Management and Organizations

In today's tough and uncertain economy, a company needs strong managers to lead its staff toward accomplishing business goals. But managers are more than just leaders — they're problem solvers, cheerleaders, and planners as well. And managers don't come in one-size-fits-all shapes or forms. Managers fulfill many roles and have many different responsibilities at each level of management within an organization.

Organizations abound in today's society. Groups of individuals constantly join forces to accomplish common goals. Sometimes the goals of these organizations are for profit, such as franchise restaurant chains or clothing retailers. Other times, the goals are more altruistic, such as nonprofit churches or public schools. But no matter what their aims, all these organizations share two things in common: They're made up of people, and certain individuals are in charge of these people.

Enter managers. **Managers** appear in every organization — at least in organizations that want to succeed. These individuals have the sometimes-unenviable task of making decisions, solving difficult problems, setting goals, planning strategies, and rallying individuals. And those are just a few of their responsibilities!

To be exact, managers administer and coordinate resources effectively and efficiently to achieve the goals of an organization. In essence, managers get the job done through other people.

The intricacies of management

No matter what type of organization they work in, managers are generally responsible for a group of individuals' performance. As leaders, managers must encourage this group to reach common business goals, such as bringing a new product to market in a timely fashion. To accomplish these goals, managers not only use their human resources, but they also take advantage of various material resources as well, such as technology.

Think of a team, for example. A manager may be in charge of a certain department whose task it is to develop a new product. The manager needs to coordinate the efforts of his department's team members, as well as give them the material tools they need to accomplish the job well. If the team fails, ultimately it is the manager who shoulders the responsibility.

Levels of management

Two leaders may serve as managers within the same company but have very different titles and purposes. Large organizations, in particular, may break down management into different levels because so many more people need to be managed. Typical management levels fall into the following categories:

- **Top level:** Managers at this level ensure that major performance objectives are established and accomplished. Common job titles for top managers include chief executive officer (CEO), chief operating officer (COO), president, and vice president. These senior managers are considered executives, responsible for the performance of an organization as a whole or for one of its significant parts. When you think of a top-level manager, think of someone like Dave Thomas of the fast-food franchise Wendy's. Although John T. Schuessler was elected CEO in 2000, Dave Thomas was the founder and served as the chairman of the board. He was the well-known spokesperson for the chain, until his death in 2002.
- **Middle level:** Middle managers report to top managers and are in charge of relatively large departments or divisions consisting of several smaller units. Examples of middle managers include clinic directors in hospitals; deans in universities; and division managers, plant managers, and branch sales managers in businesses. Middle managers develop and implement action plans consistent with company objectives, such as increasing market presence.
- **Low level:** The initial management job that most people attain is typically a **first-line management** position, such as a team leader or supervisor — a person in charge of smaller work units composed of hands-on workers. Job titles for these first-line managers vary greatly, but include such designations as department head, group leader, and unit leader. First-line managers ensure that their work teams or units meet performance objectives, such as producing a set number of items at a given quality, that are consistent with the plans of middle and top management.

Functions of Managers

Managers just don't go out and haphazardly perform their responsibilities. Good managers discover how to master five basic functions: planning, organizing, staffing, leading, and controlling.

- **Planning:** This step involves mapping out exactly how to achieve a particular goal. Say, for example, that the organization's goal is to improve company sales. The manager first needs to decide which steps are necessary to accomplish that goal. These steps may include increasing advertising, inventory, and sales staff. These necessary steps are developed into a plan. When the plan is in place, the manager can follow it to accomplish the goal of improving company sales.
- **Organizing:** After a plan is in place, a manager needs to organize her team and materials according to her plan. Assigning work and granting authority are two important elements of organizing.
- **Staffing:** After a manager discerns his area's needs, he may decide to beef up his staffing by recruiting, selecting, training, and developing employees. A manager in a large organization often works with the company's human resources department to accomplish this goal.
- **Leading:** A manager needs to do more than just plan, organize, and staff her team to achieve a goal. She must also lead. Leading involves motivating, communicating, guiding, and encouraging. It requires the manager to coach, assist, and problem solve with employees.
- **Controlling:** After the other elements are in place, a manager's job is not finished. He needs to continuously check results against goals and take any corrective actions necessary to make sure that his area's plans remain on track.

