



# **International Diploma in Business**

## **Module DB104**

### **Organisational and Business Structures**

#### **Student Notes**

## Modification History

Revision	Date	Revision Description
V0.2	April 2003	For issue and review.
V1.0	July 2003	For issue.
	August 2005	Syllabus.
2007	1 December 2006	Amended

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# Module DB104

## Organisational and Business Structures

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### Introduction to Module DB104

This module is made up of 15 topics, and includes 5 case studies.

The information contained in each topic is an overview and should be used in conjunction with the Assessment and Syllabus Guide and required textbook for this module.

#### **The required textbook is:**

Boddy, D. (2005) *Management: An Introduction* 3<sup>rd</sup> ed. Prentice Hall.

This textbook can be purchased from: <http://vig.pearsoned.co.uk/>

The companion website for the book has additional student and lecturer resources: [www.booksites.net/boddy](http://www.booksites.net/boddy)

#### **Additional textbooks:**

Cole, G. A. (2004) *Management Theory and Practice* 6<sup>th</sup> ed. Thomson Learning

Holmes, T. (2004) *Business Organisation* Studymates

## Learning Outcomes

	<b>Specific Learning Outcomes (LOs)</b>	<b>Demonstrable Knowledge</b>
LO 1	Knowledge and understanding of the form, aims, objectives and operation of various types of business organisations across the private, public and voluntary sectors.	Knowledge and understanding
LO 2	Understand and evaluate organisational principles and structures, their appropriateness and relevance in the process of organisational development; contrast the mechanistic and organic forms of organisation structure and understand how the Internet enables new types of organisational structure.	Evaluate
LO 3	Knowledge of the different types of organisational change, the characteristics of change, the steps in a change process, theories of change, and the forms of resistance to change.	Knowledge and understanding
LO 4	Explain the different communications processes that are found within an organisation, the barriers to effective communication and the ways in which communication processes can help or hinder organisational performance.	Application and problem solving
LO 5	Identify and monitor business performance, control processes and systems utilising budgetary and non-budgetary methods as appropriate, and identify key result areas.	Evaluation
LO 6	Analyse business as a human system, the micro-environment and interaction with the wider macro-environment.	Analysis
LO 7	Evaluate the role of management information systems in an organisation.	Evaluation

## Indicative Content

1. Types of business organisation across the private, public and voluntary sectors.
2. Business aims and objectives in different types of organisations.
3. Organisational principles, organisational structures and organisational development.
4. The role of human resource management (HRM) and the links between organisational strategy and HRM.
5. Theories of organisational change and models used to implement it successfully.
6. The importance of effective organisational communication.
7. Monitoring business performance using finance and budgetary control.
8. The impact of the Internet upon organisational structures and the growth of the virtual organisation.
9. The business micro-environment (e.g. customers, competitors, suppliers etc.) in the light of the macro-environment (i.e. political, economic, social and technological) and the interpretation of their dynamic interaction through the identification of business Strengths and Weaknesses, Opportunities and Threats (SWOTs).
10. The role of information systems in organisations and the impact of such systems upon the functions of an organisation.



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# Topic 1 – Introduction to Management

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## 1.1 The Concept of Management

No one definition has been universally accepted.

Management as a discipline is so new that many of its related terms and concepts have not yet been standardised. A variety of definitions appear in management textbooks, including:

*Management is the art of getting things done through people.*  
(Mary Parker Follet)

*Managers achieve organisation goals by arranging for others to perform whatever tasks may be necessary.*

*Management has been called the art of decision-making.*

*Managers spend much of their time choosing among alternative solutions to business problems.* (Appleby)

*Management is a series of roles.*

Management has been described as a process whereby the resources of an organisation are utilised to achieve the organisational objectives. It entails five basic functions – planning, organising, staffing, directing and controlling.

Good performance by the manager in each of these areas, will ensure that staff resources are used effectively through delegation.

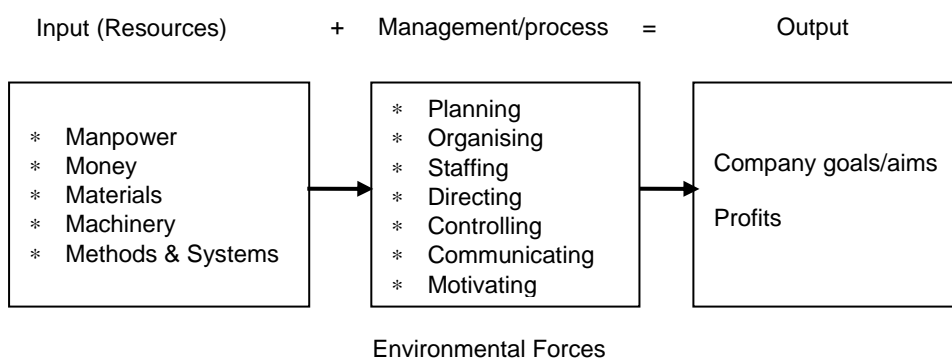


Figure 1.1 The Management Process

## 1.2 The Importance of Management

Even a business enterprise with access to materials, machines and manpower will fail if the most important element is missing – the ability to make use of these resources. Many businesses have failed because of mismanagement.

Resources can only be utilised successfully by an effective manager.

The experience of many developing countries, although rich in natural resources, illustrates the importance of proper management.

Management is especially important as the business enterprise grows in size.

Without effective management, the organisational goals may not be achieved.

## 1.3 Management Functions

The primary functions of a manager are planning, organising, directing, controlling, communicating and motivating.

### 1.3.1 Planning

Planning firstly involves defining the goals of the organisation and then determining the activities and resources required to achieve them. Managers need to plan in order that:

- workers' activities are consistent with the organisation's goals;
- the correct type and amount of resources can be acquired.

Senior management decides on the overall goals for the organisation, taking into consideration the business environment. These goals are then, in turn, broken down into more specific objectives or budgets for each of the divisions. Programmes of activities and resources are then drawn up.

Planning requires information (e.g. about competition and methods of production), judgement and decision-making. Through planning, the manager takes into account the variables in his environment and so is able to foresee and reduce the risks he faces (see Figure 1.2). These risks include the economic, social, political, legal and technological factors that can prevent the manager from achieving the aims of his organisation.



Fig 1.2 The Nature of Planning

### 1.3.2 Organising

Organising involves acquiring the resources that the organisation needs to achieve its aims. In many organisations, staffing and the sourcing of funds and raw materials take up much time and effort. To be effective, management has to ensure that the activities of the various groups are integrated and co-ordinated, so that there is unity of purpose.

Organising also means creating an organisational structure that is suitable for the achievement of the agreed objectives. Work has to be allocated, lines of authority and responsibility defined, and a system of rules and procedures to guide the conduct of employees laid down. The structure should not be regarded as permanent, but as constantly changing to suit the organisation's needs.

Organising also involves allocating tasks and duties to the relevant staff, and co-ordinating them in order to achieve the organisation's objectives.

### 1.3.3 Directing

Management must provide direction and leadership to motivate staff to perform the essential tasks within the required time frame and with the most efficient use of resources. It is management's function to establish satisfactory levels of communication and co-operation so that everyone is committed to the common objectives. This will help to optimise productivity and increase waste reduction and cost savings.

### 1.3.4 Controlling

The controlling function involves three elements:

- Steps must be taken to set work standards and to communicate them to the staff.
- A system of measures must be devised to assess staff performance according to these work standards.
- Where there is a variance between actual performance and the acceptable work standards, the causes must be identified and corrective action taken.

### 1.3.5 Staffing

Managers must ensure that all labour requirements are met. Vacancies must be identified, and staff recruited and trained. People who show potential must be developed for greater responsibilities in the company.

### 1.3.6 Interrelationship

It is important to realise that the four basic elements, i.e. planning, organising, directing and controlling, are of equal importance and are interrelated. For example, one cannot plan without regard to the feedback from the controlling function.

Some writers, e.g. Brech, prefer to think of co-ordination as a separate function. As Sune Carlson puts it: "The concept of co-ordination does not describe a particular set of operations, but all operations which lead to a certain result, *unity of action*."

In his daily working life, the manager's role is a combination of the four basic elements. The relative emphasis on each of these functions depends on the manager's rank in the organisation, his responsibility and accountability, and his personal skill and style.

### 1.3.7 Managerial Roles

A role is an established set of functions associated with a particular office or position. Most positions entail multiple roles. The job of a manager will usually involve three general roles.

- *Interpersonal* – interpersonal roles grow directly out of the authority of a manager's position and involve developing and maintaining positive relationships with significant others. More specifically, the figurehead role entails symbolic duties that are associated with the manager's position and authority. The leader role involves building relationships with subordinates and includes communicating with, motivating and coaching subordinates.
- *Informational* – informational roles pertain to receiving and transmitting information so that managers can serve as the nerve centres of their organisational units. (i) The monitor role consists of seeking information both internally and externally about issues that can affect the organisation. (ii) The disseminator role consists of transmitting information internally.
- *Decision-making* – this role involves making significant decisions that affect the organisation.

### 1.3.8 Managerial Knowledge, Skills and Performance

For managers to develop work agendas, act out roles, and engage in planning, organising, leading and controlling, they need a sound knowledge base and key management skills. In this section, we discuss these essential elements in the management process and explain how they relate to the issue of performance.

- *Knowledge base* – a knowledge base includes information about an industry and its technology, company policies and practices,

company goals and plans, company culture, the personalities of key organisation members and important suppliers and customers.

### 1.3.9 Management Skills

A skill is the ability to perform specific functions well and in such a way that the desired performance level is achieved. For managers, there are three key skill types:

- *Technical* – technical skills are skills that reflect both an understanding of and a proficiency in a specialised field. For example, a manager may have technical skills in a specialised field such as accounting, finance, engineering, manufacturing or computer science.
- *Human* – human skills are skills associated with a manager's ability to work well with other people, both as a member of a group and as a leader who delegates successfully. Typically, managers with effective human skills are particularly adept at communicating with others and motivating them to develop themselves, and perform well in pursuit of organisational goals.
- *Conceptual* – conceptual skills are skills related to the ability to visualise the organisation as a whole, discern interrelationships between the organisational parts and understand how the organisation fits into the wider context of the industry, the community and the world. Managers need to recognise these various elements and understand the complex relationships therein, so that they can take the necessary actions to advance the goals of the organisation. Conceptual skills, coupled with technical skills, human skills and a knowledge base, are important ingredients in organisational performance.

### 1.3.10 Management Performance

What constitutes a high level of performance in an organisation? Essentially, there are two important dimensions – effectiveness and efficiency.

- *Effectiveness* is the ability to identify appropriate goals and then achieve them.
  - Effectiveness then has two parts – first, goals must be appropriate; second, goals must be reached.
- *Efficiency* is the ability to make the best use of available resources in the process of achieving goals.
  - The organisation needs to exhibit both effectiveness (doing the right things) and efficiency (doing things right) in order to be a good performer.

### 1.3.11 Managerial Job Hierarchy

#### Hierarchical Levels

Managerial jobs in organisations fall into three categories – *first-line*, *middle* and *top management*.

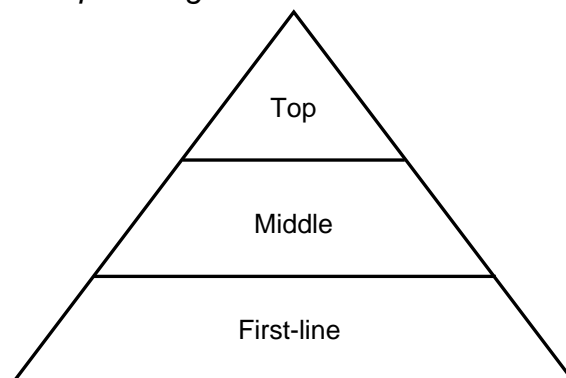
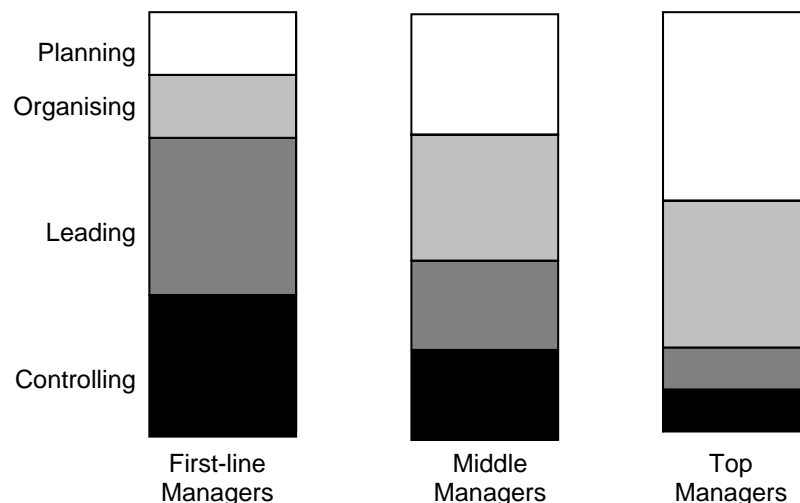


Figure 1.3 Levels of Management

- *First-line managers* (or first-line supervisors) are managers at the lowest level in the hierarchy, who are directly responsible for the work of operational (non-managerial) employees. They often have titles that include the word 'supervisor'. First-line managers are extremely important to the success of an organisation because they have the major responsibility of seeing that day-to-day operations run smoothly in pursuit of organisational goals.
- *Middle managers* are managers beneath the top levels of the hierarchy who are directly responsible for the work of other managers below them. The managers for whom they have direct responsibility may be other middle managers or first-line managers. Middle managers also sometimes supervise operating personnel, such as administrative assistants and various specialists.
- *Top managers* are managers at the very top levels of the hierarchy who are ultimately responsible for the entire organisation. Top-level managers are few in number; their typical titles include 'chief executive officer' (CEO), 'president', 'executive vice-president', 'executive director', 'senior vice-president', and sometimes 'vice-president'.

#### Management Skills

The three levels of management also differ in the relative importance attached to the three key management skills. Generally, conceptual skills are most important at the top management level. The reason is that top managers have the greatest need to see the organisation as a whole, understand how its various parts relate to one another, and connect the organisation to the world outside.



**Figure 1.4 The Distribution of Management Time**

All three levels of management must have powerful interpersonal skills because they all need to delegate effectively.

### 1.3.12 Qualities of a Manager

- *Self-confidence* – the ability to deal effectively with difficult situations and problems.
- *Initiative* – the ability to take action on his/her own accord without having to be prompted.
- *Drive* – the urge and enthusiasm to initiate action, both on a personal level and in others too.
- *Decisiveness* – the ability to make decisions and stand by them, accepting full responsibility.
- *Judgement* – the ability to analyse a situation and formulate appropriate action.
- *Adaptability* – the ability to change as circumstances change.
- *Stamina* – the ability to work long, hard hours without suffering undue stress.
- *Emotional maturity* – the ability to exercise self-discipline and self-control; the ability to analyse a situation objectively, without prejudice.
- *Human understanding* – the ability to work with other people, showing understanding and sympathy, together with a willingness to listen to staff problems.
- *Being adequately educated.*

## Topic 2 – Legal Structure of Firms

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## 2.1 Introduction

Businesses can take a variety of forms, ranging from small 'one-man shows' to large multi-national enterprises. Choosing the right form of business ownership is an important decision.

## 2.2 Private Sector

Businesses in the private sector are run by individuals and not the government. Such businesses compete for resources and the consumer's spending money. They need to make profits to ensure their continued growth and survival. There are three types of businesses in the private sector.

### 2.2.1 Sole Proprietorship

This is probably the oldest form of business ownership. Many large companies started as a sole proprietorship. Any individual who is eligible to set up a business as a sole trader must register with the Registrar of Businesses. Once approved, the individual is able to commence business. Often, small retail outlets, such as boutiques, hairdressing salons and sundry shops, are based on sole proprietorships.

#### Advantages of a Sole Proprietorship

- Easy to set up, as the legal procedures involved are minimal. A simple registration form is filled in and the business can start operating in a short time.
- The sole proprietor can decide how to run his/her business. Any decisions made can be implemented quickly.
- Since the sole proprietor is usually a small business, the owner can build up a good relationship with his/her staff. Often, staff like the family type of atmosphere usually found in such businesses.
- The sole trader can also be closer to customers and build up a good rapport with them. In this way, customers will continue to do business with him/her.
- The business is flexible, because the sole trader can make changes quickly and respond to the needs of customers. This keeps customers satisfied.
- The profits from the business go directly to the sole proprietor. This motivates him/her to work hard and put effort into the business.

- The sole trader is able to maintain privacy in business matters as there is no need to inform anyone, except file income tax returns to the government.

### **Disadvantages of a Sole Proprietorship**

- It is not easy for a sole proprietor to get loans from banks, since the business is often small and carries high risk. Capital is usually limited to personal savings or loans from family and friends.
- Since the amount of capital available is limited, the sole trader will often find it difficult to expand the business.
- It is difficult for the sole trader to recruit professional staff, because most prefer to work for larger companies, offering higher salaries and better career promotion. This limits the amount of business management skill available to a sole trader.
- The life of a sole proprietorship is inevitably limited by the natural lifespan of the owner, unless it is inherited by someone wishing to continue the business.
- The sole trader has the problem of limited liability, which means that personal assets are seized to settle debts. This may lead to bankruptcy.

