

ORGANIZATION THEORY AND DESIGN

1 - INTRODUCTION TO ORGANIZATIONS; THE VALUE OF ORGANIZING

An **organization** is a tool people use to coordinate their actions to obtain something they desire or value.

Organization structure: formal system of tasks and authority relationships that control how people coordinate their action and use resources to achieve organizational goals.

Organization exist in order to:

- 1) Increase **specialization** and **division of labor** (the latter allows specialization, that allows individuals to become experts at their job).
- 2) Use **large-scale economies**:
 - *Economies of scale*: cost savings that result when goods and services are produced in large volume on automated production lines.
 - *Economies of scope*: cost savings that result when an organization is able to use underutilized resources more effectively because they can be shared across different products or tasks.
- 3) To manage the **organizational environment**, the source of valuable input resources and the marketplace into which it releases outputs; it is also the source of economic, social and political pressures that affect an organization's ability to obtain these resources.
- 4) To **economize on transaction costs**: costs associated with negotiating, monitoring and governing exchanges between people.
- 5) To **exert power and control**: organizations can exert greater pressure on individuals to conform to task and production requirements in order to increase production efficiency.

All these factors increase the value that an organization can create.

Organizational theory: study of how organizations function and how they affect and are affected by the environment in which they operate.

Organizational culture: set of shared values and norms that control organizational members' interactions with each other and with suppliers, customers and other people outside the organization. It evolves from the values of the founders, to values of the employees as well.

Examples of different organizational cultures: STEVE JOBS – informal org. culture (dress-code, relationships among colleagues...) and structure, as informality is translated into innovation). BILL GATES – formal structure and culture, translated into stability.

Organizational change: process by which organizations redesign their structures and culture to move from their present state to some desired future state to increase their effectiveness.

Example of organizational change: ENEL, that changed its organizational structure from a divisional structure to a matrix structure (to pay attention to both markets and geographical regions) after acquiring WIND (the previous structure didn't fit anymore with its requirements). *Complete explanation in slide n°19, first document*

Importance of organizational design and change

It is fundamental to:

- 1) Deal with **contingencies**, events that might occur in the environment and must be planned for. Design also determines if an organization is able to respond to various pressures in its environment and so obtain scarce resources
Other challenges an organization must be prepared for are *globalization* and *changing technology*.
- 2) **Gaining competitive advantage**, which is the ability of one company to outperform another because its managers are able to create more value from the resources at their disposal).
- 3) **Managing diversity**: differences in the race, gender and origin of organizational members have important implication for culture and effectiveness; learning how to effectively utilize a diverse workforce can result in better decision making and more effective workforce.

Poor organizational design may have some consequences:

- Decline of the organization (for example from a sales point of view).

- Talented employees leave to take positions in growing organizations.
- Resources become harder to acquire, especially if you lose credibility and damage your reputation.
- The process of value creation slows down.
- Unethical behavior is more likely.

Example: ENRON – flattering and increasing the autonomy of each hierarchical level, decentralizing of legal staff and control staff. In order to increase the share value of some shares they held, ENRON organized a blackout in California. This unethical behavior went deep down the organizational structure. *More info on slide n° 25, first document.*

2 – STRATEGY, STRUCTURE AND PERFORMANCE

According to Michael Porter, **strategy** is a fundamental positioning process (*positioning school*: success depends on where you position yourself in the “5 forces”), that is directly linked with **competitive advantage**. In fact, he says “not all industries offer equal opportunities”. But not all economists agree, also because not all companies are delivering what they promise.

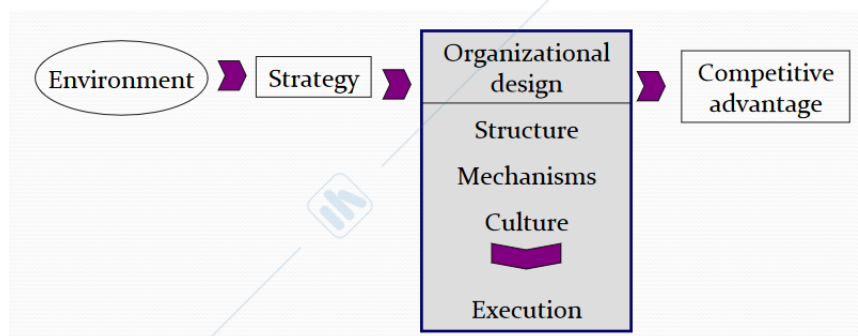
Many are the questions derived from M. Porter’s statement, such as “Do markets differ much?” (Schmalensee, 1985), “How much does industry matter?” (Rumelt, 1991). Another question could be “How much does relative position (*cost leadership vs differentiation*) matter?”. General Motors vs Toyota: they had the same relative position (cost leadership vs. differentiation – 25%) in the same industry with huge performance difference (Womack, Jones & Roos, 1990).

This is why some economists say that the relationship between strategy and competitive advantage is *mediated*: it depends on the **execution**. ABB’s strategy is to offer more value for customers while building a leaner organization, and to do this it is important to know the customers well. The strategy itself is not unique, how they deliver is. Tod’s’ opinion is that strategy implementation is the most difficult process. In competitive contexts strategies become more and more similar, the difference is produced by execution.

Execution is made possible by **organizational design**, that is the set of choices regarding the allocation and combination of resources and activities, and it regards:

- Allocation of the activities to the units (structure as division of labor)
- Coordination of the activities allocated to different units (structure as a set of authority relationships)
- Incentives in doing the assigned activities (culture and HR practices)

Southwest airlines: anticipated low-cost. Based on team work and not on hierarchies to enhance motivation (informal culture).


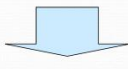


3 – CONTINGENCY MODELS AND BASIC DESIGN CRITERIA / ACME AND OMEGA CASE

Dimension of structure

- 1) **Horizontal differentiation:** the degree to which tasks in the organization are subdivided into separate units and jobs. A *high horizontal differentiation* involves an articulated sub-division with many specialized units (high division of labor), whereas a *low horizontal differentiation* involves a simpler sub-division with few and larger units (low division of labor).
- 2) **Vertical differentiation:** number of hierarchical levels within the organization.
- 3) **Degree of formalization:** the degree to which jobs within the organization are standardized. *High formalization* > explicit job description, lots of organizational rules and clearly defined procedures; *low formalization*: relatively non-programmed job behaviors and discretion in task development.
- 4) **Degree of centralization:** the degree to which decision making is concentrated in a single point in the organization. *Centralization* > the center/top management makes decisions with little or no input from the peripheries/lower-level personnel; *decentralization* > the peripheries/lower-level personnel can make decisions autonomously.