All managers at all levels of every organization perform these functions, but the amount of time a manager spends on each one depends on both the level of management and the specific organization.

Roles performed by managers

A manager wears many hats. Not only is a manager a team leader, but he or she is also a planner, organizer, cheerleader, coach, problem solver, and decision maker — all rolled into one. And these are just a few of a manager's roles.

In addition, managers' schedules are usually jam-packed. Whether they're busy with employee meetings, unexpected problems, or strategy sessions, managers often find little spare time on their calendars. (And that doesn't even include responding to e-mail!)

In his classic book, *The Nature of Managerial Work,* Henry Mintzberg describes a set of ten roles that a manager fills. These roles fall into three categories:

- **Interpersonal:** This role involves human interaction.
- **Informational:** This role involves the sharing and analyzing of information.
- **Decisional:** This role involves decision making.

Table 1 contains a more in-depth look at each category of roles that help managers carry out all five functions described in the preceding "Functions of Managers" section.

TABLE 1Mintzberg's Set of Ten Roles

Category	Role	Activity
Informational	Monitor	Seek and receive information; scan periodicals and reports; maintain personal contact with stakeholders.
	Disseminator	Forward information to organization members via memos, reports, and phone calls.
	Spokesperson	Transmit information to outsiders via reports, memos, and speeches.
Interpersonal	Figurehead	Perform ceremonial and symbolic duties, such as greeting visitors and signing legal documents.
	Leader	Direct and motivate subordinates; counsel and communicate with subordinates.
	Liaison	Maintain information links both inside and outside organization via mail, phone calls, and meetings.
Decisional	Entrepreneur	Initiate improvement projects; identify new ideas and delegate idea responsibility to others.
	Disturbance handler	Take corrective action during disputes or crises; resolve conflicts among subordinates; adapt to environments.
	Resource allocator	Decide who gets resources; prepare budgets; set schedules and determine priorities.
	Negotiator	Represent department during negotiations of union contracts, sales, purchases, and budgets.

Skills needed by managers

Not everyone can be a manager. Certain **skills,** or abilities to translate knowledge into action that results in desired performance, are required to help other employees become more productive. These skills fall under the following categories:

- **Technical:** This skill requires the ability to use a special proficiency or expertise to perform particular tasks. Accountants, engineers, market researchers, and computer scientists, as examples, possess technical skills. Managers acquire these skills initially through formal education and then further develop them through training and job experience. Technical skills are most important at lower levels of management.
- **Human:** This skill demonstrates the ability to work well in cooperation with others. Human skills emerge in the workplace as a spirit of trust, enthusiasm, and genuine involvement in interpersonal relationships. A manager with good human skills has a high degree of self-awareness and a capacity to understand or empathize with the feelings of others. Some managers are naturally born with great human skills, while others improve their skills through classes or experience. No matter how human skills are acquired, they're critical for all managers because of the highly interpersonal nature of managerial work.
- **Conceptual:** This skill calls for the ability to think analytically. Analytical skills enable managers to break down problems into smaller parts, to see the relations among the parts, and to recognize the implications of any one problem for others. As managers assume ever-higher responsibilities in organizations, they must deal with more ambiguous problems that have long-term consequences. Again, managers may acquire these skills initially through formal education and then further develop them by training and job experience. The higher the management level, the more important conceptual skills become.

Although all three categories contain skills essential for managers, their relative importance tends to vary by level of managerial responsibility.

Business and management educators are increasingly interested in helping people acquire technical, human, and conceptual skills, and develop specific competencies, or specialized skills, that contribute to high performance in a management job. Following are some of the skills and personal characteristics that the American Assembly of Collegiate Schools of Business (AACSB) is urging business schools to help their students develop.

