

# Introduction to Management: Achieving Form through Function

# 1



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## Learning Objectives

After reading this chapter, you should be able to:

- Describe an organization.
  - Define the concept of management and describe various management roles.
  - Explain the five management functions.
  - Recognize key historical figures and their contributions to management theory.
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## 1.1 Introduction

Many people think management is primarily concerned with supervising employees, or that it constitutes an obscure set of practices invented by corporate experts in high-level positions within an organization. Some might associate management with certain entrepreneurs, such as Andrew Carnegie, founder of U.S. Steel; John D. Rockefeller, founder of Standard Oil; Ray Kroc, the driving force behind McDonald's; Sam Walton, who created the Walmart empire; or others such as Meg Whitman, former CEO of eBay and current executives in other well-known corporate giants.

Instead, a more fundamental view suggests that the management discipline consists of a set of five specific functions: planning, organizing, staffing, leading, and controlling. These five functions are part of a body of practices and theories carried out by successful managers. You will learn more about these five functions in this book. We want you to understand that although research and theory form the basis of management, a more comprehensive view includes the other practices that managers use to implement these theories. Typically, managers direct their organizations while researchers evaluate how they operate and apply various theoretical perspectives.

The analysis of individual management practices and theories can be used to create innovative new methods, theories, and approaches. As theorists try to bring some meaning to how management affects overall organizations, the purpose and practical applications for the various management theories are contained in the five functions. Understanding these five functions and the underlying support theory behind them is the starting point for becoming a successful manager.

Chapter 1 introduces several important concepts of effective management and leadership. Each concept serves as a building block to help you understand and apply the five functions of management. In this chapter, we define management and explain the nature of an organization. We explore the nature of various types of organizations and examine historical figures along with their contributions to management theory. The following "Management in Practice" box might help you begin to understand the role of management in an organization's success through the application of the five functions.

### MANAGEMENT IN PRACTICE

#### ***Costco: Successful Management of the Five Functions***

The world of retailing includes an endless number of small stores, chains of units offering specific product lines, and "big box" outlets that dominate many markets. Within this mix, Costco has located and maintained a unique niche over the past several decades. Even as the past decade presented several major challenges to the retail industry, Costco has grown and thrived. What is the secret to this success? Part of the answer can be found in the application of the five functions of management.

In the *planning* process, a simple mission drives the entire company. Costco seeks to keep prices low, sales volumes high, and ensure that employees are satisfied with their jobs and happy to be part of the organization. Several key company policies serve to support this mission. For example,

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the retailer, while large in scope, offers a more limited line of products on shelves when compared to other big-box stores such as Walmart or Target. Each item can therefore be priced at only 14% or less above its wholesale cost. This approach limits the amount of profit made on actual sales, but the company offsets these discounts through its membership fee program, in which customers pay an annual fee of \$55 to shop in the store. Also, company managers constantly examine changing conditions in the industry to make sure the organization is ready to respond.

The *organizing* function in Costco consists of a simple, straightforward approach. Individual jobs are clearly defined for individual employees. Departmental activities are well spelled out and communicated, leading to no overlap in activities or functions. Clearly established lines of authority and responsibility have existed for many years, giving every member of the company a sense of direction with a solid understanding of his or her role in the company.

Costco takes a unique approach in the area of *staffing*. Rather than hiring business school graduates directly out of college, the organization's human resources department selects and promotes employees who have worked in stores and warehouses and sponsors them to take graduate-level business courses. Also, the executive team recently acknowledged that managers in the top tier of the Costco organization were all aging. In response, the organization has begun an active program of "succession planning," designed to ensure a smooth transition into the next generation of leaders (Stone, 2013).

As you will learn in the section of this book dedicated to *leading*, several key activities are involved. Among them, motivational programs constitute a primary factor. Costco's management team, led by its cofounder Jim Sinegal, constantly emphasizes employee satisfaction. According to Brad Stone from *Bloomberg Business Week* (2013), Costco pays its hourly workers an average of \$20.89 per hour, which does not include overtime. Remember, in the United States the minimum wage is \$7.25 per hour. By comparison, Walmart reports its average wage for full-time employees in the United States to be \$12.67 per hour. Further, Costco offers an extensive health insurance program that covers nearly 90% of its employees and a 401(k) retirement plan. These benefit programs are superior to those the competition offers.

In turn, the management team at Costco expects that customer satisfaction will be a high priority. The basic philosophy suggests that happy employees will treat customers well; in competitor stores, less well-paid employees are more likely to be surly and disinterested. Newly designated CEO Craig Jelinek, who assumed his position in 2012, has been observed to practice the same no-nonsense approach to leadership. To the relief of employees at every level of the company, this includes a strong level of empathy and concern for the rank and file that had been established by Jim Sinegal.

Costco continues to refine the company's *control* system. Store managers continually monitor sales of individual items, removing those that do not fly off the shelves. When an innovation fails, it is removed. For example, an experiment with self-checkout lanes similar to those offered by other retailers was deemed ineffective. As a result, the machines were taken out. Activities are assessed at every level of the company and corrections are made as needed.

What does the future hold for Costco? The challenge of Internet shopping continues to grow, because the coming generation of shoppers appears to be more comfortable with—and actually prefers the web to brick-and-mortar stores. In response, Costco has tried to improve its online shopping system. Also, tense relationships with some manufacturers, including Apple, Sony, and Panasonic, will require additional consideration. Future growth may be tied to international expansion. The company's plans include building new stores in France, Spain, Japan, Taiwan, and South Korea. At the least, you can expect Costco to continue applying its unique approach to the five

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management functions in order to deal successfully with a fast-paced, demanding retail environment (Stone, 2013).

#### Discussion Questions

1. Have you ever shopped at Costco? How was the experience different from that at other big-box stores?
2. Do you think other retail chains would be wise to offer higher wages to employees? Why or why not?
3. Can you think of another company that manages its operations in the same way as Costco?

## Organizations

Every day, you encounter numerous organizations. Now you are taking a class from an educational organization; later you may visit a grocery store. Those who stop to pay parking tickets encounter a local government organization. In a modern, postindustrial society, interactions with organizations shape the nature of daily living, including maintaining your home, being part of social and religious groups, and making a living.

An **organization** is a collection of people who work together and coordinate their actions to achieve a wide variety of goals or desired future outcomes. The purpose of any organization is to serve a social need. Organizations take the forms of profit-seeking (or business) organizations, nonprofits, and government agencies. Organizations are driven by a mission to accomplish a set of agreed-upon goals:

- an economic goal (a profit-seeking entity)
- a social good (nonprofit entity)
- the general public's welfare (government entity)

**Profit-seeking organizations (also known as for-profit or business organizations)** deliver goods and services that offer value to consumers in exchange for money, normally expressed as sales and other revenues. Profit-seeking companies offer products and services to consumers, other companies, and to governmental organizations.

Other organizations have different concepts regarding their purposes. **Nonprofit organizations** are created because there is an expressed social need. Typically, donations are solicited to maintain nonprofit organizations. Sometimes society doesn't need what an organization produces, and the organization fails. **Governmental organizations** serve different purposes, including maintaining order, providing universal services such as roads and fire protection, and regulating commerce. Governmental organizations generate revenues through taxes and fees.

In this book we examine primarily business organizations, how they operate, why they were established, and the reasons some fail while others thrive. The feature box "Organizational Characteristics" discusses other characteristics of organizations.

