Chapter 2

The Evolution of Management Theory

Contemporary
Management
Third Edition

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McGraw-Hill Irwin

PowerPoint Presentation by Charlie Cook

Scientific Management Theory

- Evolution of Modern Management
  - ➢Began in the industrial revolution in the late 19th century as:
    - Managers of organizations began seeking ways to better satisfy customer needs.
    - Large-scale mechanized manufacturing began to supplanting small-scale craft production in the ways in which goods were produced.
    - Social problems developed in the large groups of workers employed under the factory system.
    - Managers began to focus on increasing the efficiency of the worker-task mix.

The Evolution of Management Theory

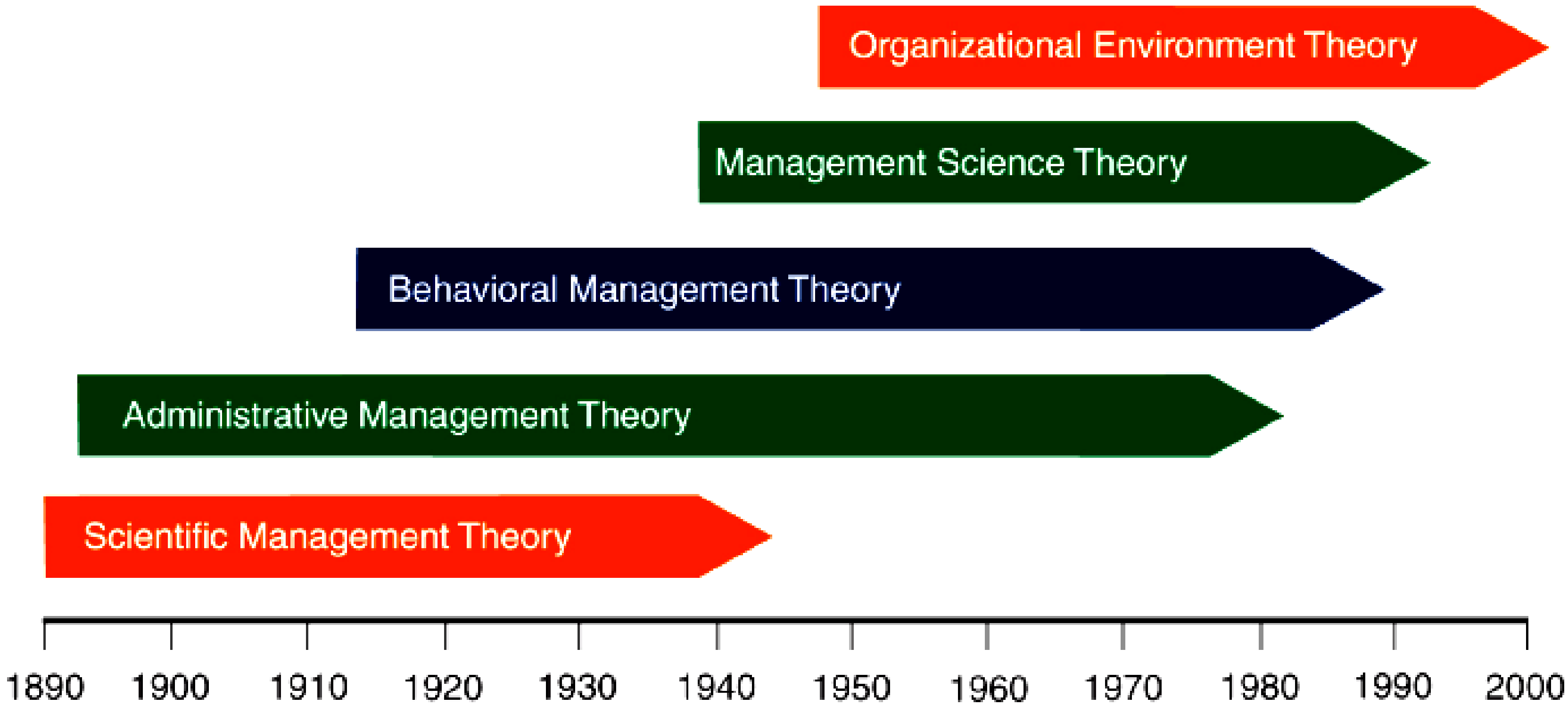

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Figure 2.1

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.
  - Realized that job specialization resulted in much higher efficiency and productivity
    - Breaking down the total job allowed for the division of labor in which workers became very skilled at their specific tasks.

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 for higher efficiency.
    - Defined by Frederick Taylor in the late 1800’s to replace informal rule of thumb knowledge.
    - Taylor sought to reduce the time a worker spent on each task by optimizing the way the task was done.

Four Principles of Scientific Management

- Principles to increase efficiency:
  1. Study the ways jobs are performed now and determine new ways to do them.
     - Gather detailed time and motion information.
     - Try different methods to see which is best.
  2. Codify the new methods into rules.
     - Teach to all workers the new method.
  3. Select workers whose skills match the rules.
  4. Establish fair levels of performance and pay a premium for higher performance.
     - Workers should benefit from higher output

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, dull.
  - Workers ended up distrusting the Scientific Management method.
- Workers could purposely "under-perform."
  - Management responded with increased use of machines and conveyors belts.

Frank and Lillian Gilbreth

- Refined Taylor’s work and made many improvements to the methodologies of time and motion studies.
  - Time and motion studies
    - Breaking up each job action into its components.
    - Finding better ways to perform the action.
    - Reorganizing each job action to be more efficient.
- Also studied worker-related fatigue problems caused by lighting, heating, and the design of tools and machines.

Administrative Management Theory

- Administrative Management
  - The study of how to create an organizational structure that leads to high efficiency and effectiveness.
- Max Weber
  - Developed the concept of bureaucracy as a formal system of organization and administration designed to ensure efficiency and effectiveness.