Formalization	High	Low
Horizontal Differentiation	High	Low
Vertical Differentiation	High	Low
Centralization	High	Low

	 Low Organization Flexibility: Mechanic System	 High Organization Flexibility: Organic System
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	Advantages	Disadvantages
HD	Low costs of production (economies of specialization) Clear attribution of responsibilities	High costs of coordination Low flexibility
VD	Effective control, supervision, feedback Use of career as motivational tool	Low autonomy and empowerment, Slow decision making
FORM	Low ambiguity High economies of replication Effective control	Low autonomy, low innovation and low flexibility
CENTR	High efficiency in decision making	Low efficacy in decision making

Taylor and the Scientific Organization of Work

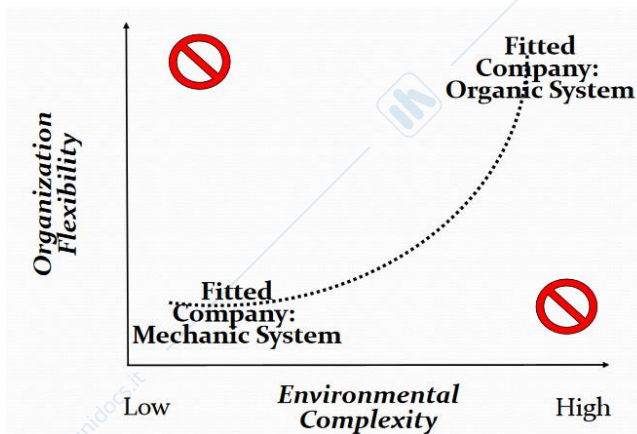
“*The Principles of Scientific Management*” – 1911: scientifically study each part of a task and develop the “one best way” of performing it, select the best person to do the job, train and teach him, provide financial incentives for following the methods, divide work and responsibility so that managers are responsible for planning the work methods and workers are responsible for executing the work accordingly.

ACME – OMEGA case

- the photocopier manufacturer verified the components produced by the two companies. Ten of those by ACME were defected, while all of those by Omega passed the test
- the photocopier manufacturer was also disappointed by the delay of ACME (not respecting the deadline)
- Thus, the contractor decided to split the contract 50% to ACME and 50% to Omega, to further put them to the test. It imposed 2 conditions:
 1. Zero-defect policy
 2. Lower the final price of the component
- Epilogue: in 1993, due to the capacity to fix the problems in the component production and its higher efficiency, ACME reduced the cost per unit by 20% and was given the whole contract

Situational model design rule: organization – environment fit

“Design dimensions of structure considering the characteristics of the environment.” This helps creating a competitive advantage.



ORGANIC SYSTEM – high env. complexity and org. flexibility: low division of labor and specialization (low HD), low formalization and standardization, decentralized and team-based communication, horizontal cooperation, flat structure and high span of control. This allows high efficacy and efficiency. It doesn't work in a simple environment because it is a waste of time and difficult to manage.

MECHANIC SYSTEM – low env. complexity and org. flexibility: high specialization and division of labor (high HD), high formalization and standardization of

procedures, hierarchy based relationships and tasks, low span of control, high number of hierarchical levels, top down communication, low reliance on team based working. It doesn't work in a complex environment because it causes communication and coordination problems.

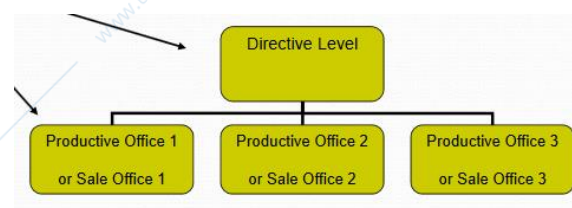
An ORGANIC SYSTEM is more expensive than a MECHANICAL ONE.

The decisions of Organization Design derived from a comparison among several “archetypes” (*standardized organization forms*): **functional structure**, **modified-functional structure**, **divisional structure**, **divisional structure with central functions** and **matrix structure**. First, an analysis of these basic structures' characteristics has to be made, then an identification of the comparative criteria and then the choice of the most suitable structure.

An **organization chart** is the graphical representation of the structure; it shows how activities are allocated to organizational units (boxes – horizontal differentiation) and what are the reporting relationships among those units (lines – vertical differentiation), but it doesn't give any information about the lateral, not-authoritative relationships.

“Pre-evolved” form: simple structure

There are only 2 levels: directive and operative level (not specialized). It is used by very small organizations (entrepreneurship or small family companies).



Main characteristics: it is not a formalized structure (no chart or job description), centralization is high (decision-making by CEO and key executives), permeable boundaries (outsourcing of most non-core activities). These structures are also the **peer groups**, because members are equally entitled to all decisions, control and property rights, and administrative responsibilities are allocated by election or rotation.

APPEX case

It is a fast-growing company that works in the cellular industry (dynamic market - producing ICS and IS). The company needed structure. At first, the organizational structure was informal, flat, organic, project-based. **ISSUES:** not able to satisfy customers' demands, also due to the bad customers' service, problems in managing financial resources, no efficient product development due to communication problems, employees left due to chaos, missing deadlines.

Ghosh tried to find a new suitable structure and chose the **circular structure**, but there were problems of authority relationships and it was not clear. Then, the tired with the **horizontal structure**, and he had some successes: control, ability to complete tasks, improvement in basic capabilities (specialization), CEO is more involved and accountability. Anyway, after a few months some problems emerged.

A vertical growth began and then, also an horizontal one (more disconnected units). Once you grow, you start having technical expertise and according to Ghosh, managerial expertise was important as well.

Staff units: support other units or the whole organization.

4 – FUNCTIONAL AND MODIFIED FUNCTIONAL STRUCTURE

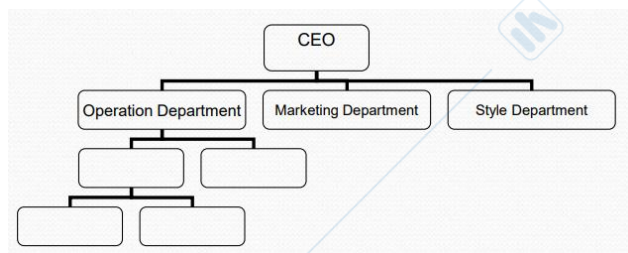
APPEX CASE - Failures of the circular organization: authority relationships were not clear and difficult to understand for new hires, incentives were not clear as well and this caused problems in motivation. As a response, the Functional structure minimized hierarchy (each function is organized as a team), it caused designing problems.

Organization structures: lines and staff

- **Line:** units in the hierarchical line (usually activities in the productive/service process).
- **Staff:** units out of the hierarchical line.

Functional structure

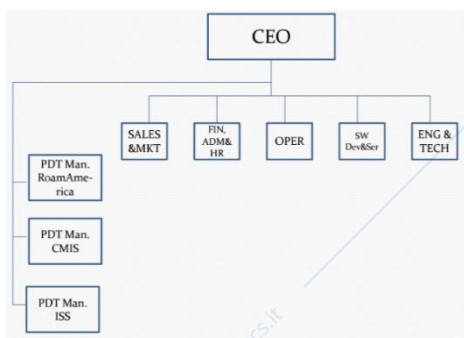
The first level units are specialized by functions (*set of activities grouped together by technical similarities*). These have partial and specialized goals, in fact they are cost centres or revenues centres. The interdependencies among functions are managed by **rules, procedures, hierarchy** (orders by the CEO).



Strengths: economies of scale (< specialization), accomplishment of functional goals, process innovation (technical skills growth). **Weaknesses:** top hierarchy information overload, poor horizontal coordination, slow response time to environmental changes, conflicts across functions that sometimes grow their own culture, difficulties in the CEO's succession, as other workers have no chances to develop managerial competences besides technical ones.

This structure works best for companies focusing more on competencies than on products, companies that offer one or few products, stable environments and industries, companies focusing on cost reduction.

Modified functional structure



It's a functional structure to which some *integrators* have been added, making a structural modification. An integrator is a inter-functional mechanism of coordination. It helps horizontal communication and collaboration. Examples are Product managers, Projects managers, (business) teams, task forces.

Strengths: better integration among functions and better product monitoring. **Weaknesses:** authority and resource allocation problems, accountability and higher costs.