## Organizational Characteristics

Organizations display six distinct characteristics. Each of them must be found within a group of people in order for that collective to be considered an organization. The elements found in organizations include the following:

- *Membership consists of more than two people.* One-person organizations do not exist.
- *People in the organization routinely interact.* In today's society, interactions take place in a variety of ways: face-to-face contact, in group and team meetings, and via the use of numerous technologies. These interactions can be as basic as written memos and notes but also can include recent innovations such as the Internet, websites, email, social media posts, and others.
- *Tasks are divided among members (division of labor).* In the coming chapters, we will look at the ways jobs are designed and how the tasks of individual members are coordinated to achieve various goals. At the least, an organization includes dividing up jobs and then combining them to accomplish specific outcomes.
- *Someone is in charge (a hierarchy of authority).* Even the most basic, rudimentary organization has a leader. As organizations grow in size, the hierarchy of authority becomes more complex. In the coming chapters, you will be exposed to the ways in which organizations are designed to develop lines of authority and responsibility.
- *Activities are coordinated among members.* Through the use of devices such as planning programs, motivational systems, and the efforts of leaders, members are encouraged and taught to work together to achieve larger objectives.
- *Members share a common purpose or goal.* Every type of organization has an overarching goal that all members seek to achieve. This characteristic is seen in business or for-profit organizations, nonprofits, and governments.

## Organizational Origins

Consider how a for-profit business organization might get started. A lone farmer purchases a plot of land and is now ready to start planting on it, hoping to make a profit and providing healthy, farm-fresh produce for the surrounding community. At this stage he has not yet established an organization; he is just one man with a plot of land and some seeds. For his farm to become an organization, he will need to decide how much produce he wants to sell and the nature of the market—which consumers in the community will buy the produce. He also needs to know who his competitors might be, because a farm down the road could be selling the identical assortment of vegetables that he's planning to market. The farmer will also need to assess how much capital, or money, he has, and how much he will need to sustain the business. When thinking about the financial cost, he must take into account how many resources he will need to operate the farm—human resources and general resources such as tractors, planting materials, and water. After hiring the needed human resources, including a manager to oversee the employees, the farmer's goal becomes to make a profit on the produce that he sells.

This is a simple example of a for-profit business organization in an early stage of development. With the right management—and with good planning, organizing, staffing, leading, and controlling—it could become an even greater success than the farmer initially imagined. If that turns out to be the case, he will need to focus on how to progress with the changes that occur as his organization grows. You will learn more in this chapter and throughout this book about how to keep an organization profitable and relevant. The following facts apply to organizations. Think about them as you study the topics in this book.

- Most organizations are small, consisting of fewer than 200 members.
- Most organizations are short lived. Only 15% of business organizations survive more than two years.
- Organizations go through life cycles: They are born, grow, mature, decline, and many then die.
- Organizations are social systems. The people within them determine the eventual outcomes.

## 1.2 Management Roles

**Management theory** is the study of the overall management process. The term *management* has a variety of definitions. Our approach suggests that **management** consists of all the techniques that are used to lead the human resources in an organization to become productive. To do so, an organization's manager must efficiently and effectively carry out the primary management functions. A manager is responsible for helping to achieve an organization's goals and desired future outcomes. Managers also supervise employees and seek to make the most of an organization's other resources.



Claremont Graduate University/Associated Press

▲ Management consultant Peter Drucker (1909–2005).

Management specialist Peter Drucker (1909–2005), one of the most influential theorists on the subject of management and practice, wrote articles and books exploring how humans are organized across society with regard to business, government, and the nonprofit sectors—the main sectors that organizations encompass. Drucker once said, “Management in turn, is the organ of the institution. It has no function in itself, indeed, no existence in itself” (Drucker, 1985). In essence, management cannot exist without an organization.

One of Drucker's most famous books, *The Concept of the Corporation* (1946), analyzes General Motors as a large social institution involved with business activities. He describes the nature of management, how organizations select managers, how managers act, and how an organization is structured into units of management such as divisions or sections.

Drucker has also examined and explained the role and position of large organizations in a modern society in his writings. Even though these important and influential works were written over a half century ago, many of the management theories and methods continue to be practiced today. His ideas greatly influenced the business world, because at the time, management was not considered the most significant part of an organization. The theory during Drucker's time was that the president or the chief executive of an organization would give orders, and others would simply follow.

Drucker shifted the focus of management to include the study of human interactions within an organization, the flow of information, the decision-making process, and managerial autonomy, because he believed these factors could greatly influence an organization's success. In today's

world of organizational practices, Drucker helped us understand the central importance of the manager's role; in essence, managers are absolutely crucial to the success of any organization.

## Managerial Levels

Even though managers function in similar ways, each of them performs different tasks and operates on different levels within the organization. Organizations typically have three levels of management: front-line managers (supervisors), middle managers, and top managers (executives). Let's take a closer look at these three different types of managers.

### Front-Line Managers or Supervisors

**Front-line managers**, or supervisors, carry out and direct the daily activities of the organization. Front-line managers work in the various divisions, operating units, or departments to assure the short-term goals of the organization are achieved. Front-line managers may have varying titles, including

- office manager
- department manager in a retail store
- production line leader or foreman in a manufacturing plant
- head server in a restaurant
- director of accounts payable/receivable
- crew chief on an airline flight



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▲ As a front-line manager a construction site foreman would provide direction to on-site workers and be responsible for implementing building plans.

These managers deal with short-term operating decisions and oversee the daily tasks of non-managerial employees.

An example of a front-line manager is the supervisor in an automotive parts company. Suppose this supervisor is responsible for overseeing the employees who work within the distribution division of the organization. She is responsible for making sure the parts are distributed to the correct locations and to the customers who ordered them. More specifically, if a large shipment of 5,000 parts were to be sent to one of the organization's best clients, the front-line manager would be the person responsible for making sure the order was correctly filled.

Serving as a front-line manager often becomes the first step of a managerial career. If a supervisor does well and is successful, then he or she has demonstrated the potential to move to higher ranks in the organization as a middle manager, and some day as an executive manager. Front-line managers provide direction, technical support, and training of personnel. They are charged with carrying out the plans developed by middle and executive managers.

### Middle Managers

**Middle managers** supervise front-line managers. Middle managers interpret and seek to achieve the general, long-range objectives set down by the executive management team (Steers, Ungson, & Mowday, 1985). Middle managers also try to find ways to increase efficiencies within the

organization. For example, they determine ways to help front-line managers and nonmanagerial employees use resources to reduce manufacturing costs or improve customer service.

Middle managers may also be asked to evaluate whether the goals of the organization are appropriate and make suggestions to executive managers regarding the functionality of certain divisions. The suggestions that middle managers make to executive managers can sometimes increase organizational performance. An effective middle manager has the ear of the executive manager when it comes to suggesting improvements. A significant part of the middle manager's job includes developing and fine-tuning skills and knowledge around areas such as manufacturing or marketing expertise, which in turn allows the organization to remain effective. Front-line supervisors occasionally are promoted to become middle managers, but many middle managers are professionals with academic credentials and additional corporate-level training. Due to their respective levels of learning and experience, some may have skipped past front-line management altogether.

### *Executive Managers*

We now know that front-line managers report to middle managers, and that middle managers report to executive managers. But what is an executive manager? **Executive managers** establish organizational goals, decide how departments should interact, and monitor the performance of middle managers. Executive managers are tasked with planning and implementing strategic goals. The executive holds the responsibility of defining the long-term direction of the organization, including the overall mission or goals, product or service, operating policy, and the specific organizational objectives. They are held accountable to the various stakeholders—including the board of directors and any stockholders—for the fiscal and operational success of the organization.

Managers at this level tend to be highly experienced, hold professional degrees such as a master of business administration (MBA), and have documented histories of managerial successes. Executive managers have a tremendous amount of responsibility. In contrast to middle managers, executives have responsibilities across the various departments and divisions within the organization. In many cases these managers are responsible for the success or failure of an organization, and they are constantly monitored and checked by internal and external forces around the organization.

