

Principles of Management

By George R. Terry and Leslie W. Rue

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Aid
Series

PRINCIPLES OF MANAGEMENT

Fourth Edition

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PREFACE

This Fourth Edition of the *Personal Learning Aid for Principles of Management* features an up-to-date, concise, and readable presentation of management fundamentals. It is designed to help you read and review the subject of management quickly and conveniently. The programmed learning format aids you in covering all the essentials of management in a manner encouraging self-study and self-testing.

The wide and enthusiastic acceptance given previous editions of this book, extending into the tens of thousands of readers, attest to its effectiveness in presenting management material that is easy-to-read, comprehensive, and informative.

Most people require about 25 minutes to work through a chapter. For further review, you may work the examinations included near the back of this book. Each examination covers a different one third of the contents (plus there are short exams covering each appendix). The examination answers are included so that you can rate yourself on your understanding of the material. Each examination requires about 50 minutes to complete. Additional help can be obtained by reviewing the terms included in the Glossary/Index.

This PLAID covering the principles of management is designed to meet the special needs of the student embarking on the study of management, the participant in an executive development program, or the individual in business, government, or other employment aspiring to, or presently in, managerial work.

This volume is intended as a supplement to a text, not as a substitute for one. It can be used with any of the standard basic texts in the management area. The arrangement of the carefully selected topics follows a logical pattern. This edition contains 24 chapters plus two chapters in the form of appendixes. It is suggested that you go through the PLAID from front to back in the order that the chapters are presented. The appendixes are offered as optional chapters and can be referred to at any time. Although some management books may present the subject matter in a slightly different manner, the sequence used here is easy to relate to most of the basic management texts.

Leslie W. Rue

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Chapter 1

APPROACHES TO MANAGEMENT STUDY

Frame 1¹

Management is a process or form of work that involves the guidance or direction of a group of people toward organizational goals or objectives. Management is an activity, performing it is managing, and one who performs it is a manager.

An individual who becomes a manager takes on new duties that are entirely managerial in character. Important among these is the relinquishment of a tendency to perform all things personally. The operating work tasks are accomplished through the efforts of the manager's subordinates. Essentially, a manager's task is to utilize the subordinates' efforts effectively. However, seldom do managers spend all their time managing; they normally perform some nonmanagement work.

As reflected in the above definition, management is normally associated with a group. True, a person manages his or her personal affairs, but the important reference in management is to a group. Cooperative endeavor is the word of today. Vast material resources and technical skill are of small avail unless the managerial capacity to use these resources and skills through organized groups is encouraged and developed. Further, because of a person's individual limitations, it has been necessary to look to the group to achieve most personal goals.

Management is purposeful and intangible. It attempts to achieve specific results, commonly ex-

pressed in terms of objectives. The efforts of the group contribute to these specific accomplishments. Management may be described as intangible, since it cannot be seen, but is evidenced only by the results it brings about—adequate work output, human satisfactions, and better products and services.

Management is both a science and an art. There is an organized body of knowledge about management—a science—which explains management by reference to general truths. The causal relationships between management variables have been ascertained and are expressed as generalizations, but every generalization may be subjected to further research and modified with new knowledge. All science is dynamic, that of some fields more so than others. If this were not so, we would have no more accumulated knowledge today than did the early Egyptians or the citizens of the Roman Empire.

Art is the know-how to accomplish a desired result. It is the skill that comes with experience, observation, and study, and the ability to apply management knowledge. The art of management requires creativity, based on and conditioned by an understanding of the science of management. Thus, the science and the art of management are complementary. As one improves, so should the other; a balance between the two is needed.

Indicate whether each of the following statements is true or false by writing “T” or “F” in the space provided.

- _____ 1. Management is concerned solely with the establishment of goals.
- _____ 2. Management is primarily concerned with the handling of one’s personal affairs.
- _____ 3. Management is purposeful in the sense that it deals with the accomplishment of specific ends.
- _____ 4. Management is more of an art than a science.

