Introduction to Business Management

Preparing ..

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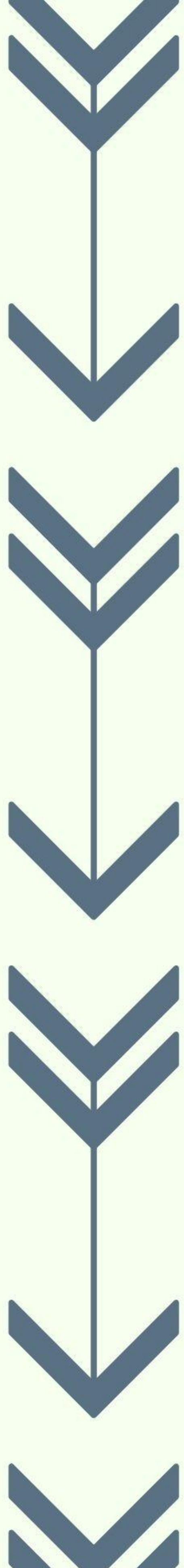
Business Administration Department

2023



Introduction to Business Management

Faculty of Commerce

South Valley University

Third Year, Business Administration Department

Prepared by

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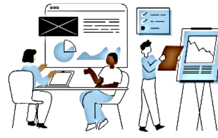

بسم الله الرحمن الرحيم

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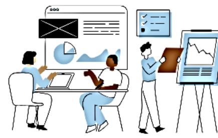

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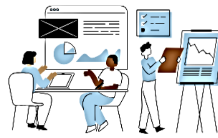


Chapter one

Introduction to Business Management

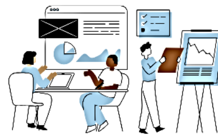
What Is Business?

What you'll learn to do: explain the concept of business

The concept of business has enough definitions and applications that we could almost say that everything is business. Throughout this course we will explore the various functions, roles, and characteristics of business while keeping in mind that business is like the air we breathe—it's everywhere!

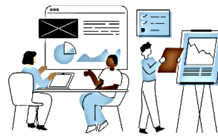
Today's Business Environment

The world of business today can be summed up in a single word: change. And not just change, but rapid change. in order to remain profitable and competitive, businesses today are finding that they



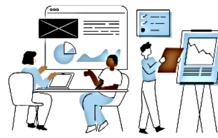
need to be more responsive than ever to customer needs. This is not only true of big companies like Apple, Nike, and Whole Foods but of smaller businesses, too—like your local hardware or grocery store. The rapidly changing business environment affects them all.

What is the business environment? In some ways it resembles the natural environment in which we live: It's all around us but not always noticeable. It includes things like technology, competitors (other businesses), advertising, regulations, consumer demands, and money. When these elements of the business environment change—in the same way that seasons and weather change—companies need to be able to predict, react, and adapt accordingly. Those who fail to do so may find themselves out in the rain or cold and struggling to survive.



Although the environment in which businesses operate is always changing, the accelerated pace of change presents special challenges and opportunities for businesses today. Think about this: in the 1950's the average life span of a Fortune 500 corporation (the largest businesses we know) was over 60 years. Today, the life expectancy of a Fortune 500 corporation is less than 20 years.

To get a sense of this rapid and dramatic change, consider something that's fairly routine for Americans: getting a prescription filled. A couple of decades ago, you would have taken a written prescription from your doctor to your local drugstore and presented it to the pharmacist. Then, while waiting for it to be filled, you might have leafed through magazines or browsed the store for extra items—perhaps shampoo or a greeting card. When your name was called, you probably paid in cash or wrote a check. All such transactions took

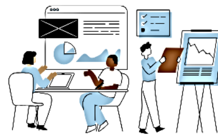


place during normal business hours—Monday–Friday, 9 am–5 pm; larger pharmacies may have been open for a few hours on Saturday.

Defining Business

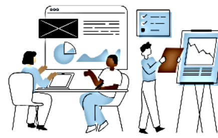
So, what is this thing we call "business"? A **business** is any activity that provides goods or services to consumers for the purpose of making a profit. Examples of **goods** provided by a business are tangible items such as cars, televisions, or soda. A **service** is an action or work performed for monetary compensation. Services include things such as haircuts, hotel stays, or roller-coaster rides.

Business can generate profits from the sale of goods and/or services, and profits are the financial reward that comes from taking the risk of running or owning a business. More specifically, **profit** is the amount of revenue or income that a business



owner retains after paying all the expenses associated with the operation of the business. If the expenses of the business exceed the revenue or income generated from operations, then the business will suffer a **loss**. Businesses that suffer extraordinary losses during a short period of time, or slowly see their profits decline, may end up closing or filing for bankruptcy.

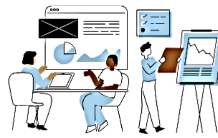
Clearly the goal of most businesses is to generate a profit by increasing revenue while holding expenses in check, and one of the chief ways they do this is by providing their customers with value. When businesses talk about **value**, they are referring to the relationship between the price a customer pays for the good or service and the perceived benefits the customer receives in exchange for his or her time and money. Value has become such a key component of today's business model that if you go to almost any fast-food restaurant you'll find a "value meal" or "value



menu" advertised. Such businesses are sending the message to their customers that they'll receive the most "bang for the buck" or the highest value in terms of quantity obtained in exchange for money spent. It's a business model based on the belief that if you give your customers value, the profit will follow. As you'll see in the next section, while all businesses seek to increase their revenue, what a business actually does with those funds can vary and depends on whether it's a for-profit or nonprofit organization.

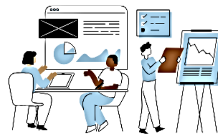
For-Profit vs. Nonprofit

We defined business earlier as an organization that provides goods, service, or both to their customers, clients, or consumers in order to make a profit. That definition, although accurate, does not account for those organizations and businesses that aren't *driven* by the "bottom line" or profitability. Instead, some organizations provide their goods



and services in order to generate revenues (income) that can be used to further their purpose or mission. It is highly likely that you have been involved with a nonprofit organization, and though it may not have seemed like it at the time, you were actually working with a business! In this section we'll dig a little deeper into this idea of for-profit versus nonprofit business.

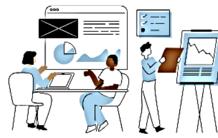
A **nonprofit** or **not-for-profit business** is one that provides goods or services to consumers, but its primary goal is not to return profit to the owners of the business (as is the case with a for-profit business). Instead, it uses those profits to provide a public service, advance a cause, or assist others. The American Red Cross, the local SPCA, and the American Cancer Society are all examples of nonprofit businesses. They use any revenue generated from operations to support the continued mission of the organization. In addition, most nonprofits also rely on donations from



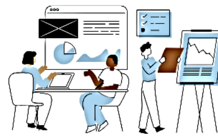
individuals and businesses, grants, and government funding to help fund their work, since the revenue they raise rarely covers all their operating costs.

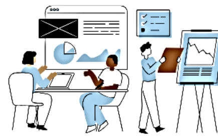
Much of what differentiates a for-profit business from a nonprofit business goes on behind the scenes and isn't very visible to the customer. For example, a nonprofit organization is subject to government regulation and oversight in ways that differ significantly from a for-profit business: Nonprofits do not pay taxes on their revenue, but how their funds are disbursed and their operations are managed is tightly regulated.

It's not until you look behind the scenes that you will see the differences between a for-profit and nonprofit business. The following table compares the attributes of for-profit and not-for-profit businesses and highlights some of the "hidden" differences.



For-Profit	Not-for-Profit/Nonprofit
Incurs expenses for operations	Incurs expenses for operations
Provides goods and services customers	Provides goods and services customers
Generates revenues from sales	Generates revenues from sales and/or contributions
Owned by individuals, partners, or shareholders	Operated by board of directors, trustees, or managers
Profit is used to pay owners, partners, or shareholders	Profit is used to further the mission of the organization
Pays salaries to employees and managers	Pays salaries to employees and managers
Profits are subject to taxation by local, state, and federal authorities	Profits are NOT subject to taxation by local, state, and federal authorities



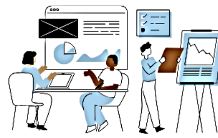


Chapter two

Management

Why describe the primary functions, responsibilities, and skills of effective leadership and management?

You go out for dinner to your favorite restaurant for a special occasion—let's say graduation. It took a month or more to save up the money, and your date/spouse bought a new outfit just for this outing. Maybe, if you have children, you splurged and got a babysitter for the entire evening. Whatever the circumstances, you have planned an evening to remember. As the night progresses, things are not turning out as you hoped. The hostess has no record of your reservation, so there's a delay. When your waiter finally appears, he's grouchy and unhelpful. You place your order and anxiously await what Yelp* describes as a "5-star dining experience." By the time your food comes,

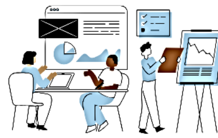


you have devoured the bread on your table, a pack of mints rummaged from your purse, and you're eying the leftovers on the neighboring table. When your steak finally arrives, it's overcooked and sits beside a heap of steamed broccoli instead of the baked potato you ordered. You hate broccoli. So, who do you call?

Managers

"Management is the art of getting things done through and with people in formally organized groups. It is the art of creating the environment in which people can perform as individuals and yet co-operate towards attainment of group's goals.

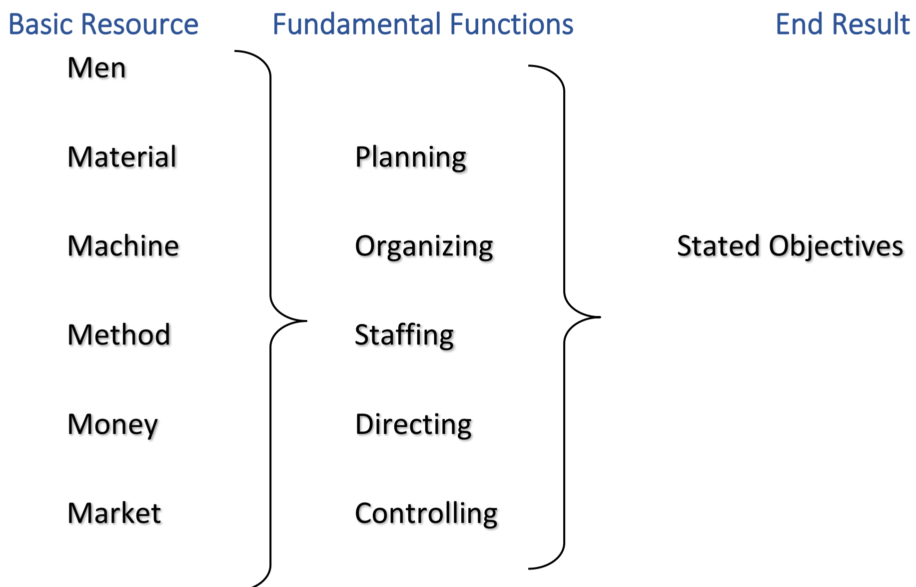
"Management is a process of coordinating all resources through the process of planning, organizing, staffing, directing, leading and controlling to achieve desired

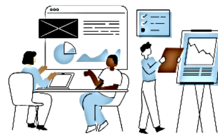


objectives with the use of human beings. *(Georger Terry)*

There are important terms from the above definitions of management.

⇒ Coordination: managers in and organization should coordinate resources to achieve objectives. Here management is a process of organizing basic resources in order to achieve desired /stated objectives i.e.,

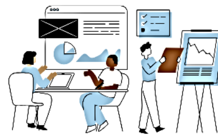




From this we can infer that management is an activity that converts disorganized human physical resource into useful and effective results.

It is the art of removing blocks to such perform

- ✷ The other important term of the definition is objective. Every activity of manager is directed towards goals. Objectives are the basic reasons for the establishment and/or existence of an enterprise and it could be personal or organizational.

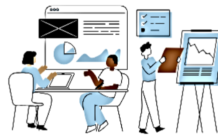


Levels of Management

We can divide organizational members/people into two categories.

1. ***Operatives:*** those who work directly on job or task and have no responsibility for overseeing the work of others.
2. ***Managers:*** are those people who direct the activities of other people. They are also in a position of authority who make decision to use their skill and knowledge and the resource of others towards the achievement of organizational objectives.

Now most firms in today's world are large and complex. These two characteristics require managers to specialize in different functions and posses different levels of responsibilities. These are three levels of

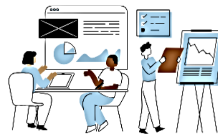


managers/management in an organization which are discussed as follows:

1. Top Level Management/Strategic Level of Management

They are few in numbers and includes the organizations most important managers such as boards, general managers, president, vice president, CEO and others.

- They set company wide objectives/goals and operational policies.
- They spend much of their time in planning (strategic) and dealing with middle level managers.
- They work long hours and spend most of their time in meeting and on telephone.
- The represent the organization in community affairs, business deals, government negotiation

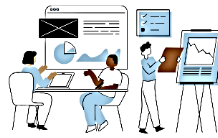


etc and direct the organization in relation to the environment.

