\$ 326,093
<u>Net Income</u>			<u>\$ 2,328</u>

UNREGISTERED COPY OF SCANPAPYRUS

DICTIONARY OF MANAGEMENT TERMS

A

ACCOMMODATING STYLE – приспособленческий стиль

ACHIEVEMENT CULTURE – культура достижения, успеха

ACQUISITION – приобретение (приобретение контрольного пакета акций компании)

ADAPTABILITY CULTURE – культура приспособляемости (к непредвиденным ситуациям, изменениям)

ADJOURNING STAGE – стадия окончания, закрытия

AUTHORITY-COMPLIANCE MANAGEMENT – властное управление (стиль управления, при котором руководитель большое внимание уделяет достижению поставленных целей и не заботится о подчиненных)

AUTOCRATIC LEADER – автократический лидер (диктаторский, властный, властолюбивый)

AVOIDING STYLE – избегающий стиль

B

BRAINSTORMING – мозговая атака, мозговой штурм (метод генерации идей путем коллективного обсуждения проблем при полной свободе выдвижения вариантов решения)

BUSINESS-LEVEL STRATEGY – стратегия на бизнес уровне (для подразделений компании)

BUSINESS-PLAN – бизнес-план (документ, определяющий цели, структуру, методы управления, предполагаемые финансовые результаты проекта; необходим в том числе для предоставления потенциальным инвесторам)

BUSINESS-LEVEL STRATEGY – стратегия на бизнес уровне (для подразделений компании)

C

CASH COW - "дойная корова" (направление деятельности или товар с низкими темпами роста и большой долей рынка; такие устойчивые и приносящие доход элементы бизнеса компания использует для оплаты своих счетов и для поддержки других элементов бизнеса, требующих инвестирования)

CENTRALIZATION – централизация; концентрация, скопление, сосредоточение

CHAIN OF COMMAND – порядок соподчиненности в организации; цепь инстанций (иерархия уровней управления, создаваемая делегированием полномочий и ответственности)

CHANNEL RICHNESS – пропускная способность информационного канала

CODE OF ETHICS – моральный кодекс, кодекс норм поведения, кодекс чести (формальное изложение принципов морального поведения в той или иной организации или группе)

COERCIVE POWER – принудительная сила

COLLABORATING STYLE – стиль сотрудничества

COMMITMENT – обязательство

COMMUNICATION – процесс передачи информации

COMMUNICATION BREAKDOWN – срыв общения, передачи информации

COMPETENCE – знания, компетентность

COMPETING STYLE – конкурирующий стиль

COMPETITIVE EDGE – конкурентное преимущество/отличие

COMPETITOR – конкурент, соперник

COMPLIANCE – угодливость, податливость, покладистость, уступчивость

COMPROMISING STYLE – стиль компромисса

CONCEPTUAL SKILLS – аналитические способности (умение анализировать, сопоставлять информацию из разных источников, принимать сложные решения)

CONCURRENT CONTROL – текущий, параллельный контроль

CONFLICT – конфликт, столкновение, противоречие

CONFLICT MANAGEMENT – управление конфликтом

CONSIDERATION BEHAVIOR – уважительное поведение

CONSISTENCY CULTURE – культура постоянства, устойчивости

CONTROLLING – контроллинг, контроль (метод повышения эффективности деятельности предприятия, базирующийся на контроле, учете, анализе отклонений фактических показателей от запланированных и корректировки отклонений)

COPRENEURS – совладельцы бизнеса (женатые или неженатые пары)

CORPORATE CULTURE – корпоративная культура (свод наиболее важных положений деятельности организации, определяемых ее миссией и стратегией развития и находящихся выражение в совокупности социальных норм и ценностей, разделяемых большинством работников)

CORPORATE SOCIAL RESPONSIBILITY (CSR) – корпоративная социальная ответственность, ответственность бизнеса перед обществом

CORPORATE-LEVEL STRATEGY – стратегия на корпоративном уровне (для всей организации)

CORPORATION – корпорация, акционерное общество (юридическая форма предпринимательства, отличительные черты которой заключаются в следующем: корпорация представляет собой самостоятельный субъект гражданского права, ведущий независимое от своих членов существование; существование корпорации не может быть прекращено

иначе, как по решению суда или самих участников корпорации, принятому на основании устава и законов; по обязательствам корпорации исключительную ответственность несет сама корпорация в пределах принадлежащего ей имущества; корпорация является объектом двойного налогообложения, поскольку ее доходы облагаются налогом дважды: как прибыль компании и как доход акционеров, который они получают после ее распределения; капитал корпораций формируется путем размещения (выпуска) акций)