Now turn to Answer frame 1¹, page 4, to check your responses.

Frame 2¹

Management is as old as civilization. In ancient Greece and the Roman Empire, abundant evidence of management is found in the historical records of the government, the army, and the courts. By the first half of the 19th century, management had already made progress in keeping with the improving means of production. Incentives, cost determination, and work measurement were coming into use. Throughout the 19th and on into the 20th centuries, more students, industrialists, and public officials became interested in management. Attention was given to organization, to the effective use of time, and to budgetary controls. Significant efforts were directed toward the development of a management theory and the building of a framework for future management thought.

About 1930, the idea that people were the most important consideration in management gained favor and caused many to turn to the study of human behavior. Several decades later, the computer became available, bringing with it increased emphasis on quantitative methods of analysis in management. The application of mathematics and statistics represented a new approach to management. More recently, other approaches, such as concentration on decision making and on systems analysis have entered the mainstream of management thought.

From these various developments, several major approaches to management have emerged. Frequently referred to as management theories or “schools of management thought,” some theories pioneered brand-new areas, whereas others are modifications or a fusion of former concepts. Man-

agement is a universal subject and, as such, attracts students and practitioners from a wide range of fields including economics, psychology, sociology, political science, and mathematics.

Acquaintance with each major school of thought is helpful in studying management and in assessing its development and usefulness. There are five main approaches.

1. The process of operational approach.

Management is analyzed from the viewpoint of what a manager does to qualify as a manager. Those activities or fundamental functions that managers engage in make up a process called the management process. The process approach focuses on the study of the fundamental management functions. The process approach is widely used because it aids tremendously in developing management thought and helps identify management in readily understood terms. Any action for study by a manager can be classified in keeping with this basic process. Answers to the following questions can be found: (a) What is the purpose and nature of the activity? (b) What explains the structure and the operations of the activity? Followers of this approach regard management as a universal process, regardless of the type or level of organization; but they also recognize that both the internal and the external environments in which the management process is applied differ widely among organizations and levels.

2. The human behavior approach. The core of this approach is the behavior of the human being. It brings to management the methods and concepts of relevant social sciences, especially psychology and anthropology. Emphasis is given to interper-

sonal and intrapersonal relationships and their effect on management. The individual is viewed as a sociopsychological being. The art of management is stressed and the entire realm of human relations is seen in management terms. Some consider the manager as the leader and treat all activities that are led as managerial situations. The influence of environment and its motivating effect on human behavior are given thorough study. Since there can be no question that managing involves human behavior and the interaction of human beings, the objectives of this school are without doubt appropriate, and its contributions beneficial to management study.

3. The social system approach. Advocates of this approach look upon management as a social system or, in other words, as a system of cultural interrelationships. It is sociologically oriented, deals with various social groups and their cultural relationships, and attempts to integrate these groups into a social system. An organization is considered a social organism, subject to all the conflicts and interactions of its members. This approach takes into account the emergence, importance, and functioning of the “informal organization,” which is seen as coming into being primarily as a result of social forces. Also taken into account are ethical considerations, the influence of the community, trade unions, and government. The net result of the social system approach is to bring the power of sociological understanding to management study and theory.

4. The systems approach. General systems concepts are the focal parts around which this approach is developed. A system can be viewed as an aggregation or assemblage of two or more compo-

nents that are in some definite relationship to each other and between which an action in one brings about a reaction in another. In other words, a system is an interrelated set of interacting components. Systems are basic to most activities. What is thought of as an activity may in reality be the result of many other subactivities, and these, in turn, of other sub-subactivities. Thinking in terms of systems simplifies and unifies the conception of the many activities with which a manager works. A management plan, for example, can be thought of as a system with components of people, money, machines, materials, information, and authority. Adherents of the systems approach aim for the development of a systematic framework for describing relationships of activities. The systems approach provides a means to see clearly critical variables, constraints, and interactions.