2. Middle Level Management/ Tactical Level of Management

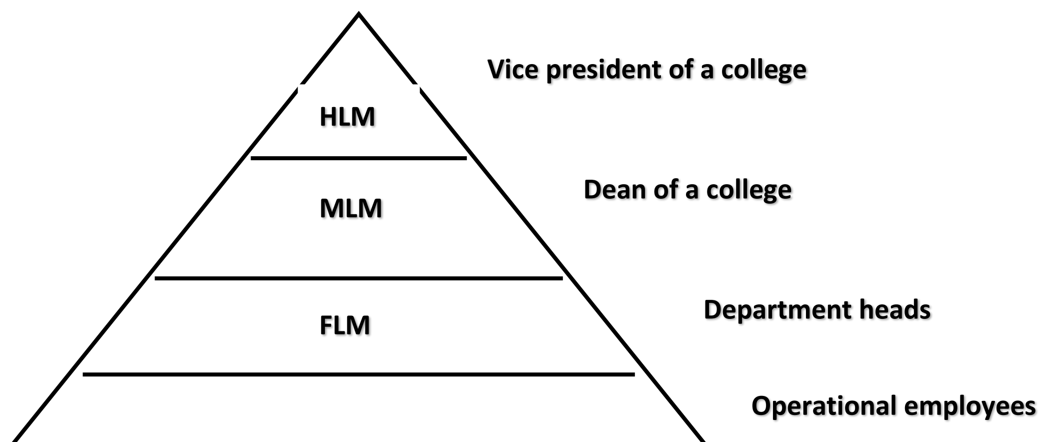
All managers below the rank of vice president and above the level of supervisory managers. Here the subordinates for MLM are managers. They often supervise and coordinate the activities of lower level managers.

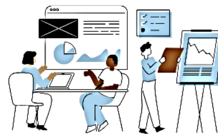
MLM's receive broad/overall strategies from top level managers and translate it into specific objectives and plans for first line managers. The following are possible job titles for middle level management. Dean, commissioner, Bishop or Superintendent Managers.



3. First Line Management/Operational Level of Management

It includes those who are at the operating or at the lowest level of management. Their subordinates are non-management workers. Their major responsibility is to oversee and coordinate the work of operating employees. The managerial task of FLM is to develop the best allocation of resource that produce the desired output.



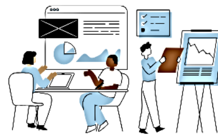


Managerial Skills

The skills needed to succeed at each level of management vary somewhat, but there are certain skills common to all. Robert Katz identifies three critical skill sets for successful management professionals: **technical skills, conceptual skills, and human skills**. While these three broad skill categories encompass a wide spectrum of capabilities, each category represents a useful way of highlighting the key capabilities and their impact on management at different levels.

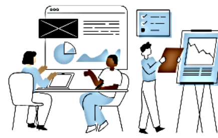
Technical Skills

Of the three skill sets identified by Katz, technical skills are the broadest, most easily defined category. **A technical skill** is defined as a learned capacity in just about any given field of work, study, or even play. For example, the quarterback of a football team must know how to plant his feet and how to position his arm for accuracy and distance



when he throws—both are technical skills. A mechanic, meanwhile, needs to be able to take apart and rebuild an engine, operate various machinery (lifts, computer-scanning equipment, etc.), and know how to install a muffler, for example.

Managers also need a broad range of technical abilities. Front-line managers, in particular, often need to use technical skills on a daily basis. They need to communicate up the chain of command while still speaking the language of the workers who are executing the hands-on aspects of the industry. A technical skill for a front-line manager might include a working understanding of a piece of equipment: the manager must be able to coach the employee on its operation, but also be able to explain the basic functions of the machinery to upper managers. Managers in other corporate roles and at higher levels also require technical skills. These can include office-based

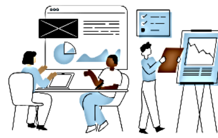


competencies such as typing, programming, Web-site maintenance, writing, giving presentations, and using software such as Microsoft Office or Adobe

Conceptual Skills

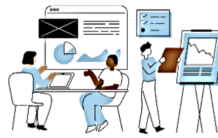
Conceptual skills are also crucial to managerial success. **Conceptual skills** enable one to generate ideas creatively and intuitively and also show comprehensive understanding of contexts or topics. Conceptual skills tend to be most relevant to upper-level thinking and broad strategic situations (as opposed to lower-level and line management). As a result, conceptual skills are often viewed as critical success factors for upper-managerial functions.

The key to this type of skill is **conceptual thinking**. Although conceptual thinking is difficult to define, it is generally considered to be the ability to formulate ideas or mental abstractions. When combined with



information and a measure of creativity, conceptual thinking can result in new ideas, unique strategies, and innovative solutions. While all levels of management benefit from conceptual thinking, upper management spends the most time with this mindset, since it is largely tasked with identifying and drafting a strategy for the broader operational and competitive approach of an organization. Because this kind of strategic planning includes generating organizational values, policies, mission statements, ethics, procedures, and objectives, upper managers need to possess strong conceptual skills.

While upper management may use the conceptual skill set most, middle managers and front-line managers must also both understand and participate in the company objectives and values. Of particular importance is the ability to communicate these critical concepts to



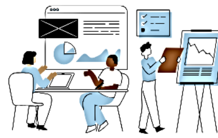
subordinates and decide which information to convey to upper management.

Tracking and collecting the results of conceptual thinking are parts of a feedback loop. Conceptual skills are important in empowering managers in all levels of an organization to observe the operations of an organization and frame them conceptually as an aspect of that organization's strategy, objectives, and policies. Conceptual thinking allows for accurate and timely feedback and organizational adaptability.

Human Skills

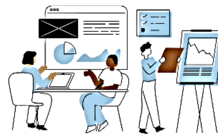
The development of human skills— a combination of social, interpersonal, and leadership skills—is central to the success of any manager.

Over the years, the conventional definition of management has become less specific, as managerial functions can include staffing,



directing, and reporting. Modern companies have fewer layers of management, as these companies now tend to delegate (rather than concentrate) responsibilities and authority to achieve goals. As a result, businesses often expect managers to lead or guide people, rather than giving out instructions for every action or task. The ability to lead people is therefore a central component of human skills.

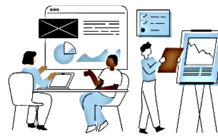
Realistically, most organizations need managers who can view their teams analytically and objectively, evaluate inefficiencies, and make unpopular choices. However, it's misguided to think that a manager has to be distant from or disliked by subordinates to execute these responsibilities. Creating a healthy work environment that's conducive to development, constructive criticism, and achievement simply requires strong human skills—especially in the realm of communication.



Good managers understand not only what they are trying to say but also the broader context and implications of saying it. A sender communicating a message to a receiver is not simply transmitting factual information. Other dimensions of the exchange are just as important: empathy, self-reflection, situational awareness, and charisma all play integral roles in communicating effectively and positively.

Using Your Skills

The degree to which each type of skill is used depends upon the level of the manager's position as seen in Figure 1. Additionally, in an increasingly global marketplace, it pays for managers to develop a special set of skills to deal with global management issues.



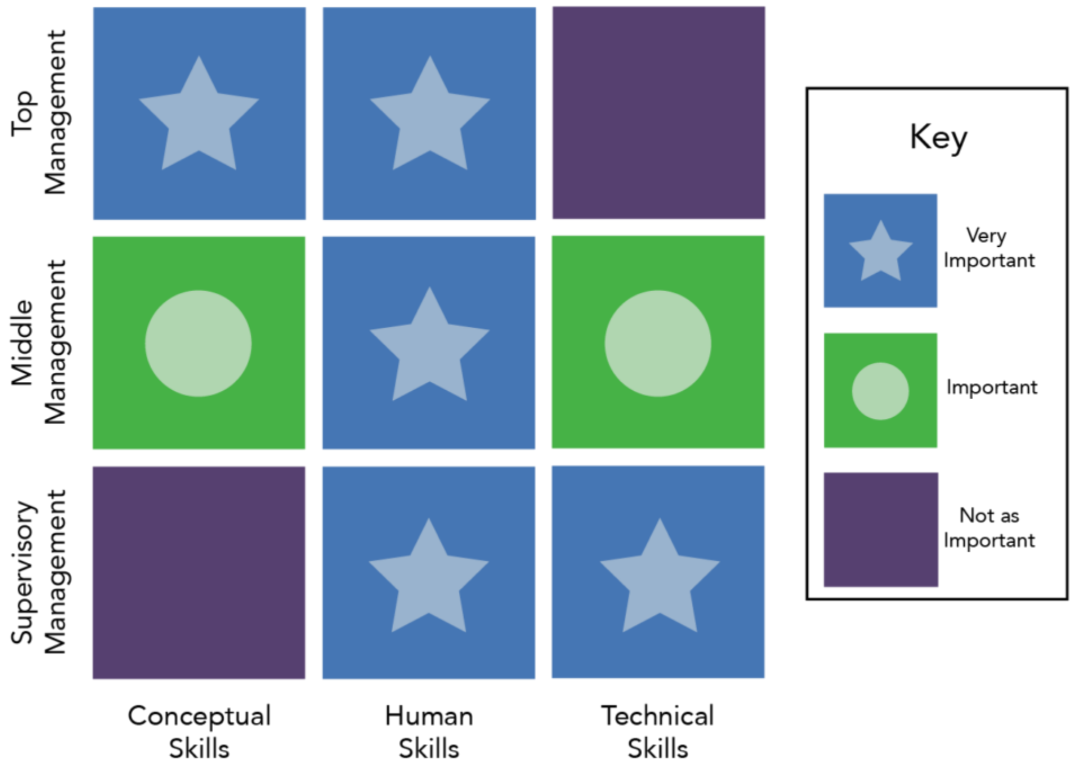
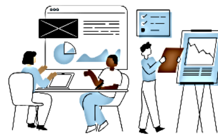
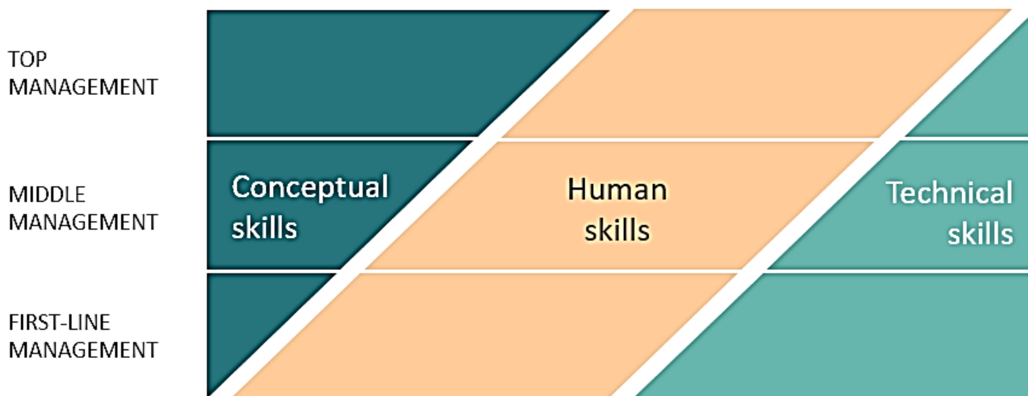


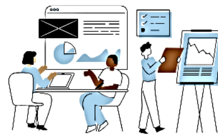
Figure 1. The Importance of Managerial Skills at Different Management Levels



In sum, technical, conceptual, and human skills are all needed to be an effective manager. As a manager moves up the organizational ladder, he or she may find that success requires fewer or different technical skills and a heavier reliance on interpersonal and human skills.

Management Skills by Robert L. Katz



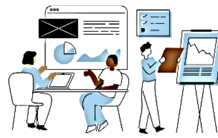


Functions of Management

All managers regardless of the levels in the organization or job title perform the following five managerial functions.

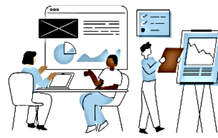
1. **Planning** – it is the first function that all managers perform (at different degree). It is very important because it lays down the ground work for other functions and sets the objectives of the organization. "If you do not have any particular destination in mind any road will get you there."

   The planning function encompasses defining an organization's goal and developing a comprehensive hierarchy of plans to integrate and coordinate activities. In short it is deciding in advance what to do, how to do, when to do and whom to do it. In sum,



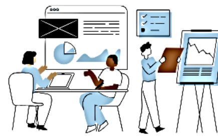
planning is an intellectual process, which focuses to the future.

2. **Organizing:** in order to carryout plans it is necessary to create organizations. Organizing refers to grouping activities, assigning activities, and providing authority necessary to carryout activities. Planning develops the goals and organizing creates organizational structure to reach these goals.
3. **Staffing:** It refers to determining human resource needs and recruiting, selecting and training and/or development of human resource. In general it is the process of filling the gaps or job positions with the most qualified candidate.
4. **Leading:** It has been termed as motivating, directing, guiding and actuating influence the members of the organizations towards the goals of the business. It is aimed at getting the members of the organizations



to move in the direction that will achieve its objectives. It deals with the human factor of an organization.

5. **Controlling:** after the goals are set, the plans are formulated, the structural arrangement is delineated and the peoples are hired, trained and motivated and to ensure that all these things are going on as they should be, management must monitor the organizations performance. This is the activity of controlling. It is the process of ensuring that actual activities conform to planned activities.



