

BQOE I FUNDAMENTALS OF MANAGEMENT

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COURSE GUIDE

INTRODUCTION

Fundamentals of Management is a preparatory course for open entry learners who intend to pursue postgraduate programmes in Masters in Management (MM) and Masters of Business Administration (MBA). This course provides learners with fundamental knowledge in the area of management.

COURSE OBJECTIVES

This course focuses on the practice of contemporary management that is being practiced by organisations from both the public and private sectors. Discussion and emphasis on this course covers five main sections, entailing the aspect of duties and roles adopted by the management, which are related to the management introduction, contemporary issues, planning, organisation, leadership and control.

Through this course, students would be exposed to:

- (i) understanding the basic concept, function and basic skill in management;
- (ii) understanding the management of an organisation, employees, physical resources and environment; and
- (iii) awareness on the changes in management and the current management practice of today's business.

COURSE SYNOPSIS

Synopsis for each topic is as follows:

Topic 1 gives an overall illustration on management and the roles that must be implemented by the manager. The management skills required at different levels of management will also be introduced. Students will be exposed to the evolution in management thinking that explains the thinking contributed by the main management intellectuals.

It also discusses the environment and organisational culture. Two categories of environment that will be discussed are the external environment and internal environment. The external environment of organisation are divided into two: which are the general environment that consists factors of economic, social and politics and technology; and the specific environment that comprises of the situation and trends in an organisation that affects the management, employees and the organisation culture. The importance of organisation culture will also be discussed by looking at the creation, success and adaptation to the changing culture.

Topic 2 discusses planning as one of the most important function in management. Also discussed are the processes involved in making effective planning, types of planning as well as the advantages and disadvantages of planning.

It also discusses the decision making that is the process in identifying problems, generating alternative solution, selecting and implementing the best solutions available. This topic also discuss the three situations of decision making – the certainty conditions, uncertainty conditions, and risky conditions –and the six steps involved in rational decision making. The three types of limitations in the process of decision making, which are rationalisation boundary, common mistake and environment risk, will also be discussed. Finally this topic also discusses the two methods to improve the quality of decision made, which are through the usage of specific rules and test and also decision making in a group.

Topic 3 discusses the design of an organisation. Several factors that influence the structure of an organisation such as strategies, size, environment and technology will also be discussed. The general types of organisation such as departmentalisation based on the function, product, customer, geography and matrix will also be explained. The next discussion relates to the management of an organisation that involves authority, chain of command, span of control, delegation, centralisation and decentralisation. This topic will also discuss the work design that involves work specialisation, job rotation, job enrichment and job enlargement. Finally, this topic will also explain about the design of the mechanistic and organic organisation including several other types of new structures.

Topic 4 discusses leadership. This topic will discuss leadership based on three approaches which are the approach-centred leadership, follower-centred approach and interactive approach. The leader-centred approach focuses on the characteristics of the leader's personality, behaviour of the leader and style of leadership. In approach on the behaviour of the leader, three main researches, which are the researches by the Ohio State University, Michigan University and the Management Grid, will be discussed. The follower-centred approach focused on the variables of replacement and neutralisation of leadership. In the interactive approach, Situation Model, Fiedler Contingency Model, Objective Establishment Model and the Behaviour on Leadership Continuum will also be discussed. At the end of this topic, the discussion will be on strategic leadership that involve visionary, charismatic, transactional and transformational leadership.

Topic 5 involves control. This topic discusses the steps in process control. Also discussed are the three types of basic control method and five types of control. Finally, this topic will discuss on issues that must be controlled by organisations such as finance, human resource, quality and also customer.

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EVALUATION METHOD

Refer to the CAPL website <http://capl.oum.edu.my> for evaluation method for this course.

Topic 1 ► Management and Organisation Environment

OBJECTIVES

At the end of this chapter, you should be able to:

1. explain meaning of management;
2. discuss management functions, the six roles of a manager and the three skills that are required of a manager;
3. Identify different types of managers; and
4. Analyse the history and evolution of management;
5. Analyse the importance of organisation environment to management;
6. Study the environmental factors that influence the situations in an organisation; and
7. Identify the internal organisational environmental factors that influence an organisation.

► INTRODUCTION

Before we study in depth, the aspects of management, we must firstly understand what management is and its definition.

Whether we are aware or not, in this world, work falls under two main categories, namely, the professional field and the management field.

Doctors, accountants, engineers, architects, lawyers etc. are good examples of the former. A doctor, for example practises according to his ability and expertise by treating patients that seek advice from him. In other words, a doctor will not direct another person to perform his job functions on his behalf. The nurse, on the other hand, only assists the doctor in examining patients as she does not have the necessary qualifications and the same abilities as the doctor to carry out the said activities. The nurse acts only as the assistant to the doctor.

In short, the doctor cannot assign his job to his assistant. The same applies to other professions.

It is, indeed, very different from the latter i.e. management. Management, in a nutshell, means, directing people to perform tasks efficiently and effectively. In other words, ensuring that a job is carried out well until completion. This means that a manager does not necessarily need to know how to perform a specific job but to act as a co-ordinator in ensuring that the task is carried out smoothly. For example, a manager of a shoe factory does not necessarily have to know the details on how to make shoes but he only needs to ensure that all resources allocated to him, including the human resources, i.e. the employees under him, function satisfactorily and that the final objectives set by the organisation are achieved. The objective achieved, in this context, refers to efficiency and effectiveness.

1.1 DEFINITION OF MANAGEMENT



THINK

In your opinion, what is the definition of management?

Management is defined as **a process of overseeing and coordinating resources efficiently and effectively in line with the goals of the organisation.**

Effectiveness is the attainment of goals that enables the realisation of the objectives of an organisation or, briefly, as 'doing the right thing' whereas efficiency is the performing a job using minimum effort, cost and wastage or simply put as 'doing things right'. The end result of an efficient and effective management is the success of an organisation.

Back to the question of efficiency and effectiveness as defined above, a person can be described as efficient but not effective or effective but not efficient in managing a specific task. In short, both elements are not inter-dependent. For 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 organisation. 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 organisation that is to preserve local harmony.

In contrast, an employee is described 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 organisation. For example, in delivering information, the employee sends a letter via postal mail instead of using the e-mail. Even though it does not affect or clash with the objectives of the organisation, the employee has, in fact, wasted a part of the resources allocated to him.

Based on the matter discussed above, in reality, efficiency and effectiveness cannot be excluded from the definition of management as both are important elements in defining management.

1.2 WHO ARE MANAGERS?

A classical way to analyse the task of management is by examining management from the point of functions that are performed by managers. The second approach will be observing the roles undertaken by managers and the last will be to analyse the skills that are required of managers.

A manager is the individual who is directly responsible in ensuring that tasks are performed by people or employees in the organisation.

1.2.1 Management's Functions

Management is defined as a process of overseeing and co-ordinating resources efficiently and effectively in line with the goals of an organisation.

In short, management refers to the process of delegating tasks to employees to be performed successfully.

The Manager is involved in various basic activities. These activities are usually grouped in a concept categorised as management function. The functions are as illustrated in Figure 1.1.

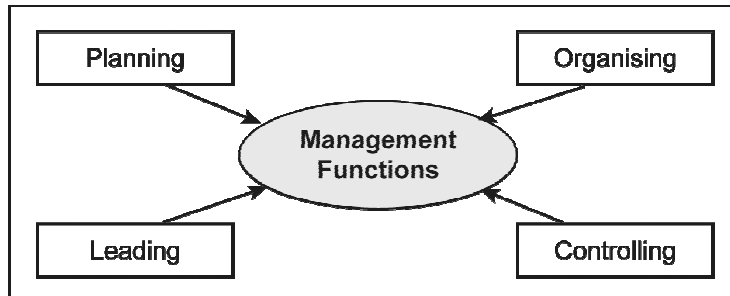


Figure 1.1: Main functions of management

Adapted from Lewis et al, Management, Challenges In The 21st Century

As illustrated, below is a schedule showing all four management functions.

Table 1.1: Management Functions

Management Functions	Descriptions
Planning	Defining objectives to be achieved for a given period and what needs to be done to achieve the said objectives. All management levels in an organisation need to be involved in planning. Managers need to develop objectives in line with the overall strategies of the organisation.
Organising	Determining what tasks are to be done, who will implement and co-ordinate it, how the tasks are to be grouped, who reports to whom and where decisions are to be made. The manager needs to logically and effectively organise the information, resources and the workflow of the organisation so that he is able to react positively towards the changes in the business environment.
Leading	An art in motivating subordinates, selecting the most effective communication channels, resolving conflicts and directing as well as guiding the actions of others with the intention to achieve all objectives that have been set. The effective leader of today has to be visionary in foreseeing the future, sharing the vision and encouraging employees in realising the vision.
Controlling	The measuring of performance in all pre-determined objectives, determining reasons for deviation and taking appropriate actions, where necessary. Controlling is an important function in the management process as it provides ways to ensure the organisation moves towards achieving its objectives.

The management process at all levels of an organisation involves planning, organising, leading and controlling of resources in an organisation. A manager does not necessarily have to know how to perform a specific job as he only acts as a co-ordinator to ensure the smooth running of operations.

For example, the manager of a clothes-manufacturing factory does not necessarily have to know in detail the techniques of making clothes. However, he needs to ensure that each resource given to him such as capital, factory and manpower, under his control, functions properly and that the objectives outlined by the organisation are met.

Nevertheless, all functions highlighted above are merely for classification purposes in management studies. In reality, management functions usually overlap. Moreover, the functions in management are inter-dependant. For example, a well-structured organisation will find it impossible to advance if there is no thorough planning involved. The same applies to an organisation led by an efficient director but with poor control systems. In summary, all functions are equally important in an organisation.

1.2.2 The Managers' Roles



YOUR IDEA

In your opinion, what are the roles that need to be carried out in order to become a successful manager?

As stated earlier, there are many ways to identify a manager. Apart from identifying the manager through his functions, a research was conducted by a prominent professor of management, Prof. Henry Mintzberg (Lewis, P.S. et al; 2001). Prof. Mintzberg did a detailed analysis of managers by walking around and observing what managers did at work. Prof. Mintzberg observed that managers not only plan, organise, lead and control but play other important roles as detailed below.

Role as a Figurehead

Ceremonial duties must be carried out by a manager. For 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.

Role as a 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 organisation apart from resolving problems and issues.

Role as a Liaison Officer

A manager conveys relevant information gathered to individuals outside his unit or to other relevant parties outside his organisation. The manager will allocate time for interacting with people outside his organisation. Thus, a manager acts as a channel for communications between his department and those within as well as those outside his organisation.

For example, the Human Resource Manager may liaise with the Finance Manager to check on funds allocated for the recruitment of new employees by the organisation, before embarking on a recruitment drive.

Role as a Spokesperson

This is another role played by a manager. The manager is usually the spokesperson for its organisation. As an example, a supervisor will always ensure that the Operations Manager is furnished with the latest information on the running of his production plant. Similarly, the General Manager of a factory will be lobbying local authorities for a new tender.

Role as a Negotiator

No organisation is without problems. A manager is compelled to find a solution for each of its problems regardless of complexities. The manager needs to spend a lot of time in discussion as he, indirectly, plays the role of a negotiator. For example, a manager will negotiate with the Trade Union chief to reach an amicable agreement on the issue of payment of salaries.

Role as a Initiator

Lately, two management experts, Sumantra Ghoshal and Christopher Bartlett (Dessler, G; 2001) highlighted the additional role of a manager as an initiator of corporate actions and transformations. Moreover, an excellent manager is the one who cultivates three processes that steers his employees to focusing on the desire for change. The processes are as follows:

- **Entrepreneurship Process**

The manager will try to increase his unit performance and when he gets a good idea, he will launch a programme to realise the idea.

Entrepreneurship refers to the outlook and drives to find opportunities to motivate employees into running operations for the organisation in such a manner that assumes employee-ownership organisation. Researches carried out in Japan, the United States and Europe showed that a successful manager is one who focuses a lot of time and effort into steering his employees to think like an entrepreneur. To meet this objective, the manager needs to empower, support and provide incentives for employees to attain self-direction.

- **Capability Development Process**

In a technology-centred world, of late, conglomerates need to fully utilise their advantage as a big establishment not only in matters of economies of scale but also in the aspects of widening and deepening the knowledge and the abilities of its employees.

A manager who succeeds will focus on creating conducive environment that encourages employees to shoulder additional responsibilities, and preparing the necessary training and guidance to build their self-confidence. The successful manager will also allow employees room for making mistakes, without the fear of being penalised while undergoing training and encourage them to learn from their earlier mistakes.

- **Reformation Process**

A successful manager will illustrate situations that might pose challenges to the strategies of the organisation and assumptions made. In other words, the manager is capable of cultivating a querying disposition such as on why something is done in a certain way and whether there are alternative ways of doing it.

1.2.3 The Managers' Skills



THINK

What are the skills required of a manager?

When an organisation shortlists employees for the position of a manager, it will usually select individuals with technical, interpersonal and conceptual skills. Therefore, the third approach to understanding the tasks of managers are by analysing the skills required to carry out the said tasks.

Figure 1.2 exhibits three (3) types of essential skills required at each level of management. The arrow pointing upwards shows the type of skills that are increasingly needed at top-level management. The arrow pointing downwards shows the type of skills that are increasingly needed at lower-level management or line managers.

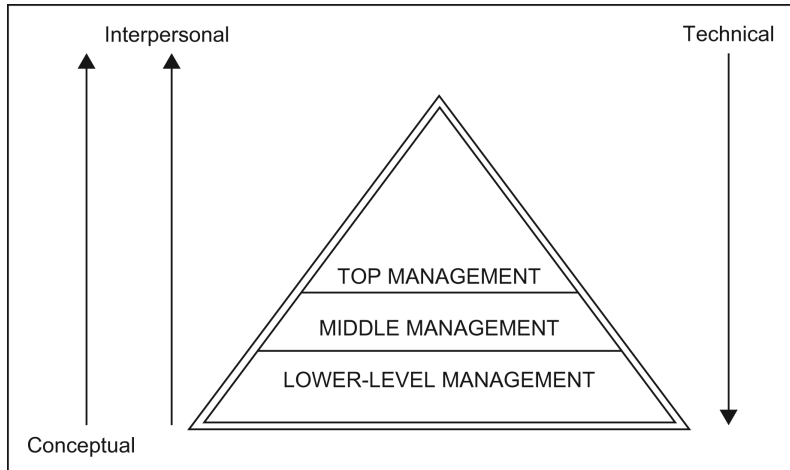


Figure 1.2: Skills required of a manager

(a) **Conceptual Skills**

Conceptual skills are the ability to view the organisation as a whole, and the impact the different sections has on the organisation, as a whole and on each other. Also to observe how an organisation adapts to or is affected by external environmental 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 skills becomes increasingly crucial when a manager is higher in the management hierarchy.

(b) **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 views of others. The manager will also, indirectly, become a good listener and speaker. Interpersonal skills are crucial, regardless of the level of management. However, a manager at the lower level will be more occupied in solving technical problems, whereas a manager at the middle and higher levels will be mainly occupied with dealing directly with others.

(c) **Technical Skills**

Technical skills are the ability to apply procedures, techniques and specialised knowledge required in a certain task. For a shoe factory supervisor, the technical skills required will include the steps involved in shoe-manufacturing from the beginning until the final product is available. A housing developer's technical skills will include ways to complete the development of a housing estate.

Technical skills are crucial for a manager at the lower level as these types of managers supervise employees in the manufacturing or service sectors. The manager needs to have technical knowledge and the skills to train new employees and assist employees in problem-solving. Skills and technical knowledge are required to solve operational problems that cannot be handled by employees. Nevertheless, the higher the position of a manager in a hierarchy, the fewer technical skills are required.

A lesser-required skill, compared to the three mentioned above, is the motivation skill in management. Many prominent management gurus seldom discuss this issue except for Chuck Williams in his book titled *Management*. Motivation skills in management, is a form of assessing a motivated employee's ability to interact with his superiors in addition to, how the employee participates in a competitive situation, acts firmly towards other people, instructs other people to carry out the task assigned, rewards positive behaviour and penalises negative behaviour, performs through the eyes of observers and handles and manages administrative duties. Some prominent management scholars combine these skills with conceptual skills.

**THINK**

What other skills does a manager need?



BREAK

1.3 TYPES OF MANAGERS

Most organisations have a few types of managers. In a university, for example, there are the vice chancellor, deputy vice chancellors, deans, deputy deans and heads of departments as well as the heads of courses. The same goes for other employees such as the human resource managers, treasurers, heads of security etc. Corporate sectors, on the other hand, have presidents, vice presidents, operations managers, sales managers, finance managers, supervisors etc.

All of the abovementioned are managers as they plan, organise, lead and control employees as well as the tasks in an organisation with the aim of achieving its organisation goals. There are many ways to categorise managers. For example, we can differentiate managers based on the level, position or organisation function.

Top-level managers are the highest-level managers in a firm.

They are commonly known as the executives. Titles given include president, chief executive officer, vice president or chief financial officer.

Under them there are one or more middle-level managers. They are usually designated as managers.

Lower-level managers or line managers are the lowest in the management ladder. They are usually called supervisors. They include the production supervisors that oversee the employees at a factory.

All these levels have many similarities. Managers at all levels, plan, organise, lead and control employees and tasks in an organisation. Managers also spend time with their employees during conversations, surveillance, influence, motivation and attend face to face conferences as well as committee meetings.

Nonetheless there are two main differences between the three management levels. Firstly, top and mid-level managers have employees as managers under them. In brief, they manage other managers unlike line-managers. Managers at different levels utilise their time differently. Top-level managers spend most of their time planning and setting goals. However, middle-level managers define goals towards specific projects for lower-level managers to implement. The line-managers or lower-level management focus on giving directions and controlling their subordinates at work day to day to ensure the success of the project.

THINK

Based on what you have learned, identify the differences between the three levels and tabulate your answers.



Exercise 1.1

Essay Question

1. Explain each of the management functions that you have learned.

1.4 THE EVOLUTION OF MANAGEMENT

From the start of the 19th century until the 20th century, managers and scholars have formed a theoretical framework to explain what they believe to be good practices of management. Their efforts led to five different classes of perspectives on management, namely, the classical perspective, behavioural perspective, quantitative perspective, systems perspective and contemporary perspective. Each perspective is based on different assumptions towards the objectives of the organisation and human behaviour. Figure 1.3 will help you to understand the chronological sequence of perspectives.

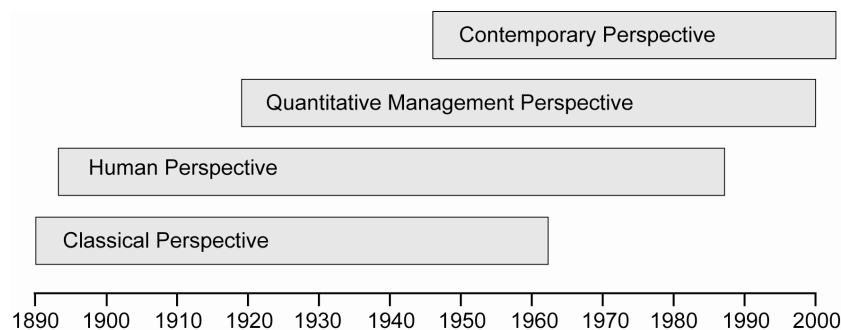


Figure 1.3: The evolution of management theory

You might be wondering why it is important and necessary to study the historical development or the evolution of management thought. Evidently, studying history enables us to learn from mistakes made in the past so as to avoid making them in the future. History also enables us to study past successes that can be emulated accordingly in the future. Most importantly, we must understand the reasons behind such occurrences in order to improve in the future.

1.4.1 Classical Perspective

This perspective existed in the 19th century and early 20th century. It focuses on the rational and scientific approaches to the study of management and on finding ways to mould an organisation to become more efficient. There are three sub-classes in this perspective, the scientific management, bureaucracy management and administrative management.

(a) **Scientific Management**

This approach existed at the time when productivity was deemed critical by businessmen. Businesses were growing rapidly but businessmen were facing critical shortage of workforce. Hence, management was continuously finding ways to improve the performance of its employees. The focus on improving employees' efficiency is known as the scientific management approach. A number of researchers have contributed towards the findings of scientific management, among them being Frederick Winslow Taylor, Frank and Lilian Gilbreth and Henry Gantt.

Frederick Taylor (1856 – 1915), a mechanical engineer, was of the opinion that problems arise, mainly, due to bad management practices and, to a lesser degree, problems with employee. He stressed that management itself needs to transform and the transformation method could only be established through scientific research. He suggested that the decisions based on the 'rules of thumb' be substituted with established procedures, after analysing each situation. Taylor's theory, that states that the productivity of the labour force could be improved through scientifically-based management practices, has earned him the title of the 'Father of Scientific Management'. To improve the work performance of employees, Frederick Taylor conducted a research entitled "*Time and Motions Study*".

From the research findings, Frederick Taylor identified five principles of management that could boost production efficiency. The five principles of management mentioned, include:

1. Using the scientific approach to determine the best practices and not relying on "rules of the thumb";
2. Selecting suitable employees to perform a particular task. Suitability covers mental and physical aspects;
3. Training and developing an employee so that he is able to perform a given task according to established procedures;
4. Giving monetary incentives to ensure that employees perform a task accordingly; and

5. Reassigning all responsibilities, pertaining to planning and organising, to the manager.

Taylor was not alone in this research. Henry Gantt (1861 – 1919), a friend of Taylor, focused on the control system in the scheduling of production. The Gantt Chart is still used today in planning the schedule of a project and has also been adapted in computerised-scheduling applications.

Husband and wife, Frank (1868 – 1924) and Lillian Gilbreth (1878 – 1972), also strived to further expand the scientific management approach. Lillian was a pioneer in the field of industry psychology and contributed greatly to human resource management. She believed that if the scientific management is widely utilised, the abilities of each employee will grow considerably.

(b) **Bureaucratic Management**

Bureaucratic management is an approach to management that is based on the guidelines, hierarchy, clear division of labour as well as rules and procedures. Max Weber (1864 – 1920), a German social theorist, introduced many bureaucratic concepts. Among the components of bureaucracy are:

1. authority and clearly-defined responsibilities;
2. positions in an organisation that are structured according to hierarchy;
3. promotions based on qualifications;
4. records of all administrative actions and decisions to ensure continuity of organisation rules;
5. separation of ownership and management; and
6. guidelines implemented to all employees without bias.

The bureaucratic approach strives to increase efficiency and ensure continuity of overall operations of the organisation. This approach differs from the scientific management that only focuses on the employee as an individual. Nevertheless, this principle, used to improve efficiency, also causes inefficiency in other aspects. Rigid guidelines create red tape and slow down the decision-making process, resulting in the inability to change swiftly to adapt to the needs of the environment and, at times, create conflicts in performing a task professionally and giving priority to established guidelines and procedures.

