

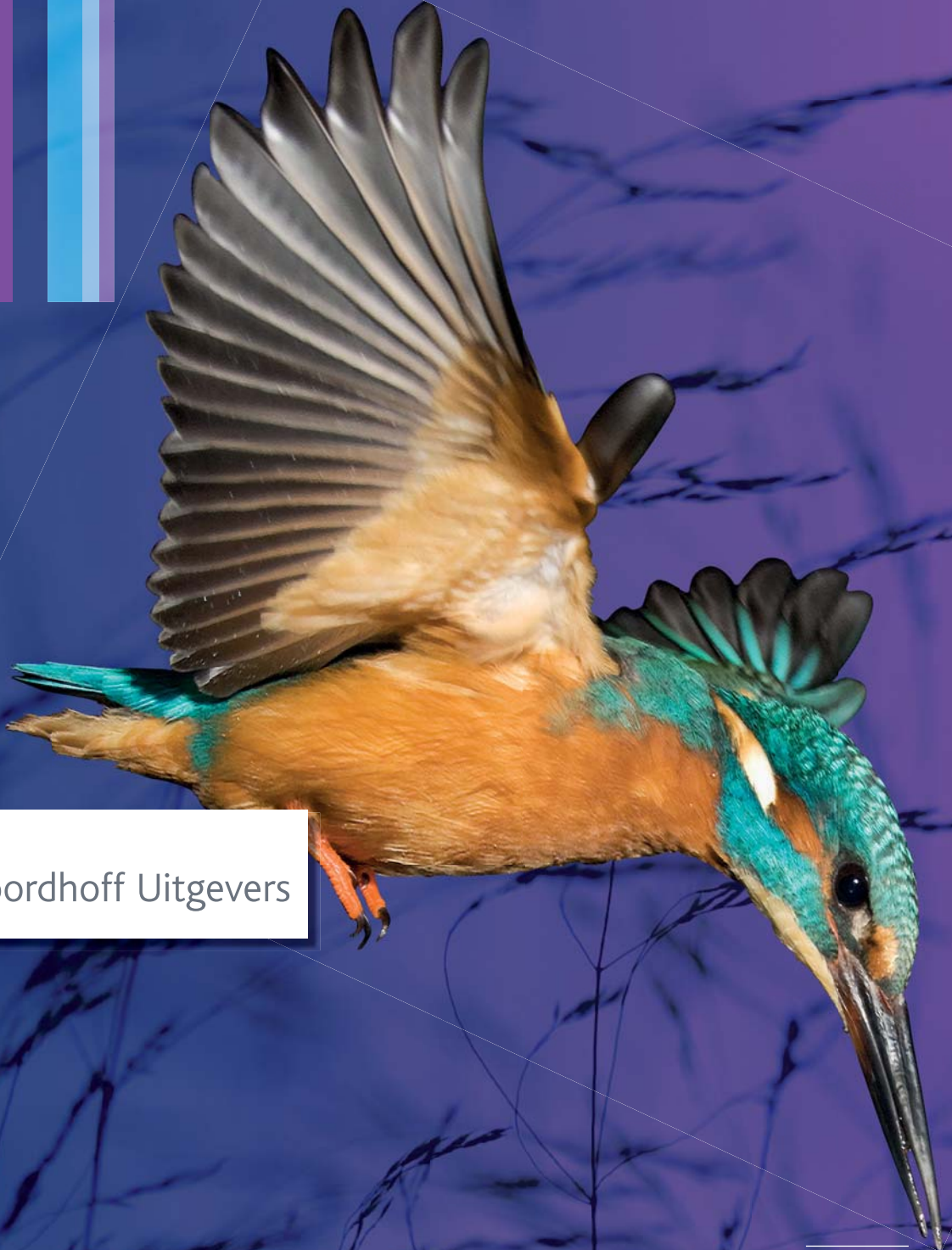
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Organisation & Management

An International Approach



Noordhoff Uitgevers

Second Edition

Organisation and Management

An International Approach

Dedicated to: Anjette, Jasper, Hugo and Yannick

Nick van Dam

Jos Marcus

Organisation
and Management
**An International
Approach**

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About the authors

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Introduction

Nature and purpose of the book

Newspapers, magazines and television have a lot to say on subjects dealing with the ways in which organisations work. Through the globalisation of the world economy, many organisations these days work in an international setting. This book provides a broad introduction to subjects dealing with Organisation and Management in an international context. The subjects are dealt with from a theoretical point of view, but are brought to life by examples from international practice. This provides the reader with an insight into the ways in which theory is applied in practice. In addition to the traditional subjects of Organisation and Management, the book also deals with present-day developments in the subject area. The book is made more accessible by the layout, the use of words in the margin and colours, by its consistent structure and thematic construction.

Who is this book for?

The book aims at readers studying for Bachelor or Master Degrees and is a practice-based introduction to Organisation and Management. It can be used at both universities or colleges in several programmes since a basic textbook on the subject of Organisation and Management is included in the curriculum of many different courses. Moreover, it can also serve those already in employment as a useful handbook.

What is the set up of the book?

The book consists of three parts, namely:

- A Organisations and their environment
- B People and organisations
- C Structure and organisation

Each part consists of separate chapters dealing with a number of themes. The three parts are preceded by a chapter called, 'The evolution of organisation and management thoughts' in which important schools of thought and personalities are discussed. The way in which people construct their organisations is influenced strongly by environmental factors. That is why we have chosen to take the environment as our starting point (part A). The central and vital role of people in the organisation (part B) leads us to the problems surrounding the structures of organisations (part C).

Each chapter closes with a workbook section including various questions and assignments. This means that a separate workbook is not needed. A website is available, however.

In the main text, quite a lot of space has been given to secondary texts (insets), which discuss practical examples in everyday work situations. These insets highlight both the international nature of the book as well as its theoretical basis. The insets illustrate the following subjects:

-  Innovation: examples of new initiatives and innovative developments in organisations;
-  International management insights: examples of the growing international issues that organisations need to deal with;
-  Sustainability: examples of sustainable initiatives;
-  Doing business in: ...: examples of the impact of doing business in other countries;
-  Advice: examples of how to deal with problems in organisations;
-  Information and communication technology: examples of the applications of ICT in organisations;
-  Figures and trends: the reality of management and organisation in business supported by figures and trends.



Website

The book has its own website: www.organisationandmanagement.noordhoff.nl.

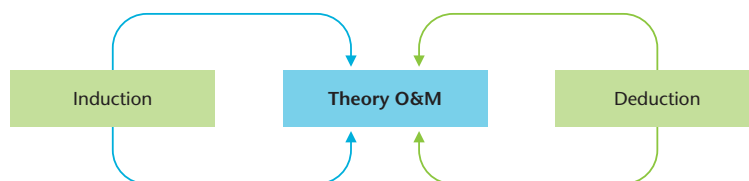
When the book and website are used together they fit perfectly into problem-based and computer-based learning. The website supports the learning process and helps to make it more fun and more of a challenge. It runs parallel to the chapters in the book and includes for example:

- a supply of tests for each chapter
- a method for working with the concepts in each chapter
- different type of cases
- powerpoint presentations.

The theory, the definitions and the title of the book

There are two ways in which the theories in the subject area of Organisation and Management come about. On the one hand, they are based on experience and facts from practice. This is called induction. On the other hand, theories are based on certain suppositions from which, by a chain of logical thought, conclusions are drawn. This is what we call deduction. There is a strong interaction between the methods of induction and deduction in the construction of theory in this book (see Figure 1).

Figure 1 Interaction between induction and deduction on theory of Organisation and Management



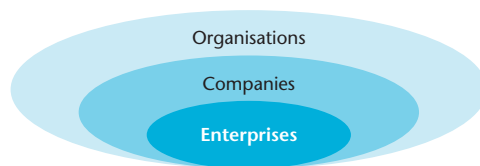
A central theme of the book is the way in which organisations work in an international setting. But what exactly is an organisation? An organisation can be defined as: each form of human cooperation for a common purpose. This definition focuses on three characteristics of an organisation:

- a it is about people who
- b work together to achieve
- c a certain goal.

The reason why people (= members of organisations) co-operate in an organisation is that certain goals cannot be achieved by the individual alone. Organisations are justified by the fact that (international) society needs useful and important products and services that they can supply. Consequently, an organisation is a part of (international) society, or, in other words, the environment.

The concept of 'organisation' is also used in this book to denote a company or enterprise. By company we mean an organisation that produces goods or services. An enterprise can be described as a company whose purpose is to make a profit. If we compare these two concepts then it is clear that companies are a category of organisations and that enterprises are a category of companies. Figure 2 illustrates this idea.

Figure 2 The relation between organisations, companies and enterprises



Organising is also a task or activity that puts appropriate relationships between people, means and actions in place. In other words: controlling and leading the aspects of production (work, capital and information) in such a way that the goals of the organisation are achieved.

Organising is an activity that can be carried out by one person or several. In many organisations, management is responsible for the organising. This brings us to the second concept in the title of the book: Management. We define management as the (theory of) managing an organisation. Management is made up of the people who are in charge and who lead the organisation. If we combine the definitions of organisation and management we arrive at the title of the book and the definition of the subject area of Organisation and Management: the theory of managing any form of human co-operation for a shared goal.

In closure

It has been a very enjoyable experience for us to work on this exciting project. We hope that you value this study book and that you may apply a lot of best practices in current or future roles in organisations.

We look forward to receiving suggestions and comments which will help us to improve the next edition of this book (ho@noordhoff.nl).

April 2012, The Netherlands
Nick van Dam & Jos Marcus

‘The one exclusive sign of thorough knowledge is the power of teaching.’

(Aristotle, 384–322 BC, one of the greatest Greek philosophers)

1

The evolution of organisation and management thoughts

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- 1.9 Elton Mayo and the human relations movement (\pm 1945) *17*
- 1.10 Rensis Likert (and others) and the neo-human relations approach (\pm 1950) *18*
- 1.11 Kenneth Boulding and the systems approach (\pm 1950) *20*

- 1.12 Paul Lawrence, Jay Lorsch and the contingency approach (\pm 1965) *21*
- 1.13 Recent organisational theories (1980+) *21*

During this chapter:

- You will become familiar with the main schools of thought in the history of organisational behaviour and personalities that have played a role during its history.
- You will gain an understanding of contemporary developments in the field of organisational behaviour.
- You will see how schools of thought and personalities are linked and understand the significance of this in relation to the structuring process within contemporary organisations.
- You will be introduced to a number of subjects that are dealt with in more detail in later chapters of the book.

1.1 Introduction

In the introduction to this book it was stated that the subject to be looked into is organisation and management. However the more widely used name for the field is much more original: organisational behaviour.

Organisational behaviour

We can define organisational behaviour as ‘an interdisciplinary science that is concerned with the study of the behaviour of organisations as well as the factors that determine this behaviour, and the manner in which organisations can be directed’. When talking about behaviour in this context, we understand this to include actions and reactions within the organisations that are being studied.

This definition of organisational behaviour encompasses two aspects of the subject, namely:

Descriptive aspect

1 *A descriptive aspect.* This is a description of the behaviour of organisations, including motives and consequences.

Prescriptive aspect

2 *A prescriptive aspect.* This is advice about organisational design and the best course of action to follow.

This two-sided character can also be seen in other practical sciences, including medicine, psychology and the theory of education. However, the field of organisational behaviour is more oriented towards practical application and is more pragmatic than these in the sense that its methodology and theoretical basis is considered to be less significant than identification of the practical ramifications.

Interdisciplinary

The term ‘interdisciplinary’ is sometimes linked with organisational behaviour, although this term is often misused. To clarify this, it is clear that organisational behaviour contains many elements that originate from other sciences. The study of organisations therefore involves many disciplines from various scientific fields. Some examples of these source fields may include business studies which comprises such topics as accounting and bookkeeping, marketing, technical sciences, information technology, behavioural science, organisational psychology, sociology, and law. If we bring together all the contributions from these fields that we need for research or project purposes, we will see that rather than an interdisciplinary approach being required, we are required to use a multidisciplinary approach. An interdisciplinary approach goes one step further. What we mean by this is that the various contributions from other subject areas are evaluated individually and are then used to develop a new insight, one which views the subject in its entirety. The old disciplines then cease to be recognisable in their original formats (in contrast, they remain the same in a multidisciplinary approach). This is therefore an ambitious approach. It is an ideal that is rarely reached. It is perfection. Often, even in organisational behavioural research, one does not get any further than a multidisciplinary approach.

Multidisciplinary

Direction

Two other aspects of the definition of organisational behaviour are direction and effectiveness. The first of these can be described as ‘targeted persuasion’, or in a more specific organisational sense, the guiding activity that involves giving direction on a moment-to-moment basis when challenges take place or decisions are needed within an organisation. These directions should be aligned with a target that has been determined in advance. The processes are structured, and any development of and adaptation to the resulting structure forms an important area for management to focus on.

