PRINCIPLES OF MANAGEMENT

BUSS 101



COURSE OUTLINE

- History and Development of principles of management
- Management process
- Decision making
- Planning
- Organising
- Directing and Controlling
- Organizational theory and behaviour
- Quantitative aids to management

• What is Management?

The process of using organisational resources to achieve organisational goals

- Organisational resources?
- a. Human Resource:

The people needed to get the work done

b. Financial Resource:Investments from shareholders

c. Physical Resource:

The firm's tangible resources

Production facilities (machines etc), Office space, Office equipment, Vehicles, Raw materials

d. Information Resources:

Data used by the manager and organization to get the work done

Who is a manager?
 A person responsible for carrying out the management process

LEVELS OF MANAGEMENT

- The 3 levels of managers are:
- a. First line managers (Supervisors):

Responsible for the daily supervision of employees

b. Middle managers:

They supervise the first line managers

- Top managers:
- -Responsible for the performance of all departments

• CEO:

The one that all other top managers report to

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MANAGERIAL SKILLS

• 3 managerial skills:

- Conceptual skills:
- Ability to analyse a situation and to distinguish between cause and effect

Formal education and training

MANAGERIAL SKILLS

- Human skills:
- The ability to understand, lead and control the behaviour of other individuals and groups.

Education and Experience

MANAGERIAL SKILLS

• Technical skills:

Job specific skills and techniques required to perform a particular type of work.

- Education and Experience

 Driving force behind the evolution of Management:

 The search for better ways to use org. resources efficiently to achieve org. goals.

- Management theories:
- 1. Scientific Management Theory (19th and 20th century):
- Focuses on matching people with task to increase efficiency

- Smith:
- Two manufacturing methods
- Each worker involved in all the steps in production
- Each worker performing only one or few of the steps

- Job Specialization:
- Workers specializing in particular task improves efficiency

- Taylor:
- Focused on how to improve job specialization to increase performance
- Developed 4 principles:

Principle 1: study the way workers perform their task and experiment with new ways of improving how task are performed

Principle 2: Record the new methods of performing task into written rules and standard operating procedures

Principle 3: Carefully select workers who possess skills and abilities that match the needs of the tasks, and train them to perform the task according to the established rules and procedures

 Principle 4: establish an acceptable level of performance of the task, and then develop a pay system that rewards performance above the acceptable level

- 2. Administrative Management Theory:
- Focuses on identifying the principles that will lead to the creation of the most efficient system of organisation and management

- Max Weber:
- The principles of bureaucracy

Five principles:

Principle 1: A manager's formal authority is derived from the position he or she holds in the organisation

Principle 2: People should occupy positions because of their performance not because of their social standing or personal contact

 Principle 3: The extent of each positions' formal authority and task responsibilities, should be clearly specified

 Principle 4: Authority can be exercised effectively in an organisation when positions are arranged hierarchically, so employees know whom to report to and who reports to them

 Principle 5: Managers must create a well-defined system of rules, standard operating procedures and norms so they can effectively control behaviour within an organisation.

- Henry Fayol's Principles of Management:
- Principle 1: Division of labour
- Principle 2: Authority and responsibility
- Principle 3: Unity of command
- Principle 4: Line of authority
- Principle 5: Centralization

- Principle 6: Unity of direction
- Principle 7: Equity
- Principle 8: Order
- Principle 9: Initiative
- Principle 10: Discipline
- Principle 11: Remuneration of personnel
- Principle 12: Stability of tenure of personnel
- Principle 13: Subordination of individual interest to the common interest

- Principle 14: Esprit de corps

- Behavioural Management Theory:
- -The study of how managers should personally behave to motivate employees and encourage them to perform at high levels and be committed to achieving organisational goals

- Mary Parker Follet:
- Managers should allow employees participate and exercise initiative in their everyday work life.

- The Hawthorme Studies:
- To increase productivity, supervisors should be trained to behave in ways that would elicit corporate behaviour from their subordinates

- Douglas McGregor:
- Proposed 2 sets of assumptions

• Theory X:

A set of negative assumptions about workers that leads to the conclusion that a manager's task is to supervise workers closely and control their behaviour

- Theory Y:
- A set of positive assumptions about workers that lead to the conclusion that, a managers job is to creat a work setting that encourages commitment to organisational goals and provides opportunities for workers to be imaginative and to exercise initiative and self direction.

- Management Science Theory
- An approach to management that uses rigorous quantitative techniques to help managers make maximum use of organisational resources.

Resource allocation to maximize profit (linear programing)

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MANAGERIAL DECISION MAKING

- Managers make decisions:
- Decisions in response to opportunities: managers respond to ways to improve organizational performance.
- Decisions in response to threats:
 occurs when managers are impacted by adverse events to the organization

MANAGERIAL DECISION MAKING

- 1. Programmed Decisions: routine, almost automatic process.
 - -Managers have made decision many times before.
 - -There are rules or guidelines to follow

MANAGERIAL DECISION MAKING

- 2. Non-programmed Decisions: unusual situations that have not been often addressed.
 - -No rules to follow since the decision is new.
 - -These decisions are made based on intuition reasoned judgment.
 - Example: Should the firm invest in a new technology

DECISION MAKING MODELS

- What are decision making models?
- guide managers through the decision making process