- **Leadership** — ability to influence others to perform tasks
- **Self-objectivity** — ability to evaluate yourself realistically
- **Analytic thinking** — ability to interpret and explain patterns in information

- **Behavioral flexibility** — ability to modify personal behavior to react objectively rather than subjectively to accomplish organizational goals
- **Oral communication** — ability to express ideas clearly in words
- **Written communication** — ability to express ideas clearly in writing
- **Personal impact** — ability to create a good impression and instill confidence
- **Resistance to stress** — ability to perform under stressful conditions
- **Tolerance for uncertainty** — ability to perform in ambiguous situations

EVOLUTION OF MANAGEMENT

Classical Schools of Management

One of the first schools of management thought, the **classical management theory,** developed during the Industrial Revolution when new problems related to the factory system began to appear. Managers were unsure of how to train employees (many of them non-English speaking immigrants) or deal with increased labor dissatisfaction, so they began to test solutions. As a result, the classical management theory developed from efforts to find the "one best way" to perform and manage tasks. This school of thought is made up of two branches: classical scientific and classical administrative, described in the following sections.

Classical scientific school

The **classical scientific branch** arose because of the need to increase productivity and efficiency. The emphasis was on trying to find the best way to get the most work done by examining how the work process was actually accomplished and by scrutinizing the skills of the workforce.

The classical scientific school owes its roots to several major contributors, including Frederick Taylor, Henry Gantt, and Frank and Lillian Gilbreth.

Frederick Taylor is often called the "father of scientific management." Taylor believed that organizations should study tasks and develop precise procedures. As an example, in 1898, Taylor calculated how much iron from rail cars Bethlehem Steel plant workers could be unloading if they were using the correct movements, tools, and steps. The result was an amazing 47.5 tons per day instead of the mere 12.5 tons each worker had been averaging. In addition, by redesigning the shovels the workers used, Taylor was able to increase the length of work time and therefore decrease the number of people shoveling from 500 to 140. Lastly, he developed an incentive system that paid workers more money for meeting the new standard. Productivity at Bethlehem Steel shot up overnight. As a result, many theorists followed Taylor's philosophy when developing their own principles of management.

Henry Gantt, an associate of Taylor's, developed the Gantt chart, a bar graph that measures planned and completed work along each stage of production. Based on time instead of quantity, volume, or weight, this visual display chart has been a widely used planning and control tool since its development in 1910.

Frank and Lillian Gilbreth, a husband-and-wife team, studied job motions. In Frank's early career as an apprentice bricklayer, he was interested in standardization and method study. He watched bricklayers and saw that some workers were slow and inefficient, while others were very productive. He discovered that each bricklayer used a different set of motions to lay bricks. From his observations, Frank isolated the basic movements necessary to do the job and eliminated unnecessary motions. Workers using these movements raised their output from 1,000 to 2,700 bricks per day. This was the first **motion study** designed to isolate the best possible method of performing a given job. Later, Frank and his wife Lillian studied job motions using a motion-picture camera and a split-second clock. When her husband died at the age of 56, Lillian continued their work.

Thanks to these contributors and others, the basic ideas regarding scientific management developed. They include the following:

- Developing new standard methods for doing each job
- Selecting, training, and developing workers instead of allowing them to choose their own tasks and train themselves
- Developing a spirit of cooperation between workers and management to ensure that work is carried out in accordance with devised procedures
- Dividing work between workers and management in almost equal shares, with each group taking over the work for which it is best fitted

Classical administrative school

Whereas scientific management focused on the productivity of individuals, the classical administrative approach concentrates on the total organization. The emphasis is on the development of managerial principles rather than work methods.

Contributors to this school of thought include Max Weber, Henri Fayol, Mary Parker Follett, and Chester I. Barnard. These theorists studied the flow of information within an organization and emphasized the importance of understanding how an organization operated.

