

# Organizational Behavior

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# Goals of This Lecture

- Introduce to the main topics & research methods of OB
- Discuss some topics in more detail
- Link with literature in behavioral economics
- Apply the theoretical knowledge to cases

# Basic Focus of This Course

- Interdisciplinary
  - Psychology
  - Economics
  - Sociology
  - .....
- Applicable knowledge

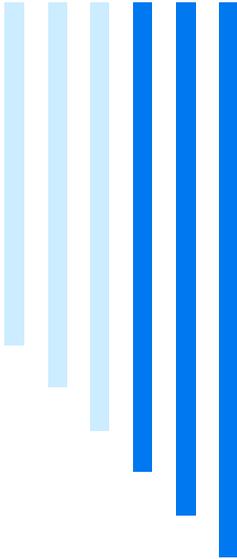
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# Goals of Today's Meeting

- Introduce to OB & its history as scientific discipline
- Introduce to Behavioral Economics
- Inform about the meetings to come:
  - Contents
  - Structure
  - Organization
  - ...
- Find out about your interests

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# Introduction to Organizational Behavior

# What Are Organizations? A Definition:

“An organization is a social arrangement for achieving controlled performance in pursuit of collective goals”

(Huczynski & Buchanan)

# Different Ways of Understanding Organizations

## □ The “Machine” system

- A given input leads to a clear output
- No side-effects
- Predictability
- Total control

## □ The “Organism” system

- Given input leads to a fairly predictable output
- No conscious individuals involved
- There are also unknown inputs (sensitivity to environment)
- Medium predictability
- No total control

# The “Social” System

- Consists of conscious individuals
- Social roles and status come into play
- Different interests among participants
- There is not only a formal, but always also an informal system
- The parts are interdependent and subject to influence by other parts

# What Is Organizational Behavior (OB)? Some Definitions

“OB is the study and application of knowledge about how people – as individuals and as groups – act within organizations.”

(Newstrom & Davis, 1997)

“The study of the structure, functioning and performance of organizations, and the behavior of groups and individuals within them.”

(Pugh, D.S., 1971)

# Basic Distinction in OB: 3 Levels of Analysis

## □ Individual level

- Personality, ability
- Perception
- Social cognition, decision making
- Attitudes & emotions
- Motivation
- ...

## □ Group level

- Groups and group behavior
- Communication
- Conflict, power & politics
- Leadership
- ...

## □ Organizational level

- Organizational structure
- Organizational culture
- Organizational change
- ...

# Basic Distinction in OB: 3 Levels of Analysis

## □ 31.3. - 7.4.: Individual level

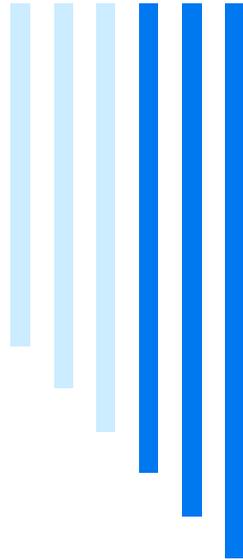
- 31.3.
  - Introduction
- 2.4.
  - Personality, ability
  - Motivation
- 7.4.
  - Perception
  - Social cognition, decision making
  - emotions

## □ 9.4. – 16.4.: Group level

- 9.4.
  - Groups and group behavior
  - Decision making in groups
- 14.4.
  - Communication
  - Leadership
- 16.4.
  - Conflict, power & politics

## □ 21. & 23.4.: Organizational level

- 21.4.
  - Organizational structure
  - Organizational culture
- 23.4.
  - Organizational change



