

# Key Notions of Business and Organization

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## Health Warning

This document represents work in progress. It is both incomplete and subject to change. Comments and suggestions are welcome.

Definitions are designed to provide a starting point for further study, not to provide a lazy substitute for it. You should compare the definitions given here with the definitions in other sources, and reflect on their relevance to practical case material and experience.

# Foundations of Business

## Accounting

In sociology, accounting refers to the language that people and groups use to justify their actions to themselves and others. Business accounting is a popular example of this, largely based on financial calculations and reports.

Business accounting is an example of a **discursive practice**, involving a special language as well as special techniques. It confers special power and influence over business affairs.

In sociology, accounts are often constructed to deny or reduce responsibility for illegal, anti-social or deviant behaviour.

An account is ... “a linguistic device employed whenever an action is subjected to evaluative enquiry. Such devices are a crucial element in the social order since they prevent conflicts from arising by verbally bridging the gap between action and expectation. Moreover, accounts are ‘situated’ according to the statuses of the interactants and are standardized within cultures so that certain accounts are terminologically stabilized and routinely expected when an activity falls outside the domain of expectations”. [Lyman & Scott]

**Financial accounts** (sometimes called historical accounts) are calculated from historical records of financial or financially significant transactions. Companies are required to publish a summary of their financial accounts - these summaries are known as the statutory accounts.

**Management accounts** are calculated from future projections of financial or financially significant transactions. They are used to support management **decisions** and to express management intentions and policies.

## Audit

An audit is an independent verification of an account or set of accounts, by an independent auditor. Financial accounts are audited by professional accountants, and are supposed to verify that the accounts provide a “true and fair” picture of a company. Audits can also be carried out for non-financial aspects of the business, such as environmental and social.

Auditors represent the interests of outside stakeholders, and are supposed to moderate the authority of the directors. However, the independence of the auditors may be compromised by three factors.

- the auditors are appointed by the directors themselves
- auditing firms generate further income by selling other services to the same companies
- a company typically uses the same auditors year after year

Companies sometimes employ people inhouse to perform an audit function – this is known as **internal audit**. In which case, proper audit (as defined above) is referred to as **external audit**.

## Business

One of the phrases used in English for a business is a “going concern”. This phrase focuses our attention on three aspects of business: **activity**, **viability** and **intentionality**.

Activity                    “What is going on?”

Viability                  “Is it going? Is it going to go on going?”

Intentionality          “Where is it supposed to be going? Whose concern is it?”

More formally, business can be regarded as a **social system for creating value**. This indicates four founding disciplines for business studies:

- Sociology - the study of social phenomena
- Systems theory - the general study of systems
- Economics - the science of value
- Ethics - the philosophy of value

## Decision / Judgement

There are three contrasting views of the decision-making process. All three views divide the decision-making process into three components. But they punctuate it differently, focusing on different things. The IT agenda has been largely dominated by Simon’s view, and has neglected the other two views.

Herbert Simon	Geoffrey Vickers	Jacques Lacan
Search (Intelligence)	Value Judgement (Evaluation)	Instant of Seeing
Design	Reality Judgement (Appreciation)	Time for Understanding
Choice	Action Judgement	Moment of Decision
<i>focus on Rational Choice</i>	<i>focus on Value</i>	<i>focus on Time</i>

## Outsourcing

Outsourcing refers either to the state of affairs in which various functions are performed externally and delivered as services, or to the process of moving stuff from internal functions to external services.

When understood as a process, outsourcing may also involve the staff performing these functions moving onto the service provider’s payroll.

## Risk/Reward

Enterprise represents an uncertain venture, whose rewards should be balanced with the risk. Thus higher rewards are available to those who are prepared to accept a higher risk.

## Viability

Viability means: ability to survive.

For many enterprises, viability is ultimately linked to **profit**. Even if the business is not currently profitable – perhaps it is in the early stages of development, undergoing a growth spurt, or just going through a bad patch – there is an expectation that it will be profitable at some future date. The expectation of future profit justifies continued **investment**.

This economic notion of viability can also be extended to not-for-profit enterprises such as public sector organizations and charities. Such organizations are viable if they are seen to deliver social or other value, sufficient to justify adequate funding and support on an ongoing basis.

In addition to economic notions of viability, we can also consider the social viability of an organization. An organization is socially viable if it provides enough value to justify any social costs (internal or external).

## Agency

A relationship between an **agent** and a **principal**. For example, the directors of a company are the agents of the shareholders, who are the principals. There are typically **conflicts of interest** between agents and principals.

In **agency theory**, economists study the costs, risks and inefficiencies of this relationship. Agency theory has an ethical dimension as well as a purely economic dimension, and this is clearly acknowledged by economists (such as Kenneth Arrow and Amartya Sen).

The principal typically incurs **monitoring costs**, to guard against the possibility that the agent may be stealing from him, or concealing relevant information (**moral hazard**).

The agent may incur **bonding costs**, to align his actions with the interests and expectations of the principal. For example, publicly quoted companies are required to conform to the (short-term) expectations of the stock market, even though this may not be in the long-term interest of the company and its investors.

## Asset

Something of value. May be physical (tangible) or abstract (intangible).

The economic valuation of some companies is heavily dependent on one type of asset. For example, some companies depend on the value of their brands, or on the value of their knowledge (=intellectual capital). Many companies unknowingly repeat Joseph Stalin's slogan: "Our people are our greatest wealth".

The net valuation of a company at a specified point in time (usually year-end) is represented by the **balance sheet**, which shows the balance between assets and liabilities.

## Capital (ism/ist)

Most human endeavour combines human effort from two sources: present and past. Past human effort is often known as 'capital', and the term 'labour' is usually applied to present human effort. It is usually thought to consist of machinery constructed by past labour, but can also consist of intellectual capital, which includes software as well as information itself.

A tool or machine may be regarded as stored-up labour from the past; it also represents stored-up information, since it captures the knowledge of the tool-maker. But this very knowledge would have been acquired by the tool-maker through education and training, and therefore represents the stored-up learning effort of the tool-maker and the teaching effort of his teachers.

Industrial processes are known as 'capital-intensive' if they require more capital than labour, and 'labour-intensive' if they require more labour than capital. For many processes, there is a range of possible methods, with different ratios of capital to labour.

The word 'capitalist' has three different meanings:

1. A person that 'owns' some of the capital input to a particular process, and thereby controls the process.
2. A person that holds certain opinions about the justice of capital ownership.
3. A person who believes that social progress depends on continual increases in the ratio of capital to labour. "Computerization, automation and the use of robotic devices will automatically free human beings from soul-destroying, back-breaking tasks and leave them free to engage in more creative work."

## Commodity

A product or service whose price does not depend on the personal or local characteristics of production.

## Creative Destruction

A competitive process identified by the economist Joseph Schumpeter as the ultimate dynamic of capitalism, involving the continuous scrapping of old technologies.

In a speech in December 2001, Alan Greenspan, then chairman of the US Federal Reserve, described it as "a continuous churning of an economy in which the new displaces the old".

## Diminishing Returns (Law of)

Economic systems are typically subject to limits and constraints, which can be modelled using negative feedback.

When such a system approaches these limits, it seems to take more and more effort and investment to achieve a smaller and smaller return. Economists refer to this phenomenon as the **Law of Diminishing Returns**.

One of the features of the "new" economy was that it was popularly supposed to be free of these limits and constraints. Since the "new" economy apparently operated entirely in a virtual world, any physical constraints were disregarded. Instead, these systems were popularly supposed to be subject to positive feedback loops, resulting in what some people called the **Law of Increasing Returns**.

## Division of Labour

The decomposition of a process into (usually small) tasks that can be done by a single (usually specialist) worker or team.