In the late 1800s, **Max Weber** disliked that many European organizations were managed on a "personal" family-like basis and that employees were loyal to individual supervisors rather than to the organization. He believed that organizations should be managed impersonally and that a formal organizational structure, where specific rules were followed, was important. In other words, he didn't think that authority should be based on a person's personality. He thought authority should be something that was part of a person's job and passed from individual to individual as one person left and another took over. This nonpersonal, objective form of organization was called a **bureaucracy.**

Weber believed that all bureaucracies have the following characteristics:

- **A well-defined hierarchy.** All positions within a bureaucracy are structured in a way that permits the higher positions to supervise and control the lower positions. This clear chain of command facilitates control and order throughout the organization.
- **Division of labor and specialization.** All responsibilities in an organization are specialized so that each employee has the necessary expertise to do a particular task.
- **Rules and regulations.** Standard operating procedures govern all organizational activities to provide certainty and facilitate coordination.
- **Impersonal relationships between managers and employees.** Managers should maintain an impersonal relationship with employees so that favoritism and personal prejudice do not influence decisions.
- **Competence.** Competence, not "who you know," should be the basis for all decisions made in hiring, job assignments, and promotions in order to foster ability and merit as the primary characteristics of a bureaucratic organization.

- **Records.** A bureaucracy needs to maintain complete files regarding all its activities.

Henri Fayol, a French mining engineer, developed 14 principles of management based on his management experiences. These principles provide modern-day managers with general guidelines on how a supervisor should organize her department and manage her staff. Although later research has created controversy over many of the following principles, they are still widely used in management theories.

- **Division of work:** Division of work and specialization produces more and better work with the same effort.
- **Authority and responsibility:** Authority is the right to give orders and the power to exact obedience. A manager has official authority because of her position, as well as personal authority based on individual personality, intelligence, and experience. Authority creates responsibility.
- **Discipline:** Obedience and respect within an organization are absolutely essential. Good discipline requires managers to apply sanctions whenever violations become apparent.
- **Unity of command:** An employee should receive orders from only one superior.
- **Unity of direction:** Organizational activities must have one central authority and one plan of action.
- **Subordination of individual interest to general interest:** The interests of one employee or group of employees are subordinate to the interests and goals of the organization.
- **Remuneration of personnel:** Salaries — the price of services rendered by employees — should be fair and provide satisfaction both to the employee and employer.
- **Centralization:** The objective of centralization is the best utilization of personnel. The degree of centralization varies according to the dynamics of each organization.
- **Scalar chain:** A chain of authority exists from the highest organizational authority to the lowest ranks.

- **Order:** Organizational order for materials and personnel is essential. The right materials and the right employees are necessary for each organizational function and activity.
- **Equity:** In organizations, equity is a combination of kindliness and justice. Both equity and equality of treatment should be considered when dealing with employees.
- **Stability of tenure of personnel:** To attain the maximum productivity of personnel, a stable work force is needed.
- **Initiative:** Thinking out a plan and ensuring its success is an extremely strong motivator. Zeal, energy, and initiative are desired at all levels of the organizational ladder.
- **Esprit de corps:** Teamwork is fundamentally important to an organization. Work teams and extensive face-to-face verbal communication encourages teamwork.

Mary Parker Follett stressed the importance of an organization establishing common goals for its employees. However, she also began to think somewhat differently than the other theorists of her day, discarding command-style hierarchical organizations where employees were treated like robots. She began to talk about such things as ethics, power, and leadership. She encouraged managers to allow employees to participate in decision making. She stressed the importance of people rather than techniques — a concept very much before her time. As a result, she was a pioneer and often not taken seriously by management scholars of her time. But times change, and innovative ideas from the past suddenly take on new meanings. Much of what managers do today is based on the fundamentals that Follett established more than 80 years ago.

Chester Barnard, who was president of New Jersey Bell Telephone Company, introduced the idea of the **informal organization** — *cliques* (exclusive groups of people) that naturally form within a company. He felt that these informal organizations provided necessary and vital communication functions for the overall organization and that they could help the organization accomplish its goals.