# Scientific Research in OB

# Social Science Research Vs. Research in Natural Sciences

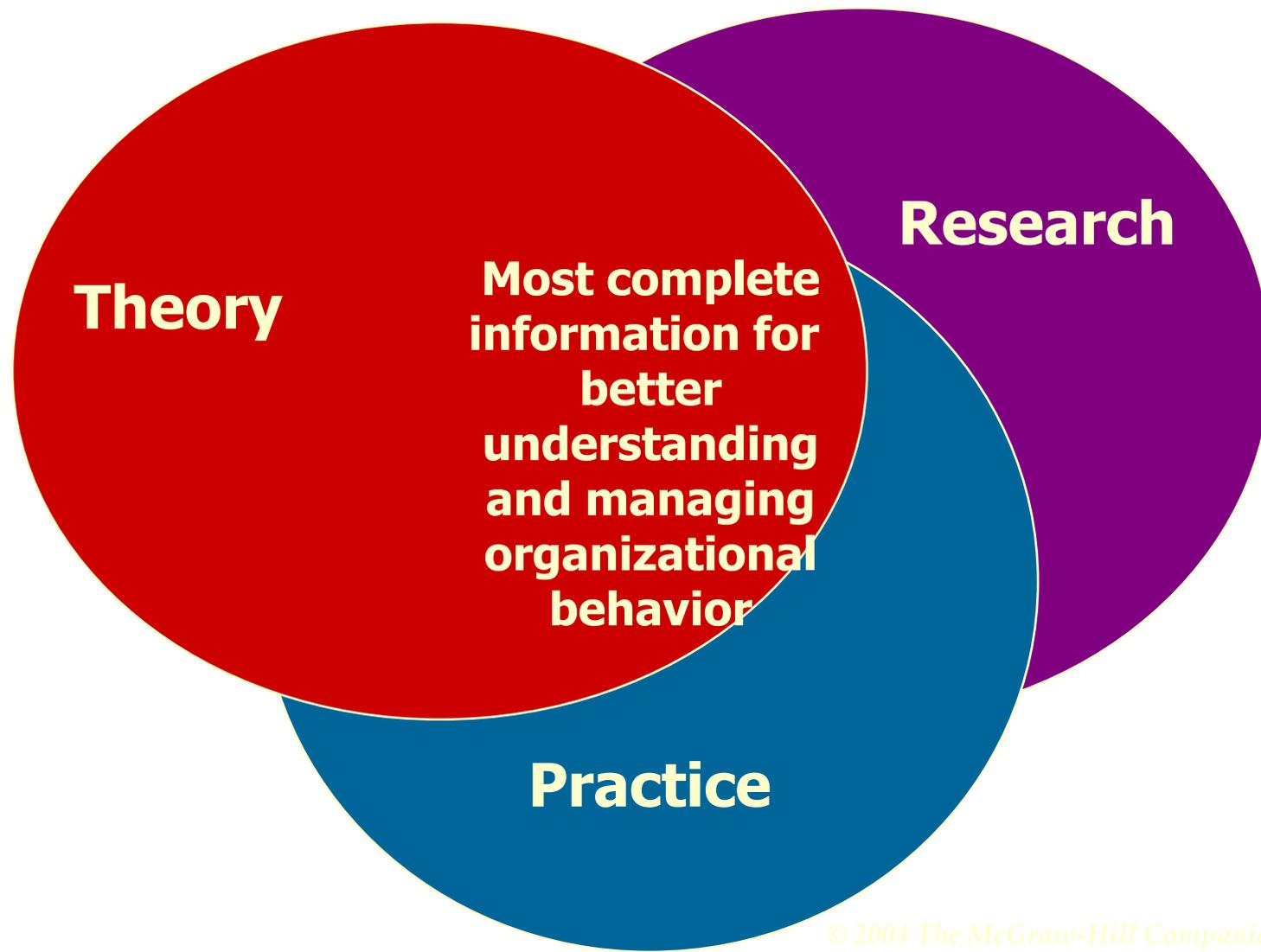
“Any astronomer can predict just where every star will be at half past eleven tonight. He can make no such prediction about his daughter”.

J. T. Adams

# Scientific Goals & Social Science

|             |                                      |   |
|-------------|--------------------------------------|---|
| Description | Measurement                          | Invisible/ambiguous variables                 |
| Explanation | Time/order of events<br>causal links | Timing unclear<br>Interactions?               |
| Prediction  | Generalization                       | Uniqueness, complexity, lack of comparability |
| Control     | Manipulation                         | Ethical/legal constraints                     |

# The Relationship of Theory, Empirical Research & Practice



# History of Research & Practice in OB in a Nutshell

- Scientific management (Taylor)
- Classical organizational theory (Weber)
- The Human Relationships Movement  
(Hawthorne – Studies, Theory X & Y)

# Taylorism or “Scientific Management” (1)

Frederick W. Taylor (1856-1915; engineer)

- concerned with management at the shop-floor level.
- analysed the jobs of workers in a “scientific” manner.

*Assumptions:*

- Physical movements can be analyzed as those of a machine
- Efficiency can be increased by carefully planning each movement of workers.

# Taylorism or “scientific management” (2)

Taylor...

- Divided jobs into singular tasks
- Analysed the tasks in detail (***time-and-motion study***)
- Varied the way an employee does the tasks, to find out what way is the best
- Varied factors such as
  - rest periods,
  - walking speed,
  - carrying positions...
- ➔ Ascertained the “**one best way**”, with every detail specified

# Taylorism or “scientific management” (3)

## Goals:

- Develop a **science for each element** of an individuals’ work
  - Scientifically select and then **train, teach, and develop** the worker
  - Co-operate with and monitor the workers so as to **ensure that all work is done in accordance with the principles of the science**
  - **Divide work and responsibility** between workers and management.
- ➔ **Enormous influence on management practice**

# Outcomes of Taylorism

- Division of work, strong specialisation
- Disciplining and Monitoring
- Subordination of individual interests
- Piecework incentive system of pay
  
- *Management Information Systems*
- *Production Planning and Control Systems*
- *Business Re-Engineering*

...may be efficient in the short run, but what about...