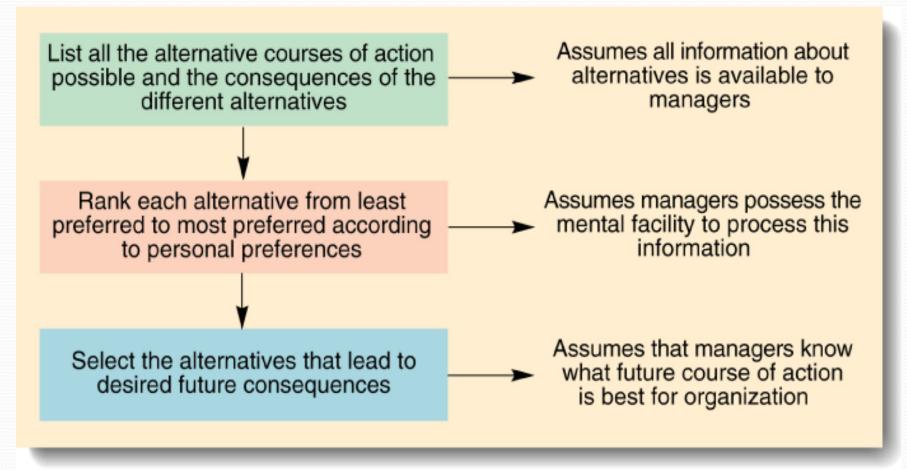
- 2 Decision Making Models
- Classical decision making model
- Administrative decision making model

Classical Decision Making Model

Assumes:

 Managers have access to all information needed to make the optimum decision.

- 1. List all alternatives and consequences
- 2. Rank alternatives from least to most preferred
- 3. Make the optimum decision



 Administrative Decision Making Model (Simon and James)

Assumes:

 Managers do not have access to all information needed to make the optimum decision.

1. Bounded Rationality:

the inability of a manager to evaluate/ analyze information due to limitations of human intelligence

2. Incomplete Information:

most managers do not see all alternatives and decide based on incomplete information.

3. Satisficing:

exploring a limited sample of all potential alternatives and making an acceptable decision rather than the optimum decision

-Managers assume that the limited options they examine represent all options

- Steps In the Decision Making Process:
- 1. Recognise the need for a decision managers should be able to recognize a new challenge or threat posed by changes in the organizational environment

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2. Generate Alternatives:

To respond to an opportunity or a threat, managers must generate a set of feasible alternative courses of action.

3. Assess Alternatives:

Evaluate the advantage and disadvantage of each alternative

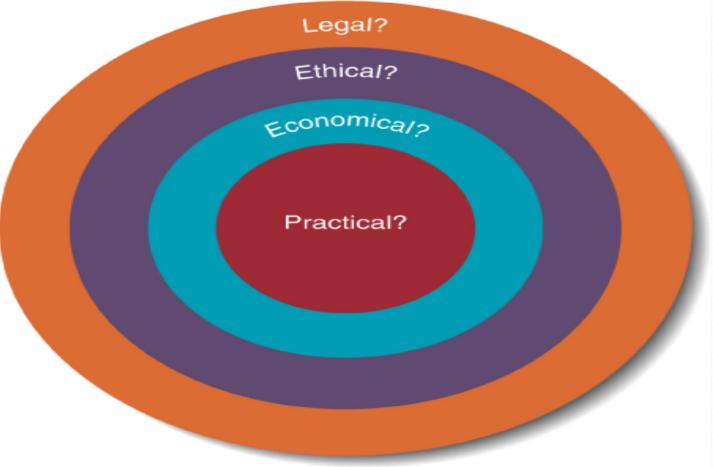
 Which criteria should be used in selecting alternatives

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Selection Criteria (4)

Criteria	
Legality	Is the alternative legal and will not violate any domestic and international laws or government regulations?
Ethicalness	Is the alternative ethical and will not bring harm stakeholders unnecessarily?
Economic Feasibility	Can organization's performance goals sustain this alternative?
Practicality	Does the management have the capabilities and resources required to implement the alternative?

Is the possible course of action:



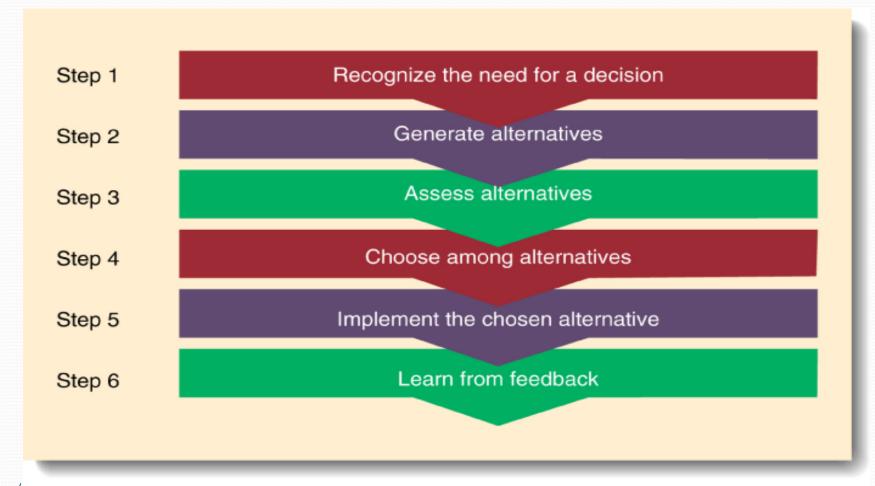
4. Choose Among Alternatives: rank the various alternatives and make a decision

Implement the Chosen AlternateThe chosen alternative must be implemented

6.Learn from Feed Back

Managers should consider what went right and wrong with the decision and learn for the future.