Check Your Progress Exercise

Define Management.

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Identify the three levels of management.

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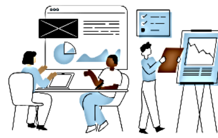
List and explain at least 4 principles of Henry Fayol.



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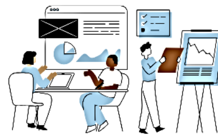
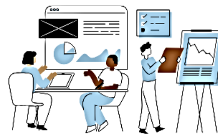
1.6 Summary

Management is the process undertaken by one or more individuals to coordinate the activities of others to achieve results not possible by one individual acting alone. The three levels of management as top, middle and lower level have been discussed in this unit. The fourth major principles of Fayol are also briefly examined in the unit.





Chapter Three

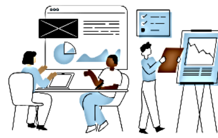
Management Theory

What you'll learn to do: summarize the development of management theory and the key functions of management today

Management theory got its start during the Industrial Revolution when companies were interested in maximizing the productivity and efficiency of their workers in a scientific way. In this section you'll learn about the major contributors to the field of management theory and how their ideas are used today.

Scientific Management Theory

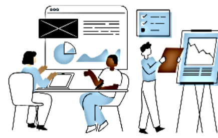
Just over one hundred years ago Frederick Taylor published *Principles of Scientific Management,* a work that forever changed the way organizations view their workers and their organization. At the time of Taylor's publication, managers believed



that workers were lazy and worked slowly and inefficiently in order to protect their jobs. Taylor identified a revolutionary solution:

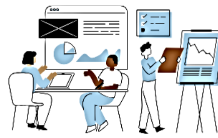
The remedy for this inefficiency lies in systematic management, rather than in searching for some unusual or extraordinary man.

You might think that a century-old theory wouldn't have any application in today's fast-paced, technology-driven world. You'd be wrong, though! In fact much of what you've already learned in this course is based on Taylor's work, and plenty of what you'll experience in the workplace will be indebted to him, too. If you recognize any of the following, you have already seen his principles of scientific management in action: organizational charts, performance evaluations, quality measurements and metrics, and sales and/or production goals.



Scientific management is a management theory that analyzes work flows to improve economic efficiency, especially labor productivity. This management theory, developed by Frederick Winslow Taylor, was popular in the 1880s and 1890s in U.S. manufacturing industries.

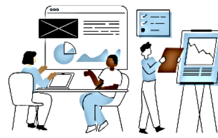
While the terms “scientific management” and “Taylorism” are often treated as synonymous, a more accurate view is that Taylorism is the first form of scientific management. Taylorism is sometimes called the “classical perspective,” meaning that it is still observed for its influence but no longer practiced exclusively. Scientific management was best known from 1910 to 1920, but in the 1920s, competing management theories and methods emerged, rendering scientific management largely obsolete by the 1930s. However, many of the themes of scientific management are still seen in industrial engineering and management today.



Frederick Winslow Taylor

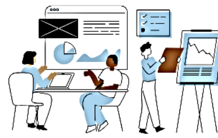
Frederick Taylor (1856–1915) is called the Father of Scientific Management.

Taylor was a mechanical engineer who was primarily interested in the type of work done in factories and mechanical shops. He observed that the owners and managers of the factories knew little about what actually took place in the workshops. Taylor believed that the system could



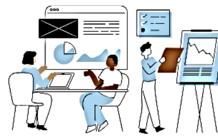
be improved, and he looked around for an incentive. He settled on money. He believed a worker should get “a fair day’s pay for a fair day’s work”—no more, no less. If the worker couldn’t work to the target, then the person shouldn’t be working at all. Taylor also believed that management and labor should cooperate and work together to meet goals. He was the first to suggest that the primary functions of managers should be planning and training.

A significant part of Taylorism was time studies. Taylor was concerned with reducing process time and worked with factory managers on scientific time studies. At its most basic level, time studies involve breaking down each job into component parts, timing each element, and rearranging the parts into the most efficient method of working. By counting and calculating, Taylor sought to transform management into a set of calculated and written techniques.



Taylor proposed a "neat, understandable world in the factory, an organization of men whose acts would be planned, coordinated, and controlled under continuous expert direction. " Factory production was to become a matter of efficient and scientific management—the planning and administration of workers and machines alike as components of one big machine.

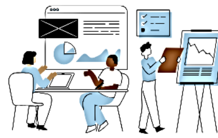
In 1909, Taylor published *The Principles of Scientific Management*. In this book, he suggested that productivity would increase if jobs were optimized and simplified. He also proposed matching a worker to a particular job that suited the person's skill level and then training the worker to do that job in a specific way. Taylor first developed the idea of breaking down each job into component parts and timing each part to determine the most efficient method of working.



One of Taylor's most famous studies was from his time at the Bethlehem Steel Company in the early 1900s. He noticed that workers used the same shovel for all materials, even though the various materials differed in weight. By observing the movements of the workers and breaking the movements down into their component elements, Taylor determined that the most efficient shovel load was 21½ lb. Accordingly, he set about finding or designing different shovels to be used for each material that would scoop up that amount.

Scientific management has at its heart four core principles that also apply to organizations today. They include the following:

- Look at each job or task scientifically to determine the "one best way" to perform the job. This is a change from the previous "rule of thumb" method where



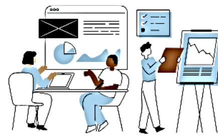
workers devised their own ways to do the job.

- Hire the right workers for each job, and train them to work at maximum efficiency.
- Monitor worker performance, and provide instruction and training when needed.
- Divide the work between management and labor so that management can plan and train, and workers can execute the task efficiently.

Motivating Employees

Why explain common motivational theories and apply them to business?

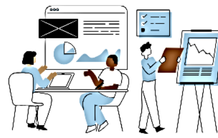
What motivates you to do what you do? How do you motivate others to help you or to accomplish things on their own? You have already learned a lot about business and the role people play, both as managers and employees, in helping the



organization reach its goals. As a manager you are expected to lead and manage people. As an employee you are given job specific duties and responsibilities you are expected to perform. Neither leading nor following will happen until people are motivated.

Since the 1920s researchers have studied human behavior and developed a variety of theories to explain the driving force behind motivation. These theories range from the need to provide a safe and secure environment for oneself and family to the compelling desire *not* to experience negative consequences from action or inaction. Understanding the basis for motivation and learning how motivational approaches work in the business environment can be helpful to your professional and organizational success.

Before you begin this module ask yourself the following questions:

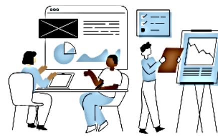


- What motivates me?
- How have others tried to motivate me?
- Which motivational approaches have been the most and least successful?
- When have I been successful in motivating others?
- How can I use this information to be successful in my personal and professional life?

The Hawthorne Effect

What you'll learn to do: describe the Hawthorne effect, and explain its significance in management

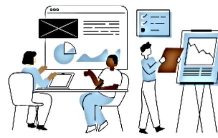
Understanding and optimizing motivation is a study that dates back to the ancient Greek philosophers and scientists. Over the centuries, the focus was primarily on improving individual performance. In 1924, Australian sociologist Elton Mayo, who later



became an industrial research professor at Harvard, began a series of studies that demonstrated that employee motivation is heavily influenced by social factors. Mayo's findings, referred to as the "Hawthorne Effect," marked a radical change in motivational theory and management practice. Many of today's ideas about the connection between human motivation and employee performance can be traced back to the discoveries of the Hawthorne studies.

LEARNING OUTCOMES

- Describe the Hawthorne effect
- Explain the role of the Hawthorne effect in management

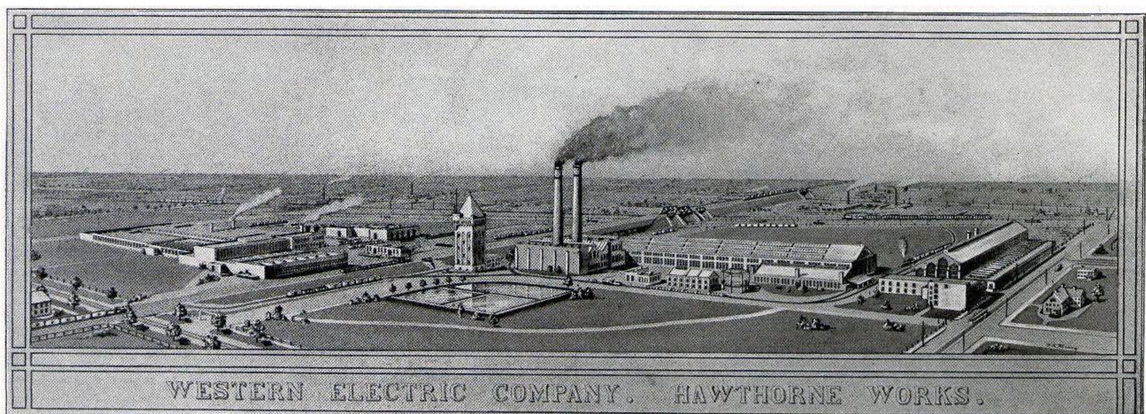


The Hawthorne Studies

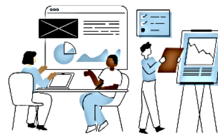
During the 1920s, a series of studies that marked a change in the direction of motivational and managerial theory was conducted by Elton Mayo on workers at the Hawthorne plant of the Western Electric Company in Illinois. Previous studies, in particular Frederick Taylor's work, took a "man as machine" view and focused on ways of improving individual performance. Hawthorne, however, set the individual in a social context, arguing that employees' performance is influenced by work surroundings and coworkers as much as by employee ability and skill. The Hawthorne studies are credited with focusing managerial strategy on

the socio-psychological aspects of human behavior in organizations.

The studies originally looked into the effects of physical conditions on productivity and whether workers were more responsive and worked more efficiently under certain environmental conditions, such as improved lighting. The results were surprising: Mayo found that workers were more responsive to social factors—such as their manager and coworkers—than the factors (lighting, etc.) the researchers set out



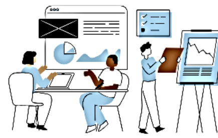
to investigate. In fact, worker productivity improved when the lights were dimmed again and when everything had been



returned to the way it was before the experiment began, productivity at the factory was at its highest level and absenteeism had plummeted.

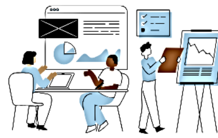
What happened was Mayo discovered that workers were highly responsive to additional attention from their managers and the feeling that their managers actually cared about and were interested in their work. The studies also found that although financial incentives are important drivers of worker productivity, social factors are equally important.

There were a number of other experiments conducted in the Hawthorne studies, including one in which two women were chosen as test subjects and were then asked to choose four other workers to join the test group. Together, the women worked assembling telephone relays in a separate room over the course of five years (1927–1932). Their output was measured during this time—at first, in



secret. It started two weeks before moving the women to an experiment room and continued throughout the study. In the experiment room, they were assigned to a supervisor who discussed changes with them and, at times, used the women's suggestions. The researchers then spent five years measuring how different variables affected both the group's and the individuals' productivity. Some of the variables included giving two five-minute breaks (after a discussion with the group on the best length of time), and then changing to two ten-minute breaks (not the preference of the group).

Changing a variable usually increased productivity, even if the variable was just a change back to the original condition. Researchers concluded that the employees worked harder because they thought they were being monitored individually. Researchers hypothesized that choosing one's own coworkers, working as a group, being treated



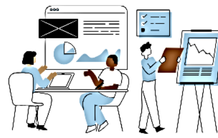
as special (as evidenced by working in a separate room), and having a sympathetic supervisor were the real reasons for the productivity increase.

The Hawthorne studies showed that people's work performance is dependent on social issues and job satisfaction. The studies concluded that tangible motivators such as monetary incentives and good working conditions are generally less important in improving employee productivity than intangible motivators such as meeting individuals' desire to belong to a group and be included in decision making and work.

Need-Based Theories

What you'll learn to do: explain need-based theories of worker motivation

One of the approaches to understanding motivation is by studying human needs. Specifically, studying how the satisfaction of

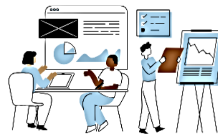


fundamental human needs drives behavior. In this section, we will introduce the four dominant theories—psychologist Abraham Maslow's Hierarchy of Needs, psychologist Clayton Alderfer's ERG theory, a modification of Maslow's theory, psychologist Frederick Herzberg's Motivator-Hygiene or two-factor theory and psychologist David McClelland's Acquired Needs theory—and their relevance to management.