- Motivation ?
- Flexibility?
- Initiative ?
- Group efforts ?

# Classical Organizational Theory (1) – The Bureaucracy (M. Weber)

## Formal rules and regulation:

- A division of labour in which **authority and responsibility is clearly defined** for each member, and is officially sanctioned
- The administrator is **subject to strict rules**, discipline, and controls regarding the official duties

## Authority hierarchy:

- Offices or positions are organised into a hierarchy of authority resulting in a **chain of command**

# Bureaucracy II

## Formal Selection:

- All organisational members are to be **selected**
  - on the basis of technical qualifications
  - through formal examinations or
  - by virtue of training and education
- Officials are to be **appointed**, not elected

## Impersonality:

- The administrative official **does not own the administered unit** but is a salaried official
- Rules and controls are applied **uniformly**, avoiding involvement with personalities and personal preferences



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# Goals & Problems of Bureaucracies

- Precision
- Clarity
- Regularity
- Reliability
- Efficiency
- Slow
- Inflexible
- Erode the capacity for spontaneous action
- Erode the human spirit
- Non-democratic instrument of domination?



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## Does bureaucracy have advantages?

- No nepotism
  - No corruption
  - Equal opportunities
  - Domination based on legitimacy, not arbitrariness
- The question 'Who shall lead?' is changed to the question 'How can we limit leadership?'
- Step away from patronage/feudal order, towards a 'rational', rule-bound order

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# The danger of bureaucracy

- Apathy; feeling of powerlessness; eroding sense of responsibility
- can even lead people to make or justify deliberate mistakes on the premise that they are obeying orders.

“It’s not my job to worry about that.”

“That’s his responsibility, not mine.”

“I’m here to do what I’m told.”

- People who question conventional practice are often regarded as troublemakers.

# “Hawthorne” Experiments (1)

- From 1924-1933, the Western Electric Company, **Hawthorne** plant, conducted a research program on the effect of illumination levels on worker productivity.
- First study:
  - Group of (female) assemblers of relays singled out,
  - the intensity of illumination increased and decreased,
  - effect on output was observed.
  - No clear relationship
- ➔ Light only a minor factor among many affecting employee output.

# Hawthorne Experiments (2)

Elton **Mayo** interpreted the results as follows:

- Workers felt special because they had been singled out for a research role;.
- Workers developed good relationships with one another and with their supervisor.
- Social contact and easy relations made the work generally more pleasant.

➔ New hypothesis: productivity and quality are strongly related to the **social relations** at work

# Hawthorne Experiments (3)

- Further experiments conducted:
  - group of male workers,
  - assembling telephone equipment.

## Results:

1. Two **cliques** formed - one with higher, the other with lower status.
2. The group established **norms** as to which output was appropriate
3. In many regards, the group **did not follow company policy**
4. The men varied strongly in their output, dependent only on **group membership**

# Hawthorne - Overall Results

1. Humans are basically **motivated by social needs**.
2. As a result of the rationalisation of work, meaning has gone out of work and must be sought in the **social relationships at work**.
3. The **focus of the work group** will do more to influence behaviour than the incentives and controls of managers.
4. A supervisor will only be effective to the extent that he can **satisfy his subordinates' social needs**.



# Theory X and Theory Y

(Douglas McGregor: The Human Side of Enterprise, 1960)

- Basic assumption:  
“Behind every managerial decision or action are **assumptions about human nature** and human behaviour” (McGregor, 1960, p.33)
- Some assumptions are open and explicit, **some are implicit and more unconscious.**
- Theory X and Theory Y as extreme poles.



# Theory X

1. The average human being has an **inherent dislike of work** and will avoid it if he can.
2. Because of this, most people must be **coerced, controlled, directed, threatened with punishment...**
3. The average human being **prefers to be directed, wishes to avoid responsibility**, has relatively little ambition, wants security above all.



## Theory Y

1. The expenditure of physical and mental effort in **work is natural**
2. External **control**/the threat of punishment are **not the only means** for bringing about effort toward organisational objectives.
3. **Commitment** to objectives is a function of the rewards associated with their achievement.
4. The average human being learns to **seek responsibility**.
5. A relatively high degree of imagination and creativity is **widely distributed** in the population.
6. Under the conditions of modern industrial life, the intellectual **potentialities** of the average human being are **only partially utilised**.