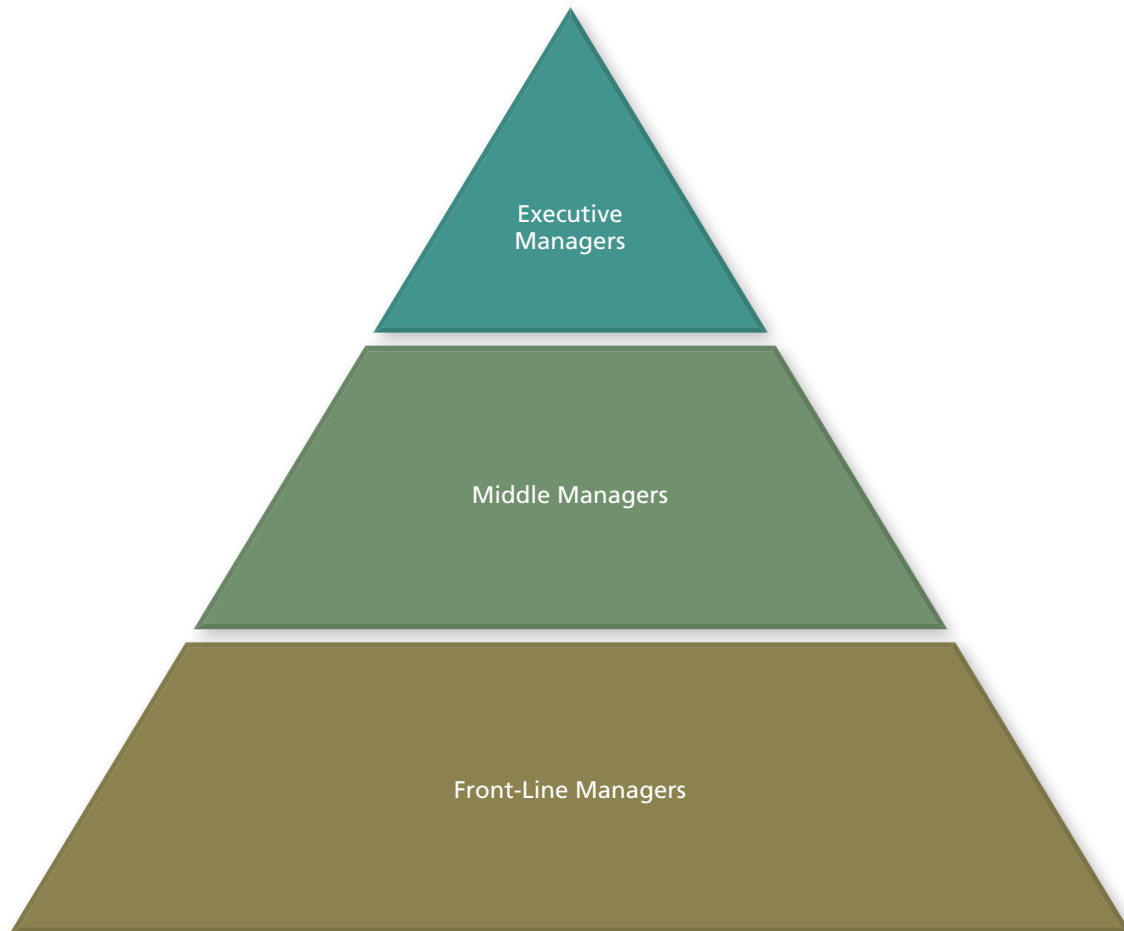
A **chief executive officer**, or **CEO**, is an organization's most senior manager. The other executive managers report to the CEO. Sometimes within an organization, the executive managers are part of a top-management team. For example, a top-management team could be made up of the CEO; the chief operating officer (or COO); the president of the organization; and the top-level executives, or heads, of the most important departments within the organization. At the core of the executive manager's job is the task of planning and organizing to determine the organization's long-term success. This is how an executive manager spends most of his or her time.

In summary, many organizations exhibit multiple management levels. The levels can be viewed as a pyramid: executive managers are shown at the top, various levels of middle management are next, and front-line supervisors are at the bottom (Figure 1.1).

Distributions of the five management functions are not equally divided among the levels shown in Figure 1.1. The importance of the five functions—planning, organizing, leading, controlling, and staffing—differs from manager to manager depending on his or her role within the organization. At the same time, managers for each level become actively involved in these functions on a regular basis. Executive managers are more likely to engage in planning and controlling activities.

**Figure 1.1** Managerial levels

Most organizations are managed through the activities of executive, middle, and front-line managers.



Middle managers have more general function responsibility depending on reporting obligations. Front-line managers engage less in planning and more in leading of entry-level workers.

**Managerial Types**

Another way to think of management is by division or type. Some managers direct the production or delivery of individual products or services, while other managers serve in supporting roles. Each management type plays an important part in the organization and is essential to a firm's success. Two types of managers operate in business organizations: line managers and staff managers.

**Line Managers**

**Line managers** have the authority to make decisions and usually have people reporting to them. They are directly responsible for a product line or delivery of a service by the organization. This type of manager is often a product manager, marketing manager, production manager, service manager, or division manager. Line managers are often charged with sales, production, and delivery budgets.

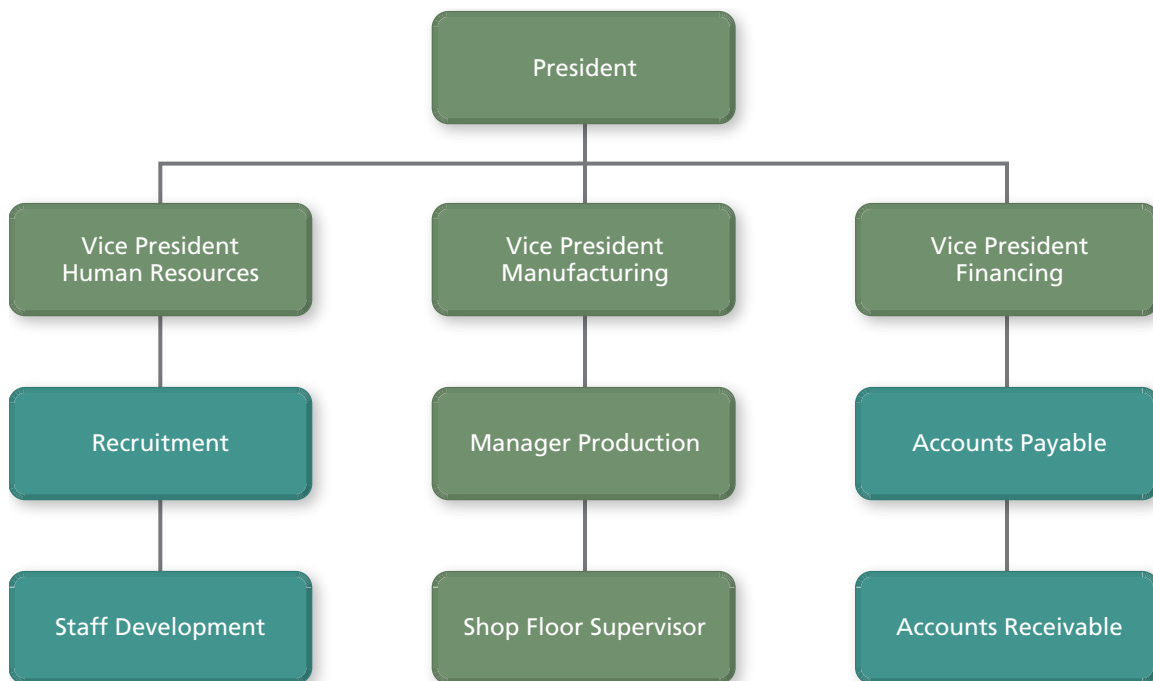
### Staff Managers

**Staff managers** lead departments that serve in supporting roles, including accounting, human resources, procurement, and logistics. Although critical to the success of the organization, these functions are not involved in production and typically do not directly produce revenue.