Weber's Principles of Bureaucracy

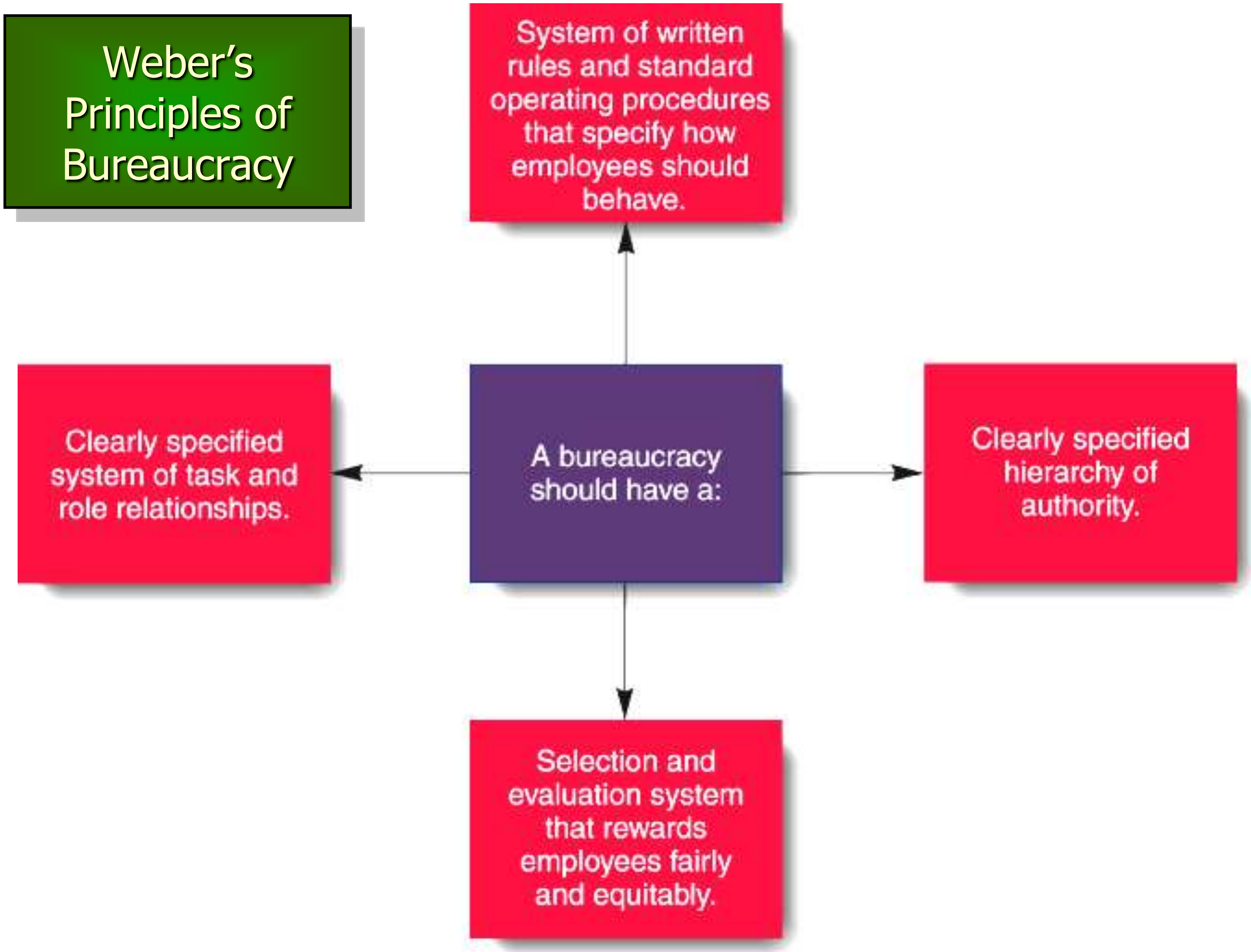


Figure 2.2

Weber's Five Principles of Bureaucracy

- Authority is the power to hold people accountable for their actions.
- Positions in the firm should be held based on performance, not social contacts.
- Position duties are clearly identified so that people know what is expected of them.
- Lines of authority should be clearly identified such that workers know who reports to who.
- Rules, standard operating procedures (SOPs), and norms guide the firm's operations.

Fayol's Principles of Management

- Division of Labor: allows for job specialization.
  - Fayol noted jobs can have too much specialization leading to poor quality and worker dissatisfaction.
- Authority and Responsibility
  - Fayol included both formal and informal authority resulting from special expertise.
- Unity of Command
  - Employees should have only one boss.

Fayol's Principles of Management (cont'd)

- Line of Authority
  - A clear chain of command from top to bottom of the firm.
- Centralization
  - The degree to which authority rests at the top of the organization.
- Unity of Direction
  - A single plan of action to guide the organization.

Fayol's Principles of Management (cont'd)

- Equity
  - The provision of justice and the fair and impartial treatment of all employees.
- Order
  - The arrangement of employees where they will be of the most value to the organization and to provide career opportunities.
- Initiative
  - The fostering of creativity and innovation by encouraging employees to act on their own.

Fayol's Principles of Management (cont'd)

- Discipline
  - Obedient, applied, respectful employees are necessary for the organization to function.
- Remuneration of Personnel
  - An equitable uniform payment system that motivates contributes to organizational success.
- Stability of Tenure of Personnel
  - Long-term employment is important for the development of skills that improve the organization's performance.

Fayol’s Principles of Management (cont’d)

- Subordination of Individual Interest to the Common Interest
  - The interest of the organization takes precedence over that of the individual employee.
- Esprit de corps
  - Comradeship, shared enthusiasm foster devotion to the common cause (organization).

Behavioral Management Theory

- 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.
  - Focuses on the way a manager should personally manage to motivate employees.

Behavioral Management

- Mary Parker Follett
  - An influential leader in early managerial theory
  - Held a horizontal view of power and authority in organizations
    - Suggested workers help in analyzing their jobs for improvements—the worker knows the best way to improve the job.
    - If workers have relevant knowledge of the task, then they should control the task.

Theory X and Theory Y

- Douglas McGregor proposed the two different sets of assumptions about workers.
  - Theory X assumes the average worker is lazy, dislikes work and will do as little as possible.
    - Managers must closely supervise and control through reward and punishment.
  - Theory Y assumes workers are not lazy, want to do a good job and the job itself will determine if the worker likes the work.
    - Managers should allow workers greater latitude, and create an organization to stimulate the workers.

Theory X versus Theory Y

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.

Source:

Figure 2.3

Management Science Theory

- An approach to management that uses rigorous quantitative techniques to maximize the use of organizational resources.
  - **Quantitative management**—utilizes linear programming, modeling, simulation systems.
  - **Operations management**—techniques to analyze all aspects of the production system.
  - **Total Quality Management (TQM)**—focuses on improving quality throughout an organization.
  - **Management Information Systems (MIS)**—provides information about the organization.

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.
- .

The Open-Systems View

- Open System
  - A system that takes resources for its external environment and converts them into goods and services that are then sent back to that environment for purchase by customers.
  - Inputs: the acquisition of external resources.
  - Conversion: the processing of inputs into goods and services.
  - Output: the release of finished goods into the environment.