(c) **Administrative Management**

The administrative management principle focuses on the organisation as a whole. Among the contributors to this approach are Henri Fayol, Mary Parker Follett and Chester I. Barnard.

Henri Fayol (1841 – 1925), a Frenchman, is considered the pioneer of administrative theory as he emphasised on organisation principles and administrative functions. His most relevant contribution to-date is the definition and roles of an administrator.

Fayol defined administration and management as planning, organising, directing, co-ordinating and controlling. He also identified the 14 principles of management, namely:

- (i) Division of labour
This is a concept on specialisation of work, based on the assumptions that:
 - (a) no one can do all the work;
 - (b) each job requires different skills; and
 - (c) repetition of work will increase efficiency.
- (ii) Authority
Is the right to give directions and power to be complied with. Here, authority has to be differentiated between authority at the office and personal authority.
- (iii) Discipline
Is based on respect and conformity.
- (iv) Unity of command
Means an employee should receive instructions from one superior only.
- (v) Unity of direction
That is, one superior and one direction for a particular activity with the same objective.
- (vi) Subordination of individual interests to the general interests
That is, personal interest should not exceed or precede over common interest.
- (vii) Remuneration
That is, salary payment based on various factors.
- (viii) Centralisation
That is where the centralisation of work depends on the situation and formal communications channel.
- (ix) Scalar chain
That is the line of authority and its formal communication channel
- (x) Order
That is where resources are placed in the right place at the right time.

- (xi) Equity
That is something formed out of justice and virtue.
- (xii) Stability of tenure
That is, a necessity in good human-resource planning.
- (xiii) Initiative
That is, hoping that employees work diligently and sincerely.
- (xiv) Esprit de corps
A term, borrowed from the French language, that means loyalty and devotion in uniting the members of a group. It emphasises on harmony and unity in an organisation.

Mary Parker Follet (1868 – 1933) was trained in the field of philosophy and political science. Her approach focused on the involvement of employees and sharing of information among managers. She also stressed the importance of common goals among subordinates to reduce any personal conflicts. Follet's ideas were contrary to ideas in scientific management and it agrees with modern managers that deal with abrupt changes in the environment. Her approach focused on the individual and not the engineering techniques. Follet also stressed on issues relevant to the 90s such as mankind, ethics, authority and leadership to inspire employees to excel in their jobs. Her main concepts included delegation of authority, leading employees and not commanding them as well as allowing employees to act according to situations.

Chester I. Barnard (1886 – 1961) introduced the informal organisation concept. Informal organisation exists in a formal organisation. He is of the opinion that organisations are not mere machineries and informal relations are a powerful tool and an asset to an organisation if properly managed. He also introduced the Acceptance Theory of Authority that states that employees have options in complying with the directives of management. Managers should treat their employees well as the acceptance of authority by employees is critical in ensuring the success of an organisation.

The Classical perspective towards management, on the overall, is very important and has given organisations a new basic skill to increase productivity and garner effective support from its employees.

1.4.2 Human Perspective

Mary Parker Follet and Chester Barnard were the main founders of the human approach towards management that emphasises the importance of understanding human behaviour, employees' needs, the attitude of employees in a working environment besides social interaction and group processes.

The categories of the human approach are the movement of human relations, the human resource view and the approach to behavioural science.

(a) **Human Relations Movement**

This approach believed in the fact that effective control comes from individual employees rather than strict control by authorities. This approach originated from research that was conducted at the Western Electric Company's Hawthorne Works in Chicago between the years 1927 and 1932. The research was overseen by Elton Mayo and Fritz Roethlisberger, two psychologists from Harvard University. The research originally intended to study the relationship between physical conditions and production. Light irradiation temperature and other factors related to the working environment were selected as physical conditions. The original conclusion obtained by the researchers contradicted the results they anticipated.

Three series of experiments were conducted and the results of all the experiments contradicted what was expected. The first experiment had conducted the experiment of lighting radiation as a physical situation. It assumed that levels of brightness would facilitate higher output for the employees. It is obvious that when the lighting radiation is brightened or dimmed, the production output will continue to increase. This meant that there were other factors that may have caused the increase in productivity and not just the lighting radiation. It was the same for the second and third experiments where other physical situations were chosen, the results could not clearly explain the causes for increase in production.

In conclusion, the Hawthorne research shows that the productivity of employees increases because they had received special treatment from management. The human relationship was connected to the increase in output. Group pressure will also affect a person's behaviour. Group quality is very effective in determining the output of an employee and monetary is less effective if compared to group quality, sentiments and guarantee. As an overall conclusion, the Hawthorne research started a new era that is the awareness of the fact that humans are complex and an influential input to determine the performance of an organisation.

(b) **Human Resource Approach**

The human resource approach stresses that employees productivity will increase when the employees' satisfaction of basic requirements are met. This movement is likened to a dairy farm where satisfied cows will produce more milk. From the management point of view, the pattern of satisfied employees will increase their work performance. This approach combines the work structure with the motivation theories.

Among the main motivators of this approach are Abraham Maslow and Douglas McGregor.

Abraham Maslow (1906 – 1970) was a psychologist with the opinion that humans have hierarchy requirements. The hierarchy starts with the physiological, safety, social, self-esteem and self-actualisation needs. This hierarchy exists when human react differently due to different requirements in different situations in order to achieve its objectives.

Douglas McGregor (1906 – 1964) introduced Theory X and Y about employees. McGregor had the classical perspective that was based on Theory X about employees, while Theory Y is a more realistic view of employees towards the management mindset. Theory X comprised of negative attitudes, while Theory Y comprised of positive attitudes.

Theory X states that people:

1. dislike working and prefer to receive directives;
2. must be forced to work;
3. prefer to avoid responsibilities and have low ambitions; and
4. prioritise requirements for security rather than other requirements, that is Theory X is of the opinion that people define work as only a necessity to live and will avoid work whenever possible.

Whereas Theory Y states that people:

1. prefer to work;
2. will achieve the objectives that are assigned/entrusted;
3. will accept and seek responsibilities; and
4. have the intellectual ability that can be used to achieve organisation objectives.

Theory Y was of the opinion that people will be satisfied with their jobs if the working environment is suitable and they could implement their responsibilities well.

Although most companies use/apply Theory Y in their management, Theory X is still being used in the management of some companies.

(c) **Social Science Approach**

The social science approach developed the theories of human behaviour based on the scientific and learning methods. It is derived from the fields of sociology, psychology, anthropology, economic and other disciplines to understand the behaviour of employees and interactions in an organisation.

This approach can be seen in most companies. The economic and sociology sector has significantly influenced how managers probe further into an organisation's strategy and structure. Psychology has influenced the management approach through motivation, communication, leadership and personnel management.

1.4.3 Quantitative Management Approach

This approach began in the era of World War Two, where quantitative techniques were used in the war in the handling of ships and bombs by the British army. The contributors towards this approach were the activities of planning and control. The three main concepts of this approach are the management of science, management of operations and management of information systems.

(a) **Management of Science**

This approach was put forward to resolve the problems that arose due to World War Two. A group of mathematicians, physicists and scientists had been formed to resolve military issues. As these were recurring issues that involved the transfer of equipment and humans quickly and efficiently, therefore these techniques were applied by large-scale firms.

(b) **Management of Operations**

This approach refers to the management sectors that focused on the production of physical products or services. The members of operations management used quantitative techniques to resolve manufacturing issues. Among the methods usually used are forecasting, inventory modelling, linear and non-linear programming, and theories of rotation, scheduling, simulation and break-even analysis.

(c) **Management of Information Systems**

This approach is a new sub-sector in the quantitative management approach. Systems were designed to provide relevant information to managers in appropriate time and cost. With the creation of high-speed digital computers, it opened up the potential for management to engage in this arena. This computer system compiles information to assist in management's decision making.

1.4.4 Contemporary Approach

Management is naturally complex and dynamic. The elements of each approach that has been discussed is still being used till now. The humanity approach is the most evident approach, yet lately, there have been some changes to this approach.

The two main contemporaries in this perspective are the systems and contingency theories.

(a) **Systems Theory**

A System comprises of closely related sections that function in general to achieve the same objective. A system functions to transform input found from the external environment to output. The five components of a system are:

1. Input – equipment, people, finance or information source that are used to produce products or services.
2. Transformation process – the use of production technology to transform input to output.
3. Output – comprises of products and services of an organisation.
4. Feedback – decisions that will influence the selection of input used in the next process cycle.
5. Environment – includes social, political and economic influences.

Ideas of systems that influence the mind sets of management comprised of:

1. Open system – a system that interacts with the external environment to survive;
2. Closed system – a system that does not interact with the external environment to survive will face failures;
3. Entropy – the tendency for a system to become obsolete.
4. Synergy – individuals, groups and organisations that could achieved more if they cooperate compared to working alone; and
5. Sub-system – sections of a system that are interdependent.

(b) **Contingency Approach**

The classical management approach is perceived as universal observation. The management concept is perceived as universal when the management practice is the same in all situations. In business studies, an alternative observation arose. This is called case observation, where each situation is considered unique and there is no universal principle.

A person learns management by experiencing the problems of the case studies. The Contingency perspective combines the universal and case observations. This view is of the opinion that a manager depends on the main contingencies in an organisation's situation.



Exercise 1.2

TRUE (T) or FALSE (F) Statements

1. A new wave manager will not perform the classical management functions.
2. The conceptual skill is the most important skill for managers in the lower levels.
3. The number of mistakes made by the manager that had been excluded from its momentum movement path to the higher level management is because they are not sensitive to others.
4. For most managers, the knowledge, skills and abilities that brought early success in their careers do not necessarily help in being successful as a manager.
5. Scientific management focused on the productivity of an employee.

Multiple Choice Questions

1. Monitoring improvements and taking corrective actions whenever needed refers to the function of _____.
 - A. planning
 - B. organisation
 - C. leadership
 - D. control
2. The difference between a traditional manager and a current manager can be seen from the aspect of _____.
 - A. total experience gained by the manager.
 - B. the way the manager implements the traditional management functions.
 - C. total number of traditional management functions implemented.
 - D. only traditional managers will implement traditional management functions.
3. What are the new elements in the current management functions that do not clarify the functions of traditional management?
 - A. Realisation of work
 - B. Facing competition
 - C. Managing individuals, projects and processes
 - D. Leading

4. Which of the following is **NOT** the step involved in realisation of work?
 - A. Determining the objectives that need to be achieved.
 - B. Planning how to achieve the objectives specified.
 - C. Collecting and managing the required information to make the best decision.
 - D. Evaluate the competition levels in the market
5. The responsibility of the _____ includes setting objectives that is consistent with the organisation's objectives and planning as well as implementing the said objectives.
 - A. top management
 - B. middle management
 - C. lower/line level management
 - D. team leader

1.5 ORGANISATION ENVIRONMENT

After understanding the meaning of management and several issues related to it, the next issue that must be considered in management is the organisation environment. Why is organisation environment very important in management?

As we know, management is to ensure that work is implemented efficiently and effectively by the people assigned. If work was only carried out but was not efficient and effective, it will affect the significance of management. Therefore, the importance of organisation environment to management is related to the issue of efficiency in management. A change in the atmosphere of the environment usually requires an organisation to move forward. If not, it will be left behind and become inefficient.

By surveying or observing the environment, for example by applying the latest technology in a situation, an organisation will become more efficient in its management aspect.

Organisation environment can be divided into two categories, which are the organisation's external environment and internal environment.

1.6

AN ORGANISATION'S EXTERNAL ENVIRONMENT

All organisations, regardless of type, always interact with the external environment. The external environment encompasses all incidents outside the organisation that have the potential to influence or affect the organisation. This environment is always changing according to the time cycles and situations.

In a stable environment, the transformation rate is quite slow whereas in a dynamic environment, the transformation rate is swift. However, the question that arises here is what are the environmental patterns of an organisation? Are the patterns stable or dynamic? According to research, an organisation is involved in both, stable and dynamic environments. According to the alternative equilibrium theory, an organisation will go through a stable period that is easy and long, which is balanced, followed by a dynamic time period which is short and brief, that is the core transformation or revolution and end by returning to a new stability or equilibrium.

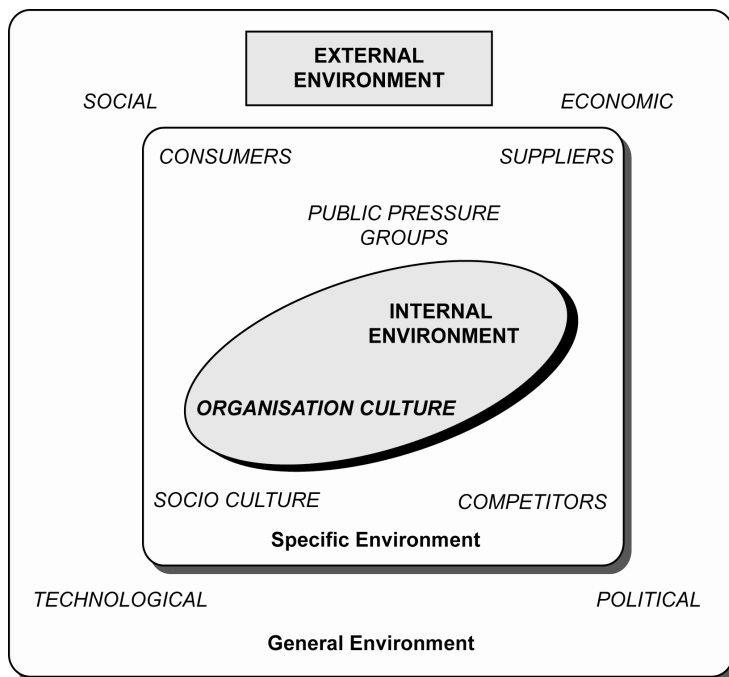


Figure 1.4: Organisation environment

This external environment can be seen from two aspects, which are a simple environment and a complex environment. The simple environment is the external environment that only influences some of the factors involved while in

the complex environment there are lots of external environmental factors that are involved in a situation.

An organisation must understand the external environment to enable it to:

(a) **Monitor the Environment**

Identify the incidents and environmental issues that could affect an organisation where it could diminish uncertainties, change the organisation strategies and thereafter contribute to the organisation's performance.

(b) **Interpret the Environmental Factors**

A manager must determine the incidents and issues that are relevant and important to an organisation as well be smart in seizing opportunities and avoiding threats.

(c) **Act on Opportunities and Threats**

A manager must make decisions that provide reactions to the environmental factors mentioned earlier.

The external environment is divided into two main sections that consist of:

- (i) general environment; and
- (ii) specific environment.

1.6.1 The General Environment

In a country such as Malaysia, the economic conditions, politics and legislations, technology and also the socio culture are important factors that indirectly affect organisations. For example, Petronas' oil production depends largely on the economy. This is because if the Malaysian economic is declining and the sales of cars reduces then the sales of oil will reduce and thus affect Petronas. However, actually Petronas is not solely dependent on the local market but it is an international company that has expanded its business around the world.

Therefore, the four factors stated above are the factors that outline the general environment of an organisation, which are the economy, political, technology and social.

(a) **The Economic Environment**

There are six important factors that should be emphasised when discussing the economic environment. The factors are capital, labour, price level, fiscal policy, government taxation as well as consumers. Capital is required by most of the organisations to purchase machineries, buildings, inventories, office fittings and various equipment. This capital source can be obtained from loans, investment by shareholders and savings of the traders. The capital can influence the type, size and activities of the business ventured.

Labour is another important input in business. Supplies, quality and price of labour are the determining factors in the production cost of an item. Its purpose is to minimise the production cost in order to compete. Malaysia has a labour force that is easy to train, with a high level of minimum education and able to produce high-quality products. This has made this country the choice for investors, especially from Japan and the United States of America.

The price levels in Malaysia are controlled and any sudden price increases is monitored by the government. The Government and businesspeople work together to resolve these issues.

The government's fiscal policy also affects the economy. The government's control on credit facilities affects businesses. For example, increase in interest rates to overcome the economic problems that hit Malaysia caused a lot of industries to decline, such as the car and construction industries.



THINK

Before you continue reading, consider for a while the situation in Malaysia 30 years ago when the use of technology had not expanded widely. Compare it with the current conditions of our country.

(b) **Technological Environment**

Technology refers to all our knowledge on the methods of using something. It comprises of new designs, techniques and systematic knowledge on a specific field of knowledge. In the business sector, technology has helped us to create, produce and distribute as well as sell products and services. Technology also refers to the use of knowledge in producing creations and innovations that assist people to live better lives. Production outcomes such as machines, materials for equipment that were used and services need to be updated with new innovations.

Technology plays an important role by setting up facilities such as the Internet and other communication tools. It is also a new advancement in the business world. Purchases or ordering of products and services can now be made from home. Employees that have knowledge in the technology sector are given priority in obtaining employment.

(c) **Social Environment**

The social environment comprises of customs, culture and demography can influence the functions of organisations and managers. The social environment differs between countries, between districts or areas within the same country and is also different from an organisation's country of origin, if it is a multinational corporation. Therefore, a manager needs to understand the social situation of the place where an organisation operates.

In the social aspect, we will be focusing on demographic factors, individual needs and also cultural differences.

Changes in demographic factors will affect an organisation from the aspects of the type of workforce acquired and number of buyers as well as their needs. Most of the organisations are aware of the problems to acquire talented employees to fill the management positions. Through specific analysis, organisations can forecast the status of its workforce and consumers. Therefore, organisations also need to make changes to its marketing activities to attract consumers and specific groups according to the changes of the population. Changes in clothing fashion, luxury items, transportation and home appliances require changes in marketing strategies.

There are various definitions of culture. Basically, culture is closely related to customs and beliefs, behaviour, norms including a society's way of living. The behaviour of an employee in one culture is different from the behaviour of an employee from another culture. Organisations must determine the person that will be employed as well as understand the type of behaviour that will exist in the organisation later. By understanding and identifying the culture of its employees, the organisation will be able to adapt and control its activities more effectively. This culture factor will remain important to managers who work in foreign locations. Adaptability to the social situation is essential for organisations that intend to conduct business in foreign locations.

(d) **The Political and Legislative Environment**

Political power is closely related to business. Business activities that are conducted locally and overseas must have approval from the government as the government will enact the policies and legislations. Therefore, traders should be aware of changes in policy and bilateral trade relationships in order to capitalise business opportunities. To protect certain businesses, subsidies are given to selected industries, tax reduction for imported products to support local industry and providing research and development facilities. The government is also the major customer for the products and services produced.

Unlike political factors that affect all industries from the external environment, an industry's regulations which are the legislations and rules that monitor the business practices and procedures of an industry, business and profession.

The legislative agency affects an industry by forming and implementing legislations and regulations to protect the overall customers, employees and the society.



THINK

In your opinion, how far did the tragedy of 11 September 2001 affect the tourism industry around the world?

1.6.2 The Specific Environment

The specific environment is all matters or affairs related to the trend of consumers, competitors, suppliers, industry regulations and groups of public activists that are unique to the industry and it directly affects the way an organisation implements its management. This will directly affect an organisation and might not affect another organisation although it is nearby.

(a) Consumers

Consumers are the determinants of successful businesses. Without consumers, businesses would not exist. The production of quality products and providing satisfactions to its consumers is the key to success for a business. Businesses are set up at locations that have lots of consumers such as in cities, suburbs and housing areas. Overseas branches are also established to manage the demands of consumers from that particular country.

There are two ways to monitor consumers. First, by using the reactive method and second, by using the proactive method. Reactive monitoring is by identifying the consumers through comments and complaints that was forwarded. Not only just by listening to complains to resolve problems but how the consumer was treated after making the complaint is also important.

Secondly, proactive monitoring means trying to forecast incidents, trends and problems before they occur.

**THINK**

As a consumer, do you know your rights as a determinant of a business?

(b) Competitors

Competitors are other companies in the same industry selling the products or services of the same types to consumers. For example, companies such as Hush Puppies and Larrie compete to acquire customers in the shoe market. It is the same for DIGI 1800, Maxis and Celcom, that are competing in the telecommunication industry. Normally, the difference between the success and failure of a business comes from the effort of the company in implementing its duties in ensuring the satisfaction of demands and requirements of its consumers compared to its competitors.

Therefore, the company must always closely monitor the progress of its competitors. To ensure success, competitor analysis is required. Competitor analysis is the process of monitoring a competitor which involves identifying its competitors, estimating its strategies and knowing the competitors' strengths and weaknesses.

(c) Suppliers

A supplier is a company that supplies material sources, manpower, finance and information. A good example is construction companies. They are highly dependent on steel companies to obtain the main raw materials, which include struts and steel for construction. Besides that, restaurants are fully dependent on the fishermen's co-operation to obtain fresh seafood supplies.

The main factor that influences the relationship between the company and its supplier is how inter-dependent they are with each another. Supplier dependability is where a company depends on a supplier based on the importance of its products to the company and the difficulty to obtain other sources. Buyers' dependability is where the supplier depends on a buyer due to the importance of that buyer to the supplier and the difficulty to sell its products to other buyers.

The strength of dependability regardless of buyer dependability or supplier dependability will cause an eruption in taking opportunities. The action of taking opportunity is a transaction where one party is in a profitable situation because of the sacrifice of another party. The action of taking opportunities between suppliers and buyers is something unavoidable. However, most companies believe that both parties can profit by improving the buyer and supplier relationship. If this happens and can be

implemented successfully, the relationship action will occur. The relationship action is where the relationship is focused on establishing a profitable situation and long-term exchange between buyer and supplier.

(d) **Socio Culture**

The values and customs of society form the guidelines that determine how many organisations and managers run the operation. The values and customs of society are also illustrated in a firm's organisation structure. In Japan, for example, employees might work for the same company their whole life, the subordinates are more involved in determining the policies and decision issues compared to employees in America. The values and customs of society influence the attitude of individuals towards the organisation where they work and also their attitude towards their work.

(e) **Activist Groups**

Activists or defender groups is another element that will reshuffle the specific environment. It comprises of groups of concerned citizens that gather together to try and influence the business practices of an industry, business and specific professions. All members in the group generally share the same facts with regards to specific issues. Examples of such bodies are the Consumer Association of Penang (CAP), FOMCA and others. Unlike legislation agencies, they are not empowered to direct and force organisations to submit to their demands. However, they can adopt several techniques to try to influence the companies.

Some of the techniques are as follows:

- (i) **Public communication** – a tactic by the defender group that depends on the voluntarily participation of the media and advertisement industry to disseminate the message of the defender group.
- (ii) **Media defence** – a tactic by the defender group to publicise issues as public issues, exposing issues, exploitation and unethical practices including insisting on media coverage to be conducted to enable more people to be aware or creating controversy to obtain wider coverage.
- (iii) **Boycotting the products** – a tactic by the defender group that objects to the action of the company by convincing consumers not to buy its products or services.



