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وزارة التعليم
Ministry of Education

المملكة العربية السعودية

Principles of Management

Secondary Stage – Pathways System

Third Year

The book is distributed freely and cannot be sold.

1447–2025 Edition

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Ministry of Education
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Introduction

The progress and development of countries can be measured by their ability to invest in education and by the extent to which their educational system responds to the requirements and changes of the age. It is the responsibility of the Ministry of Education to sustain the development of its educational systems. In response to the concept of Saudi Arabia's Vision 2030 policy, the Ministry has taken the initiative in adopting the Secondary Education Pathways system with the aim of bringing about effective and comprehensive reform at the secondary stage.

The Secondary Education Pathways system provides a distinguished and modern educational model for secondary education in Saudi Arabia, which efficiently contributes to:

- Strengthening the values associated with belonging to our homeland, the Kingdom of Saudi Arabia, and of loyalty to its wise leaders, may Allah protect them, based on pure belief founded on tolerant Islamic teachings.
- Strengthening the values of citizenship by focusing on them in the school curriculum and in class activities, in line with the demands of sustainable development and the development plans of Saudi Arabia, which emphasize the consolidation of the duality of values and identity, founded on the teachings of Islam and moderation.
- Offering qualifications to students that are in line with future specializations in universities and colleges or the required professions, and ensuring that educational outputs are consistent with the requirements of the labor market.
- Enabling students to pursue education along their preferred track at an early stage, according to their inclinations and abilities.
- Enabling students to enrol in specific scientific and administrative disciplines related to the labor market and future jobs.
- Integrating students into an enjoyable and stimulating learning environment within the school, based on a constructive philosophy and applied practices within an active learning environment.
- Guiding students on an integrated educational journey from the primary stage to the end of secondary stage, and facilitating the process of their transition to the post-general education stage.
- Providing students with the technical and personal skills which will help them to deal with life and to respond to the requirements of the stage they are at.
- Expanding opportunities for graduate secondary school students through various options in addition to universities, such as by obtaining professional certificates, joining applied colleges, and obtaining job diplomas.

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The Pathways system consists of six semesters taught over three years, including a common first year in which students receive lessons in various scientific and human fields, followed by two specialized years during which students follow a general pathway, as well as four specialized pathways consistent with their inclinations and abilities. These are: the Legal Pathway, the Business Administration Pathway, the Computer Science and Engineering Pathway, and the Health and Life Pathway. This makes this system the best option for students in terms of:

- The existence of new study materials that comply with the requirements of the so-called Fourth Industrial Revolution and its associated development plans, as well as the Saudi Vision 2030 policy which aims to develop higher-order thinking, problem solving, and research skills.
- Elective field programs which are consistent with the needs of the labor market and the students' own preferences. This enables students to enrol in a specific elective field according to a specific job skills matrix.
- An "inclination" scale that ensures the attainment of students' efficiency levels and effectiveness, and helps them to determine their own tendencies, predispositions, and strengths—all of which enhances their chances of success in the future.
- Volunteer work designed specifically for students in line with the philosophy of activities in schools, which is also one of the graduation requirement. This helps to promote humane values, build up society, and ensures its development and cohesion.
- A transfer procedure that enables students to move from one pathway to another according to specific mechanisms.
- Proficiency classes in which skills are developed and achievement levels improved, by providing intensive and remedial lessons.
- Options for combining education with e-learning and blended learning/teaching, which are built into the Pathways system for reasons of flexibility, convenience, interaction, and effectiveness.
- A graduation project that helps students to integrate theoretical experiences with applied practices.
- Professional and skill-based certificates that are awarded to students after completing specific tasks and certain tests in partnership with specialized bodies.

The Business Administration Pathway is one of the paths developed at the secondary level. It contributes to achieving best practices by investing in human capital and providing students with the knowledge, experience, and skills that will allow them to keep pace with the Fourth Industrial Revolution and the challenges of the 21st century. This pathway also seeks to provide students with the necessary skills to deal with the administrative and financial challenges in the era of the digital economy in order to ensure a stable economic future. This is driven and supported by: 1) the contents of the Saudi Vision 2030 policy, 2) the two associated programs for developing human capabilities and the quality of life, and 3) the labor market's need for qualified personnel to work in future jobs. The pathway is also intended to promote the values of hard work, discipline, determination, perseverance, positivity, flexibility, national values, enhanced national identity, support for a culture of innovation and entrepreneurship, support for the value of volunteer work—all to prepare students for the labor market and to expand

educational opportunities for them. It may also contribute to preparing students to continue their studies at university level, or to obtain professional certificates in one of the related disciplines.

The subject "Principles of Management", which is taught at the first level of the third stage of the Pathways system, familiarizes students with the principles of management, pitched at a level that is suitable for their target age. The subject achieves this by:

- Providing the requisite knowledge and skills set.
- Encouraging students to form a positive outlook towards work.
- Encouraging students to develop a culture of self-employment.
- Promoting work values and ethics by linking the course's lessons to the students' own lives.
- Providing a range of activities that give students teamwork skills, research skills, and self-learning abilities, in addition to case studies and real-world applications that enhance students' management concepts and enable them to develop analytical, deductive, and critical-thinking skills.

The subject at this level will deal with the main aspects related to management under four chapter headings aimed at:

- Providing students with the basic concepts of management and leadership, and the different management functions required to deliver Saudi Vision 2030.
- Providing an overview of management throughout history and its role in the 21st century.
- Introducing students to the concepts of planning, organizing, staffing, directing and controlling.
- Describing classical theories on motivation and change management.
- Helping students understand ways in which technology is used in business, by highlighting business applications of technology, and the Fourth Industrial Revolution.
- Helping students to understand the different types of innovation and why innovation matters in business.
- Preparing students for the challenges faced in contemporary management.

To ensure that students' skills and knowledge are measured in tandem with the content of the book's chapters, a set of assessment questions and activities has been prepared at the end of each chapter, taking into account the whole range and diversity of assessment strategies.

Finally, we ask Allah the Almighty to grant that this book may contribute to preparing and qualifying our sons and daughters as students for the world of work and business, and that it may act as an incentive to invest their energies wisely, to build their future, and to contribute to the development of their country.

It is Allah who grants success!

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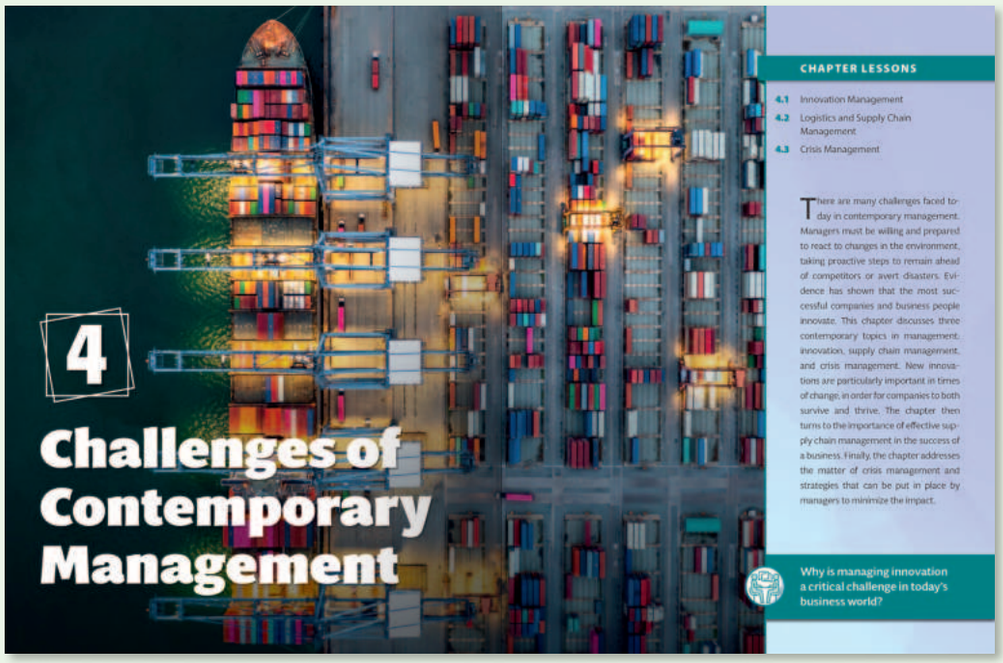
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About the Book

This book aims to build a solid foundation of Principles of Management

Chapters

begin with a striking double-page spread which introduces the chapter topic. The chapter's lessons are listed here, providing an overview of the chapter content, and a large, impactful image, which is accompanied by a question, prompts students to think critically about the topic.



Key Terms

are first introduced in the lesson openers. The terms are in bold in the lesson text, emphasizing their importance and allowing students to find them easily.



Learning Objectives

offer a preview of each lesson.

Reality Check

uses a real-world example to introduce lesson concepts.

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Special Features Enhance Learning



and microprocessors made fast and powerful computation possible. The *Third Industrial Revolution* was characterized by the digitization of record keeping, and the increased processing power of supercomputers for processing huge amounts of data at high speeds.

The Fourth Industrial Revolution (Automated)

Today, in the twenty-first century, the world is currently undergoing a *Fourth Industrial Revolution* (sometimes referred to as "Industry 4.0"). This latest phase is characterized by automated intelligent systems. Everyday devices are able to communicate with one another electronically, make decisions and adjustments based on analysis of data, and learn new processes, without the input of humans (the *Internet of Things*). Some examples of the Fourth Industrial Revolution include cloud computing, self-driving cars and the development of immersive virtual reality systems.

CHECKPOINT

How have the Four Industrial Revolutions changed the way work is done?

NET KNOWLEDGE

A student who is considering a future in management will need information to help make a career decision. The General Authority for Statistics publishes a wide range of data on the labor market and industry-specific metrics. Go online and visit the General Authority for Statistics website: https://www.stats.gov.sa. Click or tap on the 'Data' menu, then go to the 'Industry and Business' tab. What types of information are available that can help to inform a student's career plans? Choose a sector from the options and write down three pieces of useful data provided about it on the website.

Net Knowledge

encourages students to use the Internet for business-related research.

Management Matters

provides interesting business scenarios for students to consider when they apply their higher-order thinking skills.



Management Matters

There's an app for that too

On a large scale, computer applications can instantaneously track everything in a business, from the hourly production of oil wells to the sales of specific colors of fabric in each store of a worldwide retail business. At any time, managers can access that information to make production decisions and update sales forecasts.

In the same way, cell phone users can track minutes used, text messages sent, or amount of data downloaded by their phone. Some plans for internet use require users to pay for each service while others set limits and charge customers when they exceed their plan. Some plans allow users to check their usage online or directly on their phones. The information can be used in controlling expenses. Knowing the current status of your account can help you make better decisions on whether to send a text message to all your friends or download a new song.

What Do You Think?

Does access to information help you make better decisions? What types of information can help you stick to a budget, better schedule your time, or improve your physical health?

must be cost-conscious at all times. A **cost standard**, or the predetermined cost of performing an operation or producing a good or service, is an effective way of helping businesses maintain profitability.

Generally, businesses pay more attention to cost controls than to any other type of control. The control devices used, as a result, are numerous. One of the main purposes of the accounting department is to provide detailed cost information. Most managers, however, act as cost controllers in some way. Increasingly, employee work teams and individual employees are assigned responsibility for cost controls.

The most widely used tool for controlling costs is the budget. Like schedules and standards, budgets are also planning devices. When a budget is prepared, it is a planning device; after that, it is a controlling device. Actual cost information is collected and compared with budgeted amounts. These comparisons permit judgments about the success of planning efforts and provide clues for making changes that will help the company reach its financial goals. Managers need to monitor costs regularly. When budget problems are identified early, managers have time to take corrective action.

Measuring and Comparing Performance

Once standards have been established, they are used to determine effective performance. Managers gather information on all parts of business operations for which they are responsible. They compare that information against the standards to determine if performance is meeting the standards. A **variance** is a difference between current per-

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A classical management approach believes that most workers would not choose the most productive methods of working, and would need clear instructions and close supervision to work efficiently. Using precise time and motion measurements, proponents of classical management worked to identify the least number of steps, the most efficient layout of work, and the fastest work procedures to perform a task. The idea was developed of compensating employees using a piece rate where employees are paid based on the amount of work they produce.

Classical management was widely accepted and implemented in businesses worldwide in the late 1800s and through the first two decades of the 1900s.

MANAGEMENT SKILLS

Creativity

Creativity is not limited to the arts. It is an important skill for managers. New ideas, new processes, and new technology are all expressions of creativity. Successful managers work to develop their own creativity and encourage creativity in others. Managers use team brainstorming sessions to foster ideas. Creativity also requires the belief that failure is a learning experience.

Develop Your Skills *Explain how a manager can foster creativity in a team to solve a management problem.*

Administrative Management

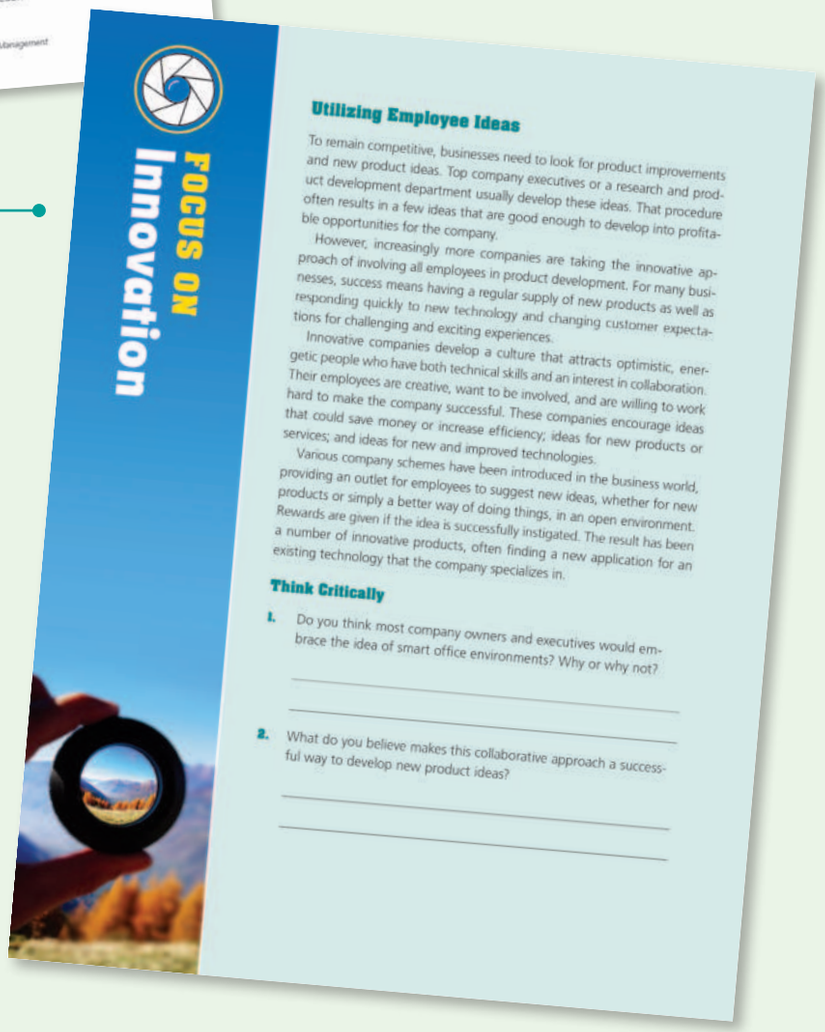
While classical management experts focused on increasing worker productivity, another group of experts was concentrating on improving the overall management of growing businesses. Their ideas became known as administrative management. **Administrative management** identifies the most effective practices for organizing and managing a business. From administrative management came the concepts of having multiple levels of management, organizing businesses into specialized departments, and defining the type of work all managers must perform for an organization to operate effectively.

Many of the characteristics identified by administrative management are still recognized in organizations today, including:

- *Authority and responsibility*—managers have the authority to assign tasks. They can delegate responsibility to others but must give the needed authority as well.
- *Unity of command*—each employee must receive direction

Management Skills

encourages students practice of important skills that will help them to become strong managers.



FOCUS ON Innovation

Utilizing Employee Ideas

To remain competitive, businesses need to look for product improvements and new product ideas. Top company executives or a research and product development department usually develop these ideas. That procedure often results in a few ideas that are good enough to develop into profitable opportunities for the company.

However, increasingly more companies are taking the innovative approach of involving all employees in product development. For many businesses, success means having a regular supply of new products as well as responding quickly to new technology and changing customer expectations for challenging and exciting experiences.

Innovative companies develop a culture that attracts optimistic, energetic people who have both technical skills and an interest in collaboration. Their employees are creative, want to be involved, and are willing to work hard to make the company successful. These companies encourage ideas that could save money or increase efficiency; ideas for new products or services; and ideas for new and improved technologies.

Various company schemes have been introduced in the business world, providing an outlet for employees to suggest new ideas, whether for new products or simply a better way of doing things, in an open environment. Rewards are given if the idea is successfully instigated. The result has been a number of innovative products, often finding a new application for an existing technology that the company specializes in.

Think Critically

1. Do you think most company owners and executives would embrace the idea of smart office environments? Why or why not?

2. What do you believe makes this collaborative approach a successful way to develop new product ideas?

Focus On...

features examine current events, technology topics, trends, innovation, change, and other important issues that impact the business environment to provide students a larger view of the business community.

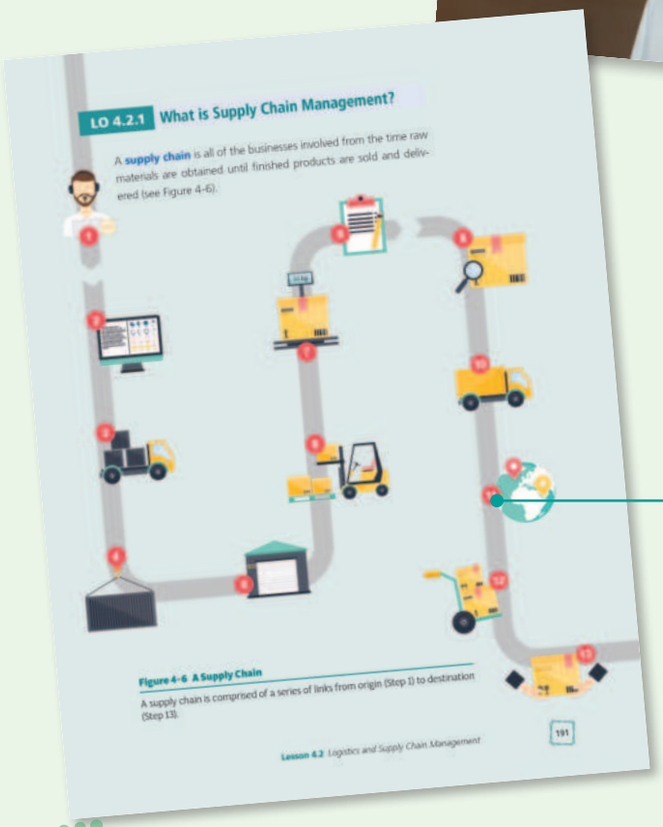
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Photos

enhance the chapter content with real world illustrations and questions that encourage critical thinking.





LO 4.2.1 What is Supply Chain Management?

A **supply chain** is all of the businesses involved from the time raw materials are obtained until finished products are sold and delivered (see Figure 4-6).

Figure 4-6 A Supply Chain

A supply chain is comprised of a series of links from origin (Step 1) to destination (Step 13).

Lesson 4.2 *Logistics and Supply Chain Management* 191

Figures

visually organize information and show the links and associations between data and corresponding analysis.

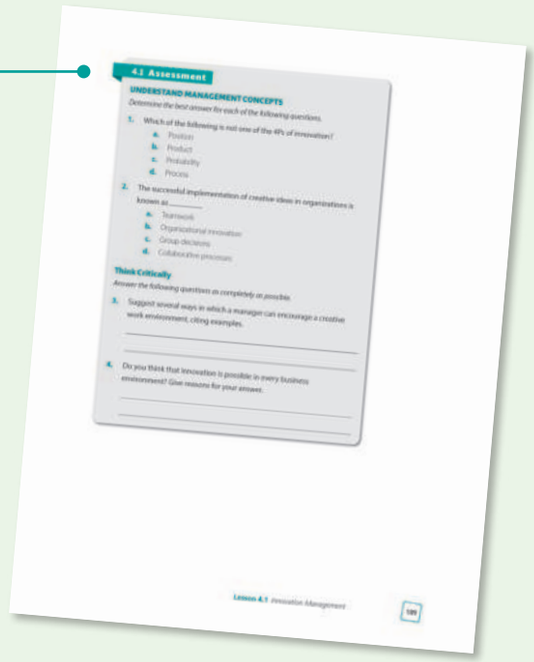
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Integrated Assessment...

Putting Students' Knowledge to the Test

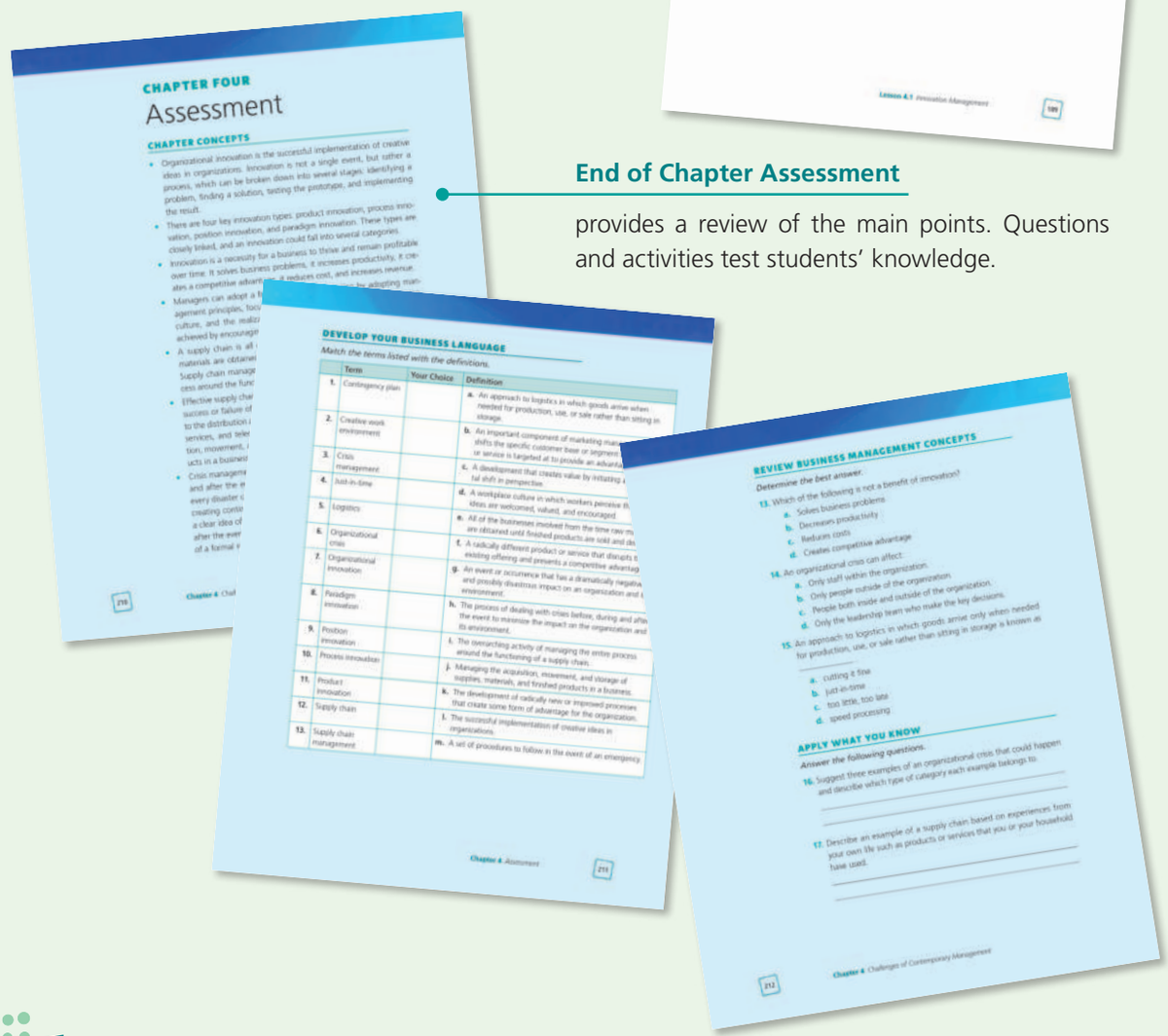
End of Lesson

assessments are found at the end of each lesson to reinforce the concepts that have been covered in it.



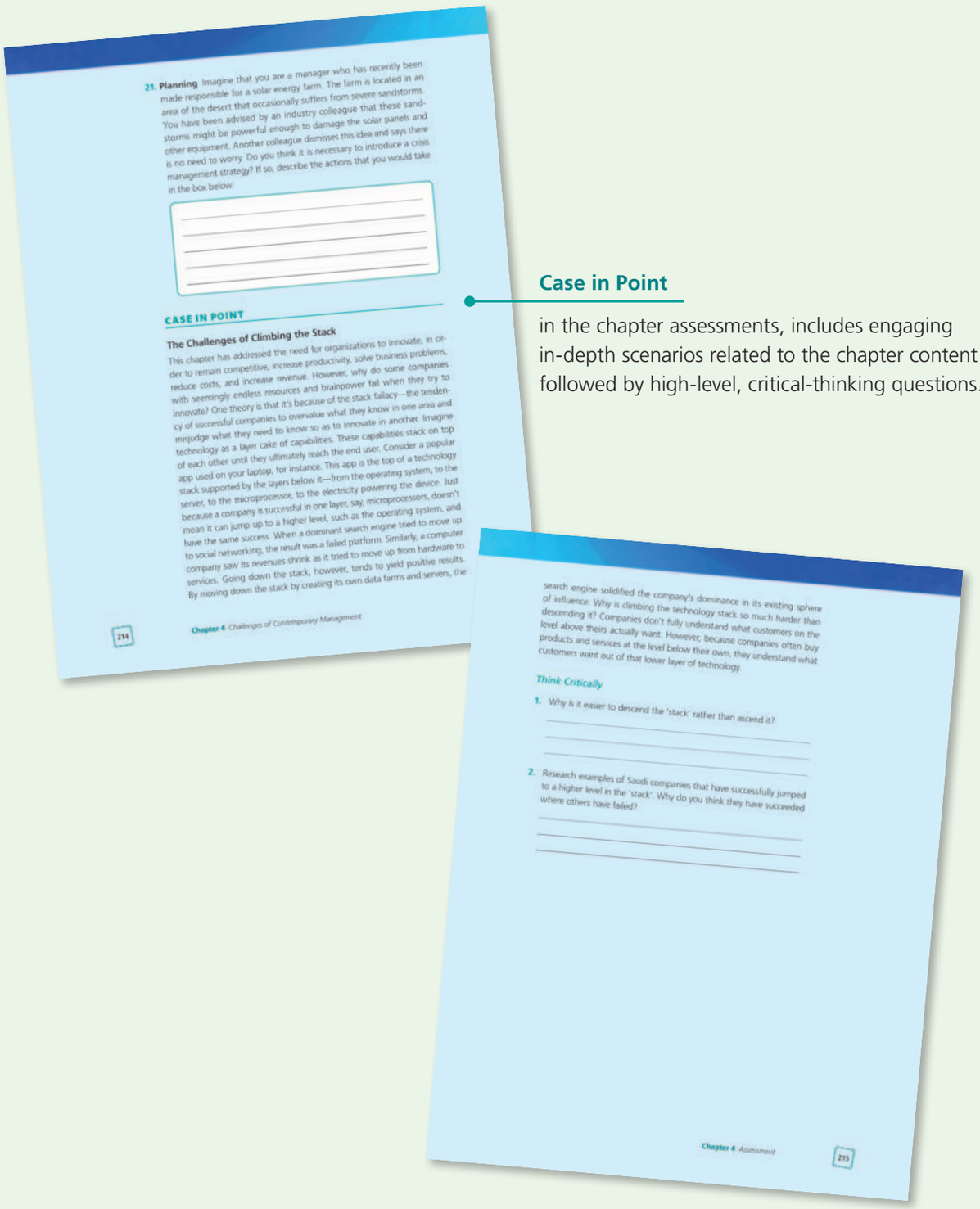
End of Chapter Assessment

provides a review of the main points. Questions and activities test students' knowledge.



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21. **Planning** Imagine that you are a manager who has recently been made responsible for a solar energy farm. The farm is located in an area of the desert that occasionally suffers from severe sandstorms. You have been advised by an industry colleague that these sandstorms might be powerful enough to damage the solar panels and other equipment. Another colleague dismisses this idea and says there is no need to worry. Do you think it is necessary to introduce a crisis management strategy? If so, describe the actions that you would take in the box below.

CASE IN POINT

The Challenges of Climbing the Stack

This chapter has addressed the need for organizations to innovate, in order to remain competitive, increase productivity, solve business problems, reduce costs, and increase revenue. However, why do some companies with seemingly endless resources and brainpower fail when they try to innovate? One theory is that it's because of the stack fallacy—the tendency of successful companies to overvalue what they know in one area and misjudge what they need to know so as to innovate in another. Imagine technology as a layer cake of capabilities. These capabilities stack on top of each other until they ultimately reach the end user. Consider a popular app used on your laptop, for instance. This app is the top of a technology stack supported by the layers below it—from the operating system, to the server, to the microprocessor, to the electricity powering the device. Just because a company is successful in one layer, say, microprocessors, doesn't mean it can jump up to a higher level, such as the operating system, and have the same success. When a dominant search engine tried to move up to social networking, the result was a failed platform. Similarly, a computer company saw its revenues shrink as it tried to move up from hardware to services. Going down the stack, however, tends to yield positive results. By moving down the stack by creating its own data farms and servers, the

214 Chapter 4 Challenges of Contemporary Management

search engine solidified the company's dominance in its existing sphere of influence. Why is climbing the technology stack so much harder than descending it? Companies don't fully understand what customers on the level above theirs actually want. However, because companies often buy products and services at the level below their own, they understand what customers want out of that lower layer of technology.

Think Critically

1. Why is it easier to descend the 'stack' rather than ascend it?

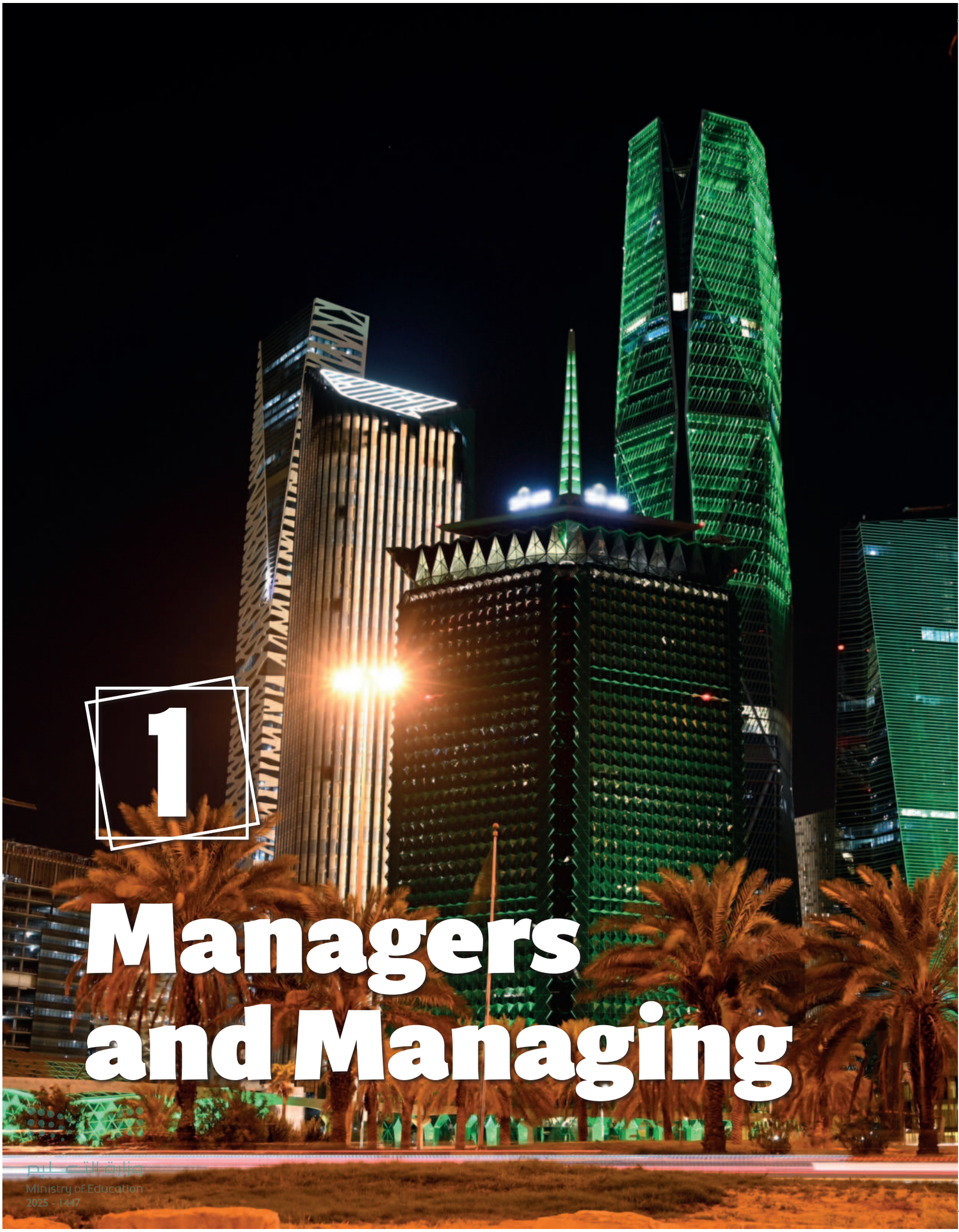
2. Research examples of Saudi companies that have successfully jumped to a higher level in the 'stack'. Why do you think they have succeeded where others have failed?

Chapter 4 Assessment 215

Case in Point

in the chapter assessments, includes engaging in-depth scenarios related to the chapter content followed by high-level, critical-thinking questions.

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1

Managers and Managing

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CHAPTER LESSONS

1.1 The Role and Work of Managers

1.2 The Historical Development of Management

1.3 Managing in the Twenty-First Century

1.4 Increasing Management Effectiveness

Management creates the fundamental framework for the activities within an organization. This opening chapter addresses the role of managing and managers. It begins with an overview of the development of management throughout history, before addressing management today and how to increase effectiveness.

What qualities do you think a successful manager possesses?

Link to digital lesson

www.ien.edu.sa

1.1 The Role and Work of Managers

KEY TERMS

Management
Planning
Organizing
Staffing
Directing
Controlling
Manager
Supervisor
Top Manager
Middle Manager

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

1.1.1 Define the functions of managers.

1.1.2 Differentiate the work of the different levels of management.

REALITY CHECK

Do I Want to Be a Manager?

Ali has worked for a Web technology company for five years since graduating with a degree in computer network systems. He enjoys his work as a network specialist, a position he has held for more than two years. He has progressed rapidly from his first job as networking assistant to his current position.

Ali is facing an important career decision: whether to apply for the supervisor's position. The opportunity to move into a management position is exciting. The job would provide a higher salary and an improved status. At the same time, it seems to Ali that supervisors are constantly dealing with employee complaints or with the concerns of their own bosses.

Ali really enjoys his current work in network systems, but he knows that he will do less of that work as a supervisor. He likes working with and helping to train new employees, and he's not sure if he wants to do technical computer work for the rest of his career. Ali's biggest concern is that he doesn't know much about the supervisor's job. The company does not provide any specific training for prospective supervisors, and Ali's only preparation was a management course he completed while attending college.

What's Your Reaction? *How would you help Ali make a decision about applying for the position?*

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LO 1.1.1 Moving into Management

"I'm in charge. I make the decisions. No one can tell me what to do." Doesn't that sound great? In a simplistic way, these words describe what many people believe is the role of a manager. Yet there is another way to view management.

"I'm responsible for the results of my team. When problems occur, I have to find a way to fix them. If things go wrong, I am responsible. Success or failure ultimately depends on achieving results from my team."

While managers have control, they must also take responsibility for achieving results.

Many employees believe they would like to be managers. However, when presented with the decision of whether to move into management, they may find the decision difficult to make. If they like the work they are currently doing, they must understand that moving into management will mean they can no longer spend much time doing that work. Will they enjoy management activities as much? Just because they have been successful in their current job does not mean they will be successful in management. What if they do not succeed in their new role as a manager? It is unlikely their company will allow them to return to their previous job, and indeed, they may even lose their management position.

The Changing Nature of Management

Managers are responsible for making things happen in business. They make decisions that determine what a company will do and how well it will perform. They choose the people and other resources needed to operate a business. Managers must ensure that ideas are turned into products and services.

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Managers make up only a small percentage of all employees in a company. Managers typically work with the larger number of employees to plan how to perform the work. There are often several levels of managers in an organization. Some managers are directly responsible for the day-to-day operations of a part of the business and the work of employees who perform those operations.

Higher-level managers are not directly involved in day-to-day operations. Instead, they spend their time planning, problem solving, and making decisions about how to make the business more successful. Non-management employees often do not recognize the contributions that managers make to the business. In addition, these workers may not understand the challenges of being a manager.

The daily work of managers is quite different from the work of employees. Yet both types of work are necessary for a business to succeed. Mutual understanding and respect are important. Managers must understand and appreciate the work of employees. Employees who recognize what managers do and why management is important to business success tend to be motivated and cooperative.

The nature of management and the way managers interact with employees has changed in recent years. In the past, many managers exerted a great deal of authority and control, expected employees to follow orders without question, and provided little information about the company to workers. Employees and managers did not always share the same views and attitudes about the company and the work that needed to be done.

Today's managers work more closely with employees. They keep employees informed about company performance and upcoming changes. They also involve employees in important decisions. Employees have greater responsibilities in many companies, and employee teams now carry out some work previously done by managers. Businesses in which managers and employees respect each other, communicate effectively, and cooperate are usually more successful than businesses that use traditional management techniques.

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Employees may not be aware of the contribution managers make. Name some responsibilities of managers.

Management Functions

There are many different kinds of managers. The president of an international corporation with facilities around the world and thousands of employees is a manager. The owner of a small service business with one location and only a few employees is also a manager. Managers are in charge of many different aspects of business, including purchasing, sales, communication, and technology. People who supervise workers on an assembly line, in a warehouse, or in a customer service center are all managers.