Effectiveness

The extent to which such activities have succeeded is a measure of their overall effectiveness. We expressly leave aside the matter of who should carry out the tasks:

it may be the organisation's own formal management, or a consultant, a member of the advisory board, or even an employee who comes up with a suggestion during a staff meeting.

Organisational behaviour is often concerned with obtaining an overall picture of an organisation, an organisational problem or a specific project. This means that gaining an overview must become the priority, while smaller details are of secondary importance. If this were not so, one would not be able to see the wood for the trees. An organisational expert may obviously often feel less at home than a specialist in some organisational fields. You could describe him as being more a generalist than a specialist. Alternatively, we could call him a 'general specialist', perhaps warranting the criticism that is sometimes made that organisational theory is fragmented. An expert in the field might be seen as a 'Jack of all trades, and master of none'. It should not be forgotten that organisational behaviour is a young science that is still growing and developing. This is particularly evident if we realise that current debates look at a collection of approaches rather than a fixed system of knowledge and theory development. They have not yet formed a coherent whole in the way that approaches to mathematics and medicine have.

1.2 Origins of the field of study

The subject of contemporary organisational behaviour was born from the need to think in a structured manner about what to do in organisations and what goes on within them. In fact, the subject was first explored a long time ago. Back in the 4th century BC, Socrates and Plato put forward theories about leadership, task allocation and specialisation.

It was first taught as subject (although not yet in the present form) in the United States in the second half of the 19th century. After the industrial revolution, as businesses emerged and expanded, management became far more complicated and therefore required new and special skills.

One of the first persons to suggest that management was a science that could and should be learnt rather than a position awarded based on an inborn talent or inheritance was Henry Fayol (1841–1925). (See Section 1.7 for further details about his work.) In the Netherlands, organisational behaviour was introduced as a major study at technical colleges soon after the Second World War. The subject was initially called business organisation and it had more technical content than now.

Organisational behaviour as we now know it was introduced into the Dutch higher education system during the 1960s and 70s. Other disciplines such as business studies, logistics, behavioural sciences and law were incorporated into the subject. At the same time, the idea of an interdisciplinary approach grew up. The underlying reason for this was the ever increasing complexity and size of organisations, particularly enterprises, caused by significant technical developments and general economic growth. The management of such organisations required more than simple aptitude in one of the appropriate fields or the possession of leadership skills. The need therefore arose for people who could examine aspects of the various fields and draw conclusions from them, or in other words, the managers of new businesses needed a total overview.

The initial impetus for change came from within the business world. This is why the new field of study was called business administration. Later on, other organisations saw the advantages of the approach and applied many of the new insights to their own operations.

Business organisation
Organisational behaviour



Nyenrode: Founded in 1946 to create internationally oriented business leaders

Nyenrode Business University is the only private university in the Netherlands. It builds on the motto 'for and by business'. Situated on a 13th century estate, Nyenrode has a unique work and study atmosphere.

The roots of the Nyenrode Business Universiteit date back to 1946. Captains of industry from such leading Dutch corporations as KLM, Shell, Unilever, Philips and Akzo, supported by the late queen's consort, Prince Bernhard, took the initiative of starting an educational institute called *Het Nederlands Opleidingsinstituut voor het Buitenland* (NOIB). The goal of the founders was to create new business leaders who were inclined to act and internationally oriented. Their pro-business ethos guaranteed that the institute would be infused with practical relevance. The main goal was to rebuild the economic position of the Netherlands and Dutch enterprises in the wake of WWII. In 1982, Nyenrode officially received university status from the Dutch government. Nyenrode – The Netherlands Business School, as it was called then – changed its name to Nyenrode Business University in 2005.

Source: Nyenrode website 2011
goo.gl/RqAGi



Organisation and management

Degree courses in business administration exist in a number of universities and colleges today. The topic is also offered as a module within other courses at universities and colleges though it is sometimes given a different label: organisational behaviour, business organisation, organisational theory, management and organisation, organisation and management or simply management.

1.3 The development of trading and the emergence of multinational enterprises

Trading between various tribes in various cross-border geographical regions has been a consistent element throughout the growth of international enterprise. The earliest examples of international trade can be found in the time of the so-called 'trade routes'. The Silk Road, one of the oldest trade routes, was set up in the 1st century BC. It connected Europe, the Middle East, and Asia, and therefore linked the large Roman and Chinese civilisations. The Silk Road ensured that commodities such as silk, fur, pottery, iron and bronze from Asia were transported to the west and exchanged for gold, other precious metals, ivory, wool and glass. This trading was mainly carried out by commission agents: middlemen who travelled a part of the route in caravans. The Silk Road went into decline as a trade route around 1400 AD. Other important commercial routes in history include the Roman trade routes (50 BC to 500 AD), the African trade routes (1000 AD to 1500 AD), the Indian maritime routes (from 800 AD), the Spanish trade routes (15th and 16th century) and the Portuguese trade routes (16th century).

The first international trading companies (or multinationals) were established with the support and financial backing of national governments who wished to support their commercial colonial policies. In 1600, the English East India Company was set up. Its prime aim was trading in East and South-East Asia as well as in India. In 1602, the Dutch East India Company (the *Vereenigde Oostindische Compagnie* – the United East Indian Company) was founded. The government of the day granted the Dutch East India Company an exclusive charter providing a complete monopoly on trade between the Republic of the Seven United Netherlands and what was then known as ‘India’, meaning all countries to the east of the Cape of Good Hope. During its 200 year existence, the Dutch East India Company developed into the largest company of its time, trading in such spices as cloves, nutmeg, cinnamon and pepper, and other products such as silk, tea and porcelain. The Dutch East India Company went into decline during the second half of the 18th century, primarily because of competition from the English and French. It ceased trading on 17 March 1798. Other important international trading companies were:

- The Danish East India Company (established in 1614)
- The Dutch West India Company (established in 1621)
- The French West-India Company (established in 1664)
- The Royal African Company (established in 1663)
- The Hudson’s Bay Company (established in 1670)

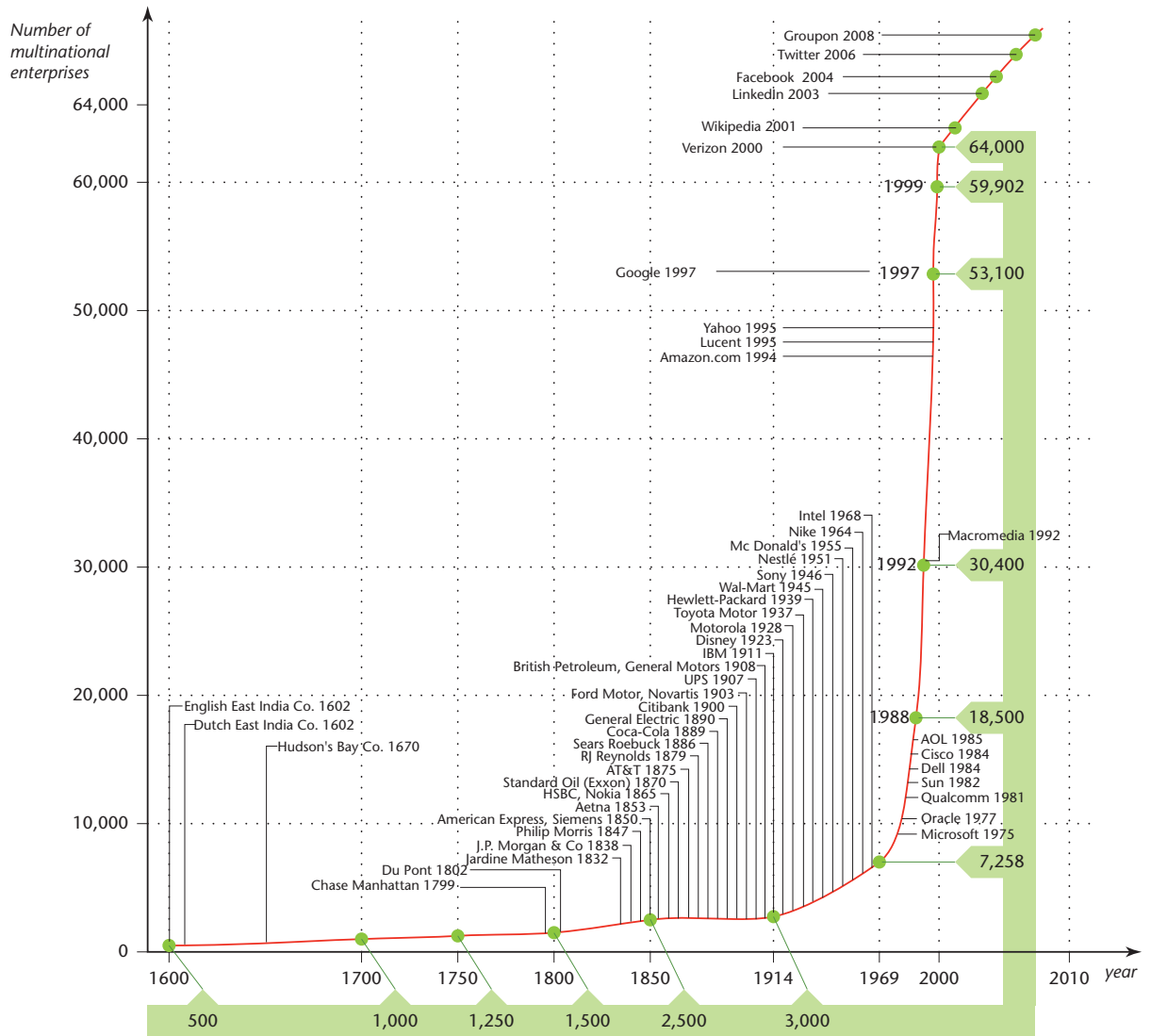
Between the establishment of the first international trading companies and the beginning of the 20th century, the number and size of so-called multinationals hardly increased at all. However, from then on, there was a dramatic increase: from approximately 3,000 multinational businesses at the beginning of the 1900s to approximately 64,000 in 2011. (See Figure 1.1)

There are a number of factors that can explain this growth pattern. Back in the 17th century, national governments exerted the main influence on trade, but this was no longer the case 300 years later on. Technological developments have also played a very important role over the past 100 years, shortening distances (transport), improving communication between people in different locations (telephone, satellite, Internet) and so on. Technology has also ensured that there is more and broader knowledge of different markets and diverse consumer groups. Enterprises have also shown themselves able to rapidly anticipate and react to global developments by making financial resources available for investments, opening offices and factories in various countries, and employing staff in many locations.

We use the term multinational enterprise for those organisations that operate internationally. Many of these enterprises have less than 250 employees yet fall into this category. Approximately 445 of the world’s 500 largest businesses are in North America, Europe and Japan.

After this brief sketch of the development of trade and the birth of multinational enterprises, the rest of this chapter will be devoted to exploring the most significant schools of thought and personalities in the development of business organisation and management.

Figure 1.1 Multinational enterprises 1600-2011



Source: Globalinc., websites companies



DuPont 200+ years

DuPont is one of the oldest multinationals. Eleuthère Irénée du Pont (E.I.) (1771–1834) broke new ground on July 19, 1802, establishing the company that bears his name. He had studied advanced explosives production techniques with the famous chemist, Antoine Lavoisier. He used this knowledge and his intense interest in scientific exploration – which became the hallmark of his company – to continually enhance product quality and manufacturing sophistication and efficiency. He earned a reputation for high quality, fairness and concern for workers' safety.

Early emphasis on employee safety

Safety in the workplace, a hallmark of the DuPont Company, became a major theme during the ordeals

of World War I. Historically, being an explosives manufacturer had made DuPont more safety conscious than most other manufacturers. Especially significant progress in reducing accidents had been made in the years just prior to the war. However, the influx of tens of thousands of untrained workers into the munitions industry during the war created a potential for disaster. Explosions did occur in several American plants, killing hundreds. During the war, DuPont made safety an essential and permanent part of engineering and employee relations. After the war, the new company president, Irénée du Pont, intensified the company's safety consciousness and began to award individual prizes for long accident-free performance. Irénée became a major spokesman for the growing safety

movement in America generally. By the 1930s, it was established company policy for safety to be just as much a part of industry as any other operating feature (quality and quantity of finished products, efficiency, methods, etc.). Today, DuPont operates in more than 70 countries and

offers a wide range of innovative products and services for markets that include agriculture, nutrition, electronics, communications, safety and protection, home and construction, transportation and apparel.

