

**ARBA MINCH UNIVERSIT**  
**COLLEGE OF BUSINESS AND ECO NOMICS**  
**DEPAR TMENT OF MANAGEMENT**



**MANAGEMENT THOUGHT AND EMERGING TRENDS**  
**DISTANCE LEARNING MODULE**

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## **Introduction to the Module**

A History of Management Thought tells the fascinating story of how management thinking has changed, shifted, evolved and developed down through the centuries. Management thought refers to a coherent theories or systems of management. It can also refer to thinking about Management: about the meaning, purpose, function and tasks of management which are important and relevant but do not necessarily amount to a coherent overall theory. The practice of management is as old as the human race but its theories and conceptual frameworks are of recent origin.

There are a number of ways that writers have attempted to approach management history. One way is by identifying a particular time period and discussing management developments during that era. A second approach is the use of a “schools” approach. This analytical approach showed how much of management theory and practice was a direct reflection of the thinking of proponents of the schools. A third common method is the use of an institutional approach whereby the historical focus is on events in an organization, business firm, or industry. A fourth approach is the use of biographies for providing insights into the lives and actions of famous people. A fifth approach is the combining of ideas and concepts with that of biographies or examining them by themselves. From this we can understand that there are different perspectives (ways) of classifying management history. Though the classification might vary from books to books or from one author to the other, this module contains the discussion of the major management theories namely: Classical management theory, Neoclassical management theory, and Modern management theory. Moreover the discussion on Motivation theories and other emerging trends in management discipline are included in the module. Various issues in pre-classical theories, classical management, and neoclassical management i.e. the contents in the first four chapters are prepared by Mr. Getahun Kelemework and the remaining three chapters (five to seven) are prepared by Mr. Mulugeta Mehari.

Generally, the module is organized into seven chapters. The first chapter is about the evolution of management thought. In this chapter you will learn why it is important to study the history of management, how management theories and principles have been evolved and other related topics. The second chapter is about the forerunners to scientific management. Here you will find discussion on the works of the various pre-classical contributors (theorists). In the third chapter you will find classical management theory. The chapter consists of explanation on different schools of classical management, their principles, limitations and their contribution to the management discipline. The fourth chapter consists of neoclassical management and its elements. Chapter five is about the modern management theory. In this chapter you will find elements of modern management and their respective characteristics. The sixth chapter consists of different motivation theories. Here you will be acquainted with the various motivation theories and techniques that managers can use to motivate workers. In the last chapter you will find some of the newly emerging trends in management.

Dear learner upon successful completion of this module you will be able to: identify the importance of studying management thought, identify the differing views of the managerial functions and the development of management as a discipline, distinguish the past and contemporary issues in the management of organizations and employees, and examine the newly emerging trends in management. In order to achieve these objectives we (the module writers) advise you to read the module thoroughly and to refer other related references that might help you to fill the gaps. You can also check your progress by attempting all questions provided in the module.

## Chapter One

### 1. Evolution of Management

#### Learning objectives

*Dear learners, at the end of this chapter, you will be able to:*

Define management thought.

Explain the rationale for studying management thought.

Explain historical events that laid the foundation for the development of management thought.

Differentiate management theories and principles

Discuss the importance of theory and principle in management discipline.

#### 1.1.Introduction

Dear learner, to clearly understand the history of management thought we need to begin by defining what is meant by 'Management thought', and then explain why it is important to study the evolution of management thought. There are two ways of defining 'Management thought': we can take it to mean coherent theories or systems of management, or we can broaden the scope of the term and refer more generally to 'thinking about Management', ideas about the meaning, purpose, function and tasks of management which are important and relevant but do not necessarily amount to a coherent overall theory. The history of management extends to several thousand years into the past. However, it is only since the late 19th century, that management began to be considered as a formal discipline. In other words, the practice of management is as old as the human race but its theories and conceptual frameworks are of recent origin. Yet most of the contemporary management thoughts are a twentieth century phenomenon.

## **1.2. The Rationale of Studying Management Thought**

A historical perspective on management provides a context or environment in which to interpret the current opportunities and problems. Studying history is a way to achieve strategic thinking, see the big picture, and improve the conceptual skills. Thus, studying management thought helps us to examine how **social, political** and **economic** forces have influenced organizations and the practices of management.

Social forces are aspects of culture that guide and influence relationships among people—their values, needs, and standards of behavior. The political forces refer to the influence of political and legal institutions on people and organization. Forces that affect the availability, production and distribution of a society's resource among competing users refer to economic forces.

Management practices and perspectives vary in response to these social, political and economic forces in the larger society. During difficult times, managers look for ideas, to help them cope with environmental turbulence and keep their organizations vital. A sense of the past is essential to anyone who is trying to understand the here-and-now of industrial organization. What is happening now is part of a continuing development. Many of today's managerial problems began during the early management movement. Understanding the historical evolution of these problems helps the modern manager to cope with them. It also helps today's managers develop a feel for why the managerial approaches that worked in earlier times do not necessarily work today.

## **1.3. Early Practices in Management**

When studying how science of management has evolved in historical development process, it's seen that its bases go back to history of human-being. It hasn't been possible for human beings to meet their needs by themselves in any term of history. For this reason, it has been a compulsory for them to live together. In such a society arising out of obligation, meeting needs caused by social life makes it compulsory to compose an organization; otherwise, there wouldn't be an order owing to individual demands.

Therefore, it is expressed in most works written about management that, management ideas and practices have arisen since human beings began to live together.

For example 2,500 years before management researchers called it job enrichment, the Greeks learned that they could improve the productivity of boring and repetitious tasks by performing them to music. The basic idea was to use a flute, drum, or song lyrics to pace people to work in unity using the same efficient motions, stimulate them to work faster, and longer and make boring work more fun.

The earliest recorded instances of information management dates to an ancient Sumer(modern Iraq) 8000-3000 B.C. Sumerian business men used small clay tokens to calculate quantities of grain and livestock and later value added goods like perfume and pottery they owned and traded in temples and city gates. Different shapes and sizes represented different types and quantities of goods. The tokens were also used to store data. They were kept in small clay envelopes and the token shapes were impressed on the outside of the envelopes; to indicate what was inside. Eventually they figured out that it was easier to just write these symbols with a stylus on a tablet instead of using the tokens. In the end the new technology of writing led to more efficient management of the business of Sumerian temples.

As early as 4000 B.C. the Egyptians' were aware of the importance of planning, organizing, and controlling. Perhaps the great pyramids of Egypt built in 2900 B.C are classic examples of management and coordination. One pyramid required 100,000 men working for 20 years, covering 13 acres, using 2.3 million blocks, each weighing an average of 2.5 tons. To produce such a monument required proper planning, work allocation, organizing, directing, controlling and decision making.

Beside the achievements of Sumerians and Egyptians we might note the Babylonian king Hammurabi who established controls by witnesses and written documents; king Nebuchadnezzar who pioneered techniques for producing goods and using wages to motivate workers; Sun Tzu author of the art of War who emphasized the importance of strategy and identifying and attacking an opponent's weakness; the Greek author

Xenophon, who recognized management as a distinct and separate art; king Cyrus of Persia who recognized the importance of human relations and used motion study to eliminate wasteful steps and improve productivity; Cato the elder who emphasized the importance of job description; the Roman emperor Diocletian, who mastered the art of delegation by dividing the widespread Roman empire into many (101)provinces grouped into 13 dioceses which were in turn grouped into four geographic divisions; the medieval Arab scholars Al-Farabi and Al-Ghazali who began defining what it takes to be a good leader or manager; Barbarigo who discussed the different ways in which organizations could be structured; Venetians who used numbering and standardization to make parts interchangeable; Sir Thomas More who emphasized the negative societal consequences associated with poor leadership and the Italian philosopher and politician Machiavelli, who wrote about the importance of cohesion, power, and leadership in organization.

Dear learner to aid your further understanding, the contribution of the above mentioned individuals or groups is presented in following table summary.

**Table 1: Management ideas and practices throughout history**

| <b>Time</b>            | <b>Individual<br/>Or group</b> | <b>Planning</b> | <b>Organizing</b> | <b>Leading</b> | <b>Controlling</b> | <b>Contribution to management thought</b>                                                                                                             |
|------------------------|--------------------------------|-----------------|-------------------|----------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5000 B.C.              | Sumerians                      |                 |                   |                |                    | Record keeping.                                                                                                                                       |
| 4000B.C.-<br>2000 B.C. | Egyptians                      |                 |                   |                |                    | Recognized the need for planning, organizing, and<br>Controlling. Requests submitted in writing.<br>Decisions made after consulting staff for advice. |
| 1800 B.C.              | Hammurabi                      |                 |                   |                |                    | Established controls by using witnesses (to vouch<br>for what was said or done) and writing to document<br>transactions.                              |
| 600 B.C.               | Nebuchadnezzar                 |                 |                   |                |                    | Wage incentives and production control                                                                                                                |
| 500 B.C.               | Sun Tzu                        |                 |                   |                |                    | Strategy; identifying and attacking opponent's<br>weaknesses                                                                                          |
| 400 B.C.               | Xenophon                       |                 |                   |                |                    | Recognized Management as a separate art.                                                                                                              |
| 400 B.C.               |                                |                 |                   |                |                    | Human relations and motion study.                                                                                                                     |

|          |                 |                                                              |
|----------|-----------------|--------------------------------------------------------------|
| 175 B.C. | Cato the Elder  | Job descriptions                                             |
| 284      | Diocletian      | Delegation of Authority.                                     |
| 900      | Alfarabi        | Listed leadership traits.                                    |
| 1100     | Ghazali         | Listed managerial traits.                                    |
| 1418     | Barbarigo       | Different organizational forms/structures.                   |
| 1436     | Venetians       | Numbering, standardization, and interchangeability of parts. |
| 1500     | Sir Thomas More | Critical of poor management and leadership.                  |
| 1525     | Machiavelli     | Cohesiveness, power, and leadership in organizations.        |

*Source: cited by Chuck Williams (2011) principles of Management 6<sup>th</sup> edn.*

#### **1.4.Evolvement of Theories in Management**

According to Fayol, theory is “a collection of principles, rules, methods, and procedures tried and checked by general experience. It is a perspective with which people make sense of their world experiences. Theory is a systematic grouping of interdependent concepts (mental images of anything formed by generalization from particulars) and principles that give a framework to, or tie together, a significant area of knowledge.

Principles in management are fundamental truths, explaining relationships between two or more sets of variables, usually an independent variable and a dependent variable. Principles may be descriptive or predictive, and not prescriptive. That is, they describe how one variable relates to another – what will happen when these variables interact. Principles are flexible and capable of adaptation to every need; it is a matter of knowing how to make use of them, which is a difficult art requiring intelligence, experience, and decision.

In the field of management, the role of theory is to provide means of classifying significant and pertinent management knowledge. For example, in the area of designing an effective organization structure, there are several principles that are interrelated and that have a predictive value for managers. Basically there are three main reasons why we have to study management theory. *First*, theories provide a stable focus for understanding what we experience. A theory provides criteria for what is relevant. *Second*, theories enable us to communicate efficiently and thus move into more and more complex relationships with other people. *Third*, theories make it possible –indeed, challenge us to keep learning about our world.

Management, as a practical, everyday activity, originated as far back as man in his hunter-gatherer phase, organizing effective ways of achieving collective goals in a highly coordinated manner. However management, as a theoretical discipline, dates back only to the end of the nineteenth century, when the first large industrial companies were founded, and the pressing problems of coordinating and controlling large numbers of people in the pursuit of a common set of goals first became apparent. The new economic climate resulted from industrial revolution forced managers of all organizations political,

educational, and economic 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 the way in which goods were produced, particularly in the weaving and clothing industries. 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. Many of the managers and supervisors had only a technical orientation, and were unprepared for the social problems that occur when people work together in large groups (as in a factory or shop system). At this time 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 theory of management was felt to be necessary if the workplace were to be efficient and effective. Good theories, by linking causes to effects, can dramatically enhance the efficacy of practice. Management will be worthy of being called a profession only if it is based on a reliable and well-validated theory.

Management theorists have attempted to create a set of organizational principles that would stand to management practices. Over the last century or so, many theoretical approaches have been adopted to make sense of organizational behavior, particularly the manner in which they are effectively administered.

As a specific discipline, management has its own basic problems, its own specific approaches, and its own distinct concerns. A manager who understands the discipline of management will be an effective and may even be a first-rate manager. A man who knows only the skills and techniques, without understanding the fundamentals of management, is not a manager; he is, at best, a technician.

During the history of management as a discipline, a number of more or less separate schools of management thought have emerged; some broad, some narrow in scope, and some quite specialized. Each sees management from its own viewpoint; none is comprehensive. These viewpoints can provide several perspectives. Firstly, people are at the helm of affairs and people are of prime importance, in all thinking about management. There have been different views about the nature of people's impact on organizations. Secondly, there were some historical settings in which certain ideas and approaches developed. Similar conditions may or may not be present today. Thirdly, there are many theories and approaches to management and each has some utility and some limitations. Hence, there is no single 'best' theory of management. Today's management is both a reflection of and a reaction to past management theories.

### **1.5. Significance of Studying Management Thought**

Knowledge of the basic principles and theories of management helps in practicing management by way of increasing efficiency and effectiveness, and helps in avoiding mistakes. The followings are the importance of studying management thought. It provides a basis for recognizing the current state of knowledge and providing a framework for obtaining and integrating new information.

It helps us to frame the “right questions” to ask in research, teaching, and practice. Management thinkers, in particular, are interested in three areas of inquiry: theory, process, and practice. Theory relates “why” management does certain things; process explains “how” these things are done; and practice illustrates “what” the specifics are in carrying them out.

It provides information for constructing an integrated framework. In order for a field of study to be useful, it is necessary to array or present the data in a way that is valid, understandable and applicable. In order to understand the present and predict the future, it is often best to begin with a review of the past.

It can shed light on why some ideas and concepts in management survive and are widely adopted, while others disappear.

It can provide a context because, we cannot fully understand the present without knowing something about the past.

It can help us to understand why and how new theories and ideas about management emerged.

## **Chapter summary**

Management thought can be defined as a coherent theories or systems of management. It can also represent thinking about Management ideas and functions that do not necessarily amount to a coherent overall theory.

Studying management thought helps us to examine how social, political and economic forces have influenced organizations and the practices of management. Moreover knowledge of the basic principles and theories of management helps in practicing management by way of increasing efficiency and effectiveness, and helps in avoiding mistakes.

The science of management has evolved in historical development process. Among the early practitioners the contributions of different countries, groups and individuals are examined in this chapter. Management as a practice is as old as human civilization but as a theoretical discipline, it dates back only to the end of the nineteenth century.

During the history of management as a discipline, a number of more or less separate schools of management thought have emerged. Some of the theories are broad in scope, some narrow, and some are quite specialized. Since each theory sees management from its own viewpoint, none is comprehensive. Hence, there is no single 'best' theory of management.

### **Self-check exercise**

#### **Part I: Choose the best answer**

1. What is the rationale behind the study of management thought
  - A. It provides us an environment in which we interpret the current opportunities
  - B. Helps us to examine how different forces influenced the practice of management
  - C. Helps managers to cope up with different problems
  - D. All of the above
2. The early attempts made by Greeks to improve the productivity of boring and repetitious tasks laid to the development of \_\_\_\_\_ concept.
  - A. Job enrichment
  - C. Job enlargement
  - B. Job rotation
  - D. None of the above
3. Identify the wrong statement
  - A. As a specific discipline, management has its own basic problems and specific approaches
  - B. Management as a theory is as old as human civilization
  - C. Management as a profession has a well validated theory
  - D. None of the above
4. Which one of the following changes or problems of industrial revolution era shaped the development of management theory?
  - A. The development of sophisticated machinery and equipment
  - B. The change from craft production to mechanized manufacturing
  - C. Problem of managing large group people working together
  - D. All of the above
5. Identify the significance of studying management thought
  - A. Helps us to frame the right questions to ask in research
  - B. Helps us to understand why and how management theories emerged
  - C. Helps to understand why some theories of management survived while other disappeared
  - D. All of the above

**Part II: Discuss the following questions**

2. What is the importance of theory and principle in management?

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3. What were the earlier management problems which necessitates the evolvement of management theory?

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4. Without clear understanding of the fundamentals of management one cannot be an effective manager. Do you agree or disagree? Please give your justification.

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## Chapter Two

### 2. Forerunners to Scientific Management

#### **Learning objectives**

*Dear learners, at the end of this chapter, you will be able to:*

Identify early contributors to scientific management

Explain the works of these early contributors

Discuss how the works of these contributors ( theorists) lead to the emergence scientific management in particular and the development management profession in general

#### **2.1. Introduction**

Civilization is the product of those who came before us. Likewise, today's management theory is the result of the interdisciplinary efforts of many people. Pre-classical theorists generally tried to find solutions to contemporary managerial problems. The technical backgrounds and ideas of these early pioneers laid the foundation for the management theorists of the 1900s. There are several contributors that predated the theorists of the Classical School. Some of these management pioneers are examined below.

##### **2.1.1. Robert Owen (1771-1858)**

Robert Owen was a successful British entrepreneur in the early 19th century. He was one of the earliest management thinkers to realize the significance of human resources. During the early 1800s working and living conditions of workers were very poor. Child workers of five to six years of age were common place. The standard work day was thirteen hours long. Robert Owen was concerned about the evils and inhumanity he saw in industrialization. He devoted more of his attention to the human beings. He believed that workers performance was influenced by the environment in which they worked. Thus, he

proposed legislative reform that would limit the number of working hours and restrict the use of child labor. At his own factories, he introduced a standard working day of 10 ½ hours and refused to employ children under the age of ten.

Moreover he tried to improve the living conditions of his employees by ensuring basic amenities like better streets, houses, sanitation and setting up an educational establishment in New Lanark. Owen recommended the use of a “silent monitor” to openly rate employee’s work on a daily basis. Blocks of wood were painted in four different colors, with each color signifying a certain level of accomplishment. Depending on the productivity of the employee, blocks of appropriate color were then attached to each machine in the factory. Owen believed that these open ratings instilled pride and encouraged healthy competition.

Specifically some of the Robert Owen’s contributions to management are as follows:

- He advocated for a change in the attitude of industrialists towards workers

- He eliminated corporal punishment of children and strongly insisted on their education

- Introduced a system of motivation for improving productivity

- Showed respect and dignity towards the staff

- Introduced better working conditions

- Raised the minimum wage for child labor

- Reduced working hours

- Provided meals for his staff.

Generally he showed great concern for human talent. The essence of his experience is that ‘ **investment in human resource is more profitable than investment in machinery, and other physical and material resources**’. Due to these contributions Owen is considered as a father of modern personnel management.

### Activity 2.1

What is the reason behind the Robert Owen's believe that investment in **Human Resource** is more profitable than investment in other **physical and material** resources? Please give your justification.

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#### 2.1.2. Charles Babbage (1792-1871)

British professor of Mathematics, Charles Babbage is widely known as the “father of modern computing”. He was pioneer not only in the field of computing but also in the field management.

Babbage was an advocate of the concept of division of labor. He was impressed by the idea of work specialization, or the degree to which work is divided into various tasks. He believed that each factory operation should be thoroughly understood so that the necessary skill involved in each operation could be isolated. Each worker could then be trained in one specific skill and made responsible only for that part of the operation. He observed that work specialization could apply not only to physical work but also mental work. Babbage felt that work specialization would reduce training time and improve (through constant repetition of each operation) the skills and efficiency of workers. The concept of the assembly line, in which each worker is responsible for a different repetitive task, is based on Babbage's ideas. Moreover his scientific principles led to the development of the study of one branch of management called operational research, which is the quantitative aspect of management.

### **2.1.3. Henry Robinson Towne (1844 – 1924)**

Henry R. Towne, President of the Yale and Towne manufacturing company and a mechanical Engineer, realized that good business skills were essential for running a business. Towne emphasized the need to consider management as a separate field of systematic study on the same level as engineering. In his paper, “The Engineer as an Economist,” presented in 1886, he suggested that management should be studied as a science and principles that could be used across various management situations should be developed. Influenced by Towne’s ideas Frederick W. Taylor subsequently developed the principles of scientific management.

### **2.1.4. Other influential early thinkers and practitioners in Management**

#### **2.1.4.1. Adam Smith**

Adam Smith is often known as the father of economics and capitalism. He is the author of “An inquiry into the nature and causes of the wealth of nations”. In *The Wealth of Nations* (1776), he made an argument on the economic advantages that organizations and society would achieve from the division of labor, which is the breakdown of jobs into narrow, repetitive tasks. Smith concluded that division of labor increased productivity by increasing each worker's skill and dexterity, by saving time that is usually lost in changing tasks, and by the creation of labor- saving inventions and machinery.