Because there are so many types of managers, it is difficult to identify exactly what managers do. However, there are a number of activities that all managers must perform. The type of business, size of company, or department within the organization do not matter—all managers perform some of the same activities.

Management is the process of accomplishing the goals of an organization through the effective use of people and other resources. Those resources include money, facilities, equipment, and materials. The primary work of all managers falls within five functions: planning, organizing, staffing, directing, and controlling.

- **Planning** involves analyzing information and making decisions about what needs to be done.
- **Organizing** is concerned with determining how plans can be accomplished most effectively and arranging resources to perform the work.
- **Staffing** focuses on finding individuals with the right skills to do the work.
- **Directing** requires working with employees to ensure they are motivated and have the resources needed to help carry out plans and get the work done.
- **Controlling** involves evaluating results to determine if the company's objectives have been accomplished as planned.



CHECKPOINT

What are the five management functions that all managers perform?

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LO 1.1.2 The Work of Managers

Operating any business is a complex process. Regardless of the size of the business, all managers make decisions about operations, marketing, personnel, and finances every day. If managers are not well prepared to operate the business, problems soon develop. The manager who knows how to plan, organize, staff, direct, and control is ready to make decisions that help ensure the business operates successfully.

All managers perform the same five broad functions as a part of their jobs, but the specific activities they perform and the amount of time they spend on each function varies. The functions of management may even seem to describe the work of some employees who are not classified as managers.

Managers and Employees

Many employees of a business perform tasks that could be considered management activities. They might develop plans to accomplish the work assigned to them. They may organize their workspace and the materials they use to perform their work efficiently. An experienced employee may direct a group project, and the group members may help evaluate the completed project. The increasing use of teams in organizations provides opportunities for employees to participate in activities that previously would have been done by managers.

In each of these examples, the employee gains valuable experience. New knowledge and skills help employees understand the work of managers and prepare them for possible promotion to a management position. Even though employees perform some work that is similar to the work performed by managers, the employees are not managers.

There are important differences in the nature of managers' work and that of nonmanagerial employees. A **manager** performs all five management functions on a regular basis and has authority over other jobs and people. In each of the situations above, where employees were completing what seemed to be management functions, they were doing those tasks infrequently, were not completing all of the management functions, or were completing them for their job only. Seldom do

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employees have authority over other employees for more than a short period. Final authority and responsibility remains with the manager.

Levels of Management

Most companies have more than one level of management. Small companies may have two or three levels. Large companies may have five or six management classifications. The levels of management in an organization can be described as a *management pyramid*. There are more managers at the lower levels and fewer at higher levels. The chief executive or owner who heads the business is at the top of the pyramid. Figure 1-1 illustrates the management pyramid. This has been introduced previously in the *Business Decision Making* class.

A **supervisor** is a manager whose main job is to direct the work of employees. Supervisors are the first, or beginning, level of management in a company. They often perform nonmanagerial activities in addition to overseeing the work of others. Supervisors are at the bottom of the management pyramid.

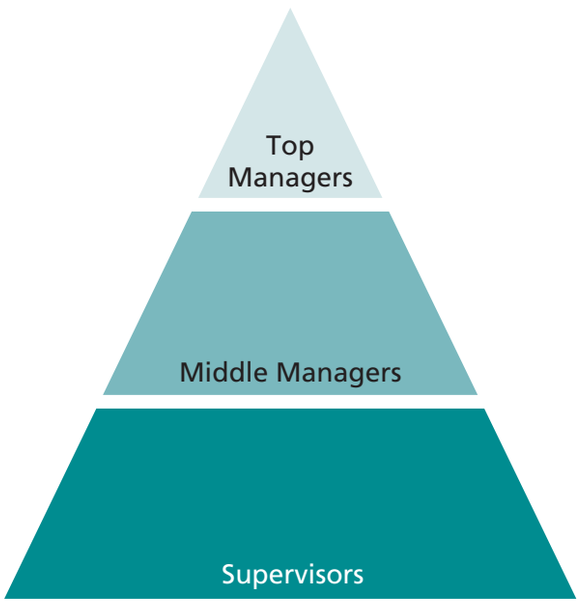


Figure 1-1 Management Pyramid

The management pyramid illustrates the levels of management within an organization.

A **top manager** is a high-level manager who spends almost all of his or her time on management functions and decisions that affect the entire company. Top managers have other managers reporting to them. Top managers are at the highest level of the management pyramid.

Between top managers and supervisors in larger organizations, there will be one or more levels of middle managers. A **middle manager** performs all of the management functions, but spends most of the time completing specialized work in one management function or is responsible for a specific part of the company's operations. A middle manager may carry out detailed planning activities, may manage a specific product line, or be responsible for a specialized division such as information security.

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The amount of time devoted to each function of management differs depending on the level of management. Supervisors work most directly with employees and are involved primarily in ensuring that the day-to-day work of the business is carried out. Therefore, they devote most of their management time to directing and monitoring results of their work team. Top management work with other managers and are responsible for the long-term direction and overall success of the business. They spend most of their time on planning and organizing.

Figure 1-2 shows how the time spent on management functions changes for different levels of managers in a business. You can see from the figure that as a manager moves up in the organization, their responsibilities change. These differences can be illustrated by imagining a company that manufactures electronic household products. Managers at the top level will devote more time to the overall strategy of the company. This will include planning which new product ranges to develop in line with the company's objectives, and organizing the processes to carry out this strategy. While middle managers will also have some planning, they will have a greater focus on the directing, that is, putting those plans into action. Supervisors, such as those who immediately oversee the manufacturing process of the electronic devices, will be mostly concerned with controlling and directing production. They will probably also spend more time ensuring that the necessary staff are employed and sufficiently trained to carry out the work to meet the strategic targets set by higher management.

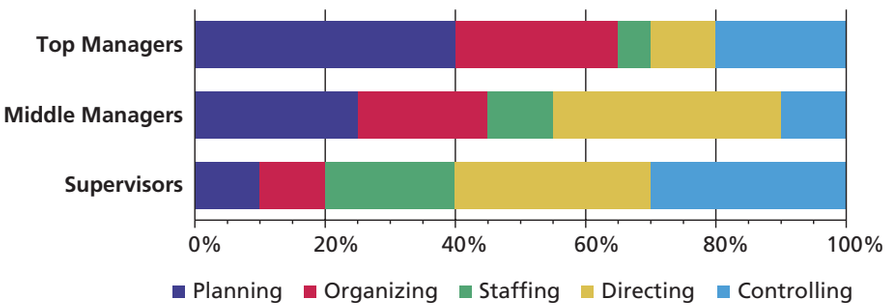


Figure 1-2 How Managers Spend Their Time

The amount of time spent on each management function depends on the level of management.

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CHECKPOINT

How is the work of supervisors different from the work of middle managers and top managers?

1.1 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. Which of the following is not one of the five functions of management?
   - **a.** planning
   - **b.** budgeting
   - **c.** staffing
   - **d.** controlling

2. The level of management that devotes the greatest amount of time to planning is _____
   - **a.** supervisors
   - **b.** middle managers
   - **c.** top managers
   - **d.** All levels spend equal amounts of time on planning

THINK CRITICALLY

Answer the following questions as completely as possible.

3. What can employees do both on and off the job to prepare to be effective managers?

   _____

   _____

4. Why do you think that some businesses are reducing the number of management levels?

   _____

   _____

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1.2

The Historical Development of Management

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LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

1.2.1 Describe historical changes in management that led to the beginning of scientific management.

1.2.2 Describe four different philosophies that have been used to manage organizations.

KEY TERMS

The Four Industrial Revolutions
Classical Management
Administrative Management
Behavioral Management
Scientific Management
Efficiency
Effectiveness
Quality Management

REALITY CHECK

Opposing Views on Effective Management

Abdullah and Omar are brothers who have two very different ideas about management of the workforce in their father's factory in Jubail. In Abdullah's view, effective management is all about setting strict, instructive rules in order to increase productivity. "You must give workers clear, firm instructions, assigning each individual a specialized task that is repeated continuously until they reach perfection. Productive workers respond better to orders than personal choice."

Omar, however, does not see it that way. "That might work in theory," Omar contends. "But you're forgetting to consider the views of the workers themselves. I think that a manager's role is to ensure that staff are motivated and fulfilled in their roles. This is the only way to make the workforce more productive. Workers get bored endlessly doing repetitive tasks, without any autonomy or variation."

What's Your Reaction? *Do you agree most with Abdullah or Omar? Do you think that adopting the same managerial approach is always appropriate for every work scenario?*

LO 1.2.1 Management Through the Ages

Every organized activity, or 'work', requires some form of management. This management is necessary in order to make decisions about how the work is performed. The type of questions asked by managers about the activity include:

- What resources are needed to perform the work?
- How and where will the resources be obtained?
- Who will be responsible for various tasks?
- How will it be determined if the work is satisfactory?

Today, the smallest part-time businesses, the newest entrepreneurial business ventures, and the largest global corporations require management. Small business owners decide how much time to devote to their work, where to do the work, how much money must be invested, and how to price and market products and services. Entrepreneurs, with visions of creating the next revolutionary smartphone app or social media platform, develop business plans, secure investors, hire talented employees, and manage the growth of their businesses. Giant international businesses require managers to be familiar with the cultures and laws of many countries. These same managers need to be able to utilize the skills of diverse work teams. They also need to be prepared to manage a large portfolio of products and compete with other businesses to satisfy the ever-changing demands of customers.

The Earliest Forms of Management

The first managers had to rely on their instincts, intuition, and experience to decide how to organize work and operate their businesses. Some of the earliest civilizations organized large numbers of people to accomplish seemingly impossible tasks. These remarkable societies accomplished great feats of engineering and construction. They organized vast agricultural enterprises and developed systems of commerce and finance. These efforts required planning and the management of people and other resources. Often the work involved large numbers of workers completing difficult tasks. In most cases the emphasis was on

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getting the job done with little concern for the health and safety of the workers.

Until the development of modern technology and machines began near the end of the seventeenth century, most work was performed using manual labor. Large-scale public projects were organized by a country's rulers and required massive numbers of laborers or vast amounts of resources to complete. On the other end of the spectrum, individuals and families worked to provide goods and services needed for everyday living. Small businesses developed in many societies as transportation and trade allowed people to specialize in their work. Whether working alone, in family groups, or operating large-scale projects, management was required to plan and perform the work with the available resources.

The Four Industrial Revolutions

There have been four major phases in modern history in which new innovations have radically transformed industry and business practices. These are known as the **Four Industrial Revolutions**, and each phase can be identified by specific characteristic traits, as illustrated by the timeline in Figure 1-3.

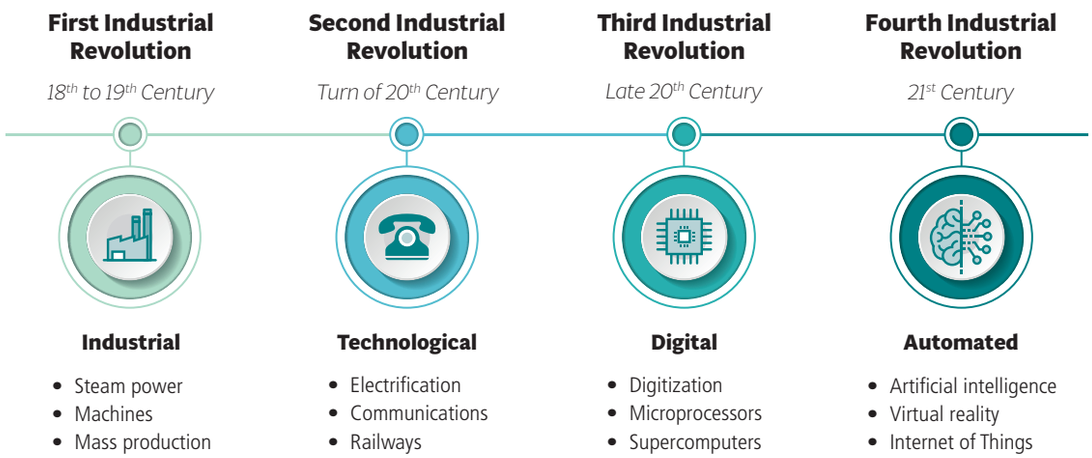


Figure 1-3 A Timeline of the Four Industrial Revolutions

Modern history has undergone four distinct phases in technological developments that have transformed people's lives and the ways that businesses operate.

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What benefits to business and society do you think factories have brought?

The First Industrial Revolution (Industrial)

During the eighteenth and nineteenth centuries, the invention of advanced machines allowed for the faster processing of raw materials. Machine power replaced human and animal power in the production process, leading to major business and social transformation. Factories began mass-producing goods using standardized processes. This era became known as the *First Industrial Revolution*.

The Second Industrial Revolution (Technological)

In the late nineteenth and early twentieth centuries, a *Second Industrial Revolution* occurred. This was characterized by electrification, and the rapid development of long-distance telecommunications and transport. In particular, the development of railways, the telegraph, and then the telephone made the world more interconnected. This significantly increased the speed and reliability of global logistics and communication. The use of machines continued to increase in production lines.

The Third Industrial Revolution (Digital)

In the second half of the twentieth century, computers became increasingly more powerful. The invention and rapid development of microchips



and microprocessors made fast and powerful computation possible. The *Third Industrial Revolution* was characterized by the digitization of record keeping and the increased processing power of supercomputers for processing huge amounts of data at high speeds.

The Fourth Industrial Revolution (Automated)

Today, in the twenty-first century, the world is currently undergoing a *Fourth Industrial Revolution* (sometimes referred to as 'Industry 4.0'). This latest phase is characterized by automated intelligent systems. Everyday devices are able to communicate with one another electronically, make decisions and adjustments based on analysis of data, and learn new processes without the input of humans (the *Internet of Things*). Some examples of the Fourth Industrial Revolution include cloud computing, self-driving cars and the development of immersive virtual reality systems.

CHECKPOINT

How have the Four Industrial Revolutions changed the way work is done?

NET KNOWLEDGE

A student who is considering a future in management will need information to help make a career decision. The General Authority for Statistics publishes a wide range of data on the labor market and industry-specific metrics. Go online and visit the General Authority for Statistics website: https://www.stats.gov.sa. Click or tap on the 'Data' menu, then go to the 'Industry and Business' tab. What types of information are available that can help to inform a student's career plans? Choose a sector from the options and write down three pieces of useful data provided about it on the website.

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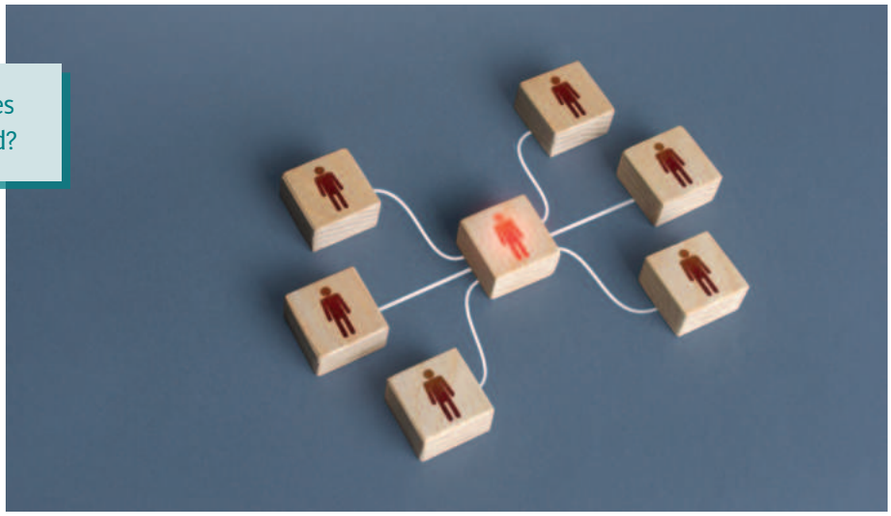
LO 1.2.2 Changing Approaches to Management

Managing is not easy. Determining the best ways to manage an organization has been an issue facing business leaders for nearly two centuries. Business leaders and researchers began to study management practices shortly after the start of the First Industrial Revolution, and that study continues today. Several theories of management have been developed and tested. Among the most widely accepted are classical management, administrative management, behavioral management, and most recently, scientific management.

Classical Management

Classical management was the first effort to apply scientific study to business activities. **Classical management** studies the way work is organized and the procedures used to perform a job in order to increase worker productivity. Work areas are arranged to make parts and materials readily accessible in order to speed up work. The most efficient employees are studied to identify the best assembly or work methods, which are then taught to other employees. Organizations using classical management may use experiments to try to develop ways to improve the organization of workspace and work procedures to increase efficiency.

Why have different theories of management developed?



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A classical management approach believes that most workers would not choose the most productive methods of working, and would need clear instructions and close supervision to work efficiently. Using precise time and motion measurements, proponents of classical management worked to identify the least number of steps, the most efficient layout of work, and the fastest work procedures to perform a task. The idea was developed of compensating employees using a *piece rate* where employees are paid based on the amount of work they produce.

Classical management was widely accepted and implemented in businesses worldwide in the late 1800s and through the first two decades of the 1900s.



MANAGEMENT SKILLS

Creativity

Creativity is not limited to the arts. It is an important skill for managers. New ideas, new processes, and new technology are all expressions of creativity. Successful managers work to develop their own creativity and encourage creativity in others. Managers use team brainstorming sessions to foster ideas. Creativity also requires the belief that failure is a learning experience.

Develop Your Skills *Explain how a manager can foster creativity in a team to solve a management problem.*

Administrative Management

While classical management experts focused on increasing worker productivity, another group of experts was concentrating on improving the overall management of growing businesses. Their ideas became known as administrative management. **Administrative management** identifies the most effective practices for organizing and managing a business. From administrative management came the concepts of having multiple levels of management, organizing businesses into specialized departments, and defining the type of work all managers must perform for an organization to operate effectively.

Many of the characteristics identified by administrative management are still recognized in organizations today, including:

- *Authority and responsibility*—managers have the authority to assign tasks. They can delegate responsibility to others but must give the needed authority as well.
- *Unity of command*—each employee must receive direction

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from only one manager to avoid conflicts and to maintain a clear line of authority.

- *Unity of purpose*—the goals and direction of an organization must be clear and supported by everyone.
- *Adequate compensation*—the wages and benefits for every employee should be fair and satisfactory to both the individual and the organization.
- *Team spirit*—organizations should work to build good interpersonal relationships, a sense of teamwork, and harmony.

Behavioral Management

The earliest approaches to management were directed at organizing work and creating efficient procedures. They had little concern for the effects of changes on employees. A group of management experts then began to focus on the relationship between managers and employees and developed the principles of behavioral management. **Behavioral management** is directed at organizational improvement through understanding employee motivation and behavior. Behavioral management is sometimes called human relations management.

The focus of behavioral management is developing a work environment in which workers believe they are a valuable part of the organization so they are motivated to do their best. That is most likely to occur when there are positive relationships between managers and employees. This approach suggests that managers should find ways to improve working conditions and increase worker satisfaction, which will lead to better performance.

Researchers found that when employees felt managers were concerned about them and were attempting to improve working conditions, they were willing to work harder.

Another important contribution to behavioral management is the development of Theory X and Theory Y:

- *Theory X* managers think that employees will not work to their greatest potential without close supervision.
- *Theory Y* managers believe that employees will work hard if they are involved in decisions about their work and are assigned meaningful tasks.

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The concept holds that managers interact differently with their employees depending on which of the theories they accept.

- *Theory Z* was developed from these ideas, and focuses on the employee's well-being and loyalty to the company by providing a job for life. This promotes high productivity along with high employee morale and satisfaction.

Scientific Management

As the economy expanded and as challenges emerged, some business leaders around the world recognized that their operating practices were not good for either employees or businesses. They were interested in learning how businesses could be run more effectively and efficiently. They began to examine ways to improve business practices, and to pass on that knowledge to the people who were running the business. Those efforts to improve business management led to the beginning of scientific management.

The concept of scientific management was introduced in the early twentieth century by Frederick Taylor, who asserted that data could be used to improve the efficiency and effectiveness of an organization. **Scientific management** is the careful, objective study of management decisions and procedures in order to improve the operation of businesses and organizations. **Efficiency** is a measure of productivity in comparison to the effort put in. For example, an efficient assembly line in a factory will produce the maximum amount of goods with the minimum steps in the process or in the shortest timeframe. Efficiency is often linked to reducing costs. **Effectiveness** is a measure of how successful something is at achieving its outcome. However, efficiency

Management Matters

Involvement Equals Profits

A study of Fortune 1000 companies found that the use of employee involvement has a greater return on investment than other management approaches. Involvement works because employees are often in the best position to identify problems and offer solutions. They quickly spot quality issues and waste. Experienced employees find effective shortcuts and other ways to save time. Employee involvement is most effective when businesses follow three guidelines:

- Improvements should not lead to job loss for current employees.
- Employees should benefit from savings or increases in profits.
- Businesses should publicly recognize employees for the improvements they suggest.

What Do You Think?

Why might some employees be reluctant to get involved when first asked by their manager?

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and effectiveness are not the same thing. A process for settling insurance claims might be very effective, but it may not be the most efficient in terms of time and cost. The practice of quality management, which relates to efficiency and effectiveness, is one element of modern business to have developed out of scientific management.

Quality management is a total commitment by everyone in an organization to improve the quality of procedures and products by reducing waste, errors, and defects. Quality management involves using facts and data to make decisions and continually looking for ways to make improvements. Training, participation, and commitment are hallmarks of quality management.

The four main components of the quality management process are quality planning, quality assurance, quality control, and quality improvement, as described below:

- **Step 1**: Quality planning is the first stage of the process, when a commitment is made to setting a quality standard.
- **Step 2**: Quality assurance is the second stage in which desired standards of quality are set and a process of checks is put in place.
- **Step 3**: Quality control is the next stage in which the actual standards of quality are compared against the desired level set in step 2.
- **Step 4**: Quality improvement is the final stage of the process in which improvements are made in order to meet the desired quality.

Quality management is addressed in further detail in Chapter 3, with discussions on control standards and the control process.



CHECKPOINT

What are the key differences among the four theories of management?

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1.2 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. The First Industrial Revolution began primarily because of _____

- **a.** large numbers of people unable to find work
- **b.** the growth of corporations
- **c.** the invention of machines allowing the faster processing of raw materials
- **d.** managers using practices to improve productivity of employees

2. The first attempt to apply scientific study to the management of businesses was _____

- **a.** behavioral management
- **b.** classical management
- **c.** quality management
- **d.** administrative management

THINK CRITICALLY

Answer the following questions as completely as possible.

3. Why did management become so important to businesses as a result of the Four Industrial Revolutions?

_____

_____

4. Why might employees not like to work in a business where managers use classical management?

_____

_____

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FOCUS ON Innovation



Putting Employees First

What kind of company would put employees first? Of course, the welfare of employees is a fundamental duty and concern of any business. Yet many Saudi companies are going one step further, actively putting the empowerment of their staff at the forefront of their growth strategies. This approach follows the simple idea that effective teamwork and motivated employees build a great company.

One of the telecommunication companies, for example, introduced an "Employee First" initiative designed to empower staff. By granting employees greater responsibility and accountability, the initiative sought to install a productive culture based on shared values, that would ultimately be reflected in the company's output. Likewise, Saudi Aramco is committed to investing in its people via a range of professional development programs, including Geoscience Train, Upstream Professional Development Center, and the Young Leaders Advisory Board. According to the Saudi Aramco website, "Our success is a result of facing challenges head-on with determination, persistence, and innovative thinking, which is made possible through our unique training programs."

These examples are reflective of a wider international effort to improve work environment empowerment. In one such example, the results of a company's employee empowerment program have been outstanding. Employee retention rates doubled in an industry where highly skilled employees change jobs regularly to increase their pay. At the same time, sales, profits, and the company's stock price climbed.

Think Critically

1. Do you agree or disagree with the management philosophy of putting employees first? Why or why not?

2. Would you like to work as a manager in that type of company? Why or why not?

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1.3

Managing in the Twenty-First Century

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LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

1.3.1 Describe ways that the workforce and work are changing.

1.3.2 Discuss important factors that influence the management strategy of an organization.

KEY TERMS

Business Competition

Management Strategy

REALITY CHECK

Management is Management?

Rashid has been a manager at a successful local independent supermarket for ten years, having worked his way up to the top from a supervisor position. He is looking for a new opportunity and has recently seen a manager vacancy advertised with a large international energy company with a branch based in Dammam.

"I could do that job easily," Rashid tells his friend, Khalid. "I have lots of experience in managing people, and I know how to get the best out of them."

"That may be true," says Khalid, "but won't you find it challenging working in a completely different industry? A global energy company is very different to a local supermarket. How can you be sure that your experience and know-how will be relevant?"

"Management is management," replies Rashid. "The same skills and processes can be applied to the role no matter which industry you're working in. What's more, coming from a different sector actually gives me an advantage. I can bring other insights to the role."

"I think you'll be great for the role," says Khalid, "but don't underestimate the value of industry-specific knowledge or the differences in companies more generally. I've worked in several management positions, and each situation has been very different."

What's Your Reaction? *Do you agree most with Rashid or Khalid?*

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LO 1.3.1 Changes and Challenges for Managers

If anything characterizes business, it is change. While businesses have always faced change, the change facing business today has three characteristics. The pace of change is extremely fast. The number of changes that must be addressed at one time is challenging. Additionally, the impact of change is often dramatic.

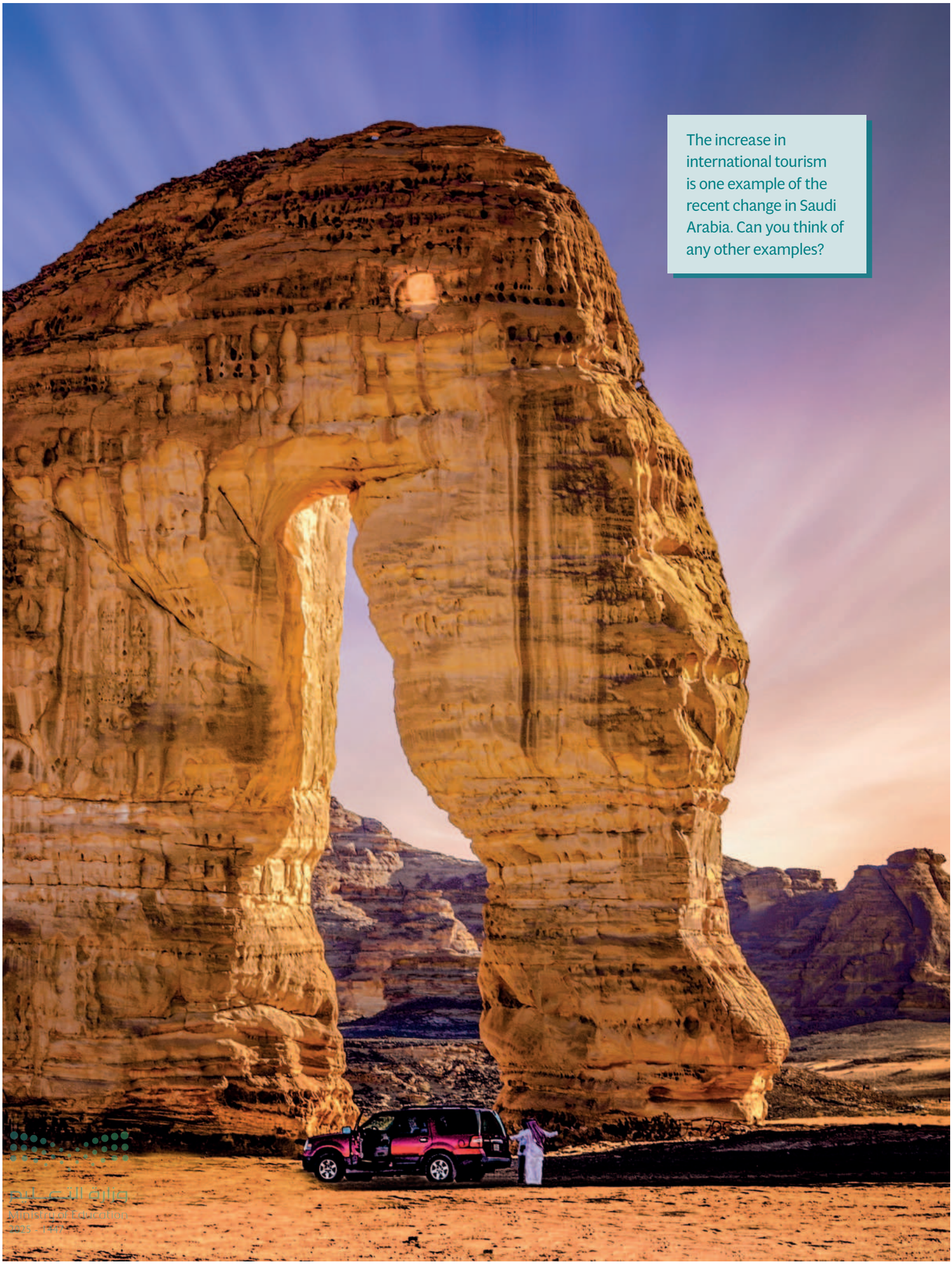
An example of this can be seen in the Saudi economy, which is currently undergoing a major transformation as part of its diversification strategy under Saudi Vision 2030. A range of opportunities are arising from the emergence of new industries outside of Saudi Arabia's established presence in the energy sector. Equally, the private sector is growing, with government support designed to stimulate innovation from small and medium sized enterprises.

Change affects managers in many ways. The most significant challenges include the changing workforce, the nature of work itself, competition, and technology.

Workers

The makeup of the Saudi workforce is becoming increasingly diverse based on a number of factors, including age, gender, and education. A significant recent development is the increasing number of Saudi women in employment, occupying a diverse array of roles in various sectors, including managerial positions. The Saudi labor market is also comprised of a combination of both Saudi nationals and non-Saudi workers. The Kingdom continues to attract the finest talent, from both inside and outside of Saudi Arabia to support the initiatives of Saudi Vision 2030.

Saudi Arabia has a notably young population, with around 40% under the age of 25, according to 2021 government statistics. This youthfulness presents the country with a great opportunity of an emerging generation entering the workforce. By equal token, it also presents a challenge in equipping them with the necessary skills to succeed in business. A wider worldwide trend is that businesses will



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employ a workforce that is much more educated. Young people continue to enroll in education beyond high school in greater numbers as they recognize the jobs of the future will require advanced education and training.

Work

Just as the workforce is changing, so is the way work is accomplished:

- Fewer jobs today require individuals to work on specialized tasks in isolation from other employees. Instead, work is organized around processes or projects where teams of employees collaborate.
- Technology is quickly reshaping organizations. More work tasks are performed by automated machines or by workers using technology.
- While many production and service jobs still require physical labor, more jobs are less physically demanding and more intellectually challenging. Jobs require workers to think critically, solve problems, and make decisions.
- Recent years have witnessed a rise in remote workers, who work from home, accessing company systems online and communicating with team members via video-conferencing software.
- Increasingly, freelance work is carried out by independent, self-employed professionals who are not permanently employed by one specific company. Freelancers include marketing consultants and creators in the service sectors. In line with the objectives of Saudi Vision 2030, the freelance program has been introduced by the Ministry of Human Resources and Social Development. The program was established to provide flexible employment opportunities and empower Saudi residents to build their skills, contribute to the economy, and ensure financial security through an income (https://freelance.sa/home).
- Jobs require effective communication and interpersonal skills. Communication often occurs virtually rather than face to face.



Why are many businesses facing competition from around the globe?

This requires workers and managers to choose the appropriate technology, learn new procedures, and conduct themselves professionally.

- A small business in Saudi Arabia can partner with businesses in other countries to have an international presence. Managers and employees must be able to work effectively across time zones and country borders. They need to be able to respond to different economic and political systems as well as unique cultural and social needs.

Competition

Business competition is the rivalry among companies for customers. Two aspects of business competition are changing rapidly. One is the location and number of competitors. The other relates to production efficiency.

Today, business competition has no borders. Even the smallest businesses serving a local market can face competition from companies thousands of miles away as customers turn to the Internet to make purchases. As with many countries across the globe, E-commerce retail sales in Saudi Arabia are on the rise. Managers need to understand how competition is changing and how these changes affect their business.

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Technology

Telecommunications technologies now allow smartphones to connect to websites and email. This is a great benefit for managers because they can stay in touch with their company at all times. But it can also be a burden because managers may feel the need to always be available, even on weekends or vacation.

Most companies today cannot compete without a website to promote their businesses, communicate with customers, and sell their products and services. As well as a website, companies are adding social media access and a variety of mobile applications for instant communication and interaction with customers. Companies also use intranets to allow managers and employees to access internal computer systems.

Access to all of these technologies makes it possible for employees to communicate with each other and with their managers in a virtual environment. Employees no longer need to work at the same physical location or even in a business environment. Internet technology has given rise to the virtual employee, who may work from home, or the local coffee shop.

New technologies also have led to major changes in accessing and using data. Specialized software tracks, analyzes, and reports information to managers. Managers can access information about all aspects of the business. For example, they might want production schedules, sales figures, customer demographics, competitive analyses, or market data. Managers can also access information about individual employee work activities and performance.

Saudi Arabia is investing in innovative technologies to become a world-leader in sectors including green and sustainable energy, robotics, and machine learning.



CHECKPOINT

What are the changes and challenges for Saudi managers?

NET KNOWLEDGE

Saudi Arabia is one of the leading countries that provides government services online. Whether someone is a citizen, resident, business owner, or visitor, they can access the government services via Saudi Arabia's National Unified Portal for Government Services. Visit https://www.my.gov.sa and browse the wide range of services. Choose one service and write down how you think this service would be delivered if it wasn't available online.

LO 1.3.2 Developing a Management Strategy

Effective management cannot happen by chance. Managers cannot just do what they believe is best based on their own instincts and experience. An effective business has a management strategy that is planned, consistent, and understood. A **management strategy** is a carefully developed overall approach to leading an organization.

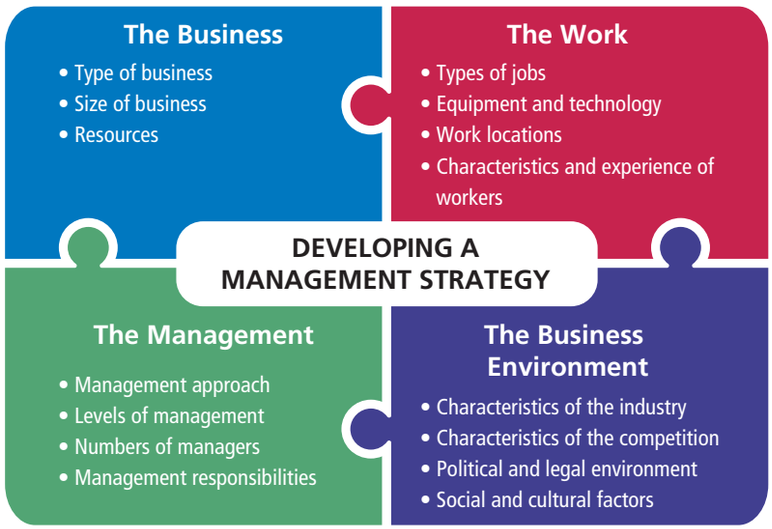


Figure 1-4 Major Factors That Determine the Management Strategy

All aspects of a business must be considered when developing a management strategy.

Determining the best approach to manage an organization can be a complicated procedure. Every business has a unique set of characteristics. It can be large or small, offer goods or services, and operate locally or globally. The management strategy must be appropriate for each business. Resources and the environment in which a business operates affect the way a business is managed. Given all of the characteristics and options, each organization must develop its own management strategy. Figure 1-4 shows the major factors a company considers when determining its management strategy.

The Business

Management will be quite different if the business is small or large, new or old, or operating in one or multiple locations. Managing retail businesses is not the same as managing manufacturing or transportation companies. A service business may need large numbers of personnel, while a computer manufacturer relies more on technology.

The Work

Managers must be prepared to manage the work and the employees doing the work. Different kinds of work require different kinds of management. Managing routine tasks is different from managing work in a stressful and ever-changing environment. For example, managing an assembly line is different from managing a hospital emergency room.
Today's managers usually work with employees who have different backgrounds and different aspirations. They will manage experienced workers as well as new hires. Some workers are full-time employees, while others are part-time or temporary. Employees in a small company with one location will require different approaches to management than a multinational company with locations in ten countries where employees come from different cultures and speak multiple languages.

The Business Environment

Some industries are highly regulated. Examples include pharmaceuticals, nuclear power, and airlines. Others have fewer restrictions and can operate more freely. Many companies face intense competition from businesses offering similar products or services. The environment for businesses that



Managers perform a wide variety of activities. What aspects of management do you think you would and would not like?

offer unique products and services is much less competitive. An effective management strategy must recognize the nature of competition; be able to effectively respond to any political, legal, and regulatory issues; and demonstrate the level of social responsibility expected by customers and the communities in which the business operates.

The Management

The fourth factor that affects a business's management strategy involves the characteristics of its management. The management of an organization determines the overall approach and philosophy it will follow. Will it be more traditional, administrative, behavioral, or quality-focused? The levels of management and the numbers of managers in a business affect the approach to management. If the levels and numbers shift up or down, the strategy may need to change. Finally, the management strategy affects the responsibilities of managers. This includes their relationships with non-management employees and their approach to carrying out the five management functions.

Moving into Management

At the beginning of the chapter, Ali was trying to decide if he wanted to move into management as a supervisor. He knows he will spend most of his time on management activities—planning, organizing, staffing, directing, and controlling. As a supervisor, he will become a part of the company's management team and will be the link between the employees he supervises and upper management. He and the other supervisors and managers will work as a team to plan the future and guide the business. They will be responsible for the wise use of resources, the jobs of employees, and—ultimately—the success or failure of the business.

Management is challenging and exciting, but it is also demanding and stressful work. Management is increasingly complex and requires people who are energetic, well prepared, and committed to their company and their career. Regardless of your career goals, you benefit from understanding how businesses manage production, marketing, finance, operations, and other important activities. This is true if you plan to operate a business of your own, move into a top management position in a large company, or work as a valuable and valued employee for a company.

A student who plans to be an entrepreneur or a top manager (such as a company executive) will need a complete understanding of all phases of business planning and operations. A supervisor or a top manager must fully grasp how the activities of all departments are coordinated in a smoothly operating business. This same knowledge will help employees in organizations that empower workers to take responsibility for managing their own work and participating in teams. Understanding management principles and practices will help the individual to contribute as an employee or as a manager in any organization.



CHECKPOINT

What is a management strategy?