COST LEADERSHIP STRATEGY – стратегия лидерства в себестоимости, низкой себестоимости

COUNTERTRADE – встречная торговля (метод оплаты, при котором продавец принимает от покупателя товар или услуги в счет стоимости товара)

COUNTRY CLUB MANAGEMENT – душевный менеджмент подход к управлению, при котором руководитель уделяет больше внимания поддержанию благоприятного психологического климата в коллективе, а не выполнению производственных задач)

CROSS-FUNCTIONAL TEAM – группа специалистов различного профиля (напр. для подготовки производства)

CUSTOMER – покупатель; потребитель; заказчик; клиент

D

DEBT FINANCING – долговое (засмное) финансирование

(финансирование путем привлечения заемного капитала (напр., с помощью эмиссии облигаций или векселей, получения кредита в банке и т. п.), в отличие от привлечения средств путем выпуска акций либо финансирования за счет нераспределенной прибыли)

DECENTRALIZATION – децентрализация, отмена централизованного руководства чем-либо

DECISION MAKING – принятие решений

DECODING – декодирование; расшифровка

DEMOCRATIC LEADER – демократический лидер

DEPARTMENTALIZATION – департаментализация (разбиение организации на подразделения и отделы, каждый из которых специализируется на определенном виде деятельности и имеет управляющего)

DIFFERENTIATION STRATEGY – стратегия дифференциации (представление товара таким образом, что потребителям он кажется уникальным, отличным от продукции конкурентов)

DIRECT INVESTING – прямые инвестиции, капиталовложения (любые инвестиционные расходы на физические активы, такие как заводы,

оборудование и товарно-материальные запасы (в отличие от финансовых инвестиций))

DISCRETIONARY RESPONSIBILITY – дискреционная ответственность (по своему усмотрению)

DISSEMINATOR - "информатор" (по Минцбергу: одна из ролей, которые приходится играть менеджеру; передает внешнюю информацию, налаживает информационные контакты между уровнями, звеньями управления, отдельными работниками, реализует информационную политику, осуществляет защиту информации; входит в группу информационных ролей)

DIVISIONAL DEPARTMENTALIZATION – департаментализация подразделений, деление на подразделения

DOG - "собака" (направление деятельности или товар с низким темпом роста и небольшой долей рынка, которые могут приносить достаточный доход для поддержания самих себя, но не обещают стать более серьезными источниками дохода)

DUAL ROLE – дуальная, двойственная роль

E

ECONOMIC DIMENSION (ENVIRONMENT) – экономическая среда

ECONOMIC RESPONSIBILITY – экономическая ответственность

EFFECTIVENESS – эффективность, действенность, производительность (способность достигать необходимые результаты)

EFFICIENCY – эффективность, производительность, продуктивность (характеристика производственного процесса фирмы, отрасли и т. п., показывающая соотношение полученного результата и затраченного количества ресурсов)

EMPLOYEE INVOLVEMENT – вовлеченность работников (участие работников в процессе принятия решений в рамках их компетенции как одна из форм мотивации)

ENCODING – кодирование; шифрование информации

ENTREPRENEUR – предприниматель (человек, который создает, финансирует и управляет коммерческой или промышленной организацией, ожидая получить прибыль)

ENTREPRENEURSHIP – предпринимательство (самостоятельная, осуществляемая на свой риск деятельность, связанная с созданием, финансированием и управлением новым предприятием с целью получения прибыли)

EQUITY FINANCING – акционерное, долевое финансирование, финансирование за счет акций (финансирование путем продажи права участия в собственном капитале, т. е. путем выпуска новых

обыкновенных или привилегированных акций (в отличие от заимствований))

ERG THEORY – ERG теория (теория мотивации Альдерфера, в соответствии с которой выделяется три группы потребностей: потребности существования (Existence), отношений (Relatedness) и личностного роста (Growth); экзистенциальные потребности связаны с удовлетворением базовых потребностей (эта группа совпадает с тем, что Маслоу определял как физиологические потребности и потребность в безопасности), потребности отношений связаны с желанием устанавливать и поддерживать значимые межличностные связи; потребности развития - это стремление к совершенствованию и росту личности)

ETHICAL RESPONSIBILITY – этическая, моральная ответственность

ETHICAL STRUCTURE – этическая структура компании (кодекс чести, правила этики, стандарты)

ETHICS – этика, мораль, этические, нравственные принципы (система ценностей и норм поведения какого-л. сообщества, организации или индивида)