**Scientific Management** refers to a style of management (pioneered by F.W. Taylor) in which each task is analysed by **time and motion study** to find the most efficient way of performing it. Workers are then trained to perform these tasks in the most efficient way.

**Fordism** refers to a style of manufacturing process (pioneered by Henry Ford) in which small tasks are chained together in a production line. The pace of the work is typically controlled by the machinery – for example, the speed of the belt.

## Economies of Scale

This refers to the principle that things often get cheaper and easier with larger volumes. There are several possible reasons for this.

- $\text{Cost} = \text{Fixed Cost} + \text{Variable Cost}$ . As volume increases, the fixed cost is shared across a larger number of units, so the average cost goes down.
- Variable cost is not linear. As volume increases, the unit price of certain input commodities can be reduced.
- Costs change over time - productivity increases. The more you do something, the more efficient you get (learning by doing).
- Resource smoothing. Where resources come in large units, larger volumes should produce less wasted resource

However, this principle doesn't always apply, and there are sometimes **diseconomies of scale** instead. There are several possible reasons for this.

- Scarce Resources. Demand for a scarce resource increases its price or reduces its quality/reliability.
- Step Costs. As volume increases, new fixed costs are incurred. For example, a larger factory or an additional layer of management.
- Complexity Costs. Loss of efficiency, reliability or performance.

## Elasticity

**Elasticity of Demand:** the extent to which changes in any variable (usually price) affect the amount of demand for a product or service. For example, if people continue to buy the same amount of bread even when the price goes up and the quality goes down, then this indicates inelasticity of demand. However, if people take more foreign holidays when air travel is cheap, then this indicates elasticity of demand.

**Elasticity of Supply:** the extent to which changes in any variable (usually price) affect the amount of supply for a product or service. For example, if minicab driving makes a lot of money, then more people will want to become minicab drivers. However, if the quality checks on minicab driving become much more difficult and strict, then fewer people will be able to become minicab drivers.

Sometimes supply or demand may be highly inelastic in the short term, but more elastic in the longer term. This is because suppliers often need time to make significant changes in production capacity, and both consumers and suppliers may take some time to develop alternatives. If bread continues to be very expensive, then people may gradually change their tastes towards rice or pasta; meanwhile farmers, millers and bakers may invest in increasing production. If there is a shortage of computer programmers, this is likely to push up the available salaries in the short term; but in the long term the higher salaries may encourage millions of people around the world to train as programmers, as well as encouraging thousands of inventors to find substitutes for human programming. Both of these effects will ultimately stabilize or even reduce the salaries available to programmers.

The greater the elasticity of supply and demand, the more effective are market forces in regulating price and quality. However, excessive elasticity may result in volatility or oscillation.

## Game

Game theory is a mathematical way of modelling conflicts of interest between different players.

Each game has the following elements.

- A set of players.
- A set of possible outcomes.
- Each player has preferences between the possible outcomes.
- Each player has a choice of actions. The outcome is determined by the combination of the actions of each player.

In some games, the total value of the outcomes is always the same. These are known as **zero-sum games**.

## Innovation

Three Types of Innovation		Examples	
Product Innovation	Inventing new products or devices	Discovering a new drug - for example, a herb extract with medicinal properties.	Building a wholly new kind of information system
Process Innovation	Inventing new processes	Being able to make the drug in the laboratory.	Experimenting with software components.
Production Innovation	Institutionalizing the innovation - establishing organizational forms and infrastructures to make the new process flexible and scaleable.	Being able to make large quantities of the drug to high standards of purity from cheap raw materials.	Achieving high levels of software reuse.

Innovation sometimes involves taking a step back before taking two steps forward.

- New technologies may be initially less efficient, because their providers haven't accumulated as much knowledge and experience - "learning by doing".
- New technologies may be initially less productive because their users have not fully integrated them - e.g. work systems are optimized for the old technology.

## Investment

Investment represents putting something into an enterprise or project, against the expectation of some future return, or with the intention of helping the enterprise to become viable. Investment may be financial or otherwise; returns may be financial or otherwise; viability may be financial or otherwise.

**Return on Investment (ROI)** is a measure of the productivity of capital.

The higher the perceived **risk**, the higher the return (**reward**) that must be promised to persuade people to invest. Conversely, the higher the promised return, the higher the implicit risk.



Under some conditions, investment may be subject to the **Law of Diminishing Returns**(qv).

## Liability

Financial obligations that reduce the net value of a company. Includes trade debts, bank loans, unpaid tax.

Although share option schemes and pension schemes represent obligations to make payments to employees or ex-employees under certain circumstances, there is some disagreement as to the proper way to show such liabilities in published accounts.

## Market

A market is an economic system involving many independent decisions and actions by many people and organizations. The cumulative effect of all these decisions and actions display certain regular patterns. These patterns emerge from the collective behaviour of the market, and can often be predicted to some extent (albeit with a considerable degree of uncertainty). In a **perfect market**, these patterns cannot be controlled or manipulated by anyone; in real life, most markets (perhaps all) are imperfect to some extent.

Here are some examples of the emergent behaviour of markets.

- Prices rise or fall to balance **supply and demand**. If there is excess demand or insufficient supply, then prices may be expected to increase in order to discourage demand. If there is insufficient demand or excess supply, then prices may be expected to fall. The extent to which supply or demand is sensitive to price or other variables is known as **elasticity**.
- Capital is attracted to investment opportunities offering higher returns (for a given level of perceived risk). Thus if abnormally high profits are being made in a certain market, without an equivalently high risk, lots of companies will seek to enter this market – and this will have the effect of bringing the profits down to a more “normal” level. (This is related to the **Law of Diminishing Returns**.)

As an economic system, a market behaves **as if** it were being regulated to achieve certain goals, and displays a considerable degree of homeostasis and attempted stability. The invisible forces apparently regulating the market are known as **market forces** – they are also sometimes referred to as the **Invisible Hand**.

Market forces operate with some delay, and there is often overcompensation. This means that prices, profits and other economic indicators often do not in fact reach a stable state, but may oscillate or display considerable volatility.

Markets with imperfect information may also produce dysfunctional results, including **adverse selection** (also known as the **market for lemons**) .

Some economists and politicians argue that a perfect market is more efficient at regulating economic behaviour than any government or other human institution or agency, and that attempts to regulate markets are doomed to be unsuccessful in the long run. Others argue that market forces lead to considerable wastage of economic and human resources, and argue for some degree of regulation and planning.

## Mechanization

Increasing use of technology within organizations, covering Fordism and post-Fordism.

## Monopoly

An exclusive or dominant position as supplier within a market. Where there are a few dominant suppliers, this is known as **oligopoly**.

Where there is a single dominant purchaser (such as Government), this is known as **monopsony**. Where there are a few dominant purchasers (such as supermarket chains as purchasers of food) this is known as **oligopsony**.

These terms are relative to a given way of conceiving a market. Companies that have a dominant position in one market often argue that they should be perceived as competitors within a larger market.

## Options

An option is essentially a one-sided contract that commits to a future price of something, under defined conditions. An option is a type of **derivative** commodity – one whose value and meaning derives from some other commodity.

An enterprise may hedge against future volatility by buying options. Such options may be bought and sold, and are sometimes known as **traded options**. Options may be used to mitigate the risk that a shift in some variable may adversely affect the financial viability of some enterprise.

The greater the volatility, the greater the value of these options. Financial analysts use a formula known as Brook-Scholes for calculating the value of options.

**Share options** are used to motivate and reward managers and staff of an enterprise, and sometimes other stakeholders as well (such as key suppliers). Share options are given instead of shares, because they focus attention on the future value of the company. Because the value of share options increases with the volatility of the share price, they may also encourage risk-taking.