5. The quantitative approach. The focus here is on the use of mathematical models and processes, relationships, and measurable data. This approach has demonstrated its great managerial usefulness. Management is viewed as a logical entity which, expressed and related in quantitative terms and processed by an accepted methodology, results in answers to carefully defined managerial problems. This approach forces the user to precisely define the objectives, problems, and relationships in measurable data. Furthermore, the recognition of definite constraints and use of logical processing supplies the manager with a powerful means or tool for solving certain complex management problems. Primarily concerned with decision making, the approach is most effective when applied to physical attributes such as inventory, transportation distances, and product mixes.

Indicate whether each of the following statements is true or false by writing “T” or “F” in the space provided.

- _____ 1. Management was first utilized at the time of the Industrial Revolution.
- _____ 2. The process or operational approach to management stresses the similarities of each management situation.
- _____ 3. The social system approach to management considers only the formal organization to be the social system.
- _____ 4. The study of management is free of quantitative analysis.

Now turn to Answer frame 2¹, page 4, to check your responses.

Answer frame 1¹

1. False. Management is concerned with the achievement of goals. This includes the establishment of goals, determining how they should be achieved, understanding how to motivate individuals to achieve them, and determining the effectiveness of efforts made in achieving them.
2. False. The association of management with a group is the viewpoint adopted here. A manager's task is to utilize the group's efforts effectively.
3. True. Management is purposeful because it is concerned with the achievement of specific objectives.
4. False. Management is both an art and a science.

An attempt has been made to test the reader on the most important concepts within each frame, but it is unlikely that this has been accomplished in every instance. Therefore, you should use your performance on the questions asked as an indication of your comprehension of *all* the concepts in a given frame. If you missed *any* of the above questions, you should go back and reread Frame 1¹ before turning to Frame 2¹ on page 2. Follow this procedure throughout the PLAID.

Answer frame 2¹

1. False. Evidence of the existence of management is found much earlier than that. In fact, management is as old as civilization.
2. True. The process or operational approach to management does stress the similarities of management in varying situations. Management is viewed as a universal process.
3. False. Under the social system approach, the informal organization also is viewed as an important part of the social system.
4. False. In recent years quantitative techniques have been employed in the study and implementation of management theory.

If you missed any of the above questions, review Frame 2¹. Then begin Chapter 2, page 5.

Chapter 2

MANAGERIAL FUNCTIONS

Frame 1²

As defined in the previous chapter, the process or operational approach identifies management by what a manager does to qualify as a manager. In turn, what the manager does is distinct; it is an activity made up of several fundamental functions that constitute a unique process—the management process. These fundamental functions are the subject of this chapter.

The five major functions

It is important to remember that management is a form of work. The manager, in doing his or her work, must perform certain activities called the functions of management. These are:

1. Planning—deciding what objectives to pursue during a future time period and what to do in order to achieve those objectives.
2. Organizing—grouping activities, assigning activities, and providing the authority to carry out the activities.
3. Staffing—determining human resource needs, recruiting, selecting, training, and developing human resources.
4. Motivating—directing or channeling human behavior toward goals.
5. Controlling—measuring performance against goals, determining causes of deviations, and taking corrective action where necessary.

Figure 2-1 further details the specific types of activities that are involved in each of the management functions.

Every manager, regardless of his or her level in the organization, performs all of these functions to some degree. However, the relative amount of time spent on each function might vary considerably from situation to situation. Each level of management does not use the same mixture of these functions. A first-line manager (supervisor) may use a mixture of 10 percent planning, 10 percent organizing, 10 percent staffing, 40 percent motivating, and 30 percent controlling. On the other hand, a top-level manager such as a corporate president, may use a mixture of 30 percent planning, 20 percent organizing, 20 percent staffing, 15 percent motivating, and 15 percent controlling. Furthermore, different managers occupying similar positions within the organization may use different mixtures of the functions. This may be due to different levels of personal expertise or environmental factors. There is no fixed amount of time required for any one particular function. The allocation of time is the manager's own decision. However, a manager who is spending almost all of his or her time doing one particular function with almost no time spent in one or more of the other functions should critically analyze his or her work performance. Figure 2-2 provides some general guidelines as to how managers at different levels tend to allocate their time.

