

## Open Distance Learning

**BMGT1034**Principles of Management

**AZIZAH YAACOB** 



Module Writer: Azizah Yaacob

**Moderator:** Nama Moderator

**Developed by:** International College of Yayasan Melaka

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Summary

Key Terms

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#### **UNDERSTANDING COURSE GUIDE**

Refer and understand this *Course Guide* carefully from the beginning to the end. It describes the course and how you use the course material. It suggests the learning time to complete the course successfully. Referring the *Course Guide* will help you to clarify important contents that you might miss or overlook.

#### **ABOUT THE COURSE**

BMGT1034 Principles of Management is subject for Diploma in Marketing (DIM) that offered by School of Business Management in ICYM. This course is worth 4 credit hours and should be covered to 14 weeks.

You should be acquainted with learning independently and being able to optimize the learning modes and environment available to you. Make sure refer right course material and understand the course requirements as well as how the course is conducted.

## **LEARNING TIME SCHEDULE**

It is a standard ICYM practice that learner accumulate 42 study hours for every credit hour. As for this four-credit hour course, you are expected to spend 160 study hours. Table 1 gives an estimation of how the 160 study hours could be accumulated.

Table 1: Estimation of Student Learning Time

			Teaching and Learning Activities						
Distribution of Student Learning Time by Chapter		CLO	Physical			Online		Non-Face to	
			L	Т	L	-	Т	Face (Independent Learning)	Total
Cha	apter 1	1	2	1	2	2	1	6	
Cha	apter 2	2			2	2	1	8	
Cha	apter 3	1			2	2	1	8	
Cha	apter 4	3			4	1	2	9	
Cha	apter 5	3			4	1	2	9	
Cha	apter 6	4			2	2	1	10	
Chapter 7		4			2	4	2	12	
Chapter 8		4			2	4	2	14	
Cha	apter 9	3			2	2	1	6	
								Sub-Total SLT	124
Continuous Assessment			%	Face to Face		Non-Face to Face			
Continuous Assessment		70	Physica	al Online		line	(Independent Learning)		
1 Quiz		10		1		1	2		
2 Test		20				3	6		
3 Presentation		10				0.5	1.5		
4 Assignment		30					10		
Sub-Total SLT								24	
Final Assessment			%	Face	e to	Fac	e	Non-Face to	

			Physical	Online	Face (Independent Learning)		
1	Final Examination	30	2.5		9.5		
Sub-Total SLT							
	GRAND-Total SLT 160						

#### **COURSE LEARNING OUTCOME**

By the end of this course, you should be able to:

- 1. Define the managerial roles, management functions and the environmental factors affecting organization. (C1, PLO1)
- 2. Describe the managerial functions of planning, organizing, leading and control. (C2, PLO2)
- 3. Recognize applications of the concepts covered. (C2, PLO2)
- 4. Discuss the subject matter in some depth, including its relevance, managerial considerations, and advantages and limitations. (C3, PLO5)

### **COURSE SYNOPSIS**

This course is divided into 9 chapters. The synopsis for each chapter can be listed as follows:

**Chapter 1 -** Students will be learns the management concept which involve the value resources in effective and efficient way by using management process. Students also be exposed about role and skills of managers, and person who used the management in effective and efficient way.

**Chapter 2 -** Students will be expose to know more about an organization environment. An organization environment can be in two main categories: the element or factors outside from organization called external environment such as change in social lifestyle, the political stability, and technological change. While the factors inside an organization called

internal environment are skills of worker, the quality of material used, management and leading process.

**Chapter 3 -** Students are be introduce of setting the objective and the variety of planning process. One of the important of planning is to guide an organization direction in business. To makes sure the achievement of the objectives, students also be learning types of strategies.

**Chapter 4 -** Students will be expose to the environment that will influence managers in decision making and the how the process of decision making occur. Types of environment will influence types of decision making by managers. And types of decision making also influence a manager's decision making styles. Students also should know about model in decision making such as rationality model and bounded rationality model.

**Chapter 5 -** Students will be learn about the several concepts and elements related with organizational structure. They need to know the differences of the mechanistic and organic structure. The factors influence forms of the structure and types of organizational structure also be exposed.

**Chapter 6 -** Know about managing human resource is one of important part in an organization. In this chapter, students will learn why human resources management are important, the process involved and the elements they need to stress. Small part in the discussion also touches on types of training, methods used for compensation and other issues related with human resources management such as disciplinary system, safety and health, and working hours.

**Chapter 7 -** Leadership is one of the main management functions. Students will learn about the concepts in leadership. The different of leaders and managers, and the process of leadership and management also will be exposed. Students also need to know several approaches in leadership styles such as in trait, behavioral, contingency, and contemporary approach.

**Chapter 8 -** Students will be exposed to the main elements that support the management function such as motivation and communication. These two elements more been used by leaders to guide, give command, and

motivate their followers. Understanding about motivation theories, can help students to measure their motivation level and the theory used for application. Leader can play effective roles, should have effective communication.

**Chapter 9 -** Students will learn about the last management function called control process and how important to be understand. This control system can be described in several approaches and forms. Also, students will be exposed to the process of control and the situational factors that influenced types of control system that want to be used.

#### **LEARNING GUIDANCE**

The learning guidance is important to understand before you go through this module. Understanding the learning guidance will help you to organize your study of this course in a more objective and effective way. Generally, learning guidance for each topic is as follows:

**Learning Outcomes:** This part is to measurable, observable, and specific statement that clearly indicates what you should know and be able to do because of learning in each chapter. By go through each topic, you can continuously gauge your understanding of the topic.

**Self-Learning Material:** To aid you in your subsequent learning and to report on what you have learned. The activities are in-text questions (ITO) and self-assessment questions (SAQ), assignment on each chapter of the material to monitor and develop your own learning.

**Activity:** Question and activity within module can be constructed to put back the dialogue between student and module in learning activity. With the given question or task, you are encouraged to read the description or explanation within a module, so you can answer the question or solve the problem proposed.

You are encouraged to read since you realize that without reading the description or explanation, you will not be able to answer the question or the assignment. Text question is applied to you to pay attention to a certain problem rather than to assess the learning progress.

Self-assessment question is such a task that requires written answer form you. If you complete the task, you are asking to check your answer with the answer key provided in the module. Self-assessment is be developed in various form of test questions, there are easy question, fill in the blank, multiple choices, true-false and matching.

**Summary:** You will find this part at the end of each topic. This component helps you to recap the whole topic. By going through the summary, you should be able to gauge your knowledge retention level. Should you find points in the summary that you do not fully understand, it would be a good idea for you to revisit the details in the module.

**Key Terms:** This component can be found at the end of each topic. You should go through this component to remind yourself of important terms or jargon used throughout the module. Should you find terms here that you are not able to explain, you should look for the terms in the module.

**References:** The References section is where a list of relevant and useful textbooks, journals, articles, electronic contents, or sources can be found. The list can appear in a few locations such as in the *Course Guide* (at the References section), at the end of every topic or at the back of the module. You are encouraged to read or refer to the suggested sources to obtain the additional information needed and to enhance your overall understanding of the course.

#### **ASSESSMENT METHOD**

Please refer to ICYM E-Learning



By the end of chapter, you should be able to:

1. Explain the concept of management in an organization.

**LEARNING OUTCOMES** 

- 2. Describe the management functions that trigger the management process.
- Differentiate the managerial people in an organizationtypes of managers, their roles, and skills.
- 4. Discuss the important in study management.

## 1.1 MANAGEMENT AND AN ORGANIZATION

All activities in the world involved the process of planning, organizing, leading, and controlling because it related with having effectiveness and efficiency in using resources. This is called the management process or management functions. Many people, in any of profession using the management process but the level of using is high or low is depend on how deep people understand the concept before apply its. An organization usually be used to have more understand the concepts of management with the activities, because all organizations have their own goal that need to be achieve. Those (especially managers) who have the knowledge about management usually apply the main core functions of management such as set the goals, making planning and make decision; organize people and activities; guiding, motivate and direct others to do the tasks; and make assessment about the performance achieved.

In Chapter One, expose the general concepts of management in an organization through the roles of managers and the management functions as management core activity. While, in the next chapters, is about how managers used management to adapt the challenges' surrounding.

### **Definition of organization.**

An organization can be defined as:

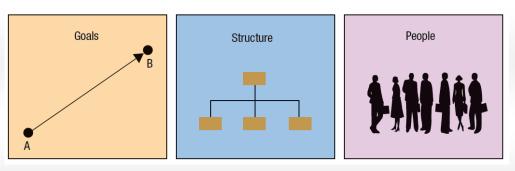
- i. A systematic arrangement of people where they work together to accomplish a specific purpose (*Robbins, Coulter & DeCenzo*; 2020).
- ii. An organization is a collection of people working together to achieve a common purpose (*Schermerhorn*; 2011)

An organization can be defined as a collective activity that have been planned by two or more people using resources to achieve the goals together.

#### Elements of an organization.

The definition included the three main elements or characteristics of an organization: *the purpose, the structure* and, *the people*. No matter what size organization there is in this world, an organization will have the three main elements (refer to Figure 1.1):

Figure 1-1: Common Characteristics of Organizations



Source: Robbins, Coulter & DeCenzo; Fundamentals of Management; 2020

- (i) The Goals or Purpose Every organization created has their own goals or purpose. For business organization, the purpose more on to get the profit and satisfaction for their employees and customers. The goals need to be clear and can be assess.
- (ii) System structure refer to the systematic methods, or process or the ways to group people and tasks in the organization so that activities are more organized and coordinated to achieve organization purposes.
- (iii) **People** are be grouped in a specific way to meet the needs of the organization tasks and operations. The group such as managerial and non-managerial, and or by functional activities or task operations.

### Organization can be in two categories:

- (i) **Profit oriented organization** whatever the organization can be in small, medium, big or large sizes and be setup because to generate profit as an income for long suvival. Example, Petronas Nasional Berhad, Sime Darby Berhad, International of Collage Yayasan Melaka, Jaya Maju Enterprise, and Restaurant Nasi Kandar.
- (ii) Non-profit oriented organization the organization that usually been created because of social needs. Example, establishment of foundations for orphans, associations or social clubs, recreation centers, public school, public clinic and hospital.

Each organizations' activity be managed by person called managers, that involved as managerial people.



## THE CONCEPTS OF MANAGEMENT AND MANAGEMENT PROCESS

There are several definitions of management in many perspectives such as in management principles, management discipline, management career, and have been proposed by many management gurus.

In conclusion we can define management as the *process of creating* planning and making decision, organizing the resources, leading, and controlling organization's member to achieve the goals setting in effective and efficient way. The terms of resource, effectiveness, and efficiency need to be clarified in understanding the concept of management.

**Resources** refer to any aspect used in the activities (any imput used to transfer to output) of an organization such as manpower, raw materials, capital, equipment, buildings, machinery. Organizations use **value resources** to produce products and services. But value resources are very limited and need to be managed in effectiveness and efficiently so that organizational goals can be achieved.

Two important terms that give meaning to management concept are effectiveness and efficiency. **An effectiveness** means *doing the right thing* - related with goal attainment. While **an efficiency** means *doing the things* correctly - the relationship between input and output - use resources wisely or minimize the cost.

#### Example:

There are two people, (A) and (B), making a cupcake. Both get the same ingredients, quantities, and time to bake the cake. After timeout they produced, (A) - produced only 10 cupcakes while (B) produced 12 cupcakes. We can say here that:

- Both, (A) and (B), are effective because they can achieve the standard to produce cupcake based on time given.
- (B) is more efficient than (A) because (B) used fully resources (no wasted) to produced 12 cupcakes, while (A) only 10 cupcakes for the same ingredients, quantities and time given.

Efficiency Vs. Effectiveness

How effective?

The means

use resources—people, money, raw materials, and the like—wiselv and cost-effectively.

The means

achieve results by making the right decisions and carrying them out successively.

Figure 1-2 The Relationship Between Efficiency and Effectiveness

A person can be as **efficient but NOT effective** OR **effective but NOT efficient** in managing a specific task. In short, both elements are not inter-dependent.

• Efficient but **NOT** effective.

Example, a factory worker is described as efficient but not effective when he manages to find a short cut to performing his task with a lower cost but deviates from the ethical objectives of the organization. This becomes apparent when the factory worker resolves to dispose of production waste by dumping it into the river. Although the factory worker is evidently efficient, he has deviated from the original objectives of the organization that is to preserve local harmony.

Effective but NOT efficient.

Example, an employee is describes as effective but not efficient when he uses an old method to resolve a management issue even if the issue could have been resolved efficiently without deviating from the objectives of the organization. The employee send a letter via postal mail instead mail instead of using the e-mail even in emergency situation. These will increase the cost of organization operations.

#### **The Management Process**

The terms in management process are *planning, leading, organizing* and *controlling* are used to create a complete understanding of management concepts. These terms are the process that involved together with the concepts of effectiveness and efficiency to achieve organization standards. These terms called **management process** or **management functions.** Figure 1.3 illustrate the management process.

- a) Planning function (P) Process of defining the organizational purpose and the ways to achieve it - involves in setting the goals and strategies alternatives.
- **b) Organizing function (O)** Process to arranging and structuring people and work to accomplish organizational goals.
- c) Leading function (L) Process to motived, guide and directing the work activities of others.
- d) Controlling function (C) Process that involves monitoring, comparing, and correcting work performance. This process used to measure the actions achieve the standards given.

Figure 1-3
The Management Process or Management Functions (PLOC)

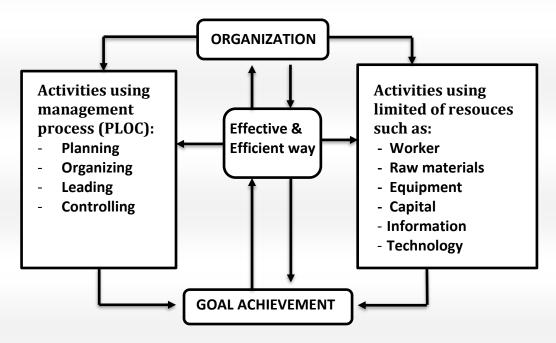


Based on the description above, the management concept is to include the elements of:

- Used limited resources all organization used resources in their activities. Examples of resources are workers, raw material, equipment, and technology used. The resources are limited because organization only used value resources in their activities.
- ii. Task implementation in *an effective* and in *an efficient* way.
- iii. Used the process of *planning*, *leading*, *organizing* and *controlling* in any of organization activities.

Despite the evolution in management perspectives, the basic concept is still the same management than it used to until now. Understanding about management is easier from an organization perspective because each organization have their own goals/objectives. Figure 1.4 shown the framework to understand the management process.

Figure 1-4: Framework in Understanding the Concept of Management



### **Checkpoint 1.1**

**Instructions:** State the statement below as TRUE or FALSE.

- 1. Effectiveness refers to the relationship between inputs and outputs.
- 2. A goal of efficiency is to minimize resource costs.
- 3. Managers who are effective at meeting organizational goals always act efficiently.
- 4. The four contemporary management processes are planning, organizing, leading, and controlling.
- 5. Determining who reports to whom is part of the controlling function of management.
- 6. Directing and motivating are part of the controlling function of management



#### WHO ARE MANAGERS?

Organizations need management people to carry out their activities in achieving goal setting. This management person is called the managers.

A manager is a human resource in an organization who is responsible for managing, directing other and operating organization by ensuring that employees perform tasks efficiently and effectively.

### **Types Of Managers**

Based on organization hierarchy or level, there are three types of manager. They are called (Refer Figure 1.5):

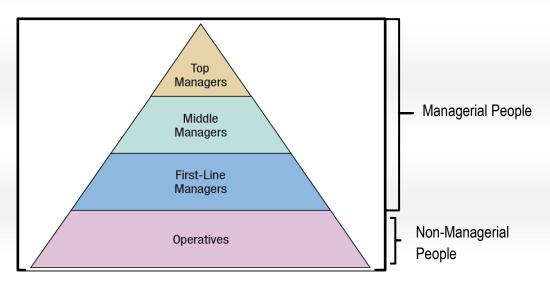


Figure 1.5: Types of Managers by Organization Levels

i) Top Managers - The person who are in the highest level in an organization. They are responsible for setting goals, making strategies and decisions for long survival of organization. The titles or position given such as President, Chief Executive Officer (CEO), Vice President (VP), Chief Financial Officer. They are commnly known as the executives.

- ii) Middle Managers The person who are in the middle level in an organization between top management and lower management. They responsible to take the goals and strategies setting by top management and designed them into effect. They also directed to lower management and operational staff for actions. They hold positions such as Head Division, Branch Manager, Plant Manager, Operations Manager.
- iii) Lower Managers They also called as First-line Manager, is the lowest level manager in organization hierarchy. They responsible for daily activities by subordinates in achieving organization goals. The position or titles such as Supervisor, Foreman, and Office Manager.

All these managers have many similarities. Managers at all level making plans, organize, lead, and control employees and tasks in an organization. But there are also **two main differences** between the three types of managers by management levels.

- i. Top and middle managers employees as manager under them. They manage other managers.
- ii. Managers at different levels utilise their time diffrently.
  - ✓ Top managers spend most of their time planning and setting goals.
  - ✓ Middle managers defines goals towards specific projects for lower manager to implement.
  - ✓ The ower managers or first line managers focus on giving directions and controlling their subordinates at work day to ensure the success of the project.

Based on managers by level, types of managers also can be identified by their functions – refer to Figure 1.6. They are respponsible for only one

organizational activity or specialize in a certain function such as marketing, accounting, production, sales, and administration.

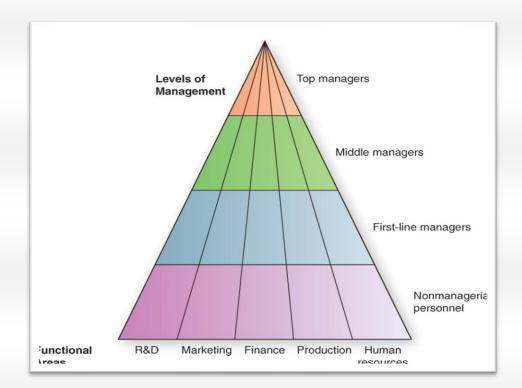


Figure 1.6: Managers by Organization Levels and Functions

### **Checkpoint 1.2**

**Instructions:** State the statement below as TRUE or FALSE.

- 1. Everyone who works in an organization is a manager.
- Middle managers make long-term decisions about the overall direction of the organization and establish the objectives, policies, and strategies for it.
- 3. A manager of Marketing is a general manager.
- 4. Long-term decisions about the overall direction of the organization are made by top managers.
- 5. A functional manager is responsible for several organizational

## **MANAGERIAL ROLES AND SKILLS**

Managers are person who managed organization and needs to play their roles and skills in managerial to achieve organizational goals in effective and efficient way.

## **Managerial Roles**

Henry Mintzberg did an empirical study of chief executives and discovered that managers were engaged in a number of varied, unpatterned, and short-duration activities. He defined management by categorizing what managers do based on the managerial roles they perform at work. He proposed that a manager's job can be described by ten roles performed by managers in three general categories:

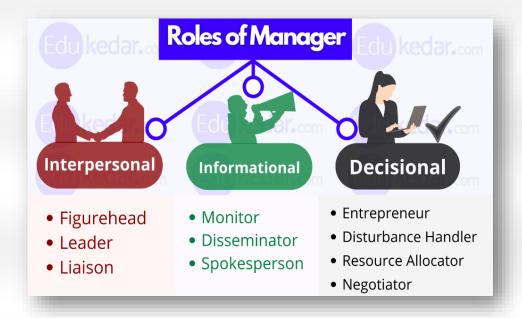
- **1. Interpersonal Role** roles that a manager make relationship with people. There are three of interpersonal roles play by a manager.
  - a) Figurehead ceremonial duties must be carried by a manager. Example, a vice-chancellor is also involved in officiating opening ceremonies or programmes that are conducted at the university. The same applies to a head of department, who is responsible for entertaining his clients.
  - b) Leader a manager indirectly functions as a leader. Each manager must be functioned as a leader in motivating and encouraging his subordinates. The manager steers members of his unit to continuously work effectively in achieving the goals of the unit and organization apart from resolving problems and issues.
  - c) Liaison a manger conveys relevant information gathered to individual outside his unit or to other relevant parties outside his organization. Thus, a manager acts as a

channel for communication between his department and those within as well as those outside his organization.

- 2. Information Role manager play to provide knowledge, news, or advice to employees. This role also play in three:
  - a) Monitor seeks and receives wide variety of special information to develop thorough understanding of organization and environment; emerges as nerve centre of internal and external.
  - b) Disseminator transmits information received from other employees to members of the organization – some information is factual; some involves interpretation and integration of diverse value positions of organization influences.
  - c) Spokesperson transmits information to outsiders on organization's plan, policies, action, and results.
- 3. Decisional Role roles play a manager to make changes in policies, resolves conflicts, decides how to use resources in efficient way. There are four roles play by a manager:
  - a) **Entrepreneur** searches organization and environment opportunities and initiates to bring about change.
  - b) Disturbance handler- responsible for corrective action when organization faces important disturbances.
  - c) Resource allocator responsible for the allocation of organization resources of all kinds.
  - d) Negotiator a manager is compelled to find a solution for each of its problem regardless of complexities. The manager needs to spend a lot of time in discussion as he, indirectly, plays the role of a negotiator. Example, a

manager will negotiate with the trade union chief to reach an amicable agreement on the issue of payment of salaries.

Figure 1.7: Managerial Roles



## **Managerial Skills**

Research by Robert Katz identified three main types skills by a manager, there are *conceptual skills*, *interpersonal skills*, and *technical skills*. But there are general skills that should managers have:

1. Conceptual skills - Conceptual skills are the ability to view the organization as a whole, and the impact the different sections has on the organization, as a whole and on each other. Also to observe how an organization adapts to or is affected by external environment factors such as society, economic pressure, customers and competition. An efficient manager should be able to identify, understand and solve the various problems and critical perspectives. The need for conceptual skill becomes increasingly crucial when a manager is higher in the management hierarchy.

- 2. Interpersonal skills Interpersonal skill is the ability to work well with other people. Managers with good interpersonal skills work more effectively in a group, encouraging other employees to input their ideas and comments as well as being receptive to the needs and view of others. The manager will also, indirectly, become a good listener and speaker. Interpersonal skills are crucial for middle managers.
- 3. Technical skills Technical skills are the ability to apply procedures, techniques and specialized knowledge required in a certain task. Technical skills are crucial for a manager at the lower level managers. Skills and technical knowledge are required to solve operational problems that cannot be handled by employees.

## Checkpoint 1.3

**Instructions:** State the statement below as TRUE or FALSE.

- 1. The roles of figurehead, leader, and liaison are all interpersonal roles.
- 2. Mintzberg's informational management role involves receiving, collecting, and disseminating information.
- 3. Katz found that managers needed four essential general skills: technical, interpersonal, political, and informational.
- 4. Interpersonal skills involve a manager's ability to think about abstract situations.



## THE IMPORTANCE OF STUDYING MANAGEMENT

- ✓ Good (effective) managerial skills are a scarce commodity.
  - Managerial compensation packages are one measure of the value that organizations place on managers.
  - Management compensation reflects the market forces of supply and demand - Managed superstars such as superstar athletes in professional sports, are wooed with signing bonuses, interest-free loans, performance incentive packages, and guaranteed contracts.
- ✓ We all have a vested interest in improving the way organizations are managed. Better organizations are, in part, the result of good management.
- ✓ You will eventually either manage or be managed. Gaining an understanding of the management process provides the foundation for developing management skills and insight into the behaviour of individuals and the organizations.

#### **Self Assessment**

Tutorial 1: E-Learning

#### **KEY TERM**

Management Controlling process

An effectiveness Manager

An efficiency Top Manager

Planning process Middle Manager

Organizing process Lower managers

**Leading process** 

#### **SUMMARY**

- The concept of management involves using of resources (the input) in effective and efficient way by the process of planning, organizing, leading and controlling (management process) in achieving organization goals (output).
- The management process planning, organizing, leading and controlling - are important process to manage an organization activities in ahieve organization standard.
- The managers are the person used to direct, command, and guide other people in an organization to do the tasks. There are three types of managers and the popular is by organization hierarchy: top manager, middle manager, lower manager.
- Managers need to known ten roles (by Hendri Mintzberg) and skills (by Robert Katz) to display their responsibilities in the activities they manage. Managers also need to develop other skills to manage an effective organization.





## **REFERENCEES**

- 1. Robbins and DeCenzo. Fundamentals of Management; 2008, Prentice Hall, Inc.
- 2. Robbins, DeCenzo, and Mary K.Coulter. *Fundamentals of Management*; 2016, Prentica Hall, Inc.



Chapter 2

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Identify and explain the internal organization environment.
- 2. Identify and explain the external organization environment.
- 3. Determine the organization's social responsibility
- 4. Describe the management ethic through decision-making.