 Without feedback, managers never learn from experience and make the same mistake over



- COGNITIVE BIASES
- Capable managers could make bad decisions due to cognitive biases

- Affect the way managers make decisions

- Four Sources of Biases:
- 1. Prior hypothesis bias:

manager allows strong prior beliefs to influence their decisions even when evidence shows they are wrong.

- 2. Representativeness Bias decision maker incorrectly generalizes a decision from a small sample or one incident.
- 3. Illusion of Control managers over-estimate their ability to control events.

4. Escalating Commitment manager has already committed considerable resource to project and then commits more even after feedback indicates problems

 Group Decision Making:
 most important organisational decisions are made by teams of managers rather than an individual

Advantages of Group Decision Making:

- Reduce cognitive errors
- Draw on combined skills, competencies and accumulated knowledge of group members

- Allow managers to process more information
- Successful Implementation: all managers affected by the decision agree to cooperate

- Short Falls of Group Decision Making
- Groups often take much longer than individuals to make decisions
- Can be difficult to get two or more managers to agree because of different interests and preferences
- Group decision making can be undermined by biases (groupthink)

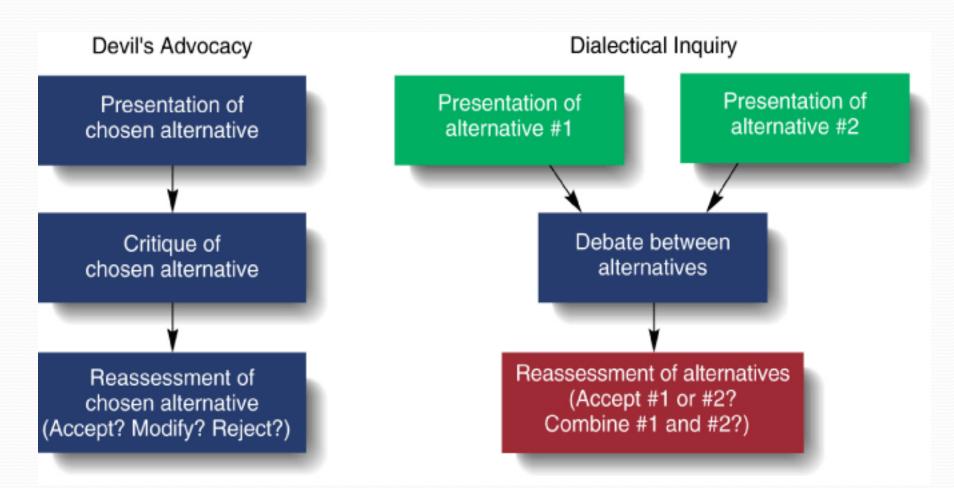
• Groupthink:

usually occurs when group members rally around a central manger's idea (CEO), and become blindly committed without considering alternatives

members strive for agreement at the expense of assessing information

- Emotional rather than an objective assessment of the optimal course of action

IMPROVING GROUP DECISION MAKING



- Improving Group Decision Making:
- 1. Devil's Advocacy: one member of the group acts as the devil's advocate and critiques the way the group identified alternatives.

- Points out problems with the alternative selection

- 2. Dialectical inquiry: two different groups are assigned to the problem and each group evaluates the other group's alternatives.
- Top managers then hear each group present their alternatives and each group can critique the other

INSTRUCTIONS

- Font size: times new roman 12
- Justify
- Number pages
- Double spacing
- Deadline: 29th March (2 weeks)
- At least 5 members in a group

PRINCIPLES OF MANAGEMENT

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MANAGERIAL TASKS

 Managers at all levels in all organizations perform each of the four essential managerial tasks of planning, organizing, leading, and controlling

FOUR MAIN MANAGERIAL TASK



MANAGERIAL TASK

• PLANNING:

Determining the organization's goals and the means for achieving them

- Hence, planning is both:
- goal-making
- strategy-making process

Organizational goals:
 the desired future state of an organization

Strategy
managerial decisions and actions to help an
organization attain one of its goals

- STEPS IN THE PLANING PROCESS
- Deciding which goals the organization will pursue
- 2. Deciding what courses of action to adopt to attain those goals (formulating strategy)
- 3. Deciding how to allocate organizational resources (implementing the strategy)

- Levels of Planning:
- 3 levels of planning
- Corporate level
- Business or Divisional level
- Departmental or Functional level

- Corporate Level Plan Specifies
- Overall mission and goals of an organization
- Corporate-level strategy

- Mission Statement:
- Organisation's reason for existing
- Broadly states the basic business scope and operations that distinguishes it from similar types of organizations

• Example:

Our company's mission is to extend and enhance human life by providing the highest-quality pharmaceutical and related health care products

PLANNING

- Goal
- Desired future state of an organization

Example:

The organization should be first or second in every industry in which it competes

PLANNING

- Corporate-level Strategy
- -which industries and national markets an organisation intends to compete in order to achieve its organizational goal

- SWOT Analysis
- Analysing the forces inside an organisation
 Strengths and weaknesses

-Analysing the forces outside an organisation
 Opportunities and threats

- The 5-forces model
- Analysing potential threats in the external environment
- Level of rivalry among organizations in the industry
- 2. Potential for entry into an industry
- 3. The power of large suppliers
- 4. The power of large customers
- 5. The threat of substitutes

1. Concentration on single market
Reinvesting a company's profit to strengthen its
competitive position in its current industry
(strength: R & D)

2. Vertical Integration

A corporate-level strategy in which a company expands its operations either backward or forward

Backward Integration:

Enters an industry that produces inputs for its products (raw material industry: supplier)

Forward integration:

Enters an industry that uses, distributes or sells the companies products (Retail industry)