## Price/Earnings Ratio (P/E)

P/E stands for Price/Earnings ratio – it is the current share price divided by the latest figure/estimate on earnings per share. It therefore represents the value of the shares expressed as a multiple of the value of earnings.

You will find the P/E ratio quoted next to the share price and dividend yield in the city pages of most newspapers. If the P/E is high, it means that investors are happy to buy shares at a relatively high price because they expect earnings to increase. (Thus companies in growth industries tend to have higher P/E ratios than companies in mature industries.)

## Productivity

Also known as efficiency. The relationship between the input and the output of a clearly defined and stable system. Outputs are typically measured in units or volume of production, while inputs may be measured in terms of labour, capital, energy or other raw materials. Increases in productivity can involve either greater output for the same input or the same output for a smaller input.

We may measure the productivity of labour or capital. As an example of the productivity of labour, the productivity of an army barber may be measured by the number of haircuts (output) per hour (labour input). An innovation that improved the barber's productivity would allow the barber to do more haircuts, and would allow an army to employ fewer barbers.

In some contexts, therefore, productivity improvements may be valued by some stakeholders. But the context is important. In a fashionable hairdresser, the focus is on quality and customer satisfaction, and an increase in speed alone might not be valued at all.

In general, productivity of labour may be improved by working harder, working smarter, or by automation / capital investment. However, capital investment also affects the productivity of capital (ROI).

Productivity gains may be taken in various ways:

- greater rewards
- reduced effort & cost
- increased quality

Productivity gains are often subject to negotiation and power games. Some stakeholders may believe they have not received a fair share of the productivity gain.

Productivity depends critically on the way the process or system is scoped, which affects what inputs and outputs are included. For example, a quality inspection that follows a manufacturing process may identify a number of rejects, and this reduces the effective level of output, while the labour of the quality inspectors is added to the costs. Thus if the quality inspection is included in the system scope, the productivity may be significantly lower than if inspection is outside the scope. So when comparing or interpreting productivity figures, you need to understand precisely which system is being measured.

## Rationality

Put simply, decisions and actions are rational if they are consistent with the best interests and preferences of the decision-maker or actor. Economists generally assume that people and companies are rational, because it's too difficult for them to make sense of their behaviour without this assumption.

For difficult and complex situations, **perfect rationality** might suggest careful consideration of all possible relevant information, and every possible course of action. The outcome may then be **optimal** – and such a process is called **optimizing**. However this is often impractical (because the costs of making the decision in this way can easily exceed the difference in value between the options) and sometimes impossible.

**Bounded rationality** refers to the idea that decisions and actions can be based on sufficient thought to make them **good enough**. A process aimed at achieving a good enough outcome is called **satisficing**.

Organizations and management often have a **myth** of rationality – the illusion that all decisions and actions are properly founded.

Managers and consultants often regard their own agenda as rational, and attempt to dismiss people who resist this agenda as irrational. Resistance to this agenda is

then characterized as a cultural or psychological problem, rather than a straightforward political difference between stakeholders. This is especially common in technical projects, where people who are sceptical of the value of the new technology can sometimes be regarded as backward or Other.

## Rent

In economics, the notion of rent refers generally to that part of income that is generated as a result of ownership or control of some tangible or intangible asset.

This can take many forms. Besides the income from property (for which the term is most commonly used) the general notion of rent includes royalty income from licences and copyrights (as in software or pop music), income that is linked to a premium brand (as in designer-label goods which are priced much higher than the costs of production), and the remuneration of senior executives (who may take advantage of their position to draw exceptionally high salaries and bonuses).

## Shareholder Value

A measure of the economic value accumulated by a company on behalf of its shareholders.

One measure of shareholder value is **market capitalization**, which is calculated from the share price of the company; company executives and senior staff often receive bonuses and share options linked to the share price, as if this represented a reward for achieving something of lasting value for the shareholders and other stakeholders.

However, the share price is influenced by a range of external factors, and can rise and fall without reference to the underlying economic health of the company. The share price can also be manipulated – at least in the short term – by unscrupulous executives.

There are other ways of valuing companies from the shareholder perspective that do not depend on share price – but these require more effort. While these alternatives are not subject to the distortions and short-term volatility of the share price, they are typically dependent on other subjective factors. These include **book value** (which is based on the balance sheet) and **net asset value** (which is based on assets) .

## Stocks and Shares

In the UK, there are several stock markets – the main Stock Exchange, plus some smaller exchanges for smaller companies (e.g. AIM and OFEX). In the USA, NASDAQ operates as a rival stock market to the main New York Stock Exchange. Some very large companies are quoted in more than one stock market – this is known as dual listing.

A company typically enters the stock market through an Initial Public Offering (IPO) which sells shares to institutional and/or private investors. Shares are then bought and sold by investors, without reference to the company itself. When a company wishes to raise more capital – for example, to fund a major investment or acquisition – it may issue more shares. Conversely, when a company has more capital than it needs for investment, it can return capital to shareholders either by paying a dividend to shareholders or by buying back shares. Companies often give shares or share options as rewards to directors and key staff. A company is interested in the share price because it affects the economics of these transactions.

Furthermore, company directors have some additional reasons for paying attention to the share price. Firstly, they typically own shares or share options themselves, and their personal remuneration can be linked to the share price. Secondly, they are ultimately elected by the shareholders, and shareholders typically judge directors according to their record of maintaining and enhancing share prices. (In the past, the shareholder votes have often been a formality, but several recent events indicate a growth in shareholder power.)

For acquisition purposes, a company is cheap if its market capitalization (equals share price times number of shares issued) is significantly less than the potential value of the target company to the acquiring company. Thus a low share price may trigger interest from potential acquisition. But if the share price is low because the company is weak, then it may be of little value to anyone. (Why buy out a competitor, if they are going to go bust anyway?)

But don't equate acquisition with failure. When an undervalued but viable company is acquired, the shareholders are richly rewarded for their patience, and the directors often get excellent jobs or golden handshakes. For many small high tech companies, the ultimate success would be acquisition by IBM or Microsoft.

Some companies issue a large number of low-denomination shares, while other companies issue a smaller number of higher-denomination shares. So the fact that one company has a higher share price than another tells us nothing. What is much more significant is that one company's shares are rising, while another's are falling.

Share prices have both long-term and short-term movements. In the course of a week, the share price of a large company's shares may go up and down dozens of times, as people buy and sell the shares. The newspaper often shows the price movement of the share from one day to the next. While some stock market speculators can make large profits or losses from day trading, these short-term movements are usually of little significance to the company itself. But more significant to the company are the longer-term trends. Over a 12-month period, the shares in a successful company can go up three- or fourfold, while shares in an unsuccessful company can collapse.

## Transaction Cost

The costs associated with a transaction. Does not include the cost of the primary goods and services involved in the transaction, but may include the costs of delivery and insurance, brokerage, contractual negotiation, bank charges, and so on.

ICT systems are often expected to reduce transaction costs.

Williamson identified transaction costs as a crucial factor determining the appropriate social structure of a business process – e.g. hierarchy versus network.

## Volatility

Irregular fluctuations in the value of some variable, such as commodity prices and exchange rates.

Volatility represents uncertainty and risk. An enterprise may hedge against future volatility by buying options.

Financial analysts use a measure of volatility known as **beta**. The higher the beta, the higher the volatility.

## Adverse Selection

An unfair distribution of value or risk, or biased sample, typically caused by **asymmetrical information**.

Example: if an insurance company offers a health policy without requiring a medical test, then this will attract customers who are likely to fail a medical test – or perhaps those who have already failed a medical test – because customers who can pass a medical test can get a cheaper policy elsewhere. The policy-holders will then not form a representative sample of the population, but will have a disproportionate number of unhealthy people.