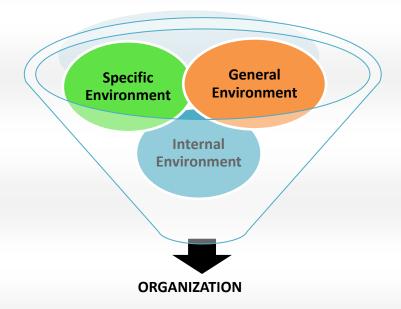
## 2.1 INTRODUCTION

Organizational environment is conditions beyond the control of the organizational management. Yet the level of control of organizational environment management is said to differ depending on the form of internal and external organizational environment faced by the organization. The firm must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell profound threats or new opportunities for the firm. The successful firm will identify, appraise, and respond to the various opportunities and threats in its environment. The environment of an organization refers to the elements that affect the achievement of its aims. There are two parts of the business environment includes internal environment and external environment. Changes in the environment affect the inputs to the organization and hence, its output.

## 2.2

### **ORGANIZATIONAL ENVIRONMENT**

**Figure 2.1:** Environment of Organization



#### 2.2.1 Internal Environment

Organizational internal environment refers to the activities of an organization that can be controlled by the organization. Influenced elements such as employee skills, work processes, materials used, organizational capital, company leadership policies and others. All these factors can be managed or controlled by the organization. Internally, an organization can be seen as a resource conversion machine that takes input from the external environment (outside of organization), converts it into useful products, goods and services, and makes it available to customers as output

The elements or factors of the internal environment such as:

(a) Skill of workers – Refers to the level of competence of employees that determined by the level of knowledge, skills, and experience required by the organization. The level of employee efficiency influences the performance and productivity produced in the assignment.

- (b) Work processes refer to the method or the way organization used to produce output. It's also can be refer the technology used – by hand-made or machine. If organization have employees with low competency, the work processes affect the organization overall activities.
- (c) **Leadership** leaders leadership style by organization's leader will affect the way leader influence their employees to achieve standard. If the leader used effective style in leading, it's easier for employees to follow.
- (d) **Company policies** refer to the rules and policies create by organization to guide employees behavior. High or low formalization will affect the employees' behavior to be more productive or not.



External Environment: General Environment

Figure 2.2: Internal Environment and External Environment of An Organization

#### 2.2.2 External Environment

- i) Specific Environment
- ii) General Environment

External environment organization refer to the organization activities that cannot be control by an organization. There are two main an organization environment: *specific environment* and *general environment*.

**Spesific environment** also called task environment. *Specific or task* environment refer to the any factors outside the organization that will directly affect the organization activities. These factors or elements also called the stakeholders such as:

- (a) Suppliers the parties who involves in supplying raw materials, equipment and services needed for organization's production. The organization is dependent on buying at the right time, in the right correct quantities with the right prices, to gain competitors. Thus, it is important for the organization to keep close relationship with its suppliers, otherwise supplies will not be forthcoming.
- (b) Customer Customers have become aware of their rights to be listened to, to be informed and to choose the goods they want to buy. Government has put laws in place to protect consumers from dishonest selling practices. Organizations have adopted the enlightened approach that a good rapport with their customers is vital for the continued survival of the firm. Thus, organization had to concern this relationship to maintain and sustain customer's buying.
- (c) Competitors Competitor is another firm who produce or sell the same product or services as our organization. To remain ahead of competition, the firm must be able to offer customers goods and services at the right price at the right price and at the right quality.

- Every aspect in organization actions will give chance to our competitors.
- (d) Financial institution Financial institutions are important components in the economic structure of a society. Business organizations depend on a bank, insurance companies and other financial organizations to finance their activities.
- (e) Government agency The government plays a role in making rules and regulations for the safety and protection of the community. The government also sees it as a customer of goods and services. Sometimes rules and regulations provide constraints for organizational activities such as the tax system, subsidies, price celling setting, and quota.
- (f) Trade Union A trade union is an organization of employees in the same industry field of employment that aims to maintain the harmonies and the welfare of employees in the organization they belong to from their employers. Sometime the claims by trade union's member will affect employees situation and influenced the organization operations.

**General environments** refer to the situation in this environment **NOT** directly affected an organization activity. But it will affect in long term. The factors influence such as the political, economic, social, and technological factors:

- (a) Political factor the conflict between the United States of America and China have affected the flow of merchandise by firms of both countries. This affected not only on both countries but also to other countries that make business relationship in long term.
- (b) Economic factor an unstable economic position due to an imbalance of demand and supply can lead to inflation. In the long

- run foreign exchange flows between countries may also be affected.
- (c) Social factor changes in consumer tastes, changes in demographics also lead to affect the organizations activities in long term.
- (d) Technological factors Technologies help organization produce product in efficient way. All countries in the world compete each other to produce product by using technological perspective. Organization maybe stays behind if they do not invest in technological development.

## **Checkpoint 2.1**

**Instructions:** State the statement below as **TRUE** or **FALSE**.

- 1. Trade unions and non-governmental organizations (NGOs) can influence the management of an organization through their aggresive actions they make.
- 2. Internet has brought many new terms in the world of business and management such as e-commerce, e-money, e-wallet, e-management, e-banking and so on.
- 3. The basic elements of an organization's internal environment generally consist of owners, managers, employees and board members.
- 4. The general environment is an external force group that directly affects performance.
- 5. Competitors can consist of other organizations that are in the same industry or that are in another industry.



# ORGANIZATION SOCIAL RESPONSIBILITY AND MANAGEMENT ETHICS

Social responsibility is the awareness of the firm and the form of the role of the firm from business activities that affect the decisions of the firm and the importance of community life. Actually, in business there was no aspect related to social responsibility especially profit-oriented organization focus more on getting profit.

To maintain between profit and social oriented, organization must to decide and manage in ethical way. Each people in organization need to expose about management ethical, and it must start from the top.

## 2.3.1

## ORGANIZATION SOCIAL RESPONSIBILITY

Most businesses compete to produce goods for their own profit. Yet after the 1920s, on the basis of firms it would be more profitable if the interests of the community were also met in a safe, healthy and harmonious manner. Example, KFC donated 200 packs of fried chicken to an orphanage. In 2004, The Henkel Company with his product, Dynamo detergent, has briefed the hygiene aspect and given away some free bottles to residents who have been affected by the floods caused by the tsunami. When a firm makes social responsibility one of the decisions that are among the Board of Directors or makes the firm's annual agenda, then this action is called *Corporate Social Responsibility* (CSR)

CSR can be defined as the responsibility from management level of an organization to make decisions and any actions that can improve the of

good living of society as a whole as well as the organization itself. The decisions and actions taken not only for organization interest but also for

society benefits. CSR is one of committee to reinforce social responsibility in the society. There are several types of social responsibility.

#### **Types Of Social Responsibility**

- (a) Responsibility to Consumers Consumer refer to people who buy or used organization product. There is a phrase, "customer always right", that about the right of the consumer in owning and using called "Consumerism". Consumerism stress on 4 rights:
  - The right to use safe goods
  - The right to be explained the use of products and services.
  - The right to choose goods and services according to their needs and desires
  - The right to be heard if there are any reports, complaints and suggestions
- (b) Responsibility to Employees Employees or subordinates, individuals who do and settle the tasks. Firms also need to ensure their employees' rights are fulfilled and among those rights are:
  - The right to a safe and healthy workplace (OSHA).
  - The right to equal service and the fairness of the reward system.
  - The right to voice and report sexual harassment by those in authority in the organization.
  - The right to manage cultural diversity
- (c) Responsibility to the Environment every firm should have an action of social responsibility especially towards the occupied world as it is fundamental to sustainable and quality resources. Among the social responsibilities of nature is to ensure the absence or reduction of environmental pollution through the process of business activities. Common pollution to produce products:

- Water pollution the disposal of production waste into drains, rivers, ditches and the sea causes the water content contaminated material. Example, The 2019 Kim Kim River toxic pollution is a water pollution incident that occurred on 7 March 2019 caused by illegal chemical waste dumping at the Kim Kim River in Pasir Gudang of Johor in Malaysia. The illegal dumping released toxic fumes, affecting 6,000 people.
- Air pollution the production of polluted materials by factories through the air causes the air to become increasingly polluted.
   And this causes asthma, skin diseases, cancer and others.
- Land pollution this pollution occurs due to the use of chemicals in pesticides, fertilizers that use chemicals, unsystematic use of soil.
- Green activities Although many companies carry out green concept activities, but awareness is still low because the green concept is just a theme or agenda that is sometimes done compulsorily.
- (d) Responsibility to Investor it is important to increase stock prices in the long run because it is seen as less risky and produces high returns. The organization must have their repsonsible in:
  - Proper management of funds financial aspects must be managed transparently and recorded properly and clearly. Interests are all investors and not just major shareholders' interests.
  - Access to information organizations need to be transparent with activities especially those involving financial resources such as dividend distribution and company profits.
  - Executive Compensation the executives in an organization are those who hold management positions. The organization needs to show responsibility to the executives especially the

top management such as providing some allowances entertainment allowances, housing, vehicles, parking, medical and health facilities. This is because the executives always think and acts for the sake of the survival of the organization.

#### Society's expectations of business in:

- (a) Social Responsibility A firm's obligation, beyond that required by the law and economics, to pursue long-term goals that are beneficial to society all business obeys the law and pursue economics interests that society imposes. This views that business as a moral agent to do good for society through the different between right and wrong.
- (b) Social Obligation Is the foundation of a business's social involvement. The obligation of a business to meet its economic and legal responsibilities and no more a firm pursues social goals only to the extent that they contribute to its economic goals.
- (c) Social Responsiveness The ability of a firm to adapt to changing societal conditions its requires business to determine what it right or wrong and thus seek fundamental ethical truths. Social responsiveness is guided by social norms that can provide managers with a meaningful guide for decision making.

### 2.3.2

#### **MANAGEMENT ETHICAL**

How do managers become more socially responsible? The practice of management ethical is important to measure the managers decisions and actions in ethically.

**Ethics** refer to a set of rules or principles that defines right and wrong conduct. While **Code of Ethics** refer to a formal document that states an organization's primary values and the ethical rules it expects managers and operatives to follow.

Ethics may difficult to be understand and its depend on the view that one holds. There are several views of ethics:

- (a) Utilitarian view of ethics a situation in which decisions are made solely on the basis of their outcomes or consequences. It is to provide the greatest good for the greatest number. Example, during the COVID-19 pandemic, managers had to decide to lay off half of their employees to survive firm and lose the income of all their employees.
- (b) Moral rights view of ethics a situational in which the individual is concerned with respecting and protecting individual liberties and privileges, including the rights to privacy. Example, the firms are more considerate of employee rights in formulating firm policies.
- (c) Justice view of ethics a situation in which an individual imposes and enforces rules fairly and impartially. It based on the belief that ethical decisions treat people impartially and fairly –
- (d) Individual view of ethics the discussion of individual views of ethics is more appropriate using the model of moral development inspired by Lawrence Kohlberg (1927 1987).

This model emphasizes that human beings will go through six stages of moral development:

#### Stage 1: Obedience and Punishment Orientation

This level shows that people behave ethically because they follow instructions and policies and want to avoid fines. For example, employees come early before 8.00 am to avoid disciplinary action.

#### Stage 2: Instrumental: Individualism and Exchange

At this stage the individual also aware of others have needs and they agrees so that their respective needs can be met. For example, the employee understands the job assignment requirements for the employer, while the employer provides rewards if the employee meets the job assignment requirements.

#### Stage 3: Good Interpersonal Relationships

At this stage the individual exhibits behaviors that are pleasant to the feelings of others, warmth and provide assistance. Individual behavior is ethical with the motive of being considered as "good people" in the eyes of others.

#### Stage 4: Maintaining the Social Order

Individuals understand ethical behavior as the perfect performance of duties and responsibilities, respecting the rights and authority of others. Compliance with national, organizational and top management policies, regulations and laws. They will abide by the law as well as avoid individuals who violate it.

#### Stage 5: Social Contract and Individual Rights

This level exhibits the Individual being aware of the rights and views of the thoughts and ways of life of others. However, individuals may violate principles or laws deemed necessary. For example, an employee may refuse to obey organizational rules that are perceived to restrict an employee's right to work.

#### Stage 6: Universal Principles

Ethical behavior is determined by one's focus based on universal ethical principles. Kohlberg argues that these universal principles are founded on justice, public welfare, equality in human rights and the right to dignity of the individual.

#### Checkpoint 2.2

**Instructions:** State TRUE or FALSE statement below.

- 1. Ethics refers to the rules and principles that determine whether a conduct is right or wrong.
- 2. Utilitarian theory advises managers to look at external ethical norms in industry and incorporation to determine whether decisions and actions are right or wrong.
- 3. In the justice view of ethics, decisions and behaviors are evaluated in terms of the fairness of the organization distributing costs and benefits among individuals and groups.
- 4. The right to freedom of expression can only be exercised by an employee if that freedom of speech is used to express the truth and does not threaten the rights of others whether within or outside the organization.
- 5. When an organization adopts ethical behavior the organization has to bear various costs such as compensation claims by victims and the cost of time wasted as a result of managing claims.





#### **ACTIVITY**

Select one organization that you familiar. Identify the environment factors that influence that organization activities.

#### **KEY TERM**

Internal environment Management ethical

**Specific environment** Code of conduct

**External environment** Social responsibility

Social responsibility Corporate social responsibility

#### **SUMMARY**

- Each organization need to concern and understand their surrounding that will effect organization's activities in positive or negative aspects.
- Organization environment can be in two categories: Internal and external environment. While external environment divide in two types: Spesific and general environment.
- The factors for internal organization environment such as capitals, leadership, work process and system, human resource skills, etc. Internal environment can be control by organization.
- While the external environment elements in spesific environment will directly effected organization activity. But general environment only influence for long term process.
- Others part about organization environment is management ethical. Ethics refer to a set of rules or principles that defines right and wrong conduct. Management ethic in an organization should in code of conduct for the pratices of members' organization.
- Several views of ethics Utilitarian view, moral right view, justice views, and individual view discuss the way people understand and practices ethical.
- Moral development of a person can be explain in six stages -Obedience and punishment orientation; Instrumental: individualism and exchange; Good interpersonal relationships; Maintaining the social order; Social contract and individual rights; and Universal principles



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Chapter 3

#### **FOUNDATION OF PLANNING**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Defining the concepts of planning.
- 2. Describe the goal setting.
- 3. Explain the planning process.
- 4. Identify and explain types of planning.
- 5. Determine types of organization strategy.
- 6. Describe the strategy managemeny process.

### 3.1

#### **INTRODUCTION**

In previous chapters, the discussion more about the surrounding of an organization such as the general content of management, the environment of organization, the activities that influence an ethical behavior of managers and their members.

In the chapter, the discussion are more on management process or function such as planning, leading, organizing and controling, that related the elements used to influence organization effectiveness and efficiency.

### 3.2

#### **CONCEPT OF PLANNING**

One of the main management process or function is planning, besides organizing, controlling and leading. According to C.W. Roney, planning is done for two purposes (Certo; 2000):

- i) It is done as a protection to the organization when planning is done, a manager can forecast the effects from each of the suggestions or alternatives actions that will be carried out.
- ii) Planning is done to increase the affirmative levels of an organization. Example, when an organization opens a new branch, it is not a coincidence but is the result of detailed planning. With proper planning, managers will be able to ensure what needs to be done, how to carry out the actions, why it has to be done and when to do it.

There are several definition for planning. Planning also defined as:

- i) The organization's objectives or goals, establishing an overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities. (Robbins and DeCenzo; 2008).
- ii) The process of setting objectives and determining how to accomplish them. (Schermerhorn; 2011).
- iii) Choosing a goal and developing a strategy to achieve that goal. (Williams; 2009)

#### 3.2.1 Process of Formal Planning & Informal Planning

Managers involved in **formal planning** and **informal planning** process. The are several criterias to differentiate between formal and informal planning. Figure 3.1 will explain the differences.

Figure 3.1: Criterias of Formal and Informal Planning

Formal Planning	Informal Planning
The formal plan is stated in writing, be	Planning is not shared to members of the
announced and shared to all members of	organization either in writing or verbally.
the organization.	For manager's consideration only.
Be more specific and clear to facilitate	To general and not clear to members
achievement by members of the	because planning is only in the mind of
organization.	the manager.
Very important used in medium to large	Widely used by small size organizations
size organizations.	

#### Why Formal Planning Be Criticisms

- ✓ Planning may create rigidity
- ✓ Formal planning cannot replace with creativity.
- ✓ Planning focuses managers' attention on today's competition, not on tomorrow's.
- ✓ Formal planning reinforces success, which may lead to failure.

#### 3.2.2 How To Plan Effectively

There are five process to have effective planning:

- i) Determining the objectives that need to be achieved
- ii) Building individual commitment progress achieving the objectives
- iii) Forming action plan
- iv) Monitoring progress, and
- v) Maintaining flexibility

Determining the objectives can be more success by using S.M.A.R.T elements. SMART elements stand for:

- **S** = **Specific objective** the objective must be stated specifically.
- M = Measureable objective a good objectives can be measured by quantitatively. Example, production department want to increase the production can be measured by calculating the products produced such as 10% increase compared was assumed previous.
- A = **Attainable** objective resources used in achieving the objective must related and suitable with our resources (workers, materials, capitals, information etc).
- **R** = **Realistic objective** objectives that are reasonable that is, they can be implemented.
- **T** = **Timely objective** a good objective usually outline the times periods for its achievement.

#### 3.2.3 Vision And Mission Statement

**Vision statement** - Usually to answer the question, "What do we want to become?". The vision statement is general picture about an organization what to become. Its also often considered the first step in strategic planning. In general, the vision statement can be defined as:

- ✓ Where the organization wishes to go, which is vital for identifying, successful strategies for the organization.
- ✓ An act of translating imagination into terms that describes possible future courses of action for the organization.

#### **Examples of Vision Statement:**



#### **Vision Statement:**

"To be Malaysia's leading new generation communications provider, embracing customer needs through innovation and execution excellence"



#### **Vision Statement:**

"To be a Leading Oil and Gas Multinational of Choice"

**Vision statement:** To be the largest low cost airline in Asia and serving the 3 billion people who are currently underserved with poor connectivity and high fares.

#### Mission statements

The question, "What is our business?". The mission statement will identify the boundaries of the current business and highlights:

- ✓ Present products and services
- ✓ Types of customers served
- √ Geographic coverage
- ✓ Conveys Who we are, What we do, and Why we are here

The mission statement of an organization translates the vision of the organization closer to reality. It is also defines the basic reason for the purpose for setting up the business and legitimizes its existence in society. The mission statement should describe the firm's products, market and technology. A well-conceived mission statement *distinguishes* a company's

business makeup from that of other profit-seeking enterprises in language specific enough to give the company its own identify!

#### **Examples of Mission Statement:**



- Strive towards customer service excellence and operational efficiency.
- Enrich customer lifestyle and experience by providing innovative new generation services.
- ❖ Improve the performance of our business customers by providing high value information and communication solutions.
- ❖ Deliver value for stakeholders by generating shareholder value and supporting Malaysia's growth and development.



#### **Mission Statement:**

- ✓ We are a business entity.
- ✓ Petroleum is our core business.
- ✓ Our primary responsibility is to develop and add value to this national resource.
- ✓ Our objective is to contribute to the well-being of the people and the nation.



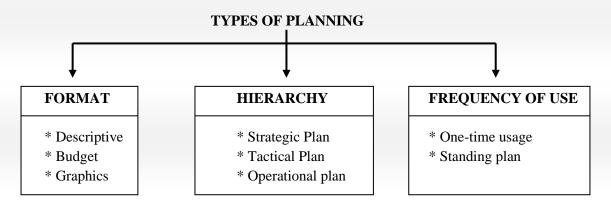
#### **Mission Statement:**

- ✓ To be the best company to work for whereby employees are treated as part of a big family.
- ✓ Create a globally recognized ASEAN brand.
- ✓ To attain the lowest cost so that everyone can fly with AirAsia.
- ✓ Maintain the highest quality product, embracing technology to reduce cost and enhance service levels.

# 3.3 TYPES OF PLANNING

Planning can consist of several types, in several forms and size. Dessler, (2001) categorized planning into three main dimensions which are planning based on *format*, *organization hierarchy* and *frequency of used*. Figure 3.2 summarizes the types of planning.

Figure 3.2: Types of Planning



#### 3.3.1 Planning Based on Format

Planning differs from the aspect of format or the way it is presented. The different in presented can be in:

- i) Descriptive planning: planning is written in the form of statements that state what needs to be achieved and how it is achievable. Example, the proposal for event management.
- ii) **Budget planning**: planning that is stated in the form of financial statement. Plan is stated quantitatively by using financial terms, example, income statement.
- iii) *Graphics*: planning that explains what needs to be achieved and how to achieve it in the form of charts. Example, the Gantt chart that illustrates the time period of the activity.

#### 3.3.2 Planning Based on Organizational Hierarchy

The different types of planning, refer to the management hierarchy in an organization. There are three levels in an organization – top management, middle management, and lower management. Figure 3.3, describe types of plan based on organizational hierarchy.

Figure 3.3 Planning Based on Organizational Hierarchy

Organization Hierarchy	Types of Planning	Description
Top-level management	Strategic Plan	<ul> <li>✓ Involve setting long-term goals and objectives for an organizational survival (plan for entire organization).</li> <li>✓ This plan usually encompasses a long period of time for a period of two to five years in the future.</li> <li>✓ Top managers will responsible to establish this plan.</li> <li>✓ The plan should selecting suitable actions to allocate organizational resources in order to achieve goals.</li> </ul>
Middle-level management	Tactical Plan	<ul> <li>✓ It explains how an organization will distribute and used the resources; design the rules and procedures in an organization in order to achieve the objectives that have been determined.</li> <li>✓ Usually involves a moderate time period between six months to two years.</li> <li>✓ This plan is prepared and implemented by the middle managers.</li> </ul>
Lower-level management	Operational Plan	<ul> <li>✓ It is the daily planning which is prepared and implemented by the lower or first-line managers.</li> <li>✓ Normally this planning will explain the production and distribution of products for a period of thirty days to six months.</li> </ul>

#### 3.3.3 Planning Based on Frequency of Use

Some planning is used for once only, whereas some are used repeatedly. There are two types of this planning: once. It implementation of activities to overcome complex problems. It is specifically prepared to fulfill specific purposes, example the proposal to opening of a new branch. Even though the organization may open more than one branch, but each plan (the proposal) will only be applicable to that specific branch only, because each branch have different resources, customers' distribution, size area, etc. One-time usage can be divided into three types:

PROGRAMME	PROJECT	BUDGET
The programme intermediate planning which involves a set of bigger activities.  Involves determining steps to be taken, and period for each steps.	<ul> <li>✓ Project involves the planning of smaller divisions and is differentiated from programme.</li> <li>✓ It usually covers a limited scope and has different instructions in terms of assignments, determination of tasks, and time frame.</li> <li>✓ Example, the North-South Highway construction project.</li> </ul>	✓ A statement that shows the financial resources allocated for specific activities that will be conducted in a certain period of time.

ii) **Standing plan:** planning is repeatedly used. It used to manage situations that frequently arise in an organization, such as employees' disciplinary problems. There are three types of standing plan:

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#### **PROCEDURE**

#### REGULATIONS

- Refer to the general guideline to manage a situation.
- The guideline in the policy lists the limits of decision making – however manager can use their own judgment in making a decision.
- Example: the local banks' policy of approving a customer's housing loan on condition that the customer has fulfilled the stipulated terms and condition.
- Refers to the actions or process that must be taken if a certain situation arises.
- It is more specific compared to policy.
- A set of comprehensive instructions to perform sequences that are conducted repeatedly.
- Example: Procedure in applying for housing loans.

- Refer to the specific guideline when taking an action.
- Regulation is normally more specific compared to procedures.
- Example: No smoking in a public area, no talking or eating in the library a fine will be imposed if these rules are not followed.

#### **Example:**

Syarikat Suria Sdn Bhd had determined the **policy** that employees are responsible to ensure that every product sold, to customers is in good condition. For any damaged product sold, customers can claim compensation from the company. However, before the claim is paid, there are several **procedures** that must be complied with. First, they need to record the departmental manager for the payment of compensation. However, the **regulations** state that any report on the damage must be made within a period of 30 days from date of purchase.



#### THE PLANNING PROCESS

Planning is one of the primary managerial duties. Managers need to form a specific process of planning. Here are the process of planning occur:

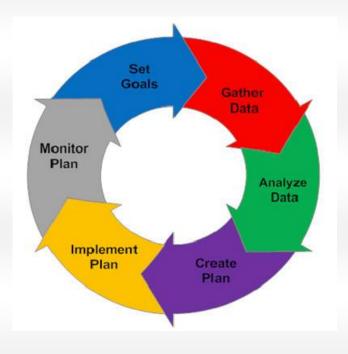


Figure 3.4 Process of Planning

#### Checkpoint 3.1

#### Structure questions.

- 1. Define the term of planning.
- 2. Discuss two importance of planning in an organization.
- 3. Describe the different types of planning based on organization level.
- 4. Explain about S.M.A.R.T goal elements.
- 5. List the planning process.