#### **2.1.4.2. Andrew Ure and Charles Dupin**

Andrew Ure (1778 – 1857) and Charles Dupin (1784 – 1873) were the early proponents of the study of management. Ure was a British academician and Dupin, a French engineer. Ure, who taught at Glasgow University, published the philosophy of Manufacturing, in which he explained the various principles and concepts of manufacturing. His publication dealt mainly with the technical problems of manufacturing in the textile industry, but also dealt with problems of managing. For this reason he is known as one of the first person to provide formal teaching of management principles. In 1819, Dupin was appointed as a management professor in Paris, which

marked the beginning of an illustrious career. He is credited with having a great influence on the writings of Henri Fayol. Dupin published Discourse on the Condition of the Workers, in 1831. This manuscript included concepts such as time study and the need to balance workloads after introducing division of labor. He wrote of the need for workers to receive concise instructions and the need to discover and publish the best way to perform work with the least amount of worker energy.

#### **2.1.4.3. Henry Metcalfe**

Another early application of the scientific principles of management occurred when Captain Henry Metcalfe developed a system of controls that he applied to the management of the Frankford Arsenal. He asserted that, science management should be based on several recorded and accumulated observations which are recorded systematically. In 1885, Metcalfe published The Cost of Manufactures and the Administration of Workshops, Public and Private. This book is considered a pioneer work in the area of management science.

#### **2.1.4.4. Morris Cooke.**

While Taylor, the Gilbreths, and Gantt, were working with industrial enterprises, Morris Cooke was extending the gospel of efficiency in non-industrial organizations. Cooke focused his attention on educational and municipal organizations. He conducted a study of administration in educational organizations. The resulting study was a surprise in the academic world. His findings included, among other things, widespread use of inbreeding (hiring your own graduates), inefficient committee management, autonomous departments working against university coordination, and pay based on tenure. In 1911, Cooke was selected as director of public works and brought scientific management to the governance of Philadelphia.

## **Chapter summary**

Today's management theory is the result of the interdisciplinary efforts of many people. The technical backgrounds and ideas of these early pioneers laid the foundation for the management theorists of the 1900s. In this chapter the works of Charles Babbage, Robert Owen, Henry Robinson Towne and the contributions of other early thinkers are discussed in detail. Robert Owen was one of the earliest management thinkers to realize the significance of human resource. Due to his strong concern for human resource he is considered as a father of modern personnel management. Charles Babbage who is widely known as the "father of modern computing" was also an advocate of the concept of division of labor. His scientific principles led to the development of the quantitative aspect of management called operational research. Similarly Henry Robinson Towne suggested that management should be studied as a science and principles that could be used across various management situations should be developed.

### **Self-check exercises**

#### **Part I: Choose the best answer**

3. Who is the father of modern personnel management
  - A. Charles Babbage
  - B. Adam smith
  - C. Charles Dupin
  - D. Robert Owen
4. Who is known for providing a formal teaching of management principles for the first time
  - A. Morris Coke
  - B. Andrew Ure
  - C. Niccola Machiavelli
  - D. None of the above
5. The contribution of one of the following theorists is not related to division of labor
  - A. Adam Smith
  - B. Henry Robinson Towne
  - C. Charles Babbage
  - D. None of the above

#### **Part II: Discuss the following questions**

1. What do we mean by division of labor? Discuss its advantage and disadvantage.

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2. Mention some other (not mentioned in this chapter) pre-classical contributors and discuss their contribution to the field of management.

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3. What were the contributions of Robert Owen?

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## Chapter Three

### 3. The Era of Classical Management

#### **Learning objectives**

*Dear learners, at the end of this chapter, you will be able to:*

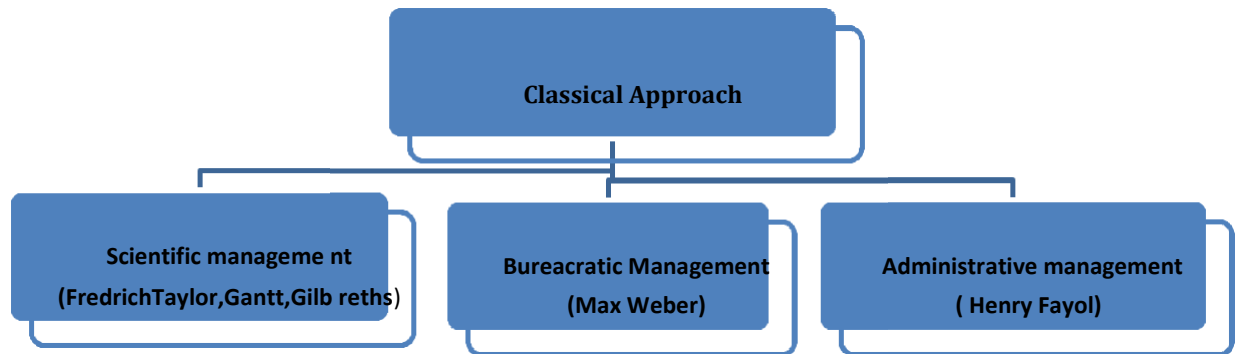
- Describe the three major components of classical school
- Define scientific management and its principles
- Explain administrative theory and its principles
- Discuss bureaucratic theory and its characteristics
- Appreciate the contributions of the classical schools

#### **3.1.Introduction**

One of the first schools of management thought, the classical management theory (1900-1930), was developed during the industrial revolution when, new problems related to the factory system began to appear. Managers were unsure of how to train employees or deal with increased labor dissatisfaction, so they began to test solutions. As a result, the classical management theory was developed to improve management effectiveness in organizations. The classical school theorists went a step further in seeking to develop a comprehensive theory of management, and to provide the tools a manager required for dealing with their organizational challenges.

The term classical means something traditionally accepted or long established. It does not mean that classical views are static and time bound and must be dispensed with. Some of the elements of classical theory are still with us in one form or another. In short, classical management refers to a management perspective that emerged during the nineteenth and early twentieth centuries that emphasized a rational, scientific approach to the study of management and sought to make organizations efficient operating machines. Classical school consists of the following theories.

*Figure 3.1 Elements of classical approach*



### 3.2. Scientific Management

Scientific management is a subfield of the classical management perspective that emphasized on scientifically determined changes in management practices as a solution to improve labor productivity. It arose because of the need to increase productivity and efficiency. It was suggested that during the industrial revolution, organizations limited success in achieving improvement in labor productivity was due to poor management practices than the problem of labor. Each worker did the same job in his or her own way with different methods and different tools. In short there were no procedures to standardize operations, no standards by which to judge whether performance was good or bad, and no follow up to determine if productivity or quality actually improved when changes were made. This all changed however with advent of scientific management.

In the late nineteenth and early twentieth century's, Frederick W. Taylor was decrying the "awkward, inefficient, or ill-directed movements of men" as national loss. He consistently sought to overthrow management "by rule of thumb" and replace it with actual timed observations leading to "the one best" practice.

Frederick W. Taylor (1856-1915), the father of scientific management began his career as a worker at Company. He was later promoted to pattern maker, supervisor, and the chief engineer. When he became boss at Midvale Steel he explained that the men who were

working under me new that I was onto the whole game soldering (deliberately restricting output)”. When Taylor told his workers, I have accepted a job under the management of this company and I am on the other side of the fence I am going to try to get bigger output, the workers responded negatively that they don’t want him to bust the production rates (a rate buster is someone who works faster than the group). Even though, Taylor’s plan has got opposition from workers, he tried everything he could think of to improve output. By doing the job himself he showed workers that it was possible to produce more output. He hired new workers and trained them himself, hoping they would produce more output. But very heavy social pressure from other workers kept them from doing so. As a remedy to this problem, Taylor eventually developed **scientific management** which emphasized on the use of systematic study to find ‘the one best’ way of doing tasks.

### 3.2.1. Principles of Scientific Management

Taylor’s book, *The Principles of Scientific Management* (1911), gave a much more extended and detailed account of the principles of scientific management. He recognized the need to separate the planning of work from its execution. Taylor made clear that, management must first systematically study its work for the purpose of identifying and defining various principles. Then, it must develop adequate procedures for applying them. He suggested that in order to work according to scientific principles, management would have to take over and perform much of the work that was currently being performed by the workers. Almost every act of the worker would have to be preceded by one or more preparatory acts of management, which would enable the worker to work better and more quickly than would otherwise be the case.

Taylor stated that scientific management comprised a combination of four great underlying principles: *First*, the development of a true science. He proposed the development of a science for each element of a man’s work which replaces the old rule of thumb method. *Second*, the scientific selection of workers. Managers should scientifically select, train, teach and develop workers to help them reach their full potential. The *third*, principle instructed managers to cooperate with employees to insure that the scientific principles were actually implemented. From his personal experience Taylor noticed that

workers and management more often than not viewed each other as enemies. Scientific management on the contrary has for its very foundation the firm conviction that the true interest of the two are one and the same; prosperity for the employer cannot exist through a long term of years unless it is accompanied by prosperity for employees and vice versa and that it is possible to give the work man what he most wants (high wages) and the employer what he wants (the low cost) for his manufacturers.

The *fourth* principle of scientific management was to divide the work and responsibility between the management and the workers. Prior to Taylor workers alone were held responsible for productivity and performance. But he believed that each man should daily be thought by and receives the most friendly help from those who are over him instead of being at the one extreme driven or coerced by his bosses and at the other left to his own unaided devices.

Above all Taylor felt these principles could be used to determine a fair day's work that is what an average worker could produce at a reasonable pace, day in day out. Once that was determined it was management responsibility to pay workers fairly for that fair day's work. In essence Taylor was trying to align management and employees so that what was good for employees was also good for management. And one of the best ways, according to Taylor, to align management and employees was to use incentives to motivate workers. He identified that in order to have any hope of obtaining the initiative of his workmen the manager must give some special incentive to his men beyond that which is given to the average of the trade. This incentive can be given in several different ways, as, for example, the hope of rapid promotion or advancement; higher wages, either in the form of generous piecework prices or of a premium or bonus of some kind for good and rapid work; shorter hours of labor; better surroundings and working conditions than are ordinarily given, etc., and, above all, this special incentive should be accompanied by that personal consideration for, and friendly contact with, his workmen which comes only from a genuine and kindly interest in the welfare of those under him. It is only by giving a special inducement or "incentive" of this kind that the employer can hope even approximately to get the "initiative" of his workmen.

### **3.2.2. Followers of Taylor**

Although known as the father of scientific management, Taylor was not alone in this area. 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 by time elapsed. Two other important pioneers in this area were the husband-and-wife team Frank B. and Lillian M. Gilbreth. Frank B. Gilbreth (1868–1924) pioneered time and motion study and arrived at many of his management techniques independently of Taylor.

#### **3.2.2.1. Henry Gantt (1861–1919)**

Henry Gantt was first a protégé and then an associate of Frederick Taylor. Gantt is best known for the Gantt chart, but he also made significant contributions to management with respect to pay-for-performance plans and the training and development of workers. A Gantt chart, which shows time in various units on the x-axis and tasks on the y-axis, visually displays what tasks must be completed at which times in order to complete a project. Though simple and straightforward, Gantt charts were revolutionary in the era of “seat of-the-pants” management because of the detailed planning information they provided to managers. Today, the use of Gantt charts is so widespread that nearly all project management software and computer spreadsheets have the capability to create charts that track and visually display the progress one is making in a project.

Gantt, who was much more sympathetic toward workers than Frederick Taylor, introduced a significant change to Taylor's well-known piece-rate reward system. Unlike Taylor's system, in which payment was completely dependent on production—if you produced at substandard levels, you got substandard pay, Gantt's task and bonus system did not punish workers for not achieving higher levels of production. Workers who achieved higher levels of production received a daily bonus, but those who didn't simply received their standard daily pay. The key, according to Gantt, was that his task and bonus system didn't punish workers for lower production as they took time to learn how to increase their production efficiency. Production usually doubled under Gantt's system.

Finally, Gantt, along with Taylor, was one of the first to strongly recommend that companies should train and develop their workers. In his work with companies, he found that workers achieved their best performance levels if they were trained first.

However, fearing that they could lose their jobs to more knowledgeable workers, supervisors at the time were reluctant to teach workers what they knew. Gantt overcame the supervisors' resistance by rewarding those with bonuses for properly training all of their workers. This is the first recorded attempt to make it in the financial interest of the foreman to teach the individual worker.

### **3.2.2.2. Frank B. and Lillian M. Gilbreth**

The husband and wife team Frank and Lillian Gilbreth are best known for their use of motion studies to simplify work, but they also made significant contributions in the employment of handicapped workers, and industrial psychology. Like Frederick Taylor, their early experiences significantly shaped their interests and contributions to management.

Frank Gilbreth (1868–1924) began his career as an apprentice bricklayer. His experience with bricklaying led to his and his wife Lillian's long-term interest in using **motion study** to simplify work, improve productivity, and reduce the level of effort required to safely perform a job. Indeed, Frank Gilbreth said, "The greatest waste in the world comes from needless, ill-directed, and ineffective motions." The Gilbreths' motion study, however, is different from Frederick

W. Taylor's time study. Time study was developed by Taylor to put an end to soldiering and to determine what could be considered a fair day's work. Time study worked by timing how long it took a "first-class man" to complete each part of his job. After allowing for rest periods, a standard time was established, and workers pay would either increase or decrease depending on whether workers exceeded or fell below that standard. By contrast, the motion study, of Frank Gilbreth's emphasized on breaking each task or job into separate motions and then eliminating those that were unnecessary or repetitive.

One of the Gilbreths' most overlooked accomplishments was the critical role they played in rehabilitating and employing handicapped workers. After World War I, there were 13 million wounded and handicapped soldiers in the United States and Europe. Frank Gilbreth worried, "What is to be done with the millions of cripples, when their injuries have been remedied as far as possible, and when they are obliged to become again a part of the working community. In addition to their application of motion study to identify the kinds of tasks that handicapped workers could effectively perform the Gilbreths argued that the government and engineers had an important role to play in employing handicapped workers.

Finally, Lillian Gilbreth (1878–1972) was an important contributor to management as well. She was the first woman to receive a Ph.D. in Management, as well as the first woman to become a member of the Society of Industrial Engineers and the American Society of Mechanical Engineers. When Frank died in 1924, she continued the work of their management consulting company on her own. Lillian, who was concerned with the human side of work, was one of the first contributors to industrial psychology, originating ways to improve office communication, incentive programs, job satisfaction, and management training. Her work also convinced the government to enact laws regarding workplace safety, ergonomics, and child labor.

### **3.2.3. Contributions of Scientific Management**

Although strong academic debate continues regarding the effectiveness of Taylor's use of incentives, it is inarguable that nearly a century later, Taylor's key ideas have withstood the test of time. In fact, his ideas are so well accepted that we take most of them for granted. The primary benefit of scientific management was conservation and saving, making an adequate use of every ounce of energy of any type that is expected. It demonstrated the importance of compensation for performance, initiated the careful study of tasks and jobs', and demonstrated the importance of personnel selection and training. It also emphasized on fitting workers to particular tasks and training them further to best utilize their abilities.

### Activity 3.1

Discuss the contributions of scientific management towards management thought.

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#### 3.2.4. Limitations & Criticisms of Scientific Management

Although Taylor's method led to dramatic increase in productivity and higher pay in number of instance, workers and unions began to oppose his approach because they feared that working harder or faster would exhaust whatever work was available causing layoffs. Taylor's conviction that monetary incentives are strong enough to motivate workers for improved production has been proved wrong. No man is entirely 'an economic man' i.e. a man's behavior is not always dictated by his financial needs. He has different types of needs such as security needs, egoistic needs or social needs which motivate him far more than his desire for money, at least after he has risen above the starvation level. The criticisms according to different authors are discussed below.

***Scientific management is mechanistic and impersonal approach-*** paid little attention towards human element in production. It is utilitarian and impersonal. It is a system based on things not on people. Man is thought of as mechanical and motivated by economic considerations only. Thus the system emphasized too much on technical aspect of work ignoring human interest.

***Dull, monotonous and boring jobs-***employees are forced to work on the same task time which leads to monotony and drudgery.

***Ingenious exploitation device-*** in the name of increasing efficiency, workers were forced to speed up the production process. Workers were stimulated and driven to the point of nervous and physical exhaustion. As a result many critics

pointed out that Taylorism is injurious to employees' interests and impervious to human and psychological aspects.

***Unoriginal philosophy***-Taylor's idea and contribution had been somewhat overrated and over emphasized.

***Unscientific, antisocial, un-psychological and anti-democratic***- it is unscientific because, there is no accurate information as to how the wages are to be given, how the workers efficiency to be measured and so on. It is anti-social because workers are treated as glorified economic tools only. They are not permitted to participate in matters affecting their life. It is un-psychological because there is no guarantee that the workers would get a fair share of the fruits of the progress. It is anti-democratic because it overshadows the workers independence. Further the idea of separating planning from doing concept confers decision making powers on management and operational power on workers.

### **3.3. Classical Organizational (Administrative) Theory**

Another major subfield within the classical perspective is known as the administrative principles approach. Whereas scientific management focused on the productivity of the individual worker, the administrative principles approach focused on the total organization.

The Frenchman Henri Fayol (1841–1925) father of administrative management is an important contributor to the field of management as Frederick Taylor. Furthermore, like Taylor and Frank and Lillian Gilbreth, Fayol's work experience significantly shaped his thoughts and ideas about management. But, whereas Taylor's ideas changed companies from the shop floor up, Fayol's ideas, which were shaped by his experience as a managing director (CEO), generally changed company's from the board of directors down. Fayol is best known for developing five functions of managers and 14 principles of management, as well as for his belief that management could and should be taught to others.

The most formative events in Fayol's business career came during his 20 plus years as the managing director (CEO) of Comambaulta vertically integrated steel company that owned coal and iron ore mines and also employed, at various times, from 10,000 to 13,000 employees. Based on his experience as a CEO, Fayol argued that "the success of an enterprise generally depends much more on the administrative ability of its leaders than on their technical ability.

Fayol observed the organizational function from managerial point of view. He proposed the breaking of the complex management process into separate interdependent areas of responsibility. He divided the administrative activities into six groups all of which are closely dependent on one another. These six areas are:

***Technical operations:*** these are concerned with producing and manufacturing products.

***Commercial operations:*** these deals with purchasing raw materials for the products and selling the finished products.

***Financial operations:*** searching for and acquiring capital and allocating it to various functions in an optimal manner and keeping an overview control of the flow of capital.

***Security operations:*** this involves taking the necessary and adequate steps for the production and safety of goods and people.

***Accounting operations:*** this area covers all accounting aspects of the organization including recording and taking stocks of costs, profits, liabilities, assets, preparing balance sheets and compiling accounting statistics.

***Managerial operations:*** the managerial operations were Fayol's primary concern and he defined these operations in terms of five functions.

According to him, for managers to be successful, they need to perform five managerial functions or elements: **planning, organizing, coordinating, commanding, and controlling**. Because most management text books have dropped the coordinating function and now refer to Fayol's commanding function as a leading, these functions are widely known as Planning, organizing, leading and controlling.

Planning, involves looking into the future and specifying which actions should be taken. In other words, it is all about determining organizational goals and means' for achieving them. Organizing, the next management function, is building the organizational structure by determining lines of authority and responsibility. Coordinating is the process of binding together and unifying activities across different parts of the organization. Commanding, or leading, is taking actions that elicit the "maximum contributions" from the persons who work for a manager. It involves inspiring, and motivating workers to work hard to achieve organizational goals. Controlling is making sure that things are accomplished according to plan.

When things are not proceeding according to plan, managers must identify problems and correct them. Fayol said that "a good system of control provides against undesirable surprises, capable of degenerating into catastrophes.

In addition, according to Fayol, effective management will be based on the 14 principles commonly known as Fayol's fourteen principles. The discussion of these principles is as follows.

1. **Division of work:** Increase production by dividing work so that each worker completes smaller tasks or job elements.
2. **Authority and responsibility:** A manager's authority, which is the "right to give orders," should be commensurate with the manager's responsibility. However, organizations should enact controls to prevent managers from abusing their authority.
3. **Discipline:** Clearly defined rules and procedures are needed at all organizational levels to ensure order and proper behavior.
4. **Unity of command:** To avoid confusion and conflict, each employee should report to and receive orders from just one boss.
5. **Unity of direction:** One person and one plan should be used in deciding the activities used to accomplish each organizational objective. Organizational activities must have one central authority and one plan of action.

6. **Subordination of individual interests to the general interest:** Employees must put the organizations' interests and goals before their own.
7. **Remuneration:** Compensation should be fair and satisfactory to employees and the organization; that is, don't overpay or underpay employees.
8. **Centralization:** Avoid too much centralization or decentralization. Strike a balance depending on the circumstances and employees involved.
9. **Scalar chain:** From the top to the bottom of an organization, each position is part of a vertical chain of authority where each worker reports to just one boss. For the sake of simplicity, communication outside normal work groups or departments should follow the vertical chain of authority.
10. **Order:** To avoid conflicts and confusion, order can be obtained by having a place for everyone and everyone in their place, in other words, no overlapping responsibilities.
11. **Equity:** Kind, fair, and just treatment for all will develop devotion and loyalty. This does not exclude discipline, if warranted, and consideration of the broader general interest of the organization.
12. **Stability of tenure of personnel:** Low turnover, meaning a stable workforce with high tenure, benefits an organization by improving performance, lowering costs, and giving employees, especially managers, time to learn their jobs.
13. **Initiative:** Because it is a "great source of strength for business," managers should encourage the development of initiative, the ability to develop and implement a plan, in others.
14. **Esprit de corps:** Develop a strong sense of morale and unity among workers that encourages coordination of efforts.