Barnard felt that it was particularly important for managers to develop a sense of common purpose where a willingness to cooperate is strongly encouraged. He is credited with developing the **acceptance theory of management,** which emphasizes the willingness of employees to accept that managers have legitimate authority to act. Barnard felt that four factors affected the willingness of employees to accept authority:

- The employees must understand the communication.
- The employees accept the communication as being consistent with the organization's purposes.
- The employees feel that their actions will be consistent with the needs and desires of the other employees.
- The employees feel that they are mentally and physically able to carry out the order.

Barnard's sympathy for and understanding of employee needs positioned him as a bridge to the behavioral school of management, the next school of thought to emerge.

Behavioral Management Theory

As management research continued in the 20th century, questions began to come up regarding the interactions and motivations of the individual within organizations. Management principles developed during the classical period were simply not useful in dealing with many management situations and could not explain the behavior of individual employees. In short, classical theory ignored employee motivation and behavior. As a result, the behavioral school was a natural outgrowth of this revolutionary management experiment.

The **behavioral management theory** is often called the human relations movement because it addresses the human dimension of work. Behavioral theorists believed that a better understanding of human behavior at work, such as motivation, conflict, expectations, and group dynamics, improved productivity.

The theorists who contributed to this school viewed employees as individuals, resources, and assets to be developed and worked with — not as machines, as in the past. Several individuals and experiments contributed to this theory.

Elton Mayo's contributions came as part of the *Hawthorne studies,* a series of experiments that rigorously applied classical management theory only to reveal its shortcomings. The Hawthorne experiments consisted of two studies conducted at the

Hawthorne Works of the Western Electric Company in Chicago from 1924 to 1932. The first study was conducted by a group of engineers seeking to determine the relationship of lighting levels to worker productivity. Surprisingly enough, they discovered that worker productivity increased as the lighting levels decreased — that is, until the employees were unable to see what they were doing, after which performance naturally declined.

A few years later, a second group of experiments began. Harvard researchers Mayo and F. J. Roethlisberger supervised a group of five women in a bank wiring room. They gave the women special privileges, such as the right to leave their workstations without permission, take rest periods, enjoy free lunches, and have variations in pay levels and workdays. This experiment also resulted in significantly increased rates of productivity.

In this case, Mayo and Roethlisberger concluded that the increase in productivity resulted from the supervisory arrangement rather than the changes in lighting or other associated worker benefits. Because the experimenters became the primary supervisors of the employees, the intense interest they displayed for the workers was the basis for the increased motivation and resulting productivity. Essentially, the experimenters became a part of the study and influenced its outcome. This is the origin of the term *Hawthorne effect,* which describes the special attention researchers give to a study's subjects and the impact that attention has on the study's findings.

The general conclusion from the Hawthorne studies was that human relations and the social needs of workers are crucial aspects of business management. This principle of human motivation helped revolutionize theories and practices of management.

Abraham Maslow, a practicing psychologist, developed one of the most widely recognized **need theories,** a theory of motivation based upon a consideration of human needs . His theory of human needs had three assumptions:

- Human needs are never completely satisfied.
- Human behavior is purposeful and is motivated by the need for satisfaction.
- Needs can be classified according to a hierarchical structure of importance, from the lowest to highest.

Maslow broke down the needs hierarchy into five specific areas:

- **Physiological needs.** Maslow grouped all physical needs necessary for maintaining basic human well-being, such as food and drink, into this category. After the need is satisfied, however, it is no longer is a motivator.
- **Safety needs.** These needs include the need for basic security, stability, protection, and freedom from fear. A normal state exists for an individual to have all these needs generally satisfied. Otherwise, they become primary motivators.
- **Belonging and love needs.** After the physical and safety needs are satisfied and are no longer motivators, the need for belonging and love emerges as a primary motivator. The individual strives to establish meaningful relationships with significant others.
- **Esteem needs.** An individual must develop self-confidence and wants to achieve status, reputation, fame, and glory.
- **Self-actualization needs.** Assuming that all the previous needs in the hierarchy are satisfied, an individual feels a need to find himself.