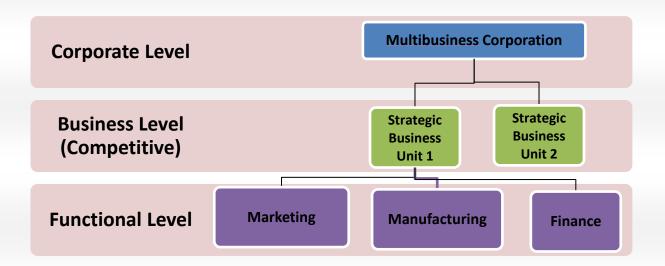
## 3.5 THE ORGANIZATION STRATEGY

**A strategy** is a comprehensive plan guiding resources allocation to achieve long-term organization goals (Robbins & DeCenzo;2008). Strategy also refer on the plans of how the organization will do, what it's in business to do, how it will compete successfully, and how it will attract its customers in order to achieve its goals (Robbins;2011). Strategies don't just happen; they must be developed and then be well implemented.

#### 3.5.1 Level Of Organization Strategy

There are generally three levels of organizational strategy: *corporate strategy*, *business strategy* and *functional strategy*. Its' used depends on the size of an organization. Yet corporate strategy is only available in large -sized organizations.

Figure 3.5 Levels of Organization Strategy



#### i. Corporate Level Strategy

The purpose of corporate strategy is to set lomg-terms direction, allocate and guide resources for the entire organization. It is also a strategy for sustainable competitive advantage. For large and complex organizations, it identifies how to compete across multiple industries and markets. Example, General Electric Corp (GE), owns over 100 businesses in a wide variety of areas, including aircraft engines, appliances, capital services, medical systems, broadcasting, and power systems. Typical strategies decisions for GE at the corporate level relate to things to sustain the business organization.

#### ii. <u>Business (Competitive) Level Strategy</u>

Business strategy used to identifies how a division or strategies business unit will compete in its product or service domain. It is the strategy for a single business unit or product line. In single-product enterprises, business strategy is the corporate strategy. For small and medium size organization, typical decisions include choices about product or service mix, facilities locations, and new technologies. But in large conglomerates such as GE, a variety of business strategies will be followed. The term **strategies business unit** (SBU) is often used to describe a business firm that is part of a larger enterprise, each SBU will have its own business strategy.

#### iii. Functional Level Strategy

This strategy guides the use of organizational resources to implement business strategy. A functional strategy guides activities within one specific area of operations such as marketing, financial, manufacturing, and human resources.

#### 3.5.2 <u>Types of Management Strategy</u>

The types of management strategy are related with level of strategies used in an organization.

#### i. **Grand Strategy**

Grand strategy is under *corporate strategy*. In this strategy there are four most primary strategies are available – *growth, stability, retrenchment,* and *combination strategies*.

- a) **Growth Strategy** a strategy in which an organization attempts to increase the level of organization's current operations. Growth can take the form of more sales revenues, more employees, or more share markets. Many "growth" organizations achieve this objective through:
  - ✓ **Direct expansion** involves increasing company size, revenues, operations, or worker. This effort is internally focused and does not involve other firms. Growth strategies seek an expansion of current operations. Example, Wal-Mart entered the grocery store business with its supercenters; the company was exhibiting a growth strategy by expanding its operations to include food distribution.
  - ✓ Merger occurs when two companies usually of similar size, combine their resources to form a new company.
  - ✓ Acquisition occurs when a larger company buys a smaller one and incorporates the acquired company's operations into its own. Example, PepsiCo purchasing Quaker Oats. This acquisition demonstrates a growth strategy whereby companies expand through diversification strategy growth occurs through acquisition of or investment in new and different business areas.

Growth strategies also involves the strategies actions of:

- ✓ Concentration: expansion is in the same business area.
- ✓ **Vertical Integration**: means that the organization is gaining control or ownership of the distributors/retailers. It is also means that the organization is gaining control or ownership of the organization`s suppliers.
- ✓ Horizontal Integration: means that the organization is seeking ownership or control over the competing organization in the industry.
- ✓ **Diversification**: refers to business activities of diversification in new but related product or service areas.
- b) Stability Strategy a stability strategy is best known for what it is not. Is characterized by an absence of significant changes means that an organization continues to serve it is same market and customers while maintaining its market share. Example, Kellogg does use the stability strategy very well intent on exploiting its unique niche, has not moved far from its breakfast food market emphasis. The stability strategy most appropriate when several conditions exist:
  - ✓ A stable and unchanging environment.
  - ✓ Satisfactory organizational performance.
  - ✓ A presence of valuable strengths and absence of critical weaknesses.
  - ✓ Non-significant opportunities and threats.
- c) Retrenchment Strategy a strategy characteristic of a company that is reducing its size, usually in an environment of decline. It is pursue radical changes to solve problems. Because of technological change, mergers, and acquisition growth and

stability strategies may no longer be viable for some companies.

d) Combination Strategy – is the simultaneous pursuit of two or more of growth, stability and retrenchment strategies. Example, Procter & Gamble sold off its Jif and Crisco brands in 2002 to J.M. Smucker. Procter & Gamble was better able to concentrate on its growth strategy of consumer brand market.

#### ii. Business or Competitive Strategy

Subsequently, each unit within the organization has to translate this strategy into a set of strategies that will give the organization a competitive advantage. *Competitive advantage* refers to an organizational strategy to determine how an organization will compete in its business. While *competitive advantage* refer on what sets an organization apart; its distinctive edge between its competitors whether in terms of product quality, production savings, product uniqueness or product durability. For example, I-Phone product maintains the security features of its product compared to other mobile phone.

#### Five Forces Porter's Strategy

This strategy model has suggested by Michael Porter for industry analysis that business-level strategies originate in five primary competitive forces in the firm's environment (refer Figure 3.6):

a) **Threats of potential new entrants** - new competitors can affect an industry almost overnight, taking away customers from existing organization.

- b) Bargaining power of supplier some companies are readily able to switch suppliers in order to get components or services, but others are not.
- c) **Bargaining power of buyer** customer who buy a lot of products or services from an organization have more bargaining power than those who do not.
- d) Threats of substitute products or services an organization is in better position to switch to other products or service when circumstances threaten their usual channels. Example: oil companies might worry that Brazil is close to becoming energy self-sufficient because it is able to meet its growing demand for vehicle fuel by substituting ethanol derived from sugar cane for petroleum.
- e) **Rivalry among competitors** the preceding four forces influence that fifth forces, rivalry among competitors.

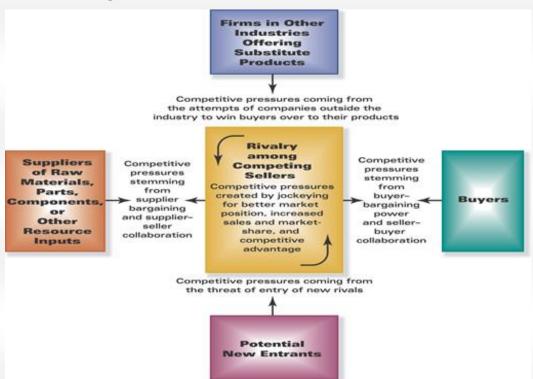


Figure 3.6 The Porter Five Forces Model

#### **Generic Competitive Strategies**

Other model proposed by Michael Porter is Four Generic Strategies is also called **Porter's four competitive strategies** is a strategy to position an organization in such a way that it will have a distinct advantage over its competition. The strategies are: cost-leadership, differentiation, cost-focus, and focus-differentiation.

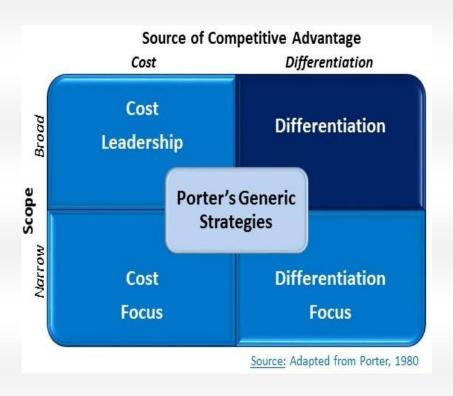
The first two strategies focus on *wide* markets, the last two on *narrow* markets.

- a) Cost-leadership strategy (keeping costs & price low for a wide market) the strategy an organization follows when it wants to be the lowest cost producer in its industry. In addition, the product or service being offered must be perceived as comparable to that offered by rivals or at least acceptable to buyers. Cost-leadership compared with the competitors means efficiency of operations, economies of scale, technological innovation, low-cost labor, or preferential access to raw materials. Example, Wal-Mart, Texas Instruments, and Southwest Airlines.
- b) Differentiation strategy (offering unique & superior value for a wide) the strategy an organization follows when it wants to be unique in its industry within a broad market. It might emphasize high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. The attribute chosen must be different from those offered by rivals and significant enough to justify a price premium that exceeds the cost differentiating. There is no shortage of firms that have found at least one attribute that allows them to differentiate themselves from competitors –

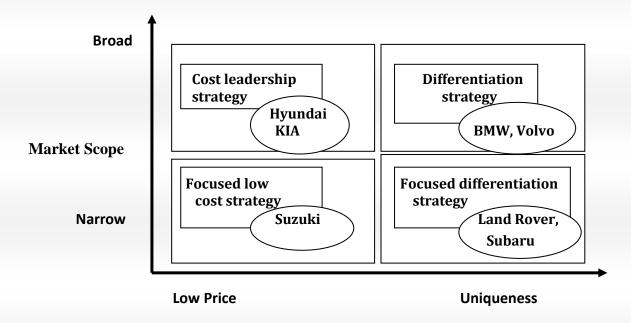
Intel (technology), Mary Kay Cosmetics (distribution), L.L. Bean (service).

- c) Cost-focus strategy (keeping costs & price low for a narrow market) – is to keep the costs and hence prices, of a product or service below those of competitors and to target a narrow market. This strategy often see executed with low-end products sold in discount stores such as regional gas station.
- d) Focus-differentiation strategy (offering unique & superior value for a narrow market) is to offer products or services that are of unique and superior value compared to those of competitors and to target a narrow market. Some luxury cars are so expensive such as Rolls-Royce, Ferrari, Lamborghini that only a few car buyers afford them.

Figure 3.7 Porter's Generic Strategies



#### Example of Porter's Generic Strategies Framework: motor vehicle industry



**Source of Competitive Advantage** 

#### **Product Life Cycle**

A product life cycle is a model that graphs the four stages that a product or services goes through during the "life" of its marketability: (i) introduction, (ii) growth, (iii) maturity, and (iv) decline.

#### Stage 1: Introduction – getting the product to market

- ✓ The stage where the product life cycle in which a new product is introduced into the marketplace.
- ✓ This is the heavy on start-up costs for production, marketing, and distribution. Managers have to concentrate on building inventory and staff without loss of quality.
- $\checkmark$  There is also the huge risk that the product may be rejected.

#### Stage 2: Growth - demand increases

✓ The stage which is the most profitable stage because of the period in which customer demand increases, the product's sales grow, and (later) competitors may enter the market.

✓ At the start, the product may have the marketplace to itself and demand for it may be high. Managers need to worry about getting sufficient product into the distribution pipeline, maintaining quality, and expanding the sales and distribution effort.

#### Stage 3: Maturity - growth sales

- ✓ The stage is the period in which the product starts to fall out of
  favor and sales and profits to fall off.
- ✓ Sales start to decline as competition makes inroads.
- ✓ Managers need to concentrate on reducing costs and instituting efficiencies to maintain the product's profitability.

#### Stage 4: Decline - withdrawing from the market

- ✓ The stage is the period in which the product falls out of favor and the organization withdraws from the marketplace.
- ✓ The product falls out of favor, and managers sound the bugle for retreat, scaling down relevant inventory, supplies, and personnel.
- ✓ While this stage may mean withdrawal of support for the old product, it does not necessarily mean a complete shutdown for the organization.
- ✓ Much of the same expertise will be required to support new products.

Figure 3.8 The Product Life Cycle

Stage 1: Introduction	Stage 2: Growth	Stage 3: Maturity	Stage 4: Decline
Introduction	Growth	Maturity	Decline

Which strategy management chooses depends on the organization's strengths and its competitors' weaknesses. Management should avoid a position in which it has to slug it out with everybody in the industry.

#### **Checkpoint 3.2**

#### Structure questions.

- 1. Grand strategy is under corporate strategy that can be use in different situation. Explain each of Grand Strategy.
- 2. Discuss five forces strategy used in Porter's strategy model.
- 3. Illustrate the product life cycle to understand the product or service marketability.

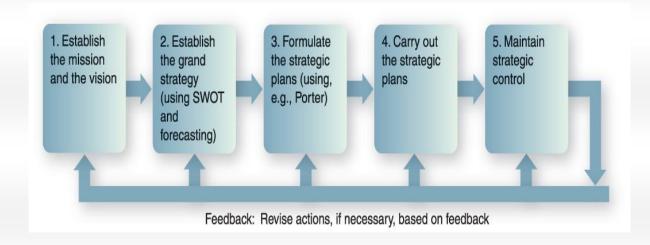
### 3.6

#### **STRATEGY MANAGEMENT PROCESS**

**Strategy Management** is the process of setting the goals, formulating, implementing and evaluating the strategies to accomplish long-term goals and sustain competitive advantage.

There are five steps to the strategic management process: *establish the mission and vision, establish the grand strategy, formulate strategic plans, carry out the plans,* and *maintain strategic control*. Refer to Figure 3.9.

Figure 3.9 The Strategic Management Process



#### Step 1: Establish the Mission and Vision

A mission is the organization's purpose or reason for being. A vision is a long term goal describing what it wants to become. It described long-term direction and strategic intent. To have good strategic management, an organization needs to get feedback their current vision and mission is in line with the needs of the environment.

#### Step 2: Establish the Grand Strategy (using SWOT & forecasting)

- ✓ Translate the broad mission and vision statements into a grand strategy. Grand strategy (had explain above) is making after an assessment of current organizational performance, and then explains how the organization's mission is to be accomplished.
- ✓ The current organization performance being assessed by using SWOT analysis or forecasting (will explain later) for purpose to match suitable strategy used.

#### **Step 3: Formulate the Strategy Plans**

✓ The grand strategy must be translated into more specific strategic plans. Strategy formulation is the process of choosing

- among different strategies and altering them to best fit the organization's needs.
- ✓ Because the process is so important, formulating strategic plan
  is a time-consuming process.
- ✓ Also formulate business strategy such as *Porter's Competitive*Forces, Porter's Generic Strategies, and Product life Cycle.

#### Step 4: Carry Out the Strategic Plans

- ✓ Putting strategic plans into effect is *strategy implementation*.
- ✓ Top management need to check on possible roadblocks within the organization's structure and culture and see if the right people and control systems are available to execute the plans.

#### Step 5: Maintain Strategic Control

- ✓ Strategic control consists of monitoring the execution of strategy and making adjustments, if necessary.
- ✓ To keep strategic plan on track, managers need control systems to monitor progress and take corrective action early and rapidly when things start to go away.
- ✓ Correction action constitutes a feedback loop in which a problem requires that managers return to an earlier step to rethink policies, redo budgets, or revise personnel arrangements.
- ✓ To keep strategic plan on track, need to do the following:
  - Engage people actively engage people in clarifying what your group hopes to accomplish and how you will accomplish it.
  - Keep it simple keep your planning simple, unless there's a good reason to make it more complex.
  - Stay focused stay focused on the important things.
  - Keep moving keep moving your vision of the future, adjusting your plans as you learn what works.

## 3.7 SWOT ANALYSIS

A **SWOT analysis** *is environmental scanning, careful monitoring of an organization's internal and external environments to detect early signs of opportunities and threats that may influence the organization's plan.* SWOT analysis is an **internal analysis** of *organizational strengths and weaknesses* as well as the **external analysis** of *environment opportunities and threats* (Refer to Figure 3.10).

#### <u>Organizational Strengths and Weaknesses (SW = Internal analysis)</u>

- ✓ A SWOT analysis begins with a systematic evaluation of the organization's resources and capabilities its basic *strengths and weaknesses of an organization*.
- ✓ Organization strengths (S) you can think of this as an analysis of organization capacity to achieve its objectives. Also called identify core competencies – is a special strength that gives an organization competitive advantage.
- ✓ Organization weaknesses (W) the goal is to identify things that inhibit performance and hold the organization back form full accomplishing its objectives. When weaknesses are identified plans can be set to eliminate, reduce or corrected. Examples lack of capital, shortage of workers, outdated of product, or poor technology.

#### <u>Organizational Opportunities And Threats (OT = External analysis)</u>

- ✓ Organization opportunities (O) may exist as possible new markets, a strong economy, weaknesses in competitors, and emerging technologies. It's related with positive external environmental factors.
- ✓ Organization threats (T) may be such things as the emergence of new competitors, resource scarcities, changing customer tastes, new government regulations, and a weak economy. It's related with negative external environmental factors.

Figure 4.10 SWOT Analysis of Strengths, Weaknesses, Opportunities and Threats.

#### **INSIDE MATTERS—analysis of internal Strengths & Weaknesses** S-Strengths: inside matters W—Weaknesses: inside matters Strengths could be work processes, Weaknesses could be in the same organization, culture, staff, product quality, categories as stated for Strengths: work processes, organization, culture, etc. production capacity, image, financial resources & requirements, service levels, other internal matters O—Opportunities: outside matters T—Threats: outside matters Opportunities could be market segment Threats could be in the same categories analysis, industry & competition analysis, as stated for Opportunities: market impact of technology on organization, segment analysis, etc. product analysis, governmental impacts, other external matters **OUTSIDE MATTERS—analysis of external Opportunities & Threats**

#### **Checkpoint 3.3**

#### TRUE/ FALSE questions:

- 4. Strategic management is the set of managerial decisions and actions that determines the short-term performance of an organization.
- 5. The first step in the strategic management process is analyzing the external environment.
- 6. SWOT analysis includes an analysis of an organization's environmental opportunities and threats
- 7. According to Porter's competitive strategies framework, the cost-leadership strategy would result in the best quality product at a justifiable cost.



#### **ACTIVITY**

Select one organization you familiar. Identify types of planning used in that organization.

#### **KEY TERM**

Planning Vision

Mission Descriptive planning

Budget planning One-time usage plan

Standing plan Policy

**Procedure** Regulations

**Strategy Management** 

**Growth strategy Stability strategy** 

**Retrenchment Strategy** Competitive advantage

**Cost-leadership strategy Differentiation strategy** 

#### **SUMMARY**

- Planning is one of the management functions that play the role to setting the organization's vision, goal, and objectives; creating the strategies and selecting the best strategy before can be apply.
- Planning can form in two formal and informal planning both forms used in an organization. Both forms have their own functions even formal planning is recognized.
- The vision and mission statement are different concepts. The vision is about the long-term goals need to achieve by organization. Vision can be display in form of goal and objective. While the mission is the action taken in strategy plans.
- Dessler, (2001) sated that planning can be categorized into three main dimensions which are planning based on format, organization hierarchy and frequency of used.
- Process of planning occur with set the goal, gather data, analyze the data, create the plan, implement the plan, and monitor the plan to assess the success.
- Strategy is the elements under planning. The categories of strategy are corporate level, business level, and functional level in an organization. But the use between corporate and business strategy are depends on size and activity of organization.
- Strategy Management is the process of setting the goals, formulating, implementing, and evaluating the strategies to accomplish long-term goals and sustain competitive advantage.



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Chapter 4

## **FOUNDATION OF DECISION MAKING**

#### **LEARNING OUTCOMES**

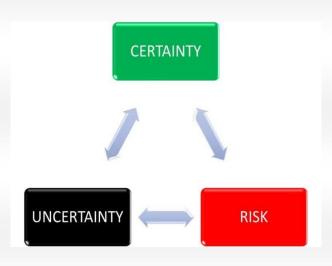
By the end of topic, you should be able to:

- 1. Explain the decision-making environment.
- 2. Explain the decision-making model: Rational model and the bounded rationality model.
- 3. Describe the steps in the decision-making process.
- 4. Describe types of decision-making with types of problems.
- 5. Describe four personal decision-making styles.
- 6. Discuss the techniques for improving group decision making

# 4.1 INTRODUCTION

Decision making is defined as a process to identify problems, generate alternative solutions, select the best solution available and implement them. In other words, it is a process of selecting a solution from a few available alternatives. A good decision is not influenced by the experience, efficiency and skills of the decision maker but also the adequacy and validity of the information obtained that are related to the business environment. The information can help us in making a forecast on situations that will occur in the future.

## **DECISION MAKING ENVIRONMENT**



Generally, there are three information situations in the process of decision making, that will create three decision making environments or situations: *certainty, uncertainty,* and *risky*.

- decision making in Certainty Condition in this situation the decision maker or manager obtains the complete information in order to facilitate his/her decision making. Decision maker able to predict with certainty what situations will occur in the future. In this situation managerial decision making is assumed to be rational in that manager makes consistent, value-maximizing choice within specified constraints. The consequences of the actions under certainty condition are manager can make an accurate decision because the outcome of every alternative is known.
- **ii) Decision making in Uncertainty Condition** the situation, the decision maker or manager does not have any information or knowledge of the problem that would help in making decision uncertainty of the future and also cannot predict the results of each alternative decision made. Therefore, the decision maker has to use his experience and discretion to make a decision. When making

decisions in uncertainty conditions, manager needs to have a high propensity towards risk. Individual who have a high propensity towards risk dare to take risks in any decisions made? Since there is no information available to facilitate the decision making, it is important for the decision maker who operates in such situations to have higher propensity towards risk.

iii) Decision making in Risky Condition – Risk exist when the probability of an action being successful is less than 100 percent. Risky conditions refer to condition whereby managers would only be able to roughly predict the outcome of implementing the alternative due to limited knowledge and information. If the decision is wrong one, you may lose money, time, reputation or other important assets. Risk propensity refers to the tendency of a person to take or avoid risk. Most managers or decision makers have actually operated in these conditions. They have information but information is incomplete. Usually the situation can only be assumed to occur based on the information obtained and the percentage of probability that the situations will occur.

## 4.3

## THE DECISION MAKING PROCESS

Although decision making seems simple, however, to ensure that the decision made is the best. Especially for an organization need to have proper decision making to reduce any costs and achieve the objectives. There are two types of decision making process model: *Rational decision making model and bounded rationality decision making model.* 

## 4.3.1 RATIONAL DECISION MAKING MODEL

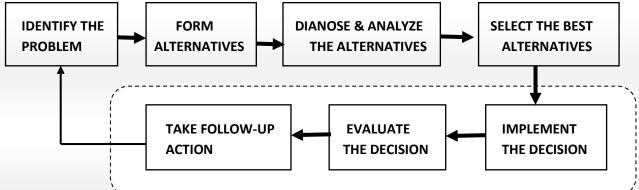
Also called *classical model*. The decision that has to be based on facts, opinions and reasons. Systematic evaluations have to be conducted in the overall process of decision making. Rational decision making can be defined as a systematic process of defining problems, evaluating decision alternatives and selecting the best alternative decisions available.

## Rational Decision Making Process:

According to Robbins and Decenzo (2002), the decision making processes can be divided into seven steps that be specificed in five, as follows in Figure 4.1.

**IDENTIFY THE FORM DIANOSE & ANALYZE PROBLEM ALTERNATIVES** THE ALTERNATIVES

Figure 4.1 The Rational Decision-Making Process



## **Step 1:** Defining the problems

The stage where managers aware that problem exits or the sources of the problems. Problem means the difference between the actual and desired state of affairs. Problem identification is a subjective. Managers have to make a comparison between their current state of affairs and some standard (Standard – set of level achievement).

## **Step 2:** Forms alternatives

Organizing alternatives is a process of listing suitable and unsuitable alternatives. This process may be conducted subjectively, objectively, or a combination of both. Usually managers will select the alternative which maximizes the organization's long term returns. Development of alternatives can also often be helped by brainstorming (refer 4.6.3).

## Step 3: Analyze alternatives

Evaluation will be based on the strengths and weaknesses of each alternative. The evaluation process becomes difficult when managers are faced with uncertainty conditions. There are four factors that must be considered in evaluating alternatives.

- (a) Authority factor the top level management might have established and informed certain alternatives that should be used by the lower level management as top level management has the right and authority in selecting the best alternatives for the organization.
- (b) Biological factor human factors in organization may be an alternative to make decisions.
- (c) Technological factor physical facilities in the organization such as machinery may be suitable for selecting the alternative.
- (d) *Economic factor* used as an alternative by managers if the organization can bear the implementation costs of the alternative.

## **Step 4:** Select the best alternative

The effectiveness of each alternative is measured based on two criteria:

- (a) Alternative realistic based on the organization's information and resources.
- (b) The alternatives can solve the existing problems based on time period.

Each alternative should be evaluated systematically according to six criteria outline:

- (a) Feasibility the extent to which an alternative can be accomplished within the organizational constraints, such as time, budget, technology and policies. Those not meeting the criteria will be eliminated.
- (b) *Quality* how effective the quality criterions from the various alternatives are fulfilled.
- (c) Acceptability the degree to which decision-makers are affected by the implementation of an alternative.
- (d) *Cost* the resources levels required and the extent to which alternatives may have undesirable side effects.
- (e) Reversibility the extent to which an alternative and be reversed.
- (f) *Ethics* how compatible an alternative is with the organizational social responsibility and manager's ethical standards.

## <u>Step 5, 6, 7: Implement a Decision, Perform Evaluation & Take Follow-up Action</u>

The implementation of a decision not only involves giving instructions to employees or subordinates, but also involves giving allocating resources (raw material and cash), duties, and time. Managers must set a budget or schedule that has been approved by the decision maker prior to this. This will enable them to measure the progress of the implementation.