The environment and the characteristics of the organization are similar to the ones for the functional form but in this case, we usually have several products with quite different characteristics. It's also a good choice to use it in the case of a high interdependency among functions.

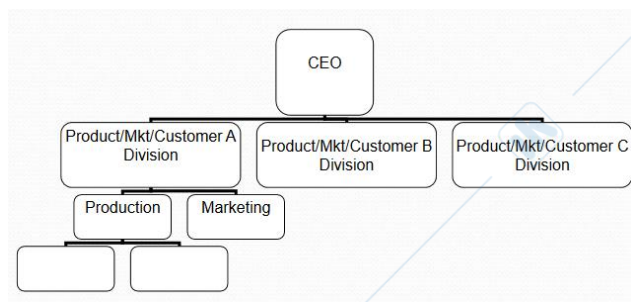
5 - DIVISIONAL STRUCTURE AND DIVISIONAL STRUCTURE WITH CENTRALIZED FUNCTION

Divisional structure

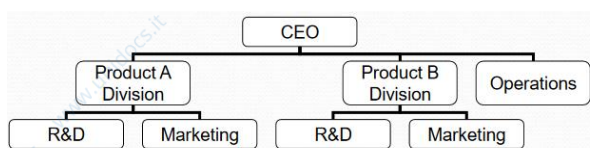
The first level units are specialized by **strategic business areas** (divisions). Activities at the first level are grouped together by *products, geographical areas* and/or *customers*; they're also profits and losses centres (P&L). at the second level, there are **functions**.

Strengths: complete accountability (clear product/area responsibility), semi-autonomous units (high coordination across functions), adaptability to differences in products/regions/customers, product innovation and support of the CEO's succession. **Weaknesses:** costs for department duplication, no economies of scale, poor coordination across product lines.

This structure works for turbulent, complex environment subject to rapid changes; when the company offers a lot of products and size becomes large; when there is a need for growth by diversification, acquisition and/or international expansion.



Divisional structure with centralized functions



We **decentralize** to the Bus the functions that are specific for each product/market. We **centralize** the functions that are common and require economies of scale (ex: operations, purchasing) and the functions that need a unitary control (ex: brand image, communication).

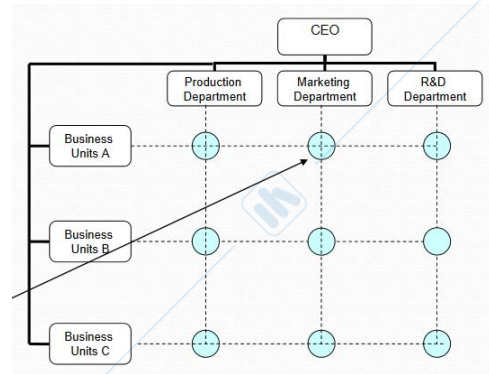
ISSUES: in comparison with the pure Divisional structure, this one allows to exploit relevant economies of scale and to reduce duplication costs, but the centralization of functions reduces the BU's accountability and the centralization of functions produces a need for integration.

6 - MATRIX STRUCTURE

There are two different first level units: the first ones are the **strategic business area** (*divisions* – profit centres), and the second ones are **technical similarities** (*functions* – sources of skills).

According to this structure, people have two bosses/managers. It is a complex structure that has to be adapted only if:

- Condition 1: pressures exists to share scarce resources across al (or almost all) product lines.
- Condition 2: environmental pressure exists for two or more critical outputs (usually deep technical competences and product innovation).
- Condition 3: the environment is both complex and unstable (characterized by frequent external changes and high interdependence among units).



Strengths: dual answers for dual demands, opportunity for both functional and product skill development, organizational learning and multiple career opportunities. **Weaknesses:** high managerial complexity, dual authority, time consuming, high investment in HR, Information and Control Systems are required. In addition, you can't use this structure if employees don't get along very well.

7 – ORGANIZATIONAL CULTURE

Organizational culture is the set of shared values and norms that control organizational members' interaction inside and outside of the organization. These values and norms are embodied in **organizational norms** (rules, standard operating procedures – SOPs), **stories, myths and ceremonies** and **artefacts and symbols**. These are defined as *soft mechanisms*, as they are intangible.

An important metaphor of how organizational culture is, is that of an iceberg: we only see tiny aspects of org. culture (ex: how people dress) but the greatest aspects are hidden (ex: ethics and values). In addition, the deepest part of the iceberg represents the assumptions taken for granted, taken into account during crisis/changes.

People draw on culture to guide their actions and decisions when they have to face uncertain and ambiguous situations, orienting their interpretation and responses. Culture affects organizational effectiveness as it can:

- **Provide with competitive advantage;**
- **Improve the way the structure works;**
- **Increase the motivation of employees to pursue organizational interests.**

Values and norms

Values are general criteria, standards or principles that people use to determine which types of behavior, events, situations and outcomes are desirable or not. There are two types of values: terminal values (a desired end state or outcome that people seek to achieve – high quality), instrumental values (desired mode of behavior – being helpful and working hard).

Norms are standards or styles of behavior that are considered acceptable or typical for a group of people.

	UPS	GOOGLE
TERMINAL VALUES	Efficiency, economy and thrift.	Excellence, innovation and safety.
INSTRUMENTAL VALUES	Loyalty, humility, dependability and effort	Hard work, creativity and attention to detail.
NORMS	Being respectful of working time and standards, being ready to do an extra mile, being ready to serve the company in hard times.	Stick with the task and help others solve problems that involve the entire organization.

These end up in being specific norms, rules and SOPs.

How culture is transmitted

- 1) **Socialization:** members learn and internalize the values and norms. Socialization is done through role orientation, the characteristic way in which newcomers respond to a situation. It can be *institutionalized* (collective, very formal, rigid, fixed and centred on divestiture – punishments for negative results) or *individualized* (individual, not formal, random, not fixed and centred on investiture – support for positive results). Anyway, some people may prefer to be more independent from their coworkers.
- 2) **Stories, myths and language**
 - Stories (facts or fiction) about organizational superstars provide important information about cultural values and norms as they reveal the kinds of preferred behaviors.
 - Language means the characteristic phrases that describe events. (Ex: “stay hungry, stay foolish”)
 - Rituals and ceremonies can be of *integration* (to build and reinforce bonds among members – ex: welcome parties) or of *enhancement* (publicly recognize and reward employees’ contributions).
- 3) **Organization artefacts and symbols** can be buildings and their locations, offices, dress-code, way of addressing to each other, company cars...

Video

Creativity is not part of culture but it could be a critic mean to reach a nicer culture. There exists 3 strategies to make people more creative as child (who typical ask 100 questions per day because of their curiosity) and then make the org investing more because. Creativity is a birthright which all have born with but, unluckily, just a few use.

1) **environment** = an innovative and colorful (school) building can make the difference and influence the member's mood

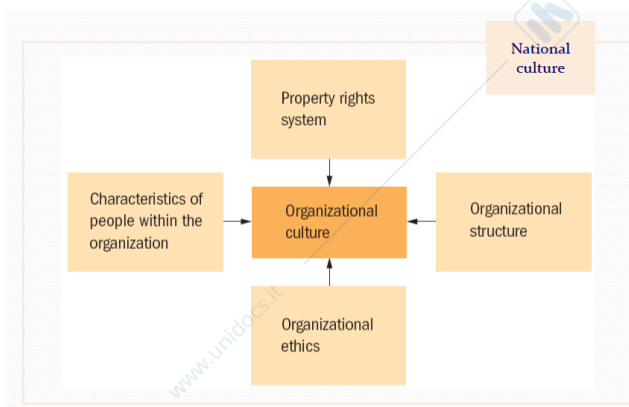
2) **experiments** = we'll be less afraid if trying and practicing more and more often

3) **storytelling** = can expire you in doing better and going beyond the formal and typical ideas, being more imaginative. Exactly what happen when telling a story to a child, he can imagine and sees magic people or places he haven't thought before.