YOUR IDEA

Sketch a mind map regarding an organisation's external environment to facilitate your further understanding.



Exercise 1.3

Essay Questions

1. Provide **THREE** reasons why an organisation needs to understand its external environment.

1.75 ORGANISATION'S INTERNAL ENVIRONMENT

The internal environment is a situation and trend in an organisation that affects the management, employees and organisation culture.



THINK

What do you understand about Organisational Internal Environment, from your experience in learning the 'Organisation External Environment' earlier?

Organisation culture is the values, beliefs and behaviour shared together by all members of an organisation. An organisation culture that has been formed is surely difficult to diminish or be replaced especially with a new culture. It is even stronger than regulations and procedures. Regulations and procedures only force those in an organisation to observe and abide by it. If they are given an opportunity, they will try to avoid or go against it. However, once it becomes the culture, specifically if it has become the organisation culture, employees will willingly accept and adopt it without being forced. For example, in the Malay culture, when entering a house, it is a courteous to greet and to take off your shoes. This practice had been the culture for generations. If someone tries to change it, it will definitely be met with resistance.

The importance of organisation culture cannot be denied. However, the question here is how was it created and subsequently became successful and appropriate for change. There are three issues that need to be analysed when we discuss organisation culture.

(a) **Creation and Preservation of Organisation Culture**

The main source in the creation of organisation culture comes from the founder of the organisation. The founder will propose and thereafter try to apply the organisation's philosophy to all the employees in the organisation. For example, in establishing a university, there are definitely basic ideas on the philosophy as to why it was established. This philosophy

will be applied to all the individuals in the said organisation in order to achieve its objectives.

It is not impossible that in the efforts to lead and mould the organisation culture from the philosophies that have been formed in the organisation, the founder might have retired or left the said organisation. Therefore, what will be the fate of the values, behaviours and beliefs that had been formed by the founder? It will definitely be from the story and heroes of the organisation.

The organisation story is the subjects that are told by members of the organisation for change sensitivities to emphasise a continuous culture or straightforwardness in assumptions, decisions and actions.

While the organisation hero is the person in the organisation that is respected due to his quality and achievements in the organisation.

(b) Success of Organisation Culture

Research that has been conducted strengthens the opinion that the success of an organisation is closely related to the culture of the organisation. Factors that contribute to the success in an organisation's culture are suitability, clear vision, continuity and involvement. These can assist the organisation in achieving growth for returns on assets, profits, quality and employees' satisfactions and others.

Suitability is the ability to feel and react accordingly to changes in the organisation environment.

Meanwhile, the vision of a company is the purpose and reason for its existence. In an organisation culture that has clear and unambiguous vision, the purpose and strategic direction of the organisation is clear to everyone in the organisation. Moreover, if a manager is not sure of its business environment, the vision will help to drive its discussions, decisions and conduct in the company.

Continuity emphasises that companies that are active will define and educate their values, beliefs and organisation behaviour. Organisation cultures that are continuous are also regarded as a strong culture as the core beliefs are wide spread and held strongly.

The final factor is involvement. In cultures that organise high involvement levels of employees in making decisions, employees will feel a sense of belonging and higher responsibilities.

(c) **Change of Organisation Culture**

As explained earlier, changing an organisation's culture requires patience, caution and focus towards the changes in a section of the organisation culture that can be controlled by the manager.

There are three ways to do it.

- (i) **Additional behaviour** is a process that makes a manager and his employees achieve a new conduct that is centralised and symbolic to the new organisation culture to be created.
- (ii) The second way is through **behaviour replacement**. It is a process that makes the manager and his employees achieve a new conduct that is centralised to the "new" organisation culture to replace the conduct of centralising the "old" organisation culture.
- (iii) Finally is **clarity**. It means the apparent symbols in the organisation culture, such as the patterns and office arrangement, office dress code, benefits and rewards such as selection of shares, allocation of private car parking lots or private guest area in the office.

**Exercise 1.4****TRUE (T) or FALSE (F) Statements**

1. The reduction of buyer or supplier dependability can cause the action of taking opportunities.
2. The manager will usually carry out jobs that are unpleasant to identify the abilities of its competitors.
3. There are two basic strategies to monitor customers: reactive and proactive.
4. Organisational culture that is straightforward is also regarded as culture with a vision.
5. Once the founder of an organisation leaves, the story and hero will help the organisation in maintaining the values, behaviours and beliefs of the founder of the organisational culture.

Multiple Choice Questions

1. The term that refers to the forming of a good relationship that is beneficial to both the buyer and supplier in the long term is known as _____.
 - A. buyer dependability
 - B. supplier dependability
 - C. relationship behaviour
 - D. industry legislation
2. The main source for an organisation's culture is the _____.
 - A. organisation's founder
 - B. competitor's organisational strategies
 - C. management
 - D. employees
3. Which one of the following is **NOT** a component of an organisation's culture?
 - A. Values
 - B. Beliefs
 - C. Strategies
 - D. Attitude
4. The legislative agency affects businesses by forming and pushing laws and regulations for the protection of all **EXCEPT**:
 - A. consumers
 - B. employees
 - C. society
 - D. government
5. Emphasis towards _____ is to reduce the action of taking opportunities but it cannot be totally eliminated.
 - A. buyer dependability
 - B. supplier dependability
 - C. industry regulations
 - D. relationship behaviour

SUMMARY

Management is an art to direct other people in performing work by emphasising the aspects of effectiveness and efficiency in its implementation. Effectiveness is achieving the objectives that enable the realisation of the organisation's objective or doing the job the right way. Efficiency is implementing the work by using minimum ability, cost and wastage or doing things right. In brief, the managers are known for their management functions that are implemented.

The functions can be divided into planning, organising, leading and controlling. The manager plays several roles in an organisation. The roles include figurehead, leader, liaison officer, spokesperson, negotiator, ideas initiator, developing capability and motivator for transformation.

Management skills are crucial to ensure the success of a manager. It consists of conceptual, interpersonal and technical skills. Another skill that is rarely emphasised is the motivation to manage. The types of managers can be divided into three main sections: top management, middle management and lower/line management.

The evolution of management expanded in tandem with the beginning of human civilisation in Egypt, China and Babylon. The methods of management at that time were quite different from today. Modern management significantly expanded with the emergence of the Industrial Revolution in Europe. Generally, there are two well-known systems in discussions pertaining to trend or management of mind sets, which are the rational system and the social system. Amongst the renown figures of the rational system are Henri Fayol, Max Weber and Frederick Taylor, whereas in the social system are Elton Mayo, William Ouchi and Henry Mintzberg.

Environment is one of the most significant issues that must be emphasised by the management to ensure that efficiency is implemented through the management process. The organisation environment is divided into two categories, the external environment and the internal environment. The external environment is divided into two main sections that consist of general environment and specific environment.

This environment is always changing according to time and its surrounding. The changing of environment is called the environment transformation. It can change quickly or also referred to as dynamic transformation or with a slower rate that is also referred to as static transformation. This environment can be seen from its aspect of simplicity and complexity towards a particular environment.

It depends largely on the external environmental factors that are involved at that particular time.

General environment includes the economic environment, technological environment and social environment including the political and legislation environment. Specific environment comprises of consumers, competitors, suppliers, industry regulations and the public activist group. Internal environment of an organisation is the situations and trends in an organisation that affect the management, employees and the organisation culture. The success of the organisation culture depends on four important characteristic which are suitability, clear vision, continuity and involvement. The transformation of an organisation's culture can be done in three ways, the additional behaviour, replacement behaviour and clarity.

Topic 2 ► Planning and Decision Making

OBJECTIVES

At the end of this chapter, you should be able to:

1. Describe the meaning of planning;
2. Apply the five processes that are involved in effective planning;
3. Identify three types of planning;
4. Compare the advantages and disadvantages of planning;
5. Identify three types of environments for decision making;
6. Discuss the processes involved in making rational decisions;
7. Explains three limitations in the making of rational decisions;
8. State the methods of improving decision making;
9. Identify three methods of decision making in a group; and
10. Discuss the advantages and disadvantages of making decisions in a group.

► INTRODUCTION

As discussed in Topic 1, planning is one of the management functions, besides organising, controlling and leading. To enable an organisation to function effectively, good planning is crucial.

According to C. W. Roney (Certo, 2000), generally, planning is made for two purposes. Firstly, as a protection to the organisation. This means that when planning is done, a manager could forecast the effects from each of the suggestions or alternative actions that will be carried out. In this situation, definitely the manager will choose the alternative action that provides the best results to the organisation and protects it from any decision that is not profitable.

Secondly, planning is made to increase the affirmative levels of an organisation. For example, when an organisation 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 determined, why it has to be done, when to do it, where to do it, who should implement it, etc. Without good planning, an organisation will not be able to expand.

From these early discussions, we can conclude how important planning is in order to achieve success in an organisation. In the next section, we will learn in more detail the functions of planning. Topics that will be discussed are the definitions of planning, how to make effective plans, types of planning as well as the advantages and disadvantages of planning.

2.1 DEFINITION OF PLANNING

Before discussing further on organisational planning, it is appropriate to first analyse the definition. The following is a section on the definitions of planning that had been proposed by Western management intellectuals.

- (a) Planning means determining the objectives that is desired to be achieved and deciding on the actions that are needed to be taken in order to achieve the objectives (Lewis et al., 2001).
- (b) Planning is a proposal of actions that need to be made by an organisation to achieve its objectives (Certo, 2000).
- (c) Planning is a process to determine the objectives that it desires to achieve in the future including the actions that need to be taken in order to achieve them (Rue & Byars, 2000).
- (d) Planning involves the definition of objectives, the formation of strategies and action plans to co-ordinate the organisations' activities (Robbins, 1996).
- (e) Planning refers to the process of determining an organisations' objectives and making decisions on the best way to achieve them (Bartol & Martin, 1994).

From the definitions highlighted, what can be concluded here is that planning involves the activities of identifying the objectives that need to be achieved including determining the strategies that need to be adopted in order to achieve the objectives set. In summary, planning emphasises the end result including the means to implement the task. With planning, managers would be able to determine how to distribute the available resources efficiently in order to achieve the organisations' objectives.



YOUR IDEA

Based on what had been discussed just now, try to provide the definition of planning according to your understanding.

2.2 HOW TO PLAN EFFECTIVELY?

? THINK

What do you understand by effective planning in an organisation?

Planning that is effective includes five (5) main processes, namely, (a) determining the objectives that need to be achieved, (b) building individual commitment towards achieving the objectives, (c) forming action plans, (d) monitoring progress and (e) maintaining flexibility (Williams, 2000). These processes are not only meant to establish planning but also meant to ensure that the planning is implemented correctly and effectively.

(a) Determining the Objectives

The first step in planning is to determine the objectives that it wants to achieve. A good objective should have the S.M.A.R.T. features that are, specific, measurable, attainable, realistic and timely as illustrated in Figure 2.1.

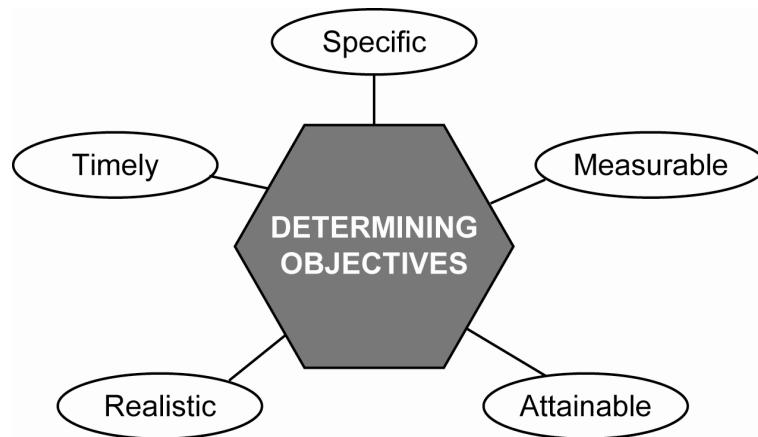


Figure 2.1: Features to achieve good objectives

(i) Specific Objectives

The objectives that are desired to be achieved must be stated specifically. Suppose an organisation intends to increase its production this year. Then, the organisation must state clearly how much of increase it wants to achieve, would it be 10 percent or 20 percent or more.

(ii) **Measurable Objectives**

A good objective is an objective that can be measured quantitatively. This measurement is important to determine whether the objective can be achieved or not. Based on the example above, the increase in production can be measured by calculating the products produced. Assuming after calculations, it was found that there was an additional 10% increase compared to what was assumed previously, hence the objective that was planned earlier that is the increase of 10 percent has been achieved.

(iii) **Attainable Objectives**

A good objective is an objective that is not impossible to achieve. Therefore the objectives that have been determined should not be too high to enable it to be achievable by the employees. Attainable objectives will motivate employees but objectives that are too high to be achieved will weaken the enthusiasm of the employees.

(iv) **Realistic Objectives**

Realistic objectives mean objectives that are reasonable that is, they can be implemented. Suppose the production capacity of Company A had reached the maximum level. The management decides to set the objective of increasing production by another 30%. This objective is unrealistic as it cannot be achieved since the production capacity has already reached the maximum level. Therefore, it is important for the manager of an organisation to evaluate the capabilities of the organisation first before making any plans in order for the planning to be reasonable.

(v) **Timely Objectives**

A good objective usually outlines the time period for its achievement, for instance, one year or three years. With this time period, all the resources can be combined and focused towards achieving the objectives set.

(b) **Building Individual Commitment**

Even though objectives have been set, it does not guarantee that all the individuals in the organisation will be driven to achieve it. Hence after determining the objectives, the next step that needs to be taken is to instil a sense of commitment in each of the organisation's individual towards achieving that objective. There are four ways that can be used to establish commitments in members of an organisation towards achieving the objective. Please refer to Table 2.1 for the methods and its explanation.

Table 2.1: Methods of Establishing Commitment

Methods	Explanation
Determination of objectives by cooperating with all members of the organisation.	Usually when a decision has been made by cooperation between members, it will create a sense of ownership towards the decision made. When the members feel that the decision was made based on their agreement, it will create a sense of commitment in them to ensure the success of its implementation. This method is the best approach and is commonly used in organisations to increase the commitment of employees.
Reasonable objectives	The objective set has to be reasonable so that employees will be motivated to perform their task until the planned objective is achieved. Objectives that are unrealistic with high targets are difficult to achieve whilst objectives that are too low will bore the employees.
Announcement of objectives to members in the organisation	Generally when an objective is publicly known, we will be embarrassed if we failed to achieve the objectives. Hence, we will work harder to ensure the planned objective is achieved.
Getting support from upper management.	To facilitate work operations, it will be good to have upper-management support. This support can be in the form of money, opinions, advice and others. With this support, all work dealings will be easier and indirectly this will motivate us towards achieving the planned objectives.

(c) **Preparing an Action Plan**

Action plans will be prepared after identifying the commitment that will be provided by members of the organisation towards achieving the objectives that have been set. This action plan will explain the steps to be taken to implement the task, the individuals involved, resources and time needed to achieve the said objectives.

(d) **Monitoring the Progress**

The fourth step in planning is to monitor the progress. It aims to identify whether the plans are working well or otherwise. Two methods to monitor progress are:

(i) **Determining the Long-term Objectives and Short-term Objectives**

Long-term objectives are the actual objectives that need to be achieved whilst short-term objectives are formed for the purpose of motivating an organisation's members and employees temporarily while waiting for the long-term objective to be attained.

For example, the long-term objective of organisation A is to generate net profit of RM10,000 in year 2003. The short-term objective that had been determined was to increase the net profit in the account every month in the year 2003. If the net profit increases every month, it will motivate employees to continue generating more profits until it reaches the targeted RM10,000 in the month of December 2003.

(ii) **Obtaining Performance Feedback from Participating Parties**

Frequent performance feedback enables employees as well as the manager to monitor their progress levels. Should there be any deviation from the objective or original strategy, and then adaptation efforts, direction and work strategies will be immediately done. Feedback also ensures the manager does not run away from the original objectives and to identify the mistakes made including corrective actions that must be undertaken.

(e) **Maintaining Flexibility**

Good planning is planning that has flexibility or elasticity. At times, the action plan and certain objectives could not be implemented as planned. Sometimes, the objectives were found to be difficult to be achieved and then action must be taken to modify the planning made. Changes made might be from the aspects of work strategy, scope of objectives to be achieved or the resources involved. This flexibility planning is important because if there are any problems related to the planning process, then it will not damage the overall planning made, may be only a portion that needs to be improvised. Thus, good planning should include features of flexibility in order for it to be modified whenever necessary.

2.3 TYPES OF PLANNING

Although planning is defined as the process to determine the objective and identify the methods to achieve the objectives, however planning can consist of several types. It exists in several forms and sizes as well as having its own meaning. Dessler (2001) categorised planning into three main dimensions which are planning based on format, organisation hierarchy and frequency of use. Figure 2.2 summarises the types of planning based on these dimensions.

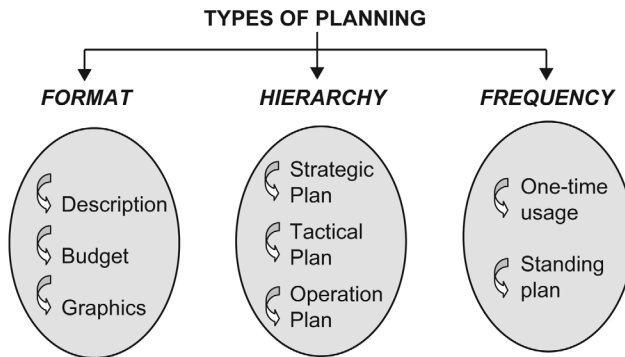


Figure 2.2: Types of planning

(a) Planning Based on Format

Planning differs from the aspect of format that is the way it is presented. If planning is written in the form of statements that state what needs to be achieved and how it is achievable, it is called descriptive planning. For example, the planning of an individual's career. There is also planning that is stated in the form of financial statements. This type of planning is called budgeting as this plan is stated quantitatively by using financial terms. Graphic planning refers to the planning that explains what needs to be achieved and how to achieve it in the form of charts. Example of graphic planning is the Gantt chart. This chart illustrates the time period required in order to implement an activity, in the form of a bar chart.

(b) Planning Based on Organisation Hierarchy



Reflect upon the fates of well-known companies in Malaysia that had to liquidate or sell their shares to other companies due to their failures to maintain their position in the commercial world. Could this be because of their failure to practice their initial planning?

Apart from formats, planning is also different from the aspect of time frames. There are planning that is made for long term and some are for short term. Planning is done by management based on the hierarchy of the organisation. Generally, there are three levels in an organisation, which are the top management, middle management and lower management level. An organisation's objectives have to be determined at each level of the organisation. This type of planning is known as top to bottom planning that comprises of strategic planning/plans, tactical plans and operation plans. Please refer to Table 2.2 for further details.

Table 2.2: Planning Based on an Organisation Hierarchy

Organisation Hierarchy	Planning	Explanation
Top-level Management	Strategic Plan	This is the overall planning of the organisation that explains the organisation's general direction and how it will position itself in the market compared to its competitors (positioning). Strategic planning usually encompasses a long period of time and is made for a period of two to five years in the future. The top management will be responsible to establish this plan.
Middle-level Management	Tactical Plan	This plan is prepared and implemented by the middle management level. It explains how an organisation will distribute and use the resources, funds (monetary) as well as the individuals in the organisation in order to achieve the objectives that have been determined. This tactical planning usually involves a moderate time period and is made for between six months to two years.
Lower-level Management	Operation Plan	This is the daily planning which is prepared and implemented by the lower level management who are also known as the line managers. Normally this planning will explain the production and distribution of products for a period of thirty days to six months.

Even though each management level does its own planning, the planning will only be effective when the objectives and actions made at the lower-level supports and is in accordance with the objectives and actions made by the top and middle levels.

(c) **Planning Based on Frequency of Use**

Apart from the format and organisation hierarchy, planning is also different from the aspect of frequency of use. Some planning is only used once whereas some are used repeatedly.

Planning that is only used once is known as one-time usage planning. It is specifically prepared to fulfil specific purposes, for example, the opening of a new branch. Even though the organisation may open more than one

branch, each plan made will only be applicable to that specific branch only. This is because each branch will definitely have different resources whether in terms of money, manpower, customers' distribution, size of the branch area, etc. Therefore, planning for the opening of a new branch in Gombak for instance, cannot be used for the opening of another new branch in Alor Star. Other examples of this type of planning will be the budget prepared for a specific time frame.

Planning that is repeatedly used is known as standing plans. This plan is used to manage situations that frequently arise in an organisation such as employees' disciplinary problems. There are three types of standing plans: policy, procedure and regulations.

- (i) **Policy** – policy is the general guidelines or principles to manage a situation.
- (ii) **Procedure** – procedure refers to the actions or process that must be taken if a certain situation arises. It is more specific compared to policy.
- (iii) **Regulations** – regulations is the specific guideline when taking an action. Regulations are normally more specific compared to procedures.

The following example will facilitate the understanding of standing plans. Syarikat Suria Sdn Bhd had determined the **policy** that its 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 compensation is paid, there are several **procedures** that must be complied with. First, to record the damage in the inventory system and second, to obtain prior approval from the departmental manager for the payment of compensation. However, the **regulation** state that any report on the damage must be made within a period of 30 days from date of purchase.

Observe that all the activities involved, which are the activity of selling the product to customers, compensation claims from customers as well as the payment of compensation by the business, are repeated activities in a business, hence, a policy, procedures and regulations had been fixed as a guideline to manage all these activities. Therefore, each time when any of these activities occur, then the same policy, procedures and regulations will be applied. In summary, the same planning (that is the policy, procedures and regulations) can be used repeatedly to manage repeated activities.



YOUR IDEA



Please refer to the cartoon above and you will find the presentation of objectives by a woman and a robot. In your opinion, what are the implications to the organisation if the objectives determined are inaccurate and irrational?



Exercise 2.1

Essay Question

1. What is the difference between the planning based on format and planning based on the frequency of use?



BREAK

2.4 THE ADVANTAGES AND DISADVANTAGES OF PLANNING

Even though planning provides certain advantages, it also has its disadvantages. In this section, we will identify what are the advantages and disadvantages of planning. By understanding the advantages and disadvantages, a manager will be able to assess the ability of the planning implemented. Table 2.3 summarises the advantages and disadvantages of planning.

Table 2.3: Advantages and Disadvantages of Planning

Advantages	Disadvantages
<ul style="list-style-type: none"> • Generates intensive efforts towards an organisation's objectives. • Creates continuous effort among managers in the organisation hierarchy. • Explains the direction of the organisation to the managers and employees. • Assists managers in establishing work strategies. • Creates positive impacts on individuals and organisations. 	<ul style="list-style-type: none"> • Restricts changes that occur in the organisation. • Planning does not take into consideration the uncertainties of future assumptions. • Separates between the planner and implementer.