The Organization as an Open System

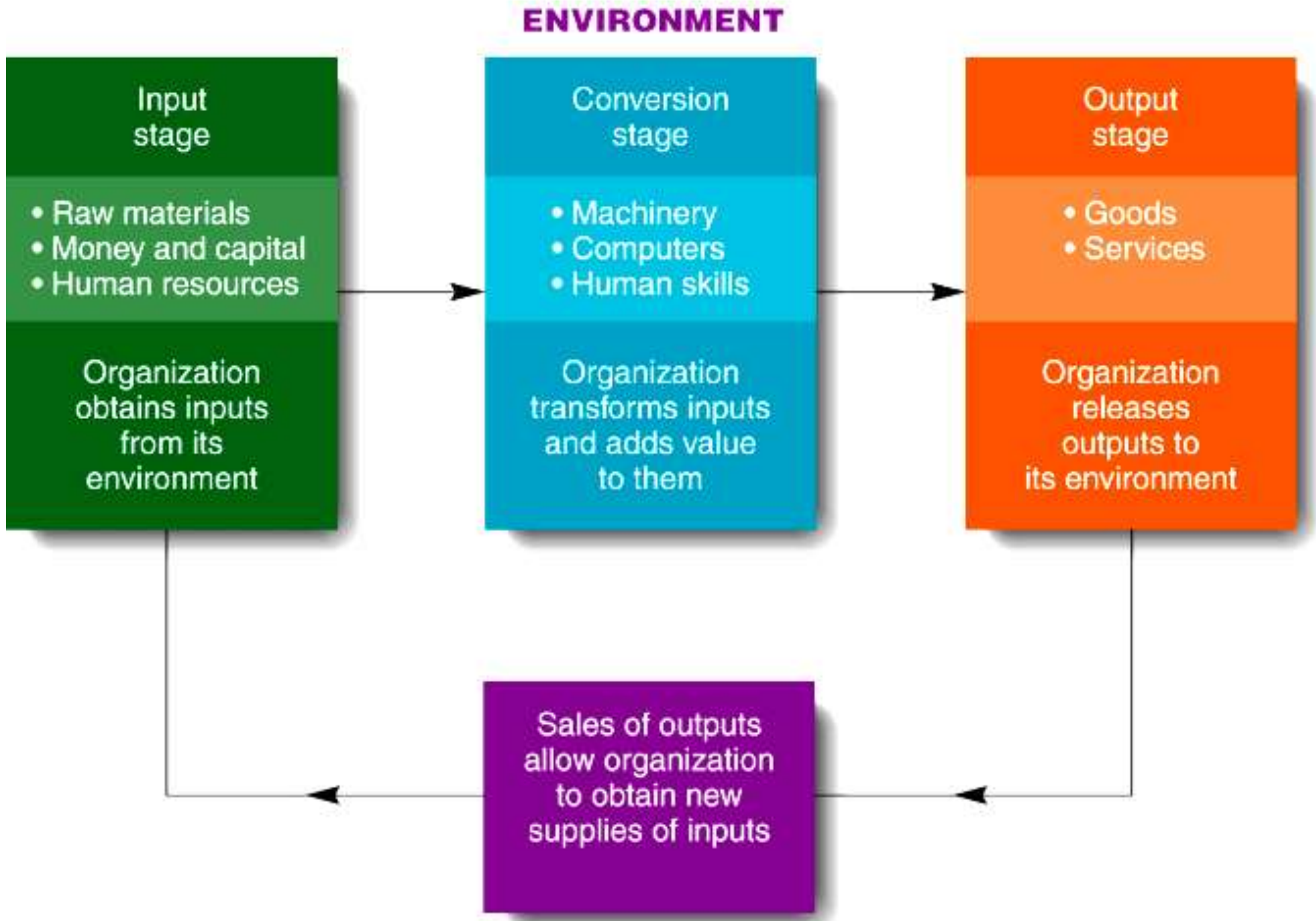


Figure 2.4

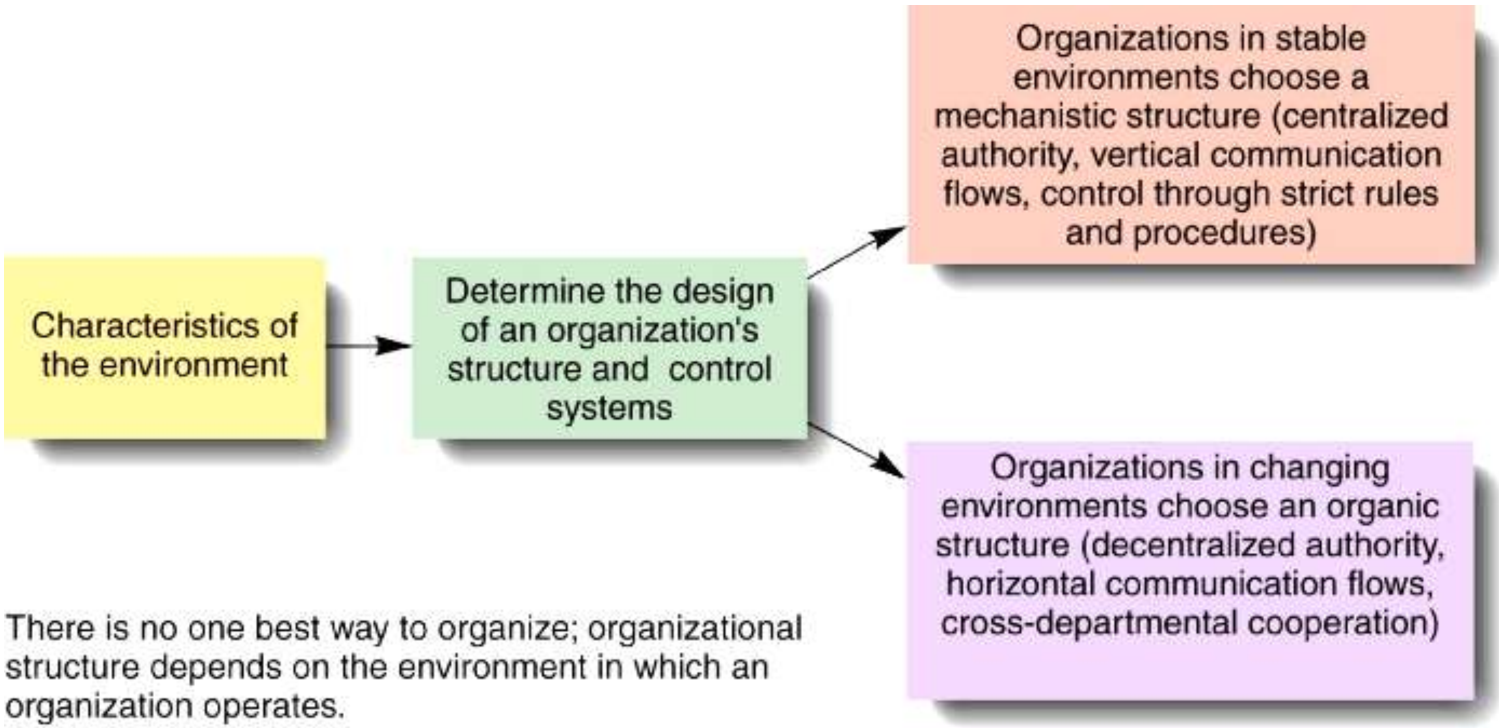
Other System Considerations

- Closed system
  - ➢A system that is self-contained and thus not affected by changes occurring in its external environment.
  - ➢Often undergoes entropy and loses its ability to control itself, and fails.
- Synergy
  - ➢Performance that results when individuals and departments coordinate their actions
    - Performance gains of the whole surpass the sum of the performance of the individual components.

Contingency Theory

- Contingency Theory
  - ➢The idea that the organizational structures and control systems manager choose depend on—are contingent on—characteristics of the external environment in which the organization operates.
  - ➢Assumes there is no one best way to manage.
    - The environment impacts the firm and managers must be flexible to react to environmental changes.
  - ➢In rapidly changing organizational environments, managers must find ways to coordinate different departments to respond quickly and effectively.

Contingency Theory of Organizational Design



There is no one best way to organize; organizational structure depends on the environment in which an organization operates.