These principles provide modern-day managers with general guidelines on how a supervisor should organize his/her department and manage his/her staff. Although later research has created controversy over many of the principles, they are still widely used in management theories.

Finally Fayol was one of the first to argue that management could and should be taught to others. He stated that “One becomes an engineer but one is born an administrator [manager].” This is not true. In reality one becomes an administrator just as one becomes an engineer, an artist, or a scholar. In short, Fayol believed that the principles of management could be taught in colleges and universities and that managers are not born but can be made through a combination of education and experience.

### **Activity 3.2**

Dear learner, can you give your own opinion on why it is important to subordinate individual interest to organizational interest.

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#### **3.3.1. Contributions and limitations of administrative theory**

Fayol’s contribution to the theory of management is probably the most revolutionary and constructive that has ever been made. He isolated and analyzed management as a separate distinct activity. By emphasizing on management skills as universal; Fayol had done a signal service to the propagation of management concepts. Moreover he suggested that subordinate should comply with the organizational policies, procedures, rules and regulations which in turn make the job of the managers easier.

Despite its contributions, administrative management has been criticized for various reasons. Some of the limitations are given below:

***Inconsistent theory-*** most of its elements are not supported by empirical evidence.

The theory has not been verified under controlled, repeatable scientific situations.

**Vague**-some of the terms and concepts have not been properly explained by Fayol. For instance the principle of specialization doesn't tell the organizer as how to divide the tasks.

**Historical value**- it is more appropriate for the past than for the present organizations. When organizations were in stable and predictable environment, the classical principles seemed valid. Today with organizational environment becoming complex (more turbulent), the guidelines provided by Fayol and others seem less appropriate.

**Pro-management bias**- administrative theory is more concerned with what managers should know and do rather than with more general understanding of managerial behavior. Moreover the theory doesn't provide guidance as to when the principles must be applied, which principles should take precedence over the other while they are being applied. Furthermore administrative management treats workers as biological machines motivated by purely economic conditions.

### **3.4. Bureaucratic Management Theory**

Bureaucratic theory is a subfield of the classical management perspective that emphasized management on an impersonal, rational basis through such elements as clearly defined authority and responsibility, formal recordkeeping, and separation of management and ownership.

Today, when we hear the term bureaucracy, we think of inefficiency and "red tape," incompetence and ineffectiveness, and rigid administrators blindly enforcing nonsensical rules. When German sociologist Max Weber (1864–1920 ) first proposed the idea of bureaucratic organizations, however, monarchies and patriarchies, not bureaucracies, were associated with these problems. In monarchies, where kings, queens, sultans, and emperors ruled, and patriarchies, where a council of elders, wise men, or male heads of extended families ruled, the top leaders typically achieved their positions by virtue of birthright.

It was against this historical background of monarchical and patriarchic rule that Weber proposed the then new idea of bureaucracy. Bureaucracy comes from the French word bureaucratic. Since bureau means **desk or office** and cratic or cracy means to **rule**, bureaucracy literally means to rule from a desk or office.

According to Weber, however, bureaucracy is “the exercise of control on the basis of knowledge. So, in a bureaucracy, rather than ruling by virtue of favoritism, or personal or family connections, people would lead by virtue of their rational legal authority- in other words, their knowledge, expertise, or experience. Furthermore, the aim of bureaucracy is to achieve an organization’s goals in the most efficient way possible.

According to Weber bureaucracy is characterized by seven elements discussed here after.

Instead of hiring people because of their family or political connections, or personal loyalty, they should be hired because their technical training or education qualifies them to do their jobs well.

Promotion within the company would no longer be based on who you knew or who you were (heredity), but on your experience or achievements. And to further limit the influence of personal connections in the promotion process, managers, rather than organizational owners, should decide who gets promoted.

Each position or job is part of a chain of command that clarifies who reports to whom throughout the organization. Those higher in the chain of command have the right, if they so choose, to give commands, take action, and make decisions concerning activities occurring anywhere below them in the chain. Those who are in the lower chain of command are protected by a grievance procedure that gives them the right to appeal the decisions of those in higher positions.

To increase efficiency and effectiveness, tasks and responsibilities are separated and assigned to those best qualified to complete them. Furthermore, authority is vested in positions, not people. If you move to a different job, your authority increases or decreases commensurate with the responsibilities of that job. And, to reduce confusion and conflict, the authority of each position or job is also clearly divided and defined.

Organization's rules and procedures should apply to all members, regardless of their position or status.

To ensure consistency and fairness over time and across different leaders and supervisors, all rules, procedures, and decisions should be recorded in writing.

To reduce favoritism, "professional" managers rather than company owners, should manage or supervise the organization.

**Table 3.1 summary of elements of bureaucracy**

|                                                  |                                                                                                                                                                                                                  |
|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Qualification-based hiring                     | Employees are hired on the basis of their technical training or educational background                                                                                                                           |
| 2 Merit-based promotion                          | Promotion is based on experience or achievement. Managers, not organizational owners, decide who is promoted.                                                                                                    |
| 3 Chain of command:                              | Each job occurs within a hierarchy, the chain of command, in which each position reports and is accountable to a higher position. A grievance procedure and a right to appeal protect people in lower positions. |
| 4 Division of labor                              | Tasks, responsibilities, and authority are clearly divided and defined                                                                                                                                           |
| 5 Impartial application of rules and procedures: | Rules and procedures apply to all members of the organization and will be applied in an impartial manner, regardless of one's position or status.                                                                |
| 6 Recorded in writing                            | All administrative decisions, acts, rules, or procedures will be recorded in writing                                                                                                                             |
| 7 Managers separate from owners                  | The owners of an organization should not manage or supervise the organization.                                                                                                                                   |

#### **3.4.1. Contributions of bureaucratic theory**

When viewed in historical context, Weber's ideas about bureaucracy represent a tremendous improvement in how organizations should be run. Fairness supplanted favoritism, the goal of efficiency replaced the goal of personal gain, and logical rules and procedures took the place of traditions or arbitrary decision making. According to (JS Chandan, 1987) the benefits of bureaucracy are:

Since the policies, rules and procedures are set and applicable to all, this leads to consistent employee behavior. This behavior is predictable making the management process easier to implement.

Since jobs, duties and responsibilities are clearly defined, the overlapping or conflicting job duties are eliminated.

Hiring and promotion are based on merit and expertise. This results in rightfully matching the right workers with the jobs which makes the utilization of human resource optimum. Also the individuals move up the hierarchy as they gain expertise and experience.

The division of labor makes the workers specialists. Hence their skills are further polished; they become experts and perform more effectively.

The organization continues even if the individual leave since the position is emphasized rather than the person. For example if the president leaves, another person is hired or promoted to that position and the organization continues to operate.

### **Activity 3.3**

According to bureaucratic theory, owners should not manage or supervise the organization. Do you agree or disagree? Please give your justification.

**Agree**\_\_\_\_\_

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**Disagree**\_\_\_\_\_

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### **3.4.2. Criticism of bureaucratic theory**

Despite the improvements that it brought, bureaucracy has its own limitations. In bureaucracies, managers are supposed to influence employee behavior by fairly rewarding or punishing employees for compliance or noncompliance with organizational policies, rules, and procedures. In reality, however, most employees would argue that bureaucratic managers emphasize punishment for noncompliance much more than rewards for compliance. Managers who use bureaucratic control often put following the rules above all else. Too much emphasis on rule and policy- driven decision making can make companies highly resistant to change and slow to respond to customers and competitors. Specifically the following disadvantages of bureaucracy can be mentioned.

There is too much red tape and paperwork

Because of impersonal nature of work, the employees do not care about the organizations, since there is no sense of belonging and devotion.

Excessive rules and regulations and strict adherence to these policies inhibit the initiative and growth of the workers. Employees are treated like machines and not like individuals.

Employees become so used to routines that there is a resistance to change and introduction of new techniques of operation.

## **Chapter summary**

Classical management refers to a management perspective that emerged during the nineteenth and early twentieth centuries that emphasized on a rational and scientific approach to the study of management. The three major components of classical school are: scientific, management, administrative management, and bureaucratic management. Scientific management arose because of the need to increase productivity and efficiency. It emphasized on the use of systematic study to find ‘the one best’ way of doing tasks. Frederick W. Taylor (the father of scientific management) was known for developing the principles of scientific management.

Whereas scientific management focused on the productivity of the individual worker, the administrative approach focused on the total organization. Henri Fayol (father of administrative management) is best known for developing the five functions of managers and fourteen principles of management. He proposed the breaking of the complex management process into six interdependent areas of responsibility.

Bureaucratic theory is a management perspective that advocates the existence of clearly defined authority and responsibility, formal recordkeeping, and separation of management and ownership. The term bureaucracy literally means to rule from a desk or office. Max Weber the founder of bureaucratic management identified different elements of bureaucracy as discussed in this chapter.

### **Self-check exercises**

#### **Part I: Choose the best answer**

1. \_\_\_\_\_ is known for the development of a chart that shows a list of activities and the time it takes to complete a project.
  - A. Charless Babbage
  - B. Fredrick W. Taylor
  - C. Henry Fayol
  - D. Henry L. Gantt
2. Scientific management is criticized for one of the following except.
  - A. It overshadows the workers independence
  - B. Give more emphasis for human interest
  - C. Decision making power is concentrated on the top level management
  - D. None
3. \_\_\_\_\_ is known as a father of administrative management.
  - A. Taylor
  - B. Henry Gantt
  - C. Henry Fayol
  - D. The Gilbreths
4. Among the following functions, one is the primary concern of Henry Fayol.
  - A. Commercial operation
  - B. Financial operation
  - C. Technical operation
  - D. Managerial operation
5. The process of unifying and binding the activities of different parts of the organization is known as\_\_\_\_\_.
  - A. Commanding
  - B. Leading
  - C. Coordinating
  - D. A and B

6. \_\_\_\_\_ refers to organizing activities of the organization in such a way that they all come under one plan of action.
- A. Unity of direction
  - B. Unity of command
  - C. Order
  - D. Esprit de corps
7. Identify the advantages of bureaucracy.
- A. Consistent employee behavior
  - B. Job duties and responsibilities are clearly defined
  - C. Enable the individual gain expertise
  - D. All of the above

**Part II: Discuss the following questions**

8. State the difference between piece rate system and task and bonus plan.

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9. Discuss the contributions of scientific management towards management thought.

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**10.** What is the difference between Taylors time study and the Gilbreth's motion study?

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**11.** Explain the difference between scientific, administrative and bureaucratic management.

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## Chapter Four

### 4. Neoclassical Theory of Management

#### Learning objectives

*Dear learners, at the end of this chapter, you will be able to:*

Differentiate the classical and the neoclassical approaches of management  
Describe the components of the neoclassical management

Explain the human relation movement  
Elaborate the behavioural approach

Discuss the contributions and limitations of each approaches

#### 4.1. Introduction

As a reaction to schools of classical theory which over-emphasized the mechanical and physiological characteristics of management, the neoclassical theory with more human oriented approach was emerged. Neoclassical theory is a group of management ideas that places emphasis on the social needs, drives, and attitudes of individuals. It is about the employees and how they can be organized, motivated and supported in their work life. The contributors of this theory believed that effective management required a more human orientated approach. The main groups of neoclassical management school are Human Relations School and Behavioral School.

#### 4.2. Human Relations Management

As we have seen in the preceding chapters, scientific management focused on improving the efficiency of manufacturing facilities and their workers; bureaucratic management focused on using knowledge, fairness, and logical rules and procedures to increase the efficiency of the entire organization; and administrative management focused on how and what managers should do in their jobs. In contrast, the human relations approach to

management focused on the psychological and social aspects of work. Under the human relations management approach, people were more than just extensions of machines; they were valuable organizational resources whose needs were important and whose efforts, motivation, and performance were affected by the work they did and their relationships with their bosses, coworkers, and work groups. In other words, according to human relations management, efficiency alone is not enough to produce organizational success. Success also depends on treating workers well.

In this school of thought the notion that business organizations have a responsibility to ensure the physical, mental and spiritual wellbeing of their employees was commented on repeatedly. There was also a strong awareness that organizations themselves are composed of human beings, that they are social and political systems as well as technical systems, and that people are the most important part of any organization. 'It is not our job to make chains, it is to make men and women – they will make the chains for us.

#### **4.2.1. Contributors of Human Relation Movement**

##### **4.2.1.1. Elton Mayo**

The human relations movement drew heavily in support of the findings on a series of famous experiments called the Hawthorne Studies which were conducted from 1924 to 1932 at the Hawthorne Plant of the Western Electric Company. The neglect of human aspect and over-emphasis on machines, materials and abstract functions led to the development of this approach. Elton Mayo is considered as the initial proponent of the Human Relations approach. 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 Hawthorne experiment consists of four parts.

The first phase of the experiment was known as the illumination experiment. The intention of this experiment was to learn if there was any correlation between intensity of light and productivity. To these effect two groups of women were taken: the experiment group- one subject to variety in the intensity of light and the other a controlled group which was exposed to constant illumination intensity. Finally the researchers found that,

the output showed an upward trend even when the illumination was gradually brought down to the normal level. Therefore, it was concluded that there is no consistent relationship between output of workers and illumination in the factory. There must be some other factor which affected productivity. The second phase, the ***Relay Assembly Test Room Experiment*** was aimed at knowing not only the impact of illumination on production but also other factors like length of the working day, rest hours, and other physical conditions. In this experiment, a small homogeneous work-group of six women was constituted. These women were friendly to each other and were asked to work in a very informal atmosphere under the supervision of a researcher. In the test room job conditions were varied and in the other they were not.

Regardless of how the factors under considerations were manipulated, productivity and morale increased considerably during the period of the experiment. Productivity went on increasing and stabilized at a high level even when all the improvements were taken away and the pre-test conditions were reintroduced. The researchers concluded that socio-psychological factors such as feeling of being important, recognition, attention, participation, cohesive work-group, and non-directive supervision held the key for higher productivity.

The ***Mass Interviewing Program*** was the third phase. The objective of this program was to make a systematic study of the employees' attitudes which would reveal the meaning which their "working situation" has for them. The researchers interviewed a large number of workers (over 20,000) with regard to their opinions on work, working conditions and supervision. Initially, a direct approach was used whereby interviewee's asked questions considered important by managers and researchers. The researchers observed that the replies of the workmen were guarded. Therefore, this approach was replaced by an indirect technique, where the interviewer simply listened to what the workmen had to say. The findings confirmed the importance of social factors at work in the total work environment. It was realized that, an individual's work performance, position and status in the organization were determined not by that person alone but also by the group members. In order to study this more systematically, the research entered its fourth phase known as the ***Bank Wiring Test Room Experiment***. This experiment was conducted with

a view to develop a new method of observation and obtaining more exact information about social groups within a company and also finding out the causes which restrict output. It was conducted to study a group of workers (14 workers) under conditions which were as close as possible to normal. After the experiment, the production records of this group were compared with their earlier production records. It was observed that the group evolved its own production norms for each individual worker, which was made lower than those set by the management. Because of this, workers would produce only that much, thereby defeating the incentive system. Those workers who tried to produce more than the group norms were isolated, or punished by the group. Specifically the findings of the study were: - each individual was restricting output, the group had its own “unofficial” standards of performance, individual output remained fairly constant over a period of time and informal groups play an important role in the working of an organization.

Generally, the interpretation that employees’ output increased when managers treated them in a positive manner started a revolution in worker treatment for improving organizational productivity. Despite some criticisms on its methodology and conclusions, the findings of Hawthorne experiment provided the impetus for the **human relations movement**. The experiments were primarily responsible for consideration of non-financial incentives in improving productivity. The human relation approach had a major impact on management thinkers and indeed changed the structure of the organization from bureaucratic to participative in which the workers have more freedom to participate in the affairs of the organization. As a result the belief that a human relation is the best approach for increasing productivity persists today.

#### **4.2.1.2. Mary Parker Follett (1868–1933)**

Follett is known for developing ideas regarding constructive conflict and coordination. According to her, conflict arises due to difference of opinions, or interests. She said, “As conflict (difference) is here in this world, as we cannot avoid it, we should, use it to work for us. Instead of condemning it, we should set it to work for us. Thus we shall not be

afraid of conflict, but shall recognize that there is a destructive way of dealing with such moments and a constructive way.”

Follett believed that managers could deal with conflict in three ways: **domination**(when a person or party deals with conflict by satisfying its desires and objectives at the expense of the other person or party’s desires and objectives),**compromise**(when each person or party deals with conflict by giving up some of what they want to achieve to reach agreement on a plan to reduce or settle a conflict), and **integration**(when each person or party deals with conflict by indicating their preferences and then working together to find an alternative that meets both of their needs).

Follett’s writing on the importance of coordination in organizations is another of her important contributions. According to Follett, there are four fundamental principles of organizations:

1. Coordination as the reciprocal relating of all the factors in a situation.
2. Coordination by direct contact of the responsible people concerned.
3. Coordination in the early stages.
4. Coordination as a continuing process.

Follett’s first principle recognizes that most things that occur in organizations are interrelated. Make just one change in an organization and other changes, some expected but some not, will occur. Because of these interrelations, leaders at different levels and in different parts of the organization must coordinate their efforts to solve problems and produce the best overall outcomes in an integrative way. In short, managers cannot manage their part of the organization while ignoring its other parts. What each manager does affects other parts of the organization and vice versa. The second principle, coordination by direct contact of the people concerned, and her third principle, coordination in the early stages, this way: “Direct contact must begin in the earliest stages of the process. . . . If the heads of departments confront each other with finished policies, agreement will be found difficult. . . . But if these heads meet while they are forming their policies, meet and discuss the questions involved, a successful co-relation is far

more likely to be reached. In other words, and things will work better if the people affected by organizational issues and problems meet early and directly to address them. Working with those involved or affected will produce more effective solutions than will isolating or ignoring them. With respect to her fourth principle, coordination as a continuing process, Follett said: “It is a fallacy to think that we can solve problems—in any final sense. The belief that we can do so is a drag upon our thinking. What we need is process for meeting problems.

When we think we have solved one, well, by the very process of solving, new elements or forces come into the situation and you have a new problem on your hands to be solved.” Consequently, there is always a need for early, integrative coordination of the people affected by organizational situations, problems, or issues.

Moreover she has made great contributions to management regarding power (“with” not “over” others), the giving of orders (discussing instructions and resentment), authority (flowing from job knowledge and experience, not position), leadership (that leaders make the team and that aggressive, dominating leaders may be harmful), coordination, and control (should be based on facts, information, and coordination). In the end, Follett’s contributions significantly shaped our understanding of the human, social, and psychological sides of management.

#### **4.2.2. Limitations of Human Relation School**

Although it has made a significant contribution in history of management, Human relations school has several limitations as well. It is considered to be a swing in the opposite direction of classical theory. In other words, they saw only human variables as critical and ignored other variables. With regard to its assumption about human nature this approach viewed man as a ‘social man’. But, so many serious questions have been asked, whether man is entirely a ‘social man’ and not an ‘economic man’.

Every organization is made of a number of diverse social groups with incompatible values and interests. These groups might cooperate in some spheres and compete and clash in others. It is practically impossible to satisfy everybody and turn the organization

into a big happy family. This approach over-emphasizes the importance of symbolic rewards which may not be appreciated by recipient's and underplays the role of material rewards .Further, the assumption about formation of informal groups is unrealistic and not very common. Workers do not come to the organization to seek affection and affiliation. Techniques of human relations school try to play a trick on workers to create a false sense of happiness, and are not really concerned with their real well being. There is a difference between allowing workers to participate in making decisions and letting workers think that they are participating. In this sense, this approach is also production-oriented and not employee-oriented. The assumptions that, satisfied workers are more productive, and that improved working conditions and human relations lead to increased output may, not be always true. Above all, human behavior is not the total field of concern of the manager.

Human relations movement, accepted scientific management's central goal of efficiency, but focused on individuals and on small-group processes rather than large organizations. It stressed communication, leadership and interpersonal relations, particularly between employees and their bosses. Like scientific management efforts, research in human relations, focused on the lower levels of organization rather than on the middle and upper groups, and hence lacked comprehensive scope.

#### **4.3. Behavioral School**

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 a revolutionary management experiment. It is a logical extension of human relations' school.