Is it a suitable solution (adopting a more creative environment) for every single sort of organizations? No. Predicatability.

Differences in global values and norms

A **country's culture** (or **national culture**) can affect the values and norms of a company. This means that different countries can have different ways of communication, attitude towards completing tasks and approaches to decision making.



- 1) **Property rights:** rights that an organization gives to its members to receive and use organizational resources. If they are strong, they may harm the organization. Their distribution determines how effective an organization is and the type of culture. Managers are in a strong position to establish the terms of their own employment and the property rights received by others. Usual managers’ rights are golden parachutes, stock options, large salaries, control over resources and

decision making. Usual workforce rights are notification of layoffs, severance payments, lifetime or long-term employment, pension and benefits, participation in decision making.

- 2) **Organizational structure:** mechanic (predictability and stability) vs organic (innovation and flexibility) or centralized (reinforces obedience and accountability) vs decentralized (encourages creativity).

Culture can be changed by redesigning structure, revising property rights and/or changing the people, especially those who belong to the highest levels.

- *“The human mind needs cognitive stability. Therefore, any challenge to or questioning of a basic assumption will release anxiety and defensiveness. In this sense, **the shared basic assumptions** that make up the culture of a group **can be thought** of at both the individual and group levels as **psychological cognitive defense mechanisms that permit the group to continue to function**. Recognizing this connection is important when one thinks about changing aspects of a group’s culture, for it is no easier to do that than to change an individual’s pattern of defense mechanisms”*

(Schein 1992, p. 23)

HOFSTEDE’S STUDY – centred on differences between cultures of different countries

- **Risk aversion:** the extent to which a culture trains its members to feel either comfortable or uncomfortable in unstructured situations (that can be unknown, surprising and different from usual ones). Ex: Southern European countries prefer to deal with contingencies in a formal way.
- **Power distance:** extent to which the less powerful organizational/institutional (= families) members accept and expect that power is distributed unequally.
- **Individualism-collectivism:** the first one is the degree to which individuals prefer to act as single persons, while the latter is the degree to which individuals are integrated into groups. Ex: Western countries tend to prefer individualism while Eastern ones, collectivism.
- **Masculinity-femininity:** masculine cultures’ values are competitiveness, assertiveness, ambition and power, whereas feminine cultures place more value on relationships and quality of life.
- **Long term-short term orientation:** long term-oriented societies focus on the future. They foster pragmatic values oriented to persistence, saving and ability to adapt. In short term-oriented societies the promoted values are related to past and present, including steadiness and respect for traditions.

Recognizing and respecting difference between organizations is important in order to avoid misunderstandings or mistakes (ex: mergers that fail because of the differences). For this reason, nowadays there are the so-called **merger teams** that help smoothing the transition between two cultures.

8 – ORGANIZATIONAL CHANGE

Organizational change is the process by which organizations move from their present state to some desired future state to increase their effectiveness. Its goal is to find improved way of using resources and capabilities in order to increase an organization's ability to create value.

Targets of change include improving effectiveness at four different levels:

- 1) **Human resources:** people are an organization's most important asset. Because these skills and abilities give an organization a competitive advantage, organizations must find the most effective way of motivating and organizing HR to acquire and use their skills. One way to do so could be by investing in training and enhancing socialization among co-workers.
- 2) **Organizational functions:** every time you change something, you have to take into account what unit(s) you are working on, and this depends on the type of structure you implemented. Crucial functions grow in importance while those whose usefulness is declining shrink.
- 3) **Technology – product/service:** technological capabilities provide new products, change existing ones and create or destroy core competences. ACME – OMEGA CASE.
- 4) **Organizational capabilities:** organizations use different kind of resources and capabilities to seize technological opportunities through structure and culture. Often capabilities are embedded in routines and ingrained ways-of-doing. Capabilities can be acquired by hiring experts.

Forces for change

These forces have been more and more important in the subject of organization change in the last 20 years.

- **Competitive forces:** nowadays most of the companies finds themselves in highly competitive markets, and this led companies to renew the way they adapt to environmental changes. Organizations must make changes to attempt to match or exceed its competitors on at least one of these dimensions: *efficiency*, *quality* and *innovation*. EX: NOKIA – nowadays it is mainly focused on mobile networks and digital health rather than cell phones because of the incredible success of Apple and Samsung.
- **Economic, political and global forces:** these affect organization by forcing them to change how and where they produce goods and services. EX: influence of the EUROPEAN UNION/BREXIT.
- **Demographic and social forces:** changes in the composition of the workforce and in the increasing diversity of employees (also in terms of preferences and requests) is a big challenge for organizations. EX: studies show that people born in the 90s are less formal and they look for immediate results.
- **Ethical forces:** government, political and social demands for more responsible corporate behavior. Examples could be the creation of ethics officer position or encouraging employees to report unethical behaviors (may also decrease trust among co-workers). EX: nowadays organizations care a lot about their reputation because it represents their external image to the customer. VOLKSWAGEN scandal.

Resistance to change

Resistance to change can be at different levels:

- **Organizational level**
 - 1) *Power and conflict:* it could be hard for some people from a psychological point of view. For example, someone could be used to have a certain power within the organization, while changing the structure could mean reduce his power.
 - 2) *Differences in functional orientation:* different departments may have different orientations and priorities.
 - 3) *Mechanistic structure:* mechanic model employees are the most resistant ones to changes, as they aren't used to it.
 - 4) *Organizational culture*

- **Group level:** when adopting changes in the structure, the employers have to think about the possible groups (of friend for example) that there are within the organization. If the change affects in a negative way one of the members, the others may try to defend him making some kind of resistance.
- **Individual level**

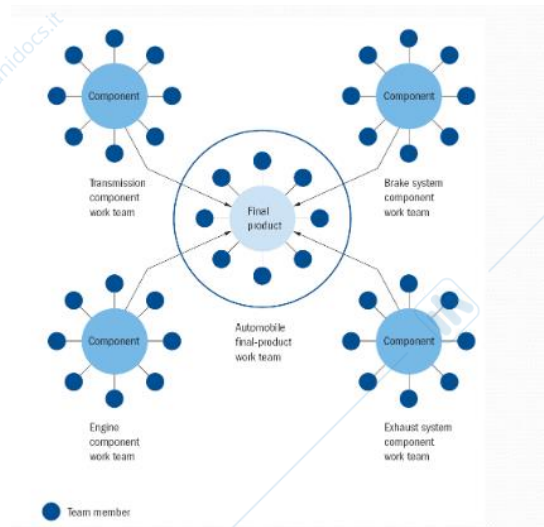
Types of change

Evolutionary change: is gradual, incremental and narrowly focused.

- **Total quality management** is an ongoing and constant effort by all organization's functions to find new ways to improve the quality of the organization's goods and services. They are considered as *integrators* as they are groups formed by people who belong to different units.

EX: quality circles, groups of workers who meet regularly to discuss the way work is performed in order to find new way to increase performance. These groups are usually peer groups. STARWOOD – hotel whose customers segment includes people who travel for work. To make loyal customers, Starwood increased its service by better training some cleaners who weren't working properly.

