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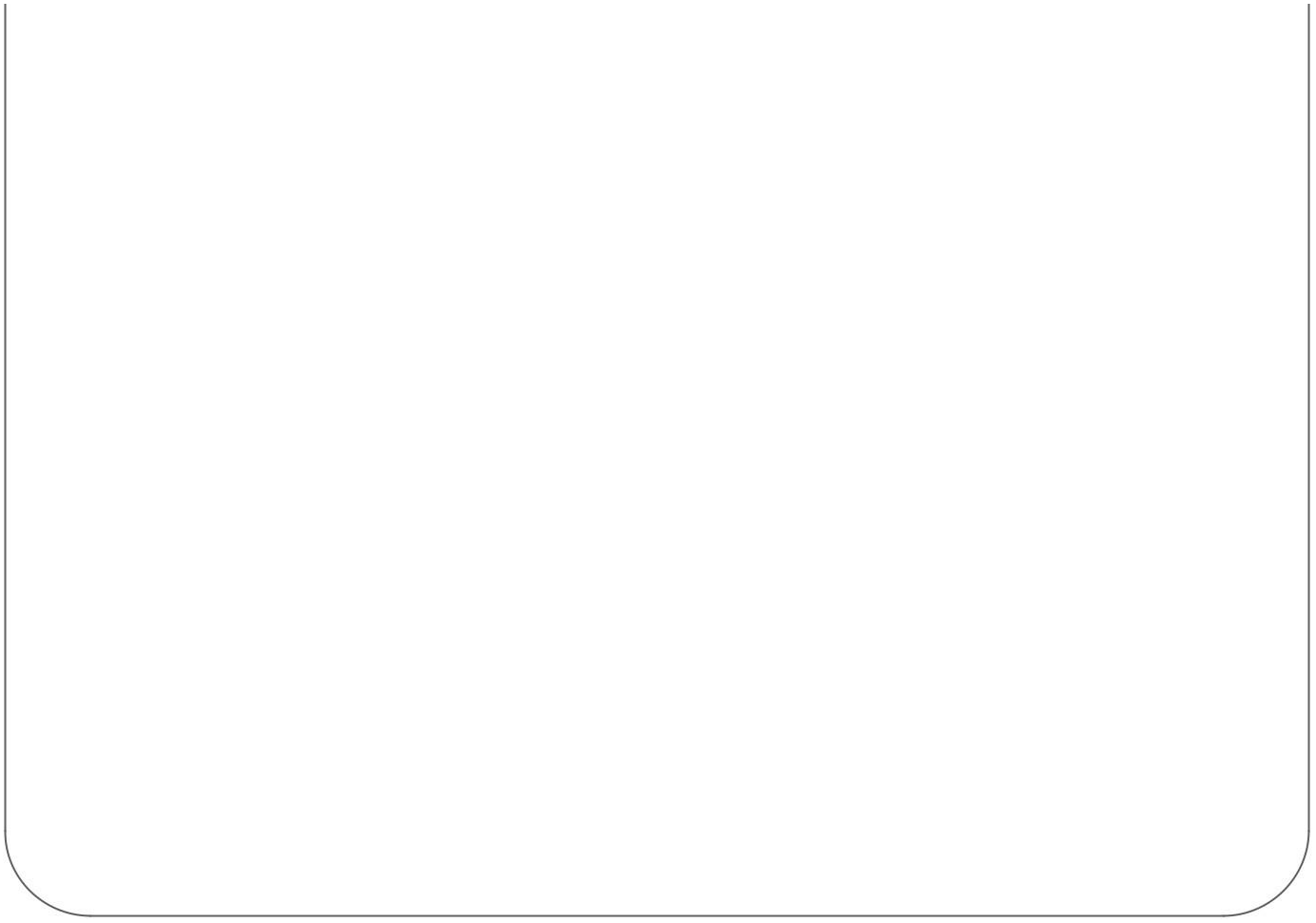
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Chapter 02 – The Evolution of Management Thought

Chapter 2

The Evolution of Management Thought



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LEARNING OBJECTIVES

LO2-1. *Describe how the need to increase organizational efficiency and effectiveness has guided the evolution of management theory.*

LO2-2. *Explain the principle of job specialization and division of labor, and tell why the study of person-task relationships is central to the pursuit of increased efficiency.*

LO2-3. *Identify the principles of administration and organization that underlie effective organizations.*

LO2-4. *Trace the changes in theories about how managers should behave to motivate and control employees.*

LO2-5. *Explain the contribution of management science to the efficient use of organizational resources.*

LO2-6. *Explain why the study of the external environment and its impact on an organization has become a central issue in management thought.*

KEY DEFINITIONS/TERMS

Administrative management: The study of how to create an organizational structure and control system that leads to high efficiency and effectiveness

Authority: The power to hold people accountable for their actions and to make decisions concerning the use of organizational resources

Behavioral management: The study of how managers should behave to motivate employees and encourage them to perform at high levels and be committed to the achievement of organizational goals

Bureaucracy: A formal system of organization and administration designed to ensure efficiency and effectiveness

Centralization: The concentration of authority at the top of the managerial hierarchy

Closed system: A system that is self-contained and thus not affected by changes occurring in its external environment

Contingency theory: The idea that the organizational structures and control systems managers choose depend on—are contingent on—characteristics of the external environment in which the organization operates

Discipline: Obedience, energy, application, and other outward marks of respect for a superior's authority

Entropy: The tendency of a closed system to lose its ability to control itself and thus to dissolve and disintegrate

Equity: The justice, impartiality, and fairness to which all organizational members are entitled
Esprit de corps: Shared feelings of comradeship, enthusiasm, or devotion to a common cause among members of a group

Hawthorne effect: The finding that a manager's behavior or leadership approach can affect workers' level of performance

Human relations movement: A management approach that advocates the idea that supervisors should receive behavioral training to manage subordinates in ways that elicit their cooperation and increase their productivity

Informal organization: The system of behavioral rules and norms that emerge in a group

Initiative: The ability to act on one's own, without direction from a superior

Job specialization: The process by which a division of labor occurs as different workers specialize in different tasks over time

Line of authority: The chain of command extending from the top to the bottom of an organization

Management science theory: An approach to management that uses rigorous quantitative techniques to help managers make maximum use of organizational resources

Mechanistic structure: An organizational structure in which authority is centralized, tasks and rules are clearly specified, and employees are closely supervised

Norms: Unwritten, informal codes of conduct that prescribe how people should act in particular situations and are considered important by most members of a group or organization

Open system: A system that takes in resources from its external environment and converts them into goods and services that are then sent back to that environment for purchase by customers

Order: The methodical arrangement of positions to provide the organization with the greatest benefit and to provide employees with career opportunities

Organic structure: An organizational structure in which authority is decentralized to middle and first-line managers and tasks and roles are left ambiguous to encourage employees to cooperate and respond quickly to the unexpected

Organizational behavior: The study of the factors that have an impact on how individuals and groups respond to and act in organizations

Organizational environment: The set of forces and conditions that operate beyond an organization's boundaries but affect a manager's ability to acquire and utilize resources

Rules: Formal written instructions that specify actions to be taken under different circumstances to achieve specific goals

Scientific management: The systematic study of relationships between people and tasks for the purpose of redesigning the work process to increase efficiency

Standard operating procedures (SOPs): Specific sets of written instructions about how to perform a certain aspect of a task

Synergy: Performance gains that result when individuals and departments coordinate their actions

Theory X: A set of negative assumptions about workers that lead to the conclusion that a manager's task is to supervise workers closely and control their behavior

Theory Y: A set of positive assumptions about workers that lead to the conclusion that a manager's task is to create a work setting that encourages commitment to organizational goals and provides opportunities for workers to be imaginative and to exercise initiative and self-direction

Unity of command: A reporting relationship in which an employee receives orders from, and reports to, only one superior

Unity of direction: The singleness of purpose that makes possible the creation of one plan of action to guide managers and workers as they use organizational resources

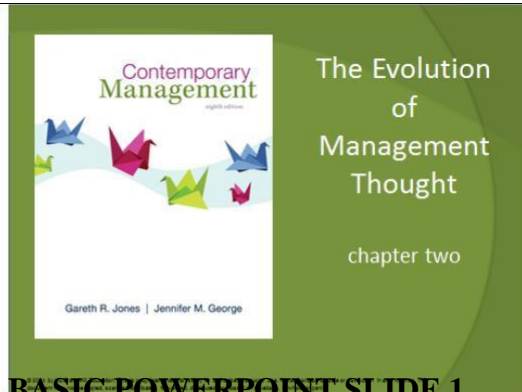
CHAPTER OVERVIEW

In this chapter, how management thought has evolved in modern times and the central concerns that have guided ongoing advances in management theory are explored. First, the classical management theories that emerged around the turn of the twentieth century are examined. Next, behavioral management theories developed before and after World War II are examined, and then management science theory, which developed during the second World War. Finally, the theories developed to help explain how the external environment affects the way organizations and managers operate are examined.

LECTURE OUTLINE

NOTE ABOUT INSTRUCTOR POWERPOINT SLIDES

The Instructor PowerPoint Slides include most Student PowerPoint Slides, along with additional material that can be used to expand the lecture. Images of the Instructor PowerPoint slides can be found at the end of this chapter on Page 2-43.



BASIC POWERPOINT SLIDE 1 (INSTRUCTOR'S POWERPOINT SLIDE 1)

Chapter 2: The Evolution of Management Thought

Manager's Challenge (Pages. 35-37 of text) *Finding Better Ways to Make Cars*

Car production has changed dramatically over the years as managers have applied different principles of management to organize and control work activities. Prior to 1900, small groups of skilled workers cooperated to hand-build cars with parts that often had to be altered and modified to fit together. This system, a type of *small-batch production*, was expensive; assembling just one car took considerable time and effort, and skilled workers could produce only a few cars per day.

Henry Ford revolutionized the car industry. In 1913 Ford opened the Highland Park car plant in Detroit to produce the Model T Ford, and his team of manufacturing managers pioneered the development of *mass- production manufacturing*, which made small-batch car production inefficient.

The next major change in management thinking about car assembly occurred in Japan when Ohno Taiichi, a Toyota production engineer, pioneered the development of *lean manufacturing* in the 1960s after touring the U.S. factories of GM, Ford, and Chrysler. By 1970 Japanese managers had applied the new lean production system so efficiently that they were producing higher-quality cars at lower prices than U.S. carmakers.

In the 1990s U.S. carmakers also increased the number of robots they used on the assembly line and their use of IT to build and track the quality of cars being produced. In the 2000s global car companies continued to compete fiercely to improve and perfect ways to make cars. Toyota remained the leader in pioneering new ways to manage its assembly lines to increase quality and efficiency; but other carmakers such as Honda, Nissan, and Hyundai, as well as Ford and GM, also made major strides to close the quality gap with Japanese carmakers.

Everything changed in the carmaking business in 2009 after the economic and financial crisis led car sales to plummet, and every carmaker, including Toyota, lost billions of dollars. To stay afloat, most global carmakers had to rely on billions of dollars in assistance from their governments to stay in business because they could not pay their employees or finance their customers. At the same time the crisis showed that U.S. carmakers were essentially bankrupt because outdated contracts with their car dealers, unions, and workers had raised their overhead costs so high they could not compete globally. After borrowing billions from the U.S. government, GM was forced into bankruptcy to reduce its costs; Ford and Chrysler were able to form new contracts to reduce their costs. By 2011 all three U.S. carmakers reported that they were once again making good profits and had repaid the U.S. government a large percentage of the money they had borrowed.