One of the easiest ways to see the distinctions among the varieties, levels, and types of management is through an organization chart. An **organization chart** provides box-and-line illustrations representing the formal relationships of positions of authority and the organization's official divisions of labor. Figure 1.2 is a typical organization chart. Line management is an extension of the executive office (in a corporate structure, this is usually the president) down through the vice president of manufacturing, manager of production, and finally to the shop floor supervisor. The vice president of human resources and vice president of finance are shown as the left and right branches of the chart because they represent the organization's staff management.

**Figure 1.2** An organization chart

An organization chart displays the relationships between line and staff activities, designates the various departments in an organization, and indicates the lines of authority and responsibility among employees and their supervisors.



### Managerial Knowledge, Skills, and Abilities

You now understand the roles, responsibilities, and types of management in an organization. Next, we can address some important characteristics of managers in the daily exercise of their duties. What do managers need to know to be successful? Generally, they need a range of knowledge, skills, and abilities.

### Technical Knowledge

Technical knowledge is having the job-specific knowledge and techniques required to perform an organizational role. Managers need knowledge appropriate to the areas they oversee. For example, the accounting manager should have high-level accounting expertise with a significant background in the field sufficient to manage the accounts of the organization. Likewise, the production manager should have sufficient experience and education (likely in engineering, management, or both) to lead a production team to manufacture the product of the organization.

### Human Relations Skills

Human relations skills are the ability to understand, alter, lead, and influence the behaviors of other individuals and groups. Managers need to exhibit the ability to lead and motivate others, not just to complete the ordinary operations of the department but to energize the team to high levels of activity when business demands it. Building trust is an important component of human relations. Human relations skills include empathy, consideration, and the willingness to listen to the concerns of those at every rank in the organizational hierarchy.

### Conceptual Skills

Conceptual skills, or critical thinking abilities, are the skills a manager needs to analyze and diagnose a situation and to distinguish between cause and effect. Managers must be problem solvers and have a variety of skills (operational, technical, mathematical, etc.) to draw on as problems present themselves in the business.

Technical, human relations, and critical thinking knowledge, skills, and abilities are essential to managers as they engage the five functions of management during the workday. Table 1.1 suggests the relative emphasis on each aspect at various organizational ranks.

**Table 1.1** Managerial focus

Manager rank	Level of conceptual and technical skills required	Level of human relations skills required
Executive	High conceptual, low technical	High human relations
Middle	Moderate conceptual, moderate technical	High human relations
Front-line	Low conceptual, high technical	High human relations

## 1.3 The Five Management Functions

The five **management functions** include planning, organizing, staffing, leading, and controlling human and other resources to achieve organizational goals. All organizations, regardless of their performance levels or profit motives, have a management structure and management staff. Although the organization exists for a particular purpose, such as producing a product or service, the responsibility for mission achievement requires a central figure, and in some cases figures, to coordinate these five primary activities.

## Planning

Managers use **planning** to choose appropriate organizational goals and identify courses of action to best reach those goals. Managers will engage in a variety of planning activities in the course of their work to achieve organizational or departmental goals. The following steps are involved in planning:

1. Examining the company's internal and external environments to discover company strengths and weaknesses and emerging opportunities and threats
2. Determining which goals the organization will pursue
3. Choosing strategies, tactics, and operational plans to achieve company goals
4. Allocating organizational resources to pursue the company's goals

### *Assessing the Environment*

Planning begins when managers understand the contexts in which they operate. The management team starts the planning process by examining the company's operations. In terms of internal factors, the overall assessment of the firm's internal environment begins with a focus on the company strengths and weaknesses. Strengths might include holding a large share of the market, a patent on a key piece of technology, a vital work force, or governmental protection in the form of a licensed monopoly or other limits to new competition. Managers may discover that the organization has a powerful sales force or a creative research and development department (R&D). Weaknesses include any poorly managed company operations, including production, quality control, sales, accounting, or information technology efforts. For example, a website that is difficult to navigate and that turns away potential customers represents a company weakness. A company with a reputation for selling defective products experiences a weakness.

Next, every firm, no matter how large or small, is part of a larger external environment. Opportunities and threats are present in that environment. The management team researches a series of forces that can affect a company's operations, including

- political and legal forces
- social trends
- economic conditions
- technological changes
- competitive forces

Opportunities may arise from any of these factors. When the government shifted television programming from analog signals to high definition, an array of companies were able to take advantage by creating new television sets, antenna adapters, and other products. Social trends affect fads and fashions, which result in new opportunities to sell products. Economic conditions shift purchasing habits. A growing or healthy economy often leads to increased sales by individual companies. Technologies create new products and improved products. Competitors may seek to merge to build a more powerful alliance against a dominant company. Threats may result from poor economic conditions, new competitors, bad publicity, or products nearing the ends of their life cycles, such as traditional photography products (film), landline telephones, and walk-in movie rental stores. New tax laws can create advantages for some and threats to other firms.

This combination of internal and external forces creates the need for what is referred to as a **SWOT analysis** (SWOT stands for strengths, weaknesses, opportunities, and threats). The "Management in Practice" box provides an example of a SWOT analysis performed on a newspaper in a Midwestern city.

## MANAGEMENT IN PRACTICE

**The Joplin Globe: A SWOT Analysis**

The city of Joplin, Missouri, is home to one newspaper: *The Joplin Globe*. The newspaper holds a near monopoly in town (with only very slight competition from *USA Today* and papers from nearby cities), which accounts for its first strength. A second strength comes from a quality staff of writers and editors, including one individual who writes a popular daily personal interest column. A third strength is the ability to cover local events in greater detail than any other medium, such as radio or television, can provide. The newspaper's weakness might take the form of a weak financial position, due to limited capital to expand or alter delivery of the paper. Another weakness might result from a low-quality circulation department that fails to maintain good records of individual customers and paper carriers.

The newspaper experiences opportunities because the city of Joplin is growing in size. Higher population could result in additional new customers. A strong local economy could further bolster the paper's sales and financial well-being. Unfortunately, the paper also encounters major threats. In the area of technology, the Internet poses a major concern for newspapers locally and around the country. Readers can now access media reports free of charge by going to various websites. An innovative entrepreneur might be able to take advantage of the Internet to compete with *The Joplin Globe*. A growing social trend also threatens the paper: Fewer young people are interested in reading an actual newspaper, preferring instead to rely on social media and other devices.

Consequently, the executive team directing the efforts of *The Joplin Globe* must find ways to effectively respond to the conditions pointed out by the SWOT analysis. One strategic response might be to spend additional resources building up the newspaper's Internet presence, perhaps by making the system more interactive with social media outlets such as Facebook or Twitter. A second plan might include increased attention on local news and events rather than national stories. An operational plan might be to expand the classified advertising section by linking it to other websites.

In any case, the SWOT analysis guides managers as they develop new plans and direct other organizational activities. Additional information about environmental analyses will be provided in the planning chapter of this book.

**Determining Organizational Goals**

Company leaders establish goals and objectives on at least three levels: strategic, tactical, and operational. **Strategic goals** are the long-term, sweeping targets a company seeks to pursue. Peter Drucker (1972) identified a set of strategic goals that would apply to a variety of organizations:

- market share
- innovation
- productivity
- physical and financial resources
- profitability
- manager performance and development
- employee performance and attitudes
- social responsibility (Drucker, 1972)

These more general performance outcomes are then subdivided into **tactical goals**, which have a more immediate impact. Tactical goals are set in the following functional areas:

- production
- quality control
- marketing
- sales
- accounting
- finance
- information technology
- research and development
- human resources

Tactical goals guide managers in the various areas. The top-management team makes sure that tactical goals mesh with strategic goals. Finally, the company identifies **operational goals**. These are the performance targets for everyday activities such as sales quotas, production quotas, completing daily reports and paperwork, and processing the flow of raw materials into the company and finished goods to customers.