In the evaluation stage of the decision process, decision makers or managers gather information that tells them how well the decision was implemented and whether it was effective in achieving its goals. Example, the evaluation of feedback on a decision to open more computer centers revealed poor sales performance. Feedback indicated that the implementation would be unsuccessful and so computer centers were closed and another approach was tried.

Feedback is important because decision making is a continuous, neverending process. Decision making is not completed when executives or a board of directors vote or not. Feedback provides decision-makers with information that can precipitate a new decision cycle.

## **Limitation In Rational Decision Making**

Based on William (2000), generally the limitation process of decision making can be divided into three categories.

- (a) Common mistakes in decision making managers cannot make rational decisions as they are sometimes influenced by intuition and biases, usually happens with an experienced manager. This situation may occur because the issue that needs to be resolved is similar to a previous situation that had happened. So they tendency to neglect information from the data available.
- (b) Bounded rationality mean that the manager tries to adopt the rational approach in decision making but is obstructed by certain limitations such as limited resources, lack of information and the capacity to analyze.
- (c) Risky environment some managers might make decisions in a risky environment. Means that the manager has information to assist in his decision making even though the information obtained is not complete.



## **BOUNDED RATIONALTY DECISION**

**Bounded rationality** – refer to the behavior that is rational within the parameters of a simplified model that captures the essential features of a problem. Means, that the manager tries to adopt the rational approach in decision making but is obstructed by certain limitations such as limited resources, lack of information and the capacity to analyze. Due to bounded rationality decision making, decision makers need to have "satisfice" with the existing alternatives for decision making. Also called *Administrative Model* or *Behavioral Decision Model*. Commonly used by managers when occur with the obstruction in decision making.

There are **four problems** that obstruct managers from making rational decision:

- ✓ Limited resources resources consist time, money, equipment and manpower. Resources are limited and can influence decision making.
- ✓ Excessive additional information advancement in technology has caused information dumping to happen. Some information can be obtained but at the same time can cause problems to the manager.
- ✓ Memory problems it can cause difficulties for the manager. Even though information is usually recorded, sometimes information is also overlooked or unrecorded.
- ✓ Expertise problems expertise problems cause the decision maker to encounter problems in arranging, understanding and summarizing the information available. This is because there no individual is an expert in every sector. Although the information can be analyzed by computer, the decision maker will still require specific skills to understand the results that have been obtained.



## **TYPES OF DECISION MAKING**

Types of decision making usually related with types of problem and how managers face in decision by determine types of problem, as show in the Figure 4.2.

There are two **types of problem** which:

- i) Well-Structured Problems the problem are straightforward, familiar, easily defined problems and information is complete. Example, the decision on disciplinary actions to employee misconduct.
- ii) Ill-Structured Problems the problem is a new problem. The information about the problem is ambiguous or incomplete. Example, decision to enter new segment or merger with other company.

There are two **types of decision** determine by types of problem:

- i) Programmed Decision or Routine
  - ✓ The decisions are made based on the set of policies, rules and procedures.
  - ✓ A repetitive decision that can be handled by a routine approach.
  - ✓ Decision making is the most efficient way to handle well structured problems.
  - ✓ The decision is useful for lower-level managers in solving normal or routine problems related to rules, policies or existing plans.
  - ✓ Example: when handling customer complaints, managers must refer to established organizational policies before making a decision. This would occur a lot of time and costs.

## ii) Non-programmed Decisions

- ✓ Decisions are used to solve unique and nonrecurring problems.
- ✓ Usually used by managers when face with ill-structured problems.
- ✓ The decision is different from previous organization decision because the issue is new and usually cannot be based on organizational policies.
- ✓ This decision highly used by top-line managers to solve complicated and complex problems.
- ✓ Example, how to allocate resources efficiently, what needs to be done to products that fail in the market, and how to increase the efficiency of the customer service department.

Figure 4.2 Types of Problem, Types of Decision, and Level in the Organization

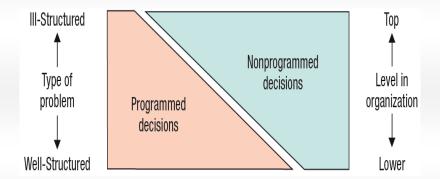


Figure 4.2 above showed the relationship between types of problem, types of decision and level in organization. Well-structured problems are responded to with programmed decision making and ill-structured problem more required to non-programmed decision making. Lower level managers face with familiar and repetitive problem, so they rely on programmed decision such as standard operating procedures. As managers move up the organizational hierarchy, they confront with ill-structured problem. Lower managers will pass upward if they fine the problem is unique and difficult. Upper managers will pass down to their lower managers for routine decisions.

## **Checkpoint 4.1**

#### Choose the BEST answer.

- 1. Decision making is typically described as \_\_\_\_\_, which is a view that is too simplistic.
  - a. deciding what is correct
  - b. choosing among alternatives
  - c. processing information to completion
- 2. Decision making is typically described as \_\_\_\_\_, which is a view that is too simplistic.
  - a. deciding what is correct
  - b. putting preferences on paper
  - c. choosing among alternatives
- 3. \_\_\_\_\_\_ is the existence of a discrepancy between an existing and a desired state of affairs.
  - a. An opportunity
  - d. A weakness
  - c. A problem
- 4. \_\_\_\_\_\_ is a situation in which a manager can make accurate decisions because the outcome of every alternative is known.
  - a. Certainty
  - b. Risk
  - c. Uncertainty
- 5. If an individual knows the price of three similar cars at different dealerships, he or she is operating under what type of decision-making condition?
  - a. risk
  - b. uncertainty
  - c. certainty

## 4.5

## PERSONAL DECISION MAKING STYLES

Every decision maker or managers brings a unique set of personal characteristics to his or her problem-solving effort. As a result of this information, researchers have sought to identify different types of personal decision making styles. The basic premise for this decision-making model is the realization that individuals differ along two dimensions.

## First dimension: **the way they think**:

- ✓ Some decision maker is *logical and rational*; they process information in a sequential manner.
- ✓ Some are *thinks creatively and use intuitio*; decision maker have tendency to see matters from a big-picture perspective.

## Second dimension: focuses on individuals' tolerance for ambiguity:

- ✓ Some individuals have a high need for consistency and order in making decision, so that ambiguity is minimized.
- ✓ Others are able to tolerate high levels of uncertainty and can process many thoughts at the same time.

From the explanation above (refer in Figure 4.3 below), the two dimensions that are create four styles of decision making: *directive*, *analytic*, *conceptual*, and *behavioral*.

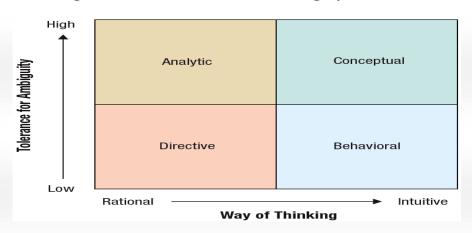


Figure 4.3 Personal Decision-Making Styles

- characterized by low tolerance for ambiguity and a rational way of thinking. Directive style people are action oriented and they focus on facts. These individuals are logical and efficient and typically make fast decisions that focus on the short term.
- **ii) Analytical style** characterized by high tolerance for ambiguity combined with a rational way of thinking. These individuals prefer to have complete information before making a decision. As a result they consider many alternatives. These people take a longer time to decide and are extremely careful.
- iii) Conceptual style represent someone who tends to be broad in outlook and to look at many alternatives. These decision makers tend to focus on the long run and often look for creative solution. Before taking any course of actions, conceptual people tend to get into long discussions with others and are risk takers.
- iv) Behavioral style reflects an individual who thinks intuitively but has a low tolerance for uncertainty. This style is the opposite of the directive group. These decision makers work well with others, are open to suggestions, and are concerned about the individuals who work for them.



## **CRITERIA OF GOOD DECISION**

The various model of decision making highlights the fact that it is an extremely complex process. As decisions are made under different time pressures and uncertainties following criteria for evaluating the decision may be used:

- i) The decision is *high quality* in resolving problem or opportunity at hand.
- ii) The decision is timely.
- iii) The decision is *understood* by those who have to implement it.
- iv) The decision has the *commitment* of those who have to implement it.

## 4.7

## **GROUP DECISION MAKING TECHNIQUE**

Being a manager, you probably have the option of either making decision on your own or to consult others. Group decision making means that making decision through the involvement of others. The following methods are normally used in group decision making. Generally there are several main methods that a group uses to generate:

- i) Brainstorming is a technique that encourages the generating maximum possible alternatives for new ideas without criticism. This encourages creative thinking. The process whereby every member provides his ideas and the best ideas will be selected to help the decision-making process. A group brainstorming activity that is effective usually consists of five to twelve people.
- **ii) Nominal group technique** group technique is a method of decision making whereby group members propose and evaluate their ideas individually before sharing them with the other group

members. Members will read out their ideas to everyone in the group for sharing.

- **iii) Delphi technique** Delphi technique is a decision making methods where a panel that consists of several experts will answer questions and work together until a solution is reached for a specific issue. This technique does not require the panel members to meet face to face. They might interact by mail, e-mail and others.
- iv) E-meeting (electronic meeting) group meeting using information technology to conduct meeting and make group decisions such as using intranet, internet or video conferencing.

## **Checkpoint 4.2**

#### State TRUE or FLASE on the statement below.

- 1. People who have a low tolerance for ambiguity and are rational in their way of thinking are said to have a directive style.
- 2. Decision makers with an analytic style have a much lower tolerance for ambiguity than do directive types.
- 3. Individuals with a conceptual style tend to be very broad in their outlook and will look at many alternatives.
- 4. Most managers have characteristics of analytic decision makers.
- 5. Nominal group technique, in which discussion is restricted during the decision-making process, allows individuals to operate independently.

### **KEY TERM**

Decision making Certainty condition

Uncertainty condition Risky condition

Rational decision-making Bounded rationality decision

Well-structured problems Ill-structured problems

Programmed decision Non-programmed decisions

Directive style Analytical style

Conceptual style Behavioral style

Nominal group technique Delphi technique

## **SUMMARY**

- Decision making is the process of identifying and choosing alternatives courses of action.
- Managers make decision based the environment condition such as certainty, uncertainty, and risky condition.
- Decision are of two types: programmed and nonprogrammed.
- Programmed decisions are repetitive and routine. While nonprogrammed decisions are occur under nanroutine or unfamiliar circumstances.
- The are four types of decision making styles: *directive*, *analytical*, *conceptual*, and *behavioral*.
- Decision making styles reflects on the combination on how the way individual think, and how individual focuses on tolerance for ambiguity.
- Two models managers follow in making decisions are *rational* and *non* rational or bounded rationality.
- Techniques in group decision making such as brainstorming, nominal technique, deplhi technique, and e-meeting technique.



## **REFERENCEES**

- 1. Robbins and DeCenzo. Fundamentals of Management; 2008, Prentice Hall, Inc.
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Chapter **5** 

## **BASIC ORGANIZATION STRUCTURE**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Explain the concepts in organization structure.
- 2. Describe the elements of organization structure.
- 3. Contrast mechanistic and organic organizations.
- 4. Discuss the contingency variables affecting structure
- 5. Organizing design application

## **5.1**

## **INTRODUCTION**

There are several terms need to understand before learn more about this topic.

- An organization means is a group of two or more individuals working together to achieve a common goal.
- Organization design defines as a process in which managers develop or change their organization structure.
- Organization structure is the basic form which makes up the skeleton of the organization, and shows allocation of formal responsibilities and linking roles and coordinating structures of the organization.
- Organizational chart is a graphic representation of formal authority and division of labor relationship which is actually an illustration of the organizational structure.
- Organizing is means to structure or arrange the relationship between people, the work to be done and the facilities so those goals are achieved.



# THE ELEMENTS OF ORGANIZATIONAL STRUCTURE

The basic concepts of organization design were formulated in the early 1900s. There were six basic main elements of structure: work specialization, chain of command, span of control, authority and responsibility, decision making, and departmentalization.

## 5.2.1 Work Specialization

Work specialization, a component of organization structure that involves having each discrete step of a job done by a different individual rather than having one individual do the whole job. In work specialization jobs have been broken down into number of steps and completely separated by an individual. Individuals specialize in doing part of an activity rather than the entire activities. Examples, in fast food chain restaurant such as Mc Donald where the each of the crew member perform specific task each time they make a Big Mac product.

The advantages of work specialization:

- Increase productivity of the organization.
- It is because it makes efficient use of the diversity of skills that worker hold. Some task requires highly developed skill and others can be performed by those who have lower skill level.
- It fosters specialization because it create simplified tasks that is are easily understood and completed very quickly.
- ♣ It is easy to assign task to individuals based upon their talents, interest and positions.
- Skill workers will be paid higher than unskilled workers because wages tend to reflect the highest level of skill.

The disadvantages of work specialization:

- ♣ The sense of control felt by managers will be different because of specialization.
- ➡ It will create dissatisfaction and boredom because of the routine and specialized task.

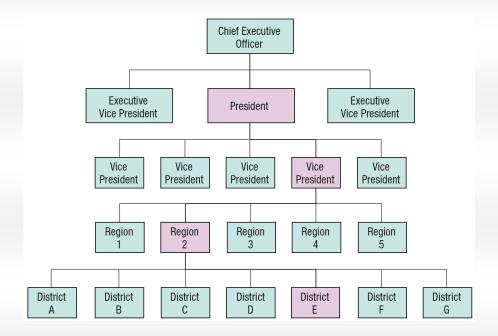
#### 5.2.2 Chain of Command

**Chain of command** is the continuous line of authority that extends from the highest level in an organization to the lowest levels and clarifies who report to whom. The chain of command explains who reports to whom in the said organization. Individuals in the top rectangles have authority over those in the lower rectangles, according to the lines that connect them. Individuals at the top have the right to give directives, take actions and make decisions on the work of individuals located below them. Individuals at the lower levels must report all aspects of their work to the people at the level above them according to the chain of command. (Refer Figure 5.1).

**Unity of command** refers to the management principle that no person should report to more than one boss. The advantages of effective delegation:

- ✓ An increasing of delegation, the more opportunity there is for managers to accepts increased responsibility.
- ✓ Leads to better decisions, since subordinates closest to the problem or task usually have the best view of the facts.
- ✓ Speed up decision making.

Figure 5.2 Chain of Command

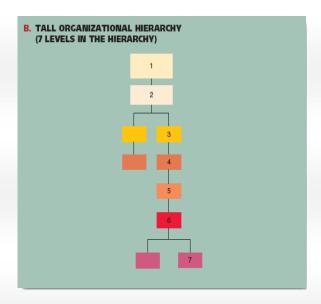


## **5.2.3** Span of Control (*Jangkauan kawalan*)

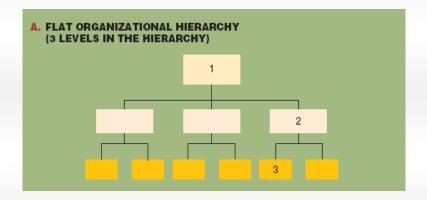
**Span of control** refers to the number of workers who report directly to a given manager or supervisor. In any organization, they can structure their organization according to (refer to Figure 5.3):-

- i) A flat(or wide) organization structure (characteristic):
  - (a) Reduces costs
  - (b) Expedites the decision-making process
  - (c) Increase creativity and flexibility
- ii) Narrow (or vertical) organization structure (characteristics):
  - (a) High cost of control will incur higher cost especially employees' salaries. These because of multiple level of management.
  - (b) Delay in decision making because have the tendency to refer their problems to upper management.
  - (c) Creativity among employees will be limited due to stringent control and lack of freedom given by management.

Figure 5.3: Narrow (Tall) Span of Control



Wide (Vertical) Span of Control



## **5.2.4** Authority and Responsibility

- Authority means the right to give directives, take actions and make decision related to activities to achieve the organization's objectives. (Figure 5.4). Authority is normally channeled from top to bottom, that is, to the lower management levels. This right exists based on the formal position in an organization.
- **Responsibility** is an obligation to perform assigned activities. Employees are given rights, and also obligation to perform. They

should be held accountable for that performance. Allocating authority without responsibility and accountability creates opportunities for abuse, and no one should be held responsible or accountable for something.

- **Power** is the individual's capacity to influence decisions. There are five types of power that exert influences and these work either singly or combination.
  - (a) Reward power (kuasa ganjaran) power that influences other by controlling things they want such as money, acceptance, praise, promotion, and status.
  - (b) Coercive power (kuasa paksaan) power that influences others by controlling experiences they find unpleasant or unwelcome such as pain, ridicule, penalty, rejection and denial of rewards.
  - (c) Legitimate power (kuasa sah) power that influences other by means of a position that tradition or society endows the right to influences, it is include formal positions such as that of presidents, general, or supervisor.
  - (d) Expert power (kuasa pakar) power that influences other through possession of knowledge, skills, that are useful to others'.
  - (e) Referent power (kuasa rujukan) power that influences by the possession of characteristics of traits others find attractive such as status, money, physical appearance, and fame.



A. Authority Chief Executive Officer Research and Human Accounting Marketing Production Development Resources B. Power Authority level The power core Human Accounting Resources Marketing Research and

Figure 5.4 Authority Versus Power

## The different types of authority relationship

There two forms of authority in an organization: *line authority* and *staff authority* (refer Figure 5.5)

Production

Function

Development

- ✓ **Line authority** the authority that entitles a manager to direct the core work of an employee. Which they responsible for the work of their unit and direct contribution to the objectives of the organization. The characteristics of line authority:
  - ✓ Pertains to superior-subordinate relationship
  - $\checkmark$  It is directly related to the objectives of the organization
  - ✓ Deal mainly with the exercise of authority along the channel of line authority
  - ✓ Designates a line manager

- ✓ **Staff authority** positions that have some authority but that are created to support, assist, and advise the holders of line authority. Each of the individuals or group plays a supporting role and contributes indirectly to the objectives of the organization. The characteristics:
  - ✓ It is indirectly related to the objectives of organization.
  - ✓ Deal mainly with the exercise of authority to a channel of line authority
  - ✓ Includes all unit that are not line.
  - ✓ Manager has a supporting role and aids the doer
  - ✓ Designates a staff manager

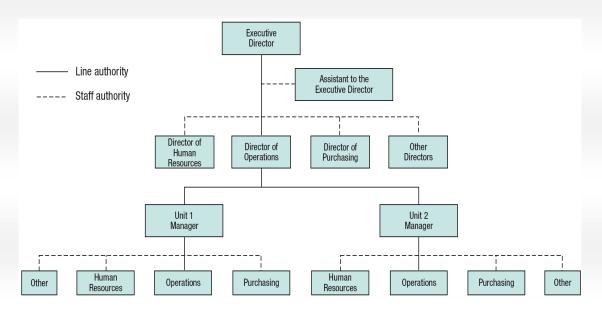


Figure 5.5 Line Versus Staff Authority

# 5.2.5 Centralization And Decentralization (pemusatan dan pemencaran)

**Centralization** – a function of how much decision making authority control by upper levels in an organization. It is also a situation where almost all decision control is centralized, making by one party. The more centralized an organization, the higher the level at which

decisions is made. Organizations that practice this method give authority to the managers to make decisions even through it is a trivial matter.

**Decentralization** – the pushing down of decision making authority to the lowest levels of an organization. It is also a situation where a certain amount of authority is handed down to subordinates or employees at the lower levels of an organization.

How far an organization needs to centralize or decentralize control depends on the situations faced by the organization. One of the sign that an organization has become too big is the increase in labor costs that are higher than other costs in the organization. Hence, increasing centralization in certain activities can help to reduce the need for manpower, which will also reduce the cost of labor to a much acceptable level. If organization are facing a situation where the consumers of its products and services are locate at different places, decentralization should be practiced. Decentralization is able to place the resource of management closer to consumers and by doing so, the organization will able to react quickly to changes in consumers' tastes. If the organization requires quick decision making in order to overcome all the problems faced, decentralization will be the best option, because decentralization can reduce red tape and allow employees at the lower levels to make decisions faster when faced with a problem.

## 5.2.6 Departmentalization (Penjabatan)

**Departmentalization** means the division of work and employees to different organizational units that are responsible for resolving the duties given. Means, works and workers have been pooled in the same unit to settle down the task given. There are five t.ypes of

departmentalization; functional, product, cutomer, geographic, and process

## i) Functional departmentalization (penjabatan berasaskan fungsi)

Groups employees based on work performed. Example departmentalization or areas that are common are accounting, information system, marketing, production, and human resources. Refer Figure 5.6.

CEO

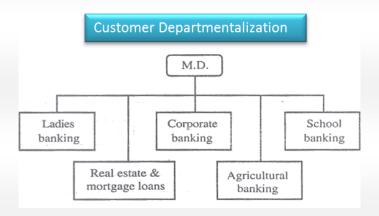
Human Finance & Sales & Research & Operations
Resources Accounting Marketing Development

Figure 5.6 Functional Departmentalization

## ii) Customer departmentalization

Groups employees based on customers' problem and needs that can best be met by specialists; or the grouping by common customers. Advantage of this department is that the organization will focus all its efforts in fulfilling the needs of consumers. Disadvantage of this departmentalization are the existence of duplication of work and use of resources and difficulty to coordinate between departmentalization that provide services to different types of consumer. Examples, the wholesale, retail, government. Refer Figure 5.7

Figure 5.7 Customer Departmentalization



## iii) Product departmentalization

Groups employees based on major product areas in corporation. Or the grouping of activities by product produced. Example of grouping product such as women's footwear, men's footwear, and apparel and accessories. The main advantage is to allow managers and employees to expand their experience and expertise that related to the overall activity of the product or service produced. Disadvantage, the managers may focus on their product to the exclusion of the rest of the organization. Refer Figure 5.8.

Departmentation by products

CEO

COSMETICS

FOOD
PRODUCTS

ELECTRICAL
GOODS

PRODUCTION

FINANCE

MARKETING

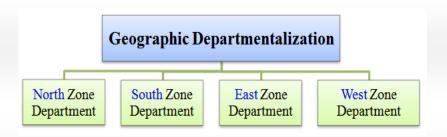
PERSONNEL

Figure 5.8 Product Departmentalization

## iv) Geographic departmentalization

Group employees based on location served example, Johor, Negeri Sembilan and Melaka). If an organization's customers are scattered over a large geographic area, this form of departmentalization can be valuable. Refer Figure 5.9.

Figure 5.9 Geographic Departmentalization



## v) Process departmentalization

Group employees based on the basis of work or customer flow, like that found in many states' motor vehicle administration. Units are organized around common skills needed to complete a certain process – where separate departments handle applications, testing, and payment collection.

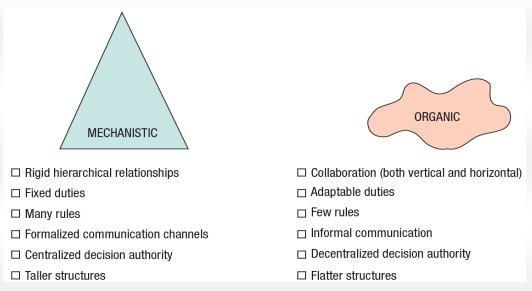
Figure 5.10 Process Departmentalization





# MECHANISTIC ORGANIZATION & ORGANIC ORGANIZATION

Figure 5.11 Mechanistic Versus Organic Organizations



## **Mechanistic Organization**

The mechanistic organization (for bureaucracy) was the natural result of combining the six elements of structure. Adhering to the chain of command principles ensured the existence of a normal hierarchy of authority, with each person controlled and supervised by superior. Keeping the span of control small at increasingly higher levels in the organization created tall, impersonal structure. As the distance between the top and bottom of the organization created tall, impersonal structure. As the distance between the top and bottom of the organization expanded, top management would increasingly impose rules and regulation. Because top management could not control lower-level activities through direct observation and ensure the use of standard practice, they substituted rules and regulations. Early management writers' belief in a high degree of work specialization created jobs that were simple, routine and standardized. Further specialization through the use of departmentalization increased

impersonality and the need for multiple layers of management to coordinate the specialized departments.

## **Organic Organization**

The organic organization has a different form as a mechanistic organization. Organic organization is a highly adaptive form that is as loose and flexible compared to mechanistic that rigid and stable. Organic loose structure allows it to change rapidly as required. It has division of labor, but the jobs people do are not standardized. All employees tend to be professionals who are technically proficient and trained to handle diver problems. They need only few formal and little direct supervision because their training has instilled in them standards of professional conduct. The organic organization is low in centralization. So the professional can respond quickly to the problems and because of top management cannot be expected to possess the expertise to make necessary decisions.



# FACTORS THAT INFLUENCE ORGANIZATION STRUCTURE (ORGANIZATION DESIGN)

## (i) Organization strategy

Organization strategy helps management to achieve its objectives. Strategy and structure are closely links because objectives are derived from the organization's overall strategy. Example, if the organization attempt to employ growth strategy by entering into global markets, it will need a structure that is flexible, fluid, and readily adaptable to the environment.

## (ii) Size affect structure

According to historical evident, organization's size significant affect its structure. For instance, large organization – those typically have more than 2000 workers tend to have more work specialization, horizontal and vertical differentiation and rules and regulations than do small organization.