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1.3 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. Which of the following is not one of the key issues within the business environment that an effective management strategy must be able to effectively respond to?

- **a.** regulatory issues
- **b.** political issues
- **c.** hypothetical issues
- **d.** legal issues

2. The rivalry among companies for customers is known as _____

- **a.** management strategy
- **b.** price strategy
- **c.** business competition
- **d.** business environment

THINK CRITICALLY

Answer the following questions as completely as possible.

3. What are several ways that managers' jobs will be different as a result of the fast pace of change they will be facing in the future?

_____

_____

4. Why should an organization develop a management strategy rather than allow each manager to do what he or she chooses?

_____

_____

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1.4

Increasing Management Effectiveness

KEY TERMS

Management Role
Management Principles

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

1.4.1 Identify three important roles successful managers play in organizations.

1.4.2 Explain how managers use resources to accomplish the work of an organization.

1.4.3 List and explain accepted management principles.

REALITY CHECK

What Does It Take?

Nora recently applied for a management position at her company. She has asked her friend Sara to help her prepare for the interview.

"What is the most important contribution you could make to this organization as a manager?" asks Sara.

"I would be effective at getting the employees I manage to work as a team," replies Nora. "I get along well with all of my current co-workers, and I'm often chosen as the leader for special projects. I think companies want managers who can get their employees to work well and not create problems."

"I agree that businesses count on employees doing a good job," says Sara. "But today it seems that many businesses are really concerned about ensuring profits. Don't you think it might be more important to a business to have a manager who is good with budgets and who can control costs?"

"You might be right, Sara. Some managers only work with a few employees, but all of them must meet their budget and help the business make a profit."

What's Your Reaction? *How would you answer the question Sara asked about the most important contribution?*

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LO 1.4.1 Management Roles

Managers are responsible for getting the work of an organization accomplished largely through the efforts of other people. Whether someone is a club president, the captain of an athletic team, a parent, or a business manager, it is not easy to get other people to do what is required from them.

Some managers use threats and punishment to control workers. Although these tactics work in some situations and with some workers, they are not always effective. Even if the work is done, it might not be done properly or meet quality standards.

Students can think about their own experiences with chores, school assignments, and other activities. What motivates an individual to do their best? One of the main challenges an individual will face if they decide to become a manager is determining the best ways to work with employees so they will be prepared and motivated to do their jobs well.

Management scientists have studied successful managers to determine what makes them different from those who were not successful. By observing the daily work schedules of managers, the scientists were able to identify important activities of successful managers and group them within three management roles. A **management role** is a common set of activities that makes up an important part of a manager's job. Successful managers are communicators, relationship builders, and decision makers.

Communicators

As communicators, managers need to make sure important information is gathered, used appropriately, and shared with those who need it. Managers identify important information sources and maintain many communication channels. As spokespersons, they communicate frequently and clearly with individuals both inside and outside their organization.

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Communication is an important part of a manager's job. What problems might occur if communication is ineffective?
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Relationship Builders

As relationship builders, managers represent their organization and maintain effective relationships with others. Within the organization, they work to develop a positive, motivating environment. They interact effectively with their teams and with other managers, develop and support subordinates, and work to resolve conflicts.

Decision Makers

In the role of decision maker, effective managers are constantly on the lookout for new opportunities and areas for improvement. They determine the best way to allocate resources to meet the needs of the organization. They solve problems and take corrective action but also promptly recognize and reward success.



NET KNOWLEDGE

Anyone hoping to be hired for a job should carry out some research on the company prior to an interview to show the interviewers that they have come prepared. Particularly when applying for a managerial position, it's important to understand the company's values and approach to management. Visit the Saudi Aramco website: https://www.aramco.com and write down five key points about the company and its approach that you think would be important for a manager to be aware of.



CHECKPOINT

What are the three roles of successful managers?

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LO 1.4.2 Getting Work Accomplished

As highlighted at the beginning of this chapter, managers' jobs are organized around five functions—planning, organizing, staffing, directing, and controlling. Every manager determines what needs to be done, who will do it, and what resources will be needed. Just as workers use tools and equipment to perform their jobs, managers have access to resources to get work accomplished. The resources of an organization include people, money, facilities, equipment, and materials.

The most important resource available to managers is the company's employees. Managers determine the work that employees will do, and then ensure employees have the other resources they need to perform that work. Figure 1-5 shows that managers must carefully consider how each of the types of resources can be used most effectively as they plan, organize, staff, direct, and control the work of the organization.

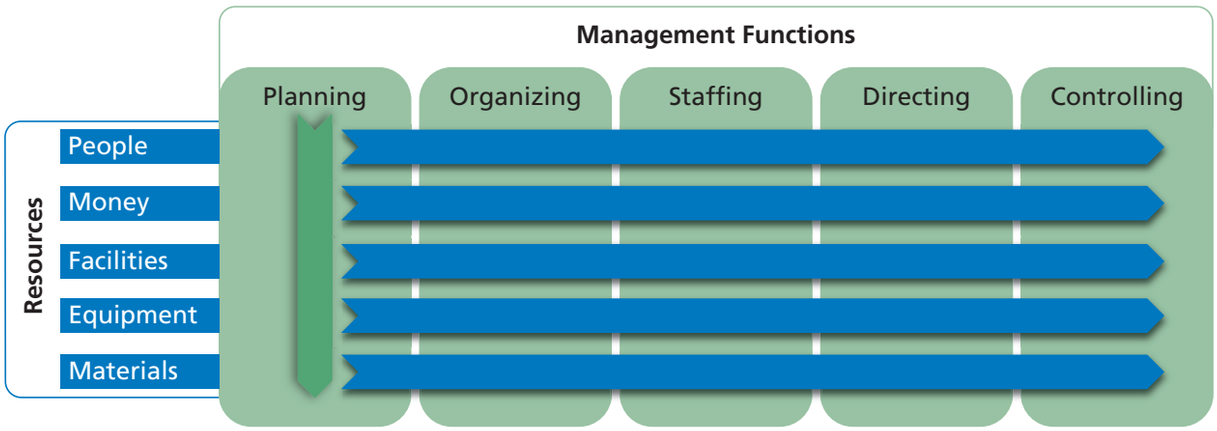


Figure 1-5 Planning the Effective Use of Resources

Managers make decisions about how the company's resources are used while performing each of the five functions of management.

The first step for managers is to develop a plan. The plan shows how each of the types of resources will be used to accomplish the goals of the company. Once the plan is in place, the next management decision is how to organize each type of resource to make sure the plan can be accomplished. Each resource must be available where and when it will

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be needed. Managers then effectively staff the organization and direct the staff in using the company's other resources to implement the plans. The last step is controlling. Here, managers check to see whether each of the resources was used effectively or whether changes need to be made.

As an example, consider how an organization manages its resources. The goal of a large school is to offer the best educational programs and care possible for the students it serves. The work is performed by teachers, assistants, co-ordinators, bus drivers, and maintenance workers, but the managers must make sure the right people are hired and that every employee has the resources they need to do their jobs. Managers are continually involved in planning, organizing, staffing, directing, and controlling activities:

- As a part of *planning*, managers determine the type and number of people needed to operate the school. A budget is established as well as plans for facilities, equipment, and materials required for all parts of the operation.
- In *organizing*, employees are divided into work teams based on the types of activities they will be completing. Indoor and outdoor space will be organized where students will study, play, eat, and rest. In addition, office space, an employee break room, and perhaps a parking lot will be needed. Money from the budget must be allocated for each of the major activities.
- Managers then direct staff in the implementation of plans. In *staffing*, managers identify the knowledge, skills, and abilities needed for each position and then hire and train those employees. Without the proper employees, the *directing* function would be less effective, making it more difficult to meet the school's goals.
- As a part of the *controlling* function, managers monitor the work of employees and the use of all resources to make sure they are being used as planned. When necessary, changes and improvements will be made. Different menus may need to be developed to control costs while providing nutritious meals and snacks. The play area may need to be reorganized to reduce the chance of accidents.

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As can be seen, while other employees will perform most of the activities in the operation of the school, managers are responsible for their work and the success of the business. They must make sure the employees have the resources they need and that those resources are used as planned.

CHECKPOINT

How can managers make effective decisions about how the work of an organization is accomplished?

LO 1.4.3 Principles of Effective Management

Businesses today are quite different compared to those of one hundred, fifty, and even twenty years ago. As businesses change, what it takes to be an effective manager has changed as well. Along the way, scientists and businesspeople have studied the changes and effective management practices. They have identified things effective managers do well and ways managers can develop and improve their management skills.

From the studies of effective organizations and managers, a number of management principles have been identified. **Management principles** are the fundamental guidelines for the decisions and actions of managers. The following principles of management are well accepted as effective practices:

1. Effective managers demonstrate commitment to the continued success of the organization.
2. Effective managers take responsibility for developing and directing plans to achieve the organization's goals.
3. Effective managers identify the resources the organization needs and ensure they are available when and where needed.
4. Effective managers organize and coordinate the work of the organization in a way that achieves efficient and effective operations.

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Project plans help managers coordinate their work. What types of planning would a major construction project require?

5. Effective managers recognize the importance of employees and balance employee needs with the goals and work processes of the organization.
6. Effective managers monitor activities and results to identify ways the organization can be improved.
7. Effective managers are consistent and objective in their work. They cannot rush to judgments, let biases affect their decisions, or act in their own self-interests rather than those of the organization and its employees.
8. Effective managers prepare carefully for their work. They spend time gathering and reviewing information before they act. They consider the possible effects of their decisions on other parts of the organization as well as the area they manage. They think about the possible long-term effects of their actions as well as the immediate results. They consult with other managers and their employees to get additional views and ideas.

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Managers want the very best for their organization and the people they work with. They know that, as managers, the decisions they make and the work they do affect not only themselves but also many other people and resources. They take their work seriously and find ways to improve their own effectiveness as well as the effectiveness of their employees.



CHECKPOINT

What are management principles?

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1.4 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. Which of the following is *not* one of the roles of successful managers?

- **a.** rule enforcer
- **b.** relationship builder
- **c.** decision maker
- **d.** communicator

2. People, money, facilities, equipment, and materials are the _____ of an organization.

- **a.** tools
- **b.** resources
- **c.** work
- **d.** operations

THINK CRITICALLY

Answer the following questions as completely as possible.

3. Why is it difficult to get employees to do their best work using threats and punishment?

_____

_____

4. Why should managers be concerned about how the decisions they make affect others?

_____

_____

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CHAPTER ONE

Assessment

CHAPTER CONCEPTS

- The decisions of managers determine what a company will do and how well it will perform. The work of managers can be grouped within five functions: planning, organizing, staffing, directing, and controlling.
- There is typically more than one level of management in most companies. There are more managers at the lower levels and fewer at higher levels.
- The Four Industrial Revolutions changed businesses and business practices. Each revolution has been characterized by a distinct set of innovations that has radically altered the way people live, work and communicate.
- Determining the best ways to manage an organization has been an issue facing business leaders throughout history. Four widely accepted management theories are classical management, administrative management, behavioral management, and scientific management.
- Managers are affected by change in many ways. Technology, competition, the changing workforce, and the nature of work itself are all important factors that must be addressed.
- An effective business has a management strategy that is planned, consistent, and understood. Every business has a unique set of characteristics that affect its management strategy. These characteristics relate to the type of business and work involved, the business environment, and the management structure.
- Successful managers are skilled communicators, relationship builders, and decision makers.
- Managers must carefully consider how each of the types of resources can be most effectively used as they plan, organize, staff, direct, and control the work of the organization. Successful managers understand, believe in, and follow a set of principles to guide their decisions and actions.

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DEVELOP YOUR BUSINESS LANGUAGE

Match the terms listed with the definitions.

	Term	Your Choice	Definition
1.	Administrative management		**a.** The rivalry among companies for customers.
2.	Behavioral management		**b.** A measure of productivity in comparison to the effort put in.
3.	Business competition		**c.** A series of distinct phases in modern history, characterized by technological innovations that have led to major business and social changes.
4.	Classical management		**d.** Working with employees to ensure they are motivated and have the resources needed to help carry out plans and get the work done.
5.	Controlling		**e.** The process of accomplishing the goals of an organization through the effective use of people and other resources.
6.	Directing		**f.** A common set of activities that make up an important part of a manager's job.
7.	Effectiveness		**g.** A high-level manager who spends almost all of his or her time on management functions and decisions that affect the entire company.
8.	Efficiency		**h.** Management theory that studies the way work is organized and the procedures used to perform a job in order to increase worker productivity.
9.	Management		**i.** Finding individuals with the right skills to do the work.
10.	Management principles		**j.** A total commitment by everyone in an organization to improve the quality of procedures and products by reducing waste, errors, and defects.
11.	Management role		**k.** The careful, objective study of management decisions and procedures in order to improve the operation of businesses and organizations.
12.	Management strategy		**l.** Analyzing information and making decisions about what needs to be done.
13.	Manager		**m.** A carefully developed overall approach to leading an organization.
14.	Middle manager		**n.** Determining how plans can be accomplished most effectively and arranging resources to carry out the work.

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15.	Organizing		**o.** Management theory directed at organizational improvement through understanding employee motivation and behavior—sometimes called human relations management.
16.	Planning		**p.** A manager whose main job is to direct the work of employees.
17.	Quality management		**q.** A manager who carries out all of the management functions, but spends most of the time performing specialized work in one management function or is responsible for a specific part of the company's operations.
18.	Scientific management		**r.** Person who performs all five management functions on a regular basis and has authority over other jobs and people.
19.	Staffing		**s.** Evaluating results to determine if the company's objectives have been accomplished as planned.
20.	Supervisor		**t.** The fundamental guidelines for the decisions and actions of managers.
21.	The Four Industrial Revolutions		**u.** A measure of how successful something is at achieving its outcome.
22.	Top manager		**v.** Management theory that identifies the most effective practices for organizing and managing a business.

REVIEW BUSINESS MANAGEMENT CONCEPTS

Determine the best answer.

23. Which of the following statements about the role of managers is true?

- **a.** Managers are responsible for the success or failure of the company.
- **b.** Managers make up the greatest percentage of employees in a business.
- **c.** Managers are responsible for carrying out the day-to-day work of a business.
- **d.** Managers spend most of their time planning for the future.

24. The first level of management in a company is typically _____

- **a.** top managers
- **b.** supervisors
- **c.** middle managers
- **d.** work coaches

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25. Top managers are likely to spend most of their time _____

- **a.** controlling
- **b.** staffing
- **c.** organizing
- **d.** planning

26. The management theory that is directed at organizational improvement through understanding employee motivation and behavior is _____

- **a.** quality management
- **b.** behavioral management
- **c.** administrative management
- **d.** classical management

27. Which of the following factors should be considered by a company when developing its management strategy?

- **a.** the type and characteristics of the business
- **b.** the type of work and the workers in the company
- **c.** the business environment
- **d.** All of the factors should be considered.

APPLY WHAT YOU KNOW

Answer the following questions.

28. Explain the following quote: "Managers are responsible for making things happen in business."

_____

_____

29. Which of the five management functions most directly affects the daily work of employees? Justify your choice.

_____

_____

30. What is the major difference between the classical theory of management and the administrative theory?

_____

_____

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31. What are some ways to prepare for management careers of the future?

MAKE ACADEMIC CONNECTIONS

Complete the following activities.

32. Math During one month, three managers recorded the number of hours they spent on each of the five management functions. Salman spent 42 hours on planning activities, 26 on organizing activities, 10 hours on staffing, 73 on directing activities, and 57 on controlling activities. Mohammed devoted 65 hours to planning, 24 hours to organizing, 15 hours to staffing, 16 hours to directing, and 59 hours to controlling. Reem spent 18 hours planning, 40 hours organizing, 5 hours on staffing, 55 hours directing, and 74 hours controlling. For each manager, determine the total hours worked during the month and the percentage of time devoted to each management function. Then determine the total percentage of time spent by the three managers on each of the functions. Develop a chart to illustrate the results. What conclusions can you draw from the chart?

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33. Technology Use a computer program to create a table with four columns and four rows. Label each of the rows with one of the management theories discussed in Lesson 1.2. Then label the first column "Business Advantage," the second column "Business Disadvantage," the third "Employee Advantage," and the fourth "Employee Disadvantage." Think carefully about each approach to management, and complete the table by describing an advantage and disadvantage each theory offers to the business and to the employees of the business.

34. Communication As a human resources manager at the Web technology company described in the Reality Check scenario at the beginning of the chapter, you have developed a plan for preparing employees like Ali for the possibility of moving into management. Develop a short presentation that you can give to the company's current supervisors, identifying several things they can do to help their employees prepare for that possibility.

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CASE IN POINT

What Makes an Effective Manager?

Safiya and Ahmed are considering careers in business and have hopes of becoming managers someday. Both hold part-time jobs and have seen a number of managers at their workplace. Safiya was even asked to work temporarily as the shift supervisor for her team when the full-time supervisor was on vacation. That gave her a closer view of what some of the work managers do and how their job is different from that of employees. Safiya shared her experiences with Ahmed, which led to a discussion of their views on a manager's work.

Ahmed: A manager's job is easy if the company hires good employees. All a manager has to do is make sure the work gets done.

Safiya: Do you really think it is that easy? First, I don't think companies can always find employees who can do the work well. Also, a manager's job involves much more than working with employees.

Ahmed: I think a manager just has to be a good communicator. If a manager can explain clearly what needs to be done, good employees will do a good job without your supervision.

Safiya: But what about all of the things that can go wrong in a company that a manager can't plan for? Equipment can break down, new employees may not be well trained, or a big order may require everyone to work overtime.

Ahmed: I read that companies spend a large amount of their training budgets on management development. If you ask me, either you're a good manager or you aren't. I don't think taking classes on how to manage will do much good if you aren't the right type of person.

Safiya: I might have agreed with you a few years ago, but today it seems that management is much more complicated. In fact, I believe that the problems each manager faces are so different, it would be difficult to develop training programs that would benefit all of the managers in a company.

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Think Critically

1. Analyze Safiya and Ahmed's views toward management. Which of their views do you agree or disagree with?

_____

_____

_____

2. Do you believe that managers spend most of their time working with employees? Justify your answer.

_____

_____

_____

3. What characteristics are common to all managers' jobs? What are the types of things that would be quite different from one manager's job to another?

_____

_____

_____

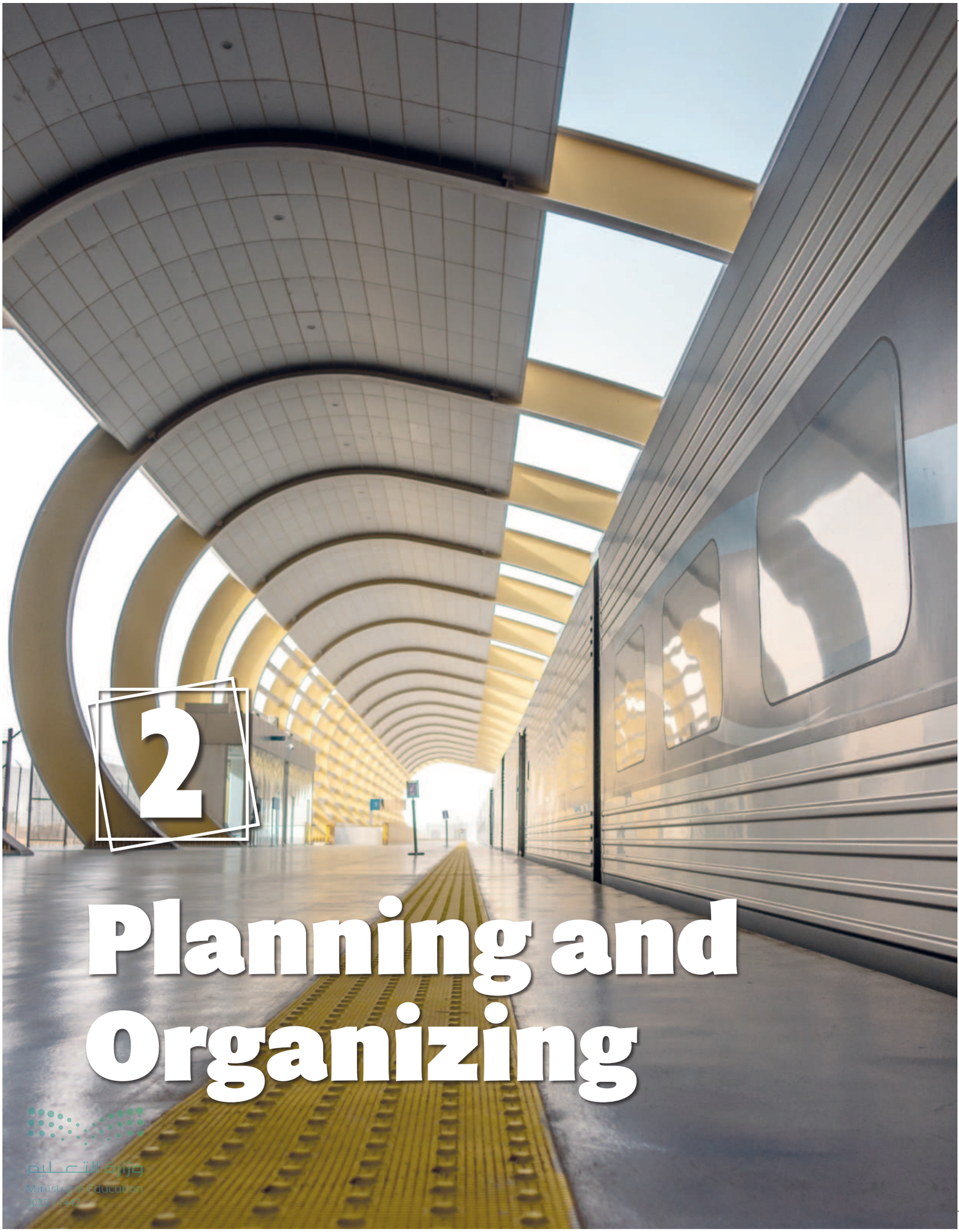
4. If you were responsible for developing a training program for managers, what would you include?

_____

_____

_____

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2

Planning and Organizing

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CHAPTER LESSONS

2.1 The Planning Function

2.2 Using Planning Tools

2.3 The Organizing Function

2.4 Developing Effective Organizations

Good planning and organization are the underpinning of any venture, however large or small. This chapter focuses on these two fundamental aspects of management, and why they are pivotal to maintaining a successful business. The first two sections address the planning function and the tools that can aid planning. The final two sections turn to the organizing function and developing effective organizations, and looks at various organizational structures adopted by businesses.

Why do travel services such as railways and airports require lots of planning and organization to be successful?

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2.1 The Planning Function

KEY TERMS

Business Plan
Competitive Advantage
Strategic Planning
Operational Planning
SWOT Analysis
Mission
Vision

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

2.1.1 Recognize the importance of planning to business success.

2.1.2 Differentiate between strategic and operational planning.

REALITY CHECK

Not So Fast!

Ibrahim has discovered a new idea for expanding his successful 10-year-old catering business via online sales. The Internet provides an affordable way to get Ibrahim's business name and menu to people all over the country.

Ibrahim estimates it would take about SAR 20,000 for website development and SAR 400,000 to expand his food preparation and shipping facilities. He believes the new business will quickly provide a nice profit, and has scheduled a meeting with his banker to request a loan.

The banker is not quite as excited. She explains, "I agree it has potential, but there are no guarantees you'll be successful. I'll need to see a business plan that demonstrates how you'll repay the loan. Who will be your customers and competitors? How much will each customer buy and what will they be willing to pay? When do you expect to start making a profit?" Ibrahim knew that the answers were important, but he had not thought about preparing a written plan.

What's Your Reaction? *Do you believe Ibrahim's banker is justified in her response? Why or why not?*

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LO 2.1.1 Why Plan?

New businesses are started every day, and existing businesses regularly look for opportunities to expand. At the same time, many new and existing businesses fail. Lack of planning is often one of the reasons for business failures. Owners and managers who can effectively plan for a business's future are much more likely to be successful than those who concentrate only on day-to-day operations. Planning is a specific management activity and needs to be done carefully. Managers need to know how to plan and how to use some specific planning tools and procedures.

The Value of a Business Plan

In the Reality Check scenario, Ibrahim's banker reminded him that he had to plan carefully in order to make the best decisions about developing and managing business expansion through Internet sales. Poor planning could result in huge losses and the possible failure of his existing successful business. However, the correct decision could result in a much larger business, higher profits, and a great deal of personal satisfaction.



Why do you think it is important to have a business plan?

Ibrahim's banker asked him to develop a business plan before she would consider approving the loan. A **business plan** is a written description of the nature of the business, its goals and objectives, and how they will be achieved. A business plan is an important tool for any business that is planning a major change. Planning how to achieve objectives includes analyzing the opportunities and risks the business faces. A business plan includes a detailed financial analysis showing the potential profitability that is expected to result from the planned operations.

Business plans may be brief and simple for a new small business. On the other hand, written plans for a large, existing business may be very long and complex. Large multinational businesses generally have more

than one business plan. Each part of the business develops its own plan to guide its operations. However, all of the plans must work toward the same overall objectives. The top corporate executives and planning specialists work with all parts of the business to coordinate planning and to approve each unit's plans.

When Ibrahim develops a written business plan, he will have long-range goals and direction for his new online ordering system, as well as specific plans for operations, marketing, financial management, and human resource decisions. The plan will address the new online business activities but also provide plans for the continuing operation of the existing business. As a result of completing the business plan, Ibrahim will have given much more thought to both the new and current business activities. He will have a greater understanding of what will be required to make both parts successful. His banker will have the information needed to determine if granting the requested loan is a wise business decision. The business plan will give the banker greater confidence that Ibrahim has carefully considered the new opportunity and knows what needs to be done to add an Internet presence to the existing business. The banker is much more likely to make a positive decision about the loan when there is a carefully developed written plan.

The Importance of Planning

Not all managers are responsible for preparing a business plan. However, all managers are involved in planning in some way. Some managers make complex, expensive decisions, such as whether to build a new SAR 20 million factory or expand operations into another country. Other managers develop very short-term plans, such as an employee work schedule for the upcoming week.

Planning is probably the most important management activity. It sets the direction for the business and establishes specific goals. Plans serve as guides for making decisions about business operations. Managers use plans to determine whether the business is making progress. Planning helps managers communicate with each other and with employees to coordinate activities. Careful planning encourages managers to



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be more precise and objective in their decisions.

As a result of planning, senior managers are able to determine the sources of competitive advantage that can benefit the company. **Competitive advantage** refers to the special capabilities of a company that allow it to create a product or service that is measurably better than any competing company. For instance, designing a product in a way that cannot be copied by competitors would create a long-term competitive advantage. A competitive advantage allows the company to profit in a way the competition cannot.

Planning in a large, complex business is somewhat like assembling a jigsaw puzzle. Each piece must fit correctly into the other pieces around it in order to assemble the entire puzzle. One missing or broken piece affects the look of the entire puzzle. Since large businesses require a great deal of coordination, shared planning allows managers from various parts of the business to understand how their work affects other parts of the business so as to avoid potential problems, conflicts, and missed opportunities. They are also able to recognize when coordinated efforts are needed. Each part of the organization's plan must "fit together" in order for the business to succeed.

Can you think of an example of a business scenario, in which the elements of planning would need to fit together like a jigsaw puzzle?



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CHECKPOINT

How is planning in a complex organization similar to assembling a jigsaw puzzle?

LO 2.1.2 Levels of Planning

Managers plan on two levels—strategic planning and operational planning. **Strategic planning** is long-term and provides broad goals and direction for the entire business. **Operational planning** is short-term and identifies specific goals and activities for each part of the business.

Strategic Planning

Many important changes in a business require planning over a long period of time. Developing and producing a new product line can take more than a year. Building a new factory may require several years for planning and construction.

Strategic plans are critical because all resources are limited. While a company or individual would like to undertake an unlimited number of tasks, there are limits to time, staffing, budgets, and other needed resources. A strategic plan for a company focuses on the highest-priority tasks for the next three or more years. Closely following the strategic plan allows all employees and managers of an organization to dedicate time to the most critical, highest-priority tasks.

When Ibrahim prepares his business plan, he will be involved in strategic planning. The banker told him that he should not make the decision to expand his business quickly without carefully considering how to do it. Managers need a great deal of information to determine if a particular decision is expected to be profitable. Strategic planning provides the needed information and procedures for making effective decisions about the direction and goals of a business. Figure 2-1 describes the steps in strategic planning.

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Steps in Strategic Planning

STEP 1: EXTERNAL ANALYSIS

Managers study factors outside the business that may impact effective operations: customers, competitors, the economy, government.

STEP 2: INTERNAL ANALYSIS

Managers study factors inside the business that can affect success: operations, finances, personnel, other resources.

STEP 3: MISSION

Managers agree on the most important purposes or direction for the business based on the information collected.

STEP 4: GOALS

Managers develop outcomes for the business to achieve that fit within the mission.

STEP 5: STRATEGIES

Managers identify the efforts expected from each area of the business to ensure goals are achieved.

Figure 2-1 Steps in Strategic Planning

Strategic planning sets the direction for a business.

The external and internal analyses, steps 1 and 2 of Figure 2-1, are often referred to as SWOT analysis. **SWOT analysis** is the examination of the organization's internal **S**trengths and **W**eaknesses as well as the external **O**pportunities and **T**hreats (see Figure 2-2).

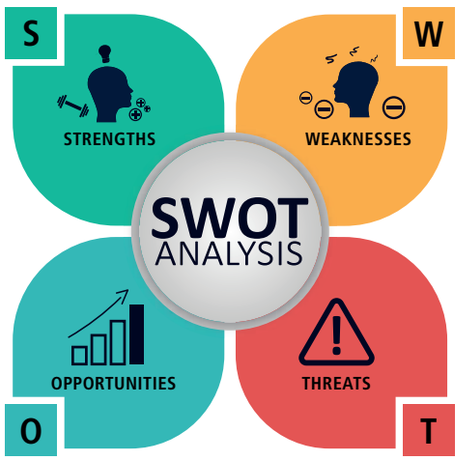


Figure 2-2 SWOT Analysis

SWOT provides a useful framework for analysing internal and external factors that can affect an organization.

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Internal factors are all of those things within a business that managers can influence and control to help accomplish business plans. *External factors* are those things operating outside of the business that managers cannot control that may influence the success of business plans.

- **Step 1:** Managers identify any opportunities for expanding and improving the business and any threats the company faces from competition, changes in the economy, new laws and regulations, technology improvements, and other factors outside the company. For example, Ibrahim identified an opportunity when he noticed that customers from outside his local area wanted to have meals shipped to them. A seminar he attended helped him recognize that technology provided a low-cost way to communicate with those customers. This technology could provide Ibrahim with the means to exploit the opportunity.
- **Step 2:** Managers evaluate the organization's own capabilities to determine strengths and potential weaknesses. A company has successful products, experienced employees, financial resources, and well-organized operations. On the other hand, it may be experiencing low sales or may have outdated facilities and equipment. Each factor can contribute to the success or failure of business plans. Ibrahim identified his company's strengths as the unique menu items along with dependable quality and taste. His banker questioned whether Ibrahim currently had the capability to distribute his products to a large number of customers across the country while maintaining the quality. Managers want to build on the company's strengths and reduce its weaknesses whenever possible.
- **Step 3:** Managers describe and agree on the business's mission. A **mission** (or *mission statement*) is a short, specific statement of the business's purpose and direction. The mission flows out of a broad, long-term, and often inspirational **vision**, the company's reason for existing. For example, Ibrahim's vision statement for his company might be "to conveniently provide memorable meals to celebrate life's special occasions." His mission statement, then, might be "to prepare high-quality,

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memorable meals from unique recipes to satisfy the tastes of our customers no matter when or where they want them." Once a clear mission and vision are created, these statements might exist for the entire lifetime of the company.

- **Steps 4 and 5:** Use the planning information and the mission to set specific goals for the company and descriptions of activities and resources needed to achieve the goals.

The top managers in a business are responsible for strategic planning. A careful and objective process is followed to prepare the strategic plan. The top managers use information collected from lower-level managers, from the company's employees and operations, and from other sources. Large companies may have a special planning and research department to collect and analyze information and to develop proposals for top managers to consider. Smaller companies may hire research firms or consultants to help with strategic planning. New and small businesses may be able to obtain planning assistance from government agencies such as Monsha'at, and local or regional economic development offices. The business departments of area colleges and universities are also a useful resource for planning assistance.

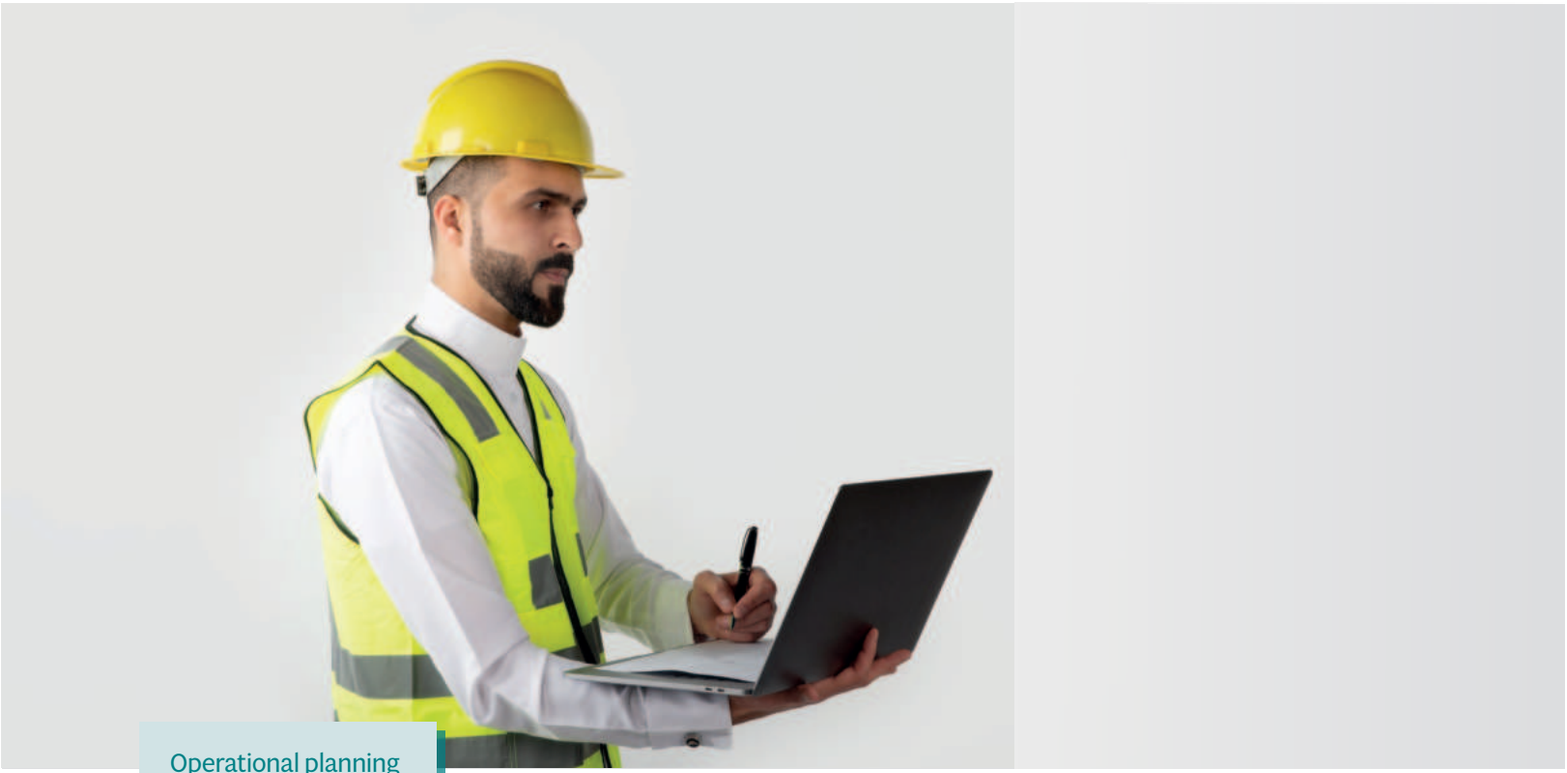
Operational Planning

A strategic plan tells managers where the business is going. The managers must then take action to move the business toward those goals. Operational planning determines how work will be done, who will do it, and what resources will be needed to get the work done in each area of the business.

Operational plans in a factory could include developing department budgets, planning inventory levels and purchases of raw materials, setting production levels for each month, and preparing employee work schedules. Operational planning in a marketing department might include developing promotional plans, identifying training needed by salespeople, deciding how to support retailers who will handle the product, and selecting pricing methods. A great deal of the operational planning in a business is the responsibility of middle-level managers and supervisors, and even some experienced employees.

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Operational planning is essential in the work environment. Can you think of any examples from your own daily life?

Operational plans are based on the business's strategic plan and are developed after the strategic plan is created. Operational plans determine what resources will be required and how they will be used. Therefore, operational planning influences the amount and type of equipment and supplies needed, the number of employees and the training they require, work schedules, payroll, operating budgets, and many other factors. Operational plans direct the day-to-day activities of a business and largely determine whether the strategic plan of the business will be successful.

CHECKPOINT

What is the difference between strategic and operational planning? Which type of planning is most likely to be done by top managers? Which type of planning is most likely to be done by supervisors?

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2.1 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. Planning provides all of the following benefits to a company except _____

- **a.** encouraging managers to be more specific and objective in their decisions
- **b.** helping managers to determine whether the business is making progress
- **c.** ensuring a business will be successful and profitable
- **d.** providing a guide for managers when making important decisions

2. The internal and external analysis completed by businesses as a part of planning is often referred to as _____

- **a.** PERT
- **b.** SWOT
- **c.** ABCD
- **d.** KISS

THINK CRITICALLY

Answer the following questions as completely as possible.

3. Why should top managers in a company be responsible for strategic planning but involve lower-level managers and employees in the operational planning process?

_____

_____

4. How can a clear and meaningful vision and mission help increase employee motivation and enthusiasm for a business?

_____

_____

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2.2 Using Planning Tools

KEY TERMS

Goal
Budget
Schedule
Standard
Policies
Procedure

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

2.2.1 Identify the characteristics of effective goals.

2.2.2 Describe several business planning tools and explain how they are used.

REALITY CHECK

Who Needs Goals?

Nasir and Khalid are two young business professionals who have just met at an annual management conference held by a regional university in Riyadh. One of the key topics discussed during the morning session was the setting of business goals.