Determining the most important management function is like attempting to determine the most important leg on a chair. All legs are important and must be present in order for the chair to function properly. Just as with the chair, if one of the man-

FIGURE 2-1
The management functions

Planning:		3. Select from the recruits.
1. Self-audit—determine the present status of the organization.		4. Train and develop the human resources.
2. Survey the environment.		5. Revise and adjust the quantity and quality of the human resources in light of control results and changing conditions.
3. Set objectives.		6. Communicate throughout the staffing process.
4. Forecast future situations.		
5. State actions and resource requirements.		Motivating:
6. Evaluate proposed actions.		1. Communicate and explain objectives to subordinates.
7. Revise and adjust plans in light of control results and changing conditions.		2. Assign performance standards.
8. Communicate throughout the planning process.		3. Coach and guide subordinates to meet performance standards.
Organizing:		4. Reward subordinates based on performance.
1. Identify and define work to be performed.		5. Praise and censure fairly.
2. Break work down into duties.		6. Provide a motivating environment by communicating the changing situation and its requirements.
3. Group duties into positions.		7. Revise and adjust the methods of motivation in light of control results and changing conditions.
4. Define position requirements.		8. Communicate throughout the motivating process.
5. Group positions into manageable and properly related units.		
6. Assign work to be performed, accountability, and extent of authority.		Controlling:
7. Revise and adjust the organization in light of control results and changing conditions.		1. Establish standards.
8. Communicate throughout the organizing process.		2. Monitor results and compare to standards
Staffing:		3. Correct deviations.
1. Determine the human resource needs.		4. Revise and adjust control methods in light of control results and changing conditions.
2. Recruit potential employees.		5. Communicate throughout the control process.

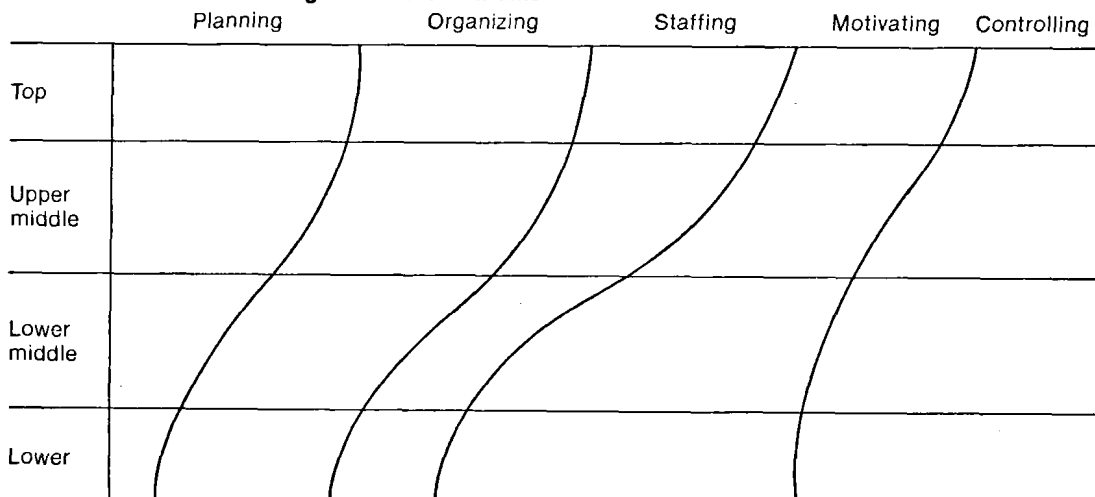
agement functions is weak or missing, the management process does not function properly.