Source: <http://heritage.dupont.com>



goo.gl/SGFhG



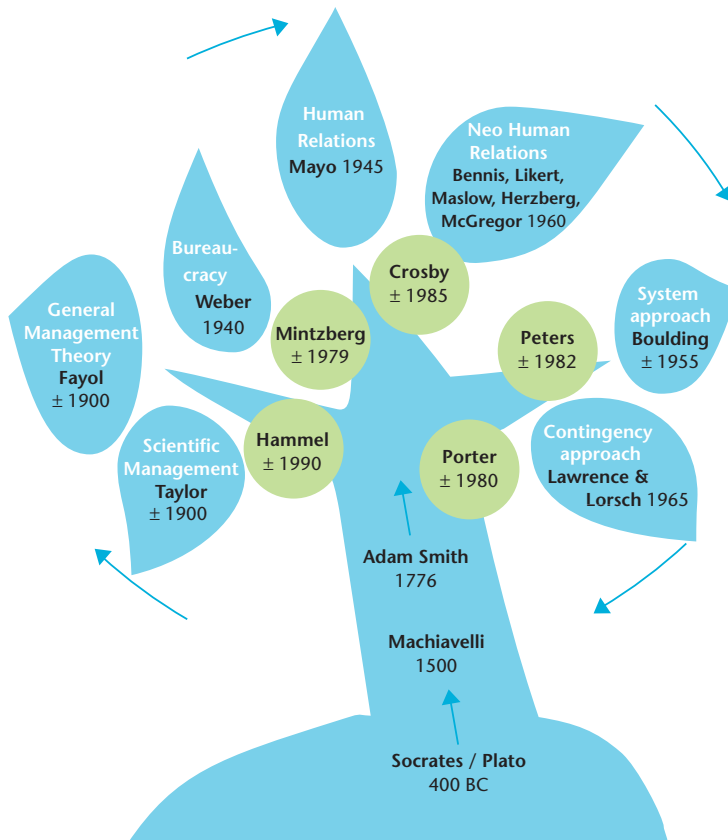
1.4 Schools of thought and personalities

Figure 1.2 places the most significant contributors in the history of organisational behaviour on a time line. These individuals often represent a particular idea or school of thought within the field of organisational behaviour. In the following sections, the schools of thought and personalities that have had the most influence on the development of organisational behaviour theory will be reviewed.

School of thought

But why are we delving into the past in this way? The reason is that these contributions still constitute part of the present theoretical framework of our field of study.

Figure 1.2 Important people and schools of thought in the history of organisational behaviour



Although they often originated in a different era (and might therefore be considered somewhat dated), they contain valuable elements that have a timeless character. Theoretical views and personalities of more recent times will also be discussed, and the reader might notice that many of the new theories have had their roots in the past.

The central issue has always been how best to achieve the goal through combined efforts. In addressing it, effective and coordinated division of tasks, selection of the most suitable leadership style, and utilisation of the most appropriate manner of communication play the main roles.

The contributions made by organisational behaviour gurus past and present have focussed on different aspects of organisations. Naturally, many of the theories have come from different starting points. Some theories have apparently arisen in reaction to a preceding one: it was subjected to critical examination and then called into question, or at least partly so. This produces a new explanation or approach, one which contrasts with the original idea though does not disprove the earlier contribution completely. As such, the theoretical framework of organisational behaviour has developed a rich and varied, albeit sometimes incoherent, character.

1.5 Events prior to the industrial revolution (400 BC–1900 AD)

As indicated in the previous section, notions about leadership, management and the design of organisations are, in fact, as old as mankind. Formal treatises on these topics were, however, quite rare before the twentieth century.

Nevertheless, we can find some examples in the writings of the ancient Greek philosophers such as Socrates and Plato and much later on in the work of the Italian Niccolò Machiavelli (1469–1527).¹ In his book *Il Principe* (*The Prince*) he provides numerous guidelines for rulers and other leaders. These guidelines are especially directed towards the preservation and expansion of power. They are extremely opportunistic in nature, based on pure self-interest and unscrupulously taking advantage of the situation at any opportunity. *Il Principe* represents Machiavelli's accumulated experiences as an adviser to the government and as a diplomat in Florence.

Until the second half of the 18th century, the dominant economic school of thought was mercantilism. One of its key beliefs was that the possession of bullion (gold and money) was the only measure of national wealth. The aim was therefore to export more than was imported in order to accumulate money which could be kept in reserve for times of war.

This view started to change in 1776 when Adam Smith (1723–1790) wrote an influential book, called *An Inquiry into the Nature and Causes of the Wealth of Nations*. Amongst other things, it put forward the notion that productive work is the source of prosperity and that effective division of labour can raise levels of productivity. With the publication of these ideas, Adam Smith rejected the principles of mercantilism completely. From this time on, management would take a more systematic approach, with much attention being paid to efficiency.

In the 18th century, pioneers developed the pressurised coal-fired steam engine, making mass production in large factories possible and replacing manufacture of products in workers' homes or in small workplaces. The explosive growth of factories attracted large numbers of workers from the countryside. As a consequence, Western society changed from an agricultural to an industrial one. In the larger cities, the

Niccolò Machiavelli

Mercantilism



Adam Smith

growing working classes lived in poorly built workers' houses. The pay was low and living conditions miserable. This development began in England, then after 1840, it spread across Western Europe and the United States.

By the end of the 19th century, American companies had grown dramatically in response to the ever-expanding consumer market. By now, the existing controls and checks were inadequate. The division of responsibility between supervisors and staff was unclear, production standards and wages were determined subjectively and an air of unpredictability prevailed. There was hardly any planning. The managers tried to push the workers to produce as much as possible, often using harsh methods. The workers reacted in an organised way by systematically stretching out their time. In such a situation, there was clearly a need for a more structured and systematic approach. The man who saw this and decided to do something about it was the engineer Frederick Winslow Taylor (1856–1915). With his publications and lectures, he laid the ground for what we now call scientific management.

1.6 Frederick Taylor and scientific management (± 1900)

Frederick Taylor was the first to suggest a systematic, coherent approach to determine the manner in which factories should be organised. Rather than the manager as slave driver, it was proposed that a broader view should be adopted, allowing the manager to focus on planning, coordinating and overseeing, and checking of results. Key elements that have grown out of Taylor's theory of management of organisations (scientific management) are:

- 1 Scientific analysis of the activities that should be carried out and the time and motion studies to be used. (The results can be used to standardise and normalise the production process and the machines and materials used.)
- 2 Clear division of tasks and training for the workforce so that each task and operation can be precisely identified and allocated. This results in worker routines, leading to an improvement in production.
- 3 Close and friendly working relationships between managers and workers being regarded as essential.
- 4 Managers being held responsible for seeking and analysing appropriate working methods and for creating optimum conditions for production. Formerly, this was left to the implementation phase.
- 5 Use of careful selection processes to obtain the best person for the job.
- 6 Financial rewards being given for following prescribed methods in order to reduce production costs.

Furthermore, Taylor proposed a division of front-line supervisory responsibilities within the production department into eight separate areas. Each area and its tasks was to be the sole responsibility of a particular individual:

- 1 Time and costing
- 2 Task instructions
- 3 Order of work
- 4 Work preparation and allocation
- 5 Maintenance
- 6 Quality control
- 7 Technical guidance
- 8 Personnel management



Frederick Taylor

Scientific management



Henry Ford on new production methods in 1927

'A Ford car contains about five thousand parts. During our first assemblies we simply put a car together at a particular spot on the floor. When we started to make parts it was natural to create an independent factory department to make that part, but one workman usually performed all of the operations necessary to create that part, however small. The undirected worker would spend more of his time walking about for materials and tools than he did working; he received less pay because pedestrianism is not a highly paid line. The first step forward in assembly came when we began taking the work to the men instead of the men to the work. We now have two general principles in all operations: that a man should never have to take more

than one step if this can possibly be avoided, and that no man need ever bend over.

We first trialled the assembly line around about April 1, 1913. We tried it assembling the flywheel magneto. We had previously assembled the flywheel magneto in the usual method. With one workman doing a complete job he could turn out from thirty-five to forty pieces in a nine-hour day, or about twenty minutes to an assembly. What he did alone was then spread into twenty-nine operations; that cut down the assembly time to thirteen minutes, ten seconds.'

Source: Henry Ford, *Production and Prosperity (My Life and Work)*, World Library, 1927

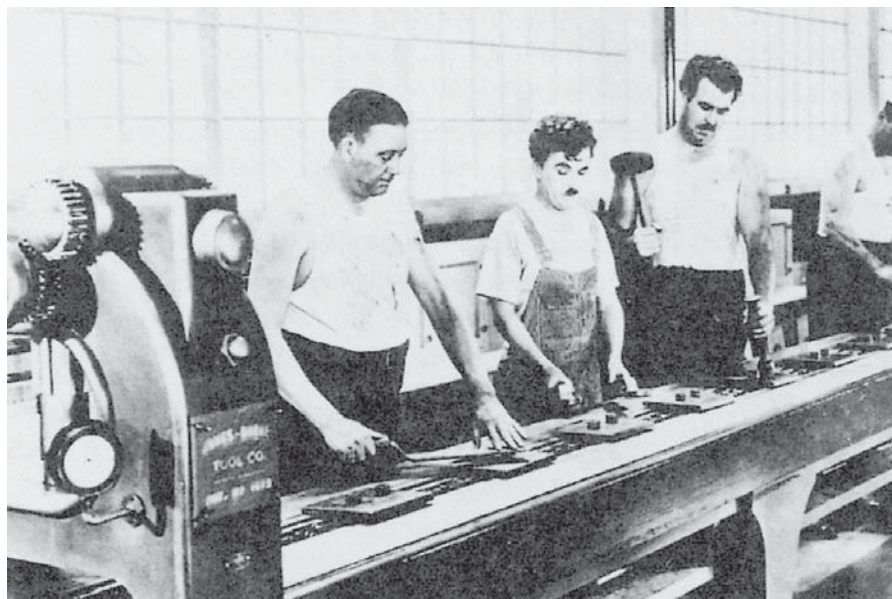
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Eight-bosses system

This system has become known as the 'eight-bosses system'. Under Taylor's leadership the system worked, but it failed to become widely adopted elsewhere due to the many coordination problems and a lack of clarity for the workers.

Aside from his above theory of organisational forms, the influence of Taylor's ideas was enormous. Wherever his principles were applied, productivity shot up, and his ideas soon spread rapidly. However, the increased efficiency was rarely matched by an increase in wages or an improvement in relations with management, as Taylor had suggested should happen. The impact of such consequences, which the Charlie Chaplin film 'Modern Times' has immortalised and in which the names of Taylor and scientific management will forever be linked, was the idea of workers simply being an extension of a piece of machinery, with boring tasks, restriction of freedom and reduced job satisfaction.



Charlie Chaplin in 'Modern Times'



goo.gl/TVIAu

Another consequence of Taylor's ideas was improvement in administration and management of production departments all over the industrial world. Administration and sales departments took their lead from production, and they were soon using similar methods in their processes. Next, sets of standards were developed, not only for production but also for materials. Planning techniques were developed and applied more than before, with accompanying improvements in control. Labour studies, job descriptions and job classification can all be traced back to Taylor's ideas. He has fundamentally changed working methods in organisations and is an important figure in the history of organisational behaviour.

1.7 Henry Fayol and the general management theory (± 1900)

In Europe it was Henry Fayol (1841–1925) who first developed a coherent set of guidelines relating to the way in which organisations could manage their operations as a whole. His experiences as a manager of a mining company lead him to formulate his theory of general management, a theory which has affected entire organisations. In this respect, Fayol took a different approach to Taylor, who looked at systems primarily from the production angle. Fayol's theory was directed at organisations other than industrial enterprises. He thought that principles could be formulated that apply everywhere that people work together and that these principles should form the basis of a field of learning. His *general management theory* was intended to be an educational model. In it, he identified six independent management activities:

Henry Fayol

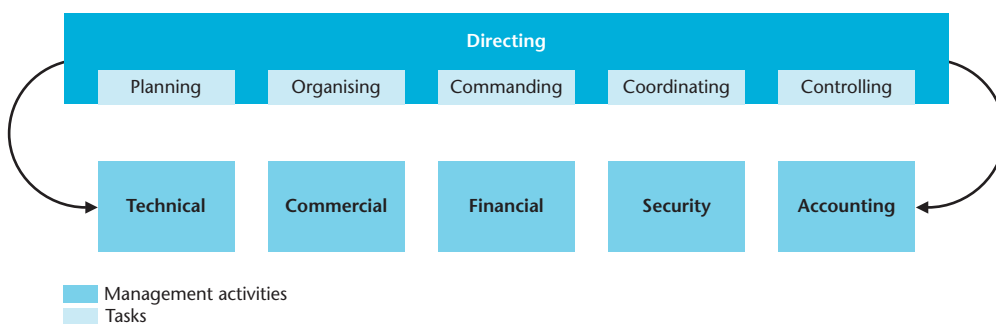
General management theory
Management activities

- 1 Technical
- 2 Commercial
- 3 Financial
- 4 Security (safeguarding people and properties)
- 5 Accounting
- 6 Directing

Activities 1 to 5 would be coordinated via activity 6 (Directing), which would consist of five tasks (see Figure 1.3):

- 1 *Planning.* Setting up of an action plan for the future
- 2 *Organising.* Structuring the organisation, its people and its resources
- 3 *Commanding.* Leading in a way as to ensure full participation
- 4 *Coordinating.* Gearing each activity to the plan
- 5 *Controlling.* Ensuring that the results are as planned

Figure 1.3 Relationships between management activities in the 'general management theory'



For Fayol, unity of command was the most important principle. Each employee should report to one immediate superior. Up until that time, this belief was accepted without question. It is evident in the army, where it is still the ruling principle to this day. Fayol's ideas are in agreement with this principle, a principle which clashes with Taylor's view, which broke away from convention in its functional organisational ideas and matrix structure.