To achieve this, U.S. carmakers had been forced to shut down hundreds of inefficient factories, lay off hundreds of thousands of car workers, and reduce the range of vehicles they produced. To survive, they focused their resources on a new range of vehicles that managers believed would have the greatest appeal to customers. Managers raced to develop the cars customers wanted to buy and to make them reliable and cost-effective.

However, another milestone in carmaking history came in 2010 when Toyota—known as the quality leader—came under intense scrutiny because of claims that some of its cars suffered from uncontrolled acceleration due to brake defects and that it had been late in responding to owner complaints despite many accidents. Other carmakers also admitted defects, and the issue of how to better measure quality and safety to improve performance is currently a leading concern of carmakers. All carmakers are trying to find better ways to use the hundreds of computer sensors inside each vehicle to understand how to make a car more efficiently and effectively, and by 2012 global carmakers had once again significantly increased the quality and reliability of their vehicles.

I. Scientific Management Theory

In the 19th century's new economic climate, managers of all types of organizations—political, educational, and economic—were trying to find better ways to satisfy customers' needs.

Many major economic, technical, and cultural changes were taking place at this time.

The introduction of steam power and the development of sophisticated machinery and equipment changed how goods were produced. Small workshops run by skilled workers who produced hand-manufactured products (a system called *crafts production*) were being replaced by large factories in which sophisticated machines controlled by hundreds or even thousands of unskilled or semiskilled workers made products. Owners and managers of the new factories found themselves unprepared for the challenges accompanying the change from small-scale crafts production to large-scale mechanized manufacturing. Moreover, many managers and supervisors in these workshops and factories were engineers who had only a technical orientation.

They were unprepared for the social problems that occur when people work together in large groups in a factory or shop system.

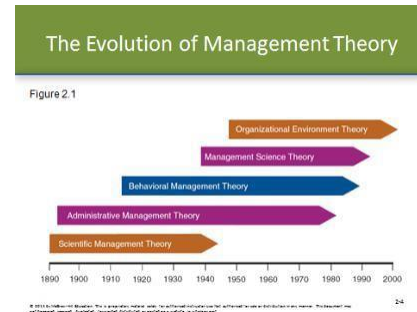
Managers began to search for new techniques to manage their organizations' resources, and soon they began to focus on ways to increase the efficiency of the worker–task mix.

A. Job Specialization and the Division of Labor

In a study of factories that produced various pins or nails, famous economist, Adam Smith, a famous economist, identified two different types of manufacturing :

- The first was similar to crafts-style

LO2-1: Describe how the need to increase organizational efficiency and effectiveness has guided the evolution of management theory.



STUDENT POWERPOINT SLIDE 4 (INSTRUCTOR'S POWERPOINT SLIDE 4)

The Evolution of Management Theory: Figure 2.1

LO2-2: Explain the principle of job specialization and division of labor, and tell why the study of person-task relationships is central to the pursuit of increased efficiency

production, in which each worker was responsible for all the 18 tasks involved in producing a pin.

- The other had each worker performing only one or a few of the 18 tasks.

Smith found that the performance of the factories in which workers specialized in only one or a few tasks was much greater than the performance of the factory in which each worker performed all 18 pin-making tasks.

Smith concluded that increasing the level of **job specialization**—the process by which a division of labor occurs as different workers specialize in tasks—improves efficiency and leads to higher organizational performance.

B. Frederick. W. Taylor and Scientific Management

Frederick W. Taylor is best known for defining the techniques of **scientific management**, the systematic study of relationships between people and tasks for the purpose of redesigning the work process to increase efficiency.

Taylor believed that if the amount of time and effort that each worker expends to produce a unit of output (a finished good or service) can be reduced by increasing specialization and the division of labor, the production process will become more efficient.

Based on his experiments and observations as a manufacturing manager in a variety of settings, he developed four principles to increase efficiency in the workplace:

- Principle 1: Study the way workers perform their tasks, gather all the informal job knowledge that workers possess, and experiment with ways of improving how tasks are performed.
- Principle 2: Codify the new methods of

Job Specialization and the Division of Labor

- ★ **Adam Smith (18th century economist)**
 - ↳ Observed that firms manufactured pins in one of two different ways:
 - - Craft-style—each worker did all steps.
 - - Production—each worker specialized in one step.
- ★ Smith found that the performance of the factories in which workers specialized in only one or a few tasks was much greater than the performance of the factory in which each worker performed all pin-making tasks

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(INSTRUCTOR'S POWERPOINT SLIDE 5) Job Specialization and the Division of Labor

F.W. Taylor and Scientific Management

- ★ **Scientific Management**
 - ↳ The systematic study of the relationships between people and tasks for the purpose of redesigning the work process to increase efficiency.

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STUDENT POWERPOINT SLIDE 6 (INSTRUCTOR'S POWERPOINT SLIDE 7) Scientific Management

performing tasks into written rules and standard operating procedures.

- Principle 3: Carefully select those who possess skills and abilities that match the needs of the task, and train them to perform the task according to the established rules and procedures.
- Principle 4: Establish a fair or acceptable level of performance for a task, and then develop a pay system that rewards performance above the acceptable level.

Managers in many organizations chose to implement the new principles of scientific management selectively. This decision ultimately resulted in problems:

- For example, some managers using scientific management obtained increases in performance, but rather than sharing performance gains with workers through bonuses as Taylor had advocated, they simply increased the amount of work that each worker was expected to do.
- Workers also learned that performance increases often meant fewer jobs and a greater threat of layoffs because fewer workers were needed.
- The specialized, simplified jobs were often monotonous and repetitive, and many workers became dissatisfied with their jobs.

Scientific management brought many workers more hardship than gain and a distrust of managers who did not seem to care about workers' well-being.

- These dissatisfied workers resisted attempts to use the new scientific management techniques and at times even withheld their job knowledge from managers to protect their jobs and pay.

Unable to inspire workers to accept the new scientific management techniques for

TEXT REFERENCE

ETHICS IN ACTION

Fordism in Practice

Ford's development of the moving conveyor belt changed manufacturing practices forever. Although the move to mass production was a financial success for Ford, there were many human and social consequences for his workers. The simplifications of the work process were monotonous, resulting in large amounts of employee turnover, absenteeism, and general discontent. To address these problems, Ford doubled wages and reduced the length of the workday by one hour. This response to employee discontent was coined "Fordism". (Box in text on Pages 41-42)

performing tasks, some organizations increased the mechanization of the work process. From a performance perspective, the combination of the two management practices—
(1) achieving the right worker–task specialization and (2) linking people and tasks by the speed of the production line—produces the huge cost savings and dramatic output increases that occur in large organized work settings.

C. The Gilbreths

Frank Gilbreth and Lillian Gilbreth refined Taylor’s analysis of work movements and made many contributions to time-and-motion study.

Their aims were to:

- Analyze every individual action necessary to perform a particular task and break it into each of its component actions
- Find better ways to perform each component action
- Reorganize each of the component actions so that the action as a whole could be performed more efficiently—at less cost in time and effort

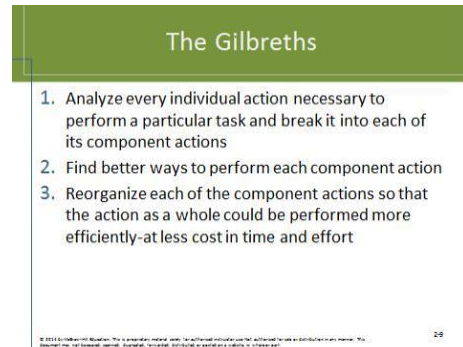
The Gilbreths became increasingly interested in the study of fatigue.

They studied how physical characteristics of the workplace contribute to job stress that often leads to fatigue and thus poor performance.

They isolated factors that result in worker fatigue, such as lighting, heating, the color of walls, and the design of tools and machines.

In workshops and factories, the work of the Gilbreths, Taylor, and many others had a major effect on the practice of management.

In comparison with the old crafts system, jobs in the new system were more repetitive, boring, and monotonous as a result of the application of



(INSTRUCTOR’S POWERPOINT SLIDE 9)

The Gilbreths

TEXT REFERENCE

MANAGER AS A PERSON

Andrew Carnegie Creates the New Industrial Company

Andrew Carnegie’s family immigrated to the United States from Scotland in the mid 1800’s and since, unlike many citizens of the time, Andrew Carnegie was able to read and write he was identified as a worker with potential. Throughout his early career with the railroad, Carnegie made a name for himself by continually finding ways to use resources more productively, specifically to reduce costs and increase profitability. While leading a division, the company’s stock price shot upward and Andrew become a very wealthy man.

Carnegie subsequently sold all of his railroad stock and used the proceeds to open Carnegie Steel, the first low cost steel manufacturer in the United States. While in Britain, Carnegie saw a demonstration of a manufacturing process that allowed large quantities of high quality steel to be produced

scientific management principles, and workers became increasingly dissatisfied. Frequently the management of work settings became a game between workers and managers: Managers tried to initiate work practices to increase performance, and workers tried to hide the true potential efficiency of the work setting to protect their own well-being.

II. ADMINISTRATIVE MANAGEMENT THEORY

Administrative management is the study of how to create an organizational structure and control system that leads to high efficiency and effectiveness.

Organizational structure is the system of task and authority relationships that controls how employees use resources to achieve the organization's goals.

A. The Theory of Bureaucracy

Max Weber developed the principles of **bureaucracy**—a formal system of organization and administration designed to ensure efficiency and effectiveness. A bureaucratic system of administration is based on the five principles summarized in Figure 2.2.

- Principle 1: In a bureaucracy, a manager's formal authority derives from the position he or she holds in an organization.

■

Authority is the power to hold people accountable for their actions and to make decisions concerning the use of organizational resources. Authority gives managers the right to direct and control their subordinates' behavior to achieve organizational goals.

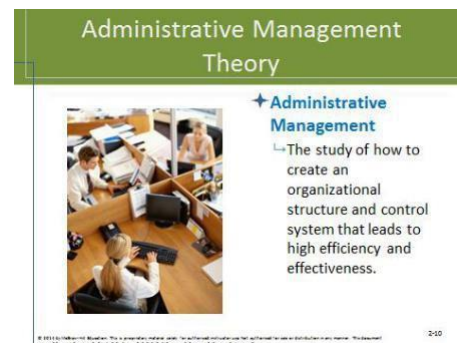
- Principle 2: In a bureaucracy, people should occupy positions because of their performance, not because of their social standing or personal contacts.

continuously.

His new production methods reduced the price of U.S. steel from \$135 to \$12 per ton. By 1900 most of his competitors were out of business and his company became the leading U.S. steel maker; Carnegie was one of the richest men in the nation.

Although lauded for implementing management techniques that created the modern industrial company, Carnegie's critics accused him of increasing profitability on the backs of his employees. He paid them the lowest wage possible and squashed any attempt they made to unionize (Box in text on Pages 43-44).

LO2-3: Identify the principles of administration and organization that underlie effective organizations.



STUDENT POWERPOINT SLIDE 7 (INSTRUCTOR'S POWERPOINT SLIDE 10)

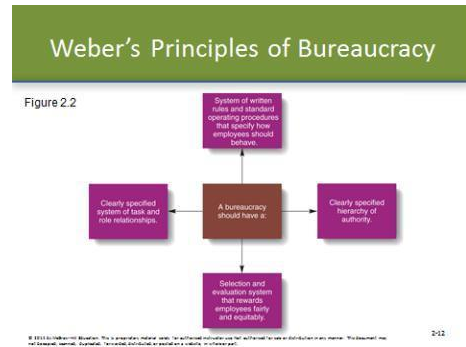
Administrative Management Theory

- Principle 3: The extent of each position’s formal authority and task responsibilities, and its relationship to other positions in an organization, should be clearly specified.
- Principle 4: Authority can be exercised effectively in an organization when positions are arranged hierarchically, so employees know whom to report to and who reports to them.
- Principle 5: Managers must create a well-defined system of rules, standard operating procedures, and norms so they can effectively control behavior within an organization.