"I'm a junior manager for an app development company," says Nasir. "The top management is obsessed with setting goals! I have one goal and it's very simple: be successful and make lots of money."

"Who doesn't want to be successful?" laughs Khalid. "But that's not really a goal in itself. What are the specific objectives you plan to achieve to make that happen?"

"Personally, I think too much planning and goal setting can hold you back," replies Nasir, "particularly in the fast-paced app development industry. The environment is constantly shifting and you have to be ready to act on the latest trend or seize a new opportunity."

"I'm not sure I agree," says Khalid. "I think specific, measurable goals are always important, regardless of the industry or environment. How can you effectively manage a team without them?"

What's Your Reaction? *Do you agree most with Nasir or Khalid? Are goals always really necessary in every business environment?*

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LO 2.2.1 Establishing Direction

It has been said that you will never know when you have arrived if you don't know where you are going. Goals provide direction for a business. A **goal** is a specific statement of a result the business expects to achieve. All types and sizes of businesses and all parts of a business need to develop goals.

Goals keep the business focused on where it wants to be in the future and the results it expects to accomplish. Managers and employees may overreact to short-term problems or the actions of competitors if goals are not clearly stated and communicated. Managers in large companies may take actions that conflict with those of other managers if they are not aware of goals. Here are several characteristics of effective goals:

1. *Goals must be specific and meaningful.* The goal "make a profit" is vague. However, the goal "increase sales to new customers by SAR 50,000 in the next six months" is much more specific. Goals should relate to the activities and operations of the business so that employees see how their work relates to the goals.

   Managers must be careful in setting goals and must consider such factors as (1) the general economic conditions facing the business, (2) past sales and profits, (3) the demand for products and services, (4) the reactions of current and prospective customers, (5) the resources of the business, (6) the actions of competitors, and (7) any other factors that can influence the achievement of the goals.

2. *Goals must be achievable.* It is important that goals move the company forward, but they must also be realistic. It is not useful to set a goal "to increase unit sales by 5%" if the company does not have the capability of manufacturing that many more units. If telemarketing salespeople are already making many more calls each day than the industry average, it may not be realistic to set a higher goal for making calls without increasing the number of salespeople.

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3. *Goals should be clearly communicated.* Company and departmental goals should be communicated to all employees, because they will be responsible for accomplishing those goals. Communicating the company's goals will help employees understand that they are part of a team effort working together for a common purpose. Usually, they will work harder to achieve goals they understand.
4. *Goals should be consistent with each other and with the goals of the entire company.* Each department within a business has its own specific goals, but the goals must be coordinated with those of other departments. Assume, for example, that the sales manager sets a goal of increasing sales in a specific area of the country. The advertising manager, however, sets a goal of reducing expenditures in the same area to use the money to promote a new product in another part of the country. If advertising is needed to support the sales efforts, the managers have conflicting goals. Department managers must work together so that their goals will complement each other and support the goals of the entire company.

Note that this list is a variation of the "SMART goals" framework (introduced previously in *Introduction to Business*), which stands for: specific, meaningful (or measurable), achievable (or attainable), relevant, and time-bound.



CHECKPOINT

Identify the four characteristics of effective goals.

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LO 2.2.2 Planning Tools

Managers must be skilled and efficient in planning. A number of planning tools are available to help them with their work. Using tools such as budgets, schedules, standards, policies, procedures, and research will improve the results of planning.

Budgets

The most widely used planning tool is the budget. A **budget** is a written financial plan for business operations developed for a specific period of time. Financial budgets assist managers in determining the best way to use available money to reach goals. As a part of Ibrahim's business plan, his banker will require him to develop a budget for expanding his business through online sales. This budget will help both the banker and Ibrahim see how much money he will need, as well as if and when the new part of the business could be profitable. When department managers carry out operational planning, they prepare budgets for their departments. In addition to the operating budget, the managers often prepare specific budgets for personnel expenses, equipment, costs of materials and supplies, sales, and many others.



Why do you think it is important for businesses to have budgets? Do you use budgets in your personal life too?

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Schedules

Just as budgets help in financial planning, schedules are valuable in planning for the most effective use of time. For most business purposes, a **schedule** is a time plan for reaching objectives. Schedules identify the tasks to be performed, the sequence of related tasks, and the time allotted to perform each task. A supervisor may develop a schedule to organize the work done by each employee for a day or a week (see Figure 2-3). Production managers use schedules to plan the completion and shipment of orders. Salespeople use schedules to plan their sales calls efficiently, and advertising people use schedules to make sure the ads appear at the correct time and in the proper media. Administrative managers need to schedule the preparation and printing of mailings and reports to make sure they are completed on time.

Department	Special Order Department					
Date	July 27					
Employee		**Orders**				
Name	Number	Order 532	Order 533	Order 534	Order 535	Order 536
Abdullah	50531	✓				
Faisal	50540		✓			
Saud	20896			✓		
Omar	10765			✓		
Mona	50592		✓			
Nora	10573				✓	
Amal	50243					✓

Figure 2-3 Department Work Schedule

A work schedule is an important planning tool for supervisors and employees.

Standards

Another planning tool for managers is the use of standards. A **standard** is a specific measure against which something is judged. Businesses set quality standards for the products and services they produce. Completed products are examined using the standards to judge whether

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or not the quality is acceptable. Companies also set standards for the amount of time that tasks should take. For example, a fast-food restaurant may set a standard that customers will receive their food within three minutes of placing their orders. If managers see that customers are getting their food five minutes after ordering, then the service time is not meeting company standards and is therefore not acceptable. Companies may also set standards related to the number of defective products allowed on an assembly line or the number of calls a salesperson must make during a day.

Managers are responsible for setting realistic standards and for using those standards to judge performance. They also must know when to revise outdated standards.

Policies

As part of planning, managers frequently establish policies. **Policies** are guidelines used in making decisions regarding specific, recurring situations. A policy is often a general rule to be followed by the entire business or by specific departments. Work rules are examples of business policies.

A broad policy may state that the performance of each employee must be evaluated at least twice a year using the company's performance review procedures. Because of that policy, even an employee who has been with the company for 10 years must be evaluated. Policies help to reduce misunderstandings and encourage consistent decisions in situations frequently encountered by managers and employees.

Management Matters

Trend Spotting

A trend is a current style of preference that may have a major impact on individual and business behavior. Trend spotting is a new business planning activity that analyzes a number of business sources to identify emerging trends. Businesses use information from trend spotting to plan new products, eliminate older products, and find ways to tie existing products to the latest trends in order to develop customer interest and excitement. Trend spotting researchers frequently monitor social media to identify external trends that may provide opportunities for businesses. They are interested in what opinion leaders are communicating through social media about what is new, hot, in, or out.

What Do You Think?

What are some advantages and possible problems for businesses that use trend spotting as a part of their planning? What are some current trends you believe businesses should be "spotting" today?

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Procedures

A **procedure** is a sequence of steps to be followed for performing a specific task. In order to implement the policy described in the previous paragraph, the company must develop a specific performance review procedure. Procedures for both routine and complex tasks that are performed by many employees improve business efficiency and are of special help to employees who are learning a new job. The procedure shown in Figure 2-4 would be helpful to a new employee assigned to monitor the secured entrance for a company headquarters. Experienced employees can help managers design new procedures and improve existing ones.

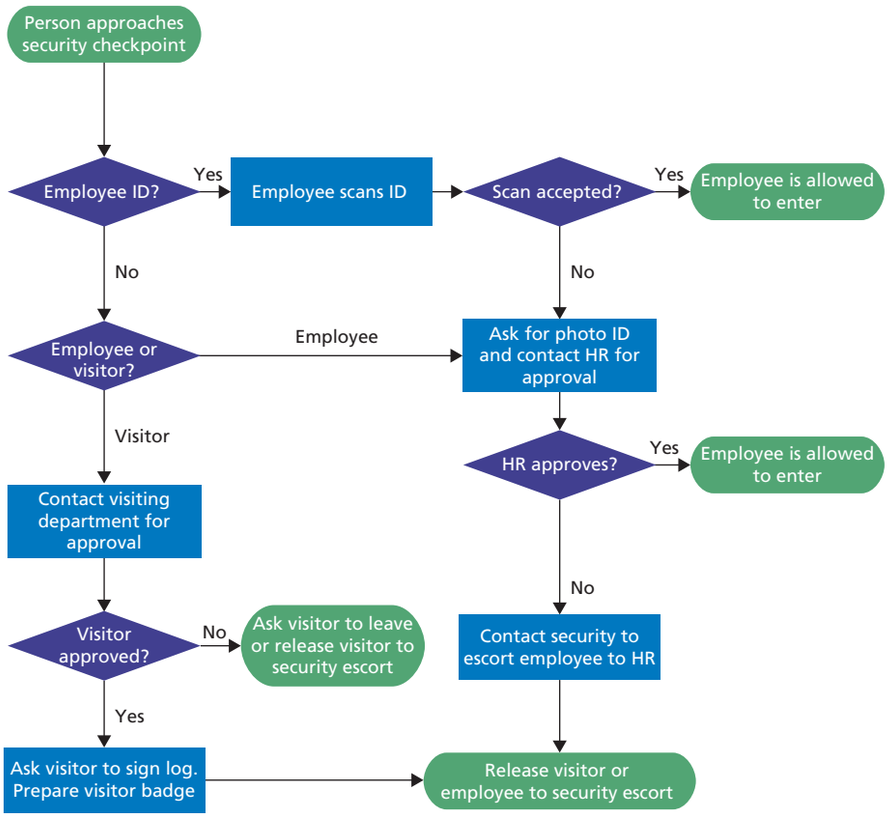


Figure 2-4 Procedure for Admitting Employees and Visitors

A flowchart can be used to show the order of steps in a work procedure. In this example, the green box represents a scenario; the purple diamond-shaped box represent security checks that needs to be verified as a result of that scenario; and the blue rectangular box represents an action that must be performed as a result of those security checks.

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Research

To do a good job of planning, managers need a great deal of information. To develop budgets, they need to know how money was spent in past years, what certain tasks will cost, and how competitors are spending their money. Managers can improve schedules if they know how long certain jobs take to perform. They can establish better standards and procedures by analyzing carefully collected information on the way jobs are performed. Research is done to collect data for managers and to provide the information needed to improve their planning decisions.



CHECKPOINT

What is the difference between a policy and a standard?

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2.2 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. The goal "to increase the average productivity of all work teams by 3% within six months" is an example of which characteristic of an effective goal?
   - **a.** specific and meaningful
   - **b.** achievable
   - **c.** clearly communicated
   - **d.** consistent with other departments

2. Guidelines used in making decisions regarding specific, recurring situations are called _____
   - **a.** standards
   - **b.** policies
   - **c.** procedures
   - **d.** goals

THINK CRITICALLY

Answer the following questions as completely as possible.

3. How does the use of effective goals increase the probability that business plans will be successful? Discuss the importance of each of the characteristics of an effective goal.

   _____

   _____

4. How can businesses use information from competitors and customers when establishing quality standards for their products and services?

   _____

   _____

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2.3
The Organizing Function

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LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

2.3.1 Describe factors that managers should consider when organizing work.

2.3.2 Discuss how the characteristics of good organization contribute to a more effective work environment.

KEY TERMS

Organization Chart
Responsibility
Authority
Empowerment
Accountability
Unity of Command
Chain of Command
Span of Control / Span of Management

REALITY CHECK

Time to Get Organized?

Norah is on the senior leadership team of an ethical clothing manufacturer headquartered in Abha. The company began as a small family business, with no formal organization structure, which has gradually grown to a point where they are considering expanding operations into other cities across Saudi Arabia. Until now, various family members have contributed their expertise in areas including accounting, design, production and technical support, as and when needed. Nora believes the time has now come to establish an organization structure with designated roles. She discusses the idea with her sister, Maha.

"I don't know," replies Maha. "I've always liked the arrangement we have already. It's much more flexible around our lives. It also means everyone can make a contribution, without any arguments. Your idea sounds too formal!"

"A business of this size needs some kind of formalized organization," Nora responds. "I think it's fundamental to growth. I think it will also lead to fewer arguments if everyone has ownership of a specific task and knows who is accountable for what."

What's Your Reaction? *What is your perspective on Nora and Maha's individual points of view? Is an organization chart necessary for every business?*

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LO 2.3.1 Organizing Work

Before a plan can be put into operation, the company must be organized to carry out the plan and perform work effectively. *Organizing* is concerned with determining how plans can be accomplished most effectively and arranging resources to perform work. More specifically, it involves arranging resources and relationships between departments and employees and defining the responsibility each has for accomplishing work. For example, when the plan is to start manufacturing a new product, specific activities will be determined and assigned to the appropriate departments. Making a new product involves several departments: research, manufacturing, human resources, marketing and sales, finance, and information management. Each department manager organizes the activities so the work will be accomplished on a schedule that fits in with the work of the other departments.

The Role of Organization Charts

An **organization chart** is an illustration of the structure of an organization, major job classifications, and the reporting relationships among the organization's personnel. The purposes of an organization chart are to (1) show the major work units that make up the business, (2) allow employees to identify which unit they belong to, how it relates to other units, and who they are accountable to, and (3) identify lines of authority and formal communication within the organization. Figure 2-5 is an example of an organization chart for part of a retail business.

Large organizations usually provide new employees information through an employee handbook or on the company's website that explains the organization of the business and shows an organization chart. By understanding an organization chart, employees have some idea of where and how they fit into the company, how the organization works, and possible promotion opportunities. As changes occur in an organization through reorganization of work or when operating units are bought and sold, the company's organization chart can become outdated. To be a useful management and communication tool, the chart should be revised when changes occur in the organizational structure.

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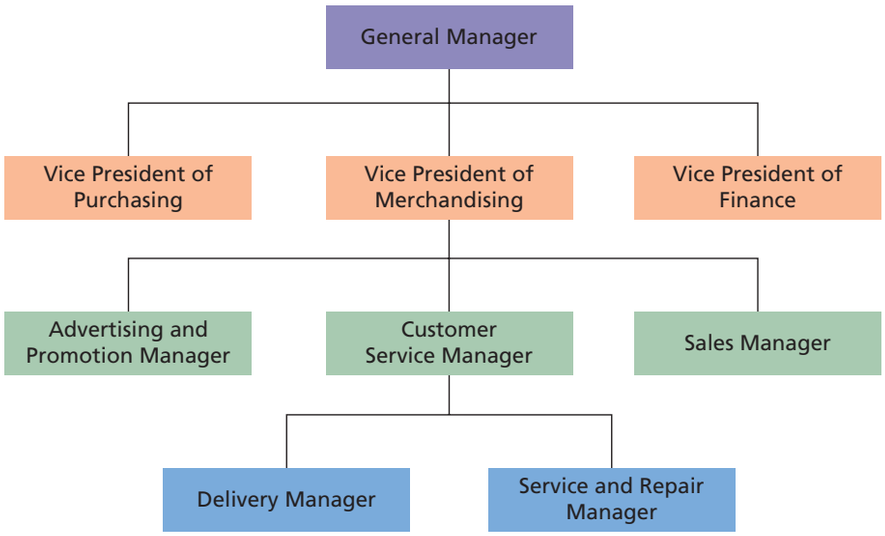


Figure 2-5 Organization Chart for Part of a Retail Business

An organization chart provides a visual picture of how work is structured in a business.

The Process of Organizing Work

Many new small businesses are being established in Saudi Arabia, as a result of the growing private sector and government stimulation of innovation. As a new small business grows, the owner has the complicated task of organizing the entire structure of the business. Just because an established business is already organized, the managers cannot ignore the organization function. The organization may need to change when goals are revised or when the business expands. Using the Reality Check example from the beginning of the chapter, if Ibrahim is successful in developing an Internet sales department, he will have a very different organization than before the expansion. It is unlikely that the current organizational structure and employees will be able to accommodate all of the new activities and the extra workload. He will need to carefully organize the business so that it will be able to perform the new activities efficiently while still maintaining the existing business activities. If he does not pay attention to the organization of the work, the business may not be able to adjust to the changes.

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Whether the focus is on a new or existing department, division, or an entire business, the process of organizing involves three elements:

1. the division of work
2. the facilities and working conditions
3. the employees.

Division of Work

In establishing an organization structure, the total work to be done must be divided into units, such as departments. The first consideration is the grouping of activities into broad, natural divisions, such as buying and selling or production, marketing, and administration. For small businesses, only two or three divisions may be needed to separate the work into manageable units. For large businesses with many employees and activities, the major divisions will need to be divided several times into departments or work units of reasonable size. Departments should be organized around meaningful and related work, work should flow smoothly within and among departments, and employees should be assigned to the units where they have expertise to perform that work.

Major divisions of work vary with the type of industry and business. A small retailer will usually organize the work around the major activities of purchasing and selling. Manufacturing businesses will be divided into purchasing, production, and marketing departments. Most businesses have departments or work units for administration, information technology management, and human resources. For effective management and control, even small businesses benefit from organizing work into related and manageable units.

As a business grows, the number of major divisions will increase or existing divisions will be reorganized. When the small retailer expands, the basic selling division may be subdivided. A larger marketing division may be established and subdivided into advertising and promotion, personal selling, and customer service. Determining how to divide work into efficient units is based on:

1. the type of work to be done in each unit
2. the amount of work to be done.

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The organization charts shown in Figures 2-6, 2-7, and 2-8 point out how the organization of a business may change as the company grows, using two business people, Amir and Hassan, as examples.

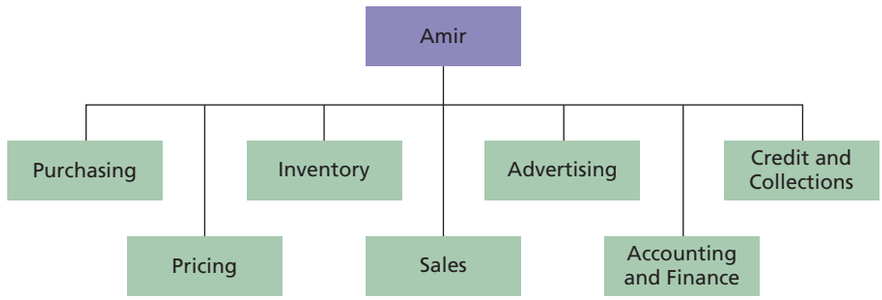


Figure 2-6 Organization Chart for Amir's Company

The owner of a small business might perform all of the work.

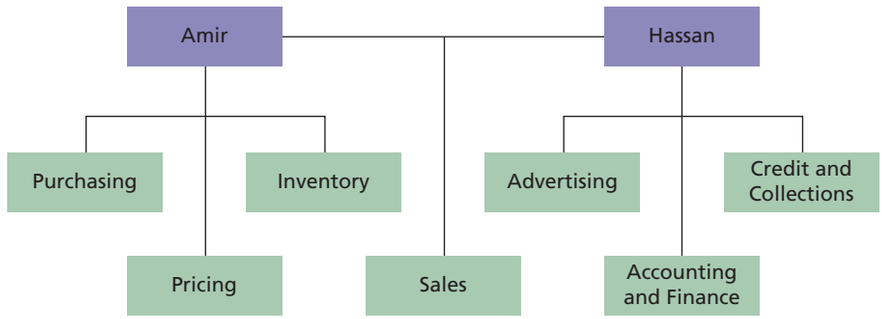


Figure 2-7 Organization Chart for Amir & Hassan's Partnership

Two owners allow for a division of work.

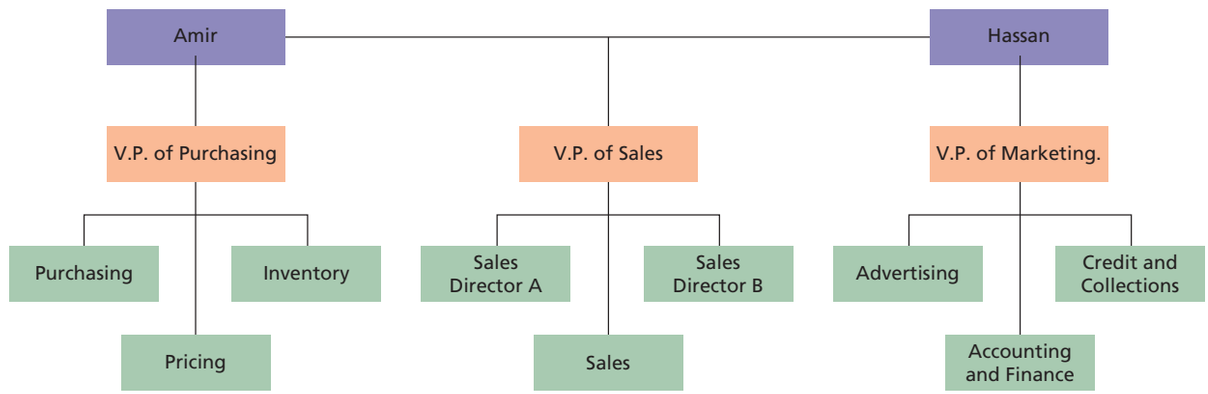


Figure 2-8 Organization Chart for Amir & Hassan's Corporation

As the business expands, there can be a further division of work with a clear delegation of responsibility and authority.

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A small business needs good organization just as much as a large organization. Management problems often begin to occur in a small business when employees are added but work responsibilities and relationships are not clear. Making organizing decisions as a small business expands may not at first result in a formal organization chart. However, the business's work should be carefully studied and assigned to specific employees. Even without an organization chart, the work responsibilities, the relationships among employees, and their authority should be clearly communicated to everyone.

For example, the owner of a retail business that sells and services home appliances in Dammam hires two employees, A and B. The owner is responsible for management of the business and is involved in both selling and service as time permits. Employee A is given responsibility for appliance sales and is the contact with the suppliers from which the company purchases appliances. Employee A is also in charge of the business when the owner is absent. Employee B is responsible for appliance service and repair and has the authority to make decisions related to customer relationships after the customer has purchased a product from the business. These organizational decisions clearly identify who the work should be done by and the relationships among the people involved. The example illustrates how even very small organizations can develop an effective organizational structure and manage work.

Facilities and Working Conditions

While divisions of work are being established, the physical aspects of organizing must also be considered. The business must provide the necessary equipment and materials for employees to be able to perform their work. The layout of the facilities needs to be arranged so that all work flows smoothly with little waste while providing the best and safest working conditions possible.

Work should move through the business as efficiently as possible. Employees should not have to waste time, and the work of one group should not delay the work of others. A mechanic repairing an automobile, for example, should have ready access to the needed tools

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Why do you think a smart office environment can improve employee morale and productivity?

and parts close to the work area. If special parts are needed, a system to order and obtain the parts quickly should be in place so the repairs are not delayed. Many auto repair companies have computer systems that can quickly locate auto parts from area suppliers and an express pickup and delivery service to immediately obtain the needed parts. When a customer comes in for a service, an auto service specialist will consult with the customer to identify problems and write a service order that identifies the work needed, the time and personnel required to perform the repairs, and the parts and supplies required. If the items are not in stock in the repair facility, an emergency order will be placed to obtain the missing items as quickly as possible..

Physical working conditions also have an effect on the morale of workers. Job satisfaction is influenced by basic environmental factors such as lighting, temperature, ventilation, and cleanliness of the work areas, as well as the quality and maintenance of tools and equipment. Even facilities outside the work area should be carefully planned, such as convenient and safe parking facilities and easy access to cafeterias and break rooms.

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Employees

Dividing the work into manageable units and providing adequate equipment and facilities must be done with employees in mind. In fact, organizing involves establishing a balance among the employees, the work to be performed, and the facilities needed, so that productivity will be high. In part, organization is a successful matching of the employee and the employee's materials and work. Employees should be matched to work that they are prepared to do. That means that they have the necessary preparation and skill to perform the assigned tasks. If employees are members of work teams, the total skills of the team should match the work requirements.

In addition, employees should be assigned to work that they enjoy. If employees are dissatisfied with their work assignment, problems with the quality and quantity of their work will result. Although not all work is enjoyable, managers should look for opportunities to make the best work assignments possible, to spread less desirable assignments among employees so a few people do not have to spend all of their time doing that work, and to work closely with employees to establish a positive working environment.



CHECKPOINT

What are the three elements that should be considered when organizing work?

LO 2.3.2 Characteristics of Good Organization

When one person operates a business, there is little need for an organization chart—that person performs all the work. The need for organization increases when two or more people work together. When people engage in any kind of cooperative activity, whether as members of an athletic team or as construction workers building a house, they can

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accomplish better results if the overall task is planned and organized. In that way, each person knows what is expected and how they are expected to work together to accomplish the necessary work. Several characteristics of good organization apply to the management of work, such as responsibility and authority, accountability, unity of command, and span of control.

Responsibility and Authority

Responsibility is the obligation to do an assigned task. In a good organization, the assigned tasks are clearly identified so all employees know exactly what work they are responsible for. **Authority** is the right to make decisions about work assignments and to direct other employees to perform assigned tasks. Authority is delegated from the top of the organization to others at lower levels.

One of the greatest mistakes in business is to assign responsibilities to employees without giving them sufficient authority to carry out those responsibilities. Consider the situation of an employee at a car rental company. The employee is responsible for providing a car to a customer standing at the counter who has a reservation, but the type of car requested is currently unavailable. The employee must have the authority to rent another car that will meet the customer's needs, or the customer will be very upset. Each employee and each manager should know specifically:

1. the description and duties of each job
2. what authority accompanies the job
3. the manager in charge
4. who reports to the manager
5. what is considered satisfactory performance.

A common practice in many organizations today is employee empowerment. **Empowerment** is the authority given to individual employees to make decisions and solve problems they encounter on their jobs with the resources available to them. Empowered employees need to be well trained and be effective decision makers and problem solvers.

They need to understand the effects of their decisions on the business, other employees, and customers. Empowered employees have the confidence that their managers will support the decisions they make. Some companies have been reluctant to empower their employees, believing that managers will lose control of the organization. However, experience has shown that empowerment improves employee morale, produces more satisfied customers, reduces work problems, and increases work efficiency.

Unless employees know their specific responsibilities, duties, and authority, they are likely to be unsure about the work they are to do. Furthermore, conflicts may arise due to misunderstandings about what needs to be done and who makes decisions about work assignments and satisfactory performance. When employees understand responsibility and authority, overlapping duties can be eliminated. Effective organization is helpful in eliminating conflicts between managers, employees, and departments and in increasing cooperation and collaboration.



Why is it important for employees to have the authority to make decisions when working with customers?

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Accountability

Accountability is the obligation to accept responsibility for the outcomes of assigned tasks. When a manager assigns responsibility and delegates authority to an employee, the manager does not give away the responsibility for ensuring that the work is carried out and for evaluating the quality of that employee's performance. Although the manager is ultimately responsible for the work, the employee is accountable to the manager for performing the assigned work properly, including the quality, quantity, and completion time. The manager, in turn, is accountable to his or her boss for the outcomes of all work done in that work unit. Figure 2-9 shows how the owner of a rental business might assign responsibilities and delegate authority to two employees. Use the figure to identify the accountability of each person for the work of the organization.

MANAGEMENT SKILLS

Accountability

In every business, people are accountable for the quality, quantity, and timeliness of their work. Being accountable requires you to understand what is expected of you and to work to achieve the standards that have been set. It also requires you to admit mistakes and seek help when you need it.

Develop Your Skills *As an employee, should you change your behavior based on your level of accountability in the workplace? Why or why not?*

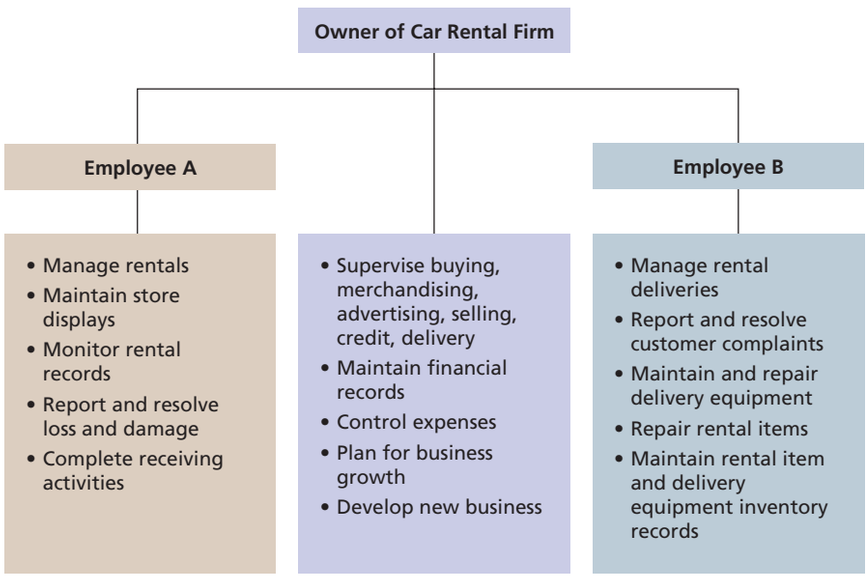


Figure 2-9 Accountability for Work

When a manager assigns work to an employee, authority and accountability must be given as well.

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Managers evaluate employees' work by comparing the work to established goals and work standards. For the assigned work, each employee is accountable for achieving the quality and quantity defined by the goals and standards. Managers need to communicate the goals and expected standards when assigning work, and then use those same goals and standards when evaluating the employee's work.

Unity of Command

An important principle of good organization is unity of command. **Unity of command** means that each employee reports to one—and only one—supervisor at a time or for a particular task. Confusion and poor work relations result when a person has work assigned by and is accountable to more than one supervisor. The person may not know which assignment to perform first or may receive conflicting instructions regarding the same work assignment.

Within teams, problems with unity of command are more likely to occur. Teams and their supervisors must practice the same careful organization of work as used in more traditional structures. Teams need clear assignments of responsibility and authority for their tasks, and all team members need to be aware of who is in charge of each activity. Ultimately the entire team and its supervisor are responsible and accountable for the results produced. A team member cannot shift the blame to someone else when something goes wrong or fail to take on a share of the workload if that organization structure is to work successfully.

Chain of command is a concept closely related to unity of command. The **chain of command** refers to the hierarchy of the organization, from the highest level to the lowest level. For instance, the president of the firm may have multiple vice presidents who report directly to him or her. Each vice president might have multiple directors as direct reports, and each director may have many supervisors as direct reports. Under the idea of chain of command, information flow is expected to move up and down this hierarchy. A supervisor would relay a concern about an existing procedure or an idea for a new procedure to his or her director, rather than to the president of the firm. When the chain of

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command is not followed by team members, the managers who were placed in the hierarchy to act on the company's behalf are not the ones making the decisions or solving problems, which is an ineffective use of resources that may result in poor decisions. Following the chain of command cannot work unless *unity of command* already exists within the company.

Span of Control (Span of Management)

Span of control and **span of management** are used interchangeably to describe the number of employees that any one manager supervises to effectively implement an organization's goals. Organizations must establish a reasonable span of control for each manager. The manager who supervises too many people is overworked and unable to perform all duties effectively. Employees may not have access to the manager when help is needed. On the other hand, time and money are wasted if



How can a business define what is a reasonable span of control for a manager?

a manager supervises too few people. That manager may supervise each person too closely or spend too much time in nonmanagement work. In general, the span of control is larger at the lower levels of an organization than at the higher levels. For example, the head nurse in charge of a floor unit in a hospital may supervise 15 or more employees, whereas only three vice presidents report to the chief executive of the hospital.

Companies that use work teams and encourage employees to be more involved in planning and decision making have found that they can increase the span of control. Well-trained and motivated employees do not require as much direct supervision as those who must rely on managers for direction. These companies have been able to reduce the number of managers required or have been able to increase the size of their workforces without hiring additional managers.



CHECKPOINT

What is likely to happen if employees are assigned responsibility for work tasks but are not given the needed authority?

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2.3 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. A well-designed organization chart shows all of the following except _____

- **a.** the major work units that make up the business
- **b.** which unit each employee belongs to, how it relates to other units, and who employees are accountable to
- **c.** lines of authority and formal communication within the organization
- **d.** the primary groups of customers to whom the business sells its products

2. The hierarchy of the organization, from the highest level to the lowest level, is called the _____

- **a.** chain of command
- **b.** division of work
- **c.** span of control
- **d.** unity of command

THINK CRITICALLY

Answer the following questions as completely as possible.

3. Do you believe that a large business will operate more efficiently and effectively with more or fewer organizational units? Justify your answer.

_____

_____

4. If you were a supervisor, what would you do to make sure each employee is aware of his or her responsibilities and authority? What could you do to make your employees feel empowered to make decisions and solve problems associated with their work?

_____

_____

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FOCUS ON Innovation



Utilizing Employee Ideas

To remain competitive, businesses need to look for product improvements and new product ideas. Top company executives or a research and product development department usually develop these ideas. That procedure often results in a few ideas that are good enough to develop into profitable opportunities for the company.

However, increasingly more companies are taking the innovative approach of involving all employees in product development. For many businesses, success means having a regular supply of new products as well as responding quickly to new technology and changing customer expectations for challenging and exciting experiences.

Innovative companies develop a culture that attracts optimistic, energetic people who have both technical skills and an interest in collaboration. Their employees are creative, want to be involved, and are willing to work hard to make the company successful. These companies encourage ideas that could save money or increase efficiency; ideas for new products or services; and ideas for new and improved technologies.

Various company schemes have been introduced in the business world, providing an outlet for employees to suggest new ideas, whether for new products or simply a better way of doing things, in an open environment. Rewards are given if the idea is successfully instigated. The result has been a number of innovative products, often finding a new application for an existing technology that the company specializes in.

Think Critically

1. Do you think most company owners and top managers would support the idea of smart office environments? Why or why not?

2. What do you believe makes this collaborative approach a successful way to develop new product ideas?

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3. If you were an employee of a company that took this approach, would you volunteer to work on a product idea without a guarantee of being paid for your time? Explain.

_____

_____



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Link to digital lesson

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2.4 Developing Effective Organizations

KEY TERMS

- Departmentalization
- Line Organization
- Line-and-Staff Organization
- Matrix Organization
- Team Organization
- Self-Directed Work Teams
- Centralized Organization
- Decentralized Organization
- Flattened Organization

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

2.4.1 Describe the strengths and weaknesses of organizational structures.

2.4.2 Make recommendations for improving business organization.

REALITY CHECK

Now That's Teamwork!

Faisal is very excited. Today, at work, he was appointed the new role of *team leader*. The company he works for, a large pharmaceuticals producer in Jeddah, is trialing an innovative new organizational structure, centered on teams rather than a traditional hierarchy. Workers in his office will now be grouped into teams with the autonomy to set their own targets and direction, instead of taking instruction from a line manager. Faisal will be responsible for guiding the team and moderating discussion.

"This is great!" Faisal exclaims to his wife, Fatimah. "We now have full control to do things the way we want to in the office, without a manager telling us what to do! As team leader, I will get to play a more active role in shaping decisions."

"That is wonderful news for you," replies Fatimah. "However, don't underestimate the benefits of a traditional management structure, too. Managers must take responsibility for their decisions, and also many workers appreciate having clear instruction from above. The team will have to adjust to the new dynamic and take greater responsibility for the results."

What's Your Reaction? *Would you share Faisal's optimism about the company's new structure? Can you think of any reasons why Faisal should also be cautious about this change of structure?*

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LO 2.4.1 Types of Organizational Structures

A business's organizational structure identifies the relationships among departments and personnel and indicates the lines of communication and decision making. Two primary types of organizational structures are:

- Line organizations
- Line-and-staff organizations.

Newer departmental structures in companies are:

- Matrix organizations
- Team organizations.

As organizations grow, multiple employees might be grouped based on the type of activity where value is created for the company. This concept is referred to as **departmentalization**, where senior managers make conscious decisions on how to group employees that serve a similar need for the company. A manufacturer of food products, for instance, might decide to create departments based on one or more organizational needs.



Having local and international sales teams is an example of functional departmentalization. Can you think of any others?

Functional departmentalization is the type most commonly encountered in the workplace and is reflected in line or line-and-staff organization models, where teams are grouped together according to the function of the department, and employees' skills and experience. When you hear an employee speaking about working in human resources, information technology, or another area within a company, it is an example of functional departmentalization. Customer departmentalization, which also follows the line or line-and-staff organization models, groups employees to serve particular types of customer or *customer segments*. A company that has a local sales division and an international sales division is one such example. A company that serves individual consumers and large corporations is also likely to have departments based on those customer segments.

Line Organization

In a **line organization**, all authority and responsibility can be traced in a direct line from the top executive down to the lowest employee level in the organization. A line organization is shown in Figure 2-10 (sales is the only area for which the complete organization is shown). This type of organization is commonly used within functional departmentalization (where employees are grouped based on tasks performed, such as accounting or human resources) and customer departmentalization (where employees are grouped based on the type of customer served). The lines connecting the individual boxes indicate the lines of authority. The lines show, for example, that the president has authority over the sales manager, the sales manager has authority over the assistant sales manager, the assistant sales manager has authority over the branch managers, and the branch managers have authority over the sales representatives. In addition, the lines describe how formal communications are expected to flow up and down the organization.

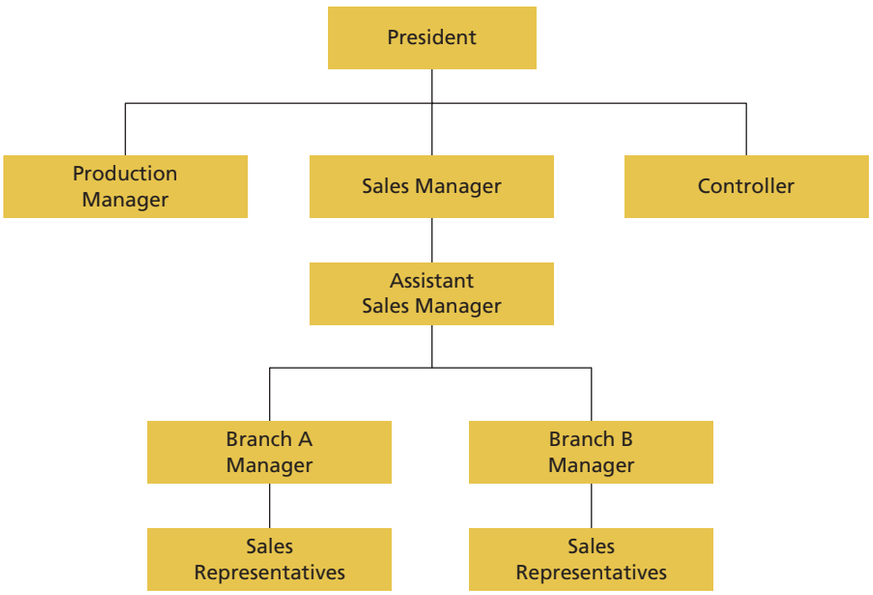


Figure 2-10 Line Organization

A line organization establishes direct lines of authority and responsibility from top to bottom.