2.4.1 The Advantages of Planning

The following Table 2.4 explains the advantages of planning.

Table 2.4: The Advantages of Planning

Advantages	Description
Generate Intensive Efforts	Employees will be more hardworking if there is planning, that is the objectives and work strategies. Besides that, work performance can be further improved as they are aware of the directions that need to be achieved.
Continuous Effort	Planning involves a specific time period. Managers that have planning will definitely be able to know that the objectives can only be achieved when the time comes. Hence, the intensive efforts implemented will be continued until the planned objectives are successfully achieved and the managers and the employees will work more enthusiastically throughout the period of achieving that objective.

Explaining the Directions	With planning, employees will know the objectives that need to be achieved including strategies that must be followed. Indirectly, all members of the organisation have a direction that must be followed and will move towards that same direction or objective.
Establishing Work Strategy	As defined, when a senior manager sets an objective to be achieved, automatically, the managers at the middle and lower level will question the ways to achieve that targeted objective. In order to achieve it, managers will establish strategies that will be the guidelines in determining the activities that need to be implemented in order for the planned objectives to be achieved.
Positive Impact on Individual and Organisation	Planning had been proven to be effective to organisations as well as individuals. Generally, organisations that have planning will obtain more profits and expand much faster compared to organisations that do not have any planning. It also applies to individuals, whether he is a manager or employee, normally the work performances are much better if they have objectives and strategies when doing their work.

2.4.2 The Disadvantages of Planning

The following Table 2.5 describes the disadvantages of planning.

Table 2.5: The Disadvantages of Planning

Disadvantages	Description
Restricting Changes and Adaptation	Usually, planning is made for a specific time period. When changes take place in an environment, then the existing planning needs to be updated again. These changes to the environment can occur from the aspect of change of taste in consumers, technology changes, legislation and others. Nevertheless, individuals or organisations are sometimes too committed to achieve the objectives that have been planned before this until they do not realise that the strategies made are no longer suitable and must be changed. The failure to realise this need for change will cause implementation failure in the present planning.

Uncertainty Towards Assumptions	Planning made is based on the assumption of future occurrence. For example, if a manager presumes that the demand will increase in the future, then the planning made may be to increase the production of products in order to meet the demand. In order to accomplish a planning, assumption on future issues must be accurate. A lot of uncertain elements will exist when forecasting for the future. If the forecast made is wrong, then the planning made based on that assumption will fail in the end.
Separates between Planner and Implementer	Generally, planning is made by top-level managers whilst its implementation is carried out by the employees at the lower levels. This segregation could sometimes cause the planning made to be incompatible with the capabilities of the employees. This happens when the person who plans is not directly involved in the operations division. As such they do not know in detail the capability levels and constraints faced at the operation level, resulting in unsuccessful planning.



YOUR IDEA

Based on what you had learned, try to describe the importance of effective planning and its implications towards your company if the planning failed to achieve the organisation's objectives.



Exercise 2.2

Essay Question

1. From the discussion above, list the disadvantages of planning.



Exercise 2.3

Multiple Choice Questions

1. _____ is a process to determine the objective that needs to be achieved as well as to identify the methods to achieve the said objectives.
 - A. Strategy
 - B. Tactic
 - C. Planning
 - D. Administration
2. The first step when planning effectively is to _____.
 - A. maintain flexibility in planning
 - B. form an action plan
 - C. determining objectives
 - D. build commitment towards achieving the objective
3. Select the statement that does **NOT** illustrate the disadvantages of planning.
 - A. Can restrict changes and adaptation in an organisation.
 - B. Can fail a plan if it is made based on the wrong assumption.
 - C. The implementer does not understand the planning made by the planner.
 - D. All the statements above are disadvantages of planning.
4. Planning can be categorised based on the following types **EXCEPT**:
 - A. Format
 - B. Frequency of use
 - C. Management
 - D. Organisation hierarchy
5. _____ is responsible for the forming of tactical plans.
 - A. Top-level managers
 - B. Middle-level managers
 - C. Lower-level managers
 - D. All the managers above

TRUE (T) or FALSE (F) Statements

1. Planning is made based on assumptions in the future.
2. One of the disadvantages of planning is the restriction of changes and adaptation in an organisation.

2.5 DECISION MAKING

One of the important duties of a manager in implementing management functions is decision making. Decision making is defined as a process to identify problems that will exist, generate alternative solutions, select the best solutions available and implement it. In other words, it is a process of selecting a solution from a few available alternatives.

When discussing about decision making, another important concept that needs to be taken into consideration is the making of rational decisions. Rational decision making refers to the decisions made based on facts, opinions as well as reasonable reasons. Generally, decisions that are made based on facts and opinions are the best decisions. Nevertheless, not all decision makers can make decisions that are rational. This is due to the limitations that exist in the environment or within the decision maker itself.

Firstly, it is stated that the words 'decision maker' and 'manager' will be used interchangeably in this chapter. This is because in the context of an organisation, a manager is the person responsible for making decisions. Therefore, whether the expression manager or decision maker is used, it refers to the same individual, who is the person making the decision.

2.6 DECISION-MAKING ENVIRONMENT



Do you know what the determining factors are in decision making?

A good decision is not only 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 (Abu Mansor et. al., 1999). The information mentioned herein refers to the information that can help us in making forecast on situations that will occur in the future. For example, is it possible for us to forecast accurately the actions of the competitors in the future, or what is the interest rate for next year, or what are the changes in legislations that may happen in the future and so forth? If we could obtain sufficient information, it will be easier for us to forecast the situations that might occur in the future. Thereafter, the decision making will emerge with ease and accuracy.

Generally, there are three information situations in the process of decision making, whether the information obtained is complete, incomplete or no information at all.

This will create three decision making environments or situations that are:

- (a) certainty;
- (b) uncertainty; and
- (c) risky.

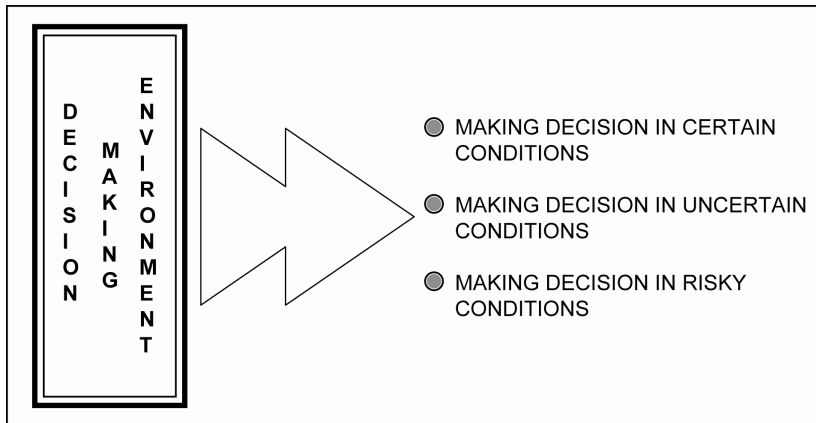


Figure 2.3: Decision making environment

2.6.1 Decision Making in Certain Conditions

In this situation, the decision maker obtains the complete information in order to facilitate his decision making. Therefore, they are able to know with certainty what situations will occur in the future. By knowing what will occur in the future, hence the results generated by each of the alternative decisions will be able to be ascertained or known with certainty. Therefore, the alternatives that give the best result will be selected and implemented.

Example of decision making in certain condition is as per the following situation: Suppose you were offered two alternative investments that are, Investment A and Investment B. Investment A gives a return of 5% in a period of 2 years whereas Investment B gives a return of 6% also in a period of 2 years. You have sufficient information related to these investments. You are able to know the types of investment, period of investment and the rate of return. From this complete information, you are able to know the return in revenue from each investment made. A rational decision maker will definitely choose the alternative investment that gives the highest returns, that is Investment B.

2.6.2 Decision Making in Uncertain Conditions

In this situation, the decision maker does not have any information that would help in his decision making. Therefore, he is uncertain of the future and he 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 uncertain conditions, the decision maker needs to have a high propensity towards risks. Risk propensity refers to the tendency of a person to take or avoid risk. Individuals who have a high propensity towards risks 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 that operates in such situations to have higher propensity towards risk.

The following example illustrates the decision making in an uncertain condition: Company ABC has been conducting its rattan furniture business for a long time around the area of Bandar Banjaru. Now, Company ABC decides to introduce a new product into its market that is, decoration items made from ceramic. As these ceramic decorations are something new to the people of Bandar Banjaru and there had been no previous traders selling this, Company ABC cannot forecast the response of consumers towards this product. This is because there is no previous data that can be used as a guide. Will the residents of Bandar Banjaru be interested in ceramic products or not? Since the reaction of consumers are not predictable, then the result of each alternative decisions made are also unpredictable.

In this case, the alternative decisions that could be taken into consideration will be from the aspect of setting the selling price. Will the ceramic decorations be sold at a price of RM10, RM7 or RM5? Since there is no information available to be used as a guideline, then normally, the decision made will depend on the discretion of the decision maker himself.

2.6.3 Making Decisions in Risky Conditions



YOUR IDEA

If you are a manager, what will be the factors that enable you to take a risky action?

Most managers or decision makers have actually operated in these conditions. They have information but this information is incomplete. Therefore, they will not know for sure the situations that will occur in the future. Minimal information will only give some insights in predicting what will occur. Whether the situation really will happen or otherwise, cannot be completely ascertained. Usually, the situations can only assume to occur based on the information obtained as well as the percentage of probability that a situation will occur.

For example, from the monthly sales statement, it is noticed that the total sales had increased each month. Therefore, you are able to assume that the company will be obtaining net profit for this year after making losses for last year. Without obtaining the other information such as operational cost, change of taste in consumer and loan interest, you could only assume that the company will obtain a profit based on the sales trend for the past few months. Then you state that the probability that the company will obtain profits is 60% and the probability that the company will make losses is 40%. With this, you make a decision to increase investment. Here, you made a decision in a risky condition that is, it is not known whether the company will really be making a profit or otherwise.



THINK

What are the steps that you think are required for a manager in decision making?



Exercise 2.4

Essay Question

1. Discuss **THREE** different decision-making environments that are faced by managers.

2.7 RATIONAL DECISION-MAKING PROCESS

Although decision making seems simple, however, to ensure that the decision made is the best, the decision must be rational. This means that the decision taken has to be based on facts, opinions and reasonable reasons. Therefore, systematic evaluations have to be conducted in the overall process of decision making. In summary, making rational decision can be defined as a systematic process in defining problems, evaluating decision alternatives and selecting the best alternative decisions available.

Hence, Williams (2000) has stated that six steps or processes that need to be practised in the effort to make rational decisions. The steps are shown in Figure 2.4.

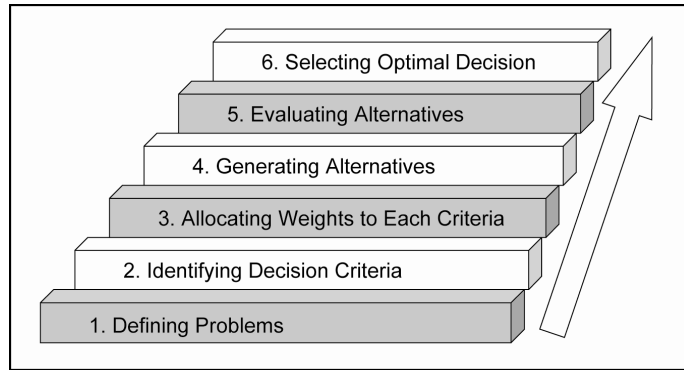


Figure 2.4: Rational decision making process

(a) **Defining Problems**

The first step in rational decision making is to identify the problem. At this stage, a manager needs to identify the problems faced, the source of the problems and how to resolve them.

For example, your office is facing delayed work problems. When analysed, it is found that the problems originates from shortage of computers in the office. Therefore, the management agrees to purchase more computers for office use.

(b) **Identifying the Decision Criteria**

After identifying the problems, the next step in rational decision-making is to establish the decision criteria. The decision criteria refer to the standards or features that will be taken into consideration when making a decision.

Referring to the above example, since the management had decided to purchase new computers, then what are the criteria that will be taken into consideration when selecting the new computers? Based on the aspects of pricing, quality, compatibility with the other equipment and warranty, that is the after sales guarantee. These factors of price, quality, compatibility and warranty are the factors in decision criteria.

(c) **Allocating Weights to Each Criteria**

After identifying the criteria that needs to be taken into consideration when making decision, the next step will be to allocate weights to each of the criteria. One method that is normally used for this purpose is by making

relative comparisons. In this method, each criterion will be compared directly with each other. This is to identify which are the most important criteria, the second important criteria and thereafter the next lesser important criteria for the decision maker. Meaning to say, decision criteria are arranged according to priorities. The priorities of an individual might be different from another individual.

Based on the example given just now, you might place the quality factor as the most important, followed by compatibility factor, pricing factor and lastly the warranty factor.

(d) **Generating Alternatives Solutions**

Once you have identified and allocated weights to the criteria decision, the next step is to develop as many alternative solutions as possible. The more alternatives generated, the better the process.

Based on the examples above, in order to purchase a new computer, the alternatives that can be taken into consideration will be Acer, IBM, NEC, Serindit, Compaq and others.

(e) **Evaluating Alternatives**

At this level, every alternative will be compared with each decision criteria. This is to determine the extent of the alternatives to fulfil the decision criteria that had been set. Usually, this level takes the longest time as there is a lot of information that must be collected first before comparisons can be made. It also involves the use of a huge sum of money.

This means, all the alternative solutions, which are Acer, IBM, NEC, Serindit and Compaq, will be evaluated from the aspects of quality, compatibility, pricing and warranty (decision criteria). The more decision criteria that are fulfilled by an alternative, the better the alternative will be.

(f) **Selecting the Optimal Decision**

The last step in the process of making rational decision is to select the best alternative solution available. The best alternative is the alternative that fulfils all the decision criteria according to the importance that has been arranged. However, if there are no alternative that could fulfil all the decision criteria according to the arrangement set, then the alternatives that fulfil the most of the top criteria will be selected.

After going through this section, you are encouraged to take a short break to relax the mind before continuing to the next section.



BREAK

2.8 LIMITATIONS IN RATIONAL DECISION MAKING



THINK

What are the obstacles that may complicate decision making? Compare your answer with what you will be learning after this.

Generally, decision making will become better if the manager or decision maker follows thoroughly all the steps that have been discussed earlier. Nevertheless, sometimes there are obstacles that confuse the decision maker in adopting all the above steps.

For example, lack of information. This problem can cause difficulties in defining the problems, such as we do not know the real source of the problem that occurred. Financial factors can also become another obstacle in rational decision making.

Supposing finance is limited, maybe not all the alternative solutions can be considered. Besides that, time limitation is another factor in making the optimal decision. This will restricts the manager in evaluating all alternative solutions available. All these limitations cause complications to the manager in making the best/optimal decision.

Based on Williams (2000), generally, the limitation process of decision making can be divided into three categories that are:

- common mistakes
- rational boundaries
- risky environment

Figure 2.5 illustrates the three limitations.

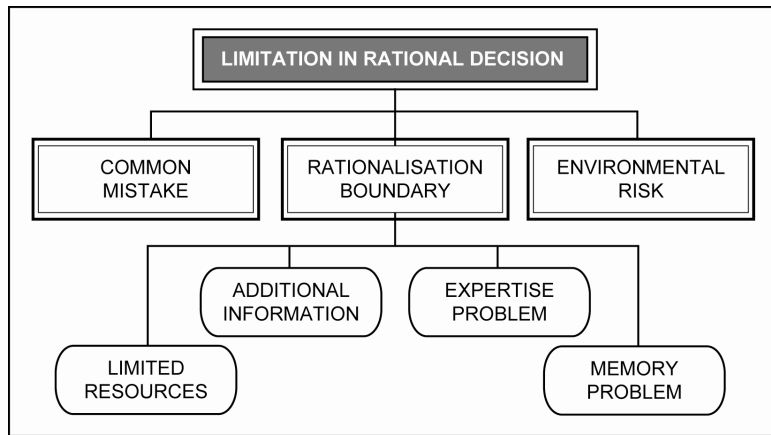


Figure 2.5: Limitations in rational decision making

2.8.1 Common Mistakes in Decision Making

Managers cannot make rational decisions as they are sometimes influenced by intuition and biases.

Most of the management decisions are influenced by intuition that is the managers' instinct. This usually happens to an experienced manager. This situation may occur because the issue that needs to be resolved is similar to a previous situation that had happened. Managers that depend on intuition have a tendency to neglect information from the data available. As a result, the decisions made are not based on facts and reasons.

Sometimes managers also make biased decisions. This happens when a manager assumes that an issue that will happen in the future is similar to the previous incident he had experienced. For example, Company ABC Sdn. Bhd. had recruited Ali, a graduate from Jaya University as their employee. However, Ali had failed to perform. Therefore, the company's management decided not to recruit anymore graduates from Jaya University as their employees. The decision made was one sided or biased. Managers should not assume all graduates from Jaya University are like Ali. Moreover, Ali does not represent or reflect all the graduates from Jaya University.

2.8.2 Rational Boundaries

Rational boundaries 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 also the capacity to analyse limited decisions.

Particularly, there are four problems that obstruct managers from rational decision making, these are;

(a) **Limited Resources**

Resources consist of time, money, equipment and also manpower. Resources that are limited can influence decision making. For example, assuming that previously the organisation had planned to set up several new branches, however due to the economic downturn the company's income had reduced. As a result, the plan to set up new branches was postponed. Observe that due to the limited financial resources, what was done is not the same with what had been originally planned.

(b) **Additional Information Excessive**

The advancement in technology has caused information dumping to happen. Some information can be easily obtained but at the same time can cause problems to the manager. This is because the manager is unable to handle all the information that is available. As a result, only certain information is considered. Thus the decision made is not the best as not all information was taken into consideration.

(c) **Memory Problems**

Memory problems can cause difficulties for the manager in remembering all the old information. Even though the information was recorded, sometimes there is also information that was overlooked or unrecorded.

In order to make rational decisions, all required information need to be obtained. To compile all these required information, it might involve time and higher costs. Maybe not all the information can be compiled. Therefore, an optimal decision cannot be made.

(d) **Expertise Problems**

Expertise problems cause the decision maker to encounter problems in arranging, understanding and summarising the information available. This is because there is not one individual who is an expert in every sector. Although the information can be analysed by the computer, the decision maker will still require specific skills to understand the results that have been obtained. As a result of this lack of expertise, the evaluation made may not be the best.

2.8.3 Environmental Risk

As stated in the earlier chapter, most managers would normally make decisions in a risky environment. This means that the manager has information to assist in his decision making even though the information obtained is not complete. As a result, the decision made could either be successful or otherwise.



Exercise 2.5

Essay Question

1. What are the limitations in rational decision making? Describe.

2.9 HOW TO IMPROVE DECISION MAKING



YOUR IDEA

Based on your experience, try to state the methods to improve a decision that you have made.

The quality of a decision made can be improved by the following methods:

- (a) use specific rules and tests in the process of decision making; and
- (b) making decisions as a group

2.9.1 Using Rules and Tests

Decision making can be improved by using specific rules and tests.

(a) Rules of Decision Making

Decision rules refer to a set of criteria that needs to be completed to enable an alternative solution to be accepted. Two types of rules in decision making are the (1) rules of priority and (2) rules of minimum conditions.

(i) Rules of Priority

In this rule, all decision criteria will be arranged according to its priorities. Thereafter, each alternative solution will be assessed based on the criteria one by one. A good alternative must fulfil the most important criteria followed by the second and the subsequent criteria. The best alternative will be the one that fulfils the most criteria highlighted.

For example, Ahmad plans to rent a shop lot to conduct his business. The criteria that are taken into consideration and had been arranged according to its priorities are as follows:

- (i) located in the town area,
- (ii) large area,
- (iii) rental not exceeding RM500 per month and
- (iv) has electricity and water utilities.

Assuming that there are four alternative shops that is, A, B, C and D that can be considered. After the evaluation had been made, it was found that Alternative A fulfils the criteria of (i) and (iv), Alternative B fulfils the criteria of (i) and (ii), Alternative C fulfils criteria (i), (iii) and (iv) whilst Alternative D fulfils criteria (ii) and (iii). Although Alternative C fulfils three of the four criteria mentioned, Alternative B, however, was the best option as it fulfils the two highest criteria that were required.

Do remember that the best alternative does not necessarily fulfil the most criteria but the alternative that fulfils the highest criteria or priorities according to its arrangement.

(ii) **Rules of Minimum Condition**

Sometimes, managers must make decision such as, yes/no or accept/reject. In this situation, the decision maker need to set a minimum condition that must be fulfilled by each of the alternative solutions in order to enable it to be accepted. Any alternatives that could not fulfil even one condition will be rejected.

For example, before a sponsor accepts or rejects the applications of students to obtain education scholarships, they will probably set some minimum conditions such as (1) management courses, (2) education for first degree, (3) yearly family income not exceeding RM18,000. The student's application must pass through all these conditions for it to be approved.

(b) **Various Variable Tests**

Both the decision making methods above can only make a separate evaluation on each of the alternative. However, there are situations that require the decision maker to assess the effects of the implementation of various alternatives at the same time. Sometimes this combination provides the optimal result.

Evaluation is made through the implementation of several variable tests. It is quite complicated and requires the decision maker to learn the methods in designing experiments including ways to compile and analyse the statistical data that will be generated.

The following example shows that the use of various variable tests in the decision making: The management of a recreational park is drafting a strategy to increase the number of visitors to its park every Monday, which is the day that has the lowest number of visitors every week. Among the alternative strategies that have been planned are (A1) 2 in 1 tickets, where one visitor ticket can admit another visitor for free, (A2) give free food coupon to each visitor and (A3) allow free car parking for visitors.

Hence, every Monday, experiments are conducted to study the results. In the first week, there were no changes and the income for that week was RM1500. In the second week when strategy A1 and A2 were initiated, the income for that week was at RM1000. In the third week, when strategy A2 and A3 were introduced, it generated an income of RM3800. On the fourth week, when strategy A1 and A3 were combined, the income generated was RM2500. It clearly showed from the experiments conducted, strategy A2 and A3, which is the giving of free food coupon and 2 in 1 tickets were the best combination solution.

Table 2.5: Various Variable Tests for Recreational Park

Test	Alternative Strategy			Profit (RM)
	2 in 1 (A1)	Free Food Coupon (A2)	Free Car Parking (A3)	
1.				1,500
2.	X	X		1,000
3.		X	X	3,800
4.	X		X	2,500

2.9.2 Using Groups



YOUR IDEA

In your opinion, is a collective decision better than an individual decision? Why?

Most of the current organisations use groups to make decisions. For example, a university academic committee was established to evaluate the effectiveness of a programme that was offered or a group of employees were assigned to determine the new product that will be introduced to consumers. This scenario occurred because group decision making has more advantages compared to individual decisions.