## **2.2.2 Partnership**

A partnership is an association of two or more people collaborating to conduct business. The maximum number of partners allowed is 20. Most partnerships have unlimited liability, although sometimes certain partners may have limited liability. The business must also be registered with the Registrar of Businesses.

Any individual entering into a partnership should insist on a written agreement. This agreement should detail the duties of each partner, and the specific details of how the business is going to be run and managed. The important factors are the amount of capital to be invested by each partner, and how profits will be shared.

### **Advantages of a Partnership**

- More capital will be available to start and operate the business. At the same time, expansion of the business is easier. Partnerships can borrow money from banks more easily than a sole proprietor.
- Each partner brings different knowledge and skills. Partners can specialise in specific duties, which makes the management more efficient.
- As partners will bring their own contacts to the business, it is likely that more business will be generated as a result of their personal recommendations.

- Partners will probably feel less stressed as all the risks and responsibilities will be equally shared.
- Taking the opportunity to introduce new partners will bring in new ideas, more capital, and ultimately new customers.

### Disadvantages of a Partnership

- The problem of unlimited liability for partners, except in special cases such as sleeping partners, needs to be considered. In fact, the risk to partners may be even greater, as each partner is an agent of the business and a wrong decision made by any one of them may impact on the others.
- The death or bankruptcy of a partner will dissolve the partnership, unless the partners have made a prior agreement or an insurance policy has been taken out.
- Due to the fact that each partner has some authority and control over the business, conflicts and disagreements often arise. Partners may not be able to agree on all aspects of the business.

### 2.2.3 Companies

A company is vastly different from a sole proprietorship or partnership. To register a company, many procedures need to be followed. Companies are owned by shareholders. A company is registered under the Companies Act.

Legal documents such as the *Memorandum of Association* and the *Articles of Association* need to be submitted when registering a company. There are two types of company:

- a Public Limited Company;
- a Private Limited Company.

Their main differences are as follows:

Public Limited Company	Private Limited Company
1. The minimum number of shareholders is seven, with no upper limit.	The number of shareholders is between two and 50.
2. The company shares are listed on the Stock Exchange.	The shares are not listed on the Stock Exchange.
3. Shares are freely bought and sold by members of the public.	Shares cannot be easily sold or transferred to outsiders.
4. The company must publish its financial reports for public circulation.	There is no requirement to publish financial statements for public circulation.
5. The name of the company ends with the word 'Limited' or 'Ltd'.	The name of the company often ends with the words 'Private Limited' or 'Pte Ltd'.

### **Advantages of Limited Companies**

- Shareholders have limited liability, which makes it attractive for them to invest money in the business. This means that companies can raise a much larger sum of capital compared to a sole proprietor or partnership.
- Companies can easily borrow from financial institutions such as banks. They can also grow and expand rapidly.
- Companies have perpetual life. This means that the business can continue more or less forever, unless a majority of the shareholders decide to terminate it. The death or withdrawal of shareholders does not affect the continuity of the business.
- Professional managers and staff can be employed to manage the business. This leads to greater efficiency.

### **Disadvantages of Limited Companies**

- In the case of Public Limited Companies, where the shares are listed on the Stock Exchange, they may be taken over by another company.
- Companies are required to keep proper accounting records and submit all financial records to the authorities. They are tightly controlled and regulated by the government.
- It is more difficult for companies to maintain an element of secrecy, since their accounting details are open to the public (especially in the case of public listed companies).
- Taxation can be high. In Singapore, for example, companies pay a high tax rate of 23% of the net profit to the government, whereas for a sole proprietor and partnerships, the tax paid is progressive.
- Decision-making can be rather slow due to the many management levels in the company structure.
- The shareholders, who actually own the company, do not get involved in the day-to-day matters of the business and therefore have no personal loyalty to it.

## **2.3 Co-operatives**

When producers, consumers or other groups have similar products to buy and sell, a co-operative may be set up. It is a collective arrangement whereby members pool their resources. Some examples of co-operatives are producers' co-operatives, consumers' co-operatives, and retail co-operatives. Membership is open to any interested persons and the shares are not listed on the Stock Exchange. Any surplus profits are distributed to members in the form of rebates.



## Topic 3 – Business Environment

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### **3.1 Introduction**

An organisation does not exist in a vacuum. It exists in its environment, which provides resources and creates limitations. If an organisation adapts to its environment, it will prosper; otherwise it will fail. An organisation and its environment are interdependent and interact very closely. The organisation depends upon its environment for the resources and opportunities necessary for its existence. The environment contributes resources to the organisation in return for goods and services.

### **3.2 Effects of the Environment on the Organisation**

Environmental factors affect an organisation in two ways. They set limits and pose threats, but they also provide opportunities and challenges. A change in government export policy may suddenly threaten an export-oriented organisation. A reduction in the rate of interest may provide cheap finance to an organisation.

### **3.3 Effects of the Organisation on the Environment**

The effects of an organisation on its environment are quite obvious in certain cases, for example, cigarette manufacturing, liquor manufacturing, filmmaking, pharmaceutical companies, etc. These organisations have an obvious impact on the environment.

### **3.4 Elements of the Environment**

The business environment in which companies operate can be divided into the internal environment and the external environment.

### **3.5 Internal Environment**

This refers to all the factors or forces affecting the day-to-day activities of the business.

#### **3.5.1 Customers**

As Peter Duckers has put it, “The ultimate aim of all Organisational and Business Structures is – to create a customer”. These days, for most products and services, the market belongs to the buyer. Customers expect the management to provide them with quality goods at reasonable prices, which allow for an appropriate rate of return to the business. Management on the other hand, seeks to win customers’ loyalty through factual information about their

products, which have been designed and developed with customers' expectations in mind.

### **3.5.2 Suppliers**

Suppliers are responsible for the continuous and uninterrupted supply of raw materials to feed the production cycle that converts them into finished goods. Inferior or substandard quality raw materials, or delayed supplies will hamper the production process, thereby increasing the ultimate cost of the finished goods. Management, on the other hand, must purchase quality raw materials from reliable suppliers and ensure they are paid on time. An enlightened management will always cultivate suppliers who are a valuable source of information on future trends in the raw material market.

### **3.5.3 Competitors**

In capitalism, market forces are responsible for deciding which organisations will prosper and which will perish. In the pursuit of survival and growth, organisations must compete with one another. In a buyers' market, the competition to win customers is even more fierce. However, the presence of competition and rivalry forces each organisation to offer quality products at minimum prices. An enlightened management will encourage customers to make a decision on the basis of factual information, rather than aggressive advertising campaigns or the denigration of a competitor's products. Competition certainly brings out the best in an organisation and requires the management to constantly strive for excellence.

### **3.5.4 Shareholders**

Shareholders can actually influence the policies and procedures of a company. They do this by exercising their voting rights. The company directors and managers have to be diligent in undertaking their responsibilities, remaining aware of their influence in the decision-making process.

### **3.5.5 Financial Institutions**

Companies depend on banks, insurance companies and other financial organisations to provide them with capital to carry out their business activities.

### **3.5.6 Employees**

An organisation's labour force comprises all the individuals who are employed by the company. The company must take care of the

needs of its employees by providing a conducive environment for them.

## **3.6 External Environment**

This comprises the major forces outside the organisation which have the potential to significantly influence the success of the company.

### **3.6.1 Physical Environment**

This includes the supply and availability of resources and raw materials. The availability of resources affects the location of industries. Constraints in the physical environment determine the type of business activities that are carried out. The physical elements also include the infrastructure and facilities available in the place of operation.

### **3.6.2 Political – Legal**

This comprises the laws and regulations passed by the government to control business activities. These laws act as guidelines within which a business must operate. Government departments have been set up to promote trade and assist with business development.

### **3.6.3 Economic Environment**

This refers to the state of the economy in the country, including the level of unemployment, inflation rates and trading and business practices. Essentially, the economic environment includes all aspects that affect economic growth and business activities within a country.

### **3.6.4 Social Environment**

The features of a society will have an impact on its businesses. The products and services that a company provides will depend on the composition of the population and its demographics, people's values and attitudes and the culture of the society. Whether a product/service succeeds or fails will be dependent on the society's customs and way of life.

### **3.6.5 Technological Environment**

This part of the external environment refers to the current state of technological knowledge and expertise. A breakthrough in technology can affect a business by allowing it to take advantage of

new methods of production and new materials for manufacturing goods. Current computer technology also enables a company to provide improved services to its customers.

### **3.7 Social Responsibility of Business**

Organisational and business structures are primarily economic in nature; the justification for their existence is economic performance. If they cannot make profits, they will eventually perish. Some critics maintain that socially oriented activities weaken a company's goal of profit maximisation. Money spent on social projects could have been invested in business opportunities. However, others have argued that the pursuit of profit can co-exist with an expression of social responsibility. Money spent on social projects improves the external environment and, in turn, allows the organisation to prosper. If a business shirks its responsibility to society altogether, the government may intervene by introducing new laws to gain control of the business, in response to social pressure.

The question is "to whom should a company be responsible?" Certainly to the shareholders, employees, customers, and society in general. These have already been mentioned in the discussion on internal environment, but we will now concentrate on the company's responsibility in general.

A company has a responsibility to the community or public at large, e.g. in their pricing, product quality, treatment of the environment, advertising strategies, and employment policies.

Businesses must ensure that they conduct their activities legitimately and cater to the needs of society. Before a company can undertake socially desirable objectives, it must first make enough profit to maintain the support and confidence of its shareholders.

#### **3.7.1 Areas of Concern for the Socially Responsible Company**

- Employee relations:
  - education and training of staff;
  - working environment;
  - job satisfaction;
  - attitudes to disadvantaged groups.
- Consumer protection:
  - product safety;
  - misleading advertising;
  - complaints from customers.

- The environment:
  - pollution;
  - noise;
  - restoration of land to natural uses.
- Financial honesty and openness:
  - bribery and corruption;
  - company control and ownership;
  - executive pay and compensation;
  - contributions to political parties.

### **3.7.2 Conflict between Social Responsibility and Profitability**

- Money invested in social responsibility comes out of the company's profits.
- If shareholders do not receive what they believe to be a fair return on their investment, they are unlikely to contribute to the future requirements of the company.
- Managers of a business are evaluated strictly on economic performance; rewards go to managers who keep costs down. Therefore, social responsibility cannot be left to the whims of individual companies and managers, but must be enforced by law.

## Topic 4 – Organising and Organisation I

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## 4.1 Introduction

An *organisation* is:

- a collection of people
- working together
- for common objectives.

In modern society, people have become more and more dependent on organised activities to meet their needs.

- Organising is the process by which management pursues its objectives by combining the efforts of people under its supervision.
- It involves:
  - identifying the necessary tasks;
  - allocating the tasks among members;
  - integrating efforts to achieve its goals.
- This is largely done by designing an organisational structure that can, as far as possible, run itself.

## 4.2 Why do People Form Organisations?

- To enable each other to accomplish things which, as individuals, would be difficult or impossible to achieve:
  - Help overcome our limitations as individuals.
- To facilitate the dissemination of knowledge:
  - Store and protect important information gathered and recorded by society.
  - Provide a foundation of knowledge on which to build to increase learning and achieve greater results.
- To offer a career source:
  - Provide employees with a livelihood and perhaps even personal satisfaction and self-fulfilment.
- To allow gains in productivity:
  - Make specialisation and exchange possible.
- To create synergy:
  - Total output is greater than the sum of its input, e.g. when Alan, Alfred and Allison work together, their collective effort

should be better than the sum of Alan, Alfred and Allison's individual efforts.

- In summary, to satisfy personal needs: educational, social, economic, physical and psychological.

## 4.3 Organisation Structure

This can be defined as the complete pattern of inherent human relationships. The organisation structure is divided into two parts – *formal* and *informal*.

### 4.3.1 Formal Organisation

- A system of jobs, authority relationships, responsibility and accountability designed by the management in order to complete the work.
  - A creation of the management.
- Has clearly defined roles for every member.
- Specifies reporting relationships and the structure of authority.
- The official network through which information passes (also called the chain of command).
- A formal plan for achieving an efficient division of labour and effective co-ordination of members' activities.
- Consists of all formal groups found in the company, such as committees, task forces, project teams, etc.

### 4.3.2 Informal Organisation

- The network of personal and social relationships that may have nothing to do with formal authority relationships.
- Not formally planned.
- Develops spontaneously from people's interaction.
- Loosely organised, flexible, ill-defined.
- An unofficial channel of communication (also called the 'grapevine').

## 4.4 Organisation Charts

Organisation charts are a useful aid to organisation design.

### 4.4.1 Features of Organisation Charts

- A pictorial representation of the company's internal structure at a particular point in time. Portrays the formal relationships developed as a result of organising.
- Illustrates the functions, departments or positions of the organisation.
- Indicates the reporting relationships.
- Shows the main lines of communication and the downward flow of authority.

A properly constructed chart provides a description of the general structure of the company's work and work relationships, and can be used for the following purposes:

- An informational device for orientating new employees.
- A work plan for considering business expansion.
- An information source for the general public/special groups as required.

Although an organisation chart illustrates reporting relationships and areas of responsibilities, it does not give a perfect explanation of the workings of an organisational and business structure.

### 4.4.2 Limitations of the Organisation Chart

- A lack of clarity regarding individual job specifications as job titles and duties are not provided.
- It does not indicate the organisation's informal relationships and channels of communication, which may also be influential.
- It does not reflect the power and status at each management level. Two managers on the same level may vary significantly in their capacity to influence the company's operation.
- Some businesses depend to a large extent on outside specialists of various kinds – this is not shown on the organisation chart although their influence is substantial.

## 4.5 Types of Organisation

### 4.5.1 Bureaucratic Organisation

Bureaucratic structures are intended to provide:

- equal treatment of all employees;
- a reliance upon the expertise, skills and experience relevant to the job;
- the maintenance of records of work and output;
- the setting up and enforcement of rules and regulations that serve the interests of the organisation.

#### Characteristics of a Bureaucratic Structure

- *Specialisation* – duties and responsibilities are divided among organisation members in order to maximise efficiency.
- *Hierarchy* – all positions within the bureaucracy are arranged in a hierarchy. Each lower office is under the control of a higher one, and there is a chain of command.
- *Rules* – activities should be carried out in accordance with rules and standard operating procedures.
- *Impartiality* – individuals should be treated in the same manner regardless of their personal characteristics.
- *Hiring on the basis of qualifications and promotion by merit* – employees should be hired on the basis of experience and qualifications, not their relationship with current organisation members. Individuals should be promoted on the basis of past performance and merit.
- *Written records* – to provide the organisation with a permanent record of past actions and continuity over time.

#### Advantages of Bureaucracy

- Allows equal treatment of all employees.
- Maintains records of work and output.
- Sets up rules and regulations to serve the interests of the organisation.
- Establishes a framework of rules and systems within which decision-making can be delegated with reasonably predictable results.

### **Disadvantages of Bureaucracy**

- Results in rigidity which makes it difficult for an organisation to change.
- Reduces the motivating potential of employee performance.
- Reduces individual discretion.
- Stifles upward communication.
- Stifles personal growth.

### **4.5.2 Line Organisation**

The organisation is divided into various departments, each having a controlling head who is the departmental manager. This form of organisation has the following advantages and disadvantages.

#### **Advantages of Line Organisation**

- It is simple and readily understood.
- It enables prompt decision making because of the direct nature of the chain of command.
- For the same reason, it simplifies co-ordination between personnel in the same department.
- Effective delegation is facilitated, and because of the direct line of control, inspection of output is relatively easy to arrange and maintain.
- All members of the department are made aware of, and readily understand, their position and status in the departmental hierarchy.
- Staff discipline is easier to maintain than in other forms of organisation.
- The extent of responsibility, authority and duties can be clearly defined and recognised by those concerned.

#### **Disadvantages of Line Organisation**

- It is potentially rigid and inflexible because each department is virtually self-contained, and there are limited opportunities to gain experience of other departments.
- Its effectiveness is very much dependent on the ability of the head of department.
- For the same reason, expansion of the department may prove difficult.
- Co-operation and co-ordination between different departments may prove difficult, and is very much dependent on the attitude of the departmental head.