- **Rules** are formal written instructions that specify actions to be taken under different circumstances to achieve specific goals.
- **Standard operating procedures (SOPs)** are specific sets of written instructions about how to perform a certain aspect of a task.
- **Norms** are unwritten, informal codes of conduct that prescribe how people should act in particular situations and are considered important by most members of a group or organization.

Weber believed organizations that implement all five principles establish a bureaucratic system that improves organizational performance. However, if bureaucracies are not managed well many problems can result.

- Sometimes managers allow rules and SOPs, “bureaucratic red tape,” to become so cumbersome that decision making is slow and inefficient and organizations cannot change.
- When managers rely too much on rules to solve problems and not enough on their own skills and judgment, their behavior becomes



STUDENT POWERPOINT SLIDE 8 (INSTRUCTOR’S POWERPOINT SLIDE 12)

Weber’s Principles of Bureaucracy: Figure 2.2

inflexible.

B. Fayol's Principles of Management

Henri Fayol identified 14 principles (summarized in Table 2.1) that he believed essential to increase the efficiency of the management process.

Division of Labor

Fayol advocated that workers be given more job duties to perform or be encouraged to assume more responsibility for work outcomes.

Authority and Responsibility

Fayol, went beyond Weber's formal authority, which derives from a manager's position in the hierarchy, to recognize the *informal* authority that derives from personal expertise, technical knowledge, moral worth, and the ability to lead and to generate commitment from subordinates.

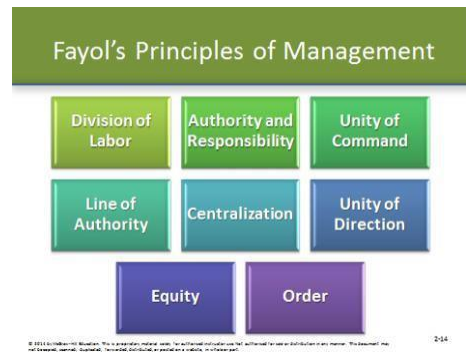
Unity of Command

The principle of **unity of command** specifies that an employee should receive orders from, and report to, only one superior.

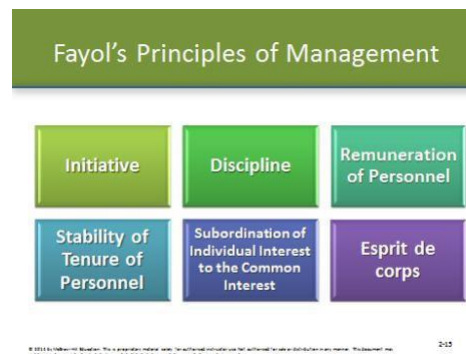
Line of Authority

The line of **authority** is the chain of command extending from the top to the bottom of an organization.

Fayol pointed out that when organizations are split into different departments or



(INSTRUCTOR'S POWERPOINT SLIDE 14) Fayol's Principles of Management



(INSTRUCTOR'S POWERPOINT SLIDE 15) Fayol's Principles of Management

functions, each with its own hierarchy, it is important to allow middle and first-line managers in each department to interact with managers at similar levels in other departments. This interaction helps speed decision making.

Centralization

Centralization is the concentration of authority at the top of the managerial hierarchy.

Unity of Direction

Unity of direction is the singleness of purpose that makes possible the creation of one plan of action to guide managers and workers as they use organizational resources.

An organization without a single guiding plan becomes inefficient and ineffective.

Equity

Equity—the justice, impartiality, and fairness to which all organizational members are entitled—is receiving much attention today; the desire to treat employees fairly is a primary concern of managers.

Order

To Fayol, **order** meant the methodical arrangement of positions to provide the organization with the greatest benefit and to provide employees with career opportunities that satisfy their needs.

TEXT REFERENCE

MANAGEMENT INSIGHT

Peters and Waterman's Excellent Companies

In the early 1980s, Peters and Waterman identified 62 organizations that they

Initiative

Fayol believed managers must also encourage employees to exercise **initiative**, the ability to act on their own without direction from a superior. Used properly, initiative can be a major source of strength for an organization because it leads to creativity and innovation.

Discipline

Discipline is the obedience, energy, application, and other outward marks of respect for a superior's authority.

Remuneration of Personnel

Fayol proposed reward systems including bonuses and profit sharing plans.

Stability of Tenure of Personnel

When employees stay with an organization for extended periods, they develop skills that improve the organization's ability to utilize its resources.

Subordination of Individual Interest to General Interest

The interests of the organization as a whole must take precedence over the interests of any individual or group if the organization is to survive.

Esprit de Corps

A key element in a successful

considered to be the *best performing organizations* in the U.S. By investigating why these 62 companies perform better than their rivals, they uncovered *three sets* of related principles. First, they found that top managers of *successful companies create principles and guidelines that emphasize managerial autonomy* and entrepreneurship, encourage initiative, and stimulate risk taking. Second, they found that *managers of excellent organizations create one central plan that puts organizational goals at center stage*. Third, *excellent companies establish a division of work and a division of authority and responsibility that will motivate employees to subordinate their individual interests to common interest*.

(Box in text on page 50.)

LO2-4 Trace the changes in theories about how managers should behave to motivate and control employees

organization is the development of **esprit de corps**, a French expression that refers to shared feelings of comradeship, enthusiasm, or devotion to a common cause among members of a group.

III. BEHAVIORAL MANAGEMENT THEORY

Behavioral Management is the study of how managers should behave to motivate employees and encourage them to perform at high levels, and be committed to the achievement of organizational goals.

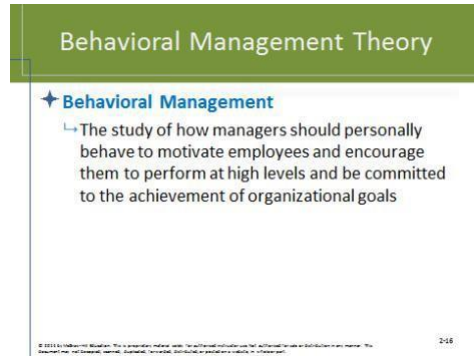
A. The Work of Mary Parker Follett

Much of Mary Parker Follett's writing about management and about the way managers should behave toward workers was a response to her concern that Taylor was ignoring the human side of the organization. She pointed out that management often overlooks the multitude of ways in which employees can contribute to the organization.

She argued that because workers know the most about their jobs, they should be involved in job analysis and managers should allow them to participate in the work development process.

Follett anticipated the current interest in self-managed teams and empowerment. She advocated what she called "cross-functioning": members of different departments working together in cross-departmental teams to accomplish tasks.

Follett proposed that knowledge and expertise, and not managers' formal authority, should decide who will lead at any particular moment. She took a horizontal view of power and authority.



(INSTRUCTOR'S POWERPOINT SLIDE 15) Behavioral Management Theory



STUDENT POWERPOINT SLIDE 10 (INSTRUCTOR'S POWERPOINT SLIDE 16) Mary Parker Follett

B. The Hawthorne Studies and Human Relations

Probably because of its radical nature, Follett's work was unappreciated by managers and researchers until quite recently. Most continued to follow in the footsteps of Taylor and the Gilbreths.

To increase efficiency, they studied ways to improve various characteristics of the work setting, such as job specialization or the kinds of tools workers used. One series of studies was conducted from 1924 to 1932 at the Hawthorne Works of the Western Electric Company.

This research, now known as the *Hawthorne studies*, began as an attempt to investigate how characteristics of the work setting—specifically the level of lighting or illumination—affect worker fatigue and performance.

- The study produced some unexpected results. The researchers found that regardless of whether they raised or lowered the level of illumination, productivity increased.
- The researchers found these results puzzling and invited a noted Harvard psychologist, Elton Mayo, to help them. Mayo proposed another series of experiments to solve the mystery.
- These experiments, known as *the relay assembly test experiments*, were designed to investigate the effects of other aspects of the work context on job performance, such as the effect of the number and length of rest periods and hours of work on fatigue and monotony. During a two-year study of a small group of female workers, the researchers again observed that productivity increased over time, but the increases could not be solely attributed to the effects of changes in the work setting.

- The researchers discovered that their presence was affecting the results because the workers enjoyed receiving attention and being the subject of study and were willing to cooperate with the researchers to produce the results they believed the researchers desired. This particular effect became known as the **Hawthorne effect**.
- The significant finding was that each manager's personal behavior or leadership approach can affect performance. From this view emerged the **human relations movement**, which advocates that supervisors be behaviorally trained to manage subordinates in ways that elicit their cooperation and increase their productivity.

The importance of behavioral or human relations training became even clearer to its supporters after the *bank wiring room experiments*.

Managers must understand the workings of the **informal organization**, the system of behavioral rules and norms that emerge in a group, when they try to manage or change behavior in organizations.

The increasing interest in the area of management known as **organizational behavior**, the study of the factors that have an impact on how individuals and groups respond to and act in organizations, dates from these early studies.

C. Theory X and Theory Y

Douglas McGregor proposed two sets of assumptions about how work attitudes and behaviors not only dominate the way managers think but also affect how they behave in organizations. McGregor named these two contrasting sets of assumptions *Theory X* and *Theory Y* (Figure 2.3).

Theory X and Theory Y

Douglas McGregor proposed two different sets of assumptions about workers.

- ★ **Theory X**
 - ↳ A set of negative assumptions about workers that leads to the conclusion that a manager's task is to supervise workers closely and control their behavior.

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Theory X

According to the assumptions of **Theory X**, the average worker is lazy, dislikes work, and will try to do as little as possible. To keep worker’s performance at a high level, the manager must supervise workers closely and control their behavior by means of “the carrot and stick”— rewards and punishments. Managers who accept the assumptions of Theory X design and shape the work setting to maximize their control over workers’ behaviors and minimize workers’ control over the pace of work.

Theory Y

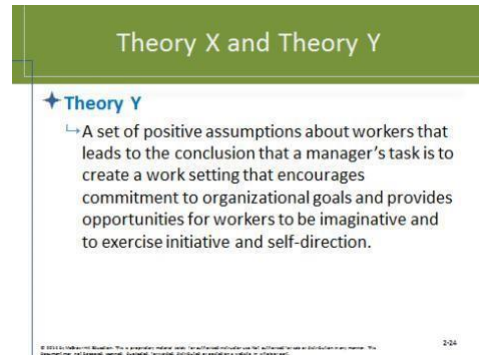
Theory Y assumes that workers are not inherently lazy, do not naturally dislike work, and if given the opportunity, will do what is good for the organization. The characteristics of the work setting determine whether workers consider work to be a source of satisfaction or punishment, and managers do not need to closely control workers’ behavior to make them perform at a high level because workers exercise self-control when they are committed to organizational goals. Managers who believe workers are motivated to help the organization reach its goals can decentralize authority and give more control over the job to workers.