Labeling the functions

It should be pointed out that not all management authors agree as to what the management

function should be called. There is general agreement that planning, organizing, and controlling should be labeled as management functions. Some authors include the staffing function as a part of the organizing function. The main disagreement involves the terminology given to the management function dealing with motivation. Some authors use motivating, some use directing, others use

FIGURE 2-2
How different levels of managers allocate their time



leading, influencing, or actuating. The term *motivating* will be used in this book.

Suggestions have been made to consider additional functions as fundamental in the management process, including authorizing, communicating, counseling, evaluating, integrating, measuring, and specifying. A manager performs these, but to include such functions would appear redundant, for they are already included in at least one of the five major functions. It should be emphasized that the fundamental functions of management are in-

terrelated. Planning, for example, affects organizing; and organizing influences controlling. One function does not cease entirely, before another is started. They are inextricably interwoven; and, normally, they are not performed in any particular sequence, but as the individual need seems to require. For launching a new organization, planning usually is first, followed by other functions; but for any established organization, controlling at a given time may be followed by planning and, in turn, followed by motivating.

Indicate whether each of the following statements is true or false by writing "T" or "F" in the space provided.

- _____ 1. Most first-line managers (supervisors) spend the largest portion of their time in planning.
- _____ 2. Planning, organizing, and controlling are generally accepted as basic management functions.
- _____ 3. Organizing is the determination of what work must be done by the group to accomplish stated goals.
- _____ 4. The terms *motivating* and *actuating* are often used interchangeably.

Refer to Answer frame 1², page 8, to check your answers.

Answer frame 1²

1. False. Most first-line managers (supervisors) spend the majority of their time motivating and controlling (see Figure 2–2).
2. True. Planning, organizing, and controlling are generally included in any listing of management functions.
3. False. Planning is the determination of what work must be done by the group to accomplish stated goals. Organizing involves dividing into groups the necessary component activities required to achieve the goals, assigning such groupings to a manager, and establishing authority relationships among the groupings of organizational units.
4. True. Some people prefer the term *motivating* to the term *actuating*. To some the meaning of each is similar; to others, it is not.

If you missed any of the above, review Frame 1² before beginning Chapter 3 below.

Chapter 3

THE MANAGER AS A DECISION MAKER

Frame 1³

One universal mark of a manager is that he or she is a decision maker. A manager must decide what objectives to pursue. To achieve these objectives, the manager must decide what specific actions are necessary, what new means can be introduced, and what to do in order to maintain a satisfactory work output. Decision making takes place in every part of an organization.

Decision making is the selecting of an alternative, from two or more alternatives, to determine an opinion or a course of action. It is the psychic and creative event in which thought, feeling, and knowledge are brought together for action. It usually involves uncertainty. In decision making, a manager is dealing with future values which are to

some degree unknown. Further, the selection of the alternative is always based on some criteria, such as to reduce cost, save time, or develop managers. The criteria used influence the selection of the alternative. For decision making to exist, there must always be two or more alternatives. In many cases, there are just two; for example, the maximum-or-minimum type or the yes-or-no type.

For each alternative, the possible outcomes are predicted and then evaluated in terms of relative desirability. Normally, the most desirable is the one that will contribute best to the objective sought. This evaluation can pose real difficulties. It is influenced greatly by one's values, and conflict among these values is quite likely. Desirable and

undesirable elements seem to exist in every alternative. These conflicting aspects must be reconciled in some way satisfactory to the decision maker, because decision making literally means “to cut off,” or to come to a conclusion.