Fayol's significance lies in his belief in the universal character of management and his strong support for training future managers formally in their chosen profession. His legacy includes more attention being paid to the tasks of managers.



Max Weber

1.8 Max Weber and the bureaucracy theory (± 1940)

While Taylor was focussing on manufacturing companies and Fayol on management in general, Max Weber (1864–1920) was busy studying government organisations and large businesses from a sociological perspective. According to Weber, large organisations of the day should have the following characteristics:

- Clear and definite division of tasks
- A hierarchical command structure
- Carefully defined authority and responsibilities
- Impersonal relations between officials (the position is more important than the person)
- Recruitment on the basis of ability and knowledge instead of cronyism and contacts
- Promotion and reward on the basis of objective criteria and procedures
- The execution of activities according to clearly laid down procedures
- All information, procedures and details written down, so that full control of every aspect is possible
- The power of officials, even the most senior executives, bound by documented guidelines

Weber stated that when an organisation functions according to the above characteristics, it can be termed an ideal bureaucracy. In his opinion, this was the most efficient form for an organisation to adopt as everyone in such an organisation would function coherently: like a cog in a well-oiled machine.

The 'ideal bureaucracy' is not just a description of an organisation but also a theoretical model that is helpful in the study of organisations. A number of contemporary writers in the field of organisational behaviour (writers who will be looked at more closely later on in this chapter) have also published theories in relation to such ideal types.

We must see Weber's definition separate from the subsequent negative connotations that the word 'bureaucracy' has gained. It is common for us to link this word to ideas of inertia, red tape, an unending succession of pointless rules and so on. Weber's description was intended to be an objective scientific analysis of the dominant organisational form at the time. In it, he identified positive and effective qualities such as the execution of rules without personal bias, and the suitable operation of administrative tasks. He also highlighted some of the less effective, negative characteristics such as inflexibility and the lack of initiative and creativity.

He saw bureaucracy as a perfect means of reaching management targets as well as an organisational form that functioned so perfectly in itself that its permanent continuation also became a target. The emphases on technical perfectionism

could lead, however, to the structure being considered as more important than organisational goals, which of course would have consequences for the continuity of the organisation.

Today, some of the characteristics of Weber's 'ideal bureaucratic' model are recognisable in some organisations, particularly in larger ones.

1.9 Elton Mayo and the human relations movement (± 1945)

The human relations movement arose at the time when scientific management, with its associated rational approaches to managing work in organisations, was the most widely accepted organisational theory. It was against this backdrop that some research was initiated in 1927 into the influence that various levels of light in the workplace had on the performance of production workers in General Electric's plant in Hawthorne, America. In one group, light levels were raised, while in a separate control group they were kept as they were.

Human relations movement



Hawthorne-plant

Production in the experimental group increased clearly, but to the amazement of the researchers, it also increased by approximately the same level in the control group. Then, when the lights were dimmed to a minimum level, the results showed an additional surprise, as productivity continued to rise! There was clearly a riddle here, and Elton Mayo (1880–1949) of Harvard University, was invited to find an explanation for the phenomenon.

Elton Mayo

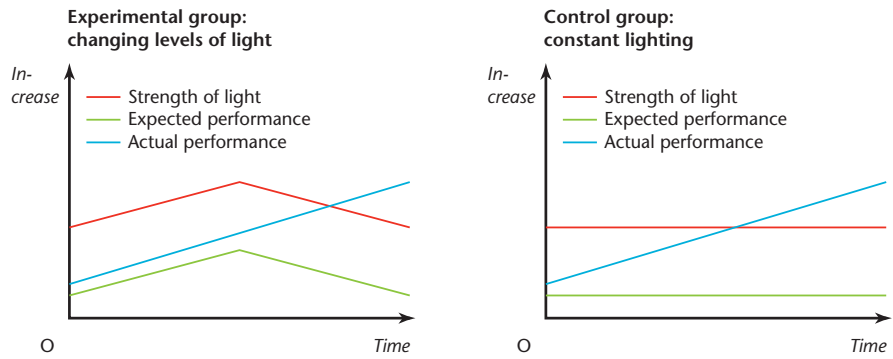
Between 1927 and 1947 he carried out a series of experiments in order to examine the connection between improvements in working conditions (for example, shortening of the working day, increasing the number and duration of breaks, providing free soup or coffee in the morning break etc) and productivity. Each change led to an increase in production and reduction in employee fatigue. (See Figure 1.4.)

In the illumination experiments, the underlying cause for increased productivity appeared to be the increased attention that the staff were given during the experiment. Mayo proved his theory with this, and concluded that in addition to objective aspects, subjective factors such as attention, a feeling of security, belonging to a group, and appreciation had an effect on results. These subjective factors seemed even more important. According to Mayo, shared group determination exerted the greatest influence.

Objective aspects

Subjective factors

Figure 1.4 The influence of light on work performance



Source: De Wilde, *Stoeien met organisaties*



goo.gl/bpAg7

These thoughts – thoughts which have had a big influence on the development of organisational behaviour – were explored in his book *The Human Problems of an Industrial Civilisation* (1933).

The Hawthorne experiments generated a lot of research. A new form of management had been propagated, based on the social needs of workers in small groups. This went against the ideas of scientific management, which was strictly rational and directed exclusively towards the individual production worker.

The human relations movement is based on the assumption that happy and satisfied employees are more likely to reach their maximum potential level of performance. Management must therefore ensure good interpersonal relationships within relatively small groups. They must also give adequate attention to groups and individuals, demonstrate their appreciation, and provide sufficient responsibility and freedom to individuals. Cooperation is the key, so the possession of social skills by managers is very important. The movement's most significant contribution is the discovery of the link between human factors and organisational effectiveness.

Cooperation



Rensis Likert

Warren G. Bennis

Neo-human relations

1.10 Rensis Likert (and others) and the neo-human relations approach (± 1950)

The period 1950–1955 saw criticism of the ideas of the human relations movement starting to appear. Many saw it as an overly idealistic view of organisations, one that portrayed them more as a social club, and one that would rarely if ever occur in practice. Moreover, the ideas were not supported unanimously by subsequent research results.

On the other hand, there was no desire to return to the ideas of scientific management. It was thus time for a synthesis of the two. Warren G. Bennis described the situation like this: the Taylor approach leads to 'an organisation without men' while that of the human relations movement generates 'groups of men without organisation'. He emphasized the need for a revision of the human relations approach, and from this, the term neo-human relations was born.

Other writers undertook to bridge the gap between the two opposing ideas, including Likert, Herzberg, McGregor, Burn and Mouton. These writers all approached the issue from an entirely individual perspective.

It was Rensis Likert (1903–1981) who first attempted to bridge the two approaches. He looked specifically at the organisational structure and internal communication, and

developed the so-called linking pin model. This is a structure containing a number of overlapping groups in which members of one unit are leaders of another, meaning that the leader of one group is also a member of a higher group (a linking pin). This person not only leads one group but also ensures that there is effective communication with the higher group (see Section 9.6 for further details).

Linking pin model

Another person who developed a theory in a similar direction was Frederick Herzberg.

Frederick Herzberg

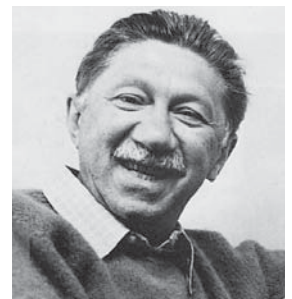
His theory was in essence a further development of Abraham Maslow's hierarchy of needs triangle. This triangle is built up of five levels of distinctive needs, which, according to Maslow, we all try to satisfy. It can thus explain every aspect of human behaviour. Once a lower level need has been satisfied or mainly so, an individual's focus turns to the satisfaction of a need in the next level above.

In rising order, the needs are:

- 1 Physiological needs (eating, drinking, sleeping, sex)
- 2 Security and safety needs (protection, stability, regularity)
- 3 Love or belonging needs (friendship, family, group membership)
- 4 Status or esteem needs (prestige, position, success)
- 5 Self-actualisation needs (responsibility, personal development, making the most of one's abilities)

Maslow presented these needs in the form of a pyramid (Figure 1.5).

Although the theory has gaps and does not address every situation conclusively, it has influenced many. Herzberg, for example, applied this theory to the study of the behaviour of people in organisations. He searched for factors that strengthened motivation in staff working in organisations, as well as factors that lead to dissatisfaction. He came to the conclusion that when insufficient attention was paid to Maslow's lower level needs (physiological needs, security, and belonging), dissatisfaction arose. He went on to say that dissatisfied people could not be motivated. Recognition, self development and acceptance are, according to Herzberg, motivation strengtheners, or motivators. Significantly, an absence of motivators does not lead to dissatisfaction, but to a lack of motivation.



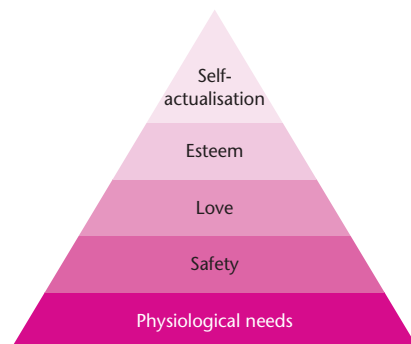
Abraham Maslow

In his 1960 book *The human side of enterprise*, Douglas McGregor (1906–1964) presented two opposing views about 'the man in the organisation' that he named theory X and theory Y. With theory X, he outlined how most organisations at that

Hierarchy of needs triangle

X-Y theory

Figure 1.5 Maslow's hierarchy of needs



goo.gl/e7xoX



Douglas McGregor

time thought. These thoughts can be strongly linked to scientific management. With theory Y, McGregor explained his own vision about how employees in an organisation could cooperate. It should be pointed out that the X-Y theory says more about human perceptions than about the image of an organisation. Section 6.3.3 will look further at the X-Y theory.

1.11 Kenneth Boulding and the systems approach (± 1950)

After the Second World War, a number of neo-human relations supporters, including Kenneth Boulding (1910 –1993), developed a theory in which organisations were seen as a system (meaning they were viewed as a whole made up of coherent parts). According to this theory, all activities in an organisation are closely connected with each other. Another important element of the system approach is that organisations interact with the outside world (the environment).

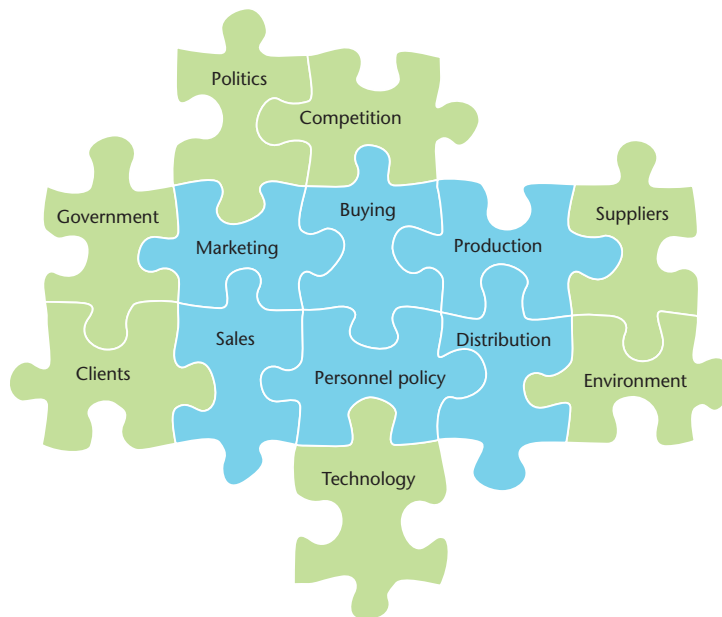
As Figure 1.6 shows, a system (an organisation) consists of a number of subsystems (divisions) ostensibly connected with each other. When the total result of all subsystems working together is greater than the sum of their individual results, this is known as synergy.

A system (organisation) is run with the help of information that is given (feedback) to the various subsystems (divisions).

According to the systems approach, management should tackle organisational problems in a consistent way. That is to say, one should not only look at a single part of the organisation when a decision is being made, but also at the effects on the total organisation. This sounds quite obvious, but frequently, local management staff try to find the perfect solution to problems in their own areas without understanding

Systems approach

Figure 1.6 The organisation and surroundings as one system



the consequences for other divisions. For example, a reduction in stock held will generate a saving in warehousing space but could lead to longer delivery times which could lose an enterprise some of its customers. This example shows the importance of using the systems approach in organisations.