3. Diversification

Expanding a company's business operations into a new industry in order to produce new kinds of valuable goods and services

Related diversification:

Entering a new industry that is related to an organization's current business (synergy)

Unrelated diversification:

Entering a new industry that is not related in any way to an organization's current business (management skills, reduce risk)

- International Expansion:
- Global standardization strategy

Selling the same standardized product and using the same basic marketing approach in each national market

 Multi-domestic strategy
 Customising products and marketing strategies to specific national markets

- Divisional or Business-level plans consist
- Divisional goals that will allow division to meet corporate goals

Example:

Each division should be number 1 in the industry in which it competes

- Division's business-level strategy necessary to achieve divisional goals
- Outlines methods to be used by a division or business unit of an organization to compete effectively against rivals in an industry

Formulating business level strategies
 Gaining a competitive advantage in a particular market or industry

1. Low-cost strategy:

Driving an organisations' cost down below that of its rivals

2. Differentiation strategy

Distinguishing an organisation's product from products of other competitors on dimensions such as product design, quality etc.

3. Focused low cost strategy

Serving the needs of customers in only one or few market segments and being the lowest-cost organization. (low-income earners)

4. Focused-differentiation strategy

Serving the needs of customers in only one or few market segments and being the most differentiated organization. (high-income earners)

Functional-Level Plan It states:

Functional-level goals

Goals that functional managers should pursue to help their division attain its business-level goals

Functional-level strategy

Action plan which ensures that each function within the organisation adds value to goods & services

Types of plans
 Plans are categorized based on:

- Time horizon
- Number of times they are used

- Time horizon: intended duration of a plan
- Long-term plans (rolling plans):
 time horizon of 5yrs or more
- Intermediate-term plans:
 time horizon of between 1 and 5yrs
- Short-term plans:
 Time horizon of 1yr or less

- Number of times they are used
- Standing Plans: used in situations in which programmed decision making is appropriate
- Single used plans:

Developed to handle non-programmed decision making in unusual situations

- Importance of Planning
- It gives the organisation a sense of purpose and direction

2. Managers participate in decision making about the appropriate goals & strategies for the organisation

- 3. Helps coordinate managers of the different functions & divisions of an organization
- 4. Used as a devise for controlling managers within an organization

MID TRIMESTER (25%)

- Choose any company
- Describe the various job specialization which enables it produce goods and services
- How might this job specialization be improved using Taylor's principles of management?

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FOUR MAIN MANAGERIAL TASK



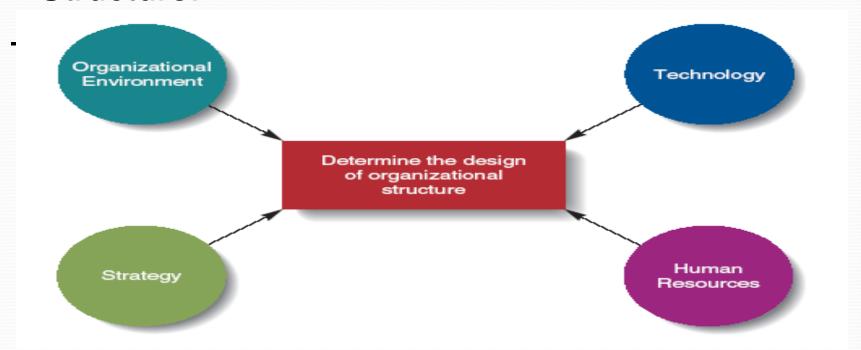
Organizational Structure

Formal system of task and reporting relationships showing how workers use resources.

- Division of Labour
- Hierarchy of Authority (Chain of command)

- Organizational design
- The process by which managers create a specific type of organizational structure.

 Factors Affecting the Choice of an Organizational Structure:



- The Organizational Environment
- Rapid environmental changes
- Flexible structure (decentralize authority)
- >Enables:
- Speed decision making, communication and making it easier to obtain resources

Stable environmental

Needs:

less coordination and communication

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Formal structure (centralized authority)

- Strategy
- Different strategies require the use of different structures.
- Differentiation strategy: needs a flexible structure (decentralized)
- Managers can develop new or innovative products quickly

Low Cost Strategy: needs a more formal structure (centralized)

> Expansions through:

- vertical integration
- diversification also requires a more flexible
- Going international needs a flexible structure (decentralized)

- Technology
- More complex or complicated technology makes it harder for managers to regulate the organization.

 Flexible structure to enable managers respond to unexpected situations (decentralized)

more routine technology implies steps needed to produce goods and services have been worked out in advance

- needs a formal structure (centralized)

Human Resources

Highly skilled workers whose jobs require working in teams.

needs a more flexible structure (decentralize authority)

➤ Not Highly skilled workers

 needs a formal structure (centralized or controlling)

Designing Organizational Structures

- Job Design (Grouping Task into Jobs)
- The process by which managers decide how to divide tasks into specific jobs.

 When Grouping Task into Jobs, Managers Must:

Job Simplification

 The process of reducing the tasks each worker performs.

Too much simplification results in boredom.

Job Enlargement

Increasing the number of different tasks in a given job by changing the division of labor

- Reduces boredom and fatigue
- Leads to high performance

> Job Enrichment

Increasing the degree of responsibility a worker has over a job

- Increases involvement
- Improves performance

- Grouping Jobs into Functions
- Function (Department)
- Group of people, working together, who possess similar skills or use the same kind of knowledge, tools, or techniques to perform their jobs

- > Functional Structure
- An organizational structure composed of all the departments that an organization requires to produce its goods or services

Advantages

- Encourages learning from others doing similar jobs.
- Easy for managers to monitor and evaluate workers.