EXPERT POWER – экспертное воздействие, влияние (влияние эксперта на других людей, основанное на его общепризнанных знаниях и опыте в определенной области)

EXPORTING – экспорт, экспортное, экспорт (продажа товаров и предоставление услуг иностранным потребителям)

EXTERNAL ENVIRONMENT – внешняя среда организации (факторы окружающей среды, на которые организация практически не в состоянии повлиять, а может лишь прогнозировать и приспосабливаться к их изменениям)

EXTERNAL GROWTH STRATEGY – стратегия внешнего роста

EXTRINSIC REWARD – внешнее вознаграждение, поощрение (любые поощрения, которые предлагаются лицу за определенную деятельность другими лицами (напр., в случае вознаграждения работника, это заработная плата, премии, высокая оценка трудовых достижений окружающими и т. д.))

F

FEEDBACK CONTROL – управление с обратной связью, контроль по результатам (осуществляется с помощью отчетов о достигнутых результатах, так что обнаружить проблемы можно только по окончании отчетного периода)

FEEDFORWARD CONTROL – предупреждающий контроль, предварительный контроль (просчет возможных проблем или отклонений до их непосредственного проявления)

FIRST-LINE MANAGER – руководитель (менеджер) первого уровня, низшего звена, первой линии (напр. бригадир на производстве)

FLAT STRUCTURE – плоская организационная структура (организационная структура, которая характеризуется меньшим количеством уровней управления, чем в иерархии обычной организации; обычно предполагает меньшее количество промежуточных управляющих, т. е. все подчиненные подразделения или группы имеют одного главного управляющего) (горизонтальная)

FOCUS STRATEGY – стратегия сосредоточения (на определенной группе покупателей)

FRANCHISING – франчайзинг (лицензионное соглашение, подразумевающее использование товарного знака и технологий со взаимными обязательствами и льготами между передающей и получающей сторонами, предоставляемое за плату и оформленное в соответствии с законом о товарных знаках)

FUNCTIONAL DEPARTMENTALIZATION – функциональная департаментализация (формирование структурных подразделений организации, при котором каждому подразделению соответствует своя функциональная область)

FUNCTIONAL MANAGER – функциональный руководитель (руководитель функционального отдела либо отвечающий за определенную функциональную область деятельности организации)

FUNCTIONAL-LEVEL STRATEGY – стратегия на функциональном уровне (для отделов, департаментов, индивидуумов)

G

GENERAL ENVIRONMENT – общая среда; среда общего характера

GENERAL MANAGER – генеральный менеджер (главный менеджер организации, подчиняется только совету директоров)

GLOBALIZATION STRATEGY – стратегия глобализации

GOAL – задача, цель; целевой показатель

GRAND STRATEGY – главная, грандиозная стратегия

GREENFIELD VENTURE – инвестиции, капиталовложения "с зеленого поля" ("с чистого листа", с нуля) (инвестиции в создание нового предприятия, когда даже производственные помещения возводятся с нуля (в отличие от покупки или поглощения уже существующего предприятия))

GROWTH STRATEGY – стратегия роста

H

HARD-WORKER – «трудоголик»

HIERARCHY OF NEEDS THEORY – теория иерархии потребностей, иерархия потребностей (по Маслоу) (предложенная А. Маслоу теория поведения человека, в соответствии с которой человек мотивируется пятью природными потребностями; в порядке приоритетности к ним относятся физиологические потребности, потребность безопасности, социальные потребности, потребность чувства собственного достоинства и потребность самовыражения)

HORIZONTAL TEAM – горизонтальная команда (формальная команда, состоящая из работников примерно одного и того же уровня, но из разных отделов)

HUMAN (INTERPERSONAL) SKILLS – навыки общения (умение успешно общаться с подчиненными, партнерами, руководителями, коллегами и др.)

I

IDEALIST – идеалист (человек, питающий тягу к новым идеям)

IMPOVERISHED MANAGEMENT – неэффективное управление, неэффективный менеджмент

INDIVIDUALISM APPROACH – индивидуалистический подход

INITIATING STRUCTURE BEHAVIOR – структурообразующий (характеристика идеального типа руководителя, который основное внимание уделяет созданию формальной организационной системы, в которой каждый работник имел бы четко определенные функции, руководствовался четкими инструкциями и правилами коммуникации и т. п.)