## (iii) Technology affect structure

All organization use technology to convert its inputs into output. The uses equipment, materials, knowledge and experience individual and put they together into particular pattern for achieved their objective. One study had found that distinct relationships exist between size of production runs and the structure of the firm. It also found that effectiveness of organization was related to the 'fit' between technology and structure. They have focused on the processes or methods that transform inputs into outputs and how they differ and how differ by their degree of routineness. There are three categories representing three distinct technologies, showed increasing levels complexity and sophisticated.

- ✓ Unit production production of items in units or small batches.
   Custom-Made Products made by organic organizations.
- Mass production production in terms of large batch manufacturing. Mass-Produced Products made by mechanized organizations
- ✓ Process production production in terms of continuous processing, complex group. Highly routinized products made by organic organizations.

The process or method that transforms an organization's input into outputs differ by their degree of routineness. In general, the more routine the technology, the more standardized and mechanistic the

structure can be. Conversely, organizations with more non-routine technology are more likely to have organic structures.

## (iv) Environment affect structure

Essentially, mechanistic organizations are most effective in stable environments and organic organizations are best matched with dynamic and uncertain environment. The evidence on the environment – structure relationship helps to explain why so many managers have restructured their organization to be lean, fast and flexible. In global competition, innovation of product, market and management knowledge, higher quality and faster deliveries are example of dynamic environment forces. Mechanistic organization is hard to respond to rapid environment change.

5.5

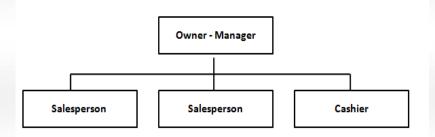
## **ORGANIZATION DESIGN APPLICATION**

There are various types of organization designs that will discuss such as simple structure, bureaucracy, functional, division, team-based, and matrix structure.

## (i) Simple Structure

A simple structure is defined more by what it is not than by what it is. It is not an elaborate structure. You can see that almost an organization that appears have no structure. It is probably of the simple variety. The works normally do by the owner as a manager and will be help by their assistant. Show in Figure 5.12

Figure 5.12 Simple Structure



## (ii) Bureaucracy Structure

When the number or employees is rises, informal rules are change to formal rules. Rules and regulation are implemented, departments are created and levels of management are added to coordinate the activities of departmental people. At these points, bureaucracy is form. These are two types of bureaucracy design which is function and product departmentalization, usually called as functional and divisional structures. Example in Figure 5.13.

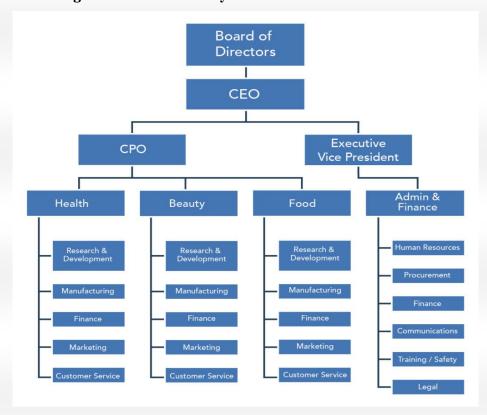


Figure 5.13 Bureaucracy Structure

## (iii) Functional Structure

Functional structure is an organization that structures work by grouping similar and related occupational activities. An example Revlon. Inc, is organized around the functions of operations, finance, human resource and product research and development. Putting like specialties together it will minimize duplication of personnel and equipment, and makes employees comfortable and satisfies because it given them the opportunity to talk the same things with their peers. The obvious weakness, the organization frequently loses of its best interests in the pursuit of functional goals. No one function is totally responsible for result, so member within individual functional become insulated and have little misunderstanding of thing in other department is doing.

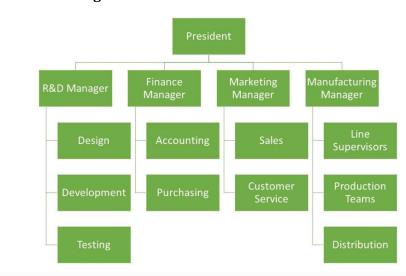
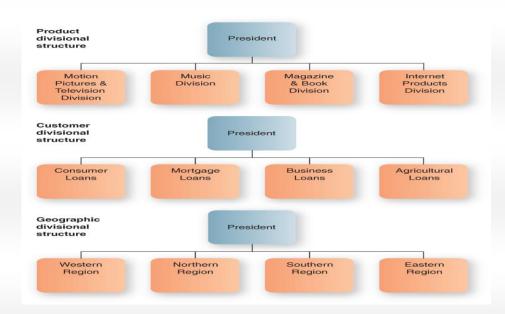


Figure 5.14 Functional Structure

### (iv) Division Structure

The divisional structure is an organization design made up of selfcontained units or divisions. Building on product departmentalization each division is generally autonomous, with a division manager responsible for performance and holding complete strategies and operational decision-making authority. Division manager have full responsibility for a product or service. The divisional structure, also frees the headquarters staff from being concerned with day to day operating detail so they can pay attention to long term and strategies planning.



**Figure 5.15 Division Structure** 

## (v) Team-Based Structure

These design structure such as eliminating the functional barriers to solve the problems. In a *team-based structure*, teams, both temporary and permanent, are used to improve horizontal relations and solve problems throughout the organization. In this structure, all team members have the authority to make decisions that affect them. Although team structures have been positive, simply arranging employees into teams is not enough. Employees must be trained to work on teams, received cross-functional skills training and be compensated accordingly. Without proper planning, the team based structure may be lost.



President Functional structure Vice Vice Vice Vice President, Marketing President, President, President, Research & Design Engineering Development Product Team **Product Team** Product Team Manager, Manufacturing, Manager, Manufacturing, Manager, Project teams Manufacturing, Light Trucks Sedans Sports Cars Project team

**Figure 5.16 Division Structure** 

# (vi) Conglomerate Structure – grouping by industry

members

Conglomerates are large companies doing business in different, quite unrelated areas. The conglomerate structure groups divisions or business units around similar businesses or industries

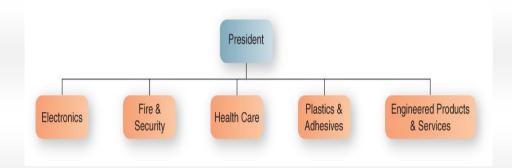


Figure 5.17 Conglomerate Structure

### (vii) Hybrid Organization Structure

Functional & divisional used within the same organization. A *hybrid structure* uses functional and divisional structures in different parts of the same organization.

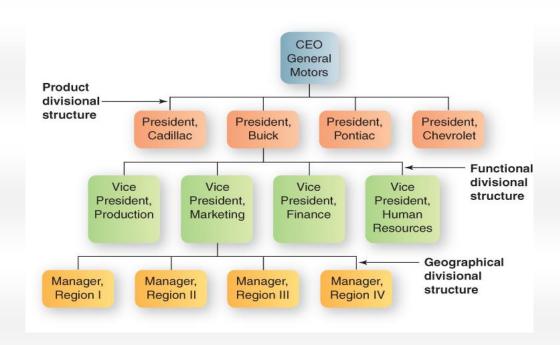


Figure 5.18 Hybrid Structure

### (viii) Matrix Organization Structure

A matrix structure combines functional and divisional approaches to emphasize project or program teams. This structure is a grid of functional & divisional for two chains of command. When an organization combined functional and divisional chains of command in a grid, which are two command structures, vertical and horizontal, a matrix structure is used. Workers in a matrix structure belong to at least two formal groups at the same time – a functional group and a product, program, or project team. They also report to two bosses.

The advantages of matrix structure:

✓ Better communication and cooperation across functions.

- ✓ Improved decision making; problem solving takes place at the team level where the best information is available.
- ✓ Increased flexibility in adding, removing, or changing operations to meet changing demands.
- ✓ Better customer services, there is always a program, product, or project manager informed and available to answer questions.
- ✓ Improved strategic management, top managers are freed from lower-level problem solving to focus time on more strategic issues.

#### Disadvantages of matrix structure:

✓ The two bosses system is susceptible to power struggles if functional supervisors and team leaders compete with one another to exercise authority.

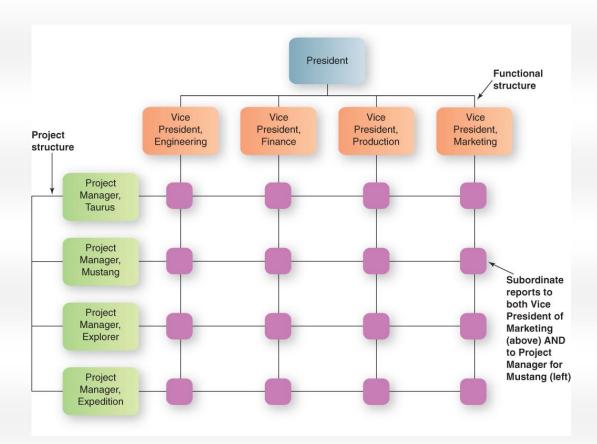
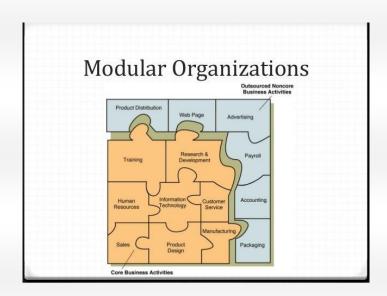


Figure 5.19 Matrix Structure

### (ix) Boundaryless Organization

Boundaryless organization is an organization that is not defined or not limited by boundaries or categories imposes by traditional structure. Sometimes we called it as network organization, learning organization, barrier-free, modular or virtual corporations, boundaryless structure cut across all aspect of the organization.

(a) Modular organization – outsources business activities to other organizations, suppliers, experts or consultants. The meaning of modular is used as business activities can be bought from other organizations for the purpose of adding activities and can be dropped when they are no longer required. For example, the payment of outsourced activity such as labor, experts, or production capabilities occur only when the transactions are required. This will cause the cost borne to be lower if all the activities are managed on its own.



(b) Virtual organization – is an organization that has become a part of the business network. Virtual organizations exits is in a network that shares expertise, costs, capabilities, markets and customers

collectively to resolve customers' problems or producing certain products and services.



#### **KEY TERM**

An organization Unity of command

An organization chart Simple structure

Departmentalization Matrix structure

Centralization and decentralization Boundaryless structure

Span of control Modular structure

Mechanistic structure organization

Organic structure organization

#### SUMMARY

- Organizing is defined as managing organinizational resources efficiently in order to achieve organizational objectives.
- Organization chart shows each department's functions, position, and relationship between each department in the organization.
- There are six elements in the organization structure: specialization, departmentalization, span of control, authority and reponsibility, centralization and decentralization.
- Job specialization involves dividing tasks into smaller jobs each job will be performed by different individuals.
- Four common forms of departmentalization are functional, product, customer, process, and geographic.
- Organization structure be influenced by the factors of organization strategy, size, technology used, and organization surrounding.
- There are several types of organization strucure such as simple, bureaucracy, matrix, hybrid, and boundaryless structure.



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- 1. Robbins and DeCenzo. Fundamentals of Management; 2008, Prentice Hall, Inc.
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Chapter 6

# STAFFING & HUMAN RESOURCE MANAGEMENT

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Explain the important to study on human resource management.
- 2. Describe the human resource management process.
- 3. Differentiate between job descriptions and job specifications in Job Analysis.
- 4. Contrast the recruitment and selection processes.
- 5. Identify various training methods.
- 6. Explain the various techniques managers can use in evaluating employee performance.
- 7. Describe the of compensation administration and factors that affect wage structures.
- 8. Discuss the issues in HRM such as safety and health, sexual harassment, labor–management cooperation, workplace violence, workplace spirituality, and layoff-survivor sickness.

# 6.1

# **INTRODUCTION**

Almost all organizations adopt human resource management (HRM) processes, the difference between the process openly or implicitly depends on the size of the organization. It is said that small and medium size organizations do not form an HRM unit because the HRM process has been incorporated into the administrative unit. While in large size organizations the HRM process is placed in one section which can also be broken down into more specific processes as will be discussed later.

**Human resources management** is a process of obtaining, developing and maintaining a sufficient number of qualified employees in order to achieve goals that have been set. Human resource management not only involves the process of attracting, motivating and retaining employees but also analyzing and planning for human resource organization used.

**Staffing** is the process under HRM, that involves activities of preparing employees organization and maintaining a satisfactory level of employees performance. In order for organizations to get employees, effort must be made to attract the right people to come and work for them. Once the employees join the organization, they must be able to perform the required tasks.

6.2

# IMPORTANCE OF LEARNING HUMAN RESOURCE MANAGEMENT (HRM)

- i. HRM activities are able to coordinate specific management activities that manage people with activities as determined by the skills, knowledge and abilities of employees so that organizational objectives are more effective.
- ii. The HRM process is capable of errors or mistakes during the selection process of employee candidates. This is because an error in the selection process will result in high costs as the consumer organization bears the cost of training and payment of salaries of employees who are not hired.
- iii. HRM is also a supporter of the organization's strategic efforts in achieving goals. This is because activity activities need to be done by developing employees.



There are three HRM functions of maintenance, as discussed below:

#### i. Benefits Administration

The activities involved in the benefits administration include those that satisfy employee needs besides compensation including assisting employees when they are sick, or employees need for some time away from work. Caring for employees' well being has a major effect on their commitment. Employee assistance programs, such as those that help employees deal with stressful life situations, are needed.

#### ii. Safety and Health

Employers must ensure that the working environment is safe and healthy. Guidelines for providing safe and healthy work place offered by legislation should be adhered to.

#### iii. Employee Relationships

Employee relation programs are designed to ensure that employees are kept well informed about what is occurring around them, and to foster an environment where employee voices are heard.

# 6.4 HUMAN RESOURCE MANAGEMENT PROCESS

**Figure 6.1 Human Resource Management Process** 

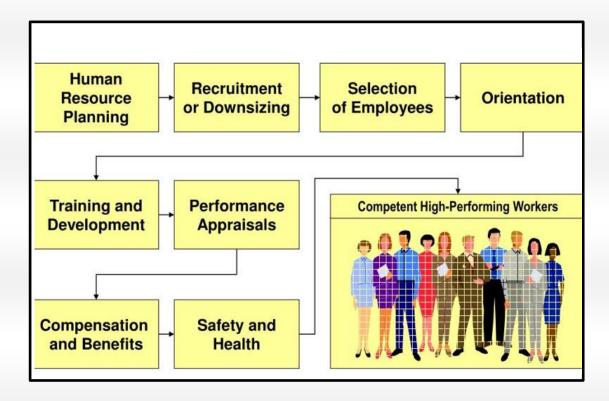


Figure 6.1 shows an overview of the human resource management process. Usually, the process begins with human resource planning (HRP) - that is, making a forecast of the needs of employees in the organization in terms of the number of uses, skills and knowledge. Actually, from the HRP, an organization make analysis to decide recruit new employees or make downsizing of employees. If an organization choose to recruit new employees, the next process (selection-orientation-training...) will be continue.



# **HUMAN RESOURCE PLANNING (HRP)**

**Human Resource Planning (HRP)** is a process of using the goals and strategies of organizations to forecast the needs of human resources in recruiting, developing and maintaining a qualified workforce. An organization that has poor or no human resource planning will face a surplus in the workforce and be forced to find a way to reduce it or it will face a shortage of workforce which will lead to increase in overtime costs and inability to fulfill the demand for the company's products or services.

HRP consists of two main components (refer to Figure 6.2): *job analysis* and *forecasting*.

**HUMAN RESOURCE PLANNING PROCESS** Step 1: Examine Internal and External Factors HR Planning Step 4: Reconcile Step 2: Forecast HR Step 3: Forecast HR Demand & Supply Needs (Demand) Availability (Supply) Shortage of Workers Demand Surplus of Workers HR Demand < HR Supply Alternatives to Supply Recruitment Restricted Hiring, Reduced Hours. Recruitment No Action Early Retirement,

Layoffs

Figure 6.2 Human Resource Planning Process

Selection

#### 6.5.1 Job Analysis

**Job analysis** is a detailed process regarding the related tasks of a particular job and the quality of human resources needed to perform the job. Job analysis seeks to gather four types of information:

- ✓ Job activities, such as what activities employees carry out and how, when and why they do them.
- ✓ Tools and requirement used to perform the job.
- ✓ The context of job in which it is implemented such as situation, workplace environment or scheduling.
- ✓ The needs of personnel in performing the job, meaning the knowledge, skills and capabilities required for the particular job.

The result of the job analysis will form for the job description and job specification.

**Job description** is written statement that clearly explains the job, duties, responsibilities, activities and performance results required from the job holder. **Job specification** is a written statement stating the qualifications required from the job holder. Qualifications here include level of academic achievements, work experience, skills and abilities that need to be fulfilled by the future job holder.

Since the job analysis describe in detail the description and specifications required, each organization needs to provide job analysis prior to any recruitment. It will also be used during recruitment and selection in order to match the qualification of the applicants to the job requirements.

## 6.5.2 Forecasting

**Forecasting** is a process of predicting the total number and types of employees with the knowledge, skills and abilities needed by an organization in the future. There are two types of forecasting – internal and external.

**Internal forecasting** pertains to the internal factors of the organization which influence the level of demand and supply of human resources in the organization. Factors such as the organization's financial performance, productivity level, mission and change in technology, retrenchment, promotion, retirement and mortality are some examples of internal forecasting.

**External forecasting** pertains to the external factors of the organization that effect the level of demand and supply of its workplace in the future. The factors include supply of labor in a particular area, economics (unemployment rate), labor unions and demographics of the labor force (in aspect of age), migration, competition levels and growth in a particular business or market.

# 6.6 RECRUITMENT (HIRING) AND SELECTION PROCESS

**Recruitment** is the process of generating a pool of qualified candidates for a particular job. Also the process of developing a group of candidates who are interested and qualified for a position offered by an organization.

This effort is considered as a process because it involves steps such as searching and capturing the interest of qualified candidates to apply for the position offered. Recruitment can be carried out using two methods:

#### i. Internal recruitment

Internal recruitment is the effort of developing a group of candidates who are interested and qualified for a position offered from the existing employees in the organization. It can be promoting or moving existing employees into a vacant position.

#### ii. External recruitment

External recruitment is a process of developing candidates from outside the organization who are interested and qualified for the position offered. The methods for external recruitment include job advertising (newspapers, magazine, letters, radio stations and television, memo), employee referral, walk-in (candidates themselves come to apply), outside the organization (universities, technical and vocational schools, colleges), government and private employment agencies, career seminars and websites.

**Selection** is the process of gathering information for evaluation and then selecting the best candidate for that particular position. This process is very important since hiring the wrong candidate will have an adverse impact on the organization. In order to reduce this uncertainty, human resource experts have suggested **four methods of selection**:

#### i. Application forms and resume

Both documents contain the same information about the candidate such as personal information, academic background, working experience and so forth. Organizations usually provided their own application forms but something candidates use their own.

### ii. References and background checking

Most organization require applicants to prepare their references such as former employer or colleagues for purpose of checking the candidate's background is to obtain validity and accuracy of the information provided by the candidates as stated in the application form or resume.

#### iii. Selection tests

Selection tests help organizations making the right decision on the most qualified person to be hired. These selection tests measure either directly or indirectly to the particular candidates is able to perform the job well. Four *types of selection tests* used by organizations:

- a) Specific ability test the test that measures the abilities needed to perform a particular job. It is also referred to as aptitude test. The test is usually used for job areas such as mechanical, clerical, sales and physical work.
- b) *Cognitive ability test* the purpose to measure perceptual speed, verbal comprehension, numerical aptitude, general reasoning and spatial aptitude. The test is able to indicate how fast and how well a candidate could understand words, numbers, logic and spatial dimensions. An ability test can forecast the job performance of some job areas only but cognitive ability test can forecast the job performance for all job areas. Usually a candidate who performs well in cognitive ability is efficient in learning something new, able

- to process complex information and able to solve problems and make decision well.
- c) **Biographical data** is better known as biodata, is an extensive study on the personal background and experiences in the life of a particular candidate. The basic of study is the past behavior which is the best forecast for future behavior.
- d) **Personality test** the test that measures the personality of the candidate towards the job. This test shows the candidates personality dimensions.

#### iv. Interviews

**An interview** is a method where an organization representative will ask the candidates a series of questions related to the job to determine whether he is qualified for the job. There are three **types of interview** – structured, unstructured, and semi-structured – a candidate will face a different set of questions from other candidates.

- a) **Structured interview** An interview where the interviewer will ask a standard set of questions which had been earlier prepared and drafted. Each candidate will face the same questions like any other candidate.
- b) **Unstructured interview** An interview where the organization representative ask any questions to the candidate. A candidate will face a different set of questions from other candidates.
- c) **Semi-structured interview** Use both types of interview process base on requirement.

# HUMAN RESOURCE DEVELOPING PROCESS

**Orientation** is the process of introducing new employees to the programmes, policies and cultures of the organization. Orientation helps them to learn about the organization and get used to the new environment, such as working hours, parking priority and salary payment schedules.

**Training** is providing opportunity for employees to develop current working skills, experiences and knowledge they need in order to perform their job or upgrading their job performance. Several **types of training methods** such as:

- a) **On-the-job training** means having a person learn a job by actually doing it. And involves the following: preparing the learner, presenting the operation, doing a tryout, and follow up. This method of training usually given by senior employees or supervisors.
- b) Off-the-job training training is done out of the location of the job area. The location of training might be in a classroom with the same facilities or other different locations.
- c) **Apprentice training** a structured process is a combination of classroom instruction and on-the job training. Training programme system that requires an apprentice to work for a certain period before he/she is allowed to perform a job or specialization in a particular area. Trainees are given instructions and acquire experience needed for a job. Trainee also will be guide and share experience with their mentor.
- d) **Vestibule training** the same procedure and tools used in the real working condition is performed in a particular area. Trainees are taught how to perform a job and use the relevant equipment by an experiences employee. This will help the trainees to learn about the jobs areas in a comfortable condition without any pressure.

**Development** process involves providing opportunity for employees to develop skills and knowledge for future requirement. Example of development process aloud employees to further study, go for training that to be used for future.

HR professionals distinguish between training and development based on level hierarchy in an organization. Development focuses on professionals and managers such as an accountants, nurses, lawyers and managers. While training focuses on technical and operational employees such as technicians, administrators, processors.

6.8

# **PERFORMANCE APPRAISAL**

**Performance appraisal** is a process of evaluating job performance and preparing feedback based of that evaluation. Performance appraisal contributes towards two purposes:

- i) The purpose of the evaluation is to help inform employees about their performance level in comparison to the standard.
- ii) Performance appraisal can help in personnel development and preparation of future training programmes.

Performance appraisal focuses on previous performance and measures it in comparison to the standard fixed. The method of performance appraisal must fulfill the criteria of relevance and validity. Basically evaluation is conducted on three sets of *criteria*:

a) Job output – job emphasizes more on the calculation of the output compared to the job purpose, the evaluation needs to be conducted on the individual job output – the criteria of the quantity produced, defaults made, and cost per unit of product.

- b) **Behavior** it is difficult to specifically identify the performance produce. It is easily conducted by group compared by individual.
- c) **Attitude** is considered a weak set of criteria but is still practiced in some organization. Attitude evaluation such as having good manners, exhibiting confidence, able to be independent or cooperative, and etc.

Performance appraisal of an employee can be done by these people:

- a) **Supervisors** an employee is evaluated by the person who supervises him/her. Example, an operator is evaluated by his supervisor; an executive is evaluated by a senior executive.
- b) Colleagues this evaluation is considered a reliable approach, because colleagues (co-worker) are close to the employee being evaluated and his daily job performance.
- c) Subordinates can provide important and detailed information regarding the behavior of their superiors due to a close relationship. The problem is that subordinates may be afraid to provide accurate evaluation due to the power held by their superiors and fear of retaliation.
- d) **360 degrees evaluation** it provides feedback on performance from all parties related to the job of the employee being evaluated which cover general workers, customers, colleagues and managers.

Methods for performance appraisal:

- a) **Essay writing** requires the employee being evaluated to explain about the strengths, weaknesses, earlier performances, potential and suggestions in increasing performance. This essay writing does not require complex forms or extensive exercises to be completed.
- b) **Critical incidents** a form of evaluation that observes the behavior that acts as the key in differentiating between a good or bad work performance. Statements regarding these critical incidents can depict the behavior required and identify what needs to be improved.

- c) **Measurement of objective performance** is a simple and countable performance measurement. Objective performances that are frequently used are outputs, scraps, wastes, sales, customer complaints level of default.
- d) **Employee comparisons** the evaluators rank employees according to such factors as performance and value to the organization. Only the employee can occupy a particular ranking.

# 6.9 EMPLOYEE REWARD

An organization can retains a talented employee if it offers rewards that fit the jobs and needs of the employee's personal objectives. **Employee reward** refers to the payment granted to the employee as an exchange for the job that is carried out. This reward can be financial and non-financial. Generally there are **four types of decisions** of reward granting:

- a) **Payment level** decision of making payment to employees whether at a level below, above or at the same with payment of salary in the labor market. An organization uses job evaluation to determine the payment structure. Job evaluation determines the value or sum that must be paid for each job by determining the market value for the knowledge, skills, and needs required to perform that particular job.
- b) Variable level a decision that focuses on how far the payment of salary differs from the job performance of an individual employee and organization. Types of options variables level payment can be as piecework, sales commissions, profit-sharing and employee share ownership plans.