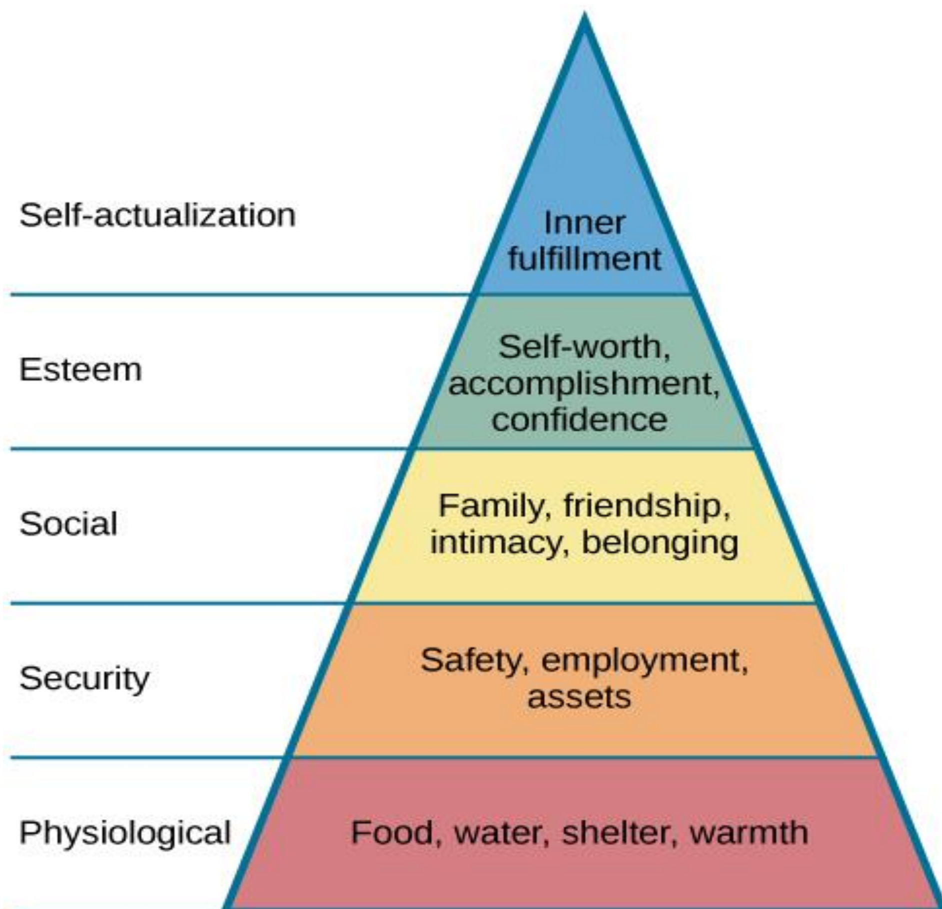
Maslow's Hierarchy of Needs

Human motivation can be defined as the fulfillment of various needs. These needs can encompass a range of human desires, from basic, tangible needs of survival to complex, emotional needs surrounding an individual's psychological well-being.

Abraham Maslow was a social psychologist who was interested in a broad spectrum of human psychological needs rather than on individual



psychological problems. He is best known for his hierarchy-of-needs theory. Depicted in a pyramid (shown in Figure 1), the theory organizes the different levels of human psychological and physical needs in order of importance.



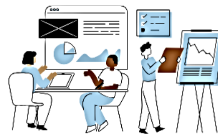
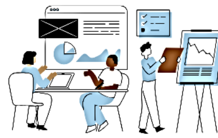


Figure 1. Maslow's hierarchy of needs is illustrated here. In some versions of the pyramid, cognitive and aesthetic needs are also included between esteem and self-actualization. Others include another tier at the top of the pyramid for self-transcendence.

The needs in Maslow's hierarchy include physiological needs (food and clothing), safety needs (job security), social needs (friendship), self-esteem, and self-actualization. This hierarchy can be used by managers to better understand employees' needs and motivation and address them in ways that lead to high productivity and job satisfaction.

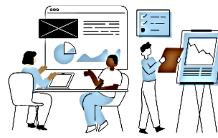
At the bottom of the pyramid are the **physiological** (or basic) human needs that are required for survival: food, shelter, water, sleep, etc. If these requirements are not met, the body cannot continue to function. Faced with a lack of



food, love, and safety, most people would probably consider food to be their most urgent need.

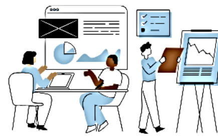
Once physical needs are satisfied, **security** (sometimes referred to as individual safety) takes precedence. Security and safety needs include personal security, financial security, and health and well-being. These first two levels are important to the physical survival of the person. Once individuals have basic nutrition, shelter, and safety, they seek to fulfill higher-level needs.

The third level of need is **social**, which include love and belonging; when individuals have taken care of themselves physically, they can address their need to share and connect with others. Deficiencies at this level, on account of neglect, shunning, ostracism, etc., can impact an individual’s ability to form and maintain emotionally significant relationships. Humans need to feel a sense of



belonging and acceptance, whether it comes from a large social group or a small network of family and friends. Other sources of social connection may be professional organizations, clubs, religious groups, social media sites, and so forth. Humans need to love and be loved (sexually and non-sexually) by others. Without these attachments, people can be vulnerable to psychological difficulties such as loneliness, social anxiety, and depression. These conditions, when severe, can impair a person's ability to address basic physiological needs such as eating and sleeping.

The fourth level is **esteem**, which represents the normal human desire to be valued and validated by others, through, for example, the recognition of success or status. This level also includes self-esteem, which refers to the regard and acceptance one has for oneself. Imbalances at this level can result in low self-esteem or an inferiority complex.

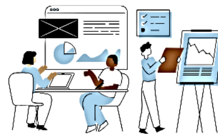


People suffering from low self-esteem may find that external validation by others—through fame, glory, accolades, etc.—only partially or temporarily fulfills their needs at this level.

At the top of the pyramid is **self-actualization**. At this stage, people feel that they have reached their full potential and are doing everything they're capable of. Self-actualization is rarely a permanent feeling or state. Rather, it refers to the ongoing need for personal growth and discovery that people have throughout their lives. Self-actualization may occur after reaching an important goal or overcoming a particular challenge, and it may be marked by a new sense of self-confidence or contentment.

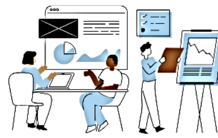
Hierarchy of Needs and Organizational Theory

Maslow's hierarchy of needs is relevant to organizational theory because both are concerned with human motivation. Understanding what



people need—and how people's needs differ—is an important part of effective management. For example, some people work primarily for money (and fulfill their other needs elsewhere), but others like to go to work because they enjoy their coworkers or feel respected by others and appreciated for their good work. Maslow's hierarchy of needs suggests that if a lower need is not met, then the higher ones will be ignored. For example, if employees lack job security and are worried that they will be fired, they will be far more concerned about their financial well-being and meeting lower needs (paying rent, bills, etc.) than about friendships and respect at work. However, if employees receive adequate financial compensation (and have job security), meaningful group relationships and praise for good work may be more important motivators.

When needs aren't met, employees can become very frustrated. For example, if individuals works

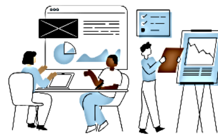


hard for a promotion and don't get the recognition it represents, they may lose motivation and put in less effort. Also, when a need *is* met, it will no longer serve a motivating function—the next level up in the needs hierarchy will become more important. From a management point of view, keeping one's employees motivated can seem like something of a moving target. People seldom fit neatly into pyramids or diagrams, and their needs are complicated and often change over time.

Theory X, Theory Y, and Theory Z

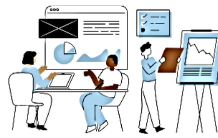
What you'll learn to do: differentiate between Theory X, Theory Y, and Theory Z managers

In this section, we approach motivation from the opposite—management versus employee—side of the equation. We will discuss three different theories (all developed by management professors): Douglas McGregor's contrasting



Theory X and Theory Y and William Ouchi's cross-cultural Theory Z. As in prior sections, we'll discuss the underlying assumptions of each theory and the associated management approach or style and organizational impacts and implications.

The idea that a manager's attitude has an impact on employee motivation was originally proposed by **Douglas McGregor**, a management professor at the Massachusetts Institute of Technology during the 1950s and 1960s. In his 1960 book, *The Human Side of Enterprise*, McGregor proposed two

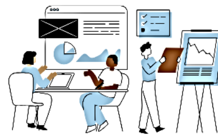


theories by which managers perceive and address employee motivation. He referred to these opposing motivational methods as Theory X and Theory Y management. Each assumes that the manager's role is to organize resources, including people, to best benefit the company. However, beyond this commonality, the attitudes and assumptions they embody are quite different.

Theory X

According to McGregor, Theory X management assumes the following:

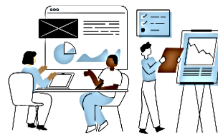
- Work is inherently distasteful to most people, and they will attempt to avoid work whenever possible.
- Most people are not ambitious, have little desire for responsibility, and prefer to be directed.



- Most people have little aptitude for creativity in solving organizational problems.
- Motivation occurs only at the physiological and security levels of Maslow's hierarchy of needs.
- Most people are self-centered. As a result, they must be closely controlled and often coerced to achieve organizational objectives.
- Most people resist change.
- Most people are gullible and unintelligent.

Essentially, Theory X assumes that the primary source of employee motivation is monetary, with security as a strong second. Under Theory X, one can take a hard or soft approach to getting results.

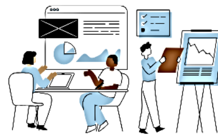
The hard approach to motivation relies on coercion, implicit threats, micromanagement, and tight controls— essentially an environment of command



and control. The soft approach, however, is to be permissive and seek harmony in the hopes that, in return, employees will cooperate when asked. However, neither of these extremes is optimal. The hard approach results in hostility, purposely low output, and extreme union demands. The soft approach results in a growing desire for greater reward in exchange for diminished work output.

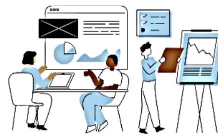
It might seem that the optimal approach to human resource management would lie somewhere between these extremes. However, McGregor asserts that neither approach is appropriate, since the basic assumptions of Theory X are incorrect.

Drawing on Maslow’s hierarchy of needs, McGregor argues that a need, once satisfied, no longer motivates. The company uses monetary rewards and benefits to satisfy employees’ lower-level needs. Once those needs have been satisfied, the motivation disappears. Theory



X management hinders the satisfaction of higher-level needs because it doesn’t acknowledge that those needs are relevant in the workplace. As a result, the only way that employees can attempt to meet higher-level needs at work is to seek more compensation, so, predictably, they focus on monetary rewards. While money may not be the most effective way to self-fulfillment, it may be the only way available. People will use work to satisfy their lower needs and seek to satisfy their higher needs during their leisure time. However, employees can be most productive when their work goals align with their higher-level needs.

McGregor makes the point that a command-and-control environment is not effective because it relies on lower needs for motivation, but in modern society those needs are mostly satisfied and thus are no longer motivating. In this situation, one would expect employees to dislike their work, avoid responsibility, have no interest in organizational



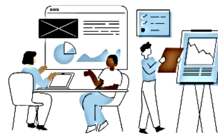
goals, resist change, etc.—creating, in effect, a self-fulfilling prophecy. To McGregor, a steady supply of motivation seemed more likely to occur under Theory Y management.

Theory Y

The higher-level needs of esteem and self-actualization are ongoing needs that, for most people, are never completely satisfied. As such, it is these higher-level needs through which employees can best be motivated.

In strong contrast to Theory X, Theory Y management makes the following assumptions:

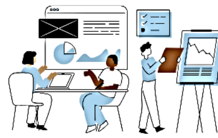
- Work can be as natural as play if the conditions are favorable.
- People will be self-directed and creative to meet their work and organizational objectives if they are committed to them.



- People will be committed to their quality and productivity objectives if rewards are in place that address higher needs such as self-fulfillment.
- The capacity for creativity spreads throughout organizations.
- Most people can handle responsibility because creativity and ingenuity are common in the population.
- Under these conditions, people will seek responsibility.

Under these assumptions, there is an opportunity to align personal goals with organizational goals by using the employee's own need for fulfillment as the motivator. McGregor stressed that Theory Y management does not imply a soft approach.

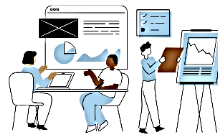
McGregor recognized that some people may not have reached the level of maturity assumed by



Theory Y and may initially need tighter controls that can be relaxed as the employee develops.

If Theory Y holds true, an organization can apply the following principles of scientific management to improve employee motivation:

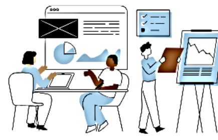
- **Decentralization and delegation**: If firms decentralize control and reduce the number of levels of management, managers will have more subordinates and consequently need to delegate some responsibility and decision making to them.
- **Job enlargement**: Broadening the scope of an employee's job adds variety and opportunities to satisfy ego needs.
- **Participative management**: Consulting employees in the decision-making process taps their creative capacity and

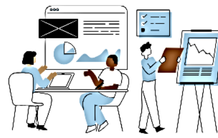


provides them with some control over their work environment.

- **Performance appraisals**: Having the employee set objectives and participate in the process of self-evaluation increases engagement and dedication.

If properly implemented, such an environment can increase and continually fuel motivation as employees work to satisfy their higher-level personal needs through their jobs.