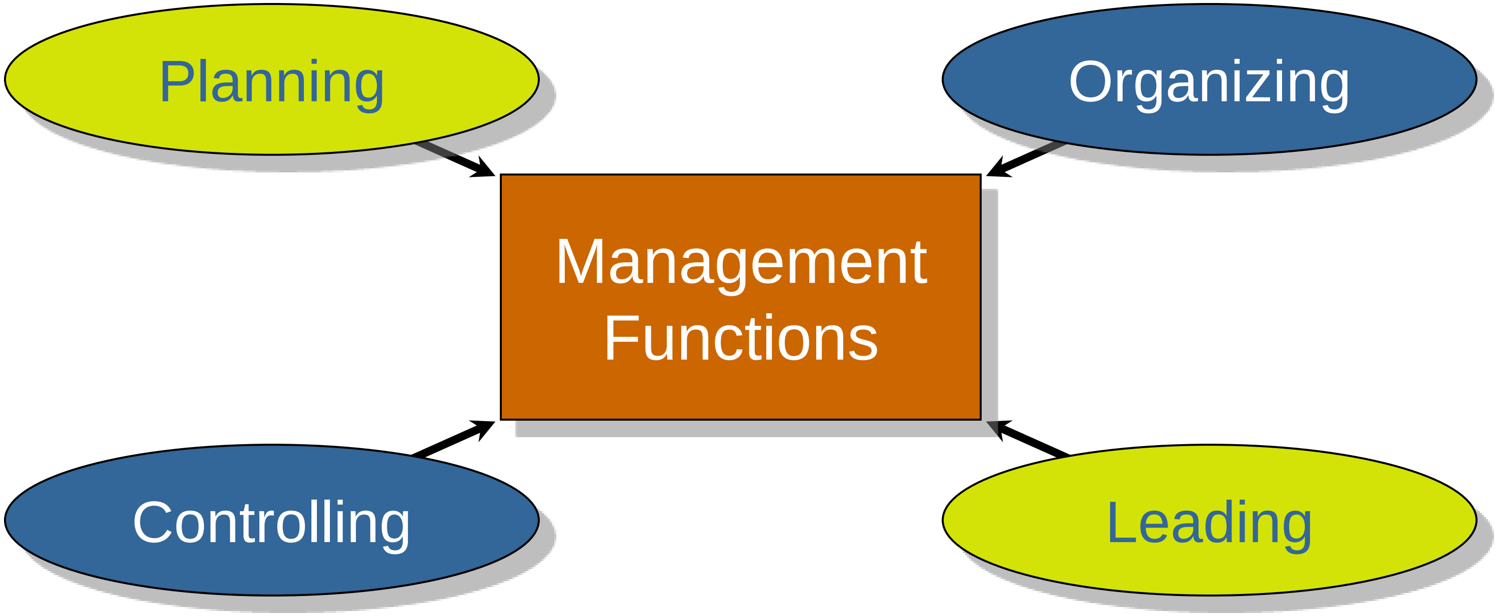
Source:

Figure 2.5

Mechanistic and Organic Structures

- Mechanistic Structure
  - ➢Authority is centralized at the top. (Theory X)
  - ➢Employees are closely monitored and managed.
  - ➢Can be very efficient in a stable environment.
- Organic structure
  - ➢Authority is decentralized throughout the organization. (Theory Y)
  - ➢Tasks and roles are left ambiguous to encourage employees to react quickly to changing environment.

Management Functions



Management Functions (cont’d)

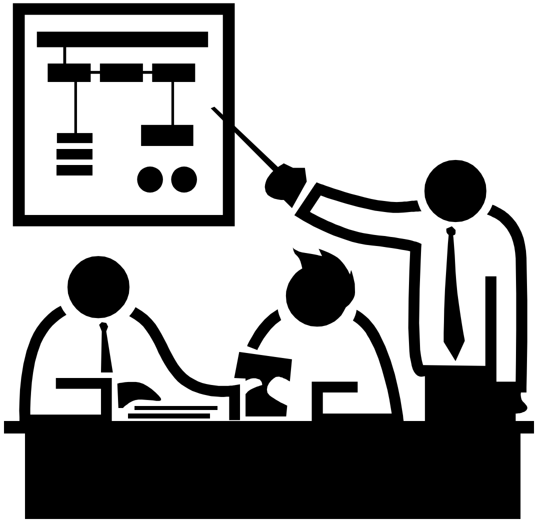
Planning

A process that includes defining goals, establishing strategy, and developing plans to coordinate activities

Management Functions (cont'd)

Organizing

Determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made



Management Functions (cont’d)

Leading

A function that includes motivating employees, directing others, selecting the most effective communication channels, and resolving conflicts

Management Functions (cont'd)

Controlling

Monitoring activities to ensure they are being accomplished as planned and correcting any significant deviations

Contemporary
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Second Edition

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1

Managers and Managing

Management Key Concepts

- ***Organizations:*** People working together and coordinating their actions to achieve specific goals.
- ***Goal:*** A desired future condition that the organization seeks to achieve.
- ***Management:*** The process of using organizational resources to achieve the organization's goals by...
  - *Planning, Organizing, Leading, and Controlling*

Additional Key Concepts

- **Resources are organizational assets and include:**
  - People,
  - Machinery,
  - Raw materials,
  - Information, skills,
  - Financial capital.
- **Managers are the people responsible for supervising the use of an organization's resources to meet its goals.**

Achieving High Performance

- **Organizations must provide a good or service desired by its customers.**
  - David Johnson of Campbell Soup manages his firm to provide quality food products.
  - Physicians, nurses and health care administrators seek to provide healing from sickness.
  - McDonald's restaurants provide burgers, fries and shakes that people want to buy.

Organizational Performance

- Measures how efficiently and effectively managers use resources to satisfy customers and achieve goals.
  - ***Efficiency*: A measure of how well resources are used to achieve a goal.**
    - Usually, managers must try to minimize the input of resources to attain the same goal.
  - ***Effectiveness*: A measure of the appropriateness of the goals chosen (are these the right goals?), and the degree to which they are achieved.**
    - Organizations are more effective when managers choose the correct goals and then achieve them.

Managerial Functions

- Henri Fayol was the first to describe the four managerial functions when he was the CEO of a large mining company in the later 1800's.
- Fayol noted managers at all levels, operating in a for profit or not for profit organization, must perform each of the functions of:

  Planning,

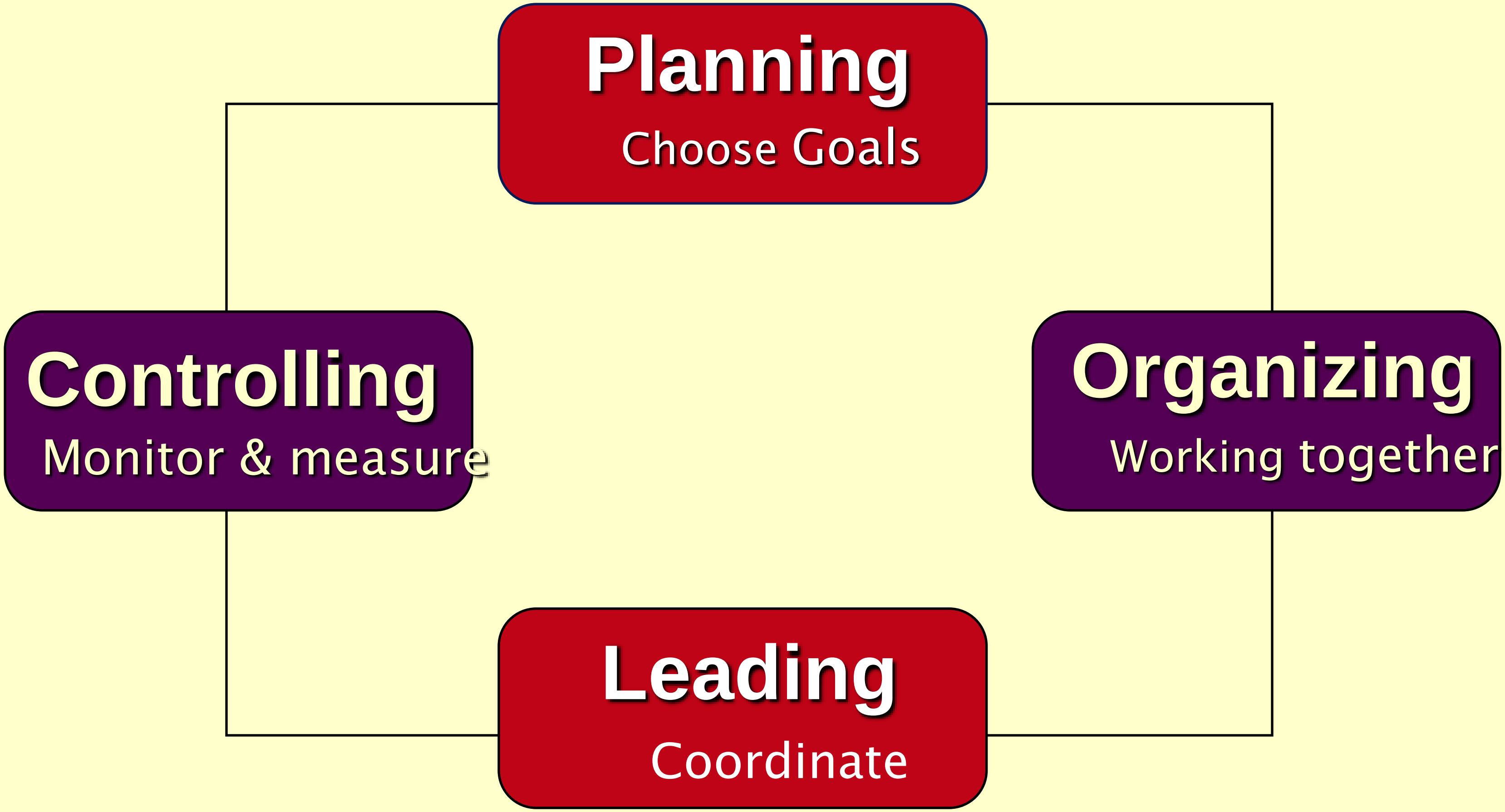
  organizing,

  leading,

  controlling.

Four Functions of Management

Figure 1.2



Planning

Planning is the process used by managers to identify and select appropriate goals and courses of action for an organization.

3 steps to good planning :

1. Which goals should be pursued?
2. How should the goal be attained?
3. How should resources be allocated?

- **The planning function determines how effective and efficient the organization is and determines the strategy of the organization.**

Organizing

- In organizing, managers create the structure of working relationships between organizational members that best allows them to work together and achieve goals.
- Managers will group people into departments according to the tasks performed.
  - Managers will also lay out lines of authority and responsibility for members.
- An *organizational structure* is the outcome of organizing. This structure coordinates and motivates employees so that they work together to achieve goals.

Leading

- In leading, managers determine direction, state a clear vision for employees to follow, and help employees understand the role they play in attaining goals.
- Leadership involves a manager using power, influence, vision, persuasion, and communication skills.
- The outcome of the leading function is a high level of motivation and commitment from employees to the organization.

Controlling

- In controlling, managers evaluate how well the organization is achieving its goals and takes corrective action to improve performance.
- Managers will monitor individuals, departments, and the organization to determine if desired performance has been reached.
  - Managers will also take action to increase performance as required.
- The outcome of the controlling function is the accurate measurement of performance and regulation of efficiency and effectiveness.

Management Levels

- Organizations often have 3 levels of managers:
  - **First-line Managers:** responsible for day-to-day operation. They supervise the people performing the activities required to make the good or service.
  - **Middle Managers:** Supervise first-line managers. They are also responsible to find the best way to use departmental resources to achieve goals.
  - **Top Managers:** Responsible for the performance of *all* departments and have cross-departmental responsibility. They establish organizational goals and monitor middle managers.

Three Levels of Management

Restructuring

- Top Management have sought methods to restructure their organizations and save costs.
- ***Downsizing:*** eliminate jobs at all levels of management.
  - Can lead to higher efficiency.
  - Often results in low morale and customer complaints about service.

Management Trends

- ***Empowerment:*** expand the tasks and responsibilities of workers.
  - Supervisors might be empowered to make some resource allocation decisions.
- ***Self-managed teams:*** give a group of employees responsibility for supervising their own actions.
  - The team can monitor its members and the quality of the work performed.

Managerial Roles

- **Described by Mintzberg**.
  - A role is a set of specific tasks a person performs because of the position they hold.
- **Roles are directed inside as well as outside the organization.**
- **There are 3 broad role categories:**

  1. Interpersonal

  2. Informational

  3. Decisional

Interpersonal Roles

- **Roles managers assume to coordinate and interact with employees and provide direction to the organization.**
  - ***Figurehead role:*** symbolizes the organization and what it is trying to achieve.
  - ***Leader role:*** train, counsel, mentor and encourage high employee performance.
  - ***Liaison role:*** link and coordinate people inside and outside the organization to help achieve goals.

Informational Roles

- **Associated with the tasks needed to obtain and transmit information for management of the organization.**
  - ***Monitor role:*** analyzes information from both the internal and external environment.
  - ***Disseminator role:*** manager transmits information to influence attitudes and behavior of employees.
  - ***Spokesperson role:*** use of information to positively influence the way people in and out of the organization respond to it.

Decisional Roles

- **Associated with the methods managers use to plan strategy and utilize resources to achieve goals.**
  - ***Entrepreneur role:*** deciding upon new projects or programs to initiate and invest.
  - ***Disturbance handler role:*** assume responsibility for handling an unexpected event or crisis.
  - ***Resource allocator role:*** assign resources between functions and divisions, set budgets of lower managers.
  - ***Negotiator role:*** seeks to negotiate solutions between other managers, unions, customers, or shareholders.

Managerial Skills

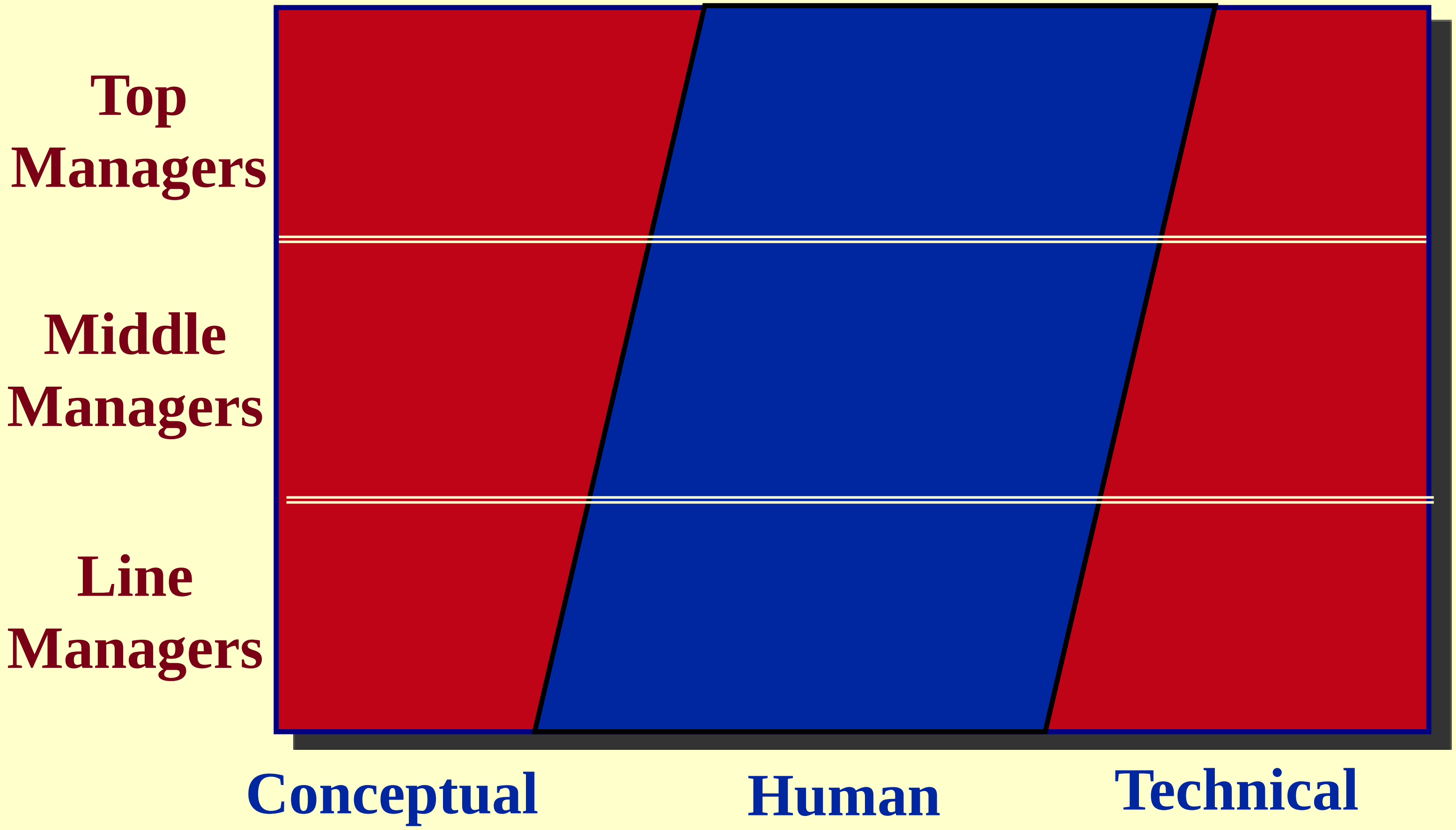
There are three skill sets that managers need to perform effectively.