INTERNAL ENVIRONMENT – внутренняя среда организации (параметры организации, которые определяют ее имидж, от которых зависит сплоченность внутри организации и эффективность достижения ею своих целей; к внутренней среде относятся следующие элементы: культура организации, система мотивации и вознаграждения сотрудников, история и традиции организации, стиль управления, наличие осознанной миссии организации; общие взгляды и ценности, позволяющие работать в команде)

INTERNAL GROWTH STRATEGY – стратегия внутреннего роста

INTERNATIONAL DIMENSION (ENVIRONMENT) – международная, конкурентная среда

INTERNATIONAL MANAGEMENT – международный менеджмент

INTRINSIC REWARD – внутреннее вознаграждение [поощрение] (чувство удовлетворенности каким-л. действием, чувство самоуважения и иные состояния, представляющие ценность для человека)

INVOLVEMENT CULTURE – культура вовлечения работников (напр. вовлечение в принятие решений)

J

JOB – работа, занятие; должность

JOB DESIGN – формирование должностей, распределение работ (группировка производственных, управленческих и иных задач по должностям с учетом различных личных и организационных параметров и характера работы, определение объема задач для отдельных должностей)

JOB ENLARGEMENT – укрупнение технологических операций

JOB ENRICHMENT – обогащение труда, работы (вертикальное расширение состава работы, т. е. добавление к обязанностям работника функций, ранее выполнявшихся его начальством, в том числе предоставление работнику большей свободы в принятии решений относительно способов выполнения поставленных задач, в т. ч. относительно планирования, организации выполнения и оценки выполнения задач; автор концепции - Ф. Герцберг)

JOB ROTATION – ротация рабочих мест, поочередное пребывание в должности, чередование характера работы (принцип периодического перевода работников с одного рабочего места на другое в рамках одной организации)

JOB SIMPLIFICATION – упрощение работы (метод повышения эффективности труда, заключающийся в разбиении работы на отдельные простые операции, для выполнения каждой из которых назначается отдельный работник)

JOINT VENTURE (JV) – совместное предприятие, совместная деятельность (юридическая форма предпринимательства на основе краткосрочного, разового объединения лиц для реализации конкретного проекта, часто без образования юридического лица; в налоговом законодательстве обычно считается разновидностью товарищества; используется как механизм объединения ресурсов и сокращения рисков при выполнении проекта; совместные с национальными предприятия часто являются главным способом проникновения иностранного капитала на национальный рынок)

JUGGLER – «фокусник, жонглер» (человек, не боящийся рисковать)

JUSTICE APPROACH – справедливый подход

L

LABOR MARKET – рынок труда

LEADERSHIP – руководство, лидерство

LEADERSHIP GRID – «решетка» лидерства

LEADING – руководство, управление (одна из функций менеджмента)

LEGAL RESPONSIBILITY – правовая, юридическая ответственность

LEGAL-POLITICAL DIMENSION (ENVIRONMENT) – законодательно-правовая и политическая среда

LEGITIMATE POWER – законная власть; влияние, основанное на традициях

LICENSING – предоставление лицензии, выдача лицензии, лицензирование (на осуществление какой-л. деятельности)

M

MANAGEMENT – управление, менеджмент (научная дисциплина и практическая деятельность, связанная с управлением организацией; включает в себя определение целей и стратегии развития организации, оценку имеющихся ресурсов и распределение их между различными видами деятельности, планирование структуры организации, контроль за ее деятельностью)

MATRIX BOSSES – боссы в матричной департаментализации

MATRIX DEPARTMENTALIZATION – матричная департаментализация (отделы разделяются по двум параметрам и имеют двойное подчинение: функциональному руководителю и руководителю проекта)

MERGER – слияние, объединение (объединение двух или более компаний в одну (без изменения юридического лица приобретающей компании) путем покупки большей части акционерного капитала приобретаемой компании; акционеры которой после объединения сохраняют свои права на акции в реструктурированной компании; может привести к ограничению конкуренции в соответствующей отрасли или на соответствующем рынке)

MIDDLE MANAGER – управляющий среднего звена (управляющий с правами управления департаментами, заводами, подразделениями, который подчинен высшему руководству компании)

MIDDLE-OF-THE-ROAD MANAGEMENT – сбалансированный стиль управления

MISSION – миссия (функция организации как части социальной или экономической системы; исходя из нее определяются цели организации)

MORAL-RIGHTS APPROACH – моральный подход (где в большей степени учитываются моральные права человека)

MOTIVATION – мотивирование, мотивация

MOTIVATION CONTENT THEORIES – содержательные теории мотивации (теории мотивации, базирующиеся на идентификации потребностей, которые заставляют людей действовать так, а не иначе; определяющими являются внутренние потребности, побуждающие людей к действию (напр., потребность в достижении цели, безопасности, статусе и т. д.); в отличие от процессуальных теорий мотивации акцент ставится на том, что является мотиватором)