At each of these levels, two concepts are common denominators: efficiency and effectiveness. **Efficiency** measures how productively resources are used to achieve a goal. An organization's efficiency, or performance level, is based on how well managers plan and develop strategies to meet those goals. Efficiency has been described as "doing things right" with little wasted motion or resources. **Effectiveness**, in contrast, is "doing the right things." Effectiveness means that company efforts help achieve the goals that will allow the company to survive, grow, and thrive over time (Drucker, 1985).

### *Creating Plans*

The development of goals at the three basic levels leads to the creation of plans to achieve those outcomes. A **strategy** is a cluster of decisions about what goals to pursue, what actions to take, and how to use resources to achieve goals. An example of a strategy is to implement a plan that would sell directly to consumers rather than going through an already existing company that acts as an intermediary seller, such as Esurance before its merger with Allstate. In this way, the profits remain with the producing company. Various forms of strategies designed to achieve rapid or slow growth, to maintain stability, or to respond to decline are presented in the section of this course regarding planning. Additional examples of strategies include creating new products (such as the Kindle developed by Amazon.com), merging with other companies (Esurance and Allstate), creating joint ventures (the combination of Venus razors for women with Oil of Olay), expanding into new geographic areas, and creating international operations.

**Tactics** are the plans that support strategies. An example of a tactic would be to increase advertising so the company can reach customers without using an intermediary. Another tactic in the same strategic program would be to create a more efficient shipping system, which entices customers to make purchases more quickly and more often. Tactics are often implemented at the functional level, in various departments such as production, accounting, human resources, and research and development.

**Operational plans** direct daily activities. They include functions such as creating work schedules, ordering inventory, and routinely updating a website. Operational plans help ensure that

front-line supervisors and company employees are clear about their everyday responsibilities. At the same time, operational plans become part of the tactics and strategies the company executives seek to implement.

### *Allocating Resources*

The final part of the planning process is deciding how to obtain the necessary labor (human resources) and parts (general resources) to build the product or service to be sold, and deciding how many of these resources will be needed to meet company goals. It is also necessary in the planning stage to assess the cost of purchasing resources as well as paying employee salaries. Assessing any competition and determining the product's place in the market represents another important planning component.

Remember that planning programs are complex and can be challenging because managers operate under an umbrella of uncertainty; the results are unknown. Such uncertainty means that managers must sometimes take risks when they pledge organizational resources to execute a particular strategy. At the same time, the fundamental elements of planning apply to any organization—no matter how large or small—and to the nature of that organization's goals.

## Organizing

**Organizing** is the process of establishing task and authority relationships that allow people to work together to achieve the organization's goals. A function of the manager's role in organizing is determining the best way to organize all resources. Organizing consists of three primary tasks, which we will explore in greater detail in subsequent chapters: job design, departmentalization, and creating an organizational structure.

*Job design* occurs when managers determine the tasks needed to be done, who will do these, and what selection criteria will be used to choose employees and place them on the job. *Departmentalization* involves organizing people into different departments or divisions in which collections of tasks are placed together, such as accounting, marketing, and production. *Creating an organizational structure* occurs as managers identify the amount of influence and responsibility each of these different individuals and groups should have. Drucker pointed out that "Organizing often requires designing and evaluating organizational processes and systems to initiate work and to determine if any changes need be made" (Drucker, 1985).

The intended outcome of organizing is to create an **organizational structure**, which is a formal system of task and reporting relationships that coordinates the activities of members so that they work together to achieve organizational goals. The organizational structure determines how an organization's resources can be best used to create goods and services. *Organizational design* is the process by which managers make specific organizing choices that result in the particular kind of organizational structure they will use.

## Staffing

**Staffing** includes the recruiting, selecting, training, evaluating, compensating, and disciplining of employees within the organization. Staffing has become a preeminent function of contemporary managers. In today's organizations a manager is sometimes more responsible for recruiting, selecting, evaluating, and hiring employees than is an organization's human resources department. This was not the case until recently and has made the manager more responsible and accountable for hiring effective and successful employees. Managers are responsible for bringing together the team

of employees and assigning tasks to make the best use of available resources for realizing the organization's goals and activities. Part of the success of Costco, as noted earlier in this chapter, is the direct result of human resource staffing tactics that are unique in the retailing industry.

## Leading

**Leading** means motivating, coordinating, and energizing individuals and groups to work together to achieve organizational goals. Managers lead by explaining a clear organizational plan for employees to accomplish, and then energizing and enabling those employees so that each person understands the part he or she needs to play in helping to achieve the organization's intended goals. Managers use their authority, personality, influence, persuasion skills, and communication skills to coordinate people and groups to create harmony between all employees within the organization or among its divisions. Encouraging, supporting, and mentoring employees can also be beneficial in helping the organization achieve its goals.



*Sakchai Lalit/Associated Press*

▲ After experiencing difficulties for two years, Starbucks returned to previous levels of success in 2010 thanks to the leadership of Howard Schultz.

An effective leader will be able to maintain a motivated and committed work force. An example of effective leading would be a manager who stays calm, cool, and collected. A leader remains open to suggestions from colleagues and takes the time to listen to and mentor employees. This type of leading can only strengthen an employee's commitment to meeting the overall goals and strategies of the organization he or she works for. Theorist Mary Parker Follett (1868–1933), who was a trailblazer in researching theories of organizational behavior, wrote, “Managers often influence others to get things done” (Parker Follett, 1949). Effective leaders prepare employees for change and provide a guide to the future

by setting goals, motivating employees, and determining employee growth. Leading is often the most critical function in the success of the organization.

As an example, consider the fate of Starbucks, a retail coffee vendor established by Howard Schultz. The chain of stores had experienced considerable success over many years. In 2008, Schultz stepped down as CEO and moved to a less prominent role. During the two years that followed, Starbucks experienced difficult times, largely due to overexpansion (too many units) and a decline in service quality. In 2010, Schultz returned as CEO with a revised vision. Starbucks closed nearly 1,000 stores and ceased operations in every unit for a day in order to retrain and refocus employees on what had been called the Starbucks “experience.” Not long after, the change in leadership reinvigorated the organization and it returned to previous levels of success. Schultz's leadership made the difference (Teather, 2010).

## Control

Controlling establishes accurate measuring and uses monitoring systems to evaluate how well the organization has achieved its goals. Control systems provide standards for assessing and

monitoring the use of resources and the quality and quantity of productivity. Control systems assess effectiveness at the strategic, tactical, and operational levels. These systems, found throughout the organization, include financial controls, budgets, authority structures, production planning, and quality control. The standard control process consists of four steps:

1. Establish and review standards set in the planning process.
2. Measure performance at the strategic, tactical, and operational levels.
3. Compare performance outcomes with the standards that were set.
4. Make a decision:
  - Successful performance should be rewarded.
  - Unsuccessful performance should be corrected.

Monitoring is an essential aspect of control. Often, management's best-laid plans do not work out the way they were intended. The controlling function allows managers to ensure that goals are met through monitoring. If standards are not being met, managers seek out ways to improve performance and meet those standards.

The ability to measure performance accurately and regulate organizational effectiveness represents a key component of the control process. To exercise control, managers must decide which goals to monitor. Goals pertaining to productivity, quality control, or customer service require control systems that deliver the information necessary to determine performance and ascertain whether the goals have been met. An effective control system also allows managers to evaluate how well they themselves are performing.