Evaluating decision factors

In these efforts, both tangible and intangible factors are considered. The former include profits, dollars, labor-hours, machine-hours, and other quantitative data that are assessed. These factors are interrelated. To illustrate: profit maximization usually depends, in part, on comparison of various physical factors. In production planning, the utilization of personnel and the loading of machines may be the limiting physical factors in measuring the production schedule programs. When the presence of the tangible factors is high and measurable and the intangible factors are relatively minor, the selection of the alternative on the basis of tangible factors is relatively simple. However, it must be remembered that the physical factors are

based on estimates and forecasts that are rarely exact and accurate. A margin of error and uncertainty still exists.

Intangible factors are normally quite difficult to evaluate. They must first be recognized, then ranked in terms of their importance, and finally compared with respect to their probable effect upon the ultimate results. In other words, an attempt is made to weigh each intangible. A manager may know that a new invention will someday make a product obsolete but is unsure as to the timing. Or the manager is unsure as to the possibility of a strike in a vendor's plant.

Furthermore, in this evaluation, it is helpful to concentrate on the really important or limiting factors, be they tangible or intangible, that are critical to goal attainment. Through this approach, the evaluating task becomes manageable. However, discovering the limiting factor or factors may not be easy, especially if the reactions are complex and the factors obscure. Some use the terminology *limiting factors* and *complementary factors* to designate, respectively, those that are critical or limiting and those that are not.

Indicate whether each of the following statements is true or false by writing “T” or “F” in the space provided.

- _____ 1. All managers are responsible for some type of decision making.
- _____ 2. Uncertainty in decision making refers to the existence of two or more alternatives, any one of which can be selected.
- _____ 3. A manager is more likely to have a better understanding of the tangible factors surrounding a decision than the intangible factors.
- _____ 4. In scheduling production, a manager would be faced with the plant's capacity as a limiting factor.

Now turn to Answer frame 1³ on page 10 to check your responses.

Frame 2³

There are many available techniques for evaluating alternatives. The techniques run the gamut from what amounts to guesses to highly sophisticated mathematical analyses. There is no one best basis for all circumstances. The selection depends on the manager's background and knowledge and the particular decision situation. The following are among the most frequently used:

1. Marginal analysis. This technique compares the extra cost and revenue resulting from the

addition of one more unit. The profit maximizing point is that volume where, for the last unit added, the additional revenue equals the additional cost. At any lesser volume, the marginal revenue exceeds the marginal cost, and at any greater volume, the marginal cost exceeds the marginal revenue.

2. Psychological theory. Many issues that a manager must decide are not economic. The decision concerning the size of a private office, for

Answer frame 1³

1. True. The one universal mark of a manager is that he or she is a decision maker.
2. False. Uncertainty in decision making refers to the lack of assurance as to the outcome of a specific alternative, rather than to the fact that there are two or more alternatives.
3. True. The intangible factors pertaining to a decision are normally more difficult to evaluate than are the tangible factors.
4. True. Plant capacity is a limiting factor on production.

If you missed any of the above, reread Frame 1³ before beginning Frame 2³ on page 9.

Frame 2³ continued

example, might well be influenced by psychological values. Other examples include decisions based on the personal satisfaction of a management member, adherence to an inherited set of traditions deeply revered by top managers, or desire for bigness just for the sake of bigness.

3. Intuition. Decision making, based on intuition, is characterized by the use of the “inner feelings” of the decider. It may be a sort of sixth sense, a deep feeling about the situation, or an inexplicable insight into a certain state of affairs. Sometimes the intuition is an almost instantaneous feeling that a certain action is bound to lead to certain stated results. This process of the decision making may be highly irrational, following no set pattern. Intuition probably is present, to some degree, in most decision making. It does not always give satisfactory results; but it quickly supplies a decision.

4. Experience. Intimacy with and understanding of issues require experience. Experience supplies guides, helps to discriminate, and helps to generalize past situations. Practical knowledge is utilized, and acceptance of the decision by others usually follows. Some contend that reliance upon experience makes for excessive conservatism in decision making. Things change; past successful decision making does not necessarily ensure future success. Experience should be used, but a manager need not be bound to it.