Maslow's hierarchy of needs theory helped managers visualize employee motivation.

Douglas McGregor was heavily influenced by both the Hawthorne studies and Maslow. He believed that two basic kinds of managers exist. One type, the Theory X manager, has a negative view of employees and assumes that they are lazy, untrustworthy, and incapable of assuming responsibility. On the other hand, the Theory Y manager assumes that employees are not only trustworthy and capable of assuming responsibility, but also have high levels of motivation.

An important aspect of McGregor's idea was his belief that managers who hold either set of assumptions can create **self-fulfilling prophecies** — that through their behavior, these managers create situations where subordinates act in ways that confirm the manager's original expectations.

As a group, these theorists discovered that people worked for inner satisfaction and not materialistic rewards, shifting the focus to the role of individuals in an organization's performance.

Quantitative School of Management

During World War II, mathematicians, physicists, and other scientists joined together to solve military problems. The quantitative school of management is a result of the research conducted during World War II. The **quantitative approach** to management involves the use of quantitative techniques, such as statistics, information models, and computer simulations, to improve decision making. This school consists of several branches, described in the following sections.

Management science

The management science school emerged to treat the problems associated with global warfare. Today, this view encourages managers to use mathematics, statistics, and other quantitative techniques to make management decisions.

Managers can use computer models to figure out the best way to do something — saving both money and time. Managers use several science applications.

- Mathematical forecasting helps make projections that are useful in the planning process.
- Inventory modeling helps control inventories by mathematically establishing how and when to order a product.
- Queuing theory helps allocate service personnel or workstations to minimize customer waiting and service cost.

Operations management

Operations management is a narrow branch of the quantitative approach to management. It focuses on managing the process of transforming materials, labor, and capital into useful goods and/or services. The product outputs can be either goods or services; effective operations management is a concern for both manufacturing and service organizations. The resource inputs, or factors of production, include the wide variety of raw materials, technologies, capital information, and people needed to create finished products. The transformation process, in turn, is the actual set of operations or activities through which various resources are utilized to produce finished goods or services of value to customers or clients.

Operations management today pays close attention to the demands of quality, customer service, and competition. The process begins with attention to the needs of customers: What do they want? Where do they want it? When do they want it? Based on the answers to these questions, managers line up resources and take any action necessary to meet customer expectations.

Management information systems

Management information systems (MIS) is the most recent subfield of the quantitative school. A management information system organizes past, present, and projected data from both internal and external sources and processes it into usable information, which it then makes available to managers at all organizational levels. The information systems are also able to organize data into usable and accessible formats. As a result, managers can identify alternatives quickly, evaluate alternatives by using a spreadsheet program, pose a series of "what-if" questions, and finally, select the best alternatives based on the answers to these questions.

Systems management theory

The **systems management theory** has had a significant effect on management science. A system is an interrelated set of elements functioning as a whole. An organization as a system is composed of four elements:

- **Inputs** — material or human resources
- **Transformation processes** — technological and managerial processes
- **Outputs** — products or services
- **Feedback** — reactions from the environment

In relationship to an organization, *inputs* include resources such as raw materials, money, technologies, and people. These inputs go through a transformation process where they're planned, organized, motivated, and controlled to ultimately meet the organization's goals. The *outputs* are the products or services designed to enhance the quality of life or productivity for customers/clients. Feedback includes comments from customers or clients using the products. This overall systems framework applies to any department or program in the overall organization.

Systems theory may seem quite basic. Yet decades of management training and practices in the workplace have not followed this theory. Only recently, with tremendous changes facing organizations and how they operate, have educators and managers come to face this new way of looking at things. This interpretation has brought about a significant change in the way management studies and approaches organizations.

The systems theory encourages managers to look at the organization from a broader perspective. Managers are beginning to recognize the various parts of the organization, and, in particular, the interrelations of the parts.