- c) **Payment structure** is a decision related to internal payment distribution. This refers to how far individual employees in an organization receive different levels of salary. Individuals at the top level will receive a higher pay compared to those at lower levels.
- d) Employee benefits can be in form in monetary and non-monetary form – called such because only individuals working at a particular position or organization will enjoy the benefits. The employee benefits such as retirement and pension plan, paid leaves, sick leaves, health insurance, life insurance, health treatment, discounts on product or service of the company etc.

The reward system established by the organization is not only related to employee wages and benefits. In fact, it also refers to compensation for employee separation.

**Employee separation** means the loss of an employee by an organization either voluntarily or involuntarily. Since this separation affects recruitment, selection, training and granting of rewards, the organization must be able to forecast the number of employees who will be lost due to *termination*, dismissal, turnover or retirement when making human resource planning.

## i. Employee Termination

Termination employees may be considered as simple act but think about the feelings of the employee being terminated. Therefore, the manager must do a few things to minimize problems related to employee termination:

• **Firstly**, termination or dismissal cannot be the first choice. The employee must be given a chance to change his behavior when a problem arises. Usually organization must take this action before termination or dismissal:

- ✓ The employee should receive a series of specific warnings
  on the matters.
- ✓ Organization given consultation on employee performance or problem.
- ✓ If the employee still has problem continue show cause letter, warning letter, suspension without payment or termination.
- Secondly, termination must base on sensible and rational reasons. The termination of an employee without sensible reasons can result the organization to the court action that will increase organization cost.
- Thirdly, the organization needs to focus on the reaction of other employees when one of them is terminated. This because the issue of termination can affect the performance and motivation of existing employees – felt anxiety towards the security of their job.

#### ii. Downsizing

Downsizing is the act of organized repealing of positions and jobs in the organization because of reduction cost, decline in market shares or being too aggressive in employing workers and growth. In theoretically, downsizing should bring an increase in productivity and better performance profit and increase organizational flexibility.

#### iii. Retirement

Retirement of an employee takes place when his retirement period arrives but these are times when early retirement of employees can help the organization. In the effort to reduce the workforce in an organization, implementation of early retirement incentive programmes might help. These programmes offer financial benefits for employees in order to encourage them to retire early.

#### iv. Employee Turnover

Employee turnover takes place when an employee voluntarily ends his service with an organization. Generally an organization tries to retain a low turnover rate in order to reduce the processes of recruiting, employing, training and replacement cost. *Functional turnover* happens in the condition where an employee with a bad performance levels choose to resign voluntarily. *Dysfunctional turnover* takes place when a high-performance employee chooses to leave voluntarily. This condition adversely affects the organization and it will lose a talented employee.



## **Layoff-Survivor Sickness**

A set of attitudes, perceptions, and behaviors of employees who survive layoffs. Human Resource Manager also dealing with the "Survivor Syndrome" - Provide opportunities for employees to talk to counselors about their guilt, anger, and anxiety. They provide a group discussions for the survivors to vent their feelings. Others method used by implement employee participation programs such as empowerment and self-managed work teams.

# **Improving Workforce Diversity**

Workforce diversity means the heterogeneous composition of employees of an organization in terms of age, gender, language, ethnic origin, education, marital status, etc. Managing such diversity is really a challenge to HRM professionals. Workforce diversity has significant implications for the management. The managers will be required to shift their approach from treating each group of workers alike to recognizing differences among them and following such policies so as to encourage creativity, improve productivity, reduce labour turnover and avoid any sort of discrimination.

One of the way to widen the recruiting net to broaden the pool of applicants. The proess ensure that the organization's selection process is nondiscriminatory. Assist new employees in assimilating into the firm's culture. Human Resource Manager need to plan and conduct specialized orientations and workshops for new employees especially worforce diversity.

#### **Sexual harassment**

Sexual harassment includes sexually suggestive remarks, unwanted touching and sexual advances, requests for sexual favors, or other verbal and physical conduct of a sexual nature that:

- ✓ Creates an intimidating, offensive, or hostile environment;
- ✓ Unreasonably interferes with an individual's work; or
- ✓ Adversely affects an employee's employment opportunities.

Manager of HR can produce prevention of sexual harassment at work through:

- ✓ Corporate training
- ✓ Anti-harassment policy
- ✓ Clear reporting procedures
- ✓ Zero-tolerance policy
- ✓ Focus on staff welfare

# 6.11 CONCLUSION

The existence of the role of human resource management (HRM) cannot be denia, but whether it is placed in a specific unit or together in an administrative unit depends on the size and activities of the organization. The basic role of HRM is the same, yet it is becoming more important and widespread in big and large organizations. The role of HRM is increasingly challenging in the world with the use of new technology, the development of knowledge and the new requirement of policies and laws.

#### **KEY TERM**

Human resources management Human resources planning

Staffing Recruitment process

Selection process Job analysis

Employee orientation Training

Development process Performance appraisal

#### **SUMMARY**

- Human resources management (HRM) consists of the activity managers perform to plan for, attract, develop, and retain an effective workforce.
- Human resource planning consists of developing a systematic, comprehensive strategy for understanding current employee needs and predicting future employee needs.
- Current employee needs requires for doing a job analysis through job description and job specification.
- Predicting employee needs means a manager needs to become knowledgeable about the staffing an organization and the likely sources of staffing.
- Recruitment is the process of locating and attracting qulified applicants for jobs open in the organization.
- The selection process is the screening of job applicants to hire the best candidates.
- Organization can helped new worker their jobs are through orientation, training, and development.
- Orientation consists of helping the candidate fit smoothly into the job and organization with the information about the job routine, the organization's vision, mission and operations, and the organization's work rule and employee benefits.
- Training refer to the educating tehcnical an operating employees in how to better do their current jobs.
- Development is the term describing educating professionals and managers in the skills they need to do their jobs in the future.
- Performance appraisal consists of assessing an employee's performance and providing him or her with feedback.
- Managers must manage job promotions, workforces' transfer, disciplining, and dismissals workforces.
- Also been discuss others issues such as workforces diversity and sexual harassment.



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Chapter 7

# **ESSENTIAL OF LEADERSHIP**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Describe the concept of leadership.
- 2. Differentiate a leader and a manager
- 3. Discuss several approaches in leadership in understanding leadership process such as trait theory, behavior theory, contingency theory and contemporary approach.
- 4. Explain the elements of trust in leadership.

# 7.1

#### **INTRODUCTION**

Leadership is one of the key management functions. The leadership function is important in management to ensure that the activities that have been planned and arranged need to be directed and controlled by a leader using the appropriate leadership style.

There are many definition of leadership from many perspectives of researchers. Here are some of them that are related with management area:

- Leadership includes the proces of motivating employees, directing the activities of others, selecting the most effective communication channel, and resolving conflicts. (Robbins & DeCenzo)
- Leadership is the ability to influence a group toward the achievement of a vision or set of goals. (Robbins & Judge)
- Leadership is the ability to influence employees to voluntarily pursue organizational goals. (Kinicki & William)

 Leadership is a process whereby an individual influences a group of individuals to achieve a common goal. (Northouse, Peter G)

Actually none appropriate terms for leadership because it's related to which persepctives area used for. From the definitions given, we can define leadership as the process of giving direction and guiding, influnce and motivation to others party to ensure they make action to achieve the obejctive setting.

# 7.2

# **MANAGERS VERSUS LEADERS**

Manager and leader is a person while management and leadership is a process. Manager and leader is a person who carry out the process of management and leadership.

**Manager** - Persons whose influence on others is limited to the appointed managerial authority of their positions to reward and punish.

**Leader** - Persons with managerial and personal power who can influence others to perform actions beyond those that could be dictated by those persons' formal (position) authority.

Both manager and leader play important role in an organization. But "Not all leaders are managers, nor are all managers leaders."

#### Leader is different from manager.

According to Williams (2000), the main differences are that:

✓ A leader emphasizes on the quality of work so that the treatment given is fair, has a long run focus, is more inclined towards changes, gives inspiration and is able to motivate other people in overcoming

- their problems. Means, leaders look to the future and chart the course for the organization. Leaders can influence others to perform beyond the actions dictated by formal authority.
- ✓ A manager emphasizes more on performing a matter in the correct way, has a short-run focus, maintains the status quo and acts to solve other people's problems. Means, managers establish and implement procedures to ensure smooth functioning. They are appointed, and have legitimate power that allows them to reward and punish. Their ability is based on formal authority inherent their positions.

Strong leadership and strong management are needed for optimal effectiveness. Table 7.1 below shown the different between leaders and managers.

**Table 7.1 The Different Leaders And Managers** 

	LERDERS	MANAGERS
1.	Leader is needed today to	Managers formulate detailed
	challenge the status quo	plans
2.	Leader creates a vision of	Create efficient organizational
	the future in order to	structures through planning,
	provide better conditions	organizing and controlling
	for himself and his	process
	followers	
3.	Inspire organizational	oversee day-to-day
	members to want to	operations
	achieve the visions	

# 7.3

# **LEADERSHIP APPROACHES**

Understanding the development of leadership studies is very important because it can describe the pattern or style of leadership by previous leaders in leading their followers in achieving goals in the group.

The following are some of the approaches and theories identified to understand leadership styles as a basis for us to understand the process of self-leadership: *Trait Theory, Behavior Approach, Contingency Approach,* and *Contemporary Approach*.

# 7.3.1

# TRAIT APPROACH OF LEADERSHIP

Research form trait theory of leadership represent the:

- Attempt to isolate characteristics that differentiate leaders from nonleaders.
- Attempts to identify traits that always differentiate leaders from followers and effective leaders from ineffective leaders have failed.
- Attempts to identify traits consistently associated with leadership have been more successful.

The principles of trait theory stress that several *a person trait make differentiate between a leader and non-leader*. Trait theory not focus on effectiveness in leadership. But it is possible to isolate one or more traits in individual who generally acknowledge being a leader. Based on researchers, Table 7.2 represent of the leadership traits on which leaders are seen to differ from non-leaders.

 Table 7.2 Leadership Trait That Differentiate A Leader and Non-Leader

Drive Leaders exhibit a high effort level. They have a relatively high desire for achievement, they're ambitious, they have a lot of energy, they're tirelessly persistent in their activities, and they
Drive
energy, they're tirelessly persistent in their activities, and they
show initiative.
Desire to lead Leaders have a strong desire to influence and lead others. They
demonstrate the willingness to take responsibility.
Leaders build trusting relationship between themselves and
Honesty and integrity followers by being truthful or non-deceitful and by showing high
consistency between word and deed.
Self Followers look leaders for an absence of self-doubt.
confidence Tollowers look leaders for all absence of sen-doubt.
Leaders need to be intelligent enough to gather, synthesize and
Intelligence interpret large information and to be able to create vision, solve
problem and make correct decisions.
Effective leaders have a high degree of knowledge about the
Job relevant company, industry and technical matters. In-depth knowledge
knowledge allows leaders to make well-informed decisions and to understand
the implications of those decisions.

Today's researches have found five major traits that be used as guide to understand in leadership – intelligence, self-confidence, determination, integrity, and sociability.

# 7.3.2

# BEHAVIORAL APPROACHES OF LEADERSHIP



The inability to explain leadership solely by traits led researchers to look at the behavior of specific leaders. Behavioral theories isolate behaviors that differentiate effective leaders from ineffective leaders. One of the first studies of leadership behavior was done by Kurt Lewin and his associate at the University of Iowa. Other studies have about behavior leadership is what have been done by an effective leader and not based on the features. There are three studies: Studies by Ohio State University, studies by Michigan University, and the Managerial Grid by Blake and Mouton. All these studies are focus on two studies of behavior: employee-centered and task centered.

- ✓ Employee-centered such as understanding, consideration, tolerance (human aspects);
- √ Task-centered such as based on procedure, objective oriented, systematic, strict person.

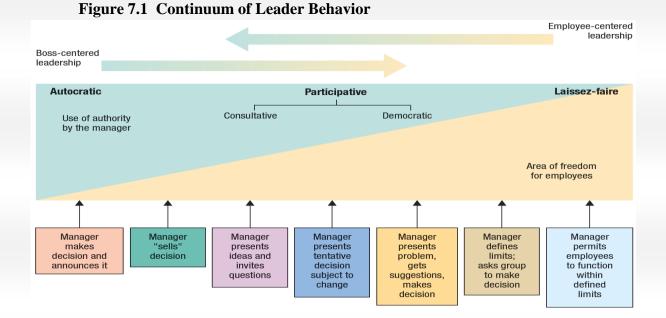
Researchers suggested that managers should move toward more employee-centered styles in the long run because such behavior would increase employee motivation, decision quality, teamwork, morale, and development.

# 7.3.2.1 Behavioral Theory by Kurt Lewin

In their studies, the researchers explored three leadership behavior or styles: *autocratic styles, democratic styles*, and *laissez-faire style*.

# i. Autocratic styles of leadership

The terms used to describe a leader who centralizes authority, dictates work methods, make unilateral decision, and limits employee participation.



#### ii. Democratic styles of leadership

Tends to involve employee in decision making, delegates authority, encourages, participation in deciding work methods and goals, and uses feedback to coach employees. The democratic style can be divide into two categories which is:

- ✓ Democratic-consultative leader: seek input and hears the concern and issues of employees but makes the final decision by him/ herself.
- ✓ Democratic-participative leaders: allows employees to have a say in what's decided. Here, the decision is made by the group, with the leader providing one input to that group.

# iii. Laissez-faire styles of leadership

The term used to describe a leader who generally gives his or her employees complete freedom to make decisions and to complete their work in whatever way they see fit. The conclusion about leadership styles (Refer Figure 7.1):

- The laissez-faire leadership style is ineffective. A laissez-faire leader might simply provide necessary materials and answer questions.
- ii) Quantity of work is equal authoritarian and democratic leadership styles.
- iii) Quality of work and satisfaction level is higher under democratic leadership.

## 7.3.2.2 The Studies by Ohio State University

According to Rue (2000), several series of studies on leadership were conducted by this university to obtain a summary regarding the most important and effective behavior to successful leaders. These studies found two consistent and important behaviors of leaders are (refer to Figure 7.2):

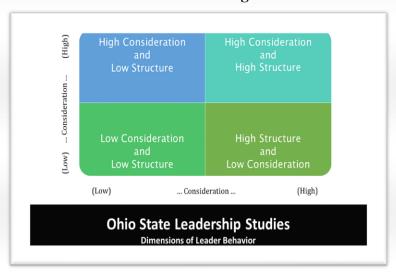
#### √ Consideration behavior

Defined as the extent to which a leader has job relationship characterized by mutual trust and respect for employees' idea and feelings. A leader who high in consideration helps employees with personal problem, is friendly and approachable, and threats all employees as equal. This kind of leaders shows comfort, well-being, status and satisfaction to their followers.

# ✓ Initiating structure behavior

Refers to the extent to which a leader is likely to define and structure his or her role and those of employees in the search for goal attainment. It includes behavior that attempts to organize work, work relationship and goals. A leader like to forming the work procedures of employees and guiding them towards goal achievement.

Figure 7.2 Illustrates the relationship between Consideration Behavior with Initiating Structural Behavior



## Conclusion (refer Figure 7.2):

- (High consideration; Low structure). The study found that leaders with a high level of consideration behavior are more inclined to have satisfied employees compared to leaders with a low level of consideration.
- (High structure: Low consideration). Leaders who are assumed to have a high level of initiate structural behavior but are low in terms of consideration will face a frequency of complaints and resignation among employees.
- (High structure: High consideration). The study found that a leader who is high in initiating structure and high consideration achieved employee performance and satisfaction more frequently than one who rated low on either consideration or initiating structure.

# 7.3.2.3 The Studies by Michigan University

Research is about the same time as those being done at Ohio State Study, had similar research objective: Studies that sought to identify the behavioral characteristics of leaders related to performance effectiveness. The Michigan University came up with two dimensions of leadership behavior:

- ✓ Employee oriented leader: Emphasizes interpersonal relations, takes a personal interest in the needs of employees, and accepts individual differences.
- ✓ Production oriented leader: Emphasizes technical or task aspects of a job, is concerned mainly with accomplishing tasks, and regards group members as a means to accomplishing goals.

#### Conclusion:

The researchers strongly favored leaders who were employee oriented. Employee-oriented leaders were associated with higher group productivity and higher satisfaction. Production-oriented leaders were associated with lower group productivity and lower worker satisfaction.

# 7.3.2.4 The Managerial Grid

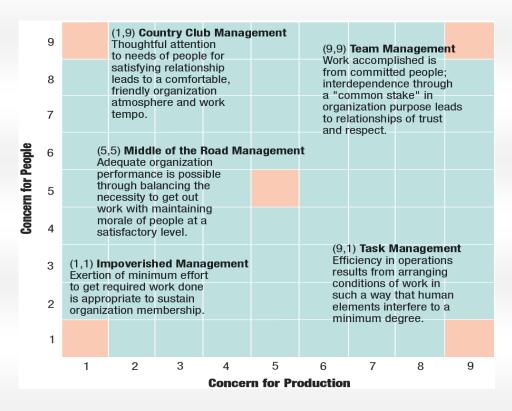
The Managerial Grid is a two-dimension view of leadership styles developed by Robert Blake and Jane Mouton. They proposed a managerial grid based on the styles o (refer Figure 7.3):

- ✓ Concern for people leader has a feeling toward employees work such as understand, high in negotiation etc.
- ✓ Concern for production leader focus more on procedure and guiding employees in doing tasks.

These two dimensions forming the five different styles of leadership:

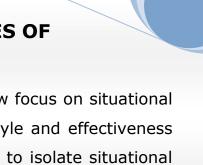
- (9-9): **Team management** is the best leadership.
- (9-1): **Task management** worker following orders or direction when they have high consideration on production and low consideration on people.
- (1-9): **Country club management** leaders who are very concerned in creating a happy and friendly working condition but do not give important focus towards production or performance.
- (1-1): Impoverished management/ poor management the weakness leadership style. Leader does not care about the employees and production but instead. He only performs his/ her work at minimal level.
- (5-5): *Middle of the road* the leader shows moderate consideration towards the employees and production.

Figure 7.3 The Managerial Grid



# 7.3.3

# CONTINGENCY APPROACHES OF LEADERSHIP



The failure to obtain consistent results led to a new focus on situational influences. The relationship between leadership style and effectiveness depended on the situation and another to be able to isolate situational condition. The chapter will discuss several contingency theories only as guide and knowledge to understand such as in the *Fiedler model*, *pathgoal theory*, and situational leadership theory.

### 7.3.3.1 The Fiedler Contingency Leadership Model

This model was developed by Fred Fiedler. His model approach about the effective group performance depends on the proper match between the leader's style of interacting with employees and the degree to which the situational gives control and influence to the leader. Fiedler developed an instrument, which he called the *least-preferred co-worker (LPC) questionnaire*, which purpose to measure the leader's task oriented or relationship oriented.

He isolated three situational criteria – *leader member relations, task structure,* and *position power* – that could be manipulated match an inflexible (fixed) leadership style. Fiedler Contingency Model, is an outgrowth of trait theory, because LPC questionnaire is a simple psychological test. This theory explain about an effective group performance depends on the proper match between the leader's style of interacting with employees and the degree to which the situation gives control and influence to the leader.

Figure 7.4, compared the *relationship oriented* versus *task oriented* leadership styles in each of eight situational categories.

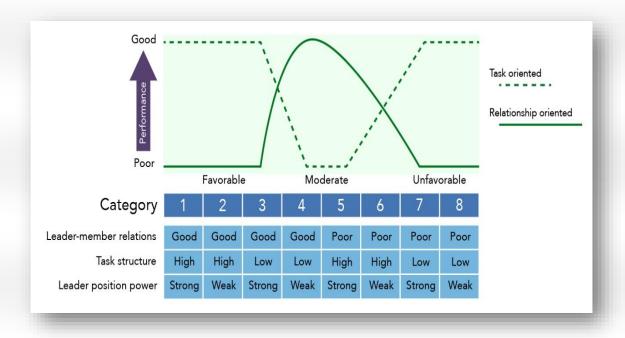
Fiedler concluded that task oriented leaders tend to perform best in situations that either *very favorable* or *very unfavorable* to

- them, when faced with category I, II, III, VII, or VIII situation task oriented leaders would perform well.
- Relationship oriented leaders, however, perform best in moderately favorable situations – when faced categories IV through VI.

According to Fiedler, an individual's leadership style is fixed. Therefore, there are really only two ways in which to improve leader effectiveness:

- ✓ Change the leader to fit the situation.
- Change the situation to fit the leader such as restructuring the tasks or increase or decreasing the power that the leader has to control.

Figure 7.4 Fiedler's Contingency Model



### 7.3.3.2 The Path-Goal Theory

This theory is developed by Robert House. This theory said it is a leader's job to assist followers in attaining their goals and provide the necessary direction and support. The term path goal is derived from the belief that effective leaders clarify the path to help their followers get from where they are to achievement of their work goals and make the journey along the path easier. A leader's motivational behavior:

- ✓ Makes employee need satisfaction contingent on effective performance.
- ✓ Provides the coaching, guidance, support, and rewards necessary for effective performance.
- ✓ This theory assumes that the leader's style is flexible and can be changed to adapt to the situation at hand.

House identify, Path -goal theory (refer Figure 7.5):

- Develop four leadership behavior styles :
  - a) Directive leader
    Lets employees know what is expected of them, schedules work to be done, and gives specific guidance as to how to accomplish tasks.
  - b) Supportive leader
    Is friendly and shows concern for the needs of employees.
  - c) Participative leader
     Consults with employees and uses their suggestions before making a decision.
  - d) Achievement-oriented leader
     Sets challenging goals and expects employees to perform at their highest levels.
- Proposes two classes of situational/ contingency variables that moderate the leadership behavior-outcome relationship:

- ✓ **Environmental factors/ variables** factors that are outside the control of the employee. Such as task structure, formal authority system and work group style.
- ✓ Personal factors/ variable factors that are part of the
  personal characteristics of the employee. Such as individual
  differences (locus of control), a person experience, and
  perceived ability.

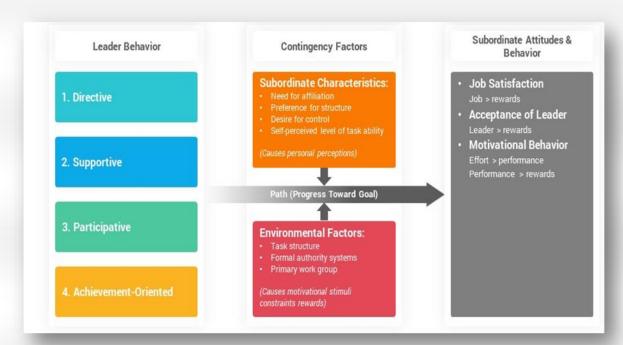


Figure 7.5 The Path-Goal Theory

# 7.3.3.3 The Situational Leadership Theory

This theory is developed by Paul Hersey and Kenneth Blanchard's leadership model has gained a strong following among management development specialist. Situational leadership is a model of leadership behavior that reflects how a leader should adjust his/ her leadership styles in accordance with the readiness of followers. Leaders should adjust their leadership styles in accordance with the readiness of their followers.

The emphasis on the followers in leadership effectiveness reflects to:

- Acceptance: leader effectiveness reflects the reality that it is the followers who accept or reject the leader.
- Readiness: a follower's ability and willingness to perform.
  - ✓ Ability refer to the level of employee knowledge, skills and experience. Related with employee competent.
  - ✓ Willingness refer to the degree of employee responsibility, motivation, setting the goals, commitment, etc. At higher levels of readiness, leaders respond by reducing control over and involvement with employees.

There are two types of behavior in this model: *task behavior* and *relationship behavior*. When the level of maturity of followers increase, task behavior must be reduced while relationship behavior must be increased and later gradually reduced.

Figure 7.6 illustrate four specific behaviors that create leadership styles. Leaders should adjust their leadership styles—telling, selling, participating, and delegating—in accordance with the readiness of their followers:

(able/willing; able/unwilling; unable/willing; unable/unwilling)

- Telling/Directing leader the styles is suitable for employees
  having the lowest level of maturity. Readiness of employee is
  unable and unwilling because employee is not competent and
  not motivated.
- Selling/Coaching leader leaders only have to give encouragement to the employees in completing their tasks. The readiness of employee is able and unwilling because employee is competent but not motivate.
- Participating leader for employee who is more matured,
   involvement in making decisions together and two-way

- communication. This readiness of employee is unable but willing because employee is motivated but just not competent.
- Delegating leader is suitable for employee having the highest level of maturity. Readiness of employee is able and willing because employee is competent, motivated, responsible and commitment.