Since the Hawthorne experiments, there has been an increased interest in an application of, behavioral sciences in management. The human relations approach has evolved into modern behaviorism. The term modern behaviorism refers to the current stage of evolution of the behavioral school of management, which gives primacy to psychological considerations, but treats fulfillment of emotional needs mainly as a means of achieving other primary economic goals. Much of the discussions under behavioral schools can as well be considered under organizational (modern) humanism in modern management theory. Important behavioral scientists like Abraham Maslow, Douglas McGregor, Frederick Herzberg, Chester Barnard, and Mary Parker Follet are among those who contributed a lot to gain insight in ways to achieve managerial effectiveness and developing techniques to utilize people more effectively in organizations. They had rigorous training in various social sciences (such as psychology, sociology and anthropology) and used sophisticated research methods. They regard the classical management theory as highly mechanistic, which tends to degrade the human spirit and is non-responsive to the human needs. As against overly specialized jobs, under-utilized people, too much control over employees with no scope to make decisions, and little concern about subordinates needs for recognition and self-fulfillment, the behaviorists preferred more flexible organization structures, with jobs built around the capabilities and aptitudes of average employees.

To behavioral scientists, the realistic model of human motivation is complex. It suggests that different people react differently to the same situation or react the same way to different situations. The manager should alter and customize his/her approach to control people according to their individual needs.

## **Chapter summary**

Neoclassical theory is a group of management ideas that places emphasis on the social needs, drives, and attitudes of individuals. It is more human oriented approach than the classical theory. The main groups of neoclassical management school are Human relations school and behavioral school. Unlike the classical theories, the human relations approach to management focused on the psychological and social aspects of work. According to this school of thought business organizations have a responsibility to ensure the physical, mental and spiritual wellbeing of their employees. Elton Mayo the father of human relation movement was known for conducting a famous experiment called Hawthorne experiment. The findings of this experiment provided the impetus for the human relations movement.

Behavioral management is a logical extension of human relations' school. To behavioral scientists, the realistic model of human motivation is complex. It suggests that different people react differently to the same situation or react the same way to different situations. It gives primacy to psychological considerations, but treats fulfillment of emotional needs mainly as a means of achieving other primary economic goals.

### **Self-check exercises**

#### **Part I: Choose the best answer**

1. Who is known for the development of Hawthorne study?
  - A. Henry Fayol
  - B. Henry Metcalfe
  - C. Elton Mayo
  - D. Abraham Maslow
2. Which one is true about human relation school?
  - A. Employee performance will be affected by the work they did
  - B. Focus on technical aspect of the work
  - C. It is impersonal approach
  - D. Believed that economic factors are the only motivating factors
3. \_\_\_\_ theory considered that, Man is ‘a Social Man’.
  - A. Administrative management
  - B. Scientific management
  - C. Classical organizational theory
  - D. Human Relation School
4. Which one of the following shows the similarity between scientific management and human relation school?
  - A. Both of them focused on lower level organization
  - B. Both of them tried to bring efficiency within the organization
  - C. Both of them believed that man is purely economic man
  - D. A and B
5. Behavioral school is a further extension of \_\_\_\_ theory.
  - A. Human relation school
  - B. Administrative theory
  - C. Contingency theory
  - D. None

**Part II: Discuss the following questions**

6. According to Neoclassical management theory, effective management required a more human oriented approach. What are the reasons behind this assumption?

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7. Human relation school has been criticized for its assumption that satisfied workers are always productive. What do you think are the reasons for this criticism?

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## Chapter Five

### 5. The Modern Era

#### Learning Objectives

*Dear learners, at the end of this chapter, you will be able to:*

*Discuss the major approaches of modern management*

*Identify basic elements of systems*

*Describe the contributions and limitations of quantitative approach to management*

*Describe the characteristics of contingency theory*

#### 5.1. Characteristics of Modern approaches to Management

Modern management theories indicate further refinement, extension, and synthesis of all the classical and the Human relation approaches to management. Classical approach satisfied the basic economic needs of the organization and the society. The Human relation approach is trying to satisfy personal security, and social needs of workers. Both approaches must be suitably integrated to emphasize the need not only for recognition of human values but also for recognition of productivity simultaneously. Modern management must have the twin primary objectives of productivity (classical approach) and satisfaction (human relation approach). Under the modern management theory, we have the following streams.

- i. The Systems Approach
- ii. The Quantitative /Management Science Approach,
- iii. The Contingency Approach

## 5.2. The System Approach

The *system approach to management* is based on general system theory. *Ludwig von Bertalanffy* is recognized as the founder of general system theory. He was a scientist who worked mainly in the areas of physics and biology.

*Kenneth Boulding* built directly on Bertalanffy and Boulding developed their ideas in 1930's.

The system approach takes a holistic view of the entire organization system and stresses processes.

### 5.2.1. Systems Theory

The system theory was proposed in the 1940's by the biologist *Ludwig von Bertalanffy* (Anthology: General Systems Theory, 1968), and furthered by *Ross Ashby* (Introduction to Cybernetics, 1956). Von Bertalanffy was both reacting against *Reductionism* and attempting to revive the *Unit of Science*. He emphasized that real systems are open to, and interact with, their environments, and that they can acquire qualitatively new properties through *emergence*, resulting in continual *evolution*. Rather than reducing an entity (e.g. the human body) to the properties of its parts or elements (e.g. organs or cells), systems theory focuses on the arrangement of and *relations* between the parts which connect them into a whole (cf. *holism*). This particular organization determines a *system*, which is independent of the concrete substance of the elements (e.g. particles, cells, transistors, people, etc). Thus, the same concepts and principles of organization underlie the different disciplines (physics, biology, technology, sociology, etc.), providing a basis for their unification.

The main premise of the theory is that to understand fully the operation of an entity, the entity must be viewed as a system. To understand the system as a whole requires understanding the interdependence of the parts.

A system is a number of interdependent parts functioning as a whole for some purpose.

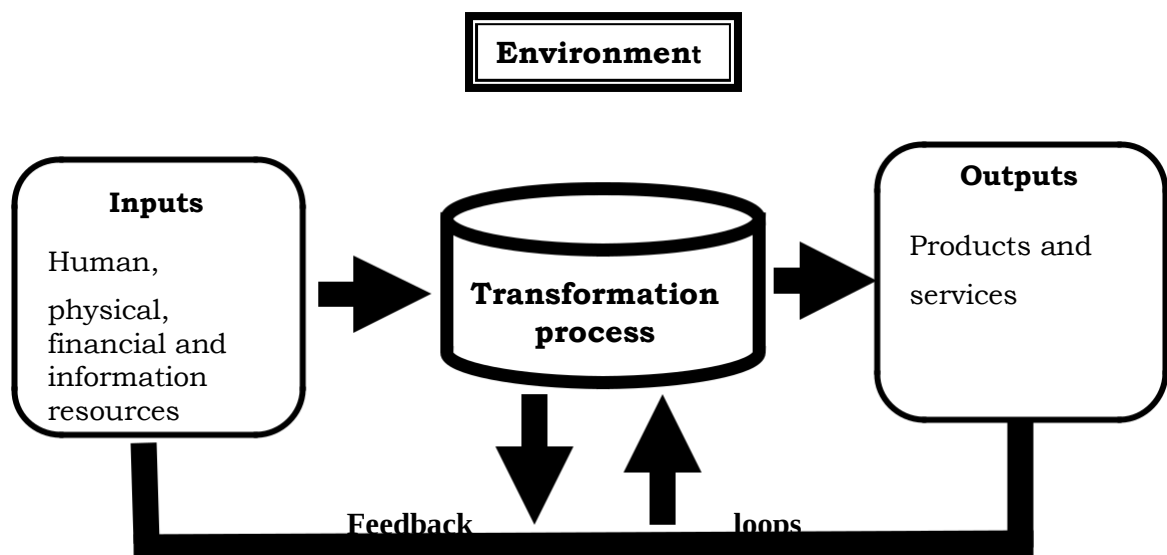
**General system theory** integrates the knowledge of various specialized fields so that the system as a whole can be better understood.

Management developed systems theory in 1960's & 1970's. *Kast and Rosenzweig* extended systems perspective to functioning of organizations.

A **system** is collective association of inter-related and interdependent parts. Just as the *human body* is a system with organs, muscles, bones, a nervous system, and a consciousness that links all parts together, an *organization* is a system with many departments that are linked by people working together. It is the relationships among human beings that define the system, not the machines and facilities.

A **system-oriented manager** makes decisions only after identifying other managers or departments that might be affected by the decision. The systems approach provides a frame of reference for managers who make decisions in a changing environment.

The **systems approach** is an approach in solving problems by diagnosing them within a framework of what are called the system's inputs, transformation process, and outputs in the light of feedback.



**Inputs** are the human, physical, material, financial, and information resources that enter the transformation process and leave it as outputs. At a university, for example, the inputs include students, faculty, money, buildings, and audio-visuals.

**Transformation processes** are the technologies used to convert inputs into outputs. In a university, the transformation processes are such technologies as lectures, reading assignments, lab experiments, term papers, and tests.

**Outputs** are the original inputs now in a changes condition. Outputs in a university include the graduating students.

**Feedback** is any form of information about a system's status and performance. One form of feedback in a university is the graduates' ability to get jobs. In an organization, feedback may take the form of marketing surveys, financial, reports, production records, performance appraisals, etc.

**Management's role** in the *systems approach* is to ease the transformation process by planning, organizing, leading, and controlling the system.

The main parts of the management system are organizational input (organizational resources), organizational process (the production process), and organizational output (finished goods/services). The parts represent a combination that exists to achieve organizational objectives.

General systems theory has important applications for management. Research shows that *effective communication* is crucial for managing large organizations.

The emergence of systems concepts during the late 1940's created new fields such as management information systems (MIS). The systems theory also led to scholarly research about the general principles of management.

Explain what does it mean by system approach to management?

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### 5.2.2. Management information system

The Management Information Systems (MIS) integrated networks of information that support decision making. Usually, the information is computerized, but also includes the human aspect of integrating information and data throughout the organization.

MIS is a natural extension of systems theory, in which interrelated components of organizations must be orchestrated. It includes the vertical integration of management functions from top-level executives to first-line supervisors. It includes horizontal integration of activities among functional areas such as production, marketing, personal, and finance.

One main role of MIS is to recognize *information as a resource*. Then use that resource to better achieve organizational objectives.

Using information resources effectively requires MIS managers to consider how best to collect, store, process, and transmit data. Information is like other resources such as labor, capital, and materials except that it is usually internally generated rather than acquired.

An MIS system includes people, hardware, software, data, and processes.

The *ultimate aim* of generating management information systems is not to overwhelm managers with information, but to create systems that provide sufficient and accurate information in a timely fashion.

The field of MIS evolved alongside computer technology. Using computers, however, is not the same as having an MIS.

Systems theory provides a way to interpret organizations. It takes “a holistic” view of the entire organizational system and processes.

### 5.2.3. Systems and Wholeness

The concept of “wholeness” is important in general system analysis. The system must be viewed as a whole and modified only through changes in its parts. A thorough knowledge of how each part functions and the inter-relationship among the parts must be present before modifications of the parts can be made for the overall body of the system.

*L. Thomas Hopkins* suggested *six guidelines for system wholeness* for use during system analysis:

6. The whole should be the main focus; the parts to receive secondary attention;
7. Integration is the key variable in wholeness analysis. It means inter-relatedness of parts within the whole;
8. Possible modifications of each part should be weighed against possible effects on every other part.
9. Each part has some role to perform so that the whole can accomplish its purpose.
10. The nature of the part and its function is determined by its position in the whole.
11. All analysis starts with the existence of the whole. The parts and their inter-relationships should then evolve to best suit the purpose of the whole.

### 5.2.4. Types of Systems

According to Bertalanffy, there are two types of systems – closed and open.

**Closed systems** are those that are not influenced by and do not interact with its environment. They are mostly mechanical and have necessary predetermined motions or activities that must be performed regardless of the environment. Examples: a clock’s wheels, gears, etc must function in a predetermined way if the clock as a whole is to exist and serve its purpose. Most production departments operate as closed systems -- they produce standardized products in an uninterrupted process.

**Open system** interacts with the external environment. Managers in a marketing department, for example, constantly try to respond to changes in customer's desires. They monitor what competitors are doing, then develop ways in which their organizations can deliver better quality and service at a lower price.

The external environment includes the social, political, legal, technological, and economic forces that affect the system.

A **subsystem** is one of possibly many lower levels within a larger system. Subsystems in Panasonic include its marketing, human resources, production, accounting, and finance departments.

Panasonic is a subsystem of its parent corporation – Matsushita. Matsushita is a subsystem of Japan's overall economic subsystem, which is part of the world's economic system.

What is the difference between open and close systems?

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#### 5.2.5. Other Concepts from Systems Theory

Aside from Open System versus Closed System, the other concepts from systems theory are:

1. **Efficiency** --the ratio of outputs to inputs.
2. **Effectiveness** -- the degree to which the organization's outputs correspond to the needs and wants of the external environment.

3. ***Equifinality*** -- there are many avenues to the same outcome. A system theory suggests that many different combinations of subsystems, ideas, and methods can lead to the same goal. This is in contrast with the one best way “concept of scientific management”.
4. ***Synergy*** --the whole is greater than the sum of its parts.

## **Systems Theory**

### **Key Concepts**

- \* Organization is viewed as an open system
- \* Management must interact with its environment to gather inputs and return the outputs of its production.
- \* Organizational objectives must encompass both efficiency and effectiveness
- \* Organizations contain a series of subsystems.
- \* There are many avenues to the same outcome
- \* Synergies exist where the whole is greater than its parts.

### **Contributions**

- \* Recognized the importance of the organization’s relationship with the external environment
- \* Systems analysis is helping computer experts develop hardware as well as software with human-like intelligence; capable of processing languages and reasoning.
- \* Major impact on manufacturing through the use of computer-aided design (CAD) and computer-aided manufacturing (CAM)

### **Limitations**

- \* Does not provide specific guidance on the functions and duties of managers.
- \* Still have to develop techniques to effectively deal with the human aspects of management because systems analysis has been used primarily in the management of production processes and in the technical planning and decision-making areas of management

### 5.3. Quantitative/Management Science Approach

The **Quantitative Approach** to management is an approach based on decision theory, use of statistical techniques for problem solving, and application of mathematical models to organizational processes.

Churchman, Ackoff, and Arnoff define *Management Science or Operations Research (OR)* approach as:

1. An application for the scientific method to problems arising in the operation of a system and;
2. The solving of these problems by the solving of mathematical equations representing the system.

The **scientific method** involves:

1. **Observing** – systematically observe the system whose behavior must be explained to solve the problem.
2. **Constructing a model** – use these specific observations to construct a generalized framework (model) to be predicted.
3. **Deducing** – use the model to deduce how the system will behave under conditions that have not been observed but could be observed if the changes were made.
4. **Testing the model** – by performing an experiment on the actual system to see if the effects of changes predicted using the model actually occurs when the changes are made.

**Management Science** is an approach to management that relies on models and mathematical analysis to improve decision making. It uses mathematical models for qualified decision making models.

For example: a company will use consumer survey which will, in turn, trigger decisions about hiring employees, opening sales office, contracting with suppliers for materials, and so on.

Management Science (MS) can be traced to World War II when physicists and other “hard” scientists were organized into teams that eventually became known as Operations Research (OR) groups. The OR’s were used to apply mathematical techniques to defense and logistic problems. Using statistical models, supplied by Operations Research (OR) military experts were able to locate German submarines with high probability. One OR group was asked to determine which gun sights would best stop German attacks on British mainland. OR’s were used to plan strategic troop movements and deploy new weapons systems effectively.

After the war, private corporations began assembling teams of quantitative experts to tackle complex issues and to apply quantitative analysis to management problems and decisions.

Computers have facilitated the development of specific quantitative methods. These include such techniques as statistical decision theory, linear programming, queuing theory, simulation, forecasting, inventory modeling, network modeling, and break-even analysis.

Organizations apply these techniques in many areas of management -- production, quality control, marketing, human resources, finance, and distribution, planning, research and development.

**Management Science (MS)** is applied to **Operations Management (OM)** which is concerned with using quantitative methods for production and operations control. These methods are not necessarily mathematically complex. Most of them use simple statistics and are easily understood.

In this area of applied management, some techniques are inventory control models, materials-handling procedure, purchasing systems, production scheduling systems, and cost-control processes.

The applications of Operations Management (OM) are in production operations and service operations.

### **5.3.1. Characteristics of Management Science Application**

1. Large number of variables.
2. Use of economic implications as guidelines for particular decision-making.
3. Use of mathematical models to investigate the decision situation. Models are constructed to represent reality and then used to determine how the real world situation might be improved.
4. Use of computer. The great complexity of the problems and the sophisticated mathematical analysis required of problem-related information are two factors that make computers valuable to MS analyst.

What are the contributions of management science approach in management?

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### **Quantitative/MS Approach**

#### **Key Concept**

- \* Application of quantitative analysis to management decisions.

#### **Contributions**

- \* Developed specific mathematical methods of problem analysis.
- \* Helped managers select the best alternative among a set

#### **Limitations**

- \* Model neglect non-quantifiable factor.
- \* Managers not trained in these techniques and may not trust or understand the outcomes of techniques.
- \* Not suited to non-routine or unpredictable management decisions.

### **5.4. Contingency Approach**

**Contingency Management** is an approach to management that suggests leadership behavior should be adapted to accommodate different situations, or alternatively, leaders should be assigned to situations that best fit their leadership styles.

Rather than suggest “the best one way” to manage, a contingency approach implies that there are many effective ways to behave as managers, each depending on circumstances of the work environment.

Research showed that management methods used in one circumstance seldom work the same way in other circumstances.

In simple terms, contingency approach suggests that what managers do in practice depends on, or is contingent on, a given set of circumstances -- a situation. In essence, this approach stresses the “if-then” relationships. “If” this situational variable exists, “then” this is the action a manager probably would take.

In general, the contingency approach attempts to outline the conditions or situations in which the various management methods have the best chance to succeed. This approach is based on the premise that although there is probably *no one best way* to solve a management problem *in all organizations*, there probably is one best way to solve any given management problem in any one organization.

Perhaps the main challengers of using the contingency approach are:

1. Accurately perceiving organizational situations as they actually exist.
2. Choosing the management tactics best suited to those situations.
3. Competently implementing those tactics.

The general consensus of contingency writers is that if managers are to apply management concepts, principles and techniques successfully, they must consider the realities of the specific organizational circumstances they face. "These include factors internal and external to the organization.

The contingency theory is a problem-solving approach. It dictates that managers should consider the major elements in a situation before making a decision, determining what management style to use, determining how to structure an organization, or determining a plan or a budget.

As one manager puts it the contingency viewpoint really means "it all depends."

It means different situations require different practices and allows the use of the other viewpoints or approaches separately or in combination to deal with various problems.

Applying the contingency approach requires the development of conceptual skills. Managers must be able to diagnose and understand a given situation thoroughly -- to determine which approach is most likely to be successful -- before making a decision.

The manager's interpersonal and communications skills are essential for actually implementing the decision."

Hellriegel and Slocum identify three key contingencies variables -- people, environment, and technology.

#### **5.4.1. Common Contingencies**

Many organizations share key situational characteristics or contingencies that can be grouped together:

- Growth markets

  - Uncertain environments

  - Corporate strategies

  - The rate of change and degree of complexity in the organization's external environment.

- The internal strengths and weaknesses of the organization

  - The values, goals, skills, and attitudes of managers and workers in the organization

- The types of tasks, resources, and technologies the organization uses.

Depending on those contingencies, a manager may categorize the situation and use the proper competitive strategy, organization structure, or management process for the circumstances.

The relative importance of each contingency variable depends on managerial problem being considered.

#### **5.4.2. Trends in Contingency Approach**

*Fred E. Fiedler* undertook the first major research on contingency theory in 1967 in connection with his studies on style of leadership that a manager should use in a given situation. Leadership styles were characterized as either production-oriented or people-oriented. Fielder found that managers exhibit varying degrees of concern for production and for people.

*Paul Hersey* and *Kenneth H. Blanchard*, management researchers and authors, identified different factors on which a manager's leadership style depends. They believe that the maturity level of subordinate work group is the key factor. Therefore, leadership style should change depending on whether subordinates have low, medium, or high levels of maturity.

In this context, maturity means a combination of job skills and psychological maturity.

Spurred by research in leadership, contingency theory followed strategic planning, personnel, and marketing.

In the 1970's, virtually all management functions became contingent on the elements of a situation.

Examples of various contingency models:

In strategic planning, recommended actions are often based on the particular stage of the product or industry life cycle.

The design of the organization structure must match growth, size, environment, technological conditions, the requirements of strategy and the philosophy/vision of top management.

In choosing leadership style, managers should first determine the condition of several key factors, such as personality, dynamics of subordinate's work group, nature of subordinates job organizational structure and culture, etc.

In controlling performance, the manager must recognize the who, what, when, where, how, and why of the situation

What is contingency approach? Give an example of a contingency approach and discuss on it.

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### **Contingency Approach**

#### **Key Concepts**

- \* Situational contingencies influence the strategies, structures, and processes that result in high performance.
- \* There is no more than one way to reach a goal.
- \* Managers may adapt their organizations to the situation

#### **Contributions**

- \* Identified major contingencies
- \* Argued against universal application of principles of management.