Exercise 2.6

Essay Question

1. Based on the discussion above, how can decision making be further improved?

2.10 GROUP DECISION MAKING METHODS

The following methods are normally used in group decision making. Generally, there are three main methods on how a group generates results as summarised in Figure 2.6.

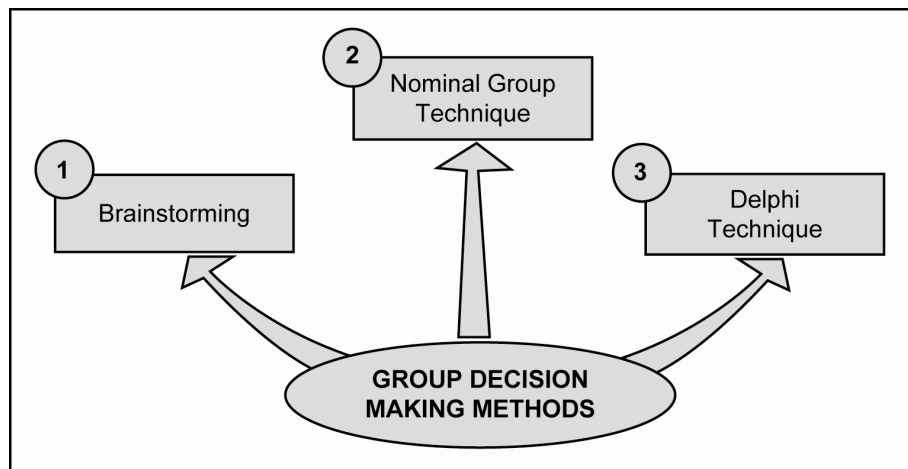


Figure 2.6: Methods of making group decisions

2.10.1 Brainstorming



THINK

What do you understand by brainstorming?

Brainstorming is a technique that encourages the generation of ideas as much as possible without any criticism. The purpose of brainstorming is to extract ideas from each group member openly. A group brainstorming activity that is effective usually consists of five to seven individuals (Hoe et. al., 1998).

In summary, all the group members will propose their own ideas according to their turns. In the early stage, all ideas whether good or bad, suitable or not suitable, are accepted without being evaluated for the purpose of motivating all members in the group to generate more ideas. This process will continue until no more ideas are proposed. After all the ideas have been collected, only then evaluation will be made, that is by discussing the advantages and disadvantages of the ideas given and thereafter the best decision will be made.

This method is good to be used for the purpose of generating more ideas. However, it also has certain weaknesses. For example, it restricts the producing of ideas. As members in the group voice their ideas by taking turns, sometimes, an idea that had spontaneously risen might be lost while waiting to speak. At times, the group members may feel that their ideas are not good enough and they are shy to state the ideas to the group.

These disadvantages restrict the actual functions of brainstorming. In order to overcome these problems, currently brainstorming by using computers is used. In this method, group members do not have to wait for their turn to state their opinions. They could directly type into the computer and therefore, there the loss of ideas will not happen. At the same time, the identity of the group members will also be unknown. Therefore, the members will not be shy or uncomfortable if evaluation on their ideas were made.

2.10.2 Nominal Group Technique

The nominal group technique is a method of decision making where group members propose and evaluate their ideas individually before sharing it with the other group members. The steps involved are as follows:

- Step 1 - Each group member records his individual ideas on the decision or problem discussed.
- Step 2 - Thereafter each group member will read out his ideas to everyone in the group for sharing. These ideas are usually written on the blackboard/whiteboard for review and reference by all group members.
- Step 3 - After all members have forwarded their ideas, then a discussion will be conducted to evaluate the advantages and disadvantages of each idea.

- Step 4 - Once the discussion had been finalised, members will secretly vote on a piece of paper. The idea that receives the highest number of votes will be accepted and implemented.

2.10.3 Delphi Technique

Delphi technique is a decision making method where a panel that consists of several experts will answer the questions and interact among them until a solution is reached for the specific issues. This technique does not require the panel members to meet face-to-face. They might interact by mail, e-mail and others.

The steps involved in this technique are:

- (a) Identify and select the experts in the related sectors as panel members
- (b) Thereafter, the problems are composed in the form of questionnaire that consists of open-ended questions.
- (c) The problems are then forwarded to the panel members via the questionnaire form and they are asked to propose solutions.
- (d) Each expert will complete the questionnaire and return it to the manager.
- (e) All the answers will be summarised and bound together in the form of a report. It will then be returned to all panel members together with a more specific and detailed questionnaire form that has been reviewed.
- (f) Panel members will read the report to find out the opinion and proposals of the other members relating to the problem that needs to be resolved. They will also complete the second questionnaire.
- (g) This process will be repeated until a unanimous decision is achieved by the members on the best solution.



Exercise 2.7

Essay Question

1. State the advantages of brainstorming electronically compared to brainstorming face-to-face.

2.10.4 Advantages of Group Decision Making



THINK

Based on your experience, think of the advantages and disadvantages of group decision making.

Group decision making offers several advantages compared to the individual decision making. Basically, these groups are formed for the purpose of focusing the experience and skills possessed by specific groups of individuals on a specific problems or situations.

This means that the group offers more knowledge and skills compared to individuals. With this additional information, the group is able to handle the problem better and the source of the actual problem can also be known. At the same time, more alternative solutions can be generated.

The background of these members are varied, for instance there are members from the marketing section, operations section, the training section and others that could enable this problem to be viewed from various perspectives.

The involvement in the group usually provides satisfaction to all the members. They feel satisfied that the decisions made were proposed by them. Hence, they will accept the decisions that have been made and are committed in accomplishing its implementation.

2.10.5 Disadvantages of Group Decision Making

Group decision making, although offers many advantages, also has certain disadvantages. The disadvantage that is most obvious is that it takes a long time. This includes time for the appropriate meeting for all group members, time used for discussions, time wasted due to a problem or conflict that may arise within the group and others.

Besides that, the discussion may also be controlled by only certain individuals. This will limit the involvement of other members in the discussion and thereafter affect the quality of the decisions made.

Sometimes the group decision/objectives are disregarded by the group if the objective is a personal objective.

Groupthink is also another frequent problem that occurs when working in a group. Groupthink refers to a situation where panel members try not to propose ideas that are different from the other group members due to numerous reasons, probably due to friendship, to avoid conflict, afraid of being boycotted and others. In the end, the discussion cannot be made rationally and it affects the decision making.

All these are a part of the advantages and disadvantages of group decision making. The manager needs to know the advantages and disadvantages before he can determine whether to use a group or individual in decision making. Figure 2.7 summarises all the explanations.

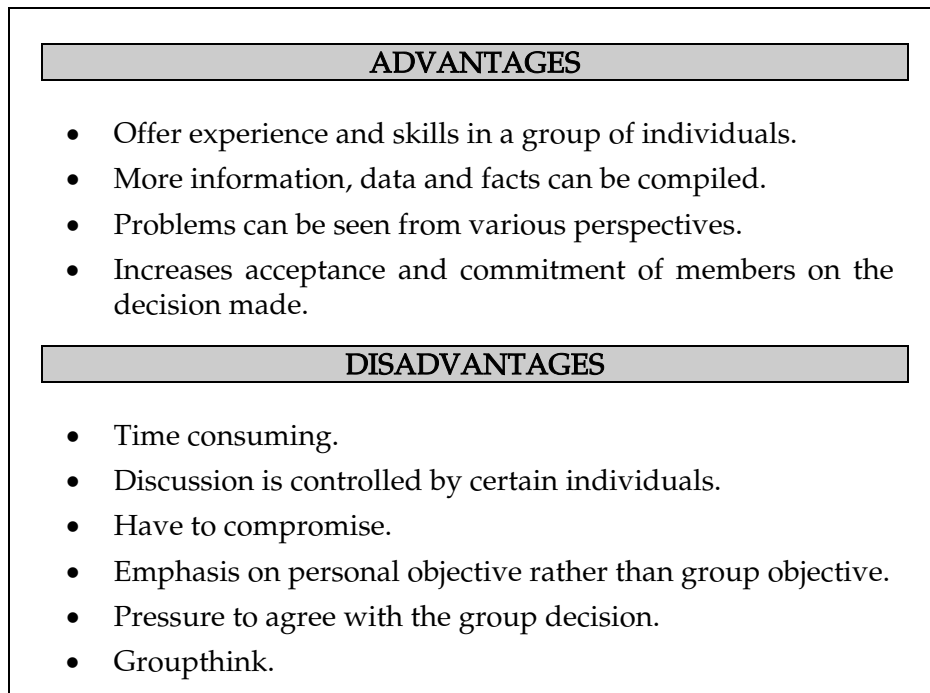


Figure 2.7: Advantages and disadvantages of group decision making



THINK

Can you list other factors that contribute to the advantages and disadvantages of group decision making?



Exercise 2.8

Multiple Choice Questions

1. Which of the following is **NOT** a part of the definition for rational decision making?
 - A. Intuition process
 - B. Definition of problems
 - C. Evaluating alternatives
 - D. Selecting optimal solutions
2. The first step in making a rational decision is _____.
 - A. identify the decision criteria
 - B. allocate weights to criteria
 - C. defining problems
 - D. generating alternatives
3. The most effective method to generate as much ideas as possible is by _____.
 - A. Individual analysis
 - B. Delphi technique
 - C. Face-to-face brainstorming
 - D. Electronic brainstorming
4. Which of the following is **NOT** one of the methods of group decision making?
 - A. Delphi technique
 - B. Brainstorming
 - C. Groupthink
 - D. Nominal group technique
5. The decision making process could be done in one of the following situations **EXCEPT**:
 - A. certain conditions
 - B. uncertain conditions
 - C. partial risk conditions
 - D. risky conditions

TRUE (T) or FALSE (F) Statements

1. There are two types of decision-making environments that are certain conditions and uncertain conditions.
2. Decision criteria are features or elements that will be taken into consideration when making a decision.
3. The first step in the process of rational decision making is to develop alternatives as much as possible.
4. Groupthink is one of the advantages of group decision making.
5. Brainstorming, nominal group technique and Delphi technique are methods of group decision making.

SUMMARY

Generally, in the beginning of this topic, we were exposed to several planning concepts by management intellectuals. Also discussed were the processes to make effective planning. There are five steps or processes to form effective planning that are: firstly, to determine the objectives that need to be achieved; secondly, to establish individual commitments towards achieving the said objectives; thirdly, to establish action plans; fourth to monitor the progress of planning; and fifth is to ensure that the planning made is flexible. Although all planning is defined as determining the objectives including establishing the work strategies, however planning can mean several types, whether it is different in the aspect of format, organisation hierarchy or even its frequency of use. At the end of this chapter, the discussion also encompasses the advantages and disadvantages of planning. It is however, undeniable that planning provides more advantages to individuals and organisations. Nevertheless, behind these advantages, planning also has its disadvantages.

In this topic we learned that decision making is made in three types of environment that are certain conditions, uncertain conditions and risky conditions. The decision making in a situation is determined by the adequacy of information obtained in the process of decision making. Also discussed were the processes of rational decision making that encompasses the following steps: firstly, defining the problems; secondly, identifying the decision criteria; thirdly, allocating weights to each criteria; fourth, generating alternative solutions; fifth is evaluating each alternative; and the sixth is selecting the optimal decision.

Nevertheless, rational decision making is limited by specific limitations such as the rationalisation boundaries, common mistakes and making decision in a risky environment. In spite of that, decision making can still be improved by several methods. First, making decisions using specific rules and tests such as the rules of priorities, rules of minimum condition and conducting various variable tests and second is to make group decisions. There are several methods of group decision making which are brainstorming, nominal group technique and the Delphi technique. Although group decision making has a lot of advantages, it also has specific disadvantages.

Topic 3 ► Organisational Design

OBJECTIVES

At the end of this chapter, you should be able to:

1. Explain the concept of organisational structure;
2. Identify the four factors that influence the organisational structure;
3. Explain the concept and structure of departmentalisation;
4. Describe the concept of authoritative organisations; and
5. Explain the concept of work design including other matters related to it.

► INTRODUCTION

When we discuss organisation design, we cannot avoid discussing the organisational structure. Organisational structure refers to the development of an organisation's functions that are grouped and coordinated formally. Organisation structure is the work arrangement at a section or department that directs the behaviour of individuals and groups towards the achievement of an organisation's objectives. This is a system that connects the duties, work flow and communication channels between individuals and the various work groups in an organisation. The purpose is to simplify the use of each resource and individual collectively as a management system for the achievement of the objectives that have been set.

An organisation structure is usually displayed in graphical form that is called an organisation chart. Traditionally, the organisation chart is illustrated in the form of a pyramid chart with individuals at the top of the pyramid having higher authority and responsibilities compared to individuals who are placed at the lower levels of the pyramid.

3.1 FACTORS THAT INFLUENCE ORGANISATION STRUCTURES

There are four factors that influence the structure of an organisation. These are organisational strategies, size, technology and the environmental factors. We will discuss each of these factors one by one.

3.1.1 Organisational Strategy

The main thing that an organisation usually pays attention to when it comes to achieving its objectives is how the organisation has been structured. Structures that are accurate do not guarantee success but it will increase the probability of success rates. This means that the organisational structure could assist the management team in achieving the objectives set. Since the objectives are the reason the organisation strategy is enacted, both the objectives and strategies have to be interrelated. Specifically, the organisational structures have to be drafted according to the strategies that have been enacted by the organisation. In other words, changes in the organisational strategies will lead to changes in the organisation structure. Changes in this organisation structure will help to facilitate and support the changes in the organisation strategy.

Even though research has stated the importance of the organisation structure to be drafted according to the strategies that have been decided, it is clearly seen here that strategy is not the main factor that needs to be considered. The process to match the structure with the strategy is something complex and must be made through in depth understanding of the development history of the current structure and other factors such as organisation size, environment and technology.

3.1.2 Organisation Size

There are a lot of methods to measure the size of an organisation. Measurements that are often used are the quantum of sales and quantum of manpower. Size can influence the structure of an organisation. Organisations that are smaller in size have a tendency for lesser work specialisation, less standardisation and more towards the centralisation of decision making. Organisations that are larger in size have a tendency towards work specialisation, standardisation and decentralisation of decision making. This means that larger organisations emphasise more on work specialisation, departmentalisation, expansion of charts and rules compared to organisations that are smaller in size.

3.1.3 Technology

Technology refers to how an organisation changes its inputs to become outputs. Each organisation will have at least one technology that changes its financial, manpower and physical resources into products or services. The routine level is an aspect that differentiates technology. It means whether the technology is a routine activity or non-routine activity. Activities that are non-routine are something that are specific like the production operations of the products and services that are specific according to the needs of consumers such as those practised by tailors, cooks and barbers.

What is the relationship between structure and technology? The routine tasks normally have a tendency towards departmentalisation structures that are much bigger. Hence, routine activities create structures that are more centralised, whereas non-routine activities depend largely on the expertise of an individual, for example, a barber; this creates a more decentralised structure.

In order to facilitate better understanding, if the operation is based on technology that are routine, where the production of products and services are produced in bulk such as a garment factory that operates in a more formal way, then more departmentalisation, work specialisation and compliance towards rules and regulations will be made. Organisations that operate on non-routine technologies such as barbers do not need a lot of departmentalisation, work specialisation and strict compliance to rules, as required by a factory.

3.1.4 Environment

Every organisation will face external influences that affect the survival of an organisation, known as the environmental influences or factors that are specific or general. Why does the environment have an impact on the structure of an organisation? This is because the changes in environment cannot be determined. Some organisations will face static environments, whereas some will face environments that are dynamic. Static environment provides less concern on uncertainties compared to a dynamic environment. As the uncertainties in the environment can threaten the effectiveness of organisations, management will try its best to reduce the threats. One of the ways of reducing uncertainties in the environment is by making changes to the organisational structure.



Exercise 3.1

Essay Question

1. List the factors that influence organisation structures.

3.2 DESIGNING THE ORGANISATIONAL STRUCTURE

3.2.1 Departmentalisation

Organisational structure is established based on the types of departmentalisation. Departmentalisation means the division of work and employees to different organisational units that are responsible in resolving the duties given. Each individual in these different units will work and all the work output will be aimed towards the objectives that have been determined. There are five types of departmentalisation, which are the departmentalisation that are based on functions, products, customers, geographical locations and matrix. The following Figure 3.1 illustrates five types of departmentalisation.

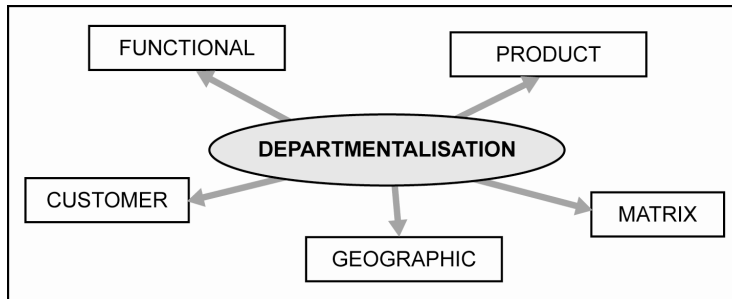


Figure 3.1: Types of departmentalisation

(a) Functional Departmentalisation

Functional departmentalisation co-ordinates work and employees through different units and each unit is responsible for a specific business function or expertise area. For example, the departmentalisations according to its function or areas that are common are accounts, sales, marketing, production, operations and human resource department. Departmentalisation that is based on functions is used widely by organisations. Figure 3.2 illustrates more clearly the functional departmentalisation.

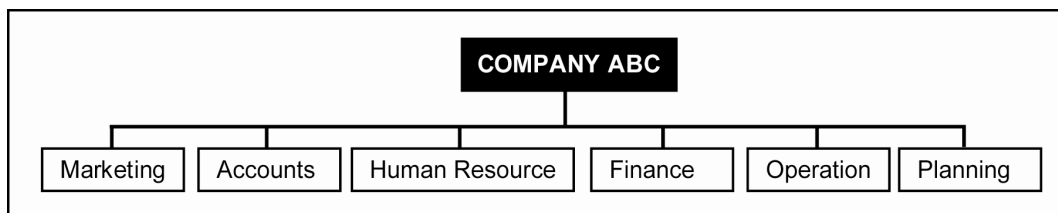


Figure 3.2: Example of functional departmentalisation

This type of department has several advantages. First, it allows work to be carried out by individuals that are qualified and skilled in the areas concerned. The second advantage is that it reduces cost by reducing work duplication and use of resources in the organisation. Thirdly, each individual in the same department will acquire the same work experiences or training, communication and co-ordination that will reduce problems for management.

However, this type of departmentalisation also has several disadvantages, such as difficulty in co-ordinating between departments. The functional departments can cause delays in decision making and produces managers and employees that are restricted in experience and expertise.

(b) **Product Departmentalisation**

Departmentalisation based on product is the type of department that coordinates work and employees in different unit, each with the responsibility to produce a product or service.

Based on the diagram below, each department represents one type of organisation output. An organisation that practices this type of departmentalisation output has several advantages. One of the main advantages is to allow managers and employees to expand their experience and expertise that are related with the overall activity of the product or service produced. Apart from that, the product department structure allows management to evaluate the work performance of each work unit.

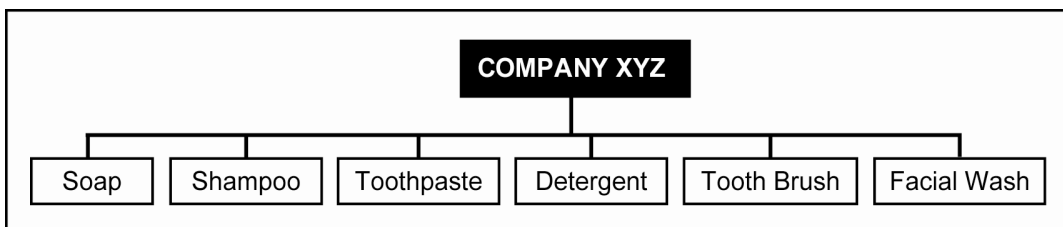


Figure 3.3: Example of product department

(c) **Consumer Departmentalisation**

This type of departmentalisation co-ordinates work and employees in different units that are responsible for specific types of consumers only. The advantages of this consumer-based department are that the organisation will focus all its efforts in fulfilling the needs of consumers. Therefore, an organisation will establish different units in order to provide services to specific consumers and also allow the organisation to specialise and adapt its products and services to fulfil the requirements and resolve consumers' problems.

Some of the disadvantages of this department are the existence of duplication of work and use of resources and difficulty to coordinate between departments that provide services to different type of consumers. This type of department causes the employees to over emphasise effort to fulfil consumers' needs until it affects the organisation's business performance. Please refer to the illustration below for better understanding on consumer departmentalisation.

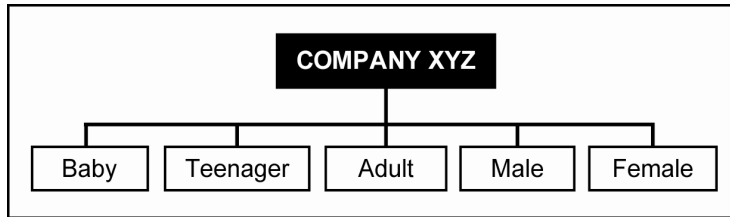


Figure 3.4: Example of consumer departmentalisation

(d) **Geographic Departmentalisation**

Geographic departmentalisation coordinates the work and employees of different units that are responsible in conducting business activities in certain geographical locations.

The advantages of this geographic based department are the abilities of the organisation to react with speed and efficiency towards the requirements from specific markets within the scope of responsibilities of a department. This advantage is more important when the products and services that are produced are marketed to different countries. Besides that, it also assists in reducing costs by positioning the organisation resources nearer to the targeted consumers.

Its disadvantages are that it creates duplication of work and the use of the organisation's resources. Beside this, difficulties will arise in coordinating between departments as the departments are in geographical areas that are located far from each other. Figure 3.5 illustrates the geographic departmentalisation.

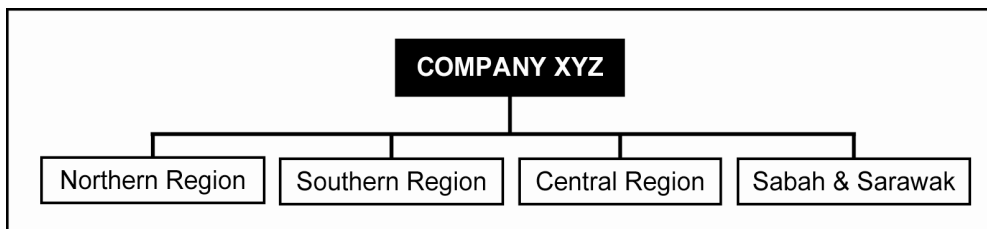


Figure 3.5: Example of geographic departmentalisation

(e) Matrix Departmentalisation

This is a type of structure that combines two or more types of departmentalisation at the same time. There are few points that differentiate the matrix departmentalisation with the other types of department that is, the employees report to two different supervisors or managers. Apart from that, it will also lead to cross interactive functions that cannot be done in the other types of departmentalisation. The advantage of the matrix department is that it allows the organisation to manage efficiently the projects or activities that are large scale and complex. Matrix departments can also take the responsibility in handling projects or works that are large scale and complex.