## 1.4 The History of Management Theory

In the eyes of most management historians, the field of management began when Henry R. Towne, a manufacturer, presented a paper entitled "The Engineer as Economist" to the American Society of Mechanical Engineers in 1886 (Towne, 1886). In the paper, Towne argued that the study of management was equal in importance to the study of engineering and should have its own body of research and its own professional organizations. What emerged has often been called the **classical era** in management literature, due to the original writings and innovations created during the period from the 1880s to the 1920s.

Soon after, Frederick W. Taylor merged scientific theory with management theory. This innovation led to the approach labeled **scientific management**, which is based on four principles:

1. Development of a true science of managing with clearly stated laws, rules, and principles that replace rule-of-thumb methods
2. Scientific selection, training, and development of workers for specific jobs
3. Cooperation with workers to make sure work is completed using scientific principles
4. Equal division of tasks and responsibilities between workers and management (Bedeian, 1986)

Taylor's program produced dramatic increases in the productivity levels of individual workers. His approach led to both positive and negative outcomes. Though workers did indeed become more productive and companies more profitable, there were also complaints. The union labor movement achieved dramatic legislative gains during the scientific management era due to complaints that such programs created sweatshop-like conditions. The U.S. government and

individual unions fought to protect workers from unfair management tactics (Vaughan, 1912). Despite these concerns, Frank B. and Lillian M. Gilbreth (1915) applied many principles of scientific management to create a program known as the *time and motion* study. By using both film and a stopwatch to observe work being performed, it was possible to devise the most efficient method to complete a task. During the same time period, Henri Fayol (1916) wrote in his native French about the importance of the classic management functions of planning, organizing, staffing, directing, and controlling. The ideas paralleled the principles of scientific management in the United States and became widely implemented throughout Europe.

## The Human Relations Movement

Mary Parker Follett questioned the wisdom of scientific management, arguing that the program ignored the human element in the organizational equation. She believed that managers should serve as coaches and facilitators rather than as monitors and supervisors (Parker Follett, 1949). The **human relations movement**, which focuses on people as the primary driving force in any organization, including for-profit businesses, gained momentum in the late 1920s. Researchers Elton Mayo and Fritz Roethlisberger conducted the Hawthorne studies, which primarily focused on the people involved in the studies, rather than solely on productivity. The subjects responded to positive and pleasant interactions with researchers by increasing productivity rates on the job. Later in the seven-year study, some of the tasks performed by supervisors were taken over by entry-level employees. This move also increased production. Some workers found the experience to be “fun” and remained free of anxiety about being disciplined for poor performance.

Mayo and Roethlisberger found that employees formed informal groups that were cohesive and loyal to one another. These groups established information norms or rules about levels of productivity. Anyone who overproduced became a “slave” or “speed king.” These individuals were derided and even physically punched in the arm (aka binging) by other employees. Those who failed to do their fair share of work were labeled “chiselers” and told to keep up with the group. Over time, it became clear that more than money motivated workers. Social interactions were a key part of the organizational experience. Individual attitudes and collective employee morale

are significant determinants of productivity levels. Mayo and Roethlisberger suggested that to achieve the highest levels of success, company managers should consider human emotions and interactions (Urwick, 1960; Bedeian, 1986, pp. 50–52).

### Abraham Maslow and Humanism

Clinical psychologist Abraham Maslow was among the first to shift views on the nature of human beings. Maslow argued for **humanism**, a perspective that suggests the basic inner nature of a person is inherently good. In the **hierarchy of needs** theory, the argument expands to suggest that the process of life is, in essence, a process of “getting better.” The ultimate expression of life, self-actualization, is performing work that is helpful and meaningful to others while at the same time staying true to one’s own sense of self.



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▲ Psychologist Abraham Maslow posited that the aim of human growth is to achieve a state of self-actualization.

Maslow’s work influenced the fields of psychology, social psychology, sociology, and management. Much of the research and theory building that took place in the years following the publication of the hierarchy of needs is based on humanist assumptions. As a result, the scientific management method, which relied on money and fear as primary motives, was replaced with newer, more positive views of employees (Gomez-Mejia, Balkin, & Cardy, 2006, p. 29).

**Douglas McGregor’s Theory X and Theory Y**

In *The Human Side of Enterprise*, Douglas McGregor (1960) proposed two companion theories that summarize the differences between scientific management and the human relations movement (See Table 1.2). **Theory X**, expresses the scientific management view of workers. Note that the assumptions and conclusions associated with Theory X leaders in the table portray workers in a less than positive light. A Theory X leader assumes his or her followers lack ambition, prefer direction, and inherently dislike work, so the leader concludes that only external motives (e.g., money and fear) will work. He or she should focus on production as dictated by scientific management theory.

In contrast, a **Theory Y** leader represents a much different perspective on the nature of employees, both in terms of assumptions that they are self-motivated and the conclusions made by leaders as a result of these assumptions. A Theory Y leader assumes employees want to work, are naturally motivated, and have underutilized talents. This leader concludes that motivation is innate, and instead focuses on leading employees as a facilitator or coach. In fact, McGregor argued that Theory Y leaders unleash human potential and will succeed in the long term.

**Table 1.2** McGregor’s Theory X and Theory Y

Assumptions of Theory X	Assumptions of Theory Y
People dislike work.	Wanting to work is natural.
People avoid responsibility.	People seek responsibility.
People prefer direction.	People enjoy autonomy.
Most people have little ambition.	Most employees’ talents and abilities are only partially utilized.
	Given the opportunity, employees will generate ideas to help themselves and the company.
Conclusions of Theory X	Conclusions of Theory Y
Leaders should be production oriented.	Leaders should be people oriented.
Employee motivation is derived from money and fear.	Motivation comes from within the individual.

In the 1980s, a new theory regarding managerial style and motivation emerged. **Theory Z** argues that managers should try to build a workplace environment that meets a series of employee needs. The Theory Z management style offers employees a secure employment and seeks to create high levels of trust and responsibility. To do so, team-based decision making at work is combined with the concept that the leader or manager should regard an employee as a complete entity, which means the employee has a life beyond the workplace. A person’s family unit and personal aspirations become part of the formula.

In return, managers hope to achieve improved on-the-job performance by building levels of commitment to the organization. Theory Z was initially developed by William Ouchi in 1981. Its basis

comes from the Japanese approach to management that gained prominence in the 1980s, due to the work of W. Edwards Deming and others. The Deming philosophy emphasizes quality in every aspect of an organization's operations, based on employee involvement in the management process. Those principles are blended with American management practices and the humanist philosophy, most notably exemplified by the work of Abraham Maslow, that emphasized the essential goodness and positive attributes found in humanity (Clegg & Bailey, 2007).

The human relations movement greatly influenced management theory during the period from approximately 1930 to 1960. At that point, influenced by improvements in technology and computers, globalization, and other trends, the world began to change. Consequently, neither the scientific management approach nor the humanistic vantage point is a complete perspective, and new ideas and concepts about the most effective ways to manage employees continue to emerge in the modern era.

## Modern Management

Another key historical figure in the study of management theory is Chester I. Barnard (1886–1961), an American business executive and a public administrator. He authored *Functions of the Executive* (1938), a pivotal book on management theory and organizational studies. In this book, Barnard explains the functions of executives within an organization by focusing on the theory of organization, also known as organizational science. The *theory of organization* or *organizational science* includes the systematic study and application of knowledge about how people act within organizations. Barnard defined an organization as “a system of consciously coordinated personal activities or forces” (1938).

Consider Barnard's conceptualization of an organization as a starting point. Based on Barnard's definition, we can envision a potential organization with a purpose or goal, coordinating systems, people to carry out the necessary tasks for success, and managers who guide the entire process toward the expected outcomes. This simple form is often the way organizations work today.