- **Flexible workers:** employees who have acquired and developed their skills to perform any of the tasks necessary for assembling a range of final goods. To increase flexibility, organizations often give compensations tied to the number of different tasks performed. An important advantage is that workers can substitute others if necessary.
- **Flexible work teams:** group of workers who assume responsibility for performing all the operations for completing a specific stage in the manufacturing process. It is the team's task to assign jobs and transfer workers from one task to another.



Revolutionary change: is sudden, drastic and broadly focused.

- **Re-engineering:** the process by which managers redesign how tasks are bundled into roles and units to improve organizational effectiveness. These managers focus on business processes (*activities that cut across functional boundaries and are vital to the quick delivery of goods and services or that promote high quality or low costs*). Taking up reengineering requires deliberately ignoring the existing arrangement of tasks, roles and work activities. To successfully perform reengineering a manager must organize around outcomes, not tasks; have those who use the output of a process perform it; allow people on the spot to decide which is the best way to respond to a specific problem (*decentralize decision making to the point where the issue emerges*).
- **Restructuring:** the process by which managers change task and authority relationships and redesign the organizational structure and culture to improve organizational effectiveness. **Downsizing** is the process by which managers streamline the organizational hierarchy and lay off managers and workers to reduce bureaucratic costs.

Organizational Development (OD)

Organizational development is a series of techniques and methods that managers can use in their change program to increase the adaptability of their organization. Its **goal** is to improve organizational effectiveness and to help people in organizations reach their potential and realize their objectives.

This can be reached by dealing with resistances to change and promoting change.

Dealing with resistances to change can be made through:

- **Education and communication:** providing organizational members with information about the change and how it will affect them).
- **Participation and empowerment:** people that are involved in the change and decision-making process are more likely to embrace the change rather than resisting to it.
- **Facilitation:** training workers to help those affected by the change.
- **Bargaining and negotiation** (offering incentives).

Promoting change can be made through:

- **Counseling:** help people understand how their perception of the situation may not be right.
- **Sensitive training:** intense counseling in which group members learn how others perceive them and how to deal more sensitively with them.
- **Process consultation:** an external consultant work with a manager to help him improve his interactions with the group.
- **Team building:** a facilitator first observes the interactions within a group and then helps them become more aware of ways to improve their relationships.

9 – PERSONALITY

It's an individual's relatively stable characteristic patterns of thought, emotion and behavior, and the psychological mechanisms that support and drive those patterns. The development of personality is influenced by **nature** (genes) and **nurture** (environmental and situational aspects – family, culture or geographical location).

Trait models and theories focus on broad and regular dimensions of individual behavior. They emphasize components of personality and highlight the importance of individual characteristics in determining one's behavior. On the other hand, they de-emphasize the role of the environment.

The big 5 model

It is a self-report inventory designed to measure the Big Five dimensions, whose acronym is "OCEAN".

- **Openness to new experiences:** how you react to new situations/people. This means being someone who seeks varied experiences, is aware of his thoughts, feelings and impulses.
- **Conscientiousness:** being dependable and trustworthy, conforming to social norms.
- **Extroversion:** being outgoing, sociable and assertive.
- **Agreeableness:** feeling comfortable while interacting with other people. This also means being likeable, considerate and cooperative.

Personality characteristics assoc. with HIGH scores	Traits	Personality characteristics associated with LOW scores
Unstable, nervous, anxious, depressed	NEUROTICISM	Calm, relaxed, self-confident, steadfast
Sociable, assertive, active	EXTROVERSION	Reserved, shy, sober, tranquil
Curious, creative, original, imaginative	OPENNESS	Conventional, conformist, comfortable with what is familiar
Cooperative, trusting, warm, willing	AGREEABLENESS	Cynic, cold, hostile, suspicious
Organized, reliable, dedicated, meticulous	CONSCIENTIOUSNESS	Not organized, unreliable

- **Neuroticism** (vs emotional stability): it means being worried, insecure, self-pity, poor self-image and frequent mood swings.

The Myers-Briggs type indicator

According to this indicator, there are 4 key personality components:

- 1) Extroversion/Introversion – Social interaction
- 2) Sensing/Intuiting – Collection of information
- 3) Thinking/Feeling – Evaluation of information
- 4) Judging/Perceiving – Decision making

Extroversion **E** — **I** **Introversion**

Where the attention is focused on

External environment and others	Internal orientation toward ideas and experiences
<ul style="list-style-type: none"> ▪ Sociable ▪ With several interests ▪ Learning through interaction and discussion ▪ Prefers verbal communication 	<ul style="list-style-type: none"> ▪ Reserved and calm ▪ With few but deep interests ▪ Learning through reflection ▪ Prefers written communication

Sensing **S** — **N** **Intuiting**

How to gather information

<ul style="list-style-type: none"> ▪ Pragmatism ▪ Systematic collection of information ▪ Preference for already possessed skills ▪ Preference for structured contexts 	<ul style="list-style-type: none"> ▪ Orientation toward new challenges ▪ Not comfortable with routines ▪ Follow the instinct to solve the problem quickly ▪ Preference for skills acquisition
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Thinking **T** — **F** **Feeling**

Take decisions

Logic reasoning	Analysis of the overall value
<ul style="list-style-type: none"> ▪ Impersonal perspective ▪ Analytical ▪ Connection between causes and consequences ▪ Search for objective truth 	<ul style="list-style-type: none"> ▪ Harmony and individual wellbeing ▪ Consideration of the impact on people ▪ Led by personal values

Judging **J** — **P** **Perceiving**

Action orientation

Prefers to live in an organized way	Prefers to live in a flexible fashion
<ul style="list-style-type: none"> ▪ Planning ▪ Prefers certainty ▪ Not comfortable with last minute changes 	<ul style="list-style-type: none"> ▪ Spontaneity ▪ Flexibility ▪ Comfortable with last minute changes

It works in the opposite way with respect to the Big 5 Model, in terms of score. These dimensions can be coupled with each other and determine 16 different possible combinations. (Ex: INTJ visionaries, independent – ESTJ logistics people). This method is less used for recruiting because it's less scientific; it is usually used to talk to a psychologist about how your career is going.

There are other **common personality traits**:

- **Self-esteem**: degree of regard that people have for themselves.
- **Machiavellianism**: manipulative and emotionally distant people ("the end justifies the means"). It can be both a positive and a negative trait, but usually these people are able to develop their career faster.
- **Locus of control**: inner-oriented and in control of one's destiny.

According to **interactionist models and theories**, behavior is determined by and individual's nature and personality and situational factors.

The Conditional Reasoning Approach

It is a contingency model that assumes that individuals interpret what happens in their social environment differently based on their individual dispositions. So, two people may react differently to external situations, depending on their personality traits.

Cognitive-Affective Processing System (CAPS)

Personality is influenced by **Cognitive-affective Unit (CAU)**, which is the interpretation of people and situations, goals, expectancies, memories and feeling. It is affected by genetic, cultural and developmental factors.

Type	Personal characteristics	Occupations
Realistic	Shy, steadfast, stable, conformist	Mechanic, blue-collar works
Inquisitive	Analytic, original, curious, independent	Biologist, researcher, reporter
Social	Social, friendly, cooperative	Social professions, therapist, teacher
Conventional	Conformist, efficient, pragmatic, rigid	Accountant, banking professions
Entrepreneurial	Self-confident, ambitious, dominant	Lawyer, independent agent (e.g. insurance), PR
Artistic	Messy, idealist, emotional, not practical	Artistic professions, design etc.