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In a line organization, the top executive has direct control over all units of the business, but responsibility, authority, and accountability are passed along from one person to another, down to the lowest level. Under this form of organization, each person is responsible to only one manager, who, in turn, is responsible to someone else. This type of organization can be very efficient, because new plans and ideas can be put into effect immediately in one area of the business without involvement from other areas. However, it often leads to many layers of management and isolation or lack of communication between departments and divisions. There is no direct way that managers of different departments not in the same line of authority can communicate and work together. This type of isolation and focus on only one part of the organization is known as the *silo effect*.

Line-and-Staff Organization

Large and complex businesses need a great deal of expertise to operate well. Managers have greater difficulty mastering all of the knowledge and skills they need in every area of responsibility. In the **line-and-staff organization**, managers have direct control over the units and employees they supervise but have access to staff specialists for assistance. Specifically, the line-and-staff organization adds staff specialists to a line organization. It is designed to solve the problem of complexity and still retain the advantages of direct and definite lines of authority. Staff specialists give advice and assistance when needed. They have no authority over line personnel to require them to perform any task. They are there to help with specialized expertise. Thus, line personnel are still responsible to only one manager.

The line-and-staff organization, shown in Figure 2-11, is like the line organization in Figure 2-10 except for the addition of the advertising specialist and the marketing research specialist. Their responsibility is to give specialized advice and assistance to the sales organization. This relationship is indicated in the organization chart by broken lines. Other examples of staff positions in some organizations are legal, technology planning, and human resources specialists.

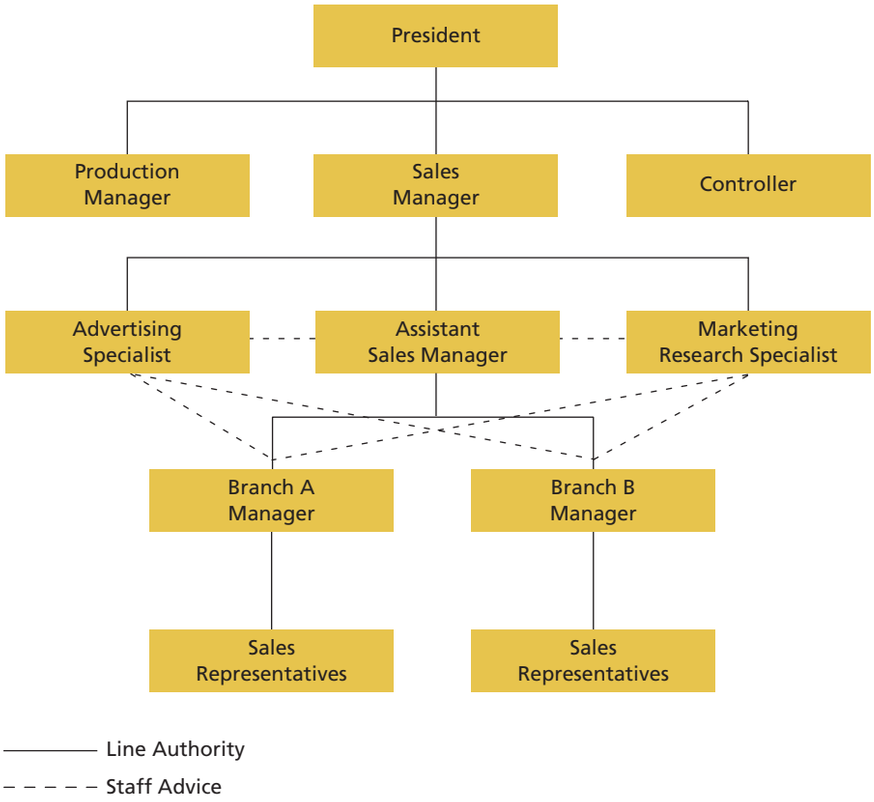


Figure 2-11 Line-and-Staff Organization

In a line-and-staff organization, staff specialists are available to provide needed advice and assistance to line managers.

Matrix Organization

A newer, more flexible structure is the matrix organization, sometimes called a *project organization*. A **matrix organization** organizes employees into temporary work teams to carry out specific projects while working in the same functional area. For instance, a company engineer might be assigned to work as part of a team to lend his or her expertise to the team's project while still reporting to the vice president of engineering. Employees report to a project manager with authority and responsibility for the project. When a new project must be done, employees with the needed skills are assigned to work on the project team. They work for that manager until the project is finished. Then they are assigned to a new project and another project manager. Work assignments and relationships for individual projects within a matrix organization are clear but temporary.

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In the matrix organization, there is no permanent organizational structure in which an employee continues to report to the same manager across a limited number of projects. It is difficult to develop an organizational chart for this type of organization because it changes regularly. Typically, the company prepares an organization chart for each project, so that employees know the current project structure and the management and employee relationships. The company prepares a new chart when that project ends and a new one begins. Figure 2-12 illustrates a matrix organization in which an employee from each functional area is assigned to a product team.

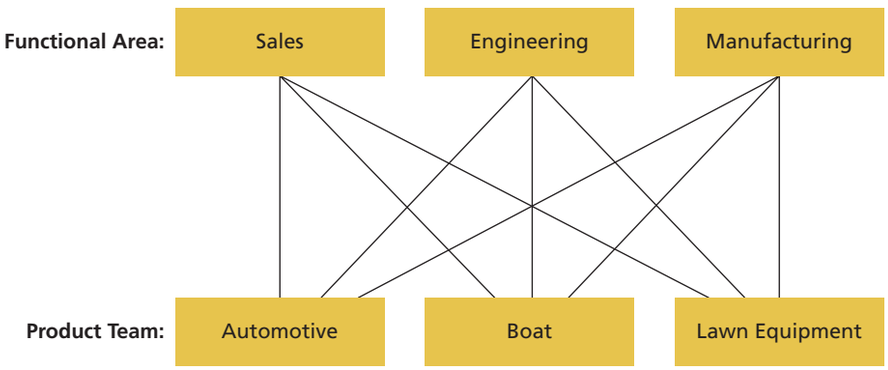


Figure 2-12 Matrix Organization

An engineer might continue to work for the vice president of engineering but be assigned to assist with more than one project team in a matrix organization. In this case, a talented employee could have multiple—and sometimes competing—reporting responsibilities.

The matrix organization is used successfully in research firms, advertising agencies, and construction companies, but it is being considered by other types of businesses because it provides flexibility and allows for rapid change. This structure uses the specific skills of managers and employees as effectively as possible by bringing together people with the right skills for each project. When employees are given new project assignments, managers must be careful to define authority and responsibility so as not to violate unity of command. They also need to encourage good working relationships with new project members.

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Team Organization

As highlighted in the example of Faisal in the Reality Check at the start of this lesson, the newest type of organization structure is known as team organization. A **team organization** divides employees into permanent work teams. The teams have responsibility and authority for important business activities with limited management control over their daily work. Teams often have team leaders who are likely to be experienced employees rather than managers. Team leaders replace the traditional position of supervisor and act as facilitators more than as traditional managers. Team leaders help their teams identify problems and work with them to solve the problems as a group. Team members report to the team leader, and the team leader makes some management decisions for the team. A full-time manager is responsible for several teams and meets with team leaders for planning, progress reports, and problem solving.



Sometimes teams are organized without a permanently designated team leader. These are **self-directed work teams**, in which team members together are responsible for the work assigned to the team. Self-directed work teams have a manager who they can turn to with unusual or very difficult problems, but most of the time they work together to establish goals and to plan and organize their work. Often members take turns as team leader or facilitator. A self-directed team has full authority over planning, performing, and evaluating its work. For ideas and assistance, the team may talk to other teams or draw on the support of specialists available to work with all teams in the organization. In addition, the team is expected to talk to suppliers and customers from inside or outside the business to get their input and feedback.

In self-directed work teams, the team decides who will do which types of work and how they will do it. Each worker must be able to perform the tasks of other team members to cover for absent members or additional workloads. Teams can hire, train, and even remove team members; evaluate individual and team performance; and handle most of the traditional management tasks. The role of the manager is to serve as the team's consultant and to concentrate on higher-level management tasks. Some differences between self-directed work teams and traditional work teams are shown in Figure 2-13.

	Traditional Work Team	Self-Directed Work Team
Work Categories	Many narrow tasks	One or two broad tasks
Worker Authority	Team leader controls all routine tasks	Team controls tasks through group decisions
Effectiveness	Determined by manager and team leader evaluations, individual member performance	Based on team performance plus breadth of skills of individual team members

Figure 2-13 A Comparison of Traditional and Self-Directed Work Teams

Self-directed work teams have more authority and responsibility for their work than traditional teams.

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Effective work teams, whether self-directed or not, have been shown to increase productivity and improve quality. Individual team members work hard to support their team and make sure the team meets its goals. Companies that have developed effective team structures have a better record of keeping customers happy, reducing absenteeism, reducing staff turnover, and keeping motivation high.

Teams require certain ingredients for success. Managers must support the team concept and assist the teams as needed. Team members must become competent in three areas:

1. Technical job skills
2. Interpersonal skills, such as writing, speaking, discussing, and negotiating
3. Administrative skills, such as leading meetings, thinking analytically, and maintaining records

Teams need top management support as well as skills in these three areas to do well. New teams must have both time and support to be able to develop to their full potential.



NET KNOWLEDGE

Employee satisfaction must be an important concern of every manager. Dissatisfied employees are likely to leave if another job becomes available. They will also be less productive than those who like their work. Search online for articles about employee engagement. If you were the top executive of a company, how would you use this information to improve employee satisfaction in your company? Develop three recommendations that you would make to the managers who report to you.



CHECKPOINT

Who is responsible for traditional management functions in a team organization?

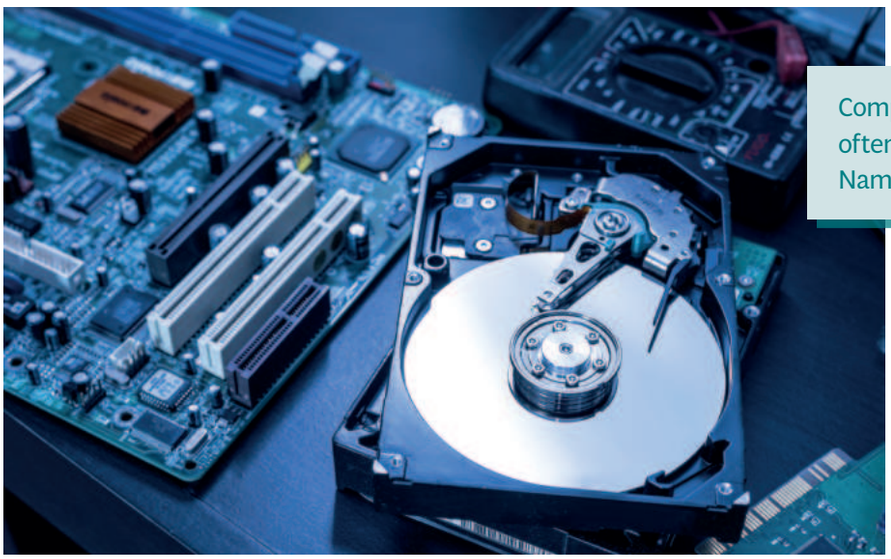
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LO 2.4.2 Improving Business Organization

Traditionally, businesses have used **centralized organization**, in which a few top managers do all the major planning and decision making. Studies of the effect of business organization on quality and productivity have discovered that companies with centralized organizations often experience some common problems. Large companies often develop very complex centralized organizational structures. Those structures may cause communication problems and the need for many policies and rules to control the organization. Individual managers and employees then begin to feel like unimportant parts of the business. They get frustrated when rules keep them from doing things they consider important or when it takes a long time to get decisions made.

To overcome these types of problems, companies may decentralize. With **decentralized organization**, a large business is divided into smaller operating units, and managers who head the units have almost total responsibility and authority for operations. In many ways, the units operate as if they were independent companies. For example, a large computer manufacturer could be decentralized into operating units by categories of products (mainframes, personal computers, portables, and accessories) or by types of customers (business, government, and consumers).



Computer manufacturers are often decentralized organizations. Name some other examples.

Another major type of reorganization occurring in businesses today is known as flattening. A **flattened organization** is one with fewer levels of management than traditional structures. To achieve a flattened organization, managers and employees must assume many of the responsibilities that other businesses might achieve with more levels of management. A flattened organization should have improved communication, because information has to flow through fewer levels. There should also be more coordination and cooperation because there is less specialization within the organization. In a flattened organization, managers tend to have a wider span of control to compensate for the fewer levels of hierarchy. As competition increases and customers expect businesses to improve quality and service, the organization of a business becomes very important. A complex organizational structure that requires a great deal of time for making decisions and for communicating information will not be as competitive as one that is more flexible and responsive.



CHECKPOINT

How can business organization be made more effective?

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2.4 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. If managers in large organizations have difficulty mastering the knowledge and skills they need in all of their areas of responsibility, which type of organizational structure would be most helpful?

- **a.** line
- **b.** line-and-staff
- **c.** matrix
- **d.** team

2. For work teams to be successful in an organization, team members must become competent in all of the following areas except _____

- **a.** technical job skills
- **b.** interpersonal skills
- **c.** administrative skills
- **d.** financial skills

THINK CRITICALLY

Answer the following questions as completely as possible.

3. Why does the line organizational structure often create problems in sharing information and communicating among employees and managers from different departments of the organization?

_____

_____

4. Why are many larger companies organized in a way that has individuals reporting to managers based on departmental specialization? What are the advantages and disadvantages of having all individuals with similar job roles work together?

_____

_____

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CHAPTER TWO

Assessment

CHAPTER CONCEPTS

- Managers who can effectively plan for a business's future will be more successful than those who focus on day-to-day operations. Planning sets the direction for the business and establishes specific goals. Plans are guides for making decisions. Strategic plans explain where the business is going. Operational plans determine how work will be done, who will do it, and what resources will be needed to get the work done.
- Goals keep a business focused on the direction it wants to go and the results to be accomplished. Tools that can help develop effective plans include budgets, schedules, standards, policies, procedures, and research.
- Companies must be organized to carry out plans and carry out work effectively. The process of organizing involves three elements: division of work, facilities and working conditions, and employees. Characteristics of good organization include responsibility and authority, accountability, unity of command, and span of control.
- The type of organizational structure identifies the relationships among departments and personnel as well as lines of communication and decision making. Types of organizational structures are line, line-and-staff, matrix, and team organizations. Recently, traditional organizations have become flatter and more decentralized.

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DEVELOP YOUR BUSINESS LANGUAGE

Match the terms listed with the definitions.

	Term	Your Choice	Definition
1.	Accountability		**a.** A written document that describes the nature of the business, its goals and objectives, and how they will be achieved.
2.	Authority		**b.** A specific measure by which something is judged.
3.	Budget		**c.** The hierarchy of the organization, from the highest level to the lowest level.
4.	Business plan		**d.** A concept where senior managers make decisions on how to group employees that serve a similar need for the company.
5.	Centralized organization		**e.** The obligation to accept responsibility for the outcomes of assigned tasks.
6.	Chain of command		**f.** The examination of an organization's internal strengths and weaknesses as well as external opportunities and threats.
7.	Competitive advantage		**g.** Long-term planning that provides broad goals and directions for the entire business.
8.	Decentralized organization		**h.** A large business which is divided into smaller operating units, headed by managers who have almost total responsibility and authority for operations.
9.	Departmentalization		**i.** The special capabilities of a company that allow it to create a product or service that is measurably better than any competing company.
10.	Empowerment		**j.** A broad, long-term, and often inspirational view of a company's reason for existing.
11.	Flattened organization		**k.** Guidelines used in making decisions regarding specific, recurring situations.
12.	Goal		**l.** Business structure in which all authority and responsibility can be traced in a direct line from the top executive down to the lowest employee level.
13.	Line organization		**m.** A written financial plan for business operations developed for a specific period of time.
14.	Line-and-staff organization		**n.** Business structure in which a few top managers do all the major planning and decision making.

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	Term	Your Choice	Definition
15.	Matrix organization		**o.** The right to make decisions about work assignments and to require other employees to perform assigned tasks.
16.	Mission		**p.** Business structure that divides employees into permanent work teams.
17.	Operational planning		**q.** An organization with fewer levels of management than traditional structures.
18.	Organization chart		**r.** A short, specific statement of the business's purpose and direction.
19.	Policies		**s.** Business structure where managers have direct control over units and employees they supervise but have access to staff specialists for assistance.
20.	Procedure		**t.** A time plan for reaching objectives.
21.	Responsibility		**u.** Principle which states that each employee reports to one–and only one–supervisor at a time or for a particular task.
22.	Schedule		**v.** An illustration of the structure of an organization, major job classifications, and the reporting relationships among the organization's personnel.
23.	Self-directed work teams		**w.** A sequence of steps to be followed for performing specific task.
24.	Span of control / Span of management		**x.** An organization which combines employees into temporary work teams to carry out specific projects while working in the same functional area.
25.	Standard		**y.** The number of employees that any one manager supervises directly to effectively implement an organization's goals.
26.	Strategic planning		**z.** Authority given to individual employees to make decisions and solve problems they encounter on their jobs with the resources available to them.
27.	SWOT analysis		**za.** Short-term planning that identifies specific goals and activities for each part of the business.
28.	Team organization		**zb.** A specific statement of a result the business expects to achieve.
29.	Unity of command		**zc.** The obligation to do an assigned task.
30.	Vision		**zd.** A team in which members together are responsible for the work assigned to the team.

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REVIEW BUSINESS MANAGEMENT CONCEPTS

Determine the best answer.

31. Strategic planning in an organization is followed by _____

- **a.** operational planning
- **b.** organizational planning
- **c.** hiring and training employees
- **d.** management planning

32. Which of the following is not a characteristic of an effective goal?

- **a.** A goal must be specific and meaningful.
- **b.** A goal must be achievable.
- **c.** A goal must be clearly communicated.
- **d.** A goal must focus on one company activity.

33. Businesses measure the quality of products and services by comparing them against _____

- **a.** procedures
- **b.** standards
- **c.** policies
- **d.** goals

34. The span of control at the top of an organization is usually _____ at the lower levels.

- **a.** larger than
- **b.** about the same as
- **c.** smaller than
- **d.** There is no span of control at the top of an organization.

35. The most efficient organizational structure is a _____

- **a.** line organization
- **b.** line-and-staff organization
- **c.** team organization
- **d.** decentralized organization

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APPLY WHAT YOU KNOW

Answer the following questions.

36. Based on the Reality Check scenario at the beginning of Section 2.1, identify one example of strategic planning and one example of operational planning that you believe Ibrahim should perform.

_____

_____

37. It is recommended that a new business develops a business plan. Do you believe large, well-established businesses need a business plan as well? Why or why not?

_____

_____

38. What is the difference between a business strength and a business opportunity? For a business in your community, provide an example of a strength of the business and an opportunity for the business.

_____

_____

39. Write a list of procedures that another person can follow to copy a computer file from a server or cloud to a removable storage device. The procedures should be complete and in the order they need to be performed.

_____

_____

40. What is the difference between responsibility and authority? Provide examples of each from your role as a family member and your role as a student.

_____

_____

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41. Do you believe employees prefer to work in organizations where they have very specialized work that they perform over and over, or in organizations where they have a broader set of responsibilities and work changes regularly? Justify your answer.

_____

_____

42. Compare the line organization with the matrix organization in terms of how it affects the work, relationships, and communication of managers and employees.

_____

_____

MAKE ACADEMIC CONNECTIONS

Complete the following activities.

43. Communication Review the information from the beginning of Section 2.1 about Ibrahim's idea to expand his catering business using the Internet. Write two goals that Ibrahim could set for the business—one that should be achieved within three months and one that should be achieved by the end of the first year. Write the goals to include the four characteristics of an effective goal.

_____

_____

_____

_____

_____

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44. **Visual Arts** Your class decides to hold a student recognition and parent appreciation event at the end of the school year. All students will participate in planning and managing the event. A matrix organization structure will be used. Identify the major divisions of work that need to be carried out for a successful event. Using a computer graphics program, design an organization chart you believe will be most effective for getting the work done. Assign each student in your class to a particular role in the organization chart. Be prepared to discuss your decisions with other students.

45. **Technology** Use the Internet to locate an example of a business use of each of the planning tools identified in the chapter: budget, schedule, standard, policy, procedure, and research. Construct a 3 × 6 table. In the first column, identify the planning tool. In the second column, briefly describe its use. In the third column, explain how the use of the tool supports business planning.

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46. Research Use a library or the Internet to find three articles from business magazines or websites on the effects of flattening (reducing the levels of management) on businesses and their employees. Make notes on the articles as you read. Then prepare a one-page analysis of your research, presenting the advantages and disadvantages of the use of flattening by organizations.

47. Math Research is an important tool businesses use for strategic planning. On average, businesses spend about 3.8% of sales on research activities each year. Imagine that the three top businesses worldwide in terms of research expenditures were a car manufacturer, a healthcare company, and a software and technology developer. The car manufacturer invested SAR 9.9 billion on research with sales of SAR 226.1 billion. The healthcare company's investment was SAR 9.6 billion on research with SAR 58.6 billion in sales. The software developer's research budget was SAR 9 billion and sales were SAR 69.9 billion. Calculate the percentage of annual sales each company invested in research. Determine the percentage of sales invested in research by all three companies combined. Compare it with the average of all businesses.

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CASE IN POINT

Solving Planning Conflicts

A large company based in Jeddah makes and sells a line of popular children's toys. Over the next few months, retail stores will begin buying the company's products in large quantities in preparation for the Eid Al-Fitr shopping season. Every year, the company introduces one or two new toys designed to attract the attention and interest of children and their parents and get them into the stores at Eid Al-Fitr. Then they design in-store displays and promotions for the company's new toys as well as those that have been popular for many years, bringing in a high volume of sales of both new and traditional toys.

Farah, the marketing manager, has recently reviewed the results of research on this year's newest toy. The toy received the most positive customer response of any toy the company has introduced in the past five years. Based on that research, Farah and her staff have projected that sales will be 10% higher this year than last. As a result of these estimates, she has committed funds for a big advertising campaign to introduce the new toy. Several additional salespeople have been hired to begin early work with retailers to make sure all stores are prepared with enough stock of the toy for the upcoming holiday sales period.

While Farah has been working on the expanded marketing efforts, Yasir, the production manager, has been running into problems. He has had difficulty getting an adequate supply of one of the key raw materials from the firm's only supplier. Production levels for the new toy have been 10% below plans during the last two months. Yasir could have devoted additional production time to increase the stock of the company's traditional products. However, he was not aware of the recent marketing research or marketing plans. The production plans, developed three months ago, were to keep stock levels of those toys just slightly above last year's level. In discussions with the raw-materials supplier, it appears that the supply problem may be solved in two weeks. If so, he might be able to meet the production goals for the new toys but labor costs will have to increase and product deliveries will be delayed to retailers. He knows that retailers like to have the new toys early, but there is little he can do about it right now.

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Think Critically

1. What management problems are apparent in the toy company? Why have these problems occurred? Are the reasons related more to planning issues or to organizing issues in the company?

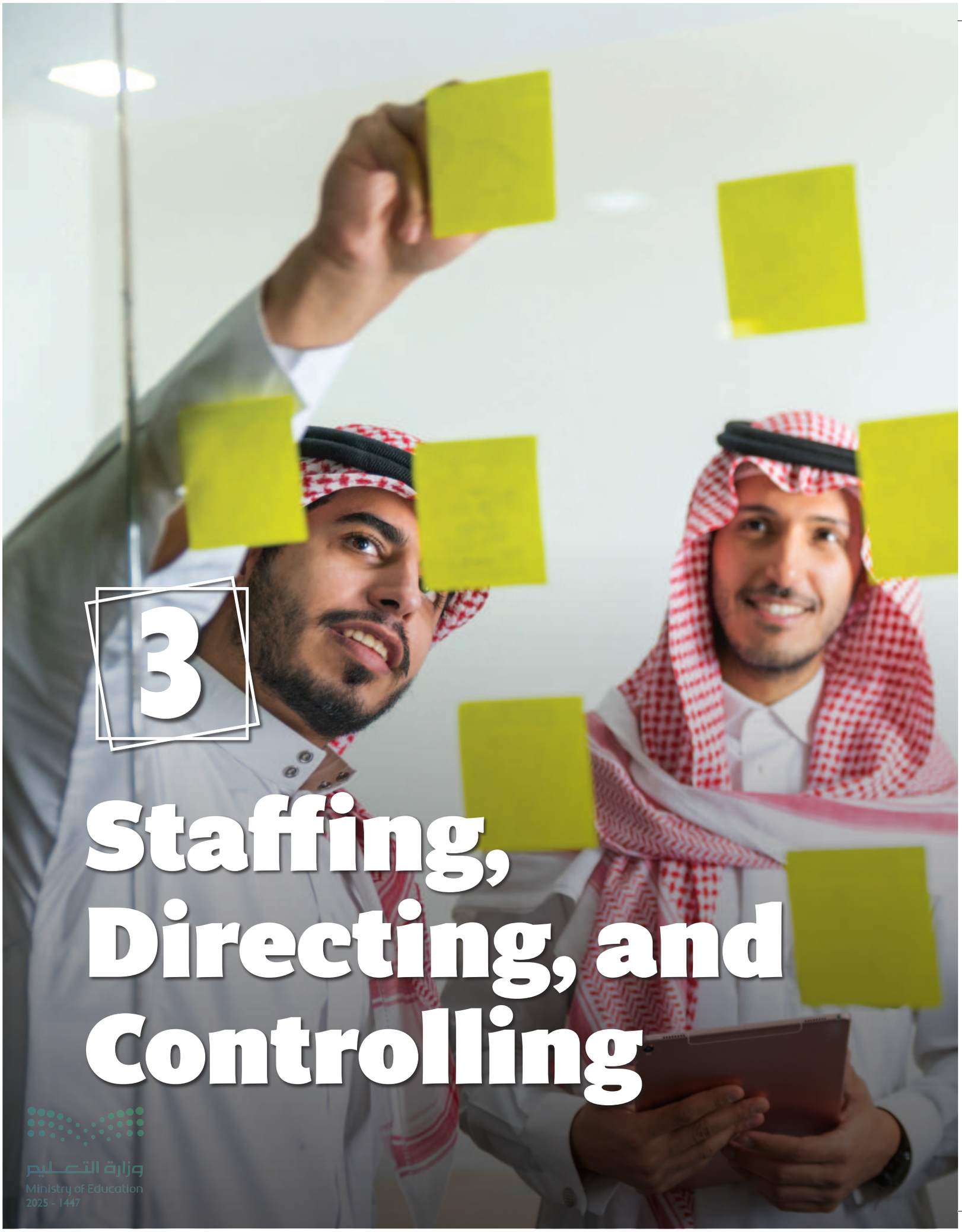
2. What is likely to happen to the company this year and in future years if the problem is not resolved quickly?

3. Using the management tools discussed in the chapter, give examples of how each could be used to help solve the company's problems.

4. What would you recommend right now that can help resolve the problems being faced by the toy company? What should the company do to avoid the same type of problem in the future?

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3

Staffing, Directing, and Controlling

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CHAPTER LESSONS

3.1 The Staffing and Directing Functions

3.2 Motivation and Change Management

3.3 The Controlling Function

Managers have to deal with a range of responsibilities and challenges in the day-to-day operational aspects of any business. This chapter addresses the key operational aspects of staffing, directing, and controlling. It considers some of the various theories behind motivation. It then addresses the issue of change. Finally, the chapter takes a closer look at the controlling function, including the establishment of standards to measure and improve performance.

What are the greatest challenges associated with directing?

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Link to digital lesson

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3.1 The Staffing and Directing Functions

KEY TERMS

Work Team
Employee Motivation
Operations
Operations Management
Process Improvement

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

3.1.1 Recognize problems that can occur when plans are implemented.

3.1.2 Identify important staffing activities performed by managers.

3.1.3 Identify important directing activities performed by managers.

REALITY CHECK

Losing Control

An office supply company sells to the local business market through Internet and telephone sales. Hessa has been hired as the manager of a new telemarketing department that includes computerized telephone and order-processing systems. She has a large budget to retrain current employees and to hire and train new employees. A sales brochure highlighting the company's online catalog has been delivered to all local businesses. The company guarantees that any order placed by 10 p.m. will be delivered by 10 a.m. the next day.

There was a real excitement among the employees when they made the sales calls to the new customers and soon orders began to come in. However, the rapidly expanding sales volume has been putting pressure on Hessa's department. The workload has been increasing rapidly as the telephone sales staff took orders, answered questions, and attempted to solve customer problems. Technical difficulties have resulted in unanswered calls and slow computers. Customers and sales staff are frustrated, leading to employee dissatisfaction and a high turnover rate. Experienced employees are quitting or asking for transfers because of the pressure they are facing.

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Hessa knows her department is essential to the success of the company. If the department cannot maintain and increase the level of sales and process orders efficiently, the new business strategy will fail.

What's Your Reaction? *What are the primary reasons for problems in the new department? What might Hessa do to help employees?*

LO 3.1.1 The Challenge of Staffing and Directing

The staffing and directing functions of management involve carrying out the organization's plans by bringing together the right people to do the tasks, and guiding and supporting them so they can work effectively. The controlling function involves evaluating results to determine if the company's objectives have been accomplished as planned. The majority of managers, especially supervisors and middle-level managers, spend a great deal of their time on staffing, directing, and controlling activities.

Staffing focuses on finding the right individuals who can perform the work. It involves hiring employees, finding talent within the company, and possibly bringing in outside temporary workers to support a project. Staffing can also involve assembling a team of employees who will work together for the long term or a team who will work on a specific work project for only a short period of time.

Directing involves developing a plan that guides employees and ensuring they are motivated and have the resources needed to help achieve the company's goals. For example, a manager may communicate important goals to a work team, provide leadership to help the team determine how to complete the necessary work, and ensure that rewards and recognition are provided to everyone involved when the goals are achieved.

In the Reality Check scenario at the beginning of the lesson, Hessa had many activities for which she was responsible in the new department. She was spending a great deal of time staffing her team and directing that team to support the company's plans. Hessa discovered what many experienced managers have learned. Plans are not effective unless they are implemented well. Changing conditions in a business create problems in the way work is accomplished. Hessa learned that the staffing and directing functions play an important role in helping her solve the problems she faces as a manager.

At the beginning, Hessa was able to staff her team by hiring new employees. She had a generous training budget and three months to prepare employees for their new work. The team seemed to enjoy using the new computer equipment and making calls to customers. The preparation time and training made them comfortable with their new work. The careful planning to personally deliver the brochures to customers and make follow-up calls resulted in immediate orders. Employees were pleased with their initial success. Customers liked the rapid delivery guarantee and the service-oriented approach of the local business. But as Hessa looked back at what happened, she realized when the problems had started.

The first problem occurred when Hessa established sales quotas for each employee. With sales growing rapidly, she didn't think it would be difficult for most employees to make their quotas. Hessa believed the quotas would motivate everyone to sell, rather than just wait for customers to call in orders. However, some people easily exceeded their sales quotas while others seldom reached theirs. Several employees complained that the quotas put too much emphasis on selling and didn't allow them adequate time to answer customers' questions and solve their problems.

The department began to experience some computer difficulties. When a high volume of calls came in, the computers would slow down. Employees would have to wait to get information on their screens, and occasionally all of the information entered would be lost before the order could be processed. Also, Hessa learned that when sales volume was high, the company was not always able to meet its goal of over-

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night delivery. The higher sales volume was difficult for the delivery department to handle because it was still operating with the same number of employees as when the new wholesale business started. As a result, the telemarketing employees were starting to receive customer complaints that they were unable to handle.

While Hessa was struggling with the computer problems and the sales quota issue, she was also facing the growing employee *turnover rate* (a measure of replacing staff who have left the company). Even though she was hiring and training new employees, it seemed there were never enough employees to replace those who left and to handle the growing amount of business. To get new employees on the job faster, training time was reduced. That seemed to result in more errors in the orders processed. Veteran employees were being asked to work overtime to meet the demand and to help inexperienced telemarketers. That created even more employee dissatisfaction. Hessa couldn't believe that a plan that seemed so good and had initially been successful could result in so many problems.

Managers often have to identify solutions to complex problems. Hessa's original team was hired for sales talent and customer support. Some of these employees were likely to be motivated by success in selling, and others by supporting customers. Technical and delivery problems, lack of support, and unhappy customers could make it more difficult for the sales team to reach quotas.



CHECKPOINT

Identify several types of changes that can occur in an organization that can create problems in accomplishing plans.

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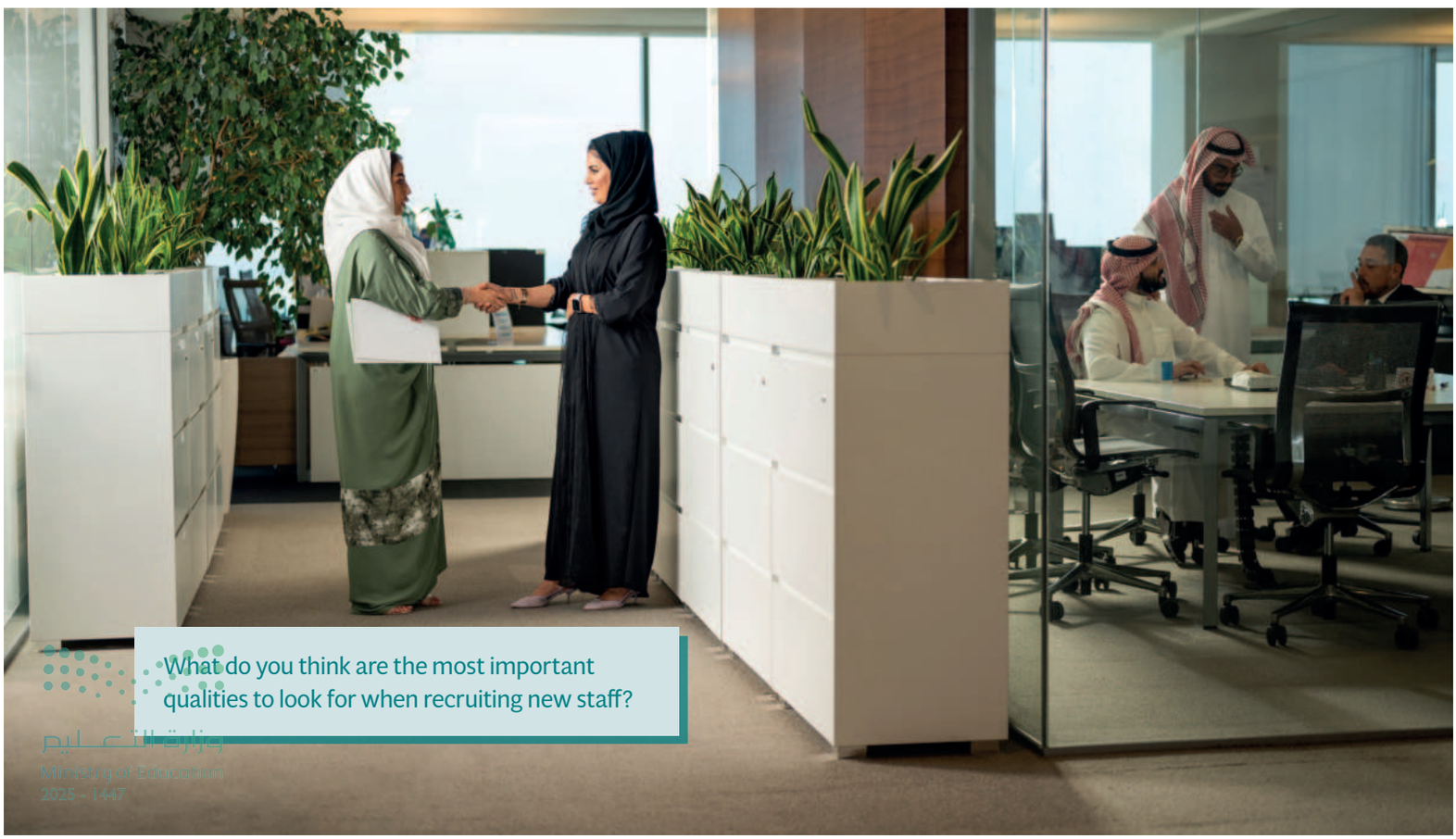
LO 3.1.2 Staffing Activities

In the opening lesson scenario, Hessa staffed her team by retraining current employees and hiring new team members to work in telephone sales. Hessa needed to find the right individuals to do the work. Seldom do employees work alone. Managers must enable staff to reach goals by creating work teams. They must also ensure that staff have sufficient training to carry out the work.

Hiring

Managers may have direct hiring authority, or they may need to work through a company's human resources department during the hiring process. This typically begins by defining the job requirements and the type of person who could be successful in that position. For Hessa, her sales team members need to enjoy selling and be outgoing, friendly, patient, and problem solvers.

While many people may have those personal characteristics, they still may not be a good fit for a sales job. Companies spend a great deal of effort to identify a strong fit before they hire. For example, a college



student applied for a sales position with a firm. The interviewing process included testing, listening and responding to real-world scenarios, and interviews with several people. After six meetings, the job candidate was asked to attend one last interview, where she was told she didn't get the job. She expressed her belief that the business had made a mistake, because she thought she was the best candidate. She thanked the interviewers for their time and said she would be happy to come to work for them if they changed their minds. They then responded, "When can you start?" The business was testing her capabilities as a salesperson, a position in which she would be visiting potential customers multiple times while trying to close a sale, but often hearing "no." The company wanted to be sure that she could take rejections without spoiling future relationships.

Training

It is not sufficient for managers simply to hire the right people. It is also essential to ensure that their staff are provided with sufficient training to carry out the job. This begins with an induction into the business, and introduction to other staff and systems. However, training should be continuous throughout their employment, with periodical refresher courses to remain up-to-date with the latest industry standards and to encourage career progression. Good managers recognize that a well-trained workforce is likely to be more motivated and productive.

Work Teams

Seldom do people carry out all of their work alone. Most people are part of a work team and rely on cooperation from others to reach goals. Well-organized teams can accomplish more than the same number of people working independently. Managers need to be able to staff effective work teams. A **work team** is a group of individuals who cooperate to achieve a common goal.

Effective work teams have several characteristics:

- First, the members of the work team understand and support its purpose. They clearly understand the activities to be



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performed, know which activities they must perform, and have the knowledge and skills necessary to carry them out.