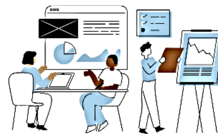


Chapter four

Planning Function

What you'll learn to do: identify the types of planning and decision making managers engage in, and explain how these help organizations reach their goals

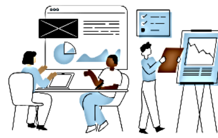
In this section, we'll introduce the concept of planning, including the foundational documents—vision and mission—that need to be in place prior to developing a plan. We will identify the 3 levels of planning—strategic, tactical and operational (plus contingency)—and the role of each in achieving the business goals and objectives. This section also introduces the SWOT Analysis, a planning tool that provides a framework for analyzing an organization's strengths, weaknesses, opportunities, and threats.



Planning is a process of thinking about and organizing the activities needed to achieve a desired goal. By now you are familiar with the most encompassing of all organizational planning: the business plan. The business plan provides the foundation for ongoing planning activities, but as the business grows and develops, it's the manager's responsibility to make adjustments and take the plans to the next level. A business without solid strategic, operational, and contingency plans will have a hard time meeting its organizational goals—unless it intends to survive by luck alone.

The Foundation of Planning

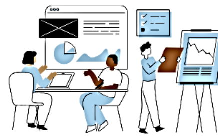
When managers begin to plan, they need to plan based on something – an idea, an opportunity or a dream. The company vision and mission statements create the foundation for planning by summarizing a company's business strategy in a



form that can be communicated and understood easily by stakeholders.

- **Vision Statement**: A vision statement gives employees something to rally behind, and for those businesses that choose to make their vision statement public, it lets the world know where the company is going. Ikea, the Swedish multinational group of companies that designs and sells ready-to-assemble furniture, is driven by its corporate vision. This is the IKEA vision: “To create a better everyday life for the many people.”

- **Mission Statement**: A mission statement outlines how the business will turn its vision into reality and becomes the foundation for establishing specific goals and objectives. Ikea’s mission is “to offer a wide range of well-designed, functional



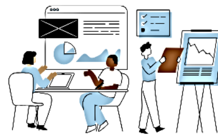
home furnishing products at prices so low that as many people as possible will be able to afford them." It is this mission that will enable them to realize the vision of "better everyday life."

Until a business has determined what its mission is, planning cannot begin. Furthermore, one plan cannot possibly encompass everything necessary to achieve the organization's mission, so managers are tasked with developing sets of plans that, together, guide the organization's activities.

Strategic Plans

Strategic plans translate the company mission into a set of long-term goals and short-term objectives. In the process of determining a company's strategic plan, top-level managers set out to answer the following questions:

1. Where are we now?



2. Where do we want to be?
3. How do we get there?

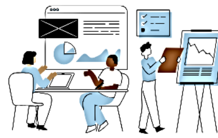
Tactical Plans

Tactical plans translate high-level strategic plans into specific plans for actions that need to be taken up and down the layers of an organization. They are short-range plans (usually spanning less than one year) that emphasize the current operations of various parts of the organization. As a company refines or alters its strategic plans, the tactics must also be adjusted to execute the strategy effectively. A tactical plan answers the following questions:

1. What is to be done?
2. Who is going to do it?
3. How is it to be done?

Operational Plans

Operational plans establish detailed standards that guide the implementation of tactical plans and



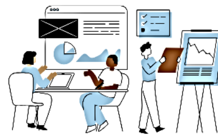
establish the activities and budgets for each part of the organization. Operational plans may go so far as to set schedules and standards for the day-to-day operations of the business and name responsible supervisors, employees, or departments.

Contingency Plans

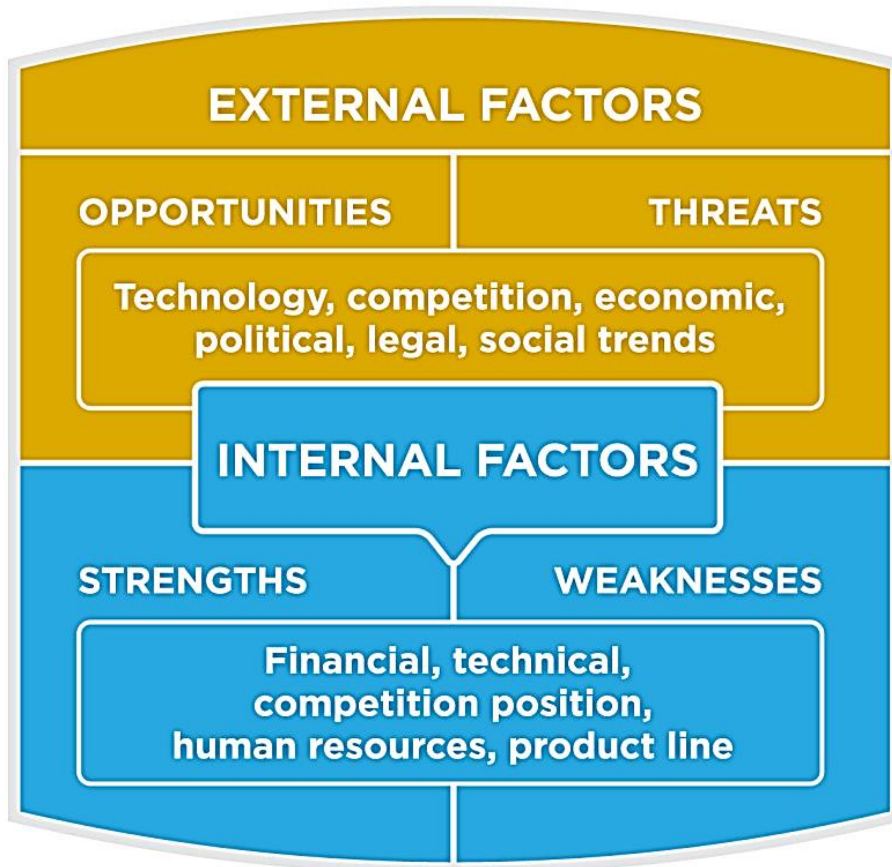
Unforeseen events or disasters can be especially harmful to a business. For example, a fire, earthquake, or flood can make it impossible to continue normal business operations. A contingency plan lays out the course of action a business will take in response to possible future events.

SWOT Analysis

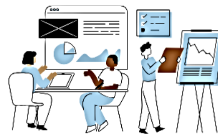
One of the key planning tools managers have at their disposal is the situation analysis, or SWOT analysis. SWOT stands for *strengths*, *weaknesses*, *opportunities*, and *threats*. Conducting such an analysis provides a means of projecting expectations, anticipating problems, and guiding decision making. As shown in the graphic, below, a SWOT analysis is an examination of the internal and external factors that impact the organization and its plans.



SWOT ANALYSIS



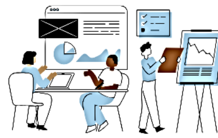
The external factors include opportunities and threats that are outside of the organization. These are factors that the company may be able influence—or at least anticipate—but not fully



control. Examples of external factors are technology innovations and changes, competition, economic trends, government policies and regulations, legal judgments, and social trends.

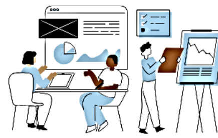
The internal factors include strengths and weaknesses within the organization currently. Examples of internal factors are financial resources, technical resources and capabilities, human resources, and product lines. Since the company has the most control over internal factors, it can develop strategies and objectives to exploit strengths and address weaknesses.

The benefit of a SWOT analysis is that it gives a managers a clear picture of the "situation" in which it operates and helps them develop realistic plans. Managers must continually scan the internal and external business environment for signs of change that may require alterations to their plans. The organization's strengths and weaknesses evolve



over time, and new threats and opportunities can appear out of the blue. Ignoring signals that technology, consumer demands, resource availability or legal requirements are changing can leave the business in an inferior position relative to the competition and can very well mean the end of the business. For this reason, effective managers should use SWOT analysis as a tool to inform decision making and planning on a regular basis.

You can see how pervasive planning is within a business and that plans can run the gamut from the broad and general (as with the strategic plan, for example) to the narrow and specific (as with operational plans), but each type of plan is important to the overall success of an organization. Furthermore, planning is crucial to fulfilling the other functions of management. Without plans, effective organizing, leading, and controlling won't happen. Failure to plan—or postponing it—can be



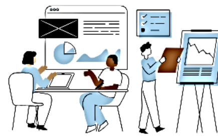
a real liability for labor-oriented, hands-on managers.

PESTEL analysis

A **PESTEL** analysis is a framework or tool used by marketers to analyze and monitor the macro-environmental (external marketing environment) factors that have an impact on an organization, company, or industry. It examines the Political, Economic, Social, Technological, Environmental, and Legal factors in the external environment. A PESTEL analysis is used to identify threats and weaknesses which are used in a SWOT analysis.

Political factors include government policies, leadership, and change; foreign trade policies; internal political issues and trends; tax policy; regulation and de-regulation trends.

Economic factors include current and projected economic growth; inflation and interest rates; job growth and unemployment; labor costs; impact of



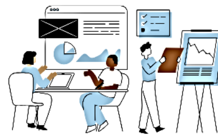
globalization; disposable income of consumers and businesses; likely changes in the economic environment.

Social factors include demographics (age, gender, race, family size); consumer attitudes, opinions, and buying patterns; population growth rate and employment patterns; socio-cultural changes; ethnic and religious trends; living standards.

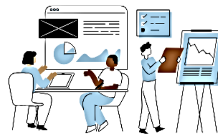
Technological factors affect marketing in (1) new ways of producing goods and services; (2) new ways of distributing goods and services; (3) new ways of communicating with target markets.

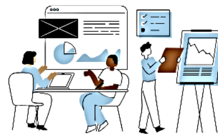
Environmental factors are important due to the increasing scarcity of raw materials; pollution targets; doing business as an ethical and sustainable company; carbon footprint targets.

Legal factors include health and safety; equal opportunities; advertising standards; consumer



rights and laws; product labeling and product safety.



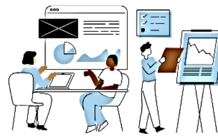


Chapter Five

Organizing Function

What you'll learn to do: describe the organizing function of management and common types of organizational structure

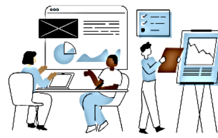
Organizing is not only a critical management function, it's critical to effective execution of a business's plan. In this section, we'll discuss when organization occurs, what the organization function entails and benefits of organizing. Recalling Henri Fayol, we'll discuss the role of specialization and division of labor. Finally, we'll discuss and illustrate types of organization structures, defining the terms organization chart and span of control and presenting the three most common business structures: divisional, functional and matrix, including advantages and disadvantages of each.



The Nature of Organizing

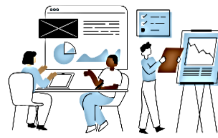
Once a plan has been created, a manager can begin to organize. Organizing involves assigning tasks, grouping tasks into departments, delegating authority, and allocating resources across the organization. During the organizing process, managers coordinate employees, resources, policies, and procedures to facilitate the goals identified in the plan. Organizing is highly complex and often involves a systematic review of human resources, finances, and priorities.

Before a plan can be implemented, managers must organize the assets of the business to execute the plan efficiently and effectively. Understanding specialization and the division of work is key to this effort, since many of the “assets” are employees. Recall what Henri Fayol wrote about the division of work:



The specialization of the workforce according to the skills of a person, creating specific personal and professional development within the labor force and therefore increasing productivity, leads to specialization which increases the efficiency of labor. By separating a small part of work, the workers speed and accuracy in its performance increases. This principle is applicable to both technical as well as managerial work.

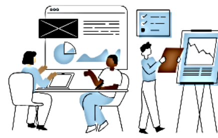
Where workers are specialists, managers can group those employees into departments, so their work is appropriately directed and coordinated. In short, work should be divided, and the right people should be given the right jobs to reduce redundancy and inefficiency.



Benefits of Organizing

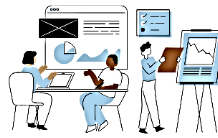
While the planning function of managers is essential to reaching business goals, lots of careful planning can go to waste if managers fail to organize the company's assets and resources adequately. Some of the benefits of organizing include the following:

- Organization harmonizes employees' individual goals with the overall objectives of the firm. If employees are working without regard for the big picture, then the organization loses the cohesion necessary to work as a unit.
- A good organizational structure is essential for the expansion of business activities. Because organizational structure improves tracking and accountability, that structure helps businesses determine the resources it



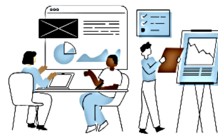
needs to grow. Similarly, organization is essential for product diversification, such as the development of a new product line.

- Organization aids business efficiency and helps reduce waste. In order to maximize efficiency, some businesses centralize operations while others arrange operations with customer or regional demands in mind.
- A strong organizational structure makes "chain of command" clear so employees know whose directions they should follow. This in turn improves accountability, which is important when outcomes are measured and analyzed.