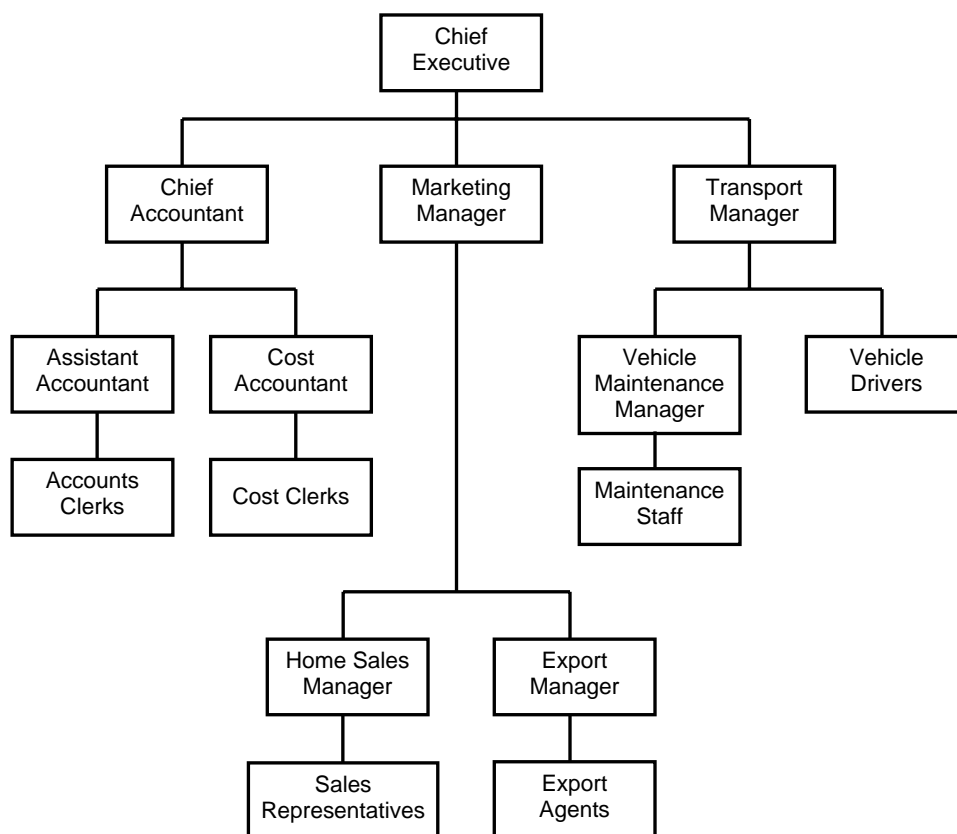


Figure 4.1 Example of a Line Organisation Chart

### 4.5.3 Line and Staff Organisation

Another type of organisation is line and staff organisation (which attempts to combine the benefits of the previous two). In this form of organisation, there are again functional experts appointed, but in this instance they have no executive powers and act in an advisory capacity only.

An obvious example is that of a personnel manager (staff) advising an accountant (line) in the recruitment of new members of staff.

Line and staff organisation is commonly found in many companies.

#### Advantages of Line and Staff Organisation

- Direct lines of responsibility and authority are maintained.
- Control of departments remains with the departmental heads.
- The availability of specialist knowledge and experience to line managers and supervisors promotes departmental efficiency.
- Departmental and interdepartmental co-ordination and co-operation are facilitated, because the specialists' expertise is spread throughout.

### Disadvantages of Line and Staff Organisation

- Line officers are not bound to follow the advice of staff officers, and therefore sometimes do not. This can lead to inefficiencies and a waste of the expensive skills of the expert function specialists.
- Staff officers sometimes try to usurp the authority of line officers, which can lead to bad feeling. It can also result in diminution of the line managers' and supervisors' authority over their staff.
- This form of organisation can be confusing for the workers, especially where there is a strong difference of opinion between line and staff officers.

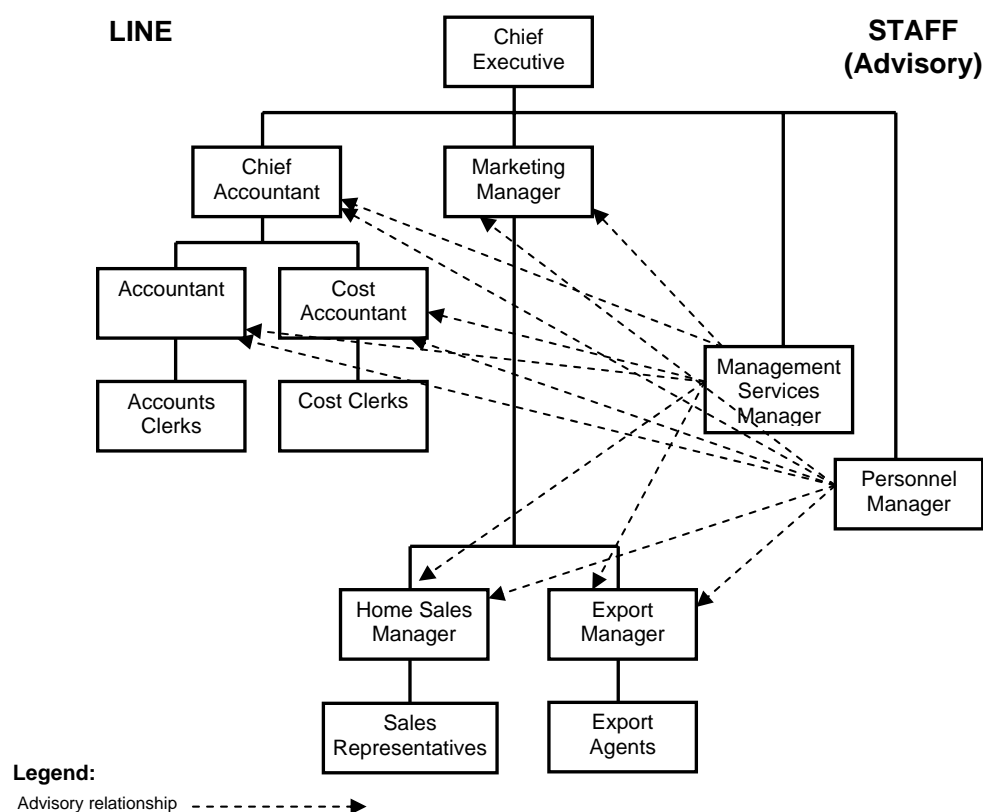


Figure 4.2 Example of a Line and Staff Organisation Chart

### Line and Staff Conflicts

- Staff specialists tend to overstep the mark by asserting authority appropriate to line personnel, causing friction and misunderstanding. Line managers bear the ultimate responsibility for results, and therefore resent staff adopting their prerogatives.
- Line managers think that staff members do not give sound advice.
- Staff members may be isolated from the day-to-day operations of the business. Therefore, their suggestions may be inappropriate.

- Line managers think that staff members steal credit from line members.
- Line managers think that “when things go wrong, we get the blame, but when things go right, they take the credit”.
- Line managers feel that staff members have narrow perspectives.
- Line managers tend to be specialists and fail to relate their ideas to the organisation’s overall needs and goals.

On the other hand:

- Staff members feel that line managers do not make suitable use of them.
- Line managers resist calling in a staff member.
  - Staff may be called in only when the situation has completely deteriorated.
- Staff members think line managers resist new ideas.
- Staff resent it when their suggestions are not supported and implemented by line managers, yet they are not given the authority to implement new ideas.
- Staff members tend to be younger, better educated, more ambitious and more individualistic. With such differences in background, the line and staff structure is often a cause of tension.

### **Ways to Prevent Such Problems from Arising**

There are a few things we can do to alleviate line/staff conflicts.

- Line and staff responsibilities should be clearly spelled out.
  - Line members should remain responsible for actioning decisions of the organisation. Staff members should give advice when they feel it is needed, e.g. make it clear where staff’s authority ends and line’s begins, including detailing what their jobs are, who does what, who reports to whom and so forth.
- Integrate line and staff activities.
  - Staff members should consult line members early on in the process of developing their ideas. Line and staff should work closely together in all aspects of their work, keeping each other informed at all times.
- Educate line managers to use staff properly.
  - Line managers will make more effective use of staff if they know exactly what the specialist can do for them.

- Hold staff accountable for results.
  - Staff should be held responsible for the failure of their suggestions (ideas). This responsibility should not be left with line managers.
- Ensure that there are prospects of promotion for staff (perhaps higher up in the parent line).
  - This is to avoid line managers thinking that staff cannot progress in the organisation, since they are outside line hierarchy.

#### **4.5.4 Committee Organisation**

Committee organisation occurs where management decisions are formulated by a group instead of being made by an individual. Members may be either appointed or elected. It is impossible for an organisation to be managed entirely by committee.

##### **Advantages of Committee Organisation**

- More than one point of view on any problem can be considered.
- The advice of experts on particular matters can be taken.
- Full discussion on a problem will take place, and due consideration be given, before the organisation commits to a specific solution.
- As committee members usually come from different activity areas, it is likely that the implementation of decisions will be well co-ordinated and that co-operation between different sections of the organisation is enhanced.

##### **Disadvantages of Committee Organisation**

- Due to the number of people involved and the lengthy discussions that take place, committees are often slow in reaching decisions.
- The collective nature of committees means that individual responsibility cannot be allocated to decisions reached, and therefore there is no individual accountability for failure.
- Decisions are likely to be the result of compromise and will probably lead to less positive action than if an individual had made the decision.
- Differences of opinion between members of the committee may result in decisions being postponed for another meeting, with the result that day-to-day operations may suffer.
- It is often not possible to obtain prompt decisions from individual members of a committee where urgent action is required, as they do not have the authority.

## Topic 5 – Organising and Organisation II

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## 5.1 Approaches to Organisation in Larger Companies – Departmentation

- Process by which tasks or activities are grouped logically into distinct areas and assigned to managers.
- Organisation - wide division of labour.
- When deciding upon the method of grouping or division of work, the main objective of the business must be considered.
- Management needs to develop a structure that will:
  - be flexible;
  - meet the needs of the company;
  - permit growth and development.
- The organisation structure must be modified as the company grows and more complex tasks have to be accomplished.

## 5.2 The Main Types of Departmentation

- Functional.
- Product.
- Geographical Location.
- Customers.
- Matrix.

### 5.2.1 Functional Departmentation

This is the most widely used type.

Activities are grouped on the basis of the essential functions which are necessary to attain the goals of the organisation.

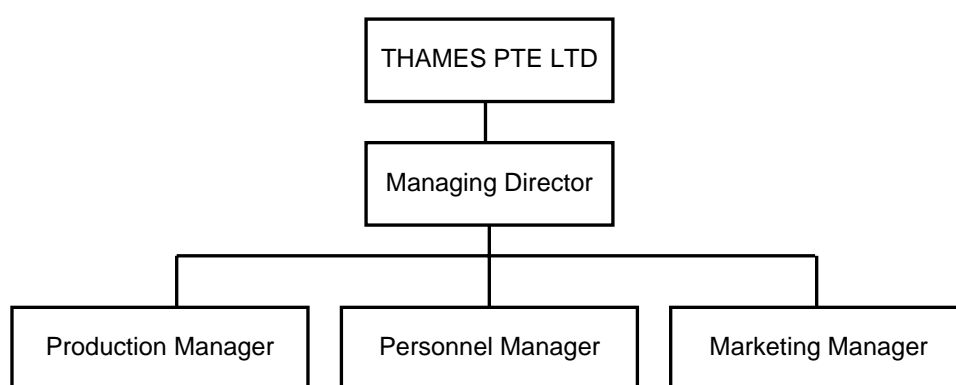
These functions will depend on the nature of the business. Those performed by a community college will be very different to those performed by a hospital or large steel manufacturer. Most organisations perform three key functions:

- A wholesaler would speak of his activities as 'buying', 'selling' and 'finance'.

#### Advantages of Functional Departmentation

- This method is widely used, logical and time proven. It is also known for its simplicity and clarity.
- It follows the principles of specialisation and economic performance.

- Work is done by specialists who have a good understanding of their role.
  - Leads to increased organisational productivity.
- It makes it easier to mobilise specialised skills and bring them to where they are most needed.
- Since managers tend to be specialised, this simplifies recruiting and training.
  - It is not necessary to look for or train ‘general managers’.
- Tighter control by top management is facilitated.
  - This is because managers are only familiar with part of the wider picture.



*(It allows each major function to report to the Managing Director.)*

**Figure 5.1 Diagram of Departmentation by Functions**

### 5.2.2 Product Departmentation

This involves establishing a production unit for each service or product.

Most large, multi-product companies are organised according to a product structure.

- A large food corporation can have a different division for each of its major type of food products.
- General Motors has a truck division, sports cars division, mini cars division, etc.
  - When sheer size and diversity of products make servicing by functional departments too unwieldy, semi-autonomous divisions are created, each of which designs, produces and markets its own product.
  - Each division (quite independently) is responsible for a product or a related family of products, including its production, marketing and distribution.

- Organising according to product lines results in specialising in activities according to each product grouping.
- Product divisionalisation is the logical pattern to follow when a product type calls for manufacturing techniques and marketing methods that differ greatly from those used in the rest of the organisation.

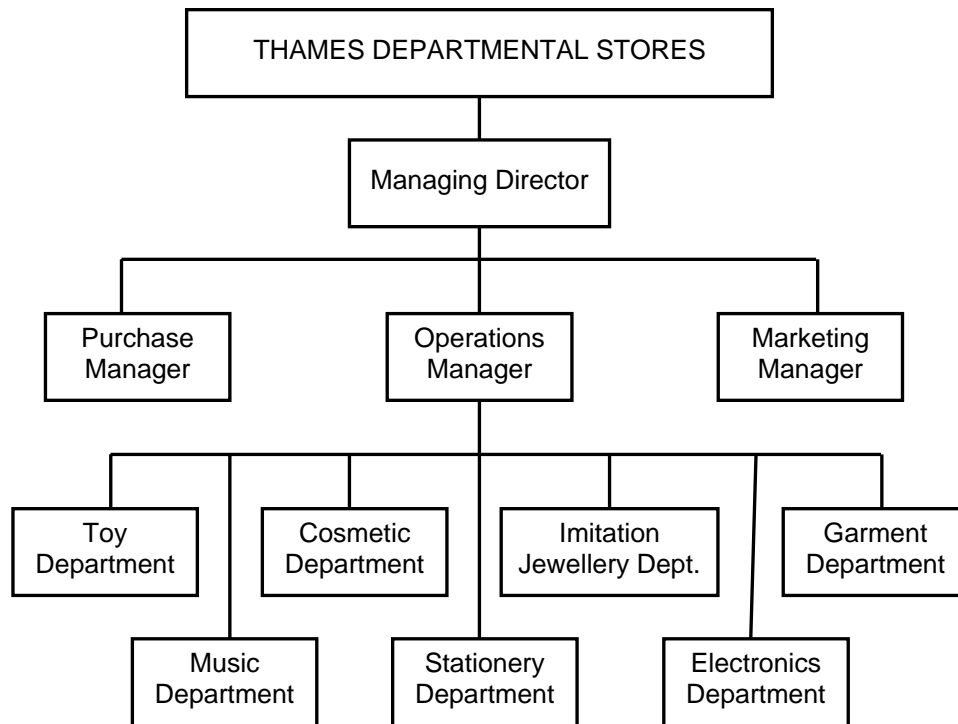
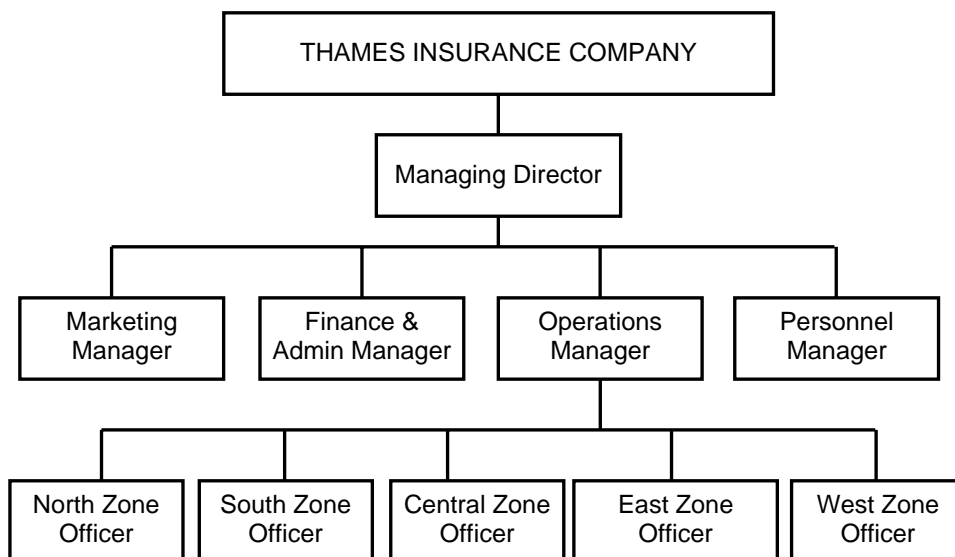


Figure 5.2 Diagram of Departmentation by Product

### 5.2.3 Territorial Departmentation

This is departmentation by *geographical area/location*, bringing together all activities in a particular location or region.

- A manager is put in charge of the area and is given responsibility for all aspects of the unit's activities. Local factors are not neglected in decision-making.
- Especially attractive to large-scale companies whose activities are geographically dispersed, e.g. services, financial and other non-manufacturing companies.