1. ***Conceptual skills:*** the ability to analyze and diagnose a situation and find the cause and effect.
2. ***Human skills:*** the ability to understand, alter, lead, and control people's behavior.
3. ***Technical skills:*** the job-specific knowledge required to perform a task. Common examples include marketing, accounting, and manufacturing.

All three skills are enhanced through formal training, reading, and practice.

Skill Type Needed by Manager Level

Figure 1.5



Management Challenges

- Increasing number of global organizations.
- Building competitive advantage through superior efficiency, quality, innovation, and responsiveness.
- Increasing performance while remaining ethical managers.
- Managing an increasingly diverse work force.
- Using new technologies.

What Managers Do

Managers (or *Administrators*)

Individuals who achieve goals through other people

Managerial Activities

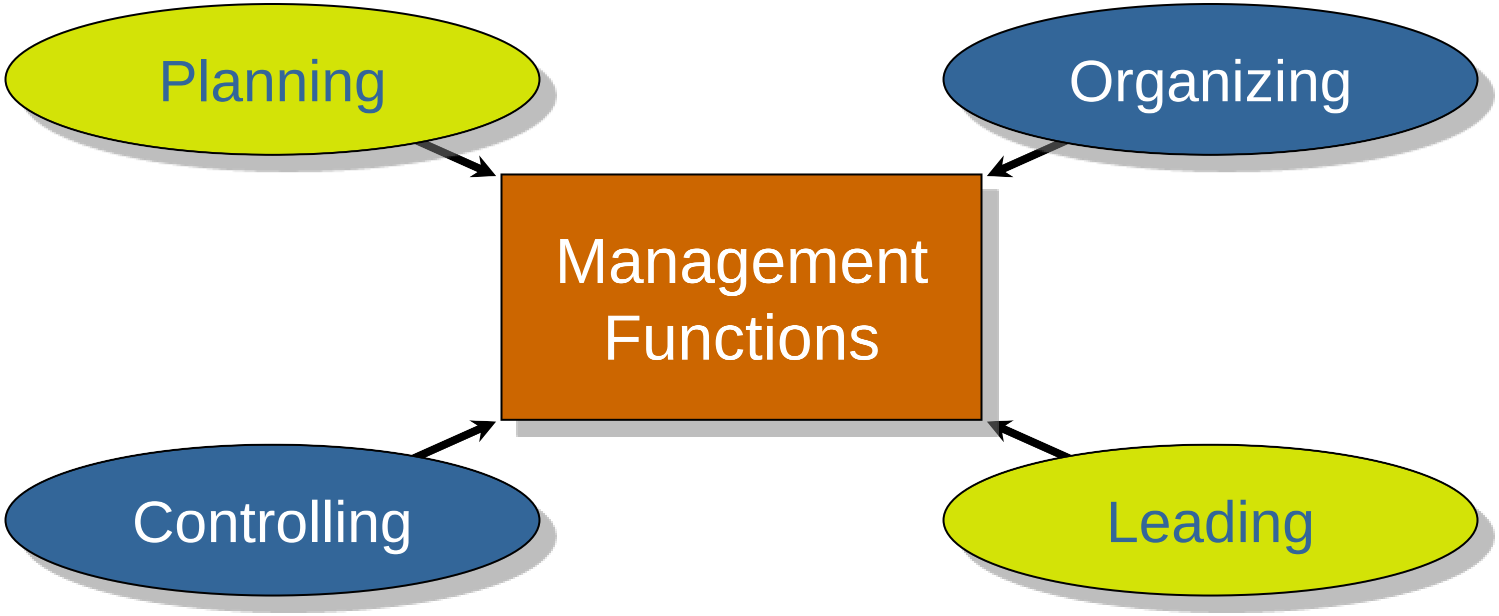
- Make decisions
- Allocate resources
- Direct activities of others to attain goals

Where Managers Work

Organization

A consciously coordinated social unit, composed of two or more people, that functions on a relatively continuous basis to achieve a common goal or set of goals

Management Functions



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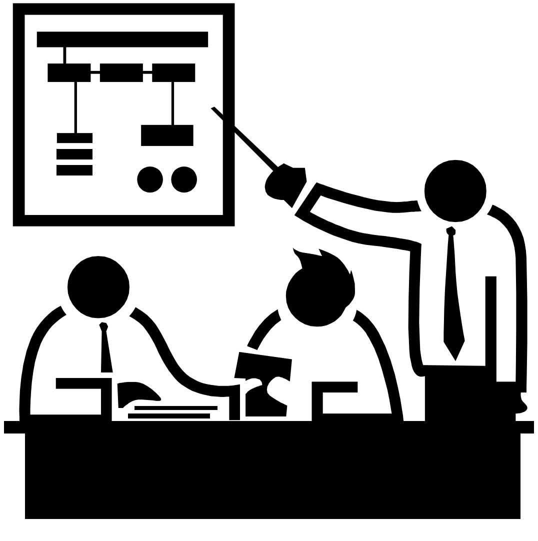

Management Functions (cont'd)

Leading

A function that includes motivating employees, directing others, selecting the most effective communication channels, and resolving conflicts

Management Functions (cont'd)

Controlling

Monitoring activities to ensure they are being accomplished as planned and correcting any significant deviations

Mintzberg's Managerial Roles

Interpersonal	
Figurehead	Symbolic head; required to perform a number of routine duties of a legal or social nature
Leader	Responsible for the motivation and direction of employees
Liaison	Maintains a network of outside contacts who provide favors and information

EXHIBIT 1–1

Mintzberg's Managerial Roles (cont'd)