Example: suppose that a dodgy builder charges £5000 to fix your chimney badly, and a professional builder charges £10,000 to fix it properly. Suppose that you cannot tell the difference (in advance) between the dodgy builder and the professional builder. Then you have no reason to pay the higher price, and the dodgy builders will drive the professionals out of business. (Economists refer to this phenomenon as the **market for lemons**.)

Note that adverse selection does not always involve asymmetrical information. The unhealthy insurance customer may not know that he is unhealthy; and the dodgy builder may simply not appreciate the difference between the professional builder and himself.

## Agenda

The set of topics and issues that an organization is prepared to address.

Control over the agenda confers and confirms political power. True empowerment demands access to the agenda.

## Asymmetrical Information

Differential access to information, which may lead to **adverse selection** and/or **moral hazard**.

The agent (supplier) often knows more about the performance of a task than the principal (customer).

*Is this solution complete, or will the customer need to buy more bits before it works properly?*

Conversely, in the financial services industry, the customer often knows more about the risk than the finance company.

*Do I really intend to pay back this loan?*

*Am I likely to be able to keep up the payments?*

*Do I have undeclared health problems?*

*...?*

Insider trading

*Do I want to buy this stock from someone who knows more about it than I do?*

*Do I want to sell this stock to someone who knows more about it than I do?*

## Bezzle

The economist J.K Galbraith used the term “bezzle” to denote the amount of money siphoned (or “embezzled”) from the system.

In good times, he remarked, the bezzle rises sharply, because everyone feels good and nobody notices. “In [economic]depression, all this is reversed. Money is watched with a narrow, suspicious eye. The man who handles it is assumed to be dishonest until he proves himself otherwise. Audits are penetrating and meticulous. Commercial morality is enormously improved. The bezzle shrinks.” [Galbraith, The Great Crash 1929]

## Chinese Wall

A structure intended to reduce asymmetrical information and moral hazard. Sometimes just a notional boundary, with little real effect – for symbolic purposes only.

For example, financial institutions are supposed to have Chinese Walls, to prevent various patterns of inappropriate behaviour, including Insider Trading and Insider Recommendations. Among other things, the Chinese Wall protects investment analysts from commercial pressure from other parts of the same organization. Recently, there has been much criticism of financial analysts (especially in America) who recommend the purchase of stocks simply because their colleagues have a commercial interest in promoting that stock.

## Corporate Governance

The way that companies are governed. Generally refers to a set of practices for the appointment and behaviour of company directors and managers. Addresses such issues as the following:

- How directors represent the interests of shareholders. The presence and influence of an independent chairman, and independent non-executive directors. Whether a person can combined the roles of chairman and CEO, whether it is appropriate for a person to move directly from the CEO role to the chairman role.
- How directors are remunerated. (Good practice suggests that this is done by an independent **remuneration committee**.)
- How auditors are appointed. (Good practice suggests that this is done by an independent **audit committee**.)
- Procedures for prompt disclosure (to shareholders and others) of relevant information (including risk).
- Internal controls, including procedures for reporting adverse incidents, and communication channels for “**whistleblowers**”.

## Due Diligence

Usually refers to an inauthentic procedural form of responsibility, in which managers mime attention to something important, going through the motions with just enough energy and attention to evade liability and blame.

This is therefore one of the many management terms whose meaning in practice is almost the exact opposite to its literal meaning.

## Empowerment

Empowerment means that people (typically employees) are granted a level of authority over their work, or over other aspects of their lives.

The word empowerment is much abused. Many organizations preach it insincerely. In the worst cases, it is used as a label for its opposite: coercing staff to work harder (or to do unpaid overtime) to please customers, without giving them the resources or support that they need to do it properly. "You are empowered, so how dare you leave the office at 5pm."

But in the best cases, it is a label for a sense of shared responsibility and authority, a shared confidence that management will back me up and reward my well-meaning attempts to please the customer.

Empowerment may also include the freedom to use discretion and judgement in interpreting and responding to events. Empowered people are able and willing to influence the agenda, and participate freely in setting and/or negotiating goals and priorities.

## Ethics

To start with, you can think of Ethics very simply as the study of value.

As one of the Foundations of Business, it provides a philosophy of value, which is complementary to the science of value provided by Economics, and helps to motivate a deeper and more reflective study of business.

## Incentive Compatibility

Common interest between contracting partners. Where there is no common interest, this is **incentive incompatibility**.

An example of incentive incompatibility is found in telecoms and internet service provision. Under certain circumstances, the service provider may benefit from a congested network, since by increasing the duration of transactions it increases the charges that can be billed to consumers. This gives little incentive to the service provider to improve the network and eliminate the congestion.

In contrast, incentive compatibility in this case would mean that both service provider and consumer share the costs of congestion, and would both benefit from eliminating congestion.

Regulators seek to achieve incentive compatibility, because it reduces conflicts of interest (and possible disputes) between supplier and consumer. For example, London taxi fares are supposedly designed to encourage the taxi driver to get you to your destination as quickly as possible (the sooner to pick up another passenger and earn more money), rather than to sit in traffic clocking up unnecessary fares.



## Moral Hazard

The temptation to obtain unfair advantage - especially from asymmetrical or subjective information. Examples include

- Inappropriate influence.
- Failing to declare "material" information.
- Making a judgement without declaring a commercial interest.

In some industries, the regulator is concerned to prevent moral hazard.

## Responsibility

Responsibility means that one agent is answerable or accountable to another agent for a given state of affairs.

## Stakeholder

A **person** or **community** that possesses **intentions** and attributes **value** to things. A person or community that is regarded as having a **legitimate interest** or "stake" in something - for example a system or project.

Traditional business ethics defined the purpose of a business solely in terms of satisfying the interests of the shareholders. But some businessmen wanted to recognize the legitimate interests of other groups of people; they started to use the term "stakeholder" rather than "shareholder". The similarity of the two words is deliberate: it draws attention to the substitution of a broader concept for a narrow one.

Thus use of the term stakeholder was originally to be inclusive rather than exclusive. It leads people to argue that companies should be run for the benefit of a range of stakeholders, including employees, customers, suppliers and neighbours, and not merely for the benefit of shareholders. Similarly, housing estates should be run for the benefit of the tenants, not just the landlords; schools for the benefit of pupils and parents, not just the convenience of teachers; and so on. Some politicians talk about a **stakeholder society**. To label a person or community as a stakeholder is to legitimize action intended for their benefit.

To the businessman who takes the concept of stakeholder seriously, what is important is not just the specific set of people who are named as stakeholders, but the ongoing mission to identify and include people who might otherwise be excluded. Similarly in politics, the stakeholder agenda indicates a desire to recognize the interests of the people who might otherwise be left out or disadvantaged.

However, some managers and analysts seem to regard the concept of stakeholder as exclusive. There is a closed list of stakeholders, drawn up at the start of a project, who may be consulted at various stages of the project. According to the exclusive use of the concept, if you're not identified as a stakeholder, then your opinion doesn't matter. (I deplore the exclusive use of the stakeholder concept.)

The stakeholder agenda therefore entails a renewed attention on the processes associated with stakeholdership. Who looks after the stakeholder's interests, and how? Who legitimates new stakeholders?

## Transparency

An ideal state in which business transactions and decision processes (including pricing and procurement) are supposedly explicit and open, with unmediated access to the relevant information.

## Value

The value of a company, or created by a company, can be understood from either an economic perspective or an ethical perspective.

The economic value of a company to its shareholders is known as **shareholder value** (qv).

The ethical value (or “goodness”) of a company can be assessed in various ways – through its **corporate governance** (qv), social responsibility/accountability, quality (business excellence), environmental and “green” credentials, its attitude towards its employees (“Investors in People”).

So-called ethical investors select companies for investment according to the ethical/social value of the company and of its products and services.