MOTIVATION PROCESS THEORIES – процессуальные (ситуационные) теории мотивации (теории мотивации, основанные на предположении, что поведение человека зависит не только его потребностей, но и от восприятия им той или иной ситуации и возможных результатов выбора того или иного типа поведения; в отличие от содержательных теорий мотивации, объясняют, как возникает мотивация)

MOTIVATION REINFORCEMENT THEORIES – теории усиления мотивации

MULTIDOMESTIC STRATEGY – многонациональная стратегия

N

NETWORK DEPARTMENTALIZATION – сетевая структура организации

NONPARTICIPATOR ROLE – сторонний наблюдатель (член команды, не прилагающий усилий ни к решению командных задач, ни к удовлетворению социальных потребностей)

NONPROGRAMMED DECISION – незапрограммированное, новое решение

NONVERBAL COMMUNICATION – обмен невербальной информацией

O

OPEN-BOOK MANAGEMENT – управление по принципу открытой

книжки

OPERATIONAL GOAL – операционная цель

OPTIMIZER – оптимизатор

ORGANIZATION – организация (в социальных науках: группа людей, объединившаяся для совместного достижения какой-нибудь цели; может быть формальной или неформальной)

ORGANIZATION CHART – схема организационной структуры, организационная диаграмма (таблица или схема, в которой представлен состав подразделений и должностных лиц компании, их соподчиненность и взаимодействие)

ORGANIZATIONAL CONTROL – контроль, осуществляющийся внутри организации

ORGANIZING – организация (одна из базовых функций управления, включающая поиск необходимых ресурсов, распределение работ и назначение ответственных исполнителей для достижения поставленных целей и задач)

OUTSOURCING – аутсорсинг (передача стороннему подрядчику некоторых бизнес-функций или частей бизнес-процесса предприятия с целью повысить производительность труда и снизить себестоимость продукции преимущественно за счёт более дешёвой рабочей силы у подрядчика)

Р

PARTNERSHIP – товарищество (форма предпринимательства, представляющая собой объединение двух или более лиц (партнеров), совместно осуществляющих коммерческую деятельность; для организации этой формы требуется устное или письменное соглашение партнеров об их вкладах, участии в прибыли, ответственности и т. п.)

PARTNERSHIP AGREEMENT – договор/соглашение о сотрудничестве

PERMANENT TEAM – перманентная, долговременная команда

PERSONAL POWER – личная власть, личное влияние

PLAN – план (схема какой-л. деятельности, разработанная до начала ее осуществления (напр. план деятельности компании, план продаж, план получения выплат (пособий) и т. п.))

PLANNING – планирование, проектирование, составление плана, проекта, программы (разработка планов деятельности организации; одна из функций менеджмента)

PORTFOLIO ANALYSIS – анализ портфеля, портфельный анализ (анализ всех стратегических подразделений компании)

POSITION POWER – власть, данная позицией, занимаемой в организации

PRESCRIPTIVE CURVE – предписывающая кривая (какой стиль управления использовать)

PROGRAMMED DECISION – запрограммированное решение (которое уже осуществлялось ранее)

Q

QUESTION MARK – "трудный ребенок", "темная лошадка", "дикая кошка", "знак вопроса" (вид продукта в Бостонской матрице, имеющий пока небольшую долю рынка, не приносящий большой прибыли, но имеющий высокие темпы роста)

R

REFERENT – (1) поручитель (дающее рекомендацию лицо); (2) объект ссылки (с кем себя сравнивают)

REFERENT POWER – власть эталона (основана на личных качествах оказывающего влияние)

RESISTANCE – сопротивление

RETRENCHMENT STRATEGY – стратегия сокращения (характеризуется установлением целей ниже достигнутого уровня или исключением некоторых направлений деятельности, в худшем случае ликвидацией производства)

REWARD POWER – власть вознаграждения; власть, основанная на вознаграждении (власть, возникающая из возможности лица предлагать

что-л. в качестве вознаграждения, а также лишать обещанного вознаграждения и тем самым воздействовать на поведение других людей (напр. способность менеджера стимулировать труд работников путем обещания премии или угрозы лишить премии))

S

SELF-DIRECTED TEAM – самоуправляемая команда

SITUATION ANALYSIS – анализ ситуации

SMALL BUSINESS – малое предприятие (как правило, имеет небольшие объем капитала и обороты [объемы деятельности], характеризуется небольшим количеством сотрудников)