Informational	
Monitor	Receives wide variety of information; serves as nerve center of internal and external information of the organization
Disseminator	Transmits information received from outsiders or from other employees to members of the organization
Spokesperson	Transmits information to outsiders on organization's plans, policies, actions, and results; serves as expert on organization's industry

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E X H I B I T 1–1 (cont'd)

Mintzberg's Managerial Roles (cont'd)

Decisional	
Entrepreneur	Searches organization and its environment for opportunities and initiates projects to bring about change
Disturbance handler	Responsible for corrective action when organization faces important, unexpected disturbances
Resource allocator	Makes or approves significant organizational decisions
Negotiator	Responsible for representing the organization at major negotiations

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EXHIBIT 1–1 (cont'd)

Management Skills

Technical Skills

The ability to apply specialized knowledge or expertise

Human Skills

The ability to work with, understand, and motivate other people, both individually and in groups

Conceptual Skills

The mental ability to analyze and diagnose complex situations

5

Ethics, Social Responsibility, and Diversity

Ethics and Stakeholders

- ***Stakeholders:*** **people or groups that have an interest in the organization.**
  - Stakeholders include employees, customers, shareholders, suppliers, and others.
  - Stakeholders often want different outcomes and managers must work to satisfy as many as possible.
- ***Ethics:*** **a set of beliefs about right and wrong.**
  - Ethics guide people in dealings with stakeholders and others, to determine appropriate actions.
  - Managers often must choose between the conflicting interest of stakeholders.

Ethics

It is difficult to know when a decision is ethical. Here is a good test:

***Managerial ethics*: If a manager makes a decision falling within usual standards, is willing to personally communicate the decision to stakeholders, and believes friends would approve, then it is likely an ethical decision.**

Ethical Models

Figure 5.2

Ethical Origins

- ***Societal Ethics:*** **standards that members of society use when dealing with each other.**
  - ***Based on values and standards*** found in society's legal rules, norm, and mores.
  - ***Codified in the form of law*** and society customs.
  - Norms dictate how people should behave.
- **Societal ethics vary based on a given society.**
  - Strong beliefs in one country may differ elsewhere.
  - Example: bribes are an accepted business practice in some countries.

Ethical Origins

- ***Professional ethics:*** **values and standards used by groups of managers in the workplace.**
  - Applied when decisions are not clear-cut ethically.
  - Example: physicians and lawyers have professional associations that enforce these.
- ***Individual ethics:*** **values of an individual resulting from their family& upbringing.**
  - If behavior is not illegal, people will often disagree on if it is ethical.
  - Ethics of top managers set the tone for firms.

Ethical Decisions

- **A key ethical issue is how to disperse harm and benefits among stakeholders.**
  - If a firm is very profitable for two years, who should receive the profits? Employees, managers and stockholders all want a share.
  - Should we keep the cash for future slowdowns?

  What is the ethical decision?
- **What about the reverse, when firms must layoff workers.**
- **Final point: stockholders are the legal owners of the firm!**

Ethical Decisions

- **Some other issues managers must consider.**
  - *Should you hold payment to suppliers as long as possible to benefit your firm?*
    - This will harm your supplier who is a stakeholder.
  - *Should you pay severance pay to laid off workers?*
    - This may decrease the stockholder's return.
  - *Should you buy goods from overseas firms that hire children?*
    - If you don't the children might not earn enough money to eat.

Why Behave Ethically?

- **Managers should behave ethically to avoid harming others.**
  - Managers are responsible for protecting and nurturing resources in their charge.
- **Unethical managers run the risk for loss of reputation.**
  - This is a valuable asset to any manager!
  - Reputation is critical to long term management success.
  - All stakeholders are judged by reputation.

Social Responsibility

- ***Social Responsibility:*** **the manager's duty to nurture, protect and enhance the welfare of stakeholders.**

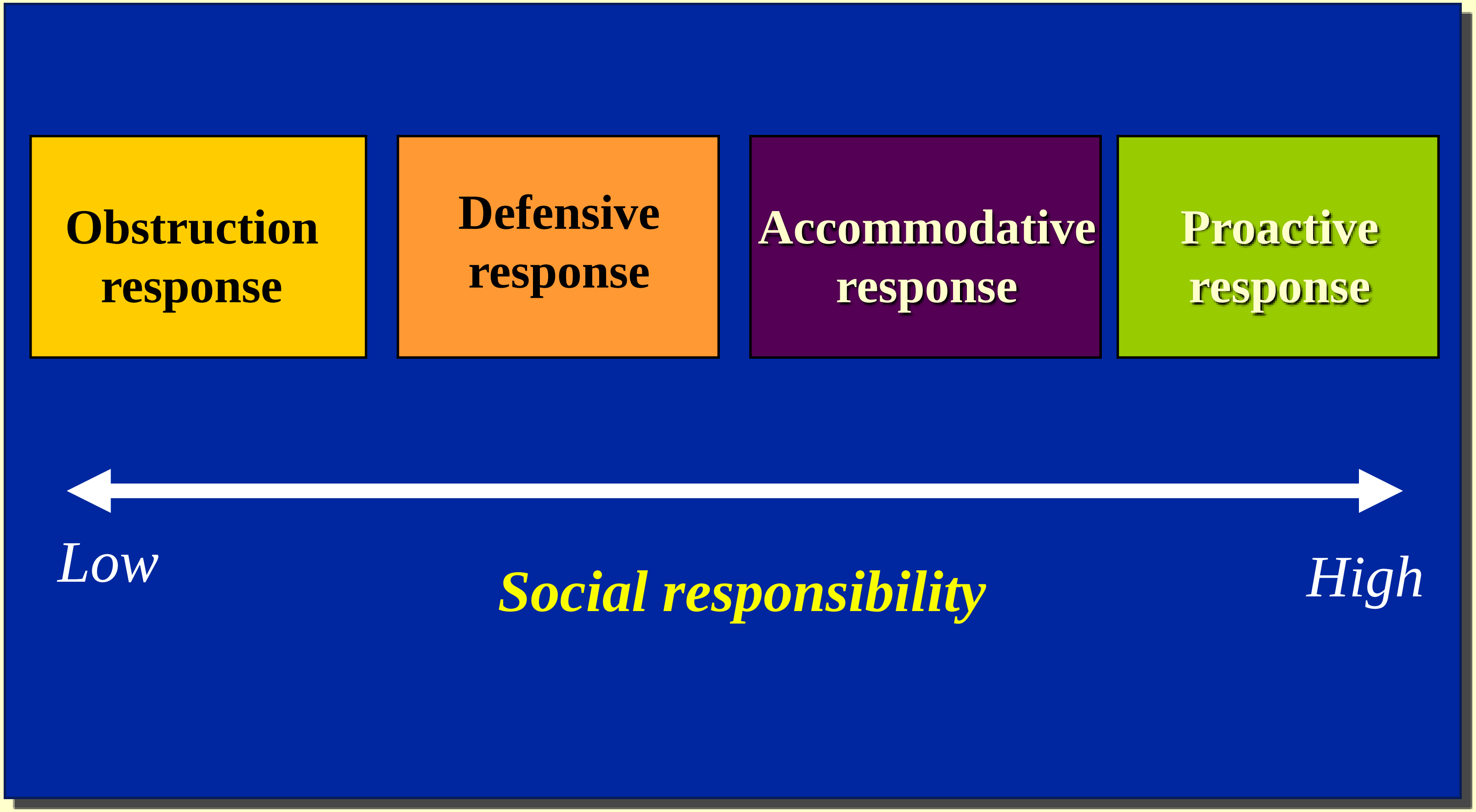
There are many ways managers respond to this duty:

- ***Obstructionist response:*** **managers choose not to be socially responsible.**
  - Managers behave illegally and unethically.
  - They hide and cover-up problems.