- Second, work team members are committed to meeting the expectations of others in the team and helping the team succeed.
- Third, work team members communicate well with each other and work to resolve problems within the team.

Managers can play an important role in developing team effectiveness. To develop effective teams, managers must understand the characteristics that make teams effective, help to organize the team and develop the skills that are needed by the team, create a work environment that supports teamwork, and help the team resolve problems when they occur.

CHECKPOINT

Identify characteristics of effective work teams.



Team members must be able to work well together. How can an individual employee contribute to team effectiveness?

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LO 3.1.3 Directing Activities

To direct successfully, managers must master a number of activities designed to channel employee efforts in the right direction to achieve goals. These activities include problem solving, consensus building, financial analysis, effective communications, employee motivation, and operations management as shown in Figure 3-1.

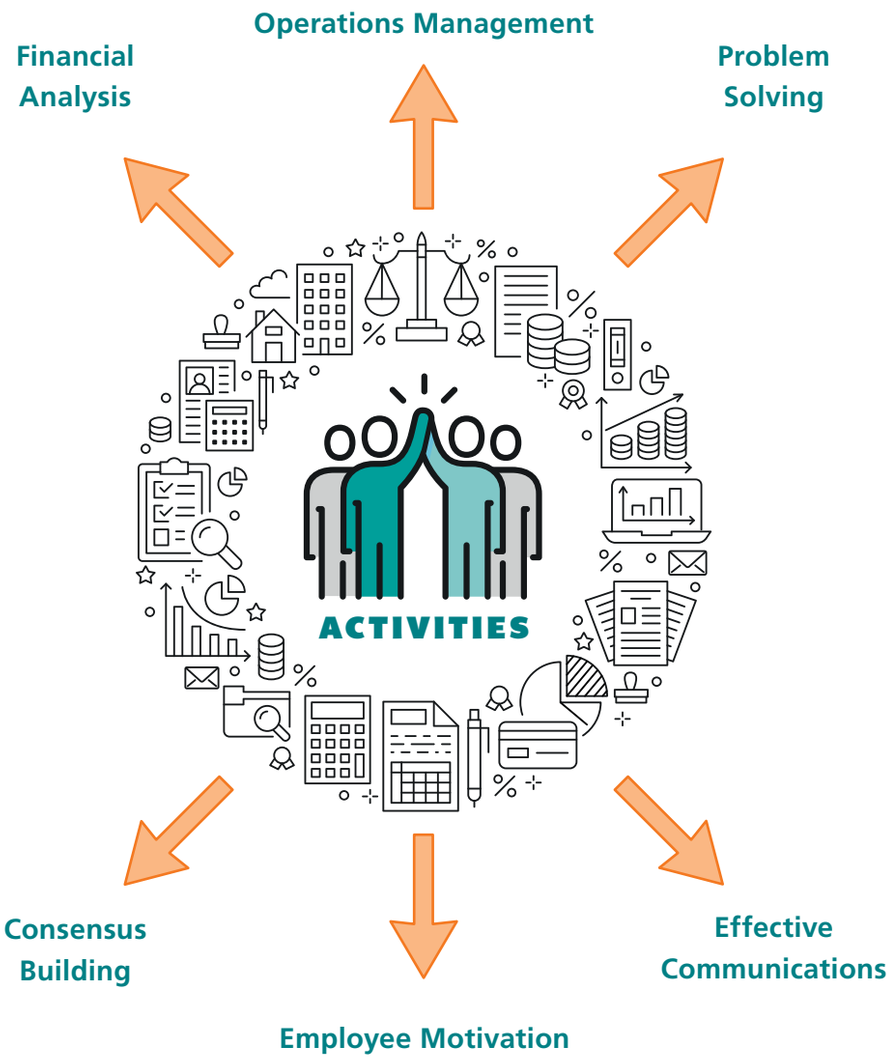


Figure 3-1 Directing Activities to Achieve Goals

A range of activities can be carried out by managers to channel employees' efforts to achieve company goals.

Problem Solving

In the Reality Check scenario at the beginning of this chapter, Hessa was facing a complex problem. Some of the issues were under her control, such as hiring and training. But other issues, such as technology problems, could not be solved solely by Hessa. Managers need to use critical-thinking skills for complex problems. This requires determining the cause of problems, identifying and evaluating alternative solutions, and then devising a plan to solve the problems.

Many of the causes of problems are outside of a manager's control. These could be internal issues within the company, such as the technical and delivery problems in the Reality Check scenario, or they could be driven by factors external to the company, such as competition, the economy, changing regulations, and many other factors known and unknown to managers. Managers need to be both creative and resourceful to solve these problems.

Consensus Building

Even if a manager has identified a plan, he or she will still need support to move that plan forward. In Hessa's case, she will need to collaborate with four major groups. She will need to work with the technology group to make it clear how the technical problems are impacting her team and the company's sales. She will also need to work with the order fulfillment department to help ensure customers aren't given delivery times that cannot be met. Hessa will also need to negotiate with her experienced sales team members to help ensure that they don't leave and will continue to support the new workers. Finally, she will need to work with new employees to be sure they are trained and ready to do the job.

Financial Analysis

Businesses need to ensure that they are using resources wisely, and managers must understand the financial impact of decisions. For example, the technology department may tell Hessa it needs SAR 200,000 to update the computer systems to fix the problem. Hessa will need to be

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able to justify this expense through an analysis showing a reduction in lost sales and the potential increase in new sales as a result of the new computer system.

Hessa will also need to develop sales forecasts and a budget for her operation. She must allocate her expenses over the year to ensure that she can maintain current business operations and support any new strategies she wants to put in place.

Effective Communications

Communication is an essential part of directing work in a business. Managers must be able to communicate plans and directions, gather feedback from employees, and identify and resolve communication problems. Both personal and organizational communications are important. Because so many forms of communication that exist in organizations today, managing communications technology is an important responsibility.

Communication comes in many forms. What types of communication exists within an organization?



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Communication is much more than telling employees what to do. In fact, if employees believe managers are being too directive, they will likely be dissatisfied and not work as hard or effectively as they could. An important communication skill for managers is to listen to employees and involve them in deciding how work should be done. A manager should use both formal and informal communication. Encouraging employees to contribute their ideas and involving them in deciding the best way to do the work will help gain their commitment to achieving the goals. This is a good way to build consensus.

Employee Motivation

Why would employees be motivated by their manager's actions, such as recognition, instead of money?

Employee motivation is the process of influencing the actions taken by an employee to accomplish a goal. Employees may be motivated to achieve company goals, or they may be motivated to pursue other goals that do not benefit the company. Managers can use rewards and punishments to encourage employees to motivate themselves toward pursuing company objectives. A reward is not motivating unless it is



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something the employee values. The reward does not always have to be monetary. People also value things such as praise, respect, an interesting job assignment, or extended breaks after hard work.

Motivation comes from influences both inside and outside the individual. *Intrinsic motivation* stems from a person's beliefs, feelings, and attitudes that influence the person's actions. For example, many workers are motivated to do a good job because they get a feeling of satisfaction from a job well done. *Extrinsic motivation* comes from rewards and punishments supplied by other people. For example, performing well on a difficult task may result in bonus pay, praise from the boss, or promotion to a team leadership position.

For many people, intrinsic factors have the most influence on behavior. If employees consider work boring, they will not be motivated to do a good job. In the Reality Check scenario, the sales employees' intrinsic motivation for success could be negatively affected by feelings of frustration due to technology problems. For others, extrinsic factors have the strongest influence on performance. An employee who values recognition will likely be motivated by the challenge of a competition to obtain the highest customer service rating. Keeping work areas clean, clutter free, and repaired can motivate employees who value a pleasant work environment.

All people have their own needs and, whenever possible, will choose to do things that satisfy their needs and avoid doing things that don't. Managers can influence employee performance by understanding individual needs and providing rewards that satisfy those needs when employees accomplish work goals. Motivation theories are discussed further in the following lesson.

Operations Management

Operations are the major ongoing activities of a business. **Operations management** involves effectively directing the major activities of a business to achieve its goals. Several activities are part of operations management. Facilities, equipment, materials, and supplies must be available and in good operating condition so employees can perform their work. Employees must have the knowledge and skills to do their

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work. Managers must make sure that employees perform their tasks on schedule and work to resolve problems that could interfere with the successful completion of the job.

Effective planning and organizing are important parts of operations management. Planning helps employees know what to do. In the same way, well-organized work spaces and procedures for completing work tasks help operations run smoothly. If problems occur in the operations of a business, managers should examine the planning and organizing of the work.

Managers must be prepared to implement the activities assigned to their area of responsibility. Some activities are common to most management areas. For example, managers must hire new employees, monitor work schedules, and communicate policies and procedures. In addition, most departments are organized to perform specialized operations. The manager of the marketing department may be responsible for advertising and sales. The information systems manager must ensure that computer systems are operational, the company's Internet sites are up to date, and software is problem-free. Managers need to understand the unique work of their departments in order to help employees perform that work. Hessa will need to build consensus with the information systems managers in the technology department to ensure proper operations in her department.

In the past several years, organizations have paid a great deal of attention to improving the way work is done. Due to increasing competition, companies must operate efficiently to keep costs low so that they can compete successfully. Customers are demanding improved quality, so the company must produce products free of defects. The efforts to increase the effectiveness and efficiency of specific business operations (as defined in Lesson 1.2) are known as **process improvement**.



CHECKPOINT

What are the primary activities managers must perform as part of the directing function?

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3.1 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. An example of an intrinsic motivation factor is _____

- **a.** praise from your supervisor
- **b.** a pay increase
- **c.** personal satisfaction
- **d.** the admiration of co-workers

2. The efforts to increase the effectiveness and efficiency of specific business operations are known as _____

- **a.** organizational change
- **b.** team effectiveness
- **c.** consensus building
- **d.** process improvement

THINK CRITICALLY

Answer the following questions as completely as possible.

3. What are some reasons that managers with well-developed plans may still have problems with when directing those plans?

_____

_____

4. Why do some employees work well in teams and others do not?

_____

_____

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3.2

Motivation and Change Management

KEY TERMS

Physiological Needs
Security Needs
Social Needs
Self-esteem Needs
Self-Actualization
Achievement Need
Affiliation Need
Power Need
Hygiene Factors
Motivators

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

3.2.1 Describe the main points to the three theories of motivation.

3.2.2 Identify the steps managers should follow when directing change.

REALITY CHECK

Building a Motivated Team

Omar is the operations manager of a large construction company in Jeddah. The company has an excellent reputation in the industry and has recently won an important contract to build a brand-new hotel and business center. It is a state-of-the-art eco building and when completed it is expected to become one of the most prestigious and iconic new landmarks in the city. However, although his workforce are used to a stressful and dynamic environment, the complex building, green initiatives, and time pressures create many challenges for Omar's team to overcome.

At first Omar assumes that the respect of being associated with such a prestigious project would be more than enough motivation for his workforce. He is also known for paying higher wages than rival companies. However, as the project continues, he begins to sense dissatisfaction among the team. One colleague suggests the team need greater financial rewards for meeting targets. Another colleague takes an opposing view, suggesting that wages should be docked if workers don't meet their targets. "That's the best way to motivate anyone!" he says. A third colleague says, "It's not just about money. You need to satisfy their individual needs, whether that's giving more autonomy, making them feel part of a team, or generating a genuine sense of achievement."

What's Your Reaction? *What do you think is the best way for Omar to motivate his staff in a challenging work environment?*

LO 3.2.1 Motivation Theories

Most students can imagine days when they are excited to get up and go to school or take part in a particular club. On these occasions, the day is enjoyable and time seems to move faster than usual. In comparison, there may be some days which seem to go on forever, and work feels more tiring and laborious to complete. Equally, some teachers, coaches or club leaders seem to be able to encourage the best efforts from their students or team members. What causes the difference?

As highlighted earlier, intrinsic and extrinsic factors motivate people to act in certain ways. Psychologists have developed theories about what factors motivate people to behave as they do. Managers can influence employees to behave in ways that help achieve company goals by understanding and applying theories of motivation.

Maslow's Hierarchy of Needs

Abraham Maslow described motivation in terms of a hierarchy of needs. The first level is physiological needs, followed by security, social, self-esteem, and self-actualization needs. **Physiological needs** are things required to sustain life, such as food and shelter. **Security needs** involve making sure you and those you care about are safe and free from harm. **Social needs** include the need to belong, to interact with others, to have friends, and to love and be loved. **Self-esteem needs** include the desire for recognition and respect from others. Finally, **self-actualization** is the need to grow emotionally and intellectually, to be creative, and to achieve your full potential (see Figure 3-2).

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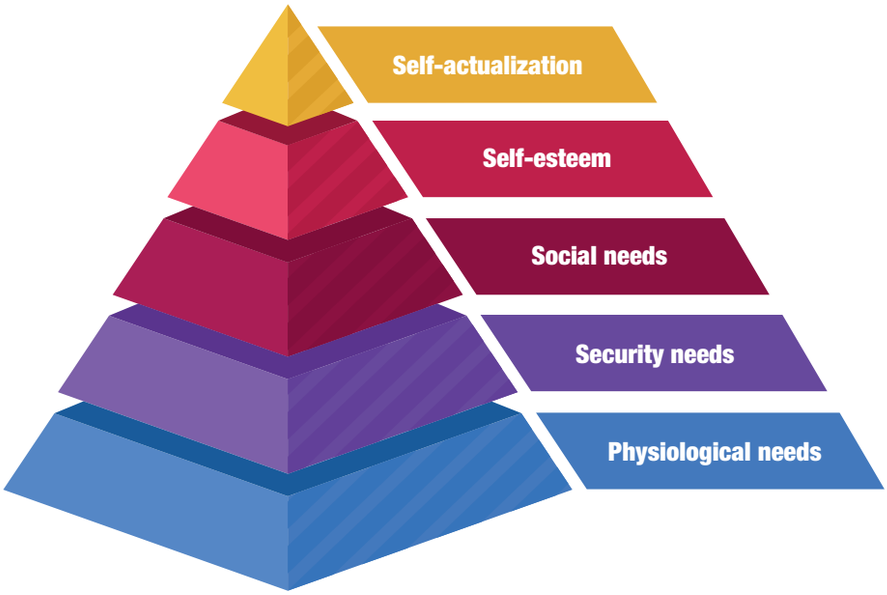


Figure 3-2 Maslow's Hierarchy of Needs

Abraham Maslow separated human needs into five categories of escalating importance.

According to the theory, people seek to satisfy these needs in a particular order, from lowest to highest. If a lower-level need is not satisfied, a person will have little motivation related to higher levels. For example, starving people will be more motivated to find food than to be concerned about friendships. But once people have reasonably satisfied their physiological and security needs, the need for social interaction will have more influence on their behavior. When applying Maslow's theory, managers can influence employee behavior by recognizing the levels of the hierarchy that are currently most important to an employee, and then using things such as job assignments, praise and support, and financial rewards that best meet those needs.

McClelland's Theory of Needs

Whereas Maslow's theory is based on a set of needs common to all people, David McClelland believed that people are influenced most by one of three specific needs: the need for achievement, the need for affiliation, and the need for power (see Figure 3-3).

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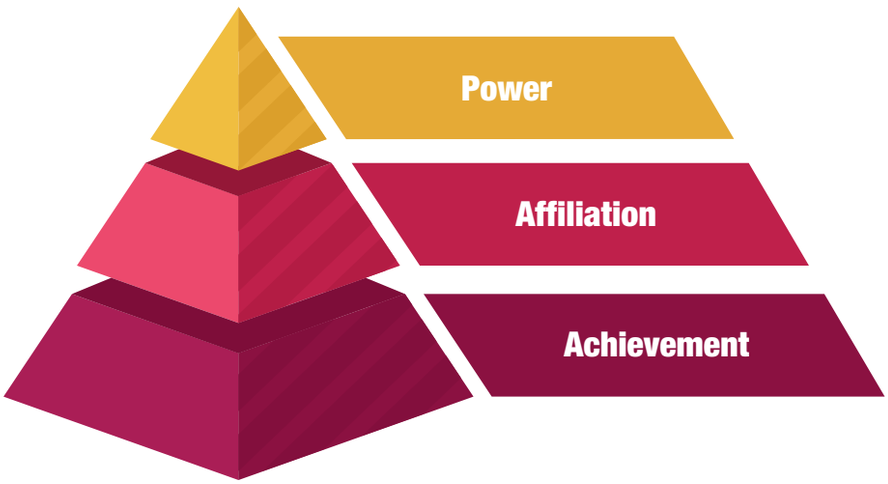


Figure 3-3 McClelland's Theory of Needs

David McClelland identified three core categories of needs.

McClelland suggested that people with a high **achievement need** take personal responsibility for their own work, set personal goals, and desire immediate feedback on their work. People with a strong **affiliation need** are concerned about their relationships with others and work to get along well and fit in with a group. Finally, those with a strong **power need** want to influence and control others and to be responsible for a group's activities. When understood and channeled correctly, these can be valuable attributes to have in an organization.

Managers who follow McClelland's theory of needs recognize that various jobs provide greater or fewer opportunities for achievement, affiliation, or power. Managers working with individuals who have a strong desire for achievement should provide them with opportunities to make decisions and control their own work. When managers believe their employees have a strong affiliation need, they should assign them to group projects and teams. These employees will respond well if socializing opportunities are provided. Finally, people that have a great need for power will work best when given the opportunity to be project leaders or to be involved in planning and decision making. McClelland's theory of needs suggests that the strength of the three needs can be changed over time with careful development.

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Herzberg's Two-Factor Theory

A third important motivation theory was developed by Frederick Herzberg. He conducted studies of employees to identify what satisfied and dissatisfied them in their work. His research resulted in the identification of two distinct groups of factors related to motivation. Therefore his theory is known as the *two-factor theory* (see Figure 3-4).



Figure 3-4 Herzberg's Two-Factor Theory

Frederick Herzberg identified two distinct groups of motivation factors: hygiene and motivators.

Herzberg called one group hygiene factors. **Hygiene factors** are job factors that result in employees feeling dissatisfied with work when they are absent but do not contribute to job satisfaction when they are present. Examples of hygiene factors are the amount of pay and fringe benefits, working conditions, rules, and the amount and type of supervision. For example, a good company-sponsored health care plan will not motivate employees to do a better job. But the lack of a good health plan could cause employees to be dissatisfied with their jobs.

Herzberg called the second group motivators. **Motivators** are factors that increase job satisfaction. The people whom Herzberg studied were motivated by factors such as challenging work, recognition, achievement, accomplishment, increased responsibility, and personal development.

The interesting part of Herzberg's theory is that the two types of factors and their results are separate from each other. In other words, hygiene factors can create dissatisfaction but cannot improve satisfaction. For example, people can be dissatisfied with the level of their pay and fringe benefits, but pay increases will not increase satisfaction very much or for any length of time. So, providing hygiene factors, such as pay increases and better working conditions, will only prevent employees from being dissatisfied. It will not motivate employees to perform at a higher level for more than a short time.

On the other hand, motivators increase satisfaction. To help encourage employees so that they can feel a greater sense of achievement for

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the work they do, managers should provide motivators such as opportunities for interesting work, greater individual control and responsibility, and recognition for good work.

Managers are often surprised by Herzberg's studies. It is easy to believe that a pay increase will motivate employees to perform better. However, people are often dissatisfied when they compare their pay to that of others, or they believe they are worth more than they are currently being paid. Factors such as fair pay, flexible work hours, and good fringe benefits can keep people from being dissatisfied but seldom are the major reason people are motivated to perform well.



CHECKPOINT

Why should managers understand motivation theories?

LO 3.2.2 Change Management

The only thing that seems certain in business is change. Many organizational changes affect workers and their jobs. Change can bring many positive outcomes, such as the thousands of new jobs and business opportunities instigated by Saudi Vision 2030.

While many people embrace change and the positive benefits it can bring, others are not always comfortable with change. When it appears that things will be different, there can naturally be some apprehension from those who are likely to be affected by the change.

When people's jobs are threatened, or when they are uncertain about how a change will affect them, they might resist the change. They are likely to be more resistant when change occurs suddenly, when they are not prepared, or when they don't understand the reasons for the change.

To implement organizational change, managers must work to reduce that resistance and to make change as comfortable as possible for the employees affected. Careful planning that involves the people affected

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will make the transition smoother, and employees will be more likely to support the change (see Figure 3-5).

Implementing Change

STEP 1: PLANNING
Carefully plan for the change.

STEP 2: COMMUNICATING
Communicate with people, so that change does not surprise them.

STEP 3: INVOLVING
Involve people, so they feel a part of the change.

STEP 4: EDUCATING
Educate people, so they understand the change.

STEP 5: SUPPORTING
Support people in their efforts to change.

Figure 3-5 Implementing Change

Managers should follow these steps when making changes that affect employees.



Step 1: Planning

Whenever possible, managers should not move too quickly to make changes. They must be certain that change is needed and that the organization will be better off as a result of the change. Then they should follow a careful procedure to gather information, identify and study alternatives, and determine the consequences of change. A well-considered plan will help to assure the best results and will give confidence to those most affected by the change. Taking a bit more time to plan will save time and reduce problems later.

Step 2: Communicating

Sometimes managers believe it is best not to say anything to employees about possible changes until they are ready to take action. They believe that early information will raise unnecessary concerns and misunderstanding. People who study the change process recognize that it is almost impossible to conceal information about forthcoming changes. Based on informal communication and limited information, rumors and misinformation will spread. If people are surprised by a change or believe they have been misled, the result is usually more damaging to the organization than the result of early, direct communications.

NET KNOWLEDGE

One of the most highly respected awards in business is the King Abdulaziz Quality Award. Established in 1420H, it recognizes the achievements of companies that improve the quality of their goods and services and provide an example of high quality and productivity.

Access the website for the King Abdulaziz Quality Award: https://kaqa.org.sa/. Look at the sections of the website on the award's organization chart, objectives, vision and mission, and core values. Write a brief summary of what you have learned. Next go to the winner corporations section, identify the reasons organizations participate in this award program and the results they have achieved. Examine the classifications and criteria. How do companies benefit when managers and employees work to set and achieve quality goals?

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Managers who have previously established open communications with employees are in the best position to communicate with them about possible changes. Because change occurs frequently in business, employees who are used to regular communications with their managers will not be surprised by information about potential changes, even if the changes may appear to be negative. Regular, open, two-way communications between managers and employees are part of an effective change process.

Step 3: Involving

People are more likely to support changes when they have been involved in planning. Managers must recognize that employees can be a good source of ideas for effective solutions and ways to make changes. Most effective change processes involve the people who will be affected in gathering information, considering alternatives, and testing solutions. It is usually not possible to involve everyone in all parts of the change process or to use a majority vote to decide on a change. However, employees will be more supportive when they know their voices will be heard and that they have input into plans that result in change.

Managers need to respect and seek the input of employees. If a manager asks for employees' ideas but then ignores their input, this is likely to frustrate employees and make them reluctant to participate in the future. Managers must make it clear that not every idea contributed by an employee can be implemented but will be carefully considered in the planning process.

Step 4: Educating

Change in business does not just happen. New products, new technology, or redesigned jobs require people to prepare for the change. Usually, that means information and training. As plans for change develop, managers must determine who will be affected and what new knowledge and skills those employees will need. Then managers should implement informational meetings and training programs to prepare employees for the required changes.

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In some circumstances, companies have to reduce the number of employees through downsizing. This type of change is very difficult for managers to implement and employees to accept. Some companies try to help the people who will no longer have jobs by offering training for other positions available in the company or to develop skills that will help them get jobs with another company.

Step 5: Supporting

How willing are you to make a change if you are uncertain of the result? When people believe they will receive support from their organization, they are more willing to accept changes. All changes involve some amount of risk, and organizations cannot guarantee success. However, managers need to assure employees that there is support available to help them adjust to the change.

The support can take many forms, such as allowing employees time to adjust to change. Managers may provide more feedback on employee performance and be less critical of mistakes early in the new process. Counseling, training, additional information, and advice from employees who have already experienced the change are other methods of support.

Sometimes changes have negative effects on employees that cannot be avoided. Jobs may be eliminated or restructured. Employees may have to deal with major job changes that can require reduction in pay, different working conditions, additional training, or a move to another location. Support is especially needed under these circumstances.



CHECKPOINT

What steps should managers follow to help employees understand and adjust to a major change?

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3.2 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. The motivation theory that states people are influenced most strongly by one of three specific needs—achievement, affiliation, or power—was developed by _____

- **a.** Maslow
- **b.** McClelland
- **c.** Pavlov
- **d.** Herzberg

2. Which of the following is *not* an effective way for a manager to implement change?

- **a.** Do not move too quickly to implement change.
- **b.** Do not communicate with employees about the change until a final decision has been made.
- **c.** Ask employees for ideas on effective solutions and procedures.
- **d.** Be less critical of mistakes made by employees while changes are being made.

THINK CRITICALLY

Answer the following questions as completely as possible.

3. Do you agree or disagree that increases in pay and other financial benefits are not good long-term motivators for most employees? Explain your answer.

_____

_____

4. How do you believe a manager should involve employees in planning for a change that will result in some of them losing their jobs?

_____

_____

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3.3
The Controlling Function

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LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

3.3.1 List the three basic steps in the controlling function.

3.3.2 Identify and describe four types of control standards.

KEY TERMS

Quantity Standard
Quality Standard
Time Standard
Profit
Cost Standard
Variance

REALITY CHECK

Quality and Quantity?

Nourah has been recruited to help turn around the fortunes of a manufacturing business in Medina. The once successful business has recently seen its profits decline notably. The company has received feedback from the retailers it supplies that its products are not meeting the high standards that they have come to expect. It seems that the business has been a victim of its own success. It began as a small producer with a focus on quality and handmade products. As the company has grown and taken more orders, it has struggled to maintain the quality with the quantity now required by customers. Nourah also discovers that the company needs to ensure that the control of its manufacturing activities is clearly organized as it is currently inadequate. Nourah asks the production supervisor what standards are in place and how they are monitored.

"Originally, I made all the products myself by hand," the production supervisor explains. "I could be sure the quality met the high personal standards I expect, and deliver the products on time in a cost-effective way. Now most of my time is spent training others to carry out the work, and we're constantly under pressure to fulfill orders. I'm frustrated because I feel I'm losing control of the production process and either the quality suffers or we overspend on bringing in temporary skilled craftspeople to complete an order."

"What you need is a designated system of control," says Nourah.

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"I can help you formalize your standards, which should help in identifying issues and taking corrective action. Setting standards and monitoring production is essential for a business of this size. It will help us to allocate resources more effectively."

What's Your Reaction? *What do you think Nourah means by this? Do you think she is right and how could they go about using standards to improve the production process?*

LO 3.3.1 Understanding Controlling

"Employee absences have increased by 3% this year."

"Maintenance costs are down an average of SAR 300 per vehicle."

"Salespeople have increased new customer orders by 12.3% in a three-year period."

"An average of 16 additional employees per month are enrolling in the company's wellness program."

"Adjustments to the product assembly computer program have reduced defects by 30%"

These statements provide very valuable information to managers. With the proper information, managers can tell how well activities are being performed. Reviewing performance is one part of the fifth management function—controlling. Managers must be able to determine if performance meets expectations. When expectations are being met, the manager can recognize employees for their success and even reward them when possible. If performance problems are occurring, managers need problem-solving skills to develop good solutions.

Management as a Continuous Process

All managers perform five management functions. Planning involves setting goals and directions for the business. Organizing deals with obtaining and arranging resources so the goals can be met. Staffing involves bringing the right people to the task. Directing is guiding and supporting the team so they can work effectively. Controlling is

determining whether goals are being met and what actions to take if performance falls short of the goals.

Although each of the functions has a unique purpose and includes a specific set of activities, they are all related. Planning improves if there is an effective organization to provide information to managers. Without effective planning, it is difficult to decide how to organize a business and what resources are needed. Staffing and directing are impossible without plans and difficult with a poorly designed organization. Controlling cannot be carried out unless the company has specific goals and plans. Figure 3-6 shows that management is a continuous process and that each function supports the others. Controlling provides the information needed to improve the management process and business operations.

The Management Functions

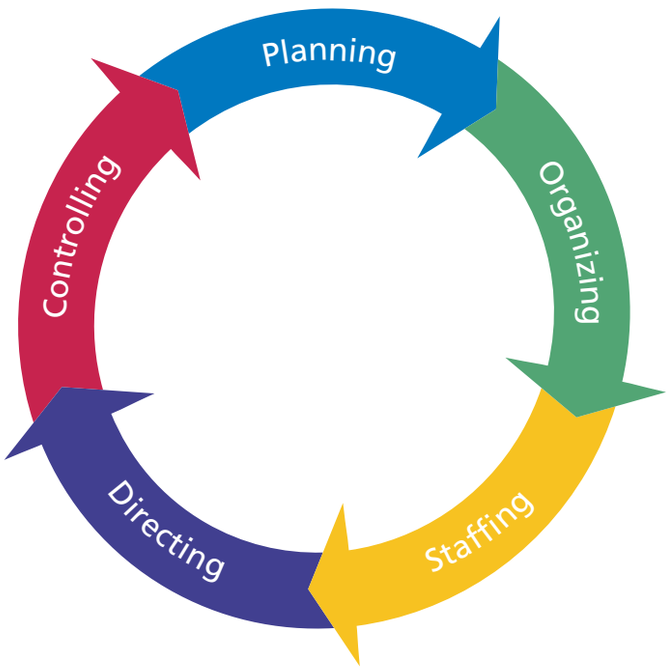


Figure 3-6 The Management Functions

The five functions of management are directly related. The way in which one is performed affects each of the others.

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The Steps in Controlling

Controlling involves three basic steps as illustrated in Figure 3-7:

1. setting standards to help meet each of the company's goals
2. measuring and comparing performance against the established standards to see if performance met the goals
3. taking corrective action when performance falls short of the standards.

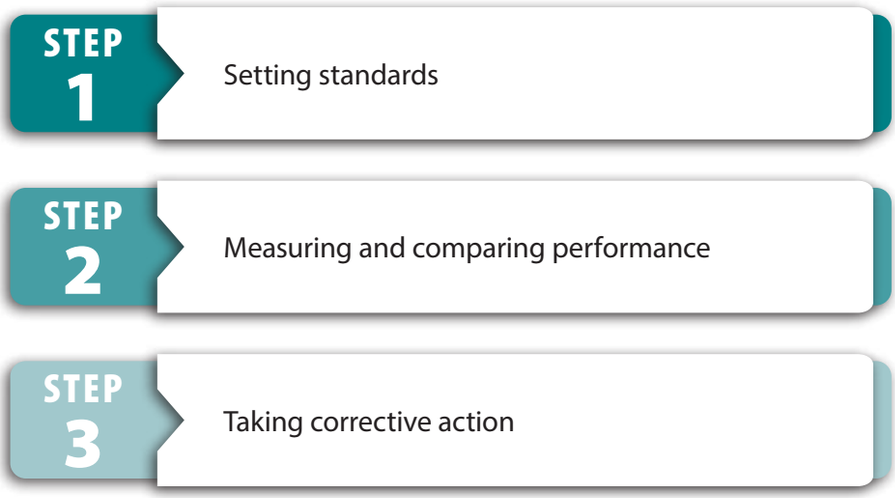


Figure 3-7 The Control Process

The controlling process can be structured into a series of three distinct stages.

Consider the following example. A business has a goal to manufacture and deliver to a customer 1,000 made-to-order rugs by a specific date. The standard is to produce 25 rugs each day for 40 consecutive days. During the first 10 days, only 200 rugs are produced, or an average of 20 rugs a day. Because production is 50 rugs below the standard—250 rugs in 10 days—the managers must take action to increase production during the remaining 30 days. The corrective action may include scheduling overtime work or assigning more workers to the task. Even as they take action, the managers should carefully study the manufacturing process to see why the standard that was originally set could not be met.

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Why would a manufacturer of rugs need a process of control?

As another example, the manager of a clothing store wants to make sure that a new line of abayas sell rapidly. The standard is to sell 30% of all the abayas in the line within one month. If the store sells only 20%, the manager must take corrective action. The manager may choose to increase the advertising for the abayas, give salespeople a higher commission for selling that style, or mark down the price to sell more. The manager will also want to use this information when planning purchases in the future.

In each example, the managers set a standard based on the work to be accomplished. Then they compared performance against the standard to see if the company's goals could be met. Finally, if performance was not meeting the standard, the managers had to determine how to correct the problem. Note that in both examples the managers did not wait long to begin measuring performance. Controlling activities should be carried out before the problem is too big or too expensive to correct.

CHECKPOINT

What are the three basic steps in controlling?

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LO 3.3.2 Setting Control Standards

Managers can determine reasonable standards by studying the task, using their past experience, gathering industry information, and asking for input from experienced workers. The standards become the means for judging success and for applying controls.

Types of Control Standards

The standards used to control business operations depend on the type of business, its size, and the activities being controlled. The major types of standards are quantity, quality, time, and cost standards.

Quantity Standards

A **quantity standard** establishes the expected amount of work to be completed. Quantity standards take different forms, depending on the tasks. Production managers may specify the minimum number of units to be produced each hour, day, or month by individual workers or groups of workers. Sales managers may establish the number of prospective customers that sales representatives must contact daily or weekly. A manager of administrative services may establish a minimum number of forms to be completed or number of lines of information to be keyed in an hour by information-processing personnel. The quotas Hessa established for her employees in the telemarketing department described in Section 3.1 are examples of quantity standards.

Quality Standards

Quantity standards alone are often not enough to judge an employee, a product, or a service. A fast worker, for example, can be very careless, or a slow worker can be extremely careful. Thus, as highlighted in the Reality Check at the start of this lesson, the quality of the work performed is often just as important as the quantity produced. A **quality standard** describes expected consistency in production or performance.

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Perfection—having no errors—may be the only acceptable standard for some products and services. An automobile battery that does not work cannot be sold. An invoice with pricing errors cannot be sent to a customer. Perfection is the standard, but it may not always be practical or cost-effective to develop procedures to check every finished product. On an assembly line where thousands of products are produced every hour, sampling a few products each hour may be enough to identify when quality problems occur so corrective action can be taken.

Time Standards

Time standards are closely related to quantity and quality standards. Most business activities can be measured by time. A **time standard** is the established amount of time needed to perform an activity. The amount of time it takes to perform an activity has an effect on costs, the quantity of work performed, and often on the quality of the work. Time standards are more important to some businesses than to others. Building contractors, such as the Reality Check example in Section 3.2, for example, normally have strict time schedules. If they do not meet the schedules, they suffer an immediate financial loss. If an office tower is not completed on time, the builder must usually pay a financial penalty. Similarly, a baker who does not have fresh bread ready for the morning rush will lose a major portion of the day's sales. Other businesses may not see the immediate financial loss, but failure to maintain time standards will result in fewer products being produced, poor coordination of activities between departments, or other problems.

Cost Standards

An important measure of the success or failure of a firm is financial profit or loss. **Profit** equals income minus costs. Therefore, managers can increase profits by either (1) increasing sales revenue or (2) decreasing costs. Not all managers or employees are directly connected with work that increases sales. However, most employees and managers do influence costs. Wasting material or taking more time than necessary to perform a task adds to the cost of doing business. Increased costs, without a proportionate increase in sales, decrease profit. Businesses

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Management Matters

There's an app for that too

On a large scale, computer applications can instantaneously track everything in a business, from the hourly production of oil wells to the sales of specific colors of fabric in each store of a worldwide retail business. At any time, managers can access that information to make production decisions and update sales forecasts.

In the same way, cell phone users can track minutes used, text messages sent, or amount of data downloaded by their phone. Some plans for internet use require users to pay for each service while others set limits and charge customers when they exceed their plan. Some plans allow users to check their usage online or directly on their phones. The information can be used in controlling expenses. Knowing the current status of your account can help you make better decisions on whether to send a text message to all your friends or download a new song.

What Do You Think?

Does access to information help you make better decisions? What types of information can help you stick to a budget, better schedule your time, or improve your physical health?

must be cost-conscious at all times. A **cost standard**, or the predetermined cost of performing an operation or providing goods or services, is an effective way of helping businesses maintain profitability.

Generally, businesses pay more attention to cost controls than to any other type of control. The control devices used, as a result, are numerous. One of the main purposes of the accounting department is to provide detailed cost information. Most managers, however, act as cost controllers in some way. Increasingly, employee work teams and individual employees are assigned responsibility for cost controls.

The most widely used tool for controlling costs is the budget. Like schedules and standards, budgets are also planning devices. When a budget is prepared, it is a planning device; after that, it is a controlling device. Actual cost information is collected and compared with budgeted amounts. These comparisons permit judgments about the success of planning efforts and provide clues for making changes that will help the company reach its financial goals. Managers need to monitor costs regularly. When budget problems are identified early, managers have time to take corrective action.

Measuring and Comparing Performance

Once standards have been established, they are used to determine effective performance. Managers gather information on all parts of business operations for which they are responsible. They compare that information against the standards to determine if performance is meeting the standards. A **variance** is a difference between current per-

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formance and the standard. A variance can be positive (performance exceeds the standard) or negative (performance falls short of the standard). Whenever a variance exists, managers must identify the reasons for the difference.

If performance has exceeded the standard, it is valuable to understand why this has occurred so that it can be repeated. Managers should review why they set the standard lower than the performance that could actually be achieved. In addition, managers should ensure that the positive performance in one area does not have a negative effect on another area. If the company is not performing at the expected level, this may indicate problems between planning and directing activities. Managers need to communicate the problem appropriately with employees, and take corrective action to improve performance. They must also review procedures carefully to avoid the same problem happening in the future.

Monitoring all activities for which managers are responsible can take a great deal of time. Managers can use information systems to reduce the amount of time spent on controlling. Computers can monitor performance and compare it to the standard. When the computer identifies a variance, it generates a variance report for the manager. Through the use of computer monitoring and variance reports, managers can identify problems quickly and begin to take immediate corrective action.



CHECKPOINT

Provide an example of each of the four types of control standards.

3.3 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. The final step managers take in the controlling process is _____
   - **a.** following performance standards set to help meet company goals
   - **b.** measuring performance using established standards
   - **c.** establishing new goals
   - **d.** taking corrective action when standards are not met

2. Consistency in products and performance is measured using a _____
   - **a.** quantity standard
   - **b.** quality standard
   - **c.** time standard
   - **d.** cost standard

THINK CRITICALLY

Answer the following questions as completely as possible.

3. Do you believe managers should perform each of the management functions in order? Why or why not?

   _____

   _____

4. Which type of standard do you believe is the most important when trying to improve the overall effectiveness of a business? Justify your choice.