# Sociology – Basic

## Bureaucracy

Bureaucracy refers to a particular form and style of administrative organization. Although it has been subject to strong criticism for a long time, bureaucracy and its variants can still be found in a large number of organizations.

Max Weber described an ideal form of bureaucracy, which he equated with administrative **rationality**. For Weber, bureaucracy represented modern progress, as against the quasi-mediaeval and feudal patterns of arbitrary authority and corruption. More recent sociologists, however, have identified various forms of bureaucratic dysfunction, including inflexibility, inefficiency and ineffectiveness.

## Mechanism

A mechanism is a frequently occurring and easily recognizable causal pattern.

The social sciences don't always follow simple laws and generalizations, and reliable prediction is often not possible. However, this doesn't mean that social scientists are reduced to mere description. Explanation in the social sciences depends on the identification of causal mechanisms.

In contrast with determinate laws, mechanisms are uncertain in their effect. There are three reasons for this.

- It is sometimes uncertain exactly what conditions will trigger the mechanism.
- The same mechanism may have several possible outcomes. For example, different people may defend themselves against attack in different ways.
- Sometimes two or more opposing mechanisms may interact in indeterminate ways (interference).

Management (intervention) may be able to influence (decide) which mechanism gets the upper hand.

## Power

Weber	The ability of a person in a social context to achieve his/her own goals, despite resistance from others. Equivalent to <b>domination</b> .
Marx	A structural relationship, independent of the conscious intentions and desires of individuals.
Parsons (Pluralistic)	A positive social capacity for achieving shared goals. Power is distributed through social structures, although some individuals may have more power than others. Individual power reflects a degree of influence, rather than a state of domination.

## Social Patterns: Market, Hierarchy, Network, Clan

Business activity can be connected and coordinated according to several different patterns of social structure.

### Market

A social system based on horizontal (peer-to-peer) contractual relationships. As social and technological trends (such as e-commerce) bring down the transaction costs of market relationships, this is sometimes thought to provide an economic advantage to market relationships over hierarchical ones.

### Hierarchy

A social system based on vertical (principal-to-agent) formal relationships.

### Network

A social system based on informal (trust-based) horizontal (peer-to-peer) relationships.

### Clan

A social system based on tradition. Usually inaccessible to outsiders.

## Social System

The American sociologist Talcot Parsons defined a social system as two or more social actors engaged in a more or less stable interaction within a bounded environment.

- Social systems are **homeostatic** - they tend towards equilibrium over time.
- Social systems maintain their own **boundaries**
- Social systems can be regarded **cybernetically**, as information systems or input-output systems.
- Social systems involve **symbolic exchanges**, e.g. of language, money, influence or commitment.

According to Parsons, social systems are goal-directed, problem-solving entities with four sub-systems

- Adaptation (A)
- Goal-Attainment (G)
- Integration (I)
- Pattern Maintenance or Latency (L)

Many critics argue that Parson's version of systems theory has several weaknesses:

- Cannot deal adequately with **conflict** and **change**

- Makes conservative assumptions about **equilibrium** and **social stability**.

However, alternative versions of social systems theory have been proposed, which don't share Parson's ideological premises. These draw on such thinkers as Marx and Habermas.

## Theory

A system of beliefs. An individual manager or group of managers or organization may act in accordance with one or other theory.

There is a way of talking about Theory in organizational contexts, where we do not focus on whether a theory is **true**, but whether it is **believed** and **acted upon**. Thus we can talk about "a theory X manager", or " a theory Z organization".

Chris Argyris introduced the distinction between the **espoused theory** and the **theory-in-use**.

<p><b>Espoused theory</b> refers to what people say they do – what they <b>espouse</b>. Often people genuinely believe that this is what they actually do; sometimes they are merely paying lip-service to it.</p>	<p><b>Theory-in-use</b> refers to what people actually do, or what they can be independently observed to do.</p>
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McGregor introduced the distinction between **Theory X** and **Theory Y**, which refer to beliefs about the behaviour and motivation of workers, which may be embedded in management practices and organization culture. Taking the view that McGregor's distinction doesn't work for all cultures, Ouchi added **Theory Z**, and argued that this theory was found in most Japanese companies and some Western companies.

<p><b>Theory X</b> refers to a set of beliefs in which workers are lazy, require constant supervision, and are motivated only by financial rewards and penalties.</p>	<p><b>Theory Y</b> refers to a set of beliefs in which workers can be trusted to pursue the interests of the firm without constant supervision, and respond to a range of motivators.</p>	<p><b>Theory Z</b> refers to a set of beliefs about lifetime commitment between employers and employees.</p>
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Note that these distinctions are independent (orthogonal). Thus for example it is quite possible for a manager to espouse (pay lip service to) theory Y, but to practise theory X. The reverse is also possible.

# Systems Thinking - Basic

## Cybernetics

An approach to systems thinking based on the notion of **goal-directed behaviour**.

Early attempts at systems thinking concentrated on **goal-directed behaviour**, using concepts of (first-order) cybernetics. More recently, Maturana developed these concepts to include **autopoiesis**, where the autonomy of a system can be understood with reference to its own epistemology (second-order cybernetic).

Following Gregory Bateson, modern systems thinkers tend to problematize the second-order cybernetic approach in one of three ways.

*Epistemological* draws attention to the problem of the **observer** and the **observation process**

*Ecological* draws attention to the recursive interaction with the **environment**. Tends to broaden the scope of the system under consideration - from the person to the family, from the individual to the species, from the species to the pond or wood, from the firm to the market.

*Ethical* draws attention to the ownership of goals by **stakeholders**.

## Feedback, Feedforward

Feedback and feedforward are information flows between systems or subsystems that have a causal impact.

Norbert Wiener, the father of cybernetics, defined feedback as “a method of controlling a system by reinserting into it the results of its past performance”.

Feedback thus refers to an information flow that sets up a causal loop. Feedback may be positive or negative. **Positive feedback** has the effect of amplifying the original stimulus, while **negative feedback** has the effect of reducing or reversing the original stimulus.

In the absence of other controls or influencing factors, positive feedback tends to result in explosive growth (upward spiral) or rapid decline (downward spiral), while negative feedback tends to result in either equilibrium or oscillation.

Under certain conditions, negative feedback can be used to maintain system properties - see **homeostasis**.

Feedforward describes control based on information derived from the environment. For example, a marksman hits a moving target by receiving and interpreting dynamic information about the position of the target, and may use this information to anticipate its future position. Feedforward does not itself form a causal loop, although it may form part of a larger causal loop.

## Gain

The gain of a negative feedback process is the scale of the version of the output fed back into the input.

## Goal-Directed

“The most distinctive characteristic of the behaviour of higher organisms is its goal-directedness, its apparent purposiveness. In fact, it is largely through this apparently teleological nature of their activities that living organisms betray their exceptional organization. ... The movements of a chick pecking at a grain, a rabbit digging its burrow, a pike chasing its prey, a bee homing on its hive, are the sort of examples one could quote of activities that could be paralleled to a significant extent by known forms of automatic controls as used in industry, aircraft, guided missiles, etc.” [Gerd Sommerhoff, 1969]

(Note: Parsons calls this Goal-Attainment.)

## Homeostasis

A form of stability achieved by a negative feedback loop, which maintains some quantity at a fairly constant level.

**Example:** A heating system switches itself on when the temperature falls below the desired temperature, and switches itself off when the temperature rises above the desired temperature. This control mechanism aims to maintain the temperature approximately equal to the desired temperature.

## Oscillation

Sometimes the effect of **negative feedback** is to cause a system to oscillate between two states.

Example: whenever the heating system is on, it gets too hot. Whenever the heating system is off, it gets too cold. The system is constantly switching itself on and off, off and on.