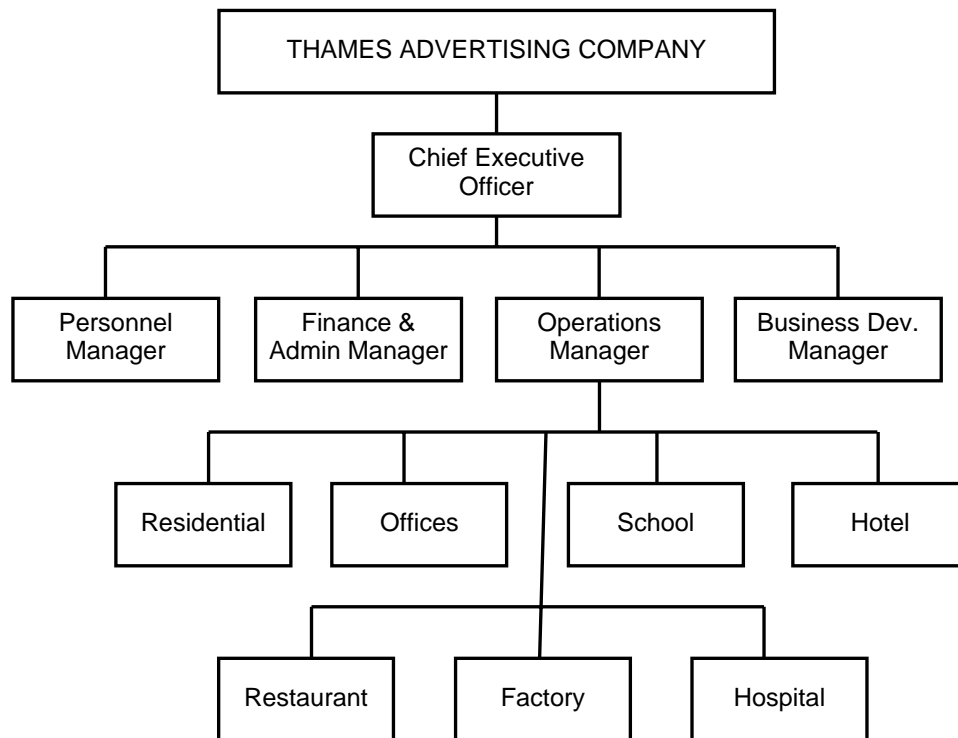


**Figure 5.3 Diagram of Departmentation by Geographical Location**

A company may be organised according to geographical location for the following reasons:

- Lower operating costs.
  - If a company's plant (operations) is located close to its market, transporting costs are cut down.
  - Manufacturing and assembly plants can be located in this way to reduce transport costs.
  - For example, manufacturers of bulky products tend to divide their work on a territorial basis, with a separate plant to serve each area or district. Others may be located near the sources of materials, such as wood, logs and cotton, which are bulky and expensive to transport.
- Convenience to customers.
  - Restaurant chains and supermarket chains can be close to their customers.
- Local knowledge helps decision-making and aids the creation of customer goodwill.
- Provides a good training ground for managers.
- Legal and political considerations.

## 5.2.4 Departmentation by Customer



*(This is quite prevalent amongst advertising agencies designing media campaigns for big corporations which have several product lines.)*

**Figure 5.4 Diagram of Departmentation by Customers**

This grouping of activities reflects a paramount interest in the customer. The customer is the key to the way activities are grouped, in cases where customer needs are managed by one department head.

Departmentation by customer caters for customers with different needs and allows them to benefit from specialisation.

- The special and widely varied needs of customers for a clearly defined service impel many suppliers to departmentalise on this basis.
  - The manufacturer who sells to both wholesalers and industrial buyers frequently finds that the needs of the two markets can best be met by specialised salesmen.
  - Departmental stores can be divided into adult and junior sections.
  - Educational institutions offer a variety of courses to serve different groups of students.

### 5.2.5 Summary – When to Use Departmentation

- Where a company's products, customers, market channels, or areas of operation are very diverse.
- Where the company is so large that one person alone can no longer co-ordinate the functions, (production, marketing, etc.) for all products, customers, market channels, or areas.
- Where being sensitive and adaptive to the *purpose's* changing needs is more important than being efficient.
- Where adequate controls can be implemented by top management so as to prevent a division becoming autonomous.
- Where developing *general* managers is a major consideration – although, as previously mentioned, there are many ways to departmentalise organisations – most types of departmentation can be classified as either purpose (divisionalisation) or process (function). Departmentalising a company by business functions or process is probably the most common form of division of work.

When divided into departments on the basis of purpose, a decentralised organisation will result. Authority is delegated to division managers, such as production, sales or personnel, for a wide range of decisions, rather than for only one specific function. Products, customers and location are three common purposes on which divisions can be built.

Departmentation based on purpose is very useful for ensuring continuous, responsive and undivided attention to a product, customer, market or area. Departmentation through process, on the other hand, tends to be more efficient with less duplication of effort.

### 5.2.6 Matrix Departmentation

This is a relatively new type of structure, developed as a result of co-ordination problems in highly complex industries such as the *aerospace* and the *construction industries*. In these types of industries, the functional and product type of structures have not been able to meet the demands of the inherent variety of activities and relationships.

A matrix structure usually combines a functional form of structure with a project-based structure.

Functional managers provide technical expertise, whereas the project manager provides the leadership required to steer the project during its relatively temporary lifetime. The functional and purpose forms of departmentation are combined in the same organisation structure, with functional managers in charge of

essential functions and an overlay of project managers responsible for the end product/purpose of a project.

### Advantages of a Matrix Organisation

- It combines lateral with vertical lines of communication and authority.
- It focuses on the requirements of the project group and links responsibility for completion to the project manager.
- It encourages functional managers to co-ordinate with project managers and combine their resources for successful completion of the project.

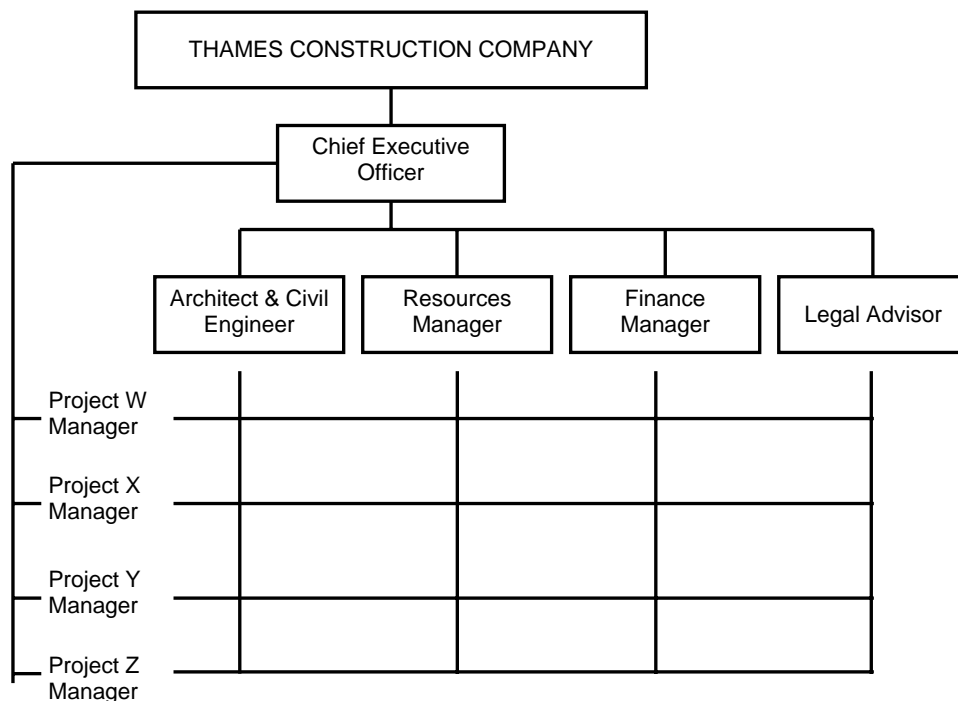


Figure 5.5 Diagram of Departmentation by Matrix

### Disadvantages of a Matrix Organisation

- The functional specialist and the project groups may experience conflict in the area of allocation of resources and priorities.
- Disunity of command leads members of the project teams to division of their loyalties between project manager and functional specialist.

## Topic 6 – Dimensions of the Organisation Structure I

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## 6.1 Introduction

Many factors have to be considered when determining the appropriate structure for an organisation. Authority and responsibilities must be clearly designated to ensure efficiency and effectiveness.

## 6.2 Authority

Authority has been defined in a number of ways.

- The right to give orders and the power to exact obedience.
- The power to make decisions which guide the actions of another.
- A manager's right to request a subordinate to perform duties necessary to accomplish the organisation's goals (authority gives position holders the right to expect compliance from subordinates).

### 6.2.1 Sources of Authority

Authority can be either 'top-down' or 'bottom-up'.

#### 'Top-down' Authority

- Authority usually comes from one's superiors:
  - For example, a department head is granted authority by his/her superior who is a Managing Director. The MD is granted authority by the Chairman who is allowed to act because of the authority granted by the Board of Directors (BODs). In turn, the BODs is granted authority by the company's shareholders.

#### 'Bottom-up' Authority

- Authority can also come from one's subordinates.
- It starts at the worker level and moves upward.
- Subordinates can impact on their superior's authority by either accepting it through good performance, or diminishing it through poor performance.
- Authority can only be effective when it is acknowledged and accepted.

## 6.3 Power

Power is the ability to control people/situations.

Although authority is one source of power, a manager's power and influence can be derived from other sources. Authority *per se* is not power. Power is the result of a specific personality type functioning in an appropriate environment. Authority can be delegated; power cannot. Either it exists or it does not.

### 6.3.1 Sources of Power

- *Reward power.*
  - A person having this power has the ability to reward.
  - Managers frequently have reward power as they can award pay increases or incentive pay and promotions to their subordinates.
  - The ability to reward is important, but it must be used sensitively – a manager should not boast of power that he/she does not possess. If a manager is perceived by subordinates as having reward power, but really does not (and is therefore not able to use it), subordinates may be disappointed.
- *Coercive power.*
  - The actual and perceived power to threaten and/or punish.
  - It is based on fear that failure to comply with rules/instructions will result in some form of punishment, e.g. fines, suspension or dismissal.
  - There is a general tendency to minimise the use of coercive power.
- *Legitimate power.*
  - Derived from authority.
  - Involves subordinates' compliance with rules, orders and instructions from the leader, when perceived to be legitimate in terms of the leader's scope of authority.
- *Referent power.*
  - Based on identification and attraction.
  - This type of power exists when one person identifies strongly with another.
  - The other person wants to identify with the powerful person regardless of the outcome. (For example, some religious

and political leaders have tremendous charisma/personal magnetism and their followers are very loyal and dedicated.)

- *Expert power.*
  - Managers have expert power in the sense that other employees attribute knowledge and expertise to them.
  - Experts are seen to have knowledge/ability only in well-defined areas. (For example, engineers may have expert power in their area of specialisation, but not outside it.)

The type of power (reward, coercive or legitimate) relative to each formal leadership position is largely determined by the organisation. Consequently, they are referred to as 'position power'.

Referent and expert power depend largely on the traits and behaviour of the person who occupies a leadership position. They are often referred to as 'personal power'.

To be efficient, a manager must draw upon as many sources of power as possible.

## 6.4 Responsibility

Responsibility is the obligation to perform certain functions on behalf of the organisation. It embodies three characteristics – obedience, dependability and compliance.

Responsibility and authority do not exist in isolation, they must inevitably go hand in hand. A manager must be given sufficient authority to fulfil his/her responsibility.

- It would be inappropriate for you to assign the responsibility for designing a new product to a subordinate without giving the authority to hire designers or choose the best design.
- A sales manager is responsible for performance in the sales department, but needs the authority to assign territories, reward good performance, and fire incompetents, in order to fulfil his/her obligations.
- Individuals in the organisation must be delegated sufficient authority to enable them to perform their assigned tasks effectively.

If an individual does not want to be responsible for an assignment, he/she should reject it. However, this should not lead to disciplinary action by his/her superiors.

## 6.5 Accountability

This means that a person who is given authority and responsibility must recognise that a superior will judge the quality of his/her performance.

By accepting authority, a person acknowledges acceptance of responsibility and accountability. The person who is delegating requires subordinates to allow their performance to be reviewed and evaluated and holds them accountable for results.

Accountability, by itself, cannot be delegated.

- A person who delegates authority remains accountable to his/her superior for what has been delegated.

For example, a manager submits a report (typed by his/her secretary) containing some embarrassing errors. Although the typing and checking for errors has been delegated to the secretary, the manager is still accountable for the errors. This does not imply that the typist or secretary bears no responsibility. He/she is accountable to the manager.

## 6.6 Delegation of Authority

The characteristics of delegation are:

- Pushing down of authority from superior to subordinate (Dessler).
- Decision-making passed down from superior to subordinates (Longnecker and Pringle).
- Assignment of responsibility (obligation) and authority by a superior to a subordinate to carry out specific activities (Stoner).
  - For example, a department manager in a retail store who is granted the authority to purchase the goods sold in the department, is expected to exercise authority in such a way as to make a profit for the company.
- While authority can be delegated, responsibility cannot. You are still ultimately responsible for ensuring that tasks are completed effectively. Your subordinates automatically become accountable to you for their performance in carrying out the tasks assigned to them.
- Through delegation, a manager is given the right to plan the activities of a unit, direct the work of subordinate personnel, and make other decisions pertinent to the operations of the organisation.

- If authority is delegated to an operative employee, that right involves making decisions about various aspects of the work, including the use of property and supplies belonging to the employer.
- The more the managers delegate, the more the organisation is decentralised.

### 6.6.1 Importance of Delegation

A manager gets things done through others, and so delegating is a skill that effective managers have to develop.

Advantages of *effective delegation*:

- Relieves the delegator of certain time-consuming work.
- A manager who is constantly immersed in activities which could be accomplished by subordinates will have insufficient time to deal with the major responsibilities of the position. Delegation contributes to the improvement of department productivity.
- The more tasks managers are able to delegate, the more opportunity they have to seek and accept increased responsibilities from higher-level managers.
- Managers can be free to function with maximum effectiveness.
- Delegation frequently leads to better decisions since subordinates closest to the 'firing line' are likely to have a clearer view of the facts.
- Effective delegation speeds up decision-making.
- Valuable time is lost if subordinates need to check with their superiors before making a decision.
- Delegation contributes to the development of subordinates.
- Delegation causes subordinates to accept responsibilities and exercise judgement, and learn to make decisions which will improve their self-confidence and willingness to take the initiative.
- Generally, personnel respond to delegated authority favourably.
- Delegation satisfies subordinates' need for esteem and self-actualisation, thereby improving morale.

### 6.6.2 Reasons Why Managers Do Not Delegate Authority

- Some managers get trapped in the 'can do it better myself' fallacy.
  - Often it just seems quicker to do the task than explain it to someone else.

- The feelings of importance attached to the exercise of power.
  - Managers sense their own importance as subordinates come to them with questions and refer problems to them for decisions.
- A manager's feeling of insecurity.
  - The need to keep in close touch with work for which he/she is responsible.
- Fear of loss of power if a subordinate does too good a job.
- Manager's lack of ability.
  - Some managers may simply be too disorganised or inflexible to plan ahead a system for monitoring subordinates' actions.
  - Some managers lack the ability to direct their subordinates. They are not good at organising their thoughts or giving orders.
- Lack confidence in subordinates.
  - In the short term, this lack of confidence may be justified if subordinates lack knowledge and skills.
  - In the long term, there is no justification for failing to train subordinates.

### 6.6.3 Reluctance to Accept Delegation

Reasons why subordinates avoid being delegated tasks:

- Many subordinates fear criticism for mistakes.
- Some hesitate to accept new assignments when there is a lack of necessary information and resources to do a good job.
- Lack of self-confidence and apprehension about accepting authority.
- Some subordinates just find it easier to ask superiors to decide for themselves how to deal with a problem.
- Rewards for assuming the extra work may be inadequate.
- Insecurity – avoiding responsibilities and risks, preferring the superiors to make all the decisions.

## 6.7 Chain of Command

Delegation creates a 'chain of command' which is important as it provides a framework for transmitting authority and aiding communication and co-ordination.

Direct authority flows from upper management levels to each lower management position.

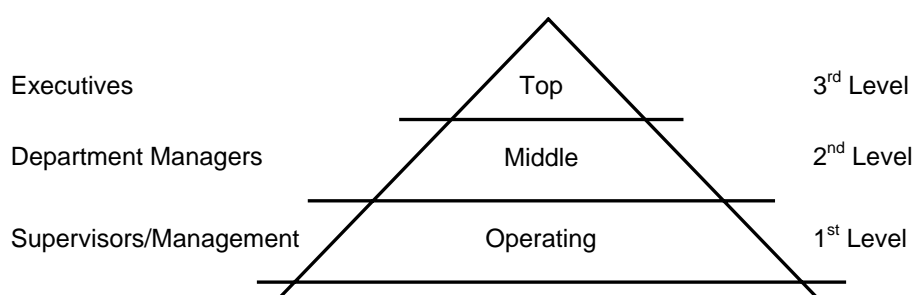
The chief executive officer gives directions to the chief operating officer, who directs the vice-presidents, who in turn give orders to their subordinates.

In this arrangement, each person knows who is responsible to whom. From top to bottom, everyone is accountable to someone.

Problems arise when the chain of command is too long.

- Complexity of communication and co-ordination problems exist in organisations when a large number of managers are involved.
- The longer the chain of command and the more levels of management that communication must pass through, the more diluted and inaccurate information is likely to become and the more time it takes for instructions to pass downward and for information to travel upward. In effect, the decision and communication process takes longer and is of poorer quality.
- Depersonalisation and deterioration of management-employee relations results. The tall organisational structure may cause lower-level subordinates to be demoralised as they feel that upper management is out of touch with the situation at their level of operation.
- Information must pass through several levels of officials for decision and then back downwards in the form of instructions. This causes undue delay and leads to the label of 'red tape'.
- Large companies have at least three main levels of management – often referred to as the management pyramid.

(titles)  
(position)



**Figure 6.1 Levels of Management**

### 6.7.1 Top Management

- Includes the BODs, the President, and other officers of the corporation such as the Secretary, the Treasurer, the Vice-Presidents and the General Managers.
- The duties of these groups are to develop overall organisational goals, establish operating policies, set long-range objectives and evaluate overall progress.