# Consequences for management

## Theory X:

- Blame for ineffective organisational performance on the individual, on the “nature” of human beings
- Central principle of motivation: exercising **authority**, directing, controlling
- Pay incentives

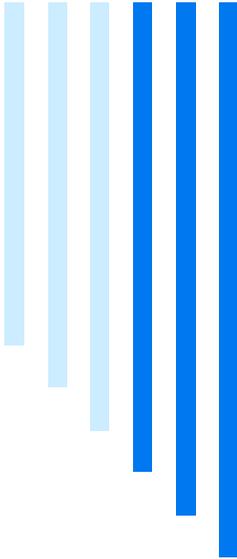
## Theory Y:

- causes for ineffective org. performance lie in management’s methods of organisation
- Central principle for motivation: **Integrate** individual and organisational goals

# Critique of the Human Relations Movement

- Often only supplements Taylorism.
- Human relations as an exterior façade rather than authentic change
- The researchers interpreted the experiments according to their opinions rather than actual results.
- Wage incentives and unacknowledged pressure played a larger role than the researchers report.

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# Short Introduction to Behavioral Economics



# What is Behavioral Economics?

- Uses evidence from psychology (among others)
- Create models with a more „realistic“ picture of the economic actor
- Relaxes assumption of perfect rationality
  - Limits on rationality
  - Limits on willpower
  - Limits on self-interest
- Studies organizations, markets, policy



## Behavioral Economics II

- Behavioral economics is a style of thought
- Uses experiments, but not exclusively
- Applies to questions in finance, labor economics, organizational economics, consumer theory.....
- Should be judged by standard criteria
  - Congruence with reality -> more realistic assumptions
  - Generality -> adding only few parameters to standard model
  - Tractability -> often less tractable, but sometimes more precise
  - Ultimate test: Predictive power



# History of Behavioral Economics I

- When economics became a distinct field of study, academic psychology did not yet exist as a discipline
- Jeremy Bentham - utility concept that formed basic of neoclassical economics – writings about psychological underpinnings of utility.
- Adam Smith – „The Theory of Moral Sentiments“ – psychological principles of individual behavior!
  - Example: „we suffer more...when we fall from a better to a worse situation, than we ever enjoy when we rise from a worse to a better.“ (Loss aversion!)
- Francis Edgeworth – „Theory of Mathematical Psychics“ – bargaining -> social utility! One person´s utility affected by another person´s payoff.



# History of Behavioral Economics II

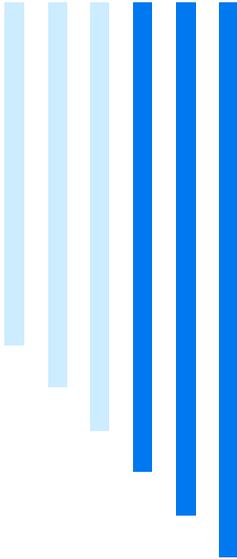
- Forgotten/rejected in development of mathematically oriented economic analysis
  - Around 1900, economists hoped that economics could become like a natural science
  - Psychology just emerging, not like a natural science
  - Pareto (1897): „It is an empirical fact that the natural sciences have progressed only when they have taken secondary principles as their point of departure, instead of trying to discover the essence of things. [...] Pure political economy has therefore a great interest in relying as little as possible on the domain of psychology.“
- But: Irving Fisher, Vilfredo Pareto, John Maynard Keynes – discuss in their works psychology of economic subjects.



# History of Behavioral Economics II

- Second half of 20th century: Criticism of positivistic perspective in psychology and economics
  - George Katona, Herbert Simon... - > bounded rationality
  - Interest rose when expected utility models became standard, but deviations were obvious
  - Around 1960 – cognitive psychology, brain as information-processing device -> useful for economists!
  - Especially Tversky & Kahneman used economic models as benchmark contrasts for psychological models
  - From then on, Behavioral Economics evolved as a discipline

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# Organisational issues

# Procedure of This Course

- 4 weeks with two lectures à 3 hours
  - No tutorial
  - No homework
- 1 Block at the end
  - Case work
- Tutorial during reminder of semester
  - 1 hour/week
  - Exercises
  - Preparation of exam

# Grading

- Final exam at the end of the semester
  - Block and tutorials give bonus points that make up a maximum of 20% of the final grade
  - Exam can be passed with „1“ without the bonus points
  - Exam needs to be passed in itself

# The Literature of This Course

## □ Textbook:

**Huczinsky, A., Buchanan, D. (2000), Organisational Behavior: An Introductory Text, Prentice-Hall, New York, NY**

Other literature will be provided

# Additional Information:

- Office at AWI: 01004
- Office hours: upon appointment
- Slides will be provided AFTER the lecture
- E-mail: [christiane.schwieren@awi.uni-heidelberg.de](mailto:christiane.schwieren@awi.uni-heidelberg.de)