10 – MOTIVATION

Motivation refers to the psychological forces that determine the *direction* of people's behavior, their *level of effort* and *level of persistence*. There are different theories about motivation, some focus on the content and others more on the results.

$$\text{CAPABILITIES} + \text{MOTIVATION} = \text{PERFORMANCE}$$

Motivation problems can depend on **Person, Leadership, Job design, Organization**.

PERSON

Maslow's Hierarchy of Needs

An important way to understand one's performance is **Maslow's Hierarchy of Needs**. In general, people try to satisfy their needs in this order: *Physiological, Security, Social Belonging, Self-esteem* and *Self-actualization*. Anyway, there are some problems related with this model. First of all, it should work for everyone, but each person differs from one another; this means that this pyramid is based on an assumption, not on reality. More specifically, this model works best in collectivist countries. Secondly, none of these needs

are possible without social collaboration, and without it there is no survival. Our reliance on each other increases together with the complexity of societies.

Herzberg's Model

A model that differs from the traditional view offered by Maslow is Herzberg's Model. It analyzes two aspects:

- 1) **Hygiene Factors:** if you provide your employees with this factor you will obtain *non-dissatisfaction*, because it's a basic right, so if you don't, you obtain *dissatisfaction*.



- 2) **Motivators:** this factor can be satisfied or not.

The most important motivators are the characteristics of the work itself, achievements (tangible results), challenge (the more challenging, the more motivating), responsibilities, advancement (professional), growth (personal) and recognition (rewards).

McClelland's Theory of Needs

According to this theory, we can classify people in three categories:

- 1) **Achievement (n-Ach)**, the need of accomplishing goals and strive continually to do things better. These people want to be personally responsible for their success or failure, they prefer situations of moderate risk and like to receive immediate feedback.
- 2) **Power (n-Pow)**, the need to influence other people and to be in control of the environment. These people prefer competitive and aggressive situations; they like to be recognized in terms of prestige.
- 3) **Affiliation (n-Aff)**, the desire for friendly and close interpersonal relationships. They want to belong to a group, prefer cooperative situations. Affiliative interest: concern for interpersonal relationships / Affiliative assurance: concern with obtaining assurance about the security of a relationship.

JOB DESIGN: How to design motivating jobs

- 1) **Skill variety:** design a job that requires a range of personal competencies and abilities.
- 2) **Task identity:** design a job that requires completion of a "whole" and identifiable piece of work.
- 3) **Task significance:** let employees perceive that their job has an impact on other's lives.
- 4) **Autonomy:** let employees have the freedom to plan and carry out their task.
- 5) **Job feedback:** give employees direct and clear information of their performance.

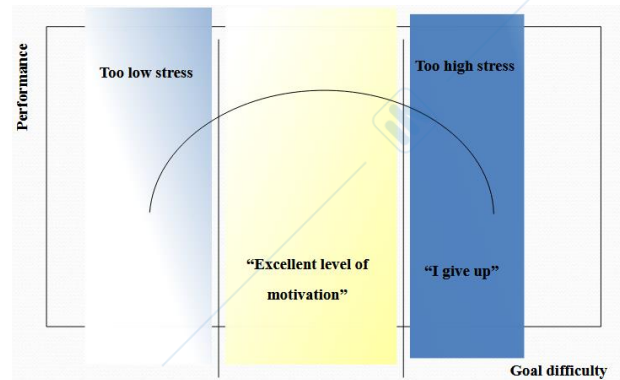
Jobs can also be redesigned: job rotation, job enlargement, job enrichment and self-managed work teams.

LEADERSHIP

According to the Reinforcement Theory, a leader has to reinforce desirable behavior through rewards and to extinguish undesirable behavior through punishment or ignoring. Skinner experiment: video with pigeons.

Goal setting theory

According to this theory, setting specific goals increases motivation and performance, especially if they are difficult, but as long as they are accepted by the employees. To increase performance, giving **feedback** is more helpful than not giving it. Feedback helps someone to better understand their task and to find the best way to perform it. In addition, people are more committed to a specific goal if set by themselves and made public.



The curves show that if a task is too easy, this can lead to a low level of motivation, as well as an extremely difficult task leads to too much stress (“I don’t have enough authority to do this...”). On the opposite, if you feel self-efficient this means that you think you can reach the desired goals. In the area in the middle, people are willing to work hard and be committed.

ORGANIZATION

Theories of organizational justice – Equity Theory

- **Distributive justice:** perception of the quality of the output. A consequence of a bad distributive justice is people leaving the company. To avoid this, there are some procedures.
 $OUTCOMES (INPUTS) A < OUTCOMES (INPUTS) B : INEQUITY – UNDER REWARDED$
 $OUTCOMES (INPUTS) A = OUTCOMES (INPUTS) B : EQUITY$
 $OUTCOMES (INPUTS) A > OUTCOMES (INPUTS) B : INEQUITY – OVER REWARDED$
- **Procedural justice:** perception of the equity of the process used to determine and communicate rewards. For example, decisions on salary increases or promotions, even if fair, may be perceived in a bad way because they are badly managed and communicated. One can use different referents to develop a perception of PJ: himself vs. others, inside vs. outside the organization. *Control over the process* is necessary to give workers the opportunity to discuss their position before decisions are taken. *Decision-making control* is necessary to give workers the opportunity to appeal and influence decision-making.
- **Relational justice:** perception of the level of dignity and respect that is used in the interactions between and people.

Behavior	Consequences	Effects on behavior	
A worker does a good job	The boss: “this is amazing”	This increases the likelihood the worker repeats the same desired behavior	Positive reinforcement
A worker does a good job	The boss, who usually criticizes everything, does not comment about this	This increases the likelihood the worker repeats the same desired behavior	Negative Reinforcement
A worker does many mistakes	The boss provides him with a negative feedback	This reduces the likelihood the worker repeats the undesired behavior	Punishment
A worker does many mistakes	The boss, who usually rewards everything is well done, does not comment about this	This reduces the likelihood the worker repeats the undesired behavior	Extinction

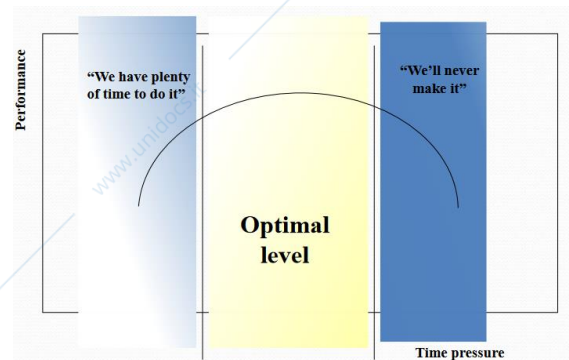
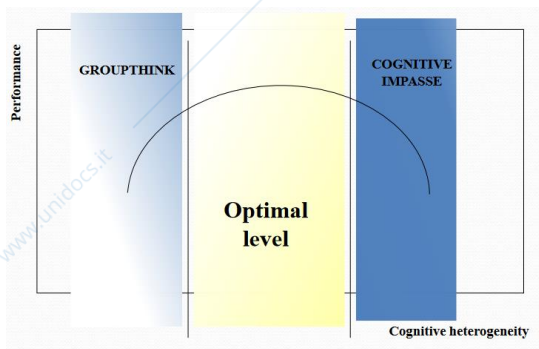
11 – TEAM MANAGEMENT

Components of the effectiveness of a team are:

- **Output:** quantity, quality and timeliness of the productive output;
- **Social processes:** capability of its members to work interdependently;
- **Learning:** knowledge and well-being of its members.