### 6.7.2 Middle Management

- Reports directly to the managers.
- Consists of plant managers, department managers, chief engineers, controllers and superintendents.
- Can encompass many levels of management.
- The duties of this group are to carry out the long-range objectives set by top management. They are more interested in the day-to-day activities than their superiors.

### 6.7.3 Supervisory Management

- Reports directly to the middle managers.
- Consists of the lowest level of management including foreman, supervisors and unit heads.
- The duties of this group are to supervise workers who perform the day-to-day operations, watching and directing them accordingly. If problems arise, they will often take corrective action immediately.
- Operating managers are very concerned with specific jobs and performance, while top managers are more interested in the overall objectives and long-range planning.

### 6.7.4 Features of a Tall Organisation Structure

- Characteristic of larger organisations.
- Numerous levels of authority and management.
- Narrow span of control.
- Long chain of command.
- More formality, specialisation and standardisation.

## 6.8 Span of Control

The span of control refers to the number of subordinates reporting directly to a supervisor.

There is a limit to the number of persons and activities that a manager can effectively manage.

In developing the organisation structure, the choice of an appropriate span of control is important to ensure effective utilisation of managers and subordinates.

- Too wide a span causes managers to be over-extended (over-burdened) and subordinates to receive too little guidance.
- Too narrow a span results in managers being under-utilised and subordinates being over-controlled.

There is a relationship between span of control and the levels of organisation.

- A narrow span results in a 'tall' organisation with many levels of organisation.
- A wide span results in a 'flat' structure with fewer levels between top management and the lowest organisational level.

A narrow span offers some advantages.

- Closer and more frequent personal contact between supervisors and subordinates.
- Better guidance, in that managers can give feedback on subordinates' performance and help them to achieve the objectives set for them.
- Tight control and close supervision.
- Improved performance through permitting managers to closely supervise their subordinates.
  - Early management writers recommended a very 'narrow span'. The boss should keep a closer eye on each subordinate.
- More time for executives to give to planning and decision-making, since they have fewer subordinates to supervise.
- Managers better able to manage fewer/more specialised people and activities.
- Development of a greater number of managers, since there are more management positions to be filled.

#### Disadvantages of a narrow span:

- There are additional costs for managers and their staff. Most of the staff are senior personnel and hence command higher salaries.
  - Administrative costs can be excessive and there are also added expenses of executive offices, secretaries and fringe benefits.
- Complexity of communication and co-ordination problems may exist in the organisation when a large number of managers are involved.
- With many managers in an organisation, more people have the power and authority to make decisions and issue orders. The channels of communication also become more numerous and complex and co-ordination becomes difficult.
- Also, the longer the chain of command and the more levels of management that communication must pass through, the more diluted and inaccurate information is likely to become, and the more time it takes for instructions to pass downward and for information to travel upward. In effect, the decision and communication process takes longer and is of poorer quality.
- Deterioration of management-employee relations.
- The resultant 'tall' organisational structure may cause lower level subordinates to be demoralised as they feel that upper management is out of touch with the situation at their level of operation.

#### A wide span offers these advantages:

- Reduced costs for fewer managers and their staff.
- Better and easier communication structure, as communication passes through fewer levels of management and is less likely to be distorted/inaccurate. It also takes a shorter time for information to be passed down from the top management level to the operating level and vice versa.
  - As there are fewer managers, channels of communication are less complex and meetings can be held easily and regularly, hence reducing problems of co-ordination.
- Subordinates are forced to make more decisions, take more responsibilities and use their initiative, since they cannot be turning constantly to supervisors for approval of their actions.
  - This results in improved management development (subordinates mature more quickly).
  - Better and faster decisions are made and more direct actions taken because individuals closer to the point of action are more familiar with the local conditions.

- Morale tends to be higher since a wide span prevents supervisors from meddling too much in the business of their subordinates. Each subordinate feels more autonomous.

Disadvantages of a wide span:

- The manager is unable to exercise direct control and supervision.
  - Less able to establish a close rapport with subordinates, (impersonal, little understanding between him/her and his/her subordinates and work-related problems)
- Higher calibre (therefore more expensive) people are needed in the organisation because roles are more significant and autonomous.
  - Management has to pay more for each person in a managerial position.
- The manager's day is unduly occupied with supervision, leaving too little time for effective planning.

### 6.8.1 Factors Affecting Appropriate Span of Control

The number of people a manager can effectively supervise is influenced by many factors. The boss should consider the following factors before determining the appropriate span.

- Competence of the manager.
  - If the manager is trained, competent, experienced and committed to his/her job, he/she can effectively supervise more subordinates, whereas the manager who is incompetent may not be good at supervising even one subordinate.
- Complexity of the job functions supervised.
  - Simple and repetitive tasks allow for a wider span compared to highly complex and varied tasks, e.g. a manager able to supervise 30 factory operators (all doing the same task).  
Whereas another manager may have to supervise different tasks like sales, store, purchasing, and security, this manager should be given a narrow span of control in order to be effective.
- Similarity of functions supervised.
  - The more similar subordinates' tasks are, the wider can the span of control be, due to the fact that all the workers are doing the same task. For example, if the salespeople are serving essentially the same markets, then a wider span is possible.

- Direction and control needed by subordinates.
  - If subordinates are competent, well trained and experienced, then a wide span of control will be possible.  
If subordinates are untrained, inexperienced and unskilled then they will need much guidance and direction and so a narrow span is advisable if control of staff is to be effective.
- The geographical dispersion of subordinates.
  - Are the subordinates located in different parts of the country, or are they in the same location or building? If they are all in one location, a wide span is possible.  
If all the subordinates are all over a wide region, a narrow span of control is advisable if they are to be effective.



## Topic 7 – Dimensions of the Organisation Structure II

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## 7.1 Introduction

This topic looks at other important factors that managers have to consider when designing an appropriate structure.

## 7.2 Centralisation and Decentralisation

In departmentation, the main consideration is how to divide labour horizontally, i.e. what kind of tasks each unit should perform.

Also important however, when designing an organisation structure, is the vertical division of labour, i.e. the amount of power sharing along the organisational hierarchy.

When organising, top management must decide where in the hierarchy major decisions should be made.

What we are referring to here is the delegation of the relative amount of authority to different positions in the structure, i.e. the extent to which authority has been passed down to lower levels or has been retained at the top of the organisation.

Generally, authority is either centralised or decentralised.

A decentralised organisation is one in which authority is distributed to lower levels, i.e. authority is delegated to the broader base of executives who are at the lower levels of the hierarchy.

The more decision-making is delegated to the lower levels of the organisation, the more co-ordination is needed.

In highly centralised organisations, authority and control are retained at the top of the organisation.

- The geographical dispersion of subordinates – would the salespersons be located in different parts of the country, or would they be in the same location or building?

In practice, no organisation is either purely centralised or decentralised. (These are extremes of a continuum and an organisation falls somewhere in between.)

- They range from retaining most authority (if not all) to make important decisions at higher levels, to allowing a considerable amount of decision-making to be made at lower levels.
- An organisation may fall at any point along the spectrum, i.e. decentralisation is a matter of degree. Basic decisions must receive attention at the top levels.

### 7.2.1 Characteristics of Decentralised Organisations

- A greater number of decisions are made at lower levels in the organisation.
- Decisions made more closely to the level at which problems arise.
- More important decisions can be made at the lower levels.
- A subordinate has more autonomy in making decisions, without the need to refer to supervisors.

#### Advantages of Decentralisation

- Decentralisation reduces the workload on over-burdened executives.
  - There may be better utilisation of the time and ability of the executives, e.g. allows top executives more time for policy formation and long-term planning, thus increasing efficiency.
- Decisions can be made much faster.
  - This makes the organisation (or at least elements of it) more adaptive, e.g. pressing problems faced by lower level managers can be dealt with more quickly when they have the authority to make immediate decisions, rather than having to refer problems to higher levels. This may prevent loss of time and customers.
- Decentralisation can result in better decisions.
  - Individuals close to a problem are normally more familiar with local conditions: hence they can often make better decisions than people at higher levels.
  - It does not follow that managers at a high level in an organisation are best equipped by experience and knowledge to make all the decisions at lower levels, because some problems in an organisation will be technical in nature.
- People learn faster when they participate or take responsibility for their performance – decentralisation is therefore important in developing talents.
- Decentralisation can improve morale.
  - It provides the freedom that contributes to an employee's independent status and opportunity for self-actualisation.
  - For many people, it is extremely motivational.
  - However, managers may resent not being empowered to act or to make decisions in areas in which they feel competent.

### **Disadvantages of Decentralisation**

- Control at the top may be more difficult. The further decisions are removed from the highest level, the more difficult it is to pinpoint problem areas and enable corrective action.
- Lack of uniformity of standards and policies among organisation units.
- Creates problems of co-ordination between separate organisational units.
- Capable managers are not always available or willing to participate in decision-making.
- Duplication of efforts may arise.

## **7.2.2 Centralisation**

### **Advantages of Centralisation**

- Top executives are more aware of the overall needs of the organisation and are more likely to make decisions in the organisation's best interests.
- There is greater uniformity of action and policy when decisions are made by the executive office. This allows all units to follow a uniform plan of action.
- It is easier to maintain confidentiality of strategic plans and proposals.

### **Disadvantages of Centralisation**

- Offers a junior manager no opportunity to make decisions, because virtually all important decisions are made at the top.
- Top managers are unnecessarily burdened by routine and other less important details.
- Reduces initiative and morale.
- Information may get distorted as it travels down.

## **7.3 Co-ordination**

Co-ordination is the process of integrating the objectives and activities of the separate units of an organisation in order to achieve organisational goals efficiently.

Its purpose is to ensure that individuals synchronise their efforts in pursuing the objectives of the enterprise (ensure that things happen, at the right time and place and in the correct order).

### 7.3.1 Why Co-ordination is Vital

- The timing of activities is 'synchronised' for maximum usage of labour and effort.
- The direction of activities (allocation of personnel, money and material resources) is planned for maximum efficiency and effectiveness.
- Service or staff functions provide the basis and backup for the line departments of production, marketing and finance, so that they can meet objectives.
- Control procedures can be implemented for comparing actual with desired results: are all necessary tasks being performed in the most efficient and effective way?

### 7.3.2 Why Co-ordination Fails

There are various reasons why co-ordination might be difficult to achieve.

- Poor communications both horizontally and vertically within the organisation. Poor communications might be a symptom of conflict.
- Management might fail to provide a plan for the organisation that is acceptable to everyone within it. Different departments, for example, might have different views about how the goals of the organisation will best be achieved.
- Differences in leadership style within the organisation. If the manager of department X is strictly authoritarian, whereas the manager of department Y is democratic and encourages the interest and participation of subordinates in decision-making, it might be difficult for members of department X to co-operate efficiently within members of department Y.
- Co-ordination also depends on the design of the organisation structure. If the structure is tall, then the chain of command is long and co-ordination becomes difficult.
- The organisation's performance might be unco-ordinated. Each departmental manager may recognise different key areas for control. The sales manager is concerned with the sales quota and hence may not want to co-operate with the accountant in complying with the budget imposed upon him/her. On the other hand, the production manager may not want to co-ordinate with purchasing, because the quality and quantity of output are the main objectives, rather than the costs, which the purchasing manager is concerned with.
- Inter-personal or inter-departmental jealousy may arise, as well as mutual dislike.

### 7.3.3 Improving Co-ordination

Co-ordination may be improved in the following ways.

- Conflict should be controlled, by improving informal relationships.
- An organisation structure should be designed so that when two departments have to integrate their activities, a co-ordinating level of management exists to ensure that they work in harmony.
- Appointment of liaison or integration officers who co-ordinate the efforts of different departments.
- Appointment of committees or project groups which include representation of all the departments whose work needs to be co-ordinated.
- Friendly, informal communication should be established between managers of different departments, enabling them to co-ordinate their activities.
- The system of planning and control within the organisation should recognise the need for the integration of different departmental interests in the pursuit of organisational goals.
- Policies, systems and procedures should be formulated, so that fresh decisions do not have to be made on routine matters.

## Topic 8 – Managing Conflict and Change

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## 8.1 Nature of Conflict

In many organisations, conflicts within and between groups are common. A conflict is defined as a perceived difference between two or more parties that results in mutual opposition. Conflict is often considered to be a negative factor. However, it can have constructive, as well as destructive, consequences.

When tensions are so high that people do not co-operate and are not productive, conflict should be reduced so that they can work together to accomplish their objectives. Modern managers do not necessarily try to eliminate conflict; rather they manage it so that it contributes to the individual's and organisation's productivity.

Conflict in organisations can exist between individuals, groups, units, departments or organisational levels.

## 8.2 Causes of Conflict

There are many reasons why we see conflict in organisations.

### 8.2.1 Scarce Resources

Resources include money, information and supplies. In their desire to achieve goals, individuals may wish to increase their resources, which can cause conflict.

### 8.2.2 Unclear Responsibilities

Conflicts emerge when job boundaries and responsibilities are not clearly defined. When duties are clearly specified, people know where they stand. When they are unclear, people may disagree about who has responsibility for specific tasks or who has a claim on resources.

### 8.2.3 Communication Breakdown

Poor communication results in misperceptions and misinterpretation. In some cases, information may be intentionally withheld, which can jeopardise trust among employees and lead to lasting conflict.

### 8.2.4 Personality Clashes

This happens when people simply do not get along, or fail to see eye to eye. Such differences could be due to differences in personality characteristics, values and beliefs.

### 8.2.5 Status Differences

Power and status differences occur when one party has disputable influence over another. People may engage in conflict to increase their power and influence.

### 8.2.6 Goal Differences

Conflict occurs when people pursue conflicting goals. Individual salespeople's targets may put them in conflict with one another or with the sales manager. Moreover, the sales department may have goals that conflict with those of manufacturing or finance.

## 8.3 Managing Conflict

The challenge for managers is to manage conflict in such a way that it contributes positively to the organisation.

### 8.3.1 Conflict between Individuals

Such conflict can be handled by using the following styles.

- *Competing style* – reflects a person's determination to get his/her own way and should be used when quick, decisive action is required. This may be the case when making important or unpopular decisions such as during emergencies.
- *Avoiding style* – reflects neither assertiveness nor co-operativeness. It is appropriate when issues debated are trivial, when there is no chance of winning or when a disruption may be very costly.
- *Compromising style* – reflects a moderate amount of assertiveness and co-operativeness. It is appropriate when the goals on both sides are equally important, when opponents have equal power.
- *Accommodating style* – shows willingness of individuals to co-operate and can be used when both parties realise they are wrong or when maintaining harmony is important.
- *Collaborating style* – enables both parties to win, although it requires substantial bargaining and negotiation.

The various styles above can be used when one individual disagrees with another.

### 8.3.2 Techniques for Resolving Conflicts

Several techniques can help managers resolve conflicts that arise between members of one group or between different teams.

- *Bargaining/negotiation* – both parties engage one another in an attempt to systematically reach a solution. They attempt logical problem solving to identify and correct conflict.
- *Mediation* – using a third party to settle a dispute is called mediation. The mediator may be a supervisor or manager. The mediator can discuss the conflict with each party and work towards a solution.
- *Well-defined tasks* – managers can reduce conflict by clearly identifying responsibilities and duties.
- *Facilitating communication* – managers can provide opportunities for parties to communicate more effectively. As they learn about each other, suspicions diminish and improved teamwork becomes possible.

## 8.4 Introduction to Change

We live in a dynamic and exciting world where change is continual and affects both individuals and organisations. As individuals, we regularly experience change in our everyday lives. In recent years, lives have been changed by the introduction of computers and other innovations. In order to survive and prosper in a competitive world, organisations have to change too. Organisational change is defined as the adoption of a new idea or behaviour by an organisation.

## 8.5 Forces for Change

There are many factors or forces that make change necessary for organisations. They can be classified into two groups.

- *External forces* – as discussed under the topic of environment, external changes take place in all sectors, including consumers, competitors, economic, political and social and technological environments.
- *Internal forces* – these arise from internal activities and decisions. If managers select a goal of rapid growth, internal actions will have to be taken to accomplish this objective. New departments or technology may need to be introduced. Demands by employees, unions and others may mean changes.

## 8.6 Resistance to Change

Often, members in an organisation do not easily welcome and accept changes. Even though workers may see the need for change, it is still not easy for them to accept it. Some of the reasons why change may be resisted include:

- *Self interest* – employees will resist change if they feel that the change will take away something of value to them. A proposed change in structure, job design or technology may lead to a perceived loss of power and prestige.
- *Lack of understanding* – employees often do not understand the purpose or need for the change or distrust the intentions behind it. If previous changes have been made and the results have been negative, then resistance will arise in future.
- *Uncertainty* – employees may not have adequate information about future events. This is a fear of the unknown. They do not know how the change will affect them. Employees may fear that they will not be able to cope or keep up with the demands of a new procedure or technology.
- *Different goals and objectives* – managers in each department pursue different objectives and a change may affect whether they can meet their goal.

## 8.7 Overcoming Resistance to Change

Managers should not ignore the above concerns of their employees, but need to diagnose the reasons and design strategies to gain their acceptance.