IV. MANAGEMENT SCIENCE THEORY

Management science theory is a contemporary approach to management that focuses on the use of rigorous quantitative techniques to help managers

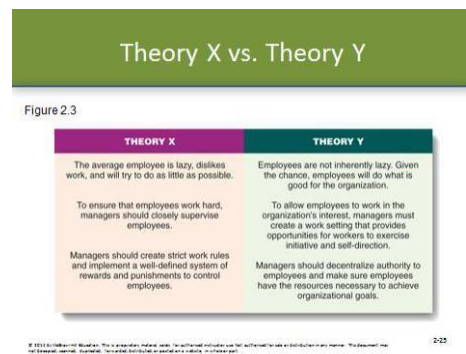
(INSTRUCTOR’S POWERPOINT SLIDE 23)

Theory X



(INSTRUCTOR’S POWERPOINT SLIDE 24)

Theory Y



STUDENT POWERPOINT SLIDE 12 (INSTRUCTOR’S POWERPOINT SLIDE 25)

Theory X vs. Theory Y: Figure 2.3

LO2-5: Explain the contributions of management science to the efficient use of organizational resources

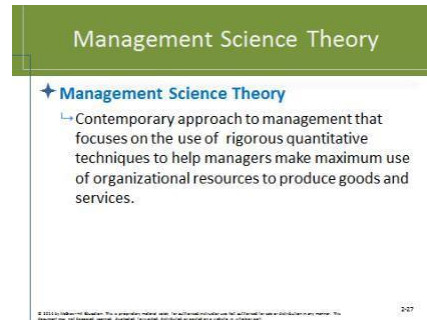
make maximum use of organizational resources to produce goods and services.

There are many branches of management science; and information technology (IT), which is having a significant impact on all kinds of management practices, is affecting the tools managers use to make decisions. Each branch of management science deals with a specific set of concerns:

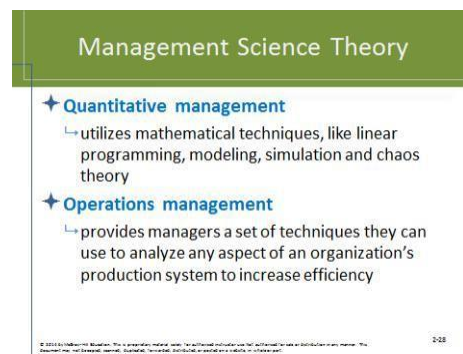
- *Quantitative management* uses mathematical techniques—such as linear and nonlinear programming, modeling, simulation, queuing theory, and chaos theory—to help managers decide, for example, how much inventory to hold at different times of the year, where to locate a new factory, and how best to invest an organization’s financial capital.
- *Operations management* gives managers a set of techniques they can use to analyze any aspect of an organization’s production system to increase efficiency.
- *Total quality management (TQM)* focuses on analyzing an organization’s input, conversion, and output activities to increase product quality.
- *Management information systems (MISs)* give managers information about events occurring inside the organization as well as in its external environment—information that is vital for effective decision making.

V. ORGANIZATIONAL ENVIRONMENT THEORY

The **organizational environment** is the set of forces and conditions that operate beyond an organization’s boundaries but affect a manager’s ability to acquire and utilize resources.



STUDENT POWERPOINT SLIDE 13 (INSTRUCTOR’S POWERPOINT SLIDE 27) Management Science Theory



(INSTRUCTOR’S POWERPOINT SLIDE 28) Quantitative and Operations management



(INSTRUCTOR’S POWERPOINT SLIDE 29) Total quality management &

A. The Open-Systems View

Theorists like Daniel Katz, Robert Kahn, and James Thompson viewed the organization as an **open system**—a system that takes in resources from its external environment and converts or transforms them into goods and services that are then sent back to the environment, where they are bought by customers (Figure 2.4).

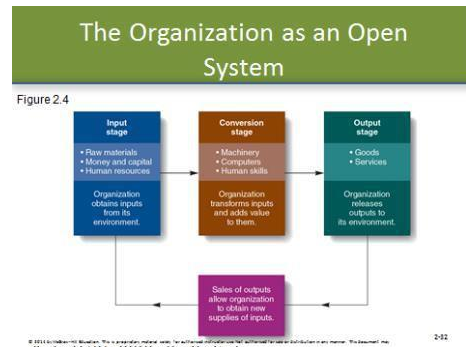
- At the *input stage* an organization acquires resources such as raw materials, money, and skilled workers to produce goods and services.
- Once the organization has gathered the necessary resources, conversion begins.
- At the *conversion stage* the organization’s workforce, using appropriate tools, techniques, and machinery, transforms the inputs into outputs of finished goods and services.
- At the *output stage* the organization releases finished goods and services to its external environment, where customers purchase and use them to satisfy their needs.

A **closed system**, in contrast, is a self-contained system that is not affected by changes in its external environment. Organizations that operate as closed systems, that ignore the external environment, and that fail to acquire inputs are likely to experience **entropy**, which is the tendency of a closed system to lose its ability to control itself and thus to dissolve and disintegrate.

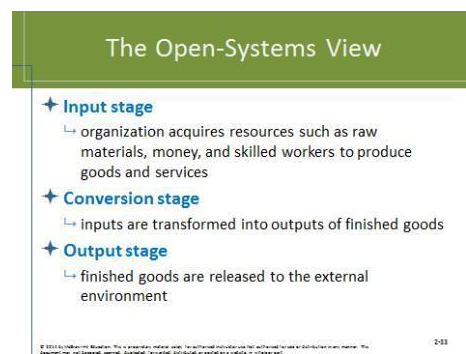
- Systems theorists like to argue that the whole is greater than the sum of its parts; they mean that an organization performs at a higher level when its departments work together rather than separately.
- **Synergy**, the performance gains that result

Management information systems

LO2-6: Explain why the study of the external environment and its impact on an organization has become a central issue in management thought.



STUDENT POWERPOINT SLIDE 14 (INSTRUCTOR’S POWERPOINT SLIDE 32) The Organization as an Open System: Figure 2.4



(INSTRUCTOR’S POWERPOINT SLIDE 33) Input, Conversion & Output stages

from the *combined* actions of individuals and departments, is possible only in an organized system.

B. Contingency Theory

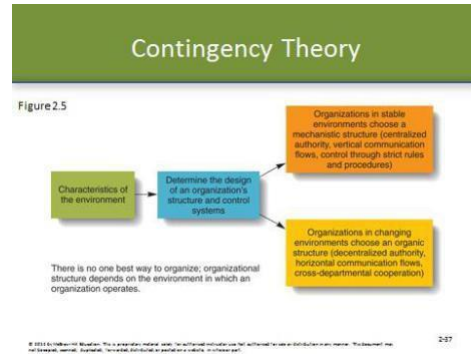
The **contingency theory** is an idea that organizational structures and control systems managers choose are contingent on the characteristics of the external environment in which the organization operates (Figure 2.5). An important characteristic of the external environment that affects an organization's ability to obtain resources is the degree to which the environment is changing.

- Changes in the organizational environment include changes in technology, which can lead to the creation of new products and result in the obsolescence of existing products; the entry of new competitors; and unstable economic conditions.

Mechanistic and Organic Structures

Burns and Stalker proposed two basic ways in which managers can organize and control an organization's activities to respond to characteristics of its external environment:

- **Mechanistic structure**—authority is centralized at the top of the managerial hierarchy, and the vertical hierarchy of authority is the main means used to control subordinates' behavior. This structure provides the most efficient way to operate in a stable environment.
- **Organic structure**—authority is decentralized to middle and first-line managers to encourage them to take



STUDENT POWERPOINT SLIDE 15 (INSTRUCTOR'S POWERPOINT SLIDE 37)
Contingency Theory: Figure 2.5

responsibility and act quickly to pursue scarce resources. This structure provides the most efficient way to operate in a rapidly changing environment.

LECTURE ENHANCERS

Lecture Enhancer 2.1

MANAGEMENT IN EARLY CIVILIZATIONS

Although text discussion concentrates on the evolution of management since the nineteenth century, many management practices were developed much earlier. The great civilizations of Sumeria, Babylon, Egypt, Assyria, and Persia had expert managers, as seen by achievements such as the Great Pyramids of Egypt and the Hanging Gardens of Babylon. Sumerian builders relied on the use of merit wages to build the walled cities and canals of Sumer. The highway and library systems of Assyria and the great cities of Persia required organization and managerial genius to achieve. The Code of Hammurabi included incentive and minimum wages as early as 1800 B.C.

Greek achievements in architecture, literature, and civil government required the application of complex management knowledge. The citizens of Greek city states worked under the piecework system on government contracts.

Rome once controlled the world from England to Asia and is still known for its systems of roads, construction of public buildings, and civil government. These were developed and maintained by a military system that is still a model for modern armies. These accomplishments required the application of highly developed management knowledge. As early as 300 B.C., Rome used minimum wage laws to try to compensate for a shortage of labor.

China's Great Wall, complex road system, and silk trade required extensive management expertise. The principle of specialization was used as early as 1650 B.C., and labor turnover was understood as early as 400 B.C.

More than 400 years ago, a diplomat and civil servant in the city-state of Florence named Niccolo Machiavelli wrote a book called *The Prince*. Machiavelli was an experienced observer of the intrigues of state. His book was a how-to-do-it manual for a ruler. *The Prince* focused on how to rule: not how to be good or wise, but how to rule successfully. Machiavelli's beliefs

about the nature of people were illustrated by his famous statement, “Whoever desires to found a state and give it laws, must start with the assumption that all men are bad and ever ready to display their vicious nature whenever they may find occasion for it.” He believed that a leader is justified in using any leadership style or tactic to cope with these types of people. That is, the end justifies the means. If a leader had to choose between being feared and loved, she or he should choose fear, since he can control fear but not love.

The Roman Catholic Church has contributed greatly to the evolution of management thought. As Christianity spread and different sects emerged, the church needed to define more clearly its mission, purpose, objectives, policies, rules, and organizational hierarchy. It developed a strong centralized authority-responsibility relationship. This centralization and the Church’s extensive enforcement of doctrines and rules was one of the major factors leading to the Reformation.

Lecture Enhancer 2.2

GILBRETH’S MOTION STUDIES

Frank Gilbreth began his career as an apprentice bricklayer. He watched other bricklayers and saw that some were slow and inefficient while some were very productive. He discovered that each used a different set of motions to lay bricks. From his observations, he isolated the basic movements necessary to do the job and eliminated wasted ones. His revised method reduced unnecessary motions by 70 percent and tripled bricklayers’ productivity.

This was the first “motion study,” designed to isolate the best possible method of performing a given job. Later Gilbreth and his wife, Lillian, studied job motions using a motion picture camera and split-second clock. The isolated individual motions they called “therbligs,” which is “Gilbreth” spelled backwards with the “th” reversed.

One of Gilbreth’s clients in the 1920s was James E. Casey, the founder of UPS. Mr. Casey turned to Gilbreth to develop techniques to measure the time consumed each day by each UPS driver. Later, UPS engineers cut away the sides of a UPS delivery truck and used Gilbreth’s techniques to study a driver at work. The resulting changes in package loading increased efficiency by 30 percent.

Lecture Enhancer 2.3

ATTRIBUTES OF EXCELLENT COMPANIES

In their book *In Search of Excellence*, Thomas J. Peters and Robert Waterman identified the characteristics that distinguish the excellent and innovative companies in America. These are:

A bias for action: These companies “got on with it.” They didn’t let bureaucracy keep them from making decisions.

Closeness to the customer: They listened to their customers and learned from the people they served.

Autonomy and entrepreneurship: They had “product champions” who generated new products or services. They encouraged these people to make sure they generated “a reasonable number of mistakes.”

Productivity through people: They treated the rank and file as the source of quality and productivity gains. They valued their people and respected the individual.

Hands-on, value-driven: Company values and philosophy were more important than organizational structure.