1.12 Paul Lawrence, Jay Lorsch and the contingency approach (± 1965)

At the end of the 1950s, Joan Woodward published the results of an investigation into a hundred English businesses. In the investigation, she looked at the effectiveness in practice of the organisational behaviour theories of Taylor and Fayol. The research showed that there was no connection between the extent to which an enterprise had been organised according to the rules of scientific management and its economic success. This was a sensational conclusion because up until that time it had been believed that there was 'a best way of management'.

Two Americans, Paul Lawrence and Jay Lorsch, supported these findings. They carried out their own research in 1967 and came to the conclusion that to obtain optimal performance, different circumstances will require different structures, task divisions, and working methods. The concept of 'contingency' that they introduced means 'determination by situation'.

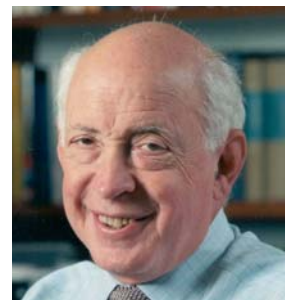
According to the contingency approach, the choice of management technique deriving from an organisational behaviour theory is strongly influenced by the circumstances in which an organisation finds itself. Some management techniques can be extremely successful in some situations while in others, they may fail completely. The art is to discover in which circumstances which techniques can best be applied.

One of the most important elements of the contingency theory is the relationship between an organisation and its surroundings. It is of paramount importance that organisations have a clear focus on their surroundings. The contingency approach requires management to constantly be aware of how complex the interrelationships within their surroundings are and to seek the most appropriate strategy, organisational structure and so on for each situation.

In the past few decades, many new contingency studies confirming the fundamental findings of this theory have been carried out.

Paul Lawrence / Jay
Lorsch

Contingency



Jay Lorsch

1.13 Recent organisational theories (1980+)

Since the 1980s, many different writers and consultants have carried out extensive studies of organisations and have then made significant contributions to the development of organisational theory. This has been of great interest to many organisations of the 90s and beyond. Many of these newly developed theories have not yet been fitted into a definitive 'school of thought'. A number of these theories and authors will be looked at briefly in the following section.

Philip Crosby and quality control

An important recent trend in organisational behaviour relates to quality control in organisations. The founder of theories on this subject is the American W. Deming, who applied his ideas to companies for the first time after the Second World War.



Philip Crosby

Total quality management theory
'Zero defects' rule

One of the best-known contemporary 'quality gurus' is the American Philip Crosby (1926–2001) who has developed a total quality management theory that is used extensively by companies in Japan, Europe and America. Philip Crosby was vice-president of the International Telephone and Telegraph Company where he was responsible for world-wide quality control for fourteen years. His company, Crosby Associates, is an important consultancy in the field of quality management. (www.philipcrosby.com)

For Crosby, working according to the 'zero defects' rule is crucial. This means that in organisations, one must attempt to avoid mistakes in all processes. He disregards the outdated view that quality control is only necessarily in production departments and not in the board room. Crosby believes that organisations can reduce their expenses by about 20% provided they treat quality control as number one within the work place.



Henry Mintzberg

Henry Mintzberg (b. 1939): organisational structure and strategic planning

The Canadian Henry Mintzberg stands out amongst his peers for his remarkable contributions to the fields of organisational structure, management, and strategic planning. He is Professor of Management Studies at McGill University in Montreal and a part-time professor at INSEAD in France.

Amongst the authoritative books he has written are *The Strategy Process*, *Structure in 5's*, *The Structuring of Organisations*, *Mintzberg on Management* (1991) and *The Rise and Fall of Strategic Planning* (1994). He has won the McKinsey Award for the best Harvard Business Review article twice.

One of his most important works, *The Structuring of Organisations* (1979), can be seen as an attempt to blend the main organisational theories of how organisations ought to be structured. According to Mintzberg, the success of organisations cannot simply be explained by their choice of 'the best' organisational structure. He tells us that it is not possible to generalise about the best structure for organisations. In reality, there are many roads to success.

Mintzberg suggests that organisations should not view their qualities separately from each other, but that they should bring these together in a common form or configuration. A configuration can be seen as an 'ideal typical organisation'.

He identified five basic configurations that he has since extended with two new forms, namely:

- a The entrepreneurial (start-up) form
- b The machine bureaucracy
- c The professional bureaucracy
- d The diversified form
- e Adhocracy (innovative)
- f The missionary (ideological) form
- g The political form

These forms or configurations each have their strong and weak points. Depending on the prevailing environmental factors, the degree of turbulence or stability, and the goals of the organisation, certain strengths will become clear.

Although the configuration descriptions refer to 'ideal types' that in reality rarely or never occur, Mintzberg believes that the study of these is certainly still worthwhile. Because of such study, one can develop an ability to understand other organisations more quickly. A close look at the strong and weak elements within one's own organisation also has obvious value. In Chapter 9, Organisational structure and design, extensive attention is given to Mintzberg's theories of organisational structure.

Configuration
Five basic configurations

In his book *The Rise and Fall of Strategic Planning* (1994), Mintzberg takes a swipe at traditional views of strategic planning. He concludes that strategy cannot be planned and that strategic planning often fails in organisations. Chapter 3 will look further at Mintzberg's views on strategic planning.

In one of his latest books, *Managers, Not MBAs* (2004), Mintzberg suggests that both management and management education are deeply troubled, but that neither can be changed without changing the other.

Mintzberg asserts that conventional MBA classrooms overemphasize the science of management while ignoring its art and denigrating its craft, leaving a distorted impression of its practice. We need to get back to a more engaging style of



Blue Ocean Strategy

Companies have long engaged in head-to-head competition in search of sustained, profitable growth. Yet in today's overcrowded industries, competing head-on results in nothing but a bloody 'red ocean' of rivals fighting over a shrinking profit pool.

W.Chan Kim and Renee Mauborgne are challenging everything you thought you knew about the requirements for strategic success. In their book *Blue Ocean Strategy* (2005), the authors argue that based on extensive studies, tomorrow's leading companies will succeed not by battling competitors but by creating 'blue oceans' of uncontested market space ripe for growth. While most companies compete within red oceans, this strategy is unlikely to create profitable growth in the future.

Such strategic moves – termed 'value innovation' – create powerful leaps in value for both the firm and its buyers, rendering rivals obsolete and unleashing new demand.

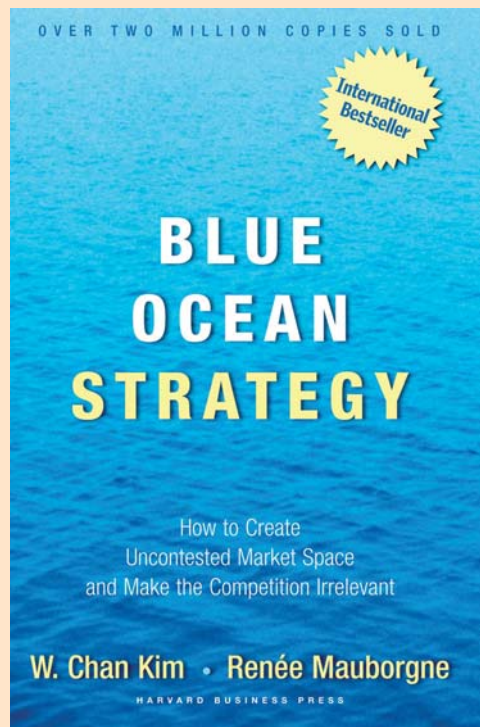
Blue Ocean Strategy (BOS) provides a systematic approach to making competitors irrelevant. The Strategy highlights the six principles that every company can refer to in order to successfully formulate and execute their own goals. The six principles show how to reconstruct boundaries, focus on the big picture, reach beyond existing demand, get the strategic sequence right, overcome organisational hurdles, and build execution into strategy.

The Six Principles of BOS:

- **Reconstruct market boundaries.** Companies can make their competitors irrelevant by looking beyond the six conventional boundaries of competition and opening up commercially important blue oceans.
- **Focus on the big picture, not the numbers.** This is an alternative to the existing strategic planning process (often criticized as a number-crunching exercise) and focuses on planning risk and creating opportunities.
- **Reach beyond existing demand.** To create the greatest new markets, managers must challenge the conventional practice of aiming for finer segmentation in order to better meet existing customer preferences. This practice often results in increasingly small target markets.

- **Get the strategic sequence right.** Companies should follow a specific sequence to ensure that the business model they build will be able to produce and maintain profitable growth.
- **Overcome key organisational hurdles.** This principle deals with organisational risk. Tipping-point leadership shows managers how to mobilize an organisation to overcome these hurdles that block the implementation of a BOS.
- **Build execution into strategy.** By integrating execution into strategy making, people are motivated to act on and execute a BOS in a sustained way deep within an organisation. It deals with management risk associated with people's attitudes and behaviors.

Source: www.blueoceanstrategy.com



goo.gl/F3Smk



management, to build stronger organisations, not bloated share prices. According to Mintzberg, this calls for another approach to management education, whereby practicing managers learn from their own experience. He argues that we need to build the art and the craft back into management education, and into management itself. (www.henrymintzberg.com)



Tom Peters

Tom Peters (b. 1942) and management principles for excellent companies

Tom Peters is a management consultant and founder of the Tom Peters Group in California. He has carried out some applied scientific research to find a set of management principles for organisational development. In 1982, he published the results of a study into 43 American enterprises that had all shown outstandingly successful performance for twenty years. With his findings, he co-wrote a book with Robert Waterman called *In Search of Excellence*, which went on to sell more than four million copies.

To explain the success of the enterprises studied, which included McDonald's, Procter & Gamble, Boeing, IBM and Hewlett Packard, the researchers identified the following eight common characteristics that were found:

- 1 *Strong action orientation.* Although many of the examined enterprises used to make decisions in an analytical way, this did not paralyse them. The overall way of working was characterized by 'Do it, fix it, try it'.
- 2 *Close relationships with customers.* As an enterprise, you can learn much from your customers, and the most innovative enterprises took the best ideas for development of new products from their customers.
- 3 *Entrepreneurship and autonomy.* One of the most significant problems for big organisations is that they are missing what originally made them large, namely: 'innovation'. The art is to be large and at the same time able to act small. For this reason,

Innovation



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its content directly to the strategic business learning objectives of its clients, which include corporations, public sector organisations and educators. The growing Fifty Lessons digital library already holds more than 500 individual lessons from over 100 high profile international business leaders.

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an 'entrepreneurial climate' must be created in which employees with a lot of creativity can work on innovation. In such a culture, space must be created for the development of 'unorthodox' ideas with so much freedom that the making of mistakes is not punished.

- 4 *The employees are the most important source of productivity.* Enterprises that excel see their employees as a source of quality and productivity. One of the most fundamental points here is 'respect for the individual'. It is important to get the most energy and talent from employees.
- 5 *Hands-on, value driven.* It is of great importance that an enterprise indicates where it stands, where the enterprise is strong and what employees are proud of. All excellent enterprises seem to have clear values and take the creating of values seriously.
- 6 *Stick to what you know best.* Successful enterprises do not jump into areas in which they have no ability.
- 7 *Simple structure and lean supporting divisions.* All enterprises had a simple and clear organisational structure, i.e. not a matrix structure (see Chapter 9). Supporting staff divisions were also kept small.
- 8 *The structure is both centralised and decentralised.* Many enterprises that excel are run using both centralised and decentralised aspects. These enterprises control core issues from the top almost rigidly, while at the same time, divisions are given a large amount of freedom to use their entrepreneurial and innovative skills.

Recent history has shown that an enterprise that has had long-term success in the past is not guaranteed the same results in the future.

As an example, at the end of the 1980s, IBM was forced to cut its staff numbers by nearly 50%. Of critical importance is the ability of enterprises to continually keep abreast of changes in their surroundings.

In his 1987 book *Thriving on Chaos*, Tom Peters says that chaos has become the norm. Nearly every day, managers will be confronted with big changes that are linked to developments such as those in IT and telecommunications. Enterprises must show absolute flexibility in order to use chaos to meet new challenges in the market.

In his book, Tom Peters gives 45 recommendations to management on how to do this.

Books published by Tom Peters since 1987 include: *Liberation Management* (1992), *The Pursuit of Wow* (1994), *The Circle of Innovation* (1997), the series *The Brand You50*, *The Professional Services Firm50*, *The Project50* (1999) and *Re-Imagine* (2003) – an immediate number 1 international bestseller. (www.tompeters.com)

Peter Drucker (1909–2005) and general management

Peter Drucker is thought of by many as the 'father of all management gurus'.² Since 1939, he has written 35 books and his work has been translated into 24 languages, leading to publication worldwide.

According to Drucker, following the industrial revolution and dramatic increases in productivity, we have now arrived at the knowledge revolution. Knowledge has become the critical production factor, according to Drucker. The importance of nature, labour and capital lies mainly in the limitations that they impose. Without these production factors, knowledge can produce nothing.

Drucker estimates that the number of people currently employed in traditional industry sectors such as agriculture and industry has fallen by 20 to 25%. The remaining three quarters of the workforce can be divided into three approximately equal groups, namely knowledge workers such as high-quality specialists, professionals



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Peter Drucker

Knowledge revolution

and technicians, highly trained service providers such as sales staff, instructors and civil servants, and less trained service providers such as cleaners, drivers and administrators, whose wages often remain below other groups.