- *Communication and education* – used when factual information is available about how proposed changes will benefit the users and the company. It is especially useful when change involves new technical knowledge. Education helps workers to see the benefits and accept the change more easily.
- *Participation and involvement* – this tactic involves the users right from the start of the change process. It is time-consuming but it pays off because users understand what is happening and become committed to the change. It allows employees to offer their personal ideas to make the change successful and consequently improves the outcome.
- *Negotiation and agreement* – uses formal bargaining to win acceptance and approval from the employees for the changes. This tactic is especially necessary when dealing with trade unions. The change becomes part of the new contract.
- *Coercion* – this means that managers use formal power and authority to force employees to change. Employees are told to accept the changes or lose certain benefits or even their jobs. This is used as a last resort in cases where a crisis may exist.

## 8.8 Types of Change

The different types of changes that can occur in organisations include the following.

- *Technology changes* – such changes are related to the company's manufacturing activities and are designed to make the production process more efficient. They should take into account suggestions from the workers involved in these activities. Employees at lower levels often understand the technical aspects better and can contribute to the change successfully.
- *Product changes* – this involves a change in the company's products or services. These changes are usually in response to customers' demands or competitors' new products. Marketing, production and research departments have to work together in developing new product ideas.
- *Structural changes* – such changes involve the hierarchy of authority, goals, and administrative procedures. For example, the implementation of a no smoking policy in the company can be considered as a structural or administrative change.
- *Culture/people changes* – a culture or people change refers to a change in employees' values, attitudes, beliefs and behaviour. These changes pertain to how people think. It could involve just a few people or the entire organisation. For example, a change in leadership style from autocratic to democratic is a cultural change.

## 8.9 Conclusion

For change to take place successfully, those affected must be psychologically willing to make the effort. Any change process involves unlearning old things and learning new skills. Change is difficult if there is no motivation to change. Inducing this motivation is often the most difficult part of the change process.

## Topic 9 – Control and Budgetary Control

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## 9.1 Definition of Control

- To control means to check, regulate, or to give directions so as to ensure that the necessary action is taken to achieve a goal or target, or to fulfil expectations. A control is a device or technique for putting control into practice.
- Control is a function of management that is inseparable from planning, and 'control and monitoring' has been defined as *'the continuous comparison of actual results with those planned, both in total and for separate subdivisions, and taking management action to correct adverse variances or to exploit favourable variances'*.

## 9.2 Tools of Control

- *Policies and plans* – to ensure standards are adhered to, there should be written policy manuals.
- *Delegation of work to subordinates* – make the respective staff accountable for their activities.
- *Monitoring and spot-checking* of workers' performance.
- *Quality and quantity controls* – this is to be carried out by actually measuring the amount of work done – by count, by weight and by comparing results with the standard set.
- *Expenditure control* – budgets covering sales and expenditure incorporated in a master budget.
- *Reporting* – monitoring of activities is mostly done by reporting in one form or another.

## 9.3 The Importance of Control

Controls can help in assisting managers with five particular challenges – coping with uncertainty, detecting irregularities, identifying opportunities, handling complex situations and decentralising authority.

- *Coping with uncertainty* – uncertainty arises because organisational goals are set for future events on the basis of the best knowledge at the time, yet things do not always go according to plan. A variety of factors in the environment typically operate to bring about changes in such areas as customer demand, technology, and the availability of raw materials. By developing control systems, managers are able to monitor specific activities and react quickly and more efficiently to significant changes in the environment.

- *Detecting irregularities* – controls also help managers detect undesirable irregularities, such as product defects, cost overruns or rising turnover in personnel. Early detection of such irregularities can often save a great deal of time and money by preventing minor problems from mushrooming into major ones. Detecting aberrations early may avoid problems that can be difficult to rectify, such as missing important deadlines or selling faulty merchandise to customers.
- *Identifying opportunities* – controls can also highlight situations where performance is better than expected, alerting management to possible future opportunities.
- *Handling complex situations* – as organisations grow larger or engage in more complex operations and projects, controls enhance co-ordination. Controls help managers to keep track of the major elements and ensure that they are well synchronised. Operating on an international basis often increases complexity and calls for further consideration of necessary controls.

## 9.4 The Principles of Effective Control

- *Future-oriented* – to be effective, control systems need to help regulate future events, rather than apportion blame for past events.
- *Control systems should aim for high but achievable standards* – they should be fair, observable, measurable, specific, and relevant.
- *Acceptable to organisation members* – control systems should be tailored to the culture of the organisation.
- *Control systems should be simple* – they should not be too sophisticated.
- *Cost-effective* – control should be economical – i.e. the controls installed should not cost more than they will save.
- *Accurate* – since control provides the basis for future actions, accuracy is vital.
- *Realistic* – control systems should incorporate realistic expectations about what can be accomplished.
- *Timely* – control systems are designed to provide data on the state of a given production cycle or process at a specific time, in the form of a monthly sales report, a weekly update on a project, a daily production report or quality inspections on a production line. Corrective action should be taken promptly and consistently.
- *Monitorable* – control systems should be monitorable to ensure they are performing as expected. Feedback must be available to

the management in time for corrective action to be taken before matters have deteriorated too much.

- *Flexible* – control systems need to be flexible enough to respond rapidly to changing environments, to meet new or revised requirements.

## 9.5 The Problems of Control

Control theory may sound all well and good, but there are a number of serious problems to overcome in applying theory to practice.

- Preparing a standard or plan in the first instance, which is reliable, and which is acceptable to the managers who will be responsible for achieving it.
- Measuring actual results with sufficient accuracy; this may be particularly difficult in service departments such as offices, since clerical work is not often directly measurable as 'output'.
- Measuring actual results in suitable feedback periods – keeping the reporting cycle time sufficiently short to give managers a chance to take prompt action when serious deviations from the plan occur.
- Identifying the causes of variation between actual results and the standard or plan, and distinguishing controllable from uncontrollable causes.
- Drawing the attention of managers to a deviation between actual results and plan, and persuading them to do something about it.
- Co-ordinating the plans and activities of different departments in the organisation.
- Everybody who needs to be informed about results must be kept informed in a way that they can understand. In an actual work environment, this may be difficult to achieve.

## 9.6 Budgetary Control

*Budgets* are formal quantitative statements of the resources set aside for carrying out planned activities over given periods of time. As such, they are the most widely used means for planning and controlling activities at every level of the organisation.

## 9.7 Purposes of Budgets

- *To compel planning* – this is the most important feature of budgeting because management is forced to look ahead, setting targets, anticipating problems and giving the organisation purpose and direction.

- *To communicate ideas and plans to everyone affected by them* – a formal system is necessary to ensure that each person is aware of what he/she is supposed to be doing.
- *To co-ordinate the activities of different departments* – this concept of co-ordination implies, for example, that the purchasing department should base its budget on production requirements and that the production budget should in turn be based on sales expectations.
- *To establish a system of control* – by having a plan against which actual results can be progressively compared.
- *To motivate employees to improve their performance* – two levels of attainment could be set: a minimum expectations budget and a *desired standards* budget, which provides a challenge to employees.

<b>MONTHLY BUDGET REVIEW STATEMENT</b>					
Department: _____		Month: _____			
Budgeted Activity: ____ %		Actual Achieved: ____ %			
Expense	Month		Variance		Remarks
	Budget	Actual	This Month	Year to Date	
Totals:					
Signed: _____		Date: _____			

## 9.8 Advantages of Budgetary Control

- By limiting expenditure, thoughtless, extravagant spending is curtailed. Budgetary control ensures that serious consideration is given before indulging in expenditure, instead of afterwards.

- The preparation of budgets requires all concerned to examine very closely the working of their departments. This will tend to impose restraints on unrealistic ambitions and emphasise the need for practical and attainable goals.
- All budgets are interdependent; budgetary control has a positive effect on co-ordination. Related departments must work together in order that their budgets are compatible.
- Periodic budget review statements and the holding of regular budgetary control review meetings ensure constant monitoring of budget performances.
- Monitoring has two effects. The first is that managers and others responsible for budgets are disposed to try to ensure that the budget figures are adhered to. The second is that non-compliance with budgeted performance is brought to management's attention at an early stage so that remedial action can be taken with the minimum of delay.
- Monitoring may also reveal that the original budgets have been unrealistic and that the figures may have to be adjusted in the light of internal or external events.
- Managers are responsible for their own budget figures and so they have an incentive to keep within the limits set, and to ensure that their staff comply with the constraints put upon the department.

## 9.9 Disadvantages of Budgetary Control

- A budget is a monitoring aid; it is not a regulator. If expenditure outside the scope of the budget is necessary to ensure efficient operation, this additional cost must be justified, and even then, it may not be approved by management.
- When a budget surplus is available, departments tend to have the 'must be used up' attitude.
- Any surplus from one budget will not be passed over to a budget likely to be in deficit, even though for practical reasons, this may be highly desirable. This does not benefit the organisation as a whole.
- In times of fluctuating prices, budgeting becomes difficult, and when high rates of inflation occur, budgets become out-of-date very quickly.
- Budget planning and monitoring is time-consuming. Management personnel spend too much of their resources on these functions.

## Topic 10 – Human Resource Management I

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## 10.1 Introduction

The function of human resources acknowledges the importance and value of the employees to an organisation. While it is true that most human resource activities are carried out by a formal personnel department, all managers need to be aware of the issues relating to personnel management. Human resource management therefore includes all activities for staffing the organisation and sustaining high employee performance.

## 10.2 Human Resource Planning

This is the process of ensuring that the company has the correct number and types of people in the right positions, who can handle the tasks required. It comprises the following stages.

### 10.2.1 Assessing Human Resources

Management begins by reviewing the current human resource status. It needs to know the current number and type of employees available, their qualifications, work experience and various other details.

### 10.2.2 Assessing Future Human Resource Needs

These are determined by the company's objectives and strategies. They are the result of demand for the company's products and services.

### 10.2.3 Developing a Plan to Meet Future Needs

Management is now able to estimate shortages, both in number and type of workers required, and to highlight areas in which the organisation is over-staffed. A programme can then be planned to match the supply with the demand.

## 10.3 Functions of the Personnel Department

The functions given below are by no means those undertaken by personnel departments in all organisations. They represent however, the range of responsibilities usually covered by the personnel function throughout industry and commerce, and largely reflect the practice in those companies where the personnel function has been established for some time.

### 10.3.1 Employment

- Manpower planning.
- Liaising with the Department of Employment and all other sources of labour supply.
- Enforcement of the company's terms and conditions of employment.
- Interview of applicants; engagements; transfers; promotions; terminations.
- Maintenance of personnel records and statistics.
- Employee interviews and consultations.
- Legislation relating to employment.

### 10.3.2 Training and Education

- Co-operation with appropriate Industrial Training Boards.
- Management development.
- Supervision and control of notice boards and information bulletins.
- Provision of suggestion schemes, working hours, a library and the maintenance of a staff magazine.
- Encouragement for further education through correspondence courses, day continuation schools, attendance at technical and evening institutes, evening classes and lectures.

### 10.3.3 Wages and Salaries

- Maintenance of company's wage structure.
- Assessment and control of differential rates and special payments.
- Consultation, when necessary, with time study or organisation and method consultants in respect of incentives.

### 10.3.4 Industrial Relations

- Negotiation with trade unions.
- Provision of information on conciliation and arbitration procedures.
- Maintenance of machinery for joint consultation, i.e. joint production committee, works councils.
- Interpretation and dissemination of company personnel policy.
- Acting as company representative in outside negotiations affecting personnel.
- Advice on administering industrial relations legislation.

### **10.3.5 Welfare and Employee Benefits (including Health and Safety)**

- Administration of canteen, in-house clinics and savings schemes.
- Pension and long service grants.
- Legal aid and other advice on personal problems.
- Transport, housing and related staff problems, where applicable.
- Provision of social and recreational facilities.
- Enforcement of the provisions of the Health and Safety at Work Act.
- Accident prevention and participation in safety committees, safety education, investigation of accidents, accident statistics, etc.
- Administration of employee's compensation.

## **10.4 16.4 Recruitment**

Recruitment is the process of finding and attempting to attract candidates who are capable of effectively filling the job vacancies. Job descriptions and specifications are important in the recruiting process, because they specify the nature of the job and the qualifications required of candidates. Recruiting can be conducted both internally and externally.

### **10.4.1 Internal Recruitment**

Many vacant positions in organisations are filled through internal recruitment. This involves identifying potential internal candidates and encouraging them to apply for and/or be willing to accept the vacant position.

#### **Advantages of Internal Recruitment**

- Candidates are already oriented to the organisation.
- Reliable information on candidates is available.
- Recruitment costs are lower.
- Internal morale is increased due to opportunities for upward mobility.
- Good performance is rewarded.

#### **Disadvantages of Internal Recruitment**

- There may be fewer new ideas.
- Unsuccessful contenders may be disheartened.
- Selection is more susceptible to 'office politics'.

- Expensive training may be necessary.
- Candidates' current work may be disrupted.

### 10.4.2 External Recruitment

Organisations tend to recruit from the outside only when there are no suitable internal candidates for the vacant positions. External recruitment is the process of identifying potential external candidates and encouraging them to apply for and/or be willing to accept the vacant position/s.

#### Advantages of External Recruitment

- Candidates are a potential source of new ideas.
- Candidates may have broader experience.
- Candidates may be familiar with competitors.
- Candidates may bring new specialised skills.

#### Disadvantages of External Recruitment

- The probability of making a mistake is higher as less reliable information is available.
- Potential internal candidates may be resentful.
- The new employee may have a slower start because of the need for orientation to the organisation.
- The recruitment process may be expensive.

## 10.5 Methods of Recruitment

Recruitment may be performed by the use of:

- *Advertising* – which should be in the right media on the right day of the week and in the right format. Particular attention should be paid to ensuring that there is no discrimination on sex, race or age grounds.
- *Department of Employment facilities* – Job Centres, The Professional and Executive Register, Skills Centres.
- *The educational sector* – university appointments boards, career offices.
- *Professional organisations* – e.g. accountants, engineers, etc. maintain registers of members seeking work.
- *Employment agencies* – e.g. for office, secretarial and administrative staff.
- *Executive search agencies* – e.g. 'head-hunters'.

## 10.6 Interviews

In general, the *purposes* of an interview are:

- to enable the prospective employer to provide the applicant with the opportunity of obtaining information (relating to both the job and the company) additional to that given on the application form;
- to make the applicant feel that his/her application has been courteously, seriously and fairly considered, so that the candidate departs with a good impression of the company.

## 10.7 Types of Employment Interview

- *'One-to-one' interview* – this provides the most favourable conditions for establishing rapport between interviewer and interviewee, but has the disadvantage of making the interviewer solely responsible for the appointment. There is also greater opportunity for subjective bias on the part of the interviewer. To avoid these objections, variants of the one-to-one interview can take place, which include a series of one-to-one interviews, at the end of which the interviewers compare notes on the candidate.
- *Tandem interview* – in which the candidate is evaluated by two interviewers.
- *Panel interview* – in which the candidate is interviewed by a board, the members of which accept collective responsibility for the appointment.
  - There are interviews in which the candidate is seen by a comparatively small number of people simultaneously. A panel usually consists of three or four members; a greater number than this would best be described as a board.

A panel interview has the following advantages:

- It takes less of the candidate's time compared to successive interviews.
- Each interviewer can ask specialist questions relating to his/her own area of expertise.
- There is time for each interviewer to ask several questions.
- All the interviewers are able to take part in the joint assessment of the candidate and express their own views.

The disadvantages of the panel interview are:

- It is less easy to establish rapport with the candidate than in a one-to-one interview.
- The questioning may be disorganised and repetitive.

- Occasionally, the interviewers transact company business during the interview.

The *five point grading system* assesses candidates in respect of:

1. *Impact on others* – physical appearance, mode of speech and mannerisms.
2. *Qualifications and experience* – general education, vocational training, work experience.
3. *Innate abilities* – speed of comprehension and attitude to learning.
4. *Motivation* – the goals set by the individual, consistency and determination in pursuing them, and ultimate success in achieving them.
5. *Adjustment* – emotional stability, predisposition to stress and the ability to get on with people.

The *seven point system* covers:

1. *Physical attributes* – health, physique, appearance, disabilities of vocational importance, mode of speech and mannerisms.
2. *Attainments* – general education, vocational training, work experience.
3. *General intelligence* – innate intellectual capability.
4. *Special aptitudes* – mechanical, dexterous, linguistic.
5. *Interests* – intellectual, practical, physical, social, artistic.
6. *Disposition* – acceptability, influence over others, steadiness, self-reliance, dependability.
7. *Circumstances* – domestic circumstances, family responsibilities and mobility.

## 10.8 The Various Interviewing Tests

Interviewing is often supplemented by some form of further testing to provide a more accurate assessment of the candidate.

A test is a standardised type of examination given to an individual. These include medical examinations, attainment testing, psychological tests and observation of the candidate in-group situations.

- *Medical examinations* – the purposes of such examinations include eliminating candidates with health problems which may affect their attendance at work, or endanger the health or safety of colleagues. They also prevent prospective workers from being employed for work which they are physically unsuited to.