“Stick to the knitting”: They never acquired a business they didn’t know how to run.

Lean staff, simple form: They had simple organizational structures and lean top-level staffs.

Simultaneous loose-tight properties: They were both centralized (about the few core values) and decentralized (product development and “product champions”).

MANAGEMENT IN ACTION

Notes for Topics for Discussion and Action

DISCUSSION

1. Choose a fast-food restaurant, a department store, or some other organization with which you are familiar, and describe the division of labor and job specialization it uses to produce goods and services. How might this division of labor be improved?

Students should cite instances in which employees specialize in only one or a few tasks of a process, rather than one in which employees perform all tasks. McDonald’s managers decided on a basic division of labor among chefs and food servers. Managers allocated all the tasks involved in actually cooking the food to the job of the chef, and allocated all of tasks related to giving food to customers to food servers. In addition, the company created other kinds of specialized jobs, such as dealing with drive-through customers and keeping the restaurant clean. This kind of job specialization increases efficiency and worker productivity.

Managers must continually analyze the range of tasks to be performed and then create jobs that allow the organization to give customers the quality of goods and level of service that they want. In doing so, however, they must certain not to oversimplify tasks, since too much specialization can lead to worker boredom and monotony. This can have an adverse impact on productivity and efficiency.

2. Apply Taylor's principles of scientific management to improve the performance of the organization you chose in topic 1.

McDonald's has in place an efficient system for filling orders, though some benefit may be gained from gathering more information on task performance and experimenting with ways of improving the way tasks are performed to increase efficiency (Taylor's Principle #1.)

A record of procedures is kept that codifies methods of performing tasks into written work rules and standard operating procedures. New employees are given this record when they begin training, and these rules are used to further standardize and simplify jobs (Taylor's Principle #2.)

Employees are carefully selected so that they possess the skills and abilities that match the needs of the task and are trained to perform the task according to the rules and procedures established in Principle 2 (Taylor's Principle #3.) Employees receive a training manual and begin with simplified jobs, earning advancement to more complex positions as they increase their performance.

Employees are given an acceptable level of performance that they must meet, though their pay system does not seem to provide higher rewards for performance above the acceptable level (Taylor's Principle #4.) A pay system that ties performance to bonuses or time off might provide workers with incentive to sell more food and improve their customer service.

3. In what ways are Weber's and Fayol's ideas about bureaucracy and administration similar? How do they differ?

Weber developed a system of bureaucracy—a formal system of organization and administration designed to ensure efficiency and effectiveness. It is a system based on five principles. Fayol identified 14 principles that he believed to be essential to increasing the efficiency of the management process.

Both management theorists emphasized the following principles for successful management:

Authority: This is the power to hold people accountable for their actions and to make decisions concerning the use of organizational resources. According to Weber, formal authority derives from the position a manager holds in the organization. Fayol went beyond formal authority to include the informal authority derived from personal expertise, technical knowledge, moral worth, and ability to lead and to generate commitment from subordinates.

Line and unity of command: Weber argued that the extent of each position's formal

authority and task responsibilities, and its relationship to other positions in an organization, should be clearly specified. Fayol echoes this idea when he speaks of unity of command—an employee should receive orders from only one superior. Both ideas emphasize specification of responsibility and seek to avoid confusion and overlap of authority that may decrease efficiency and/or effectiveness.

Authority organization: Both Weber and Fayol suggest a chain of managers in an organization be arranged from top to bottom. While Weber was more adherent to a hierarchical strategy, Fayol emphasized also the importance of cross-departmental integration and teams, and communication at the lower levels of management in an organization. Fayol also stressed the importance of limiting the number of levels in the hierarchy to reduce communication problems.

Centralization: Weber and Fayol argue for a strong concentration of authority at the top of the organizational hierarchy. Fayol was more flexible, though, in allowing for initiative and innovation at lower levels in an organization.

Established rules: Weber argued for a well-defined system of rules, standard operating procedures, and norms so that behavior within an organization could be effectively controlled. These standards provide guidelines that increase performance because they specify the best ways to accomplish organizational tasks. Fayol also stressed order and discipline, which echo the tenets of Weber's principle, but Fayol also stressed equity and esprit de corps, principles that emphasize the need to treat employees fairly and to create a positive work environment.

4. Which of Weber's and Fayol's principles seem most relevant to the creation of an ethical organization?

Ethical behavior in organizations is crucial for organizational success and employee well being. Weber's focus on performance and ability rather than social status or wealth as determinants of authority, are relevant to ethical considerations. Weber also emphasizes specificity in authority hierarchy, task requirements, and chains of command. By communicating to employees the organization's expectations for responsible behavior, management acts ethically and fairly. The fairness and equity of the selection and promotion systems that Weber advocates encourages organizational members to act ethically and further promote the interests of the organization as well.

Fayol's principles also exemplify ethical considerations. By recognizing the downside of specialization and focusing upon expanded employee duties and responsibilities, Fayol avoids unethical treatment of employees. The need to treat employees in a just and respectful manner is central to Fayol's principle of equity. Also emphasized is the respect for employees' sense of integrity, which is crucial for creating an ethical organization. A fair and well-designed pay

system is also necessary, as discussed in the principle of “Remuneration of Personnel.” Good performance should be rewarded, and the system needs to be uniformly applied to employees to ensure equitable and ethical treatment.

5. Why was the work of Mary Parker Follett ahead of its time? To what degree do you think it is appropriate today?

Mary Parker Follett wrote mainly in response to the lack of concern for the human side of the organization by other management theorists and practitioners. She pointed out that management often overlooks the many contributions that employees can make to organizations when managers allow them to participate and exercise initiative. Her work was important because she called for employee involvement in analyzing their jobs and participating in the work development process. Follett was ahead of her time because she anticipated the current interest in self-managed teams and empowerment, in which workers manage many of their own activities. Her focus on “cross-functioning,” in which different departments work together in cross-departmental teams to accomplish projects, was an approach that was ahead of its time, but is increasingly utilized today. Follett advocated a horizontal view of power and authority. She suggested that those with the knowledge to help the organization achieve its goals should have more authority, and authority should be flexible to meet the needs of organization at different times. This approach was very radical for its time, and directly contrasted the work of Fayol and Weber.

Follett’s approach is appropriate in today’s ever-changing business environment. New issues constantly arise, and organizations need to be able to adapt and change in order to survive. An organization that has an archaic management structure that impedes communication and thwarts efforts to respond to changing needs will not survive global and domestic competition. Organizations also need to respond to the advances of technology that may make some organizations obsolete. Follett’s emphasis on flexibility and the human side of organizations make her approach very relevant for organizations struggling to survive an ever-changing business environment.

6. What is contingency theory? What kinds of organizations familiar to you have been successful or unsuccessful in dealing with contingencies from the external environment?

The important message of contingency theory is that there is no one best way to manage. If an organization is to succeed, managers must look to the environment in which the organization operates to determine the kind of strategy, structure, and control systems to implement. Since the ability of an organization to obtain resources depends on the nature and characteristics of the environment, managers cannot afford to adhere to an inflexible management strategy.

The strategy will need to adapt to changing characteristics of the environment. Managers must recognize the opportunities and limitations sometimes imposed by the environment, and then, organize and control activities accordingly. The ultimate goal is to be able to respond to a changing environment quickly and effectively.

Examples of organizations that were unable to deal with contingencies from the environment include those that have become obsolete due to changes in technology, the entry of new competitors in the environment, and changes in economic conditions. Intel is successful because it developed new computer technology that surpassed existing technology. McDonald's has expanded their customer base by developing new products to appeal to health conscious adults, an increasingly popular trend in the fast-food industry. Donna Karan, a high-end clothing manufacturer, has been unsuccessful in controlling costs that its sales cannot support. People are now spending less money on clothing than during previous decades and Donna Karan was slow to respond to this environmental shift. America Online was unprepared for the shift to broadband internet access and has been slow to formulate a new strategy for success in an environment in which functioning solely as an internet portal no longer provides a competitive advantage.

7. Why are mechanistic and organic structures suited to different organizational environments?

There are two basic ways that managers can organize and control an organization's activities to respond to the nature of its environment. A mechanistic structure is chosen when the environment surrounding an organization is stable. This would be the case for an organization that has steady supply and demand and is somewhat immune to the fluctuations of the economy.

A mechanistic structure is characterized by a "top-down" hierarchy and that vertical hierarchy of authority is the main means used to control subordinates' behavior. Management closely supervises subordinates and the emphasis is on strict discipline and order. A mechanistic structure allows inputs to be obtained at the lowest cost, giving an organization the most control over its conversion processes and enabling the most efficient production of goods and services. In a stable environment lower level employees do not need to make management decisions in response to changing environment characteristics.

An organic structure is chosen when the environment surrounding an organization is changing rapidly, making it is more difficult to obtain access to resources. In this kind of environment, managers need to be able to respond quickly to seize resources, so it must be free from the difficulties associated with a vertical hierarchy that exists in a mechanistic structure. Instead of vertical authority, authority is more decentralized to people lower in the organization. Departments are encouraged to take a cross-departmental or functional perspective, which makes authority more horizontal than vertical. An organic structure allows managers to react more quickly to a changing environment than a mechanistic structure.

There is looser control than in a mechanistic structure, and the reliance is on shared norms, rather than rules and SOP's, to guide organizational activities. An advantage is that authority rests with the people who are in the best positions to control and address the current problems the organization is facing.

ACTION

8. *Question a manager about his or her views of the relative importance of Fayol's 14 principles of management.*

The following is a brief overview of Fayol's 14 principles of management.

Division of Labor: Workers should be specialized, but should also be given more job duties to perform or should assume more responsibility for work outcomes.

Authority and Responsibility: Beyond formal authority, this includes informal authority derived from personal expertise, knowledge, and morals.

Unity of Command: An employee should receive orders from only one superior, rather than from two or more, which safeguards against inefficiency and overlap.

Line of Authority: The line of authority is the chain of managers in an organization from the top to the bottom. The number of levels should be limited to help ensure timely and flexible reactions to problems, and to facilitate communication.

Centralization: This is the degree to which authority is located at the top of the organizational hierarchy.

Unity of direction: Management should have one plan of action to guide managers and workers as they use organizational resources—a single overall guiding plan and organizational strategy.

Equity: Equity is a combination of justice and respect toward employees. This is a primary concern for many managers who work with diverse workforces.

Order: Managers achieve order by ensuring that every employee finds a position in the organization that provides the organization with the greatest benefit while providing employees with the greatest career opportunities to satisfy their own needs. Order also addresses the need for organizational charts to clarify employee position and promotion opportunities, and career planning

Initiative: This principle involves encouraging employees to be creative and innovative in their work, which leads to progress and innovation.

Discipline: This is the need for obedience, energy, application, and outward marks of respect for a superior's authority from employees. Discipline results in respectful relations between organizational members and reflects the quality of an organization's leadership.

Remuneration of Personnel: This refers to the reward systems, which should be equitable for employees and the organization. The system should encourage productivity by

rewarding well-directed effort, and it should be resistant to abuse. It should be uniformly applied to all employees.

Stability of tenure of personnel: This is the concept of long-term, but not necessarily lifetime, employment.

Subordination of individual interest to general interest: The interests of the organization as a whole must take precedence over the interests of any one individual or group.

Esprit de corps: A shared feeling of comradeship, enthusiasm, or devotion to a common cause, such as the organization, is important for a successful management effort.

9. Visit at least two organizations in your community, and identify those that seem to operate with a Theory X or a Theory Y approach to management.