Types of Organizational Structure

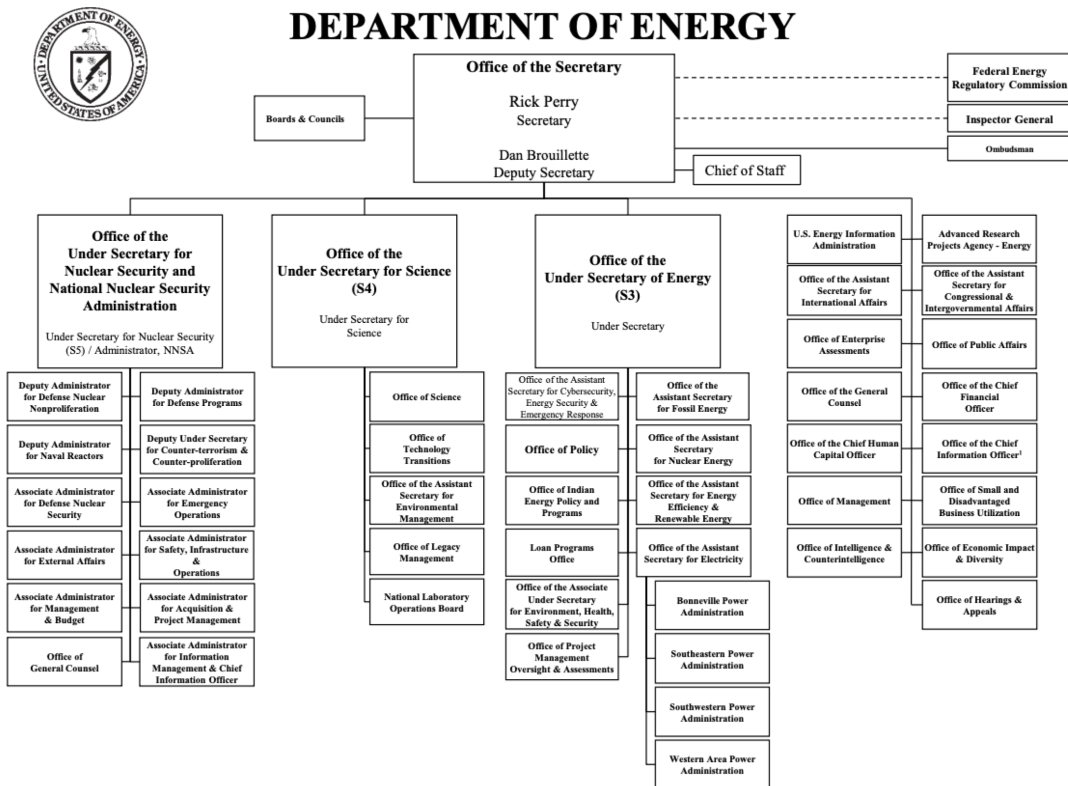
Organizations can be structured in various ways, with each structure determining the manner in which the organization operates and performs. An organization's structure is typically represented by an **organization chart** (often called simply an "org chart")—a diagram showing the interrelationships of its positions. This chart highlights the chain of command, or the authority relationships among people working at different levels. It also shows the number of layers between the top and lowest managerial levels. Organizational structure also dictates the **span of control** or the number of subordinates a supervisor has. An organization with few layers has a wide span of control, with each manager overseeing a large number of subordinates; with a narrow span of control, only a limited number of subordinates reports to each manager. The structure of an organization

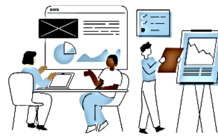


determines how the organization will operate and perform.

Divisional Structure

One way of structuring an organization is by division. With this structure, each organizational function has its own division.

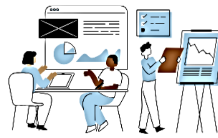




U.S. Department of Energy organization chart: The DOE organization chart shows a divisional structure with different divisions under each of three under-secretaries for energy. Each of the three divisions is in charge of a different set of tasks: environmental responsibilities, nuclear-energy responsibilities, or research responsibilities.

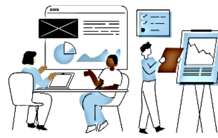
Each division can correspond to products or geographies of the organization. Each division contains all the necessary resources and functions within it to support that particular product line or geography (for example, its own finance, IT, and marketing departments). Product and geographic divisional structures may be characterized as follows:

- **Product departmentalization**: A divisional structure organized by product departmentalization means that the



various activities related to the product or service are under the authority of one manager. If the company builds luxury sedans and SUVs, for example, the SUV division will have its own sales, engineering, and marketing departments, which are separate from the departments within the luxury sedan division.

- **Geographic departmentalization**: Geographic departmentalization involves grouping activities based on geography, such as an Asia/Pacific or Latin American division. Geographic departmentalization is particularly important if tastes and brand responses differ across regions, as it allows for flexibility in product offerings and marketing strategies (an approach known as localization).

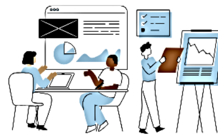


Functional Structure

In a **functional structure**, a common configuration, an organization is divided into smaller groups by areas of specialty (such as IT, finance, operations, and marketing). Some refer to these functional areas as "silos"—entities that are vertical and disconnected from one another.

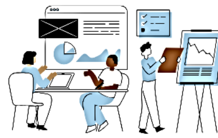
Functional structure organizational chart.

Accordingly, the company's top management team typically consists of several functional heads (such as the chief financial officer and the chief operating officer). Communication generally occurs within each functional department and is transmitted across departments through the department heads.



Functional departments are said to offer greater operational efficiency because employees with shared skills and knowledge are grouped together according to the work they do. Each group of specialists can therefore operate independently, with management acting as the point of cross-communication between functional areas. This arrangement allows for increased specialization.

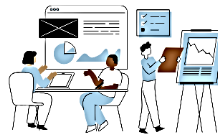
One disadvantage of this structure is that the different functional groups may not communicate with one another, which can potentially decrease flexibility and innovation within the business. Functional structures may also be susceptible to tunnel vision, with each function seeing the organization only from within the frame of its own operation. Recent efforts to counteract these tendencies include using teams that cross traditional departmental lines and promoting cross-functional communication.



Functional structures appear in a variety of organizations across many industries. They may be most effective within large corporations that produce relatively homogeneous goods. Smaller companies that require more adaptability and innovation may feel that communication and creativity is limited by the silos that result from functional structures.

Matrix Structure

The **matrix structure** is a type of organizational structure in which individuals are grouped by two different operational perspectives at the same time; this structure has both advantages and disadvantages but is generally best employed by companies large enough to justify the increased complexity.



CEO

CEO SBU 1 | CEO SBU 2 | CEO SBU 3 | CEO SB4

North America

South America

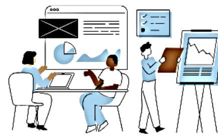
Europe

Middle East & Africa

Asia

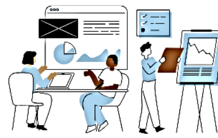
Matrix structure with geographic and product (SBU) structure.

In a matrix structure, the company is organized by both product and function. Product lines are managed horizontally and functions are managed vertically. This means that each function—e.g., research, production, sales, and finance—has



separate internal divisions for each product. In matrix organizations, the company is grouped by the perspectives it deems most appropriate. Common organizational perspectives include function and product, function and region, or region and product. In an organization grouped by function and product, for example, each product line will have management that corresponds to each function. If the organization has three functions and three products, the matrix structure will have nine (3×3) potential managerial interactions. This example illustrates how inherently complex matrix structures are compared to other, more linear structures.

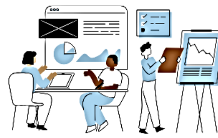
Proponents of matrix management argue that this structure allows team members to share information more readily across task boundaries, which addresses the silo problem of functional management. Matrix structures also allow for specialization, which can increase depth of



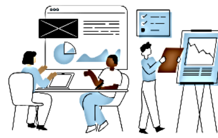
knowledge and and enable individuals to be assigned according to project needs.

A disadvantage of the matrix structure is the increased complexity in the chain of command when employees are assigned to both functional and project managers. This arrangement can result in a higher manager-to-worker ratio, which, in turn, can increase costs or lead to conflicting employee loyalties. It can also create a gridlock in decision making if a manager on one end of the matrix disagrees with another manager. Blurred authority in a matrix structure can hamper decision making and conflict resolution.

Matrix structures should generally only be used when the operational complexity of the organization warrants it. A company that operates in various regions with various products may require interaction between product development teams and geographic marketing specialists—



suggesting a matrix may be beneficial. Larger companies with a need for a great deal of cross-departmental communication generally benefit the most from this model.



Chapter six

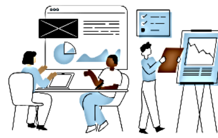
Directing Function

Directing in Management, Process, Definition, Meaning, Function

Directing in Management, Process, definition, Meaning. Here you will study the concept of directing, importance & elements of a management function....

Directing in Management

Directing: Every manager is also responsible for staffing, organizing, and planning, in addition to leading his team. An essential managerial task is directing. Organizers' actions are started with the managerial task of directing. The management of the organization's members is a concern. The managerial task of directing entails those actions that are directly related to influencing, guiding, or supervising the work of the subordinates. So,

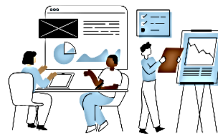


directing is a performance-focused management function that launches plans and the organization. Nothing can be done if subordinates are not properly directed. Another critical component of management is direction. The culmination of managerial efforts moves the organization toward its set objectives. In actuality, it's a component of all managerial actions.

Performing the role of direction is a difficult undertaking for the manager. It entails dealing with people of various natures. At every level of management, men are affected by interpersonal phenomena in one way or another.

What is Directing in Management Definition?

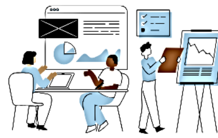
"Direction is the managerial efforts that are applied for guiding and inspiring the working terms to make better accomplishments in the organization. " — S.S. Chatterjee.



"Directing concerns the total manner in which a manager influences the actions of subordinates. It is the final action of a manager in getting others to act after all preparations have been completed."

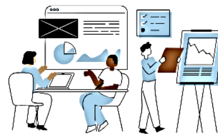
Directing Meaning

1. Communication: One of the most fundamental management tasks is communication, which is the process by which information is passed from one person in an organization to another. The sender of the message and the recipient of the message are referred to as the sender and receiver, respectively. The goal of communication in an organization is to convey any instructions, directives, or information pertaining to enhancing operational effectiveness.
2. Supervision: The following step is supervision, which comes after the supervisor has informed the team members about the tasks that need to be completed. At this point,



the manager checks to determine if the employees are adhering to the instructions given to them.

3. Motivation: One of the essential components of directing is motivation. The supervisor's command to the subordinates does not ensure that it will be carried out exactly as requested. Employees must be motivated by supervisors in order to execute the assignment effectively and produce the required results. To the best of their abilities, a person must be motivated to carry out a series of duties or follow a set of instructions.
4. Leadership: Leadership is the aspect of directing that relies on inspiration and persuasion to help accomplish the desired outcomes. A leader is someone who has the capacity to motivate others and encourage them to carry out orders. In other words, leadership is the process of inspiring,



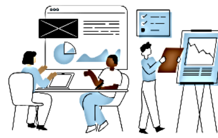
directing, and encouraging others to accomplish the objectives of the organization.

Directing Process

Component Of Management: One of the crucial managerial tasks is directing. Management starts things moving in the organization in the direction.

Ongoing activity: The process of direction is ongoing and lasts the duration of an organization. A manager never stops directing, motivating, and watching over his employees. A manager cannot complete tasks by giving orders and instructions alone. For the orders and directives to be carried out, he must constantly inspire and lead.

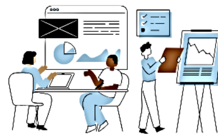
Creative process: Direction is the process that turns plans into action and is the engine that drives all performance. An organization's people resources become dormant without direction,



which renders its physical assets ineffective. It gives the organization new vitality.

Linking process: The job begins when managers fulfill the guiding function; planning, organization, and staffing are essentially pre-work activities. Plans are put into action by direction, which also produces performance for monitoring and managing. In this sense, directing acts as a bridge between planning and execution.

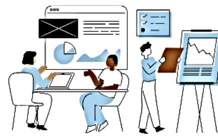
Pervasive function: In an organization, direction starts from the top and continues all the way down. Every management in the company gives guidance to his subordinates in the capacity of a superior and receives direction from his superior in the capacity of the subordinate. Every level of management and every division of the company performs the direction role.



Management of the human factor: Interpersonal components of management are direction. It addresses the organizational human element. Human behavior is extremely dynamic and is influenced by a variety of unknown variables. As a result, guidance is a highly demanding and difficult task.

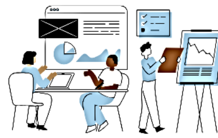
Directing is a Managerial Function Performed by Managers

1. Increases Productivity: With guidance, managers can inspire and encourage staff to work more productively to accomplish a shared goal. People perform to the best of their ability when they are motivated, which boosts the team's overall effectiveness.
2. Integrates employee efforts: In a company, each employee's performance has an impact on the overall performance of the company.

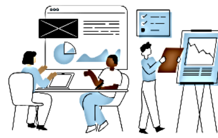


Employers are given overlapping tasks by managers, who combine their efforts with the main goal. Managers can supervise and direct staff members on what to do and how to do it through directing.