- *Attainment (or achievement) tests* – the purpose of such tests is to ascertain the candidate’s actual level of competence. Examples include dictation tests for secretaries, skill tests for mechanics and requiring sales persons to make a product presentation.
- *Psychological tests* – includes intelligence, aptitude and personality testing. In many cases, psychological tests can only be administered by persons who have had appropriate training.
  - *Intelligence tests* – involve the setting of a task or problem, either as an item on a scale or individually, as a means of measuring or estimating the mental capabilities of an individual.
  - *Aptitude tests* – aim to measure inborn potential of a specific nature, rather than acquired skill or knowledge. In practice, such tests can be used to establish, prior to training, which of the applicants will perform the job most efficiently after training. They are used in cases where efficiency is related to a high degree of dexterity and hand/eye co-ordination,
  - *Personality tests* – aim to reveal ‘what a person really is’ or how a person would react in certain situations. The importance of personality in employment is that how people are determines what they do. A typical personality test asks people to report on their likes, dislikes, attitudes and what they would do in certain circumstances.

## 10.9 Selection for Training

Selection is the process of determining which candidates best fulfil the needs of the organisation. During the process of selection, managers must determine the extent to which candidates possess the skills, abilities and knowledge required to perform effectively in the positions for which they are being considered.

## 10.10 Training and Development

Training and development is a planned effort to facilitate employee learning of job-related behaviours in order to improve employee performance. Experts sometimes distinguish between the term ‘training’ (denoting efforts to increase employee skills on present jobs) and the term ‘development’ (referring to efforts oriented toward improvement relevant to future career prospects).

### 10.10.1 Phases of the Training Process

Training efforts generally encompass *three* main phases.

- *Assessment phase* – involves identifying training needs. A needs analysis is an assessment of an organisation's training needs, developed by considering overall organisational requirements and tasks (identified through job analysis) associated with jobs for which training is needed, and the degree to which individuals are able to perform those tasks effectively.
- *Training, design and implementation phase* – involves determining training methods, developing training materials and actually conducting the training.
  - *Information presentation methods* entail teaching facts, skills, attitudes or concepts without expecting trainees to put what they are learning into practice during the training.
  - *Simulation training methods* involve providing artificial situations that offer trainees a means of practising their learning during the training.
  - *On-the-job-training (OTJ) methods* focus on the trainee learning while actually performing a job, usually with the help of a knowledgeable trainer.
- *Evaluation phase* – entails assessing the results of the training against the criteria developed during the assessment phase. Major ways to evaluate training include measuring participants' reactions to the training to determine how useful they thought it was, assessing actual learning (perhaps through tests before and after the training), determining the extent of behavioural change (possibly by having the supervisor or subordinates of a trainee assess changes in the individual's behaviour), and measuring actual results on the job (such as increased output).



## Topic 11 – Human Resource Management II

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## 11.1 Training

Training means education to upgrade skills for a specific purpose. In contrast, development is intended to provide general knowledge about management principles and practices. Training is usually for non-management employees; development is usually for executives.

## 11.2 The Role of the Training Officer

- Ensure that management have a training policy:
  - advise management on training policy;
  - implement the training policy established.
- Investigate the company to establish needs for training:
  - interview managers to suggest the need for training of subordinates;
  - convince managers of their responsibility to upgrade the skills of their staff.
- Set training objectives:
  - design training programmes;
  - run the training programmes;
  - coach and guide others to run appropriate sessions in a training programme.
- Administer the training function.
- Study and learn:
  - make use of published materials for improving performance in his/her function.
- Keep him/herself informed about the training available, both within the organisation and outside, through personal contact.

## 11.3 Performance Appraisal

Performance appraisal is the process of defining expectations of employee performance; measuring, evaluating and recording employee performance relative to those expectations; and providing feedback to the employee.

### 11.3.1 The Purpose of Appraisal

- To ensure employees are given credit for good work or service.
- To motivate employees.

- To ensure that the standard of work is recorded. While managers may have a high regard for an employee, the credit given may be lost if the manager retires or dies. Conversely, poor work, with the appraisee's knowledge, should also be recorded (at least temporarily) to indicate the need for improvement. Adverse records would normally be expunged when the desired improvement has been achieved.
- To improve employee performance.
- To assist manpower planning.
- To identify potential.
- To identify and set objectives.
- To reward merit and determine wage or salary increases.
- To provide an opportunity for counselling.

### 11.3.2 Methods of Appraisal

These can be categorised as *qualitative* and *quantitative*.

#### Qualitative Appraisal

Usually entails the preparation, by the appraiser, of an unstructured report. Such reports may omit important areas about which information is required. To prevent such omissions, appraisers may be given guidance on the areas on which to provide comment. Such an approach:

- depends on the appraiser's ability to express him/herself in writing;
- often results in meaningless, neutral comments.

#### Quantitative Appraisal

Usually involves the use of some kind of rating form on which the appraisee is graded either 'poor', 'average' or 'excellent', or 'unsatisfactory', 'fair', 'good', 'very good' or 'exceptional', against specified factors such as job knowledge, interpersonal relationships, accuracy, organising ability, etc.

In merit rating, now largely discarded, grading is based on numerical values, e.g. scale of 1 – 20, attached to each characteristic. The ratings are then added up to produce a total score.

Merit rating is usually concerned with the grading of clerical work. It encourages management to appraise the overall performance of office staff. Managers observe the manner in which their staff carry out their tasks and form impressions as to their relative worth to the organisation. This process acts as an incentive to office staff.

### 11.3.3 Factors in Successful Appraisal

- The purpose of the appraisal is clearly understood by both appraiser and appraisee.
- Appraisers have had training to enable them to interview effectively.
- The climate of the interview is one of trust rather than one of hostility and conflict.
- The attitude of the appraiser is constructive rather than judgemental.
- Appraisers are aware of such factors as empathy, sensitivity and the importance of careful listening.
- There is honesty and openness.

APPRAISAL REPORT						
NAME: _____		TIME IN POSITION: _____				
POSITION: _____		PERIOD OF REVIEW: _____				
DEPARTMENT: _____		AGE: _____				
Overall Assessment	A	B	C	D	E	Comments
Job Knowledge						
Effective Output						
Co-operation						
Initiative						
Time-keeping						
Other Relevant Factors (specify)						
A = Outstanding    B = Above standard    C = To required standard D = Short of standard in some aspects    E = Not up to required standard						
Potential:	A	B	C	D	E	Comments
A = Overdue for promotion    B = Ready for promotion C = Potential for promotion D = No evidence of promotion potential at present E = Has not worked long enough for judgement						
Training, if required						
Assessment discussed with employee?    Yes    No						
Signed: The Formation of the Contract of Employment						
Confirmed:			Date:			

## 11.4 Contract of Employment

1. The names of the parties, the date employment commenced and the date on which the employee's period of continuous service began (taking account of any employment with a previous employer counting towards that service).
2. The scale or rate of remuneration and the method of calculation.
3. The intervals at which remuneration is paid.
4. Normal hours of work and other conditions relating to hours.
5. Holiday entitlement (including public holidays) and holiday pay.
6. Terms and conditions relating to incapacity for work including sickness and injury pay.
7. Terms and conditions relating to pensions.
8. Notice required to terminate the contract on both sides.
9. The job title.

Additionally, the written statement must be accompanied by a note stating what disciplinary rules are applicable, to whom the employee can appeal against a disciplinary decision or to whom the grievance can be taken. Any appeals procedure must also be stated.

It is important to recognise that the Employment Rights Act 1996 does not state that the employee must have a written contract. However, the employer must state the main terms of employment in writing. The information can be given in the Employee Handbook, or similar documents.

## 11.5 Termination of Contract

As defined by the Employment Rights Act 1996, dismissal covers:

- termination by the employer with or without notice;
- non-renewal of a fixed contract;
- constructive dismissal, i.e. termination of the contract by the employee with or without notice, due to the employer's conduct.

In common law, a Contract of Employment can be terminated by the employer giving notice in accordance with the terms of the contract. If the period of notice is not stated, it must be 'reasonable', taking into account such facts as the employee's age, status, length of service and intervals at which remuneration is paid.

Important aspects of dismissal are *summary*, *unfair* and *constructive dismissals*.

### 11.5.1 Summary Dismissal

This is where the employee is sacked without being given the notice stated in the contract of employment. The general principle justifying summary dismissal is that the employee's conduct prevents satisfactory continuation of the employer/employee relationship through, for example, misconduct including disobedience, insolence and rudeness, carelessness, or committing a criminal act such as stealing.

### 11.5.2 Unfair Dismissal

The Employment Rights Act 1996 states that the basic requirement of all dismissals, with or without notice, is fairness.

Three circumstances give rise to unquestionably unfair dismissals:

- Sacking a pregnant woman simply because she is pregnant, unless the pregnancy effectively stops her doing her job properly or is against a legal requirement imposed on her or her employer.
- Dismissal for union activity, or for refusing to join a union, and selective dismissals during and because of industrial action.
- Dismissal of workers when a business changes hands – unless significant technical, economic or organisational changes warranting the dismissal of staff occur simultaneously.

### 11.5.3 Constructive Dismissal

This is indirect dismissal, such as when an employer invites an employee to resign rather than be dismissed. The employee may be able to claim unfair dismissal on the grounds that, due to the actions of the employer, he/she had no option but to resign. Examples of such action would be psychological abuse, demotion, reduction in pay, change in the location of employment or a significant change in duties.

## 11.6 Redundancy

A dismissal is presumed to be on the grounds of redundancy if it is attributable wholly or mainly to:

- the employer ceasing or intending to cease the business employing the worker, or ceasing to continue at the location at which the worker had been employed;
- the need for the specific type of work performed by the worker diminishing or ceasing completely, either at the present time or in the future.

One of the most important legal requirements relating to redundancy concerns notice.

### 11.6.1 Notice

The legal requirements and obligations in managing redundancies include the definition, notification and consultation requirements, as well as conforming to selection and appeals procedures. Further details of these can be found on the following websites:

Social Care Institute of Excellence:

<http://www.scie-peoplemanagement.org.uk/resource/docPreview.asp?surround=true&docID=32&lang=1>

Employment Rights Act 1996

<http://www.opsi.gov.uk/acts/acts1996/1996018.htm>

Employers contemplating redundancies are obliged, under the Employment Rights Act 1996, to consult with trade union representatives. No time scale for consultation is prescribed where the number of employees to be dismissed as redundant does not exceed 19. Where the numbers to be made redundant at one establishment are as shown below, the minimum periods of notice are:

No. of employees	Minimum notice
19 - 99	30 days
100 or more	90 days

The employer must disclose to the representative of the trade union in writing:

- the reason for the dismissals;
- the number and description involved;
- the proposed method of selection;
- the method of carrying them out;
- the total work force at the establishment.

Any representation made by the union must be considered by the employer. If any representation is rejected, the employer must reply in writing to the union giving reasons for the rejection.

When 20 or more employees are involved, written notice must also be given to the Ministry of Labour.



## Topic 12 – Management Information Systems I

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## **12.1 Introduction**

This session will focus on the use of technology and information systems in organisations. Most organisations today rely on computer technology to perform a variety of operations. Management Information Systems (MIS) provide the managers with the information they need.

## **12.2 Sources of Information**

The information needed by managers is available both internally and externally.

### **12.2.1 Internal Sources**

This is information which is internally available in the company or directly acquired. It includes internally generated reports and statements, and also information gathered by the company through surveys and interviews.

### **12.2.2 External Sources**

These are sources that are available outside the company. They include articles and publications (newspapers and magazines), information from commercial companies and government sources.

## **12.3 Information Needs**

All managers need information in order to do their jobs. Information is especially needed for decision-making purposes. However, managers differ in the information they need, as detailed below.

### **12.3.1 Top Managers**

Top managers need broad information. They are too busy to digest all the details and need summarised information.

### **12.3.2 Middle Managers**

Middle managers need information to help them manage their respective departments. They are concerned with current data as well as forecasts to assist them in their planning.

### **12.3.3 Supervisors**

Supervisors need detailed information about tasks done. They are in charge of the day-to-day operations and need detailed information about the activities in their charge.

## 12.4 Characteristics of Information

To be useful to managers, information must satisfy the following requirements.

### 12.4.1 Timing

Information must be available at the right time (when needed), otherwise, the benefit of the information is lost.

### 12.4.2 Accuracy

Information for managers must be as accurate as possible.

### 12.4.3 Relevance

The information given to managers must be relevant to the tasks or decisions at hand.

### 12.4.4 Quantity

It is difficult for managers to make decisions without sufficient information. However, *more* information is not necessarily *better*.

## 12.5 Components of Management Information System

A Management Information System (MIS) is a system that collects, organises, stores and distributes the information that managers need in order to perform their management functions. Most information systems today are computerised. Such systems provide information in the form of reports, designed to help managers make decisions.

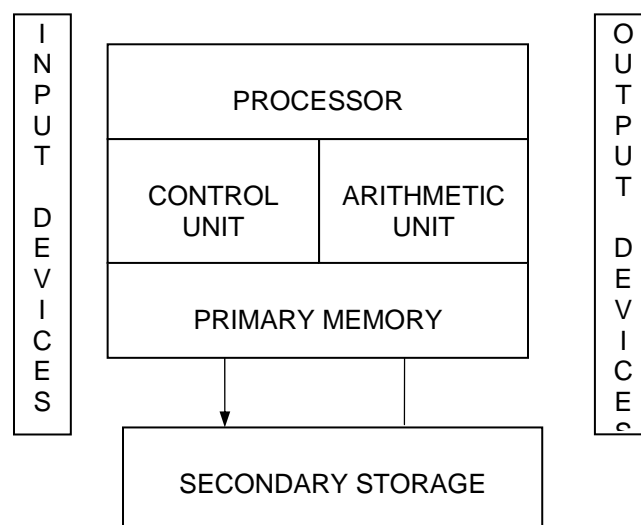
Effective planning and control of an organisation requires good information systems. Logical decision-making requires an understanding of the circumstances surrounding an issue and knowledge of the alternatives available.

An organisation has no innate memory and it cannot depend on the memory of employees who come and go. An organisation must therefore have an extensive network of reporting, or an MIS, to retain information over long periods of time. Thus, an MIS is created to aid managerial decision-making and serves as organisational memory.

Modern Management Information Systems are computerised and help to collect, analyse and distribute information. The main components of a computerised MIS can be divided into the hardware and software.

Hardware is made up of the following:

- Input devices that are used to enter data into the system. These include punch cards, magnetic tapes, the keyboard and the mouse.
- The processing unit or the Central Processing Unit (CPU) is the heart of the MIS. It performs all the necessary calculations or manipulations of the data, as instructed by the user. The CPU comprises:
  - Primary storage unit – stores all the data/information and houses the computer's memory.
  - Control unit – searches through the memory for instructions. It moves the instructions in sequence from the primary memory, decodes them and acts upon them.
  - Arithmetic logic unit – performs the arithmetic operations electronically and does so very rapidly.
  - Output devices – used to present the processed information to the user. The most common ones are the video display terminal or unit (VDU), or the printer.
  - Secondary storage devices – sometimes necessary to store data more permanently outside the main computer. Magnetic tapes, CD ROM and floppy disks may be used to store data.



**Figure 12.1 The Central Processing Unit**

To operate an MIS however, the appropriate software is also needed. Software refers to the specific programs/institutions that allow the hardware to function. There are two types of programs: system programs and application programs.

- System programs tell the computer what resources to use and how to use them.
- Application programs actually process data according to the special needs of the user.

## Topic 13 – Management Information Systems II

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## **13.1 Introduction**

This session deals with the areas concerning the implementation of a Management Information System and the problems associated with computerisation. The decision to install a computerised MIS must be made with careful consideration.

## **13.2 Implementation of an MIS**

The following steps need to be taken to ensure that the planning and implementation is smoothly carried out.

### **13.2.1 Analysis of Present System**

The management must conduct a review of the existing system and check the feasibility of introducing a computerised system.

### **13.2.2 System Design and Acquisition**

Based on the objectives and requirements, the management must plan the types of hardware and software needed. Suppliers from whom to purchase the equipment must be identified.

### **13.2.3 System Testing**

The system must be tested to ensure that it is working well. Any problems must be eradicated.

### **13.2.4 System Implementation**

The implementation may either be carried out in phases or all at once, for all departments concerned.

### **13.2.5 System Maintenance**

The system implemented must be checked and upgraded when required.

## **13.3 Impact of Computerisation**

There are both benefits and problems associated with the introduction of computers into a company. These are highlighted on the following page.

### **13.3.1 Benefits of Computerisation**

- Greater speed of working.
- Greater output.
- Improved quality.

### **13.3.2 Problems of Computerisation**

- Redundancy of employees.
- Retraining required.
- Costs of upgrading system.



## Topic 14 – Case Studies (Notes)

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## 14.1 Introduction

The case study method, as we understand it today, is concerned with the teaching of administration and management subjects through the presentation and analysis of a succession of case histories and case studies. It is a method of management education developed in the 1910s in the USA, at the Harvard Business School, with the aim of providing concentrated practical experience in the classroom. The study of business cases is based on a method originating from the Harvard Law School in 1870 – from the analysis of a case, the student was expected to make well-founded generalisations and to anticipate legal decisions based on sound rules of law. Business cases were developed to prepare administration and management students for more senior positions, by developing the skills needed for analysing a situation and making tough decisions.

The main focus of the case study method is the case history, which is derived from true or realistic accounts of commercial and business situations, used to illustrate concepts, theories and everyday problems encountered at work. The study of these histories is intended to develop judgement and ‘know-how’ in students, who are required to evolve possible solutions, in a way similar to law students using case histories as a basis for debate.