#### **Limitations**

- \* Not all critical contingencies have been identified
- \* Theory may not be applicable to all managerial issues
- \* Cannot apply where quantity or number of combinations of variables are supernumerary.

### **5.5.Situational Management**

While true contingency theory would attempt to define the factors and prescribe behavior for a specified set of these factors and their conditions, this becomes virtually impossible when the number of potential combination of variables in any given situation is considered.

Charles Hofer, researcher of management strategy, for example, has determined that some 186,000,000 combinations of the 50+ key strategic planning variables exist.

Hence, contingency theory for most managers has evolved into situational management.

**Situational management** suggests that managers should consider the major elements or variables in a situation before making a decision, and then determine what action to take based on past experience and knowledge.

## **Summary**

Modern management theories indicate further refinement, extension and synthesis of all the classical and human relation approach to management. The classical approach satisfied the basic economic need of the organizations. But the issue of worker security and satisfaction were over looked, which was finally ensured through the dedicated efforts of the human relationists. More over the modern approach to theory of management are drawn from the twin product of the past two approaches (classical and human relation approach).thus; the modern approach to management theory answered both the economic objective of the organization while securing workers' satisfaction. The modern theory of management, perceive the organization as an integrated and interdependent components that work together to accomplish the goal. It also address about the issues of contingency approach, Quantitative approach and the Decision theory approach to management.

### Self-Check Exercise

#### Choose the best answer

1. Which of the following the advantage of quantitative approach?
  - A. Helped managers select the best alternative among a set
  - B. Model neglect non-quantifiable factor.
  - C. Managers not trained in these techniques and may not trust or understand the outcomes of techniques.
  - D. Not suited to non-routine or unpredictable management decisions.
2. One of the following emphasizes the importance of working together in a cooperative and coordinated fashion
  - A. System boundary
  - B. Sub system
  - C. Synergy
  - D. Entropy
  - E. None
3. Which one of the following is the contribution of contingency approach
  - A. Not all critical contingencies have been identified
  - B. Theory may not be applicable to all managerial issues
  - C. Cannot apply where quantity or number of combinations of variables are supernumerary.
  - D. Argued against universal application of principles of management
4. One of the following **is true** according to contingency approach
  - A. There is always one best way of doing things
  - B. Universal theories cannot be applied to organizations because each organization is unique
  - C. There is a generally accepted principle for managers to follow
  - D. There is a readymade solution for every problem dealt by managers
  - E. None
5. The systems approach to management
  - A. Indicates the dynamic and inter related nature of organizations
  - B. Demonstrated the interrelatedness of all aspects of organizations
  - C. Indicate the links between the organization and its environment
  - D. All
  - E. None

## Chapter Six

### 6. Theory of Motivation

#### Learning objectives

*Dear learners, at the end of this chapter, you will be able to:*

Define the term motivation

Trace the different theories of motivation

Identify the need levels in Maslow's hierarchy

Explain Aldfer's ERG theory

Describe the expectancy theory of motivation

Describe the two-factor theory of motivation

Contrast the different theories of motivation

Describe how inequity influences individual motivation and behavior

Identify the weakness and strengths of different theories of motivation

What is motivation?

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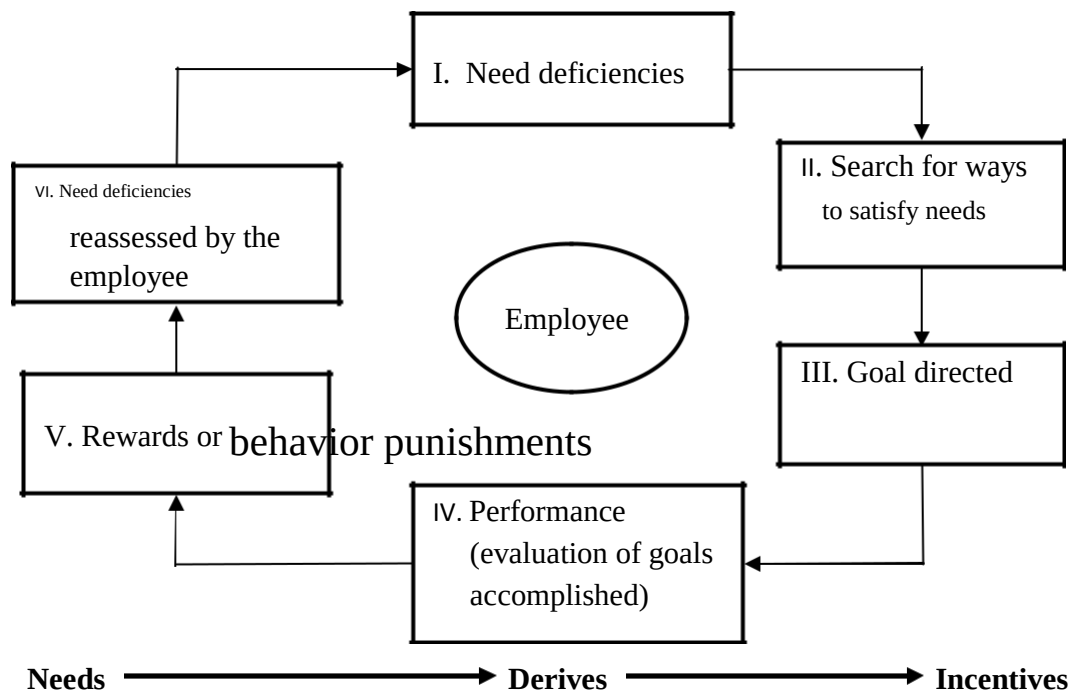
#### 6.1. Motivation

Motivation remains one of the most fascinating and perplexing area of managerial concern. The question, "How can I motivate my people?" has been philosophically and practically posed in many eras and many tongues.

It is not that the question is unanswerable; rather, too many answers exist. A multitude of methods for motivating employees have been proposed, each bearing some degree of validity and utility for the practicing manager.

### 6.1.1. The Concept of Motivation

Understanding of the concept of motivation lies in the meaning and relationships among needs, drives, and incentives. Needs sets up drives aimed at incentives. In a systems sense, motivation consists of these three interacting and interdependent elements:



1. **Needs:** Needs are created whenever there is a physiological or psychological imbalance. For example, a need exists when cells in the body are deprived of food and water or when the personality is deprived of other people who serve as friends or companions. Although psychological needs may be based on a deficiency, sometimes they are not. For example, an individual with a strong need to get ahead may have a history of consistent success.
2. **Drives.** With a few exceptions, drives, or motives (the two terms are often used interchangeably), are set up to alleviate needs. A physiological drive can be simply defined as a deficiency with direction. Physiological and psychological drives are action oriented and provide an energizing thrust toward reaching an incentive. They are at the very heart of the motivational process. The examples of the needs for food and water are translated

into the hunger and thirst drives, and the need for friends becomes a drive for affiliation.

3. **Incentives.** At the end of the motivation cycle is the incentive, defined as anything that will alleviate a need and reduce a drive. Thus, attaining an incentive will tend to restore physiological or psychological balance and will reduce or cut off the drive. Eating food, drinking water, and obtaining friends will tend to restore the balance and reduce the corresponding drives. Food, water, and friends are the incentives in these examples.

These dimensions of the basic motivation process serve as a point of departure for the content and process theories of work motivation. After discussion of primary, general, and secondary motives, those work-motivation theories, more directly related to the study and application of organizational behavior and human resource management are examined.

**Primary motives;** Such motives are variously called physiological, biological, unlearned, or primary. Two criteria must be met in order to be included in the primary classification: *It must be unlearned, and it must be physiologically based.* These include hunger, thirst, sleep, avoidance of pain, sex, and maternal concern. Although the precedence of primary motives is implied in some motivation theories, there are many situations in which general and secondary motives predominate over primary motives.

**General motives;** There are a number of motives that lie in the grey area between the primary and secondary classifications. To be included in the general category, *a motive must be unlearned but not physiologically based.* Thus, these needs are sometimes called “stimulus motives.” The motives of curiosity, manipulation, activity, and affection seem to best meet these criteria for this classification. General motives are more relevant to organisational behaviour than are primary motives.

**Secondary motives;** The secondary drives are questionably the most important to the study of human behaviour in organisations. As human society develops economically and becomes more complex, the primary drives, and to a lesser degree the general drives, gives way to the learned secondary drives in motivating behaviour. Secondary motives are closely tied to the learning concepts. In particular, the learning principle of reinforcement is conceptually related to motivation. The relationship is obvious when

reinforcement is divided into primary and secondary categories and is portrayed as incentives.

*A motive must be learned in order to be included in the secondary classification.* Need for power, achievement, affiliation, security and status are important secondary needs.

## **6.2. Early Theories of Motivation**

The early theories motivation evolved through three different eras ; the traditional approach , the human relation n approach and the human recourse approach .

**The traditional approach:** - the traditional approach to employee motivation is represented explicitly by the work of Fredrick W. Taylor who suggested the use of an incentive pays system. Taylor believed that management knows more clearly about the job being performed than the worker and he assumed economic gain was every ones primary motivation .Other assumption of traditional approach were the fact that work is inherently unpleasant for most people and that the money employees earn is more important than the nature of the job they are performing .People could expected to perform any kind of job if they were paid enough .

**The human relations approach:-** the human relation approach grew out of the work at western electric of Elton mayo and his associates .The human relationists emphasized the role of social processes in the work place. Their basic assumptions were that employees want to feel useful and important ,employees have strong social needs and that these needs are more important than money in motivating employees . Advocates of the human relations approach advise managers to make workers feel important and allow them a modicum of self direction and self control in carrying out routine activities. The human relationists believed that the illusion of contribution and participation enhanced motivation.

### 6.3. Contemporary Theories of Motivation

Although it is recognised that work-motivation theories are generally categorised into content and process approaches, equity and procedural justice theories have emerged in recent years and command most of the attention.

### 6.4. The Content Theories of Motivation

The content theories of work motivation attempt to determine what that is motivate people at work. The content theorists are concerned with identifying the needs/drives that people have and how these need/drives are prioritized. They are concerned with the types of incentives or goals that people strive to attain in order to be satisfied and perform well. Content theories do not necessarily predict work motivation or behavior, but are still important to understand what motivates people at work. They explain the dynamics of employee needs; why people have different needs at different times; understanding which we can discover what motives them

| Maslow's Needs Hierarchy | Alderfer's ERG Theory | Herzberg's Motivator- Hygiene                                                                                             | McClelland Learned Needs Theory |
|--------------------------|-----------------------|---------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| Self- Actualization      | Growth                | <b>Motivator's</b><br>Achievement<br>Personal growth<br>Responsibility<br>Advancement<br>Recognition                      | Need for achievement            |
| Esteem                   |                       |                                                                                                                           | Need for power                  |
| Belongingness            | Relatedness           | <b>Hygiene's</b><br>Supervisor relations<br>Co-worker relations<br>Job security<br>Company policies<br>Working conditions | Need for affiliation            |
| Safety                   | Existence             |                                                                                                                           |                                 |
| Physiological            |                       |                                                                                                                           |                                 |

Content theories of motivation compared

## 6.5. Maslow's Need Hierarchy

**Abraham Maslow** (1908-1970) based his theory of human behavior on the idea that individuals work to satisfy human needs, including simple physiological needs, such as food, and complex psychological needs such as self-esteem.

Maslow observed that a fulfilled need did little to motivate an employee. For example, a person who has sufficient food to eat cannot be easily enticed to do something for a reward of food. In contrast, a person with an unfulfilled need could be persuaded to work to satisfy that need. Thus, a hungry person might work hard for food. Maslow called this the **deficit principle**.

The **deficit principle** is a crucial aspect of Maslow's theory of motivation based on human needs that suggests an unsatisfied need becomes a focal motivator, while a satisfied need no longer influences an individual's behavior.

Maslow suggested that managers be alert for unmet needs and then create rewards to satisfy them.

Maslow formulated a **progression principle** -- a concept that successively higher-order needs in his hierarchy of needs are not active motivators until lower-order needs are fulfilled. In other words, successively higher-level needs are activated once lower-level needs are met.

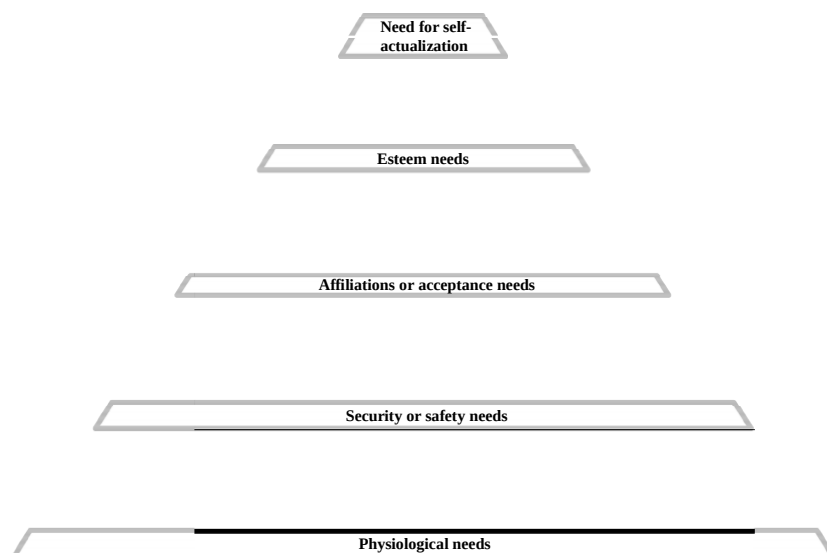
In Maslow's view lower-level needs that go unfulfilled tend to take the precedence in an employee's mind over higher-level needs.

For example, for someone who is hungry, the need for food will far outweigh the need for self-respect. This particular aspect of Maslow's work is controversial because many people ignore lower-level needs such as safety and security to satisfy higher-order needs such as the social need for love.

The basic human needs placed by Maslow in an ascending order of importance and shown in Figure are these:

1. **Physiological needs.** These are the basic needs for sustaining human life itself, such as food, water, warmth, shelter, and sleep. Maslow took the position that until these needs are satisfied to the degree necessary to maintain life, other needs will not motivate people.
2. **Security or safety needs.** These are the needs to be free of physical danger and the fear of loss of a job, property, food, or shelter.
3. **Affiliation or acceptance needs.** Since people are social beings, they need to belong, to be accepted by others.
4. **Esteem needs.** According to Maslow, once people begin to satisfy their need to belong, they tend to want to be held in esteem both by themselves and by others. This kind of need produces such satisfaction as power, prestige, status, and self-confidence.
5. **Need for self-actualization.** Maslow regards this as the highest need in his hierarchy. It is the desire to become what one is capable of becoming to maximize one's potential and to accomplish something.

### Maslow's needs hierarchy



### 6.5.1. Managerial Implications

Research has found that top managers generally are more able to satisfy their esteem and self-actualization needs than are lower level managers.

Line managers perceive greater fulfillment of security, affiliation, esteem, and self-actualization needs than do staff managers. The largest differences between line and staff managers occur in meeting esteem and self-actualization needs.

Top managers tend to have more challenging jobs and an opportunity for self-actualization. Lower level managers, on the other hand, tend to have more routine jobs, which makes satisfying higher level needs more difficult. Employees who have little or no control over their work (such as assembly-line workers) may not even experience higher level needs in relation to their jobs.

Fulfillment of needs differs according to the job a person performs, a person's age or race, the size of the company, and the cultural background of the employee. Young workers (25 or younger) have greater deficiencies in meeting esteem and self-actualization needs than do older workers (36 or older).

At lower levels of management, managers of small companies are less deficient in meeting their needs than are managers who work for larger companies. However, managers at upper levels in large companies are more satisfied than their counterparts in small companies.

*What are the five categories of motivational needs described by Maslow? Give an example of how each can be satisfied.*

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## 6.6. Theory X and Theory Y

McGregor utilized the needs hierarchy to develop polarized assumptions about workers based on whether they are motivated by lower order needs or by higher order needs. Furthermore, he suggested that individuals in organizations should be treated differently depending on which level of needs motivated them. **Theory X** represents the assumptions associated with managing individuals motivated by lower order needs. **Theory Y** represents the assumptions associated with managing individuals motivated by higher order needs.

*What are the Theory X and Theory Y assumptions about people at work? How do they relate to the hierarchy of needs?*

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## 6.7. Alderfer's ERG Theory

Clay Alderfer agrees with Maslow that individuals have a hierarchy of needs. But instead of the five categories of needs suggested by Maslow, Alderfer's ERG Theory holds that the individual has three sets of basic needs: existence, relatedness, and growth. Alderfer describes them as follows:

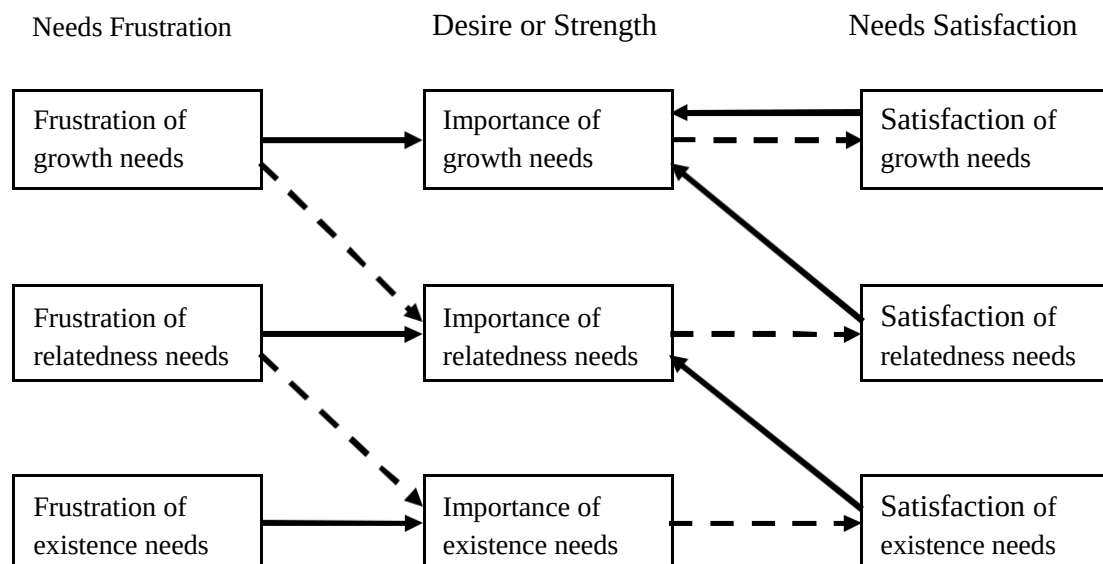
Existence needs, or material needs, which are satisfied by food, air, water, pay, fringe benefits, and working conditions.

Relatedness needs, or needs for establishing and maintaining interpersonal relationships with co-workers, superiors, subordinates, friends, and family.

Growth needs, or needs that are expressed by an individual's attempt to find opportunities for unique personal development by making creative or productive contributions at work.

The arrangement of these categories of needs is similar to Maslow's. Existence (E) needs are similar to Maslow's physiological and safety needs; relatedness (R) needs are similar to Maslow's affiliation needs; and growth (G) needs are similar to Maslow's esteem and self-actualization needs.

However, the two theories differ in their views of how way people satisfy the different sets of needs. Maslow states that unfilled needs are motivators and that the next higher level need is not activated until the preceding lower level need is satisfied. Thus a person progresses up the needs hierarchy as each set of lower level needs is satisfied. In contrast, ERG theory suggests that in addition to this fulfillment-progression process, a frustration-regression process is at work at the same time. That is, if a person is continually frustrated in attempts to satisfy growth needs, relatedness needs will re-emerge as a major motivating force. The individual will return to satisfying this lower level need instead of attempting to satisfy growth needs, and frustration will lead to regression. Figure below illustrates these relationships.



The solid line indicates a direct relationship between the set of needs, desire, and needs satisfaction. The dotted line represents what happens when a set of needs is frustrated. For example, if a person's growth needs are frustrated, the importance of relatedness needs increases. The same behavior that had led to the frustration of growth needs now

becomes the means for the person to satisfy relatedness needs. The frustration-regression process assumes that existence, relatedness, and growth needs vary along a continuum of concreteness, with relatedness being the most concrete and growth being the least concrete. Alderfer further assumes that when the lesser concrete needs is not met; more concrete need fulfillment is sought. (Note that the direction of the dotted lines in Figure above is downward from needs frustration to needs importance.)

#### **6.7.1. Managerial Implications**

The ERG theory states that individuals will be motivated to engage in behavior to satisfy one of the three sets of needs. Thus Alderfer's ERG theory provides an important insight for managers. If a manager observes that a subordinate's growth needs are blocked, perhaps because the job doesn't permit satisfaction of these needs or the company lacks the resources to satisfy them, the manager should attempt to redirect the subordinate's behavior toward satisfying relatedness or existence needs.