BUSINESS ENVIRONMENT

A manager's environment is made up of constantly changing factors — both external and internal — that affect the operation of the organization. If a new competitor appears in the marketplace, the managerial environment is affected. If key clients take their business elsewhere, managers feel the impact. And if technological advances date an organization's current methods of doing business, once again, the managerial environment has to adapt.

Although managers can't always control their environments, they need to be aware of any changes that occur, because changes ultimately affect their daily decisions and actions. For example, in the airline industry, deregulation opened up the market to new airlines, forcing existing airlines to be more competitive. Managers in existing airlines couldn't afford to ignore the cheaper airfares and increased service that resulted. Not only did managers have to identify the new challenge, but they also had to act quickly and efficiently to remain competitive.

The External Environment

All outside factors that may affect an organization make up the external environment **.** The external environment is divided into two parts:

- **Directly interactive:** This environment has an immediate and firsthand impact upon the organization. A new competitor entering the market is an example.
- **Indirectly interactive:** This environment has a secondary and more distant effect upon the organization. New legislation taking effect may have a great impact. For example, complying with the Americans with Disabilities Act requires employers to update their facilities to accommodate those with disabilities.

Directly interactive forces

Directly interactive forces include owners, customers, suppliers, competitors, employees, and employee unions. Management has a responsibility to each of these groups. Here are some examples:

- **Owners** expect managers to watch over their interests and provide a return on investments.
- **Customers** demand satisfaction with the products and services they purchase and use.
- **Suppliers** require attentive communication, payment, and a strong working relationship to provide needed resources.
- **Competitors** present challenges as they vie for customers in a marketplace with similar products or services.
- **Employees and employee unions** provide both the people to do the jobs and the representation of work force concerns to management.

Indirectly interactive forces

The second type of external environment is the *indirectly interactive* forces. These forces include sociocultural, political and legal, technological, economic, and global influences. Indirectly interactive forces may impact one organization more than another simply because of the nature of a particular business. For example, a company that relies heavily on technology will be more affected by software updates than a company that uses just one computer. Although somewhat removed, indirect forces are still important to the interactive nature of an organization.

The *sociocultural* dimension is especially important because it determines the goods, services, and standards that society values. The sociocultural force includes the demographics and values of a particular customer base.

- **Demographics** are measures of the various characteristics of the people and social groups who make up a society. Age, gender, and income are examples of commonly used demographic characteristics.
- **Values** refer to certain beliefs that people have about different forms of behavior or products. Changes in how a society values an item or a behavior can greatly affect a business. (Think of all the fads that have come and gone!)

The *political and legal dimensions* of the external environment include regulatory parameters within which an organization must operate. Political parties create or influence laws, and business owners must abide by these laws. Tax policies, trade regulations, and minimum wage legislation are just a few examples of political and legal issues that may affect the way an organization operates.

The *technological dimension* of the external environment impacts the scientific processes used in changing inputs (resources, labor, money) to outputs (goods and services). The success of many organizations depends on how well they identify and respond to external technological changes.

For example, one of the most significant technological dimensions of the last several decades has been the increasing availability and affordability of management information systems (also known as MIS). Through these systems, managers have access to information that can improve the way they operate and manage their businesses.

The *economic dimension* reflects worldwide financial conditions. Certain economic conditions of special concern to organizations include interest rates, inflation, unemployment rates, gross national product, and the value of the U.S. dollar against other currencies.

A favorable economic climate generally represents opportunities for growth in many industries, such as sales of clothing, jewelry, and new cars. But some businesses traditionally benefit in poor economic conditions. The alcoholic beverage industry, for example, traditionally fares well during times of economic downturn.

The *global dimension* of the environment refers to factors in other countries that affect U.S. organizations. Although the basic management functions of planning, organizing, staffing, leading, and controlling are the same whether a company operates domestically or internationally, managers encounter difficulties and risks on an international scale. Whether it be unfamiliarity with language or customs or a problem within the country itself (think mad cow disease), managers encounter global risks that they probably wouldn't have encountered if they had stayed on their own shores.