(Note to the instructor: Student answers will vary. The following is a brief overview of the Theory X and Theory Y approach to management.)

Theory X approach to management: According to this theory, managers believe the average worker is lazy, dislikes work, and will try to do as little as possible. These managers believe that it is their job to counteract the natural tendencies of workers to avoid work by closely supervising and controlling them. Control is exercised through a system of rewards and punishments. This theory asserts that managers need to maximize control and minimize employee autonomy over their work and work pace. Cooperation is neither expected nor desired by the workforce. Managers see their role as to closely monitor workers to ensure they contribute to the production process and follow the rules and standard operating procedures of the organization, and do not threaten product quality.

Typical examples of Theory X organizations include fast food restaurants and retail stores. Employee turnover tends to be very high and employees are motivated mostly by the money and many will quit as soon as a short term financial objective is achieved (pay off a traffic ticket, buy books for the semester, buy car insurance). Rules, procedures and strict managerial oversight are often effective in these organizations.

Theory Y Approach to Management: According to Theory Y, workers do not naturally dislike work; the work setting itself determines whether or not work is seen as a source of satisfaction or punishment. Given the chance or opportunity, workers will do what is good for the organization. It is the manager's task to create a work setting that encourages commitment to organizational objectives. If managers believe that workers are motivated, they can decentralize authority and give more control over the job to workers. A manager's role is not to control employees, but to provide support and advice.

Typical examples of Theory Y organizations include law offices, hospitals, and schools. These are organizations that employ highly skilled, highly educated employees who are often experts at what they do. They are motivated by their enjoyment of their work, ambition, and the desire to be perceived as excellent at what they do. Managers mostly just need to point the way and the employees will take care of the rest.

AACSB standards: Analytic, Reflective Thinking

BUILDING MANAGEMENT SKILLS

Managing Your Own Business

1. Use the principles of Weber and Fayol to decide on the system of organization and management that you think will be most effective for your growing organization. How many levels will the hierarchy of your organization have? How much authority will you decentralize to your subordinates? How will you establish the division of labor between subordinates? Will your subordinates work alone and report to you or work in teams?

(Note to the instructor: Due to the nature of the question, individual answers will vary. The following points should be addressed in each answer)

Weber developed his five principles of bureaucracy that utilize a formal system of organization and administration to ensure efficiency and effectiveness. The clear specification of positions within the organization's hierarchy and the use of rules and standard operating procedures (SOP's) to regulate how tasks are performed make it easier for managers to organize and control the work of subordinates. Bureaucracies tend to have more levels of hierarchy than do other systems. Authority derives from position in the hierarchy and decisions are made at the top and "trickle down" to lower levels in the organization. Subordinates tend to work independently and are typically not given much authority. Labor tends to be very specialized and divided among many subordinates. Problems can arise within a bureaucratic system when the number of rules and SOP's make decision making slow and inefficient, and restrict the flexibility of the managers to solve problems efficiently and effectively.

Fayol identified fourteen principles of management that he believed to be essential to increasing the efficiency of the management process. Several of these are relevant when deciding which system of organization and management should be implemented. Division of labor was suggested, but Fayol also advocated that workers should be given more responsibility and authority. Fayol went beyond formal authority to include informal authority, such as expertise or knowledge, as well. He also stressed the importance of limiting the number of levels of management, suggesting that subordinates report to one manager only. This reduces communication problems so that an organization can act quickly and flexibly. Fayol also advocated teams and cross-departmental integration, as opposed to individuals working alone. Decentralization of authority is also part of Fayol's principles, allowing authority to be diffused throughout an organization, rather than centralized at the top of the hierarchy.

2. Which management approach (for example, Theory X or Y) do you propose to use to run your organization? In 50 or fewer words write a statement describing the management approach you believe will motivate and coordinate your subordinates, and tell why you think this style will be best.

(Note to the instructor: Student answers will vary. The following is an overview of Theory X and Y.)

Management approaches are typically developed from either Theory X or Y. Theory X managers closely supervise and control workers' behavior by a system of rewards and punishments. They maximize management control and minimize control workers have over the pace of work. Management sees its task as counteracting worker's natural tendencies to avoid work. Theory Y managers do not need to closely control workers' behaviors because they believe that workers, when given the chance, will do what is good for the organization. Management views its task as creating a work setting that encourages commitment to organizational goals, with the assumption that workers will exercise self-control when they are committed to these goals. Commitment also provides opportunities for workers to be imaginative, and to exercise initiative and self-direction.

While some students may argue persuasively for a Theory X type of approach, the nature of the company suggests a Theory Y approach. Computer gaming is a highly competitive industry and the successful games are creative, complex, intricate and immerse the player in the imaginary world. This suggests that employees, particularly the software developers, graphic artists and computer technicians will be highly educated, highly creative and largely self-motivated. High levels of bureaucracy will seriously impede the chaotic process of game creation.

This is something that the founder should understand well, so it is likely that the founder will be looking for good people who identify with his/her vision and then he or she will let them go to develop the best game they can. There will be natural tendency for coordination, so the owner's best strategy is to prevent the creation of barriers to collaboration.

AACSB standards: Analytic, Reflective Thinking

MANAGING ETHICALLY

Notes for Topics for Discussion and Action

1. *Use the theories discussed in the chapter to debate the ethical issues involved in the way the Westland/ Hallmark Meat Co. business operated.*

(Note to the instructor: Student answers will vary.)

Westland/ Hallmark Meat Co. flagrantly disregarded established health procedures and also treated animals inhumanely. By slaughtering sick cows and allowing them to enter the food chain, dragging sick cows using metal chains and forklifts, shocking them with electric prods, and shooting water in their noses and faces, the company has resorted to unacceptable and unethical practices.

According to the Scientific Management Theory, Westland/Hallmark should have codified the method for performing tasks involved in meatpacking into written rules and standard operating procedures. Management then should have closely watched how employees were carrying out their jobs and if non-compliance was observed, those employees should have been reprimanded and corrected. This would have eliminated unacceptable employee practices, thereby avoiding the untoward situation the developed. Similarly, the fifth principle of Max Weber's Theory of Bureaucracy states that managers must create a well-defined system of rules, stands, operating systems, and norms so that they can effectively control behavior within the organization.

2. *Also use the theories to discuss the ethical issues involved in the way the meat-packing business is being conducted today.*

(Note to the instructor: Student answers will vary.)

Factors such as proper hygiene by employees, the torture of animals to get the work done quickly, and allowing sick cows to enter the food chain persist in the meatpacking industry today. Because managers must rely upon their personal and organizational ethics to guide their decision making regarding each of these issues, ethics training and reinforcement of high ethical standards in this industry is critical.

According to the Hawthorne studies, managers can be trained to behave in ways that will elicit cooperative behavior from their subordinates, so that productivity is positively impacted. If this is the case, managers whose behavior reflect high levels of integrity and make highly ethical decisions can influence their employees to do the same. Also, according to Theory Y, employees will make decisions that are in the best interest of the organization, provided that management creates a highly ethical corporate culture and workers are allowed to exercise self-initiative and self-direction. They must also be provided with adequate resources to achieve organizational goals.

3. *Search the web for changes occurring in the meatpacking business.*

(Note to the instructor: Student answers will vary.) Meat-packing businesses today are largely automated. Examples include hog jaw and snout pullers, boning tables, cutting floor and harvest floor equipment and conveyors, and pack-off conveyors. These machines provide “start to finish” processing, reduce incidences of disease transmission, torture of animals, and wastage, while at the same time increases efficiency and the quality of the products.

AACSB standards: Analytic, Reflective Thinking

SMALL GROUP BREAKOUT EXERCISE

Modeling an Open System

Think of an organization with which you are all familiar, such as a local restaurant, store, or bank. After choosing an organization, model it from an open-systems perspective. Identify its input, conversion, and output processes; and identify forces in the external environment that help or hurt the organization’s ability to obtain resources and dispose of its goods and services.

An open system is one that takes in resources from the environment, changes or transforms them into goods and services, and sends them back into the environment where they are bought by customers. Students should identify all three parts of the open system process. The term “open system” is used because the organization must draw from and interact with the environment to survive; therefore, it must be open to its environment.

Input stage: An organization acquires resources from the environment that it needs to produce goods and services. Typically this includes capital, employees, raw materials, and supplies (such as paper or computers).

Conversion stage: An organization’s workforce, using appropriate tools, techniques, and machinery, transforms the inputs into outputs of finished goods and services. In the case of a restaurant, the conversion stage takes food and turns it into a meal, a bank takes in money and earns more money, and a retail store displays goods in an attractive, inviting way so that customers want to buy the goods.

Output stage: An organization releases its output of finished goods and services to its environment where they are purchased and used by the organization’s customers to satisfy their needs. In a restaurant, the output is the delivery of the meal to the customer (and the subsequent cleaning of the used dishes), in a bank the output is money loaned or interest paid to customers, and in a retail environment the output stage is when the customer walks out the door with their purchase in a bag.

Forces in the external environment that can affect the ability of an organization to obtain resources or dispose of its goods and services may include such factors as natural disasters, lack of available labor, instability of the economy, fluctuations in consumer demand, and advances in technology.

AACSB standards: Analytic, Reflective Thinking

EXPLORING THE WORLD WIDE WEB

Significant Milestones

Ford Motor Company entered the business world on June 16, 1903, when Henry Ford and eleven business associates signed the company’s articles of incorporation and funded the start-up with \$28,000 in cash. The earliest record of a shipment is July 20, 1903, approximately one month after incorporation, to a Detroit physician. Perhaps Ford Motor Company’s single greatest contribution to automotive manufacturing was the moving assembly line.

First implemented at the Highland Park plant in 1913, the new technique allowed individual workers to stay in one place and perform the same task repeatedly on multiple vehicles that passed by them. The line proved tremendously efficient, helping the company far surpass the production levels of their competitors and making the vehicles more affordable. In the 1950's, the company went public for the second time, and the company began its global expansion of in the 1960's.

Past Challenges

Henry Ford's insistence that the company's future lay in the production of affordable cars for a mass market caused increasing friction between him and the other investors. As some left, Ford acquired enough stock to increase his own holdings to 58.5 percent and replace John S. Gray, a Detroit banker, as the company's president. In 1919, a conflict with stockholders over the millions to be spent building the giant Rouge manufacturing complex in Dearborn, Michigan led to the company becoming wholly owned by Henry Ford and his son, Edsel, who then succeeded his father as president. After Edsel Ford passed away in 1943, a saddened Henry Ford resumed the presidency. In the 1930's came the rise of organized labor. The relationship between management and the unions got off to a rocky start, since Henry Ford believed that his company already had its workers' best interests in mind.

Current Challenges

In the 2000s, Ford, like other global car companies, is hustling to catch up to the manufacturing efficiencies of Toyota and Nissan. Although Ford made significant advances in the 1990s, GM and Chrysler recently surpassed it.

AACSB standards: Analytic

BE THE MANAGER

1. How do the various management theories discussed in this chapter offer clues for organizing and controlling hotel employees?

Mary Parker Follett's theories give much insight concerning the empowerment of employees. In this elite hotel, employees must be allowed to service customer needs without always checking with a supervisor first.

2. Which parts would be the most important for an effective system to organize and control employees?

Mary Parker Follett pointed out that management often overlooks the many contributions that employees can make to organizations when managers allow them to participate and exercise initiative. She calls for employee involvement in analyzing their responsibilities and participating in the work development process. She also advocates self-managed teams and empowerment, in which workers manage many of their own activities. Her ideas concerning “cross-functioning,” in which different departments work together in cross-departmental teams to ensure that a goal, such as exemplary customer service, is achieved seems relevant here.