Disadvantages

Difficult for departments to communicate with others

- Grouping Jobs into Divisions
- Divisional Structure
 - Managers create a series of business units to produce a specific kind of product for a specific kind of customer

- Each division is a collection of functions or departments that work together to produce a product

- 3 Types of Divisional Structures
- Product Structure:

Divisions are organized based on type of good or services provided

► Market Structure:

Divisions are organized based on type of customer they focus on.

➤ Geographic Structure:

Divisions are organized based on geographic locations. (area of a country or world)

- 2-Types of Geographic Structures:
- Global geographic structure
- Global product structure

- Global geographic structure
- Managers locate different divisions in each of the world's regions where the org. operates
- multi domestic strategy

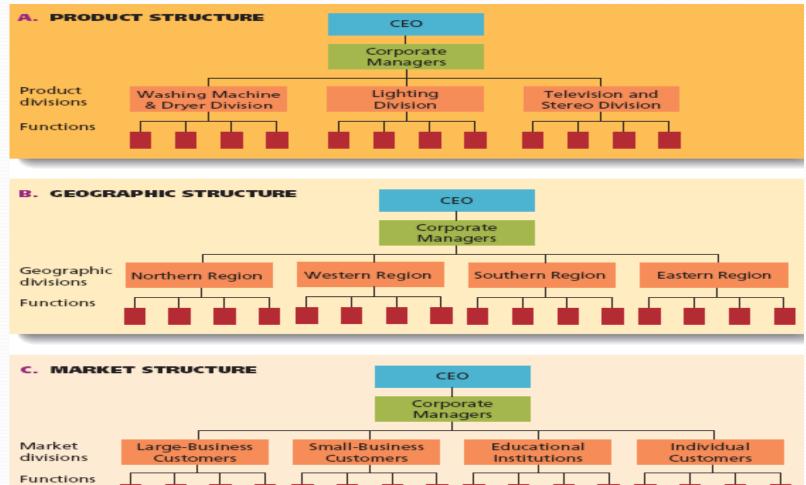
(diff. strategy where products are customized for individual countries)

Authority is decentralized

- Global product structure:
- When customers in different regions buy similar products
- global standardization strategy

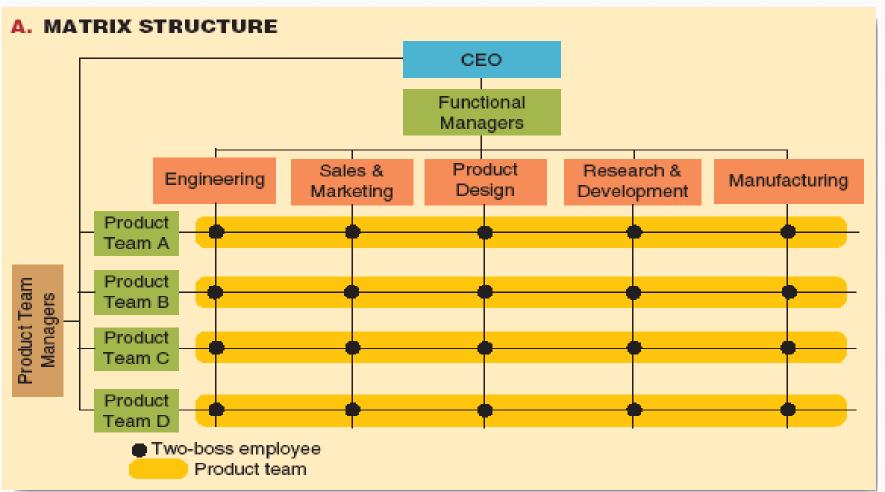
(low-cost strategy where standardized products are sold all over the world)

- Authority is decentralized



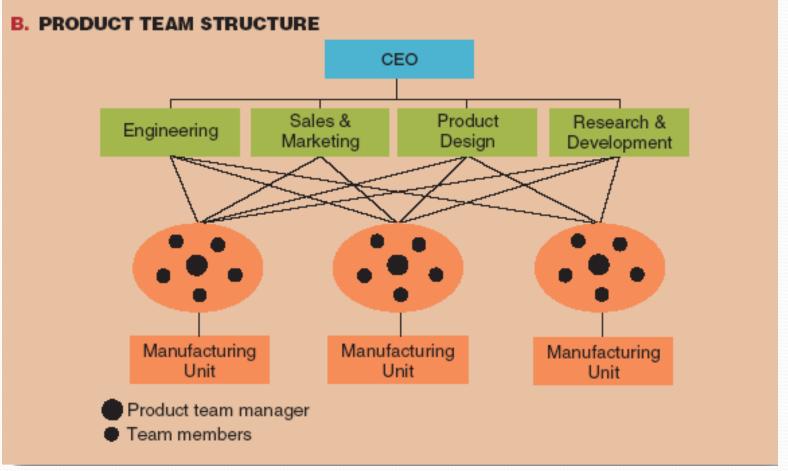
- More Flexible Structures:
- **► Matrix Structure**
- An organizational structure that simultaneously groups people and resources by function and product.

 Each employee has two bosses (functional manager and product manager) and possibly cannot satisfy both.