SOCIO-CULTURAL DIMENSION (ENVIRONMENT) – социально-культурная среда

SOCIOEMOTIONAL ROLE – социально-эмоциональная роль (член команды, роль которого заключается в поддержке удовлетворения эмоциональных потребностей участников)

SOLE PROPRIETORSHIP – индивидуальное предприятие (компания, которая находится в собственности и управлении одного человека, отвечающего по обязательствам данной компании личным имуществом; такая юридическая форма предпринимательства избирается для мелких предприятий; ее недостаток заключается в ограниченности финансовых возможностей; индивидуальные предприятия действуют в области розничной и мелкооптовой торговли, оказывают услуги на местном уровне; часто биржевые маклеры организуют свою деятельность в виде индивидуального предпринимательства)

SPAN OF MANAGEMENT – 1) норма управляемости (максимальное количество подчиненных, которым руководитель способен управлять) 2) объем управления, сфера контроля (число работников, ответственных перед данным руководителем)

SPECIAL-PURPOSE TEAM – специализированная команда, команда специального назначения

SPOKESPERSON - "представитель" (по Минцбергу: одна из ролей, которые приходится играть менеджеру; передает внутреннюю информацию внешним пользователям: финансовым органам, акционерам, партнерам, клиентам; основная функция - PR-деятельность; входит в группу информационных ролей)

STATUS QUO – статус-кво, то же положение, тот же порядок, существующее или существовавшее положение

STABILITY STRATEGY – стратегия стабильности, устойчивого развития

STAKEHOLDER – заинтересованная сторона, заинтересованное лицо (любое лицо или группа лиц, имеющих интерес в компании: акционеры,

работники, поставщики, клиенты, кредиторы, государство, общественность и т. д.)

STAR - "звезда" (обозначение быстрорастущего направления деятельности или товара с большой долей рынка, которые зачастую требуют серьезного инвестирования для поддержания их быстрого роста)

START-UP – начало деятельности; "стартап" (недавно созданная фирма, обычно интернет-компания)

STRATEGIC BUSINESS UNIT (SBU) - стратегическая бизнес-единица, стратегическое хозяйственное (бизнес-) подразделение (направление деятельности компании (продукт), имеющее отдельную миссию и задачи, деятельность которой можно планировать и рекламировать независимо от других направлений)

STRATEGIC GOAL – стратегическая цель

STRATEGIC MANAGEMENT – стратегическое управление (деятельность высшего руководства организации по определению долгосрочных целей организации, разработке принципов, планированию основных мероприятий и распределению ресурсов для достижения этих целей)

STRATEGIC PLAN – стратегический план (описывает миссию организации, ее сущность, общие цели и задачи на длительный срок)

STRATEGY FORMULATION – описание, разработка стратегии

STRATEGY IMPLEMENTATION – внедрение стратегии

SUPPLIER – поставщик (товара, услуги)

SUSTAINER – держащийся за уклад, за существующий образ жизни

SWOT ANALYSIS – SWOT-анализ (система структурирования и последующего анализа информации о событиях, ситуации и т.п., базирующаяся на следующих критериях: strengths (достоинства, преимущества), weaknesses (слабости, недостатки), opportunities (возможности) и threats (угрозы, риски). Используется для составления бизнес-планов и на предварительных стадиях принятия решений.

SYSTEMS THEORY – теория систем

T

TACTICAL GOAL – тактическая цель

TALL STRUCTURE – высокая, многоуровневая организационная структура (организационная структура, которая характеризуется большим количеством уровней управления; при данной структуре у каждой мелкой группы сотрудников есть свой управляющий, который, в свою очередь, подчиняется вышестоящим управляющим)

TASK ENVIRONMENT – рабочая среда (условия, в которых осуществляется выполнение какого-л. задания, и факторы, влияющие на

постановку целей и принятие решений по поводу выполнения того или иного задания)

TASK SPECIALIST ROLE – специалист по решению задач (член команды, направляющий всю свою энергию на достижение командных целей)

TEAM – группа; бригада, коллектив

TEAM COHESIVENESS – сплоченность команды

TEAM DEPARTMENTALIZATION – командная департаментализация

TEAM MANAGEMENT – командное управление (стиль управления, при котором руководителю добивается выполнения производственных задач и сохраняет при этом благоприятный психологический климат в коллективе, взаимоотношения между руководителем и подчиненными в этом случае строятся на взаимном доверии и уважении)

TECHNICAL SKILLS – технические навыки (группа необходимых менеджеру навыков, включающая способность использовать знания в таких областях, проектирование, производство, учет и т. д.)