The disadvantage of this matrix department is that it requires higher level of coordination to manage the complexity involved in order to conduct big projects or projects that have many phases to be completed. This situation often causes the matrix department to focus on the conflict of authority and confusion among employees who have to report to more than one supervisor or manager. Besides that, the matrix department also requires higher-level management skills compared to other types of departmentalisation.

**Exercise 3.2****Essay Question**

1. Explain the concept of departmentalisation and state one advantage and disadvantage for the types of departmentalisation that you know.

**THINK**

Which type of departmentalisation is practiced by your organisation?

3.3 AUTHORITY

Authority is a part of organisational structures. Authority means the right to give directives, take actions and make decisions related to activities to achieve the organisation's objectives. Authority refers to the right that is stated in a management position. Authority is normally channelled from the top to bottom that is to the lower management levels. Authority is placed on a position by disregarding the personal factors of the position holder. This right exists based

on the formal position in an organisation. When someone leaves that formal position, the authority remains with that particular position.

3.3.1 Chain of Command

Try to observe Figure 3.6. In this diagram, there are lines that connect the rectangles on the top section with the rectangles that are at the lower sections. These lines are known as the **chain of command**. The chain of command explains who reports to whom in the said organisation. Individuals that are placed in the top rectangles have authority over the individuals that are placed 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 that are placed at the lower levels must report all aspects related to their work to the people that are placed at the level above them according to the chain of command.

In order for the lower levels to avoid confusion and conflict of authority due to the need to report to more than one manager, unity of command is needed in an organisation. Unity of command is the management principle that states that employees only need to report to one manager at a time. In other words, only one manager is given the authority to become the leader at any one time or for any activity in an organisation.

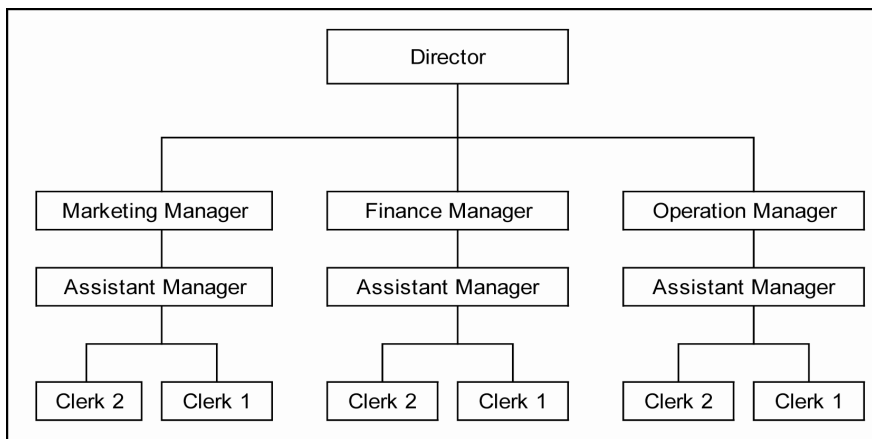


Figure 3.6: Chain of command

3.3.2 Line and Staff Authority

The next authority dimension differentiates between line authority and staff authority. The differences between line authority and staff authority are illustrated in Table 3.1. The line authority and staff authority must work together to maintain the efficiency and effectiveness of an organisation. To ensure that

both work productively, the management must ensure both these authority groups understand the mission of the organisation, have specific objectives and believe that their partnership helps the organisation in achieving its objectives.

Table 3.1: Differences between Line Authority and Staff Authority

Line Authority	Staff Authority
Line authority has the right to make decisions and give directives to employees that are placed under its chain of command. The Director that has the line authority has the rights to give directives to the managers under him. Generally, line authority is related to matters involving the organisation's management system especially in all aspects related to work and conduct that is related to the efforts in achieving the objectives which have been determined. Line authority helps those who accept it to work and ensure the efficiency of the activities under their responsibilities.	Staff authority involves the rights to provide advice and assistance to parties that have line authority and other employees even though they are not under the chain of command. Always remember that the staff authority is only to provide advice and assistance and not directives like line authority. Staff authority enables certain parties to assist in increasing the effectiveness of the line authority to implement the duties that are under their responsibility.

3.3.3 Functions of Line and Staff

The term 'line and staff' is used to explain the various functions in an organisation. Line function is an activity that directly contributes to the production and selling of an organisation's products and services to consumers. For example, the activities that are conducted by the production and marketing departments are known as line functions.

Staff function is an activity that contributes indirectly to the production and selling of an organisation's products and services including its supporting activities. Specifically, staff functions in an organisation, are the activities that are conducted by the accounts department, human resources department and the legal department. For example, the manager of the marketing department may ask for advice from the legal department to ensure that the words used in certain advertisements are legal.

3.3.4 Span of Control



THINK

Before you continue reading the next topic, ponder for awhile. What do you understand by the term 'Span of Control'?

Span of control refers to the number of employees that report directly to a manager or supervisor.

Members of classical management theory such as Henri Fayol believed that organisation structures were vertical and comprised of several levels of management that have a restricted span of control. This restricted span of control allows the organisation to increase its efforts to monitor its employees. The restricted span of control means that the number of employees that are placed under the supervision of a manager is small, thus ensuring stringent supervision.

Nevertheless, organisations that have long organisation structures and restricted span of control will incur higher costs especially employees' salaries. The high cost is caused by the vertical organisation structure as it requires multiple levels of management. Besides that, the multiple levels of management causes delays in decision making and the staff/managers have the tendency to refer their problems to upper management. Creativity amongst employees will be limited due to stringent controls and lack of freedom given by management.

Currently, most organisations practice a broad span of control as it reduces costs, expedites the decision-making process, increase creativity and flexibility, narrows the gap towards consumers and imparts powers to employees. At the same time, the organisation strives to ensure that this broad span of control does not jeopardise the organisation, by providing training to all employees so that they have a better understanding of their job requirements and use the assistance of colleagues to resolve issues that arise.



Exercise 3.3

Essay Question

1. Explain briefly the following;
 - (a) the meaning of chain of command.
 - (b) the differences between line authority and line function.
 - (c) the meaning of span of control.



BREAK

3.4 CENTRALISATION AND DECENTRALISATION

This section will discuss the level of centralisation. There are two levels known as centralisation and decentralisation.

Centralisation is a situation where almost all control is centralised, especially the control for decision making to one party, which is the top level people in an organisation. Organisations that practise this method give authority to the managers to make decisions even though it is a trivial matter.

Decentralisation is a situation where a certain amount of authority is handed down to subordinates or employees at the lower levels of an organisation. Organisations that practice decentralisation have more delegated authority at all levels.

How far an organisation needs to centralise or decentralise control depends on the situations faced by the said organisation. As explained, organisations that are large will gain more advantages by practicing decentralisation. When the size of an organisation expands, the management will have to deal with expansion and increase in responsibilities and all kinds of duties that must be implemented. Delegation is an effective step that could help a manager in managing the increase of workload. In other issues, higher-level management may be of the opinion that the organisation has become too big and has too much delegation. One of the signs that an organisation has become too big is the increase in labour costs that are higher compared to the other costs in the organisation. Hence, increasing centralisation in certain activities can help to reduce the need for manpower, which will also reduce the cost of labour to a much acceptable level. If organisations are facing a situation where the consumers of its products and services are located at different places, then decentralisation should be practiced. Decentralisation is able to place the resources of management closer to consumers and by doing so, the organisation will be able to react quickly to changes in consumers' tastes.

If the organisation requires quick decision making in order to overcome all the problems faced, decentralisation will be the best option. Decentralisation can

reduce red tape and allows employees at the lower levels to make decision faster when faced with a problem.

If creativity is required in the organisation, then decentralisation is also the best option. Decentralisation provides delegation of authority that will give freedom in finding the best possible option to create or resolve an issue. Besides that, the freedom given encourages the creation of working techniques or products that are better.

3.5 WORK DESIGN

Work design specifies the activities that are done by employees or a group of employees. It determines how and where the work has to be done as well as by whom. Besides that, work design also includes the tools and equipment that will be used when carrying out the work activities. The objective of work design is to achieve productivity. The success of work design takes efficiency into consideration when carrying out the activities. In other words, work design can ensure a healthy and safe working environment for employees in the short term and long term.

3.5.1 Work Specialisation

Work specialisation is assigning the contents of smaller sections from the overall work or process to individuals. For example, the overall process of preparing a burger consists of small activities such as frying the meat, preparing the vegetables, preparing the bun and packing it. Work specialisation is categorised as simple: the steps are easy to learn, less diversified activities and high repetitive activities. An employee who is responsible in doing the packaging will be handling a simple activity, easy to learn, work diversification that is low (only need to pack) and highly repetitive (packing).

One of the disadvantages of work specialisation is that it is too simple to learn thus the person performing that task will be easily bored. It causes low levels of job satisfaction and high absenteeism rates and thereafter can cause the organisation to have a high turnover.

The main reason for work specialisation to be practiced is that it is more economical. When a work activity is specialised, for example the task of packing the burger just now, it takes a shorter time to learn and become skilful. If there are employees who have resigned or absent, the organisation will only face a small drop in the productivity rate when replacing the employee who had resigned or absent with a new employee. Apart from that when the work designed is simple, the wage or salary offered is also low. Work that is simple does not require a high salary to attract employees who are skilled, experienced and trained to be recruited.

3.5.2 Job Rotation, Enlargement and Enrichment

Due to the efficiency of work specialisation, organisations find it hard to eradicate its implementation. Hence, redesigning work has become the effort in making changes and maintaining the advantages of work specialisation. Three methods have been introduced which are the job rotation, job enlargement and job enrichment.

Job rotation is to overcome the disadvantages of work specialisation by transferring employees from one type of specialisation to another type of specialisation periodically. For example, the employees that are responsible in burger packaging will be transferred to the activity of meat frying. The purpose of job rotation is to provide employees with a variety of activities and opportunities to utilise different skills. Job rotation allows the organisation to continue practising work specialisation. Apart from that, diversification of activities can reduce boredom in employees and gives more job satisfaction.

Job enlargement is another method to overcome the disadvantages of work specialisation. Job enlargement adds the number of tasks in an activity. For example, before this, the employee only needed to handle burger packaging but when the scope of work is widened, the said employee now no longer only performs packing activities but also performs other activities such as putting in the sauce and labelling the burgers. Many employees say that they are stressed due to job enlargement. Whereas some employees feel that job enlargement gives them opportunities to develop other skills.

Job enrichment is an increase in the number of tasks in the activities and gives the employees authority and control in making decisions related to their work. Psychologists including Frederick Herzberg state that as employees only handle a few tasks, they are quickly bored. Simple and easy activities are not what they are looking for. Other psychologists such as Herzberg, Maslow and Alderfer believe that what is required by employees from their work activities is work achievement that comes as a result of doing a job successfully and the recognition of success that comes with the use of the skills and potential that they have. Job enrichment tries to manage dissatisfaction issues by adding depth to the work.

The job enrichment proposed by Herzberg is the use of the two motivational factors approach. Job enrichment that is meant here is building the motivators in work activities to make it more interesting and challenging. This can be done by giving the employees a little freedom and allowing the employee to plan and inspect that is usually done by their supervisors or superiors. Employees may individually be given the responsibility of determining their own work progress levels and also to rectify their own mistakes. When the work becomes more

challenging and employee responsibilities increase, then the motivation and interest will also increase.



Exercise 3.4

Essay Question

1. Based on your understanding, explain briefly the following:
 - (a) Job enlargement
 - (b) Job enrichment
 - (c) Job rotation

3.6 ORGANISATION PROCESS DESIGN

There are two types of organisation designs, which are mechanistic organisations and organic organisations. A **mechanistic organisation** is an organisation categorised with work specialisation and responsibility, fixed roles and chain of command that are rigid caused by centralised control and vertical communication. This type of organisation is most suitable for businesses that are stable and unchanging.

An **organic organisation** is an organisation categorised with a wide definition of work and responsibilities, changing roles and decentralisation and horizontal communication. The organic organisation is most suitable for businesses that are dynamic and always changing. The key criteria that differentiates these two approaches is that the mechanistic organisation focuses on organisation structure while organic organisation focuses more on the organisation processes which are the collections of activities in the organisation that changes its inputs into outputs that are valuable to customers.

3.6.1 Emerging New Designs

Since the early 1980's, an organisation management had already begun thinking of a few new organisation designs. The purpose was to develop a few options on a new design for the organisation to compete more competitively. In this section, there are four new organisation designs that will be explained, which are the team structure, modular organisation, virtual organisation and borderless organisation.

3.6.2 The Team Structure



THINK

To what extent do you agree with the use of teams in carrying out work?

The use of teams has become more popular in coordinating work activities.

The main criteria in team structures are the disintegration of departments and the decentralisation of decision making to the level of team work. For organisations that are small in size, the overall organisation is perceived as a team. Organisations that are bigger have a team structure complement what we call bureaucracy. This allows the organisation to achieve efficient standardisation that is practiced by bureaucracy apart from obtaining flexibility that comes with team structure. The use of teams such as stand-alone teams, cross-functional teams and others will increase productivity and efficiency in the organisation.

3.6.3 Modular Organisations

Each organisation has its advantages and uniqueness in producing products or services to its own customers. This advantages and uniqueness are contained in the core business activity which the organisation is able to perform well, fast and cheap compared to other organisations.

Modular organisation means outsourcing other business activities to other organisations, suppliers, experts or consultants.

The meaning of modular is used as business activities can be bought from other organisations for the purpose of adding and can be dropped when it is no longer required.

Modular organisation has a few advantages such as the payment of outsourced activity such as labour, experts or production capabilities are only at the required time. This will cause the cost borne to be lower if all the activities are managed on its own. Secondly, the outsourced activity is able to focus on the main activity that can be performed better.

Nonetheless, in order to maintain these advantages, there a few preconditions that must be fulfilled first. The most important condition is that the modular organisation requires close cooperation with the organisations that do the outsourced business activity. However, modular organisations also have its disadvantages. The most critical weakness of a modular organisation is the loss

of control when business activity is outsourced to other organisations. Apart from that, the organisation might also reduce its competitive advantage unintentionally in two ways. Firstly, the change in technology and competition can cause the situation where the outsource activities identified earlier as not a core activity becomes a tool in competition. Secondly, it relates to the first one whereby the organisation that accepts the outsourced activity could become a competitor one day.

3.6.4 Virtual Organisation

Virtual organisation is an organisation that has become a part of the business network. Virtual organisation is in a network that shares expertise, costs, capabilities, markets and customers collectively to resolve customers' problems or preparing certain products and services.

For example, the shoe manufacturer company, Puma is a type of virtual organisation. Puma is responsible for the strategy and market in Germany. One small networking firm in Asia also handles the purchase and distribution of raw materials that will be used to produce Puma sports shoes. Different organisations in China, Taiwan and Indonesia are responsible for producing the Puma shoes. Organisation networks that are different, handle the network of sales and distribution of products that operates in Africa, Asia, Australia, Europe, North America and South America. Overall, 80 different organisations from around the world are involved in the making and selling of the Puma sports shoes.

Unlike the modular organisations which can be seen as a tendency for a stable and long relationship with organisations that deal with it, virtual organisations have relationships that are shorter and temporary with the organisations that are in its network. Thus, the virtual organisation composition often changes. The combination of organisations that becomes its partners in the network depends on the expertise required to resolve any problems or preparation of specific products and services to consumers.

This virtual organisation has its own advantages. One of the advantages of virtual organisation is that it allows organisations that are involved in the network to share all costs involved. As the members of the network can swiftly combine the efforts in fulfilling the needs of consumer, they will react swiftly and flexibly. Apart from that, since the members are doing their best, theoretically the virtual organisation would be able to produce the best products and services in all aspects.

The disadvantages faced by modular organisations are also faced by virtual organisations. When a business activity is outsourced, it will become difficult to be in control especially from the aspect of quality of work produced by the network partner. On the other hand, the most evident disadvantage of virtual organisations is that the implementation of virtual organisation requires high level of management expertise so that the organisation networks that are involved will work better together especially if the tendency for relationship time frame is short due to the activity conducted or relationships based on projects.

3.6.5 Borderless Organisation



THINK

What do you understand by the term borderless organisation?

Borderless organisation is an organisation that tries to eradicate the chain of command, span of control without limits and to replace the departmentalisation with team authority. This means that the organisation is trying to eradicate borders whether vertically or horizontally in an organisation.

This situation does not mean that the manager at the lower levels and employees are no longer responsible to the top management but what is meant here is the emphasis on speed, fast reactions and flexibility. This type of organisation also removes borders that separate the internal environment in an organisation with its external environment.

One of the advantages of borderless organisation is that this organisation will be able to utilise its knowledge, expertise and capabilities of employees in a better way. In this matter, resolving of problems is no longer the responsibilities of only individuals that are involved in the said problems. For example, the problems in the marketing department that is supposed to be resolved by individuals in the marketing division, can be resolved by experts in that matter either from within or outside the organisation. The next advantage would be the close rapport between all internal divisions in the organisation with the external components. This close rapport is formed due to the disintegration of the borders that separates both the environments.

However, borderless organisations also have disadvantages. For a start, the manager and employees always assume that the transition of an organisation to a borderless structure threatens their job security. The most obvious

disadvantage is that there is no clear cut way to achieve such an organisation



Exercise 3.5

Essay Question

1. Explain the difference between mechanistic organisations and organic organisation.



Exercise 3.6

Multiple Choice Questions

1. The following factors could influence the structure of an organisation **EXCEPT**:
 - A. Technology
 - B. Organisation strategy
 - C. Type of products and services produced
 - D. Organisation size
2. The type of department that coordinates the work and employees in different units are based on product and services are a type of departmentalisation based on _____.
 - A. product
 - B. functional
 - C. geographic
 - D. virtual
3. The additional number of tasks in a work activity that is carried out by employees is known as _____.
 - A. job rotation
 - B. job enlargement
 - C. job enrichment
 - D. job specialisation
4. Which of the following is **TRUE** about consumer departmentalisation?
 - A. Creates duplication of work.
 - B. Established departmentalisation based on functions.
 - C. Increases distribution cost of resources.
 - D. Co-ordination between departments is easier.
5. Which of the following statement is **TRUE** regarding the organisation structure?
 - A. Organisation structure needs to be drafted according to organisation strategy.
 - B. Organisation strategy needs to be drafted according to organisation structure.
 - C. Organisation size is not a factor that influences the organisation structure.
 - D. Technology is not a factor that influences the organisation

TRUE (T) or FALSE (F) Statements

1. Large organisations have organisation structures that have a tendency to specialise jobs, reduce standardisation and centralisation.
2. Matrix departmentalisation is a type of structure that consists of two or more types of departmentalisation.
3. Chain of command explains the flow of authority in an organisation.
4. Henri Fayol believed that organisation structures that are vertical will have a span of control that is restricted.
5. An employee is transferred from one work area to another work area. This situation is called job enrichment.

SUMMARY

Organisations need to be structured in the best possible way to provide space towards efficiency and effectiveness of activities that are being conducted. The organisation design needs to be adapted with the factors that influence effectiveness of the strategies that have been planned. Organisation strategy influences the organisation structures as strategy determines the types of duties that are undertaken by employees. Apart from that, organisation structures can also assist in explaining about authority and the transfer of authority in the said organisation. Furthermore, it will also help in the design of work involved in an organisation. Mechanistic organisation is usually found to be the most suitable in a stable environment, whereas an organic structure is normally most suitable in an environment that is turbulent.

Topic 4 ► Leadership

OBJECTIVES

At the end of this chapter, you should be able to:

1. Describe the term leadership and differentiate the role of a manager and a leader;
2. Differentiate the three leader-centred approaches;
3. Describe the meaning of follower-centred leadership;
4. Explain the three approaches and three models related to interactive leadership; and
5. Identify the five styles of contemporary leadership.

► INTRODUCTION

Leadership is a process of influencing other people to achieve group or organisation goals. Leaders are different from managers. According to Williams (2000), the main differences are that a leader emphasises on the quality of work so that the treatment given is fair, having a long-run focus, more inclined towards changes and give inspiration and is able to motivate other people in overcoming their problems. Meanwhile, a manager emphasises more on performing a matter in the correct way, having short run focus, maintaining the status quo and acts in solving other people's problems. Figure 4.1 illustrates the differences between a manager and a leader.

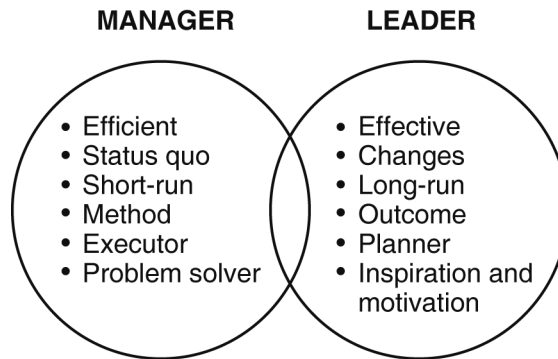


Figure 4.1: The differences between a manager and a leader

Source: Williams, C. (2000). Management, SouthWestern-Thomson Learning

4.1 LEADERSHIP APPROACHES

Approaches to leadership can be divided into three categories namely the leader-centred approach, follower-centred approach and interactive approach.

4.1.1 Leader-centred Approach

This approach focuses on the personality features of a leader, behaviour of a leader and leadership style.

(a) Personality Features of a Leader

According to Lewis et.al. (2001), personality features of a leader are among the earliest approach in the study of leadership. Early studies on leadership theory tried to identify the specific personality features that are related to an excellent leader. The focus on personality is the assumptions that some leaders have certain physical features (height, weight and self appearance), personality aspects (self-appreciation, economic stability, knowledge, initiative and diligence) and the aspect of abilities (creativity, articulate, patience and sympathy).

For example, physical form, intelligence and the skill of public speaking at one time was considered as the personality features of a leader. Moreover, there are beliefs that taller people are better leaders compared to the shorter ones. This type of personality approach was proven to be a weak determinant of leadership potential.

Generally, there are several personality features that show the difference between a leader and a follower. However, the difference is insignificant. Studies related to the personality features generally are not very successful. The main reason is that the personality features of a particular leader must

not necessarily be similar to the other leaders. In fact, personality features alone are not enough to create a successful leadership.



YOUR IDEA

You are one of the interviewers for the position of Marketing Manager. Candidate A is articulate, well-built, tall and has the qualifications required by your company. Meanwhile, Candidate B is an articulate person but is short, confident and bald but has the qualification, which exceeds your company's requirement. As a manager, what are the weaknesses of Candidate B that limit your choice in selecting him?