Manager's responsibilities in creating effective work teams

- 1) **Use of a team:** teams can't be used in every situation, a manager has to analyze the *characteristics of a task* (better if complex, large, requires inputs from multiple sources, uncertain) but also the *characteristics of the members* (they have to have interaction skill, they have to be motivated and trustworthy).
- 2) **Team context:** the resources given to the team must be secure, its reputation must be well-managed, it must be coordinated with other units. Sometimes it is necessary to have an external help, given by, for example, ambassadors, scouts or task coordinators.
- 3) **Team members:** from this point of view, three main factors need to be managed
 - Members skills
 - Members motivation: it is important to minimize **pathologies of the team**, which are conformism, groupthink (ASCH'S EXPERIMENTS) and social loafing. Conformism is the tendency for individuals to conform to the opinion of others. Groupthink is the tendency of cohesive groups to look for a unanimous solution, leading to an unrealistic or harmful choice. Social loafing is the tendency for individuals to exert less effort when working in a group.
It is also important to establish different types of rewards (balancing individual and collective ones) and to organize the work based on a moderate time pressure.
 - Members composition and diversity: groups that incorporate multiple point of view and perspectives are more effective. This is why it is important to establish a balance of heterogeneous members, involving people with different skills, maybe coming from different geographical areas.



- 4) **Task & process:** two factors need to be managed
 - *Stages of group development;*
 - *Task and interaction requirements of each stage.*

Stages of group development – Tuckman's Model of Group Development

The stages of group development are **forming**, **storming**, **norming** and **performing**. These phases are all necessary and inevitable for the team to grow, to face challenges, to tackle problems, to find solutions and to deliver results.

	DESCRIPTION	FEELINGS	BEHAVIORS	MANAGERIAL PRACTICES
FORMING	Transition from individual to member status; members start to know each other.	Excitement, optimism, pride but also suspicion, fear and anxiety.	Members try to define the task and decide how to accomplish it; they try to determine acceptable behaviors and decide what information needs to be integrated. In any case, members can waste time discussing problems not relevant to the task.	<ul style="list-style-type: none"> - Coaching from an experienced team. - Develop a sense of team identity, exchanging personal information. - Develop a clear mission. - Acquire senior management support.
STORMING	Impatience about progress; members rely solely on themselves.	Resistance to the task and approaches that may be different from what feels comfortable. Sharp fluctuations in attitude.	Emergence of conflicts, defensiveness, competition and formation of factions.	<ul style="list-style-type: none"> - Team building sessions. - Training on conflict resolution. - Encourage conflicting members to work together. - Create a mediator role.
NORMING	Team begins to come together and roles emerge.	Ability to express criticism in a constructive way, acceptance of membership in the team, relief.	Attempts to achieve harmony, friendliness, sharing of personal problems, discussions about the team's dynamics. Sense of cohesion.	<ul style="list-style-type: none"> - Set individual accountabilities and schedules. - Assign a coach. - Establish procedures for information sharing.
PERFORMING	Team has settled its relationship and expectations; everyone know his role.	Better understanding of each other's strengths and weaknesses; satisfaction about the progress.	Constructive self-change, ability to prevent problems, close attachment to the other members.	<ul style="list-style-type: none"> - Create a team culture through senior managers. - Redesign the reward system.

Obviously, teams have both benefits and liabilities.

BENEFITS OF TEAMS	LIABILITES OF TEAMS
Accurate decisions, large tasks, greater understanding of decisions, greater commitment.	Greater costs, slower and less accurate decisions, risk of damaging relationships, extreme decisions.

Groupthink Have you ever felt like speaking up in a meeting, a classroom, or an informal group but decided against it? One reason may have been shyness. Or you may have been a victim of groupthink, which occurs when the norm for consensus overrides the realistic appraisal of alternative courses and the full expression of deviant, minority, or unpopular views. The individual's mental efficiency, reality testing, and moral judgment deteriorate as a result of group pressures.⁷⁰

We have all seen the symptoms of groupthink:

1. Group members rationalize any resistance to the assumptions they've made. No matter how strongly the evidence may contradict their basic assumptions, they behave so as to reinforce them.
2. Members apply direct pressures on those who momentarily express doubts about any of the group's shared views, or who question the validity of arguments supporting the alternative favored by the majority.
3. Members who have doubts or differing points of view seek to avoid deviating from what appears to be group consensus by keeping silent about misgivings and even minimizing to themselves the importance of their doubts.
4. There is an illusion of unanimity. If someone doesn't speak, it's assumed he or she is in full accord. Abstention becomes a "yes" vote.⁷¹

Groupthink appears closely aligned with the conclusions Solomon Asch drew in his experiments with a lone dissenter. Individuals who hold a position different from that of the dominant majority are under pressure to suppress, withhold, or modify their true feelings and beliefs. As members of a group, we find it more pleasant to be in agreement—to be a positive part of the group—than to be a disruptive force, even if disruption is necessary to improve the effectiveness of the group's decisions. Groups that are more focused on performance than on learning are especially likely to fall victim to groupthink and to suppress the opinions of those who do not agree with the majority.⁷²

12 – DECISION MAKING

The hidden traps in decision making

FRAMING (Experiment at MIT + Dan Ariely) - **PROBLEM IDENTIFICATION**

Students of an economic course at the MIT had a substitute instructor they had never met before, because their professor was out of town. Before meeting the sub, students received a bio describing him, but there were two different ones: one described the professor as a "warm person" the other one as a "rather cold person". At the end, each student received an identical questionnaire, but it seemed like students were responding about two completely different instructors: some described him as "good natured, considerate of others, informal, sociable, popular, humorous and humane" and the others saw the sub as "self-centered, formal, unsociable, unpopular, irritable, humorless and ruthless." The moment in which students read the bio, their opinions were already set. A single word has the power to alter our perception and possibly sour the relationship before it even begins. It represents the challenge of the first and most critical aspect of decision-making process: identifying the problem. The **framing trap** refers to the perspective through which we look at a certain problem and the difficulty to see the same problem from a different angle. To overcome framing, you have to:

- Avoid automatically accepting the initial frame;
- Pose problems in a neutral way, analyzing both gains and losses;
- Challenge others when they show you the problem.

ANCHORING – INFORMATION SELECTION

Ex: Is the population of Turkey greater than 35 million? What's your best estimate of Turkey's population?

The arbitrary figure of 35mil cited in the first question certainly influenced your answer to the second one. When considering a decision, the mind gives disproportionate weight to the first information it receives; this

means that initial impressions, estimates or data anchor subsequent thoughts and judgements. To overcome anchoring you have to:

- View a problem from a different perspective (using a different starting point) and be open minded;
- Be careful to avoid anchoring your advisor;
- Be aware of anchors in negotiations.

STATUS QUO – DEFINITION OF POSSIBLE OPTIONS

Ex: The invisible gorilla. C. Chabris and D. Simons found that 23/41 people missed the gorilla. This experiment reveals two things: we don't notice many of the things that happen around us, and we have no idea of it. In addition, more than ¾ of the people agreed that they didn't notice such unexpected events (curtain changing color + black member leaving) when focusing on something else.