Because it is relatively new, very few research studies have tested the ERG theory of motivation. However, several studies support the concept of the three sets of needs in the ERG theory, rather than the five categories of needs in Maslow's hierarchy. Some of the most interesting findings are:

Individuals with parents who have more education had greater growth needs than did individuals with parents who have less education.

Men had higher strength of existence needs and lower strength of relatedness needs than did women.

Blacks showed significantly greater strength of existence needs than did whites.

#### **6.8. Herzberg's Dual-Factor Theory**

Maslow's need approach has been considerably modified by Frederick Herzberg and his associates. Their research purports to find a two-factor theory of motivation. In one group of needs are such things as company policy and administration, supervision, working conditions, interpersonal relations, salary, status, job security, and personal life. These

were found by Herzberg and his associates to be only dissatisfiers and not motivators. In other words, if they exist in a work environment in high quantity and quality, they yield no dissatisfaction. Their existence does not motivate in the sense of yielding satisfaction; their lack of existence would, however result in dissatisfaction. They were consequently referred to as “hygiene” factors.

In the second group, Herzberg listed certain satisfiers -- and therefore motivators -- all related to job content. They included achievement, recognition, challenging work, advancement, and growth in the job. Their existence will yield feelings of satisfaction or no satisfaction (dissatisfaction). As we can see from figure, the factors identified by Herzberg are similar to those suggested by Maslow.

The first group of factors Herzberg called maintenance or hygiene factors. Their presence will not motivate people in an organization; yet they must be present, or dissatisfaction will arise. The second group, or the job content factors, he found to be the real motivators because they have the potential; of yielding a sense of satisfaction. Clearly, if this theory of motivation is sound, managers must give considerable attention to upgrading job content.

How do hygiene and motivational factors differ? What are the implications of the two-factor theory for managers?

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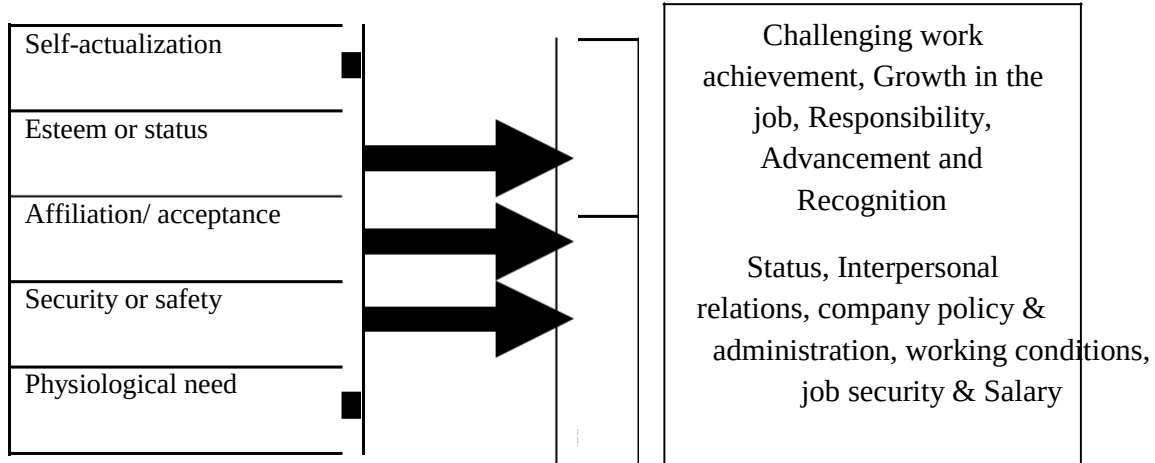
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### 6.8.1. Comparison of Maslow's and Herzberg's Theories of Motivation

#### Maslow's Need Hierarchy

#### Herzberg's Two-Factor Theory



Source: Koontz, Weihrich, Essentials of Management

**Apocalyptic liberation** is that state of life beyond the level of self-fulfillment. It is that stage in life when a person is "unbound" from the demands of work whether as business owner or professional manager. His goals are service to, or betterment of society, humanity, the environment, or other "causes," or simply inner peace and happiness.

### 6.9. McClelland's Learned Needs Theory

McClelland has proposed a theory of motivation that is closely associated with learning concepts. He believes that many needs are acquired from the culture. Three of these learned needs are the need for achievement (**n Ach**), the need for affiliation (**n Aff**), and the need for power (**n Pow**).

McClelland contends that when a need is strong in a person, its effect is to motivate the person to use behavior that leads to its satisfaction. For example, having a high **n Ach** encourages an individual to set challenging goals, to work hard to achieve the goals, and to use the skills and abilities needed to achieve them.

Based on research results, McClelland developed a descriptive set of factors that reflect a high need for achievement. These are:

1. The person likes to take responsibility for solving problems.
2. The person tends to set moderate achievement goals & is inclined to take calculated risks.
3. The person desires feedback on performance.

The need for affiliation reflects a desire to interact socially with people. A person with a high need for affiliation is concerned about the quality of important personal relationships, and thus, social relationships take precedence over task accomplishment. A person with a high need for power, meanwhile, concentrates on obtaining and exercising power and authority. He or she is concerned with influencing others and winning arguments. Power has two possible orientations according to McClelland. It can be negative in that the person exercising it emphasizes dominance and submission. Or power can be positive in that it reflects persuasive and inspirational behavior.

The main theme of McClelland's theory is that these needs are learned through coping with one's environment. Since needs are learned, behavior, which is rewarded, tends to recur at a higher frequency. Managers who are rewarded for achievement behavior learn to take moderate risks and to achieve goals. Similarly, a high need for affiliation or power can be traced to a history of receiving rewards for sociable, dominant, or inspirational behavior. As a result of the learning process, individuals develop unique configurations of needs that affect their behavior and performance.

*What three manifest needs does McClelland identify?*

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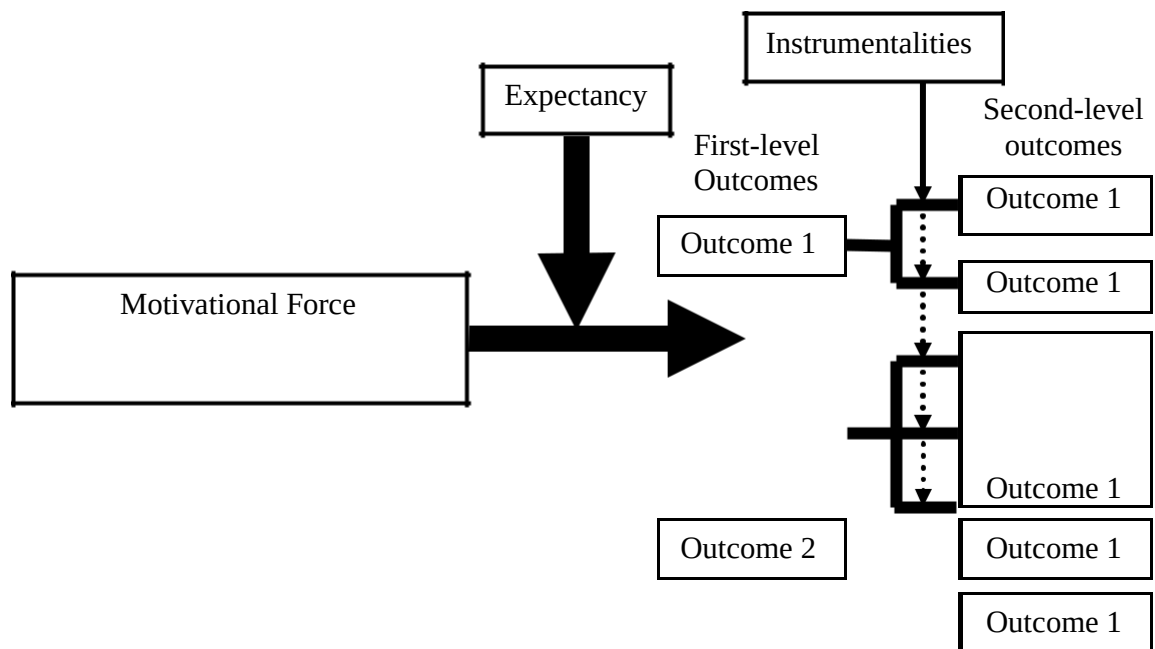
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### **6.10. Vroom's Expectancy Theory of Motivation**

Vroom defines motivation as a process governing choices among alternative forms of voluntary activity.



In his view, most behaviors are considered to be under the voluntary control of the person & consequently are motivated. Figure below summarizes the Vroom's model. It is necessary to define the terms of the theory and explain how they operate.

**First-level & Second-level Outcomes:** First-level outcomes resulting from behavior are those associated with doing the job itself and include productivity, absenteeism, turnover, and quality of productivity.

The second-level outcomes are those events (rewards or punishments) that the first-level outcomes are likely to produce, such as merit pay increases, group acceptance or rejection, promotion, and termination.

#### 6.10.1. Valence

Valence means the strength of an individual's preference for a particular outcome. Outcomes are positively valued when it is preferred and negatively valued when it is not preferred or is avoided. An outcome has a valence of zero when the individual is indifferent to attaining or not attaining it.



### 6.10.2. Instrumentality

Another major input into the valence is the instrumentality of the first-level outcome in obtaining a desired second-level outcome. Instrumentality is the perception by an individual that first level outcomes (performance) are associated with second-level outcomes (rewards/punishment). Instrumentality can be negative, suggesting that attaining a second-level outcome is less likely if a first-level outcome has occurred, or positive, suggesting that the second-level outcome is more likely if the first-level outcome has been obtained.

### 6.10.3. Expectancy

The belief that a particular level of effort will be followed by a particular level of performance is called expectancy. In other words, it refers to the individual's belief regarding the likelihood or subjective probability that a particular behavior will be followed by a particular outcome. Expectancy can take values ranging from 0, indicating no chance that an outcome will occur after the behavior or act, to +1, indicating perceived certainty that a particular outcome will follow a behavior or act.

*Expectancy relates efforts to first-level outcomes, whereas instrumentality relates first-level outcomes and second-level outcomes.* In other words, expectancy in Vroom's theory is probability (ranging from 0 to +1) that a particular action or effort will lead to a particular first-level outcome. *Instrumentality refers to the degree to which a first-level outcome will lead to a desired second-level outcome.* In summary, the strength of the motivation to perform a certain act will depend on the algebraic sum of the products of the valences for the outcomes (which include instrumentality) times the expectancies.

### 6.10.4. Managerial Implications

While there are still problems with expectancy theory, it has some direct implications for motivating employees. These implications can be grouped into six suggestions for managerial action.

First, managers should try to determine the outcomes that each employee values. They can do so by (1) using a questionnaire; (2) observing employee reactions to different rewards; and (3) asking employees about their career goals and the kinds of rewards they want. However, managers must understand that employees can and do change their minds about desired outcomes. The effective manager correctly diagnoses these changes and also does not assume that all employees are alike.

Second, managers should determine the kinds of performance they desire. They must define good performance and adequate performance in terms that are observable and measurable, so that subordinates can understand what managers' desire of them.

Third, managers should make sure that desired levels of performance can be attained. Motivation is determined not only by expectancy, but also by instrumentality. This means that the levels of performance set by managers as the points at which employees receive desired outcomes must be attainable. If employees feel that the level of performance necessary to get a reward is higher than they can reasonably achieve, their motivation to perform will be low.

Fourth, managers should directly link the specific performance they desire to the outcomes desired by employees. If an employee has achieved the desired level of performance and wants a promotion, the manager should promote that person as soon as possible. If a high level of motivation is to be created and maintained, it is extremely important for employees to clearly see the reward process at work in a timely manner. Concrete acts must accompany statements of intent in linking performance to rewards. Managers should not forget that it is an individual's perceptions—not reality—that determines motivation. It does not matter, for example, whether a manager feels that subordinates' pay is related to their motivation. Employees will be motivated by pay raises only if *they* see the relationship. Too often, managers misunderstand the behavior of their subordinates because they tend to rely on their own perceptions of the situation and forget that their subordinates' perceptions may be different.

Fifth, managers should analyze the situation for conflicts. Having set up positive

expectancies for employees, managers must look at the entire situation to see whether other factors conflict with the desired behaviors (for example, the informal work group or the organization's formal reward system). Motivation will be high only when employees see many rewards and few negative outcomes associated with good performance.

Sixth, managers should make sure that changes in outcomes or rewards are large enough to motivate significant behavior. Trivial rewards may result in minimal efforts, if any, to improve performance. Rewards must be large enough to motivate individuals to make the effort required to significantly change performance.

*What are the key concepts in the expectancy theory of motivation?*

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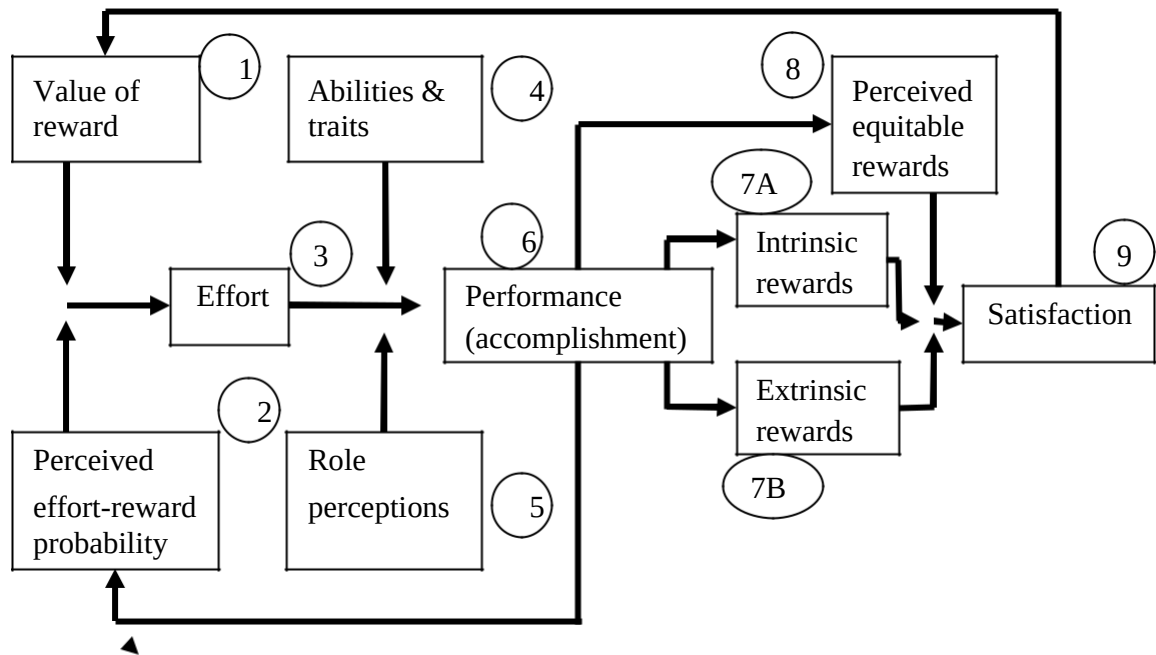
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### **6.11. The Porter-Lawler Model of Motivation**

Although satisfactions make an input into Vroom's concept of valence and although the outcomes have performance implications, it was not until Porter and Lawler refined and extended Vroom's model (for example, the relationships are expressed diagrammatically rather than mathematically, there are more variables, and the cognitive process of perception plays a central role) that the relationship between satisfaction and performance was dealt with directly by a motivation model.



Porter and Lawler start with the premise that motivation (effort or force) does not equal satisfaction or performance. Motivation, satisfaction, and performance are all separate variables and relate in ways different from what was traditionally assumed.

As shown in the figure above, the value of the expected reward to the individual combines with the individual's perception of the effort involved in attaining the reward and the probability of achieving it to produce a certain level of effort. This effort combines with the individual's abilities and traits and the way he or she sees the task to yield a specific performance level. This resulting level of performance leads to intrinsic rewards (or negative consequences if the performance level is lower than expected) that are inherent in the task accomplishment and perhaps to extrinsic rewards. The individual has his or her own idea about the appropriateness of the total set of rewards received, which when measured against the rewards actually received, results in the level of satisfaction experienced by the individual. The individual's experience will then be applied to his or her future assessments of the values of rewards for further task accomplishment.

### **Implications for practice**

Porter and Lawler recommend that practicing managers go beyond traditional attitude measurement and attempt to measure variables such as the values of possible rewards, the perceptions of effort-reward probabilities, and role perceptions. These variables, of course, can help managers better understand what goes into employee effort and performance. Giving attention to the consequences of performance, Porter and Lawler also recommend that organizations critically re-evaluate their current reward policies. They stress that management should make a concentrated effort to measure how closely levels of satisfaction are related to levels of performance, and recently a practitioner-oriented article emphasized that the accuracy of role perceptions may be the missing link in improving employee performance. The inference here is that employees need to better focus their efforts on high-impact behaviors and activities that result in higher performance. However, both studies and comprehensive analyses continue to point out the complex impact that the cognitive process has in relation to rewards and other outcomes in organizations.

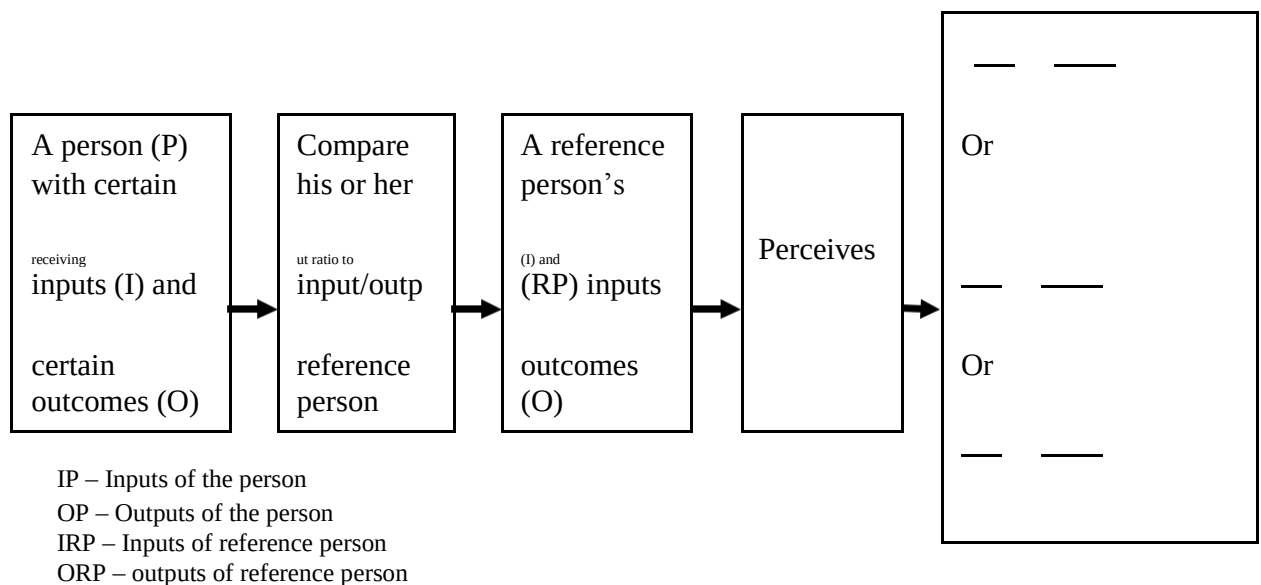
| <b>Implication For Managers</b>                                                                                                                                                                                                                                                         | <b>Implication For Organizations</b>                                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Determine the rewards valued by each subordinate<br>Determine the performance you desire<br>Make the attainable performance level available<br>Link rewards to performance<br>Analyze what factors might counteract the effectiveness of the reward<br>Make sure the reward is adequate | Organizations usually get what they reward, not what they want.<br>The job itself can be made intrinsically rewarding<br>The immediate supervisor has an important role in the motivation process |

### **6.12. J.Stacy Adam's Equity Theory**

Equity theory refers to an individual's subjective judgements about the fairness of the reward she or he got, relative to the inputs (which may include many factors such as effort, experience, education, and so on), in comparison with the rewards of others.

The essence of *equity* (which also means "fairness") theory is that employees compare their efforts and rewards with those of others in similar work situations. This theory of motivation is based on the assumption that individuals are motivated by a desire to be equitably treated at work. The individual works in exchange for rewards from the organization. Four important terms in this theory are:

1. **Person.** The individual for whom equity or inequity is perceived
2. **Comparison other.** Any group or persons used by Person as a referent regarding the ratio of inputs and outcomes
3. **Inputs.** The individual characteristics brought by Person to the job. These may be achieved (e.g., skills, experience, learning) or ascribed (e.g., age, sex, race)
4. **Outcomes.** What Person received from the job (e.g., recognition, fringe benefits, pay)



Equity occurs when employees perceive that the ratios of their inputs (efforts) to their outputs (rewards) are equivalent to the ratios of other employees. Inequity exists when these ratios are not equivalent; an individual's own ratio of inputs to outcomes could be greater than, or less than, that of others.