Typically, in an operating unit, otherwise known as a part of a larger division or company, the leader of the unit, division, or company is a trained and experienced manager. An *operating unit*, *division*, or *department* consists of a group of people who work together and possess similar skills or use the same knowledge, tools, or techniques to perform their jobs. In each case, the managers and other members of the organization accept the mission to achieve the stated purpose and work to those ends. Typically, it will fall on management to plan, organize, and strategize how to carry out the organization's mission.

## Systems Theory

Barnard introduced systems concepts to the business world. Later, general systems theory conceptualized an organization as a set of interrelated parts working together in a holistic fashion.

In a business system, *inputs* include raw materials, financial resources, and human resources. The *transformation process* is the company's production function, including the assembly of physical products and the development of intangible services. *Outputs* are the finished, final goods and services sold to the public. The *feedback mechanism* provides correction and adjustment, keeping the organization in tune with its environment. See Figure 1.3 for an example.

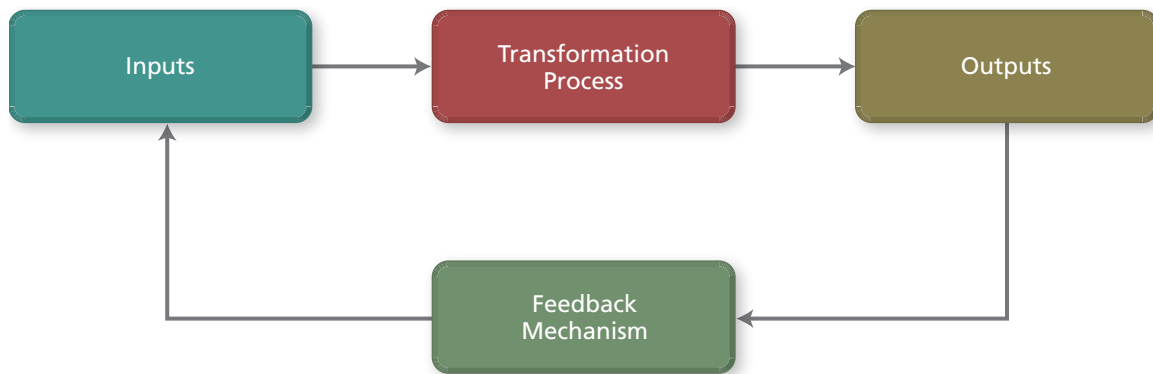
As an example, consider the Starbucks company mentioned earlier in this chapter. Its inputs would include raw materials such as coffee, cream, food materials, people, finances, and any other items needed to operate the company. The transformation process would be making and selling coffee products and other beverages and food items. The outputs would be the products

themselves. The feedback mechanisms include public comments about the company, financial information (including company profitability), managerial observations, and any other source of information about the organization's well-being.

The Starbucks example indicates another key element in systems theory: To survive and continue to succeed, an organization must *adapt to its environment*. When the company received negative information about sales and profitability, it was clear to Howard Schultz that changes needed to be made so that the company could once again survive in its environment. Think about how many companies have had to change or adapt to remain in business. Systems theory suggests that only those companies with the ability to thrive in a competitive environment will continue to exist. Others will die out.

**Figure 1.3** An organizational system

This model applies to biological, mechanical, and social systems, including for-profit business organizations, nonprofits, and government agencies.



**Inputs:** raw materials, people, money

**Transformation Process:** the actual work performed, including methods used

**Outputs:** goods and services

**Feedback Mechanisms:** organizational control systems, community feedback, stock price

### Contingency Theory

If one phrase could be used to summarize contingency theory, it might be, “There is no one best way to manage.” In organizational behavior, there is no one best motivational system, no one best leadership style, and no one best form of organizational structure and design. Instead, flexible approaches to management are required. Flexibility suggests an if-then approach to management. Managers are expected to understand the demands of the environment—the constraints placed on them by various political, social, and economic forces—and then adapt to help the organization achieve the most favorable outcomes. Many recently developed management theories reflect contingency thinking, where management adapts to the situation, company employees, and other circumstances that are present.

One important concept that emerged from the modern era, as found in the work of Barnard and others, is that *organizations constantly change*. Thinking of a company as a still photo or snapshot is not accurate. A business organization runs much more like a motion picture. Again, successful managers adapt to changing circumstances, often using contingency approaches to adjust to a changing world.

## Summary

An organization consists of two or more people in a social setting, with division of labor, a hierarchy of authority, coordination of activities, and a common purpose or goal. Profit-seeking organizations try to make money. Nonprofit organizations serve various organizational needs. Governmental organizations oversee the well-being of a population of citizens.

Management plays a critical role in the success of the organization. An organization's management team is charged with the effective use of the resources available to them to achieve planned outcomes. Drucker (1985) made the distinction between efficient and effective management skills in regard to the organization's performance: "Performing an activity swiftly and economically is efficient, while doing the right thing well is effective. The wrong thing, however, is ineffective by definition." The five management functions include planning, organizing, staffing, leading, and control. Managers coordinate these functions at the strategic, tactical, and operational levels. To do so requires technical, human relations, and conceptual skills.

The history of management theory began with the scientific approach. Later, the human relations movement shifted the focus from sheer productivity to a greater emphasis on employees and their well-being. Modern management theory incorporates elements of systems theory and contingency theory to describe and manage the complex organizations present in today's business environment.

Possessing strong management abilities and skills such as the ones discussed in this chapter will guide potential or new managers toward achieving organizational goals. These characteristics also will help them to be highly effective. This chapter is your first step in improving and fine-tuning the set of managerial skills you will employ during the course of a career.

### CASE STUDY

#### *The Insurance Agency*

José Morales graduated from college and entered the work force as an insurance salesperson for a large agency in metropolitan Albuquerque, New Mexico. He was excited about taking a position that he believed genuinely helped people by protecting them and aiding them when difficult situations arose.

The agency had begun actively seeking out the local Hispanic market. The number of potential customers had grown, and an increasing number of them had moved into the category of lower middle class. At the least, these individuals might become interested in basic insurance such as term life insurance and other moderately priced policies. José knew he would be asked to seek out and reach this target market because he spoke both English and Spanish fluently.

At first, José was able to achieve modest success. Using carefully designed research methods, he was able to identify households that were most likely to purchase insurance. The prospects were all dual-income families who had children and were purchasing rather than renting their homes. All potential clients owned more than one car. Just when José believed he was getting established in the market, two events occurred. The first was a major economic recession, fueled largely by a collapsing housing market in which homes began to lose value. Many individuals in José's area were losing jobs, especially in the service sector. Continuing to make sales under those circumstances was unlikely. The second event was a sales contest that the regional manager, Michael Dunn,

*(continued)*

announced would take place over a three-month period. The agencies were assigned to compete with 10 others in the region, including agencies in Taos, New Mexico, and Phoenix, Arizona. Individual salespeople who exceeded their quotas would receive bonuses and other prizes; however, the biggest rewards were set aside for the agency-versus-agency level of competition.

José knew he was in a difficult situation. He was expected to compete by trying to make sales to a group of individuals without the resources to buy. He was in a rotation for referrals, but with the large number of agents, referrals amounted to only two prospects per week. The only other potential customers he would meet were walk-ins, who were much less likely to make a purchase on the first visit. It was not long before José was receiving dirty looks from other agents. His agency was in fourth place in the contest, and he was nearly last in individual sales. At one point he believed he heard an ethnic slur in the break room related to his being unreliable and incompetent. José was angry, frustrated, and ready to quit his job.