The effects of oscillation can be reduced by **damping**, which reduces the **sensitivity** of the system to the signal. For example, if the temperature has to fall by more than  $x$  degrees before the heating is switched on, the system will not respond to fluctuations smaller than  $x$ . This reduced sensitivity is known as **attenuation**.

In business, oscillation often occurs when an organization is trying to achieve two contrary goals, and the balance of power is constantly shifting between the two camps. This can typically be explained by the interaction between two separate feedback loops.

Oscillation may also be the result of two or more opposing **mechanisms**.

## SocioTechnical

A description of something (usually a system) that identifies both socially mediated relationships and technically mediated relationships.

Many people think of a socio-technical system as a composite system, containing some social subsystems and some technical subsystems. This is a simplification, which can sometimes be dangerously misleading.

All social systems are technically mediated. We get an increasing amount of our information about our social world through technical media: email, telephone, management information systems, television, Reuters newswire. These technologies **screen** information for us, **screen** information from us.

(For example, computers and televisions both provide information as services through a screen. The screen is both literal and metaphorical. It is a surface on which the data are presented, and also a filter that controls what the user sees. The screen is a two-sided device -- it both **reveals** information and **hides** information.)

And all technical systems are socially mediated. Technology is produced, distributed and managed by people within social structures, for socio-economic or political purposes. It is interpreted and used according to social intentions.

For some purposes, therefore, it is appropriate to treat all the subsystems, even the smallest components, of a socio-technical system as if they were themselves socio-technical.

## **System (Closed, Open)**

When we talk about systems, we are usually interested in the collective or total behaviour of some set of activities and objects. We select systems to talk about that are meaningful and important to people. Even apparently technical systems typically have social aspects as well, although these aspects are sometimes obscured by the way we talk about them.

Description of these systems (including their identity and scope) is generally dependent on the observer and the observation process. The observer is always an active participant, at one level, and the participants are all observers – although they may not always perceive the same system. Perceptions and descriptions may differ widely.

People attach intentions to systems, and make demands from systems. People attach value to certain perceived properties of systems, and they are often eager to take action to change certain systems properties, or to create systems that possess desirable properties. Any intervention in a system relies on a stakeholder, or community of stakeholders, with a particular attitude and purpose. In many cases – perhaps most – there are perceived conflicts between stakeholders.

For a system to fulfil some intentions, it needs to survive for some definite or indefinite duration. Survival means maintaining the identity and integrity of the system, in some sense, from some point of view. Complex systems often devote considerable energies to survival – apparently for its own sake. However, there is often a tension between identity and survival. Thus whenever we talk about systems, and the success of systems, there are some essential elements that are implicit, including values, observer, stakeholder, perspective, purpose and scope. We do not always make these elements explicit, but they're always there.

There are two common approaches to thinking about systems – “closed” and “open”. These are not mutually exclusive.

<b>Closed System Thinking</b>	Regarding a system (such as an organization or enterprise) as independent and autonomous. This means that problems may be largely analysed with reference to internal structure and process, and without reference to the external environment.
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**Open  
System  
Thinking**

Regarding a system as interdependent with its environment, with exchanges of material, information and energy.

# Organization & Management

## Change

In a large organization, every day sees many changes. Most of these changes seem fairly superficial and reversible; the challenge that is experienced by consultants and managers is to make deep, meaningful and lasting changes to the organization. However, the distinction between superficial change and deep change is not always clear-cut. What some people see as a minor reform, others may perceive as a major disruption. Even the person championing the change may describe it differently for different audiences.

There are many organizations that have survived by redefining themselves. IBM and Xerox are well-known examples. On the other hand, there are countless examples of organizations that have remained committed to a particular identity and have, as a consequence, not survived. There are many others in the IT industry alone whose long-term survival appears unlikely.

In understanding how change can coexist with continuity, we need to see both change and continuity as properties of **descriptions**. There are some descriptions of IBM and Xerox that remain true, and there are other descriptions of these companies that were once true but are now false. This notion of change has been well explored by Bateson, and more recently by K.K. Smith.

<b><i>For something to change, it must remain something.</i></b>	IBM: "We are becoming a service company."	IBM: "We are still a major software vendor."
<b><i>For something to survive, it must lose something.</i></b>	Xerox: "We are pre-eminent in photocopiers."	Xerox: "We are pre-eminent in quality."

A situation in which organisms have to constantly adapt just to keep their status quo is sometimes known as the **Red Queen effect**.

## Leadership

A role associated with groups of people, such as teams. Leaders may be appointed from outside the team, elected or pushed forward by other members of the team, or they may be self-appointed.

Leaders attract attention both from within and from outside. The leader typically represents the group to the outside world. Group dynamics often revolve around the person and personality of the leader.

Theories of leadership fall into three types.

<b>Trait Theories</b> Effective leadership depends on the leader having the "right" qualities. The leader is "superior" to the led, in some important ways.	<i>Intelligence</i>	<i>Problem Solving Ability / Understanding</i>
	<i>Character</i>	<i>Initiative / Confidence</i>
	<i>Physique</i>	<i>Health / Height</i>
	<i>Social Category</i>	<i>Gender / Social Class / Ethnic Origin</i>

## Style Theories

Effective leadership depends on the leader adopting the “right” style.

*Autocratic (Exploitative/ Benevolent), Participative, Democratic*

*Tells, Sells, Consults, Joins*

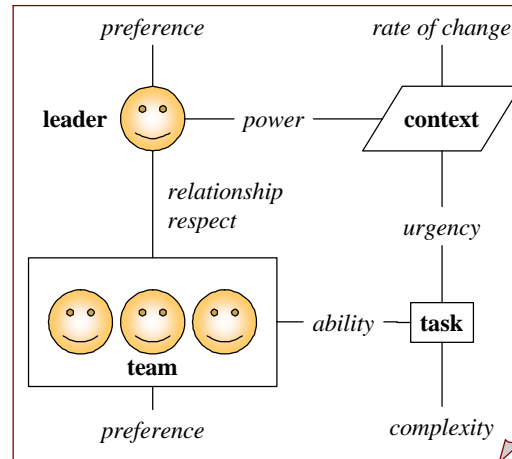
*Country Club, Team, Middle-of-the-Road, Impoverished, Authority/Compliance*

*Telling, Selling, Participating, Delegating*

*Artist, Craftsman, Technocrat*

## Contingency Theories

Different styles (see above) suit different situations (see diagram).



## Management

A role in the direction of activities, often associated with a particular layer of authority (“The Management”). The process of managing, which can sometimes be understood in layers.

## Organization

**Literally:** The process of organizing people to support the business mission.

**Once:** A fixed allocation of power and resources. A management hierarchy of delegation and reporting.

**Increasingly:** The growth of individuals and groups in capability and maturity.

## Team

Teams are usually constituted as formal groups, and this is relevant to the Organization of Behaviour. (Informal groups are relevant to the psychological behaviour in and of the organization -- e.g. motivation, resistance, stress and anxiety.)

# Anthropology

## Culture

While culture is sometimes described as merely as an aspect of society, a component of a social system, this view fails to explain how contrasting cultures can emerge – sometimes disconnected or even hostile to the social environment. And while the learning of culture is sometimes describes as a passive process of acceptance, this fails to explain how culture is transformed as it is learned.

Anthropologists have developed several schools to explain the development and learning of culture<sup>1</sup>.

<b>Cognitive School</b>	Views culture as a system of knowledge, of learned standards for perceiving, believing, evaluating and acting. [Goodenough]
<b>Mutual Equivalence School</b>	Views culture as a set of standardized cognitive processes, which create the general framework for the mental prediction of behaviour among individuals interacting in a social setting. [Wallace]
<b>Structuralist school</b>	Views culture as made up of shared symbolic systems that are cumulative products of mind, a reflection of unconscious processes of mind that underlie cultural manifestations. [Levi-Strauss]
<b>Symbolic or semiotic school</b>	Culture should not be looked for in people's heads but in the meanings and thinkings shared by social actors. Significant symbols or products of mind constitute the raw materials for the interpretation of the ordered system of meaning in terms of which social action takes place. [Geertz]

Cultural differences are sometimes most obvious across geographical boundaries. Many writers on management have attempted to identify characteristic features of organizations in specific countries or regions.