The case history you will encounter will be presented as a documented description of an actual administrative or management situation. Occasionally, it is narrated and acted out in a film in classroom and training situations. The case often stops short of presenting all the actions taken by the manager, and thus allows the student to select actions which could be taken to remedy the situation. It is expected that students will read and consider all the circumstances described in the case history and come to their own conclusion about what should be done. They can then discuss the main events and features of the case and their proposed solutions, describing and defending their suggested courses of action.

Examination of a student’s knowledge and skill after a period of study often relies upon the case study method. It is widely used in the final examinations conducted by many educational bodies and professional management and supervisory institutes.

As the case study method has a very important role to play in the learning process and in skill development, and features in the final examinations of professional bodies, these notes have been written with a view to helping students who may be looking for some practical guidance.

## 14.2 Preparation

It is generally agreed by most educationalists that students should read relevant material and complete set studies before attempting to analyse and decide upon business cases. You must be able to place yourself in the role of the manager responsible in the case, and make a decision and plan the action called for, in accordance with the best-known organisational practices. If you are going to fully apply the concepts and theories of administration and management, you must be prepared beforehand. You cannot give a good presentation, or understand the arguments and propositions without a basic knowledge of business.

## 14.3 Studying the Case

A typical case consists of one or two pages of prose description. Often it includes some quantitative material such as tables, charts or graphs. It may also include other exhibits and diagrams, like organisation charts, factory layout plans or maps. Cases may include almost any type of printed material that could be encountered in an enterprise, or be part of the manager's daily work. The writer of the case history may supplement the prose description with illustrative material to emphasise the quality of the facts or evidence. All written and illustrated material must be read and studied. Cases are not written to demonstrate how people are supposed to act or how organisations should function. They are written to reproduce accurately the facts of a situation – no matter how confusing or contradictory some of the facts or events might seem. Of course, cases do not and could not contain all the relevant information about a situation, and assumptions may be made about any 'missing' information, but in all cases, your assumptions must be stated in your answers to clarify and justify your analysis or recommendations.

It is not possible for the case study examination paper to cover every aspect of the syllabus in each subject, but the student should be familiar with the major divisions within the subject. If students are weak in any division basic to the analysis, the resulting solutions are likely to be poor. Revision of course material and integration of the syllabus should be a continual process, starting from the very beginning of your studies. An organised and methodical approach to revision will establish a rhythm of work that will encourage you to internalise the main concepts and formulate ideas. Your tutor will also indicate areas where extra effort or reading is required.

You may encounter a situation with problems that are commonly seen in organisations, but you should not take for granted that all organisations are like your own. A case history may describe an

organisation in the public or private sectors of industry or commerce: the organisation may be a large multi-national entrenched in local operations and the characters may be young or old, men or women, trade unionists or professional staff, full-time or part-time, manual as well as administrative, clerical and technical staff. Case histories of these various types provide an exciting challenge and an opportunity to exercise your abilities to study, analyse and solve problems in a logical and competent manner. Reading and studying the case entails a systematic approach. It is important to immerse yourself in the situation and grasp all the details of what happened or what is happening.

## 14.4 Handling Case Information

Statements such as “the ABC company was founded in Birmingham in 1928”, or “Harding and Sons is a public company who make and supply educational material; everything from blackboards to prefects’ badges”, you may accept as *true* in the sense that, had you visited the company and gathered the information yourself, this is what you would have discovered.

A statement like, “the car showroom appeared almost empty at the time of the customer’s visit” is another kind of ‘true’ statement, yet it allows you to question, by analysing other case evidence, whether the period of the customer’s visit was typical of affairs in general.

Another substantial category of statements is that which represents the opinions of the people involved in a case situation. These people are usually called the ‘case characters’. The opinions of the case characters are very important since they will have a bearing on what develops during the case. However, you must be careful not to treat all such opinions as ‘true facts’ until and unless other evidence in the case verifies these opinions. These opinions are usually expressed in direct speech, enclosed in quotation marks, e.g. “Believe me, you couldn’t wish for a better man to work for.” Opinions may also be signalled in such statements as “Mr Jones believed that he was appointed to bring the division to heel.”

You may find another kind of evidence in quantitative or financial information. Although you should not be unduly suspicious of figures presented, particularly when they are copied from audited reports, it is as well to remember that they may contain simple or deliberate errors in the calculations. As you study these ‘truths’ you have a responsibility to judge for yourself what they mean, and how accurate they are.

Lastly, it is usual for cases to be written in the past tense. This is done so that an appropriate date can be used for the case event, e.g. “In June 1978, Mr Black was studying his company’s sales figures.” Dating the case may be important in some instances

where external events are relevant, such as changes in legislation, periods of economic recession or energy crises. Dates should always be considered, as they may be relevant to the case.

## 14.5 Reading the Case

Careful reading of the case allows you to enter into the experience or the dilemma of the decision-maker and enables you to consider all the relevant information presented. The case provides an opportunity for identifying problems, analysing them, deriving solutions, and considering the difficulties in implementing these proposals and recommendations. Each of these stages should be tackled in a systematic way following on from the initial reading. The examination regulations usually allow 15 minutes reading time before commencing the test. Use this time wisely. Acquaint yourself thoroughly with the situation before attempting to solve the problems. Consider each and every sentence and paragraph in the written case. Take nothing for granted.

With these points in mind, you should be able to begin to consider the reading stages necessary in studying the case. For most cases at least *three* different kinds of reading should be undertaken by students.

- *First reading* – read the case straight through very quickly once or twice. This reading is to familiarise you with the topic, the case of characters, the leading characters in the case, the general nature and quality of the evidence with which you must work, and give you some idea of the problem or problems that must be solved. This is NOT an opportunity to generate or search for possible solutions. This reading is a first visit to acquaint you with some of the main landmarks.
- *Second reading* – read the case again more thoughtfully, at a much slower speed, taking notes of the important facts. You might find it helpful to use a coloured pen to underline words, names or phrases that signify facts or opinions you may consider require analysis. At the end of this second reading, you should be able to abstract from the case a statement of the problems involved, the nature of the decision facing the manager, and many of the factors (resources, constraints and opportunities) that will influence the actions the manager can take.
- *Third reading* – re-read the case in order to check the various features you have previously identified in your notes and to ensure that your view is consistent with the situation presented. It is at this point that you will be ready to prepare your analysis and recommendation, using either the general problem-solving technique described in the next section or some more specific problem-solving techniques with which you are familiar.

If you are not satisfied that you have abstracted a sufficient statement of the problems involved in the case, or if you are unsure of the decisions and factors influencing the actions to be taken, read the case through a fourth or fifth time. The Institute of Administration Management case study examination papers allow students time to acquaint themselves thoroughly with the case before attempting to answer it. Use this time wisely. The first stage in handling a case must entail reading and understanding the situation as it is presented to you.

## 14.6 Written Presentation

The examiners are looking for a professional presentation and will award marks accordingly. An orderly presentation of your examination script will make it easier for the examiner to assess. If you make it difficult for the examiner, he/she is likely to miss the pearls of wisdom you have unwittingly hidden from view.

Think about your presentation, what you are going to say, and how you are going to say it, before you start writing. Plan your approach to the examination script, and cross it out clearly before you start your answer. Examiners are impressed by candidates who take care and time to plan.

If your answer is required in the form of a report, ensure that the sections are clearly and appropriately headed and logically numbered. Address the report correctly, date it and write it in the name of the individual whose role you have been given. A general report format will include:

- introduction;
- body;
- conclusions/recommendations;
- appendices – including diagrams/charts, etc.

Should the question indicate a more discursive approach, set out your answer logically and clearly, giving the reasons for any assumptions you make and any constraints you envisage. It is important to show that you understand the various administrative theories, practices and methods you have studied.

## Topic 15 – Case Studies 1 to 5

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## Case Study 1

### Human Relations for Scientist

Asia Pacific Petroleum Company is a large petroleum refinery company in Singapore. It employs about 1,200 people. The Research and Development division of this company is located in Singapore, with 20 researchers engaged in new product and process development.

Michael Tan possesses one of the best research minds that has ever been employed by the company. He obtained a Chemical Engineering degree from the National University of Singapore and has recently completed his master's degree in the United Kingdom. Michael, an introvert by nature, enjoys doing research, seldom coming into contact with other researchers or employees of the company.

He was solely responsible for developing a new product and making a few innovative, process-related suggestions. The top management was impressed by his outstanding contributions to the company and promoted Michael to co-ordinate the research work of six to eight young researchers in the product development department.

In his new responsibility, Michael tended to ignore the administrative tasks of his job, but was always ready to help his researchers solve any technical problems that arose. On the human relations side, Michael was very poor in dealing with his subordinates. His superior was aware of this problem, but was hesitant to confront him.

### Questions

1. Do you think that Michael should not have been promoted to co-ordinate the work of young researchers? Why?
2. What special leadership qualities are needed to co-ordinate the work of subordinates?
3. Assuming that you are Michael Tan's supervisor, what should you do now?

## Case Study 2

### Change for the Better?

John White, the service manager, had Ronald Harper as a supervisor in the Equipment Service section to oversee the work of servicemen. The supervisor was a nice person but a bit soft in dealing with people. After working for the company for four years, Ronald Harper left for a new job elsewhere. A new supervisor was recruited from outside. Robert Lee, a senior technician who had ten years of service with the company, was disappointed because he was not considered for the supervisor's post. Robert had maintained a good record all along and in fact, came up through the ranks from trainee to senior technician.

The new supervisor, Albert Ganesh, was generally a more aggressive person. Shortly after taking over the job, he started asking his subordinates to record the actual hours spent on various activities and idle time, if any. (Prior to this, the hours spent on each job were based on an estimate.) The technicians were not happy with this, and unwillingly complied with the demand.

The relationship between the supervisor and his workers deteriorated when Albert started to change certain routine matters that were supposedly to improve the flow of work and reduce overtime. A few months later, two servicemen resigned. Then the senior technician also tendered his resignation and complained to the service manager accusing Albert of trying to create more work for them unnecessarily. However, these complaints were found to be not fully justifiable, and to a great extent were the results of misunderstandings between Albert and his men. The service managers did not want to lose the senior technician and managed to persuade him to stay on and be reconciled with the supervisor. Shortly after, the supervisor left the company.

### Questions

1. Do you consider the actions taken by the new supervisor to be untactful? What would have been the tactful approach?
2. There is a general tendency for employees to resist changes in routine, particularly when such changes may encounter initial teething problems and affect morale. In view of this, what is the right approach to implementing changes?
3. If you were the service manager, would you let the senior technician or supervisor go? What are your reasons? Is there any other way of handling this situation?

## Case Study 3

### Getting Control

Wallace Struthers, the president of the GlenAire Bank and Trust, is discussing the statistics from his comptroller's report on the problems with the bank's automated teller machines, with the members of his executive committee. The figures are getting worse. According to a study by the American Bankers Association, about 18,000 crimes were committed at or with automated teller machines nationwide. GlenAire's experience of losses from their ATMs parallels the nationwide losses. About 90% of their losses come from people using stolen or lost ATM cards, about 5% from vandalism and break-ins to the ATMs, and the remaining 5% from robberies and muggings of customers at remote ATM locations. Last year, the bank lost \$12,954 because of these ATM related crimes. Struthers addressed the committee: "This year, the comptroller estimates that the bank's losses will exceed \$15,000. Ladies and gentlemen, we have to tighten up on our controls over our three ATMs."

The bank's three automated teller machines are located as follows – one is at the bank, next to the drive-through lanes; the second is at the train station about fifty feet from the passenger depot, in a telephone booth-like structure; the third is outside the local supermarket in a similar structure. All these machines are sheltered from the wind and rain and well lit, except when the occasional act of vandalism results in broken glass and destroys the lighting fixtures. All three have entrances that face a street and have folding doors. The booth at the train station has been the source of nearly 75% of the bank's losses to theft, vandalism and fraud committed with stolen or lost cards.

The bank has only had automated teller machines for two years and has not installed any kind of surveillance equipment. It has relied on visual surveillance by bank personnel during the banking hours for the machine at the bank, and the high visibility of the public location machines. Obviously, this has not been adequate. Local police drive by all the machine locations at least once every hour of the day and night. The ATMs do not have any alarm devices to detect break-ins or tampering.

The problem with the stolen or lost cards is a tough one to deal with. Customers are issued with a card when they sign up for the ATM service. Each cardholder has a six-number code that must be entered before the machines will accept the card. Once the numbers are entered, the card is inserted in a slot and the transaction buttons are pressed to take the cash from the cardholder's bank account. When the task is completed, the card is returned to a drop slot. Most cards that are lost have been left at the

machine by the customers after a transaction. Obviously, the bank cannot do anything about stolen or lost cards until the customer notifies the bank. Then the bank programs its computer to reject any transaction using that card and its cardholder code. So far, more than 280 cards have been reported lost or stolen by customers.

### **Questions**

1. As a member of the bank's executive committee, what security measures do you recommend to deal with the unauthorised use of ATM cards?
2. What controls would you recommend to deal with the vandalism problems?
3. What controls would you recommend to deal with the problems of robbery and muggings at the ATM machines?

## Case Study 4

### Dancing to the Tunes

Mr Roger Francis is thinking about buying a dance studio. Roger learned about the business opportunity from the owner himself. He takes dancing lessons every Wednesday evening at a school in Orchard Road. One day, after finishing his lesson, he was in 'Burger King' having some french fries and coffee when the dance studio owner, Mr Kashif, came in. Mr Kashif told Roger that he had been talking to his accountant about selling the business. "I have owned this studio for 23 years", Mr Kashif told Roger, "and now I want to sell out and retire. I'm looking around right now for someone who would like to buy the business." Roger was excited about the prospect and asked Mr Kashif many questions about how the dancing business operates.

From what Roger could determine from the conversation, Mr Kashif employs six full-time instructors and nine part-time instructors. He also has approximately 130 customers a week who take lessons. Some of these individuals signed contracts for 10 lessons and others for 20, while others are walk-in customers who ask for a particular dance lesson.

Roger does not know anything about owning a dance studio. He is in the insurance business. However, he did spend an evening looking over Mr Kashif's operations earlier this week and found that it was very difficult to tell from the records exactly how much revenue Mr Kashif has taken in this year. Some people pay by cheque and others with cash. Not all of these amounts have been entered in the books. Nor is it possible to pinpoint how many people actually come in for lessons, because the part-time instructors sometimes collect the money and, if it is in cash, take their daily rate share and give Mr Kashif the rest. In addition, Mr Kashif has had three good years and two poor ones in the last five years. Last year was one of the good ones.

Finally, Mr Kashif does not seem to know (or at least he is not telling Roger) a great deal about the customers who come in for lessons. However, he does run an advertisement every week in the Sunday edition of the Straits Times and believes that this is how people learn about his dance studio, in addition, of course, to word-of-mouth advertising from his clientele. Mr Kashif also believes that he, himself, helps account for some of his business because he arrives at the studio every day at mid-morning and does not go home until the last session. After thinking the matter over, Roger is not sure whether this venture is a good one. There seems to be so much information that he does not have about the business, making it very difficult to make a decision. However, he has told Mr Kashif that he will let him know within two weeks.

**Questions**

1. Which particular causes of business failure does Mr Kashif's operation suffer from? List them.
2. Describe the management failures evident in Mr Kashif's business.
3. What would you advise Roger Francis to do? Why?

## Case Study 5

### Smith Electronics Company

The Smith Electronics Company started as a small organisation interested in integrated circuits. Over the past 10 years, the company has expanded steadily and consistently and recently has received some large orders for T.V. games. The office expansion that has taken place has been under three managers, each of whom is in charge of one of the functions of production, distribution and finance. No one person has been in charge of the office services.

Each functional manager maintains his own filing, typing, mailing and duplication services. Supervisors are in charge of the functional activities under the headings of production, distribution and finance. Under production, the organisation chart indicates that there are supervisors in charge of purchasing, receiving, storing accounts payable, factory payroll, cost accounting and shipping. Under the heading of distribution, there are supervisors in charge of sales, advertising, credit and accounts receivable. Under the direction of the manager in charge of finance, are financial accounting, taxes, government reports and returns and office payrolls. The total office staff is 160.

Many of the supervisors of these activities are people who have been moved into supervisory positions with little knowledge of systems or methods. The supervisors are hard pressed to produce the work because of inefficiency, lack of knowledge and needless duplication of records and work. Office equipment has been ordered from time to time and placed where it was thought it would be used.

The General Manager of the company, Mr Mike Smith, has recently discovered that whenever he wants information, he must go to several sources, wasting much time in locating it. He has also noticed the new equipment and discovered delays in the preparation of certain reports.

Mr Smith has recently had a conference with the three managers in charge of production, distribution and finance activities and indicated his dissatisfaction. Neither the production manager, the marketing manager, nor the treasurer feels that he can change any of his work practices or his present personnel.

Mr Smith feels that something must be done in the interests of a more efficient organisation and lower costs. He has called upon you to find out how it might be possible to reorganise the office services, in order to better utilise present personnel and equipment to achieve the objectives of greater, faster output and reduced costs.

*In dealing with this case study, you are required to clarify any assumptions you make, which are not mentioned in the script.*

### **Questions**

1.
  - a. Prepare a chart illustrating the current organisation and another chart indicating the changes you would make to the organisation structure.
  - b. Write brief notes justifying the changes.
2. Discuss the possibility of centralised services in this organisation.
3. How would you attempt to rationalise the situation for individual personnel after the re-structuring of the organisation?