The Internal Environment

An organization's *internal environment* is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior. Although some elements affect the organization as a whole, others affect only the manager. A manager's philosophical or leadership style directly impacts employees. Traditional managers give explicit instructions to employees, while progressive managers empower employees to make many of their own decisions. Changes in philosophy and/or leadership style are under the control of the manager. The following sections describe some of the elements that make up the internal environment.

Organizational mission statements

An organization's **mission statement** describes what the organization stands for and why it exists. It explains the overall purpose of the organization and includes the attributes that distinguish it from other organizations of its type.

A mission statement should be more than words on a piece of paper; it should reveal a company's philosophy, as well as its purpose. This declaration should be a living, breathing document that provides information and inspiration for the members of the organization. A mission statement should answer the questions, "What are our values?" and "What do we stand for?" This statement provides focus for an organization by rallying its members to work together to achieve its common goals.

But not all mission statements are effective in America's businesses. Effective mission statements lead to effective efforts. In today's quality-conscious and highly competitive environments, an effective mission statement's purpose is centered on serving the needs of customers. A good mission statement is precise in identifying the following intents of a company:

- **Customers** — who will be served
- **Products/services** — what will be produced
- **Location** — where the products/services will be produced
- **Philosophy** — what ideology will be followed

Company policies

Company policies are guidelines that govern how certain organizational situations are addressed. Just as colleges maintain policies about admittance, grade appeals, prerequisites, and waivers, companies establish policies to provide guidance to managers who must make decisions about circumstances that occur frequently within their organization. Company policies are an indication of an organization's personality and should coincide with its mission statement.

Formal structures

The **formal structure** of an organization is the hierarchical arrangement of tasks and people. This structure determines how information flows within the organization, which departments are responsible for which activities, and where the decision-making power rests.

Some organizations use a chart to simplify the breakdown of its formal structure. This **organizational chart** is a pictorial display of the official lines of authority and communication within an organization.

Organizational cultures

The **organizational culture** is an organization's personality. Just as each person has a distinct personality, so does each organization. The culture of an organization distinguishes it from others and shapes the actions of its members.

Four main components make up an organization's culture:

- Values
- Heroes
- Rites and rituals
- Social network

Values are the basic beliefs that define employees' successes in an organization. For example, many universities place high values on professors being published. If a faculty member is published in a professional journal, for example, his or her chances of receiving tenure may be enhanced. The university wants to ensure that a published professor stays with the university for the duration of his or her academic career — and this professor's ability to write for publications is a value.

The second component is heroes. A *hero* is an exemplary person who reflects the image, attitudes, or values of the organization and serves as a role model to other employees. A hero is sometimes the founder of the organization (think Sam Walton of Wal-Mart). However, the hero of a company doesn't have to be the founder; it can be an everyday worker, such as hard-working paralegal Erin Brockovich, who had a tremendous impact on the organization.

Rites and rituals, the third component, are routines or ceremonies that the company uses to recognize high-performing employees. Awards banquets, company gatherings, and quarterly meetings can acknowledge distinguished employees for outstanding service. The honorees are meant to exemplify and inspire all employees of the company during the rest of the year.

The final component, the *social network,* is the informal means of communication within an organization. This network, sometimes referred to as the company grapevine, carries the stories of both heroes and those who have failed. It is through this network that employees really learn about the organization's culture and values.

Organizational climates

A byproduct of the company's culture is the **organizational climate.** The overall tone of the workplace and the morale of its workers are elements of daily climate. Worker attitudes dictate the positive or negative “atmosphere” of the workplace. The daily relationships and interactions of employees are indicative of an organization's climate.

Resources

Resources are the people, information, facilities, infrastructure, machinery, equipment, supplies, and finances at an organization's disposal. People are the paramount resource of all organizations. Information, facilities, machinery equipment, materials, supplies, and finances are supporting, nonhuman resources that complement workers in their quests to accomplish the organization's mission statement. The availability of resources and the way that managers value the human and nonhuman resources impact the organization's environment.