- ***Defensive response:*** **managers stay within the law but make no attempt to exercise additional social responsibility.**
  - Put shareholder interest above all other stakeholders.
  - Managers say society should make laws if change is needed.
- ***Accommodative response:*** **managers realize the need for social responsibility.**
  - Try to balance the interests of all stakeholders.
- ***Proactive response:*** **managers actively embrace social responsibility.**
  - Go out of their way to learn about and help stakeholders.

Levels of Responsibility

Figure 5.3



Why be Responsible?

- **Managers accrue benefits by being responsible.**
  - Workers and society benefit.
  - Quality of life in society will improve.
  - It is the right thing to do.
- ***Whistleblowers:*** **a person reporting illegal or unethical acts.**
  - Whistleblowers now protected by law in most cases.
- ***Social audit:*** **managers specifically take ethics and business into account when making decisions.**

The Social Audit

Figure 5.4

Social Returns \ Profitability	Negative	Low	Medium	High
Negative				
Low				
Medium			Favored Strategies	
High				

Promoting Ethics

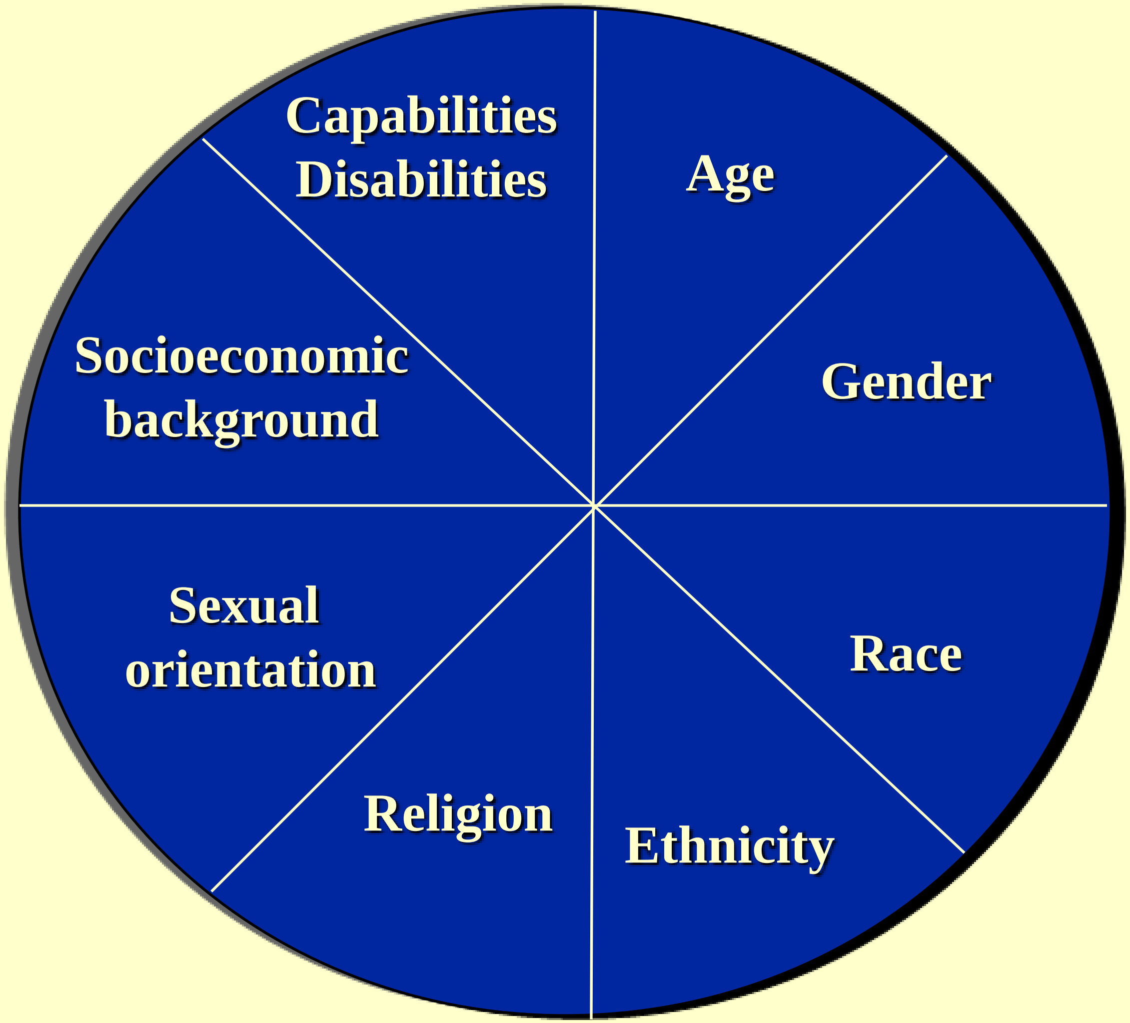
- **There is evidence showing that ethical managers benefit over the long run.**
- ***Ethical Control System:*** **a formal system to encourage ethical management.**
  - Firms appoint an ***ethics ombudsman*** to monitor practices.
  - Ombudsman communicates standards to all employees.
- ***Ethical culture:*** **firms increasingly seek to make good ethics part of the norm and organizational culture.**

Managing Diverse Workforces

- **The workforce has become much more diverse during the last 30 years.**
  - ***Diversity refers to differences*** among people such as age, gender, race, religion.
  - Diversity is an ethical and social responsibility issue.
- **Managers need to give all workers equal opportunities.**
  - Not following this is against the law and unethical.
  - When all have ***equal opportunity***, the organization benefits.

Types of Diversity

Figure 5.5



Manage Diversity

- ***Distributive Justice:*** **dictates members be treated fairly concerning pay raises, promotions, office space and similar issues.**
  - These rewards should be assigned based on merit and performance.
  - A legal requirement that is becoming more prevalent in American business.
- ***Procedural Justice:*** **Managers should use fair practices to determine how to distribute outcomes to members.**
  - This involves how managers appraise worker performance or decide who to layoff.

Diversity Makes Business Sense

- **Diverse employees provide new, different points of view.**
  - Customers are also diverse.
- **Still, some employees may be treated unfairly.**
  - ***Biases:*** systematic tendencies to use information in ways that result in inaccurate perceptions.
  - People often view those like themselves positively and have biases about others.
  - Social status is a type of bias conferred to people of differing social position.
  - ***Stereotypes:*** inaccurate beliefs about a given group.

How to Manage Diversity

- ***Increase diversity awareness:*** **managers need to become aware of their own bias.**
- ***Understand cultural differences*** **and their impact on working styles.**
- ***Practice effective communication*** **with diverse groups.**
- **Be sure** ***top management is committed*** **to diversity.**

Sexual Harassment

- **Damages both the person being harassed and the organization.**
  - Both men and women can be victims.
- ***Quid pro quo harassment:*** **victim is requested to perform sexual favors to keep a job or win promotion.**
- ***Hostile work environment harassment:*** **Some members are faced with a hostile, intimidating work environment.**
  - Lewd jokes, pornographic displays and remarks.

Avoiding Harassment

- **Develop and communicate a *sexual harassment policy*.**
  - Point out that these actions are unacceptable.
- **Set up a *fair complaint system* to investigate allegations.**
  - If there are problems, correct them at once.
- **Provide *harassment training* to employees and managers.**