While it may well be true that American organizations share a common national culture, clearly distinct from the culture of organizations in Scandinavia, Spain or Singapore, it would be wrong to think of cultural differences purely in terms of national stereotypes. A software company in India probably has more in common with a software company in Indiana, than either of them has with the local post office.

## Ethnography

An approach to studying the culture of organizations, based largely on techniques of observation and interview.

Anthropologists attempt (with varying success) to separate their observations of what is going on, from their interpretations of these observations. This separation is helped by keeping two separate records:

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<sup>1</sup> This table is derived from Lionel Stapley, *The Personality of the Organization* (Free Association Books, 1996) pp 7-8

<b>Field Notes</b>	Contains a record of what has been seen or heard by the observer.
<b>Field Journal</b>	Contains a record of ideas, thoughts, interpretations and other material.

## Myth

A story that everyone believes, or that governs behaviour. For example, a company may place a lot of emphasis on a story of its origins, often based on one individual or a close group of friends working at very high levels of energy and innovation to create a great company from small and perhaps unpromising beginnings. The software giant that started in a garage, the service company that started at a kitchen table.

These stories are often told in a highly romantic manner – not romantic in the boy-meets-girl sense, but in the literary sense of having strong-willed characters battling against hostile forces.

Founding myths often have two contrasting effects on the organization. On the one hand, they are supposed to encourage employees to emulate the hard-work, innovation, intelligence, resourcefulness and other characteristics of the company founders, and to provide a template for recruiting new employees that share these characteristics. On the other hand, the foundation of the company is presented as such an enormous and unique achievement, that it would be stupid to challenge the original business model or the founders' wisdom. Thus the myth is paradoxically BOTH empowering AND inhibiting.

## Otherness

Representations of cultural difference as if they represented superiority/inferiority, with the projection of all sorts of irrational beliefs and fears.

For example, descriptions of American or Japanese styles of management as having some essential quality that cannot be fully emulated by other nations. Conversely, descriptions of the inability of American management practices to dominate the world in terms of the Otherness of countries where these practices are resisted.

## Polarization

- 1 Reducing a complex issue into two opposed positions (EITHER/OR).
- 2 Strong identification on a boundary (US/THEM).

These two phenomena are often found linked together – each reinforcing the other. Relatively small differences of opinion can be escalated across an us/them boundary into irreconcilable differences; meanwhile, differences of opinion can reinforce a mutual sense of an us/them boundary. Splitting and fragmentation, caused by this positive feedback loop, is known as **schismogenesis**.

**Reverse polarization** refers to the loss of identity near a boundary, identification with the other side.

## **Taboo**

Something that is not permitted within a cultural context. Something that is excluded from the **agenda** and cannot be discussed.

For example, in some organizations, such feelings as anxiety and stress are unspoken and unspeakable. In these organizations, people are not able to admit to experiencing these feelings, and are expected to conceal any such feelings from their co-workers. It may even be impossible to attribute these feelings to other people; it may be considered far better to accuse someone of incompetence, laziness, or bloody-mindedness, than to suggest the possibility of fear.

## **Totem**

Something that is given symbolic importance in a cultural context.

## Anxiety

A psychological or social state, associated with material or moral insecurity (which may be real, imaginary or symbolic).

## Blame

### Blame and Motivation

Fear of blame and failure can sometimes be a spur to greater achievement. However, blame can be demotivating, especially if unfair or excessive. Blame, or the fear of blame, can also result in stress, which is also potentially demotivating.

Where weak individuals are protected from due blame, this may cause resentment – not least in the person protected. Creating a **scapegoat** may make other people feel better.

### Blame and System Failure

Identifying the causes of failure may be an essential condition for organizational learning. Refusal to blame may lead to a refusal to understand, or even a denial that failure has occurred / is occurring.

However, where problems are systemic or due to process design, blaming individuals obscures the problem.

### Blame Culture and Risk

A blame culture leads to an avoidance of risk.

In both health and transport, there is a tendency to blame individuals for faults in the system. A recent British TV programme showed a number of cases of health workers whose careers were ruined by a single error. A nurse who picked up the wrong injection after a 30 year unblemished career, and killed the patient. A pharmacist who failed to distinguish between two almost identical packs. Obviously higher status professionals don't get scapegoated so easily.

By blaming the individual, the system remains unaffected. Blame is therefore a mechanism for preserving the system.

With transport (e.g. rail crashes) we have two opposite tendencies. One is to automatically blame the driver or the pilot. The other is to postulate some outrageously expensive piece of technology, such as a state-of-the-art signalling and braking system, and claim that this technology would have magically eliminated all risk. (The fault then lies with "The Management" for being too miserly to invest in this life-saving technology.)

Grief (for example the bereaved relatives) can then be converted into anger. With rail crashes, the driver's often among the dead, so it's apparently better for the relatives (and the media) to have a living target for this anger (and revenge). Another mechanism which sustains a blaming culture. (And then there's the lawyers.)

## Group Dynamics

Internal processes within a group, which may support or interfere with the **primary task** of the group. Include scapegoating.

## Hyperactivity

A syndrome characterized by a continual state of restlessness, short attention spans, frequent spurts of activity.

In his book, ***Crossing the Postmodern Divide***, Albert Borgmann identifies hyperactivity as a social disease. He defines it as “a state of mobilization where the richness and variety of social and cultural pursuits, and the natural pace of daily life, have been suspended to serve a higher, urgent cause.” (CPD p14).

## Job Satisfaction

Job satisfaction refers to the alignment between a job and the person or team.

Job satisfaction may improve motivation and therefore performance. Good performance may enhance job satisfaction and therefore motivation. Thus there is often a positive feedback loop where high job satisfaction reinforces itself, creating an upward spiral of performance and morale. (Poor job satisfaction also reinforces itself, creating a downward spiral.)

Some jobs with poor extrinsic rewards can have high levels of job satisfaction.

- People may be willing to work for less money.
- People sometimes make sense of their willingness to work for less money by telling themselves how important and interesting the work is.

## Motivation

Something that drives or encourages a person or team or organization.

**Intrinsic motivation** refers to something that is an element of the task itself, such as job satisfaction. **Extrinsic motivation** refers to something that is somehow associated with the task, but is not itself part of the task, such as pay and reputation.

Motivation theory suggests that intrinsic motivators are typically better (more powerful, longer-lasting, and therefore more effective) than extrinsic motivators. (Thus for example a pay rise may release a temporary burst of positive energy, but it doesn't last.)

**Hygiene factors** are those that can reduce or destroy motivation if you get them wrong, and sometimes need to be addressed to restore motivation, but cannot be used to create or improve motivation above a basic level. Thus if an employee feels unfairly treated, this will generate resentment, which may well get in the way of productive work. But if fair treatment can be established or restored, the issue simply disappears, and attention is devoted to something else.

## Personality

People have different attitudes, different ways and patterns of behaving, and we may refer to these differences as personality differences. There are many different ways



of classifying and categorizing people according to their personality. Personality may be relevant to the strengths and weaknesses displayed by a person in a given situation (task or team), and is often used (although not always correctly or fairly) as a basis for judging people. Relationships between groups of people may sometimes be strengthened either by similar or by contrasting (complementary) personalities.