AACSB standards: Analytic

CASE IN THE NEWS

Case Synopsis: *Mr. Edens Profits from Watching His Workers’ Every Move*

Electronic Banking Systems Inc. (EBS) is a white collar financial services company. It processes lockbox transactions, which means that large numbers of employees, in a warehouse-like setting, open envelopes, record the value of the enclosed check or cash, and verify the accuracy of the financial transaction. The founder of the company, Mr. Ron Edens runs an efficient, low-cost operation. Costs are kept low by paying low wages (minimum wage or barely above minimum wage) to non-unionized employees. The company is aggressive in its efforts to ensure that its workforce remains non-unionized. Further, the workplace setting has been designed to prevent distractions, the windows are covered so employees cannot look outside, work surfaces are positioned so that employees face the same direction which supports the final rule; talking is prohibited.

In addition to these measures, the company’s focus on low-cost is supported by a variety of management practices. All tasks have been broken down into the smallest unit so that the same bit of work is repeated by a single worker. This increases efficiency but also increases boredom. Employee decision making is eliminated via the use of software that detects possible data entry errors. Finally, all employee activity is closely supervised by supervisors, camera surveillance, time tracking activities and software that records the time taken to record each entry. The work is monotonous, boring and socially isolating. The employees remain with the company because it is one of the few employers left in a town that has lost most of its industrial base in the last three decades. The company stays because it has a ready supply of blue-collar workers willing to do the work for low wages.

Questions:

1. *Which of the management theories described in the chapter does Ron Edens make the most use of?*

Mr. Edens uses the Theory X management approach. This theory rests on the assumptions that the average worker is lazy, dislikes work, and will try to do as little work as possible. Mr. Edens believes that workers cannot be trusted to do their work without constant surveillance by computers or human supervisors. Quotas are imposed to ensure high productivity levels. The central principal of Theory X is that managers should closely supervise and control workers, and this is precisely the atmosphere at Electronic Banking System, Inc. The work setting has been designed to minimize the control that employees have over their own behavior and the pace of work. Workers do not have to think or make decisions. Their work is very specialized and almost robotic. There are many rules and standard operating procedures in Mr. Edens' organization, and cooperation is neither expected nor desired by the workforce. Supervisors watch closely to see that employees do not make mistakes or slow the work process.

Taylor's Scientific Management Principles also are clearly being applied here. Work has been decomposed to its smallest unit to improve efficiency. There is a clear and unambiguous chain of command and the office has removed any activity that is not strictly work related. Further, some of Fayol's ideas are also being applied, including discipline, order, unity of direction, division of labor and centralization. Of course, other ideas, such as initiative, remuneration of personnel and stability of tenure of personnel, are not in evidence at EBS.

2. *What do you think are the effects of this approach on (a) workers and (b) supervisors?*

Because of the monotony of the work, many workers feel lonely and trapped. The dissatisfaction has been expressed through their efforts to circumvent one of Eden's rules by talking out of the sides of their mouths. Studies of workplace monitoring suggests that it creates a hostile workplace environment in which workers feel pressured, paranoid, and are prone to stress-related illness, all of which impacts supervisors as well as workers.

3. *Do you regard Ron Eden's approach to management as ethical and acceptable or unethical and unacceptable in the 2000s? Why?*

Companies have an obligation to treat employees with dignity, respect, and consideration. Eden makes little attempt to do so, which in the opinion of many, makes his approach to management ethically unacceptable.

AACSB standards: Analytic, Reflective Thinking

Source: T. Horwitz, “*Mr. Edens Profits from Watching His Workers’ Every Move*,” The Wall Street Journal, December 1, 1994, reproduced with permission of Dow Jones & Company Inc.

SUPPLEMENTAL FEATURES

Please see the following collections on the Asset Gallery located on the Instructor OLC at www.mhhe.com/jonesgeorge8e.

VIDEO CASE

The Assembly Line

In 1907, Henry Ford announced a specific and lofty goal for his company, to “build a motor car for the multitudes.” His engineers designed the Model T, which was simple, sturdy, always black, and less expensive than other cars, but it was still not affordable to average people. To produce the Model T as cheaply as he wanted, Ford knew he had to change the way cars were built.

Studying other industries for ideas, Ford observed a grain mill conveyor and moving lines at Chicago meat packing plants and saw division of labor as each worker cut one cut of meat. Ford and his team realized that car production could be revolutionized by four principles: interchangeable parts, continuous flow, division of labor, and reducing wasted effort. Ford hired Frederick Taylor as a consultant to introduce scientific management into the Ford Motor Company.

Taylor performed time and motion studies by observing every movement workers made and timing them with a stopwatch. He divided the assembly of the Model T into 84 simple, repetitive steps, with each worker trained to do only one of these steps. The cutting tools and machinery were improved so that individual pieces of the car were made the same way each time. Interchangeable parts meant, for instance, that any valve would fit any engine. Once the machines were adjusted, a laborer with low skills could operate them. There would be no more need for skilled craftsmen with years of apprenticeship. Men could learn to do any job quickly. Wheel making, for example, no longer required a trained wheelwright; instead, the process was broken down into nearly 100 stages, done by different men at different machines. Making a car became much faster, but workers still could only complete 20 in a day.

The most dramatic change came when Ford decided to try an idea: Instead of moving the men past the cars, why not move the cars past the men? A simple experiment, in which a strong young worker

pulled a car through the factory as others fastened on parts, led to the installation in 1913 of conveyor belts to deliver parts to workers. It was the first moving assembly line used in large-scale manufacturing and allowed Ford to produce cars at a record-breaking rate. The time it took to build a Model T dropped to 93 minutes. Management set the speed of the assembly line and workers were unable to stop or slow it. Few could stand the relentless pace and noise for more than a few weeks before they quit. In 1914 Ford shortened the work day from nine hours to eight in order to run three shifts and doubled wages to \$5 a day to keep men on the line. While other manufacturers considered this wage extravagant, Ford believed that well-paid workers would not only endure the dull work but also buy his cars.

More than 15 million Americans bought a Model T during the 19 years it was produced. The price went down from \$980 when it was introduced in 1908 to as low as \$280. Ford's mass production techniques eventually allowed for the manufacture of a Model T every 24 seconds.

Questions

1. *What downside do you think workers experienced after Taylor helped Ford introduce job specialization in his factory? Think of an example from the video.*
2. *How does a moving assembly line fit into the beliefs of a Theory X manager, a designation given to Henry Ford?*
3. *How did Taylor recommend that workers should benefit from their increased performance? Did Henry Ford follow that recommendation?*

Sources: John Crandall, "Henry Ford's Assembly Line," http://automotive-history.suite101.com/article.cfm/henry_fords_assembly_line, accessed August 4, 2008; "Ford Installs First Moving Assembly Line, 1913," <http://www.pbs.org/wgbh/aso/databank/entries/dt13as.html>, accessed August 4, 2008; and Mary Bellis, "Henry Ford," <http://inventors.about.com/library/inventors/blford.htm?p=1>, accessed August 4, 2008.

Video Case Teaching Notes: Ford's Assembly Line

Teaching Objective: To explain how the first assembly line used in auto production changed the workplace and the industry.

Summary: After Henry Ford developed the Model T, he sought a way to produce the car faster and more cheaply. Frederick Taylor helped Ford speed up production through job specialization. Then Ford introduced an assembly line that brought cars to workers and set the pace of their work, with the result that a car could be made in 93 minutes. To keep men on the stressful, repetitive, fast-paced job, Ford doubled their pay to \$5 a day.

Questions:

1. *What downside do you think workers experienced after Taylor helped Ford introduce job specialization in his factory? Think of an example from the video.*

Since specialization divides jobs into miniscule steps performed by different workers, they can easily become bored by the routine, repetitive tasks that result. Job satisfaction can plunge as individuals feel less significant, like a part of the machinery. In Ford's factory, for example, a skilled wheelwright no longer made entire wheels but only a small part of each one. He would not feel the satisfaction of crafting a complete product or the pride in doing it well. In fact, skilled craftsmen were not needed as anyone could be trained to do the simple tasks.

2. *How does a moving assembly line fit into the beliefs of a Theory X manager, a designation given to Henry Ford?*

A moving assembly line brings the work to the workers and determines the pace of work. They must keep up or the entire system gets backed up; it is obvious if a worker is too slow or slacking off. For Theory X managers, who believe most workers will do as little as possible, relying on machines to keep workers performing at a high level is an effective way to control employees.

3. *How did Taylor recommend that workers should benefit from their increased performance? Did Henry Ford follow that recommendation?*

Taylor said workers should be rewarded with bonuses for gains in their performance. Workers benefited when Ford reduced the work day from nine hours to eight hours in order to have three shifts and when he doubled their pay to \$5 a day, although he may have been more motivated to keep workers in his factory and enable them to buy a Model T rather than to share his profits with them.

MANAGER'S HOT SEAT (MHS)

Cultural Differences: Let's Break a Deal

(Note: Also recommended with chapter 6)

SELF-ASSESSMENT(S)

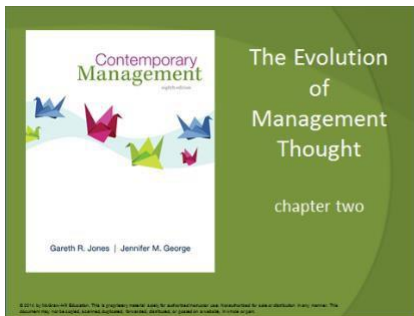
Corporate Culture Preference Scale (#3 online)

TEST YOUR KNOWLEDGE

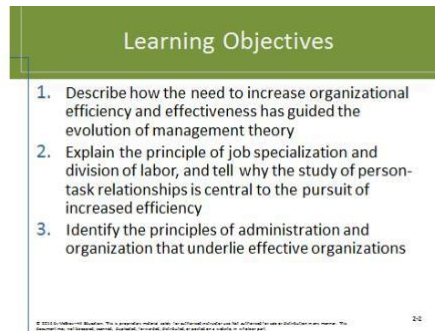
Historical Perspective to Strategic Management Function (#18 online)

INSTRUCTOR’S POWERPOINT SLIDES

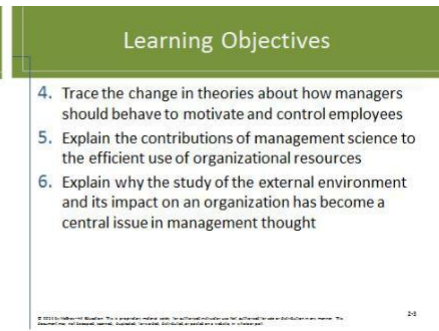
These Instructor’s PowerPoint slides can be used to supplement the lecture material.