TECHNOLOGICAL DIMENSION (ENVIRONMENT) – технологическая среда

THEORY X – теория X (одна из двух взаимосвязанных концепций Д. Макгрегора, характеризующих варианты отношения человека к труду; согласно теории X, руководитель склонен к созданию организационного климата с жестким контролем, централизованной властью, авторитарным лидерством и минимальным участием сотрудников в процессе принятия решений; такой руководитель считает, что люди не любят работать, лишены всякого честолюбия, предпочитают, чтобы ими руководили, хотят защищенности, главный вывод – людей надо принуждать работать)

THEORY Y – теория Y (одна из двух взаимосвязанных концепций Д. Макгрегора (США, 1960 г.), характеризующих варианты отношения человека к труду; согласно теории Y, руководитель склонен к демократическому стилю руководства, так как считает, что эффективному организационному климату свойственно более свободное, общее руководство, большая децентрализация власти, меньшая опора на принуждение и контроль и большее участие сотрудников в процессе принятия решений)

THEORY Z – теория Z (теория управления Уильяма Оучи, дополнившая теорию X и Y Макгрегора; включает в себя черты, характерные для японского стиля управления: отказ от политики увольнений в форме "пожизненного" найма работников, децентрализацию управления организацией, групповое принятие решений, акцент на мелкие группы при организации труда, постоянное обучение и разработку программ служебной карьеры; У. Оучи пытался показать, что корпоративная

культура является ключевым фактором, который делает организацию эффективной)

TOP MANAGER – руководитель высшего звена, топ-менеджер (отвечает за решения, принимаемые в масштабах организации или ее значительной части)

TRANSNATIONAL STRATEGY – транснациональная стратегия

TWO-BOSS EMPLOYEE – работник, который одновременно докладывает двум начальникам

U

UTILITARIAN APPROACH – утилитарный подход

V

VERTICAL TEAM – вертикальная команда (формальная команда, включающая в себя менеджера и его официальных подчиненных в соответствии с командной цепочкой организации)

VISION – предвидение, проницательность, дальновидность

W

WHISTLE-BLOWER – разоблачитель, свидетель, правдолюб (человек, который открыто критикует деятельность своей организации)

UNREGISTERED COPY OF SCANPAPYRUS

REFERENCES

1. Academy of Management Journal, <http://www.aom.pace.edu/amj/>
2. Andrew J. DuBrin (2003) Essentials of Management, 6e. South-Western College Publishing, Cincinnati, USA
3. Andrew J. DuBrin, (2005) Fundamentals of Organizational Behavior, 3e. South-Western College Publishing, Cincinnati, USA
4. Angelo Kinicki, Brian K. Williams (2008) Management. McGraw-Hill, New York, USA
5. Armstrong M. (2003) Human Resource Management Practice-9th Edition, Kogan Page India, New Delhi
6. *Asia Pacific Journal of Human Resources*, <http://www.sagepub.com>
7. Bandara, G. (2005) Business Studies (Singhala), ISBN 55-678-4-2
8. Certo Samuel C, Cento Srevis (2007) Modern Management, Prentice Hall of India, New Delhi
9. Chuck Williams (2005) Management, 3e. South-Western College Publishing, Cincinnati, USA
10. Debra L. Nelson, James C. Quick, (2005) Understanding Organizational Behavior, 2e. South-Western College Publishing, Cincinnati, USA
11. Dessler G. (2003) Human Resource Management-10th Edition, Prentice Hall of India, New Delhi.
12. Don Hellriegel, John W. Slocum Jr. (2004) Organizational Behavior, 10e. South-Western College Publishing, Cincinnati, USA
13. Don Hellriegel, Susan E. Jackson, John W. Slocum Jr. (2005) Management: A Competency Based Approach, 10e. South-Western College Publishing, Cincinnati, USA
14. Donald F. Kuratko, Richard M. Hodgetts (2004) Entrepreneurship: Theory, Process, and Practice, 6e. South-Western College Publishing, Cincinnati, USA
15. Edwin C. Leonard, Raymond L. Hilgert (2004) Supervision: Concepts and Practices of Management, 9e. South-Western College Publishing, Cincinnati, USA
16. Ernesto J. Poza, (2004) Family Business. South-Western College Publishing, Cincinnati, USA
17. Fred L. (2002) Organizational Behaviour-9th Edition, McGraw Hill, New-York, USA
18. George W. Bohlander, Scott A. Snell (2004) Managing Human Resources, 13e. South-Western College Publishing, Cincinnati, USA
19. Guffey, M.E. & Almonte, R. (2006) Essentials of Business Communication. Toronto: Thomson Nelson.
20. HR Magazine, <http://www.shrm.org/hrmagazine/>