### 6.12.1. Consequences of Inequity

Employees are motivated to reduce or eliminate their feelings of inequity by correcting the inequitable situation. There are six possible ways to reduce feelings of inequity. Notice, however, that the strategy used depends on the persons past experience as well as whether they are under or over rewarded.

1. ***Changing inputs***— under rewarded workers tend to reduce their effort and performance if these outcomes don't affect their paycheck. Overpaid workers sometimes (but not very often) increase their inputs by working harder and producing more.
2. ***Changing outcomes***— People with under reward inequity might ask for more desired outcomes, such as a pay increase. If this does not work, some are motivated to join a labor union and demand these changes at the bargaining table. Others misuse sick leave for more paid time off. At the extreme, some people steal company property or use facilities for personal use as ways to increase their outcomes.
3. ***Changing perceptions***— Employees may distort inputs and outcomes to restore equity feelings. Over rewarded employees typically follow this strategy because it's easier to increase their perceived inputs (seniority, knowledge, etc.) than to ask for less pay!
4. ***Leaving the field***— some people try to reduce inequity feelings by getting away from the inequitable situation. Thus, equity theory explains some instances of employee turnover and job transfer. This also explains why an under rewarded employee might take more time off work even though he or she is not paid for this absenteeism.
5. ***Acting on the comparison other***— Equity is sometimes restored by changing the comparison others inputs or outcomes. If you feel over rewarded, you might encourage the referent to work at a more leisurely pace. If you feel under rewarded, you might subtly suggest that the overpaid co-worker should be doing a larger share of the workload.
6. ***Changing the comparison other***— If we can't seem to alter the outcome/ input

ratio through other means, we might eventually replace the comparison other with someone having a more compatible outcome/input ratio. As was mentioned earlier, we sometimes rely on a generalized comparison other, so feelings of inequity may be reduced fairly easily by adjusting the features of this composite referent.

#### 6.12.2. Managerial Implications

Managers should treat employees equitably. When individuals believe that they are not being treated fairly, they will try to correct the situation and reduce tension by means of one or more of the six types actions discussed above.

People make decisions concerning equity only after they compare their inputs and outcomes with those of comparable employees. These others may be employees of the same organization or of other organization. The latter presents a major problem for managers.

Women, and members of minority groups, have argued for pay based on comparable worth. Comparable worth means that individuals holding jobs that require similar qualifications and involve similar level of effort should receive equal pay.

The equity theory development goes beyond expectancy theory as a cognitive explanation of work motivation and serves as a departure for more specialized areas of current interest such as procedural justice.

*How is inequity determined by a person in an organization? How can inequity be resolved if it exists?*

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### 6.13. Procedural Justice

Equity theory focuses on fairly distributing outcomes to create an atmosphere of high, intense positive motivation. The concept of procedural justice states that people when reacting to organizational decisions and processes that affect them are influenced by procedures used to establish the outcomes. That is, employees are concerned with the fairness of the decision-making procedures, or what is referred to as *procedural justice*. This focus on procedural justice is in contrast to distributive justice, which is the basis of equity theory.

Procedural justice has been shown to have a positive impact on a number of affective and behavioral reactions. These reactions include:

- Organizational commitment
- Intent to stay with organization
- Organizational citizenship
- Trust in supervisor
- Satisfaction with decision outcome
- Work effort
- Performance

Positive consequences of procedural justice have been found in important organizational decision contexts including pay allocation, personnel selection, and performance appraisal. Since procedural justice can provide benefits to organizations, an important issue involves the types of decision-making procedures that people consider to be fair. People are more inclined to interpret decisions to be fair when they have a voice in the decision, there is consistency in decision making and the process and procedures conform to ethical and moral values.

Two explanations have emerged regarding why procedural justice works. Self-interest theory proposes that people want fair procedures because such fairness enables them to obtain desired extrinsic outcomes. Although a manager may decide not to promote a person, if the process has been fair it will be accepted.

Group value theory suggests that people value fairness as a means of realizing such desired intrinsic outcomes as self-esteem. People have a strong sense of affiliation with groups to which they belong. Fair group procedures are considered to be a sign of respect and an indication that they are valued members of the group. This results in feeling a sense of self-esteem.

Treating employees and customers fairly, respectfully, and in a timely manner is a worthy managerial approach. First, managers must understand the importance of procedural justice. Second, managers can achieve good performance results when procedural justice is widely practiced for decision making. Finally, employee perceptions are extremely critical in identifying procedural justice.

#### **6.13.1. The Relationship between Equity Theory and Procedural Justice**

Recent theory development specifies that equity theory can be extended into what is now commonly known as procedural justice. Equity theory explains conditions under which decision outcomes (pay levels, pay raises, promotions) are perceived as being fair or unfair. Persons engaged in this type of thinking examine the results as opposed to how those results were achieved. Equity theory is based on a perception of *distributive justice*, which is an individual's cognitive evaluation regarding whether or not the amounts and allocations of rewards in a social setting are fair. In simple terms, distributive justice is one's belief that everyone should "get what they deserve." Culturally, the Judeo-Christian ethic is based, in part, on the notion that divine rewards accrue to those who lead good lives and behave appropriately, even while here are on earth. This reflects the distributive justice and equity perspectives.

Procedural justice is concerned with the fairness of the procedure used to make a decision. For example, a pay raise may be based on a sales representative selling more units of, for example, automobiles or houses. Some coworkers may consider this procedure to be unfair; believing management should instead base pay rises on dollar volume. This conclusion may be reached because selling 10 houses or cars for a low amount of money each contributes very little to company profits and are, at the same time, easier to sell. Selling high-priced cars or houses may take much longer to finalize, but the profits gained for the company are also higher. In this case

it is not the outcome in dispute, which is the amount of the pay received. Instead, it is the perceived justice (fairness) of the procedure used to reach the outcome.

Procedural justice can raise issues of equality as opposed to equity. Equality means that in a promotion situation, males and females and all races would have equal opportunities to be selected, and that the criteria used would not discriminate. Equity would mean that the actual choice was fair, and that the criteria were correctly applied and therefore the most-qualified individual was promoted. The accompanying Managing Diversity and Ethics in Action box gives examples of how this is playing out in society at large. Both equity theory and procedural justice can be combined into organizational justice, which suggests that the process and the outcomes of organizational decisions regarding the distribution of resources should be properly carried out. Organizational justice can help explain why employees retaliate against both inequitable outcomes and inappropriate processes. Retaliation in the form of theft, sabotage, forged time cards, and even violence toward an employer can be explained using the principles of organizational justice.

#### **6.14. Goal Setting Theory**

Goal setting theory suggest that managers and subordinates should set goals for the individual on a regular basis . These goals should be moderately difficult and very specific .More ever , should be of a type that the employee will accept and commit to accomplishing . Rewards should be tied directly to reaching the goals. Thus , goal setting theory helps manager tailor rewards to individual needs , clarify expectancies , maintain equity , and provide systematic reinforcement. Thus, it provides a comprehensive frame work for integrating the other approaches.

## **Summary**

Motivation is the process of arousing and sustaining goal-directed behavior. Motivation theories attempt to explain and predict observable behavior. Motivation theories may be classified as internal, process, or external theories. Early economic theories of motivation emphasized extrinsic incentives as the basis for motivation and technology as a force multiplier. Early psychological theories of motivation emphasized internal needs but did not take into account individual diversity in these needs. Maslow's hierarchy of needs theory of motivation was the basis for McGregor's Theory X and Theory Y assumptions about people at work. According to McClelland, the needs for achievement, power, and affiliation are learned needs that differ among cultures. The two-factor theory found that the presence of motivation factors led to job satisfaction, and the presence of hygiene factors prevented job dissatisfaction. Expectancy theory says that effort is the basis for motivation and that people want their effort to lead to performance and rewards. Theories of motivation are culturally bound and differences occur between nations.

### Self Check Exercises

#### Choose the best answer

1. According to Maslow's need hierarchy theory the need for recognition and respect from others is
  - A. Physiological needs
  - B. Esteem needs
  - C. Social needs
  - D. Safety needs
  - E. Self-actualization
2. One of the following **is not** a means for satisfying security needs in the work place
  - A. Grievance system
  - B. Private office
  - C. Adequate insurance and retirement benefits
  - D. No lay offs
  - E. Provision of income in later life
3. One of the following **is incorrect** about ERG theory
  - A. It collapses the need hierarchy in to three levels
  - B. An individual will remain at one level of needs until achieving satisfaction
  - C. More than one level of needs can cause motivation at the same time
  - D. All
  - E. None
4. Which one of the following is **false**
  - A. Content theory attempt to determine the specific needs that motivate people
  - B. Process theory concerned with how motivation occurs
  - C. The two-factor theory suggests that people's satisfaction and dissatisfaction are influenced by two independent set of factors
  - D. According to the two-factor theory the presence of “hygiene” factors leads to job satisfaction
  - E. None

5. Which of the following **is incorrect** about Expectancy theory
  - A. Motivation depends on both how much we want something and how likely we think we are to get it
  - B. Valence is the value placed on an outcome
  - C. The more positive the value the more likely a person will highly motivated
  - D. The more negative the value the less likely a person will be motivated
  - E. None
6. One is **incorrect** about Douglas Mc Gregor theory X assumptions regarding views of human beings
  - A. People prefer to be directed
  - B. People prefer to avoid responsibility
  - C. People will both seek and accept responsibility under favorable conditions
  - D. People are exclusively driven by extrinsic motivators
  - E. None
7. The process theories of motivation based on the assumption that a major factor in the job motivation is the individual's evaluation of the fairness of the reward received. This theory is called
 

|                          |                        |               |
|--------------------------|------------------------|---------------|
| A. The two-factor theory | C. Equity theory       | E. ERG theory |
| B. Expectancy theory     | D. Goal setting theory |               |
8. According to Maslow's need hierarchy theory which of the following is the correct order from the lowest to the highest needs
  - A. Physiological->Security->Social->Esteem->Self actualization
  - B. Security -> Physiological->Social->Esteem->Self actualization
  - C. Physiological->Social ->Security->Esteem->Self actualization
  - D. Physiological-> Esteem->Social ->Security ->Self actualization
  - E. None

## Chapter Seven

### 7. The Emerging Trends in Management

#### *Learning objectives*

*Dear learners, at the end of this chapter, you will be able to:*

#### *Define TQM*

*Understand the major philosophy in TQM concepts*

*Identify the tools or techniques of TQM*

*Contrast statistical process control against TQM*

*Define re engineering*

*Appreciate the overriding movements of reengineering.*

*Describe the driving forces for the need of reengineering.*

*Identify and discuss the contemporary issues in management*

#### **7.1. Total Quality Management**

Total Quality Management (TQM) is an enhancement to the traditional way of doing business.

Total -                      Made up of the whole

Quality -                    Degree of Excellence a Product or Service provides.

Management -          Art of handling, controlling, directing etc.

TQM is the application of quantitative methods and human resources to improve all the processes within an organization and exceed CUSTOMER NEEDS now and in the future.

## Defining quality

Quality can be quantified as follows

$$Q = P/E$$

Where

Q = Quality

P = Performance

E = Expectation

## Dimensions of Quality

| Dimension   | Meaning                                                                |
|-------------|------------------------------------------------------------------------|
| Performance | Primary product characteristics, such as the brightness of the picture |
| Features    | Secondary characteristics, added features, such as remote control      |
| Conformance | Meeting specifications or industry standards, workmanship              |
| Reliability | Consistency of performance over time, average time of the unit to fail |
| Durability  | Useful life, includes repair                                           |
| Service     | Resolution of problems and complaints, ease of repair                  |
| Response    | Human – to – human interface, such as the courtesy of the dealer       |
| Aesthetics  | Sensory characteristics, such as exterior finish                       |
| Reputation  | Past performance and other intangibles, such as being ranked first     |

### **7.1.1. Quality planning**

The following are the important steps for quality planning.

1. Establishing quality goals.
2. Identifying customers.
3. Discovering customer needs.
4. Developing product features.
5. Developing process features.
6. Establishing process controls and transferring to operations.

### **7.1.2. Important points to be noted while quality planning:**

1. Business, having larger market share and better quality, earn returns much higher than their competitors.
2. Quality and Market share each has a strong separate relationship for profitably.
3. Planning for product quality must be based on meeting customer needs, not just meeting product specifications.
4. For some products we need to plan for perfection. For other products, we need to plan for value.

#### **7.1.2.1. Quality costs**

Quality costs are defined as those costs associated with the non- achievement of product/service quality as defined by the requirements established by the organization and its contracts with customers and society. Therefore quality cost is a cost for poor product of service.

#### **7.1.2.2. Elements of quality cost:**

Cost of prevention

Marketing / Customer / User.

Product / Service / Design Development.

Purchasing

Operations (Manufacturing or Service)

Quality Administration.

Cost of appraisal

Purchasing Appraisal Costs.

Operations Appraisal Costs

External Appraisal Costs

Review of Test and Inspection Data

Miscellaneous Quality Evaluations

Cost of internal failures

Product or Service Design Failure Costs (Internal)

Purchasing Failure Costs

Operations (Product or Service) Failure Costs

Cost of external failures.

Complaint Investigations of Customer or User Service

Returned Goods

Retrofit and Recall Costs

Warranty Claims

Liability Costs

Penalties

Customer or User Goodwill

Lost Sales

#### **7.1.2.3. Analysis of quality costs**

The purpose of quality cost analysis is to determine the cost of maintaining a certain level of quality. Such activity is necessary to provide feedback to

management on the performance of quality assurance and to assist management in identifying opportunities.

#### 7.1.2.4. Index numbers

Index Numbers are often used in a variety of applications to measure prices, costs (or) other numerical quantities and to aid managers in understanding how conditions in one period compare with those in other periods.

A simple type of index is called a RELATIVE INDEX.

| Quarter | Cost in Birr. |
|---------|---------------|
| 1       | 2000          |
| 2       | 2200          |
| 3       | 2100          |
| 4       | 1900          |

Cost Index in quarter t = (Cost in quarter t / Base period cost) x 100

| Quarter | Cost in Birr.               |
|---------|-----------------------------|
| 1       | $(2000/2000) * 100 = 100\%$ |
| 2       | $(2200/2000) * 100 = 110\%$ |
| 3       | $(2100/2000) * 100 = 105\%$ |
| 4       | $(1900/2000) * 100 = 95\%$  |

#### 7.1.3. Trend analysis

Good visual aids are important communication tools. Graphs are particularly useful in presenting comparative results to management. Trend Analysis is one where Time-to-Time comparisons can be made.

#### **7.1.4. Pareto analysis**

Joseph Juran observed that most of the quality problems are generally created by only a few causes. For example, 80% of all internal failures are due to one (or) two manufacturing problems. Identifying these “vital few” and ignoring the “trivial many” will make the corrective action give a high return for a low money input.

Discuss briefly the basic concepts of TQM

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#### **7.1.5. Six basic concepts of total quality management**

1. Management Commitment
2. Customer Focus
3. Involvement and utilization of entire work force
4. Continuous Improvement
5. Treating Suppliers as Partners
6. Establish Performance Measures for the processes

#### **7.1.6. Pillars of TQM**

Problem solving discipline  
interpersonal skills  
teamwork  
Quality improvement process

### **7.1.7. Principles of TQM**

Customer's requirements must be met the first time, every time.

There must be agreed requirements, for both internal and external customers.

Everybody must be involved, from all levels and across all functions.

Regular communication with staff at levels is must. Two way communication at all levels must be promoted.

Identifying training needs and relating them with individual capabilities and requirements is must.

Top management's participation and commitment is must.

A culture of continuous improvement must be established.

Emphasis should be placed on purchasing and supplier management

Every job must add value.

Quality improvement must eliminate wastes and reduce total cost.

There must be a focus on the prevention of problems.

A culture of promoting creativity must be established.

Performance measure is a must at organization, department and individual levels. It helps to asses and meets objectives of quality.

There should be focus on team work.

### **7.1.8. Obstacles in implementing TQM**

Lack of management commitment

Inability to change Organizational culture

Improper planning

Lack of continuous training and education

Incompatible organizational structure and isolated individuals and departments

Ineffective measurement techniques and lack of access to data and results

Paying inadequate attention to internal and external customers

Inadequate use of empowerment and teamwork

Failure to continually improve

### 7.1.9. Benefits of TQM

|                        |                       |
|------------------------|-----------------------|
| Improved quality       | Employee satisfaction |
| Employee participation | Productivity          |
| Team work              | Communication         |
| Working relationships  | Profitability         |
| Customer satisfaction  | Market share          |

Identify the tools or techniques of TQM

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### 7.2. Six Sigma

The main objective of any business is to make profit. For increasing the profit, the selling price should increase and/or the manufacturing cost should come down. Since the price is decided by the competition in the market, hence the only the way to increase the profit is to cut down the manufacturing cost which can be achieved only through continuous improvement in the company's operation. Six sigma quality programs provide an overall framework for continuous improvement in the process of an organization.

#### 7.2.1. Concepts of Six-Sigma

Six-sigma is defined a customer oriented, structured, systematic, proactive and quantitative company-wide approach for continuous improvement of manufacturing, services, engineering, suppliers and other business process. It is a statistical measure of the performance of a process or a product. It measures the degree to which the process deviates from the goals and then takes efforts to improve the process to achieve total customer satisfaction.

Six-sigma efforts target three main areas:

- Improving customer satisfaction.
- Reducing cycle time.
- Reducing defects.

Three key characteristics separate six-sigma from quality programs of the past:

1. Six-Sigma is a customer focused.
2. Six-sigma projects produce major returns on investments.
3. Six-sigma changes how management operates.

6 SIGMA= 3.4 defects per million

Six-Sigma equates 3.4 defects for every million parts made or process transactions carried out. This quality equates to 99.99966% defect free products or transactions. High quality standards do make sense but the cost required to pursue such high standards have to be balanced with benefits gained. The six sigma processes exposes the root causes and then focuses on the improvements to achieve the highest level of quality at acceptable cost. This is essential to achieve and maintain a competitive advantage and high levels of customer satisfaction and loyalty.

When we say that a process is at six sigma level, such a process is normally yield two instances of non-conformances out of every million opportunities for non-conformances, provided there is no shift in the process average. The same will yield 3.4 instances of non-conformances out of every million opportunities with an expected of 1.5 sigma in the process average. This is considered to be best-in-class quality.

### **7.2.2. Theory of Six-Sigma**

Six-Sigma relies on the normal distribution theory to predict defect rates. As we all know, variation is inevitable in any process. The variation can be due to chance causes that are inherent in the process [chance variation] or due to assignable causes that are external to the process [Assignable variation]. If we detect and remove all the assignable causes and

bring the process under the influence of chance causes, then the process is said to be under statistical control. The process capability (PC) is defined as six times the standard deviation ( $\sigma$ ). PC represents the measured inherent reproducibility of the product turned out by the process.

What is the importance of six-sigma for the organization?

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### 7.3. Theory Z

McGregor's use of "X" and "Y" as identifiers for management style has been expanded to include Theory Z, which has become a convenient label for Japanese management philosophy. **Theory Z** refers to Japanese management practices of consensus decision-making, quality circles, and employee participation to enhance productivity. **Theory Z** captures the essence of Japanese management techniques as practiced by excellent firms in U.S.

**William Ouchi** introduced **Theory Z** in 1981 to describe American adaptation of Japanese organizational behavior. His theory is based on a comparison of management in Japanese organizations -- called J – type firms -- with management in American firms -- called A – type enterprises.

Ouchi recognized that cultural differences between the two nations prevent American managers from adopting Japanese techniques without modifications. For example: Americans are highly mobile; often seek opportunities, jobs, and career advancement by

changing employers. Japanese workers contrast, tend to make a lifetime commitment to their organization.

Still Ouchi discovered similarities between practices in America's leading firms and Japanese organizational behavior. For example: in Hewlett-Packard and IBM, long-term employment has been the norm, even though it falls short of lifetime commitment.

Typical A-type firms rely on individual management decision-making and J-type firms rely on collective decision-making. But a number of excellent U.S. firms endorse a "collaborative" decision-making process closely approximating J-type behavior.

Perhaps the most important element in Theory Z is its combination of human relations concepts and scientific management techniques.

The Z-type company endorses collective responsibility, a pervasive concern for employees, and a commitment to participative decision-making. These organizations recognize individual and group needs, but simultaneously develop exceptional quality control techniques and scientific work methods. Theory Z incorporates classical principles, behavioral tenets, and human relations concepts to emphasize quality and productivity.

### **7.3.1. Contrasts between American and Japanese organizations**

#### **American -- Type A**

***Mobile employees;*** Employees seek opportunities, advancement, and career changes by moving between employers and organizations.

***Personal Decision Making;*** Americans tend to rely on individual judgment and prefer to make decisions unilaterally, either as managers or as individuals controlling their own destiny.

***Individual Responsibility;*** Americans prefer taking personal initiatives and shouldering responsibilities as individuals rather than in groups.

***Rapid Advancement;*** Employees gain economically and socially from rapid advancement, with a premium on success as measured by promotions.

***Specialization in Careers;*** American organizations are founded on specialization of skills and labor; employees create intensity in career choices and follow specialized career paths.