- Product Team Structure
- Functional employees are permanently assigned to a cross-functional team that is empowered to bring a new or redesigned product to work

 Eliminates dual reporting relationships and twoboss managers



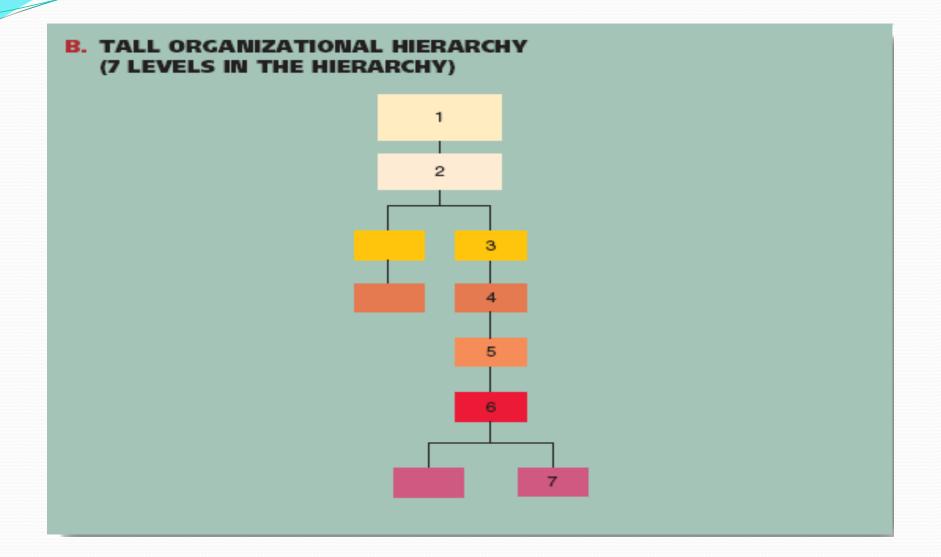
- Coordinating Functions and Divisions
- Managers must develop a clear hierarchy of authority
- Hierarchy of Authority

An organization's chain of command, specifying the relative authority of each manager

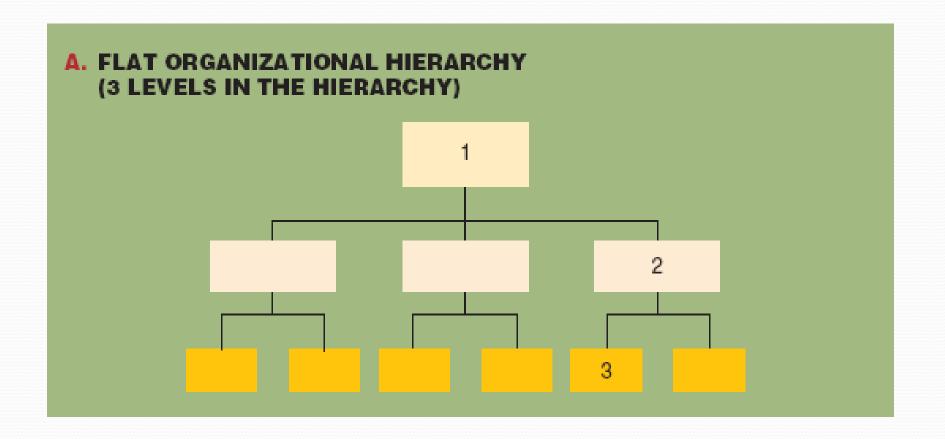
Tall and Flat Organizations

Tall organizations have many levels of authority

- As hierarchy levels increase, communication gets difficult creating delays in the time being taken to implement decisions.
- Communications can also become distorted as it is repeated through the firm.



- Flat organizations have fewer levels and wide spans of control.
- Structure results in quick communications but can lead to overworked managers.



Minimum Chain of Command

Top managers should always construct a hierarchy with the fewest levels of authority necessary to efficiently and effectively use organizational resources

INTERGRATING MECHANISMS

Increase communication and coordination among functions and divisions

Liaison Roles:

One manager in each function or division is responsible for coordinating with another

> Task force:

A committee of managers from various functions or divisions who meet to solve a specific, mutual problem.

Cross functional group:

More like a task force, formed to address recurring org. problems (permanent integrating Mechanism)

SIMPLE

Direct contact

Liaison roles Marketing manager and research and development manager meet to brainstorm new product ideas.

Task forces Representatives from marketing, research and development, and manufacturing meet to discuss launch of new product.

Cross-functional teams A cross-functional team composed of all functions is formed to manage product to its launch in the market.

Integrating roles and departments Senior managers provide members of cross-functional team with relevant information from other teams and from other divisions.

Liaison roles Task force Cross-functional team Integrating role Washing Television Integrating machine and stered role division division Managers responsible for integration

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COMPLEX

PRINCIPLES OF MANAGEMENT

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FOUR MAIN MANAGERIAL TASK



LEADING

Ensuring that each member of an organization is motivated to perform highly and help the organization achieve its goals (highly motivated workforce)

MOTIVATION

The psychological forces that determine the direction of a person's behavior in an organization, a person's level of effort, and a person's level of persistence

THE MOTIVATION EQUATION

Expresses a relationship between inputs, organizational performance and output.

Inputs = Organizational performance = Outputs

Organizations hire people to obtain important inputs

≻Input:

Anything a person contributes to his or her job or organization

 Time, effort, skills, knowledge, work behaviors

 People are motivated to work in organizations to obtain certain outcomes

Outcome

Anything a person gets from a job or an organization

Pay, job security, autonomy, accomplishment

Managers strive to motivate members of an organization to contribute inputs to enable the organization achieve its goals

How do Managers do this?