**Explanation of** High ↑ High High task **Explanation of bell**relationship top part of shaped curve: and high drawing: This indicates when low task relationship Indicates style each leadership style of leader, S1 to should be used. S4, based on Example: As combination of follower readiness relationship increases, leaders behavior and Relationshould move from S2 task behavior. Telling to Selling to ship Example: S1, Participating and behavior S4 S1 Telling style, is finally to Delegating (supportive) for followers style. with low readiness; this style combines high task-High task Low oriented leader relationship and behaviors, such and low as telling low task relationship **Explanation of** Low instructions, lower part of Low High with low drawing: relationship-Task behavior Level of readiness oriented (directive) runs from unready, behavior, such R1, to very ready, as close R4. Reading supervision. straight up from the R to the High Follower readiness Low appropriate point on the bell curve R4 R3 gives appropriate R2 R1 leadership style. Able but Unable but Unable and Able and Example: Straight willing and unwilling or willing or unwilling or up from R2 is confident insecure confident insecure Selling leadership Follower-directed Leader-directed style.

Figure 7.6 Hersey and Blanchard's Situational Leadership Model



# EMERGING APPROACHES OF LEADERSHIP

There are three main emerging approaches to the subject: *charismatic leadership, transactional leadership,* and *transformational leadership.* 

### 7.3.4.1 Charismatic Leadership

The theory that followers make attributions of heroic or extra ordinary leadership abilities when they observe certain behaviors. Table 7.3 below is the summarizes the key characteristic that appear to differentiate charismatic leaders from non-charismatic person.

**Table 7.3 Characteristics Charismatic Leader** 

Self-confidence	Charismatic leaders have complete confidence in their judgment and	
	ability.	
Vision	They have an idealized goal that proposes a future better than the status	
	quo. The greater the disparity between the idealized goal and the status	
	quo, the more likely that follower will attribute extraordinary vision to	
	the leader.	
Ability to articulate the vision	They are able to clarify and state the vision in terms that are	
	understandable to others. This articulation demonstrates an	
	understanding of the followers' needs and, hence, acts as a motivating	
	force.	
Strong	Charismatic leaders are perceived as being strongly committed and	
convictions	willing to take on high personal risk, incur high costs, and engage in	
about the	self-sacrifice to achieve their vision.	
vision		
Behavior that is	They engage in behavior that is perceived as being novel,	
out of the	unconventional, and counter to norms. When successful, these	
ordinary	behaviors evoke surprise and admiration in followers.	
Appearance as	Charismatic leaders are perceived as agents of radical change rather	
a change agent	than as caretakers of the status quo.	
Environment	They are able to make realistic assessments of the environmental	
sensitivity	constraints and resources needed to bring about change.	

Did charisma can be learned or born with their qualities? A small minority still think charisma cannot be learned but most expertise believed that individuals can be trained to exhibit charismatic behaviors. Charisma leadership appears to be most appropriate when the followers' task has an ideological component or when the environment involves a high degree of stress and uncertainty.

### 7.3.4.2 Transformational Leadership

Leaders who inspire followers to transcend their own self-interests for the good of the organization and are capable of having a profound and extraordinary effect on followers. The transformational leaders pay attention to the concerns and developmental needs of individual followers; change followers' awareness of issues by helping those followers to look at old problems in new ways; and able to excite, arouse, and inspire followers to put extra effort to achieve group goals. Transformational leadership *produces levels of employee effort and performance*. This approach has also been found to be linked to building trust among organizational members. Figure 7.7 illustrate the criteria have for transformational leader.



Figure 7.7 Transformational Leadership

### 7.3.4.3 Transactional Leadership

Leaders who guide or motivate their followers toward established goals by clarifying role and task requirements. Transactional leaders will determine what should be done by employees to achieve their own objectives of the organization. They also classify and aid employees to be confident so that they are able to achieve the objectives through certain efforts. These types of leadership are based on the *process of exchange*, where employees are given *rewards for good achievements and punished for unsatisfying achievements*.

The characteristics of transactional leadership:

- Directive employees follow direction from a leader.
- Structured based on hierarchical structure of company.
- Maintains status-quo tasks more on short-term goal.
- Short-term motivation is tied to each goal.
- Constrained thinking which strays from task accomplishment, not encouraged.
- Focused on extrinsic rewards motivation is external to employee.

# 7.4 BUILDING TRUST

**Trust** – is a positive expectation that another will not – *through words, actions, or decisions* – act opportunistically. The phrase *positive expectation* – refer to the knowledge of and familiarity with the other party. Trust based on the belief in the integrity, character, and ability of a leader. The word *opportunistically* refers to the inherent risk and vulnerability in any trusting relationship.

There are five key dimension that underlie the concept of trust:

- ✓ Integrity honesty and truthfulness.
- ✓ Competence technical and interpersonal knowledge, skills and abilities.
- ✓ Consistency reliability, predictable, and good judgment.
- ✓ Loyalty willingness to protect and save face for a person.
- ✓ Openness willingness to share ideas and information freely.

There are three (3) types of trust:

#### i) Deterrence-based trust

Trust based on fear of reprisal if the trust is violated. Individuals who are in this type of relationship act because they fear the consequences of not following through on their obligations. This type of trust will work only to the degree that punishment is possible, consequences are clear, and the punishment is actually imposed if the trust is violated.

### ii) Knowledge-based trust

Trust based on the behavioral predictability that comes from a history of interaction. It exists when you understand someone well enough to be able to accurately predict his or her behavior. The more communication and regular interaction you have with someone, the

more this form of trust can be developed and depended upon. In organizational context, most manager-employee relationships are knowledge based. Both parties have enough experiences working with each other to know what to expect.

### iii) Identification-based trust

Trust based on an emotional connection between the parties. It allows one party to act as an agent for the other and substitute for that person in interpersonal transactions. Trust exists because the parties understand each other's intentions and appreciate the other's wants and desires. The best example of identification-based trust is a long term, happy marriage.

# 7.5 CONCLUSION

Leadership is one of the key elements in management functions. The importance of identifying and understanding leadership concepts, skills and styles is very important. It is to ensure the suitability of a person, especially for a manager, to use the appropriate leadership styles in their management, especially managing manpower resources. Trust is an element that support leadership process that is needed to strengthen aspects of one's leadership. Trusts allow followers or employees to follow direction and facilitate the process of creating influence.

#### **KEY TERM**

Leadership Readiness of follower

Trait approaches Situational leadership theory

Behavioral approach Transactional leadership

Contingency approach Transformational leadership

Charismatic leadership Path-goal theory leadership

Trust

### **SUMMARY**

- Leadership is the ability to influence employees to voluntarily pursue organizational goals.
- A manager and a leader are different in concepts even there are same person.
- There are several approaches to understand the leadership concepts such traits approach, behavioral approach, contingency approach, and the contemporary approach included transactional, transformational, and charismatic.
- Traits approach leadership attempt to identify distinctive characteristics taht account for the effectiveness of leaders.
- Behavioral leadership approaches try to determine the distinctive styles means the combination of traits, skills, and behaviors that leaders used when interacting with others.
- The contingency approach to leadership believe that effective leadership behavior depends on the situation at hand that as situations change, different styles become effective.
- Transactional leadership focuses on clarifying employees' roles and task requirements and providing rewards and punishment contingent on perfomance.
- Transformational leadership transforms employees to pursue goals over selfinterest. Four key behaviors of transformational leaders are inspire motivation, inspire trust, encourage excellence, and stimulate them intellectually.
- In charismatic leadership the followers make attribution of heroic or extra ordinary leadership abilties when they observe certain behaviors.





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Chapter 8

# UNDERSTAND THE USED OF MOTIVATION AND COMMUNICATION IN MANAGEMENT

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Describe the concept of motivation.
- 2. Distinguish the theories of motivation.
- 3. Describe the elements in communication.
- 4. Explain types of communication in an organization.
- 5. Explain the communication flow in an organization.
- 6. Discuss the communication barriers and the effective communication.

8.1

### **INTRODUCTION**

In this chapter, the emphasis is placed on the elements of motivation and communication that are basic support to the function of leadership in management. At the beginning of the discussion, elements of motivation will be shared such as concepts and theories in understanding motivation, and also some methods to develop the motivation of members organization.

The next discussion is the communication element. Communication is important to ensure that management activities can be implemented successfully. An understanding of the concept, the process of communication, and the types and the scope of communication should be emphasized. The discussion also covers the barriers of communication and how to achieve effective communication.

# 8.2 MOTIVATION

Motivation is the result of the interaction between the individual and the situation which a person faces. Certainly, individuals differ in motivational drive but an individual's motivation varies from situation to situation.

#### Motivation can be defined as:

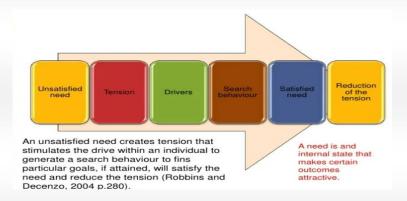
"the willingness to exert high levels of effort to reach organizational goals, conditioned by the effort's ability to satisfy some individual need. The process by which a person's efforts are energized, directed, and sustained toward attaining a goal." (Robbins & DeCenzo; 2013).

Based on the meaning above, motivation process involves the function of three key elements: **energy**, **direction** and **persistence**.

- Energy is a measure of intensity or drive. It related on a person effort on how hard a person tries. When someone is motivated, he or she tries hard (put level of effort or energy to achieve).
- **Direction** the effort must be channeled in a direction that benefits the organization. Effort that is directed toward and consistent with the organization's goals is the kind of effort that we should be seeking.
- Persistence it is about on how long a person putting forth effort to achieve those goals.

The motivation is a need-satisfying process. **A need** *is some internal state that makes certain outcomes appears attractive.* A need also *is an unfulfilled physiological or psychological desire.* An unsatisfied need creates tension that stimulates drives within an individual. Need can create on how long a person tries to fulfill their needs. If need can be achieve in short term, so do more level of effort put on it. These drives generate a search behavior to satisfy the need and reduce the tension. Figure 8.1 illustrate the motivation process.

**Figure 8.1 Motivation Process** 



A person's motivation can be desribe from the internal factors (also known as intrinsic) and external factors (called extrinsic). Intrinsic motivation appeared because a person want to fulfill their internal needs. Example, needs for selt-achievement, recognition, and self-beloging. For extrinsic motivation occur because the external factors individual. Example, stability in finance, status, and safety workplace.

# 8.2.1

### THEORIES OF MOTIVATION

Managers need to identify their employees motivation that can help improve their employees satisfaction and work performance. In management persepctives, there are two approaches of motivation theories; earlier motivation theories and contemporary theories.

The earlier motivation theories also known as 'content motivation theories', attempt to determine what motivates people at work. This approach tried to identifying the needs that individuals have and how they are related to motivational factors. These approach theories also called the needs-based model, are motivation models or theories that emphasize the specific needs of humans or internal factors that given power to direct or stop action. Need-based approaches explain motivation as a

phenomenon that takes place internally (motivation occur because to create/ achieve needs). The stronger the needs, the higher are the motivation to satisfy them.

The *contemporary theories* also known as **'Process-based theories'** focus on the understanding of thinking or the cognitive process that exist in the mind of an individual and actions that affect the behavior of an individual. (focus on the how/what are the way/process or methods must be used to up motivation level a person).

# 8.2.2

# **CONTENT THEORIES OF MOTIVATION**

The **content theories** also known as *earlier theories* that tried to indentifying employees needs in understanding their motivation. This approach proposed several theories such as :

- i. Hierarchy of Need Theory
- ii. Theory X and Theory Y
- iii. The Two Factors Theory

# 8.2.2.1 Hierarchy of Need Theory

Proposed by Abraham Maslow. He stated that within every human being, there exists a hierarchy of *five dimension of needs* include (refer Figure 8.2):

- i) Physiological needs the lowest and most basic needs, which refer to primary needs for survival such as food, drink, shelter.
- ii) Safety needs physical safety from other harms such as place to stay, insurance.

- iii) Social needs affiliation with others, affection, and friendship.
- iv) Esteem needs this level represent the higher internal needs of human such as self-respect, autonomy, achievement; external needs such as status, recognition and attention.
- v) Self-actualization the highest human needs such as personal growth and fulfillment.

As each need is substantially satisfied, the need becomes dominant. Although no need is ever fully gratified, a substantially satisfied need no longer motivates. To motivate someone, you need to understand where that person is in the hierarchy and focus on satisfying needs at or active that level.

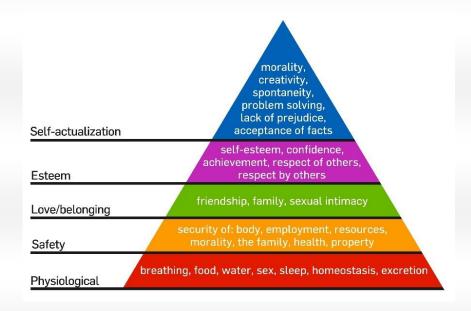


Figure 8.2 Maslow's Hierarchy of Needs

### 8.2.2.2 Theory X and Theory Y

Proposed by Douglas McGregor with two distinct views of the nature of human beings (refer Figure 8.3):

- i) A basically negative view, labeled Theory X assumes that physiological and safety needs dominate the individual. Theory X assumptions that employees dislike work, are lazy, seek to avoid responsibility, and must be coerced to perform.
- ii) A basically positive view, labeled Theory Y assumes that social and esteem needs are dominant. Theory Y assumption that employees are creative, seek responsibility, and can exercise self-direction. McGregor held to the belief that the assumptions of Theory Y were the most valid.

Unfortunately, there is no evidence to confirm either set of assumptions is valid. In the real world, effective managers do make Theory X assumptions. For instance, when Bob McCurry was Vice President of Toyota's U.S, Marketing Operations, he drove his staff hard and used a 'crack the whip' style. Yet he was been extremely successful at increasing Toyota's market share in a highly competitive environment.

Figure 8.3 Theory X and Theory Y

THEORY X	THEORY Y
The average employee is lazy, dislikes work, and will try to do as little as possible.	Employees are not inherently lazy. Given the chance, employees will do what is good for the organization.
To ensure that employees work hard, managers should closely supervise employees.	To allow employees to work in the organization's interest, managers must create a work setting that provides opportunities for workers to exercise initiative and self-direction.
Managers should create strict work rules and implement a well-defined system of rewards and punishments to control employees.	Managers should decentralize authority to employees and make sure employees have the resources necessary to achieve organizational goals.

# 8.2.2.3 Two Factors Theory

This theory also called **Motivation–Hygiene Theory**, was proposed by psychologist Frederick Herzberg. The two factors refer to motivator and hygiene factors (refer Figure 8.4 and Figure 8.5):

- Motivator factors related with intrinsic factors that are related to job satisfaction, such as recognition and growth, which can increase job satisfaction.
- Hygiene factors related with extrinsic factors that are related to job dissatisfaction, such as working condition and salary, that when adequate, may eliminate job dissatisfaction but do not necessarily increase job satisfaction.

Herzberg believed that an individual's attitude toward his or her work can very well determine success or failure. Herzberg investigated the question of what do people want from their jobs. Figure 8.4 below represents the findings:

Figure 8.4 Herzberg's Motivation-Hygiene Theory

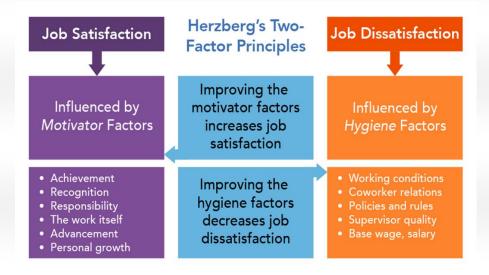


Figure 8.5 Herzberg's Motivation-Hygiene Theory Application



Figure 8.5 explain that **satisfaction** which is mostly affected by the "motivator fators". Motivation factors help increase the satisfaction but are not affective on dissatisfaction. While **dissatisfaction** is the results of the "hygiene factors". These factors, if absent or inadequate, cause dissatisfaction, but their presence has little effect on long-term satisfaction.

# **8.2.2.4** The Similarities & Differences of Content Theories

#### **Similarities:**

- Each is popular in the literature and practicing managers' minds.
- Each is intuitively logical.
- Each included some lower-order needs.
  - ✓ Maslow's physiological and safety needs.
  - ✓ McGregor's Theory X.
  - ✓ Herzberg's hygiene factors.
- Each includes some higher-order needs.
  - ✓ Maslow's social, esteem, and self-actualization.
  - ✓ McGregor's Theory Y
  - ✓ Herzberg's motivators.

### **Differences:**

- Each looked at motivation of individuals from a different perspective.
  - ✓ Maslow's Hierarchy of Needs theory foused on individual needs, or the self.
  - ✓ McGregor focused on the manager's perception of the individual.
  - ✓ Herzberg focused o the organization's effect on the individual.

# 8.2.3

### PROCESS THEORIES OF MOTIVATION

Process or Contemporary theories of motivation focused to explain on how or the methods used to move up level of motivation a person. Several theories under this approach are Equity theory and Expectancy theory.

# 8.2.3.1 Equity Theory

Developed by J. Stacey Adams, believed that employees perceive what they get from a job situation (outcomes) in relation to what they put into it (input) and then compare their input-outcome ratio with the input-outcome ratios of relevant others.

The theory establishes four propositions relating to inequitable pay:

 If paid according to time, over-rewarded employees will produce more than equitably paid employees.

- ii) If paid according to quantity of production, over-rewarded employees will produce fewer but higher-quality units than equitably paid employees.
- iii) If paid according to time, under-rewarded employees will produce less or poorer-quality output.
- iv) If paid according to quantity of production, under-rewarded employees will produce a large number of low-quality units in comparison with equitably paid employees.

Figure 8.6 (i) and (ii) , shown the relationship if employees perceive their ratio to be equal to those of the relevant others with whom they compare themselves, a state of equal exists. They perceive that their situation is fair – that justice prevails. If the ratios are unequal, inequity exists, employees view themselves as under-rewarded or over-rewarded. Inequity occur, employees attempt to correct them.

Figure 8.6 (i) Equity Theory Relationship

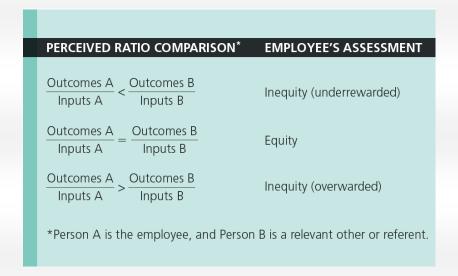
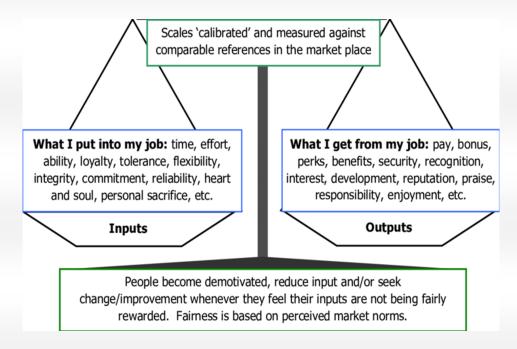


Figure 8.6 (ii) Equity Theory Relationship



### 8.2.3.2 Expectancy Theory

Proposed by Victor Vroom, state that a person will decide to act in a certain way because they are motivated to select a behavior due to what they expect the result to be. Figure 8.7, shown the motivation process in this theory.

Figure 8.7 **Expectancy Theory Effort** Performance Reward The employee The employee The employee believes that believes that values the effort will result acceptable reward. in acceptable performance performance. will produce the desired reward.



Figure 8.8 Simplified Expectancy Theory

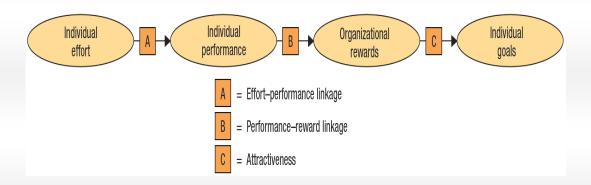


Figure 8.8 illustrate the strength of a person's motivation to perform (put level of effort) depends on how strongly that individual believes can achieve what is being attempted.

- First: what perceived outcomes does the job offer the employees?
   What the individual employee perceives the outcomes to be, regardless of whether his/her perceptions are accurate.
- Second: how attractive do employees consider these outcomes to be?

Considers on the individual's personal attitudes, personality, and needs.

Third: what kind of behavior must the employee exhibit to achieve these outcomes?

What criteria will be used to judge the employee's performance?

Fourth: How does the employee view his/her chance of doing what is asked?

What probability does he/she place on successful attainment?



# DEVELOPING MOTIVATION EMPLOYEES



We have discuss two approaches used to understand a person motivation. Managers need developing motivation employees in achieving an organization goals and objectives. Here are several methods used to develop employees motivational:

### 8.2.4.1 Create Appropriate on Job Design

Developing good job design is related with the employee satisfaction and can produced high performance. *Job design stress on the way tasks are combined to form complete jobs*. One of the famous model used to develop job design is *Job Characteristic Model (JCM)*. JCM developed by Hackman adn Oldham, is a framework for analyzing and designing jobs that identifies five primary core job dimensions, their interrelationships, and their impact on outcomes. Table 8.1 brief the definition the five primary core job dimensions that had been identify as:

**Table 8.1 Job Characteristic and Constitutive Definition** 

JOB CHARACTERISTIC	CONSTITUTIVE DEFINITION
Skill Variety	The degree to which the job requires a variety of different activities in carrying out the work, involving the use of a number of different skills and talents of the individual.
Task Identity	The degree to which the job requires completion of a 'whole' and identifiable piece of work, such as doing the total job from beginning to end.
Task Significance	The degree to which a job has substantial impact on the lives of other people.
Autonomy	The degree to which the job provides substantial freedom, independence and discretion to the individual in scheduling the work, and in determining the procedures to be used in carrying it out.
Job Feedback	The degree to which carrying out the work activities required by the job provides the individual with direct and clear information about the effectiveness of his/her performance.

Core jobs dimensions (skill variety, task identity, task significance, autonomy, and feedback of results is given), directly affect three psychological states of employees, that increases in these psychological states result as shown in Figure 8.9:

Critical Personal and Core job dimensions psychological states work outcomes Skill variety Experienced High internal Task identity meaningfulness work motivation Task significance of the work High-quality work performance Experienced Autonomy responsibility for High satisfaction outcomes of the work with the work Knowledge of the Low absenteeism Feedback actual results of the and turnover work activities Employee growthneed strength

Figure 8.9 The Job Characteristics Model

# 8.2.4.2 Others Appropriate on Job Design

Others techniques used to redesign job are:

#### i. Job Rotation

Referred to as cross-training. Periodic shifting from one task to another. The strengths: reduces boredom, increases motivation, and helps employees better understand their work contributions. And the weaknesses: creates disruptions, requires extra time for supervisors addressing questions and training time, and reduced efficiencies.

#### ii. Job Enrichment

The vertical expansion of a job by adding planning and evaluation responsibilities. Job enrichment can increasing a job's high-level responsibilities to increase intrinsic motivation. It's involves

adding another layer of responsibility and meaning. This technique can be effective at reducing turnover.

#### iii. Flextime

Employees work during a common core time period each day but have discretion in forming their total workday from a flexible set of hours outside the core.

### iv. Job Sharing

Two or more people split a 40-hour-a-week job. Declining in use. Can be difficult to find compatible pairs of employees who can successfully coordinate the intricacies of one job. Increases flexibility and can increase motivation and satisfaction when a 40-hour-a-week job is just not practical.

### v. Telecommuting

Employees who do their work at home at least two days a week through virtual devices linked to the employer's office. Some wellknown organizations actively discourage telecommuting, but for most organizations it remains popular.

# **8.2.4.3 Employees Involvement**

- i. Open-Book Management An organization's financial statements are shared with all employees.
- **ii. Employee Recognition Programs** Programs that consist of personal attention and expressions of interest, approval, and appreciation for a job well done.
- **iii. Pay-for-Performance Programs** Variable compensation plans that pay employees on the basis of some performance measurement. Several pay-for-performance such as:
  - (a) Piece-rate plan A pure piece-rate plan provides no base salary and pays the employee only for what he or she produces. Limitation: Not a feasible approach for many

- jobs. The main concern for both individual and team piecerate workers is financial risk.
- (b) Merit-based pay Allows employers to differentiate pay based on performance. Creates perceptions of relationships between performance and rewards. Limitations:Based on annual performance appraisals. Merit pool fluctuates.
- (c) Bonuses An annual bonus is a significant component of total compensation for many jobs. Increasingly include lowerranking employees. Many companies now routinely reward production employees with bonuses when profits improve.

### 8.2.4.4 Minimum-Wage Employees

- i. Use employee recognition programs
- ii. Provide praise
- iii. Empower employees
- iv. Provide career development opportunities

Many managers understand about task assignment for their employees. Yet understanding in determining the level of employee motivation is sometimes overlooked because many managers only look at results rather than the process in producing output.

Apart of motivation, the element of organization communication also be emphasized to produce an effective and brilliant work process.

### ORGANIZATIONAL COMMUNICATION

**Communication** can be define as the process of transferring information and corresponding meanings from one individual to another by using meaningful symbols. Meaningful symbols such as verbal, writing, sounds, etc. There four major functions of communication in organization such as:

- i. Acts to Control Communication acts to control the behaviors of members in several ways and organizations have authority hierarchies and formal guidelines that employees are required to follow. Communication performs it's control functions when employees are required to report (communicate) any task related problems.
- ii. Fosters motivation Communication foster motivation by clarifying to employees what needs to be done, how well they (employees) are performing on their job and what employees should do to improve performance by formulate specific goals, provision of feedback, and reinforcement of desired behavior.
- iii. Emotional Expression Many employees regard their work group as a primary source of social interaction. This is in view of the fact that the communication which takes place within the group is a fundamental mechanism by which members express their feelings of satisfaction.
- iv. Providing Information Communication is related to its role in facilitating decision-making by providing information required by individuals and groups in order for them to make decisions. The data is used to identify and evaluate alternatives in the decision making process.