Prior to 1990, management did not really direct much attention towards developments in productivity in the knowledge and services sector. Only now that the productivity revolution in the agriculture and industry sectors has come full circle can we see that an increase in productivity in the knowledge and services sectors is an absolute condition for further economic growth. A key characteristic of knowledge work is that the knowledge worker determines to a large extent the content of their job – and often without even paying much attention to productivity. Research suggests that about three quarters of the time is frittered away due to inefficient coordination or through the performance of irrelevant tasks. Productivity can be increased significantly if employees keep in mind what they are really being paid for. Anything else needs to be rejected. Other remedies suggested by Drucker for increasing productivity considerably are analyzing and restructuring of tasks, outsourcing of supporting service tasks (which promotes competition), and the forming of teams that are particularly suited to a particular type of work. According to Drucker, 'As well as there being an economic challenge to create higher productivity, there is a hidden social challenge to the dignity of (new) people with a lower education level who are employed in the services sector.

In his last book *Management Challenges for the 21st Century* (1999), Peter Drucker discusses how the new paradigms of management have changed and will continue to change our basic assumptions about the practices and principles of management. Forward-looking and forward-thinking, the management challenges of the 21st century include broad knowledge, wide practical experience, profound insight, sharp analysis, and enlightened common sense, according to Drucker.

Drucker's ability to question assumptions and see connections among disparate forces and data has made him a visionary thinker in the field of management. In *Management Challenges for the 21st Century*, he offers a head start on fundamental issues to anyone who will be working with any sort of organisation in the next century. (www.peter-drucker.com)



Michael Porter



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Michael Porter (b. 1947) and strategy

Michael Porter, a Harvard professor, has had a big influence on the development of strategic thinking and behaviour within businesses.

He is the author of 17 books and over 125 articles, and is a leading authority on competitive strategy and the competitiveness and economic development of nations, states, and regions.

The value of his work, as we will see in Chapter 3, has been in the creation of structures for the implementation of analyses that lead to successful strategies. Porter was the first to monitor the link between the meaning of managerial work and its effect on the success of an enterprise. In an award-winning 1979 McKinsey article entitled 'How Competitive Forces Shape Strategy', Porter uses his Five Forces model to demonstrate how enterprises can analyse the market and their competitors' behaviour. In his first book *Competitive Strategy* (1980), Porter discusses mainly the 'what' and 'why' of strategy. The book is in its 63rd printing and has been translated into 19 languages.

His second book, *Competitive Advantage*, focusses more on the 'how' of strategy. Porter puts forward the suggestion that companies must search for their own competitive advantage. According to him, examples of competitive advantage include operating at a lower cost than a competitor, or creating 'added value' so that the buyers will pay more for the product or service.

Academic who shares his values

The Harvard professor who changed business with his 'five basic forces' is attempting to revolutionize capitalism again.

Professor Porter's reputation has put him near the center of discussions with both chief executives and politicians on how to restore US growth and prosperity. He blames the depressed state of the economy in part on cyclical factors – the bursting of the real estate bubble, corporate boards' caution in relation to domestic investment – and in part on 'a more fundamental competitiveness problem'.

As long as 30 years ago, Porter wrote an article that outlined the 'five forces' that determine the state of competition in any industry (customer power, supplier power, the threat of new entrants, substitute products and rivalry between established competitors). Companies and countries found it a simple and useful way to assess their own strengths and weaknesses. The US lost its competitiveness and efficiency as a productive place to do business. Skill gaps, poor infrastructure, and the burden of health benefits, regulation and litigation. Other countries have offered better val-

ue propositions. According to Porter, the five forces are still fundamentally important and visible. He revised his forces in 2008. After outlining the impact on strategy, he narrowed his focus to the competitiveness of locations and nations as well as to the business clusters that emerge around successful companies. He parlayed this into analyses of inner cities, the compatibility of environmental progress and economic growth, and his latest headline concept: 'creating shared value' (CVS), the idea that corporate activity which advances society will contribute to a positive cycle that allows everyone to grow faster. CVS will underpin the creation of 'a next and more sophisticated view of what capitalism is all about'. It has stirred up some resentment in the established corporate social responsibility community. Advocates of CSR see Prof. Porter's concept as neither new nor different. Alongside China, globalisation and the economic downturn, Porter thinks that the world will look back and consider the development of CVS as 'one of the big discontinuities of this particular point of economic history'.

Source: *Financial Times*, September 26, 2011

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In his book *Competitive Advantage of Nations* (1990), Porter says that countries or regions create the factors that determine whether enterprises are successful. He outlines a number of criteria that can be used by an enterprise to judge the attractiveness of a location. Again and again, Porter comes to the conclusion that an organisation's surroundings are the source of ongoing competitive advantage. His book *On Competition* (1998) includes a series of articles on strategy and competition, including his *Harvard Business Review* article 'What is Strategy?' (1996). 'Strategy and the Internet' was published in 2001.

Michael Hammer (1948–2008) and re-engineering of business processes

Michael Hammer is one of the most authoritative management gurus of contemporary times.

He has been a professor of computer sciences at MIT in the United States and is at present a director of his own consultancy company. Together with James Champy, he wrote the very successful book *Re-engineering the Corporation, a Manifesto for Business Revolution* (1993). In this book he argues that over the last fifty years, business has been based on three principles, namely:

- 1 The basic unit of work is the 'task'.
- 2 Simple tasks should be performed by less educated people.
- 3 There is a distinction between 'doers' and 'managers' (hierarchy).

In a world that changed slowly and was characterised by predictability and continuity it was understandable that these principles worked well. However, in this turbulent time with rapid technological developments and the explosion of world-wide markets, organisations are having to pay more attention to flexibility, quality, service and a reduction of overhead costs.

It is no longer appropriate to use the classic 'task-based organisation' which subdivided each process into all sorts of sub-processes that then were distributed across

Michael Hammer

Re-engineering



Michael Hammer

Process-orientated
Process

the whole organisation. This would obviously lead to unnecessary inertia, bureaucracy and inflexibility.

Hammer and Champy argue in favour of a revolution within business. At the core of this is the idea that enterprises will have to work in a process-orientated way. A process can be seen as a succession of activities that create value for the consumer. For example, when an organisation receives an order from a customer, dozens of departments will be involved. The customer has no interest in all the internal administrative and organisational processes, but is only interested in the final outcome. The process must therefore become the organisation's starting point. In a process-orientated organisation, a significant part of administrative and management supervision disappears. Simple tasks will vanish. The difference between performers and managers will become less clear. Professionals and coaches will work in new organisations. The coaches will concentrate mainly on inspiring and motivating the professionals as well as designing the work environment.

According to the authors, this new organisational approach will lead to big cost savings: between 40% and 80%. Before this can become a reality, top management needs to be convinced of the need to make this change (see Chapter 8 for further details). Michael Hammer latest book is entitled *The Agenda: What Every Business Must Do to Dominate the Decade* (2001). The most interesting idea in *The Agenda* is that re-engineering must go beyond knocking down the internal walls that keep parts of a company from cooperating effectively. Hammer argues that companies must knock down their external walls too, so they can cooperate seamlessly with all the companies involved in making a product, from the raw material stage to the point where a customer uses it.

(www.hammerandco.com)



C.K. Prahalad

C.K. Prahalad (b. 1941–2010) and competition

Coimbatore Krishnao Prahalad was born in the town of Coimbatore in Tamil Nadu. He studied physics at the University of Madras (now Chennai), followed by work as a manager in a branch of the Union Carbide battery company, gaining management experience. He continued his education in the US, earning a PhD from Harvard. He has taught both in India and America, eventually joining the faculty of the University of Michigan's Business School, where he held the Harvey C. Fruehauf chair of Business Administration.

At Ann Arbor he met Gary Hamel, then a young international business student. Their collaboration ultimately resulted in *Competing for the Future* (1994). This book described how management was in transition. It was moving from the old control-and-command model towards one where managers had to find new market opportunities. Much depended on markets and the delivery of customer satisfaction. This was a riposte to the concept of business process re-engineering, which told companies to look for core competencies.

In his most recent book (written with Venkat Ramaswamy), *The Future of Competition* (2004), Prahalad argues that companies have not made enough use of the opportunities provided by globalisation. There is an inability to realise that not only have the rules of the game changed but the role of the players has been transformed too. The 'customer' is more powerful and pro-active figure. They are no longer abstractions that have to be satisfied. Thanks to the Internet they are creative agents participating in transactions. The concept of value has also changed. It is not inherent in products or services. It cannot be instilled by producers or providers. It has to be co-created with consumers. They build this by experiencing it. The only way companies can compete successfully is through building new strategic capital.

He desired a greater 'hands-on' approach to business. In 1997 he co-founded Praja ('common people' in Sanskrit), in San Diego. This Internet startup wanted to pull the

Delivery of customer
satisfaction

New strategic capital

Internet away from information-based content towards something more experiential. The company's fortunes were badly hit by the deflation of the tech bubble. Prahalad commented philosophically that this experience had taught him a lot.

Prahalad maintains a deep interest in the world's poor. This led him to write *The Fortune at the Bottom of the Pyramid* (2004). It stemmed from a 'long and lonely journey' to find a solution to the world's poverty. He identified the world's poor (the 'Bottom of the Pyramid' or BOP) as a potentially untapped market for companies, worth anything up to \$13 trillion a year. 'The real source of market promise is not the wealthy few in the developing world, or even the emerging middle-income consumers. It is the billions of aspiring poor who are joining the market economy for the first time'. A market at the bottom of the pyramid could be co-created by multi-national and domestic industry, non-governmental organisations, and most importantly the poor themselves. They would then have choice over their lives and the products they used. He pointed to Hindustan Lever's success in marketing soap powder and detergents in smaller, cheaper units. This created prosperity downstream through new distribution mechanisms. The book is accompanied by a CD rom containing interviews with people whose lives have been improved. This has nothing to do with philanthropy. It is preferable to what has gone before. Poor people are too often patronised by certain aid agencies. He wants them to have real power in the marketplace. The book also highlights the victimisation of the poor in some areas. In India, a 'poverty penalty' exists, where poor Indian families are forced into the arms of money-lenders charging interest rates in excess of 400 per cent.

Jim Collins (b. 1958) and corporate culture and leadership

Jim Collins was born in Boulder, Colorado. He studied business at Stanford and stayed on the faculty after graduating. Having taught at Stanford for seven years he returned to his home town to establish what he called a 'business research laboratory'. Here he has become 'a self-employed professor who endowed his own chair and granted himself tenure'. His laboratory examines business issues and structures from a statistical standpoint. 'Others like opinions', says Collins. 'I prefer data'. His research work has involved looking at vast numbers of companies to find out what makes some good, others great, and others still downright awful. This involves a probe of how each company is managed, and the role of its CEO. This has resulted in four books, including *Good to Great* (2001).

Good to Great emerged from a simple question: can a good company become a great company? Collins and his researchers' answer was yes – but it wasn't easy. Collins started with a data set of over a thousand companies, but whittled this down to 11 that had consistently outperformed their rivals. These companies had things in common, but not what conventional B school wisdom said they should have. It was easier to see what they lacked: high profile CEOs, cutting-edge technology implementation, a business strategy or even change management. What Collins did find amongst the eleven was a common corporate culture that was big on the very outdated concept of discipline. This was not the discipline of the martinet, but the good type – self-discipline. The companies rewarded self-disciplined people who thought in a self-disciplined way.

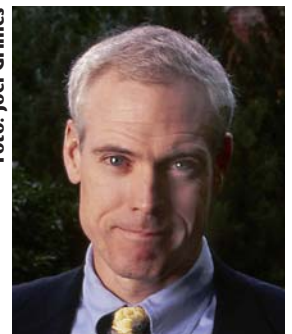
But the difference between the good and the great was also down to different types of leadership. Collins says he was initially a leadership skeptic: it was too simple to pin great success or grim failure on the lapels of a leader. However this is what his data was telling him. On further investigation he identified two levels of leadership – level 5 (the great) and level 4 (the good). None of this is cast in stone, and a level 4



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Bottom of the Pyramid

Foto: Joel Grimes



Jim Collins

Types of leadership

leader can grade up. He cites Lou Gerstner as an example: a level 4 manager at R.J. Reynolds who became a level 5 manager at IBM – though not immediately. Level 5 people have an almost heroic commitment to the company and its mission. The company gets all their emotions – there is no room or energy for self promotion. This does not mean that Level 5 managers are shrinking violets. They simply put the company before, well, everything – family, friends, and probably their health. But they are never alone. They should have a good team around them. This is their responsibility. Part of the mettle of the level 5 manager is deciding who should be on the bus and where they should sit.

There are other qualities which set the great apart from the good. These include the performance of their companies. These can be measured by financial results. Collins is a keen believer in assessing success through the company's stock price. This indicates a preference for publicly-quoted companies.