They ensure that members of an organization obtain the outcomes they desire when they make valuable contributions to the organization

INPUTS FROM ORGANIZATIONAL MEMBERS

PERFORMANCE

OUTCOMES RECEIVED BY ORGANIZATIONAL MEMBERS

Time
Effort
Education
Experience
Skills
Knowledge
Work behaviors

Contributes to organizational efficiency, organizational effectiveness, and the attainment of organizational goals

Pay Job security Benefits Vacation time Job satisfaction Autonomy Responsibility A feeling of accomplishment The pleasure of doing interesting work

- Sources of Motivation
- Intrinsic source
- Extrinsic source

Intrinsic source (Intrinsic motivation):

The source of motivation is from actually doing the work itself

Example:

- Sense of accomplishment and achievement derived from doing the work
- Challenging or Interesting jobs

Extrinsic source (Extrinsic motivation):

The source of motivation is from the consequences of doing the work and not the work itself

Example: To acquire,

Material rewards

Social rewards or

To avoid punishment.

Prosoical Motivation:

The source of motivation is from the benefit others derive as a result of you doing your work.

- Example of all 3
- a) A surgeon who specializes in organ transplants and enjoys the challenge of performing complex operations
- b) She has a strong desire to help her patience regain their health and extend their lives through successful organ transplants
- Is motivated by the relatively high income she earns

THEORIES OF MOTIVATION

 These theories serve as guidelines for managers to follow in order to promote high levels of employee motivation.

> Expectancy Theory:

Motivation will be high when workers believe:

- High levels of effort will lead to high performance.
- High performance will lead to the attainment of desired outcomes.

Major Factors Determining Motivation

 Expectancy - the belief that effort (input) will result in a certain level of performance

Managers should express confidence in the capabilities of subordinates

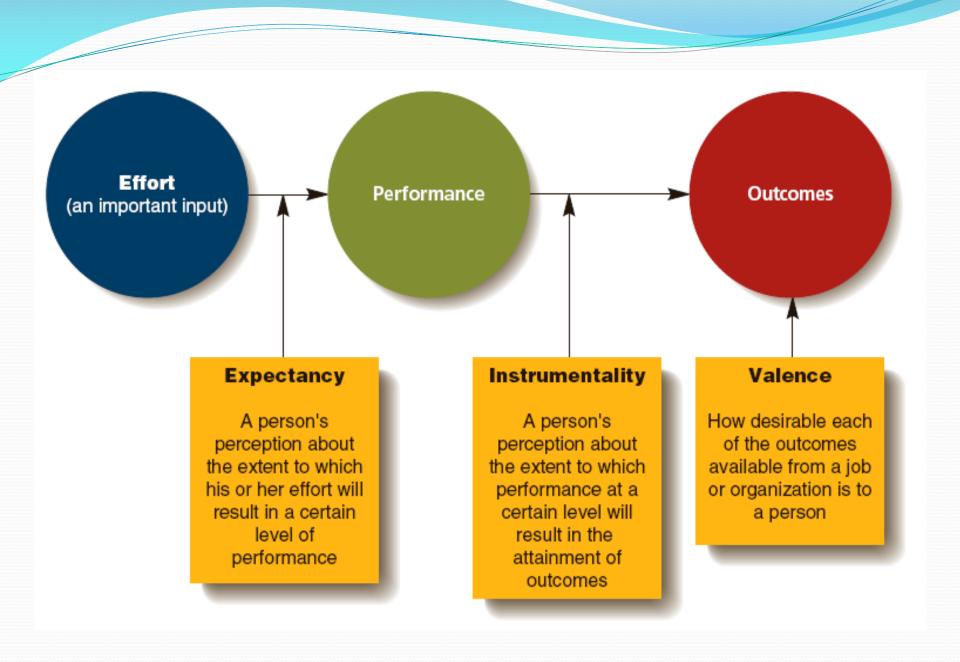
 Instrumentality - the belief that performance results in the attainment of outcomes

 Managers must link performance to desired outcomes

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 Valence - how desirable each of the available outcomes from the job is to a person

 Managers must determine which outcomes are highly desired by employees & provide



Expectancy is high

People perceive that if they try hard, they can perform at a high level.

Instrumentality is high

People perceive that high performance leads to the receipt of certain outcomes.

Valence is high

People desire the outcomes that result from high performance.

HIGH MOTIVATION

NEED THEORY

People are motivated to obtain outcomes at work that will satisfy their needs (necessity for survival).

- Managers must determine which needs employees are trying to satisfy and ensure that employees receive outcomes that satisfy those needs.

Maslow's Hierarchy of Needs

Proposed that all people seek to satisfy 5 basic needs:

- Self-actualization : needs to realize one's potential
- Esteem needs: the needs to feel good about one's self and one's potential
- Belongingness needs : Needs for affection, social interaction

- Safety needs : Needs for security
- Psychological needs : Needs for food, shelter and shelter

Example:

Developing countries: Motivated by Psychological & Safety needs

Developed countries: self-actualization / esteem

- ➤ Alderfer's ERG Theory:
- 3 categories of needs
- Need for growth (self development)
- Need for relatedness (Belongingness)
- Need for Existence (psychological)

 A person can be motivated by more than one need at a time.

Herzberg's Motivator-Hygiene Theory:

People have two sets of needs:

- Motivator needs relate to the nature of the work itself—autonomy, responsibility, interesting work.
- Hygiene needs are related to the physical and psychological context of the work—comfortable work environment, pay, job security

Managers must satisfy motivator needs to increase employee motivation

McClelland's Needs for Achievement, Affiliation and Power

Extensively researched needs for:

- Achievement (strong desire to meet personal standard for excellence)
- Affiliation (good interpersonal relationships)
- Power (desire to control or influence)

 Lower level management: motivated by need for achievement and power

 Top management: motivated by the need for power

Equity Theory

Focuses on people's perceptions of the fairness (or lack of fairness) of their work outcomes in proportion to their work inputs

 Equity exists when a person perceives that their outcome/input ratio to be equal to the referent's ratio.