   _____

   _____

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Changing the Face of Manufacturing

You can't make a mistake when building airplane engines. Jet engines have more than 10,000 parts. When completely assembled, they weigh more than eight tons. Yet a bolt not tightened, a tool left inside the engine, or a safety procedure not followed can cost hundreds of lives.

One company has used a team approach for over 20 years to produce jet engines. Approximately 200 people assemble the huge engines. But there is only one boss, the plant manager, and one instruction to guide the work of the plant—the date each engine needs to be finished. Beyond that instruction, employees make every decision about how the work will be performed. They hold a record for delivering every engine ordered on schedule for over three years. During that time, they were able to reduce the cost of producing the engine by nearly one-third.

How was this plant able to achieve its amazing record with only one manager? Here are some unique characteristics of the organization:

- Employees are organized into work teams that make almost all decisions. Everyone is on a team, and team meetings are scheduled when all employees are available.
- Work schedules are flexible. Team members can easily adjust their work hours by trading weekday and weekend shifts as needed to meet production schedules, without adding overtime hours.
- Everyone learns how to do many of the assembly tasks so they can help each other.
- Teams are responsible for hiring new team members. Team representatives do the interviewing, and they have to agree on the right person.
- Teams solve problems and often come up with unique but simple solutions. They use consensus building to make a decision, with all the team supporting that decision going forward.
- Teams are allowed to reorganized themselves as needed to meet changing conditions and requirements.

The team environment works. Its unique organization demonstrates that when employees are given the opportunity to work together to manage their work, they do it better than anyone could have imagined.

FOCUS ON Teamwork



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FOCUS ON Teamwork



Think Critically

1. How do you believe the flexible work schedules affect employee motivation? What are the advantages and disadvantages of that plan?

2. Discuss reasons why the team problem-solving process seems to result in unique but effective solutions. Are there reasons a solution developed by employees is likely to be more successful than if the same solution was developed by a manager without the input of employees?

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CHAPTER THREE

Assessment

CHAPTER CONCEPTS

- Staffing focuses on finding the right individuals to do the work through hiring, finding talent within the company, and possibly bringing in outside workers to support a project.
- Directing involves guiding employees and ensuring they are motivated and have the resources needed to achieve goals.
- People choose to do things that will satisfy their needs and avoid things that don't. Theories of motivation developed by Maslow, McClelland, and Herzberg describe factors that influence employee behavior.
- Change is common in organizations, and managers need to help employees accept change. The steps in an effective change process are planning, communicating, involving, educating, and supporting.
- Controlling steps ensure operations meet expectations by following established standards to help meet goals, measuring and comparing performance, and taking corrective action when performance falls short of standards. Common types of control standards are quantity, quality, time, and cost standards.

DEVELOP YOUR BUSINESS LANGUAGE

Match the terms listed with the definitions.

	Term	Your Choice	Definition
1.	Achievement need		**a.** Income minus costs.
2.	Affiliation need		**b.** The major ongoing activities of a business.
3.	Cost standard		**c.** A team of individuals who cooperate to achieve a common goal.
4.	Employee Motivation		**d.** Job factors that result in employees feeling dissatisfied with work when they are absent but do not contribute to job satisfaction when they are present.
5.	Hygiene factors		**e.** In Maslow's hierarchy of needs, the things required to make sure you and those you care about are safe and free from harm.

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	Term	Your Choice	Definition
6.	Motivators		**f.** A difference between current performance and the standard.
7.	Operations		**g.** Effectively directing the major activities of a business to achieve its goals.
8.	Operations management		**h.** In McClelland's theory of needs, the need to take personal responsibility for work, set personal goals, and want immediate feedback on work.
9.	Physiological needs		**i.** In Maslow's hierarchy of needs, the need to grow emotionally and intellectually, to be creative, and to achieve your full potential.
10.	Power need		**j.** The predetermined cost of performing an operation or providing goods or services.
11.	Process improvement		**k.** A specific measure that describes expected consistency in production or performance.
12.	Profit		**l.** In Maslow's hierarchy of needs, the need to belong, to interact with others, to have friends, and to love and be loved.
13.	Quality standard		**m.** In McClelland's theory of needs, motivation related to people's relationships with others, and to get along well and fit in with a group.
14.	Quantity standard		**n.** The efforts to increase the effectiveness and efficiency of specific business operations.
15.	Security needs		**o.** Factors that increase job satisfaction.
16.	Self-actualization		**p.** The process of influencing the actions taken by an employee to accomplish a goal.
17.	Self-esteem needs		**q.** A specific measure that establishes the expected amount of work to be performed.
18.	Social needs		**r.** A specific measure that establishes the amount of time needed to perform an activity.
19.	Time standard		**s.** In Maslow's hierarchy of needs, the desire for recognition and respect from others.
20.	Variance		**t.** In McClelland's theory of needs, the desire to influence and control others and to be responsible for a group's activities.
21.	Work team		**u.** In Maslow's hierarchy of needs, the things required to sustain life, such as food and shelter.

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REVIEW BUSINESS MANAGEMENT CONCEPTS

Determine the best answer.

22. Effective work teams have all of the following characteristics except _____

- **a.** all members understand and support the group's purpose
- **b.** the team does not need to have a group leader
- **c.** members work to resolve problems in the group
- **d.** the team's activities are clear

23. _____ described motivation in terms of a hierarchy of needs

- **a.** Maslow
- **b.** Herzberg
- **c.** McClelland
- **d.** Jacobs

24. Employees are more likely to support what they _____

- **a.** find to be the easiest
- **b.** are paid for
- **c.** are involved in planning
- **d.** have been told to support by their manager

25. The first step in the controlling process is _____

- **a.** setting standards for each of the company's goals
- **b.** communicating with employees about the importance of controlling
- **c.** taking corrective action when performance falls short of standards
- **d.** organizing employees into work groups

26. Which of the following is not a way managers can increase profits?

- **a.** Increase sales revenues.
- **b.** Decrease costs.
- **c.** Add more employees.
- **d.** Reduce waste.

27. A production manager who specifies the minimum number of units to be produced each hour, day, or month is establishing a _____

- **a.** variance
- **b.** time standard
- **c.** quality standard
- **d.** quantity standard

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APPLY WHAT YOU KNOW

Answer the following questions.

28. "All problems encountered by an organization can be traced back to poor planning." Do you agree with this statement? Justify your answer.

_____

_____

29. Why are businesses paying much more attention to developing effective work teams today than in the past?

_____

_____

30. What differences in directing and controlling activities, if any, would there be for a manager of a small business and a manager in a large business?

_____

_____

31. What should a manager do if it is clear that many employees will view a planned change negatively?

_____

_____

32. What are some examples of business activities where perfection is the only acceptable standard for performance?

_____

_____

33. Should managers delegate controlling activities to employees and employee teams? Why or why not?

_____

_____

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MAKE ACADEMIC CONNECTIONS

Complete the following activities.

34. Technology Form a team with three or four other students in your class to analyze motivation theories. As a team, develop a list of at least 15 things you believe motivate employees to perform well. After completing the list, prepare diagrams using a computer graphics program that illustrate each of the three motivation theories discussed in the chapter. Then add your team's motivators in the appropriate places on each of the three illustrations. Present your diagrams to the other teams and provide reasons for your decisions about the motivators and the theories.

35. Math The chart below shows information from a company's budget. Column 1 shows the categories for which a budget amount has been determined. The budgeted amounts are shown in Column 2, and the actual amounts are shown in Column 3. Complete the chart by calculating the variance between the budgeted and actual amounts in Column 4 and the percentage increase or decrease in Column 5. Next write a short summary of the findings, explaining how information of this nature might be useful to a manager who is responsible for managing and controlling the company's finances.

Budget Category	Budget	Actual	Variance	% + or –
Sales	SAR 680,000	SAR 720,000		
Merchandise returns	11,000	12,500		
Cost of goods	229,400	240,000		
Operating expenses	52,000	46,500		
Administrative costs	34,000	31,500		
Marketing expenses	306,000	350,500		
Net profit	47,600	39,000		

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Summary of Findings.

CASE IN POINT

Cutting Employee Compensation

A long-established Saudi company based in Tabuk manufactures specialty fastening materials used by trucking, storage, and construction firms. It is increasingly facing competition from companies that have manufacturing facilities around the world. Many of those companies have lower production costs, allowing them to undercut the company's prices to customers. Several of the company's Saudi competitors have moved their manufacturing facilities to other countries where wage rates are lower, whereas others have either been bought out by foreign firms or have gone out of business. The management wants to remain in Saudi Arabia and retain its loyal employees, but it has to find a way to reduce costs. Profits have been declining, and it is clear that major changes must be undertaken. After careful thought and study, the company's top management team has developed a strategy it believes will allow the business to remain in its current location, become competitive once again, and return to its previous level of profitability over a period of five years.

As a part of its new strategy, the company will implement a major change in the way it produces its belts and fasteners. In the past, most production was handled by skilled machine operators who completed a three-year apprenticeship program before operating the manufacturing equipment on their own. A new computerized manufacturing process will allow the main production activities to be performed by people with fewer skills, who require only a very short training period. That means the company will reduce the number of machine operators by 20% and will cut the pay rate for machine operators by SAR 10 per hour. However, the company will need a number of computer programmers and computer technicians for the new equipment. Those jobs will pay SAR 9 per hour more than the average skilled machine operator is currently making.

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The company will encourage the current operators to switch jobs and will provide the training needed for the new computer jobs. It is expected that nearly half of the current machine operators will be able to switch jobs if they choose to do so. The rest can be employed in the new production jobs but will have to take the lower pay rate for the job. To make the change easier for those operators, the company will provide a one-time payment equal to one month's wages to help them with the adjustment to the new job and pay rate.

Think Critically

1. What is your opinion of the company's plans for the change to the new production equipment and jobs?

_____

_____

_____

2. What would you recommend that the company do, if anything, for the machine operators who are not hired for the computer positions and choose not to accept the pay reduction?

_____

_____

_____

3. As the production manager, explain how you would handle the changes described to get employee support.

_____

_____

_____

4. In small groups, play the role of the company's managers and prepare a presentation about the change, using presentation software. As each group presents, the rest of the class should play the role of employees and ask the presenters questions they have about the changes being made.

_____

_____

_____

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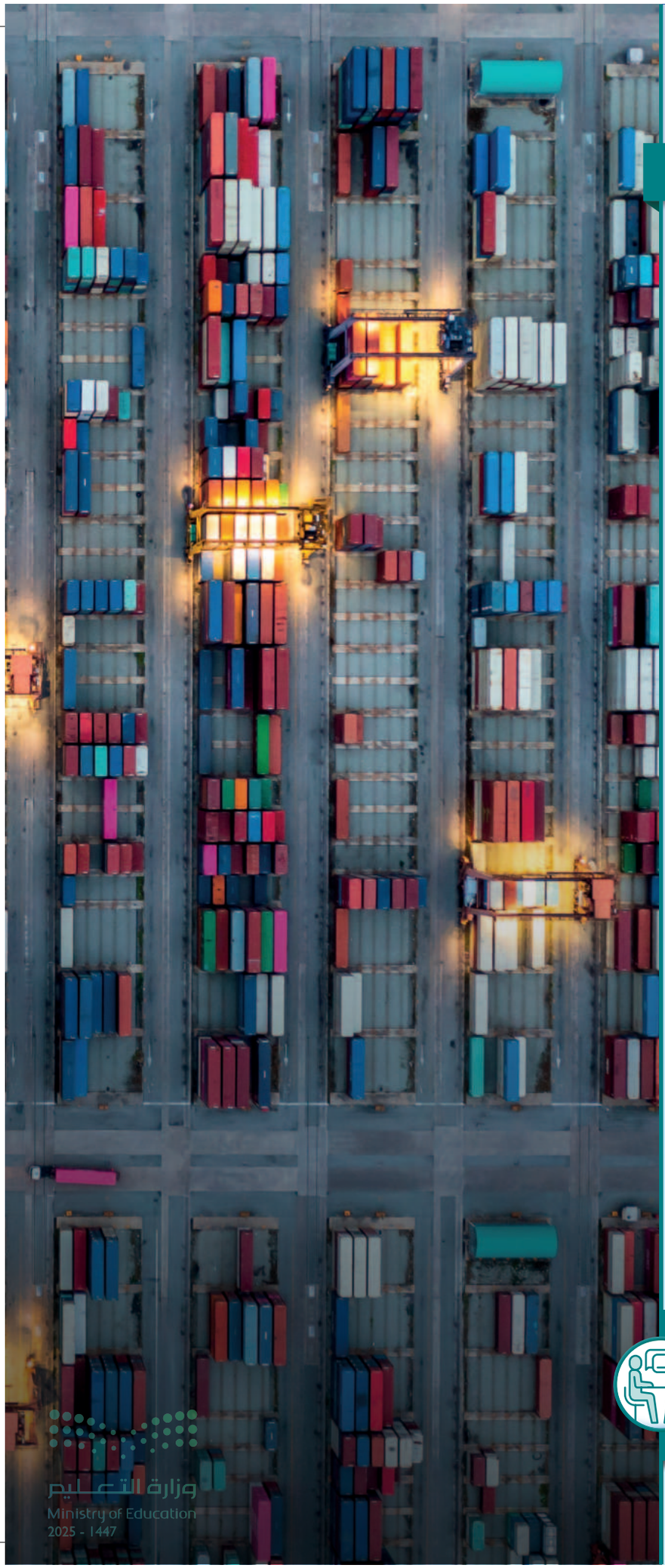
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4

Challenges of Contemporary Management

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CHAPTER LESSONS

4.1 Innovation Management

4.2 Logistics and Supply Chain Management

4.3 Crisis Management

There are many challenges faced today in contemporary management. Managers must be willing and prepared to react to changes in the environment, taking proactive steps to remain ahead of competitors or avert disasters. Evidence has shown that the most successful companies and business people innovate. This chapter discusses three contemporary topics in management: innovation, supply chain management, and crisis management. New innovations are particularly important in times of change, in order for companies to both survive and thrive. The chapter then turns to the importance of effective supply chain management in the success of a business. Finally, the chapter addresses the matter of crisis management and strategies that can be put in place by managers to minimize the impact.

Why is managing innovation a critical challenge in today's business world?

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Link to digital lesson

www.ien.edu.sa

4.1 Innovation Management

KEY TERMS

- Organizational Innovation
- Product Innovation
- Process Innovation
- Paradigm Innovation
- Position Innovation
- Creative Work Environment

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

4.1.1 Describe the innovation process and different forms that innovation can take in an organization.

4.1.2 Explain the methods and processes managers can adopt to encourage and manage innovation in an organization.

REALITY CHECK

A Great Idea!

Maha has just started a new job on the management team at a company in Riyadh. She is very excited because the company is known for encouraging new ideas from its employees.

"We have a creative work environment," Maha's new boss explains on her first day, while showing her around the office. "If any employee has a great idea about a new product, or a better way to do things, then we want to know about it!"

"That sounds great!" Maya replies. "I can't wait to get started."

This is a notably different environment compared to Maha's previous job. While Maha found it to be a friendly place to work, the company she used to work for had established processes for product development and was less receptive to new innovations from within the team. She had witnessed several employees grow frustrated after their ideas for innovations went unnoticed. When Maha suggested that the company needed an outlet for creativity within the team, the response was that the company's strategy was already successful and didn't need new ideas.

What's Your Reaction? *Do you think a company that's already successful needs to generate new ideas from the team?*

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LO 4.1.1 Innovation in Organizations

The extent of innovation in today's business world can be highlighted by the following scenario involving a businessman named Faisal. As Faisal approaches his office parking garage, the LED lights inside brighten. Prompted by an app on Faisal's smartphone, the garage camera matches his license plate to his personnel record, raises the gate, and locates a parking space. Inside the office, the same app finds a desk based on Faisal's schedule and preferences (standing desk, sitting desk, work booth, concentration room, or meeting room). Before setting off to his desk, Faisal drops his personal belongings in an empty locker (indicated by a green light), using his ID badge to unlock it. As he arrives at his desk, the temperature and lighting automatically adjust to his personal preferences. A central dashboard collects data on everything from energy usage to when the espresso machines—which, naturally, remember how Faisal likes his coffee—need to be refilled. One exterior wall is glass, while another is composed of an alternating pattern of windows and solar panels that generate more electricity than the building uses. When everyone leaves for the day, small security robots begin their patrol while other robots clean the rooms that were most heavily used that day. While this may sound like something out of the future, this unbelievable account is an example of a smart or intelligent building, with its services, technological systems, and occupants all connected seamlessly via a smartphone app. Intelligent technology is being incorporated into many new buildings like this across Saudi Arabia. Neom, the large-scale, cutting-edge development project in Tabuk, takes this idea one step further, envisioning an entire 'smart city' incorporating customizable state-of-the-art technology.

What is Organizational Innovation?

Organizational innovation is the successful implementation of creative ideas in organizations, like the construction of state-of-the-art intelligent buildings. Analysts can only guess what changes technological innovations will bring in the next 20 years. People already carry



Smart office buildings with personalized environments controlled via a smartphone app are examples of organizational innovation. Can you think of any other examples?

sophisticated handheld computers in their pockets – today's smartphones are more advanced than the computing technology behind early space exploration. Will solar power and wind power get cheap and efficient enough so that homes across Saudi Arabia will have a standalone power source off the main electrical grid? Will fully automated, self-driving cars transport business people to work? What is clear about the next 20 years is that innovation will continue to change everyone's lives. Saudi Arabia is at the center of this innovation revolution, with a range of initiatives instigated as a result of Saudi Vision 2030 designed to encourage new ways of thinking that lead to economic prosperity and sustainability.

The Innovation Process

It is important to recognize that innovation is not a single event, but rather a continuous process, which can be broken down into several stages. The four key steps of the innovation process are outlined in Figure 4-1.

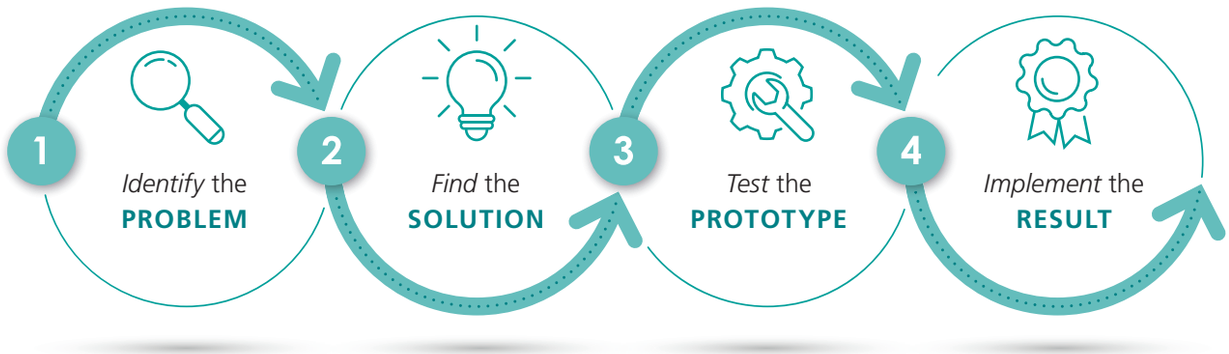


Figure 4-1 The Innovation Process

There are four key steps in the innovation process, as an idea is developed from concept to reality.

- **Step 1:** The initial stage is to observe the situation, whether it is a product or service or business scenario, and *identify the problem* that could be fixed or improved upon.
- **Step 2:** This stage involves the key aspect of innovation, and one of the trickiest to master – *finding the solution*. However, note that a solution can only be devised and successfully implemented if there is a genuine problem that needs fixing.
- **Step 3:** Before rolling out the solution, it needs to be tested in a controlled environment by *creating a prototype*. Many innovators might be tempted to skip this step, however it is an essential one and avoiding it could prove to be a costly mistake at a later stage.
- **Step 4:** Finally, only once the prototype has been refined, and proven to work, should the *innovation be implemented* on an operational level.

It should be noted that this process can often be *cyclical*, meaning that it will rarely progress in straightforward sequence from step 1 through to step 4. If a solution cannot be found to a problem, the innovator may need to consider returning back to step 1 to identify another problem to solve. Equally, if the prototype faces continued challenges, the innovator may question whether the solution is adequate. A fifth step could be added into the process to review and repeat, analyzing the success of the innovation so that it can be assessed, improved and replicated.

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Why is it important to make prototypes before manufacturing the real product intended for customers?

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Key Innovation Types

Innovation can take a wide range of interconnected forms, which have been grouped into broad categories known as the '4 Ps of innovation', as illustrated in Figure 4-2:

1. Product innovation
2. Process innovation
3. Position innovation
4. Paradigm innovation

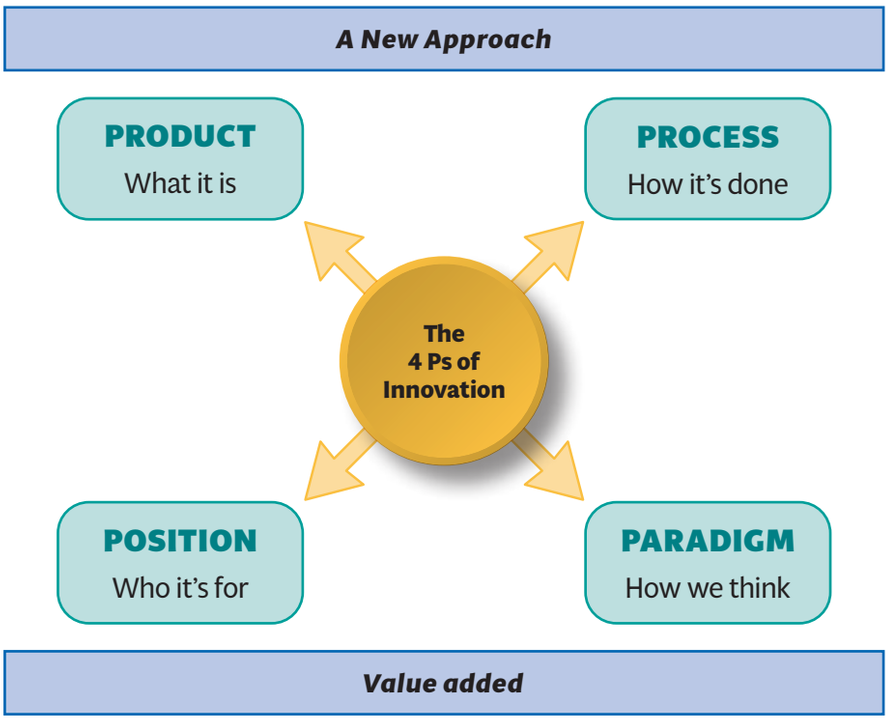


Figure 4-2 The 4 Ps of Innovation

The four 'Ps' of innovation were devised by Joe Tidd and John R. Bessant, highlighting the ways in which a new approach leads to added value.

Each of these types of innovation is characterized as follows:

1. Product Innovation

When asked to provide an example of innovation, many people are likely to suggest a new product or physical invention. **Product innovation** is a new iteration of a product or service, that creates a clear and

tangible improvement on the existing offering. Many new products and services are introduced to consumers every day. However, this does not mean that every new example is genuinely innovative. In order to be considered an innovation, it must possess distinct characteristics that offer some clear form of advantage or benefit that was not present before its introduction.

A notable example of product innovation over the last 20 years is the development of hybrid cars, which have made a significant commercial impact in the car industry. However, product innovation is not limited exclusively to physical commodities; it also relates to services. For example, the financial services provided by banks and money lenders are often packaged as 'products' that offer innovative solutions for customers who wish to access loans or protect their savings. Several innovative developments have been established in the financial sector in Saudi Arabia over the last decade. While product innovation may be the most obvious type of innovation, in reality it's not necessarily the most frequently occurring type of innovation.



2. Process Innovation



Self-check-out tills and online government portals are example of process innovation. What other examples can you think of?

A common form of innovation is process innovation. **Process innovation** occurs when a new way of handling a task is developed that creates some form of advantage or benefits. Process innovation is largely centred upon the operational aspects of a business and the form or nature of delivery of services or products. As a result, it often has a customer-centric focus, centered on improving the lives of the consumer. One example is the introduction of an electronic customer relationship management (CRM) system that builds a profile of each customer's preferences in order to target marketing and promotions directly at them. Alternatively, it might be a new online payment system or self-check-out tills that reduce queuing and hence offer a more positive customer experience.

In Saudi Arabia, many government services, such as Absher and Najiz, can now be accessed immediately, 24-hours-a-day, from the comfort of people's homes, via online portals. A recent example of process innovation that has revolutionized everyday lives include ordering food or other services via an app from a smartphone. Another success story is the rise of digital streaming services for delivering audio-visual content rather than physical formats. Many customers are also drawn to the environmental benefits of digital services that cut down on physical packaging and delivery.

3. Paradigm Innovation

Paradigm innovation is concerned with perception, creating an entirely new model that challenges the accepted norms of how people view something. In other words, it presents a new possibility, providing consumers with a new product, service or benefit that they didn't realize that they needed.

While it may not be the easiest form of innovation to conceptualize, it is one of the most significant and successful. The classic example



The prevalence of handheld smart devices is an example of paradigm innovation. What other examples can you think of?

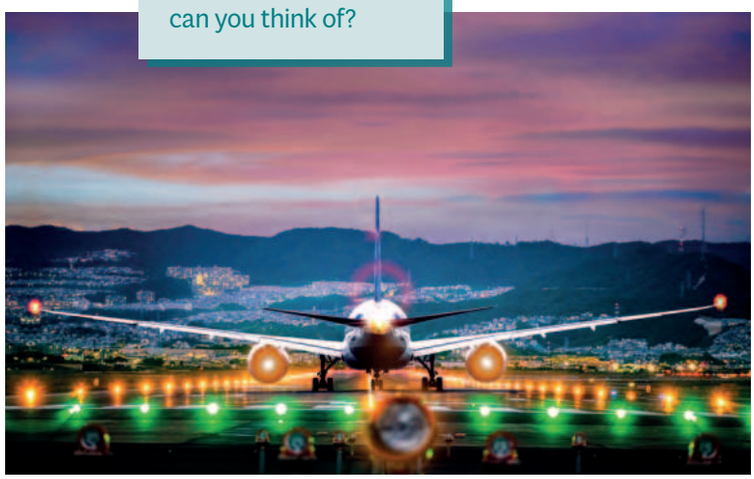
of paradigm innovation is the early development of the affordable family motorcar. Its introduction fundamentally revolutionized the way people live their lives, and led to many innovations in other areas. A more recent example is the development of handheld smart devices. Although each individual new device is a product innovation, the wider shift can be regarded as a paradigm innovation in the way that these handheld devices have altered every aspect of daily life and business.

4. Position Innovation

Another significant yet often over-looked innovation type is position innovation. **Position innovation** is an important component of marketing management that considers the specific customer base or segment that a product or service is targeting. One way to envisage position innovation is the process of finding a new or profitable 'space' or 'niche' for a product or service to thrive. It often involves an existing technology, product or service that has its focus reframed to enter a new market or to attract a different customer segment.

Low-cost airlines are an example of position innovation. What other examples can you think of?

For example, a growing trend in position innovation worldwide can be seen in the private healthcare sector, in which providers are positioning the experience of hospitals more closely to hotels. This is in recognition of the fact that discerning patients are putting greater emphasis on the level of comfort, in addition to the medical treatment they are receiving.



A classic example of position innovation is the introduction of low-cost airlines. Another is the differentiation between premium executive cars and economy cars, each aimed at a specific market segment. Today, a growing market segment is attracted to electric cars with minimal environmental impact.

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The Relationship Between Types of Innovation

It's important to note that these innovation categories are closely linked. A new innovation may well fit into several categories, incorporating elements of several of the Ps. Smartphones for instance, could be said to encompass all four Ps: A smartphone is a product, yet it has helped to facilitate process innovation in how people access data and content; it is a key example of paradigm innovation in the lifestyle shift it has created. It has also experienced position innovation: the first smartphones were high-cost luxury products, targeted at executives and business people. Today, as costs of production have come down, they are positioned as affordable products for everyday users.



Net Knowledge

Open Innovation

A growing phenomenon in business is the concept of 'open innovation', in which members of the public or a business community are invited or encouraged to submit and pool ideas, work together and build on the work of others to develop new products or services. Similarly, 'wikis' are designed to encourage collaboration in online content creation and knowledge dissemination so that it is available for everyone. The Saudi government encourages open innovation through inviting ideas from citizens and the business community. Go online, visit https://www.my.gov.sa/ and research examples of open innovation in Saudi Arabia.



CHECKPOINT

What are the '4 Ps' of innovation?

LO 4.1.2 Managing Innovation

Evidence has shown that the most successful companies and business people innovate. What is more, as has been illustrated in Figures 4-1 and 4-2, innovation is not an entirely random phenomenon that relies solely upon a 'spark of inspiration'. Rather it is a methodical process that can be encouraged and embedded into an organization's daily practices. In today's competitive environment, managers must learn how to manage innovation.

Why Innovation Matters to Organizations

Innovation is not simply preferential, it is a necessity for a business to thrive and remain profitable over time. There are wide range of reasons why all companies should innovate in some form. The benefits it can bring to an organization can be grouped into four broad areas, as illustrated in Figure 4-3:

1. It solves business problems
2. It increases productivity
3. It creates a competitive advantage
4. It reduces cost and increases revenue

These benefits can be illustrated by considering an example from the business world. The Reality Check example at the beginning of this lesson introduced Maha, who had just joined a company in Riyadh that encourages innovation. Suppose that the business has now acted upon an innovative suggestion from Maha. It has innovated by introducing a new high-tech, automated system for fulfilling customer orders. Previously, the company had to guess how many raw materials it would need, and sometimes overstocked or understocked as a result. This new system automatically sends each new order to the manufacturing department and works out exactly how many raw materials are required from suppliers. Maha believes this new system will be much more efficient.

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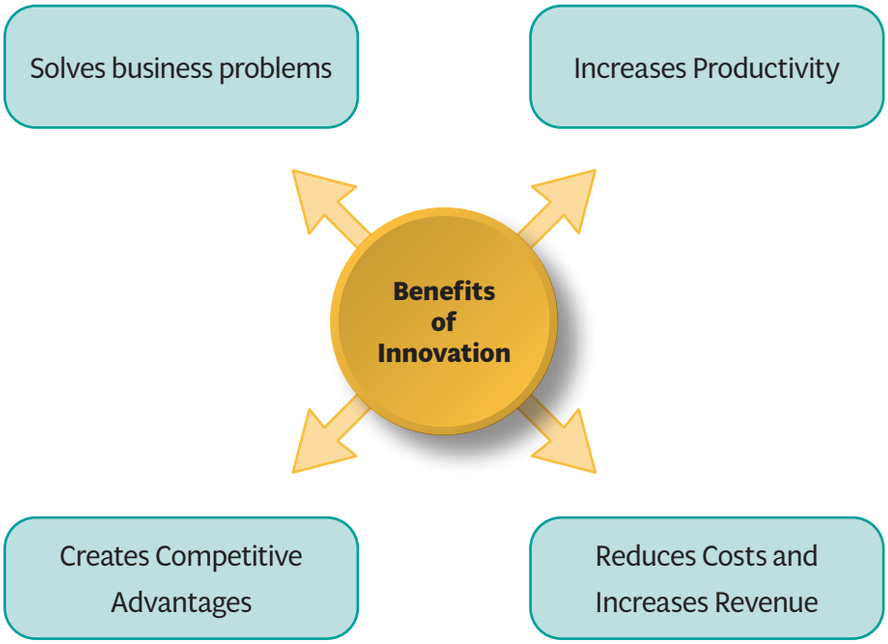


Figure 4-3 The Benefits of Innovation

There are four key benefits for an organization that innovates in its approach to operations.

Solving Business Problems

In the previous example, Maha's suggested innovation has solved a business problem: the understocking and overstocking raw materials, which is costly for the business. Previously, the company was spending more on stocking and warehousing than necessary. It was also losing revenue when not able to fulfil orders as a result of understocking.

Increasing Productivity

The automated system ensures that the factory always has enough materials to produce the required amount of orders. The production line does not need to stop due to lack of supplies. The system can also preempt busier periods and adjust production schedules accordingly.

Creating Competitive Advantage

Competitors that do not have a similar automated system are likely to be experiencing the same challenges that Maha's company was previously. By introducing this system, Maha's company is creating a

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competitive advantage over these rivals. Conversely, if competitors had already adopted an automated system, Maha's company would have a competitive disadvantage. Innovation is not only essential to get ahead of competitors, it's essential simply to keep up with them.

Reducing Cost and Increasing Revenue

The new system is intended to improve efficiency, by reducing waste and unnecessary expenditure, which should lead to increased profits. Equally, increased productivity may lead to additional revenue through being able to fulfill a greater number of orders.

Innovation Management Principles

Managers can introduce a formal policy of innovation by adopting several management principles, as illustrated in Figure 4-4:

- Strategic direction
- Culture
- The realization of value

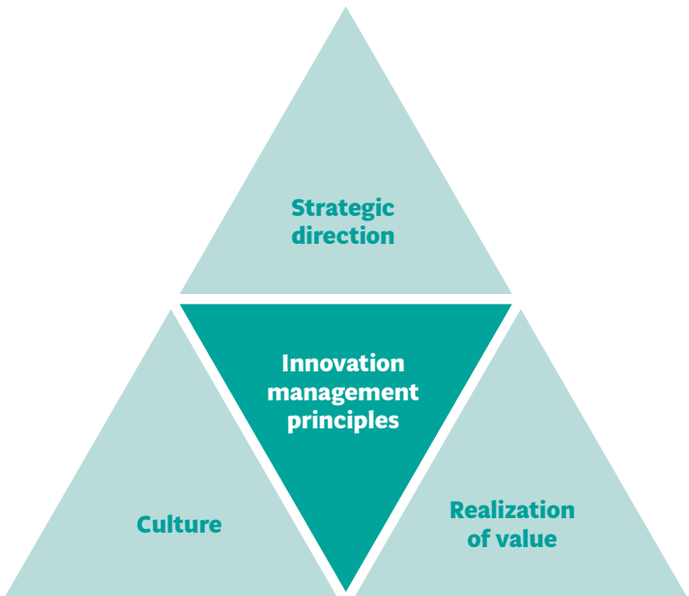


Figure 4-4 Innovation Management Principles

There are several innovation management principles, including culture, strategic direction and realization of value.

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The extent that an organization takes an innovative stance is informed by the *strategic direction* set out by the senior leadership team. Looking at an organization's mission statement or objectives, typically found on its website, will give a good indication of whether it is committed to innovation. However, while some companies may outwardly profess their innovative nature, the reality can be judged by their actions: the products and services offered and the processes they follow.

An innovative *culture* can be achieved by encouraging a **creative work environment**. Innovation comes from great ideas. So a starting point for managing innovation is to manage the sources of innovation, that is, where new ideas come from. One place where new ideas originate is with brilliant inventors. But only a few companies employ such innovators. However, there are actions that managers of companies can take to ensure a steady flow of good ideas. Innovation begins with creativity. Creativity is the production of innovative and useful ideas. Although companies can't command employees to be creative, they can jump-start innovation by building creative work environments in which workers perceive that creative thoughts and ideas are welcomed and valued. This in turn leads to the *realization of value*.

In what ways do you think a company can facilitate a creative work environment?



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As Figure 4-5 shows, creative work environments have six components that promote creativity: challenging work, organizational encouragement, supervisory encouragement, work group encouragement, freedom, and a lack of organizational impediments.

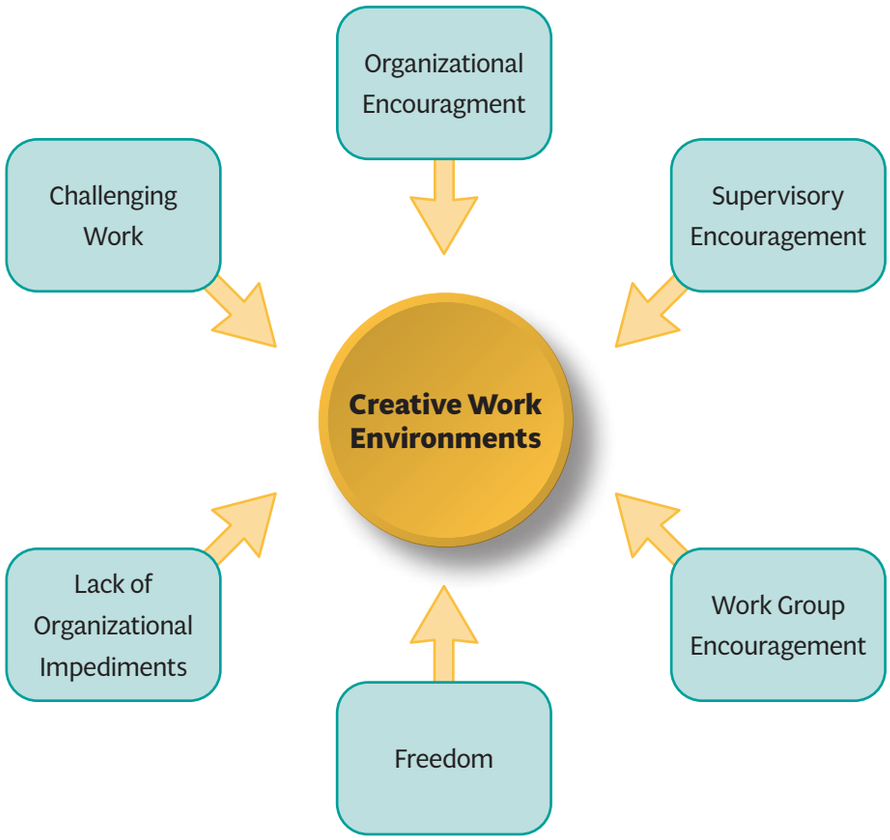


Figure 4-5 Components of Creative Work Environments

There are six components that encourage a creative work environment.

CHECKPOINT

What are the key benefits of innovation and the key innovation management principles?

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4.1 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. Which of the following is not one of the 4Ps of innovation?

- **a.** Position
- **b.** Product
- **c.** Probability
- **d.** Process

2. The successful implementation of creative ideas in organizations is known as _____

- **a.** Teamwork
- **b.** Organizational innovation
- **c.** Group decisions
- **d.** Collaborative processes

Think Critically

Answer the following questions as completely as possible.