5. Follow the leader. A considerable number of decisions are made by following and, in some instances, duplicating the decision that the leader has made. Usually, when this practice is followed, the major decisions have already been reached. Patterned decisions result from a follow-the-leader practice.

6. Experimentation. “Try out the alternative and see what happens” can be effective in deciding which course to follow. This is the common decision-making basis in scientific inquiry and in new-product design and development work. Testing sales acceptance in selected markets before going nationwide is illustrative. Experimentation is relatively expensive, and it is based on the assumption that the future will duplicate the past.

7. Analysis. What decision to reach, in a given case, can be aided by breaking the problem into its components and studying each component by itself and also in relationship to the other components. Thus, the critical aspects of the decision making are brought to the fore, and causal relationships, as they affect objectives, are identified. In many cases, answers to questions are employed to assist in the analysis. The approach narrows the facts believed essential for the decision to the most important specifics. Ability to conceptualize the problem is an important step in this approach.

8. Quantitative methods. In recent years there has been an increasing trend toward the use of quantitative methods in managerial decision making. These methods feature: (1) a broad point of view, sometimes termed a *systems view*; (2) identification and measurement of the objectives; (3) the quantification of all relevant variables; (4) the use of models, usually mathematical abstractions which show relationships in quantitative terms; (5) optimizing or minimizing a certain function, such as cost efficiency; and (6) orderly thinking and logical methodology. Appendix A at the back of the text discusses some of the most popular quantitative methods that are used in decision making.

Indicate whether each of the following statements is true or false by writing “T” or “F” in the space provided.

- _____ 1. Marginal analysis applies only to situations where an organization is not maximizing profits due to underproduction, i.e., marginal revenue is greater than marginal cost.
- _____ 2. Intuition has been eliminated as a factor that affects business decisions in well-managed organizations.
- _____ 3. Patterned decisions arise from a manager’s using his or her previous decisions as a guide for making current decisions.
- _____ 4. Experimentation may sometimes be rejected as a basis for evaluating alternatives because of its relatively high cost.

Check your responses in Answer frame 2³, page 12.

Frame 3³

Making decisions

Who should make particular managerial decisions? A given decision should be made by a person, at the lowest organizational level, who possesses the ability, desire, and access to the relevant information and who is in a position to impartially weigh the factors. It is not always easy to determine who this person is. Hence, it is common to define what types of issues a manager can decide.

Decision making is either on (a) an individual basis or (b) a group basis. The former is common when the decision is simple and all the alternatives are fully comprehended. Individual decision making fulfills the popular role of what a manager should do. Emergency situations are typically decided on an individual basis. Emergencies always arise but should not be permitted to justify emergency decision making as the accepted mode. Whether to make or defer an emergency decision is conditioned mainly by the consequences of not deciding.

The group basis for decision making has gained widespread acceptance. Through group decision making, those who will be affected by a decision are given the opportunity to participate in its formulation. It has been found that decisions made by groups are often superior to those of the average group member for two basic reasons. First, the sum total of the group’s knowledge is greater and

second, the group possesses a much wider range of alternatives in the decision process.

Group decision making also has other benefits. Participation in the decision-making process increases acceptance of the decision by group members and decreases the problem of persuading the group to accept the decision. This is especially true when change is being implemented in an organization. A more complete understanding of not only the decision but also the alternatives that were considered results from group decision making. This is especially helpful when the individuals who must implement the decision participate in the decision process.

However, some potential drawbacks can drastically limit the effectiveness of group decision making. One individual may dominate or control the group. This situation occurs frequently when the president or other “higher-ups” in the organization participate in the decision process. Because of their presence, many members become inhibited. The social pressures of conformity can also inhibit group members.

Competition can develop within the group to such an extent that winning an issue becomes more important than the issue itself. A final hazard results from the dynamics involved in group decision making. Groups can tend to accept the first potentially positive solution and give little attention to other solutions.