Goal Setting Theory

Suggests that, the goals organizational members strive to attain are prime determinants of their motivation and subsequent performance

- > To stimulate high motivation:
- Goals must be Specific (quantitative)

Example:

Sell GH 200 products per day: sell as much as you can

- Difficult goals that are possible to attain

 Managers can increase employee motivation and performance by the ways they link the outcomes that employees receive to the attainment of goals.

Pay and Motivation:

Using pay to motivate employees to perform at a higher level

- How pay relates to each of the theories
 - Expectancy: Instrumentality, the association between performance and outcomes, must be high for motivation to be high.

- Need Theory: pay is used to satisfy many needs.
- Equity Theory: pay is given in relation to inputs.
- Goal Setting Theory: pay is linked to attainment of goals.

- Merit Pay Plan (high motivation)
 - A payment plan that bases pay on individual, group and/or organization performance.

Should Pay Plan be based on Individual Performance or Group Performance:

Individual based plan: when individual performance can be measured accurately.

Group plan: when members of an organization work as a team and individual performance can not be accurately determined

➤ Salary increases or Bonuses:

Should merit pay be in the form of salary increase or a bonus on top or regular salaries?

Bonuses tend to have more motivational impact than salary increases.

- Benefits of Using Bonuses
 - Are more directly tied to current performance
 - Provide more flexibility in distributing rewards

PRINCIPLES OF MANAGEMENT

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FOUR MAIN MANAGERIAL TASK



CONTROLLING

Controlling:

Establish accurate measuring and monitoring systems to evaluate how well the organization has achieved its goals

Managers monitor and evaluate whether the organization's strategy and structure are working as intended

CONTROLLING

Control Systems

 Formal, target-setting, monitoring, evaluation and feedback systems that provide managers with information about whether the organization's strategy and structure are working efficiently and effectively.

CONTROLLING

- A good control system should:
 - be flexible so managers can respond as needed.
 - provide accurate information about the organization.
 - provide information in a timely manner

3 CONTROL SYSTEMS

Type of control

Mechanisms of control

Output control Financial measures of performance Organizational goals Operating budgets

Behavior control Direct supervision

Management by objectives

Rules and standard operating procedures

Clan control

Values

Norms

Socialization

1. OUTPUT CONTROL

Three Mechanisms to access Output or Performance:

Financial Measures of Performance:

Used to evaluate overall organizational performance

- Profit Ratios
 - measure how efficiently managers are using the organization's resources to generate profits.
 - Example:
 - Return on Investment (ROI)
 - Operating margin

Liquidity ratios

 measure how well managers have protected organizational resources to be able to meet short-term obligations

Examples:

- Current Ratio
- Quick Ratio

ORGANIZING

- Leverage ratios
 - measure the degree to which managers use debt or equity to finance ongoing operations

Example:

- Debt to asset Ratio

- Organizational Goals
 - Each division and function within the firm is given specific goals that must be met in order to attain overall organizational goals.

Operating Budgets

Allocate a specific amount of resources to produce goods and services

- Evaluated based on ability to stay within budget

Example:

- GE's washing machine division is given a budget of \$50 million to spend on developing and selling a new line of washing machine

 Divisional managers decide how much money to allocate to various functions

Problems with Output Control

Managers must create output standards that motivate at all levels

2. BEHAVIOUR CONTROL

Control systems that motivate and shape employee behaviour

- 3 Mechanisms to access employee behaviour

- Direct Supervision:
 - managers actively monitor and observe the behavior of their subordinates

- Teach subordinates appropriate behaviors
- Intervene to take corrective action

- Problems With Direct Supervision:
- Very expensive because a manager can personally manage only a relatively small number of subordinates effectively

- Can demotivate subordinates if they feel that they are under such close scrutiny that they are not free to make their own decisions

Management by Objectives:

A goal setting procedure in which a manager and each of his subordinates negotiate specific goals and objectives for the subordinates to achieve and then periodically evaluate the extent to which the subordinate is achieving those goals

Bureaucratic Control

 Control through a system of rules and standard operating procedures (SOPs) that shapes and regulates the behavior of divisions, functions, and individuals

Problem with Bureaucratic Control

Firms become too standardized and lose flexibility to learn, to create new ideas, and solve to new problems

3. CLAN CONTROL

 The control exerted on individuals and groups in an organization by shared values, norms, standards of behavior, and expectations

- STEPS IN THE CONTROL PROCESS
- Establish standards of performance, goals, or targets against which performance is to be evaluated.
 - Managers at each organizational level need to set their own standards

- Measure actual performance
 - Managers can measure outputs resulting from worker behavior or they can measure the behavior themselves

- Compare actual performance against chosen standards of performance
 - Managers evaluate whether and to what extent – performance deviates from the standards of performance chosen in step

- Evaluate result and initiate corrective action if the standard is not being achieved
 - If managers decide that the level of performance is unacceptable, they must try to change the way work activities are performed to solve the problem

Establish the standards of performance, goals, or targets Step 1 against which performance is to be evaluated Step 2 Measure actual performance Compare actual performance against chosen Step 3 standards of performance Evaluate the result and initiate corrective action if Step 4 the standard is not being achieved

EXAMS FORMAT

Section A (45 marks)
 Short answers

Section B (30 marks)
 Answer one case study

Mid-Trim (25 marks)