Michael Dunn traveled to the Albuquerque location after the first month of the contest. He took José into a conference room. Michael asked José how he felt about his job. José responded that he enjoyed the challenge and serving people, but that the contest was putting him in a bad situation, especially given current circumstances. He did not mention the racial comment. José did note that a pleasant work environment would benefit the entire agency. Michael responded that if José couldn't do the job, he would look around for someone who could. José left the meeting feeling angry and frustrated. By the end of the contest, José had moved into 15th place out of the 60 individual competitors. His agency finished third in the contest. José believed he was the scapegoat for the agency not placing higher.

José had begun to develop a positive relationship with his agency's manager, Marty. He was able to complain about how the contest had put him at a disadvantage and damaged his interactions with coworkers. Marty commented that Michael Dunn was just a "suit" with no real understanding of front-line salespeople. Marty said that he had formulated a plan to more efficiently identify potential customers and another to more quickly settle claims. He also developed an organization chart that more clearly assigned salespeople to teams that would better serve customer needs. Michael's response to Marty's efforts was that these activities "are not your job."

Within one year, José had left the agency and joined a company that sold wireless phone service, specializing in connections to the Hispanic community. Marty moved into another agency with the same insurance company so he would have a different regional supervisor. Soon after, his new supervisor implemented many of his ideas.

### Discussion Questions

1. Explain how the sales contest was a planning failure.
2. Of the five management functions, which area did Michael Dunn fail to understand?
3. Of the three primary management skills, which did Michael Dunn fail to exhibit?
4. If you were Michael Dunn's manager, what steps would you take with him?
5. How should the insurance agency change to become a more effective operation in the future?

## Key Terms

**chief executive officer (CEO)** An organization's most senior manager.

**classical era** A period in management literature between the 1880s and 1920s, when original writings and innovations were created.

**effectiveness** Measures the company's efforts to achieve the goals that will allow it to survive, grow, and thrive over time.

**efficiency** Measures of how productively resources are used to achieve a goal.

**executive managers** Top-level managers in charge of the operation of the entire organization.

**front-line managers** Managers who supervise entry-level employees.

**governmental organizations** Organizations dedicated to providing the public services not offered by for-profit and nonprofit organizations.

**hierarchy of needs** Model created by Abraham Maslow that depicts human needs advancing from basic needs to complex, higher order needs.

**humanism** Perspective supported by Abraham Maslow that suggests the basic inner nature of a person is inherently good.

**human relations movement** A movement in management literature that gained momentum in the late 1920s; its primary focus was on people rather than solely on productivity.

**leading** Motivating, coordinating, and energizing individuals and groups to work together to achieve organizational goals.

**line managers** Managers who are directly responsible for a product line or delivery of a service by the organization.

**management** All the techniques used to lead the human resources in an organization to become productive.

**management functions** Planning, organizing, staffing, leading, and controlling human and other resources to achieve organizational goals.

**management theory** The study of the overall management process.

**manager** The person responsible for helping to achieve an organization's goals and desired future outcomes.

**middle managers** Managers charged with directing organizational functions while implementing top-level plans and supervising front-line managers.

**nonprofit organizations** Organizations created in response to an expressed social need.

**operational goals** Specific performance targets in short-term time frames.

**operational plans** The plans that direct daily activities.

**organization** A collection of people who work together and coordinate their actions to achieve a wide variety of goals or desired future outcomes.

**organization chart** A chart that provides box-and-line illustrations representing the formal relationships of positions of authority and the organization's official divisions of labor.

**organizational structure** A formal system of task and reporting relationships that coordinates the activities of members so that they work together to achieve organizational goals.

**organizing** The process of establishing task and authority relationships that allow people to work together to achieve the organization's goals.

**planning** The process by which managers choose appropriate organizational goals and identify courses of action to best reach those goals.

**profit-seeking organizations (also known as for-profit or business organizations)**

Organizations that deliver goods and services that offer value to consumers in exchange for money, normally expressed as sales and other revenues.

**scientific management** A management approach based on analyzing work scientifically, selecting workers scientifically, creating cooperation between workers and managers, and sharing responsibility for organizational outcomes.

**staffing** The process of recruiting, selecting, training, evaluating, compensating, and disciplining of employees within the organization.

**staff managers** The managers who lead departments that serve in supporting roles, including accounting, human resources, procurement, and logistics.

**strategic goals** The long-term, sweeping targets a company seeks to pursue.

**strategy** A cluster of decisions about what goals to pursue, what actions to take, and how to use resources to achieve goals.

**SWOT analysis** A method of assessing company strengths and weaknesses plus opportunities and threats in the external environment.

**tactical goals** Goals that guide managers in the various areas and that should mesh with strategic goals.

**tactics** The plans that support strategies.

**Theory X** Theory of human motivation proposed by Douglas McGregor that assumes people lack ambition, prefer direction, inherently dislike work, and are motivated only by external factors such as money and fear.

**Theory Y** Theory of human motivation proposed by Douglas McGregor that assumes people want to work, prefer autonomy, have underutilized talents, and have innate motivation.

**Theory Z** Theory of human motivation and management style initially developed by William Ouchi that proposes a workplace environment that meets employee needs, offers secure employment, and seeks to create high levels of trust and responsibility.

## Critical Thinking

### Review Questions

1. Define the term *organization* and list the main forms of organizations.
2. Define the terms *management theory*, *management*, and *manager*.
3. What are the three most basic managerial levels in organizations?
4. What are the primary activities of front-line managers and staff managers?
5. What three managerial skills and abilities help an individual achieve success?
6. What are the five management functions?
7. What four steps are associated with planning?

8. Explain the natures of efficiency and effectiveness in organizational management.
9. Name and define three levels of plans created in business organizations.
10. What three tasks are associated with organizing?
11. What are the four steps of the control process?
12. What is scientific management?
13. Explain humanism and the human relations movement in management.
14. Briefly describe Theory Z.
15. Explain the four parts of a system and how they relate to a business enterprise.

### Analytical Exercises

1. Access the Costco website (<http://www.costco.com>). Can you find elements of planning, organizing, staffing, leading, and controlling at the website, especially in the “About Us” section? Provide specific examples.
2. In three columns labeled (a) profit-seeking, (b) nonprofit, and (c) governmental, make a list of the differences for each type of organization in the following areas. Compare your answers with others in the class.
  - sources of revenue
  - types of expenses
  - organizational goals
  - measures of organizational success
  - differences in management styles
3. Make a list and provide answers in three columns for (a) front-line supervisors, (b) middle managers, and (c) executive managers. Give an example for each answer.
  - types of duties (specific, general, or both)
  - basic orientation (technical, conceptual, or both)
  - time spent planning (least, moderate, most)
  - time horizon for planning (short-term, medium-range, long-term)
4. Table 1.1 suggests that the managerial focus for each level includes a high human relations element. Explain how human relations activities would be different for front-line supervisors, middle managers, and executive managers. Explain the common elements in each.
5. Perform a SWOT analysis for each of the following companies:
  - Walmart
  - a local dry cleaner in your hometown
  - Netflix
  - General Motors
  - Facebook

6. Using the list of strategic goals provided in Section 1.3, give specific examples of how each goal would be related to the following companies:
  - Coca-Cola
  - Allstate Insurance
  - a local radio station
  - United Way
7. Explain how each of the following activities at McDonald's is an example of a strategy, tactic, or operational plan.
  - merging with Papa John's Pizza to create a wider customer base
  - adding heart-healthy menu items
  - expanding into a new country
  - creating new methods for serving customers at the drive-through window
  - releasing a new advertising campaign for holiday seasons
  - improving the purchasing system to keep food fresher
8. Explain how the following sets of functions are interrelated:
  - planning and organizing
  - planning and staffing
  - organizing and staffing
  - staffing and leading
  - planning and control