***Explicit Control Mechanisms;*** Western nations emphasize explicit standards and controls for work and evaluation; employees expect explicit control mechanism and guidelines.

***Focused Concern for Employees;*** American firms tend to view employees in their roles at work, paying less attention to the “complete” profile of the individual: family, social issues, personal health, and general well-being.

## **Japanese -- Type J**

***Lifetime Employment;*** Japanese workers tend to make a lifetime commitment to their organizations and, in turn, organizations assume responsibility for lifetime employees.

***Collective Decision Making;*** Employees and managers seek consensus on decisions and endorse collective decision-making processes.

***Group Responsibilities;*** Japanese prefer group processes and accept group responsibilities through conciliatory communications; group rewards are not uncommon.

***Slow and Systematic Advancement;*** Employees rise slowly through established ranks; when opportunities arise for promotion, loyalty and harmonious behaviors are considered.

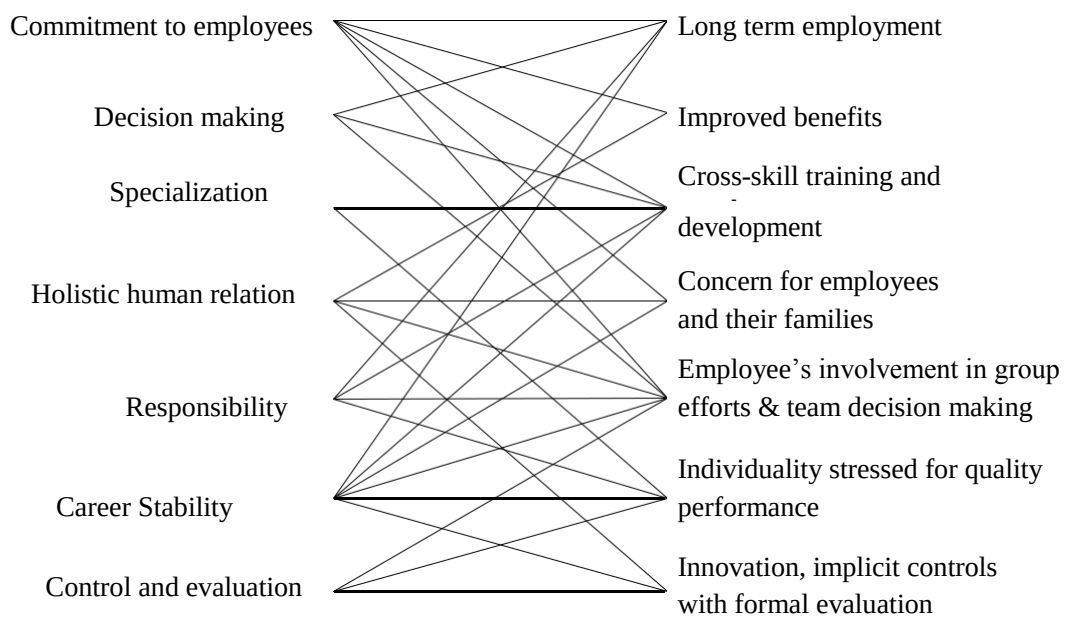
***General Career Perspective;*** Japanese organizations do not emphasize specialization but prefer flexibility and internal training so they can reassign personnel and develop skills among those who are members of the organization. Careers are linked to organizations, not professions.

***Implicit Control System;*** Japanese organizations emphasize quality control and process control methods, often with trained engineers in operational, but standards

and work criteria are replaced by major objectives; control is let implicitly to shop-floor decisions.

***Holistic Concern for Employees;*** Japanese organizations take account of employees beyond the work environment and often aid in providing housing, day-care services, and mental and physical health counseling, among other things; employees are considered integral members of the total organizations.

### **Z-Type Organizations: The American Adaptation**



What are the main difference between American-Type A and Japanese-Type B?

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## 7.4. Business Process Reengineering

In today's ever-changing world, the only thing that doesn't change is 'change' itself. A world increasingly driven by the three Cs: Customer, Competition and Change, companies are on the lookout for new solutions for their business problems. Recently, some of the more successful business corporations in the world seem to have hit upon an incredible solution: **Business Process Reengineering (BPR)**.

Some of the recent headlines in the popular press read, "Wal-Mart reduces restocking time from six weeks to thirty-six hours." "Hewlett Packard's assembly time for server computers touches new low- four minutes." "Taco Bell's sales rise from \$500 million to \$3 billion." The reason behind these success stories: Business Process Reengineering!

### 7.4.1. What is reengineering?

"Reengineering is the *fundamental rethinking and radical redesign of business processes* to achieve *dramatic* improvements in critical, contemporary measures of performance such as cost, quality, service and speed.

BPR advocates that enterprises go back to the basics and reexamine their very roots. It doesn't believe in small improvements. Rather it aims at total reinvention. As for results: BPR is clearly not for companies who want a 10% improvement. It is for the ones that need a ten-fold increase. According to Hammer and Champy, the last but the most important of the four key words is the word-'process.' BPR focuses on processes and not on tasks, jobs or people. It endeavors to redesign the strategic and value added processes that transcend organizational boundaries.

### 7.4.2. What to reengineer? :

According to many in the BPR field reengineering should focus on processes and not be limited to thinking about the organizations. After all the organization is only as effective as its processes -- So, what is a process? "A **business process** is a series of steps designed to produce a product or a service. It includes all the activities that deliver particular results for a given customer (external or internal)." Processes are currently invisible and unnamed because people think about the individual departments more often than the

process with which all of them are involved. So companies that are currently used to talking in terms of departments such as marketing and manufacturing must switch to giving names to the processes that they do such that they express the beginning and end states. These names should imply all the work that gets done between the start and finish. For example, order fulfillment can be called order to payment process.

Talking about the importance of processes just as companies have organization charts, they should also have what are called process maps to give a picture of how work flows through the company. Process mapping provides tools and a proven methodology for identifying your current as-is business processes and can be used to provide a to-be roadmap for reengineering your product and service business enterprise functions. It is the critical link that your reengineering team can apply to better understand and significantly improve your business processes and bottom-line performance.

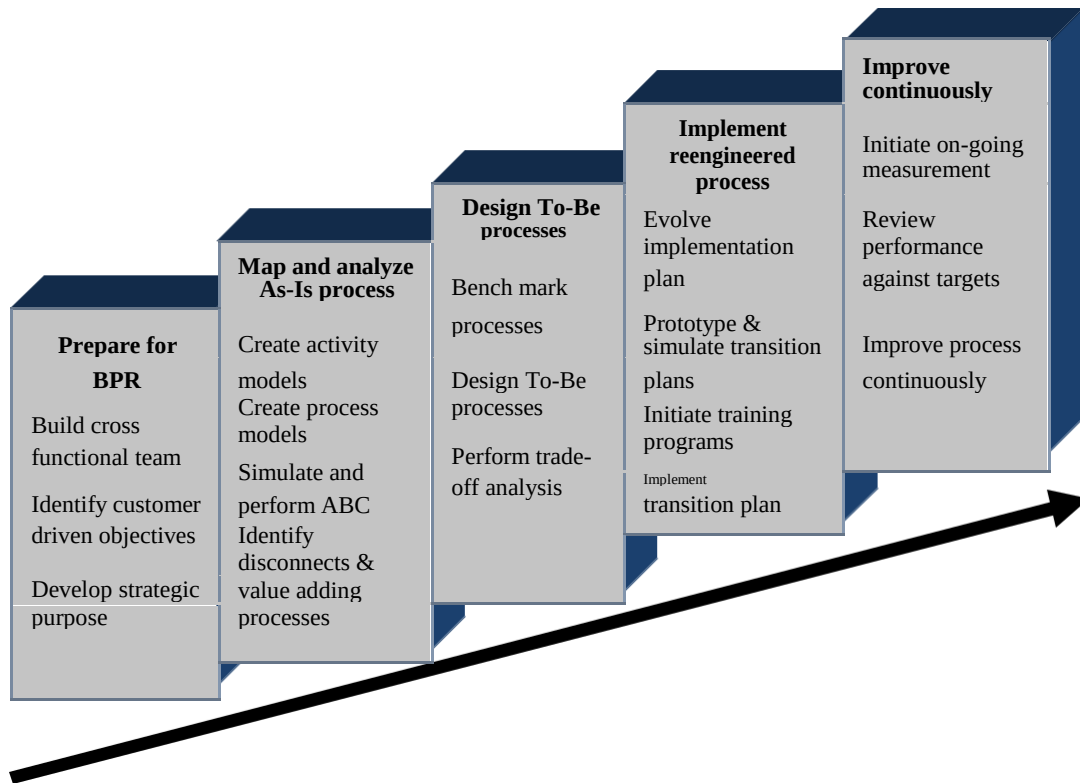
Having identified and mapped the processes, deciding which ones need to be reengineered and in what order is the million-dollar question. No company can take up the unenviable task of reengineering all the processes simultaneously. Generally they make their choices based on three criteria's: - **dysfunction**: which processes are functioning the worst; **importance**: which are the most critical and influential in terms of customer satisfaction; **feasibility**: which are the processes that are most likely to be successfully reengineered.

#### 7.4.3. How to reengineer?

Activity #1: Prepare for Reengineering:

“If you fail to plan, you plan to fail”. Planning and Preparation are vital factors for any activity or event to be successful and reengineering is no exception. Before attempting reengineering, the question is ‘Is BPR necessary?’ should be asked? There should be a significant need for the process to be reengineered. The justification of this need marks the beginning of the preparation activity.

The surest way to the Top!



This activity begins with the development of executive consensus on the importance of reengineering and the link between breakthrough business goals and reengineering projects. A mandate for change is produced and a cross-functional team is established with a game plan for the process of reengineering. While forming the cross-functional team, steps should be taken to ensure that the organization continues to function in the absence of several key players. As typical BPR projects involve cross-functional cooperation and significant changes to the status quo, the planning for organizational changes is difficult to conduct without strategic direction from the top. The impact of the environmental changes that serve as the impetus for the reengineering effort must also be considered in establishing guidelines for the reengineering project. Another important factor to be considered while establishing the strategic goals for the reengineering effort is to make it your first priority to understand the expectations of your customers and where your existing process falls short of meeting those requirements. Having identified the customer driven objectives, the mission or vision statement is formulated. The vision

is what a company believes it wants to achieve when it is done, and a well-defined vision will sustain a company's resolve through the stress of the reengineering process. It can act as the flag around which to rally the troops when the morale begins to sag and it provides the yard stick for measuring the company's progress.

### **Activity #2: Map and Analyze As-Is Process:**

Before the reengineering team can proceed to redesign the process, they should understand the existing process. Although some BPR proponents (in particular Hammer and Champy) argue against analyzing the current enterprise, saying that it inhibits the creative process, that might not always hold true. It varies from case to case. While some organizations which are in dire straits might go the Hammer and Champy way (attempt a new process design while totally ignoring the existing processes) most organizations need to map the existing processes first, analyze and improve on it to design new processes. The important aspect of BPR (what makes BPR, BPR) is that the improvement should provide dramatic results. Many people do not understand the value of an As-Is analysis and rather prefer to spend a larger chunk of their valuable time on designing the To-Be model directly. What follows is an illustration that illustrates this fallacy.

A large manufacturer spent six million dollars over a period of one year in a bid to develop a parts-tracking system and was all set to go online. Only then did he realize that he had totally overlooked a small piece of information – 'the mode of transmission of information between the scheduling staff and the shop floor was through a phone call.' But just because this small yet vital information had not been documented all his efforts added up to naught and the whole system that he had so painstakingly developed had to be scrapped. Alas! He had recognized the need for an As-Is analysis, way too late.

The main objective of this phase is to identify disconnects (anything that prevents the process from achieving desired results and in particular information transfer between organizations or people) and value adding processes. This is initiated by first creation and documentation of Activity and Process models making use of the various modeling methods available. Then, the amount of time that each activity takes and the cost that each activity requires in terms of resources is calculated through simulation and activity

based costing (ABC). All the groundwork required having been completed; the processes that need to be reengineered are identified.

### **Activity #3: Design To-Be process:**

The objective of this phase is to produce one or more alternatives to the current situation, which satisfy the strategic goals of the enterprise. The first step in this phase is benchmarking. "Benchmarking is the comparing of both the performance of the organization's processes and the way those processes is conducted with those relevant peer organizations to obtain ideas for improvement." The peer organizations need not be competitors or even from the same industry. Innovative practices can be adopted from anywhere, no matter what their source.

Having identified the potential improvements to the existing processes, the development of the To-Be models is done using the various modeling methods available, bearing in mind the principles of process design. Then, similar to the As-Is model, we perform simulation and ABC to analyze factors like the time and cost involved. It should be noted that this activity is an iterative process and cannot be done overnight. The several To-Be models that are finally arrived at are validated. By performing Trade off Analysis the best possible To-Be scenarios are selected for implementation.

### **Activity #4: Implement Reengineered Process:**

The implementation stage is where reengineering efforts meet the most resistance and hence it is by far the most difficult one. If we expect that the environment would be conducive to the reengineering effort we are sadly mistaken. The question that confronts us would be, 'If BPR promises such breath taking results then why wasn't it adopted much earlier?' We could expect to face all kinds of opposition - from blatantly hostile antagonists to passive adversaries: all of them determined to kill the effort. When so much time and effort is spent on analyzing the current processes, redesigning them and planning the migration, it would indeed be prudent to run a culture change program simultaneously with all the planning and preparation. This would enable the organization to undergo a much more facile transition. But whatever may be the juncture in time that the culture change program may be initiated, it should be rooted in our minds that

‘winning the hearts and minds of everyone involved in the BPR effort is most vital for the success of the effort. Once this has been done, the next step is to develop a transition plan from the As-Is to the redesigned process. This plan must align the organizational structure, information systems, and the business policies and procedures with the redesigned processes. “Rapid implementation of the information system that is required to support a reengineered business process is critical to the success of the BPR project. The IDEF models that were created in the As-Is can be mapped to those created during the To-Be and an initial list of change requirements generated. Additional requirements for the construction of the To-Be components can be added and the result organized into a Work Breakdown Structure (WBS). Recent developments in BPR software technologies enable automatic migration of these WBS activity/relationships into a process modeling environment. The benefit here is that we can now define the causal and time sequential relationships between the activities planned.” Using prototyping and simulation techniques, the transition plan is validated and it’s pilot versions are designed and demonstrated. Training programs for the workers are initiated and the plan is executed in full scale.

#### **Activity #5: Improve Process Continuously:**

A process cannot be reengineered overnight. A very vital part in the success of every reengineering effort lies in improving the reengineered process continuously. The first step in this activity is monitoring. Two things have to be monitored – the progress of action and the results. The progress of action is measured by seeing how much more informed the people feel, how much more commitment the management shows and how well the change teams are accepted in the broader perspective of the organization. This can be achieved by conducting attitude surveys and discrete ‘fireside chats’ with those initially not directly involved with the change. As for monitoring the results, the monitoring should include such measures as employee attitudes, customer perceptions, supplier responsiveness etc. Communication is strengthened throughout the organization, ongoing measurement is initiated, team reviewing of performance against clearly defined targets is done and a feedback loop is set up wherein the process is remapped, reanalyzed and redesigned. Thereby continuous improvement of performance is ensured through a

performance tracking system and application of problem solving skills. Continuous improvement (TQM) and BPR have always been considered mutually exclusive to each other. But on the contrary, if performed simultaneously they would complement each other wonderfully well. In fact TQM can be used as a tool to handle the various problems encountered during the BPR effort and to continuously improve the process. In corporations that have not adopted the TQM culture as yet, application of TQM to the newly designed processes should be undertaken as a part of the reengineering effort.

Define re-engineering

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## **7.5. Contemporary issues in management**

One thing that makes the manager's job exciting is the constant array of new challenges/issues.

There are a number of contemporary challenges that confront all managers to day. These are:

### **7.5.1. The globalization of business:**

International business has become increasingly important. Today's managers face a variety of interesting and challenging situations. The average executives works sixty hours a week, has enormous demands placed on his or her time, and faces increased complexities posed by globalization, domestic competition, government regulations, and share holder pressure. The task is further complicated by rapid change, unexpected descriptions, and both minor and major crises. The managers' job is unpredictable and fraught challenges, but it is also filled with opportunities to make a difference.

Many of the characteristics that contribute to the complexity and uncertainty of management stem from the environment in which organizations function.

No longer can any organizations regardless of its size, vitality, or industry – ignore the globalization of business.

### **7.5.2. Quality and Productivity**

Another area of interest to emerge in recent years has been quality and productivity. Quality is an important concern for individual managers and organizations for three very specific reasons;

**Competition** – Quality has become one of the most competitive points in business today. A business that fails to keep pace may find itself falling behind not only foreign competition but also with its local firms/industries.

**Productivity** – Managers have also come to recognize the quality and productivity are related. In the past, many managers thought that they could increase output (productivity) only by decreasing quality. Managers today have learned the hard way that such an assumption is almost always wrong. If a firm installs a meaningful quality enhancement program, three things are likely to result. First, the number of defects is likely to decrease, causing fewer returns from customers. Second, because the number of defects goes down, resources (material and people) dedicated to reworking flawed output are decreased. Third, because making employees responsible for quality reduces the need for quality inspectors, the organization is able to produce more units with fewer resources.

**Costs** – Improved quality also lowers costs. Poor quality results in higher returns from customers, high warranty costs, and lawsuits from customers injured by faulty products. Future sales are lost because of disgruntled customers. An organization with quality problems often has to increase inspection expenses just to catch defective product which treats organization competitiveness.

### **7.5.3. Ethics and Social Responsibility**

**Ethics** – an individual's personal beliefs about whether a behavior, action, or decision is right or wrong. Ethics relate to individuals.

Social responsibility is the set of obligations an organization has to protect and enhance the society in which it functions.

**Areas of Social Responsibility** - Organizations may exercise social responsibility toward their constituents, toward the natural environment, and toward the general social welfare.

**Organizational constituents** – people and organizations who are directly affected by the behaviors of an organization and who have a stake in its performance. Such as employees, creditors, customers, local community, so on.

### **7.5.4. Work Force Diversity**

Diversity exists in a group or organization when its members differ from one another along one or more important dimension such as age, gender, or ethnicity reason for increasing diversity.

Legislation and legal action

Increase awareness that diversity improves the quality of the work force.

Changing demographics in the labor force.

The globalization movement

### **7.5.5. Change**

Managers face more change today than in the past. The requirements, demands, and expectations placed on managers and their organizations are greater than ever before, as is the complexity of the environment within which they must compete. While in the past managers may have seen change as something that must be addressed periodically, it has now become a fact of everyday life for everyone in the business world.

### **7.5.6. Empowerment**

Managers today are also dealing with issues associated with empowerment, efforts to more fully take advantage of the organization's human resources by giving everyone more information and control over how they perform their jobs. Various techniques and methods for empowerment range from participation in decision making to the use of integrated work teams.

Identify and discuss the contemporary issues in management

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## **Summary**

It is clear that, organization can take off their leg for competition if and only if they put great considerations about the changing trends in its environments to compete and win in an endless track of completion. Hence, due to the increasing demand of customers regarding quality products, several organizations have been diving in the ocean of turbulent competition to scramble for customers. Thus, as the only way to secure customer satisfaction and achieving organizational objectives most of the contemporary are striving to shift their movements to the concept of TQM and BPR. Besides this, the chapter also stressed on the concept of six-sigma, theory Z and further explored the contemporary issues in management.

### **Self-Check Exercise**

#### **Choose the best answer**

1. Which of the following is not one of the major categories of costs associated with quality?
  - A. Prevention costs
  - B. Appraisal costs
  - C. Internal failures
  - D. External failures
  - E. None of the above
2. A successful TQM program incorporates all of the following **except**
  - A. Continuous improvement
  - B. Employment involvement
  - C. Benchmarking
  - D. Centralized decision making authority
3. Six-Sigma is a term used to indicate that there are 6 Standard Deviations both below and above the process Mean to the upper and lower specification limits.
4. The search for, and implementation of, radical change in business processes to achieve breakthrough improvements in products and services best defines:
  - A. Joint Application Design
  - B. Rapid Application Development
  - C. Structured programming
  - D. Business process reengineering
5. TQM is an example of a \_\_\_\_\_ organizational response.
  - A. Business process reengineering
  - B. Strategic systems
  - C. Business alliance
  - D. Continuous improvement efforts

## **Answer key for self-check exercises**

### **Chapter one**

1. D
2. A
3. B
4. D
5. D

### **Chapter two**

1. D
2. B
3. B

### **Chapter three**

1. D
2. B
3. C
4. D
5. C
6. A
7. D

#### **Chapter four**

1. C
2. A
3. D
4. D
5. A

#### **Chapter five**

1. A
2. C
3. D
4. B
5. D

#### **Chapter six**

1. B
2. A
3. B
4. E
5. E
6. C
7. B
8. A

#### **Chapter seven**

1. E
2. D
3. A
4. D
5. D

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