3. Initiates action: The main goal of direction is to assist staff in assisting the organization in accomplishing its goals. Additionally, direction increases the efficiency of all other management tasks, including organizing and planning. Managers train staff members and oversee their work in order to direct action.
4. Enhances Communication: Good communication between management and staff is encouraged by direction. It guarantees open communication inside the organization, preventing faults and errors that prevent the organization from attaining its objectives.
5. Promotes Flexibility: Through communication and leadership, the direction function enables



the organization to adapt to changing circumstances. For instance, if technology usage changes, the production process will also change. Managers will be able to handle these adjustments and boost operational efficiency with effective direction. There are occasions when employees object to changes made to the business. Managers can discuss the problem with them and assist them in adjusting to the change.



Directing Meaning in Management QNAs

Ques 1. What elements of direction are responsible for excellent management?

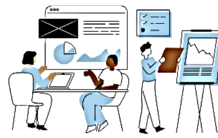
Ans. There are four key parts of directing – overseeing, motivating, leadership, and communication.

Ques 2. Which aspect of direction provides a crucial element of effective direction?

Ans. An essential component of management's directing function is supervision. Face-to-face communication between the supervisor and his subordinate is a crucial component of supervision.

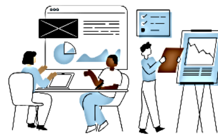
Ques 3. Is directing necessary during the planning phase?

Ans. No, since directing is an executive activity, it is not necessary at the planning stage.



Ques 4. Why directing is a continual process?

Ans. The act of directing is ongoing. A manager cannot just unwind after giving directives and directions. He must constantly direct, watch over, and inspire his employees.



Chapter Seven

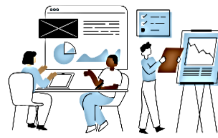
Controlling function

What you'll learn to do: explain why control is an essential part of effective management, and outline the steps of the control process

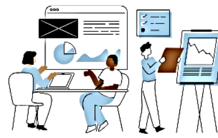
In this section, we'll define the control function of management, including what it entails at various levels of management, and illustrate how it impacts both the employee experience and an organization's achievement of its goals and objectives. We'll also introduce related concepts, processes and tools, including the five-stage control process, SMART criteria and the balanced scorecard model.

What Is Control?

In business or management context, control is the activity of observing a given organizational



process, measuring performance against a previously established metric, and improving it where possible. Organizations are made up of operational processes and systems, each of which can be iterated upon and optimized. At the upper-managerial level, control revolves around setting strategic objectives for the short and long term, as well as measuring overall organizational success. Developing methods for optimizing operational processes is often done at the mid-managerial level. The mid-level manager measures success within his or her span of control—which could be a division, a region, or a particular product. The line manager is then responsible for controlling the actions of the workers to ensure that activities are carried out in a way that optimizes outcomes and outputs. He or she will measure the success of individual workers, work teams, or even a shift. What managers up and down the organizational chart have in common is that they all use the same



process for carrying out the control function of management.

As Figure 2 shows, controlling can be visualized as a cyclical process made up of five stages:

1. Set performance standards and goals

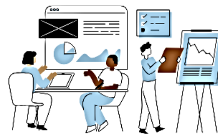
2. Measure performance

3. Compare actual performance to established performance standards

4. Take corrective action

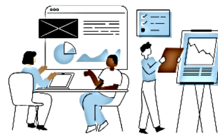
5. Use information gained from the process to set up future performance standards

Figure 2. The Control Process



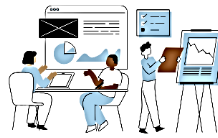
Performance standards are the levels of performance the company wants to attain. These goals are based on its strategic, tactical, and operational plans. The most effective performance standards state a measurable behavioral objective that can be achieved in a specified time frame. For example, the performance objective for the sales division of a company could be stated as “$200,000 in gross sales for the month of January.” Each individual employee in that division would also have a specified performance goal. Actual firm, division, or individual performance can be measured against desired performance standards to see if a gap exists between the desired level of performance and the actual level of performance. If a performance gap does exist, the reason for it must be determined and corrective action taken.

Feedback is essential to the process of control. Most companies have a reporting system that identifies areas where performance standards are



not being met. A feedback system helps managers detect problems before they get out of hand. If a problem exists, the managers take corrective action. Toyota uses a simple but effective control system on its automobile assembly lines. Each worker serves as the customer for the process just before his or hers. Each worker is empowered to act as a quality control inspector. If a part is defective or not installed properly, the next worker won't accept it. Any worker can alert the supervisor to a problem by tugging on a rope that turns on a warning light (i.e., feedback). If the problem isn't corrected, the worker can stop the entire assembly line.

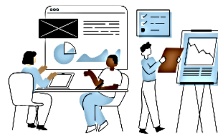
Why is controlling such an important part of a manager's job? First, it helps managers to determine the success of the other three functions: planning, organizing, and leading. Second, control systems direct employee behavior toward achieving organizational goals. Third, control



systems provide a means of coordinating employee activities and integrating resources throughout the organization.

Take special note of the language that we use when we talk about the control function—*process!* Controlling the activities within an organization is a continuous process that resembles navigation. In order to reach a destination, a ship navigator sets a course and then constantly checks the headings—if the ship has drifted off course, the navigator makes the necessary corrections. This cycle of check-and-correct, check-and-correct happens over and over to keep the ship on course and get it to where it's going. Similarly, the controlling function in business is a process of repeatedly checking and correcting until standards and objectives are met.

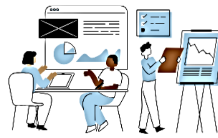
Another feature of the control process is that it's designed to be proactive. The idea is for managers



to intervene before costly or damaging problems occur, rather than waiting and hoping for the best. It’s better to take corrective action when you’re drifting off course than try to salvage your ship after you’ve crashed into a rock. The benefit to managers and organizations of a forward-looking, proactive approach is that it reduces customer complaints, employee frustration, and waste.

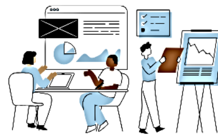
Setting Standards and Objectives

Organizational standards and objectives are important elements in any plan because they guide managerial decision making. Performance standards and objectives may be stated in monetary terms—such as revenue, costs, or profits—but they may also be set in other terms, such as units produced, number of defective products, levels of quality, or degree of customer satisfaction.



Peter Drucker suggests that operational objectives should be SMART, which means specific, measurable, achievable, realistic, and time constrained:

- An operational objective should be **specific**, focused, well defined, and clear enough that employees know what is expected. A specific objective should identify the expected actions and outcomes. This helps employees stay on track and work toward appropriate goals.
- An operational objective should be **measurable** and quantifiable so people can assess whether it has been met or not. For example, “increase annual sales revenue by 10 percent” is a measurable objective.
- An objective needs to be **achievable**. It’s important for all the stakeholders—especially the employees doing the



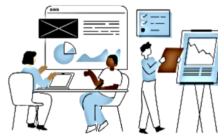
work—to agree that the objective can be met. Unachievable objectives can be damaging to employee trust and morale.

- An objective should be **realistic** as well as ambitious. It should take into account the available resources and time.
- Lastly, an objective should be **time constrained**. Having a deadline can help increase productivity and prevent the work from dragging on.

It's important to get employee input during the process of developing operational objectives, as it may be challenging for employees to understand or accept them after they're set. After determining appropriate operational objectives for each department, plans can be made to achieve them.

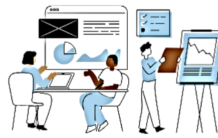
Measuring Performance

Performance measurement is the process of collecting, analyzing, and/or reporting information



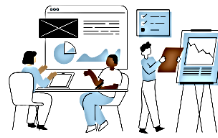
regarding the performance of an individual, group, organization, system, or component. The ways in which managers and organizations measure performance vary greatly—there is no single systemic approach that fits all companies or conditions. The most important element of measuring performance is to do them at regular intervals and/or when particular milestones are reached. The best processes for measuring performance provide information in time for day-to-day decisions.

The rubric for measuring organizational performance is called a **performance metric**. The American Society for Quality (ASQ) defines performance metrics as "data representative of an organization's actions, abilities, and overall quality."[1] Note that the metrics relevant to a business's performance vary significantly across industries. Because it's impossible to track all available data regarding an organization's



performance, it's important to identify the key performance metrics – often referred to as KPIs or key performance indicators – that are most relevant to a specific business's success. Once defined, the process of measurement and reporting KPI must be clearly documented and communicated so that results are consistent and comparable over time.

In order to be effective, metrics should reflect a range of stakeholder perspectives, including those of customers, shareholders, and employees. Metrics may be finance based or they may focus on some other measure of performance, such as customer service, customer perceptions of product value or employee satisfaction. Typical financial metrics include revenue or sales growth, gross and net profit, stock price and market share. Operating metrics generally focus on productivity and quality, including customer satisfaction. For example, Amazon tracks and enforces a number of seller performance metrics including on-time



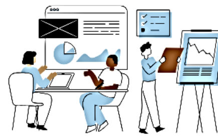
delivery, order defect rate, cancellation rate and customer service dissatisfaction rate.

The performance metric development process can be summarized as follows:

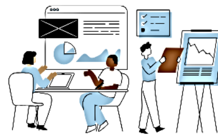
- Describe the target objective(s)
- Evaluate possible measurements
- Identify the correct metric for each objective
- Set targets and determine how data will be interpreted – for example, setting a range around a target value and defining levels of performance.
- Define and document the performance metric and related processes and procedures.[2]

Analyzing Performance

Once performance has been measured, managers must analyze the results and evaluate whether



objectives have been met, efficiencies achieved, or goals obtained. The means by which performance is analyzed vary among organizations; however, one tool that has gained widespread adoption is the **balanced scorecard.** A balanced scorecard is a semi-standardized strategic management tool used to analyze and improve key performance indicators within an organization. The original design of this balanced scorecard has evolved over the last couple decades and now includes a number of other variables—mostly where performance intersects with corporate strategy. Corporate strategic objectives were added to allow for a more comprehensive strategic planning exercise. Today, this second-generation balanced scorecard is often referred to as a “strategy map,” but the conventional “balanced scorecard” is still used to refer to anything consistent with a pictographic strategic management tool.



Financial
· Objectives
· Measures/KPIs
· Targets
· Initiatives

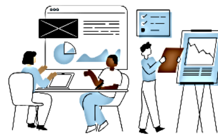
Customer
· Objectives
· Measures/KPIs
· Targets
· Initiatives

Vision &
Strategy

Internal Processes
· Objectives
· Measures/KPIs
· Targets
· Initiatives

Innovation
· Objectives
· Measures/KPIs
· Targets
· Initiatives

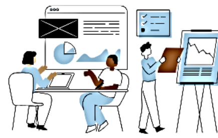
Figure 3. The balanced scorecard: On a standard balanced scorecard, each "perspective" reminds the user to articulate attributes necessary for an effective scorecard: the financial perspective, the



customer's perspective, innovation, and internal processes, all of which come together to form an organization's vision and strategy.

The following four perspectives are represented in a balanced scorecard:

1. **Financial**: includes measures focused on the question "How do we look to shareholders?"
2. **Customer**: includes measures focused on the question "How do customers perceive us?"
3. **Internal business processes**: includes measures focused on the question "What must we excel at?"
4. **Learning and growth**: includes measures focused on the question "How can we continue to improve and create value?"

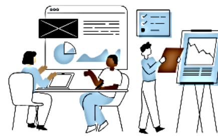


Managers generally use this tool to identify areas of the organization that need better alignment and control vis-à-vis the broader organizational vision and strategy. The balanced scorecard brings each of an organization's moving parts into one view in order to improve synergy and continuity between functional areas.

Taking Corrective Action

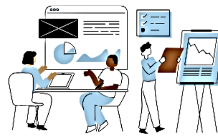
Once the cause of nonperformance or underperformance has been identified, managers can take corrective action. **Corrective action** is essentially a planned response aimed at fixing a problem. At this stage of the controlling process, problem-solving is key.

The first step managers must take is to accurately identify the problem, which can sometimes be hard to distinguish from its symptoms or effects. Collecting information and measuring each process carefully are important prerequisites to



pinpointing the problem and taking the proper corrective action. Attempts at corrective action are often unsuccessful because of failures in the problem-solving process, such as not having enough information to isolate the real problem, or the presence of a manager or decision maker who has a stake in the process and doesn't want to admit that his department made a mistake. Another reason why the problem-solving process can run aground is if the manager or decision maker was nevery properly trained to analyze a problem.

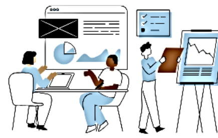
Once the problem is identified, and a method of corrective action is determined, it needs to be implemented as quickly as possible. A map of checkpoints and deadlines, assigned to individuals in a clear and concise manner, facilitates prompt implementation. In many ways, this part of the control process is very much a process itself. Its steps can vary greatly depending on the issue being addressed, but in all cases it should be clear



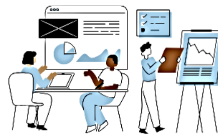
how the corrective actions will lead to the desired results.