A Level 5 leader must also have the respect of other business and industry players, such as competitors. (Respect, of course, has nothing to do with liking). They should make an impact on their company, maybe their industry, that outlasts them.

In his research he also looked at the identity of CEOs. Those companies who chose their chief executives from inside the organisation did better than those preferring outsiders. He suggested that outsiders are ignorant of the company they are entering at the top, with no gestation or apprenticeship period. He also suggested that outsiders lacked the capacity for commitment to a long-term relationship along with its necessary sacrifices.

A good CEO should be neither too humble nor too proud. They should not be too charismatic. They should ideally stay in the job for a minimum of seven years, as it was not possible to have any impact in a lesser time.

In his latest book *Built to Last* (2002) Collins (along with Jerry Porras) continue their analysis of visionary companies, looking at eighteen. These are united by widespread brand recognition, are world famous, but have been in business for more than fifty years.

Collins' research stems from the corporate arena, but he reminds his readers that the lessons he puts forward are equally applicable in the non-corporate arena as well.

Visionary companies



Kjell Nordström



Jonas Ridderstråle

Kjell Nordström (b. 1958) and Jonas Ridderstråle (b. 1966) and changing businesses
Dr. Jonas Ridderstråle and Dr. Kjell Nordström are at the forefront of the new generation of European-based business gurus. They cut through the madness and hyperbole surrounding the economy and their appeal is truly global. Dr. Ridderstråle was an assistant professor at the Stockholm School of Economics and is currently a visiting professor at Ashridge Business School in the UK. Additionally, he acts as an advisor and consultant to a number of multinational corporations. Dr. Nordstrom is presently Associate Professor at the Institute of International Business at the Stockholm School of Economics.

They have achieved fame amongst the ranks of management thinkers through their books and their lectures, both of which are different. At their lectures (they prefer to call them gigs) they appear (should that be perform?) together, dressed in black. The similarities with the world of rock music are deliberate. Their delivery is fast and punchy. Another flamboyant presenter, Tom Peters (a big fan) might be described as a modern Country-and-Western performer; these guys are definitely hard-core heavy metal artists.

Their first book *Funky Business* (1999) caught the atmosphere of their gigs. It contained some stark and simple messages. The world of business had changed dramatically. What will work has to be different in a revolutionary way. "Traditional roles,

jobs, skills, ways of doing things, insights, strategies, aspirations, fears and expectations no longer count... We cannot have business as usual. We need business as unusual. We need different business, We need innovative business. We need unpredictable business. We need surprising business. We need funky business'.

The successful organisations will be different too, unafraid of difference or creativity: they will seek emotion. The meaning of e-commerce must be changed into emotional commerce. Employees should be hired because they have some of that emotion. They can then be trained to carry out specific skills. They should be sought in unusual ways at pop concerts even, far removed from the traditional 'milk round'. Ideas are what will make a difference. Riches should be sought in niches wherever they are, amongst 'homosexual dentists or pigeon-fancying lawyers'.

The workplace of the future will be Funky Inc. 'It isn't like any other company. It thrives on the changing circumstances and unpredictability of our times'. The future will be incoherent, dominated by movement and speed, by the imperatives of 'move it, move it fast, move it faster, move it now'. The strengths of an organisation will not be core competencies but core *competents*, people whose skills and knowledge make a difference. 'These walking monopolies will stay as long as the company offers them something they want. When that is no longer the case they will leave'.

Today's world is a place of excess. This is the age of time and talent, both of which are commodities. Talent will allow firms to be unique. The challenge is: how are you make yourself more attractive, more sexy? In a world of economic Darwinism, survival is a question of being either fit or sexy. Competition takes place using models and moods. Fitness boils down to using market imperfections to your advantage. Masters of mood exploit the imperfections of man by seducing or sedating consumer. Excellent companies re-invent innovation.

Their second book *Karaoke Capitalism* (2004) was never going to be a dog-eared sequel to their earlier volume, a mere 'Funky 2'. The two Swedes attempted to get political and ideological, and to ask what changes we can expect to emerge from a world dominated by super-fast and soulless machines. In places the book reads like a manifesto, a call to the barricades. The world is undergoing change on a scale unknown before, greater than the move from an agricultural to an industrial society that took place in Europe two hundred years ago. That took well over a century and was accompanied by major changes in behaviour and religious observance, not to mention political changes too. Individuals now have more choice than ever. The world of Karaoke Capitalism is increasingly dominated by copy-cats bashing out cover versions of great originals. Only imagination, innovation and originality will place societies, organisations and individuals center-stage. The book talks about how to create capitalism with character, and how to live a fulfilling life while making a living. To develop the character of capitalism involves accepting individual responsibility. 'Look inside. Do you want to be a first-rate version of yourself or a second-rate version of someone else?'

Don Tapscott (b. 1947) and Wikinomics

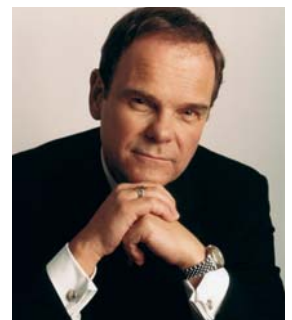
Tapscott is one of the world's leading authorities on innovation, media and the economic and social impact of technology. He has authored 14 widely read books, including the bestsellers *The Digital Economy* (1995), *Growing Up Digital* (1997), *Wikinomics: How Mass Collaboration Changes Everything* (2007) and *Macrowikinomics: Rebooting Business and the World* (2010).

The book *Wikinomics* revealed how mass collaboration (also called peer production) was reinventing the way businesses communicate, create value, and compete in

Emotional commerce

Core competents

Karaoke Capitalism



Don Tapscott

the new global marketplace. The economic model called Wikinomics is a forward-looking model wherein connected individuals engage with companies in web-based communities which embrace a new art and science of productivity and innovation. According to Tapscott (and co-author Anthony Williams) open-source software and open-access publishing is necessary in order to achieve success. Wikinomics is based on four ideas: Openness, Peering, Sharing, and Acting Globally. In recent history, the use of mass collaboration in a business environment can be seen as an extension of the trend in business to outsource: externalize formerly internal business functions to other business entities. The difference, however, is that mass collaboration relies on free individual agents to come together and cooperate to improve a given operation or solve a problem. This kind of outsourcing is also referred to as crowdsourcing.

In *Macrowikinomics*, the authors prove that mass collaboration is now more powerful than ever and present not only in business, but across all our community sectors. In the new age of networked intelligence, businesses and communities are bypassing crumbling institutions. We are altering the way our financial institutions and governments operate, how we educate our children and how the healthcare, newspaper, and energy industries serve their customers. The power of collaborative innovation and open systems and their call to 'reboot' our institutions – business, education, media, government – has a big impact on our global economy. For financial services they developed new business principles, including transparency, integrity and collaboration. The wisdom of the masses is enhancing the amount of knowledge available to the common man. The authors argue compellingly that the rapid emergence of the wiki world has brought us to a turning point.



Steve Jobs



goo.gl/2By5V

Steve Jobs (1955–2011): visionary of simplicity

Steven P. Jobs was an original. He was somehow able to blend iconoclasm, rock-and-roll, and chic industrial design with both the 'nerd' sciences and the unseemly profit motives of the corporation. Born into an era of rotary phones and room-sized computers, he has contributed perhaps more than any other person to forging an age of personal computers, slick electronic tablets and slender mobile phones with a thousand times more computing power than the old mainframes. His products – iMac, iPod, iPhone, and iPad – changed the world, making people more connected in the virtual world.

Jobs was an American business magnate and inventor and the co-founder, chairman, and chief executive officer of Apple Inc. He was also co-founder and chief-executive of Pixar Animation Studios and became a member of the board of directors of the Walt Disney Company in 2006, following the acquisition of Pixar by Disney.

In the late 1970s, Jobs, along with Apple co-founders Wozniak, Markkula and others, designed, developed and marketed one of the first commercially successful lines of personal computers: the Apple II series. In the early eighties, Jobs was among the first to see the potential of Xerox PARC's mouse-driven graphical user interface, which led to the creation of the Apple Lisa and somewhat later the Macintosh. After losing a power struggle with the board of directors in 1985, Jobs left Apple and founded NeXT, a computer platform development company specializing in the higher-education and business markets. Meanwhile he acquired the computer graphics division of Lucasfilm Ltd, which was spun off as Pixar Animation Studios. He was credited in 'Toy Story' (1995) as an executive producer. Apple's 1996 buy-out of NeXT brought Jobs back to the company he co-founded, becoming CEO from 2000 onwards.

Jobs believed the best-looking, easiest-to-use computers and devices were seamlessly integrated products where both the hardware and software were created by the same company. That conviction was out of fashion in the 1990s, when Microsoft ruled the land and companies like Dell and HP packaged computers around Bill Gates' operating system and Intel's microchips. The release of the iPod in 2001 was a triumph of his vision. When Jobs returned to the long-suffering Apple, he explained that they would first have to put aside its all-too-consuming fixation with its dominant rival, Microsoft. A cold calculation by Jobs was that Apple did not need to win the old battle for the PC. He recognized that an industry dominated by Microsoft and Intel would not adapt smoothly in the era of personal media and communication devices. The opportunities were in the digital media devices and the Internet. Jobs bet that they would not innovate rapidly or radically enough, since their profits relied on the preservation of the old regime. He also understood that in the evolving technology business, new technologies are constantly dislodging the established winners. With the iMac, iPod, iPhone and iPad, Apple forever changed the way people communicate, entertain themselves and even the way they absorb information. Elements like separate keypads, floppy disk drives and computer mice with two buttons were banished and removed and with the help of chief designer Jonathan Ive, he ushered in candy colors, gleaming metals with rounded edges and cone-shaped Wi-Fi base stations. Apple's commitment to industrial design was infectious. Design became a strategic tool. Cool products demanded cool pitches. He continued to work with Chiat/Day, an ad agency that resulted in the 1997 'Think different' campaign. Apple's market capitalisation went from \$3 billion at the start of 1997 to \$350 billion in 2011 – more than the value of Microsoft and Dell combined – making it the second most valuable company in the world.

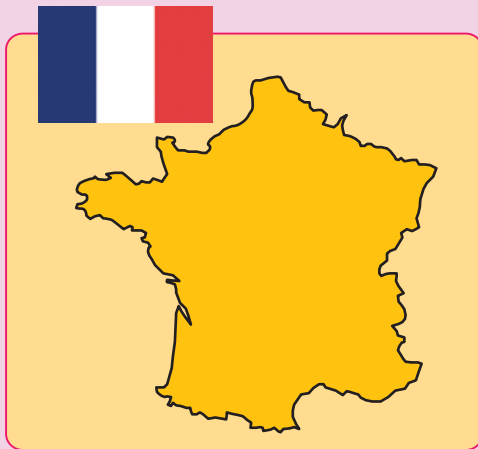
Not every battle was won. In 2000, the Power Mac G4 Cube, a minimalist, miniaturized computer encased in plastic with no display, keyboard or mouse, flopped. But the aesthetic, clean surface and ease of use was used again in the iPod, the cigarette-pack-size digital music player made of white polycarbonate introduced in 2001. Even though there were smaller and cheaper MP3 players on the market, the looks and the way it worked seamlessly with its iTunes music service made it an object of desire. Jobs himself said in Steven Levy's book *The Perfect Thing* that the success of Apple lies in the combination of its incredible technology with the legendary ease of use and its awesome design. Millions of people bought iPods and became more willing to consider an iMac, or to walk into one of Apple's proliferating stores, a go-it-alone retail strategy that Jobs unveiled in 2001. A profitable part of Apple's business is iTunes. The music labels succumbed, offering their songs for 99 cents over iTunes. Jobs was able to add TV shows and movies to iTunes in 2006. The introduction of the iPhone in 2007 was even more revolutionary. The device's large display and touch screen, as well as its seamless connection to the App Store, would alter the world of cell phones. By the end of 2010, Apple had sold 129 million iPhones, which accounted for about 40 percent of its revenue. Inspired by the success of iPhone, with its simplified operating system and multi-touch technology, the iPad, a tablet computer, was introduced in 2010. The idea behind the iPad was 'not shrinking the real inside of the Mac, but growing the iPhone'.

In only 15 years, Jobs turned Apple from a floundering company into one of the most influential and valuable corporations in the world. He has changed culture, commerce and the very relationship that people have with technology. His innovations have

likely touched nearly every aspect – computers, movies, music and the mobile/cell phone – of our lives. However, Jobs' greatest legacy is arguably his **7 rules of success**:

1. **Do what you love.** People with passion can change the world for the better. Passion is everything.
2. **Put a dent in the universe.** Jobs believed in the power of vision. Don't lose sight of the big vision.
3. **Make connections.** Creativity is connecting things. People with a broad set of life experiences can often see things that others miss. Don't live in a bubble. Connect ideas from different fields.
4. **Say no to 1,000 things.** When Jobs returned to Apple in 1997, he took a company with 350 products and reduced them to 10 products in a two-year period. So he could put the 'A-Team' on each product.
5. **Create insanely different experiences.** What are you doing to enrich the lives of your customers? The Apple Stores are a good example: creating an emotional connection between you and the Apple brand.
6. **Master the message.** You can have the greatest idea in the world, but if you can't communicate your ideas, it doesn't matter. Jobs was the world's greatest corporate storyteller.
7. **Sell dreams, not products.** Jobs captured our imagination because he really understood his customer. If you help your customer reach their dreams, you'll win them over.