People may also be troubled or troubling, as a result of irrational beliefs and behaviour patterns that interfere with normal life (whatever that is) – and we may refer to these as personality disorders. Sometimes these personality disorders are linked in complex ways to interpersonal relationships, which may either reinforce or compensate for such disorders.

Personality is relevant to management in several ways. Firstly, managing individuals and teams demands some sensitivity to the differences between people, and to the ability of given combinations of people to work together effectively. Secondly, we can talk about the personality of large and small groups, including the organization itself. Many writers have found it useful to describe apparently irrational organizational behaviour in terms of such corporate disorders as neurosis or narcissism.

Can an organization really have a personality? Well, even if it can't, we may choose to talk as if it did, because this seems to provide a convenient way of making certain kinds of observation about the nature of the organization and its inner processes. This may simply mean we are using the language of personality metaphorically. (Some fastidious people indicate their discomfort with metaphor by using inverted commas – they talk about the “personality” of the organization.)

Remember also that the personality of the organization need not be directly related to the personality of the managers and workers. An organization can manifest the symptoms of extreme narcissism, but that doesn't necessarily mean that there are loads of narcissistic managers.

## **Projection**

Attributing qualities to the Other. Acting as if the Other possessed these qualities.

For example, we expect managers to have “leadership” qualities.

Also known as **Projective Identification**.

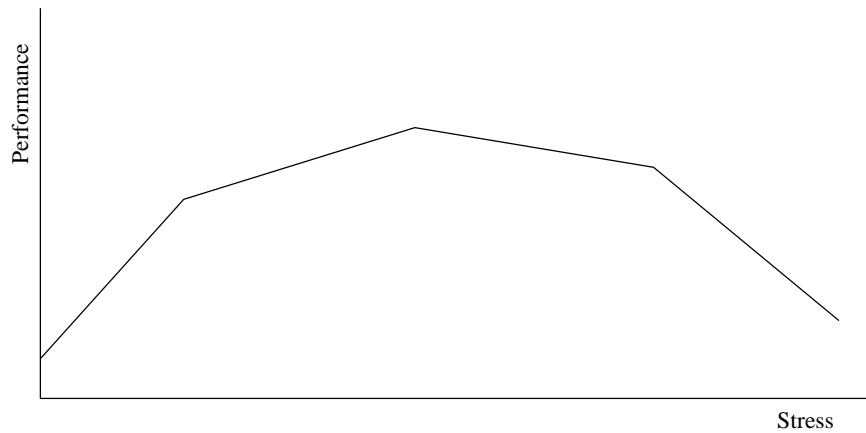
## **Resistance**

Resistance is a form of stability affecting people and organizations, especially when faced with opportunities for change.

## **Stress**

Stress is a psychosocial phenomenon with important links to productivity and performance. As such, it apparently generates some observable symptoms in individuals, teams and organizations.

It is generally believed that moderate levels of stress can stimulate creativity and encourage effort, while excessive levels of stress are liable to inhibit creativity and dissipate effort. Thus there is an optimum level of stress above and below which performance falls; this is depicted in a graph of performance against stress levels, in which performance is dependent upon stress.



However, this view of stress is a simplification. While stress may influence performance, performance may influence stress – so there is a closed feedback loop, and not merely one variable dependent on another.

Furthermore, the symptoms of stress may be interpreted in multiple ways. Stress should be accounted for as a social and psychological construct, and it may be misleading to regard it as if it were a physically measurable substance.

In support of this, let it be noted that stress (like many other psychosocial phenomena) is a **totem** in some organizations (in other words, held up as a cause and explanation of all sorts of phenomena), and is **taboo** in other organizations (in other words, not able to be acknowledged or cited as an excuse). The effects and symptoms of stress are likely to be very different between these organizations.

## Unconscious

Ideas and processes that are not easily or directly accessible to conscious inspection and reasoning are referred to as **unconscious**. Many psychologists describe these unconscious elements as lumped together into a mass of suppressed material, known as **The Unconscious**.

Freud and his followers developed an extensive set of theories about the personal unconscious, and its possible connection to personality disorders of various kinds. Among other things, Freud tried to understand why and how certain things got suppressed.

Various therapeutic practices, from hypnosis to psychoanalysis, claim to sort out some of the problems in the unconscious.

Students of organizational psychology pay attention to unconscious ideas and processes within the organization, especially ones that are shared or transmitted within groups or between groups.

# Sociology – Advanced

## Discursive Practice

A unified way of speaking and acting. A discursive practice typically has an underlying **theme**, and a (concealed) **strategic intention**. Professions (such as accounting) often establish a discursive practice, which gives them a position of impartial authority.

## Enactment

Karl Weick introduced the idea that certain phenomena (such as organizations) are created by being talked about.

“Managers construct, rearrange, single out, and demolish many ‘objective’ features of their surroundings. When people act they unrandomize variables, insert vestiges of orderliness, and literally create their own constraints.” [Weick, Social Psychology of Organizing, p243]

## Structuration

Social structure influences the social interactions that take place -- it both constrains and enables. But at the same time, according to Anthony Giddens, social interaction creates the social structure. This recursive theory is known as the **duality of structure**.

## Surveillance

A process of keeping people (typically customers and/or employees) under close supervision.

Jeremy Bentham’s **panopticon** was originally a prison so designed that the warder could watch all the prisoners at the same time. By extension, this term is used to describe any technical or institutional arrangement to watch/ monitor large numbers of people. It provides a useful metaphor for various modern technologies

- CCTV
- workforce monitoring
- database (e.g. CRM: customer relationship management)

The panopticon provides surveillance, and may result in a loss of privacy for the people being watched / monitored. If you know you’re being watched, this may trigger various feelings – both positive and negative. The panopticon gives the illusion of transparency and completeness – so the watcher comes to believe three fallacies

- 1) that everything visible is undistorted truth
- 2) that everything visible is important
- 3) that everything important is visible

# Systems Thinking – Advanced

## Attenuation

A reduction in the power or variety of a signal. Reduces the sensitivity of a system to feedback, and may result in damping of oscillation or volatility.

## Autopoiesis

This notion was introduced by the biologists Humberto Maturana and Francisco Varela. It refers to autonomous systems that are self-creating, self-organizing and self-preserving. It is commonly applied to biological organisms, and also to human organizations.

## Emergence

(The appearance of) properties of a whole system that are not located in its parts. With engineered systems, these properties don't manifest themselves until the whole system is assembled and commissioned. With evolved systems, these properties often disappear when the system is taken apart.

## Hysteresis

Imperfect or delayed return to a previous state (memory effect). Delayed response to a stimulus (cause-effect lag).

## Interference

Interference is a complex phenomenon that appears when you try and put several items together.

When modern schoolchildren study physics, they are shown phenomena that would have astounded the great scientists of past centuries. Many of these phenomena involve the curious behaviour of light. In one simple experiment you make a pinhole in a card and measure how much light gets through the hole. Then you make another pinhole and measure again. Instead of getting twice as much light, as you might expect, you sometimes get no light at all, or lots more. In some cases, a carefully positioned pinhole may have no effect at all – as if it weren't there. (And even changing the size of the pinhole doesn't always help.) This phenomenon is known as interference.

Similar types of interference can be observed in organizations. Two surveys don't give you twice as much information as one survey – any more than buying two newspapers gives you twice as much news. And two acts of management or regulation may simply (or not so simply) cancel each other out. Interference means that a wide range of things within organizations, including information and technology, as well as causal **mechanisms**, cannot simply be added together according to the laws of arithmetic.

## Requisite Variety

A principle, first formulated by W.R. Ashby, which states that a control mechanism must have access to the same degree of diversity as the system it is attempting to

control. In open systems thinking, this implies that the internal regulatory mechanisms of a system must be at least as diverse as its environment.

### **Viable Systems Model (VSM)**

A framework model of complex systems, developed by Stafford Beer.

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