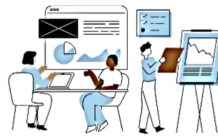
Next, it's important to schedule a review and evaluation of the solution. This way, if the corrective action doesn't bring the desired results, further action can be taken swiftly—before the organization falls even further behind in meeting its goals. Organizations may also decide to discuss a problem and potential solutions with stakeholders. It's useful to have some contingency plans in place, as employees, customers, or vendors may have unique perspectives on the problem. Gaining a broader view can sometimes help management arrive at a more effective solution.

A manager must use a wide range of skills to navigate the management process well. This journey begins with sound planning, based on a set of SMART goals and objectives. The manager leads both people and processes, using a blend of



leadership and management styles appropriate to the situation. If the manager has done a good job of placing the right people in the right places, and has implemented sound standards and performance metrics, then she is well-positioned to take corrective action where needed. Regardless of whether the task is to get a customer's order assembled and shipped on time or expand into a new market, the functions of the manager remain unchanged.





Chapter Eight

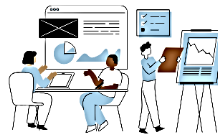
Business environment

Stakeholders

What you'll learn to do: identify business stakeholders and describe their relationship with business organizations

Just as it takes many parts to make a business run smoothly, there are many people, organizations, and entities that have a "stake" in the success of a business. In this section we'll take a look at who these stakeholders are and how they affect business.

A **stakeholder** is an individual or group that has a legitimate interest in a company, organization, or business. The Stanford Research Institute defines stakeholders as "those groups without whose

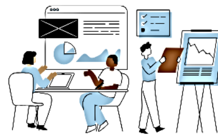


support the organization would cease to exist." Stakeholders can affect or be affected by the actions (or inactions) of a business, and they can exist both within and outside of a business.

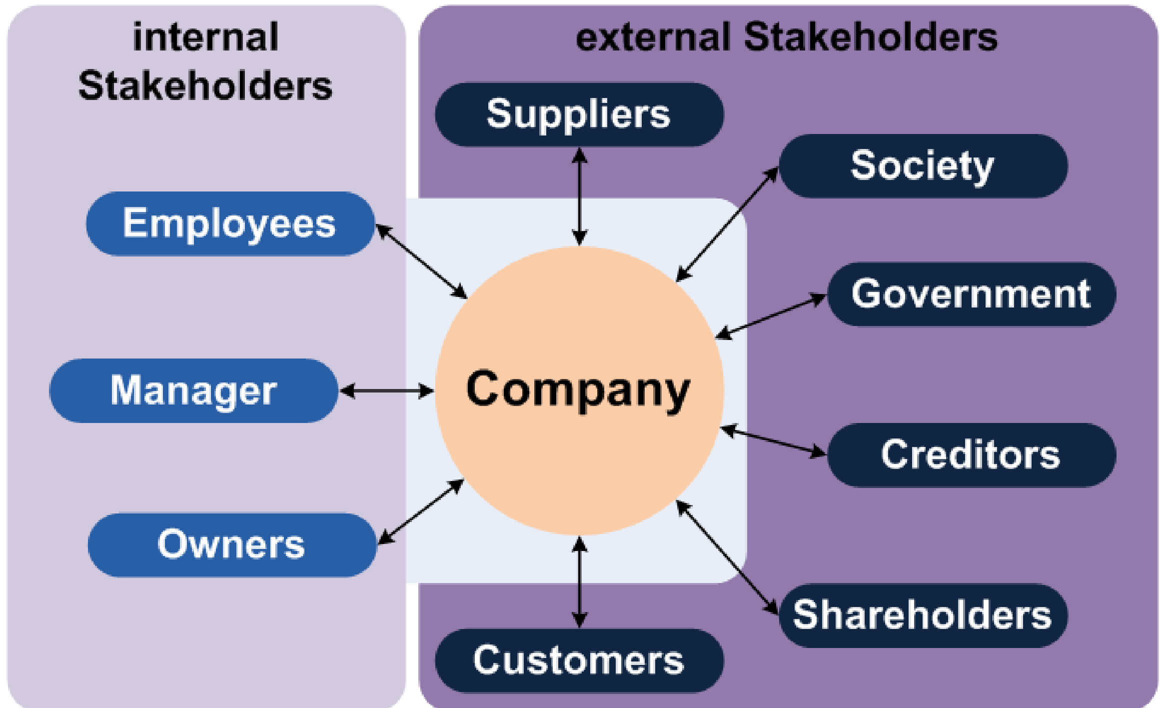
The impact of a business on its stakeholders is a bit like the effect of dropping a stone into a pond. The decisions and actions of the business have a ripple effect that can extend beyond the pond and even reach those who are standing far away on the shore.

Internal Stakeholders

Internal stakeholders are groups or people who work directly within the business, such as managers, employees, and owners. Managers and employees want to earn high wages and keep their jobs, so they have a vested interest in the financial health and success of the business. Owners want to maximize the profit the business makes as

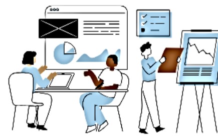


compensation for the risks they take in owning or running a business.

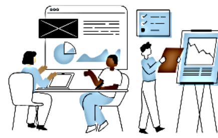


External Stakeholders

External stakeholders are groups outside a business or people who don't work inside the business but are affected in some way by the



decisions and actions of the business. Examples of external stakeholders are customers, suppliers, creditors, the local community, society, and the government. **Customers** want the business to produce quality products at reasonable prices. **Shareholders** have an interest in business operations since they are counting on the business to remain profitable and provide a return on their investment in the business. **Creditors** that supply financial capital, raw materials, and services to the business want to be paid on time and in full. **Federal, state, and local governments** need businesses to thrive in order to pay taxes that support government services such as education, police, and fire protection. The **local community** has a stake in the business because it provides jobs, which generate economic activity within the community. **Society** as a whole (as well as the local community) is concerned about the impact that business operations have on the

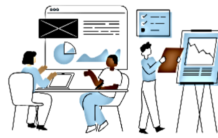


environment in terms of noise, air, and water pollution. Society also has an interest in the business with regard to the safety of the goods and services produced by the business. **Suppliers** need the business to continue to buy their products in order to maintain their own profitability and long-term financial health.

External Forces

What you'll learn to do: identify the external forces that shape the business environment

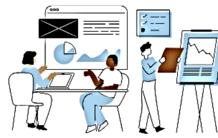
You are probably aware that businesses do not operate in a vacuum, immune to the forces that shape our everyday life. Just like people, businesses interact with their surroundings, and just like people, businesses react differently to their environment. Later in the course, you will explore these external forces in greater depth when you complete modules covering topics such as the



global business environment, business ethics, and marketing. For the time being, this section will introduce the external forces that have an impact on business operations and decisions and serve as a foundation for things to come.

Businesses do not operate in a vacuum, and they are influenced by forces beyond their control. How they respond—and *how quickly* they respond—to these external forces can make the difference between success and failure, especially in today's fast-paced business climate. We can organize the external forces that affect business into the following six categories:

1. Economic environment
2. Legal environment
3. Competitive environment
4. Technological environment
5. Social environment

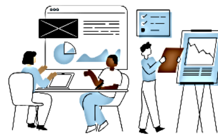


6. Global environment

Businesses operate in all of these environments simultaneously, and factors in one environment can affect or complicate factors in another.

Economic Environment

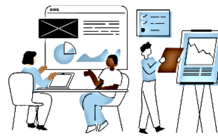
The economic environment of business has changed dramatically in recent years. After decades of growth and dominance, the US economy is now challenged by the developing economies of other nations, which are jockeying to be number one. Since the financial crisis in 2008, the US economy and businesses have struggled to recover from the greatest economic crisis since the Great Depression of the 1930s. Long-established companies have closed their doors, costing workers their jobs, retirement savings, and even their homes. Thus far the US economy has proven resilient, and since the Great Recession in 2008, the stock market has more than recovered,



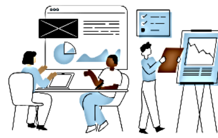
home prices have reached an all-time high, and unemployment is at a record low. Despite this progress, there are still challenges to be faced in the economic environment. Wages have not grown in step with overall economic growth, the US workforce has shrunk, there are less buyers in the real estate market, and wealth inequality has continued to increase. These economic conditions have all had a direct impact on businesses, regardless of size.

Legal Environment

The legal environment of business is by far the most complex and potentially dangerous external factor a business faces. There is a minefield of regulations, laws, and liabilities that companies must cope with in order to stay in business—just turn on the TV or listen to the news to verify this fact. Volkswagen paid huge fines because it falsified data about its cars'

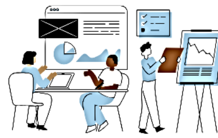


emissions. Tide is airing commercials not to promote the marvels of its laundry detergent but to warn parents to keep the Tide pods away from children, who may be tempted to eat them. These days it takes five minutes and a sharp instrument to open a bottle of Tylenol—the result of Johnson & Johnson's move in 1982 to make the product more difficult to open after a tampering incident in 1982 caused a spate of deaths and illness. Legal developments in our culture at large—for instance, the legalization of marijuana and same-sex marriage or the strengthening of privacy laws—can and do have an enormous impact on the way companies do business, on everything from what companies sell to how their products are manufactured, labeled, and marketed.



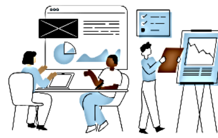
Competitive Environment

How do businesses stay competitive and still maintain a level of profitability that allows them to be successful? The competitive environment has intensified with the development of new technologies, the opening up of foreign markets, and the rise of consumer expectations. The local hardware store now finds itself competing with “big box” stores such as Lowe’s and Home Depot. These larger stores have enough clout with suppliers that they can often sell a product to the consumer for less than an independent store can purchase it. Customers of these large chains can order online, get their items the same day, and receive loyalty rewards, free delivery, customization, and even service and installation. Staying competitive is a challenge for every business, and business owners are finding that benefits such as customer service, employee knowledge, and high quality can help them survive.



Technological Environment

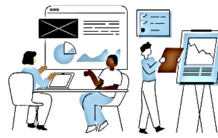
Almost daily, businesses are driven to rethink the business technology they use to reach customers, produce their products, and provide their services. When we refer to **business technology** we mean digital tools such as computers, telecommunications, and the Internet. The expansion of Internet access to virtually every corner of the world has forced many traditional brick-and-mortar businesses into **e-commerce** or online sales. The advantage to businesses is that their customers no longer have to live in proximity to their stores in order to purchase goods and services. Consumers can conveniently shop for products and services without leaving their home, their desk, or their phone. The disadvantage to businesses is that consumers are also able to compare competitors' prices, benefits, features, and services (which shows how one environment—technology—can affect another—



the competitive environment). Today's businesses have to be vigilant about spotting emerging trends not only in technology but in the way consumers use that technology.

Social Environment

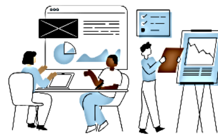
The social environment of business encompasses the values, attitudes, beliefs, wants, and desires of the consuming public. The **demographics** that describe the American population by gender, age, ethnicity, location, occupation, education and income are constantly evolving. The American population is steadily becoming more ethnically diverse: The US Census Bureau estimates that the Hispanic and Asian populations in the United States will double by 2050. At the same time, America is aging, and with the current median above thirty-six years of age, it will not be long before the majority of Americans is ready to retire. In addition to ethnic diversity and age, the social



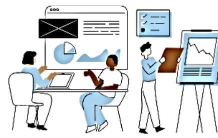
environment brings forces such as **Corporate Social Responsibility (CSR)**, which means that more and more consumers are demanding that businesses be “good corporate citizens” by supporting charitable causes and contributing to local communities, adhering to ethical standards in their treatment of workers and others, and adopting environmentally responsible practices. Combine these factors with the whirlwind of changing fads, trends, and “hot topics,” and you have some idea of why the social environment can present the greatest challenge to business.

Global Environment

From a business perspective, it is a small world, and it’s only getting smaller. **Free trade** among nations has allowed goods and services to flow across international borders more efficiently and cheaply. Formal trade agreements among nations

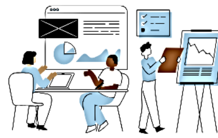


have forged unprecedented links and interdependencies among economies. Look at the items on your desk, and you may see items from China, Mexico, Canada, or Japan. It's possible that you drive a car that was made in the United States but was produced in a plant owned by a Japanese company. The growth of the Chinese economy has brought a flood of affordable goods into the United States and, along with those cheaper prices, created a reliance on foreign goods and materials. Now, when the Chinese economy slows down, the US economy is affected. When the price of foreign oil increases or decreases, businesses in the United States feel the impact. So, it's not just the local economy or even the national economy that businesses must track—they must also keep an eye on the world economy in order to anticipate



and adapt to changes that will impact their products and services.

Figure 1. Business and its environment



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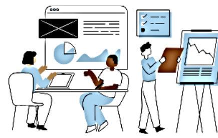

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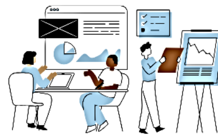

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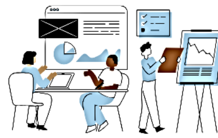

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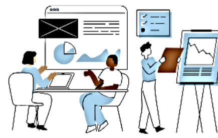

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