Doing business in: France



How the French organise and process information

The French will readily accept information for the purpose of debate and may change their minds quickly, but strong ethnocentrism will not allow the acceptance of anything contrary to the cultural norm. Ideas are very important to them, and they approach knowledge from an analytical and critical perspective. They look at each situation as a unique problem and bring all their knowledge to bear on it.

What the French accept as evidence

Arguments tend to be made from an analytical, critical perspective with eloquent rhetorical wit and logic. There is a great love of debate, striving for effect rather than detail and image over facts. Feelings and faith in some ideology may become part of the rhetoric.

The basis of behaviour

Pride in their heritage sometimes makes them appear egotistical in their behaviour. Value systems in the predominant culture – how right is distinguished from wrong, good from evil, and so on – are described under the next three headings.

The locus of decision-making

The French are strongly individualistic and have a centralized authority structure that makes quick decisions possible. The relationship between the participants becomes a major variable in the decision-making process. One's self-identity is based on his or her accomplishments in the social realm. Education is the primary variable in social standing. Individual privacy is necessary in all walks of life.

Sources of anxiety reduction

The French seem to be preoccupied with status, rank, and formality. Contacts are of utmost importance.

Their attachment to a public figure gives them a sense of security. Nevertheless, individuality is preferable to conformity. They are reluctant to take risks, so little long-range planning is done, as the future is uncertain. One is allowed to show both positive and negative emotions in public.

Issues of equality / inequality

There is a highly stratified class system, but most people are middle class. However, there is much hostility between social groups. Superiors demand obedience from subordinates in all walks of life. Power is a basic fact of society, and leaders with the ability to unify the country or group are highly prized. Sex roles in society are fluid, and one's status is more important than one's sex.

Ten examples of French business practices

- 1 The French are known for their formal and reserved nature. A casual attitude during business transactions will alienate them.
- 2 During negotiations, the French may make you seem to be the *demandeur* (petitioner), thus putting you in the weaker position.
- 3 Hierarchies are strict. Junior executives will pass a problem on to a superior. Try to cultivate high-level personal contacts.
- 4 Do not mistake a high-pitched voice and excited gestures for anger: they usually just mean great interest in the subject.
- 5 Business can be conducted during any meal, but lunch is best.
- 6 Respect privacy. The French close doors behind them; you should do the same. Knock and wait before entering.
- 7 Always shake hands when being introduced or when meeting someone, as well as when leaving. In general, the woman offers her hand first. In social settings, with friends, expect to do *les bises*, or touching cheeks and kissing in the air.
- 8 Find out the titles of older French people you meet, and address them in that way both during the introduction and in the course of conversation. Even simple titles like Madame should be used as you converse, whether in English or in French.
- 9 Do not use first names until you are told to do so. Do not be put off by the use of surnames; it does not mean that the French are unfriendly. If you speak French, use the *vous* form until you are asked to use *tu*.
- 10 Good gifts include books or music, as they show interest in the intellect. Bring best-sellers, especially biographies. The thicker and more complex the book, the better; simplicity is not a virtue in France.

Source: *Kiss, Bow, or Shake Hands: How to Do Business in Sixty Countries*, by Terri Morrison, Wayne A. Conaway and George A. Borden, Adams Media, 2006



Summary

- ▶ Organisational behaviour is an interdisciplinary science that focusses on the study of behaviour in organisations. Key areas studied include factors that determine this behaviour, and the most effective ways of directing organisations.
- ▶ The history of this field goes back to the time of Socrates and Plato. In the 1960s and 1970s, organisational behaviour as we now know it appeared in the Netherlands.
- ▶ The schools of thought and personalities mentioned in this chapter have all had an influence on developments in the field of organisational behaviour. The developments are both historical and recent.
- ▶ We have provided a summary of the featured personalities and schools of thought based on major characteristics and key philosophies:
 - Niccolo Machiavelli (1469–1527)
 - Adam Smith (1723–1790)
 - Scientific management (around 1900)
 - Henry Fayol (1841–1925)
 - Max Weber (1864–1920)
 - Human relations (around 1945)
 - Neo-human relations (around 1950)
 - Systems approach (around 1950)
 - Contingency approach (around 1965)
 - Philip Crosby (1926–2001)
 - Henry Mintzberg (from about 1979)
 - Tom Peters (from about 1982)
 - Peter Drucker (1909–2005)
 - Michael Porter (from about 1980)
 - Michael Hammer (1948–2008)
 - C.K. Prahalad (1941–2010)
 - Kjell Nordström and Jonas Ridderstråle (from about 1999)
 - Power and opportunism
 - Division of labour and productivity
 - Production organisation and efficiency
 - General management theory
 - Bureaucracy and the ideal type organisation
 - Informal organisation and subjectivity
 - Synthesis of scientific management and human relations: the division between people and organisation
 - The organisation as a system and in its interaction with its surroundings
 - The application of management techniques dependent on the situation
 - Quality management in organisations
 - Configuration theory and seven configurations
 - Management principles for outstanding companies
 - Knowledge as an essential production factor
 - Strategy and competitive advantage
 - Re-structuring of business processes
 - Competition
 - Corporate culture and leadership
 - Changing business
 - Blue ocean strategy
 - Wikinomics
 - Vision and simplicity
 - Jim Collins (from about 2001)
 - W. Chan Kim and R. Mauborgne (2005)
 - Don Tapscott (2006)
 - Steve Jobs (1955–2011)

Definitions – Introduction & Chapter 1

§ 1.1 Induction	The development of theories primarily derived from experience and facts gained from practical situations.
Deduction	The development of theories primarily derived from hypotheses that are subjected to further reasoning before specific conclusions are drawn.
Organisation	A group of people working together towards a common goal.
Organise	The creation of effective relationships between people, resources and operations, controlling and managing production factors in such a manner that organisational goals are reached.
The field of organisation and management	The theory of human collaboration in any form and the direction it is taking.
Management	The theory of directing an organisation.
§ 1.2 Organisational behaviour	An interdisciplinary science that is concerned with the study of the behaviour of organisations as well as the factors that influence this behaviour and the ways in which organisations can be most effectively managed.
Behaviour of organisations	The way organisations act and react.
Descriptive aspect	A description of the behaviour of organisations showing motives and consequences.
Prescriptive aspect	Advice to be followed concerning course of action and organisational design.
Interdisciplinary	Organisational behaviour contains many elements that originate from sciences such as business studies, marketing, technical sciences, behavioural science and law.
Multidisciplinary	The various contributions made by the various sciences are weighed up, compared with one another and then used to develop a new approach – one in which the subject is seen in its entirety.
Direction	Guiding the processes that take place in an organisation.

§ 1.3 Silk Road	The Silk Road was one of the oldest trade routes. It was set up in the 1st century BC and encompassed Europe, the Middle East and Asia. It linked the great Roman and Chinese civilizations.
§ 1.6 Scientific management	A systematic, coherent managerial approach relating to the manner in which production should be organised. A manager must have a broad view of his / her organisational tasks, including planning, coordinating, overseeing, and checking of results.
§ 1.7 General management theory	A coherent system of views relating to the manner in which organisations as a whole should be run. It has to do with universal principles that apply everywhere people work together.
§ 1.8 Human relations movement	The basic premise of the HR movement is that happy and satisfied employees perform better. Management must therefore give adequate attention to groups and individuals, demonstrate appreciation for appropriate behaviour, and give individuals sufficient responsibility and freedom.
Linking pin structure	The organisation consists of groups that overlap in such a way that the leader of the group is also a member of a higher group. He / she must lead the group, and also ensure good communication with the higher group.
§ 1.9 Systems approach	An approach whereby an organisation is seen as a system, i.e. a whole unit made up of coherent parts. According to this approach, all activities in organisations are closely connected to each other. The systems approach proposes that management adopt an integrated policy when tackling organisational problems.
§ 1.10 Contingency approach	Pertains to choosing the most appropriate specific management technique. The approach derives from organisational theory and is strongly influenced by the circumstances in which an organisation finds itself. The art is to discover in which circumstances certain techniques can best be applied.
§ 1.11 Configuration	Organisations should not view their qualities separately from each other but bring these together in a common form or configuration. A configuration can be seen as an 'ideal typical organisation'. The following qualities are significant: organisation members, coordination mechanisms, design parameters and situational factors.
Process	A process can be seen as a series of activities that create value for the customer.



Statements

Decide which of the following statements are correct or incorrect and give reasons for your answer.

- 1 Organisational behaviour is primarily a multidisciplinary science.
- 2 Effectiveness means a high extent of efficiency.
- 3 Adam Smith suggested that a division of tasks could significantly raise work productivity.
- 4 Unity of command means that every employee has only one immediate boss.
- 5 An organisation with a linking pin structure is likely to experience a lot of horizontal discussion.
- 6 'Theory X and Y' describes how organisations (rather than humans) are seen.
- 7 According to the contingency approach, certain management techniques can be very successful in some situations, whereas they will fail completely in others.
- 8 With reference to his seven configurations, Mintzberg has indicated how an organisation can be best structured in different situations.
- 9 Competitive advantage can be measured in absolute terms.
- 10 According to Michael Hammer, nowadays it is necessary to adopt a process-orientated work system instead of one that is based on function.

Theory questions

- 1 An employee has some problems and cannot meet the normal productivity standards. Describe how a manager should deal with this using the following techniques:
 - a Scientific management
 - b Human relations approach
 - c Neo-human relations approach.
- 2 Give an explanation for the increase in the number of multinational businesses from approximately 3,000 at the beginning of the 20th century to approximately 63,000 at the start of the 21st century.
- 3 'Within organisations that are very technologically oriented, one finds more of the features of scientific management than in a service organisation'. Give your opinion on this statement and back it up with supporting arguments.
- 4 'An organisation that has been developed following the bureaucratic model is by definition characterised as stiff, lacking initiative and missing creativity'. Give your opinion on this statement, backing it up with supporting arguments.
- 5 Describe the connection between Michael Hammer's business processes restructuring theory and Michael Porter's theory of 'added value'.



For answers see www.organisationandmanagement.noordhoff.nl



Mini case study

The DHL Network – world-wide fast information

The company name DHL comes from the initials of its three founders: Adrian Dalsey, Larry Hillblom and Robert Lynn. In 1969, the three partners took a small step that would have a profound impact on the way the world does business. The founders began to send shipping documentation by air from San Francisco to Honolulu, beginning customs clearance of the ship's cargo before the actual arrival of the ship and dramatically reducing waiting time in the harbour. This idea laid the foundations for a new business sector: international air express, the fast delivery of documents and shipments by air.

DHL is the global market leader in international express, overland transport and air freight. It is also the world's number 1 in ocean freight and contract logistics. DHL offers a full range of customised solutions – from express document shipping to supply chain management.

DHL statistical details

Number of employees: around 285,000

Number of offices: around 6,500

Number of hubs, warehouses & terminals: more than 450

Number of gateways: 240

Number of aircraft: 420

Number of vehicles: 76,200

Number of countries & territories: more than 220

Shipments per year: more than 1.5 billion

Destinations covered: 120,000

In order to be able to transport the enormous volume of documents, standardization of activities and processes is needed. Only then is DHL able to deliver packages quickly and accurately to the required destinations. Furthermore, DHL aims to deliver a made-to-measure service to their customers. This might seem contradictory: 'Taylorism' and free trade seem to go quite well together in practice.

Source: <http://www.dhl.co.uk/publish/gb/en/about/history.high.html>

Question:

- 1 Do 'Taylorism' and the freedom to trade really possess conflicting characteristics?

E-mail case study

To:	Karina Thomson
Cc:	
Bcc:	
Subject:	The Royal Bank of Scotland Group
Message:	<p>Dear Karina,</p> <p>As you know, one of ABN AMRO's key activities is mortgage lending, and traditionally we have enjoyed a high market share. However, this market share has fallen during the last few years and our initial investigations suggest that the Royal Bank of Scotland Group is becoming a significant competitor within the Dutch market.</p> <p>In one way or another we must improve our management procedures and adapt. But how? On behalf of the management of the mortgage department, I would like to ask you to produce a report on the Royal Bank of Scotland Group. In your investigation we'd like you use the management principles formulated by Tom Peters as a guide.</p> <p>Karina, please analyse where the Royal Bank of Scotland Group stands in relation to each of the eight characteristics that make an organisation successful. We can then take a leaf from the Scottish bank's book, improving and adapting our own management processes.</p> <p>Kind regards, Piet Dankers ABN Amro</p>