21. J.D. Ryan, Gail Hiduke (2003) *Small Business: An Entrepreneur's Business Plan*, 6e. South-Western College Publishing, Cincinnati, USA
22. Joseph E. Champoux, (2003) *Organizational Behavior: Essential Tenets*, 2e. South-Western College Publishing, Cincinnati, USA
23. Joseph W. Weiss (2003) *Business Ethics: A Stakeholder and Issues Management Approach*, 3e. South-Western College Publishing, Cincinnati, USA
24. *Journal of Management*, <http://www.jom.sagepub.com/>
25. Justin G. Longenecker, Carlos W. Moore, J. William Petty (2003) *Small Business Management: An Entrepreneurial Emphasis*, 12e. South-Western College Publishing, Cincinnati, USA
26. Mamoua C.B. (1999) *Personnel Management*, Himalaya Publishing House, Mumbai.
27. Michael A. Hitt, R. Duane Ireland, Robert E. Hoskisson (2005) *Strategic Management: Competitiveness and Globalization*, 6e. South-Western College Publishing, Cincinnati, USA
28. Munter, M. (2006) *Guide to Managerial Communication: Effective Business Writing and Speaking*. London: Prentice Hall, Sage Publications.
29. Nickels, W.G. & McHuge, M.J (2002) *Understanding Business*, 6th edition, McGraw-Hill, New York, USA
30. Norman M. Scarborough, Thomas W. Zimmerer (2006) *Effective Small Business Management: An Entrepreneurial Approach* (International Edition), Pearson Education, New Jearsey, USA
31. Pamela S. Lewis, Stephen H. Goodman, Patricia M. Fandt (2004) *Management: Challenges for Tomorrow's Leaders*, 4e. South-Western College Publishing, Cincinnati, USA
32. *People Management*, <http://www.peoplemanagement.co.uk/pm/>
33. Richard L Daft, (1998) *Organization Theory and Design*. South-Western College Publishing, Cincinnati, USA
34. Richard L Daft, (2007) *The New Era of Management*, Rahul Print O Pack, Delhi 20
35. Richard L. Daft (2005) *The Leadership Experience*, 3e. South-Western College Publishing, Cincinnati, USA
36. Richard L. Daft, Dorothy Marcic (2004) *Understanding Management*, 4e. South-Western College Publishing, Cincinnati, USA
37. Richard M. Hodgetts, Fred Luthans, Jonathan P.Doh (2006). *International Management: Culture, Strategy, and Behavior*. McGraw-Hill, New-York, USA
38. Richard M. Hodgetts, Kathryn W. Hegar (2005) *Modern Human Relations at Work*, 9e. South-Western College Publishing, Cincinnati, USA

39. Richard Mead (2000) Cases and Projects in International Management, Blackwell Pub, England
40. Richard Mead, Tim. G Andrews (2008) International Management: Culture and Beyond - 4th Edition, WileyBlackwell, England
41. Robbins Stephan P, Coulter Mary, (2006) Management, Prentice Hall of India Private Limited, New Delhi
42. Robert K. and Angelo K. (1995) Organizational Behaviour-3rd Edition, IRWIN Inc.
43. Robert L. Mathis, John H. Jackson (2005) Human Resource Management: Essential Perspectives, 3e. South-Western College Publishing, Cincinnati, USA
44. Robert N. Lussier (2003) Management Fundamentals: Concepts, Applications, Skill Development, 2e. South-Western College Publishing, Cincinnati, USA
45. Robert N. Lussier, Christopher F. Achua (2004) Leadership: Theory, Application, Skill Development, 2e. South-Western College Publishing, Cincinnati, USA
46. Society for Human Resource Management, <http://www.shrm.org/>
47. Timothy S. Hatten (2008) Small Business Management. South-Western College Publishing, Cincinnati, USA
48. William H. Holley, Roger S. Wolters (2005) The Labor Relations Process, 8e. South-Western College Publishing, Cincinnati, USA

UNREGISTERED COPY OF SCANPAPYRUS

*Philip Kotler Principles of Marketing 12th edition
1995 by Prentice Hall, Inc.*

OPEN THE DOOR
INTO YOUR FUTURE!

UNREGISTERED COPY OF SCANPAPYRUS