Decision makers display a strong bias toward alternatives that perpetuate the **status quo**. Breaking the status quo means taking action and when we do it, we take responsibility, thus opening ourselves to criticism and regret. Techniques to overcome the **status quo trap**:

- Remind yourself of your objectives but still identify other options;
- Ask yourself if you would choose the status quo alternative if it was not the status quo;
- Try not to exaggerate switching costs;
- Evaluate alternatives in term of future as well as present context.

CONFIRMING EVIDENCE BIAS

Also called **self-confirmation trap**, it leads us to seek information that supports our existing point of view while avoiding information that contradicts it. This doesn't only affect where we look for the evidence, but also how we interpret the information received. Techniques to overcome it are:

- Examine all the evidence with equal rigor;
- Find someone you respect to play the devil's advocate;
- Be honest with yourself about your motives and don't ask questions that invite confirming evidence.

SUNK COST AND OVERCONFIDENCE – CHOICE and RESULTS EVALUATION

Ex: Everest disaster (1996). The "two o'clock rule": cost of joining, cost of equipment, energy spent, training done. The people who were climbing knew they couldn't get much further at 2pm, because they already spent too much energy, but they tried to reach the peak the same. Hansen said he put too much effort to quit, without even giving everything he got.

The **sunk cost trap** talks about our deep-seated biases that influence our future choices in order to justify past ones, even though they may not seem valid anymore. It is the tendency of people to irrationally follow through on an activity that is not meeting their expectations because of the time and/or money they have already spent on it. Techniques to overcome it are:

- Always keep into consideration long-term objectives;
- Understand if the option you chose is a front-runner or just another option;
- Avoid exaggerating switching costs and evaluate alternatives in terms of future.

Decision making models

1) **The rational-normative model** - its stages are:

- *Identification of the problem*
- *Goals*
- *Searching for solutions*
- *Evaluation of the effects of these alternatives.*

In the end, you will choose the best alternative. It can be applied effectively, efficiently and fairly in highly structured problems, when there are no constraints and the individual knows all alternatives,

consequences and preferences. It involves some risks: research costs, computational and cognitive complexity.

- 2) **The heuristic model** – in this case problems are less structured, there are many unknown alternatives, the individual is not able to evaluate all consequences (*bounded rationality*), there are some constraints. This means the individual doesn't choose the best option but the *satisfactory* one.
- 3) **The garbage can model** – the factors of the decision-making process are all mixed up and you can't analyze them in a clear sequential pattern. It is applied when there are several participants with different preferences, problems to be solved are perceived vaguely and differently by the single decision maker, timing/goals are unclear and rapidly changing and there are few resources. In this case, you choose in an emerging way, trying to integrate the available elements without following any kind of optimization criteria or long-term strategies.
- 4) **The cybernetic model** – it is used when the problem is stable or at least is repetitive in its features, and there's a list of actions and practices that the individual can use. You choose the successful alternative. It is an un-evaluative mode of choice.
- 5) **The intuitive model** – it is used when decisions require creativity and innovation (high uncertainty, few similar situations, time pressure, limited resources, limited benefit of the analytical data). This model is related to individual, rather than organizational, characteristics.

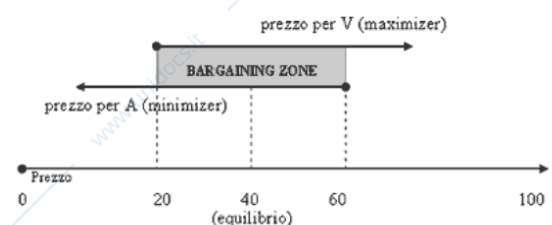
13 – NEGOTIATION

Negotiation is a coordination process in which two or more parties with *contrasting interests* try to achieve an agreement, which has to be profitable for both in a situation of *strategic interdependence*.

Another way of using negotiation is to **solve conflicts**.

In order for negotiation to be possible, the parties must be relevant, they must have the possibility to let their interests be valued and negotiating must be more convenient than acting unilaterally.

While negotiating there is a **bargaining zone (Best Alternative To a Negotiated Agreement – BATNA)**, which represents what the counterpart does if the negotiation fails. Basically, it determines the "reserve prices" of the parties.



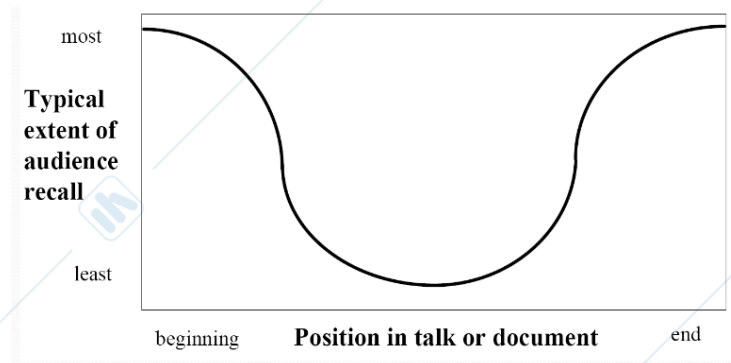
Negotiation is an interdependent process, because the result of any negotiation depends on the strategy of the counterparty. As a consequence, not considering the counterparty's negotiation strategy means having no strategy at all.

There are two main types of negotiation:

- 1) **Distributive negotiation:** or "zero sum game". In this situation the interests are diverging and it is not possible to reach an agreement; this is why they ask help to an *arbitrate*, an impartial third party. It is mainly used for transactional (short-term oriented) negotiations.
- 2) **Integrative negotiation:** interests are complementary. In this case as well third parties (brokers) may be asked to intervene. It is best used when orientation is long-term, to avoid ruining the relationship among the parties.

Tips for aiming at the best result

- 1) **Anchoring:** to estimate an unknown value, people start from an anchor value and proceed through small further settlements. This means that making the first move allows you to structure the negotiation frame for your own benefit.
- 2) **Similarity:** emphasizing opinions, views or simple events in common with your counterparty helps you to change the opinion of the counterparty about other issues. This increases the persuasive power in a negotiation process.
- 3) **Liking:** people like to feel appreciated. The probability that the counterparty accepts your perspective increases as he/she has the perception of being appreciated by you.
- 4) **Reciprocity:** people tend to pay back in the same coin. This is valid for cooperation, trust, empathy, support, but obviously also for aggressiveness, suspicion and lack of respect. Showing willingness to seek a positive agreement for both parties helps developing and *integrative frame*.
- 5) **Credibility:** when you exhibit a contrary or unexpected position, the counterparty tries to determine if you are credible or not, and later thinks about your position. If you didn't gain credibility from the beginning, it may be better to focus on that before actually starting to negotiate.
- 6) **Bandwagon:** people are influenced by other's opinions, especially if widely shared. The bandwagon effect can be exploited to strengthen your perspective in the opinion of the counterparty.
- 7) **Bend of attention**



According to these tips, the main aspects that have to be taken into account are: To move first or wait? How much does the first offer have to be extreme? How do you react to the first offer?

Making the first move is not always a good idea: Baekeland, Leo Hendrik (1863-1944). In 1899 Leo Baekeland sold the property rights of his invention, Velox photographic paper, to Eastman Kodak. Because that was the first case of a photographic paper with a real commercial value, Kodak offered \$ 1,000,000 to Baekeland. As later admitted, Baekeland went to negotiate thinking of asking no more than \$ 50,000, but, fortunately for him, Kodak made the first offer.

"If agreement is usually found between the two starting points, there is no point in making moderate offers. Good technique would suggest a point of departure far more extreme than one is willing to accept. The more ambitious the initial proposition, the better is the prospect that what one 'really' wants will be considered a compromise." HENRY KISSINGER