(b) **Focus Towards Leadership Behaviour**

The approach to leadership behaviour is conducted through studies on what had been done by the effective leader and not based on the features possessed by the particular leader. There are three studies on leadership behaviour as those conducted in the Ohio State University, Michigan University and the study of leadership behaviour using the Managerial Grid.

(i) **Studies by Ohio State University**

According to Rue et. al. (2000), several series of studies on leadership had been conducted by this university in obtaining summary regarding the most important and effective behaviour of successful leaders. They wanted to obtain information related to successful leaders regardless of the organisation involved. The result of these studies had found that two consistent and important behaviours of leaders are the **behavior of consideration** and **structural behaviour**.

Consideration behaviour refers to the behaviour of leaders that show the feeling of consideration towards members of the group or subordinates and fulfilling their needs. Meanwhile, structural behaviour refers to the behaviour of leaders in forming the work procedures of subordinates and guiding them towards goal achievement.

Several main outcomes of this study had found that leaders having a high level of consideration behaviour are more inclined to have satisfied subordinates compared to leaders of low level of consideration behaviour. For example, appointment and termination of employee are at the lowest level while work satisfaction is at the highest level under the supervision of a leader with a high level of consideration behaviour. Leaders that are assumed to have a high

level of structural behaviour but are low in terms of consideration will be facing a high frequency of complaints and termination among the employees.

Achievement towards the association between consideration behaviour with the effectiveness of a leader depends on the groups led. A high achievement for consideration behaviour correlates positively with the effectiveness of a leader such as managers and office staffs in large industrial firm, while a high achievement for consideration behaviour correlates negatively with the effectiveness of leaders such as production engineers.

There is no consistent association or relationship between structural behaviour and the effectiveness of a leader but the relationship differs and is dependent on the group led.

Figure 4.2 illustrates the relationships between consideration behaviour with structural behaviour.

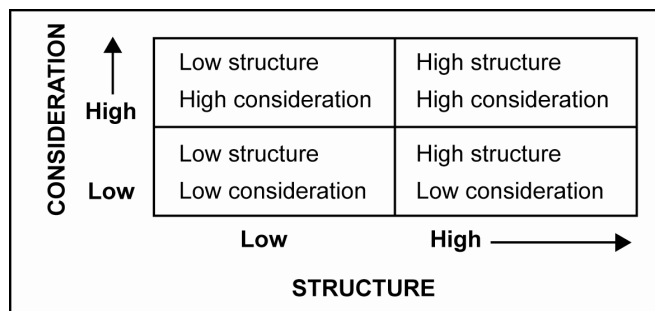


Figure 4.2: The association between consideration behaviour with structural behaviour

Source: Certo C. S. (2000). *Modern Management*, (8th ed.), New Jersey: Prentice Hall

(ii) **Studies by Michigan University**

According to Rue et. al. (2000), the purpose of the study conducted by The Institute of Social Studies, Michigan University led by Rensis Likert was to identify the basic principles that contribute towards productivity and satisfaction of the members of a group. The result of the study had found that consideration behaviour (work oriented) and structural behaviour (task oriented) are exclusive and separated behaviours. Both these behaviours are on the same continuum but at opposite ends.

The conclusion from this study was that leaders who are inclined towards the feeling of consideration must reduce the structural behaviour and vice versa. For leaders who are inclined towards work, they need to reduce their consideration behaviour. The result of the

Michigan University's study had also found that consideration behaviour or employee-oriented behaviour has a close association with successful leaderships.



Exercise 4.1

Essay Question

1. The result obtained from the study by the Michigan University is almost similar to the result obtained from the study by the Ohio State University. State the similarities.

(iii) The Study of Managerial Grid by Blake and Mouton

According to Rue et. al. (2000), Robert Blake and Jane Mouton had produced a method for classifying the styles of leader management referred to as the **Managerial Grid**. It is also known as leadership grid. This managerial grid uses a two-dimensional framework in providing status to leaders based on the consideration towards people with the consideration towards production in forming the five different styles of leadership. Both behaviours are on the scale of 1 to 9, with 1 representing the lowest and 9 representing the highest, as depicted in Figure 4.3.

Blake and Mouton had suggested that the position of leadership at the matrix 9-9 is the best. They had named this style of leadership as team management. Leaders at the matrix 9-1 show the style of authoritarian management that practice leadership style of following orders when they have high consideration on production and low consideration on people.

Leaders who are at the matrix 1-9 are leaders who are very concerned in creating a happy and friendly work condition but not giving important focus towards production or performance and this is known as the leadership style of country club management. The weakest leadership style based on this grid is the impoverished leadership style that is at matrix 1-1. The leaders at this position do not care about the employees and productions but instead, he only performs his work at a minimal level.

Finally, the leadership style that is in the middle at the matrix 5-5 is a leader that shows moderate consideration towards the employees and productions. Figure 4.3 illustrates the leadership styles in the leadership grid.

WEBSITE

To obtain a clearer picture on what is meant by this Managerial Grid by Blake and Mouton, go to the following website:

http://www.nwlink.com/~donclark/leader/bm_model.html

You will find the word 'questionnaire', click on it and choose the article and read the following instruction.

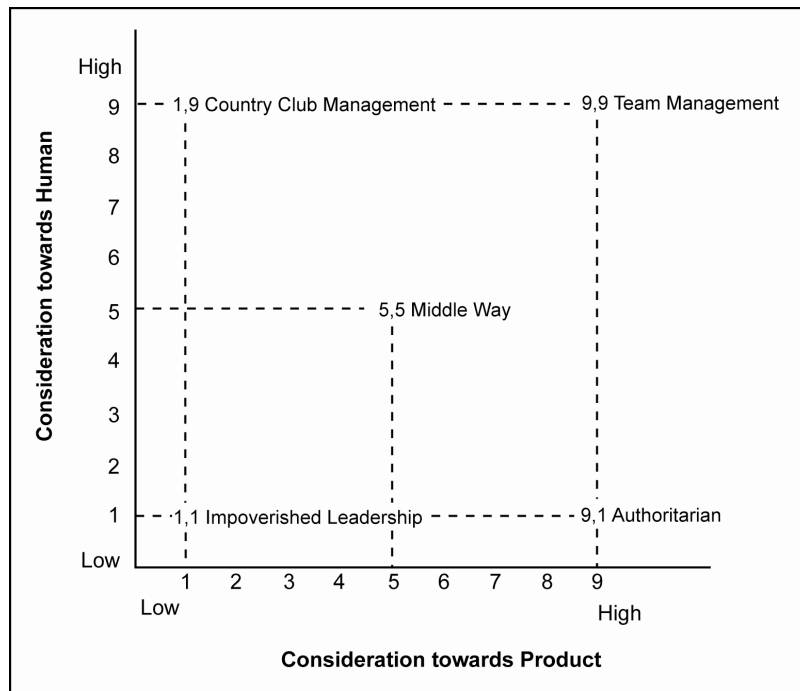


Figure 4.3: Managerial grid

Source: Bateman, T.S. & Snell, S.A. (1999). *Management: Building Competitive Advantage*, (4th ed.), Boston: Irwin-Mc-Graw Hill



YOUR IDEA

You have already learnt about the results of the studies conducted by the two universities and the study of Managerial Grid by Blake and Mouton. Based on your understanding of these three studies, identify the differences and similarities if there are any, between the three studies and give your answers in the form of a table.

(iv) Leadership Styles

After the three studies that focused on the personality features of leaders, researchers had shifted their focus by conducting studies related to the behaviour of leaders or leadership styles. Leadership style refers to the behaviour exhibited by a leader when dealing with subordinates and this leadership style can be differentiated in decision making.

There are three types of leadership styles namely autocratic, laissez-faire and democratic. Generally, autocratic leaders make more decisions for the group. Meanwhile, laissez-faire leaders allow the members of the group to make all the decisions. A democratic leader on the other hand, guides and encourages the group to make decisions. Normally, most leaders do not follow just one type of leadership style. These three styles of leadership will give different feedbacks from problems relating to human relationships.

4.2 FOLLOWER-CENTRED APPROACH

According to Lewis et.al. (2001), self-leadership is a paradigm in creating leaders of the organisations who are ready to lead themselves. Even though leadership is important, the successor variables to leadership and leadership neutralisation created a situation where leadership is no longer needed or the presence of leadership will not bring significant effect on performance.

The leader successors are variables such as individuals, tasks and organisation features that can cause leaders to be unnecessary or in other words, those variables are able to exceed the abilities of leaders in affecting satisfaction and performance of subordinates. Meanwhile, leadership neutralisations are variables such as employees, tasks and organisation features that intervene with the work actions of a leader or creating a difficult situation for leaders to influence the performance of the followers.



BREAK

4.3 INTERACTIVE APPROACHES

In order to study the effectiveness of leadership in a particular organisation, another method used is by looking at a way used by a particular leader to interact with his followers, either directly or indirectly. Please refer to Figure 4.4 and you will find that there are four models used in organisation leadership, namely the Situational Model, Fiedler's Contingency Model, Path-Goal Model and Leader Behaviour Model.

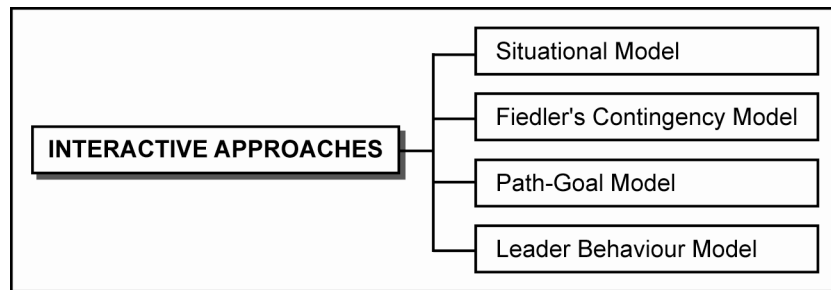


Figure 4.4: The four models of interactive approach

4.3.1 Situational Leadership Model

According to Rue et. al. (2000), this model is also known as leadership life-cycle model. It was introduced by Paul Hersey and Kenneth Blanchard. This model is based on the assumption that leadership styles should portray the maturity level of subordinates. This model studies the interaction between behaviour, leadership, situation or condition and competency of followers.

Competency here is defined as the ability of subordinates and their commitment towards completing specific tasks. There are two types of behaviour in this model, namely the task behaviour and relationship behaviour. In this model, when the level of maturity of followers increases, task behaviour must be reduced while relationship behaviour must be increased and later gradually reduced.

Subordinate maturity portrays their ability in performing tasks on their own, accepting responsibilities and their level of motivation to succeed. This model suggests that when maturity level of followers changes from immature to matured hence the behaviour of leaders must also change from high-task behaviour to low-relationship behaviour, that is, the first quadrant, to the high-task behaviour to high-relationship behaviour, until the fourth quadrant that is low task behaviour to low-relationship behaviour.

This model then combined the task behaviour and relationship behaviour to create four different leadership styles: **telling or directing style, selling or coaching style, participating or supporting style, and delegating style**. These styles are used based on the different level of maturity of employees. According to Williams (2000), maturity of followers consists of task maturity and psychological maturity.

The telling or directing style of leadership is suitable for employees having the lowest level of maturity. For a higher level of maturity, leaders only have to give encouragement to the employees in completing their tasks. The suitable leadership style for this situation is the style of selling or coaching. For employees who are more matured, the involvement in making decisions together and involving two-way communication than participating or supporting style of leadership is considered the most suitable. Meanwhile, delegating style of leadership is suitable for employees having the highest level of maturity.



YOUR IDEA

According to your understanding on the previous discussion, draw a figure that represents the Situational Leadership Model according to what you have just learned.

4.3.2 Path-Goal Model

According to Williams (2000), this model was formed by Martin Evans and Robert House. This model had stated that a leader is able to increase satisfaction and the performance of his subordinates by explaining and setting up the path towards behavioural goals by increasing the number and forms of rewards towards the achievement of goals. Figure 4.5 illustrates the framework for path-goal.

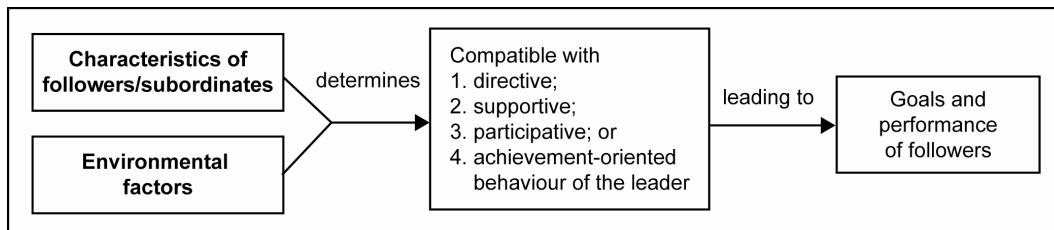


Figure 4.5: Path-goal model

Source: Bateman, T.S. & Snell, S.A. (1999). *Management: Building Competitive Advantage*, (4th ed.), Boston: Irwin-McGraw Hill

Subordinates will accept the behaviour of a leader when it becomes the source of current and future satisfaction. The behaviour of a leader influences the motivation of subordinates since satisfaction towards the needs of subordinates is associated closely with performance success, guidance preparation, support and rewards required to achieve an effective performance.

You will find that in this model, there are four types of behaviour in a particular leader. These four types of behaviour will be discussed in Table 4.1.

Table 4.1: Types of Behaviour of a Leader

Leader's Behaviour	Description
Directive Leadership	A leadership style with the leader allowing employees to recognise clearly what is expected of them, clarifying the guidelines to perform their tasks, work schedule, setting up achievement standards, and making them abide by the standards of rules and regulations.
Supportive Leadership	A leadership style that allows employees to be close to the leader. The leader exhibits the feeling of concern, care for the employees' welfare and treating them fairly and equally forming a happy and friendly environment.
Participative Leadership	A leadership style where the leader holds discussions with the employees in order to obtain views and inputs before making decisions.
Achievement-oriented Leadership	A leadership style where the leader sets up challenging goals and setting high standards on the employees and showing confidence that the employees are competent and responsible.

In conclusion, this model assumes that a leader is able to change and suit his style of leadership according to the subordinates led, or even the work environment of the subordinates.

4.3.3 Fiedler's Contingency Model

According to Williams (2000), this model is one of the earliest studies using the approach of contingency. It was introduced by Fred Fiedler. He studied the favourableness between the leader's personality features with situational conditions. Fiedler suggested two personality features, namely the task motivation and relations motivation. Fiedler viewed situational leadership on a

continuum of favourableness and unfavourableness based on the three main dimensions: leader-subordinate relation, task structure and position power.

Leader-subordinate relation is the level of acceptance of subordinates towards the leader. Meanwhile, **task structure** refers to the level of goals of the tasks to be performed with other factors being clearly stated. Finally, **position power** determines how far a leader controls the rewards and punishments accepted by the subordinates. Figure 4.6 below illustrates the Fiedler's Contingency Model.

Leader-member relation	Good	Good	Good	Good	Poor	Poor	Poor
Task structure	High	High	Low	Low	High	High	Low
Position power	Strong	Weak	Strong	Weak	Strong	Weak	Strong
Situation	I	II	III	IV	V	VI	VII
Favourable			Intermediate		Unfavourable		

Figure 4.6: Fidler's contingency model

Source: Williams C. (2000). Management, SouthWestern-Thomson Learning

This model provides several assumptions: leaders will become effective when their task group moves successfully; leaders are not capable of changing their leadership styles; leadership style must be suited to the correct situation; and favourable situations will help leaders to influence the members of the group. This model used a survey known as Least Preferred Co-worker (LPC) to measure leadership styles. According to the LPC scale, there are two types of styles that are basic to the leader. Employees giving views of positive LPC were found to have a relation-oriented leadership style. Meanwhile, employees with negative LPC were found to be having task-oriented leadership style.

Favourable situation occurs when leaders are able to influence their followers and this is determined by leader-subordinate relation, task structure and position power. Generally, a leader with relations orientation and a high LPC mark are considered as better leaders in intermediate favourable situations. Leaders that are task-oriented with low LPC marks are better leaders in very highly favourable situations or in unfavourable situations.

In conclusion, since this model had assumed that leaders are not able to alter their leadership styles, therefore organisation must measure and accurately match leaders to situations or alter situational factors to suit the leader.

WEBSITE

If you want to obtain further information regarding Fiedler's Contingency Model, go to the following website:

<http://courses.washington.edu/inde495/lecf.htm>

After you have read this article, try to obtain important notes on it which can be used as your references when answering the essay questions later.

**Exercise 4.2****Essay Question**

1. Explain what is meant by favourable situation in Fiedler's Contingency Model.

4.3.4 Continuum of Leader Behaviour

According to Rue et. al. (2000), Robert Tannenbaum and Warren Schmidt believed that different situations require different leadership styles. They considered three important forces that are related in finding the most effective leadership styles: forces within the leader, forces within the subordinates and forces within the situation.

In the continuum produced, the leader behaviour on the left refers to a leader having a high control and only giving slight freedom to his subordinates. Leader behaviour in the middle of the continuum depicts a change in leadership style from autocratic style to democratic style. The leader behaviour on the right shows that leader's control is scarce with subordinates having more freedom in making decisions.

4.4 STRATEGIC LEADERSHIP



THINK

It is undeniable that managing a particular organisation with employees of variable races, culture and attitudes is not an important task for a manager. He must have the leadership characteristics that are important in controlling the smooth running of his organisation. In your point of view, what are the leadership characteristics that need to be exhibited by a manager?

According to Williams (2000), strategic leadership refers to the competency of a leader in making predictions, retaining flexibility, thinking strategically, visionary, and co-operating with others in forming a positive future for the organisation. Strategic leadership refers to the way leaders are able to change the attitude of employees in order to achieving the goals that had been set.

4.4.1 Visionary Leadership

Visionary leadership is a type of leadership style that is able to create a positive image for the future of the organisation by motivating employees and is able to depict the direction of the organisation based on the planning and goals that have been set.

4.4.2 Charismatic Leadership

Charismatic leadership refers to the features of leaders in creating a strong relationship between themselves and the subordinates. A charismatic leader is a leader having high levels of reference force. Half of the force comes from his needs to influence others. This type of leader has a high level of self-confidence, is dominant and beliefs in the truth of everything that he does. He is capable in convincing the followers that he is right. He is also able to channel their visions to be shared together with his subordinates.

4.4.3 Transactional Leadership

Transactional leaders will determine what should be done by the employees to achieve their own objectives and the objectives of the organisation. They also classify and aid the employees to be confident that they are able to achieve the objectives through certain efforts. This type of leadership is based on the process of exchange, where subordinates are given rewards for good achievements and punished for unsatisfying achievements.

4.4.4 Transformational Leadership

Transformational leaders are capable of enlightening and accepting suggestions and visions of the group and are able to encourage employees to look beyond their own needs and own interest for the well-being of the group. Transformational leaders will motivate their employees to perform more than expected by initiating the feelings of importance and value of the task in each individual. This can be done by creating interest in employees to perform every matter for the sake of the interest of the group and the organisation besides fulfilling their own needs of self-achievement.



Exercise 4.3

Essay Question

1. In what way does a transactional leader differs from a transformational leader?



Exercise 4.4

TRUE (T) or FALSE (F) Statements

1. Leaders emphasise more for a task to be performed efficiently.
2. The study conducted by the Ohio State University and Michigan University are slightly similar based on the task dimension and relation dimension.
3. Path-goal model assumed that leadership style is stable and cannot be altered.
4. Fiedler's Contingency Model had stated that leadership style is stable and fixed.
5. Transactional leadership is based on the process of exchange.

Multiple Choice Questions

1. The leadership model which stated that an effective leader possesses a same set of characteristics is referred to as the _____ model.
 - A. contingency
 - B. behavioural
 - C. personality
 - D. goal
2. Blake and Mouton stated that the best combination for leadership style is _____.
 - A. moderate consideration towards human and productions
 - B. high consideration towards human
 - C. high consideration towards production
 - D. high consideration towards human and production
3. According to Fiedler, leaders become effective when they
 - A. have high consideration towards human and productions
 - B. explain LPC in a positive form
 - C. find that a situation is favourable
 - D. obtain a leadership style that suits the situation
4. An employee who is confident, committed and capable of receiving responsibilities suits the _____ leadership style.
 - A. directing
 - B. selling
 - C. participating
 - D. delegating
5. Leadership neutralisation is one of the variables related to _____ leadership.
 - A. contingency
 - B. self
 - C. visionary
 - D. behavioural

SUMMARY



Leaders are different from managers. The main differences are leaders emphasise more on performing tasks effectively while managers emphasise more on performing tasks efficiently or correctly. Leader-centred approach focuses on personality features of leaders, leader behaviour and leadership styles. The main results from the studies on personality features of a leader had found that successful leaders usually have certain personal features that are better when compared to the followers.

On leadership behaviour, three important studies were discussed namely the studies conducted by the Ohio State University, Michigan University and Managerial Grid. These three studies had lined the two main dimensions in portraying the behaviour of a leader namely task dimension and relations dimension. Other than that, leadership styles associated with decision making had given rise to three forms of leadership styles that are popularly known: autocratic style, laissez-faire and democratic style.

Follower-centred approach or also referred to as self-leadership is a paradigm that is based on the presence of leaders in organisation who are ready to lead their own selves. Meanwhile, interactive approach is related to the studies between leader behaviour with the situation and favourableness of the followers. In this approach, four main models such as Leadership Situational Model, Path-Goal Model, Fiedler's Contingency Model and Continuum of Leader Behaviour Model had been discussed.

Finally, several contemporary leadership styles, that is, the strategic leadership involving visionary leadership, charismatic leadership, transactional leadership and transformational leadership had also been discussed in detail.

Topic 5 ► Controlling

OBJECTIVES

At the end of this chapter, you should be able to:

1. Explain controlling and the main purpose of control;
2. Describe the steps involved in the process of control;
3. Describe the five forms of control; and
4. Make a list and analyse the perspectives/activities that need to be controlled.

► INTRODUCTION

Controlling is one of the four main functions in management. It is important to managers in order to ensure all planning, organizing and leading run as smoothly as desired. If managers are able to ensure that each plan made and every task given to the employees are being carried out perfectly, and the results expected is as what had been planned hence control is not required. Unfortunately, managers are not able to ensure these conditions will run smoothly without the occurrence of any problems since most planning is done by humans and humans are known to be diverse in terms of abilities, motivation and others. In a rapidly changing business environment, not only the expected results must be controlled, planning must also be monitored and controlled.

5.1 DEFINITION OF CONTROL

THINK

What do you understand about control within a particular organisation?

Management control is a systematic effort in order 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 or weaknesses and taking suitable actions to ensure all resources within the organisation can be used in the most effective and efficient way in achieving the objective of the organisation.