3. Suggest several ways in which a manager can encourage a creative work environment, citing examples.

_____

_____

4. Do you think that innovation is possible in every business environment? Give reasons for your answer.

_____

_____

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4.2 Logistics and Supply Chain Management

KEY TERMS

Supply Chain
Supply Chain Management
Logistics
Just-In-Time

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

4.2.1 Discuss what supply chain management is.

4.2.2 Explain the difference between logistics and supply chain management.

4.2.3 Describe the supply chain management process.

REALITY CHECK

From A to B

Khalid is the owner of a small business who has enjoyed success by creating innovative smartphone accessories that solve problems for customers. There is a busy sales period coming up due to Eid Al-Fitr season, and he is expecting his latest gadget to perform particularly well. However, he has run into a problem. Khalid has invested a lot of time and effort in building good relationships with his suppliers and negotiating the best deals. However, one of his local suppliers of the electronic components used in his products can't keep up with the quantity of orders Khalid is now placing. Khalid has found a new supplier, although the factory is based in another province, which will impact on his shipping costs and production speeds.

Khalid is frustrated. He knows that his new product is great and has potential to make substantial profits over the holiday, provided he has enough units in stock. However, if he doesn't manage his supply chain effectively the business will suffer. He must also address the problem quickly to prevent delays in production.

What's Your Reaction? *How do you think Khalid can resolve this situation?*

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LO 4.2.1 What is Supply Chain Management?

A **supply chain** is all of the activities involved from the time raw materials are obtained until finished products are sold and delivered (see Figure 4-6).

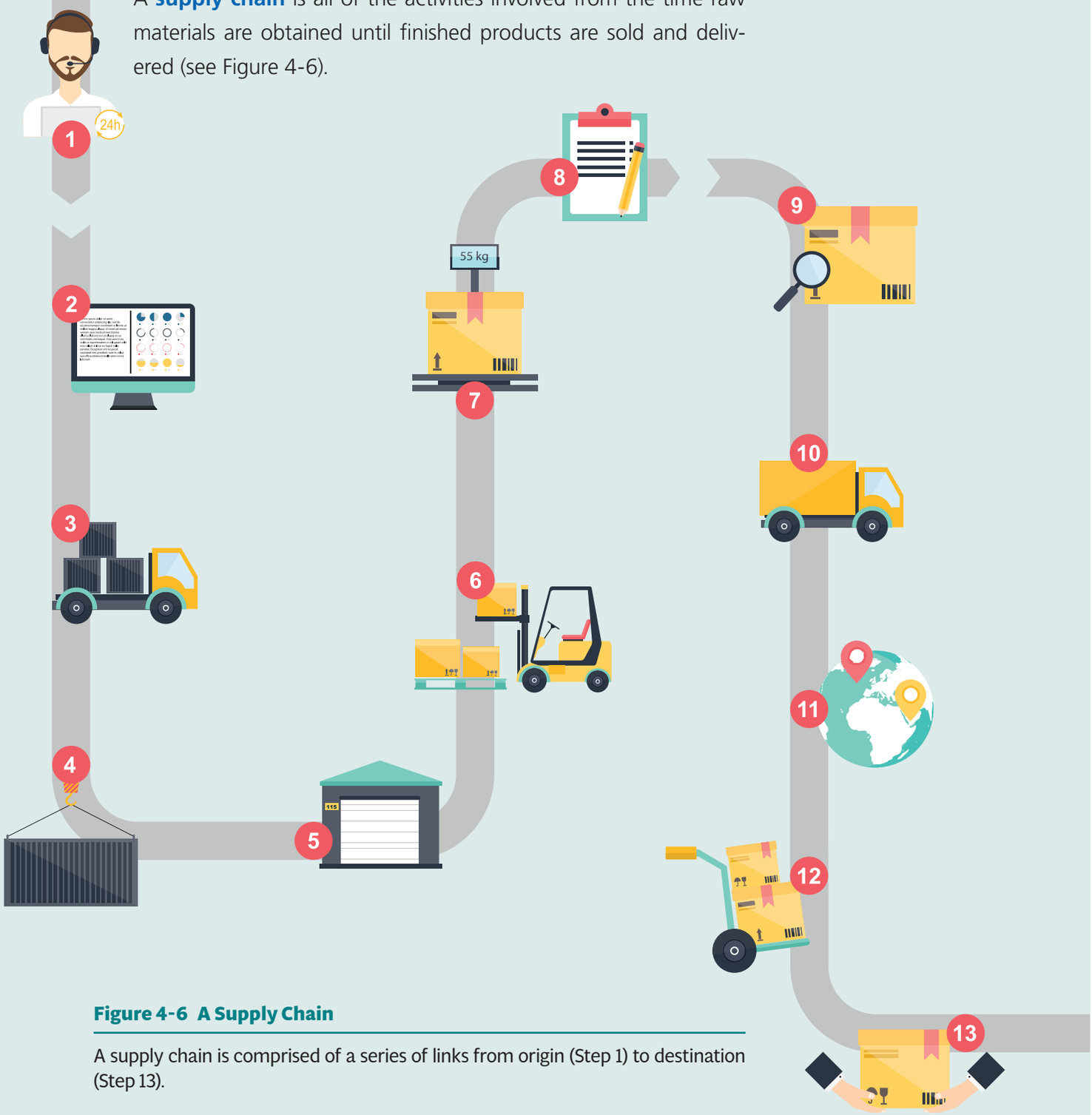


Figure 4-6 A Supply Chain

A supply chain is comprised of a series of links from origin (Step 1) to destination (Step 13).

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A supply chain can be small scale, such as the journey of locally-grown dates to a village market to a bakery that sells sweet treats directly to customers. However, a supply chain can be a large, complex global network, stretching several continents, with raw materials sourced in one country, manufactured into finished goods in another, before being sold to customers all around the world.

Consider a laptop computer. That laptop might be assembled in a factory in one country, using components produced in another country from raw materials that originate from the other side of the world. Once the laptop is assembled, it is shipped to warehouse in a neighbouring province before being sold to customers all around the world. Customers might then download software for the laptop from the regional supplier for their country. Each of these steps represents a separate link in the chain, and each link is critical to the process.

Supply chains are absolutely essential to the everyday running of businesses. Yet, when supply chains are operating smoothly and effectively, they tend to be taken for granted. It is often only when there is a problem within the chain that many consumers might stop to consider the complex process involved in delivering products and services to the end customer.

These challenges are highlighted in the global supply chain issues that have affected most countries as a result of the global Coronavirus pandemic. In order to contain the spread of infection, compulsory lockdowns were instigated worldwide, halting production and the movement of goods from one country or region to another. Many shelves in supermarkets across the world were either empty or missing the usually extensive range of products that customers expected. Retailers had to limit how many units of essential items that customers could buy. In turn, these challenges have led to price rises in raw materials and finished goods, as demand has exceeded supply.

Supply chain management is the overarching activity of managing the entire process around the functioning of a supply chain. The role encompasses a wide range of activities including:

- building and maintaining successful partnerships and relationships with suppliers and stakeholders in the supply network

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- negotiating competitive rates with suppliers, distributors and warehousing to reduce expenditure
- devising strategies for reviewing and improving the functioning of the supply chain, such as identifying and resolving inefficiencies
- anticipating challenges in the supply chain and creating contingency plans
- coordinating information systems used in operations of the supply chain
- working closely with other departments within the business, such as sales and manufacturing, to ensure that the supply chain is working effectively within the organization and aligns with the organization's wider strategic objectives
- factoring in ethical considerations, such as the impact that the organization's supply chain has on the environment and ensuring that all suppliers throughout the chain have acceptable working conditions and receive fair compensation for their contributions.

As illustrated in the Reality Check scenario featuring Khalid, effective supply chain management is critical and can be the difference between the success or failure or a business. The most innovative product or service will not succeed without an effective supply chain management process in place to facilitate it production and distribution.

Saudi Arabia's Role in the Global Supply Chain

Due to its strategically important geographic position, straddling three continents (Europe, Africa and Asia), and its wealth of natural resources, Saudi Arabia is positioned as a gateway to world business. As part of the Saudi Vision 2030 plans, the Saudi government established the Global Supply Chain Resilience Initiative (GSCRI) in 2022. It aims "to position Saudi Arabia as a key link in global supply chains" by making the kingdom "a location of choice for leading global industrial companies looking to drive competitive advantage and improve business resilience."



CHECKPOINT

What is supply chain management?

LO 4.2.2 Logistics and Supply Chain Management

An important aspect of supply chain management is logistics. While the terms logistics and supply chain management are often used interchangeably, there is a key difference. Logistics is concerned with the movement and storage (that is, the 'flow' and delivery) of goods or services, whereas supply chain management is more comprehensive and includes the whole process of management, taking in strategy and co-ordination of partnerships. Logistics is just one element of supply chain management.

Logistics

Large quantities of products and materials move in, around, and out of a business on a daily basis. **Logistics** is managing the acquisition, movement, and storage of supplies, materials, and finished products in a business. Logistics has become a very important part of business operations.

The process of logistics can be illustrated in the example of a customer, Nora:

Step 1. Nora orders a product from an online store on her smartphone

Step 2. An order is placed, assigned an order number, and is sent to the warehouse

Step 3. The item is packaged and prepared to be shipped

Step 4. Later, a courier picks up the packages and takes it to the central depot

Step 5. The package is then transferred to local depot

Step 6. Next, the package is sent out for delivery with a driver and arrives at Nora's home

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Can you think of an example when you have relied on logistics in your everyday life?

The major activities that make up logistics are locating sources of supplies, purchasing, transportation, and sales. In addition to the physical movement of resources, logistics is responsible for effective communication and information among all participants in the supply chain. One important logistics process is using just-in-time. With **just-in-time**, goods arrive when needed (just in time) for production, use, or sale rather than sitting in storage. Just-in-time logistics requires careful planning and coordination among supply chain members. It also requires an effective information system.

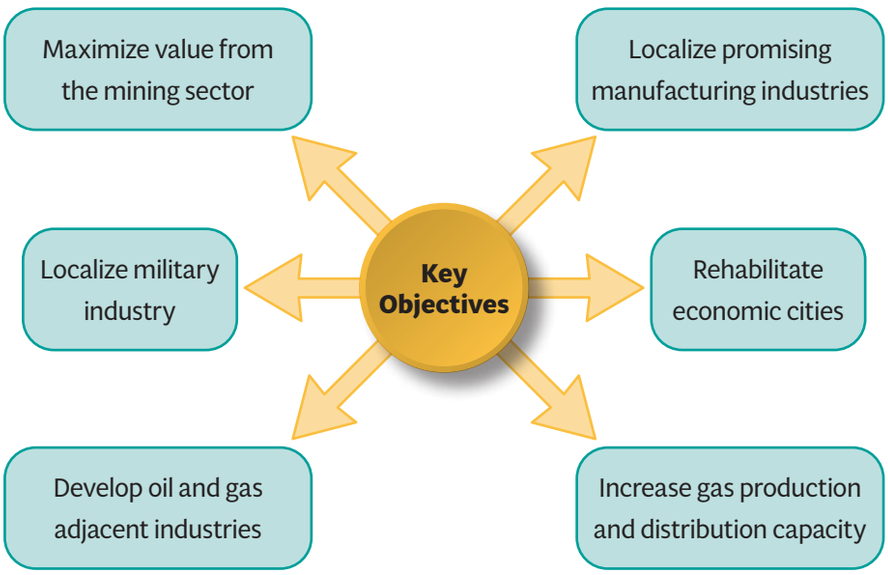


Figure 4-7 The Key Objectives of the NIDLP

Some of the key objectives of the National Industrial Development and Logistics Program (source: Saudi Vision 2030 website).

In Saudi Arabia, the National Industrial Development and Logistics Program (NIDLP) has been established as part of Saudi Vision 2030. Some of its key objectives are outlined in Figure 4-7. Another strategic initiative is the Saudi Logistics Academy, which was created to prepare and support human capital in the field of logistics among the next generation of talent.

Net Knowledge

NIDLP

Visit the Saudi Vision 2030 website and find the section on the National Industrial Development and Logistics Program (NIDLP): https://www.vision2030.gov.sa/v2030/vrps/nidlp/. Write a short summary of the information, including the commitments by end of 2025, the top achievements cited, and the key points of the delivery plan.

CHECKPOINT

What is the difference between logistics and supply chain management?

LO 4.2.3 Supply Chain Management Process

As has been highlighted, the supply chain management process takes many factors into consideration. A supply chain manager must be able to balance a range of skills. They need to be highly organized, practically-minded, able to build strong relations, yet equally willing to negotiate hard. They must also be able to handle and process a significant amount of data.

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Using Technology to Manage Operations

Using technology correctly to help manage operations will make planning and decision making more accurate, rapid, and timely. It also makes it easier to access, analyze, and exchange information. The exchange may occur within a company, with other business partners, or with customers. Some of the most important software used in businesses to manage operations is described in Figure 4-8. Various types of software are now available to assist with supply chain management and support virtual collaboration of team members.

COMMON TYPES OF OPERATION SOFTWARE	
Project Management	Keeps track of project schedules, tasks, to-do lists, work assignments, and project resources.
Budgeting	Automates budget planning, compares budgets from one time period to another, and coordinates budgets among departments.
Scheduling	Manages employees, facilities, resources, and production scheduling. Allows easy review of schedules as well as quick updating.
Inventory	Helps the management of sales, purchases, and payments; tracks production, usage, and sales levels; and prints bar codes.
Computer Security	Provides access and permissions, privacy, and information security for computers and networks.
Document and Management	Controls the production, storage, management, and distribution of electronic documents.
Manufacturing Automation	Monitors and often controls manufacturing machines, checks for errors and defects, and reports production levels.

Figure 4-8 Common Types of Operation Software

There are several types of operation software that help supply chain managers to work more effectively.

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The Supply Chain of Services

The examples illustrated have emphasized the role of supply chains in facilitating the processing of physical items, from raw materials to products and packaging. However, it is important to understand that supply chain management also relates to the distribution and supply of services. In today's digital world, supply of electronic and telecommunications services are critical to the success of businesses. One can imagine the challenges of running an online business without a reliable Internet connection or phonelines. A factory cannot operate without a regular supply of energy or power, such as electricity or water.

Disruption to the delivery of services can cause longer waiting times for customers, reduced opening hours and limited access to online portals and applications, such as e-banking or teleconferencing tools.

Supply Chain Innovations

Lesson 4.1 addressed the importance of innovation and described different types of innovation. There have been many successful innovations in the management and structure of supply chains over the last decade that have radically changed how goods and services are supplied. These can be regarded as paradigm innovations and process innovations. One key example is the rise of the *gig economy*, in which independent traders, drivers, and operators or small businesses, are able to offer their services or products to a broader customer base through networks facilitated by computer-based apps. Technology has enabled local businesses to operate on a global scale, taking advantage of centralized supply chain networks that were previously only accessible to larger chains. For example, many new companies have started, including ones offering taxi and logistics services operated by independent drivers, fast-food delivery obtained from local independent restaurants, or providing private accommodation. Equally, individual sellers can compete with larger retailers by selling their goods through online marketplaces.

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CHECKPOINT

How can technology help to support supply chain management?

4.2 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. Managing the acquisition, movement, and storage of supplies, materials, and finished products in a business is known as _____ ?

- **a.** accounting
- **b.** logistics
- **c.** marketing
- **d.** warehousing

2. Which of the following is not an activity of supply chain management?

- **a.** Building strong relationships with suppliers and business partners
- **b.** Reviewing and improving processes in the supply chain
- **c.** Deciding which products to sell
- **d.** Negotiating good prices for materials, distribution, and warehousing

Think Critically

Answer the following questions as completely as possible.

3. With increasing digitization and the onset of the Fourth Industrial Revolution, do you think there will always be a need for delivering physical items? Give reasons for your answer.

_____

_____

4. What is meant by the supply chain of services? Provide an example to illustrate your answer.

_____

_____

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4.3 Crisis Management

KEY TERMS

Organizational Crisis
Crisis Management
Contingency Plan

LEARNING OBJECTIVES

Once you have completed this lesson, you should be able to:

4.3.1 Define crises in organizations.

4.3.2 Discuss strategies for crisis management.

REALITY CHECK

A Data Disaster

Farah is the regional operations manager of large business with several locations across Saudi Arabia. She is in charge of the local office headquarters based in Jeddah. The company has millions of customers across the Gulf countries, thousands of employees, and hundreds of suppliers that provide materials and services to support the business. All their information is kept on record, on an electronic system that is now increasingly out-of-date. About a year ago, the IT manager recommended that it should be upgraded as soon as possible. However, for budgeting reasons, the company decided to wait until the next financial year before upgrading.

This morning, Farah received a call from the IT manager to inform her that the system had experienced a technical malfunction. All customers' and suppliers' data had been lost and orders could not be fulfilled. Farah began to panic. She did not know what to do in such a situation and has hesitated to call the head office. Although it wasn't her decision to delay the system upgrade, she doesn't want her senior managers to think she can't handle the situation.

Offering some good news, the IT manager explains that his team carry out a weekly back-up of the system in anticipation of failure, and should hopefully be able to restore the records. However, the

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process will take at least 48 hours to complete and, as the last back-up was three days ago, any new information since then (including new orders) will be lost permanently.

What's Your Reaction? *Do you think that this crisis could have been avoided? Was Farah right to avoid contacting senior management and try to resolve the issue herself?*

LO 4.3.1 Crises in Organizations

An **organizational crisis** is an event or occurrence that has a dramatic and potentially disastrous impact on an organization's financial standing, reputation, survival, or welfare of its stakeholders. Crises can originate from within or outside of the organization. A crisis can be localized within a specific department of a business, or it can be an international event that affects many nations across the world. An example of the latter could be a global recession that affects all aspects of life and business around the world.

Of course, businesses face operational challenges, set-backs and isolated incidents on a daily basis. This is an expectation of running an organization. Not every one of these challenges can be considered a crisis, particularly if it is limited to a short-term issue. To be considered a crisis, the situation must reach a level that endangers the ongoing stability and longevity of the business and its environment. This is important, as crises typically start with a single 'catalyst' incident, so how management deals with an initial isolated incident can be critical in preventing it from escalating into a crisis.

Types of Crisis

Crises in an organization can fall into several different types of categories, as illustrated in Figure 4-9.



Figure 4-9 Types of Organizational Crisis

Some of the types of crises that can affect an organization.

- *Financial / economic*: Financial crises can be the most damaging, particularly when on a global level, often taking many years for full recovery of the world economy. A classic example in recent years is the global economic downturn, following the financial crisis of 2008, which began as a regional issue, before quickly spreading across the world.
- *Technological*: While technology is one of the key aspects of innovation, it is not completely infallible. The near total dependence upon electronic systems in all aspects of life and business can lead to greater crises when these systems fail. When one busy international airport introduced a new automated security and baggage check-in system in its new terminal, it was promoted as a world-class, state-of-the-art innovation. However, the system experienced some technological challenges during its initial launch, causing havoc, huge delays, and embarrass-

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ment for the airport. Technological crises can also occur when an organization that relies on an outmoded technology is displaced by a new market entry, such as the growth of the gig economy and digital distribution services.

- *Natural or environmental*: A range of environmental crisis can arise, including floods from heavy rainfall, earthquakes, volcanoes, hurricanes, and tsunamis. Also, adverse weather might affect businesses, such as sandstorms, an extreme heatwave, or crop damage from insect infestation. Some environmental crises can be manmade, such as climate change.
- *Medical*: The recent global Coronavirus pandemic affected people and businesses all around the world on an unprecedented scale. However, on a smaller scale, a local outbreak of a particular virus or disease can have a major adverse effect on a specific industry, particularly agriculture and tourism.

Crises can be caused by natural or environmental factors, such as a sandstorm. What other examples of environmental crises can you think of?



Crises can happen for a wide range of reasons, within and outside the organization. While some crises are caused by negligence of the management or failure to pre-empt a brewing issue, many come from external influences outside of a company's control. It can also be seen that a crisis may fall into several categories. A natural disaster, for example, may have environmental origins, however, this will likely lead to financial challenges that could quickly escalate into a monetary or social crisis for the organizations affected by the disaster. If, for example, a warehouse burns down as a result of an extreme heatwave, the short-term loss of revenue on the affected business could have greater consequences for its survival in the longer term.

CHECKPOINT

What types of crises can effect an organization?

LO 4.3.2 Strategies for Crisis Management

Whether or not a specific crisis can be foreseen and pre-empted or even avoided, all managers should recognize that crises can and occasionally will happen. By accepting this reality, managers can prepare themselves effectively and minimize the potential impact. It is therefore critical that every organization develops a strategy for managing crises, *before*, *during* and *after* the event. This is known as **crisis management**.

Managers' Responsibilities Before a Crisis

By their very nature, not every crisis can be predicted. Indeed, many crises are so impactful and damaging for the precise reason that they happen without apparent warning. Even if an impending crisis is anticipated, its precise nature and full implications may not be understood. Although not every disaster can be averted, planning can be done in advance by creating contingency plans. A **contingency plan** is a set

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of procedures to follow in the event of an emergency.

Using the crisis categories outlined in Figure 4-9, managers can consider the kinds of issues that might occur and take steps to avoid them or minimize their impact. Chapter 2 introduced the idea of planning tools and the setting of standards of control, policies and procedures that set boundaries and rules that govern how the organization operates and reacts to certain situations. Crisis management strategies should be built into these frameworks so that warning signs trigger appropriate responses. There is often a particular event or 'chain reaction' that leads to a crisis; this situation should be addressed before it escalates into a full crisis.

For instance, sales forecasters can look at wider market trends to pre-empt an economic downturn and adjust the company's strategies accordingly, such as the pricing of goods, or by developing new products or services that might be better suited to the change in climate. Equally, supply chain managers can insulate the company from the potential impact of a failed supplier by sourcing from multiple suppliers, or by developing other ways to deliver the products or services. IT managers can identify and set warning signals that trigger alarms if certain systems criteria reach a predetermined threshold. Systems and processes can be routinely checked for potential faults. Staff can be regularly consulted and provided with an outlet for sharing concerns they have encountered that may lead to a crisis. Whatever the business scenario, managers can create specific procedures and protocols to follow in order to deal with the situation, should it occur, in a methodical and rational way.

Taking steps to avert or limit a crisis before it happens is known as taking a *proactive approach* to crisis management. Conversely, taking action only in response to a situation is known as a *reactive approach*. While all managers must be able to react quickly and efficiently to a situation, it is better to take a proactive approach as it gives the manager a greater degree of control in shaping the outcome.

This pre-emptive approach can be applied to any type of known disaster that might possibly occur. Managers can simulate scenarios and use these to create procedures and ensure the organization is resourced, and staff are well-trained. One of the most obvious exam-

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Why is it important to have a crisis management strategy in place?

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ples of this is regular fire drills at an office or factory. New employees should be briefed on what to do in the case of a fire. Designated fire wardens direct workers and customers to the predetermined assembly areas outside the building. Other forms of emergency of crisis should have a similar protocol.

Managers' Responsibilities During a Crisis

If the crisis cannot be avoided completely – and many, indeed, cannot – then it will have to be managed carefully, so that the organization can survive and rebuild its reputation once the crisis has subsided. During the onset of a crisis, an organization must implement the initial processes that have already been established in the crisis management strategy, rather than having to suddenly create processes after the crisis has happened. All employees should be clear of the procedure and how they are expected to respond to the crisis situation. All members of the organization should follow the designated chain of command to ensure that the issue is reported promptly. Swift action could prevent a localized issue from becoming a company-wide crisis.

In the Reality Check scenario at the beginning of this lesson, Farah did not know what to do in the crisis situation and was reluctant to report the issue to her seniors. What is clear here is that there was no formal process in place for managing a crisis situation of this nature. While Farah demonstrated initiative in wishing to take ownership of solving the issue, she should have alerted superiors immediately. The IT manager, however, had shown some foresight in coordinating regular back-ups to protect the company in the event of data loss.

Managers' Responsibilities After a Crisis

Responsibilities do not end once a crisis has drawn to a close. It is critical that leaders learn from the fall-out of a crisis through a formal review process, adapting their crisis management strategies accordingly, in light of what has been discovered. Many crises often appear to have been avoidable after the event, yet leaders must use this hind-

sight to their advantage. One positive benefit of a crisis is that often it will improve standards to help prevent or limit similar damage being inflicted in future.

Managers also have a duty of care to ensure that those affected by the crisis are looked after and compensated appropriately. The organization must also take ownership for any responsibility it had in either the initial cause or the handling of it. Leaders should reward those who have shown courage or strong leadership and teamwork during the crisis.



CHECKPOINT

What strategies are there for crisis management, before, during and after the event?

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4.3 Assessment

UNDERSTAND MANAGEMENT CONCEPTS

Determine the best answer for each of the following questions.

1. An earthquake is an example of a(n) _____ crisis.

- **a.** technological
- **b.** environmental
- **c.** financial
- **d.** medical

2. Which of the following is not an aspect of crisis management?

- **a.** Creating contingency plans
- **b.** Reviewing why a crisis has happened
- **c.** Briefing employees on crisis procedures
- **d.** Blaming other people for the problem

Think Critically

Answer the following questions as completely as possible.

3. Giving examples, describe the difference between taking a proactive and a reactive approach to crisis management.

_____

_____

4. "Some crises such as natural disasters are completely unavoidable, so there is no point preparing for them." Do you agree with this statement? Give reasons for your answer.

_____

_____

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CHAPTER FOUR

Assessment

CHAPTER CONCEPTS

- Organizational innovation is the successful implementation of creative ideas in organizations. Innovation is not a single event, but rather a process, which can be broken down into several stages: identifying a problem, finding a solution, testing the prototype, and implementing the result.
- There are four key innovation types: product innovation, process innovation, position innovation, and paradigm innovation. These types are closely linked, and an innovation could fall into several categories.
- Innovation is a necessity for a business to thrive and remain profitable over time. It solves business problems, it increases productivity, it creates a competitive advantage, it reduces cost, and increases revenue.
- Managers can adopt a formal policy of innovation by adopting management principles, focussing on key areas such as strategic direction, culture, and the realization of value. An innovative culture can be achieved by encouraging a creative work environment.
- A supply chain is all of the businesses involved from the time raw materials are obtained until finished products are sold and delivered. Supply chain management is the activity of managing the entire process around the functioning of a supply chain.
- Effective supply chain management can be the difference between the success or failure of a business. Supply chain management also relates to the distribution and supply of services, which includes energy, digital services, and telecommunications. Logistics is managing the acquisition, movement, and storage of supplies, materials, and finished products in a business.
- Crisis management is the process of dealing with crises before, during, and after the event to minimize the impact on the organization. Not every disaster can be averted, but planning can be done in advance by creating contingency plans. Everyone in the organization should have a clear idea of what is expected from them. Lessons should be learned after the event with new measures put in place in light of the outcome of a formal review.

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DEVELOP YOUR BUSINESS LANGUAGE

Match the terms listed with the definitions.

	Term	Your Choice	Definition
1.	Contingency plan		**a.** An approach to logistics in which goods arrive when needed for production, use, or sale rather than sitting in storage.
2.	Creative work environment		**b.** An important component of marketing management that shifts the specific customer base or segment that a product or service is targeted at to provide an advantage.
3.	Crisis management		**c.** A development that creates value by initiating a fundamental shift in perspective.
4.	Just-in-time		**d.** A workplace culture in which workers perceive that new ideas are welcomed, valued, and encouraged.
5.	Logistics		**e.** All of the businesses involved from the time raw materials are obtained until finished products are sold and delivered.
6.	Organizational crisis		**f.** A new iteration of a product or service that creates a clear and tangible improvement on the existing offering and presents a competitive advantage.
7.	Organizational innovation		**g.** An event or occurrence that has a dramatic or potentially disastrous impact on an organization 's financial standing, reputation, survival, or welfare of its stakeholders. and its environment.
8.	Paradigm innovation		**h.** The process of dealing with crises before, during and after the event to minimize the impact on the organization and its environment.
9.	Position innovation		**i.** The overarching activity of managing the entire process around the functioning of a supply chain.
10.	Process innovation		**j.** Managing the acquisition, movement, and storage of supplies, materials, and finished products in a business.
11.	Product innovation		**k.** The development of new or improved processes that create some form of advantage for the organization.
12.	Supply chain		**l.** The successful implementation of creative ideas in organizations.
13.	Supply chain management		**m.** A set of procedures to follow in the event of an emergency.

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REVIEW BUSINESS MANAGEMENT CONCEPTS

Determine the best answer.

14. Which of the following is not a benefit of innovation?

- **a.** Solves business problems
- **b.** Decreases productivity
- **c.** Reduces costs
- **d.** Creates competitive advantage

15. An organizational crisis can affect:

- **a.** Only staff within the organization.
- **b.** Only people outside of the organization.
- **c.** People both inside and outside of the organization.
- **d.** Only the leadership team who make the key decisions.

16. An approach to logistics in which goods arrive only when needed for production, use, or sale rather than sitting in storage is known as _____ .

- **a.** cutting it fine
- **b.** just-in-time
- **c.** too little, too late
- **d.** speed processing

APPLY WHAT YOU KNOW

Answer the following questions.

17. Suggest three examples of an organizational crisis that could happen and describe which type of category each example belongs to.

_____

_____

18. Describe an example of a supply chain based on experiences from your own life such as products or services that you or your household have used.

_____

_____

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19. Describe some of the ways in which an organization can encourage a creative work environment.

MAKE ACADEMIC CONNECTIONS

Complete the following activities.

20. Teamwork As a team, brainstorm ideas for a new innovative business. Once you have selected an idea to take forward, describe which of the 4 Ps of innovation it is an example of (see Figure 4-2). Next explain the key benefits that this innovation would provide a business, as outlined in Figure 4-3. Use the box below to summarize your answer.

21. Technology Look back at Lesson 4.1 on innovation and Lesson 4.2 on supply chain management, and think of ways in which technology could be utilized to improve the delivery of goods and services to consumers. Summarize your ideas in the box below.

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22. **Planning** Imagine that you are a manager who has recently been made responsible for a solar energy farm. The farm is located in an area of the desert that occasionally suffers from severe sandstorms. You have been advised by an industry colleague that these sandstorms might be powerful enough to damage the solar panels and other equipment. Another colleague dismisses this idea and says there is no need to worry. Do you think it is necessary to introduce a crisis management strategy? If so, describe the actions that you would take in the box below.

CASE IN POINT

The Challenges of Climbing the Stack

This chapter has addressed the need for organizations to innovate, in order to remain competitive, increase productivity, solve business problems, reduce costs, and increase revenue. However, why do some companies with seemingly endless resources and brainpower fail when they try to innovate? One theory is that it's because of the stack fallacy—the tendency of successful companies to overvalue what they know in one area and misjudge what they need to know so as to innovate in another. Imagine technology as a layer cake of capabilities. These capabilities stack on top of each other until they ultimately reach the end user. Consider a popular app used on your laptop, for instance. This app is the top of a technology stack supported by the layers below it—from the operating system, to the server, to the microprocessor, to the electricity powering the device. Just because a company is successful in one layer, say, microprocessors, doesn't mean it can jump up to a higher level, such as the operating system, and have the same success. When a dominant search engine tried to move up to social networking, the result was a failed platform. Similarly, a computer company saw its revenues shrink as it tried to move up from hardware to services. Going down the stack, however, tends to yield positive results. By moving down the stack by creating its own data farms and servers, the

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search engine solidified the company's dominance in its existing sphere of influence. Why is climbing the technology stack so much harder than descending it? Companies don't fully understand what customers on the level above theirs actually want. However, because companies often buy products and services at the level below their own, they understand what customers want out of that lower layer of technology.

Think Critically

1. Why is it easier to descend the 'stack' rather than ascend it?

_____

_____

_____

2. Research examples of Saudi companies that have successfully jumped to a higher level in the 'stack'. Why do you think they have succeeded where others have failed?

_____

_____

_____

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Glossary

Accountability
The obligation to accept responsibility for the outcomes of assigned tasks.

Achievement need
In McClelland's theory of needs, the need to take personal responsibility for work, set personal goals, and want immediate feedback on work.

Administrative management
Management theory that identifies the most effective practices for organizing and managing a business.

Affiliation need
In McClelland's theory of needs, motivation related to people's relationships with others, and get along well and fit in with a group.

Authority
The right to make decisions about work assignments and to require other employees to perform assigned tasks.

Behavioral management
Management theory directed at organizational improvement through understanding employee motivation and behavior – sometimes called human relations management.

Budget
A written financial plan for business operations developed for a specific period of time.

Business competition
The rivalry among companies for customers.

Business plan
A written document that describes the nature of the business, its goals and objectives, and how they will be achieved.

Centralized organization
Business structure in which a few top managers do all the major planning and decision making.

Chain of command
The hierarchy of the organization, from the highest level to the lowest level.

Classical management
Management theory that studies the way work is organized and the procedures used to perform a job in order to increase worker productivity.

Competitive advantage
The special capabilities of a company that allow it to create a product or service that is measurably better than any competing company.

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Contingency plan

A set of procedures to follow in the event of an emergency.

Controlling

Evaluating results to determine if the company's objectives have been accomplished as planned.

Cost standard

The predetermined cost of performing an operation or providing goods or services.

Creative work environments

A workplace culture in which workers perceive that new ideas are welcomed, valued, and encouraged.

Crisis management

The process of dealing with crises before, during and after the event to minimize the impact on the organization and its environment.

Decentralized organization

A large business which is divided into smaller operating units, headed by managers who have almost total responsibility and authority for operations.

Departmentalization

A concept where senior managers make decisions on how to group employees that serve a similar need for the company.

Directing

Working with employees to ensure they are motivated and have the resources needed to help carry out plans and get the work done.

Effectiveness

A measure of how successful something is at achieving its outcome.

Efficiency

A measure of productivity in comparison to the effort put in.

Employee motivation

The process of influencing the actions taken by an employee to accomplish a goal.

Empowerment

Authority given to individual employees to make decisions and solve problems they encounter on their jobs with the resources available to them.

Flattened organization

An organization with fewer levels of management than traditional structures.

Goal

A specific statement of a result the business expects to achieve.

Hygiene factors

Job factors that result in employees feeling dissatisfied with work when they are absent but do not contribute to job satisfaction when they are present.

Just-in-time

An approach to logistics in which goods arrive when needed for production, use, or sale rather than sitting in storage.

Line organization
Business structure in which all authority and responsibility can be traced in a direct line from the top executive down to the lowest employee level.

Line-and-staff organization
Business structure where managers have direct control over units and employees they supervise but have access to staff specialists for assistance.

Logistics
Managing the acquisition, movement, and storage of supplies, materials, and finished products in a business.

Management
The process of accomplishing the goals of an organization through the effective use of people and other resources.

Management principles
The fundamental guidelines for the decisions and actions of managers.

Management role
A common set of activities that make up an important part of a manager's job.

Management strategy
A carefully developed overall approach to leading an organization.

Manager
Person who performs all five management functions on a regular basis and has authority over other jobs and people.

Matrix organization
An organization which combines employees into temporary work teams to carry out specific projects while working in the same functional area.

Middle manager
A manager who carries out all of the management functions, but spends most of the time performing specialized work in one management function or is responsible for a specific part of the company's operations.

Mission
A short, specific statement of the business's purpose and direction.

Motivators
Factors that increase job satisfaction.

Operational planning
Short-term planning that identifies specific goals and activities for each part of the business.

Operations
The major ongoing activities of a business.

Operations management
Effectively directing the major activities of a business to achieve its goals.

Organization chart
An illustration of the structure of an organization, major job classifications, and the reporting relationships among the organization's personnel.

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Organizational crisis

An event or occurrence that has a dramatic or potentially disastrous impact on an organization's financial standing, reputation, survival, or welfare of its stakeholders.

Organizational innovation

The successful implementation of creative ideas in organizations.

Organizing

Determining how plans can be accomplished most effectively and arranging resources to carry out the work.

Paradigm innovation

A development that creates value by initiating a fundamental shift in perspective.

Physiological needs

In Maslow's hierarchy of needs, the things required to sustain life, such as food and shelter.

Planning

Analyzing information and making decisions about what needs to be done.

Policies

Guidelines used in making decisions regarding specific, recurring situations.

Position innovation

An important component of marketing management that shifts the specific customer base or segment that a product or service is targeting to provide an advantage.

Power need

In McClelland's theory of needs, desire to influence and control others and to be responsible for a group's activities.

Procedure

A sequence of steps to be followed for performing a specific task.

Process improvement

The efforts to increase the effectiveness and efficiency of specific business operations.

Process innovation

A new way of handling a task that creates some form of advantage or benefits .

Product innovation

A new iteration of a product or service that creates a clear and tangible improvement on the existing offering and presents a competitive advantage.

Profit

Income minus costs.

Quality management

A total commitment by everyone in an organization to improve the quality of procedures and products by reducing waste, errors, and defects.

Quality standard

A specific measure that describes expected consistency in production or performance.

Quantity standard

A specific measure that establishes the expected amount of work to be performed.

Responsibility
The obligation to do an assigned task.

Schedule
A time plan for reaching objectives.

Scientific management
The careful, objective study of management decisions and procedures in order to improve the operations of businesses and organizations.

Security needs
In Maslow's hierarchy of needs, the things required to make sure you and those you care about are safe and free from harm.

Self-actualization
In Maslow's hierarchy of needs, the need to grow emotionally and intellectually, to be creative, and to achieve your full potential.

Self-directed work team
A team in which members together are responsible for the work assigned to the team.

Self-esteem needs
In Maslow's hierarchy of needs, the desire for recognition and respect from others.

Social needs
In Maslow's hierarchy of needs, the need to belong, to interact with others, to have friends, and to love and be loved.

Span of control / Span of management
The number of employees that any one manager supervises directly to effectively implement an organization's goals.

Staffing
Finding individuals with the right skills to do the work.

Standard
A specific measure by which something is judged.

Strategic planning
Long-term planning that provides broad goals and direction for the entire business.

Supervisor
A manager whose main job is to direct the work of employees.

Supply chain
All of the activities involved from the time raw materials are obtained until finished products are sold and delivered.

Supply chain management
The overarching activity of managing the entire process around the functioning of a supply chain.

SWOT analysis
The examination of an organization's internal strengths and weaknesses as well as external opportunities and threats.

Team organization
Business structure that divides employees into permanent work teams.

The Four Industrial Revolutions
A series of distinct phases in modern history, characterized by technological innovations that have led to major business and social changes.

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Time standard

A specific measure that establishes the amount of time needed to perform an activity.

Top manager

A high-level manager who spends almost all of his or her time on management functions and decisions that affect the entire company.

Unity of command

Principle which states that each employee reports to one–and only one–supervisor at a time or for a particular task..

Variance

A difference between current performance and the standard.

Vision

A broad, long-term, and often inspirational view of a company's reason for existing.

Work team

A team of individuals who cooperate to achieve a common goal.

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