**INSTRUCTOR’S
POWERPOINT SLIDE 1
Chapter Title**

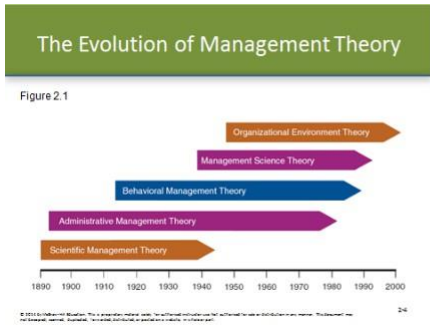


**INSTRUCTOR’S
POWERPOINT SLIDE 2
Learning Objectives**



**INSTRUCTOR’S
POWERPOINT SLIDE 3
Learning Objectives cont.**

Chapter 02 – The Evolution of Management Thought



Job Specialization and the Division of Labor

➤ **Adam Smith (18th century economist)**

- ↳ Observed that firms manufactured pins in one of two different ways:
 - - Craft-style—each worker did all steps.
 - - Production—each worker specialized in one step.
- Smith found that the performance of the factories in which workers specialized in only one or a few tasks was much greater than the performance of the factory in which each worker performed all pin-making tasks

Job Specialization and the Division of Labor

➤ **Job Specialization**

- ↳ process by which a division of labor occurs as different workers specialize in different tasks over time

**INSTRUCTOR'S
POWERPOINT SLIDE 4
The Evolution of Management
Theory: Figure 2.1**

**INSTRUCTOR'S
POWERPOINT SLIDE 5
Adam Smith**

**INSTRUCTOR'S
POWERPOINT SLIDE 6
Job Specialization**

F.W. Taylor and Scientific Management

➤ **Scientific Management**

- ↳ The systematic study of the relationships between people and tasks for the purpose of redesigning the work process to increase efficiency.

Problems with Scientific Management

- Managers frequently implemented only the **increased output** side of Taylor's plan
 - ↳ Workers did not share in the increased output
- Specialized jobs became very **boring and dull**
 - ↳ Workers ended up distrusting the Scientific Management method

The Gilbreths

1. Analyze every individual action necessary to perform a particular task and break it into each of its component actions
2. Find better ways to perform each component action
3. Reorganize each of the component actions so that the action as a whole could be performed more efficiently—at less cost in time and effort

**INSTRUCTOR'S
POWERPOINT SLIDE 7
Scientific Management**

**INSTRUCTOR'S
POWERPOINT SLIDE 8
Problems with Scientific
Management**

**INSTRUCTOR'S
POWERPOINT SLIDE 9
The Gilbreths**

Administrative Management Theory



Administrative Management

- The study of how to create an organizational structure and control system that leads to high efficiency and effectiveness.

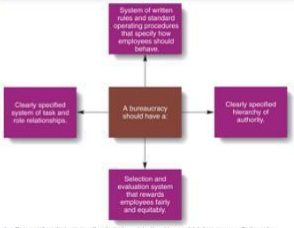
Administrative Management Theory

Max Weber

- Developed the principles of bureaucracy as a formal system of organization and administration designed to ensure efficiency and effectiveness.

Weber's Principles of Bureaucracy

Figure 2.2



INSTRUCTOR'S POWERPOINT SLIDE 10
Administrative Management Theory


INSTRUCTOR'S POWERPOINT SLIDE 11
Max Weber

INSTRUCTOR'S POWERPOINT SLIDE 12
Weber's Principles of Bureaucracy: Figure 2.2


Rules, SOPs and Norms

- Rules**
 - formal written instructions that specify actions to be taken under different circumstances to achieve specific goals
- Standard Operating Procedures (SOPs)**
 - specific sets of written instructions about how to perform a certain aspect of a task
- Norms**
 - unwritten, informal codes of conduct that prescribe how people should act in particular situations

Fayol's Principles of Management



Fayol's Principles of Management



INSTRUCTOR'S POWERPOINT SLIDE 13
Rules, SOPs and Norms

INSTRUCTOR'S POWERPOINT SLIDE 14
Fayol's Principles of Management: Division of Labor etc.

INSTRUCTOR'S POWERPOINT SLIDE 15
Fayol's Principles of Management: Initiative etc.

Behavioral Management Theory

- Behavioral Management
 - The study of how managers should personally behave to motivate employees and encourage them to perform at high levels and be committed to the achievement of organizational goals

**INSTRUCTOR'S
POWERPOINT SLIDE 16
Behavioral Management**

Behavioral Management

- Mary Parker Follett
 - Concerned that Taylor ignored the human side of the organization
 - Suggested workers help in analyzing their jobs
 - If workers have relevant knowledge of the task, then they should control the task



**INSTRUCTOR'S
POWERPOINT SLIDE 17
Mary Parker Follett**


The Hawthorne Studies and Human Relations

- Studies of how characteristics of the work setting affected worker fatigue and performance at the Hawthorne Works of the Western Electric Company from 1924-1932.
- Worker productivity was measured at various levels of light illumination.

**INSTRUCTOR'S
POWERPOINT SLIDE 18
The Hawthorne Studies and Human Relations**

The Hawthorne Studies and Human Relations

- Hawthorne effect
 - The finding that a manager's behavior or leadership approach can affect workers' level of performance.



**INSTRUCTOR'S
POWERPOINT SLIDE 19
Hawthorne effect**

The Hawthorne Studies and Human Relations

- Human relations movement
 - A management approach that advocates the idea that supervisors should receive behavioral training to manage subordinates in ways that elicit their cooperation and increase their productivity.

**INSTRUCTOR'S
POWERPOINT SLIDE 20
Human relations movement:
definition**

The Hawthorne Studies and Human Relations

- Behavior of managers and workers in the work setting is as important in explaining the level of performance as the technical aspects of the task
- Demonstrated the importance of understanding how the feelings, thoughts, and behavior of work-group members and managers affect performance

**INSTRUCTOR'S
POWERPOINT SLIDE 21
Behavior of managers**

The Hawthorne Studies and Human Relations

- Informal organization**
 - The system of behavioral rules and norms that emerge in a group
- Organizational behavior**
 - The study of the factors that have an impact on how individuals and groups respond to and act in organizations.

INSTRUCTOR'S POWERPOINT SLIDE 22
Informal organization and Organizational behavior

Theory X and Theory Y

Douglas McGregor proposed two different sets of assumptions about workers.

- Theory X**
 - A set of negative assumptions about workers that leads to the conclusion that a manager's task is to supervise workers closely and control their behavior.

INSTRUCTOR'S POWERPOINT SLIDE 23
Theory X

Theory X and Theory Y

- Theory Y**
 - A set of positive assumptions about workers that leads to the conclusion that a manager's task is to create a work setting that encourages commitment to organizational goals and provides opportunities for workers to be imaginative and to exercise initiative and self-direction.

INSTRUCTOR'S POWERPOINT SLIDE 24
Theory Y

Theory X vs. Theory Y


Figure 2.3

THEORY X	THEORY Y
The average employee is lazy, dislikes work, and will try to do as little as possible.	Employees are not inherently lazy. Given the chance, employees will do what is good for the organization.
To ensure that employees work hard, managers should closely supervise employees.	To allow employees to work in the organization's interest, managers must create a work setting that provides opportunities for workers to exercise initiative and self-direction.
Managers should create strict work rules and implement a well-defined system of rewards and punishments to control employees.	Managers should decentralize authority to employees and make sure employees have the resources necessary to achieve organizational goals.

INSTRUCTOR'S POWERPOINT SLIDE 25
Theory X vs. Theory Y: Figure 2.3

Example – Dave Packard

- As HP grew, Dave Packard recognized that everyone wanted to do a good job
- He walked around listening to everyone
- HP also established an open-door policy allowing employees to discuss any issue without fear of reprisal



INSTRUCTOR'S POWERPOINT SLIDE 26
Example—Dave Packard

Management Science Theory

- Management Science Theory**
 - Contemporary approach to management that focuses on the use of rigorous quantitative techniques to help managers make maximum use of organizational resources to produce goods and services.

INSTRUCTOR'S POWERPOINT SLIDE 27
Management Science Theory

Management Science Theory

- ✦ **Quantitative management**
 - ↳ utilizes mathematical techniques, like linear programming, modeling, simulation and chaos theory
- ✦ **Operations management**
 - ↳ provides managers a set of techniques they can use to analyze any aspect of an organization's production system to increase efficiency

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INSTRUCTOR'S POWERPOINT SLIDE 28
Quantitative and Operations management

Management Science Theory

- ✦ **Total quality management**
 - ↳ focuses on analyzing an organization's input, conversion, and output activities to increase product quality
- ✦ **Management information systems**
 - ↳ help managers design systems that provide information that is vital for effective decision making

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INSTRUCTOR'S POWERPOINT SLIDE 29
Total quality management and Management information systems

Organizational Environment Theory

- ✦ **Organizational Environment**
 - ↳ The set of forces and conditions that operate beyond an organization's boundaries but affect a manager's ability to acquire and utilize resources

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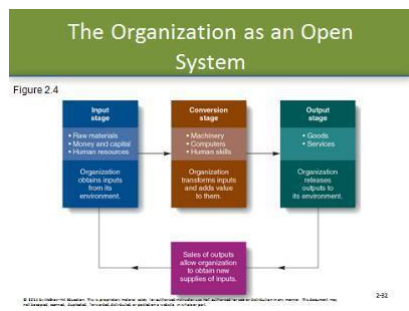
INSTRUCTOR'S POWERPOINT SLIDE 30
Organizational Environment

The Open-Systems View

- ✦ **Open System**
 - ↳ A system that takes resources for its external environment and transforms them into goods and services that are then sent back to that environment where they are bought by customers.

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INSTRUCTOR'S POWERPOINT SLIDE 31
Open System: definition



INSTRUCTOR'S POWERPOINT SLIDE 32
The Organization as an Open System: Figure 2.4

The Open-Systems View

- ✦ **Input stage**
 - ↳ organization acquires resources such as raw materials, money, and skilled workers to produce goods and services
- ✦ **Conversion stage**
 - ↳ inputs are transformed into outputs of finished goods
- ✦ **Output stage**
 - ↳ finished goods are released to the external environment

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INSTRUCTOR'S POWERPOINT SLIDE 33
Input, Conversion & Output stages

The Open-Systems View


- ✦ **Closed system**
 - ↳ A self-contained system that is not affected by changes in its external environment.
 - ↳ Likely to experience entropy and lose its ability to control itself

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**INSTRUCTOR'S
POWERPOINT SLIDE 34
Closed system: definition**

The Open-Systems View

- ✦ **Synergy**
 - ↳ the performance gains that result from the combined actions of individuals and departments
 - ↳ Possible only in an organized system



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**INSTRUCTOR'S
POWERPOINT SLIDE 35
Synergy**

Contingency Theory

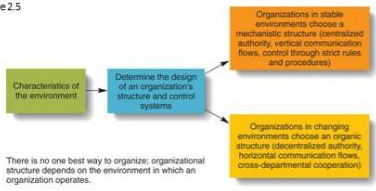
- ✦ **Contingency Theory**
 - ↳ The idea that the organizational structures and control systems manager choose are contingent on characteristics of the external environment in which the organization operates.
 - ↳ "There is no one best way to organize"

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**INSTRUCTOR'S
POWERPOINT SLIDE 36
Contingency Theory**

Contingency Theory

Figure 2.5



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**INSTRUCTOR'S
POWERPOINT SLIDE 37
Contingency Theory: Figure 2.5**

Type of Structure

- ✦ **Mechanistic Structure**
 - ↳ An organizational structure in which authority is centralized, tasks and rules are clearly specified, and employees are closely supervised.

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**INSTRUCTOR'S
POWERPOINT SLIDE 38
Mechanistic Structure**

Type of Structure

- ✦ **Organic Structure**
 - ↳ An organizational structure in which authority is decentralized to middle and first-line managers and tasks and roles are left ambiguous to encourage employees to cooperate and respond quickly to the unexpected

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**INSTRUCTOR'S
POWERPOINT SLIDE 39
Organic Structure**

Video Case: AFLAC and Dan Amos

- ◆ Why does AFLAC CEO, Dan Amos, want shareholders to vote on his compensation package?
- ◆ What are the consequences of paying an underperforming CEO an exorbitant severance package?



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**INSTRUCTOR'S
POWERPOINT SLIDE 40
Video Case: AFLAC and Dan
Amos**