According to Rue et. al. (2000), control is a process in ensuring that organisational activities are running according to the plan. This process can be carried out by comparing the true performance with the standard that have been established and taking corrective actions in order to rectify any distortion that does not comply with the standard.

The main purpose of control in management is to prepare managers in facing future or existing problems before it turns critical. In general, an organisation with a good control mechanism will have the advantage of competing strength compared to organisations without a good control system. The following are several examples on the importance of control for organisations:

5.1.1 Quality Assurance

The smooth running of a particular process can be monitored and problems can be avoided by having control. Control is able to stimulate the organisation to monitor and increase the quality of products and services offered. Through the activities related to the control process, members of the organisation will always be driven to act according to the planning that had been established.

5.1.2 Preparation to Face Changes

Change is something that cannot be avoided. The change in environmental factors such as markets, competitors, technology and legislation makes the control process become important for managers in responding towards the opportunities and threats present. Control assists the organisation in suiting its products with the needs and wants of the consumers in the market.



Exercise 5.1

Essay Question

1. What is meant by controlling as a process?

5.2 STEPS IN THE CONTROL PROCESS

According to Rue et. al. (2000), a control process has three basic needs: fixing of standards to be used in measuring the level of growth; monitoring decisions and comparing it to the standards, that is, the comparison of the organisation's true performance with the planned performance; and finally, taking corrective actions in rectifying any disadvantages and weaknesses that occurred in achieving the performance that has already been set. Figure 5.1 illustrates the steps involved in the process of control.

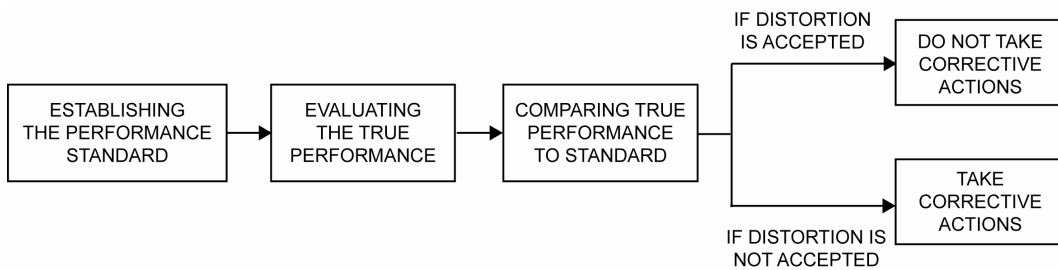


Figure 5.1: The control process
Source: Lewis et.al., Management (2001)

5.2.1 Fixing of Standards

? THINK

You must have heard about standards used in measuring the level of performance of a particular company. What do you understand about this term and do you know how a particular standard is formed?

Standard is the base for comparison to measure the level of performance of a company in order to find out whether the company is compliant. Standard is the point of reference in making comparisons to another value. Standard can be defined as what is required out of a particular job or an individual. In management control, standards are usually derived from the objectives. Standards should be easy to be measured and interpreted. A specific objective that can be measured makes it more suitable to be used as a standard. If this standard is not clearly and specifically stated, it may be interpreted in a different way and will then raise various difficulties that can affect the goals of the organisation.

In general, there are three types of standards: **physical standard** such as quantity of products and services, number of customers and quality of products and services; **financial standard** which is stated in the form of money, and this includes labour cost, sales cost, material cost, sales revenue, profit margin and others; and lastly, **time standard** which includes the performance rate of a particular task or the time period required to complete a particular task.

5.2.2 Monitoring Performance and Making Comparisons

Monitoring is usually synonymous with control. The real fact is that monitoring is part of the overall process of control. The main purpose of performance monitoring is to gather data and detect sections having problems. Measurement has no meaning if it is not compared to the standard. The next step is by performing the comparison of standards. Comparison of standard is a process where comparison is made between the true performances with the standard set. This step is important because it allows any deviation or distortion to be detected and corrective actions can be taken in order to achieve the goals that have been set.

5.2.3 Corrective Actions

It is often found that managers establish standards and monitor decisions but do not take suitable actions. The first and second steps in control will be meaningless if corrective actions are not taken. Before taking any steps in correcting, detailed analysis must be carried out in order to find out the factors that cause the particular deviation.

This corrective action may involve change in one or more operation activities of the organisation such as modification, repairing of machines, preparation of certain courses and others, or it might also involve a change in the fixed standard. **Corrective action** is a process of identifying the distorted performance, analysing the distortion, and developing and implementing programmes in order to rectify it.

5.3 DYNAMIC PROCESS

According to Williams (2000), the running of a control process is a continuous act. This process cannot be done only once in order to gain the achievement expected. This is considered as a dynamic process. This dynamic process begins with looking at the true performance and measuring the achievement level of that particular performance.

Managers will then compare the performance achieved with the performance that has been fixed. If there happens to be any differences hence the differences must be analysed in order to identify the cause of the differences and this is followed by the correcting act. This process must be done repeatedly and must be given full attention by the manager in order to retain the performance as the one being set.

5.4 BASIC METHODS OF CONTROL

According to Williams (2000), a control process consists of three basic methods which are identified as future control, concurrent control and feedback control.

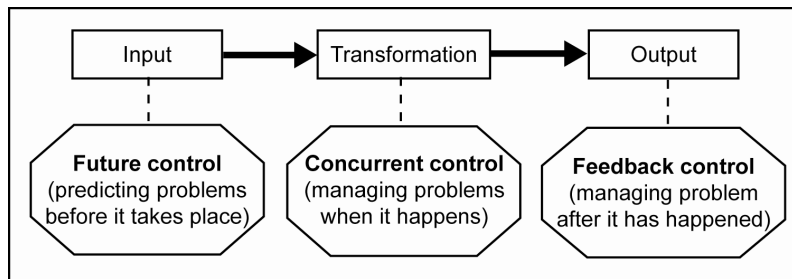


Figure 5.2: Three basic methods of control

Source: Jones, G.R., George, J. M. & Hill, C. W. L. (2000). *Contemporary Management* (2nd ed.), Boston: Irwin McGraw Hill

5.4.1 Future Control

This type of control is also known as prevention control. The use of information, including information from latest result is to forecast what will happen in the future so that prevention measures can be taken. It is implemented to prevent the occurrence of deviation between what had really happened with what is expected to happen. Prevention is carried out through detailed analysis on the input before it is accepted into the process of organisation transformation. Input is ensured to comply with the quality standards established so that the results obtained are guaranteed and as expected.

One example of the use of this control is when a manager ensures that the sample of raw material that is going to be used complies with the standard established by the organisation or based on certain specifications to avoid damage towards the product in the future.

5.4.2 Concurrent Control

Concurrent control is carried out during the process of transformation. When this control is carried out, restoration actions, corrective actions or modifications are done after it is detected that some distortion has occurred. For a production-oriented organisation, this controlling action is implemented while input is being processed while for service-oriented organisations, it is implemented while service is being provided.

Through this method of control, organisations will monitor its operations and simultaneously take corrective actions needed before the transformation process is completed. This will be able to help in reducing mistakes towards the outputs being produced. Examples of this method of control are such as mid-term examinations, control of accounts, control of inventories and others.

5.4.3 Feedback Control

Feedback control involves the process of gathering information related to the weaknesses of controlling measures after an incident takes place. This type of control is implemented after the transformation process has completed with the purpose of finding out whether the whole activity ran properly with results as expected.

This control is also able to determine whether the plan that is going to be carried out has the continuity with the previous programme. It is also able to evaluate the effectiveness and efficiency of the involved parties in performing the activities of the organisation. An example of this method of control is the use of low-quality raw materials that resulted in the production of low-quality products. The act of changing the raw materials used is one of the examples of feedback control.

5.5 FORMS OF CONTROL

According to Williams (2000), there are five forms of control that can be used by managers in implementing the process of control – the bureaucratic control, objective control, normative control, concertive control and self-control. Figure 16.3 illustrates these five forms of control.

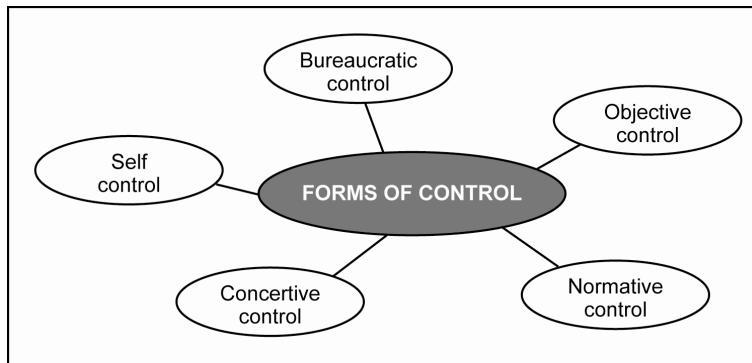


Figure 5.3: The five forms of control that can be used by managers in organisations

5.5.1 Bureaucratic Control

Bureaucratic control is a method that uses the hierarchy authority in order to influence employees by granting rewards to employees who obey and punishing employees who do not obey the policies, regulations and procedure of the organisation.

5.5.2 Objective Control

Objective control is a method that uses the measurement of observation towards the behaviour of employees or output produced to evaluate work performance. In this form of control, managers are more focused on the observation or measurement towards the behaviour of employees or outputs rather than the policies or rules. Objective control consists of two forms of control; behaviour control and output control.

Behaviour control is the rule of behaviour and actions that controls the behaviour 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 incentives depend on the performance standard that has been established.

5.5.3 Normative Control

Normative control is the method that arranges the behaviour of employee and results through norms and beliefs shared together among all the members within the organisation. There are two main substances in this type of control which are,

sensitivity towards selection of employees based on their attitude and norms, and obtaining inspiration based on experience and observation of employees.

5.5.4 Concertive Control

This is a method that uses the norms and behaviour discussed, formed and agreed by the work group. This form of control plays a role in an autonomous work group. **Autonomous work group** is a work group that operates without the presence of a manager and is fully responsible for the control of process, task group, output and behaviour. Autonomous work groups gradually grow through two stages of concertive control. First, members work and learn from each other, supervising the work of each member and develop norms and beliefs that guide and control them. Secondly, the appearance and acceptance of objectives as guide and control of behaviour.

5.5.5 Self Control

It is a system where managers and employees control their own behaviour by establishing their own goals; monitor their own progress and their own achievements of goals, and rewarding themselves when goals have been achieved.



Exercise 5.2

Essay Question

1. State the **THREE** basic methods in a control process and the **FIVE** forms of control that can be implemented within an organisation.

5.6 FACTORS THAT NEED TO BE CONTROLLED



THINK

In managing a particular organisation, a manager is responsible in ensuring the smooth running of the management process. He has to ensure that detailed control is being carried out. From your point of view, what are the factors that need to be controlled by a manager in his organisation?

Determining the matters to be controlled is as important as making decision on whether to control or in what method should control be done. There are several perspectives that need to be controlled by a manager in order for the organisation to be able to achieve the goals expected.

5.6.1 Financial Perspective

One of the important areas that need to be controlled is the area of finance. There are times when the financial performance does not reach the expected standard. If this condition remains undetected and relevant actions are not taken, the existence of the company might be in jeopardy. Financial perspective is generally related to activities such as sales, purchases and others.

Financial statements are important sources of financial information for an organisation. A balance sheet shows how strong the financial position, assets, liabilities and the position of the equity holder for a certain financial period. A profit-loss statement or income statement shows the summary of the operation activities and the relationship between expenditure and revenue for a particular financial year.

According to Williams (2000), there is a new approach in the financial perspective known as economic value added. Economic value added is the total profit of a company which exceeds the capital cost in a particular year. In this perspective, a manager must impose control so that the total profit of a company always exceeds the capital cost for the company to continuously gain economic value added.

5.6.2 Human Resource Perspective

The control towards human resources is vital for a particular organisation. If an organisation is unable to control its human resources properly such as losing expert workforce hence it will jeopardise the performance and achievement of the company. Organisations need to have planning that is able to motivate the employees. For example, organisations need to be concerned regarding the problems faced by the employees by creating harmonious discussions between the management and the employees union.

5.6.3 Quality Perspective

Internal operations of organisations are usually measured through quality. Operations control is very important for every organisation especially for manufacturing firms. This is because efficiency and effectiveness of operations control will determine the level of production and organisational performance as fixed by the standard. The quality value of products and services produced based

on the standard will be able to strengthen the perception of the customers towards the quality of goods that they had purchased. For example, the control of product quality is able to reduce waste and product defects and this will further save cost. Inventory control is also effective in reducing the costs of investments related to inventory

5.6.4 Consumer Perspective

According to Williams (2000), in order to measure the performance of customers, organisation needs to impose control on the customers that have left the organisation and not based on the survey of customers satisfaction. In this perspective, manager will make evaluation by measuring the percentage rate of customers who left the organisation. By controlling customers from leaving the organisation, a company will be able to increase profits. For example, the cost in obtaining a new customer is five times more compared to the cost of retaining an existing customer.



Exercise 5.3

Essay Question

1. Why does the perspective of finance need to be controlled?



Exercise 5.4

TRUE (T) or FALSE (F) Statements

1. Control is a process of finding out what is happening compared to the standard established.
2. The decision on control does not affect the decision on future planning.
3. Organisations practising bureaucratic control are very difficult to change.
4. Future control is also known as prevention control.
5. Economic value added is the total profit of company which exceeds its capital cost in a year.

Multiple Choice Questions

1. Most methods of control are based on _____.
 - A. Future control
 - B. Feedback control
 - C. Concurrent control
 - D. Dynamic control

2. _____ control is a method that uses norms and behaviour that have been discussed, formed and agreed by the work group.
 - A. Concertive
 - B. Bureaucratic
 - C. Normative
 - D. Self

3. _____ control is implemented during the occurrence of the transformation process.
 - A. Concurrent
 - B. Prevention
 - C. Objective
 - D. Feedback

4. Control process involves three basic needs as the following **EXCEPT**:
 - A. establish standard
 - B. comparing true performance with standard
 - C. controlling objectives
 - D. taking corrective actions if necessary.

5. Operational performance in an organisation is usually measured through the _____ perspective.
 - A. finance
 - B. quality
 - C. human resource
 - D. customers

SUMMARY



The main purpose of management control is to prepare managers in facing existing or future problems before it becomes critical. Management control has three basic needs: establishing standards; monitoring decision and comparing it to the standard; and making corrections on any distortion that occurred between the true decision and the standard.

Control is a dynamic process because it is a continuous process. Control process consists of three basic methods: future control which is also known as prevention control; concurrent or present control; and feedback control. There are five forms of control that can be used by managers in implementing control process: bureaucratic control, objective control, normative control, concertive control and self control. In order to ensure that organisation is able to achieve the goals desired, several important perspectives must be given control which are the finance perspective, human resource perspective, quality perspective and customers perspective.

Answers

TOPIC 1: MANAGEMENT AND ORGANISATION ENVIRONMENT

Exercise 1.1

Essay Question

1. Planning is to set and determine the objectives that need to be achieved in the future and what should be done in order to achieve that objectives.

Organising is a group of activities, delegation of activities and arranging the suitable authority to carry out the said activities.

Leading is an art in directing and channelling human conduct with the aim to achieve all objectives that have been determined.

Controlling by performance evaluation for all the objectives set in order to determine the reasons for deviation and taking appropriate action whenever necessary.

Exercise 1.2

TRUE (T) or FALSE (F) Statements

1. F
2. F
3. T
4. T
5. T

Multiple Choice Questions

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

Exercise 1.3

Essay Question

1. To monitor the environment.
To interpret the environmental factors.
To react on opportunities and threats.

Exercise 1.4

TRUE (T) or FALSE (F) Statements

1. F
2. T
3. T
4. F
5. T

Multiple Choice Questions

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

TOPIC 2 : PLANNING AND DECISION MAKING

Exercise 2.1

Essay Question

1. One-time usage planning is a planning made to fulfil one particular purpose only

Fixed planning is a planning made for managing events that occurs repeatedly in an organisation.

Exercise 2.2

Essay Question

1. The weaknesses of making plans are:
 - (a) it restricts changes and adaptations in an organisation
 - (b) an incorrect prediction of the future will result in the planning done also being incorrect.
 - (c) separation between the planner and the executor causes the planning made to be ineffective.

Exercise 2.3

Multiple Choice Questions

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

TRUE (T) / FALSE (F) Statement

1. T
2. T
3. F
4. F
5. F

Exercise 2.4

Essay Question

1. Certainty condition – where the decision maker has the complete information in assisting him to make decisions. With this complete information, the decision maker will be able to know for certain on the results that will be generated by each decision alternatives, and later choosing the alternative that will bring the most optimum result to be executed.

Uncertainty condition – a condition where the decision maker does not has any information to be used in assisting him to make decisions. Thus, the decisions made depend most on the experience and consideration of the decision maker.

Risk condition – in this condition, the decision maker has the information needed to make decisions but the information is incomplete and insufficient. Therefore, the results generated from each decision alternatives are not able to be predicted for certain.

Exercise 2.5

Essay Question

1. Bounded rationality, that is, decision making is bounded by certain problems such as limited resources, excess information, memory problem and expertise problem of the decision maker.

The general mistakes in decision making are: making biased decisions or making decisions purely based on intuition alone without taking into consideration the available facts.

Decision making in risk environment also will limit the rational decision making. This is because incomplete information can result in not making the best decision.

Exercise 2.6

Essay Question

1. Decision making can be improved through these methods in the process of making decisions:
 - (a) Implementing the rules of decision making namely the law of priority and rule of minimum condition;
 - (b) Conducting the test of variable; and
 - (c) Making decision in groups.

Exercise 2.7

Essay Question

1. There are two advantages of electronic brainstorming compared to face-to-face brainstorming:
 - (a) group members are able to state their respective ideas at any times without having to wait for their turns to give out the opinions.
 - (b) able to avoid the feeling of shame or low self-esteem if the suggestions were rejected since the identity of the contributor is not featured on the computer screen.

Exercise 2.8

Multiple Choice Questions

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

TRUE (T) or FALSE (F) Statements

1. F
2. T
3. F
4. F
5. T

Exercise 2.9

Essay Question

1. Direct competition is a competition between two organisations that happens directly. The action normally taken in direct competition is either the organisations involved will attack or counter-attack the opposite party.

Exercise 2.10

Multiple Choice Questions

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

TRUE (T) or FALSE (F) Statements

1. F
2. T
3. F
4. T
5. T

TOPIC 3: ORGANISATIONAL DESIGN**Exercise 3.1****Essay Question**

1. The factors that can influence the structure of an organisation are:
 - (a) Organisation strategy
 - (b) Organisation size
 - (c) Technology
 - (d) Environment

Exercise 3.2**Essay Question**

1. (a) **Functional Departmentalisation**
The type of departmentalisation where all jobs and employees are divided into separated units that are responsible towards a particular function of business or area of expertise.

Advantage

Functional departmentalisation is able to avoid multiplication of work and resource usage in organisation.

Disadvantage

Functional departmentalisation can delay the process of decision making and produce managers and employees with limited experience and expertise.

- (b) **Geographic Departmentalisation**
The type of departmentalisation that coordinates the job and employee into separated units responsible in conducting business activities in certain geographical area.

Advantage

The advantage of geographic based department is that it can help the organisation to act faster and more efficiently towards demand from certain markets within the responsibility of the particular department.

Disadvantage

The disadvantage of this type of departmentalisation is that it can cause multiplication of work and resource usage in organisation.

Exercise 3.3

Essay Question

1. (a) **Chain of Command**
Chain of command explains who needs to report to whom, that is, individuals who are at the top level are more powerful compared to the individuals at the lower level. Chain of Command also shows the flow of command path or authority in organisation.
- (b) **Difference between Line Authority and Line Function**
Line authority is related to the rights of making decision and giving directives to employees who are in the chain of directives of a particular manager. Meanwhile, line function means the activities that directly contribute in the aspect of invention and sales of organisation's products and services to the customers.
- (c) **Span of Control**
Span of control gives details on the number of employees placed under the supervision of a manager.

Exercise 3.4

Essay Question

1. (a) **Job Enlargement**
Job enlargement means addition of activities or tasks into a particular area of work.
- (b) **Job Enrichment**
Job enrichment means increasing the depth of job; not only there is an addition in the number of tasks in a particular area but employees are also given the authority and control to make decisions on their job.

(c) Job Rotation

Job rotation means employees shifted from one area of job specification to another area of job specification either periodically or non-periodically.

Exercise 3.5

Essay Question

1. Mechanistic organisation is an organisation that has a high level of job specification, high level of formality, a rigid chain of directives, practices centralisation of control and vertical or upwards communication. Meanwhile, an organic organisation is an organisation that has a chain of directives that is not rigid, a low formality level, a low level of job specification, practices decentralisation of control and horizontal communication.

Exercise 3.6

Multiple Choice Questions

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

TRUE (T) or FALSE (F) Statements

1. F
2. T
3. T
4. T
5. F

TOPIC 4: LEADERSHIP

Exercise 4.1

Essay Question

1. From both studies, the results achieved are quite similar. Both have given two main dimensions which are task dimension and relation dimension.

Exercise 4.2

Essay Question

1. Favourable situations occur when leaders are able to influence their followers and this is determined by leader-subordinate relations, task structures and position power. Generally, a leader with relations orientation and a high LPC grade are considered as better leaders in intermediate favourable situations. Leaders that are task-oriented with low LPC grade are better leaders in very highly favourable situations or in unfavourable situations.

Exercise 4.3

Essay Question

1. Transformational leaders will motivate their employees to perform more than what have been expected by initiating the feelings of importance and value of the task in each individual. This can be done by creating interest in employees to perform every matter for the sake of the interest of the group and the organisation besides fulfilling their own needs of self-achievement. Transactional leadership is based on the process of exchange, where subordinates are given rewards for good achievement and punished for unsatisfying achievement.

Exercise 4.4

TRUE (T) or FALSE (F) Statements

1. F 2. T 3. F 4. T 5. T

Multiple Choice Questions

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

TOPIC 5: CONTROL

Exercise 5.1

Essay Question

1. Control is a process in ensuring that organisational activities are running according to the plan. This process can be carried out by comparing the true performance with the standard that had been established and taking corrective actions in order to rectify any distortion that does not comply with the standard.

Exercise 5.2

Essay Question

1. Control process consists of three basic methods which are future control which is also known as prevention control, concurrent or present control, and feedback control. There are five forms of control that can be used by managers in implementing control process; bureaucratic control, objective control, normative control, concertive control and self control.

Exercise 5.3

Essay Question

1. One of the important areas that need to be controlled is the area of finance. There are times when financial performance does not reach the standard or not as expected. If this condition remains undetected and relevant actions are not taken, the existence of the company might be in jeopardy.

Exercise 5.4

TRUE (T) or FALSE (F) Statements

1. T
2. F
3. T
4. T
5. T

Multiple Choice Questions

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