### **COMMUNICATION PROCES**

Communication process refer to the steps between a source and a receiver that result in the transference and understanding of meaning. During the transmission communication process, information is shared between two or more individuals or groups. Figure 8.10 illustrate the communication process occur.

SENDER Encoding Message Decoding RECEIVER

Media

Noise

Response

**Figure 8.10 The Communication Process** 

Communication process involves the eight elements:

- The sender: A group or individual who wants to convey a particular information to another group or individual.
- ii. *Encoding*: is translating a message into understandable symbols or language (The sender encodes the message - converts it to a symbolic form).
- iii. **The message**: is the actual physical product of sender`s encoding.
- iv. The channel: is the medium through which the message travels to receiver (the medium – is the pathway by which a message travels).

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Sender (Encoding) Message (Medium) Receiver (Decoding)
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- v. **Decoding**: is interpreting and trying to make sense of the message (The receiver receive and has been translated into understandable form of symbols).
- vi. **The receiver**: a person or group of person to whom the message is directed.
- vii. **The Noise**: represented communication barriers that distort the clarity of the message.
- viii. **The Feedback**: is the check on how successful we have been in transferring our message as originally intended (the receiver expresses his or her reactions to the sender's message).

8.3.2

### **GENERAL TYPES OF COMMUNICATION**

There are three of communication medium and also called types of communication: *non-verbal*, *verbal*, *and written*.

#### i. Non-Verbal Communication

Non-verbal communication refers to all communication that does not involve words by written or spoken. Normally, it is used together with oral communication to support or emphasize the oral message. Non-verbal communication is very important since many receivers believe that this form can provides more a truthful and accurate picture of what is thought and felt by the sender. There are main six ways in which non-verbal communication is expressed are through:

a) Interpersonal space – refer on how close or far away one should be when communicating with another person.

People in different culture have different ideas about what is acceptable interpersonal space. Example, people of North America and northern Europe tend to conduct business conversations at a range of 3-4 feet. People in Latin America and Asian cultures; the range is about 1 foot. For Arabs, it is even closer.

- b) Eye contact serves four functions communication:
  - ✓ It signals the beginning and end of a conversation.
  - ✓ It expresses emotions; people tend to avoid eye contact when conveying bad news or negative feedback.
  - ✓ Gazing monitors feedback because it reflects interest and attention. Depending on the culture, gazing also expresses the type of relationship between the people communicating. Example, Westerns are taught at an early age to look at their parents when spoken to. However, Asians are taught to avoid eye contact with a parent or supervisor in order to show obedience and subservience.
- c) Facial expressions probably you are accustomed to thinking that smiling represents warmth, happiness, or friendship. Whereas frowning represents dissatisfaction or anger. But these interpretations of facial expressions do not apply across all cultures. Example, a smile, does not convey the same emotions in different countries.
- d) Body movement and gestures an example of body movement is learning forward; an example of a gesture is pointing. Open body positions, such as leaning backward, express openness, warmth, closeness, and availability for communicating. However, these interpretations of body language are subjective, hence easily misinterpreted, and highly dependent on the context and cross-cultural

differences. We need to be careful when trying to interpret body movement.

- e) Touch norms for touching vary significant around the world.

  An example, in the Middle East it is normal for two males who are friends to walk together holding hands. Men and women interpret touching differently, with women tending to do more touching during conversations than men do. If men touch women, it is viewed as sexual. Yet even handshake now evolving into a range of move intimate gestures.
- f) Setting the location of an office or sat in the class (such as corner office), its size, and choice of furniture often expresses the accessibility of the person in it.

### ii. Verbal / Oral Communication

Verbal refers to the transmission and reception of voiced message during face-to-face, group discussion, via the telephone or video conferencing. This medium is an effective form of communication because managers can receive and assess non-verbal communication that supports the oral message.

#### iii. Written Communication

It is includes letter, e-mails, and memo. A manager who prefers oral communication seldom uses written communication. They also tend to avoid written communication when they have poor writing. This medium is most effective at sending messages clearly and accurately. But it can become ineffective if the message that requires transmission is vague, difficult to understanding, and emotional in nature.



# COMMUNICATION DIRECTION IN AN ORGANIZATION



In an organization, managers have to identify the communication direction or channel when choose to deliver message. Sometimes a message fails to be communicated effectively due to the wrong choice of communication channel. *Communication channel refers to the medium used to convey the message.* There are two types of communication channels: *Informal channel and formal communication channel* that involves three flow of organizational communication.

### i. Formal Communication Channel

Formal communication channels follow the chain of command. Formal channel established by the organization and transmit messages that are related to the professional activities of members. It's direction or flows upwards along the authority chain and is limited to work related communication. Figure 8.11 shownthree types of formal communication channel direction: upward flow, downward flow, and horizontal flow.

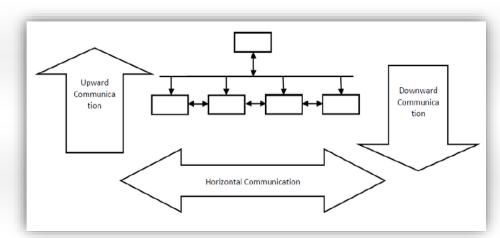


Figure 8.11 The Communication Direction in An Organization

- (a) Downward direction Communication that flows from one upper level of a group or organization to lower level, such as managers communicating to employees. These types of communication is used by managers to instruct employees, provide job instructions, inform employees of policies and procedures, get feedback, or employees giving their ideas or opinion. Downward can be form orally by face-to-face, telephone or video conference; memorandums by written.
- (b) Upward direction Flows from employees and/or manager to superiors of higher levels in a group or an organization. This type of communication is used to provide operational feedback, issues and problems and information on performance and effectiveness of the organization to the superiors. It is also encourages the lower management and employees to be involved in decision making. Upward communications enable managers to discover employees` level of satisfaction with their jobs, work-relationship between colleagues, and the organization in general. Also used to sent report prepared by lower manager, suggestion if need from employees.
- (c) Horizontal/lateral direction Flows between managers or employees at the same level within the group or organization. This communication facilitates and expedites coordination and cooperation between various divisions in an organization and enables colleagues to share related information. It also helps those at the same level to resolve conflict and overcome problems without intervention from the top management.

#### ii. <u>Informal Communication Channel</u>

Informal communication channel used to transmit personal or social messages in the organization. This communication developed outside the formal structure and do not follow the chain of command (skip management levels and cut across lines of authority). The channels are spontaneous and emerge as a response to individual choices. Two types of informal communication channel: *The grapevine* and *the management by wandering around*.

- (a) The grapevine is the unofficial communication system of the informal organization, exists because of human curiosity about what is happening in an organization and how it is going to affect other individuals. Grapevine have three main characteristics:
  - ✓ It is not control by the management.
  - ✓ Most employees view the information derived from the grapevine as more believable and reliable than formal communication.
  - ✓ It is largely used to serve the self-interest of the people within it.

Research shows that the grapevines is faster than formal channels, is about 75% accurate, and is used by employees to acquire the majority of their on-the-job information.

(b) The management by wandering around (MBWA) - is the term used to describe a manager's literally wandering around his or her organization and talking with people across all lines of authority. Management by wandering around helps to reduce the problems of distortion that inevitably occur with formal communication flowing up a hierarchy. MBWA allows managers to listen to employees and learn about their problems as well as to express to employees what values and goals are important.

8.3.4

### **BARRIERS OF COMMUNICATION**

In an organization, there are several barriers of communication such as:

- i) Filtering Refers to sender's manipulation of information to enable the receiver to better understand the intended message. Filtering often occurs in organization where there are pronounced status differences among aspiring employees. Large organizations also provide allowances or space for filtering because there are many vertical levels.
- to see and hear a message based on the receiver's respective needs, motivation, experience, background and other personal characteristics. Example, an employment interviewer who already has their expectations of a candidate in view of her present perception, without being aware of the accuracy of her existing perception or expectation.
- iii) Information Overload Individuals have limited capacity for processing data. Information overload occurs when the information we have to work on exceeds our processing capacity. E-mail, faxes, phone calls, and meeting are forms of information that are received on a daily basis by an executive. When an individual has more information, they can sort out and use, they will select, ignore, pass over or forget the information. This result will lose information and less effective communication.

- iv) Language Words mean different things to different people. In an organization, employees usually come from diverse backgrounds. This factor alone creates many different ways of speaking, which will respective jargons or technical language of various work groups. In large organizations, the frequent and wide geographical disposition of members also results in the use of unique terms and phrases according to one's place of origin. Differences in language used at various levels of the workplace can lead to misinterpretation and an inaccurate interpretation of messages, which can affect communication due to the misunderstanding.
- v) Communication Apprehension Known as fear of communication. Individual who fear oral communication would avoid situations that require them to engage in this type of communication. So, we need to be aware of the fact that there are people who try to avoid situations which require them to speak and they often feel that oral communication skills are not necessary for them be effective at work.

# 8.3.5

## IMPROVING COMMUNICATION EFFECTIVENESS

There are several actions that both organizations and individuals can take in overcoming any communication barriers that occur.

i) Communication Audits - Analyzing the organization's communication needs and practices through periodic communication audits is an important step in establishing effective communication. This types of audit examines an

- organization's internal and external communication to assess communication practices and capabilities and to determine needs. Communication audits are used to a certain the quality of communication and to pinpoint any communication deficiencies in the organization.
- ii) Communication Culture By communication culture, mutual trust exists between senders and receivers - communication credibility is present and feedback is encouraged. Managers should also encourage a free flow of downward, upward, and horizontal communication. Information should be available and understandable.
- iii) Encourage Feedback Communication is a two-way process. Many communication problems can be directly attributed to misunderstandings and inaccuracies. These problems are less likely to occur if the manager uses the feedback loop in the communication process. Check the accuracy of what has been communicated or what you think you heard. This is to ensure that the received message is interpreted rightly. The feedback can be verbal or non-verbal communication.
- iv) Regulate Information Flow and Timing Regulating the flow of information can help to alleviate communication problems. It is involves discarding information of marginal important and conveying only significant information. Proper timing of message is also important.
- v) Listen Actively Poor listening skills are common barriers to effective communication. According to Collela (2006), people tend to hear and understand only around 25% of what is communicated to them verbally. People must actively and consciously listen to others in order to be effective communicators. Concentrate on the content of the message is one of the way to improve listen actively;

## 8.4 CONCLUSION

The use of computer and information technology is also affecting many aspects of management and employee behavior. However, research shows that people cannot actually think about two tasks at the same time, and employees may be more productive if they can organize their time so that they are not constantly switching between tasks. Addition to multitasking, uncovered another researchers have been modern-day trend in communication - Multicommunicating - represents "the use of technology to participate in several interaction at the same time". Examples would be answering e-mail message during a lecture and texting during a dinner's conservation. Multicommunicating has both positive and negative consequences - even enable to get more things done in a shorter amount of for those involved, also need to caution, to be aware that there are times and places when it is inappropriate.

#### **KEY TERM**

Motivation	Communication
Need based approach	Downward communication
Process based approach	Upward communication
Hierarchy of need theory	Horizontal communication
Theory X and theory Y	The grapevine
The two factors theory	
The equity theory	
The expectancy theory	
Job characteristics model	

#### **SUMMARY**

- Motivation involved the level, direction and persistence of effort expended at work, simply put, a highly motivated person works hard.
- Extrinic rewards a given by another person: intrinsic rewards derive naturally from the work itself.
- There two approaches in motivation theory: theories of content and theories of process.
- The content theory also called need based theory is focused on human needs as driven to move up level of effort in achieving standard. This approach involved the hierarki of need theory, theory X and Y, and two factors theory.
- The process theory related the methods used or the way or the system created in motivating persons in their direction. This approach involved the equity theory and expetancy theory.
- Several methods used to develop employees motivational such as jobs design, employees' involvement, andrewarding employee system.
- Communication is the interpersonal process of sending and receiving symbols with messages attached to them.
- Effective communication occurs when the sender and the receiver interpret in the same way. While efficient communication occurs when message is sent at low cost for the sender.
- Chosen suitable channels will influence the effectiveness of communication.
- Communication in an organization occurs in upward, downward and lateral direction.
- Managers should aware of barriers of communication such as the language used, filtering process by level of managers, and others factors.
- Identify the communication barriers will prepared managers for effective communication overcome.



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## **FOUNDATION OF CONTROL**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Describe the terms and the approaches to control.
- 2. Explain why control is important.
- 3. Describe the control process.
- 4. Distinguish among the three types of control.
- 5. Describe the qualities of an effective control system.
- 6. Identify the contingency factors in the control process.

## 9.1

#### **INTRODUCTION**

Management control is a systematic effort to fix or establish the standard of performance through planning objectives, designing information feedback systems, comparing true performance with the fixed standard, determining whether there are any disadvantages, and taking suitable actions to ensure all resources within the organization can be used in the most effective and efficient way in achieving the objective of the organization.

Control is the process of monitoring activities to ensure that they are being accomplished as planned and correcting any significant deviations. Control also refers to the process of ensuring that organizational activities are running according to plan. This process can be carried out by comparing the true performance with the standard that has been established and

taking corrective actions in order to rectify any distortion that does not comply with the standard.

The main purpose or the important of control in management is:

- ✓ To prepare managers to face future or existing problems before they
  turn critical.
- ✓ To make sure all the planning are done as a planned and all
  organization's goals are achieved effectively and efficiently.
- ✓ A good control mechanism will have the advantage of competing strength compared to organizations without a good control system.
- ✓ The smooth running of a particular process can be monitored and problems can be avoided by having control.

# 9.2

# FORMS TO DESIGNING CONTROL SYSTEM

Generally there are three different forms or approaches to designing control systems: *market control, bureaucratic control, clan control, objective control,* and *normative control.* 

#### i. Market control

Market control emphasizes to use of external market mechanisms. Controls are built around such criteria as price competition or market share. Organizations using a market control approach usually have clearly specified and distinct products and services and consideration competition. Using these measures, managers make decisions about future resource allocations, strategic changes, and other work activities that may need attention.

#### ii. Bureaucratic control

A control approach that emphasizes authority and relies on administrative rules, regulations, procedure and policies. These types of control depends on standardization of activities, well-defined job description to direct employee work behavior and other administrative mechanisms – such as budget- to ensure that organizational members exhibit appropriate work behaviors and meet established performance standard.

#### iii. Clan/ Normative control

Clan is an approach to designing control systems in which employee behaviors are regulated by the shared value, norms, traditions, rituals, beliefs, and other aspects of the organization's culture. In contrast to bureaucratic control, which is based on strict hierarchical mechanisms, clan control depends on the individual and the group (the clan) to identify appropriate and expected work related behaviors and performance.

### iv. Objective control

The measurement of observation towards the behavior of employees or output produced to evaluate work performance. Managers are more focused on the observation or measurement towards the behavior of employees or output rather than the policies or rules. Objectives control consists of two forms of control:

- ✓ Behavior control is the rule of behavior and actions that controls
  the behavior of employees in their tasks.
- ✓ Output control is the form of control that controls the output of employees by granting rewards and incentives.

Important features in the implementation of output control are reliability, fairness and accuracy, convincing employees and managers

to achieve the expected results while rewards and incentive depend on the performance standard that has been established.

9.3

### THE CONTROL PROCESS

The process control can be divided into FOUR main steps, as shown in Figure 9.1:

- i. Set the standards.
- ii. Measure the actual performance.
- iii. Compare actual performance with the standards.
- iv. Take corrective action.

#### **STEP.1** Set the Standards

This steps involves the formation of standards for each management activity such as sales and production target, attendance of employees, and safety records. Standards are the benchmark for an aspect that requires control. The factors that need to be considered in setting standard are:

- ✓ Standards must not be too high or too low;
- ✓ Standards must be of quality;
- ✓ Standard must be clear and be accepted by every employee involved in achieving the standards.

Within organization's overall strategic planning, managers define specific goals for organizational departments in terms of operations that include a set standard of performance. Example, Pizza Hut has a standard of performance:

- " reducing the reject rate from 50 to 50 per cent", to assure quality meals and profitability;
- "increasing the company's return on investment to 20 per cent" and "reducing number of accidents to one per 10,000 workers".

#### **STEP II: Measure the Actual Performance.**

The measurement of performance is a repetitive process. For example, a teacher will evaluate his student's performance through quizzes, assignments, and projects from the beginning until the end of the semester. Organizations must prepare formal reports of quantitative performance measurements that manager review daily, weekly, or monthly. These requirements should be related to the standards set in the first step of the control process.

#### **STEP III: Compare Actual Performance with the Standards**

After actual performance is evaluated, managers need to compare the actual performance with the established standards to identify whether the actual performance has met the standards. If the standards are met, the activities were conducted as planned. If the standards are not met, mistakes might have occurred and corrective action must be taken promptly to amend those mistakes.

#### **STEP IV: Take Corrective Action**

If the standards are not met, managers must identify the cause of the situation. Managers should know how and when to take corrective action. Managers can overcome this problem either by re-evaluating the standards (too high) or taking corrective action.

### √ Correct actual performance

A manager who decides to correct actual performance has to make another decision:

- Immediate corrective action correcting a problem at once to get performance back on track.
- Basic corrective action determining how and why performance has deviated and then correcting the source of deviation.

#### ✓ Revise the standard

It is also possible that a variance was a result of an unrealistic standard – that is, the goal may have been too high or too low. In such cases the standard needs corrective attention, not the performance.

**Figure 9.1 Control Process** 



In Step II, to determined actual performance, a manager search for information about it. There are four common sources of information frequently used to measure actual performances are:

- **Personal Observation** provides firsthand, intimate knowledge of the actual activity-information that is not filtered through others. Here, major activities can be observed and it give an opportunities for the managers to read between the lines. Management by Walking Around (MBWA) is a phrase that is used to describe when a manager is out in the work area, directly with interacting employees, and information about what's going on. MBWA around can pick up factual omissions, facial expressions and tones of voice that may be missed by other source. But, the weakness of this approach is in a time when quantitative information suggests objectivity personal observation is often considered an inferior information source. It is subject to perceptual bias.
- ii. Statistical Reports here managers using a computer for measuring actual performance. This measuring device however is not limited to computer outputs. It also includes graphs, bar chart and numerical displays of any form that managers can use for assessing performance. Although statistical information is easy to visualize and effective for showing relationships, it provides limited information about an activity.
- iii. Oral Reports this method are suing through conferences, meetings, one to one conversations or telephone calls. In organization in which employees work in cultural environment, this approach may be the best to keep tabs on work performance.

**iv. Written Reports** – like statistical reports, they are slower yet more formal than firsthand or secondhand oral measure.

## 9.4

### **TYPES CONTROL**

Management can implement controls before an activity commences, while the activity is going on or after the activity has been completed. The types of control called *feed-forward control, concurrent control,* and *feed-back* control.

#### i. Feed-forward control

The most desirable type of control – prevent anticipated problems because it takes place in advance of the actual activity. It is future directed. Example, when Mc Donald's opened its first restaurant in Moscow, it sent company quality control expert to help Russian farers techniques for growing high quality potatoes and sent bakers to teach the processes for baking quality bread. We called this as a feed-back control. It is taking managerial action before a problem occurs. Feed-back control allows management to prevent problems rather than having to cure them later. The weakness of this type of control is, its timely and accurate is difficult to develop.

#### ii. Concurrent control

Control that takes place while an activity is in progress. When control is enacted while the work is being performed, management can correct problems before they become too costly.

The best-known form of concurrent is direct supervision. When manager directly oversees the actions of an employee, the manger can concurrently monitor the employee's action and correct problem as they occur.

#### iii. Feed-back control

This is the most popular type of control. The control takes place after the action. The major drawback of this type of control is that by the time the manager has the information the damage has already been done. Feed-back has two advantages which is, (i) feed-back provides manager with meaningful information on the effectiveness of their planning effort. (ii) feed-back control can enhance employee motivation. People want information on how well they have performed.

# 9.5

## THE QUALITIES OF AN EFFECTIVE CONTROL SYSTEM

Effective control systems tend to have certain qualities in common. The importance of these qualities varies with the situations, but we can generalize that the following characteristics should make a control system effective.

- i. Accuracy A control system that generates inaccurate information can result in management's failing to take action when it should or responding to a problem that does not exist. An accurate control system is reliable and produces valid data.
- ii. **Timeliness** Control should call management's attention to variations in time to prevent serious infringement on a unit's

performance. The best information has little value if it is dated. Therefore, an effective control system must provide timely information.

- **iii. Economy** A control system must be economically reasonable. Any system of control has to justify the benefits that it gives in relation to the costs it incurs. To minimize costs, management should try to impose the least amount of control necessary to produce the desired results.
- iv. Flexibility Controls must be flexible enough to adjust to problems or to take advantage of new opportunities. Few organizations face environments so stable that there is no need for flexibility. Even high mechanistic structures required controls that can be adjusted as times and conditions change.
- v. Understandability Controls that cannot be understood have no value. It is sometimes necessary, therefore, to substitute less complex controls for sophisticated devices. A control system that is difficult to understand can cause unnecessary mistakes, frustrate employees, and eventually be ignored.
- vi. Reasonable criteria Control standard must be reasonable and attainable. If they are too high or unreasonable, they no longer motivate. Because most employees do not want to risk being labeled incompetent by accusing superiors of asking too much, employees may resort to unethical or illegal shortcuts. Control should therefore, enforce standards that challenge and stretch people to reach higher performance levels without demotivating them or encouraging deception.
- vii. Strategic placement Management cannot control everything that goes on in an organization. Even if it could, the benefits

could not justify the costs. As a result, managers should place controls on factors that are strategic to the organization's performance. Control should cover the critical activities, operations, and events within organization.

- viii. Emphasis on the exception Because managers cannot control all activities, they should place their strategic control devices where those devices can call attention only to the exceptions. An exception system ensures that a manager is not overwhelmed by information on variations from standard.
- ix. Multiple criteria Managers and employees alike will try to look good on the criteria that are controlled. If management controls by using a single measurement such as unit profit, effort will be focused only on looking good on that standard. Multiple measures of performance widen this narrow focus. Multiple criteria have a dual positive effect.
- x. Corrective action An effective control system not only indicates when significant deviation from standard occurs but also suggests what action should be taken to correct the deviation. That is, it ought to both point out the problem and specify the solution.

## IDENTIFY THE CONTINGENCY FACTORS IN THE CONTROL PROCESS.

- i) Organization size a small business/ organization relies on informal and more personal control devices. Concurrent control through direct supervision is probably most cost-effective. As organizations increase in size, direct supervision is likely to be supported by expanding formal system. Very large organizations will typically have formalized and impersonal feed-forward and feed-back controls.
- **ii) Position level** the higher one moves in the organization's hierarchy, the greater the need for multiple sets of control criteria, tailored to the unit's goals. This reflects the increased ambiguity in measuring performance as a person moves up hierarchy. Conversely, lower level jobs have clearer definitions of performance, which allows for narrower interpretation of job performance.
- iii) Degree of centralization the degree of decentralization, the more managers will need feed-back on the performance of their employees' decisions. Because managers who delegate authority are ultimately responsible for the actions of those to whom it is delegated, they will want proper assurance that their employees' decisions are both effective and efficient.
- openness or one of fear and reprisal. In the former, we can expect to find informal self-control and, in the latter, externally imposed and formal control system to ensure that performance is within standards. As with leadership styles, motivation techniques, organizational structuring, conflict management techniques should be consistent with the organization's culture.
- v) Important of an activity the importance of an activity influences whether, and how, it will be controlled. If could is costly and the repercussions from error small, the control system is not likely

to be elaborate. However, if an error can be highly damaging to the organization, extensive controls are likely to be implemented – even if the cost is high.

**Control Contigency Variable Recommendations ▼**Small Informal, personal, management by Organization size walking around Formal, impersonal, Large extensive rules and regulations **™** High Many criteria Position and level Low Few, easy-to-measure criteria Increased number and High Degree breadth of controls of decentralization Low Reduced number of controls Open and ► Informal, self-control Organizational supportive culture Threatening Formal, externally imposed controls ➤ High Elaborate, comprehensive Importance of an activity Low Loose, informal controls

Figure 9.2 Contingency Factors in the Design of Control Systems

# 9.7 CONCLUSION

Control process is the last of the management process. Identify the needs and use of control processes help organization achieve the setting standard. Types form of control system related with several factors such as organization environment and also the factors outside of the organization.

#### **KEY TERM**

Control process Market control

Bureaucratic control Clan market

Objective market Feedforward control

Concurrent control Feedback control

#### **SUMMARY**

- Control process is defined as monitoring performance, comparing it with goals, and taking corrective action as needed.
- Control process can be form in market, bureaucratic, clan, and objective control.
- The are four main steps in controlling proces Set the standards, measure the actual performance, compare actual performance with the standards, and take corrective action.
- Types of control involved the process feed-forward control, concurrent control, and feed-back control.



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